RATE RSE
RATE STABILIZATION AND EQUALIZATION FACTOR

By orders of the Alabama Public Service Commission in Dockets #18117 and #18416.

Effective for December 1982 billings and thereafter; modified effective for July 1985 billings and thereafter; modified effective for April 1990 billings and thereafter; modified effective for April 1998 billings and thereafter; modified effective May 1, 2002 for application to March 2003 billings and thereafter; modified effective October 16, 2005 for application to January 2007 billings and thereafter; modified effective September 20, 2013 for application to January 2014 billings and thereafter; modified effective June 1, 2018, for application to January 2019 billings and thereafter.

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<tr>
<td>1</td>
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</table>

AVAILABILITY

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

APPLICABILITY

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

EXPLANATORY STATEMENT

It is the purpose of Rate RSE to lessen the impact, frequency and size of retail rate increase requests by permitting the Company, through the operation of a filed and approved rate, to adjust its charges more readily to achieve the rate of return allowed it in the rate order of the Commission. By provisions in the rate, the charges are increased if projections for the upcoming year show that the designated rate of return range will not be met and are decreased if such projections show that the designated rate of return range will be exceeded. Other provisions limit the impact of any one adjustment (as well as the impact of any consecutive increases), and also test whether actual results exceeded the weighted equity return range.

APPLICATION OF RATE RSE AND CALCULATION PROCEDURES

Monthly billings on and after January 2019 shall be adjusted (increased or decreased) by the application of a rate stabilization and equalization factor ("RSE Factor") in accordance with the procedure herein described. By December 1, 2018, and by each December 1 thereafter, the Company's weighted return on projected average common equity, separated to retail electric service ("WRRCE"), shall be computed annually for the upcoming twelve-month period ending December 31 (such twelve-month period being the "rate year"). The WRRCE shall be computed on the basis of cost estimates and budgets prepared by the Company in the ordinary course of its business and in a manner consistent with the Uniform System of Accounts through the tabulations specified on Appendix B hereto. If the resulting WRRCE is less than 5.75% or more than 6.15% (5.75% - 6.15% being "the weighted equity return range"), then monthly bills under the respective rate schedules subject to this Rate RSE shall be increased or decreased by amounts per kilowatt-hour necessary, in total, to restore the WRRCE to 5.98% (the "adjusting point" in the weighted equity return range) plus a possible performance-based adder of 0.07%.
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The performance-based adder shall be added to the adjusting point if, at the time of the annual Rate RSE filing, the Company satisfies at least one of the following criteria: (i) an “A” credit rating equivalent with at least one of the recognized rating agencies, or (ii) a ranking in the top third of the most recent customer value benchmark survey or its successor in function. The above-described increases and decreases are accomplished through the application of an RSE Factor, which is developed by the formula contained in Appendix A hereto. Both Appendix A and Appendix B constitute an integral part of this Rate RSE. The RSE Factor shall be revised annually for application to billings beginning January of each rate year if the WRRCE computed with respect to that rate year is outside of the weighted equity return range. (For example, any revision of the RSE Factor for use beginning with January 2019 billings would be derived from the WRRCE computed for the upcoming twelve-month period ending December 31, 2019.)

For monthly billings commencing January 2019 and thereafter, the kilowatt-hour charges under the respective rate schedules shall be adjusted by applying the current annual revision (if any) of the RSE Factor to the existing kilowatt-hour charges, as theretofore adjusted for the cumulative effect of all prior RSE Factors and other adjustments (such as, for example, adjustments pursuant to Rate CNP).

ADJUSTMENT LIMITATIONS

Consecutive increases derived by the annual operation of Rate RSE shall be limited such that adjustments for any consecutive two-year period, when averaged together, do not exceed four percent (4%). Thus, the limitation governing any such consecutive increase shall be the percentage that, when combined with the percentage adjustment that was made applicable to monthly billings for the current year, produces an average of four percent (4%). Notwithstanding the foregoing, the maximum increase in any one year associated with the operation of Rate RSE shall not exceed five percent (5%) of the projected total retail revenues of the Company (“RR”) for the rate year used to compute the WRRCE. Hypothetical examples of the application of these limitations in the context of consecutive years include: 4.5% and 3.5%; 5.0% and 3.0%; 3.2% and 4.8%; 3.0% and 5.0%, and so forth.

