

OFFICIAL COPY

FILED

NOV 30 2017

Clerk's Office
N.C. Utilities Commission

PLACE: Dobbs Building
Raleigh, North Carolina

DATE: Monday, November 27, 2017

ORIGINAL

TIME: 1:30 p.m. - 5:00 p.m.

DOCKET NO: E-2, Sub 1142

BEFORE: Chairman Edward S. Finley, Jr., Presiding
Commissioner Bryan E. Beatty
Commissioner ToNola D. Brown-Bland
Commissioner Jerry C. Dockham
Commissioner James G. Patterson
Commissioner Daniel G. Clodfelter

IN THE MATTER OF:

DUKE ENERGY PROGRESS, LLC

Application for Adjustment of Rates and Charges

Applicable to Electric Utility Service

in North Carolina.

VOLUME: 6

 **Noteworthy**
Reporting Services, LLC

1 A P P E A R A N C E S:

2 FOR DUKE ENERGY PROGRESS, LLC:

3 Lawrence B. Somers, Esq.

4 Deputy General Counsel

5 410 South Wilmington Street, NCRH 20

6 Raleigh, North Carolina 27602

7
8 Heather Shirley Smith, Esq.

9 Deputy General Counsel

10 40 West Broad Street, Suite 690

11 Greenville, South Carolina 29601

12
13 John Burnett, Esq.

14 Deputy General Counsel

15 Camal O. Robinson, Esq.

16 Senior Counsel

17 550 South Tryon Street

18 Charlotte, North Carolina 28202

19
20 Robert W. Kaylor, Esq.

21 Law Office of Robert W. Kaylor, P.A.

22 353 East Six Forks Road, Suite 260

23 Raleigh, North Carolina 27609

24

A P P E A R A N C E S Cont'd.:

Mary Lynne Grigg, Esq.

Joan Dinsmore, Esq.

McGuireWoods LLP

434 Fayetteville Street, Suite 2600

Raleigh, North Carolina 27601

Brandon Frank Marzo, Esq.

Troutman Sanders LLP

600 Peachtree Street, NE, Suite 5200

Atlanta, Georgia 30308

Kiran Mehta, Esq.

Troutman Sanders LLP

301 South College Street, Suite 3400

Charlotte, North Carolina 28202

FOR NC WARN:

John D. Runkle, Esq.

2121 Damascus Church Road

Chapel Hill, North Carolina 27516

1 A P P E A R A N C E S Cont'd.:

2 FOR CAROLINA UTILITY CUSTOMERS ASSOCIATION, INC.:

3 Robert F. Page, Esq.

4 Crisp & Page, PLLC

5 4010 Barrett Drive, Suite 205

6 Raleigh, North Carolina 27609

7

8 FOR NORTH CAROLINA SUSTAINABLE ENERGY ASSOCIATION:

9 Peter Ledford, Esq.

10 General Counsel

11 4800 Six Forks Road, Suite 300

12 Raleigh, North Carolina 27609

13

14 Thad Culley, Esq.

15 Keyes and Fox LLP

16 401 Harrison Oaks Boulevard, Suite 100

17 Cary, North Carolina 27513

18

19 FOR ENVIRONMENTAL DEFENSE FUND:

20 John Finnigan, Esq.

21 Senior Counsel

22 6735 Hidden Hills Drive

23 Cincinnati, Ohio 45230

24

1 A P P E A R A N C E S Cont'd.:

2 FOR NORTH CAROLINA JUSTICE CENTER, NORTH CAROLINA
3 HOUSING COALITION, NATURAL RESOURCES DEFENSE COUNCIL,
4 and SOUTHERN ALLIANCE FOR CLEAN ENERGY:

5 Gudrun Thompson, Esq.

6 Senior Attorney

7 David L. Neal, Esq.

8 Senior Attorney

9 Nadia Luhr, Esq.

10 Associate Attorney

11 Southern Environmental Law Center

12 601 West Rosemary Street, Suite 220

13 Chapel Hill, North Carolina 27516

15 FOR CAROLINA INDUSTRIAL GROUP FOR FAIR UTILITY

16 RATES II:

17 Ralph McDonald, Esq.

18 Warren K. Hicks, Esq.

19 Bailey & Dixon, LLP

20 Post Office Box 1351

21 Raleigh, North Carolina 27602-1351

1 A P P E A R A N C E S Cont'd.:

2 FOR PIEDMONT ELECTRIC MEMBERSHIP CORPORATION:

3 Ralph McDonald, Esq.

4 Warren K. Hicks, Esq.

5 Bailey & Dixon, LLP

6 Post Office Box 1351

7 Raleigh, North Carolina 27602-1351

8

9 FOR HAYWOOD ELECTRIC MEMBERSHIP CORPORATION:

10 Ralph McDonald, Esq.

11 Warren K. Hicks, Esq.

12 Bailey & Dixon, LLP

13 Post Office Box 1351

14 Raleigh, North Carolina 27602-1351

15

16 FOR UNITED STATES DEPARTMENT OF DEFENSE AND ALL

17 OTHER FEDERAL EXECUTIVE AGENCIES:

18 Kyle J. Smith, Esq.

19 General Counsel

20 United States Army Legal Services Agency

21 9275 Gunston Road

22 Fort Belvoir, Virginia 22060

23

24

1 A P P E A R A N C E S Cont'd:

2 FOR THE KROGER COMPANY:

3 Kurt Boehm, Esq.

4 Boehm, Kurtz & Lowry

5 36 East 7th Street, Suite 1510

6 Cincinnati, Ohio 45202

7

8 FOR THE COMMERCIAL GROUP:

9 Alan Jenkins, Esq.

10 Jenkins at Law, LLC

11 2950 Yellowtail Avenue

12 Marathon, Florida 33050

13

14 FOR NORTH CAROLINA LEAGUE OF MUNICIPALITIES:

15 Karen Kemerait, Esq.

16 Smith Moore Leatherwood LLP

17 434 Fayetteville Street, Suite 2800

18 Raleigh, North Carolina 27601

19

20 FOR RATE-PAYING NEIGHBORS:

21 Catherine Cralle Jones, Esq.

22 Law Office of F. Bryan Brice, Jr.

23 127 West Hargett Street, Suite 600

24 Raleigh, North Carolina 27601

1 A P P E A R A N C E S Cont'd:

2 FOR SIERRA CLUB:

3 Bridget Lee, Esq.

4 50 F. Street, NW, Floor 8

5 Washington, DC 20001

6

7 Matthew D. Quinn, Esq.

8 Law Office of F. Bryan Brice, Jr.

9 127 West Hargett Street, Suite 600.

10 Raleigh, North Carolina 27601.

11

12 FOR THE USING AND CONSUMING PUBLIC:

13 Margaret A. Force, Esq.

14 Assistant Attorney General

15 Teresa L. Townsend, Esq.

16 Special Deputy Attorney General

17 Jennifer T. Harrod, Esq.

18 Special Deputy Attorney General

19 North Carolina Department of Justice

20 Post Office Box 629

21 Raleigh, North Carolina 27602

22

23

24

A P P E A R A N C E S Cont'd:

FOR THE USING AND CONSUMING PUBLIC:

David T. Drooz, Esq.

Chief Counsel

Dianna W. Downey, Esq.

Tim R. Dodge, Esq.

Robert Gillam, Esq.

Lucy E. Edmondson, Esq.

William E. Grantmyre, Esq.

Heather D. Fennell, Esq.

Robert Josey, Jr., Esq.

Public Staff - North Carolina Utilities Commission

4326 Mail Service Center

Raleigh, North Carolina 27699-4300

T A B L E O F C O N T E N T S

E X A M I N A T I O N S

| PANEL OF | PAGE |
|--------------------------------------|------|
| DAVID FOUNTAIN and LAURA BATEMAN | |
| Direct Examination By Ms. Smith..... | 24 |
| Cross Examination By Mr. Page..... | 207 |
| Cross Examination By Mr. Runkle..... | 235 |
| Cross Examination By Mr. Quinn..... | 250 |
| Cross Examination By Mr. Culley..... | 261 |
| Cross Examination By Mr. Neal..... | 271 |
| Cross Examination By Mr. Smith..... | 286 |
| Cross Examination By Ms. Force..... | 299 |

E X H I B I T S

IDENTIFIED / ADMITTED

| | |
|--|---------|
| Partial Settlement & Exhibit 1.... | 22/22 |
| CUCA Fountain 1..... | 226/235 |
| NC WARN Fountain - 1..... | 238/250 |
| NC WARN Fountain - 2..... | 240/250 |
| NCJC - 1..... | 279/ - |
| Attorney General Bateman - 1..... | 320/ - |
| Attorney General Bateman - 2..... | 324/ - |
| Bateman Direct 1-2,..... | 98/98 |
| Rebuttal 1-5, Supplemental 1, Second Supplemental 1-3, Settlement 1-2 | |

P R O C E E D I N G S :

CHAIRMAN FINLEY: Good afternoon. My name is Edward Finley, and with me today are Commissioners Bryan E. Beatty, ToNola D. Brown-Bland, Jerry C. Dockham, James G. Patterson, Lyons Gray, and Daniel G. Clodfelter.

I now call for Hearing Docket Number E-2, Sub 1142, which is the Application of Duke Energy Progress, LLC, for Adjustment of Rates and Charges Applicable to Electric Utility Service in North Carolina.

On June 1, 2017, Duke Progress filed an application to adjust retail rates and request for an accounting order, along with supporting direct testimony of 15 witnesses. By its application, Duke requested authority to increase its retail rates and charges to produce additional overall annual North Carolina retail revenues of approximately \$477.5 million, an increase of approximately 14.9 percent over current revenues. In support of the requested increase, Duke Progress stated that recent work to modernize the electric system, generate cleaner power, responsibly manage

1 and close coal ash basins, respond to major storms
2 like Hurricane Matthew, and continually improve
3 service to customers, have made a request for an
4 increase necessary.

5 As a further part of this application,
6 Duke Progress requested a number of accounting
7 orders for approval to establish regulatory assets
8 or liabilities.

9 On June 20, 2017, the Commission issued
10 an order establishing general rate case and
11 suspending rates. On June 22, 2017, the Commission
12 issued its order scheduling investigation and
13 hearings, establishing intervention and testimony
14 due dates and discovery guidelines, and requiring
15 public notice. In accordance with that notice, a
16 number of hearings have been held at locations
17 around the state for the purpose of receiving
18 testimony from public non-party witnesses
19 addressing the proposed rate adjustment.

20 Pursuant to the Commission's
21 July 12, 2017, order revising procedural schedule
22 and requiring public notice, an evidentiary hearing
23 was scheduled in Raleigh beginning on
24 November 20, 2017, to hear the technical witnesses

1 of the parties, and that is the purpose of this
2 hearing that we are having today that's been
3 rescheduled.

4 On July 10, 2017, the Commission issued
5 an order consolidating Docket Number E-2, Sub 1131,
6 Duke Progress' request to defer incremental storm
7 damage expenses; and Docket Number E-2, Sub 1103,
8 Duke Progress' request to defer environmental
9 compliance costs into this rate case application.

10 On August 29, 2017, the Commission
11 issued an order to further consolidate the present
12 rate case docket with the Docket Number
13 E-2, Sub 1153, Duke Progress' request to implement
14 a job retention rider.

15 Interventions of parties have been filed
16 and granted for Carolina Utility Customers
17 Association; The North Carolina Waste Awareness and
18 Reduction Network; Carolina Industrial Group for
19 Fair Utility Rates II; The North Carolina
20 Sustainable Energy Association; The Public Works
21 Commission of the City of Fayetteville; The
22 Commercial Group; The North Carolina Electric
23 Membership Corporation; The Environmental Defense
24 Fund; The Kroger Company; Haywood Electric

1 Membership Corporation; The Sierra Club; The United
2 States Department of Defense; the rate-paying
3 neighbors; North Carolina Farm Bureau Federation;
4 The North Carolina Justice Center; North Carolina
5 Housing Coalition; Natural Resources Defense
6 Council; and the Southern Alliance for Clean
7 Energy; and the North Carolina League of
8 Municipalities.

9 As directed by the Commission's
10 July 12, 2017, order revising procedural schedule
11 and requiring public notice, hearings were held for
12 the sole purpose of receiving testimony of the
13 witnesses.

14 On Tuesday, September 12, 2017, a public
15 hearing was held in Richmond County Courthouse
16 where approximately 12 witnesses testified.

17 On Monday, September 25, 2017, a hearing
18 was held in Raleigh where we heard approximately 41
19 witnesses.

20 On Wednesday, September 27, 2017, a
21 hearing was held in Buncombe County where we heard
22 approximately 44 witnesses.

23 On October 11, 2017, we had a hearing at
24 the Greene County Courthouse where we heard

1 approximately 26 witnesses.

2 And on Thursday, October 12, 2017, we
3 had a hearing in New Hanover County Courthouse
4 where we heard approximately 21 witnesses.

5 On November 20, 2017, Duke Progress
6 filed a preliminary notice of partial settlement
7 notifying the Commission that Duke Progress and the
8 Public Staff had reached a preliminary partial
9 settlement in principle as to certain issues in
10 this docket.

11 On November 21, 2017, the Commission
12 issued an order allowing testimony regarding
13 proposed partial settlement, directing that, at the
14 time the intervenors' witnesses present their
15 prefiled direct testimony, they will be allowed to
16 supplement their prefiled direct testimony with
17 testimony in response to the intervenors'
18 settlement testimony. Further, the intervenors'
19 witnesses will be subject to cross examination on
20 their intervenors' settlement testimony, and Duke
21 will be -- Duke Progress will be allowed to offer
22 rebuttal testimony in response to the intervenors'
23 settlement testimony.

24 On November 22, 2017, Duke Progress and

1 the Public Staff filed with the Commission an
2 Agreement and Stipulation of Partial Settlement
3 with respect to a number of the revenue requirement
4 issues presented by the Company's application,
5 including those arising from the supplemental and
6 rebuttal testimonies and exhibits.

7 On November 27, 2017, the Public Staff
8 and Duke Progress filed supplemental testimony and
9 exhibits. Numerous statements of position have
10 been received and filed in the official file for
11 this docket.

12 This brings us up for the hearing today.

13 And I remind all members of the
14 Commission of their duty to avoid conflicts of
15 interest and inquire if any Commissioner has any
16 known conflict of interest with respect to the
17 matters coming before the Commission this
18 afternoon.

19 There being no conflicts, we will
20 proceed, and I will call on the parties to announce
21 their appearances, beginning with Duke Progress.

22 MS. SMITH: Good afternoon, Mr. Chairman
23 and members of the Commission. I'm
24 Heather Shirley Smith appearing on behalf of Duke

1 Energy Progress. Also with us today is Bo Somers,
2 as well as John Burnett and Camal Robinson.

3 Mr. Burnett is a member of the Florida
4 Bar. Mr. Robinson is a member of the Massachusetts
5 Bar. They both have pro hac vice motions granted
6 for appearance in this docket. We will also have
7 appearing with us from the law firm of Troutman
8 Sanders, Kiran Mehta and Brandon Marzo, as well as
9 Mary Lynne Grigg and Joan Dinsmore from
10 McGuireWoods, as well as Bob Kaylor. All of our
11 attorneys have filled out green sheets and provided
12 to the court reporter.

13 MS. HICKS: Good afternoon. My name is
14 Warren Hicks, along with Ralph McDonald. We are
15 here on behalf of the Carolina Industrial Group for
16 Fair Utility Rates, Haywood Electric Membership
17 Corporation, and Piedmont Electric Membership
18 Corporation, which has been granted amicus status.

19 MR. PAGE: I am Robert Page representing
20 Carolina Utility Customers Association.

21 MS. THOMPSON: Good morning,
22 Mr. Chairman and members of the Commission.
23 Gudrun Thompson representing the North Carolina
24 Justice Center, North Carolina Housing Coalition,

1 Natural Resources Defense Council, and Southern
2 Alliance for Clean Energy. With me are my
3 co-counsels David Neal and Nadia Luhr.

4 MS. FORCE: Good afternoon. My name is
5 Margaret Force for the Attorney General's Office
6 representing the Using and Consuming Public. And
7 with me today is also Jennifer Harrod and
8 Teresa Townsend, who will be also with the Attorney
9 General's Office.

10 MR. RUNKLE: May it please the
11 Commission. My name is John Runkle representing NC
12 WARN.

13 MR. QUINN: Good afternoon. My name is
14 Matthew Quinn. I am here on behalf of Sierra Club.
15 Also here today are Bryan Brice, Dory Jaffey, and
16 Bridgett Lee, who are also attorneys on behalf of
17 the Sierra Club.

18 MR. JENKINS: Good afternoon,
19 Commissioners. Alan Jenkins for the Commercial
20 Group.

21 MR. BOEHM: Good afternoon. My name is
22 Kurt Boehm. I'm appearing on behalf of the Kroger
23 Company.

24 MR. SMITH: Good afternoon. I'm

1 Kyle Smith on behalf of the United States
2 Department of Defense and all federal executive
3 agencies.

4 MS. KEMERAIT: Good afternoon. I'm
5 Karen Kemerait with the law firm of Smith Moore
6 Leatherwood, and I'm representing the North
7 Carolina League of Municipalities, and with me is
8 Debra Ross who is also representing the North
9 Carolina League of Municipalities.

10 MR. LEDFORD: Good afternoon.
11 Peter Ledford with the North Carolina Sustainable
12 Energy Association. With me is Thad Culley of the
13 law firm of Keyes and Fox also representing the
14 Sustainable Energy Association.

15 MR. FINNIGAN: Good afternoon,
16 Your Honors. I'm John Finnigan appearing on behalf
17 of the Environmental Defense Fund.

18 MS. JONES: Good afternoon. I'm
19 Kathy Crawley Jones with the Law Offices of
20 Bryan Brice. I'm here on behalf of the rate-paying
21 neighbors at the Mayo Plant and the Asheville
22 Plant.

23 MS. DOWNEY: Good afternoon,
24 Commissioners. Dianna Downey with the Public

1 Staff. Appearing with me this week will be
2 Lucy Edmondson, David Drooz, Tim Dodge, Bob Gillam,
3 Heather Finnell, William Grantmyre, and
4 Robert Josey. We represent the Using and Consuming
5 Public.

6 CHAIRMAN FINLEY: Are there any other
7 lawyers in North Carolina that aren't here? Do you
8 want to make statements? Any other issues you have
9 to address, Mr. Somers?

10 MS. SMITH: Well, as a preliminary
11 matter, we have provided a witness order for the
12 Commission's consideration, and there are a number
13 of proposed witnesses that have -- the parties have
14 asked to be excused. So we can take that up now or
15 at the end of the day, whatever the Commission's
16 pleasure.

17 CHAIRMAN FINLEY: Why don't we proceed
18 with your witnesses, and we will take them up as we
19 get to them.

20 MS. SMITH: Okay. We also have another
21 preliminary matter.

22 MR. SOMERS: Good afternoon,
23 Mr. Chairman. Late this morning, Duke Energy
24 Progress filed two settlements I would like to

1 bring to the Commission's attention. First is with
2 the Commercial Group, which is an association that
3 includes BJ's Wholesale Club, Food Lion, Ingles
4 Markets, JC Penny, Sam's East, Target, and Walmart
5 Stores East. As a result of that settlement, it
6 resolves all issues between those parties and the
7 Company, with the exception of the job retention
8 rider.

9 The other settlement is with the Kroger
10 Company, and as a result of that settlement, it
11 resolves the issues between those parties, as well.
12 As a result of these settlements, the Company has
13 agreed to do two primary things. The first is to
14 address allocation in the SGS-TOU rate class.
15 Also, with the Commercial Group settlement, the
16 Company has agreed to work with interested
17 commercial and industrial customers to convene a
18 working group to discuss rider SS, or standby
19 service, charges.

20 I have copies of those settlements, if
21 the Commission would like those. I also have
22 copies for counsel who did not get them earlier.

23 CHAIRMAN FINLEY: Pass them out, please.

24 (Documents are handed out.)

1 CHAIRMAN FINLEY: Any other preliminary
2 matters?

3 MS. DOWNEY: Yes. Mr. Chairman, we
4 would ask, at this point, that the Agreement and
5 Stipulation of Partial Settlement be entered into
6 the record. I did want to bring to the
7 Commission's attention that we would need to file a
8 corrected Settlement Exhibit 1. There were a
9 couple of dates in there that are incorrect, and we
10 need to correct a couple of things, nothing
11 substantive, but I do have copies of that that we
12 will be filing.

13 CHAIRMAN FINLEY: All right. No
14 objection, we will receive the settlement between
15 the Public Staff and the Company.

16 (Whereupon, Settlement Exhibit 1 was
17 identified as premarked and admitted
18 into evidence.)

19 CHAIRMAN FINLEY: While Ms. Downey is
20 passing that out, let me take up a few housekeeping
21 matters. We do have an overflow room, and I
22 understand that already we had some indication that
23 some of the amplification is not carried over into
24 the overflow room. So if you're gonna -- Counsel

1 is gonna ask questions, please bring the mics up as
2 close to your mouth as you can, please.

3 Also, we have a fair amount of what has
4 been filed under confidentiality designation in
5 this case. I am gonna, sort of, depend on the
6 parties to let me know when they are gonna ask
7 questions about something that is confidential or
8 want to introduce something into evidence that is
9 confidential so that we can treat it as such. It's
10 a bit of an imposition to have to clear the hearing
11 room. I don't want to have to do that, so let's
12 limit that to the extent we are able to. I
13 understand you can't do that in some situations.
14 And we are also going to have to be careful about
15 the overflow room to protect that confidentiality
16 in the overflow room.

17 We do have a lot of witnesses, a lot of
18 testimony, a lot of lawyers, and so I'm gonna ask
19 you to please limit the sweetheart cross
20 examination questions and try to organize your
21 cross examination, and to the extent you are gonna
22 have a cross examination exhibit, let's organize
23 that and let's not fumble around with our papers,
24 and make the best use of our time that we can.

1 All right. Duke Progress, call your
2 first witness.

3 MS. SMITH: Okay. We would like to call
4 the panel of David Fountain and Laura Bateman.

5 DAVID FOUNTAIN and LAURA BATEMAN,
6 having first been duly sworn, were examined
7 and testified as follows:

8 DIRECT EXAMINATION BY MS. SMITH:

9 Q. Mr. Fountain, please state your full name and
10 business address.

11 A. (David Fountain) My name is
12 David Burton Fountain. My business address is 411
13 Fayetteville Street, Raleigh, North Carolina.

14 Q. Okay. And by whom are you employed and in
15 what capacity?

16 A. (David Fountain) I am the North Carolina
17 president for Duke Energy.

18 Q. And Mr. Fountain, did you cause to be
19 prefiled in this docket direct testimony consisting of
20 39 pages?

21 A. (David Fountain) I did.

22 Q. And did you cause to be prefiled in this
23 docket rebuttal testimony consisting of 21 pages?

24 A. (David Fountain) I did.

1 Q. And did you also cause to be prefiled under
2 the docket settlement testimony consisting of 10 pages?

3 A. (David Fountain) Yes, I did.

4 Q. Do you have any changes or corrections to
5 your direct, rebuttal, or settlement testimony?

6 A. (David Fountain) No.

7 Q. And if I asked you the questions today, would
8 your answers be the same?

9 A. (David Fountain) Yes.

10 MS. SMITH: Mr. Chairman, at this time I
11 move that the prefiled direct, rebuttal, and
12 settlement testimony of Mr. Fountain be copied into
13 the record as if given orally from the stand.

14 CHAIRMAN FINLEY: All right.
15 Mr. Fountain's direct testimony consisting of 39
16 pages, his rebuttal testimony consisting of
17 21 pages, and his supplemental testimony consisting
18 of 10 pages is copied into the record as if given
19 orally from the stand.

20 (Whereupon, the prefiled direct,
21 rebuttal, and supplemental testimony of
22 David Fountain were copied into the
23 record as if given orally from the
24 stand.)

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION**DOCKET NO. E-2, SUB 1142**

| | | |
|--|---|----------------------------|
| In the Matter of: |) | |
| |) | DIRECT TESTIMONY OF |
| Application of Duke Energy Progress, LLC |) | DAVID B. FOUNTAIN |
| For Adjustment of Rates and Charges |) | FOR DUKE ENERGY |
| Applicable to Electric Service in North |) | PROGRESS, LLC |
| Carolina |) | |

I. INTRODUCTION

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. My name is David B. Fountain, and my business address is 411 Fayetteville
3 Street, Raleigh, North Carolina 27601.

4 **Q. WHAT IS YOUR POSITION WITH DUKE ENERGY PROGRESS,**
5 **LLC?**

6 A. I am the North Carolina President for Duke Energy Progress ("DE Progress"
7 or the "Company"), which is a wholly owned subsidiary of Duke Energy
8 Corporation, as well as Duke Energy Carolinas and Progress Energy Inc., also
9 wholly owned subsidiaries of Duke Energy.

10 **Q. BRIEFLY SUMMARIZE YOUR EDUCATIONAL BACKGROUND**
11 **AND PROFESSIONAL AFFILIATIONS.**

12 A. I earned my Juris Doctor, Master of Business Administration and Bachelor of
13 Arts degrees from the University of North Carolina at Chapel Hill. I am also a
14 member of the North Carolina Bar Association and a graduate of Leadership
15 North Carolina.

16 **Q. PLEASE DESCRIBE YOUR BUSINESS BACKGROUND AND**
17 **EXPERIENCE.**

18 A. I have been in my current position since September 2015. Prior to that I
19 served as senior vice president of enterprise legal support for Duke Energy.
20 From 2009 until the close of the merger between Duke Energy and Progress
21 Energy in July 2012, I served as vice president of Progress Energy's legal
22 department. I joined Carolina Power & Light in 2000 as an Associate General

1 Counsel, providing support for the merger with Florida Progress, which
2 formed Progress Energy. In 2003, I was promoted to Deputy General
3 Counsel, managing the commercial transactions practice group that provided
4 advice and support for corporate governance and securities matters; wholesale
5 power, gas and coal transactions; and divestitures, mergers and acquisitions
6 across the enterprise. In 2008, I assumed the role of General Counsel for
7 corporate services for Progress Energy. Before joining the Company, I
8 practiced transactional and environmental law in Charlotte, NC at the
9 predecessor firm to McGuireWoods LLP.

10 **Q. WHAT ARE YOUR RESPONSIBILITIES IN YOUR CURRENT**
11 **POSITION?**

12 **A.** I lead Duke Energy North Carolina's regulated electric utility businesses,
13 which include serving approximately 1.3 million DE Progress North Carolina
14 electric customers. I am responsible for the Company's rate and regulatory
15 initiatives, managing state and local regulatory and governmental relations,
16 economic development, water strategy and services, hydroelectric licensing,
17 and community affairs.

18 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE**
19 **COMMISSION?**

20 **A.** No, I have not testified before this Commission as a witness for the Company,
21 although I have appeared before this Commission to present storm-related
22 impacts for both the 2016 Winter Storm Jonas and the 2016 Hurricane
23 Matthew.

1 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

2 A. The purpose of my testimony is to provide an overview of DE Progress' filing,
3 to generally describe the reasons why the Company needs an increase in
4 revenues, to introduce the Company's other witnesses filing direct testimony
5 in this case, and describe requests being made in this case and how they will
6 affect our customers and the State of North Carolina.

7 **Q. WHO ARE THE OTHER WITNESSES PRESENTING TESTIMONY IN**
8 **SUPPORT OF THE COMPANY'S APPLICATION IN THIS**
9 **PROCEEDING?**

10 A. The Company's other witnesses filing direct testimony in support of this case
11 are:

12 1. **Laura A. Bateman**, Director of Rates & Regulatory Planning, who
13 describes the results of DE Progress' operations under present rates on
14 the basis of an adjusted historical Test Period (twelve months ending
15 December 31, 2016). Witness Bateman details the calculation of the
16 additional revenue required as a result of the investments and general
17 cost increases since the last DE Progress Rate Case and discusses
18 several pro forma adjustments to the test year operating expenses and
19 to the end of year actual rate base. Witness Bateman also explains the
20 calculations for various accounting requests the Company makes in its
21 Application. Finally, Witness Bateman details the capital structure and
22 embedded cost of debt used by the Company in calculating its
23 proposed increase.

- 1 2. **T. Preston Gillespie Jr.**, Senior Vice President & Nuclear Chief
2 Operating Officer for Duke Energy, who provides an update on capital
3 additions in recent years, as well as key drivers impacting nuclear
4 operations and maintenance ("O&M") costs. Witness Gillespie also
5 discusses the operational performance of DE Progress' nuclear
6 generation fleet during the January 1, 2016 through December 31,
7 2016 Test Period ("Test Period").
- 8 3. **Stephen G. De May**, Senior Vice President Tax and Treasurer, who
9 addresses the Company's financial objectives, capital structure, and
10 cost of capital. Witness De May also discusses the current credit
11 ratings and forecasted capital needs of the Company and the
12 importance of DE Progress' continued ability to meet its financial
13 objectives.
- 14 4. **David L. Doss Jr.**, Director of Electric Utilities and Infrastructure,
15 who describes the financial position of DE Progress at December 31,
16 2016, and the actual results of the Company's operations for the Test
17 Period. He also addresses depreciation expense and nuclear
18 decommissioning costs.
- 19 5. **Christopher M. Fallon**, former Vice President of Nuclear
20 Development for Duke Energy. Witness Fallon provides background
21 on the nuclear development activities at the Harris Plant site ("Harris
22 Site Development") submitted in this case for cost recovery.

- 1 6. **Janice Hager**, President of Hager Consulting. Witness Hager supports
2 the allocation of Company electric operating revenues and expenses,
3 and original cost rate base assigned to the North Carolina retail
4 jurisdiction and to each customer class.
- 5 7. **Robert B. Hevert**, Partner of ScottMadden, Inc., who presents his
6 independent analysis of the Company's cost of equity. Witness Hevert
7 discusses the Company's requested capital structure and makes a
8 recommendation for an allowed return on equity ("ROE") that is fair
9 and that allows the Company to both attract capital on reasonable
10 terms and maintain financial strength.
- 11 8. **Retha Hunsicker**, Vice President Customer Operations, Customer
12 Information Systems for Duke Energy. Witness Hunsicker discusses
13 the Company's Customer Information Systems ("CIS") and explains
14 why it is necessary to convert that CIS into a modern customer service
15 platform.
- 16 9. **Jon F. Kerin**, Vice President - Governance and Operations Support,
17 Coal Combustion Products, who describes the DE Progress' ash basin
18 closure and compliance costs and plans, and the activities underlying
19 the costs sought for recovery in this case.
- 20 10. **Dr. Julius (Chip) Wright, Ph.D.**, an environmental economist, will
21 testify to ratemaking policy and regulatory approaches to the recovery
22 of prudently incurred environmental compliance costs.

