

# PERFORMANCE EVALUATION PLAN RATE SCHEDULE “PEP-6”



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## I. AVAILABILITY

At any point on the Company's system.

## II. APPLICABILITY

This Performance Evaluation Plan Rate Schedule (“Schedule” or “PEP Schedule”) defines the procedure by which the retail base rates of Mississippi Power Company (“MPC” or “the Company”) shall be periodically reviewed and adjusted. The PEP Schedule is applicable to all electric service billed under the Company's various rate schedules, and subject to the jurisdiction of the Mississippi Public Service Commission (“MPSC” or “the Commission”).

## III. BILLING PROVISIONS

### A. ANNUAL FILING AND REVIEW

#### 1. FILING DATE AND PROCEDURE

Annually, on or before March 15 of each year during the operation of this Schedule, MPC shall file a report with the Commission containing an evaluation of the retail revenue requirements in accordance with the provisions of Section III.B below (“Evaluation Report”). The Evaluation Report will include the calculation of the Projected Retail Return on Investment (PRRI), the Company's Performance Rating (CPR), the Company's Performance Adjusted Return on Investment (PROI), and the Revenue Adjustment Worksheet for the Commission's evaluation. For purposes of rate adjustments under this Schedule, the information listed in Appendix E shall be deemed to meet the filing requirements required by Commission Rule. A schedule showing the Company's proposed changes in rates, if applicable, shall be filed with the Company's Evaluation Report. At the time each such Evaluation Report is filed, MPC shall provide the Mississippi Public Utilities Staff (“MPUS” or “the Staff”) with copies of the filing and workpapers supporting the data and calculations reflected in the Evaluation Report<sup>1</sup>.

#### 2. INTERIM RATES AND PERMANENT RATES

If the filed Evaluation Report indicates a rate adjustment is needed, the Company shall implement the following:

- a. Interim Rate: This rate shall be implemented beginning with the first billing cycle of April and shall be designed to collect the entire Evaluation Period revenue requirement over the remaining nine months of the calendar year (April through December). The Interim Rate shall become effective upon the Company providing bond or other surety traditionally used by the Company to secure such obligations. The Interim Rate is subject to a 2% cap of the Evaluation Period aggregate retail revenues and will remain in

<sup>1</sup> The Staff shall service its first set of data requests on the Company no later than February 15<sup>th</sup> of the filing year, and MPC shall provide its responses to the Staff's first set of data requests on or about the date MPC makes its annual Evaluation Report filing.

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effect through the date of implementation of the rates approved by a Commission order, or by operation of the terms of this Schedule.

- b. Permanent Rate: Upon approval of the Evaluation Period revenue requirement by Commission order or by operation of the terms of this Schedule, Permanent Rates calculated consistent with the methodology below shall become immediately effective:
- 1) The Permanent Rate shall be designed to collect the authorized annual revenue requirement over a twelve-month (12) period. Permanent Rates shall remain effective until superseded by subsequent rates implemented pursuant to the procedures of this Schedule or otherwise by Commission order.
  - 2) A surcharge or refund will be designed and implemented with the Permanent Rate and will cease with the last billing cycle of the calendar year. This rate is designed to collect or return any adjustments for the prior year (Look-Back) along with any necessary adjustment to ensure the full revenue requirement amount is collected for the current calendar year.

The Interim Rate, Permanent Rate and surcharge or refund shall be designed to collect the Commission approved calendar year’s revenue requirement within the same calendar year along with any necessary adjustment for the prior year.

### 3. REVIEW PERIOD

The Staff<sup>2</sup> shall have seventy (70) days from the date of filing to review the Evaluation Report (“Review Period”) to ensure that it complies with the requirements of Section B below. At the time each such Evaluation Report<sup>3</sup> is filed, MPC shall provide the Staff with copies of the filing and workpapers supporting the data and calculations reflected in the Evaluation Report along with responses to Staff’s first set of standard data requests. The Staff may request clarification and additional data concerning the Evaluation Report at any time during the Review Period. MPC and the Staff shall work in good faith to try to resolve any disputes concerning the Evaluation Report.

If the Staff should detect an error(s) in the application of the principles contained in Section B below, such error(s) shall be formally communicated in writing to the Commission and MPC within fifty (50) days of MPC’s filing. Similarly, if MPC should detect such an error subsequent to the submission of any annual filing, the Company shall formally notify the Commission and Staff in writing of such error(s). All such indicated errors shall include documentation of the proposed correction. MPC shall then have 10 days to file a corrected retail revenue requirement. The Company shall provide the Staff with workpapers supporting any corrections

<sup>2</sup> This section shall also apply to any intervening party as prescribed in Commission RP 6.121.

<sup>3</sup> The Evaluation Report herein is comprised of both the revenue requirement for the current year and the prior year Look-back revenue requirement.

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made to the revenue requirement initially filed.

#### 4. RESOLUTION OF DISPUTES

Following the fifty (50) day error period, in the event there is an unresolved dispute regarding any Evaluation Report, MPC and the Staff shall work together in good faith to resolve such disputes before the conclusion of the seventy (70) day Review Period. If such disputes cannot be resolved, the Company and the Staff shall jointly submit to the Commission a statement of the issues to be resolved at the conclusion of the Review Period. The Company and the Staff may submit separate memoranda supporting their respective positions. The Commission shall render a ruling on such disputed issues or errors on or before the first billing cycle of July of the filing year. Notwithstanding the provisions above, in the event the Evaluation Period revenue requirement remains unauthorized or unapproved, MPC may implement, subject to refund by subsequent order of the Commission, a Rate Under Bond comprised of the Permanent Rates and surcharge/refund described above beginning with the first billing cycle of July upon the Company providing bond or other surety traditionally used by the Company to secure such obligations. The Permanent Rate portion of the Rate Under Bond to be placed into effect shall be calculated based in accordance with Section III.A.2.b.(1) above and the surcharge/refund portion of the Rate Under Bond to be placed in effect shall be calculated in accordance with Section III.A.2.b.(2) above.

If a dispute or error is resolved such that there are changes in the revenue requirement and initially implemented schedule of rates pursuant to the above provisions, a revised revenue requirement and revised schedule of rates containing such further modified revenue requirement shall be submitted to the Commission within five days of the Commission's order resolving the dispute. In addition to reflecting the Commission's ruling on the disputed issues, the final revenue requirement and revised schedule of rates shall also reflect the adjustments necessary to recover or credit the estimated revenue increase or decrease, respectively, that would have resulted had the final revenue requirement been implemented initially. Such revised rates reflecting the modified revenue requirement shall then become effective at the end of five days, unless approved earlier by order of the Commission, and shall remain in effect until superseded by new rates established in the subsequent Evaluation Report filing.

#### B. ANNUAL EVALUATION OF RATE ADJUSTMENTS

##### 1. EVALUATION PERIOD

The determination of whether a change in revenues is necessary will be evaluated annually. Each annual evaluation shall be based on audited financial data and other supporting information for the most recent actual twelve-month period ended December 31 adjusted for known and measurable<sup>4</sup> changes (“Evaluation Period”). All data utilized in each evaluation

<sup>4</sup> For the purposes of this Schedule PEP-6, “known and measurable changes” shall mean changes to rate base, expenses or revenues that (1) with a high degree of certainty will occur (whether increase or decrease) during the Evaluation Period and are accurately and objectively measurable or (2) are new recurring operating expenses that with a high degree of certainty will occur and can be measured with a high degree of accuracy.

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shall be based on the books and records of MPC in accordance with the Uniform System of Accounts, for a period ending no more than thirteen months prior to the filing date (“Historic Year”), and such other documentation as may be appropriate including known and measurable changes associated with providing utility service for the Evaluation Period as further addressed in Appendix A, and F hereto.