PRIOR YEAR ACTUAL RESULTS

On or before March 1 of each year, the Company shall submit to the Commission a calculation of its actual weighted return on average retail common equity (“AWRRCE”) for the immediately preceding calendar year (“review year”) under this Rate RSE.
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This AWRRCE will be calculated in the same manner as set forth under Appendix B, except that actual data will be substituted for the projected data used to develop the WRRCE for the same twelve-month period. If the AWRRCE derived through this calculation is above the weighted equity return range, then the Company shall determine the amount of revenue that caused the AWRRCE for the review year to exceed the top end of the designated range. The amount of revenue to be returned to customers shall be determined in the manner set forth in Appendix A ("refund factor") and, unless otherwise directed by the Commission, shall be refunded to retail customers by rate schedule. The implementation of any refunds to customers shall be accomplished through the application of credits on customer billings for the month of April following the review year.

OTHER LIMITATIONS AND PROVISIONS

Jurisdictional Allocations. In the computation of WRRCE and the RSE Factor, it is necessary for jurisdictional purposes that allocations be made as between electric and nonelectric operations and then as between retail electric service and electric service other than retail. For the applications of this Rate RSE, the Company will prepare and file by May 1 of each year, a cost-of-service study based upon data from the prior calendar year. The most recently filed cost-of-service study shall be used in the computation of WRRCE, RSE Factor, and the Refund Factor. Corrections or revisions proposed thereto, if not accepted by the Company, may be made the subject of a limited complaint proceeding under the Special Rules Governing Operation of this Rate. If such a complaint proceeding is instituted and not completed before the next annual RSE computation, the lower of the existing factors or the newly filed factors shall be used in computations under this Rate until such complaint proceeding is resolved.
COMMISSION-REQUIRED ADJUSTMENTS

Advertising Expense. In its decision in Alabama Power Co. v. Alabama Public Service Commission, 359 So. 2d 776 (Ala. 1978), the Supreme Court of Alabama recognized advertising expense as an allowable expense for a utility company in a ratemaking proceeding. However, as an additional constraint upon expenditures by the Company, in each computation under Rate RSE one-half (1/2) of the amounts in Accounts 909 and 930.1 will be disallowed.

Lobbying Expense. The expenses of lobbying are appropriately charged to Account 426.4 and will not be charged to the ratepayer in any computation of this Rate RSE or otherwise.

Donations. In its decisions in Alabama Power Co. v. Alabama Public Service Commission, 359 So. 2d 776 (Ala. 1978) and Alabama Power Co. v. Alabama Public Service Commission, 390 So. 2d 1017 (Ala. 1980), the Supreme Court of Alabama has ruled that charitable donations (Account 426.1) cannot be proper expenses of a utility company for ratemaking purposes. Unless and until this matter is dealt with otherwise by legislation or subsequent court rulings, the Company will not undertake to move such expenditures from "below-the-line" to "above-the-line" status in any computation under this Rate RSE or in any ratemaking proceeding.

Civic Club Dues. Civic club dues are properly charged to Account 426.5 and will not be charged to the ratepayer in any computation of this Rate RSE or otherwise.

SPECIAL RULES

The Special Rules Governing Operation of Rates RSE and CNP constitute an integral part of this Rate.
The rate stabilization and equalization factor (RSE Factor) will be initially developed, and thereafter changed whenever the WRRCE for the rate year is not within the weighted equity return range. The RSE Factor shall be calculated for each respective affected rate schedule in accordance with the formula set out below and shall be applied in that schedule so as to adjust the kilowatt-hour charges as the same may have been adjusted by any previous applications of Rate RSE:

\[
\text{If } \left(\frac{(\text{AROR} - \text{WRRCE})}{\text{CEP}}\right)(\text{RCE}) \left(1 - \frac{T}{\text{RR}}\right) \text{ is greater than } L\% \text{, then }
\]
\[
\frac{\left(L\% \times \text{RR}\right) \text{ BR}_1}{\text{KWH}_s} = \text{ RSE Factor*}
\]

\[
\text{If } \left(\frac{(\text{AROR} - \text{WRRCE})}{\text{CEP}}\right)(\text{RCE}) \left(1 - \frac{T}{\text{RR}}\right) \text{ is equal to, or less than } L\% , \text{ then }
\]
\[
\frac{(\text{AROR}-\text{WRRCE})}{\text{CEP}}\text{BR}_1 = \text{ RSE Factor*}
\]