- 1 11. **Kimberly D. McGee**, Rates & Regulatory Strategy Manager with
2 Duke Energy who supports the base fuel factor for base rates for all
3 customer classes for DE Progress.
- 4 12. **Joseph A. Miller Jr.**, Vice President of Central Engineering and
5 Services, who provides an update on the Company's fossil,
6 hydroelectric and solar (collectively, "Fossil/Hydro/Solar") facilities
7 included for recovery in this case. Witness Miller describes capital
8 additions made in recent years and capital investments planned for the
9 upcoming years and key drivers impacting O&M costs. Witness Miller
10 also discusses the operational performance of the Company's
11 Fossil/Hydro/Solar fleet during the Test Period.
- 12 13. **Robert M. Simpson III**, Director, Power Quality Reliability &
13 Integrity Engineering, who discusses the Company's transmission and
14 distribution ("T&D") system, the operation and performance of the
15 T&D system and the costs necessary to operate, maintain and improve
16 upon it, including providing detail on major grid investment initiatives.
- 17 14. **Steven B. Wheeler**, Pricing & Regulatory Solutions Director, who will
18 demonstrate that the rates DE Progress proposes reflect appropriate
19 ratemaking principles, and that they result in an equitable basis for
20 recovery of the Company's revenue requirement across and within its
21 various rate schedules. Witness Wheeler also describes proposed
22 changes to the Company's retail electric schedules and quantifies the
23 effect of these changes to retail customers.

1 plants. These new plants emit carbon dioxide at about half the rate, and
2 nitrogen and sulfur oxide emissions at a fraction of the rate of the units they
3 replaced. In addition to the \$416 million invested in gas-fueled plants
4 discussed above, the Company has also invested \$184 million in new solar
5 energy installations, the first solar additions to the DE Progress fleet. These
6 additions to the DE Progress fleet have occurred during a time when the
7 Company has also been making other significant necessary investments in its
8 existing generating plants, including new pollution controls like the Zero
9 Liquid Discharge flue desulfurization systems for existing coal plants,
10 including a \$141 million system at the Mayo Unit 1 facility that provides
11 operational flexibility and reduces environmental impact.

12 The Company has also started the process to ensure compliance with
13 state and federal regulations requiring the Company to address coal ash basin
14 closures at plants which have or are continuing to serve customers in North
15 Carolina. Additionally, we are planning for the future, starting the process of
16 rolling out a new customer information system to ensure the best customer
17 service possible. And we are starting to roll out smart meters that will help
18 customers more actively manage their consumption while also contributing to
19 a more resilient grid.

20 We believe these smart investments in technology, infrastructure and
21 environmental protection will help connect millions of our customers to the
22 energy future they expect.

1 At Duke Energy, we know how vital electricity is to our customers and
2 their families, as well as our state. Customers expect us to deliver electricity
3 that is safe, reliable, affordable and increasingly clean, while also making
4 smart investments that help communities and local economies thrive, create
5 jobs and opportunities, and that provide more value every day.

6 Accomplishing all these critical goals requires us to make smart
7 investments, while also keeping rates affordable for our diverse customer
8 base. Because we know that energy must be affordable, and that our
9 investments can impact customer bills, we must always ask ourselves these
10 important questions – How will this investment benefit customers? How will
11 it benefit the communities we serve? And how will it help ensure that we meet
12 North Carolina's and our customers' present and future energy needs? Recent
13 work to modernize the electric system that serves our customers, generate
14 cleaner power, responsibly manage and close coal ash basins, respond to
15 major storms, such as Hurricane Matthew, and continually improve our
16 service to customers have made it necessary for Duke Energy to seek an
17 increase in customer rates to pay for these important investments.

18 We've heard from customers that they expect high quality, reliable
19 service, regardless of the size of their home or the town they live in. When an
20 outage does occur, they want to be kept informed real-time about the work we
21 are doing to restore their service quickly. Also, customers increasingly want
22 access to information about their energy usage and tools to manage that
23 energy use and save money. Meeting customer expectations also means

1 managing our business responsibly – protecting the environment, complying
2 with the regulations that govern our business, ensuring electricity is delivered
3 safely to homes and businesses, and effectively meeting our obligations today,
4 even as we advance toward the energy opportunities of tomorrow. We do this
5 with a focus on efficiency and effective cost management.

6 We've worked hard to reduce our impact on the environment by
7 retiring older, less efficient coal plants across the Carolinas and have retired
8 half of our coal plants in North Carolina, with plans for an additional
9 retirement in the next three years. We're unleashing the power of science and
10 engineering to safely manage and close all of our ash basins and find new
11 ways to recycle the byproducts of decades of electric generation to benefit our
12 economy and our State. Today, Duke Energy recycles more than 75 percent of
13 the coal combustion byproducts we produce in North Carolina, including
14 using 20 percent of coal ash for beneficiation projects as discussed by Witness
15 Kerin. And we have plans to reuse more in the years ahead.

16 We are providing customers with increasingly clean energy from new,
17 highly-efficient natural gas and state-of-the-art carbon-free nuclear plants and
18 utility-scale solar energy projects. In fact, nearly half of the electricity we
19 generated in the Carolinas last year came from carbon-free resources,
20 including hydro-electric facilities. North Carolina is now first in the nation for
21 per capita solar energy, and second in the nation for total installed solar
22 generation, and Duke Energy continues to grow this important resource
23 smartly for our state. Powering the lives of North Carolina's hard-working

1 families and communities is the most important job we have. It's the
2 responsibility of more than 15,000 dedicated Duke Energy employees who
3 live and work every day in communities across our state— in good weather and
4 bad. Smart investments in technology, infrastructure and environmental
5 protection will help connect millions of our customers to the energy future
6 they expect.

7 **III. BASE RATE REQUEST**

8 **Q. PLEASE DESCRIBE THE COSTS DRIVING THE COMPANY'S**
9 **REQUESTED 14.9 PERCENT OVERALL ADJUSTMENT TO ANNUAL**
10 **REVENUES.**

11 **A.** Since DE Progress' last rate case filed in 2012 and concluded in 2013 ("2013
12 Rate Case"), we have continued to invest in our facilities, equipment and
13 operations to better serve our customers. For example, since the conclusion of
14 the 2013 Rate Case, DE Progress has completed numerous nuclear, fossil,
15 hydro and solar projects, helping to provide customers with energy that is
16 more reliable, efficient and cleaner than ever.

17 To advance towards a more sustainable energy future, DE Progress
18 received Certificates for Public Convenience and Necessity for four solar
19 projects in late 2015 and early 2016. These projects have been completed and
20 add a total of 141 MWs of nameplate capacity (Warsaw, Fayetteville, Camp
21 Lejeune, and Elm City), providing 62 MWs of utility equivalent capacity, an
22 investment of \$184 million. DE Progress is also accelerating the
23 decommissioning of older, less efficient coal fired units at our Asheville

1 facility, which is driving depreciation and decommissioning costs discussed
2 below.

3 DE Progress is also taking steps to update our existing portfolio. A
4 significant example is the Mayo Unit 1 Zero Liquid Discharge ("ZLD")
5 treatment system for flue gas desulfurization wastewater, which alone resulted
6 in an investment of approximately \$141 million. The Mayo ZLD system
7 provides the station operational flexibility and reduces environmental impact.
8 In conjunction with the Western Carolinas Modernization Project, the
9 Company has begun construction on the Asheville Combined Cycle Plant (the
10 "Asheville CC Project"), which consists of two highly efficient 280 MW
11 combined cycle natural gas-fueled electric generating units with fuel backup
12 located in Buncombe County at the site of the Asheville Steam Electric
13 Generating plant. The Asheville CC Project will replace older, less-efficient
14 coal generation currently in operation at the site, and the Asheville CC Project
15 is on budget and on target to be operational by the end of 2019.
16 Approximately \$193 million of the Asheville CC Project costs are included in
17 rate base in this case. We are also on schedule to complete the new Sutton
18 Blackstart combustion turbine ("CT") under budget, with expected
19 commencement of commercial operation in June of 2017. The project
20 includes two new nominal 42-MW simple-cycle combustion turbine (CT)
21 dual-fuel units installed at the existing L.V. Sutton Energy Complex. Our
22 investment in this project totaled \$120 million. These units are critical
23 components of our ability to restart the generation system in the event of a

1 catastrophic storm or event. They will join the new Sutton Combined Cycle
2 unit that began operations in 2013, and only part of the investment was
3 included in the last rate case. We now ask for an additional \$103 million to
4 recover the remainder of the Sutton Combined Cycle investment.

5 We have also requested an increase to our depreciation and
6 decommissioning funding related to our infrastructure used to serve
7 customers, as well as the return on our rate base. All together, these
8 significant changes related to our rate base and generation, transmission, and
9 distribution resources make up the majority of the requested increase.

10 DE Progress also seeks to recover costs incurred since January 1, 2015
11 through August 31, 2017 to comply with federal and state requirements
12 regarding closure of coal ash basins. To mitigate rate impacts to customers, we
13 request to recover these previously incurred expenses over a five year period
14 in the amount of \$66.5 million per year. Based on actual coal ash expenses
15 incurred during the 2016 test year, the Company has also included ongoing
16 expenses in revenue requirements in the amount of \$129.1 million, because
17 ash basin closure and compliance costs have become part of our ongoing
18 annual costs.¹ Including this revenue requirement will provide a measure of
19 predictability to customers of future coal ash expense rate drivers and we do
20 not expect rate changes in the future related to coal ash to be as significant as
21 we propose in this case. By collecting these costs as we go, with deferral

¹ While the amounts related to beneficial reuse are included in this case, we believe that certain amounts are more appropriately recovered through the fuel clause, as explained by Witness McGee.

1 treatment for any over- or under-collection, our proposal helps reduce impacts
2 in future years.²

3 **Q. PLEASE DESCRIBE THE ADJUSTMENTS MAKING UP THE**
4 **REMAINING PORTION OF THE COMPANY'S BASE RATE**
5 **REQUEST.**

6 A. The remainder of the Company's base rate request include recovering severe
7 storm costs as discussed by Witness Simpson, especially costs incurred to
8 restore service from the historic impacts of Hurricane Matthew, in the amount
9 of \$30 million per year for three years. We are also seeking the project
10 development costs for the nuclear development work completed for the Harris
11 nuclear site, as discussed by Witness Fallon, in the amount of \$9 million per
12 year for five years. Additionally, we are seeking to include costs to implement
13 a new Customer Information System ("CIS"), in the amount of \$8 million per
14 year, as discussed by Witness Hunsicker. We are also requesting an increase
15 to cover \$30 million annually in additional qualifying facility purchased
16 power costs since the 2013 Rate Case. These annual costs are partially offset
17 by the return of a deferred tax liability to customers over the next five years
18 (\$38 million per year). Witness Bateman discusses this offset in her
19 testimony.

20 **Q. PLEASE DESCRIBE THE NEED TO ADDRESS COAL ASH BASINS.**

21 A. For decades, along with other electric utilities across the country, DE
22 Progress followed industry practices managing and storing coal ash consistent

² This case excludes any fines or penalties incurred by DE Progress related to ash basin closure or management.

1 with regulations that evolved throughout that time. Since the 2013 Rate Case,
2 DE Progress has become subject to both federal and state regulations that
3 require it to take additional significant actions to manage and permanently and
4 safely close its ash basins in ways that protect human health and the
5 environment. In 2015, both the State of North Carolina and the
6 Environmental Protection Agency promulgated new rules regarding the
7 management and closure of ash basins. All of DE Progress's ash basins must
8 be closed under these rules. Like other utilities around the country similarly
9 affected by such regulation, the Company has begun the process of closing, or
10 submitting plans to close, our ash basins in accordance with these regulations.
11 Additionally, the Company is adding dry ash and Flue Gas Desulfurization
12 blowdown handling systems to our coal-fired plants that are not already so
13 equipped. We are also modifying all of our active and decommissioned coal-
14 fired plants to divert stormwater and low volume waste water away from the
15 basins. The Company is requesting recovery of ash basin closure compliance
16 costs incurred since January 1, 2015, in the amount of \$66.5 million per year
17 for five years. The Company is seeking recovery of these costs over a five
18 year period in order to mitigate customer rate impacts associated with these
19 significant compliance expenses. Based on actual coal ash expenses incurred
20 during the 2016 test year, the Company is also seeking recovery of ongoing
21 ash basin closure compliance spend in the amount of \$129.1 million per year,
22 with any difference from future spend being deferred until a future base rate

1 case. Including this revenue requirement will provide a measure of
2 predictability to customers of future coal ash expense rate drivers.

3 Witness Kerin provides significant detail on the prudence of the
4 Company's actions regarding ash basin creation, management and closure,
5 and he is the Company's subject matter expert in this area. Witness Wright
6 further speaks to the Company's actions related to coal ash and the regulatory
7 policy surrounding cost recovery. However, know that for decades, the
8 Company has worked to provide electricity that is reliable, is delivered using
9 the best practices and latest technologies at the time, and is available at
10 reasonable rates. And for decades, reliable, affordable electricity was made
11 possible—nationwide—by coal. In its day, coal was king. It fueled both a
12 growing economy and population, along with demands for electricity across
13 North Carolina, meeting the energy needs of communities from the
14 mountains to the coast. It was the most advanced technology of its time.

15 With coal came coal ash – the byproduct of decades of generating
16 electricity from this resource. Like any waste, we must ensure that coal ash is
17 responsibly managed, just as we have done with spent nuclear fuel. It's Duke
18 Energy's job to take care of the waste, and we will do so responsibly. But the
19 cost of that service is a responsibility all customers share as consumers of
20 electricity, so that the public and the environment are protected now and in the
21 future.

22 Think of when you get the tires changed on your car. You might take
23 your car to a shop to get it done. You don't have to do the work. That's what

1 the experts are for. But when you pay your bill, there is a charge for the safe
2 disposal of those tires. The shop is required to properly manage its waste to
3 protect the environment, and the customer shares in those costs as part of their
4 service.

5 The same thing happens at a power company. We don't ask customers
6 to dispose of the coal ash generated from the power they consume. That's our
7 responsibility. But there is a cost for that service. It's a cost we are all required
8 to pay to protect the environment and responsibly manage that waste. And just
9 like the tire shop, it's a cost we include on customer bills as part of the reliable
10 service we provide every day to meet the energy needs of our customers.

11 Just as coal has evolved as a fuel for making electricity, so has the way
12 Duke Energy manages coal ash. In the early days, the best practice in the
13 industry was to let coal ash simply go out the top of the smokestack. Later,
14 changing regulations and industry best practices led to the use of emissions
15 control equipment and ash basins to dispose of coal ash, often in a pond-like
16 environment. Today, instead of being handled wet and stored in ponds, coal
17 ash is increasingly being handled dry and disposed of in lined landfills, or
18 beneficially recycled for use in construction products or as fill material in
19 place of dirt. In fact, Duke Energy recycles 75 percent of coal combustion
20 byproducts, and that includes DE Progress currently recycling or beneficially
21 re-using about 20 percent of the ash that is produced at our coal-fired plants.
22 We have retired half of the coal-fired plants owned by Duke Energy in North
23 Carolina. And now, we are closing all ash basins across the state as part of

1 new, sweeping state and federal regulations, and as part of Duke Energy's
2 commitment to provide increasingly reliable, clean power to our customers at
3 reasonable rates.

4 Times are changing, and so is Duke Energy. We are constantly
5 searching for new and better ways to serve our customers and to provide
6 electricity that is more efficient and generated with a fraction of the waste of
7 even a few years ago. It's an exciting time, when we can close older coal
8 plants and replace them with cleaner fuel sources such as abundant natural
9 gas, carbon-free nuclear and utility-scale renewable energy.

10 As we transition to a cleaner energy future by leveraging new
11 technology and cleaner power sources, we must remember the many benefits
12 coal energy provided over the last several decades. Since our customers, state
13 and economy have all benefited from coal-produced electricity, the cost of
14 responsibly managing waste from consuming coal for electricity must also be
15 shared. This is an investment to help close out the coal era and push forward
16 to a new, cleaner energy future.

17 **Q. COULD YOU PLEASE DESCRIBE THE INVESTMENT IN THE**
18 **CUSTOMER INFORMATION SYSTEM ("CIS")?**

19 **A.** We have extracted all of the value we can from our current CIS system, which
20 is more than thirty years old. Our business and our customers' needs are very
21 different than they were when the original system was constructed, and have
22 moved past the point where modular "bolt on" systems or modular upgrades
23 are effective. Customers expect greater access to information about their

1 account and energy use, and greater control over that information. Through
2 the consolidation of the older information systems into a new information
3 system, the Company will be able to deliver a customer experience that will
4 simplify, strengthen and advance our ability to serve our customers in this
5 digital age.

6 As explained by Witness Hunsicker, continued investment in an
7 antiquated technology platform is neither practical nor sustainable, and would
8 cost considerably more in the long run than replacing the system in its
9 entirety. Customer information systems, just like any other software solution,
10 periodically require replacement to deliver on capabilities required by
11 business operations, and more importantly, customers.

12 IV. CUSTOMER LANDSCAPE

13 Q. CAN YOU PUT DE PROGRESS' RATES INTO PERSPECTIVE?

14 A. Yes. First, we believe that electricity in North Carolina remains an excellent
15 value, even with our proposed adjustment. In fact, customers' bills have
16 declined from those approved in the Company's last rate case decided by the
17 Commission in 2013 due, in part, to the Company prudently managing fuel
18 costs and jointly dispatching the generation fleet to save customers more than
19 \$183 million.

20 Over the last two decades, basic consumer goods like gas and health
21 care have more than doubled in price. Food and beverages have increased by
22 approximately 127 percent. However, the cost of electricity in North Carolina
23 has not seen such drastic increases. Electricity provides fundamental value to

1 our daily life by powering appliances, heating and cooling homes, cooking
2 food and allows us to use our televisions, computers, charging devices such as
3 tablets and smartphones and other devices that now a common part of our
4 everyday lives.

5 Even with the DE Progress' proposed rate adjustment our customers
6 will still be paying lower rates today than they were in 1991 on an inflation-
7 adjusted basis. And, even with the rate adjustment, our customers will
8 continue to pay rates below the national average and competitive with other
9 utilities in our region.

10 **Q. HOW DOES THE RATE ADJUSTMENT PROPOSED BY THE**
11 **COMPANY AFFECT DIFFERENT RATE CLASSES?**

12 A. The proposed average retail base rate increase is 14.9 percent. The
13 Company's cost of service studies show that different customer groups are
14 covering their costs at varying levels. Accordingly, broken down by customer
15 group, the requested revenue requirements would result in the following
16 adjustments by DE Progress rate class: our residential customers, on average,
17 will see a 16.7 percent increase (so, a typical residential customer using 1,000
18 kWh will see an increase of approximately \$17.80 per month); small general
19 service customers, on average, will see a 15.4 percent increase; medium
20 general service customers, on average, will see a 12.9 percent increase; large
21 general service customers, on average, will see a 13.4 percent increase and;
22 outdoor lighting customers will see an average increase of 6.1 percent. We

1 have also proposed, supported by our costs to serve, an increase in the
2 Residential Customer Charge from \$11.13 to \$19.50.

3 **Q. IS THE COMPANY PROACTIVELY EDUCATING CUSTOMERS**
4 **ABOUT THIS PROPOSED BASE RATE ADJUSTMENT?**

5 A. Yes. DE Progress is committed to being transparent and keeping customers
6 informed about the costs included in their bills and proposals to adjust rates.
7 The company has provided information to the public through news releases
8 and media interviews, op-eds from company executives, social media content,
9 advertising, speeches and print materials. We have also been very transparent
10 about our investments to build a smarter energy future for our customers
11 powered by cleaner, more efficient energy sources such as highly efficient
12 natural gas, carbon-free nuclear energy, renewable resources like hydroelectric
13 generation and solar energy. With the help of our nuclear fleet, nearly half of
14 the electricity Duke Energy generated in the Carolinas in 2016 came from
15 carbon-free resources. Our investments will ensure reliable, cleaner,
16 reasonably priced power going forward, while recognizing the importance of
17 cleaner air and water for our state and our customers.

18 Now that the Company's request has been filed, DE Progress will
19 utilize a section of the Duke Energy website to include videos, fact sheets and
20 direct information about the components of this case. In addition to the
21 website, the Company has and will continue to inform and educate our
22 customer and community facing employees, including our large account
23 managers, local district managers, economic development managers, and state

1 governmental affairs team about the specifics of the rate request. These
2 employees are charged with reaching out to customers and other stakeholders
3 to explain the case and answer any questions.

4 **Q. HAS THE COMPANY CONTINUED ITS ONGOING EFFORTS TO**
5 **MITIGATE CUSTOMER RATE IMPACTS?**

6 A. Yes. First, our customers have received the benefit of fuel-related joint
7 dispatch savings we have achieved. As of September 30, 2016, we achieved
8 approximately \$723 million of cumulative fuel and joint dispatch savings
9 since the 2012 Duke Energy/Progress Energy merger that has benefitted all of
10 our customers. As of September 30, 2016, North Carolina DE Progress retail
11 customers have benefitted through allocations by \$183 million in fuel and
12 joint dispatch savings through lower fuel rates.

13 Second, the Company continuously focuses on prudent cost
14 management. These efforts include the Company's commitment to
15 controlling ongoing capital and O&M costs through strategic planning and
16 procurement; efficient oversight of contractors by a trained and experienced
17 workforce; rigorous monitoring of work quality; thorough critiques to drive
18 process improvement; and, industry benchmarking to ensure best practices are
19 being utilized. Other initiatives include efforts to reduce costs through
20 standardization of processes and systems and leveraging technology and
21 workforce optimization throughout the Company.

22 Finally, the Company is committed to performance excellence, and has
23 been recognized for it and the cost savings it brings. For example, the

1 Brunswick nuclear plant established new annual net generation records and
2 the Harris and Robinson nuclear plants each achieved record six-month net
3 generation records during 2016. Also, as explained by Witness Gillespie, I'm
4 proud that Duke Energy has been recognized by the Nuclear Energy Institute
5 ("NEI") multiple times with Top Industry Practice ("TIP") awards. In 2015,
6 the Company's Excellence in Cost Management program received an award
7 for Vision, Leadership and Ingenuity. This program was developed and
8 designed in response to the competitive economic pressures facing nuclear
9 plants nationwide. The goal is to enhance sustainability in cost savings along
10 with fleet performance. The recognition took note that Duke Energy saved
11 more than \$35 million in 2014 while increasing worker safety, innovation and
12 employee engagement.

13 **Q. WHAT OTHER INITIATIVES HAS THE COMPANY IMPLEMENTED**
14 **TO HELP ITS CUSTOMERS REDUCE THEIR ELECTRICITY**
15 **BILLS?**

16 **A.** Duke Energy wants to help customers understand their energy use,
17 empowering them to save money on their electric bill. DE Progress is
18 continuing to expand and enhance its portfolio of demand-side management
19 ("DSM") and energy efficiency ("EE") programs because these programs
20 have proven to be one of the most effective means to reduce energy costs,
21 offset the need for new power plants, and protect the environment. DE
22 Progress' robust portfolio of EE programs is designed to provide offerings that
23 engage and educate customers around their energy usage and efficiency, as

1 well as empower customers by providing them with financial incentives to
2 invest in efficiency improvements. Duke Energy offers customers more than a
3 dozen energy-saving programs for every type of energy user and budget. The
4 Company's EE programs currently save its customers in the Carolinas over
5 1.7 billion kWh annually or over \$170 million, which is about four percent of
6 total retail kWh sales. Combined, its DSM and EE programs offset capacity
7 requirements by the equivalent of over four power plants. The Company's
8 growing portfolio of DSM programs further offers customers opportunities to
9 lower their bills by providing them with financial incentives in exchange for
10 shifting the timing of their electricity use from peak to nonpeak periods,
11 thereby helping the Company to reduce fuel costs during the periods when
12 energy costs the most to produce.

13 The Neighborhood Energy Saver Program is a residential EE program
14 targeted at low-income customers that includes the direct installation of a
15 number of EE measures. DE Progress has implemented the program utilizing
16 a neighborhood engagement, door-to-door strategy. Through the program, a
17 comprehensive package of EE measures is installed at no direct cost to the
18 customer. We've helped more than 24,650 DE Progress customers in North
19 Carolina save nearly 10.6 million kWh each year. This means the average
20 household could save more than \$45 per year on energy costs. Equally
21 important, each participating household is given information and education
22 along with EE tips and information about other programs that can help them
23 reduce their bills.

1 **Q. ARE THERE PROGRAMS IN PLACE TO OFFER FINANCIAL**
2 **ASSISTANCE TO YOUR CUSTOMERS?**

3 **A.** Yes. We know that for many customers, any savings on their power bill can
4 make a big difference in their monthly budget. The Energy Neighbor Fund is
5 an assistance program for DE Progress customers in need, helping low-
6 income individuals and families cover home energy bills. Eligibility is
7 determined by the county Department of Social Service (DSS) agencies. The
8 Energy Neighbor Fund program is funded by contributions from customers,
9 employees, and the Duke Energy Foundation. DE Progress customers are
10 able to add a one-time or recurring contribution to their bills. Over the life of
11 the Energy Neighbor Fund program it has provided approximately \$32 million
12 to DE Progress' North Carolina customers. We have also made it easier for
13 assistance agencies to make commitments to help financially challenged
14 customers with their bills through use of our agency portal.

15 The Company also offers optional bill management programs designed
16 to assist eligible customers in either managing fluctuations in their monthly
17 bill or who are having difficulty paying their entire bill by the due date.

18 **Q. WHAT OTHER COMPANY EFFORTS ARE UNDERWAY TO ASSIST**
19 **CUSTOMERS WITH THEIR ABILITY TO PAY?**

20 **A.** Duke Energy is committed to helping all customers keep their accounts and
21 their service in good standing. Often, simply spreading energy costs equally
22 over time can help customers manage their costs and pay their bills. Payment
23 plans are important not only to low-income customers, but to other residential

1 customers who may have had to adjust their household budgets. DE Progress'
2 Equal Payment Plan allows customers to spread out the impacts of seasonal
3 fluctuations into twelve equal monthly payments. The Company also offers
4 payment arrangements in North Carolina to customers unable to pay their bill
5 by the past due date. Payment arrangements can help customers avoid
6 interruption of service and help them re-establish control over their payments
7 and their bill. We continue to look for additional ways to help customers
8 manage their payments.

9 The Company is also leveraging technology to make the payment
10 arrangement process accessible for customers. Customers can make an
11 agreement by telephone or via the Company website using a tool that is quick
12 and objective based on their individual account attributes. This solution
13 provides the customer with payment options and allows the use of our
14 automated system or website without having to discuss their account with a
15 specialist. The self-serve and equal payment options help the Company
16 manage customer service costs while providing fast and efficient service to
17 customers whose service may be subject to disconnection. We know that self-
18 service does not work for all customers, so customer service specialists are
19 still available to discuss payment options and review accounts with
20 extenuating circumstances.

1 **Q. HAS THE COMPANY DEVELOPED ADDITIONAL PROGRAMS FOR**
2 **BUDGET-CONSTRAINED CUSTOMERS?**

3 A. Yes. The Company has developed and implemented several such programs
4 including a free customized home energy report to inform and assist with
5 lowering our customers' consumption through energy efficiency. Home
6 Energy House Call is a free in-home energy assessment, valued at \$180, that
7 provides customers living in single family homes with information about their
8 unique energy use and steps they can implement to become more energy
9 efficient. A certified expert checks the home for air leaks, examines insulation
10 levels, checks appliances and more. In addition, customers receive a free
11 energy efficiency starter kit, containing efficiency measures valued at
12 approximately \$30, to help them start saving right away. DE Progress's
13 Residential Multi-family Energy Efficiency Program ensures that customers
14 living in multi-family residences also have opportunities to save by providing
15 multi-family residence with electric water heaters. These EE measures are
16 provided at no direct cost to the customer, are installed by the Company and
17 are valued at more than \$168. Finally, the Home Energy Improvement
18 Program helps customers offset the high upfront cost of making energy-
19 efficiency upgrades to their homes, with incentives for a variety of energy-
20 saving investments. In addition, in October 2015, the High Bill Alerts program
21 was implemented for DE Progress customers in North Carolina. The program
22 proactively notifies customers via email when their forecasted electricity
23 consumption cost for their next bill is 30 percent and \$30 higher than their

1 previous month's bill. Finally, the Company offers a Lower My Bill Toolkit,
2 which in five easy steps helps the customer track their energy usage and
3 reduce energy costs.

4 **Q. HOW HAS THE COMPANY FOCUSED ON DELIVERING**
5 **EXCELLENT CUSTOMER SERVICE?**

6 A. We are working every day to explore new ways to enhance the customer
7 experience. Customer satisfaction ("CSAT") is a key focus area for DE
8 Progress. The Company operates a robust CSAT program, which includes
9 both national benchmarking studies and proprietary transaction and
10 relationship CSAT studies. Results from these studies are analyzed in vigorous
11 quarterly data review sessions, with findings driving improvements to
12 processes, technology and behaviors – all in an effort to continuously improve
13 CSAT. For Duke Energy North Carolina, the J.D. Power's Electric Utility
14 Residential Study scores are trending up, with its highest scores in over two
15 years, closing the gap toward top quartile performance.

16 DE Progress measures overall customer satisfaction and perceptions
17 about the Company in our proprietary relationship study, the "Customer
18 Perceptions Tracker." Random surveys are taken from residential and
19 small/medium business customers, and all large business electric customers,
20 to better understand their customer experience with Duke Energy and overall
21 perceptions of the Company. Duke Energy NC Residential satisfaction scores
22 are up over ten points on average from 2013, with recent trends even higher.

1 In addition to our relationship study, DE Progress utilizes Fastrack, the
2 Company's proprietary transaction study, to measure overall customer
3 satisfaction with our operational performance (i.e. responding to and resolving
4 customer service requests.) Each year, thousands of interviews are conducted
5 with our customers by a third-party research supplier upon the completion of
6 the customers' service request. The survey questions cover the entire
7 experience, from the time the customer picks up the phone to contact the
8 Company, until the issue is resolved and the truck drives away from the
9 customer's property. Analysis of these ratings helps to identify specific
10 service strengths and opportunities that drive overall satisfaction and to
11 provide guidance for the implementation of process and performance
12 improvement efforts.