## 2. RATE ADJUSTMENT METHODOLOGY

A determination shall be made pursuant to this section of the Schedule as to whether the Company’s revenues should be increased, decreased, or remain the same. If it is determined that revenues should be increased or decreased, retail electric rate schedules will be adjusted in the manner set forth in this Schedule. In each Evaluation Report, the determination of the change in the current revenues shall be made based on the following rules:

- a. Determination of the CPR - The CPR will be determined based upon the calculation of three separate performance indicators: (1) Customer Price, (2) Customer Satisfaction, and (3) Customer Service Reliability. The calculations for each of these indicators and the procedure to determine the CPR are described in Appendix B.
- b. Determination of the allowable Return on Equity (ROE) - The determination of the allowable ROE shall be determined for each Evaluation Period in accordance with the formula set out in Appendix C hereto.
- c. Determination of the Return on Investment (ROI) - The Company’s ROI is determined by using the process illustrated in Appendix D of this schedule.
- d. Determination of the PROI - The Company’s PROI will be determined by adjusting the Company’s weighted average ROE for performance and adding it to the weighted average cost of debt. The determination of PROI shall be determined in accordance with the formula set out in Appendix C hereto.
- e. Determination of the Range of No Change (the PEP Band) - The PEP Band for the retail jurisdiction will be determined as set forth in Appendix C.
- f. Determination of the PRRI - The twelve-month ending PRRI for the retail jurisdiction will be determined from the Company's records in the manner set forth in Appendix A. This determination shall be based on average investment data using the “FERC Method” (as defined in Note A on Appendix A), revenues and actual expense data adjusted for known and measurable adjustments.
- g. Determination of Revenue Impact - The Company's PRRI will then be compared to the PEP Band using Appendix D, Revenue Adjustment Worksheet, to determine whether revenues should be increased, decreased, or remain the same. Due to practical constraints, no adjustments provided for under this Schedule will be made for amounts less than \$250,000. No annual revenue adjustment shall exceed four percent (4%) of the annual aggregate retail revenues of the Company during the Evaluation Period.

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Revised retail rate schedules will be filed by the Company with the Commission each time they are adjusted by this PEP Schedule and shall then become the filed rate schedules of the Company.

- (1) If the PRRI falls within the PEP Band, no retail revenue change is required.
- (2) If the PRRI is outside the PEP Band, the revenue adjustment necessary to achieve the proper return will be calculated in accordance with Appendix D. The changes will be made in the retail rate schedules to reflect the adjustment in revenues.

#### h. Rate Parity

All rate classes should be in parity, that is, all rate classes should pay rates that cover their cost-of-service including an appropriate return on equity. Parity shall be deemed to exist when the return on equity for each class of service (as indicated in the most recently filed cost-of-service study) is within a range of plus or minus ten (10) percent of the return on equity for the retail jurisdiction in total. The Company shall allocate revenue changes under this PEP Schedule in a manner that shall move the rate class returns on equity to parity in a manner not inconsistent with the orders of the Commission.

#### i. Customer Charge

In compliance with the Commission's order in Docket No. 2021-AD-19, the Company's rate design to collect revenue requirements established under this PEP Schedule shall incorporate a fully-costed fixed customer charge for residential customers.

### 3. EVALUATION PERIOD LOOK-BACK

In each Evaluation Report, there shall be a look-back of the twelve-month period ended December 31 of the prior calendar year ("Look-back Evaluation Period") as set out and described in Appendix A hereto. The Look-back Earned Return on Investment ("EROI") for any Look-back Evaluation Period shall be calculated in accordance with and utilizing the appropriate PEP appendices for such calculation. The calculation will utilize the same "FERC Method" as used in the Evaluation Period for the actual average rate base for the Look-back Evaluation Period, and the allocation factors that were used in preparing the Company's Evaluation Period, applied to actual amounts for the Look-back period in accordance with Appendix A. The Company shall compare the Look-back EROI to the PEP Band originally calculated in the projected Evaluation Report for the same calendar year. In each annual Evaluation Report, if there is a surcharge or credit, as set out in Appendix D hereto, then such surcharge or credit shall be calculated as follows:

- a. The Look-back surcharge or refund shall be zero if the EROI is within the PEP Band originally calculated in the Evaluation Report.
- b. If the EROI is above the PEP Band, the Company shall credit its current retail customers the amount by which the revenues exceed the top of the PEP Band.

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- c. If the EROI is below the PEP Band, the Company shall implement a surcharge from its current retail customers the amount by which the revenues are below the bottom of the PEP Band.

## IV. EFFECTIVE DATE AND TERM

Schedule PEP-6 shall be effective January 1, 2021 and shall continue in effect until modified or terminated in accordance with the provisions of this PEP Schedule or applicable regulations or laws. Nothing herein shall prevent the Commission, on its own motion, the Staff, or MPC from proposing changes to, or the elimination of, this PEP Schedule at any time in the manner provided by law.

If Schedule PEP-6 is terminated in the future by order of the Commission, the Company's current rates under this schedule shall continue until such time as new general rates become effective pursuant to a final Commission order in a general rate proceeding, which may be concurrent with such termination of this PEP Schedule.

## V. PROVISIONS FOR OTHER FILINGS

### A. MAJOR COST ADDITIONS

It is recognized that MPC may from time to time have to construct or acquire major plant; make major modifications to existing plant. The addition or modification of such plant may increase significantly the Company's revenue requirements and require significant rate relief. This Schedule PEP-6 is not designed to handle adequately the rate increase occasioned by the major addition or modification of plant. Should the Company construct, have constructed, or purchase in place major plant or make major modifications to existing plant, the Company may file for rate or other relief outside the provisions of this PEP Schedule, but in accordance with the law of the State of Mississippi governing such filing, and the request will be handled by the Commission in accordance with its regulations and applicable law governing such filings.

### B. ADJUSTMENT CLAUSES

The Company's adjustment clauses now in effect will not be altered or amended by this Schedule PEP-6 in any manner. The revenues received by the Company as a result of these clauses are included, however, in the Company's aggregate revenues as used in Appendix "A" to determine the Company's retail return on investment.

### C. SPECIAL RATE FILINGS

To meet the requirements of the changing business environment and the increasing competition being experienced by the Company and throughout the electric utility industry, experimental, developmental, and alternative rate schedules are appropriate tools for the Company to use to meet such requirements. Therefore, nothing in this PEP Schedule shall be interpreted as preventing the Company from proposing such rate schedules as may be appropriate and as

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provided by law. Any such schedules will be filed with the Commission in accordance with the procedures then in effect during the term of this Schedule.

#### D. FORCE MAJEURE

If any cause beyond the reasonable control of the Company, such as natural disaster, damage or loss of generating capacity, orders or acts of civil or military authority, terrorist attacks, government mandates, the happening of any event or events which cause increased costs to the Company, or other causes, whether similar or not, results in a deficiency in revenues which is not readily capable of being redressed in a timely manner under this PEP Schedule, MPC may file for rate or other relief outside the provisions of this Schedule, but in strict accord with the law of the State of Mississippi governing such filing and the said request will be handled by the Commission in accordance with its regulations and applicable law governing such filings.