*Rounded to nearest 0.0001 cent

Where, for the twelve-month period constituting the rate year,

**AROR** = Adjusting point of Weighted Equity Return Range, plus any earned performance-based adder.

**WRRCE** = Projected weighted return on average retail common equity.

**CEP** = Projected common equity percentage of capital structure.

**RCE** = Projected average retail common equity.

**T** = Combined Federal and State income taxes = \( \frac{F + S - 2FS}{1 - FS} \)

F being the effective statutory Federal income tax rate and S being the effective statutory State income tax rate.
RATE RSE – APPENDIX A
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</tbody>
</table>

RR = Projected total retail revenues from sale of electricity for the rate year.

L% = The applicable percentage limitation for the rate year.

BRs = The projected base rate revenue from each respective retail rate schedule for the rate year. "Base rate revenue" from any schedule excludes amounts from Rate ECR and Rate T.

BRt = The projected total base rate revenues from all retail rate schedules for the rate year. Such base rate revenues exclude amounts from Rate ECR and Rate T.

KWHs = The projected kilowatt-hour sales by retail rate schedule for the rate year.

DEVELOPMENT OF REFUND FACTOR

The refund factor for the review year will be developed whenever the AWRRCE exceeds the top of the weighted equity return range (TROR). The refund factor shall be calculated for each affected rate schedule in accordance with the formula set forth below. The application of bill credits derived hereunder (or such other disposition as may be directed by the Commission) shall fully satisfy the Company’s refund requirement under this Rate RSE.

If an upward adjustment under Rate RSE (or an upward adjustment in lieu of Rate RSE) did not occur in the review year, then calculate REF as follows:

If AET ≤ 0.005
\[
REF = \left(\frac{(AET)(0.25)}{ACEP}(ARCE)\right)\left(\frac{1}{1-T}\right)
\]

If AET > 0.005 and ≤ 0.010
\[
REF = \left(\frac{(0.00125+(AET-0.005)(0.4))}{ACEP}(ARCE)\right)\left(\frac{1}{1-T}\right)
\]

If AET > 0.010 and ≤ 0.015
\[
REF = \left(\frac{(0.00325+(AET-0.010)(0.75))}{ACEP}(ARCE)\right)\left(\frac{1}{1-T}\right)
\]
If $AET > 0.015$

$$REF = \frac{((0.007 + (AET - 0.015))/ACEP)(ARCE)}{1-T}$$

If an upward adjustment under Rate RSE (or an upward adjustment in lieu of Rate RSE) occurred in the review year, then calculate REF as follows:

If $AET \leq 0.0075$

$$REF = \frac{((AET)(0.50))/ACEP)(ARCE)}{1-T}$$

If $AET > 0.0075$

$$REF = \frac{((0.00375 + (AET - 0.0075))/ACEP)(ARCE)}{1-T}$$

In all review years, calculate the $AREF$ as follows:

If $AWRRCE > (ACEP)(0.138)$, then

$$AREF = \frac{((AWRRCE - ((ACEP)(0.138)))/ACEP)(ARCE)}{1-T}$$

Otherwise, $AREF = 0$

Develop the refund factor,

If $REF \geq AREF$, then

$$\frac{(REF)}{KWH_s} = Refund\ Factor^*$$

Otherwise,

$$\frac{(AREF)}{KWH_s} = Refund\ Factor^*$$

*Rounded to nearest 0.0001 cent
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Where, for the review year,

AWRRCE = Actual weighted return on average retail common equity.

TROR = Top of weighted equity return range.

AET = Amount exceeding top = AWRRCE - TROR

ACEP = Actual common equity percentage of capital structure.

ARCE = Actual average retail common equity.

REF = Amount to refund to customers.

AREF = Alternate amount to refund to customers.

T = Combined Federal and State income taxes = \( \frac{F + S - 2FS}{1 - FS} \)

F being the effective statutory Federal income tax rate and S being the effective statutory State income tax rate.

\( \text{BR}_{sa} \) = The billed base rate revenue recorded from each respective retail rate schedule for the review year. “Base rate revenue” from any schedule excludes amounts from Rate ECR and Rate T.