13 Finally, in 2016, 'Customer Satisfaction' continued as one of a select
14 number of goals included in the annual incentive compensation plans for DE
15 Progress employees. By connecting customer satisfaction directly to
16 compensation, each employee is "invested" in improving and maintaining
17 high customer satisfaction for all Duke Energy utilities, including DE
18 Progress. Results are monitored at the enterprise level, state level, and by
19 customer segment, so problems can be identified and corrected. This also
20 allows the Company to identify and apply best practices across all of our
21 jurisdictions.

22 We also continue to enhance our customer service practices to address
23 language, cultural and disability barriers. Among other accommodations, the

1 Company's customer service center offers customer service and
2 correspondence in Spanish, handles calls from TTY devices (text telephones),
3 offers bills in Braille, and accepts pledges to pay from social service agencies.

4 **V. ECONOMIC DEVELOPMENT AND EDUCATION EFFORTS**

5 **Q. DOES DE PROGRESS VIEW ECONOMIC DEVELOPMENT AS A**
6 **VITAL PART OF ITS BUSINESS?**

7 **A.** Yes. Making smart investments in our energy infrastructure can help to attract
8 business and industry, bring good jobs to the state, and promote smart growth
9 and economic prosperity across North Carolina. It takes investment to provide
10 the reliability our customers expect – investment in power plants, poles and
11 wires, substations and meters. But all of that investment provides critical
12 infrastructure that supports businesses and jobs, schools and universities,
13 stores and the products consumers purchase, and a foundation to ensure the
14 future remains bright for communities across the State. Over the last century,
15 Duke Energy has invested billions of dollars into local economies across the
16 state. When a new power plant is built or transmission line constructed, it
17 creates jobs and results in money spent at the local level while creating a tax
18 base that supports local infrastructure and services. Economic development
19 efforts are critical to retaining and growing the industrial base and
20 manufacturing load so that the state can experience continued job growth and
21 economic success. This helps keep electric rates competitive and mitigates
22 rate increases by enabling costs to be spread across a larger customer base.

1 Q. PLEASE DESCRIBE THE COMPANY'S ECONOMIC
2 DEVELOPMENT EFFORTS IN NORTH CAROLINA.

3 A. DE Progress has an Economic Development team responsible for retaining
4 and supporting expansion opportunities for existing customers while also
5 targeting potential new customers and supporting efforts to recruit them to the
6 service area. In addition to coordinating with, or participating in, statewide or
7 community task forces or initiatives, the team works with businesses on site
8 selection and expansion opportunities. Since 2013, 23 sites in DE Progress'
9 North Carolina service territory, totaling over 9,000 acres, participated in
10 Duke Energy's Site Readiness Program, which is intended to identify, assess,
11 improve, and increase awareness of industrial sites in the Carolinas, and can
12 result in matching grants from the Company of up to \$10,000 to implement
13 improvements to viable sites.

14 The Company's ongoing Carolinas Investment Fund also provides
15 support for projects in the Carolinas service area aimed at recruiting new
16 customers, retaining existing jobs, and expanding existing customer
17 operations, by partnering with state or local economic development
18 organizations to provide appropriate incentives. These projects typically
19 include site or building development and related infrastructure or other site
20 preparation requirements. The grants from the Carolinas Investment Fund
21 serve as important discretionary supplements to incentives offered by the state
22 or local entities. To qualify for the grants the recipient must create certain
23 numbers of new jobs or make capital investments, subject to minimum dollar

1 amounts. Since 2012, DE Progress has contributed to the creation of more
2 than 5,000 jobs in North Carolina and \$1.54 billion in capital investments.

3 Much of this effort has been aimed at encouraging new industrial
4 investments. We believe a healthy industrial base is good for all of our
5 customers. As new manufacturing businesses are established and existing
6 manufacturing businesses expand, they typically create a significant multiplier
7 effect that directly and indirectly produces additional jobs and investments.
8 However, our efforts for economic development are not focused solely on
9 industrial customers. We have made similar efforts to attract customers other
10 than traditional manufacturers, including data centers that are locating in DE
11 Progress' North Carolina service area.

12 Training and recruiting a highly skilled workforce is also essential to
13 maintaining the competitiveness of our region. In recent years, Duke Energy
14 has invested more than \$30 million to support the development, promotion,
15 and delivery of workforce training programs through North Carolina's
16 Community Colleges. In coordination with NCWorks, the NC Department of
17 Commerce, and the North Carolina Community College System, the grant
18 program will be funded again in 2017 with a new \$5 million investment
19 directed to the development and execution of apprenticeship programs across
20 the state. We are confident that our sustained economic development efforts
21 will continue to provide positive results here in North Carolina and benefit
22 customers by keeping rates competitive over the long term through an
23 increased customer base served by our plant investment.

VI. POWERING THE FUTURE

Q. DO THE FUTURE PLANS OF THE COMPANY SUPPORT THE ECONOMIC DEVELOPMENT PROSPECTS IN NORTH CAROLINA?

A. Yes. Our infrastructure and CIS investments will help power the future in North Carolina, not only for the economy as a whole, but the manner in which our customers will consume, monitor and manage their electricity consumption. While we have come a long way in modernizing our generation systems, we now need to focus similarly on our grid, metering and information technology systems. These investments are important for us to continue reliably serving customers. I discuss these investments below. While all of these investments are not included in this case, it's important to share our vision of a smarter energy future.

Q. PLEASE DESCRIBE HOW THE COMPANY WILL BUILD A SMARTER ENERGY FUTURE.

A. The grid is the backbone of the new digital economy. North Carolina has the sixth-largest electric grid in the nation comprised of over 19,400 miles of transmission lines and 170,600 miles of distribution lines. Together, these 190,000 miles of our grid are enough to circle the equator more than seven times. As one of the fastest growing states in the nation, North Carolina's population now tops 10 million and we are projecting 2 million more, or a 20 percent increase by the year 2030. That's creating real demands on our grid. While not part of our rate recovery request in this case, we have planned and are beginning to execute a \$13 billion grid modernization plan for DE

1 Progress and Duke Energy Carolinas ("DE Carolinas") over the next decade in
2 North Carolina. Called Power/Forward Carolinas, these investments will
3 improve the performance and capacity of the grid, making it smarter and more
4 resilient and give customers greater benefit. Our work on the grid will
5 increase in both scale and pace through this investment and over the next
6 decade. Over the next five years, from 2017 through 2021, DE Progress
7 targets spending \$1.63 billion in capital and \$62.4 million in O&M to address
8 the needs of the aging grid and the realities of today's operational needs. This
9 investment is in addition to \$3.2 billion of customary spend we anticipate to
10 maintain the grid and incorporate new customers over the same time frame.

11 This investment plan will modernize our state's energy electric grid,
12 making power more reliable and more secure, while generating jobs and
13 stimulating economic growth around the State. In fact, the Power/Forward
14 Carolinas investment plan for North Carolina will result in an economic
15 impact of: (1) Nearly 14,000 direct and indirect, good paying jobs across the
16 State each year over the ten year period, (2) \$10.4 billion in salaries and
17 wages; (3) Almost \$800 million in state taxes and nearly \$550 million in local
18 taxes, monies that will go directly back into towns, cities, and counties to
19 continue making North Carolina one of the top places to live and do business.

20 **Q. ARE OTHER UTILITIES MAKING SIMILAR INVESTMENTS?**

21 A. Yes. It's my understanding that Dominion Virginia Power just received
22 legislative approval to streamline the regulatory process for utilities to replace
23 aging overhead electric infrastructure with underground lines. Dominion has

1 plans to replace 4,000 miles of overhead distribution lines with underground
2 lines through 2020. Another company, Florida Power & Light ("FP&L") has
3 invested more than \$2.7 billion since 2016 to strengthen its electric system by
4 hardening more than 700 main power lines. In fact, FP&L received the 2016
5 ReliabilityOne National Reliability Excellence Award for the second year in a
6 row as a result of its investments in its grid. The investments the company
7 made, which include strengthening power lines and installing smart grid
8 technology, helped make the grid more storm resilient and speed restoration
9 efforts during last year's storm season. FP&L has increased reliability
10 approximately 25 percent over the past five years.

11 **Q. DOES THE COMPANY'S VISION FOR THE FUTURE INCLUDE**
12 **SMART METERS?**

13 A. Yes, as explained by Witness Simpson, we are planning to deploy smart
14 meters which will work in tandem with many of our grid investments.
15 Moreover, modern meters will also provide crucial information to our CIS
16 system and enable the Company to provide more customer-friendly offerings .

17 **Q. PLEASE DESCRIBE THE COMPANY'S EFFORTS TO MODERNIZE**
18 **ITS CUSTOMER OFFERINGS?**

19 A. The Company's CIS systems are in dire need of modernization. If we are
20 going to power the future in North Carolina as we intend, we can't do it with
21 antiquated computer systems. As discussed in more detail by Witness
22 Hunsicker, our new CIS system (known as Customer Connect) will allow DE
23 Progress to provide customers with more personalized service and

1 demonstrate that the Company understands their needs and quickly addresses
2 their concerns.

3 Further, once smart meters are deployed and working in tandem with
4 our grid and billing system, the Company will be able to offer a suite of
5 programs, enabled by smart meters, to give customers enhanced convenience,
6 transparency, choice and control. Allowing customers new payment options,
7 improved ability to be aware of their energy consumption while giving them
8 the information needed to reduce their usage. Some of these new programs
9 are;

- 10 • Usage Alerts: While customers have access to High Bill Alerts today,
11 with Usage Alerts, customers will receive a mid-cycle report indicating
12 their up-to-date usage charge for the month with a prediction of where
13 they will be at the end of the month. Customer's will have the choice to
14 set a budget amount and receive notifications when they reach 75
15 percent or 10 percent of that budgeted amount. Notifications will be
16 made via email or SMS text, whichever is best for the customer.
- 17 • Pick Your Due Date: With smart meter deployments, customers will
18 now be able to choose a due date that best aligns with their specific
19 financial situation. Customers are able to change this date one time
20 per year and are no longer tied to the due date determined by their
21 route or location.
- 22 • Prepaid Advantage: With the Company's Prepaid Advantage program,
23 customers are able to pre-purchase electricity versus the more

1 transitional post pay options. This flexibility provides customers the
2 ability to choose how often and how much they want to pay while
3 also giving them clear transparency to their usage patterns on a day-
4 to-day basis. This program is an alternative to customers who may
5 owe a security deposit, as no deposit is required. Given the
6 transparency of usage data, and the custom energy efficiency tips,
7 customers are also likely to reduce their energy consumption.

8 • Smart Meter Usage App: The Company will soon be piloting the
9 ability to offer customers real time usage information. By deploying a
10 device in the customer's home that communicates to the meter and
11 over the customers owned Wi-Fi, customers are able to see on a
12 mobile app their usage in real-time. If a customer turns on a light or
13 runs the dishwasher, the app will clearly indicate the uptick in usage.

14 VII. CONCLUSION

15 Q. WHAT IS THE KEY OBJECTIVE OF THE COMPANY'S
16 REQUESTED GENERAL RATE ADJUSTMENT?

17 A. The Company's most important objective is to continue providing safe,
18 reliable, affordable, and increasingly clean electricity to our customers with
19 high quality customer service, both today and in the future. Our systems and
20 programs are complex and are subject to: (a) the continuously evolving needs
21 of our increasingly diverse customer base; (b) ever-increasing federal, state
22 and local laws, regulations and ordinances; (c) the physical demands placed
23 on our systems through extended historic use and natural causes; and (d) the

1 need to invest in this critical infrastructure to power the lives of our customers
2 and the vitality of the communities we serve. Despite this request, our rates
3 will remain lower than the current national average. We also expect the
4 national average rate to increase as we know that utilities across the country
5 are also entering rate case cycles.

6 Our request for a rate increase is made to support investments that
7 benefit our customers. We strive to ensure that those investments are made in
8 a cost-effective manner that retains the level of service and competitive rates
9 for our customers.

10 **Q. DOES THIS CONCLUDE YOUR PRE-FILED DIRECT TESTIMONY?**

11 **A. Yes.**

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION**DOCKET NO. E-2, SUB 1142**

| | | |
|--|---|------------------------------|
| In the Matter of: |) | |
| |) | REBUTTAL TESTIMONY OF |
| Application of Duke Energy Progress, LLC |) | DAVID B. FOUNTAIN |
| For Adjustment of Rates and Charges |) | FOR DUKE ENERGY |
| Applicable to Electric Service in North |) | PROGRESS, LLC |
| Carolina |) | |

I. WITNESS IDENTIFICATION AND QUALIFICATIONS

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. My name is David B. Fountain, and my business address is 411 Fayetteville
3 Street, Raleigh, North Carolina 27601.

4 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

5 A. I am the North Carolina President for Duke Energy Progress (“DE Progress”
6 or the “Company”), which is a wholly owned subsidiary of Duke Energy
7 Corporation, as well as Duke Energy Carolinas and Progress Energy Inc., also
8 wholly owned subsidiaries of Duke Energy.

9 **Q. DID YOU OFFER ANY DIRECT TESTIMONY IN THIS**
10 **PROCEEDING?**

11 A. Yes. I filed direct testimony originally filed in this docket on June 1, 2017.

12 **II. PURPOSE AND OVERVIEW OF TESTIMONY**

13 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

14 A. I introduce the Company’s rebuttal case and witnesses, provide an overview of
15 several of the Company’s rebuttal points, and speak to certain other issues of
16 importance to the Commission as described below. The failure of DE Progress
17 to specifically rebut any policy concern, accounting adjustment or ratemaking
18 issue proposed by an intervenor does not constitute acceptance of the
19 recommendation made by the intervenor, nor does it reflect agreement with
20 any calculations made by intervenors.

1 I would also add that the Company does not take rate increases lightly,
2 and that through strong operational performance and sound financial
3 management, we have been able to go without a base rate increase since 2013.
4 This filing is a necessary consequence of the magnitude of our recent
5 investment to meet our obligation to serve and our customers' needs, and of the
6 need to ensure that the Company's balance sheet is strong and that we have
7 access to capital while at the same time meeting our environmental compliance
8 and electric service obligations.

9 This is the proceeding to determine the ratemaking consequence of
10 actions and investments DE Progress has been required to make—and is still
11 making—to fulfill its statutory responsibility, and privilege, to provide electric
12 service to customers in North Carolina. Though we recognize the objections to
13 rate increases, it is our obligation to make these prudent investments in plant and
14 operations, including environmental compliance, as well as to ensure that the
15 infrastructure used to provide that service is current with 21st century needs.

16 **Q. ARE OTHER COMPANY WITNESSES PROVIDING TESTIMONY,**
17 **TODAY?**

18 A. Yes. All of our direct witnesses in this case are providing rebuttal testimony
19 today, namely Witnesses Laura A. Bateman, Stephen G. De May, David L.
20 Doss, Jr., Christopher M. Fallon, T. Preston Gillespie, Jr., Janice Hager, Robert
21 B. Hevert, Retha Hunsicker, Jon F. Kerin, Kimberly D. McGee, Joseph A.
22 Miller, Robert M. Simpson III, Dr. Julius Wright, Ph.D and Steven B.

1 Wheeler. The Company is also filing rebuttal testimony from Witnesses Donald
2 L. Schneider, Jr., Michael Delowery, Thomas Silinski, James Wells and external
3 expert witnesses John J. Spanos and Jeffrey T. Kopp.

4 **Q. PLEASE PROVIDE AN OVERVIEW OF THE COMPANY'S VIEW OF**
5 **PUBLIC STAFF AND INTERVENOR TESTIMONY FILED**
6 **RECENTLY IN THIS CASE.**

7 A. As I look at the testimony we received, there are four major issues that emerge.
8 The first is some apparent confusion about the state of our environmental
9 compliance program and what state and federal environmental regulators require
10 of us regarding coal ash basin closure. The second issue concerns some
11 fundamental disagreements on the cost of equity required by the Company's
12 investors, and the utility capital structure upon which an equity return is applied.
13 The third major category of issues that we find, in our view, as unreasonable or
14 unfounded relates to reductions in revenue requirements of prudently incurred
15 costs, such as incentive compensation, new plant, and corporate expenses, as
16 well as depreciation expense that appropriately matches service lives of our
17 assets. The fourth major issue involves differing perspectives on how best to
18 modernize our grid and metering infrastructure (recovery of which will be
19 addressed in future cases), as well as customer information systems. Although
20 these four issues are addressed by a variety of witnesses in this case, a very
21 limited number of intervenors raised arguments around our cost of service study

1 results and rate design, including the Job Retention Rider, as addressed in turn
2 by Witnesses Hager and Wheeler.

3 **III. KEY POINTS OF REBUTTAL CASE**

4 **Q. PLEASE ADDRESS THE FIRST ISSUE YOU MENTION, REGARDING**
5 **COMPLIANCE WITH STATE AND FEDERAL REQUIREMENTS FOR**
6 **COAL ASH BASIN CLOSURE.**

7 A. We have always expected that issues involving the recovery of costs to safely
8 and cost effectively manage and close ash basins would be fully vetted and
9 robustly debated. The expenses we have included in this rate request
10 represent costs incurred from compliance with state and federal laws and
11 regulations, all of which stem from providing customers with decades of
12 reliable electric service at competitive rates. These types of environmental
13 compliance costs have historically been paid for by customers, as you will see
14 explained in the Company's rebuttal testimony. Our Witnesses Wright, Wells
15 and Kerin answer every challenge raised by Public Staff and intervenors.

16 Although there has been much discussion in this case about the
17 different types of costs associated with coal ash basins, costs to comply with
18 state and federal regulations are recoverable, as long as they are prudently
19 incurred, as explained by Witnesses Wright and Bateman. We are mindful of
20 these costs and have taken precautions to make sure our actions are carefully
21 planned to meet deadlines in a cost-effective manner, as explained by Witness
22 Kerin. We've also proposed multi-year recovery for historic costs to mitigate

1 rate impacts to customers, and the inclusion of ongoing costs so that we will
2 not have to address large deferrals again, as explained by Witness Bateman.

3 There is some confusion, largely stemming from non-environmental
4 experts, about our costs and the underlying view that somehow compliance
5 with environmental regulations warrants punitive action against the Company.
6 For example, Public Staff proposes the idea of a 50/50 sharing of coal ash
7 remediation costs. As our witnesses explain, we disagree with Public Staff's
8 position and the other intervenors who have made similar arguments. Their
9 arguments are not supported by the facts, Commission precedent, or the law,
10 as our witnesses will explain, and as our post hearing brief in this case will
11 clarify.

12 There have also been arguments raised that North Carolina's Coal Ash
13 Management Act ("CAMA") is extensively more expensive than the Coal
14 Combustion Residual Rule (the "CCR Rule"), and that CAMA was punitive
15 and no costs from CAMA over what is required by the CCR Rule should be
16 allowed. We also thoroughly discredit this position in our rebuttal testimony
17 from our experts. First, CAMA was not intended to be punitive, as our
18 experts explain. Second, it is important to note that CAMA is not necessarily
19 more restrictive or more expensive than the CCR Rule as those intervenors
20 allege. The Company has reviewed and inventoried the applicable
21 requirements from CAMA and the CCR Rule and will complete the most
22 limiting actions by the earliest applicable due dates. There is a small portion

1 of costs that the Company has determined is specific to CAMA, unique to
2 North Carolina, and appropriate for direct assignment to North Carolina. For
3 DE Progress, these costs include groundwater wells used specifically to meet
4 CAMA requirements and permanent water supplies provided to North
5 Carolina customers as a requirement of House Bill 630. As explained by
6 Witness Bateman, we believe these costs should be assigned to North Carolina
7 customers consistent with prior direct assignments.

8 **Q. PLEASE ADDRESS THE SECOND ISSUE OF RETURN ON EQUITY**
9 **("ROE") AND CAPITAL STRUCTURE RECOMMENDATIONS**
10 **RECEIVED IN THIS CASE.**

11 A. The three principal parties presenting cost of capital testimony are (1) Public
12 Staff, which has proposed a 9.2 percent ROE; the North Carolina Attorney
13 General's Office ("AG"), who has proposed a 8.48 percent ROE; and Carolina
14 Utility Customers Association ("CUCA"), which has proposed a 9.0 percent
15 ROE. Carolina Industrial Groups for Fair Utility Rates ("CIGFUR") also
16 presented cost of capital testimony, without any ROE analysis or specific ROE
17 recommendation, indicating that ROE should not be any higher than average
18 ROEs authorized by public utility commissions in the first half of 2017, which
19 CIGFUR states is 9.61 percent, and the Commercial Group provides
20 discussion around a 9.7 percent ROE. The Public Staff, the AG and CUCA
21 have proposed a 50 /50 percent equity-to-debt capital structure.

1 Upon scrutiny, all of these recommendations miss the mark. I believe
2 that DE Progress Witness Hevert's rebuttal testimony is correct that none of
3 these parties has explained what has changed so significantly in the capital
4 markets environment to cause the Company's cost of equity to have fallen by
5 100 basis points or more since its last rate proceeding in which the
6 Commission authorized a 10.2 percent ROE for the Company. An artificially
7 low ROE disadvantages DE Progress as it competes for capital, especially
8 with a new capital market environment where the economic forces that have
9 kept interest rates low and utility dividend yields high for so long are going
10 away. As Witness Hevert explains, these factors point to higher, not lower,
11 ROEs. We also believe that applying a different lens to DE Progress than to
12 other electric utilities in the state would be inappropriate, as the Commission
13 most recently approved a 9.9 percent ROE for another investor owned electric
14 utility in NC, and the capital markets have driven costs up, not down, since
15 that decision.

16 As to capital structure, Witness De May explains that a 50/50 capital
17 structure for DE Progress is inappropriate because DE Progress is a rated
18 entity, issuing its own debt and maintaining its own equity. The Company's
19 actual regulatory capital structure is a ratio of 53/47 percent equity-to-debt.
20 The 53/47 structure is the optimum level to maintain DE Progress' current
21 "A" level credit ratings and its overall financial strength and
22 flexibility. Increasing the Company's leverage (and, therefore, risk) through

1 imposition of an artificial 50/50 capital structure, without offsetting the
2 negative impact to financial metrics, will reduce its cash flows and erode
3 credit quality, which harms rather than helps customer interests. It would also
4 weaken the rating agencies' assessment of qualitative aspects, like the NC
5 regulatory environment, which also harms rather than helps customer
6 interests. Finally, the Company's witnesses address the totality of
7 recommendations. It is a major flaw, from our view, for the Public Staff to
8 disallow prudently incurred costs to derive a negative revenue requirement
9 and then not even address the consequences of their actions as an investor
10 would see them. Our witnesses do address those issues, and we also stress
11 that the recommendations in particular of Public Staff and the AG are so
12 severe that it will harm the Company's cash flows and could impair our work
13 to improve reliability, operations and the customer experience.

14 **Q. PLEASE ADDRESS THE THIRD CATEGORY, WHAT YOU REFER**
15 **TO AS UNREASONABLE OR UNFOUNDED REDUCTIONS IN**
16 **REVENUE REQUIREMENTS OF PRUDENTLY INCURRED COSTS.**

17 **A.** I will provide a few examples of the kinds of disallowance recommendations
18 for prudently incurred costs that are at issue in this case, though other
19 Company witnesses in this case provide a much more expansive review. These
20 are costs that do not go away, despite all the testimony and arguments being
21 made. Specifically, I will address the examples of proposed adjustments like:

1 i) incentive compensation; ii) depreciation; iii) coal inventory costs; and iv)
2 storm expenses.

3 First, the Public Staff proposes \$18.4 million in disallowance for
4 incentive compensation. Witness Peedin recommends not allowing the
5 Company recovery based upon earnings per share ("EPS") and total
6 shareholder return ("TSR") metrics. Witness Peedin asserts (without any
7 substantive explanation) that incentive compensation tied to these metrics
8 should be excluded because they provide a direct benefit to shareholders only,
9 and not to customers. As Company Witness Silinski explains in his testimony,
10 Witnesses Peedin assumes that the interests of shareholders and customers are
11 mutually exclusive. To the contrary, employee compensation and incentives
12 tied to metrics such as EPS and TSR directly benefit customers, because those
13 metrics reflect how employees' contributions translate into the Company's
14 overall financial performance. EPS, for example, is a direct measure of the
15 Company's performance, and that performance is reflective of how certain
16 goals – safety, individual performance, team performance, and customer
17 satisfaction (all of which are components of incentive pay) – are met in a cost-
18 effective way. Divorcing employee performance from such an important
19 measure of a regulated utility's overall performance is misguided and
20 counterproductive.

21 In order to attract a well-qualified and well-managed workforce, the
22 Company must compete in the marketplace to obtain the services of these

1 employees. No witness in this proceeding challenges the reasonableness of
2 the level of compensation expenses reflected in the rate-making test period for
3 the Company. No one has challenged that the compensation and benefit
4 programs provided to employees of Duke Energy, including those who work
5 on behalf of DE Progress, are necessary and critical in their entirety for
6 attracting, engaging, retaining and directing the efforts of employees with the
7 skills and experience necessary to safely, efficiently and effectively provide
8 electric services to DE Progress customers. Instead, Department of Defense
9 Witness Cannady and Staff Witness Peedin want the benefits of the Company
10 employing qualified and well-managed employees productively engaged in
11 providing safe, reliable, and competitively priced electric service to our
12 customers, without accepting the business share of that cost of service.
13 Instead, Witness Peedin proposes that compensation to engineers, distribution
14 instrument and control technicians, transmission substation technicians,
15 distribution line technician, customer care associates, system operators, and
16 nuclear plant control operators, be disallowed simply because the Company
17 aligns metrics like safety and customer satisfaction with financial goals.

18 Second, as to depreciation, our experts, including Witness Spanos,
19 demonstrate that the effect of the various intervenor recommendations in this
20 case to lower depreciation rates from those proposed by the Company only
21 serve as a rate mitigant in the present case. In particular, the Public Staff
22 recommends a decrease to revenue requirements of almost \$30 million by

1 effectively lengthening depreciation schedules from what the Company has
2 proposed. This equates to a \$30 million reduction without any allegation of
3 imprudence or sufficient evidence to suggest that the service lives and
4 schedules used by the Company are incorrect. The Company, through its
5 experts, proposed the service lives included in the depreciation study
6 submitted in this case to match the timing of cash recovery with the service
7 lives of the assets used to serve customers.

8 Third, as to coal inventory, the Public Staff through Witness Metz
9 attempts to eliminate revenue requirement related to coal inventory that will
10 still be borne by the Company even with prudent operations. Public Staff
11 Witness Metz suggests that the Company should be managing to a coal
12 inventory target in this case, without the Public Staff ever having raised it in a
13 fuel case. Witness Metz proposed a 30-day inventory target based on 70
14 percent burn rate for rate making, but ignores the operational experience that
15 requires a higher target level. Witness Metz's recommendations ignore the
16 Company's generating operational expectations – the same expectations upon
17 which the forward-looking portion of Commission-approved fuel rates are
18 based. Company Witness Miller explains how Witness Metz's
19 recommendation could lead to negative supply, delivery, and operational
20 impacts, and why the Company's proposed 40-day, 100 percent full load burn
21 coal inventory level is appropriate. In fact, as Witness Miller explains, while
22 the Company contemplated requesting an increase in the full load burn

1 inventory target to enable the Company to respond to un-forecasted increases
2 in coal generation demand, due to the increased volatility in coal generation
3 resulting from fluctuating natural gas prices and weather-driven demand,
4 ultimately the Company did not make that proposal. Instead, the Company
5 determined that it was prudent to continue operating under the current 40-day
6 full load burn inventory target and made a pro forma adjustment reflecting this
7 determination. The Public Staff's recommendation from Witness Metz was a
8 surprise, as this case is the first the Company has heard of this position,
9 despite filing monthly fuel reports and recently settling its annual fuel cases.
10 The Company believes that Witness Metz's recommendation fails to
11 contemplate the factors that impact a reliable fuel supply, namely: 1) volatility
12 in coal generation demand; 2) delivery and/or supply risks; and 3) generation
13 performance. Once these factors are considered, as explained in great detail by
14 Company Witness Miller, we believe the recommendations of Witness Metz
15 should be rejected by the Commission.

16 Finally, one of the more troubling examples of the Public Staff
17 attempting to disallow prudently incurred costs applies to storm expense
18 recovery. Without contesting any single action or cost item that the Company
19 took to restore service from 2016's historic storm activity, including Hurricane
20 Matthew, the Public Staff is recommending disallowance of almost half of the
21 costs the Company has incurred in restoring power to customers. By
22 substituting their opinion for that of the Commission's prior judgement, the

1 Public Staff has imputed an amount included in rates for storm activities that
 2 greatly exceeds what the Commission has previously authorized. As Witness
 3 Bateman explains, the Company disagrees with the Public Staff's
 4 recommendation that \$27.4 million should be considered a "normal" level of
 5 storm costs. The Company's total incremental costs to repair and restore its
 6 system due to storm damage in 2016 far exceeded the level of major storm
 7 costs included in the Company's last rate case of \$12.7 million for the North
 8 Carolina retail jurisdiction. The Company is only asking to recover those
 9 costs in excess of the \$12.7 million level approved by the Commission in that
 10 case. Restoring power after a storm is extremely important to our customers.
 11 Penalizing the Company for its extensive efforts in this area is not in the best
 12 interest of customers. To do would fundamentally frustrate and marginalize
 13 the care, concern, diligence and risks the Company's employees take in
 14 quickly and safely restoring service after severe storms that impact tens of
 15 thousands, even hundreds of thousands of our customers.

16 These types of adjustments – where results to lower rates ignore the
 17 realities of the Company's prudently incurred costs and operations—should be
 18 rejected by the Commission. These types of adjustments devalue some of the
 19 most important work the Company does on behalf of its customers.

1 **Q. PLEASE RESPOND TO THE FOURTH MAJOR ISSUE**
2 **SURROUNDING DIFFERING VIEWS OF THE INVESTMENTS THE**
3 **COMPANY IS MAKING FOR THE FUTURE.**

4 **A.** Intervenor have made numerous recommendations and allegations regarding
5 the Company's modernization plans for our grid and metering infrastructure,
6 as well as the new customer information system referred to as "Customer
7 Connect." Witnesses Simpson, Schneider and Hunsicker ably address and
8 rebut all issues that have been raised on these topics, but I would like to
9 address them as well.

10 Intervenor have voiced concerns about the need for our
11 Power/Forward Carolinas initiative which includes grid and AMI investment.
12 Although no forward looking costs are included for rate recovery in this case,
13 the Company has provided voluminous detail in testimony and discovery in
14 the interest of being transparent about our plans; how such plans were
15 developed; and the necessity of the individual programs that make up the
16 Power/Forward initiative. There have also been questions about the individual
17 initiatives included in the Power/Forward plan, about the benefits relative to
18 the cost, and allegations that more stakeholders should have been involved.
19 Our experts address those concerns in their testimony, but it is important that I
20 too address some of them to clarify our interest—and obligation—to serve our
21 customers.