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## APPENDIX A

### CALCULATION OF RETAIL RETURN ON INVESTMENT FOR THE TWELVE MONTHS ENDING \_\_\_\_\_

	(A)	(B)	(C)	(D)	(E)	(F)
	Total Electric System as of <u>MM/DD/YY</u>	Total ECO Service as of <u>MM/DD/YY</u>	Total SRR Service as of <u>MM/DD/YY</u>	Total PEP Service as of <u>MM/DD/YY</u>	Allocation Per Current <u>COSS</u>	Retail PEP Service as of <u>MM/DD/YY</u>
<b>INVESTMENT</b>						
1. Gross Electric Plant						
2. Less: Leased						
3. Adjusted Gross Electric Plant						
4. Accumulated Depreciation						
5. Less: Leased						
6. Adjusted Accumulated Depreciation						
7. Net Electric Plant in Service						
8. Plant Held for Future Use (F)						
9. Unamortized Leasehold Improvements & Other Deferred Debits						
10. Unamortized Cost of Reacquired Debt						
11. Fuel Stock (G)						
12. Materials & Supplies						
13. Construction Work in Progress (H)						
14. Cash Working Capital (I)						
15. Compensating Bank Balances						
16. Prepayments						
17. MPSC Assessment & Other Deferred Regulatory Expenses						
18. Over/Under Recovery of Ad Valorem Taxes						
<i>Deduct:</i>						
19. Accumulated Deferred Income Taxes (J)						
20. Pre-1971 ITC						
21. Customer Advances						
22. Customer Deposits						
23. Property Damage Reserve (K)						
24. Injuries & Damages Reserve						
25. Other Operating Reserves (L)						
26. Total Investment						



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## APPENDIX A

### CALCULATION OF RETAIL RETURN ON INVESTMENT FOR THE TWELVE MONTHS ENDING \_\_\_\_\_

	(A)	(B)	(C)	(D)	(E)	(F)
	Total Electric	Total ECO	Total SRR	Total PEP	Allocation	Retail PEP
	System as of	Service as of	Service as of	Service as of	Per Current	Service as of
	<u>MM/DD/YY</u>	<u>MM/DD/YY</u>	<u>MM/DD/YY</u>	<u>MM/DD/YY</u>	<u>COSS</u>	<u>MM/DD/YY</u>
<b>REVENUES</b>						
27.	Revenues from Retail Sales (N)					
28.	Revenues from Non-Retail Sales					
29.	Total Revenues from Sales					
30.	Other Operating Revenues					
31.	Total Operating Revenues					
<b>EXPENSES</b>						
32.	Operation & Maintenance:					
33.	Fuel/ECM (O)					
34.	Non-Fuel O&M (P)					
35.	Total O&M					
36.	Contributions (Q)					
37.	Non-Territorial Sales:					
38.	Demand (R)					
39.	Energy:					
40.	Fuel & Emission Revenue					
41.	Other Energy Revenue					
42.	Total Non-Territorial Sales					
43.	Revenue Credits (S)					
44.	Depreciation, Amortization & Accretion					
45.	Amortization of Retail Rate Plan					
	& Filing Expenses (T)					
46.	Amortization of ITC					
47.	Amortization of Reacquired Debt					
48.	Taxes Other than Income Taxes					
49.	Municipal Franchise Taxes					
50.	Interest on Customer Deposits					
51.	Total Adjusted Expenses					
52.	Operating Income Before Income Taxes					
53.	Income Taxes (U)					
54.	Net Operating Income					
55.	AFUDC (V)					
56.	Total Operating Income					
<b>RETURN</b>						
57.	Retail Return on Investment (W)					

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## APPENDIX A

### FOOTNOTES TO APPENDIX A LINE ITEMS

- (A) Pursuant to the Commission's Order in Docket No. 2003-UN-898, the amounts in this column are the Company average balances utilizing the "FERC Method". The "FERC Method" utilizes 13-month averages (average monthly ending balance from December to December) for all Production and Transmission related investment balances and simple average (average of December of prior year and December of regulatory year ending balance) for Distribution and General Plant related investment balances.
- (B) All non-PEP investment, revenues and expenses are removed for purposes of arriving at the PEP amounts.
- (C) Column (C) is a product of Column (A) less Columns (B).
- (D) The Company is required to file periodically cost-of-service studies with the Commission. The allocators used will be from the most recent cost-of-service study on file with the Commission as of the date of the calculation.
- (E) Column (E) is a product of Column (C) times Column (D).
- (F) The properties included as Plant Held for Future Use shall be those properties for which the Company has plans for use in providing electric service and which will be so employed within a reasonable time period and will be calculated using average balances.
- (G) Fuel and related emission allowance inventory will be the 13-month average balance.
- (H) Construction Work in Progress on all projects related to Production and Transmission will utilize a 13-month average and for Distribution and General Plant a simple average will be used.
- (I) The value for cash working capital shall be zero (\$0), until such time as the Commission approves a change in this amount.
- (J) Implementation of FAS 109, Accounting for Income Taxes, is intended to be revenue neutral for ratemaking. Therefore, Accumulated Deferred Income Taxes will be adjusted to include the Regulatory Assets and Regulatory Liabilities created by the implementation of FAS 109.
- (K) The Property Damage Reserve balance and the annual accrual to the Reserve shall be reflected in the calculation of the SRR Rate Schedule and not in PEP in accordance with the MPSC's orders in Docket No. 2006-UN-0511.
- (L) Due to the various accounts included here, each account will be directly assigned or individually allocated to facilitate their appropriate assignment.
- (M) The amounts used in this column are the Company's operating results for the twelve months ending as of the date noted unless otherwise specified by a footnote.
- (N) In addition to base revenue, this amount includes all revenue from the Company's effective adjustment clauses.
- (O) Fuel expense on line 33 and fuel credits on line 40 are directly assigned to the retail jurisdiction to properly match the retail fuel revenues included in line 27 of this schedule.
- (P) Accruals to the Property Damage Reserve shall be reflected in the calculation of the SRR Rate Schedule and not in PEP in accordance with the MPSC's orders in Docket No. 2006-UA-0511.
- (Q) This amount shall include all charitable and civic contributions that conform to Internal Revenue Code Section 170 and have been approved by the Commission for inclusion in retail cost-of-service.
- (R) This amount includes 75% of the capacity revenue from all new non-firm capacity sales.
- (S) Fuel expense on line 33 and fuel credits on line 40 are directly assigned to the retail jurisdiction to properly match the retail fuel revenues included in line 27 of this schedule.
- (T) This amount is the amortization of retail rate plan and filing expenses.
- (U) Income taxes are allocated between jurisdictions using the following formula:  
$$t = RC - KI$$
Where:  
t = State and Federal Income Taxes for the Jurisdiction  
R = Operating Income before Income Taxes for the Jurisdiction  
C = Effective Combined Tax Rate for the Jurisdiction  
I = Total Net Investment for the Jurisdiction  
K = Income tax deduction factor, which is: (total electric operating income before income taxes multiplied by effective combined tax rate minus total electric income taxes) divided by total electric net investment.
- (V) This will be calculated by the Company in accordance with the FERC prescribed methodology. This amount shall include the AFUDC calculated during the Evaluation Period on the projects defined in Footnote (F).
- (W) This figure is calculated by dividing Line 56 (Total Retail Operating Income) by Line 26 (Total Retail Net Investment). For the projected PEP filing this number represents the Projected Retail Return on Investment (PRRI) and for the PEP Look-Back filing this represents the Earned Return on Investment (EROI).

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## APPENDIX A

### SOURCES OF RESULTS OF OPERATIONS

#### INVESTMENT

1. Gross Electric Plant
2. Less: Leased
3. Adjusted Gross Electric Plant
4. Accumulated Depreciation
5. Less: Leased
6. Adjusted Accumulated Depreciation
7. Net Electric Plant in Service
8. Plant Held for Future Use
9. Unamortized Leasehold Improvements & Other Deferred Debits
10. Unamortized Cost of Reacquired Debt
11. Fuel Stock
12. Materials & Supplies
13. Construction Work in Progress
14. Cash Working Capital
15. Compensating Bank Balances
16. Prepayments
17. MPSC Assessment & Other Deferred Regulatory Expenses
18. Over/Under Recovery of Ad Valorem Taxes
19. Accumulated Deferred Income Taxes
20. Pre-1971 ITC
21. Customer Advances
22. Customer Deposits
23. Property Damage Reserve
24. Injuries & Damages Reserve
25. Other Operating Reserves
26. Total Investment

#### SOURCE

Account 101; 104; 106; Accounting Department  
 Account 104; 106-Leased; Accounting Department  
 Line 1 + 2  
 Account 108; 111; Accounting Department  
 Account 108-Leased; Accounting Department  
 Line 4 + 5  
 Line 3 - 6  
 Account 105; Accounting Department  
 Account 186; Accounting Department  
 Account 189; Accounting Department  
 Accounting Department  
 Account 154; 163; Accounting Department  
 Account 107; Accounting Department  
 Accounting Department  
 Accounting Department  
 Account 129; 165; Accounting Department  
 Account 186; 182; Accounting Department  
 Account 182; Accounting Department  
 Account 190; 282; 283; Accounting Department  
 Accounting Department  
 Account 252; Accounting Department  
 Account 253; Accounting Department  
 Account 228; Accounting Department  
 Account 228; Accounting Department  
 Account 182; 228; 253; 254; Accounting Department  
 Sum of Lines 7 thru 18 less Lines 19 thru 25