\( \text{BR}_{ta} \) = The total billed base rate revenues recorded from all retail rate schedules for the review year. Such base rate revenues exclude amounts from Rate ECR and Rate T.

\( \text{KWH}_s \) = The kilowatt-hour sales recorded for each respective retail rate schedule for the review year.
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**DETERMINATION OF PROJECTED AVERAGE RETAIL COMMON EQUITY (RCE) AS OF DECEMBER 31, ____________:**

<table>
<thead>
<tr>
<th>Column 1</th>
<th>Column 2</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Amount</strong></td>
<td><strong>Non-Electric</strong></td>
</tr>
<tr>
<td>(Projected 12-mo. avg. bal.)</td>
<td>(Projected 12-mo. avg. bal.)</td>
</tr>
</tbody>
</table>

**Investment**

1. Electric Plant in Service (Account 101)  
   $ ____________ (E)  
   $ ____________
2. Electric Plant Held for Future Use (Account 105)  
   ____________
3. Construction Work in Progress-Electric  
   (Account 107)  
   ____________  
   ____________
4. Accumulated Provision for Depreciation and Amortization of Electric Utility Plant-Credit  
   (Accounts 108 and 111)  
   ____________ (E)
5. Electric Plant Acquisition Adjustments-Net  
   (Accounts 114 and 115)  
   ____________
6. Steam Heat Plant (Account 118)  
   ____________  
   ____________
7. Accumulated Provision for Depreciation of Steam Heat Plant-Credit (Account 119)  
   ____________
8. Nuclear Fuel-Net (Account 120)  
   ____________
9. Nonutility Property (Account 121)  
   ____________
10. Accumulated Provision for Depreciation and Amortization of Nonutility Property-Credit (Account 122)  
    ____________
11. Investment in Subsidiary Companies (Account 123)  
    ____________
12. Other Investments (Account 124)  
    ____________
13. Fuel Stock (Account 151)  
    ____________
14. Materials and Supplies (Account 154)  
    ____________
15. Merchandise (Account 155)  
    ____________
16. Allowance Inventory (Account 158)  
    ____________
17. Total  
   $ ____________  
   $ ____________

EFFECTIVE DATE  
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<tbody>
<tr>
<td><strong>Total Amount</strong> (Projected 12-mo.avg. bal.)</td>
<td><strong>Non-Electric</strong> (Projected 12-mo. avg. bal.)</td>
</tr>
</tbody>
</table>

18. Electric Investment Percent
   (Line 17, [Col. 1 - Col. 2 less UPS Investment of $_____] ÷ Col. 1)
   __________ % (D)

19. Retail Electric Investment Factor
   __________ %

20. Retail Investment Separation Factor
   (Line 18 x Line 19)
   __________ %

**Common Equity Percentage of Capital Structure**

21. Common Equity (Accounts 201, 211 and 216) $ __________

22. Debt (Accounts 221-226 and 231) __________

23. Preferred Stock (Accounts 204-207 and 214) __________

24. Total (Line 21 + Line 22 + Line 23) $ __________

25. Common Equity Percentage of Capital Structure (CEP) __________ %
   (Line 21/Line 24)

**Retail Common Equity (RCE)**

26. Retail Common Equity (Line 20 x Line 21) $ __________
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DETERMINATION OF PROJECTED RETAIL NET INCOME FOR THE 12 MONTHS ENDING DECEMBER 31, ____________:

<table>
<thead>
<tr>
<th>Electric Operating Revenue:</th>
<th>Total Electric (Projected 12 mos. total)</th>
<th>Retail Electric (Projected 12 mos. total)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Sale of Electricity (Accounts 440-448)</td>
<td>$ ____________</td>
<td>$ ____________ (A)</td>
</tr>
<tr>
<td>2. Other Operating Revenues (Accounts 450-456)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Total Operating Revenues (Line 1 + Line 2)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Electric Expenses:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>4. Electric Operation and Maintenance Expenses (Accounts 401 and 402)</td>
<td></td>
</tr>
<tr>
<td>5. Electric Depreciation and Amortization Expenses (Accounts 403-407)</td>
<td></td>
</tr>
<tr>
<td>6. Taxes Other than Income Taxes (Account 408.1)</td>
<td></td>
</tr>
<tr>
<td>7. Other Revenue Credits (Accounts 447-02xxx, 447-04xxx, 454 except 454-00904, and 456 except 456-00953)</td>
<td>____________ (A), (B)</td>
</tr>
<tr>
<td>8. Electric Expenses Other than Income Taxes (Lines 4, 5, and 6 - Line 7)</td>
<td></td>
</tr>
<tr>
<td>9. Operating Income before Income Taxes (Line 3 - Line 8)</td>
<td></td>
</tr>
<tr>
<td>10. Income Taxes (Accounts 409-411)</td>
<td></td>
</tr>
<tr>
<td>11. Retail Expense Allocation Factor</td>
<td>____________ %</td>
</tr>
<tr>
<td>12. Retail Expenses Other Than Income Taxes (Line 8 - UPS Expenses of $______) x Line 11</td>
<td>____________ (D)</td>
</tr>
<tr>
<td>13. Retail Operating Income before Income Taxes (Line 3 - Line 12)</td>
<td></td>
</tr>
<tr>
<td>14. Retail Income Taxes (Line 13 ÷ Line 9) x Line 10</td>
<td></td>
</tr>
<tr>
<td>15. Net Retail Electric Operating Income (Line 13 - Line 14)</td>
<td></td>
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DETERMINATION OF PROJECTED RETAIL NET INCOME FOR THE 12 MONTHS ENDING DECEMBER 31, ______________:

<table>
<thead>
<tr>
<th>Allowance for Funds Used During Construction</th>
<th>Total Electric</th>
<th>Retail Electric</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Projected 12 mos. total)</td>
<td>(Projected 12 mos. total)</td>
<td></td>
</tr>
</tbody>
</table>

16. Electric Allowance for Funds Used During Construction (AFUDC) - Gross
   __________

17. Retail Electric Allocation Factor
   __________ %

18. Retail Electric AFUDC (Line 16 - UPS Investment AFUDC of $_____) x Line 17
   __________ (D)

Interest Income

19. Interest Revenue (Accounts 419-00001, 419-00034, 419-00038 and 419-00066)
   through 419-00068) (net of tax)
   __________

20. Retail Interest Income (Line 19 x Retail Investment Separation Factor)
   __________ % (C) __________

Interest Expense and Preferred Dividends:

21. Interest Expense (Accounts 427-431)
   __________

22. Preferred Dividends (Account 437)
   __________

23. Total Interest Expense and Preferred Dividends [(Line 21 + Line 22) x Retail Investment Separation Factor]
   __________ % (C) __________

Commission-Required Adjustments

24. Commission-Required Adjustments (net of tax)
   __________

25. Retail Commission-Required Adjustments (Line 24 x Retail Expense Allocation Factor)
   __________ % __________

Retail Net Income Available for Common Equity (RNI)

26. Retail Net Income Available for Common Equity
   (Line 15 + Line 18 + Line 20 - Line 23 + Line 25)
   $ __________

Weighted Return on Average Retail Common Equity

RNI x CEP = WRRCE

RCE

___________ %
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Notes:

Note (A): To conform with cost-of-service procedures, amounts included in Account 447 (Sales for Resale) associated with Non-Territorial Sales for Resale (subaccounts 447-02xxx and 447-04xxx) are excluded from Line 1 and included in Line 7.

Note (B): To conform with cost-of-service procedures, the total of Accounts 450 (Forfeited Discounts), 451 (Miscellaneous Service Revenues), 453 (Sales of Water and Water Power), subaccount 454-00904 (Rent from Leased Property on Customers' Premises-Other), and subaccount 456-00953 (Miscellaneous Electric Revenues-Return Check Charge) is included on Line 2. The remaining subaccounts for Accounts 454 (Rent from Electric Property) and 456 (Other Electric Revenues) are included in Line 7.

Note (C): Developed on Line 20 of retail common equity computation.

Note (D): To conform with cost-of-service procedures and to afford proper recognition of investment and associated allowance for funds and expenses associated with Unit Power Sales to Nonassociated Utilities, the investment and associated allowance for funds and expenses associated with such sales have been accounted for on Line 18 of RCE calculation and on Lines 12 and 18 of RNI calculation.

Note (E): For purposes of Rate RSE, the capitalization of asset retirement costs shall be excluded from Account 101 (Electric Plant in Service) and the associated depreciation shall be excluded from Account 108 (Accumulated Provision for Depreciation of Electric Utility Plant) pursuant to Accounting for Asset Retirement Obligations.