1 As a vertically integrated, investor-owned utility, DE Progress exists to
2 provide reliable, increasingly clean energy to customers at reasonable rates
3 and a reasonable return to shareholders. An important part of that charge is
4 making sure that our equipment, service methods, information technology and
5 system design all remain current with the industry. While intervenors may
6 advocate their position from their individual lens, we have to consider all
7 customers. There may be customers who do not take issue with our 30-year
8 old customer information system, but those are not the ones we hear from
9 when our current system creates challenges, as Witness Hunsicker can attest.
10 We hear from the customers who want us to know them as individuals—their
11 payment history, issues particular to their account or method of service, and
12 their history of being our customer, instead of being just a meter—which is
13 the limited view the current system has of them. We also hear from customers
14 who are struggling and who don't have the funds for a deposit. And we hear
15 from our service representatives who want to help but who need a single
16 system optimized to serve customers instead of the various systems of
17 different vintages bolted together that they use today. Our Customer Connect
18 system will help us address all of these needs and provide more options to
19 serve customer more efficiently.

20 Our AMI meters, once installed, will allow customers more payment
21 options to better understand and take control of their energy usage, perhaps
22 even offsetting the effects of a rate increase. We hear from industrial

1 customers about the importance to their manufacturing processes of reliable,
2 interruption-free electricity. And after storm outages, we know commercial
3 customers cannot operate stores in the dark; and we know that towns are
4 essentially shut down without electricity being restored to commerce and
5 essential services like hospitals, schools, ATMs and gas stations. After storms,
6 we know that customers want to know how long they are going to be without
7 power so that they can plan their lives and decide when to return to their
8 homes and businesses. Better yet, we know that those customers would rather
9 not be impacted by a storm at all. We have listened to customers and that is
10 what the Power/Forward Carolinas grid investments will address. More
11 importantly, we know what happens if we do nothing, if we do not make these
12 improvements, and we know that is not the future we want for North Carolina
13 and our customers. We have no option but to improve our grid, not only by
14 making the power less likely to go out, but by ensuring that when the power
15 does go out, it can be quickly restored.

16 We also want to improve the customer experience, by providing billing
17 services in more customer-friendly formats; by giving customers access to
18 usage statistics; and by providing lower rates through appropriate cost signals
19 to those who are willing to help us manage our demand. And we want to
20 ensure that customers can easily change their service address between Duke
21 Energy's operating utilities without having to go through the hassle of new
22 credit checks and deposits.

1 The investments in the grid, metering infrastructure, and customer
2 information systems are necessary to meet customer expectations, live up to
3 our core mission, and ensure the future vitality of North Carolina. We
4 relentlessly focus on delivering the highest-quality products at the lowest
5 reasonable cost. And we do it all with a focus on protecting the environment
6 and the communities we are privileged to serve.

7 Investments in our service and our infrastructure are investments in
8 our communities – and that’s the best way to keep our economy strong and
9 our state a wonderful place to live. As Witness Simpson explains, a recently
10 commissioned study by Ernst and Young on the economic benefits of the
11 Power/Forward Carolinas initiative, provided along with his testimony,
12 estimates that by 2028 North Carolina businesses will benefit by \$1.7 to \$2.8
13 billion per year from reduced outage-related costs and increased profit
14 opportunities. Net economic benefits from direct capital investments in the
15 state total between \$240 million and \$1.4 billion. Ernst and Young’s
16 economic analysis shows that, in total, approximately 19,000 jobs will be
17 supported or created statewide through higher levels of economic activity
18 associated with improved reliability and the spending associated with the
19 Power/Forward Carolinas plan.

1 **Q. PLEASE ADDRESS WITNESS MANCINELLI'S CONCLUSION AS TO**
 2 **THE JOB RETENTION RIDER (JRR)?**

3 **A.** The goal of retaining and expanding industrial jobs in North Carolina
 4 continues to be important to the Company and its customers. The Company's
 5 proposed JRR is designed to stem further loss of industry, industrial
 6 production and industrial jobs in DE Progress's service territory, which the
 7 Commission acknowledged as an important policy goal for North Carolina
 8 when it adopted the Guidelines for JRRs. As discussed in greater detail in the
 9 rebuttal testimony of Company Witness Wheeler, the Company supports
 10 approval of the JRR as filed with the Commission.

11 **IV. CONCLUSION**

12 **Q. WHAT ARE THE COMPANY'S KEY OBJECTIVES IN YOUR**
 13 **REBUTTAL TESTIMONY?**

14 **A.** The Company's most important objective is to provide reliable electricity with
 15 high quality service for our approximate 1.6 million electric retail customers. To
 16 do so, we are requesting the proposed rate adjustments which will provide the
 17 Company with the financial strength to serve our growing customer base, now
 18 and in the future. Even with the Company's proposed rate increase, our
 19 customers would still be paying rates that are lower than in 1991, when adjusted
 20 for inflation, and would continue to pay rates below the national average.

21 Our vast system requires that we continue to invest significant amounts
 22 of capital for the benefit of customers. We provide retail electric service to a

1 32,000-square-mile service area of North Carolina and South Carolina. To
2 generate the power to serve these customers every day and night, DE Progress
3 owns and operates a diverse energy mix that includes nuclear, natural gas, solar,
4 hydro, other renewables and coal generation. Altogether, these generating
5 facilities provide approximately 12,900 megawatts ("MWs") of electric capacity.
6 To transmit and distribute this power, DE Progress owns and/or operates
7 approximately 6,300 circuit miles of transmission lines, nearly 500 substations,
8 over 50,000 primary miles of distribution lines, and is interconnected with
9 various other electric utilities. In addition, the Company has multiple operations
10 centers throughout our South Carolina and North Carolina service territories
11 from which we provide service to our customers.

12 In order to continue maintaining, improving and operating this system at
13 the levels our customers expect and deserve, the Company must compete for
14 capital and attract investors by providing solid returns on investment. As I
15 explain above, if an unreasonably low ROE or capital structure other than that
16 being used by DE Progress is established in this case, or the Company is not
17 allowed to recover environmental compliance costs, the Company's level of
18 capital investment to benefit North Carolina customers will be jeopardized. We
19 understand that impacts that rate increases have on our customers, and we do not
20 take it lightly. In ongoing conversations with customers, listening to testimony
21 at the public hearings and reading comments filed with the Commission, we
22 continue to hear the concerns about increasing costs. However, those comments

1 are countered by our customers' desire to see modernized customer service and
2 increasingly clean, reliable energy from their electric provider. We believe our
3 proposal balances these interests, and that our strategy has struck an appropriate
4 long-term balance among the goals of reliable and increasingly clean energy at
5 competitive prices.

6 In conclusion, we ask the Commission to fairly balance the needs of the
7 Company and its customers.

8 **Q. DOES THIS CONCLUDE YOUR PRE-FILED REBUTTAL**
9 **TESTIMONY?**

10 **A. Yes.**

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. E-2, SUB 1142

FILED
NOV 27 2017
Clerk's Office
N.C. Utilities Commission

| | | |
|--|---|--------------------------------|
| In the Matter of: |) | |
| |) | SETTLEMENT TESTIMONY OF |
| Application of Duke Energy Progress, LLC |) | DAVID B. FOUNTAIN |
| For Adjustment of Rates and Charges |) | FOR DUKE ENERGY |
| Applicable to Electric Service in North |) | PROGRESS, LLC |
| Carolina |) | |

I. WITNESS IDENTIFICATION AND QUALIFICATIONS

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. My name is David B. Fountain, and my business address is 411 Fayetteville
3 Street, Raleigh, North Carolina 27601.

4 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

5 A. I am the North Carolina President for Duke Energy Progress (“DE Progress”
6 or the “Company”), which is a wholly owned subsidiary of Duke Energy
7 Corporation, as well as Duke Energy Carolinas and Progress Energy Inc., also
8 wholly owned subsidiaries of Duke Energy.

9 **Q. DID YOU OFFER ANY DIRECT AND REBUTTAL TESTIMONY IN**
10 **THIS PROCEEDING?**

11 A. Yes. I filed direct testimony in this docket on June 1, 2017 and rebuttal
12 testimony on November 6, 2017.

13 **II. PURPOSE AND OVERVIEW OF TESTIMONY**

14 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

15 A. I support the Agreement and Stipulation of Partial Settlement the Company
16 reached with the North Carolinas Utilities Commission Public Staff (“Public
17 Staff”) filed with the Commission on November 22, 2017 in this docket (the
18 “Stipulation”), and introduce several other witnesses that support the
19 reasonableness of the Stipulation. The Company was able to reach a
20 Stipulation with the Public Staff subsequent to the Company's filing of its pre-
21 filed direct, rebuttal and supplemental testimony and exhibits and after

1 extensive discovery conducted by the Public Staff and other intervenors. The
2 Stipulation represents a balanced settlement for the parties, is in the public
3 interest, and should be approved by the Commission. My direct and rebuttal
4 testimony remain effective as applicable to the testimony of any non-settling
5 Party, including the unresolved matters between the Company and Public Staff
6 listed in the Stipulation.

7 **III. THE STIPULATION**

8 **Q. PLEASE PROVIDE AN OVERVIEW OF THE MAJOR COMPONENTS**
9 **OF THE STIPULATION.**

10 A. Overall, the Stipulation would resolve all revenue requirement issues between
11 the Company and the Public Staff, with the exception of issues related to coal
12 ash cost recovery and issues related to recovery of the costs the Company
13 incurred in restoring service and rebuilding the grid following numerous storms
14 in 2016 including winter storm Jonas and Hurricane Matthew.

15 As discussed in greater detail by other Company witness testimony being
16 filed today by Laura Bateman, Robert Hevert, Stephen De May, and Steven B.
17 Wheeler, the agreement reached between the Parties in the Stipulation can be
18 summarized as follows:

- 19 1. The Parties have agreed to a return on equity of 9.9 percent, based upon a
20 capital structure containing 52 percent equity and 48 percent debt as described
21 by Witnesses Hevert and De May. The Company's debt cost rate shall be set at
22 4.05 percent. The resulting weighted average rate of return is 7.09 percent.

- 1 2. Updated Plant and Accumulated Depreciation – Plant and accumulated
2 depreciation shall be calculated through October 31, 2017.
- 3 3. Updated revenues – Revenues shall be annualized through October 31, 2017.
- 4 4. The Company shall update its post-test year additions to include Asheville
5 construction work in progress through October 31, 2017.
- 6 5. Inflation – The effects of inflation shall be updated, except the effects of
7 inflation on vegetation management shall be removed.
- 8 6. Update labor – The Company's annualized labor costs through September 30,
9 2017 shall be included.
- 10 7. Depreciation Rates – The Company's depreciation rates shall be set based on the
11 rates set forth in the Company's filed Depreciation Study, with exceptions
12 described in the Stipulation.
- 13 8. Distribution Vegetation Management -- The Public Staff and the Company have
14 agreed to the Company' filed position on distribution vegetation management
15 costs.
- 16 9. Harris Combined Construction and Operating License Application (COLA) cost
17 amortization -- The Company agrees with the Public Staff's recommendation to
18 amortize such costs over an eight year period.
- 19 10. Customer Connect Expenses – The Company accepts the Public Staff's
20 adjustment but shall be authorized to establish a regulatory asset to defer and
21 amortize expenses associated with its Customer Connect project. The Company
22 shall be allowed to accrue a return on the regulatory asset in the same manner

1 that Construction Work in Progress (CWIP) balances accrue Allowance for
2 Funds Used During Construction (AFUDC). AFUDC shall end and a 15-year
3 amortization shall begin on the date the DEP Core Meter-to-Cash release
4 ("Releases 5-8") of the project goes into service or January 1, 2022, whichever is
5 sooner.

6 11. Revenue requirement reductions are included in the Stipulation for Aviation,
7 Lost Industrial Revenues Due to Hurricane Matthew, Executive Compensation,
8 Board of Directors, Lobbying, Sponsorships and Donations for the U.S.
9 Chamber of Commerce, Incentive Compensation and Outside Services – The
10 Parties have reached an agreement on these issues resulting in revenue
11 requirement reductions included in the Stipulation.

12 12. Coal Inventory – The Parties agreed that for purposes of settlement, the
13 Company may set carrying costs included in base rates assuming a 35-day coal
14 inventory at 100 percent capacity factor (full load burn), and that a Coal
15 Inventory rider should be allowed to manage the transition that will terminate
16 upon the sooner of the Company reaching a 35-day coal inventory on a sustained
17 basis or two years from approval by the Commission. The Company will
18 conduct an analysis in consultation with the Public Staff demonstrating the
19 appropriate coal inventory level given market and generation changes since the
20 Company's last rate case. The analysis shall be completed by December 31,
21 2018.

- 1 13. Mayo Zero Liquid Discharge and Sutton combustion turbine projects– The
2 Company will make an adjustment to rate base with depreciation expense and
3 other cost of capital effects to reflect the resolution reached in the Stipulation.
4 The adjustment will be permanent for ratemaking and regulatory accounting
5 purposes, and will result in a decrease to the revenue requirement from the
6 Company's filed request. The Company agrees to these adjustments in an effort
7 to reach a settlement on all non-coal ash and storm related issues and does not
8 admit and explicitly rejects any imprudence on behalf of the Company regarding
9 the management of the two projects.
- 10 14. The Company accepts the Public Staff's adjustment to end-of-life nuclear
11 materials and supplies reserve expense, as refined in the testimony of Company
12 witness Gillespie, and agrees that it will take appropriate action to conform its
13 practices and procedures to manage its Materials and Supplies inventory (nuclear
14 and non-nuclear) to the current practices and procedures utilized by Duke
15 Energy Carolinas, with the goal to ensure that proper levels of inventory are on
16 hand. DE Progress shall complete this action within 24 months after the entry of
17 the Commission rate case order.
- 18 15. The Company accepts the Public Staff's recommended adjustment to remove the
19 Duke-Piedmont merger costs to achieve.
- 20 16. Power/Forward Carolinas Initiative -- To address concerns raised in this Docket
21 by multiple parties, the Company will host a technical workshop during the
22 second quarter of 2018 regarding the Company's NC Power/Forward grid

1 investments to explain the need for and ongoing benefits of grid investments,
2 and to hear feedback from stakeholders in attendance. The Company will report
3 the results of the workshop to the Public Staff and the Commission.
4 Participation by or attendance of the Public Staff at the NC Power/Forward
5 workshop shall not estop the Public Staff from investigating or making
6 recommendations regarding any element of the Company's NC Power/Forward
7 program in a future rate case or pursuant to applicable statutes or Commission
8 Rules.

9 17. Job Retention Rider -- The parties have also agreed to resolve the Company's
10 Jobs Retention Rider proposal to be described within the settlement to be filed
11 with the Commission, except for two remaining items to be decided upon by the
12 Commission as described in the Stipulation.

13 18. Other Cost of Service and Rate Design Matters -- The Parties have also agreed
14 upon rate design and cost of service study parameters as proposed by Company
15 witnesses Wheeler and Hager and Public Staff witness Floyd.

16 19. Excess Deferred Tax Liability -- The Parties have agreed to return of an excess
17 deferred tax liability to customers over the next four years through a rider.

18 20. The Company and Public Staff have agreed upon a Basic Customer Charge for
19 Schedule RES of \$14.00 per month, and further agree upon a Basic Customer
20 Charges for Schedules R-TOUD and R-TOU of \$16.85 per month.

1 **Q. DOES THE COMPANY AGREE WITH THE CHARACTERIZATION**
2 **OF THE AGREED-UPON ADJUSTMENTS AS DESCRIBED IN THE**
3 **STIPULATION?**

4 **A. Yes.**

5 **Q. PLEASE ELABORATE HOW THE STIPULATION BALANCES THE**
6 **COMPANY'S NEED FOR RATE RELIEF WITH THE IMPACT OF**
7 **SUCH RATE RELIEF ON CUSTOMERS.**

8 **A. I attended public hearings held by the Commission in this matter and personally**
9 **heard from dozens and dozens of our customers who are concerned about the**
10 **impacts of any rate increase on their families and businesses. I also followed**
11 **the consumer statement positions filed in this Docket. We are very mindful of**
12 **these concerns. Although we are pleased that our rates are competitive and**
13 **below the national average, and will remain so with this Stipulation, we know**
14 **that providing safe, reliable, increasingly clean electricity at competitive rates is**
15 **key to powering the State's economy and the lives of our customers. We believe**
16 **that the concessions the Company has made in this Stipulation fairly balance the**
17 **needs of our customers with the Company's need to recover substantial**
18 **investments made in order to continue to comply with regulatory requirements**
19 **and safely provide high quality electric service to our customers. Our rates need**
20 **to be adjusted to reflect these investments. Moreover, given the size of the**
21 **necessary capital and compliance expenditures we are facing, it is essential that**
22 **DE Progress maintain its financial strength and credit quality, so that we will be**

1 in a position to finance these needs on reasonable terms for the benefit of our
2 customers. In my opinion, we have been able to strike that balance with this
3 Stipulation on the agreed upon items. However, we remain concerned about cash
4 recovery for the unresolved items, as that is important to the financial health of
5 the Company.

6 Just a few of the ways we have struck this reasonable balance include:
7 (1) the Company's willingness to settle for rates designed on the basis of a 9.9
8 percent return on equity and a 52 percent equity component of its capital
9 structure; both of which will mitigate the impact of the rate increase on
10 customers; (2) the Company's willingness to accept an overall lower revenue
11 requirement will also mitigate the impact on customers; (3) the Company's
12 agreement to support and fund for the first year a Jobs Retention Rider that will
13 help foster economic development and job growth within the State. Note,
14 however, the Company may elect to terminate the Jobs Retention Rider after the
15 initial year if the Company's funding request included in the Application is not
16 approved.

17 **Q. IN THE STIPULATION, DID THE COMPANY AND PUBLIC STAFF**
18 **REACH AGREEMENT ON ALL ISSUES IN THIS DOCKET?**

19 **A.** No. As I noted previously, two principal issues remain disputed between
20 Public Staff and the Company: (1) the Company's request to recover its
21 deferred coal ash costs and its ongoing environmental compliance costs
22 necessary to safely close the Company's coal ash basins, as well as the method

1 by which the Company should collect beneficiation costs (through fuel or base
2 rates as described by Witness McGee); and (2) the Company's request to
3 recover the costs the Company incurred in connection with the restoration and
4 rebuilding efforts caused by storms in 2016, particularly winter storm Jonas
5 and Hurricane Matthew, and for which the Company previously sought
6 deferral. As addressed by Witness Wheeler, the Company also has a different
7 view than Public Staff on certain items related to the Job Retention Rider.

8 **Q. IS THE COMPANY PRESENTING TESTIMONY OF OTHER**
9 **WITNESSES IN SUPPORT OF THE AMENDED STIPULATION?**

10 A. Yes, Duke Energy Progress' Witness Bateman supports the adjustments, rate
11 making and accounting aspects of the Stipulation, while Witness De May
12 supports the capital structure provided in the Stipulation. Witness Wheeler
13 discusses the Job Retention Rider. Finally, Witness Robert Hevert supports the
14 overall return and capital structure provided in the Stipulation.

15 **Q. DOES THIS CONCLUDE YOUR PRE-FILED SETTLEMENT**
16 **TESTIMONY?**

17 A. Yes.

1 BY MS. SMITH:

2 Q. All right. Ms. Bateman, could you please
3 state your full name and business address?

4 A. (Laura Bateman) Yes. My name is
5 Laura Bateman, and my business address is 411
6 Fayetteville Street, Raleigh, North Carolina.

7 Q. And by whom are you employed and in what
8 capacity?

9 A. (Laura Bateman) I am employed by Duke Energy
10 Carolinas as a director of regulatory planning.

11 Q. And did you cause to be prefiled in this
12 docket direct testimony consisting of 34 pages plus two
13 exhibits consisting of a total of 45 pages?

14 A. (Laura Bateman) Yes.

15 Q. Okay. And did you also cause to be prefiled
16 in this docket supplemental direct testimony consisting
17 of 10 pages along with one exhibit totalling 110 pages?

18 A. (Laura Bateman) Yes, I did.

19 Q. Okay. And did you cause to be prefiled in
20 this docket rebuttal testimony consisting of 40 pages
21 plus 5 exhibits consisting of a total of 93 pages?

22 A. (Laura Bateman) Yes.

23 Q. And did you also cause to be prefiled in this
24 docket second supplemental direct testimony consisting

1 of 4 pages, plus 3 exhibits, consisting of a total of
2 24 pages?

3 A. (Laura Bateman) Yup.

4 Q. Okay. Last one. Did you cause to be
5 prefiled in this docket settlement testimony consisting
6 of 7 pages, plus 2 exhibits, consisting of a total of
7 17 pages?

8 A. (Laura Bateman) Yes.

9 Q. Do you have any changes or corrections to any
10 of that prefiled testimony?

11 A. (Laura Bateman) No, I do not.

12 Q. If I asked you the question today, would your
13 answers be the same?

14 A. (Laura Bateman) Yes.

15 MS. SMITH: Mr. Chairman, at this time I
16 move that the prefiled direct testimony,
17 supplemental, rebuttal, second supplemental, and
18 settlement testimony of Ms. Bateman be copied into
19 the record as if given orally from the stand and
20 her pre-identified exhibits be marked for
21 identification.

22 CHAIRMAN FINLEY: All right.

23 Ms. Bateman's direct testimony consisting of 34
24 pages is copied into the record as if given orally

1 from the stand. Her two exhibits of her direct
2 testimony are marked for identification as
3 premarked in the filing. Her rebuttal testimony
4 consisting of 40 pages is copied into the record as
5 if given orally from the stand. And her five
6 rebuttal exhibits are marked for identification as
7 premarked in the filing. Her settlement testimony
8 consisting of seven pages is copied into the record
9 as if given orally from the stand. Her second
10 supplemental revised testimony consisting of four
11 pages is copied into the record as if given orally
12 from the stand. And her three exhibits attached to
13 that testimony are marked for identification as
14 premarked in the filing. And her settlement
15 testimony consisting of seven pages and the two
16 exhibits attached thereto -- the settlement
17 testimony is copied into the record as if given
18 orally from the stand, and exhibits are marked.

19 (Whereupon, direct, supplemental,
20 rebuttal, second supplemental, and
21 settlement exhibits were identified as
22 premarked and admitted into evidence.)

23 (Whereupon, the prefiled direct,
24 supplemental, rebuttal, second

1 supplemental, and settlement testimony
2 of Laura Bateman were copied into the
3 record as if given orally from the
4 stand.)
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION**DOCKET NO. E-2, SUB 1142**

| | | |
|--|---|----------------------------|
| In the Matter of: |) | |
| |) | DIRECT TESTIMONY OF |
| Application of Duke Energy Progress, LLC |) | LAURAA. BATEMAN |
| For Adjustment of Rates and Charges |) | FOR DUKE ENERGY |
| Applicable to Electric Service in North |) | PROGRESS, LLC |
| Carolina |) | |

I. INTRODUCTION AND PURPOSE

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

A. My name is Laura A. Bateman and my business address is 411 Fayetteville Street, Raleigh, North Carolina. I am a Director of Rates & Regulatory Planning, employed by Duke Energy Carolinas, LLC, testifying on behalf of Duke Energy Progress, LLC ("DE Progress" or the "Company").

Q. WHAT ARE YOUR RESPONSIBILITIES IN THIS ROLE?

A. I have responsibility for the development of cost of service studies and quarterly financial reports for both DE Progress and Duke Energy Carolinas, LLC ("DE Carolinas").

Q. PLEASE BRIEFLY DESCRIBE YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL EXPERIENCE.

A. I obtained a Bachelor's degree from the University of Massachusetts at Amherst in 1994 and a Master of Business Administration degree from the University of North Carolina at Chapel Hill in 2003. Since 2003, I have worked for the Company in a variety of roles in Risk Management, Treasury, and Regulatory. I have been in the Rates & Regulatory Strategy group since 2007.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS COMMISSION IN CONNECTION WITH YOUR CURRENT RESPONSIBILITIES?

A. Yes. I have testified before this Commission in connection with Duke Energy Progress' general rate case proceeding in Docket No. E-2, Sub 1023. I have

1 also testified before this Commission or submitted written testimony in *The*
2 *Investigation of Proposed Net Metering Rule* (Docket No. E-100, Sub 83),
3 *Standards for Electric Utilities Relating to IRP, Rate Design Modifications to*
4 *Promote Energy Efficiency Investments, Smart Grid Investments & Smart*
5 *Grid Information Per Independence/Security Act 2007* (Docket No. E-100,
6 Sub 123), and *Application for Approval of DSM and Energy Efficiency Cost*
7 *Recovery Rider* (Docket No. E-2, Sub 931).

8 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
9 **PROCEEDING?**

10 A. The purpose of my testimony is to discuss the results of DE Progress'
11 operations under present rates on the basis of an adjusted historical Test
12 Period using the twelve month period ending December 31, 2016 (the "Test
13 Period"). I discuss the additional revenue required as a result of the cost of
14 service based on the pro forma costs in the test period. I discuss several pro
15 forma adjustments to the Company's Test Period operating expenses and rate
16 base. I explain the accounting requests the Company is making regarding
17 deferral of costs for both certain purchased power expense and coal ash costs
18 that are either over or under the levels set in this proceeding, and related to
19 establishing regulatory assets for the unrecovered costs of the Asheville coal
20 plant upon retirement and for meters retired as part of the Company's
21 Advanced Metering Infrastructure ("AMI") deployment program. Finally, I
22 discuss the prudence of the costs included in this request related to four solar
23 generation facilities owned by DE Progress.

1 Q. DOES YOUR TESTIMONY INCLUDE ANY EXHIBITS?

2 A. Yes, I have included two exhibits. Bateman Exhibit 1 sets forth the operating
3 results under current and proposed rates. Bateman Exhibit 2 summarizes the
4 cost of service results and the proposed increases for the North Carolina retail
5 jurisdiction by customer class.

6 Q. WERE THESE EXHIBITS PREPARED BY YOU OR UNDER YOUR
7 DIRECTION AND SUPERVISION?

8 A. Bateman Exhibits 1 and 2 were prepared under my supervision.

9 Q. DID YOU PROVIDE ANY INFORMATION INCLUDED IN THE
10 APPLICATION?

11 A. Yes, I provided the cost of service studies included in Item 45 of the Form E-
12 1, and the pro forma adjustment work papers included in Item 10 of the Form
13 E-1, filed with the Company's Application for Increase to Existing Rates and
14 Charges (the "Application").

15 II. DETERMINING THE REVENUE REQUIREMENT

16 Q. WHAT IS THE REVENUE REQUIREMENT AND HOW DID DUKE
17 ENERGY PROGRESS CALCULATE IT?

18 A. The revenue requirement represents the annual revenues necessary for the
19 Company to recover its operating expenses (including depreciation and taxes)
20 and provide its investors with a fair rate of return on the investment in rate
21 base. DE Progress determined its operating costs by identifying depreciation
22 and amortization expense, operations and maintenance expense ("O&M"),
23 fuel expense, taxes, and other expenses charged to utility operations and

1 recorded in its accounting records for the Test Period. The amount of rate
2 base is determined by adding the year-end balances in the Company's
3 accounting records of plant in service, accumulated depreciation, materials
4 and supplies (including fuel inventory) and components of working capital
5 less deferred taxes and operating reserves, including certain regulatory assets
6 and liabilities. Next, a cost of service study is prepared that allocates and
7 assigns these actual Company operating costs and rate base amounts to
8 determine the per book cost for providing electric service to the Company's
9 North Carolina retail operations. The cost of service studies, filed as Item 45
10 of DE Progress' Form E-1, were reviewed by Witness Hager and she
11 describes the allocation process and methodologies used by the Company in
12 this proceeding within her testimony.

13 Following the cost of service study, the actual Test Period expense and
14 rate base levels, as allocated to the North Carolina retail operations, were
15 adjusted for known and measurable changes, as described below and in the
16 testimony of Witnesses Wheeler and McGee. DE Progress made certain
17 accounting and pro forma adjustments to actual operating income and rate
18 base for the Test Period to reflect known and measurable changes in order to
19 (i) normalize for abnormal events; (ii) annualize part year recurring effects to
20 a full year effect; and, (iii) show actual changes in costs, revenues or the cost
21 of the Company's property used and useful, or to be used and useful within a
22 reasonable time after the Test Period, in providing service.

1 After the determination of operating expenses and rate base for the
2 Company's North Carolina retail operations, rate base is split between the
3 Company's debt investors and equity investors using the Company's proposed
4 capital structure of 53 percent equity and 47 percent debt. Then, the annual
5 cost of debt is calculated. The income available for the Company's equity
6 investors is determined by subtracting the cost of debt from the operating
7 income produced by the current revenues received from North Carolina retail
8 customers less operating expenses. Finally, the required revenue increase
9 necessary to produce the requested equity return on the amount of the equity
10 invested in rate base is determined.

11 Bateman Exhibit 1 sets forth the rate base, operating revenues,
12 operating expenses, and operating income the Company earned during the
13 Test Period and the adjusted amounts the Company supports for use in
14 calculating its proposed revenue requirement. In my Exhibit 1, I have
15 indicated by asterisk the items the Company plans to update in this
16 proceeding.

17 **III. RESULTS OF OPERATIONS UNDER EXISTING AND**
18 **PROPOSED RATES**

19 **Q. PLEASE DESCRIBE BATEMAN EXHIBIT 1 TO YOUR TESTIMONY.**

20 **A.** Bateman Exhibit 1 sets forth the operating results and data required by
21 Commission Rule R1-17(b) regarding operating income, calculation of
22 additional revenue requirement, accounting adjustments, and rate base
23 information. The operating results are based on the Test Period noted above,

1 using the twelve months ending December 31, 2016, with appropriate
2 adjustments. This information is also shown on Pages 1 through 4d of Exhibit
3 C of the Company's Application.

4 **Q. PLEASE EXPLAIN WHAT IS PRESENTED ON PAGE 1 OF**
5 **BATEMAN EXHIBIT 1 ENTITLED "OPERATING INCOME FROM**
6 **ELECTRIC OPERATIONS."**

7 A. Page 1 summarizes the Company's operating income from electric operations
8 for the Test Period both for total Company operations and North Carolina
9 retail operations before the necessary accounting adjustments. It also shows
10 the Company's operating income from electric operations for North Carolina
11 retail operations after the necessary accounting adjustments and the rate of
12 return on North Carolina retail rate base the Company would earn in the Test
13 Period after reflecting those adjustments.