#### REVENUES

27. Revenues from Retail Sales
28. Revenues from Non-Retail Sales
29. Total Revenues from Sales
30. Other Operating Revenues
31. Total Operating Revenues

Account 400-440; 442 thru 445; 448; Accounting Department  
 Account 400-447; Accounting Department  
 Line 27 + 28  
 Account 400-450 & 451; 454-200; 456-200 & 203; Accounting Dept  
 Line 29 + 30

#### EXPENSES

32. Operation & Maintenance:
33. Fuel/ECM
34. Non-Fuel O&M
35. Total O&M
36. Contributions
37. Non-Territorial Sales:
38. Demand
39. Energy:
40. Fuel & Emission Revenue
41. Other Energy Revenue
42. Total Non-Territorial Sales
43. Revenue Credits
44. Depreciation, Amortization & Accretion
45. Amortization of Retail Rate Plan & Filing Expenses
46. Amortization of ITC
47. Amortization of Reacquired Debt
48. Taxes Other than Income Taxes
49. Municipal Franchise Taxes
50. Interest on Customer Deposits

Account 401; Accounting Department  
 Account 401; 402; Accounting Department  
 Line 32 + 33  
 Account 426.1; Accounting Department  
  
 Account 447; Accounting Department  
  
 Account 447; Accounting Department  
 Accounting Department  
 Line 38 + 40 + 41  
 Account 454; Accounting Department  
 Account 403; 404; 406; 407; 411; Accounting Department  
 Accounting Department  
 Account 404; 411; Accounting Department  
 Account 428; Accounting Department  
 Account 408; Accounting Department  
 Account 408; Accounting Department  
 Account 431; Accounting Department

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51. Total Adjusted Expenses	Line 35 + 36 + 42 thru 50
52. Operating Income Before Income Taxes	Line 31 - 51
53. Income Taxes (U)	Account 409; 410; 411; Accounting Department
54. Net Operating Income	Line 52 - 53
55. AFUDC (V)	Accounting Department
56. Total Operating Income	Line 54 + 55

### RETURN

57. Retail Return on Investment (W)	Line 56 ÷ 26
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The above account numbers, line number and sources of information are subject to change with Commission approval as operating and accounting circumstances require. Where noted as "Accounting Department," this line item may require a separate schedule, include multiple sub-accounts, or may require additional account segments to assess the inclusion within the line item (i.e. location, work order, etc.).

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## APPENDIX A

### EVALUATION PERIOD ADJUSTMENTS

Actual data for each Evaluation Period shall be adjusted to reflect the following:

#### 1. Special Rates

- a) Rate Schedule Revenue shall be adjusted to reflect, on an annualized basis, the Annual Rate Adjustments in effect at the beginning of the Evaluation Period under this PEP Schedule.
- b) The rate base, revenue and expense effects associated with any riders that MPC may have in effect during the Evaluation Period which recover specific costs are to be eliminated.

#### 2. Interest Synchronization

All Evaluation Period interest expenses are to be eliminated and replaced with an imputed interest expense amount equal to the Evaluation Period rate base multiplied by the weighted embedded cost rate of total debt for the Evaluation Period determined in accordance with Appendix C.

#### 3. Income Taxes

All state and federal income tax effects including 1) adjustments to taxable income, 2) adjustments to current taxes, 3) provisions for deferred income tax (debit and credit), and 4) accumulated provision for deferred income tax (debit and credit) shall be adjusted or eliminated, as appropriate, to comport with the following principles:

- a) Effects associated with other adjustments set out in this Appendix A shall similarly and consistently be adjusted.
- b) All effects associated with the difference in the timing of transactions, where the underlying timing difference is eliminated, shall also be eliminated.
- c) The corporate state and federal income tax laws legally in effect on the date an Evaluation Report is filed under this PEP Schedule shall be reflected in the calculation of all income tax amounts.
- d) Tax effects normally excluded for ratemaking purposes shall be eliminated.

#### 4. Reclassification of Certain Costs

Costs not allowable for ratemaking purposes shall be removed by adjustment from the Evaluation Period cost data. Likewise, costs that are allowed, but recorded below the utility operating income line, shall be included in the Evaluation Period cost data through appropriate reclassification adjustments. These adjustments shall include, but are not limited to: 1) the elimination of unallowable advertising expenses, 2) the reclassification of donations charged below-the-line as an operating and maintenance expense above the line, 3) the reclassification of below-the-line interest expense associated with customer deposits as administrative and general O&M expense and 4) inclusion as other electric

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## APPENDIX A

revenue of the portion of below-the-line allowance for use of funds during construction that is associated with the CWIP included in rate base.

### 5. Known Adjustments to Rate Base and Operating Income

Consistent with the terms of this Schedule, MPC may make adjustments to the Evaluation Period to reflect future net investment and known and measurable changes to operating expenses including, but not limited to, the following<sup>5</sup>:

#### Rate Base:

Plant In Service – Each Evaluation Report may include and be based upon actual plant in service, plus additions to and retirements of plant in service expected to occur between the beginning and the end of the Evaluation Period (net of ADIT) on a beginning / ending average or 13-month average amount, as noted in this Appendix A.

CWIP – Each Evaluation Report may include CWIP expected to be transferred to plant within 12 months of the end of the Evaluation Period.

Accumulated Depreciation – Each Evaluation Report may include depreciation expense using the depreciation rates in effect during the Evaluation Period as applied to the Plant In Service described above.

Regulatory Asset and Liability Adjustments – Each Evaluation Report may include a proposed adjustment or adjustments that reflect(s) removal of historical revenues/expenses and the request for regulatory asset/liability treatment of the revenues/expenses in the Evaluation Period.

ADIT – Each Evaluation Report may include the synchronized ADIT based upon amounts included in rate base for the Evaluation Period.

Other Rate Base Adjustments – The Company or Staff may propose adjustments for annualization or normalization, or to reflect known and measurable changes to rate base, subject to Commission approval.

#### Revenues:

Revenues from Retail Sales – The Per Book revenues will be adjusted for any known and measurable changes.

Other Revenue Adjustments – The Company or Staff may propose adjustments for annualization or normalization, or to reflect known and measurable changes to revenues, subject to

<sup>5</sup> Nothing herein shall preclude the Staff from challenging the Company's adjustments on the basis that those adjustments are not known and measurable.

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Commission approval.

### Expenses:

O&M Expense Adjustments (Non-Payroll) – Each Evaluation Report may include adjustments to the previous calendar year O&M Expense based on known and measurable changes in the Evaluation Period.

Administrative & General Expense Adjustment – Each Evaluation Report may include adjustments to the previous calendar year Administrative & General Expense based on known changes in the Evaluation Period.

Payroll Expense Adjustment – Each Evaluation Report may include an adjustment that reflects the level of payroll, related benefits and payroll taxes on an annualized basis for the headcount as of January 31 of the Evaluation Period.

Depreciation Expense Adjustment – Each Evaluation Report may include an adjustment that reflects the annualized depreciation expense using the depreciation rates to be in effect during the Evaluation Period applied to Plant In Service.

Regulatory Asset and Liability Adjustments – Each Evaluation Report may include a proposed adjustment or adjustments that reflect(s) removal of historical expenses and the request for regulatory asset or liability treatment of the expense in the Evaluation Period.

Other Expense Adjustments – The Company or Staff may propose adjustments for annualization or normalization, or to reflect known and measurable changes to operating expenses, subject to Commission approval.

### 6. Other

In addition to Adjustments 1-5 above, there may from time to time be special cost or rate effects that occur during an Evaluation Period that require adjustment of the Evaluation Period cost data. Nothing in this Schedule shall preclude the Company or Staff from proposing additional adjustment(s) beyond those described in Adjustments 1-5. However, if the Company or Staff proposes such adjustment(s) it shall be required to establish that such adjustment(s) are consistent with the general philosophy and structure of this PEP Schedule.

