



RATE CNP ADJUSTMENT FOR COMMERCIAL OPERATION OF CERTIFICATED NEW PLANT

By order of the Alabama Public Service Commission dated March 9, 2017 in Dockets #18117 and #18416.

Effective March 23, 2017 for application to April, 2017 billings and thereafter.

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AVAILABILITY

Same as the specific rate incorporating this Rate CNP by reference.

APPLICABILITY

Applicable as an integral part of each rate schedule of the Company in which reference is made to this Rate CNP.

EXPLANATORY STATEMENT

Rate CNP is designed to adjust monthly billings to recover certain costs associated with: (i) a generating facility developed by the Company, or the acquisition of a generating facility by the Company, for which a certificate of convenience and necessity has been issued by the Alabama Public Service Commission; and (ii) a power purchase arrangement for which a certificate of convenience and necessity has been issued by the Alabama Public Service Commission; and (iii) compliance with laws, regulations, or other such governmental mandates impacting the Company's facilities or operations. The billing mechanism to recover such costs is hereinafter referred to as the "CNP Adjustment", and comprises the CNP Plant Factor, the CNP Purchase Factor, and the CNP Compliance Factor. Rate CNP is made a part of each of the rate schedules of the Company to which Rate CNP is applicable and any modification, amendment or replacement of such rate schedules. All bills rendered under such rate schedules of the Company will be subject to the CNP Adjustment.

DERIVATION OF CNP ADJUSTMENT

The CNP Adjustment to be applied to each kilowatt-hour in the affected monthly billings shall be the CNP Factor associated with certificated generating facilities (as described in Subpart A below), the CNP Factor associated with certificated power purchase arrangements (as described in Subpart B below), and the CNP Factor associated with governmental mandates (as described in Subpart C below). Those factors shall be derived as follows:

A. CNP FACTOR FOR CERTIFICATED GENERATING FACILITIES

The CNP Factor associated with certificated generating facilities ("CNP Plant Factor") is a factor intended to initiate the recovery of costs associated with additional generating facilities that have been certificated by the Commission, whether developed or acquired by the Company ("Certificated Plant"). Thereafter, the revenues derived from this initial factor and the costs associated with the new generating facility will be reflected in the Company's annual filing under Rate RSE. The amount of this CNP Plant Factor shall be determined by the following steps:



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- (1) Projected electric plant in service balances associated with the Certificated Plant (excluding any reasonably identifiable portion of such balances attributable to compliance with governmental mandates, which portion is recoverable pursuant to Part C) will be determined for the upcoming twelve (12) month period, beginning with the month immediately following the month in which commercial operation commences or the acquisition closes, as applicable ("Plant Factor Year"). For an acquisition, the additions to electric plant in service shall be the Company's capital investment to acquire the facility, as approved in the Commission's certification order.
- (2) The plant balances calculated in Item (1), less (a) any projected balance of associated accumulated depreciation and (b) any projected balance of associated accumulated deferred income taxes for the upcoming twelve (12) month period in accordance with the rules and requirements of the Internal Revenue Service, will be summed and divided by twelve (12) to derive the average net plant balance. The average net plant balance (less any portion of that balance associated with unit power sales agreements or other wholesale power arrangements of a similar nature) will then be separated to retail electric service by application of the retail electric investment factor set forth in the most recent cost-of-service study filed by the Company with the Commission to derive the "average retail net certificated plant balance".
- (3) The weighted cost of capital shall be determined by using the embedded costs of debt and preferred stock for the month in which commercial operation of the certificated plant commences or, for an acquisition, the month in which the transaction closes. Weighting shall be accomplished by applying the corresponding capital structure ratios. For purposes of this calculation, the weighted cost of common equity component shall be the "adjusting point" of the WRRCE under Rate RSE including any applicable performance-based adder. In the absence of such an adjusting point, the weighted cost of common equity component shall be based on the allowed rate of return on common equity as then reflected in the most recent rate order of the Commission. To the extent investments attributable to the certificated plant are eligible for tax exempt financing, the amount of facilities financed at the tax exempt rates will be reflected at the embedded tax exempt rate(s) and the balance of investments financed by taxable debt will utilize the Company's embedded cost of debt, excluding tax exempt debt.
- (4) The income tax requirement associated with the preferred stock and common equity weighted cost of capital shall be determined by the formula: $[\text{combined tax rate} \div (1 - \text{combined tax rate})] \times (\text{preferred stock weighted cost} + \text{common equity weighted cost})$. The combined tax rate shall be calculated as