14 Column 1 and 2 set forth the actual operating revenues, expenses and
15 rate base from the per book cost of service study (Form E-1, Item 45a) for the
16 Company and for its North Carolina retail jurisdiction, respectively.

17 Column 3 summarizes the accounting adjustments allocated to North
18 Carolina retail operations necessary to reflect a representative level of
19 operating income and rate base based on known changes in costs. These
20 adjustments are shown on Bateman Exhibit 1, page 3 and are explained later
21 in my testimony.

22 Column 4 shows adjusted North Carolina retail operations.

1 Column 5, Line 1 shows the additional revenue requested in this
2 proceeding of \$477.5 million. This is the increase in revenues justified as
3 necessary to cover the Company's cost of service, including a rate of return on
4 members' equity of 10.75 percent as discussed in the testimony of Witness
5 Hevert. Column 5 also shows the effect of the revenue increase on the
6 Commission regulatory fee, uncollectibles expense, income taxes, and cash
7 working capital.

8 Column 6, Line 11 shows adjusted operating income after the
9 proposed increase in revenues. Column 6, Line 12 shows the adjusted retail
10 rate base. Dividing operating income by rate base produces the 7.66 percent
11 overall rate of return that the Company is justifying in this case, as shown on
12 Column 6, Line 13.

13 **Q. PLEASE EXPLAIN WHAT IS PRESENTED ON PAGE 2 OF**
14 **BATEMAN EXHIBIT 1 ENTITLED "CALCULATION OF**
15 **ADDITIONAL REVENUE REQUIREMENT."**

16 **A.** Page 2 sets forth the calculation of the additional revenue requirement
17 necessary to produce a 10.75 percent rate of return on members' equity using
18 the format required by Commission Rule R1-17(b)(9)e. To develop this
19 figure, the North Carolina retail rate base was allocated to its capital source
20 components of long-term debt and members' equity. This allocation was
21 based on the capitalization ratios of 47 percent long-term debt and 53 percent
22 members' equity which is the Company's targeted capital structure that this
23 Commission found just and reasonable in its *Order Granting General Rate*

1 *Increase*, issued in Docket No. E-2, Sub 1023 ("2013 Rate Case Order"), in
2 the Company's last general rate case. Witness DeMay also comments in his
3 testimony that the 53 percent equity ratio will help enable access to capital at
4 reasonable rates.

5 The amount of operating income needed to cover interest applicable to
6 North Carolina retail rate base was computed using the embedded cost of
7 long-term debt rate. This amount is shown in Columns 4 and 7 on Line 1.
8 Operating income needed to cover interest, shown in Columns 5 and 8 on Line
9 1, was deducted from total operating income shown in Column 5 on Line 3, to
10 derive operating income remaining for members' equity at present rates as
11 shown in Column 5 on Line 2.

12 Applying the 10.75 percent rate of return on members' equity to that
13 portion of the North Carolina retail rate base financed by members' equity,
14 shown in Column 6, Line 2 produces the operating income requirement for
15 members' equity as shown in Column 8, Line 2.

16 The total operating income requirement shown in Column 8, Line 3 is
17 the sum of the requirements for long-term debt and members' equity.
18 Comparing the operating income requirement to the operating income before
19 the proposed increase in Column 5, Line 3 results in the additional operating
20 income requirement shown in Column 8; Line 4. To realize this additional
21 operating income, the Company must also collect in revenues the increase the
22 NCUC regulatory fee at a rate of 0.14 percent; uncollectible expense at a rate
23 of 0.18 percent, state and federal income taxes at a composite rate of 37.06

1 percent, and the return on cash working capital requirements. The additional
2 operating income requirement and the additional taxes and fees produces an
3 additional revenue requirement of \$477.5 million.

4 **Q. HOW DO YOU PROPOSE TO ALLOCATE THIS ADDITIONAL**
5 **REVENUE REQUIREMENT AMONG THE CLASSES?**

6 A. Bateman Exhibit 2 shows how the additional revenue requirement is spread
7 among the classes and how the target revenue requirements for rate design are
8 established. The rate increase shown in the exhibit has been allocated to the
9 rate classes on the basis of rate base, and then combined with an additional
10 increase or decrease at the customer class level that results in a 25 percent
11 reduction in each class's variance from the overall average rate of return. This
12 additional increase or decrease at the customer class level nets to \$0 for the
13 North Carolina retail jurisdiction in total, but brings the customer classes
14 closer to the average rate of return, and is an appropriate way to gradually
15 bring rate classes closer to rate parity over time. This approach is consistent
16 with the approaches in the last general rate proceedings for both DE
17 Carolinas and DE Progress.

18 **Q. PLEASE EXPLAIN THE ADJUSTMENTS THAT ARE NEEDED TO**
19 **DEVELOP THE TARGET REVENUE INCREASES USED IN THE**
20 **RATE DESIGN PROCESS?**

21 A. The adjusted cost of service normalizes the test period revenue for weather
22 impacts and customer growth as described in Section IV of my testimony. As
23 a result, the Proposed Rate Increase shown in Bateman Exhibit 2, Column I,

1 reflects normal weather and customer growth. However, in the rate design
2 process, the revenue increase is spread over test period billing determinants
3 (kWh, kW, etc.) to determine the rate increases. If the revenue increase is
4 adjusted for weather and growth, but the billing determinants are not, in an
5 extreme weather test period, the kWh would be abnormally high, resulting in a
6 rate per kWh that is too low. Conversely, in a mild weather test period, the
7 kWh would be abnormally low, resulting in a rate per kWh that is too high.
8 For this particular Test Period, we also adjusted revenues for the impacts of
9 Hurricane Matthew, as described in Section IV of my testimony. The billing
10 determinants during the test period were unusually low due to power outages
11 resulting from Hurricane Matthew. Absent an adjustment, dividing the target
12 revenues by abnormally low billing determinants in the rate design process,
13 would lead to rates per kWh that are too high. The adjustments made on Page
14 2, Columns N through Q, have an equivalent effect of adjusting the test period
15 billing determinants for weather, customer growth, and the impacts of
16 Hurricane Matthew, and therefore, are appropriate in developing the target
17 revenues to be used in the rate design process. The proposed revenue increases
18 by rate class on Bateman Exhibit 2, Page 2, Column S, were provided to
19 Witness Wheeler and were used in the development of the rate design used in
20 this case.

1 **IV. ACCOUNTING AND PRO FORMA ADJUSTMENTS**

2 **Q. PLEASE EXPLAIN PAGE 3 OF BATEMAN EXHIBIT 1 CAPTIONED**
 3 **"DETAIL OF ACCOUNTING ADJUSTMENTS-NORTH CAROLINA**
 4 **RETAIL."**

5 **A.** Page 3 sets forth the individual accounting and pro forma adjustments to
 6 operating revenues and expenses, including the income tax effects for North
 7 Carolina retail electric operations, that were shown in total on Page 1 of
 8 Bateman Exhibit 1 in Column 3. The totals of the columns shown on Line 36
 9 of Page 3 are the amounts carried forward to Column 3 of Page 1 of Bateman
 10 Exhibit 1.

11 **Q. PLEASE LIST THESE ACCOUNTING AND PRO FORMA**
 12 **ADJUSTMENTS.**

13 **A.** The accounting and pro forma adjustments that were made by the Company
 14 are as follows (the chart below indicates which witness is sponsoring each
 15 adjustment):
 16

| ADJUSTMENTS TO OPERATING REVENUES AND EXPENSES (Page 3 of Bateman Exhibit 1) | | |
|---|---|----------------|
| Line No. | Adjustment Title | Witness |
| 1 | Annualize retail revenues for current rates | Wheeler |
| 2 | Adjust other revenue | Wheeler |
| 3 | Normalize for weather | Bateman |

| ADJUSTMENTS TO OPERATING REVENUES AND EXPENSES (Page 3 of Bateman Exhibit 1) | | |
|---|---|---------|
| Line No. | Adjustment Title | Witness |
| 4 | Annualize revenues for customer growth | Bateman |
| 5 | Eliminate unbilled revenues | Bateman |
| 6 | Update fuel costs to approved rate | McGee |
| 7 | Eliminate costs recovered through non-fuel riders | Bateman |
| 8 | Annualize depreciation on year end plant balances | Bateman |
| 9 | Annualize property taxes on year end plant balances | Bateman |
| 10 | Adjust for new depreciation rates | Bateman |
| 11 | Adjust for post test year additions to plant in service | Bateman |
| 12 | Adjust for Asheville base load CWIP | Bateman |
| 13 | Adjust for transmission merger mitigation project | Bateman |
| 14 | Adjust nuclear decommissioning expense | Bateman |
| 15 | Adjust reserve for end of life nuclear costs | Bateman |
| 16 | Adjust coal inventory | Bateman |
| 17 | Adjust for Harris COLA | Bateman |
| 18 | Amortize deferred environmental costs | Bateman |
| 19 | Adjust for ongoing environmental costs | Bateman |
| 20 | Normalize for storm costs | Bateman |
| 21 | Annualize O&M non-labor expenses | Bateman |
| 22 | Normalize O&M labor expenses | Bateman |

| ADJUSTMENTS TO OPERATING REVENUES AND EXPENSES (Page 3 of Bateman Exhibit 1) | | |
|---|--|---------|
| Line No. | Adjustment Title | Witness |
| 23 | Update benefit costs | Bateman |
| 24 | Levelize nuclear refueling outage costs | Bateman |
| 25 | Amortize rate case costs | Bateman |
| 26 | Adjust aviation expenses | Bateman |
| 27 | Adjust for change in NCUC regulatory fee | Bateman |
| 28 | Adjust purchased power | Bateman |
| 29 | Adjust O&M for executive compensation | Bateman |
| 30 | Adjust for Customer Connect | Bateman |
| 31 | Adjust for Long Term Service Agreements | Bateman |
| 32 | Adjust for Deferred Tax Liability | Bateman |
| 33 | Adjust for North Carolina tax rate change | Bateman |
| 34 | Synchronize interest expense with end of period rate base | Bateman |
| 35 | Adjust cash working capital for present revenue annualized and proposed revenue | Bateman |

- 1 Q. IN CALCULATING THE TOTAL REVENUE REQUIREMENT IN
2 THIS PROCEEDING, DID YOU REVIEW EACH OF THE
3 ACCOUNTING AND PRO FORMA ADJUSTMENTS?
4 A. Yes, I did.

1 Q. IN YOUR OPINION, DO THESE ACCOUNTING AND PRO FORMA
2 ADJUSTMENTS REFLECT KNOWN AND MEASURABLE
3 CHANGES TO THE COMPANY'S TEST PERIOD OPERATING
4 EXPENSES, REVENUES, AND RATE BASE?

5 A. Yes. The adjustments set forth on page 3 of Bateman Exhibit 1, as more fully
6 supported below and in the testimony of Witnesses McGee and Wheeler,
7 reflect known and measurable changes to the Company's Test Period
8 revenues, expenses, and rate base.

9 Q. PLEASE DESCRIBE THE PRO FORMA ADJUSTMENTS YOU ARE
10 SUPPORTING.

11 A. The following are descriptions of the pro forma adjustments:

12 **1. Annualize retail revenues for current rates**

13 This adjustment annualizes revenue based on the rates in effect at the time of
14 the application, excluding the Renewable Energy and Energy Efficiency
15 Portfolio Standard ("REPS") rider, and removes revenues recovered through
16 the Demand Side Management/Energy Efficiency ("DSM/EE") rider, the Joint
17 Agency Acquisition Rider ("JAAR"), and the fuel Experience Modification
18 Factor ("EMF") rates. This adjustment is discussed in more detail in the
19 testimony of Witness Wheeler. The revenues recovered through the REPS
20 rider are removed in Adjustment Line 7.

1 **2. Adjust other revenue**

2 This adjustment adjusts other revenue to reflect proposed changes to rates in
3 the Company's Service Regulations and Rider MROP. The proposed changes
4 are discussed further in Witness Wheeler's testimony.

5 **3. Normalize for weather**

6 This adjustment adjusts revenue to normalize for the impacts of weather. The
7 kWh weather adjustment was developed based on a 30-year history of
8 weather. This kWh adjustment was then multiplied by an average rate for
9 each class to derive the adjustment to revenue. The average rate excludes the
10 rates for the DSM/EE rider, REPS rider, JAAR and fuel EMF. However,
11 since the rate includes the base fuel proposed in this case, an adjustment is
12 also made to fuel expense to reflect the weather adjustment.

13 **4. Customer Growth Adjustment**

14 This adjustment annualizes revenue to reflect expected changes in the number
15 of customers and usage per customer during the test period. This change in
16 consumption was then multiplied by an average rate for each class to derive
17 the adjustment to revenue. The average rate excludes the rates for the
18 DSM/EE rider, REPS rider, JAAR and fuel EMF. However, since the rate
19 includes the base fuel proposed in this case, an adjustment is also made to fuel
20 expense to reflect the annualized change in kWh.

21 **5. Eliminate unbilled revenues**

22 This adjustment eliminates unbilled revenue and related taxes recorded by the
23 Company in the test period.

1 **6. Update fuel costs to approved rate and other fuel-related adjustments**

2 This adjustment adjusts fuel clause expense during the test period to match the
3 fuel clause revenues included in Adjustment Line 1. By matching the
4 expenses to the revenue, the adjustment ensures that no increase is requested
5 in this proceeding related to fuel and fuel-related expenses that are
6 recoverable through the fuel clause. This adjustment is described in more
7 detail in Witness McGee's testimony.

8 **7. Eliminate costs recovered through non-fuel riders**

9 This adjustment removes expense and rate base items recovered through the
10 DSM/EE rider, the REPS rider and the JAAR. The revenues recovered
11 through the REPS rider are also removed in this adjustment. The revenues
12 recovered through the DSM/EE rider and the JAAR are excluded in
13 Adjustment Line 1. The revenues, expenses and rate base items, if applicable,
14 in each of these riders are reviewed each year in annual proceedings and
15 should not impact the increase requested in this proceeding.

16 **8. Annualize depreciation on year end plant balances**

17 This adjustment reflects the annualization of depreciation expense using the
18 current depreciation rates applied to the end of the Test Period level of plant in
19 service. During the Test Period, the Company recorded depreciation for plant
20 additions from the point in time when they went into service. This adjustment
21 annualizes depreciation expenses to reflect a full year level of depreciation on
22 plant in service as of the end of the Test Period using the depreciation rates
23 that were in effect during the Test Period.

1 **9. Annualize property taxes on year end plant balances**

2 This adjustment annualizes Test Period property taxes on plant in service at
3 December 31, 2016. Property taxes expensed in the calendar year 2016 were
4 assessed based on property balances at the end of 2015. Likewise, property
5 taxes expensed in the calendar year 2017 will be assessed based on property
6 balances at the end of 2016. This adjustment increases property tax expense
7 in the Test Period to reflect an annual level of expense for property taxes
8 based on the end of the Test Period level of plant investment.

9 **10. Adjust depreciation expense for new depreciation rates**

10 This adjustment adjusts the annualized depreciation expense to reflect the new
11 depreciation rates based on the updated depreciation study prepared by
12 Gannett Fleming and discussed and supported by Witness Doss.
13 Implementing the new depreciation rates will result in an increase to
14 depreciation expense of approximately \$132.1 million on a system basis, or
15 \$67.6 million on a North Carolina retail basis. The adjustment also increases
16 depreciation reserves by one year's worth of the depreciation expense
17 adjustment.

18 Originally, the depreciation consultant had proposed new depreciation
19 rates that would fully depreciate the Asheville coal plant by its expected
20 retirement date in 2020. In order, to mitigate the impact on customers in this
21 case, DE Progress asked the consultant to adjust the rates to reflect a recovery
22 of the remaining net book value of the Asheville coal plant over a ten-year
23 period, similar to the treatment of other coal plants that were retired early in

1 DE Progress' prior depreciation study. Since under this approach, the net
2 book value of the plant will not be fully recovered at the time of retirement,
3 the Company is requesting permission to establish a regulatory asset at the
4 time of the plant's retirement for the remaining net book value and the ability
5 to continue amortizing the costs over the remaining portion of the ten-year
6 period at that time. We also request permission to defer to this regulatory
7 asset any costs related to obsolete inventory, net of salvage, at the time of
8 retirement.

9 The Company also requests permission to establish a regulatory asset
10 for meters that will be replaced under the Company's Advanced Metering
11 Infrastructure ("AMI") deployment program. The depreciation study recovers
12 the remaining net book value of these assets over three years, which is the
13 expected deployment period for the program. Therefore, we would expect the
14 balance in the regulatory asset to be \$0 at the end of this period. However, as
15 the individual meters are replaced, the Company will need to move the retired
16 meter balance out of Electric Plant in Service and Accumulated Provision for
17 Depreciation of Electric Utility Plant (Accounts 101 and 108) and into the
18 regulatory asset account, until the remaining balances are fully depreciated.

19 In addition to the other updates in the depreciation study, the costs
20 associated with closing coal ash ponds have been removed from the
21 depreciation rates. Currently, the Company is collecting costs associated with
22 the closure of coal ash ponds in the cost of removal portion of its depreciation
23 rates. These cost of removal rates were based on estimated closure costs

1 included in the 2012 dismantlement studies prepared for the Company by
2 Burns & McDonnell, a third party engineering firm. These cost estimates
3 were prepared prior to the enactment of the North Carolina Coal Ash
4 Management Act of 2014 ("CAMA") and the Environmental Protection
5 Agency's Coal Combustion Residual ("CCR") Rule, and were based on the
6 industry standards and best practices recommended by the engineering
7 consultants at the time. Since that time, CAMA and the CCR rule have
8 significantly increased the estimated closure costs for the Company's coal ash
9 ponds, and changed the required accounting treatment, triggering asset
10 retirement obligation accounting. For these reasons, the coal ash pond closure
11 costs have been removed from the depreciation rates, and are instead being
12 requested in Adjustments 18 and 19, described later in my testimony.

13 **11. Adjust for post test year additions to plant in service**

14 This adjustment increases operating expenses and rate base for significant
15 production, transmission, distribution, general and intangible plant additions
16 the Company has incurred and will incur from the end of the Test Period
17 through August 2017. Witnesses Gillespie, Miller, and Simpson discuss these
18 plant additions in their testimonies.

19 **12. Adjust for Asheville base load Construction Work in Progress**

20 **("CWIP")**

21 This adjustment increases rate base to include CWIP for its Asheville
22 Combined Cycle project ("ACC Project"), in accordance with North Carolina
23 General Statute 62-133(b)(1). The ACC Project consists of two highly

1 efficient 280 MW combined cycle natural gas-fueled electric generating units
2 with fuel backup and is scheduled to be completed and in service by
3 December 2019. The ACC Project was granted a certificate in Docket No. E-
4 2, Sub 1089. The adjustment includes in rate base the projected CWIP
5 balance for the ACC Project as of August 31, 2017, which is \$192.8 million
6 on a system basis, or \$116.8 million on a North Carolina retail basis. This
7 increase to rate base results in an increase to the annual revenue requirement
8 of approximately \$12.9 million.

9 **13. Adjust for transmission merger mitigation project**

10 This adjustment includes the costs related to the Greenville-Kinston Dupont
11 230 kV line. This transmission line was constructed and placed in service in
12 2014 in order to satisfy Federal Energy Regulatory Commission ("FERC")
13 market mitigation requirements related to the Duke-Progress merger (Docket
14 Nos. E-2, Sub 998 and E-7, Sub 986). However, the line was previously in
15 the Company's 10-year site plan to be constructed and placed in service in
16 June 2017. Ordering paragraph 10 of the Commission's June 29, 2012 order
17 in the merger docket¹ states that the Company "shall not seek to recover from
18 retail customers any costs associated with the Greenville-Kinston Dupont 230
19 kV line until the later of: (1) June 1, 2017, or (2) the actual in-service date of
20 the line...." The line was placed in service in May 2014, and the new customer
21 rates requested in this rate case will not go into effect until after June 1, 2017.

¹ See the NCUC's June 29, 2012 "Order Approving Merger Subject to Regulatory Conditions and Code of Conduct" under NCUC Docket Nos. E-2, Sub 998 and E-7, Sub 986

1 Therefore, DE Progress is requesting to recover the costs associated with the
2 Greenville-Kinston Dupont 230 kV line. The Company is not seeking to
3 recover costs associated with any of the other permanent transmission projects
4 at this time.

5 **14. Adjust nuclear decommissioning expense**

6 This adjustment updates decommissioning expense to reflect several updates
7 to model assumptions in the Company's 2014 decommissioning study. These
8 updates are discussed by Witness Doss.

9 **15. Adjust reserve for end of life nuclear costs**

10 In its last general rate case, DE Progress established reserves for end-of-life
11 costs associated with nuclear materials and supplies and with nuclear fuel.
12 This adjustment adjusts the test period amortization expense to reflect updated
13 estimates of the end-of-life costs.

14 **16. Adjust coal inventory**

15 This adjustment reduces the Company's actual coal inventory at the end of the
16 Test Period to reflect a targeted 40-day full load burn for each of the coal
17 generating plants. This change in coal inventory for the North Carolina retail
18 jurisdiction is shown on Bateman Exhibit 1, Page 4c, Line 1, Column 3.

19 **17. Adjust for Harris Combined Operating and Construction License**
20 **Application ("COLA")**

21 In Docket No. E-2 Sub 1035, the Company petitioned for approval to defer
22 certain capital costs incurred for the development of Units 2 and 3 of the
23 Harris Nuclear Station. The Commission approved the Company's petition on

1 September 16, 2013. Witness Fallon discusses these costs in more detail. The
2 total deferred costs are \$45.3 million on a North Carolina retail basis (\$70.3
3 million on a system basis.) This adjustment amortizes the deferred balance
4 over a 5-year period, resulting in an annual revenue requirement of \$9.1
5 million. Consistent with the Commission's order, the deferred balance is
6 excluded from rate base and no return is included in this request.

7 **18. Amortize deferred environmental costs**

8 In Docket Nos. E-2, Sub 1103 and E-7, Sub 1110, the Company petitioned the
9 Commission for authority to defer in a regulatory asset account certain costs
10 incurred in connection with compliance with federal and state environmental
11 requirements as it relates to Coal Combustion Residuals ("CCRs" or "coal
12 ash"). The nature of these costs are described in more detail in Witness
13 Kerin's testimony. No fines, penalties, or costs on which DE Progress has
14 agreed to forego recovery are included in the deferral. This adjustment
15 amortizes the deferred costs over a 5-year period. While the costs to comply
16 with CAMA and the CCR Rule are largely duplicative, there are a small
17 portion of the costs that the Company has determined are specific to CAMA,
18 unique to North Carolina and appropriate for direct assignment to North
19 Carolina, as discussed by Witness Kerin. In the deferral calculation, for the
20 CAMA-specific costs, the adjustment first separates out the portion allocable
21 to the wholesale jurisdiction and then direct assigns the retail portion to North
22 Carolina retail. The deferral calculation also nets the total compliance costs
23 allocated to North Carolina retail with the cost of removal that is being

1 collected from customers in current rates for the active and retired coal ash
2 ponds. Both the compliance costs and the cost of removal are based on
3 actuals as of the end of the test period plus a projection through August 31,
4 2017. The total system spend on coal ash pond closure costs during this
5 period for DE Progress is \$482.7 million (\$98.7 million in 2015, \$212.7
6 million in 2016, and \$171.3 million in the 2017 projected period). After
7 applying allocations factors, netting with the cost of removal and
8 incorporating the return on the deferred costs, the expected deferred balance
9 as of August 31, 2017, on a North Carolina retail basis is \$260.3 million.
10 Over the 5-year amortization period, the annual amortization expense is \$52.1
11 million. When added together with the net of tax return on the unamortized
12 balance of \$14.4 million, the total revenue requirement requested in this case
13 for deferred coal ash pond closure costs is \$66.5 million. Of the \$260.3
14 million expected deferred balance, \$15.1 million (\$13.8 million of spend and
15 \$1.3 million of return) is related to 2017 beneficial reuse projected costs.
16 While these amounts are included in this request, we believe these costs are
17 more appropriately recovered through the annual fuel rider as discussed by
18 Witness McGee. If the Commission approves the fuel rider treatment
19 requested by Witness McGee, we would remove \$15.1 million from the
20 deferred balance in this adjustment.

21 **19. Adjust for ongoing environmental costs**

22 This adjustment increases O&M to reflect the expected ongoing annual level
23 of expenses the Company will incur in connection with compliance with

1 federal and state environmental requirements related to closing coal ash
2 ponds. These costs are described in more detail in the Company's deferral
3 request in Docket Nos. E-2, Sub 1103 and E-7, Sub 1110, and in the testimony
4 of Witness Kerin. As with Adjustment 18, no fines, penalties, or costs on
5 which DE Progress has agreed to forego recovery are included in this
6 adjustment. The expected ongoing level of O&M is based on the Company's
7 actual spend on coal ash during the test period, which was \$212.7 million on a
8 system basis, or \$129.1 million on a North Carolina retail basis. Since the test
9 period costs were deferred, the adjustment removes the deferral to reflect the
10 ongoing expected level. The Company is also requesting permission to
11 establish a regulatory asset/liability and defer to this account the North
12 Carolina retail portion of annual costs over or under the amount established in
13 this proceeding. This accounting mechanism will ensure that the Company
14 only recover from customers its actual level of spending related to coal ash. In
15 addition, since the amortization proposed in Adjustment 18 only includes
16 deferred costs through August 31, 2017, the Company requests to defer to the
17 regulatory asset the coal ash spend incurred after that date, but before new
18 rates from this proceeding are effective.

19 **20. Normalize for storm costs**

20 This pro forma adjustment normalizes storm restoration costs to an average
21 level of costs the Company has experienced over the last ten years. This pro
22 forma also removes any storm costs from the 10-year average calculation that
23 were included in the Company's 2016 deferral request, and instead includes an

1 amortization of the deferred costs over a 3-year period. During the Test
2 Period, the Company incurred \$80 million of incremental operating expense
3 and \$49 million of capital on a North Carolina retail basis related to major
4 storm restoration efforts. In Docket No. E-2, Sub 1131, the Company
5 requested permission to defer these incremental costs, net of the \$12.7 million
6 that is currently in customer rates. The projected balance in the deferred
7 account as of December 31, 2017, for the incremental operating expenses,
8 depreciation and return on the capital, and return on the deferred costs, net of
9 the amount in rates is \$79.7 million. The 3-year amortization period results in
10 an annual amortization expense of \$26.6 million. When combined with the
11 net of tax return on the deferred balance of approximately \$3.6 million, the
12 approximate revenue requirement requested in this case for the deferred 2016
13 storm costs is approximately \$30.2 million. Finally, the adjustment removes
14 the abnormal impacts to billed revenue that the Company experienced due to
15 Hurricane Matthew. The high number of customer outages due to the storm
16 caused billed revenue to be lower than normal during this period. To
17 normalize this impact, the net lost revenues have been added back in this
18 adjustment.

19 **21. Annualize non-labor O&M expenses**

20 This adjustment annualizes Test Period operating and maintenance expenses
21 excluding fuel, purchased power, and labor costs to reflect the change in unit
22 costs that occurred during this period.

22. Normalize O&M labor expenses

This adjustment adjusts the wages and salaries and related employee benefits costs to reflect annual levels of costs as of April 1, 2017. This adjustment also reflects changes in related payroll taxes.

23. Update benefits costs

This adjustment updates the test period cost of labor-related benefits to match the result of an updated study performed by the Company's consultants. This adjustment also removes benefits related amortizations that will expire in 2017.

24. Levelize nuclear refueling outage costs

In the Company's last general rate case, the Commission approved an accounting mechanism that levelized certain costs related to nuclear refueling outages. This adjustment annualizes the amortization expense related to this mechanism incurred during the test period to the level experienced at the end of the test period. This adjustment is consistent with the proposed treatment for future rate cases described in Levelization Attachment 2 of the Agreement and Stipulation of Settlement approved in the Company's last general rate case (Docket E-2, Sub 1023).

25. Amortize rate case costs

This adjustment amortizes the incremental rate case costs incurred for this docket over a 5-year period.

1 **26. Adjust aviation expenses**

2 This adjustment removes from expense certain corporate related aviation
3 expenses incurred in the Test Period.

4 **27. Adjust for change in North Carolina Utilities Commission ("NCUC")**
5 **regulatory fee**

6 This adjustment removes Test Period deferrals of and annualizes the North
7 Carolina regulatory fee at the current rate of 0.14 percent. It also amortizes
8 over a 3-year period the deferred incremental regulatory fees due to changes
9 in the regulatory fee rate since the last rate case.

10 **28. Adjust purchased power**

11 This adjustment increases the Test Period purchased power expense to include
12 avoided cost payments to solar qualifying facilities that are expected to start
13 producing power after the end of the test period but before August 31, 2017.

14 Under the Public Utility Regulatory Policy Act ("PURPA") requirements, DE
15 Progress is required to purchase power from qualifying facilities ("QFs").

16 The purchased power costs can vary significantly from year to year, and only
17 in certain circumstances are the costs recoverable through the annual fuel
18 rider. In 2015, the Company's QF purchased power costs that were not
19 recoverable through the fuel rider were \$43.6 million on a system basis. In
20 2016, this expense was \$52.0 million. This pro forma adjustment shows we
21 expect to add an additional \$14.9 million to the system annual expense just in
22 the first eight months of 2017. Due to the volatility of these costs and the lack
23 of the Company's ability to control the level of the costs, DE Progress is

1 requesting permission to establish a regulatory asset/liability and to defer to
2 this account the North Carolina retail portion of expense over or under the
3 level established in this proceeding. This type of accounting mechanism
4 would allow the Company a reasonable opportunity to recover its prudently
5 incurred QF purchased power costs.

6 **29. Adjust O&M for executive compensation**

7 This adjustment removes 50 percent of the compensation of the four Duke
8 Energy executives with the highest level of compensation allocated to DE
9 Progress in the Test Period. While the Company believes these costs are
10 reasonable, prudent and appropriate to recover from customers, we have-for
11 purposes of this case-made an adjustment to this item.

12 **30. Adjust for Customer Connect**

13 This adjustment increases Test Period O&M related to the Company's
14 Customer Connect project. The Customer Connect project will replace the
15 Company's current billing system and is currently planned to be placed in
16 service in 2021. The project is described in more detail in the testimony of
17 Witness Hunsicker. Due to the nature of the project costs, a significant
18 amount of the spending between now and the in-service date will be O&M.