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## APPENDIX B

### COMPANY PERFORMANCE RATING (CPR)

Three performance indicators will be used to measure the operational performance of the Company:

Customer Price which compares the Company's average retail price per kWh with the weighted average retail price of the other investor owned utilities having generation, transmission and distribution business within the Southeastern Association of Regulatory Utility Commissioners (SEARUC) member states. The score for this indicator will be determined using each Company's Federal Energy Regulatory Commission (FERC) Form 1 for the previous year and will be updated annually.

Customer Satisfaction which measures the public's perception of the quality of the Company's customer service. A customer opinion survey administered by the MPSC and conducted by a nationally recognized professional survey firm is used to measure this indicator. The survey is conducted each year in the spring and the fall, and the average results of the two most recent surveys will be used in the next annual evaluation.

Customer Service Reliability which measures the reliability of the Company's electric service to customers and is based upon the average amount of time a customer has electric service. The Company's performance is calculated for the latest thirty-six (36) month period ending December prior to the March 15 filing.

Based on the Company's performance, a score on each indicator will be determined for each Evaluation Period. All scores will then be weighted as provided for in Appendix "B" of this rate schedule, to develop an overall CPR which shall be rounded to the nearest hundredth (.005 and greater being rounded to .01) and then used as an input to the formulas presented in Appendix "C", the PEP Band.

If for any reason beyond the reasonable control of the Company, an indicator's score cannot be calculated, and no provision has otherwise been made in the indicator, the last filed score available will be used.

The Company shall file a performance report on or before March 15 with the Commission. The report will be in the form shown in Appendix B of this rate schedule. The report shall be filed with the other filing requirements identified in this Schedule PEP-6.



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## APPENDIX B - CUSTOMER PRICE

### GENERAL DESCRIPTION:

The Customer Price Indicator compares the Company's average retail price per kWh with the weighted average retail price of the other investor owned utilities having generation, transmission and distribution business within the SEARUC member states, as determined from each company's FERC Form 1 for the previous year. This indicator measures how the Company's average retail price per kWh compares with other electric utilities in the same general geographic area.

### FORMULA AND DATA SOURCE:

For each company, the FERC Form 1 for the previous year, "Electric Operating Revenues (Account 400)" Schedule will be the source of the data used to calculate the weighted average retail price per kWh in Step 1 of the formula below. The FERC Form 1 filing is prepared by each company once each year, to be filed by April 30. The indicator will be calculated as follows:

#### Step 1:

Using the "Electric Operating Revenues (Account 400)" Schedule as reported in each company's FERC Form 1 calculate the sum of the "Total Sales to Ultimate Consumers" and the sum of the "Megawatt Hours Sold to Ultimate Consumers" for the utilities, excluding MPC.

#### Step 2:

Compute the Weighted Average Retail Price per kWh by dividing the sum of the "Total Sales to Ultimate Consumers" by the sum of the "Megawatt Hours Sold to Ultimate Consumers" divided by 1,000.

#### Step 3:

Using the "Electric Operating Revenues (Account 400)" Schedule as reported in MPC's FERC Form 1, calculate MPC Average Price Per kWh by dividing the "Total Sales to Ultimate Consumers" by the "Megawatt Hours Sold to Ultimate Consumers" divided by 1,000.

#### Step 4:

The Company's Price Performance (CPP) will be measured using the following formula. The CPP will be rounded to the nearest ten thousandth (.00005 and greater being rounded to .0001).

$$\frac{\text{MPC Average Price Per kWh}}{\text{SEARUC Weighted Average Retail Price per kWh}} = \text{Customer Price Performance (CPP)}$$

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## APPENDIX B - CUSTOMER PRICE

### Step 5:

The Company's score on this indicator will be measured using the following formula:

$$\text{Customer Price Score} = (1.3 - \text{CPP}) \div 0.06$$

The score used for the Customer Price Indicator shall be between 0.00 and 10.00 (.005 and greater being rounded to .01).

### **SPECIAL PROVISIONS:**

In the event that FERC Form 1 data is not available for a company within the SEARUC member states for any reason, or if there are any changes in reporting requirements for the FERC Form 1, or changes within the industry from restructuring that affect the availability or comparability of the data, the Staff and Company shall cooperate and use their best efforts to obtain accurate and reliable information necessary to complete the weighted average price calculation for any company for which the data is not available or otherwise not comparable. If, after such efforts, the information is not reasonably obtainable, the most recent data available for such company will continue until a new source of data is agreed upon by the Commission and the Company.

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## APPENDIX B - CUSTOMER SATISFACTION

### GENERAL DESCRIPTION:

The Customer Satisfaction Performance Indicator measures the public's perception of the quality of the Company's customer service. This survey is to be administered by the Mississippi Public Service Commission with the provisions outlined below.

### FORMULA AND DATA SOURCE:

A nationally recognized professional survey firm, chosen by the MPSC from a list to be provided by the Company, will conduct a customer opinion survey twice each year. The following questions will be asked in the following sequence as part of the customer opinion surveys:

1. **Overall, would you say your opinion of your electric company is very favorable, somewhat favorable, somewhat unfavorable, or very unfavorable?**

(The index for this question is the ratio of the total of the very favorable and somewhat favorable responses to the number of customers asked the question.)

**The survey firm will ask, "Have you or anyone in your family had any occasion to contact the electric company about your service, your bill, or anything else within the last six months?"** If the customer answers in the affirmative, they will be asked the following Question 2.

2. **Were you satisfied with the way your contact was handled, or should they have done better in some way?**

(The index for this question is the ratio of the satisfied responses to number of customers asked the questions.)

The survey firm then continues with:

**I'm going to read you several statements that might be made regarding your electric company. For each statement, please tell me whether you entirely agree with it, mostly agree, mostly disagree, or entirely disagree.**

3. **Electric company employees are nearly always courteous.**
4. **The company is willing to listen and respond to its customers' problems.**
5. **The company is fair and honest in its dealings with people.** (The index for each statement 3, 4, and 5, is the ratio of the entirely agree and mostly agree responses for each question to the number of customers asked the question.)

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The responses to each question will be tallied and an index will be developed for each. The simple average of the total of these indices for the five questions will be used in the determination of the overall score attained for the Customer Satisfaction Indicator.

The simple average will be calculated by the following formula separately for the most recent available spring survey and the most recent available fall survey:

$$\frac{\text{Sum of Indices from 5 Questions}}{5} = \text{Average Customer Satisfaction Index (CSI)}$$

The CSI from the most recent spring and fall surveys will be averaged and used in the formula below. The Company's score on this indicator will be measured using the following formula:

$$\text{Customer Satisfaction Score} = (26.3158 \times \text{CSI}) - 15.1547$$

The score used for the Customer Satisfaction Indicator in the March filing shall be between 0.00 and 10.00 (.005 and greater being rounded to .01).

### SPECIAL PROVISIONS:

1. The survey firm shall be selected by the Commission and shall be a competent, professional, and nationally recognized survey firm. The Company will provide a list of firms meeting the criteria from which the Commission shall make its selection.
2. The scales used in this indicator were developed from data obtained by a nationally recognized, professional survey firm's asking the five questions listed above. If the survey firm is changed or different questions are asked, new scales will be developed which are compatible with the new data and will yield the same results as though the five questions used above had been asked. Should such a change occur, the last survey, asking the five questions above, will be used until a new surveyor, questions, and/or compatible scales can be developed.
3. If there is considerable difference in the price of the surveying firms, the Commission will choose the lower cost firm. Provided, however, there is reason to select a firm other than the lowest cost firm, the Commission will inform the Company as to the reason.
4. The survey must be conducted telephonically of residential customers only and must have completion of 900 surveys or other such number of surveys required to obtain a margin of error for the survey of plus or minus 3% (i.e. a 95% confidence level).
5. The Company will have access to all data gained from the survey. Additionally, the Company may from time to time require additional questions as part of the survey in order to gain information. However, those questions will be included in a manner following the above survey questions and, in a manner, as to not affect the survey results.