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$$T = \frac{F + S - 2FS}{1 - FS}$$

where "F" is the statutory Federal income tax rate and "S" is the statutory State income tax rate.

- (5) The revenue requirement for the average retail net certificated plant balance will be computed by the multiplication of Item (2) above times the total of Items (3) and (4) above.
- (6) Projected operation and maintenance expenses and depreciation expense associated with the Certificated Plant (excluding fuel, which is recoverable pursuant to Rate ECR, and any reasonably identifiable portion of such expenses attributable to compliance with governmental mandates, which portion is recoverable pursuant to Part C) will be determined for the Plant Factor Year. These expenses (less any portion of the expenses associated with unit power sales agreements or other wholesale power arrangements of a similar nature directly related to the facility) will then be separated to retail electric service by application of the retail expense allocation factor set forth in the most recent cost-of-service study filed by the Company with the Commission.
- (7) The "retail revenue requirement" ("RRR") will be computed by the addition of Items (5) and (6) above.
- (8) The retail revenue requirement (Item (7) above) will be allocated to each of the respective rate schedules that are subject to this Rate CNP in accordance with one of the formulas set out below, and will be applied to that rate schedule so as to adjust the kilowatt-hour charges thereunder. The Commission will specify the applicable allocation formula in its order certifying the new generating facility or acquisition.

ALLOCATION FORMULA

Option (i): Energy Allocation

$$\frac{(\text{RRR})}{\text{kWh}_t} = \text{CNP Plant Factor}$$



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Option (ii): Revenue Allocation

$$\frac{(RRR) \frac{BR_s}{kWh_s}}{BR_t} = \text{CNP Plant Factor}$$

Where, for the Plant Factor Year:

RRR = Retail revenue requirement.

BR_s = The projected base rate revenue from each respective rate schedule that is subject to this Rate CNP for the Plant Factor Year. "Base rate revenue" from any such rate schedule excludes amounts from Rate ECR and Rate T.

BR_t = The projected total base rate revenues from all rate schedules that are subject to this Rate CNP for the Plant Factor Year. Such base rate revenues exclude amounts from Rate ECR and Rate T.

kWh_s = The projected kilowatt-hour sales by rate schedule for the Plant Factor Year.

kWh_t = The projected total kilowatt-hour sales for the Plant Factor Year.

The resulting amount (rounded to the nearest .0001 cent) shall be the CNP Plant Factor for that respective rate schedule.

B. CNP FACTOR FOR CERTIFICATED POWER PURCHASE ARRANGEMENTS

The CNP Factor associated with power purchase arrangements ("CNP Purchase Factor") is based upon the costs as specified for inclusion by the Commission in the respective orders granting certification. The amount of the CNP Purchase Factor shall be determined by the following steps:

- (1) The estimated cost of all such purchases (excluding the energy cost recoverable through Rate ECR and any other costs directed for recovery elsewhere by the Commission) will be projected for the twelve (12) month period from April 1 through March 31 ("Purchase Factor Year").