19 This adjustment increases test period O&M by \$7.7 million (from \$2.9 million
20 to \$10.6 million), which is the average incremental level on a North Carolina
21 retail basis expected over the next three years. The Company is in the process
22 of negotiating contracts for the primary software, systems integration and
23 change management professional services, following an extensive request for

1 proposal process conducted in 2016. The best and final offer that resulted
2 from this process included an estimate of incremental Company labor needed
3 to support the scope of the contracts, and so it was used as the basis for
4 estimating the total project cost. While the contracts are not yet finalized, we
5 expect them to be executed shortly, at which point the Company will be
6 committed to the project and the costs can be confirmed as known and
7 measurable.

8 **31. Adjust for Long-Term Service Agreements ("LTSA")**

9 This adjustment reduces the Test Period operating and maintenance expenses
10 to reflect a normalized level of expenses the Company will incur under the
11 LTSAs for its combined cycle units.

12 **32. Adjust for deferred tax liability**

13 In its May 13, 2014 order in Docket No. M-100, Sub 138, the Commission
14 ordered, "That excess deferred income taxes for all utilities, as appropriate,
15 including Piedmont, Aqua, and CWSNC, shall be held in a deferred tax
16 regulatory liability account until they can be amortized as credits (i.e.,
17 reductions) to income tax expense for ratemaking purposes in each utility's
18 next general rate case proceeding." This adjustment amortizes the excess
19 deferred income taxes resulting from this order over a 5-year period.

20 **33. Adjust for North Carolina tax rate change**

21 This adjustment adjusts income tax expense to reflect the change in the North
22 Carolina income tax rate from 4 percent to 3 percent that was effective
23 January 1, 2017.

1 **34. Synchronize interest expense with end of period rate base**

2 This adjustment adjusts income taxes for the tax effect of the annualization of
3 interest expense reflected in the pro forma cost of service.

4 **35. Adjust cash working capital for present revenue annualized and**
5 **proposed revenue**

6 This adjustment adjusts cash working capital to incorporate the impact of the
7 other pro forma adjustments. It also calculates the additional cash working
8 capital required as a result of the proposed increase in rates. The adjustment is
9 in accordance with the Commission's March 21, 2016 order in Docket No. M-
10 100 Sub 137, and is shown on Line 2, Columns 3 and 5, of Bateman Exhibit 1,
11 Page 4d.

12 **Q. PLEASE EXPLAIN WHAT IS PRESENTED ON PAGES 4 THROUGH**
13 **4d OF BATEMAN EXHIBIT 1.**

14 **A.** Page 4 shows total Company and North Carolina retail components of original
15 cost rate base. The total Company amounts and North Carolina retail
16 components were taken from the Company's Cost of Service Study as of
17 December 31, 2016.

18 Pages 4a, 4b, 4c, and 4d are details of components making up original
19 cost rate base as of December 31, 2016 adjusted for known and measurable
20 changes. On each of these four pages, Column 1 shows the total Company per
21 book amounts at December 31, 2016; Column 2 reflects the amount for North
22 Carolina retail electric operations; Column 3 sets forth the accounting

1 adjustments allocated to North Carolina retail operations; and Column 4
2 reflects the North Carolina retail amounts including adjustments.

3 Page 4a is a summary of the Company's investment in electric plant in
4 service as of December 31, 2016 by functional classification. Page 4b details
5 accumulated depreciation and amortization for each of the classes of electric
6 plant in service. The depreciation rates for each class of property are shown at
7 the bottom of the page on Lines 8 through 17. These depreciation rates are
8 supported by Witness Doss. Page 4c is a summary of the Company's
9 investment in materials and supplies as of December 31, 2016 included in rate
10 base. Page 4d reflects the working capital investment included in rate base.

11 **V. PRUDENCY OF UTILITY-OWNED SOLAR FACILITIES**

12 **Q. PLEASE DISCUSS THE PRUDENCY OF THE COMPANY'S NEW**
13 **SOLAR FACILITIES?**

14 **A.** Since its last general rate case, DE Progress has placed in service four utility
15 scale solar facilities: Fayetteville Solar, Warsaw Solar, Elm City Solar, and
16 Camp Lejeune Solar. Certificates for Public Convenience & Necessity
17 ("CPCNs") were received for these facilities in Docket Nos. E-2, Sub 1054,
18 E-2, Sub 1055, E-2, Sub 1056, and E-2, Sub 1063, respectively. The
19 Commission's orders in these dockets included two conditions. The first
20 condition is that in REPS rider and general rate case proceedings, the
21 Company should fix the levelized avoided cost values for cost recovery
22 purposes at the level used in the Company's analyses in the CPCN
23 proceedings. These avoided cost levels were shown for each facility in

1 Williams Exhibit 6 filed in the REPS rider proceeding (Docket No. E-2, Sub
2 1109) on June 30, 2016. The second condition required DE Progress, in
3 REPS rider and general rate case proceedings, to itemize the actual
4 monetization of certain tax benefits within its calculation of the levelized
5 revenue requirement for each facility. The levelized revenue requirement
6 shown for each facility on Williams Exhibit 6 filed in the REPS rider
7 proceeding incorporates the actual monetization of certain tax benefits. While
8 the realization of certain tax credits was delayed due to the extension of
9 federal bonus depreciation, the levelized revenue requirements for all four
10 facilities are both below the original estimates in the CPCN proceedings and
11 below avoided cost. Therefore, these investments should be deemed
12 reasonable and prudent. As these facilities were all placed in service before
13 the end of the test period, their associated costs are included in the cost of
14 service studies and revenue requirement in this proceeding.

15 **VI. CONCLUSION**

16 **Q. IN YOUR VIEW, ARE OPERATING EXPENSES AND RATE BASE**
17 **CALCULATED BY DUKE ENERGY PROGRESS IN THIS**
18 **PROCEEDING IN ACCORDANCE WITH THE PROVISIONS OF N.C.**
19 **GEN. STAT. § 62-133 AND NCUC RULE R1-17?**

20 **A.** Yes, they are. The Company generally experienced a level of ordinary
21 business expenses and rate base that was reasonable and necessary to provide
22 safe and reliable electric service to its customers for the twelve month period
23 ending December 31, 2016. In order to meet the requirements of N.C. Gen.

1 Stat. § 62-133 and this Commission's Rule R1-17, the actual operating
2 expenses and rate base levels for the Test Period were adjusted for known and
3 measurable changes as described in Section IV of my testimony and in the
4 testimonies of Witnesses McGee and Wheeler.

5 **Q. DOES THIS CONCLUDE YOUR PRE-FILED DIRECT TESTIMONY?**

6 **A. Yes.**

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION**DOCKET NO. E-2, SUB 1142**

| | | |
|--|---|------------------------------|
| In the Matter of: |) | |
| |) | REBUTTAL TESTIMONY OF |
| Application of Duke Energy Progress, LLC |) | LAURA BATEMAN |
| For Adjustment of Rates and Charges |) | FOR DUKE ENERGY |
| Applicable to Electric Service in North |) | PROGRESS, LLC |
| Carolina |) | |

I. INTRODUCTION AND PURPOSE

**Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND
CURRENT POSITION.**

A. My name is Laura A. Bateman, and my business address is 411 Fayetteville Street, Raleigh, North Carolina. I am a Director of Rates & Regulatory Planning, employed by Duke Energy Carolinas, LLC, testifying on behalf of Duke Energy Progress, LLC ("DE Progress" or the "Company").

**Q. ARE YOU THE SAME LAURA A. BATEMAN WHOSE DIRECT
TESTIMONY AND EXHIBITS WERE FILED IN THIS DOCKET ON
JUNE 1, 2017 AND WHOSE SUPPLEMENTAL DIRECT TESTIMONY
AND EXHIBIT WERE FILED IN THIS DOCKET ON SEPTEMBER 15,
2017?**

A. Yes.

**Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY IN
THIS PROCEEDING?**

A. The purpose of my rebuttal testimony is to respond to certain accounting and ratemaking adjustments proposed by the Public Staff, and to summarize the Company's position in this proceeding by providing Revised Bateman Exhibit 1, which is an informational filing and a revision of the original Bateman Exhibit 1 filed with my direct testimony. My testimony will also address

1 issues raised by Department of Defense witness Cannady, related to the
2 Asheville Combined Cycle, end of life nuclear costs, rate base treatment of
3 certain deferred costs, and employee benefits expense.¹

4 **Q. DOES YOUR TESTIMONY INCLUDE ANY EXHIBITS?**

5 A. Yes, I have included five exhibits. As mentioned previously, Revised
6 Bateman Exhibit 1 shows the Company's revised revenue requirement
7 incorporating the Company's adjustments filed in its supplemental filing and
8 the Company's rebuttal position in this case.

9 Bateman Rebuttal Exhibit 1 provides the Company's position on the
10 adjustments proposed by the Public Staff. Specifically, Column 1, labeled
11 "Public Staff Position" is a restatement of Public Staff witness Peedin Exhibit
12 1, Schedule 1. In Column 2, I have identified the amounts of those
13 adjustments of the Public Staff which the Company agrees with, as well as
14 those adjustments of the Public Staff that are not being opposed by the
15 Company. This column is labeled "Accepted/Not Opposed." The amounts
16 shown in Column 3 are those adjustments that the Company is opposing for
17 purposes of this case and that column is labeled "Opposed."

18 Bateman Rebuttal Exhibit 2 shows the Company's calculation of the excess
19 deferred income tax rider.

20 Bateman Rebuttal Exhibit 3 is a copy of the Company's reply comments filed
21 in the storm deferral docket, E-2, Sub 1131.

¹ Direct Testimony of Constance T. Cannady at 17-25.

1 Bateman Rebuttal Exhibit 4 shows corrections to the Public Staff's extended
2 customer growth adjustment.

3 **Q. WERE THESE EXHIBITS PREPARED BY YOU OR UNDER YOUR**
4 **DIRECTION AND SUPERVISION?**

5 A. Yes, these exhibits were prepared under my supervision.

6 **II. RESPONSE TO PUBLIC STAFF ACCOUNTING ADJUSTMENTS**

7 *Adjustments Not Opposed*

8 **Q. ARE THERE ANY ADJUSTMENTS RECOMMENDED BY THE**
9 **PUBLIC STAFF THAT THE COMPANY DOES NOT OPPOSE?**

10 A. Yes, there are two recommended adjustments by Public Staff that the
11 Company does not oppose. Specifically, the Company does not oppose the
12 following adjustments from Peedin Exhibit 1, Schedule 1:

13 **Line 6 - Change in debt cost rate from 4.170% to 4.050%**

14 The Company does not oppose Public Staff witness Parcell's recommendation
15 to update the debt rate as of September 2017.² However, given that the Public
16 Staff is updating cost of debt financing through September 2017, the
17 Company is also updating its post-test year plant additions adjustment through
18 September 2017, and plans to update through October 2017 prior to the
19 hearing, as well, and may include recent updates regarding vegetation
20 management.

² Direct Testimony of David C. Parcell at 7.

1 **Line 14 - Adjust for lost industrial revenues due to Hurricane Matthew**

2 The Company does not oppose Public Staff' witness Williamson's
3 recommendation to include the impact of lost industrial revenues due to
4 Hurricane Matthew.⁶ However, the Company does oppose the calculation
5 proposed by witness Williamson. In its initial adjustment regarding lost
6 revenue due to Hurricane Matthew, the Company stated that it did not include
7 industrial class customers in the estimate because "using customer averages
8 would not be reliable due to significant usage differences among customers"
9 for this class. Witness Williamson, as described on page 5 of his testimony,
10 used average daily usage for the industrial class in his calculation. Because of
11 the impact that a handful of extremely high usage customers can have on this
12 average calculation, the Company looked at the detailed hourly customer data
13 for industrial customers on the Real Time Pricing rate schedule. Using this
14 approach, the Company was able to determine that 21 of these high usage
15 customers did not lose power as a result of the storm. Therefore, I have
16 recalculated witness Williamson's adjustment to exclude these 21 customers
17 from the average daily usage calculation, reducing his adjustment from a
18 reduction of \$2,072,000 to a reduction of \$1,686,000, as shown in Bateman
19 Rebuttal Exhibit 1.

⁶ Direct Testimony of Tommy C. Williamson, Jr. at 4.

Line 15 - Remove EDIT refund from base rates for treatment as a rider

The Company does not oppose the rider treatment for the excess deferred income taxes ("EDIT"); however, the Company does oppose shortening the amortization period from the reasonable five years proposed by the Company to two years as proposed by Public Staff witness Peedin.⁷ Witness Peedin offered no support for her recommendation. Furthermore, Public Staff has recommended extending every other amortization period proposed by the Company. Therefore, the Company opposes this asymmetrical treatment and believes the amortization for EDIT should remain in the general range of other amortization periods in this proceeding.

Line 18 - Adjust executive compensation

Public Staff witness Peedin recommends adding a fifth executive to the Company's adjustment to remove 50% of the compensation of the top four executives.⁸ While the Company does not oppose this adjustment, witness Peedin also recommends removing 50% of the benefits for these five executives.⁹ The Company opposes this portion of the adjustment for the reasons discussed by Company witness Silinski in his rebuttal testimony.

Line 19 - Adjust outside services

Public Staff witness Peedin made an adjustment to remove several charges related to Outside Services based on the Public Staff's audit of these

⁷ Direct Testimony of Darlene P. Peedin at 30-31.

⁸ Id. at 17-18.

⁹ Id.

1 charges.¹⁰ The Company agrees with approximately \$68,000 of the \$134,000
2 adjustment proposed. The portion of the adjustment that the Company
3 opposes is primarily related to legal services related to coal ash and
4 groundwater issues. For the reasons discussed in the rebuttal testimony of
5 Company witness Wright, the Company believes these costs were reasonable
6 and prudently incurred and therefore should be recovered from customers.

7 *Adjustments to Coal Ash Pond Closure Costs*

8 **Q. PLEASE EXPLAIN THE COMPANY'S RESPONSE TO THE PUBLIC**
9 **STAFF ADJUSTMENTS REGARDING COAL ASH POND CLOSURE**
10 **COSTS.**

11 **A.** The Public Staff recommends two adjustments related to coal ash pond
12 closure cost recovery, which are listed on Peedin Exhibit 1, Schedule 1:

13 **Line 22 - Remove ongoing environmental costs and**

14 **Line 25 - Adjust deferred environmental costs**

15 These two adjustments are based on seven more specific adjustments
16 proposed by Public Staff witness Maness and summarized on pages 5-6 of his
17 testimony. While the Company opposes most of the Public Staff's adjustment,
18 there are two adjustments proposed by witness Maness that the Company does
19 not oppose.

20 Witness Maness's first adjustment relates to the disallowance of coal
21 ash management expenditures on the basis of prudence, as recommended by

¹⁰ Id. at 23.

1 other Public Staff witnesses. Company witness Kerin addresses these
2 recommendations in his rebuttal testimony.

3 Witness Maness's second adjustment relates to the allocation of coal
4 ash pond closure costs. He recommends that the costs DE Progress has
5 identified as "CAMA Only" be allocated based on an allocator that allocates
6 to all jurisdictions, instead of direct assigning these costs to North Carolina.
7 On page 13 of his testimony, he states this is because "the coal plants
8 associated with the costs are being or were operated to serve the entire DEP
9 system." In general, I agree with witness Maness that the costs of a system
10 should be borne by all of the users of the system. However, the Company has
11 identified very specific cost categories, groundwater wells used specifically
12 for CAMA purposes and permanent water supplies provided to North Carolina
13 customers pursuant to North Carolina law, that should be treated as an
14 exception to this general rule, due to their nature as being unique to North
15 Carolina. This would be consistent with other examples where the
16 Commission has allowed direct assignment to North Carolina. One example
17 is the incremental costs that the Company incurs to comply with the North
18 Carolina Renewable Energy and Energy Efficiency Standard ("REPS").¹¹
19 This is a uniquely North Carolina standard and 100 percent of the incremental
20 costs are being recovered from North Carolina customers.¹² Another example

¹¹ N.C. Gen. Stat. 62-138(h).

¹² Docket No. E-100, Sub 113 (February 29, 2008).

1 is the costs to comply with the North Carolina Clean Smokestacks rule.¹³
2 Again, prior to federal legislation, this was a uniquely North Carolina
3 standard, and the Commission allowed the Company to recover the initial
4 costs 100 percent from North Carolina customers.¹⁴ Based on this precedent,
5 the Company believes the costs it has identified as specific to CAMA and
6 unique to North Carolina should also be considered as an exception and
7 should be direct assigned to North Carolina customers. Witness Maness also
8 recommends that all of the coal ash pond closure costs be allocated based on
9 the energy allocation factor instead of the demand related allocation factor.
10 The Company opposes this recommendation for the reasons set forth in
11 Company witness Hager's rebuttal testimony.

12 Witness Maness's third adjustment is to add a return on the deferred
13 balance up through the expected date of new rates in this proceeding. The
14 Company does not oppose this adjustment.

15 Witness Maness's fourth adjustment is to calculate the return using a
16 mid-month convention rather than a beginning-of-month convention. The
17 Company does not oppose this adjustment.

18 Witness Maness's fifth and sixth adjustments are to amortize the
19 deferred costs over a 28-year amortization period rather than the Company's
20 proposed five-year amortization period, and to remove the unamortized
21 balance from rate base. Witness Maness states, on page 22 of his testimony,

¹³ N.C. Gen. Stat. 62-133.6.

¹⁴ Docket No. E-2, Sub 900 (September 5, 2008).

1 that the combination of these two adjustments effectuates the 50/50 sharing
2 proposed by the Public Staff. The Company opposes the concept of sharing
3 proposed by the Public Staff for the reasons set forth in the rebuttal testimony
4 of Company witness Wright.

5 Witness Maness's seventh adjustment is to remove the ongoing
6 environmental costs. The Company opposes this adjustment. On pages 23-24
7 of his testimony, witness Maness states that the main reason he opposes
8 including an ongoing level of coal ash pond closure costs in rates because "it
9 will potentially make future equitable sharing of the costs of coal ash much
10 harder to achieve." The Company opposes the concept of sharing proposed by
11 the Public Staff for the reasons set forth in the rebuttal testimony of Company
12 witness Wright.

13 Additionally, the Company's spend on coal ash pond closure will be
14 recurring going forward, and there are no known and measurable reasons to
15 adjust the test period levels. The fact that the Company has deferred these
16 costs during the test period is not a reason that the rates established should not
17 reflect the normal level of ongoing costs. While these costs are unique and are
18 accounted for in a unique manner, they were previously accounted for as cost
19 of removal. With cost of removal, the Company is allowed to collect in rates
20 a portion of expected future spend, not just dollars that have already been
21 spent. The two tables below show the cash shortfall over the next four years

- 1 resulting from the projected coal ash pond closure spend, using both the
 2 Public Staff's proposal and under the Company's proposal:

| Table 1 - Public Staff's Proposal (in \$MM) | | | | | | |
|---|----------------------------------|-----|-------|-------|-------|-------|
| Line | | | 2018 | 2019 | 2020 | 2021 |
| 1 | DEP total estimated spend | (1) | 286.1 | 419.0 | 237.9 | 208.6 |
| 2 | Approximate NC retail allocation | (2) | 175.4 | 256.8 | 145.8 | 127.9 |
| 3 | Less amount in rates | (3) | - | - | - | - |
| 4 | Annual cash shortfall | (4) | 175.4 | 256.8 | 145.8 | 127.9 |
| Table 2 - Company's Proposal (in \$MM) | | | | | | |
| Line | | | 2018 | 2019 | 2020 | 2021 |
| 1 | DEP total estimated spend | (1) | 286.1 | 419.0 | 237.9 | 208.6 |
| 2 | Approximate NC retail allocation | (2) | 175.4 | 256.8 | 145.8 | 127.9 |
| 3 | Less amount in rates | (3) | 129.1 | 129.1 | 129.1 | 129.1 |
| 4 | Annual cash shortfall | (4) | 46.3 | 127.7 | 16.7 | (1.2) |

| Notes | | | | | | |
|---|--|--|--|--|--|--|
| (1) - Estimated spend is based on Duke's ARO estimate used for Q3 2017 financial reporting | | | | | | |
| (2) - Approximate NC retail allocation is based on ratio of total NC retail to system spend in Supplemental NC-1800 (262.3M/427.6M = 61.3%). Uses Company allocation method in both tables. | | | | | | |
| (3) - \$0 for Public Staff proposal. Based on NC-1900 for Company proposal | | | | | | |
| (4) - Row 4 = Row 2 - Row 3 | | | | | | |

- 4
 5 The Public Staff's proposal would result in significant cash flow short falls for
 6 the Company with no justification. Company witness De May discusses the
 7 negative impacts the Public Staff's proposal, including this significant impact
 8 to cash flow, would have on the Company's credit metrics. For these reasons,
 9 the Commission should reject the Public Staff's adjustment.

Adjustments to Storm Restoration Costs

1
2 **Q. PLEASE DESCRIBE THE PUBLIC STAFF'S POSITION REGARDING**
3 **THE COMPANY'S DEFERRAL AND AMORTIZATION OF 2016**
4 **STORM COSTS.**

5 A. On pages 28-30 of his testimony, witness Maness attaches a copy of the Initial
6 Comments of the Public Staff in the storm deferral docket, and summarizes
7 the Public Staff's position. In short, the Public Staff recommends:

- 8 1. That the Company only be allowed to defer storm expenses in excess
9 of an amount of \$27.4 million,
- 10 2. That no deferral of depreciation expense or return on undepreciated
11 capital costs be allowed,
- 12 3. That no return on the deferred asset be allowed during the deferral
13 period,
- 14 4. That DE Progress be required to start amortization of the deferred
15 costs in October 2016, and
- 16 5. That the amortization period be extended from the three years
17 proposed by the Company to ten years.

18 Line 21 of Peedin Exhibit 1, Schedule 1 shows the impact of Public Staff
19 witness Maness's recommendations related to 2016 storm restoration costs.

1 **Q. DOES THE COMPANY AGREE WITH WITNESS MANESS'S**
2 **POSITION?**

3 **A.** No. The Company disagrees with all of the Public Staff's adjustments as
4 discussed below.

5 **Q. WHAT IS THE COMPANY'S POSITION ON THE FIRST**
6 **ADJUSTMENT LISTED ABOVE REGARDING THE "NORMAL"**
7 **AMOUNT OF STORM EXPENSE THE COMPANY SHOULD BE**
8 **EXPECTED TO BEAR BEFORE A DEFERRAL IS GRANTED?**

9 **A.** The Company disagrees with the Public Staff's recommendation that \$27.4
10 million should be considered a "normal" level of storm costs. The Company's
11 total incremental costs to repair and restore its system due to storm damage in
12 2016 far exceeded the level of major storm costs included in the Company's
13 last rate case of \$12.7 million for the North Carolina retail jurisdiction, and
14 the Company is only asking to defer those costs in excess of the \$12.7 million
15 level approved by the Commission in that case. The reasons for the
16 Company's position are explained in detail in its Reply Comments in Docket
17 No. E-2, Sub 1131, which are attached to my testimony as Bateman Exhibit 3.
18 A summary of these reasons is as follows:

19 The amount of \$12.7 million is the amount of storm expense that was
20 included in the Company's last rate case, and is therefore, the amount being
21 collected in current rates. This \$12.7 million was based on a normalized level
22 of storm costs. Thus, it bears to reason that storm expenses at a normalized

1 \$12.7 million would be ordinary expenses and expenses above that would be
 2 extraordinary. Nonetheless, Public Staff is taking a seemingly arbitrary
 3 approach by selecting the highest yearly storm expense in the past 14-year
 4 period (\$27.4 million) as the dividing line between normal and extraordinary,
 5 which is unreasonable. It is clear in this case that the Company recovers only
 6 \$12.7 million for storm costs in current rates and that that amount is based on
 7 a normal level of storm costs. Arbitrarily changing that normal level to a
 8 highest amount of storm costs in a 14-year period violates the very definition
 9 of normal which would instead imply a typical, usual, or expected level of
 10 costs.

11 In addition, in its *Order Approving in Part and Denying in Part*
 12 *Request for Deferral Accounting* in Docket No. E-7, Sub 1029, the
 13 Commission stated at pages 12-13:

14 “In determining whether to allow deferral requests, the
 15 Commission has consistently based its decision on
 16 whether to allow deferral requests on whether absent
 17 deferral, the costs in question would have a material
 18 impact on the Company’s financial condition and in
 19 particular, the Company’s achieved level of earnings.”¹⁵

20 In this case, the expenses incurred in excess of \$12.7 million in 2016 would
 21 have a material impact on the Company’s financial condition and achieved
 22 level of earnings. Setting the normal range of fluctuation for storm costs

¹⁵ *Order Approving in Part and Denying in Part Request for Deferral Accounting*, Docket No. E-7, Sub 1029 (April 13, 2013)

1 artificially high, as the Public Staff suggests, will also have a material impact
2 on the Company's financial condition and achieved level of earnings.

3 **Q. WHAT IS THE COMPANY'S POSITION ON THE SECOND**
4 **ADJUSTMENT LISTED ABOVE REGARDING THE INCLUSION OF**
5 **DEPRECIATION EXPENSE AND RETURN ON CAPITAL COSTS IN**
6 **THE DEFERRAL?**

7 A. The Company disagrees with the Public Staff's recommendation that there be
8 no deferral of depreciation expense and return on capital costs. The Company
9 incurred approximately \$49.4 million of incremental capital costs associated
10 with the 2016 storms. If the Company is not allowed to consider the earnings
11 impacts associated with these capital repairs, DEP will be denied recovery of
12 the incremental depreciation expense associated with those investments, as
13 well as the return on the unamortized portion of the incremental capital
14 investments until these assets are included in rates in this rate case. While
15 Public Staff is not aware of any Commission precedent supporting deferral of
16 the depreciation expense and associated carrying costs resulting from storm
17 damage, Public Staff has also failed to offer any precedent where the
18 Commission specifically denied such a request either. The failure to defer and
19 recover these costs has the same financial impact as the inability to defer and
20 recover O&M expenses and should be treated no differently in the
21 determination of the deferred amount.

1 **Q. WHAT IS THE COMPANY'S POSITION ON THE THIRD**
2 **ADJUSTMENT LISTED ABOVE REGARDING THE INCLUSION OF**
3 **A RETURN ON THE DEFERRED AMOUNT DURING THE**
4 **DEFERRAL PERIOD?**

5 A. The Company disagrees with the Public Staff's recommendation that there be
6 no deferral of a return on the deferred amount during the deferral period.
7 When the Company incurs an extraordinary cost, it is responsible for
8 acquiring the necessary funds to "pay the bills" as those costs are incurred.
9 Those funds include a carrying cost or cost of capital. And that cost of capital
10 exists and increases until the Company is able to recover those costs through
11 incremental revenues. Cost of capital is a normal "cost of service" amount
12 and should be deferred along with all other costs related to storm restoration.
13 Again, the failure to defer and recover these costs of capital has the same
14 financial impact as the inability to defer and recover O&M expenses and
15 should be treated no differently in the determination of the deferred amount.

16 **Q. WHAT IS THE COMPANY'S POSITION ON THE FOURTH**
17 **ADJUSTMENT LISTED ABOVE REGARDING WHEN THE**
18 **AMORTIZATION PERIOD FOR THE DEFERRED COSTS SHOULD**
19 **BEGIN?**

20 A. The Company disagrees with the Public Staff's recommendation that the
21 amortization period begin immediately. Historically, as stated above, the
22 Commission has consistently based its decision on whether to allow deferral

1 requests on whether absent deferral, the costs in question would have a
2 material impact on the Company's financial condition and in particular, the
3 Company's achieved level of earnings. In cases where the Company has a
4 near-term planned rate case, it has been customary for the Commission to
5 permit those deferred costs to remain as a regulatory asset until new rates are
6 effective pursuant to that next general rate case. In this case, the Company
7 requested deferral of extraordinary storm costs from late 2016 until the new
8 rates from this rate case, filed in June 2017, could be established. The last
9 order from the Commission approving a storm deferral for DE Progress was in
10 2003.¹⁶ In its reply comments in that docket, the Company provided current
11 accounting guidance from two major external audit firms on this issue, and
12 confirmed with its external auditor the following impacts stated in its reply
13 comments:

14 "a deferral where amortization is required without a
15 corresponding increase in revenues would have to be
16 expensed immediately. If the utility does have a
17 planned rate case, like DEP does, the accounting
18 guidance would require the utility to write-off the
19 estimated amortization that would occur before new
20 rates from that rate case are expected to be effective."¹⁷

¹⁶ See *Order Granting in Part and Denying in Part Request for Deferral Accounting*, Docket No. E-2, Sub 843 (December 23, 2003).

1 **Q. WITNESS MANESS MAKES A STATEMENT ON PAGE 30 OF HIS**
2 **TESTIMONY WITH RESPECT TO THE ACCOUNTING STANDARDS**
3 **OR EXTERNAL AUDITORS' AUTHORITY OVER THE**
4 **COMMISSION. DO YOU AGREE WITH HIS STATEMENT?**

5 A. Yes. Witness Maness states, "I do not believe it is appropriate for the
6 Financial Accounting Standards Board or the Company's external auditors to
7 control the Commission's decisions with regard to regulatory accounting or
8 ratemaking purposes." I agree with this statement. However, I also believe
9 that the Commission would like to understand the impacts that its orders will
10 have on the Company, including the restrictions the Company faces. While
11 the Financial Accounting Standards Board ("FASB") and external auditors do
12 not have authority over the Commission, they do have authority over the
13 Company's financial accounting and reporting. If the Commission wants to
14 issue an accounting order that allows the Company to establish a regulatory
15 asset, it is important for the Commission to understand and take into
16 consideration the accounting restrictions placed on the Company by FASB
17 and the interpretive guidance issued by the major external audit firms. If the
18 Commission issues an order approving the establishment of a regulatory asset,
19 but the order does not meet the requirements of the Company's external
20 auditors to establish a regulatory asset, the Company will not be able to
21 establish a regulatory asset. Therefore, the Commission's order will not have
22 the effect that the Commission intended. For this reason, it is important for

1 the Commission to understand the current accounting guidance regarding this
2 issue that impacts the Company. Approving the recommendation of the Public
3 Staff to begin the amortization prior to the Company's rates going into effect
4 would deny the Company legitimate cost recovery without justification.

5 **Q. WHAT IS THE COMPANY'S POSITION ON THE FIFTH**
6 **ADJUSTMENT LISTED ABOVE REGARDING THE LENGTH OF**
7 **THE AMORTIZATION PERIOD?**

8 A. The Company disagrees with the Public Staff's recommendation that the
9 amortization period be extended from three years to ten years. While the
10 Company agrees with the Public Staff that it has requested a large deferral
11 amount as compared to some other storm deferrals, the deferral's overall
12 effect on rates does not warrant a ten-year amortization period. Despite the
13 size of the recommended deferral, it is unreasonable to propose an
14 amortization period equal to the longest span of time traditionally used by the
15 Commission. The Company believes that a shorter amortization period,
16 potentially over three years, would be a more appropriate result.