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## APPENDIX B - CUSTOMER SERVICE RELIABILITY

### GENERAL DESCRIPTION:

This performance indicator measures the reliability of the Company's service to electric customers.

### FORMULA AND DATA SOURCE:

The Reliability Index (RI) is calculated from Company records as follows:

$$RI = \left[ 1.00 - \frac{\sum_{x=1}^n C_x T_x}{C_t T_t} \right]$$

Where:

- RI = Reliability Index expressed as a ratio rounded to the nearest ten millionth (.0000001).
- x = An incident of customer interruption during the thirty-six months ended December prior to the March filing.
- n = The number of individual interruptions during the thirty-six months ended December.
- C<sub>x</sub> = The number of customers affected by a specific interruption incident x, excluding those interruptions listed below.
- T<sub>x</sub> = The total time that customers C<sub>x</sub> were without power during incident x.
- $\sum_{x=1}^n C_x T_x$  = The total amount of customer time for all interruptions during the thirty-six months ended December based on the summation of individual interruptions of varying length and affecting different numbers of customers.
- C<sub>t</sub> = The total number of Company customers at the end of December, as indicated by the number of meters in active use.
- T<sub>t</sub> = The total hours available to serve customers during the thirty-six months ended December.

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Customer interruptions excluded are all interruptions less than five minutes in duration, and interruptions due to the following:

1. Major disasters such as hurricanes, tornadoes, ice storms, manufacturers' equipment defects, sabotage and the like and not due to any omission of the Company.
2. Scheduled outages.
3. Outages to replace individual customers' meters or service drops.
4. Breaker and reclosure operations which do not lock out.
5. Outdoor lighting and street lighting.

Outages due to these reasons shall not be used to reduce the Reliability Index.

The Company's score on this indicator will be measured using the following formula:

$$\text{Customer Service Reliability Score} = (40,861.62 \times \text{RI}) - 40,846.46$$

The score used for the Customer Service Reliability Indicator shall be between 0.00 and 10.00 (.005 and greater being rounded to .01).

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## APPENDIX B

### COMPANY PERFORMANCE REPORT

FOR TWELVE MONTHS ENDING MM/DD/YY

	<u>PERFORMANCE SCORE</u>		<u>WEIGHT</u>		<u>WEIGHTED SCORE</u>
Customer Price	_____	X	40%	=	_____
Customer Satisfaction	_____	X	20%	=	_____
Customer Service Reliability	_____	X	40%	=	_____
Company Performance Rating (CPR)*				=	_____

\* The CPR shall be between 0.00 and 10.00 (.005 and greater being rounded to .01).

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## APPENDIX C

### PEP BAND

Under Rate Schedule PEP-6 the Company's PRRI is compared to the PEP Band to determine if the Company's retail revenues should be increased, decreased, or remain the same. The PEP Band will be defined by the following formulas:

$$Y1, \text{ the Top of the Band} \\ Y1 = \text{PROI} + .50\%$$

$$Y2, \text{ the Bottom of the Band} \\ Y2 = \text{PROI} - .50\%$$

PROI is the Company's Performance Based Return on Investment and is developed by adjusting the Company's cost of equity ( $K_{AVG}$ ) for performance. Thus, the PEP Band varies based on how well the Company performs as measured by the Performance Indicators.

The Company's cost of equity is adjusted for performance each Evaluation Period to obtain performance-adjusted cost of equity ( $K_{PER}$ ) using the following formula:

$$K_{PER} = K_{AVG} + [ 10\% \times (CPR/100) ]$$

Where:

$K_{AVG}$  = Company's cost of equity developed using the formulas described below (stated as a decimal).

CPR = Company's Performance Rating, which ranges from 0.00 to 10.00, as presented in Appendix "B" of this rate schedule.

The Company's performance-adjusted cost of capital (PROI) will be calculated as of the end of each annual Evaluation Period using the form listed below.

	Simple Average Balance	Capital Structure Ratios	Embedded Average Cost	Weighted Average Embedded Cost of Capital
Long Term Debt	\$ -	-%	-%	-%
Common Equity	-	-%	$K_{PER}\%$	-%
	\$	100.000%		PROI



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The Company shall calculate  $K_{AVG}$  annually as of December 31, prior to the Evaluation Period of each year PEP-6 is in effect in order to validate the approved return on equity in effect. The Company shall provide such calculation and supporting documentation to the Staff.

To calculate  $K_{AVG}$  each year, the results from the following two methodologies shall be averaged. A flotation adjustment of 0.125% shall be added to the average. The average will be rounded to the nearest thousandth percent (.0005% and greater being rounded to .001%).

- A. Discounted Cash Flow (DCF)
- B. Regression Analysis

### A. DCF

1. The following annual version of the DCF model shall be used:

$$K = (D_1/P_0) + g$$

Where:

K = Cost of common equity for each utility.

$D_1$  = Dividend for the next annual period calculated as: Utility's current dividend as stated in the December issue of AUS Monthly Utility Report x (1 + g).

$P_0$  = Stock price for the utility. The stock prices utilized in the formula shall be the average of the daily closing stock prices of the utility for the month of December.

g = Growth rate for the utility. The average of the projected earnings long-term growth rates for the utility reported by IBES, Zacks, and the Value Line Investment Survey.

2. The sample of comparable utilities shall consist of the parent companies of the operating electric utilities labeled “vertically integrated electric utilities” identified in Moody's Investors Service. The following criteria shall be used to determine the group:
  - a. Bond Rating – The utility must have a Standard & Poor's corporate credit rating within one rating class of Mississippi Power's S&P corporate credit rating (e.g., if Mississippi Power's rating is BBB, then the applicable ratings for the sample utilities are BBB-, BBB, and BBB+). BBB is the current MPC rating in S&P terminology. However, when making the risk adjustment under the regression section, the Moody's terminology for the same bond rating is Baa.
  - b. Predominantly Regulated Utility – Must have at least 50% of its operating revenues from electric revenues. This information is obtained from AUS Monthly Utility Report.

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## APPENDIX C

- c. Other – Utilities involved in a merger, utilities that do not pay dividends or are not listed on U.S. stock exchanges, and utilities with projected growth rates equal to or less than zero or where projected growth rates are not available shall be excluded from the sample as well.
3. The DCF Model described above shall be performed for each comparable utility and the truncated mean, derived by discarding the highest and lowest results of the DCF calculations, for the group shall be used as the DCF cost of equity for MPC.

### B. Regression Analysis

The following linear equation with constant term is estimated via the ordinary least squares (OLS) regression technique:

$$\text{ROE} = a + b (\text{BY}) + c (\text{D})$$

The model shall utilize available data from 1974 to present. The dependent variable ROE is the average rate of return on common equity allowed in all electric rate cases by state regulatory commissions as reported by S&P Global (formerly RRA or SNL) or, prior to 1986, Argus UtilityScope Regulatory Service, or its successors, for a given calendar year. The independent variable (BY) is Moody's average public utility bond yield for the same calendar year. The independent variable D is a "dummy" variable equal to 1 in the years 1974-1986, and equal to 0 in all other years. If the OLS regression results in a Durbin-Watson statistic indicating statistically significant serial correlation, then it shall be re-estimated using the Prais-Winsten technique and the adjusted equation shall be used.

The regression analysis shall be solved using the estimated parameters "a", "b" and "c" from the equation and the yield on Moody's average public utility bonds for the month of December. The estimated return on equity produced by the regression analysis shall then be adjusted by adding the difference between the average Moody's yield for the month of December for public utility bonds with the same letter ranking (i.e. Aaa, Aa, A, or Baa) as MPC's current Moody's bond rating and the yield on Moody's average public utility bonds for the month of December to calculate the regression cost of equity for MPC.

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## APPENDIX D REVENUE ADJUSTMENT WORKSHEET

The revenue changes under Rate Schedule PEP-6 will be determined by utilizing this Revenue Adjustment Worksheet.