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- (2) The amount from Item (1) will be separated to retail electric service by application of the retail expense allocation factor set forth in the most recent cost-of-service study filed by the Company with the Commission.
- (3) The amount of any over-recovered or under-recovered balance will be projected for the end of the immediately preceding Purchase Factor Year.
- (4) The “retail revenue requirement” will be computed by the addition of Items (2) and (3) above.
- (5) The retail revenue requirement (Item (4) above) will be allocated to each of the respective rate schedules that are subject to this Rate CNP in accordance with the formula set out below and will be applied to that rate schedule so as to adjust the kilowatt-hour charges thereunder.

ALLOCATION FORMULA

$$\frac{(RRR) \frac{BR_s}{kWh_s}}{BR_t} = \text{CNP Purchase Factor}$$

Where, for the Purchase Factor Year:

RRR = Retail revenue requirement.

BR_s = The projected base rate revenue from each respective rate schedule that is subject to this Rate CNP for the Purchase Factor Year. “Base rate revenue” from any such rate schedule excludes amounts from Rate ECR and Rate T.

BR_t = The projected total base rate revenues from all rate schedules that are subject to this Rate CNP for the Purchase Factor Year. Such base rate revenues exclude amounts from Rate ECR and Rate T.

kWh_s = The projected kilowatt-hour sales by rate schedule for the Purchase Factor Year.

The resulting amount (rounded to the nearest .0001 cent) shall be the CNP Purchase Factor for that respective rate schedule.



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C. CNP FACTOR FOR COMPLIANCE WITH GOVERNMENTAL MANDATES

The CNP factor associated with governmental mandates (“CNP Compliance Factor”) is based upon the cost of compliance with: (i) environmental laws, regulations, and/or other mandates having a similar purpose (“environmental mandates”); and (ii) laws, regulations and/or other mandates directed to the utility industry involving security, reliability, safety, sustainability, or similar considerations impacting the Company’s facilities or operations (“other mandates”). The amount of the CNP Compliance Factor shall be determined by the following steps:

- (1) Projected in service plant balances associated with capital additions to certificated generating facilities, or other capital additions, as made necessary to comply with governmental mandates will be determined for the upcoming twelve (12) month period from January 1 to December 31 (“compliance cost year”).
- (2) The plant balances calculated in Item (1) (less (a) any projected balance of associated accumulated depreciation, (b) any projected balance of associated accumulated deferred income taxes, and (c) any projected balance of accumulated tax credits) will be summed and divided by twelve (12) to derive the “average net compliance plant balance” (“average plant balance”). The average plant balance (less any portion of that balance associated with unit power sales agreements or other wholesale power arrangements of a similar nature) will then be separated to retail electric service by application of jurisdictional separation factors set forth in the most recent cost-of-service study filed by the Company with the Commission to derive the “average retail net compliance plant balance” (“average retail plant balance”).
- (3) The weighted cost of capital shall be determined by use of the embedded costs of debt and preferred stock as of September 30 prior to the compliance cost year and weighting shall be accomplished by applying the capital structure ratios then prevailing. For purposes of this calculation, the weighted cost of common equity component shall be the “adjusting point” of the WRRCE under Rate RSE including any applicable performance-based adder. In the absence of such an adjusting point, the weighted cost of common equity component shall be based on the allowed rate of return on common equity as then reflected in the most recent rate order of the Commission. To the extent investments attributable to these governmental mandates become eligible for tax exempt financing, the amount of facilities financed at the tax exempt rates will be reflected at the embedded tax exempt rate(s) and the balance of investments financed by taxable debt will utilize the embedded cost of debt excluding the tax exempt debt.
- (4) The income tax requirement associated with the preferred stock and common equity weighted cost of capital shall be determined by the formula: $[\text{combined tax rate} \div (1 -$



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combined tax rate)] X (preferred stock weighted cost plus common equity weighted cost). The combined tax rate shall be calculated as

$$T = \frac{F + S - 2FS}{1 - FS}$$

Where "F" is the statutory Federal income tax rate and "S" is the statutory State income tax rate.