17 **Q. WHAT WOULD BE THE IMPACT ON THE DEFERRED AMOUNT IF**
18 **THE COMMISSION WERE TO ACCEPT THE PUBLIC STAFF'S**
19 **RECOMMENDATIONS?**

20 A. The table below shows the impact of the first four of these five
21 recommendations. The fifth recommendation has no impact on the total
22 amount recovered. It only impacts how quickly the costs are recovered.

| <i>in \$MM</i> | Company Request | Public Staff Position | Difference |
|---|--------------------|--------------------------|------------|
| 1 Limit deferral amount on O&M | 67.5 | 52.8 | (14.7) |
| 2 No capital recovery in deferral | 8.4 | | (8.4) |
| 3 No return during the deferral period | 5.7 | | (5.7) |
| 4 Amortization starts October 2016 (assumes 10-yr. period) | | (7.0) | (7.0) |
| Total deferral balance as of 1/31/2018 | 81.5 | 45.7 | (36) |
| % of storm costs recommended to be disallowed | | | 44% |

1 In summary, the Public Staff is recommending to disallow almost half of the
2 costs that the Company has incurred in restoring power to customers after
3 significant storm damage. As a whole, this is very concerning to the
4 Company. Restoring power after a storm is extremely important to our
5 customers and to penalize the Company for its extensive efforts in this area
6 is unfair to the Company, and not in the best interest of customers.
7 Company witness Fountain also addresses this in his testimony.

8 ***Adjustments to Update through August 2017***

- 9 **Q. PLEASE DESCRIBE PUBLIC STAFF'S PROPOSED ADJUSTMENTS.**
- 10 A. Public Staff is proposing to update through August 31, 2017, plant and
11 accumulated depreciation, revenues, and inflation (Lines 9, 10 and 33 of
12 Peedin Exhibit 1, Schedule 1, respectively).
- 13 **Q. DOES THE COMPANY AGREE WITH THESE PROPOSED**
14 **ADJUSTMENTS?**
- 15 A. No. The Company opposes these adjustments in concept, and disagrees with
16 the calculation of the revenue adjustment. On page 11 of her testimony,

1 witness Peedin states the adjustment she recommends related to accumulated
2 depreciation is consistent with the Commission's past treatment of
3 comprehensive plant updates beyond the end of the test period. This is not
4 true for electric utilities. In all of the following electric utility general rate
5 cases, the utility updated for plant additions beyond the test period without
6 any corresponding updates to accumulated depreciation or customer growth:
7 Docket Nos. E-2, Sub 1023; E-2, Sub 537; E-7, Sub 989; E-7, Sub 909; E-7,
8 Sub 828; and E-7, Sub 487. What witness Peedin is recommending would be a
9 deviation from what has been the general practice in electric utility rate cases
10 in North Carolina for at least the past thirty years.

11 Further, the adjustment increases the negative impacts of regulatory
12 lag on the utility by reducing rate base. Assuming that new rates from this
13 rate case go into effect on February 1, 2018, the Company must have the
14 opportunity to earn a reasonable return on its rate base at that point in time,
15 not its overall rate base as of August 31, 2017. North Carolina's historic
16 practice of allowing updates for post-test year plant additions without
17 requiring additional updates to rate base has generally had the effect of
18 providing electric utilities an opportunity to earn their allowed return on rate
19 base levels after new rates go into effect. In her testimony, witness Peedin
20 references that similar adjustments have been approved in rate cases for
21 natural gas utilities. When deciding on whether this adjustment is also

1 appropriate for electric utilities, the Commission should consider the other
2 mechanisms that gas utilities have to mitigate regulatory lag.

3 **Q. PLEASE EXPLAIN THE COMPANY'S DISAGREEMENT WITH THE**
4 **REVENUE CALCULATION.**

5 A. In addition to the overall opposition to the adjustments, the Company also has
6 identified two major issues with Public Staff witness Saillor's extended period
7 customer growth adjustment.¹⁸

8 First, using information provided by the Company, Witness Saillor
9 performed a customer-by-customer analysis for the Medium General Service
10 (MGS) and Large General Service (LGS) classes. In reviewing his
11 adjustment, the Company noticed one of the new customers was extremely
12 large (~135GWh annual usage). Upon further research, the Company
13 discovered that this was not in fact a new customer or net new load. Instead,
14 it was one of the Company's largest industrial customers, who had simply
15 changed delivery points. The load was shifted to the new delivery point but
16 the old delivery point had not yet been closed, thus leading to distorted results
17 in witness Saillor's adjustment. Removing this load results in a reduction to
18 witness Saillor's adjustment of \$6.8 million.

19 Second, witness Saillor's adjustment reaches forward to bring in
20 growth due to the number of customers; however, it doesn't make any
21 adjustment for changes in usage per customer. The Company's average

¹⁸ Direct Testimony of Scott Saillor at 5-8.

1 Residential usage per customer has been consistently decreasing over the last
2 several years, while growth in customers has been increasing. It is
3 inappropriate to pull forward future customer growth without linking the
4 associated usage patterns. Adjusting for the changes in Residential usage per
5 customer would result in a further reduction to Mr. Saillor's adjustment of
6 \$43.4 million.

7 These corrections to Witness Saillor's extended period customer
8 growth adjustment can be found in Bateman Rebuttal Exhibit 4. The
9 customer growth adjustment is a very complex adjustment. These were the
10 issues that the Company was able to identify with the extended period update
11 in the two weeks that it had to prepare rebuttal testimony. The complexity of
12 the adjustment and the level of vetting that would be appropriate is another
13 reason to not update beyond the end of the test period. While the Company
14 still opposes the overall adjustment, should the Commission decide that
15 customer growth should be updated through August 31, 2017, the adjustment,
16 should be based on the change shown in Bateman Rebuttal Exhibit 4, not as
17 calculated by the Public Staff witness Saillor.

Remaining Adjustments Opposed by the Company

**Q. OF THE REMAINING ADJUSTMENTS THAT THE COMPANY
OPPOSES, WHICH ONES ARE RESPONDED TO BY OTHER
COMPANY WITNESSES?**

A. The following Public Staff adjustments from Peedin Exhibit 1, Schedule 1, are
responded to by other Company witnesses in rebuttal testimony, using the
reference numbers:

Line 5 - Change in equity ratio from 53.00% to 50.00% equity

The Company opposes this adjustment for the reasons set forth in the rebuttal
testimony of Company witness De May.

Line 7 - Change in return on equity from 10.75% to 9.20%

The Company opposes this adjustment for the reasons set forth in the rebuttal
testimony of Company witness Hevert.

Line 11 - Adjust distribution vegetation management

The Company opposes this adjustment for the reasons set forth in the rebuttal
testimony of Company witness Simpson.

Line 23 - Adjust depreciation rates

The Company opposes this adjustment for the reasons set forth in the rebuttal
testimonies of Company witnesses Spanos and Kopp.

1 **Line 24 - Adjust incentives and Line 32 - Adjust Board of Directors**
2 **expense**

3 The Company's response to this adjustment can be found in the rebuttal
4 testimony of Company witness Silinski.

5 **Line 27 - Adjust Sutton CT Blackstart plant cost and Line 29 - Adjust**
6 **Mayo ZLD plant cost**

7 The Company opposes these adjustments for the reasons set forth in the
8 rebuttal testimony of Company witness Delowery.

9 **Line 28 - Adjust EOL nuclear materials & supplies reserve expense**

10 The Company's response to this adjustment can be found in the rebuttal
11 testimony of Company witness Gillespie.

12 **Q. PLEASE DESCRIBE THE COMPANY'S RESPONSE TO THE**
13 **REMAINING PUBLIC STAFF PROPOSED ADJUSTMENTS.**

14 **A.** The Company's responses to the remaining Public Staff adjustments are
15 below, using the reference numbers from Peedin Exhibit 1, Schedule 1:

16 **Line 13 - Adjust allocations by DEBS to DEP**

17 The Company opposes this adjustment due to the methodology used by
18 witness Peedin. Witness Peedin used 2017 service company allocation
19 factors, which include allocations to Piedmont, but applied the factors to 2016
20 service company costs, which only include three months of costs related to
21 Piedmont. There is a mismatch between the allocation factors and the costs
22 they are being applied to; therefore, the Company opposes this adjustment.

Line 16 - Remove Customer Connect expenses

The Company opposes this adjustment. On page 28 of her testimony, witness Peedin stated that her rationale for the adjustment was that the project was in the “analytics stage” and that “the system has not been placed in service.” To be clear, the amounts that the Company included in its pro forma adjustment are operating expenses, not capital or plant in service. Capital expenses during a project’s construction phase accrue a return, through Allowance for Funds Used During Construction (“AFUDC”). Once the asset is placed in service, the Company includes the plant balance in rate base and starts recording depreciation expense to recover the investment, including AFUDC. The Company has not included or requested recovery in this case of the capital expenses it expects to spend over the next three years for the new Customer Connect project. However, the Company has requested recovery of the operating expenses it expects to spend over the next three years. If the Company does not recover operating expenses in the year they are incurred, the Company has no future opportunity to recover those costs absent a deferral approved by the Commission. Company witness Hunsicker, in both her direct and rebuttal testimony, details the benefits the system will provide to customers and the Company’s commitment to incur the costs through signed contracts. Public Staff witness Floyd states on page 23 of his testimony that he supports the Company’s implementation of the Customer Connect project. Removing from this case the operating expenses needed to implement the

1 project is the same as denying the Company the opportunity to recover those
2 costs.

3 An alternative that would still allow the Company to recover these
4 costs is for the Commission to approve the establishment of regulatory asset
5 and grant the Company permission to defer to such asset the incremental
6 operating expenses incurred related to the Customer Connect project,
7 including a carrying charge on the deferred costs, until the Company's next
8 general rate case. Department of Defense witness Cannady on page 29 of her
9 testimony recommends a similar deferral of Customer Connect costs. This
10 would be a reasonable alternative to the Company's adjustment related to
11 Customer Connect.

12 **Line 17 - Adjust aviation expenses**

13 The Company opposes this adjustment. In its initial filing, the Company
14 removed 40.24% of the Company's operating and maintenance costs
15 ("O&M") related to corporate aviation to account for flights that may not be
16 related to provision of electric service. The Public Staff is proposing to
17 remove 75.55% of the O&M. First, Public Staff witness Peedin states that
18 based on her review of the flight logs, "[s]ome of these flights appear to be
19 unrelated to the provision of utility service; in other instances, and the costs of
20 the flights have been incorrectly allocated." All of the costs of the corporate
21 aircraft have been allocated in accordance with the Company's filed cost
22 allocation manual. The Company does not have costs for specific flights, but

1 rather has the overall costs of maintaining and operating the corporate aircraft.
2 These costs have been correctly allocated, and witness Peedin has offered no
3 evidence that they have not been. Witness Peedin goes on to say, “[t]he
4 Company has not justified the costs of using Company-owned aircraft rather
5 than purchasing tickets for commercial flights.” Among the flights that Public
6 Staff witness Peedin has proposed excluding are flights for senior leaders to
7 meet with employees and customers throughout the Company’s service
8 territory. The biggest benefit of corporate aircraft is the time savings for
9 senior leaders. Some of the Company’s plants are at locations that are not
10 easily accessible through commercial flights, so a commercial flight might
11 entail additional drive time after the flight. In addition, with corporate
12 aircraft, passengers can arrive 15 minutes before the flight, compared to the
13 recommended two hours for commercial flights, and fly to the closest airport
14 to their business destination. Given that the Company has already removed
15 40.24% of the costs of corporate aircraft, the additional reductions proposed
16 by witness Peedin are inappropriate.

17 **Line 20 - Remove Duke-Piedmont costs to achieve (CTAs)**

18 The Company opposes this adjustment. On pages 24-25 of her testimony,
19 witness Peedin states that the costs should be excluded because DEP did not
20 ask for them in the right way. She includes an excerpt from the Commission’s
21 order in the Piedmont merger docket that specifically addresses cost recovery
22 for capital costs associated with achieving merger savings. The costs that

1 witness Peedin has removed are operating expenses, not capital costs. The
2 merger order does not specifically address cost recovery for operating
3 expenses associated with achieving merger savings. As discussed previously
4 in response to the Customer Connect recommendations, operating expenses
5 are different from capital costs. The Company cannot simply capitalize and
6 depreciate operating expenses like witness Peedin suggests. However, also as
7 discussed in response to the Customer Connect recommendations, a deferral
8 order from the Commission can allow the Company to treat these costs like
9 capital for rate making purposes. Should the Commission decide to exclude
10 these expenses from recovery in this case, the Company requests permission
11 to establish a regulatory asset and to defer to such asset the incremental
12 operating expenses associated with achieving merger savings, including a
13 return on the deferred costs, until the next rate case.

14 **Line 26 - Adjust coal inventory**

15 The Company opposes this adjustment. Public Staff witness Metz, on page 9
16 of his testimony, recommends that the amount of coal inventory that should be
17 established for rate making purposes should be set at 30 days using a 70%
18 capacity factor, which is equivalent to 21 days of inventory based on full load
19 burn. If actual inventory exceeds this level, the Company would not be able
20 to recover the cost of maintaining that inventory. This recommended
21 inventory level is a dramatic change from the levels that have been previously
22 authorized by this Commission and from the actual levels of inventory the

1 Company has maintained. In Docket No. E-2, Sub 1023, the Commission has
2 approved cost recovery in base rates of coal inventory levels at 40 days based
3 on full load burn. The Company's actual inventory at the end of the test
4 period was 51 days, and the Company made a pro forma adjustment to reduce
5 it to a target level of 40 days. Company witness Miller discusses why this
6 recommended decrease in coal inventory levels will have negative supply and
7 operational impacts and is not appropriate. While the Company strongly
8 opposes a decrease in the target inventory level, should the Commission
9 decide to lower the target level of days of inventory, it would be unfairly
10 punitive to not allow a Coal Inventory rider similar to that approved in DE
11 Progress' last general rate case. The rider would be necessary for the
12 Company to recover its costs of the current target level until it is reasonably
13 able to reduce those levels to whatever new target is set.

14 **Line 30 - Adjust sponsorships & donations**

15 The Company opposes this adjustment. Per page 29 of her testimony, witness
16 Peedin adjusted O&M expenses to remove \$423,000 in amounts paid to the
17 U.S. Chamber of Commerce and other chambers of commerce, based on
18 detailed general ledger data provided by the Company in response to Data
19 Request No. 11, Item 3. Witness Peedin argues that these expenses should be
20 disallowed because they do not represent actual costs of providing electric
21 service to customers. However, Chambers of Commerce promote business
22 and economic development which in turn helps to retain and attract customers

1 to our service territory. Funds paid to Chambers of Commerce that are not
2 specified as a donation or lobbying on the Chamber invoice are generally
3 assumed to be in support of business or economic development and are
4 considered to be properly charged as a utility expense to FERC account 912,
5 Demonstrating and Selling Expenses, which contains the following as the
6 primary guidance for the use of this account:

7 "This account shall include the cost of labor, materials
8 used and expenses incurred in promotional,
9 demonstrating, and selling activities, except by
10 merchandising, the object of which is to promote or
11 retain the use of utility services by present and
12 prospective customers."

13 The Company believes that amounts paid to Chambers of Commerce fit
14 within the definition of FERC account 912, which is a utility operating
15 expense account that should be included in the Company's cost of providing
16 electric service to customers. Therefore, witness Peedin's exclusion of these
17 charges from O&M is not appropriate.

18 Additionally, further analysis of the data in this response shows that, of the
19 \$423,000 originally recorded, the Company subsequently recorded journal
20 entries to reclassify \$76,000 of the charges to FERC Account 426, which is
21 excluded from cost of service, leaving \$347,000 in the Company's test period
22 O&M related to the items that witness Peedin selected for disallowance.
23 Therefore, if the charges are removed, the most that should be excluded from
24 expenses using witness Peedin's selection criteria is \$347,000 (\$210,000 NC
25 retail portion).

1 **Line 31 - Adjust lobbying expense**

2 The Company opposes this adjustment. On page 26 of her testimony, witness
3 Peedin states that she applied the “but for” test in a Formal Advisory
4 Commission of the State Ethics Commission. However, when asked in
5 discovery (Company Request 3-6(c)) for an explanation of why each charge
6 she recommended excluding did not meet the “but for test,” she responded:

7 “The Public Staff did not do an account-by-account
8 review of DEP’s Federal government, State
9 government, and stakeholder engagement expenses for
10 purposes of applying the “but for” test. We instead
11 reviewed the job descriptions the Company provided in
12 response to DR 12-2, and decided on a departmental
13 basis whether the department work was lobbying-
14 related or not. We concluded that Federal and State
15 were 100% lobbying, and Stakeholder was 50%.”

16 This approach appears to be very similar to the approach the Public Staff used,
17 and the Commission rejected, in the Dominion rate case, E-22 Sub 479. On
18 page 71 of the order, the Commission stated:

19 “the Commission also finds that the Public Staff’s 50%
20 exclusion adjustment, based on its overall conclusion
21 upon an apparent cursory review with selective
22 highlighting of job descriptions/roles, is an overly
23 broad, very general approach that is not sufficiently
24 supported by the evidence to justify such a 50%
25 adjustment in this proceeding.”

26 In 2016, the Company engaged a third party consulting company to perform a
27 detailed time study for the purposes of determining the percentage of time
28 certain individuals spent on lobbying activities per the federal definition in
29 Code of Federal Regulations (“CFR”) Section 367.4264. The definition went

1 beyond direct contact with legislators and included research, planning, and
2 networking activities to related to lobbying efforts. A report with the results
3 of the study was delivered to the Company in August 2016, and the Company
4 booked journal entries to ensure that the 2016 labor costs were aligned with
5 the results of the independent study. The results are that in the test period, the
6 company booked below the line 66% of the expenses for federal affairs, 75%
7 of the expenses state government affairs, and 10% of the expenses for
8 stakeholder engagement. No further adjustments are necessary or justified.

9 **Q. PLEASE DISCUSS THE COMPANY'S RESPONSE TO THE PUBLIC**
10 **STAFF'S ADJUSTMENTS TO WORKING CAPITAL.**

11 **A.** The amount of these adjustments are driven by the values of all of the other
12 adjustments in the case and the proposed revenue increase:

13 **Line 34 - Adjust cash working capital under present rates**

14 **Line 35 - Adjust cash working capital under proposed rates**

15 While the amounts we calculate for these adjustments will be different based
16 on other areas of disagreement, the Company does not have any issues with
17 the method the Public Staff has used to calculate cash working capital
18 adjustments.

1 **III. ISSUES RAISED BY OTHER INTERVENORS**

2 **Q. ARE THERE ANY ISSUES RAISED BY OTHER INTERVENING**
 3 **PARTIES THAT YOU WOULD LIKE TO ADDRESS?**

4 A. Yes. I would like to address several issues raise by Department of Defense
 5 witness Cannady and one issue raised by Carolina Utility Customers
 6 Association, Inc. (“CUCA”) witness O’Donnell.

7 **Q. DO YOU AGREE WITH WITNESS CANNADY’S**
 8 **RECOMMENDATION RELATED TO THE ASHEVILLE COMBINED**
 9 **CYCLE PROJECT?**

10 A. No. Witness Cannady states that the Construction Work in Progress
 11 (“CWIP”) for the Asheville Combined Cycle project should not be allowed in
 12 rate base because the plant is not yet “used and useful.”¹⁹ The Company is
 13 seeking to include the CWIP for this project, as a base load generation plant,
 14 in rate base under the provisions of N.C. Gen. Stat. 62-133. Section (b)(1) of
 15 the statute states:

16 In fixing such rates, the Commission shall:
 17 (1) Ascertain the reasonable original cost of the public utility’s
 18 property used and useful.... In addition, construction work in
 19 progress may be included in the cost of the public utility’s property
 20 under any of the of the following circumstances:

21 One of the circumstances listed is:

¹⁹ Direct Testimony of Constance T. Cannady at 7-9.

1 b. For baseload electric generating facilities, reasonable and prudent
2 expenditures shall be included pursuant to subdivisions (2) or (3) of
3 G.S. 62-110.1(f1), whichever applies, subject to the provisions of
4 subdivision (4a) of this subsection.

5 The CWIP that the Company has included in rate base clearly meets these
6 criteria, and therefore, is appropriate to include in rate base.

7 **Q. DO YOU AGREE WITH WITNESS CANNADY'S**
8 **RECOMMENDATION RELATED TO THE ACCRUAL FOR END OF**
9 **LIFE NUCLEAR MATERIALS AND SUPPLIES?**

10 A. No. Witness Cannady states the increase in the accrual should not be allowed
11 because the Company has not offered "definitive evidence" for its estimate of
12 level of inventory at the end of life.²⁰ The methodology used to develop the
13 proposed accrual is consistent with the method used in the last rate case, and
14 is only intended to be an estimate. Company witness Gillespie, in his rebuttal
15 testimony, addresses why two of the main assumptions that witness Cannady
16 challenges are reasonable assumptions for estimating purposes. The
17 Company includes the accrual amounts collected from customers as a
18 reduction to rate base, and, as stated in the last rate case, the annual accrual
19 amount can be reviewed and adjusted, if needed, in each future general rate
20 case before the end of the plant's life.

²⁰ Id. at 9-11.

1 **Q. DO YOU AGREE WITH WITNESS CANNADY’S**
2 **RECOMMENDATION RELATED TO THE RATE BASE**
3 **TREATMENT OF DEFERRED ENVIRONMENTAL AND STORM**
4 **RESTORATION COSTS?**

5 A. No. For the rate base component, witness Cannady recommends using the
6 average unamortized balance over the next five years.²¹ As stated on page 14
7 of her testimony, witness Cannady selects five years “based on the estimated
8 number of years between rates established in this proceeding and the time
9 frame in which DEP is likely to file another general rate proceeding.”
10 However, witness Cannady has no way of knowing when the Company is
11 likely to file another general rate proceeding. She states the last general rate
12 case resulted in rates implemented in 2013 and this case will result in rates
13 implemented in 2018; therefore, a five-year period should be used. However,
14 DE Progress’s rate case before that was in 1988, indicating 25 years between
15 rate cases, using witness Cannady’s logic. Furthermore, the DE Progress rate
16 case before that was in 1987, indicating only one year in between rate cases.
17 DE Carolinas has filed North Carolina rate cases in 2007, 2009, 2011, and
18 2013, indicating two years between rate cases. As such, no accurate
19 prediction of when the Company’s next rate case will be can be derived;
20 therefore, any such prediction should not be used in the calculation of the
21 level of rates in this proceeding. The rate base approach proposed by the

²¹ Id. at 11-15.

1 Company is consistent with how the Company has treated regulatory assets
2 and liabilities in the past, where the balance is reduced by the first year of
3 amortization expense, and is consistent with how post-test year plant
4 additions have traditionally been treated in North Carolina, with the plant
5 balance reduced by the first year of depreciation expense.

6 **Q. DO YOU AGREE WITH WITNESS CANNADY'S**
7 **RECOMMENDATION RELATED TO PENSION AND OTHER POST**
8 **EMPLOYMENT BENEFITS ("OPEB")?**

9 A. No. Witness Cannady recommends removing portions of pension expense.²²
10 Specifically, she recommends the disallowance of non-qualified pension
11 expense, which is addressed in the rebuttal testimony of Company witness
12 Silinski. She also recommends adding back an expiring amortization related to
13 Other Post-Employment Benefits ("OPEB") that the Company removed in its
14 adjustment to benefits costs. Witness Cannady argues that the adjustment to
15 remove the expiring amortization should not be allowed because other
16 potential, future changes to OPEB expenses are not known at this time.
17 However, that is not sufficient reason to exclude a change that is known. This
18 adjustment is similar to the adjustment that the Company made to remove
19 expiring amortizations in its last rate case²³ and that DE Carolinas has made in
20 its rate case filed this year²⁴.

²² Id. at 24-26.

²³ Direct Testimony of Laura A. Bateman, Docket E-2, Sub 1023 at 21.

²⁴ Direct Testimony of Jane L. McManeus, Docket E-7, Sub 1146 at 22.

1 **Q. TURNING TO CUCA WITNESS O'DONNELL, DO YOU AGREE**
2 **WITH HIS RECOMMENDATION RELATED TO RATE CASE**
3 **EXPENSES IN THIS CASE?**

4 **A.** No. Witness O'Donnell recommends capping the amount to be recovered for
5 the Company's Return on Equity ("ROE") witness at the level incurred for the
6 Public Staff's ROE witness. First, witness O'Donnell compares the cost of
7 the two witnesses; however, it is not clear that he has the correct cost level for
8 the Public Staff witness. The Company provided an estimate of rate case
9 expenses in discovery that included an estimate for the Public Staff ROE
10 witness based on just a few invoices. The Company had no way of estimating
11 at that point what the total costs would be, and still does not. The estimate
12 provided by the Company in discovery happens to be the same number quoted
13 by witness O'Donnell as the price that the Public Staff "settled on." Second,
14 setting the cost of the two witnesses at the same level does not take into
15 account the additional level of effort required by the Company witness
16 compared to the Public Staff witness. For example, the Company witness
17 typically files two sets of testimony – direct and rebuttal – compared to one
18 set of testimony by the Public Staff witness. As a result, witness O'Donnell's
19 recommendation should be rejected.

1 **IV. REVISED BATEMAN EXHIBIT 1**

2 **Q. WHY ARE YOU INCLUDING IN THIS TESTIMONY REVISED**
3 **BATEMAN EXHIBIT 1?**

4 **A.** In Bateman Supplemental testimony, I indicated DE Progress will file an
5 updated Bateman Exhibit 1 at the time of the hearing which will incorporate
6 the additional cost of service adjustments reflected in Bateman Supplemental
7 Exhibit 1, as well as possible other adjustments to cost of service to the extent
8 the actual changes are based on circumstances and events occurring up to the
9 time the hearing is closed. Revised Bateman Exhibit 1 is similar to Bateman
10 Exhibit 1 and incorporates the updates to cost of service that I included in
11 Bateman supplemental direct testimony and Bateman Supplemental Exhibit 1.

12 **Q. DOES REVISED BATEMAN EXHIBIT 1 REFLECT ANY CHANGE IN**
13 **THE REVENUE REQUIREMENT SOUGHT BY THE COMPANY IN**
14 **THIS PROCEEDING?**

15 **A.** No, not at this time. DE Progress will file an updated Bateman Exhibit 1 at
16 the time of the hearing, which may incorporate additional possible
17 adjustments to cost of service to the extent the actual changes are based on
18 circumstances and events occurring up to the time the hearing is closed.

19 **V. CONCLUSION**

20 **Q. DOES THIS CONCLUDE YOUR PRE-FILED REBUTTAL**
21 **TESTIMONY?**

22 **A.** Yes.

FILED

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION SEP 15 2017

DOCKET NO. E-2, SUB 1142

Clerk's Office
N.C. Utilities Commission

| | | |
|---|---|------------------------------|
| In the Matter of |) | |
| |) | |
| Application of Duke Energy Progress, |) | SUPPLEMENTAL |
| LLC For Adjustment of Rates and |) | DIRECT TESTIMONY OF |
| Charges Applicable to Electric Service in |) | LAURA A. BATEMAN FOR |
| North Carolina |) | DUKE ENERGY PROGRESS, |
| |) | LLC |

I. INTRODUCTION AND PURPOSE

1 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND**
2 **CURRENT POSITION.**

3 **A. My name is Laura A. Bateman, and my business address is 411**
4 **Fayetteville Street, Raleigh, North Carolina. I am a Director of Rates &**
5 **Regulatory Planning, employed by Duke Energy Carolinas, LLC,**
6 **testifying on behalf of Duke Energy Progress, LLC (“DE Progress” or the**
7 **“Company”).**

8 **Q. ARE YOU THE SAME LAURA A. BATEMAN WHOSE DIRECT**
9 **TESTIMONY AND EXHIBITS WERE FILED IN THIS DOCKET**
10 **ON JUNE 1, 2017?**

11 **A. Yes.**

12 **Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL DIRECT**
13 **TESTIMONY IN THIS PROCEEDING?**

14 **A. The purpose of my supplemental direct testimony is to present additional**
15 **adjustments to the cost of service as shown on Bateman Supplemental**
16 **Exhibit 1. I will discuss each adjustment.**

II. UPDATES TO THE COMPANY’S TEST YEAR
OPERATING REVENUE, EXPENSES AND RATE BASE

17
18 **Q. PLEASE DESCRIBE BATEMAN SUPPLEMENTAL EXHIBIT 1.**

19 **A. Bateman Supplemental Exhibit 1 presents the impact of additional**
20 **adjustments to cost of service that the Company is supporting at this time.**

1 Page 1 of the Exhibit summarizes the adjustments and the details for each
2 adjustment are presented on the subsequent pages.

3 **Q. WAS BATEMAN SUPPLEMENTAL EXHIBIT 1 PREPARED BY**
4 **YOU OR AT YOUR DIRECTION AND UNDER YOUR**
5 **SUPERVISION?**

6 **A.** Yes.

7 **Q. PLEASE EXPLAIN THE ADJUSTMENTS THAT ARE**
8 **PRESENTED IN BATEMAN SUPPLEMENTAL EXHIBIT 1.**

9 **A. Line 1 - Annualize retail revenues for current rates**

10 This adjustment was updated to reduce the NCUC regulatory fee rate
11 applied to the revenue change from 0.14000% to 0.13975%. During the
12 discovery process, the Public Staff pointed out that uncollectibles expense
13 is a deduction in the calculation of the regulatory fee. As a result, the
14 regulatory fee rate of 0.14% used in the pro forma adjustments should be
15 reduced to reflect this deduction. The Company agrees and has made this
16 update. The Company also updated the regulatory fee rate used to
17 calculate the required increase on Page 2 of Bateman Supplemental
18 Exhibit 1 and in the other pro forma adjustments where the regulatory fee
19 rate is used.

20 **Line 2 - Adjust other revenue**

21 This adjustment reflects the proposed change in the Company's extra
22 facilities rate from 1.3% to 1.0%. In the initial filing, the impact on the
23 lighting class was inadvertently excluded. The adjustment has been

1 updated to include the impact of the change on the lighting class. The
2 adjustment has also been updated to reflect the change in regulatory fee
3 rate discussed previously.

4 **Line 3 - Normalize for weather**

5 The adjustment has been updated to reflect a refinement to the Company's
6 weather normalization modeling. This modeling change was reviewed
7 with the Public Staff and agreed to in the DEC annual fuel clause
8 proceeding this year. The enhancement lowers the predictive errors of the
9 weather normalization model estimates, resulting in a more accurate
10 monthly and annual weather normalization result. The adjustment has also
11 been updated to reflect the change in regulatory fee rate discussed
12 previously.