### COMPARING PRRI TO THE PEP BAND

The Company's PRRI is compared to the PEP Band. If the PRRI is within the PEP Band, no revenue adjustment will be made for that evaluation period. If the PRRI falls outside the PEP Band, an adjustment will be made to PROI based on the Company's Performance Rating.

### DETERMINING THE REVENUE ADJUSTMENT

If the Company's PRRI is above or below the PEP Band, an adjustment to the PROI at the Company's CPR will be calculated as follows:

Where:

$$ER_{ADJ} = 0.50\% \times (\text{Average Balance of Common Equity} \div \text{Average Capitalization})$$

1. If the Company's PRRI is above the PEP Band and its CPR is less than 2.00, then the Company shall decrease revenues to a Point of Adjustment which is based upon the Company's performance as measured by its CPR. When the CPR is less than 2.00, the Point of Adjustment is determined by the formula below.

$$\text{Point of Adjustment} = \text{PROI}$$

2. If the Company's PRRI is above the PEP Band and its CPR is 2.00 or greater and less than 5.00, then the Company shall decrease revenues to a Point of Adjustment which is based upon the Company's performance as measured by CPR. When the CPR is 2.00 or greater and less than 5.00, the Point of Adjustment is determined by the formula below:

$$\text{Point of Adjustment} = \text{PROI} + (0.50\% - ER_{ADJ}) - ((5 - \text{CPR}) \div 3) \times (0.50\% - ER_{ADJ})$$

3. If the Company's PRRI is above the PEP Band and its CPR is 5.00 or greater and less than 9.00, then the Company shall decrease revenues to a Point of Adjustment which is based upon the Company's performance as measured by its CPR. When the CPR is 5.00 or greater and less than 9.00, the Point of Adjustment is determined by the formula below.

$$\text{Point of Adjustment} = \text{PROI} + 0.50\% - ((9 - \text{CPR}) \div 4) \times ER_{ADJ}$$

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## APPENDIX D REVENUE ADJUSTMENT WORKSHEET

4. If the Company's PRRI is above the PEP Band and its CPR is 9.00 or greater, then the Company shall decrease revenues to a Point of Adjustment which is based upon the Company's performance as measured by its CPR. When the CPR is 9.00 or greater, then the Point of Adjustment is determined by the formula below.

$$\text{Point of Adjustment} = \text{PROI} + 0.50\%$$

5. If the Company's PRRI is below the PEP Band and its CPR is less than 2.00, then the Company shall increase revenues to a Point of Adjustment which is based upon the Company's performance as measured by its CPR. When the CPR is less than 2.00 the Point of Adjustment is determined by the formula below.

$$\text{Point of Adjustment} = \text{PROI} - 0.50\%$$

6. If the Company's PRRI is below the PEP Band and its CPR is 2.00 or greater and less than 5.00, then the Company shall increase revenues to a Point of Adjustment which is based upon the Company's performance as measured by CPR. When the CPR is 2.00 or greater and less than 5.00, the Point of Adjustment is determined by the formula below:

$$\text{Point of Adjustment} = \text{PROI} - \text{ER}_{\text{ADJ}} - (((5 - \text{CPR}) \div 3) \times (0.50\% - \text{ER}_{\text{ADJ}}))$$

7. If the Company's PRRI is below the PEP Band and its CPR is 5.00 or greater and less than 9.00, then the Company shall increase revenues to a Point of Adjustment which is based upon the Company's performance as measured by its CPR. When the CPR is 5.00 or greater and less than 9.00, the Point of Adjustment is determined by the formula below.

$$\text{Point of Adjustment} = \text{PROI} - (((9 - \text{CPR}) \div 4) \times \text{ER}_{\text{ADJ}})$$

8. If the Company's PRRI is below the PEP Band and its CPR is 9.00 or greater, then the Company shall increase revenues to a Point of Adjustment which is based upon the Company's performance as measured by its CPR. When the CPR is 9.00 or greater, the Point of Adjustment is determined by the formula below.

$$\text{Point of Adjustment} = \text{PROI}$$

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## APPENDIX D REVENUE ADJUSTMENT WORKSHEET

### I. Determination of Need for Revenue Adjustment

- A. Y1 - Top of PEP Band – Appendix C \_\_\_\_\_
- B. Y2 - Bottom of PEP Band – Appendix C \_\_\_\_\_
- C. PROI – Appendix C \_\_\_\_\_
- D. PRRI – Appendix A \_\_\_\_\_
- E. Does comparison of PRRI to the PEP Band indicate  
a revenue adjustment is required? TRUE or FALSE

### II. Determine the Point of Adjustment

- A. CPR \_\_\_\_\_
- B. PROI \_\_\_\_\_
- C. Point of Adjustment \_\_\_\_\_

### III. Revenue Adjustment Calculations

- A. Total Retail Projected Net Investment (Appendix A) \_\_\_\_\_
- B. Point of Adjustment (Line II.C. above) \_\_\_\_\_
- C. Target Net Income (A \* B) \_\_\_\_\_
- D. Total Retail Projected Operating Income (Appendix A) \_\_\_\_\_
- E. Total Retail Net Income Adjustment (C - D) \_\_\_\_\_
- F. Income Tax Adjustment Factor<sup>1</sup> \_\_\_\_\_
- G. Calculated Revenue Adjustment (E ÷ F)<sup>2</sup> \_\_\_\_\_
- H. Revenues from Retail Sales (Appendix A) \_\_\_\_\_
- I. Maximum Revenue Adjustment Limit \_\_\_\_\_ 0.04
- J. Maximum Revenue Adjustment (H \* I) \_\_\_\_\_
- K. Actual Revenue Adjustment (Lesser of G or J)<sup>2</sup> \_\_\_\_\_
- L. % of Retail Revenues (K ÷ H) \_\_\_\_\_

<sup>1</sup> The factor represents a composite of Federal and State income tax.

<sup>2</sup> Due to practical constraints, no adjustments under this Schedule will be made for amounts less than \$250,000.

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## APPENDIX E FILING REQUIREMENT

Item No. in Appendix C Schedule 3 of MPSC Public Utility Rules of Practice & Procedure	Statute	Filing Requirement	Applicability to PEP-6
1	77-3-37(2)(i) 77-3-37(4)(f)	All direct testimony to be relied upon including a statement of the proposed changes and the reasons for the changes.	Required for rate changes in excess of two percent (2%)
2	77-3-37(2)(b)	Schedule of present rates, fares, tolls, charges or rentals in effect, and the changes proposed to be made.	Required for rate changes in excess of two percent (2%)
3	77-3-37(2)(b)	Sample tariffs implementing the changes.	Required for all rate changes
4	77-3-37(2)(c)	Balance sheet for the most recent month available which shall be not later than nine months prior to the filing date. For multi-state utilities, the balance sheet shall be for the company as a whole plus an estimated balance sheet for Mississippi operations and a summary of the basis on which the estimate was prepared.	December Balance Sheet of Company's Operating Report
5	77-3-37(2)(d)	Operating statement of revenues and expenses [by account number] for twelve months ending as of the date of the balance sheet.	December Income Statement of Company's Operating Report
6	77-3-37(2)(e)	Pro forma operating statement in the same form as the actual operating statement [showing estimated revenues and expenses] beginning with the effective date of the proposed changes (a) without giving effect to changed rates (b) giving effect to changed rates.	Projected PEP-6 Appendix A without proposed rate changes is required for all filings. Projected PEP-6 Appendix A with proposed rate changes is required for rate changes in excess of two percent (2%).