- (5) The revenue requirement for the average retail plant balance will be computed by the multiplication of Item (2) above times the total of Items (3) and (4) above.
- (6) Projected operation and maintenance expenses and depreciation expense that are attributable to governmental mandates will be determined for the compliance cost year. These expenses (less any portion of the expenses associated with unit power sales agreements or other wholesale power arrangements of a similar nature) will then be separated to retail electric service by application of the expense jurisdictional separation factor set forth in the most recent cost-of-service study filed by the Company with the Commission.
- (7) The amount of any over-recovery or under-recovery ("true-up calculation") will be determined with respect to Items (5) and (6) above based upon the actual average retail plant balance, actual expenses, actual depreciation expense, and actual retail kilowatt-hours, as opposed to the projections of these inputs that were used to derive the CNP Compliance Factor. The true-up calculation will be performed for the current compliance cost year using actual data through September 30 and projections of the inputs for the remainder of the calendar year. A true-up calculation will also be performed for the period of October 1 through December 31 of the prior compliance cost year, together with other appropriate adjustments to reflect actual data to the extent practicable.
- (8) The "retail revenue requirement" ("RRR") will be computed by the addition of Items (5), (6) and (7) above.
- (9) The retail revenue requirement from Item (8) above will be allocated to each of the respective rate schedules that are subject to this Rate CNP in accordance with the formula set out below and will be applied to that schedule so as to adjust the kilowatt-hour charges thereunder.



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ALLOCATION FORMULA

$$\frac{(RRR) \frac{BR_s}{kWh_s}}{BR_t} = \text{CNP Compliance Factor}$$

Where, for the compliance cost year,

RRR = Retail revenue requirement.

BR_s = The projected base rate revenue from each respective rate schedule that is subject to this Rate CNP for the upcoming compliance cost year. "Base rate revenue" from any such rate schedule excludes amounts from Rate ECR and Rate T.

BR_t = The projected total base rate revenues from all rate schedules that are subject to this Rate CNP for the upcoming compliance cost year. Such base rate revenues exclude amounts from Rate ECR and Rate T.

kWh_s = The projected kilowatt-hour sales by rate schedule for the upcoming compliance cost year.

The resulting amount (rounded to the nearest .0001 cent) shall be the CNP Compliance Factor for that respective rate schedule.

APPLICABLE CNP ADJUSTMENT

The CNP Plant Factor, the CNP Purchase Factor, and the CNP Compliance Factor shall become effective as follows:

- (1) With respect to the CNP Plant Factor determined pursuant to Subpart A of this Rate CNP:
 - (a) For each rate schedule subject to this Rate CNP, the Company will file with the Commission the CNP Plant Factor (along with appropriate supporting materials) to be separately applied to each kilowatt-hour thereunder. This filing will be made on or before the first business day of the month following the month in which the applicable event described below occurred.
 - i. For filings related to certificated plant developed by the Company, the event is commercial operation.



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- ii. For filings related to a certificated acquisition of an operational facility, the event is the closing of the acquisition.
 - iii. For filings related to a certificated acquisition of a facility still under construction, the event is the closing of the acquisition or commercial operation, whichever is later.
- (b) The CNP Plant Factor filed by the Company will be effective for billings starting with the second calendar month following the occurrence of the applicable event, and shall remain in effect thereafter. Each CNP Plant Factor shall be incorporated in the charge for each kilowatt-hour under each of the rate schedules that are subject to this Rate CNP.
- (c) The Company will make relevant books and records available for inspection by the Commission Staff as needed to resolve any questions concerning the development of any CNP Plant Factor hereunder. With respect to Company generating facilities under construction, the Company will provide the Commission Staff with monthly status reports. Reasonable arrangements will be made to preserve the confidentiality of any competitively-sensitive or proprietary data that is made available or accessed through such reports or during any such inspection.
- (2) With respect to the CNP Purchase Factor determined pursuant to Subpart B of this Rate CNP:
- (a) By February 1 of each year, the Company will file with the Commission a CNP Purchase Factor (along with appropriate supporting materials) for each rate schedule to be separately applied to each kilowatt-hour under each such rate schedule that is subject to this Rate CNP. In the event a certificated power purchase will begin or end during the projected twelve (12) month period (April 1 through March 31), the Company will also include in its filing a "replacement factor" that recognizes the effect of such new or terminated purchase.
 - (b) The CNP Purchase Factor filed by February of a given year will be effective for April billings of that year and will continue in effect through March billings of the following year; provided, however, that in the event the Company's filing includes a replacement factor, that replacement factor will become effective for the billing month immediately following the month in which the certificated power purchase begins or terminates (in lieu of the initial factor) and will continue in effect for billings through the following March.