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## APPENDIX E

Item No.	Statute	Filing Requirement	Applicability to PEP-6
7	77-3-37(2)(f)	Pro forma operating statement in the same form as the actual operating statement for the same period giving effect to the proposed changes in rates and adjusted for known changes in the cost of operations.	Same as item no. 6
8	77-3-37(2)(g)	Statement showing (a) number of current customers by classes affected by the proposed changes (b) the actual revenue under the old rates arising from each class and (c) the annual amount of the proposed increase or decrease applicable to each class.	Required for all rate changes in excess of two percent (2%)
	77-3-37(2)(h)	As to public utilities described in Miss. Code Ann., Section 77-3-3 (d)(iv), description of the utility's property, including a statement of the original cost and the cost to the utility. Provide a listing of all depreciable assets by applicable account number: (a) Description of Asset; (b) In Service Date; (c) Original cost of asset to the utility; (d) Life of Asset; (e) Depreciation accrued to date.	December Balance Sheet and Schedules of Plant in Service of Company's Operating Report
9		Statement showing the utility's calculation of jurisdictional rate base including, if applicable, gross plant, accumulated depreciation, working capital, material and supplies, other properties and assets, accumulated deferred income taxes, customer deposits and investment tax credits.	Same as item no. 6
10		Statement showing utility's calculation of return on rate base with and without the proposed increase.	Same as item no. 6
11		Federal Income tax returns and State Income tax returns, with all required attachments and schedules, for prior three years. If a consolidated return, the portion applicable to Mississippi.	Waived

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### APPENDIX E

Item No.	Statute	Filing Requirement	Applicability to PEP-6
12	77-3-37(2)(a)	(if corporation) Copy of charter or articles of incorporation.	By reference.
13	77-3-37(2)(j) 77-3-37(2)(k)	(if corporation) The amount and kinds of stock authorized, issued and outstanding.	December Balance Sheet of Company's Operating Report and 10K Statement of Capitalization for prior calendar year by reference
14	77-3-37(2)(l)	(if corporation) The number and amount of bonds authorized, and the number and amount issued.	December Balance Sheet of Company's Operating Report and 10K Statement of Capitalization for prior calendar year by reference
15	77-3-37(2)(m)	(if corporation) The rate and amount of dividends paid during the five previous fiscal years and the amount of capital stock on which dividends were paid each year.	10K Statements of Common Stockholders' Equity by reference for previous calendar years
16	77-3-37(2)(n)	(if corporation) An analysis of the surplus covering the period from the close of the last calendar year for which an annual report has been filed with the Commission to the date of the balance sheet attached to the notice.	December Statement of Retained Earnings of Company's Operating Report
22		Copy of notice to customers sent pursuant to Rule 9B (1).	Copy of bill stuffer for rate changes in excess of two percent (2%)
23		An exhibit listing the names and addresses of all interested persons as defined in Rule 2K of the Commission's Rules of Practice and Procedure together with a certificate that the filing utility has served a notice of the filing upon each.	Required for all rate changes in excess of two percent (2%)
24		The year of the last authorized major rate increase, amount of the increase and the docket number of the proceeding.	List year and amount of last major rate increase in Notice.



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## APPENDIX F

### Section 1. Purpose of Appendix F

Based upon the provisions of this PEP-6 Schedule and to support the Commission's and the Staff's ability to fulfill their statutory duties and the policy objectives outlined in Miss. Code Ann. § 77-3-2, including with regard to identifying known and measurable changes for the PEP Evaluation Period, MPC annually shall provide sufficient documentation to the Staff to support timely recovery of future net investment and related costs, all as addressed and described herein below<sup>6</sup>.

### Section 2. Documentation in Support of Future Net Investment

- A. Capital Project Summary Sheet (Plant in Service) by Function (Transmission, Distribution, Production, and General Plant & Intangible):

The Company shall provide a complete listing of the Company's capital programs and projects not otherwise included in the programs reflected in the Evaluation Period historical rate base, broken out by function by FERC account, that clearly shows the amount to be closed to plant in the Evaluation Period or included in CWIP for amounts closing in the year following the Evaluation Period. This listing ("Capital Project Summary Sheet") shall include the projects listed in the Company's Annual Transmission, Distribution & Generation Outage and Maintenance Plan ("Capital Plan") described in Section 3 below that the Company is seeking to include in rate base, with explanations for any revisions to the cost estimates or scope of the projects since the most recent filing of the Capital Plan.

- B. Major Specific Projects (\$10 million and above closing to plant in the Evaluation Period or in CWIP if closing the following year):

For each capital project listed in Section 2.A above for which the estimated capital costs exceed \$10 million and which does not fall within the description of recurring program spending described in Section 2.D below, the Company shall provide as minimum filing requirements the following documentation:

1. Clearly defined project description, including project objective
2. The projected start and end dates of the project
3. Any historical spend on the project, if applicable, and developed cost estimate for the spend in the Evaluation Period that will close to plant by December 31 of the following year
4. An analysis that describes:
  - a) how the project advances customer service, reliability, safety, operational efficiency or other similar purposes

<sup>6</sup> Nothing herein shall preclude the Staff from requesting additional documentation from the Company or from challenging the Company's adjustments on the basis that the additional documentation presented is insufficient for the Staff to conclude that any such adjustment is known and measurable. Further, the Staff or the Company may at any time propose modifications to the required documentation listed in Appendix F to support future net investment for approval by the Commission.

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- b) why the project is appropriate at this time
  - c) alternative(s) that were considered and the cost associated with alternative(s) or a statement explaining why no feasible alternatives exist
  - d) Any engineering plans, specifications or drawings that exist at the time of the Evaluation Report filing
- C. Specific Projects (between \$5 million and \$10 million closing to plant in the Evaluation Period or in CWIP if closing the following year):

For each capital project listed in Section 3.A above for which the estimated capital costs exceeds \$5 million but are less than \$10 million and which does not fall within the description of recurring program spending described in Section 3.D below, the Company shall provide as minimum filing requirements the following documentation, with the understanding that the Company shall provide any additional documentation in response to reasonable data requests by the Staff that will facilitate the Staff's review of the Evaluation Report:

- 1. Clearly defined project description and project objective, including how the program advances customer service, reliability, safety, operational efficiency or other similar purposes
- 2. The projected start and end dates of the project
- 3. Any historical spend on the project, if applicable, and developed cost estimate for the spend in the Evaluation Period that will close to plant by December 31 of the following year

- D. Recurring program spending:

For recurring capital spending that can be categorized into programs with defined objectives that are budgeted collectively, and which is not captured in Sections 2.B and 2.C above, the Company shall provide:

- 1. Program description and purpose of the program, including how the program advances customer service, reliability, safety, operational efficiency or other similar purposes
- 2. Cost estimate based upon an analysis of historical plant in service data from which the amount requested to be included in rate base was derived
- 3. An explanation for any material deviations from historical program trends that are reflected in the amount requested to be included in rate base

- E. Additional Documentation:

In addition to the documentation and information described herein above, the Company shall provide in the discovery phase responses to any reasonable request by the Staff for documentation or accounting entries that support the historical data or known and measurable adjustments upon which the proposed rate adjustments are based, including without limitation an audit of transactions performed by means of the establishment of a population thereof and drawing a statistically valid sample from that population for the purposes of carrying out the audit.

If requested by the Staff, the Company shall provide responses to a pre-defined set of reasonable data requests simultaneously with the filing of its annual Evaluation Report in order to facilitate the

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Staff's review and analysis of said Evaluation Report.

The Company agrees that its refusal or delay in complying with the reasonable data requests of the Staff shall, unless the Company can (after notice and opportunity for hearing) show just and reasonable cause for its refusal or delay, have the effect of suspending the next succeeding annual increase in operation of PEP-6 for the number of days equal to the number of days the Company has failed to comply with any such data requests.

### **Section 3. Annual Transmission, Distribution & Generation Outage and Maintenance Plan**

By November 1 of each year, the Company shall provide a report to be filed confidentially with the Commission a Capital Plan that describes its capital spending plan for the upcoming calendar year for transmission, distribution, generation, and general plant with descriptions and support for decision to undertake recurring program spending and any projects that are estimated to cost more than \$1 million, which explains how the Company prioritizes funding and determines what capital spending the Company will undertake for the upcoming year.

In addition, the Capital Plan shall include for informational purposes a description of capital spending related to projects for which the Company plans to incur expenses in the next calendar year but is not planned to close to plant within the following two calendar years.