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- (c) In the event a power purchase that will begin during the projected twelve (12) month period is certificated by the Commission after the CNP Purchase Factor is filed, the Company may either: (i) file a new CNP Purchase Factor that recognizes the effect of the newly-certificated power purchase; or (ii) include the cost associated with that purchase in the balance described in Item (3) until such purchase can be reflected in Item (1) of the next scheduled CNP Purchase Factor calculation. Unanticipated terminations or other such events will be handled in the same manner.
 - (d) The Company will make relevant books and records available for inspection by the Staff as needed in order to resolve any questions from the Commission or its Staff concerning application of any CNP Purchase Factor developed hereunder. Reasonable arrangements will be made to preserve the confidentiality of any competitively-sensitive or proprietary data that is accessed during any such inspection.
 - (e) In the event this Rate CNP is terminated or withdrawn, the CNP Purchase Factor (including related true-ups) shall nevertheless continue to operate until all previously certificated power purchase arrangements have expired or otherwise been terminated in accordance with their terms.
- (3) With respect to the CNP Compliance Factor determined pursuant to Subpart C of this Rate CNP:
- (a) For each rate schedule subject to this Rate CNP, the Company will file with the Commission, by December 1 of each year, the CNP Compliance Factor (along with appropriate supporting materials) to be separately applied to each kilowatt-hour thereunder.
 - (b) Each CNP Compliance Factor filed by December 1 of a given year will be effective for January billings of the next succeeding year and will continue in effect through December billings of that same year.
 - (c) Subsequent to the filing of each CNP Compliance Factor, an informal meeting will be convened on the second Tuesday in December, as designated by the Commission, in order to review and discuss the Company's environmental compliance activities. At this meeting, the Company will provide an overview of its environmental compliance plan for the next five (5) years, together with the estimated cost associated with the implementation of that plan. The Company will also discuss pending environmental laws, regulations or other mandates relevant to its environmental compliance activities, as well as any other matters or



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information that it or the Commission considers relevant and appropriate in that regard. The Company will file the above-referenced environmental compliance plan at least thirty (30) days prior to the December 1 deadline for filing the CNP Compliance Factors described in Item 3(a) above.

- (d) The Company will make relevant books and records available for inspection by the Commission Staff as needed to resolve any questions concerning the Company's environmental compliance plan and the development of any CNP Compliance Factor hereunder. Reasonable arrangements will be made to preserve the confidentiality of any competitively-sensitive or proprietary data that is accessed during any such inspection.

ADDITIONAL REQUIREMENTS APPLICABLE TO THE CNP PLANT FACTOR

By a comparable calculation a lessened retail revenue requirements and a per-kilowatt-hour reduction shall be computed based upon the book closing for the month in which an ownership interest in a previously certificated plant is transferred by the Company so as to remove a portion of said net plant from net plant dedicated to retail electric service. Such adjustment shall be based upon the amount of plant (net of any buy-back by the Company) transferred in excess of the amount of such net plant already allocated to the non-retail jurisdiction. Such adjustment shall be applied in each monthly billing beginning with the second calendar month following such transfer.

SPECIAL RULES

The Special Rules Governing the Operation of Rates RSE and CNP constitute an integral part of this rate.