13 **Line 7 - Eliminate costs recovered through non-fuel riders**

14 This adjustment has been updated to match the test period amounts
15 included in the non-fuel rider proceedings in the Company's June 21, 2017
16 filings. The only rider that changed was the Joint Agency Asset Rider.

17 **Line 8 - Annualize depreciation on year end plant balances**

18 This adjustment has been updated to remove the depreciation expense
19 related to the Lilesville-Rockingham transmission line that was
20 constructed and placed in service to satisfy Federal Energy Regulatory
21 Commission ("FERC") market mitigation requirements related to the
22 Duke-Progress merger (Docket Nos. E-2, Sub 998 and E-7, Sub 986). At
23 this time, the only transmission market mitigation project for which the

1 Company is seeking to recover costs is the Greenville-Kinston Dupont 230
2 kV line. Therefore, the depreciation expense associated with the
3 Lilesville-Rockingham transmission line has been removed.

4 **Line 10 - Adjust depreciation expense for new depreciation rates**

5 This adjustment has been updated to include three impacts that were not
6 included in the original filing. The first relates to the previously booked
7 accelerated depreciation of the Harris Nuclear Plant in the North Carolina
8 and South Carolina retail jurisdictions. The prior depreciation study
9 included the benefits of the accelerated depreciation in the system
10 numbers. The new depreciation study does not include the benefits of the
11 accelerated depreciation in the system numbers. The adjustment has been
12 updated to reflect this change. The benefits of the accelerated depreciation
13 will continue to be direct assigned to the retail jurisdictions just as they
14 were in the test period.

15 The second impact related to the \$20 million of Cost of Removal
16 liability that was reversed as part of the Agreement and Stipulation of
17 Settlement approved in Docket No. E-2 Sub 1023. The new depreciation
18 study also does not include the impacts of this North Carolina retail
19 specific item in the system numbers. Therefore, an accounting entry must
20 be made to direct assign the impacts of this item on depreciation expense
21 to North Carolina retail. The adjustment has been updated to reflect this
22 change.

1 The third impact is related to the Cost of Removal related to coal
2 ash pond closure. The new depreciation study removes the recovery of
3 coal ash pond closure costs on active plants. However, the Company is
4 also collecting cost of removal for coal ash pond closure costs for its
5 retired plants, which was recorded as amortization expense in the test
6 period. This amortization expense will be replaced by the recovery
7 proposed in Adjustments 18 and 19. The adjustment has been updated to
8 reflect this change.

9 **Line 11 - Adjust for post test year additions to plant in service**

10 This adjustment has been updated to reflect the actual additions to plant in
11 service after the end of the Test Period through August 31, 2017. These
12 additions were estimated in the Company's June 1, 2017 filing. This
13 adjustment was also updated to remove plant additions recoverable
14 through the Joint Agency Asset Rider.

15 **Line 12 - Adjust for Asheville base load Construction Work in**
16 **Progress ("CWIP")**

17 This adjustment has been updated to reflect the actual Asheville Combined
18 Cycle CWIP balance as of August 31, 2017.

19 **Line 15 - Adjust reserve for end of life nuclear costs**

20 This adjustment was updated to change the allocation factor to match the
21 factor used for nuclear decommissioning expense. Due to the nature of
22 these costs, this factor is more appropriate. This adjustment was also

1 updated to change the estimated new rates effective date from 1/1/2018 to
2 2/1/2018.

3 **Line 18 - Amortize deferred environmental costs**

4 This adjustment has been updated to reflect the actual coal ash pond
5 closure costs through August 31, 2017. These costs were estimated in the
6 Company's June 1, 2017 filing.

7 **Line 20 - Normalize for storm cost**

8 This adjustment has been updated to reflect true-ups to the 2016 storm
9 costs included in the Company's deferral petition in Docket No. E-2, Sub
10 1131. In the petition, the Company said it would continue to true-up the
11 original estimate through August 2017. The pro forma was also adjusted
12 to correct some of the 2016 storm costs included in the calculation of the
13 10-year average.

14 **Line 21 - Annualize non-labor O&M expenses**

15 This adjustment has been updated to correct a formula used in the original
16 filing and to remove the costs associated with a new adjustment on line 36
17 (discussed below) from the annualization calculation.

18 **Line 25 - Amortize rate case costs**

19 This adjustment has been updated to include the unamortized balance of
20 the deferred costs in rate base, net of the first year of amortization expense
21 and net of accumulated deferred income taxes.

22 **Line 28 - Adjust purchased power**

1 This adjustment originally increased Test Period purchased power expense
2 to include avoided cost payments to solar qualifying facilities ("QFs") that
3 were expected to start producing power after the end of the test period but
4 before August 31, 2017. On July 28, 2017, the North Carolina Governor
5 signed House Bill 589. This bill revises General Statute 62-133.2 to
6 provide for recovery of the QF purchase power costs through the fuel
7 clause that were previously recovered through base rates. As a result, this
8 adjustment has been revised to remove all test period purchased power
9 expense that will now be recoverable through the fuel clause and to
10 remove the originally proposed adjustment to the Test Period expense. In
11 addition, in its Application, the Company had requested permission to
12 establish a regulatory asset/liability for the purchased power expenses over
13 or under the level established in this proceeding. With the passage of the
14 new law, this accounting mechanism is no longer needed and the
15 Company withdraws this request.

16 **Line 30 - Adjust for Customer Connect**

17 This adjustment has been updated to correct the test period expense
18 reflected in the adjustment.

19 **Line 34 - Synchronize interest expense with end of period rate base**

20 This adjustment has been updated to reflect the change to income taxes
21 because of the change in interest costs resulting from the above changes in
22 rate base.

1 **Line 35 - Adjust cash working capital for present revenue annualized**
2 **and proposed revenue**

3 This adjustment has been updated to reflect the changes to cash working
4 capital resulting from the other changes discussed in this supplemental
5 testimony.

6 **Line 36 - Adjust lobbying expense - NEW**

7 This adjustment was added to remove lobbying expenses that were
8 incorrectly booked above the line during the Test Period. A correction
9 was made in the Company's accounting records to move the amount
10 below the line; however, the correction was made outside of the Test
11 Period. Therefore, this adjustment is needed to reflect the correction.

12

13 **Q. DOES BATEMAN SUPPLEMENTAL EXHIBIT 1 REFLECT ANY**
14 **CHANGE IN THE REVENUE REQUIREMENT SOUGHT BY THE**
15 **COMPANY IN THIS PROCEEDING?**

16 **A.** No, not at this time. DE Progress will file an updated Bateman Exhibit 1
17 at the time of the hearing, which will incorporate the additional cost of
18 service adjustments reflected in Bateman Supplemental Exhibit 1 as well
19 as other possible adjustments to cost of service to the extent the actual
20 changes are based on circumstances and events occurring up to the time
21 the hearing is closed.

22 **Q. IN YOUR OPINION, DO THESE ACCOUNTING AND PRO**
23 **FORMA ADJUSTMENTS REFLECT KNOWN AND**

1 **MEASURABLE CHANGES TO THE COMPANY'S TEST YEAR**
 2 **OPERATING EXPENSES, REVENUES, AND RATE BASE?**

3 **A.** Yes.

III. CONCLUSION

4 **Q.** **DOES THIS CONCLUDE YOUR PRE-FILED SUPPLEMENTAL**
 5 **DIRECT TESTIMONY?**

6 **A.** Yes.

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. E-2, SUB 1142

| | | |
|--|---|------------------------------|
| In the Matter of: |) | |
| |) | |
| Application of Duke Energy Progress, LLC |) | SECOND SUPPLEMENTAL |
| For Adjustment of Rates and Charges |) | DIRECT TESTIMONY OF |
| Applicable to Electric Service in North |) | LAURA A. BATEMAN FOR |
| Carolina |) | DUKE ENERGY PROGRESS, |
| |) | LLC |

I. INTRODUCTION AND PURPOSE

1 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND**
2 **CURRENT POSITION.**

3 **A.** My name is Laura A. Bateman, and my business address is 411 Fayetteville
4 Street, Raleigh, North Carolina. I am a Director of Rates & Regulatory
5 Planning, employed by Duke Energy Carolinas, LLC, testifying on behalf of
6 Duke Energy Progress, LLC ("DE Progress" or the "Company").

7 **Q. ARE YOU THE SAME LAURA A. BATEMAN WHOSE DIRECT**
8 **TESTIMONY AND EXHIBITS WERE FILED IN THIS DOCKET ON**
9 **JUNE 1, 2017, WHOSE SUPPLEMENTAL DIRECT TESTIMONY AND**
10 **EXHIBIT WERE FILED IN THIS DOCKET ON SEPTEMBER 15,**
11 **2017, AND WHOSE REBUTTAL TESTIMONY AND EXHIBIT WERE**
12 **FILED IN THIS DOCKET ON NOVEMBER 6, 2017?**

13 **A.** Yes, I am.

14 **Q. WHAT IS THE PURPOSE OF YOUR SECOND SUPPLEMENTAL**
15 **DIRECT TESTIMONY IN THIS PROCEEDING?**

16 **A.** In my supplemental direct and rebuttal testimonies, I indicated DE Progress
17 will file an Updated Bateman Exhibit 1 at the time of the hearing, which will
18 incorporate the additional cost of service adjustments reflected in Bateman
19 Supplemental Exhibit 1, as well as possible other adjustments to cost of

1 service to the extent the actual changes are based on circumstances and events
2 occurring up to the time the hearing is closed. Accordingly, the purpose of my
3 supplemental direct testimony is to present Updated Bateman Exhibit 1 -
4 Hearing and Updated Bateman Exhibit 2 – Hearing, which incorporate the
5 changes discussed in my supplemental direct testimony, the items the
6 Company does not oppose as identified in my rebuttal testimony, as well as
7 two additional updates discussed in Section II below.

8 **II. ADDITIONAL UPDATES TO COST OF SERVICE**

9 **Q. PLEASE EXPLAIN THE TWO ADDITIONAL UPDATES**
10 **INCORPORATED IN UPDATED BATEMAN EXHIBIT 1 – HEARING**
11 **AND UPDATED BATEMAN EXHIBIT 2 – HEARING.**

12 **A. Line 11 – Adjust for post-test year additions to plant in service**

13 As indicated in Bateman rebuttal testimony, the Company is including an
14 adjustment to post-test year additions to plant in service to reflect plant
15 additions through October 2017.

16 **Line 37 – Adjust distribution vegetation management**

17 The Company has included an adjustment to reflect both an increase in the
18 cycle period for vegetation management and an increase in the contract prices.

19 The drivers for this adjustment are discussed in Company witness Simpson's
20 rebuttal testimony. These two adjustments are shown in more detail in
21 Bateman Second Supplemental Confidential Exhibit 1.

III. CONCLUSION

1

2 Q. DOES THIS CONCLUDE YOUR SECOND SUPPLEMENTAL DIRECT

3 TESTIMONY?

4 A. Yes.

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. E-2, SUB 1142

| | | |
|--|---|------------------------------|
| In the Matter of: |) | |
| |) | SETTLEMENT SUPPORT |
| Application of Duke Energy Progress, LLC |) | TESTIMONY OF |
| For Adjustment of Rates and Charges |) | LAURA A. BATEMAN FOR |
| Applicable to Electric Service in North |) | DUKE ENERGY PROGRESS, |
| Carolina |) | LLC |

I. INTRODUCTION AND PURPOSE

1 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND**
2 **CURRENT POSITION.**

3 A. My name is Laura A. Bateman, and my business address is 411 Fayetteville
4 Street, Raleigh, North Carolina. I am a Director of Rates & Regulatory
5 Planning, employed by Duke Energy Carolinas, LLC, testifying on behalf of
6 Duke Energy Progress, LLC ("DE Progress" or the "Company").

7 **Q. ARE YOU THE SAME LAURA A. BATEMAN WHO PREVIOUSLY**
8 **FILED DIRECT, SUPPLEMENTAL, SECOND SUPPLEMENTAL AND**
9 **REBUTTAL TESTIMONY AND EXHIBITS IN THIS PROCEEDING?**

10 A. Yes, I am.

II. PURPOSE AND SCOPE

12 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

13 A. The purpose of my testimony is to support the Agreement and Stipulation of
14 Partial Settlement ("Stipulation") by commenting on certain accounting and
15 ratemaking adjustments agreed upon in the Stipulation with the Public Staff.

16 **Q. DO YOU HAVE ANY EXHIBITS TO YOUR SETTLEMENT**
17 **SUPPORTING TESTIMONY?**

18 A. Yes. Updated Bateman Exhibit 1 – Partial Settlement shows the Company's
19 revised requested increase incorporating the provisions of the Stipulation.
20 Updated Bateman Exhibit 2 – Partial Settlement shows how the Company
21 proposes spreading the revised requested increase to the customer classes.

1 Both of these exhibits reflect the items agreed upon in the Stipulation and the
2 Company's position on the items for which there remains disagreement.

3 **Q. WERE THE EXHIBITS PREPARED BY YOU OR AT YOUR**
4 **DIRECTION AND UNDER YOUR SUPERVISION?**

5 **A.** Yes.

6 **III. STIPULATION WITH PUBLIC STAFF**

7 **Q. DOES THE COMPANY BELIEVE THE STIPULATION REPRESENTS**
8 **A BALANCED COMPROMISE THAT PROVIDES AN EQUITABLE**
9 **RESOLUTION FOR CERTAIN ITEMS IN THIS PROCEEDING FOR**
10 **ITS SHAREHOLDERS, CUSTOMERS AND OTHER**
11 **STAKEHOLDERS?**

12 **A.** Yes, the Company believes the Stipulation with the Public Staff balances the
13 financial impact on our customers with the Company's need to recover its
14 revenue requirement, for the items included in this Stipulation, to provide safe
15 and reliable electric utility service to our customers.

16 **Q. PLEASE EXPLAIN THE ACCOUNTING ADJUSTMENTS INCLUDED**
17 **IN THE STIPULATION.**

18 **A.** While the complete list of adjustments are described in the Stipulation, the
19 following are additional comments on certain accounting adjustments
20 identified in the Stipulation:

1 **1. Update plant and accumulated depreciation to October 31, 2017**

2 As part of settlement, the parties agreed to update both plant additions and
3 accumulated depreciation through October 31, 2017. As part of this
4 adjustment, for purposes of settlement, the parties agreed to remove the
5 Company's adjustments to accumulated depreciation that were contained in its
6 adjustments NC-0800 and NC-1100.

7 **2. Update revenues to October 31, 2017**

8 As part of settlement, the parties agreed to update revenues to reflect changes
9 in number of customers and, for the residential class, changes in weather-
10 normalized usage per customer through October 31, 2017.

11 **3. Adjust Harris COLA annual amortization**

12 As part of settlement, the parties agreed to an eight-year amortization period
13 for recovery of the deferred Harris COLA costs. In my rebuttal testimony, I
14 indicated that the Company would not oppose this adjustment by the Public
15 Staff.

16 **4. Adjust allocations by DEBS to DEP**

17 As part of settlement, the parties agreed to accept the Public Staff's
18 adjustment with a modification to include an annualized amount of DEBS
19 costs related to Piedmont in the calculation.

20 **5. Adjust for lost industrial revenues due to Hurricane Matthew**

21 As part of settlement, the parties agreed to accept the Public Staff's
22 adjustment with the modification proposed in my rebuttal testimony.

1 **6. Remove Customer Connect expenses**

2 As part of settlement, the parties agreed to accept the Public Staff's
3 adjustment to remove these costs. While these costs are operating expenses
4 per Generally Accepted Accounting Principles ("GAAP"), the settlement
5 attempts to treat them more like capital costs for ratemaking purposes. The
6 settlement, if approved by the Commission, would allow the Company to
7 establish a regulatory asset and defer to such regulatory asset the incremental
8 operating and maintenance costs associated with the Customer Connect
9 project. The regulatory asset would accrue a return in the same manner that
10 Construction Work in Progress (CWIP) balances accrue Allowance for Funds
11 Used During Construction (AFUDC). AFUDC would cease and the
12 amortization of the regulatory asset balance would begin on the date the DEP
13 Core Meter-to-Cash release ("Releases 5-8") goes into service or January 1,
14 2022, whichever is sooner. The parties also agree to a 15-year amortization
15 period, which is also the depreciable life of the majority of the capital assets
16 that are part of this release.

17 **7. Adjust aviation expenses**

18 In its initial filing, the Company removed 40.24% of the corporate aviation
19 costs. In its adjustment, the Public Staff removed 75.55% of the costs. For
20 the purposes of settlement, the parties agreed to an adjustment that removes
21 50% of the costs.

1 **8. Adjust depreciation rates**

2 As part of settlement, the parties agreed to make adjustments to the
3 Company's proposed depreciation study, as outlined in the Stipulation, that
4 result in a decrease in the overall revenue requirement.

5 **9. Adjust incentives**

6 As part of settlement, the parties agreed to accept the Public Staff's
7 adjustment with the modification to limit the incentives removed to those of
8 senior leaders within the Company.

9 **10. Adjust Sutton CT Blackstart plant cost**

10 As part of settlement, the parties agreed to reduce rate base by \$2.788 million
11 (NC Retail), along with other depreciation expense and cost of capital effects.
12 The Company believes these costs were prudently incurred. However, for the
13 purposes of settlement, we have agreed to the adjustment and that the
14 adjustment will be permanent for ratemaking and regulatory accounting
15 purposes.

16 **11. Adjust Mayo ZLD plant cost**

17 As part of settlement, the parties agreed to reduce rate base by \$10.393
18 million (N.C. Retail), along with depreciation expense and other cost of
19 capital effects. The Company believes these costs were prudently incurred.
20 However, for the purposes of settlement, we have agreed to the adjustment
21 and that the adjustment will be permanent for ratemaking and regulatory
22 accounting purposes.

1 **Q. IN YOUR OPINION, DOES THE STIPULATION REFLECT A FAIR,**
2 **JUST, AND REASONABLE RESOLUTION OF THE ISSUES IT**
3 **ADDRESSES?**

4 **A. Yes. As stated previously, the Stipulation is the result of negotiations between**
5 **the Stipulating Parties and resolves many of the issues in the case between the**
6 **Stipulating Parties without the necessity of contentious litigation. Therefore,**
7 **we respectfully request that the Commission approve the Stipulation in its**
8 **entirety.**

9 **IV. CONCLUSION**

10 **Q. DOES THIS CONCLUDE YOUR SETTLEMENT SUPPORT**
11 **TESTIMONY?**

12 **A. Yes.**

1 BY MS. SMITH:

2 Q. Mr. Fountain and Ms. Bateman, did --
3 individually, did you both prepare summaries for the
4 Commission today?

5 A. (David Fountain) Yes, I did.

6 A. (Laura Bateman) Yes.

7 Q. And can you deliver those now, starting with
8 you, Mr. Fountain?

9 A. (David Fountain) Yes. Good afternoon,
10 Mr. Chairman, Commissioners, and participants in this
11 proceeding. We are here today seeking a change in
12 rates to reflect our work to modernize our electric
13 system, generate cleaner power, responsibly manage and
14 close coal ash basins, respond to major storms like
15 Hurricane Matthew, and continually improve our service
16 to customers.

17 As I describe in my direct testimony, in
18 recent years, Duke Energy Progress has built and
19 purchased additional generating facilities to serve
20 customers. The Company has invested heavily in new
21 gas-fueled generation, retiring half of our older, less
22 efficient coal-fired generation units and replacing
23 them with state-of-the-art, cleaner-burning natural
24 gas-fueled plants. These new plants emit carbon

1 dioxide at about half the rate, and nitrogen and sulfur
2 oxide emissions at a fraction of the rate of the units
3 that they replaced. In addition to the \$416 million
4 invested in those gas-fueled plants, Duke Energy
5 Progress has also invested \$184 million in new solar
6 energy installations, the first solar additions to the
7 Duke Energy Progress fleet. These additions to the
8 fleet have occurred during a time when the Company has
9 also been making other significant and necessary
10 investments in its existing generating plants.

11 The Company has also started the process to
12 ensure compliance with new state and federal
13 regulations requiring the Company to address coal ash
14 basin closures at plants which have or are continuing
15 to serve customers in North Carolina. We are relying
16 on the power of science and engineering to safely
17 manage and close all of our ash basins and find new
18 ways to recycle the byproducts of decades of electric
19 generation to benefit our economy and our state.

20 Today, Duke Energy recycles more than
21 75 percent of the coal combustion byproducts we produce
22 in North Carolina, including using 20 percent of coal
23 ash for beneficiation projects as discussed by the
24 Company's witness, John Kerin. And we have plans to

1 reuse more in the years ahead.

2 Additionally, we are planning for the future,
3 starting the process of rolling out a new customer
4 information system to ensure the best customer service
5 possible, and have plans for significant investment in
6 metering infrastructure and the grid. We are investing
7 in our grid in an initiative called Power/Forward
8 Carolinas to ensure that the grid that has served our
9 customers for decades is properly modernized for the
10 energy needs of today and tomorrow. We believe these
11 smart investments in technology, infrastructure, and
12 environmental protection will help connect millions of
13 our customers to the energy future they expect.

14 The Company realizes that, regardless of how
15 verified a rate case may be, there is no good time to
16 raise customer rates. The Company wants to help
17 customers understand their energy use, empowering them
18 to save money on their electric bill by offering more
19 than a dozen energy-saving programs for every type of
20 energy user and budget. The energy efficiency programs
21 of Duke Energy Progress currently save customers in the
22 Carolinas over 1.7 billion kWh annually, or over
23 \$170 million, which is about 4 percent of total retail
24 kWh sales. Combined, the Company's energy efficiency

1 and demand-side management programs offset capacity
2 requirements by the equivalent of over four power
3 plants.

4 In my rebuttal testimony, I describe the four
5 major issues the Company observed being raised at that
6 time by Public Staff and intervenors. The first is
7 some apparent confusion about the state of our
8 environmental compliance program and what state and
9 federal environmental regulators require of us
10 regarding coal ash basin closure. Expenses included in
11 this rate request represent costs incurred from
12 compliance with state and federal laws and regulations,
13 all of which stem from providing customers with decades
14 of reliable electric service at competitive rates. As
15 you will hear from our other witnesses, these types of
16 environmental compliance costs have historically been
17 paid for by customers.

18 There is also some confusion, largely
19 stemming from non-environmental experts, about our
20 costs and the underlying view that somehow compliance
21 with environmental regulations warrants punitive action
22 against the Company. For example, Public Staff
23 proposes the idea of a 50/50 sharing of coal ash costs.
24 As our witnesses explain, we disagree with Public

1 Staff's position and with the other intervenors who
2 have made similar arguments. Their arguments are not
3 supported by the facts, are not supported by the law,
4 and are not supported by this Commission's precedent.
5 There have also been arguments raised that
6 North Carolina's Coal Ash Management Act is extensively
7 more expensive than the federal Coal Combustion
8 Residuals Rule, that CAMA was punitive and that no
9 costs from CAMA over what is required by the CCR Rule
10 should be allowed. We also thoroughly discredit this
11 position in our rebuttal testimony from our experts.

12 The second issue concerns some fundamental
13 disagreements on the cost of equity required by the
14 Company's investors, and the utility capital structure
15 upon which an equity return is applied. These issues
16 have been addressed in the context of the partial
17 settlement entered into with the Public Staff.

18 The third major category of issues that I
19 observed related to reductions in revenue requirements.
20 All revenue requirement issues, other than the 2016
21 storm cost recovery and coal ash cost recovery, have
22 been resolved in the partial settlement with the Public
23 Staff. As to storm expenses, without contesting a
24 single action or contesting a single cost item that the

1 Company incurred in restoring power to customers and
2 rebuilding large parts of the grid in the aftermath of
3 2016's historic storms, the Public Staff has
4 recommended disallowing almost half of those costs. We
5 believe that is an inappropriate outcome. Restoring
6 power after a storm is extremely important to our
7 customers, and penalizing the Company for its extensive
8 efforts in this area is not in the best interest of
9 customers.

10 The fourth major issue involves differing
11 perspectives on how best to modernize our grid and
12 metering infrastructure -- recovering of which will be
13 addressed in future cases -- as well as customer
14 information systems. Although no forward-looking costs
15 are included for rate recovery in this case, the
16 Company has provided voluminous detail in testimony and
17 discovery in the interest of being transparent about
18 our plans; how such plans were developed; and the
19 necessity of the individual programs that make up the
20 Power/Forward initiative. Company witnesses
21 Bobby Simpson, Don Schneider, and Retha Hunsicker ably
22 address and rebut all issues that have been raised on
23 these topics. Pursuant to the terms of the partial
24 settlement, the Company will host a technical workshop

1 during the second quarter of 2018 to explain the need
2 for the ongoing benefits of grid investment, and to
3 hear feedback from stakeholders in attendance. The
4 Company will report the results of the workshop to this
5 Commission and to the Public Staff.

6 Finally, the Company's goal of retaining and
7 expanding industrial jobs in North Carolina continues
8 to be important to the Company and its customers. As
9 discussed in greater detail in the rebuttal testimony
10 of Company witness, Steven Wheeler, the Company's
11 proposed job retention rider is designed to stem
12 further loss of the industry, industrial production,
13 and industrial jobs in Duke Energy Progress' service
14 territory. Note, however, the Company may elect to
15 terminate the jobs retention rider after the initial
16 year if the Company's funding request included in the
17 application is not approved.

18 In my settlement testimony, I describe that
19 the Company is pleased that it is able to support a
20 partial settlement with the Public Staff that resolved
21 many of the issues between the stipulating parties. As
22 explained in my testimony, supporting the partial
23 settlement, we were able to resolve all revenue
24 requirement issues except for those related to coal ash

1 cost recovery, and issues related to the recovery of
2 2016 storm costs. I believe this partial settlement
3 strikes the right balance on the agreed-upon terms.
4 Just a few of the ways we have struck this reasonable
5 balance include the Company's willingness to settle for
6 rates designed on the basis of a 9.9 percent return on
7 equity and a 52 percent equity component of its capital
8 structure, both of which are reductions from that
9 currently authorized and which will help mitigate the
10 impact of the rate increase on customers. Secondly,
11 the Company's willingness to accept an overall revenue
12 requirement will also mitigate the impact on customers.
13 And third, the Company's agreement to support and fund,
14 for the first year, jobs retention rider that will help
15 foster economic development and job growth within the
16 state. The Company has also agreed to reduce the
17 monthly basic customer charge for residential customers
18 from the requested amount of \$19.50 down to \$14 per
19 month, which will help moderate the rate impact on
20 certain customer groups. Taken together, we believe
21 our proposal fairly balances the interest of customers
22 and the Company and that our strategy has struck an
23 appropriate long-term balance among the goals of
24 reliable, increasingly clean energy at competitive

1 prices. We are pleased that our rates will continue to
2 remain below the national average with the partial
3 settlement, and we ask the Commission to approve the
4 partial settlement in conjunction with this proceeding.

5 This concludes the summary of my direct,
6 rebuttal, and settlement support testimonies.

7 Q. Ms. Bateman?

8 A. (Laura Bateman) Thank you. Good afternoon,
9 Mr. Chairman, members of the Commission. I filed
10 direct, supplemental direct, rebuttal, second
11 supplemental direct, and settlement support testimonies
12 in this case.

13 My direct testimony discusses the results of
14 Duke Energy Progress' operations under present rates on
15 the basis of an adjusted historical test year, using
16 the 12-month period ending December 31, 2016, and
17 supports the pro forma adjustments to the test period.

18 One of the pro forma adjustments relates to
19 normalizing storm restoration costs. During the test
20 period, the Company incurred \$80 million of incremental
21 operating expense and \$49 million of capital, on a
22 North Carolina retail basis, related to major storm
23 restoration efforts.

24 In Docket Number E-2, Sub 1131, the Company

1 requested permission to defer these incremental costs,
2 net of \$12.7 million, that is currently in customer
3 rates. As part of the storm normalization pro forma
4 adjustment, I propose to amortize these costs over a
5 three-year period.

6 My direct testimony also discusses the
7 additional revenue required in this case and the
8 Company's proposal for how to spread the increase to
9 the rate classes. Additionally, my direct testimony
10 explains the accounting orders the Company is
11 requesting regarding deferral and certain purchased
12 power expenses and coal ash pond closure costs that are
13 either over or under the levels set in this proceeding;
14 and the approval of regulatory assets for unrecovered
15 costs of the Asheville coal plant upon retirement and
16 for meters retired as part of the Company's Advanced
17 Metering Infrastructure Deployment Program. Finally,
18 my direct testimony discusses the prudence of the cost
19 included in this request related to four solar
20 generation facilities owned by Duke Energy Progress.

21 In my supplemental direct testimony, I
22 present additional adjustments to the Company's cost of
23 service, including updating estimated costs with
24 actuals through August 31, 2017. I also withdraw the

1 Company's accounting request relating to certain
2 purchase power expenses, since those will now be
3 recovered through the fuel rider due to the passage of
4 House Bill 589.

5 In my rebuttal testimony, I addressed several
6 accounting adjustments proposed by the Public Staff as
7 summarized in Bateman Rebuttal Exhibit 1. Particular
8 adjustments that I oppose include Witness Maness'
9 recommendation that the costs the Company identified as
10 "CAMA only" be allocated based on an allocator that
11 allocates to all jurisdictions, instead of directly
12 assigning these costs to North Carolina. I also oppose
13 Witness Maness' recommendation to amortize the deferred
14 ash pond closure cost over a 28-year period rather than
15 the Company's proposed 5-year amortization period, and
16 his recommendation to remove the unamortized balance
17 from rate base.

18 Additionally, I oppose Witness Maness'
19 recommendation to remove the ongoing environmental
20 costs. As part of my opposition, I explain that the
21 Company's spend on coal ash pond closure will be
22 recurring going forward, and there are no known and
23 measurable reasons to adjust the test period levels.

24 In addition to these recommendations

1 regarding coal ash, I also oppose the Public Staff's
2 position regarding the Company's deferral and
3 amortization of 2016 storm costs. I explain that the
4 Company's total incremental cost to repair and restore
5 its system due to storm damage in 2016 far exceeded the
6 level of major storm costs included in the Company's
7 last rate case, and the Company is only seeking to
8 defer the costs in excess of the level approved by the
9 Commission in that case. I also explain that, if the
10 Company is not allowed to include storm capital repairs
11 in a return on the deferred balance, then Duke Energy
12 Progress will be denied recovery of these incremental
13 costs. Further, I explain the Company's need to match
14 the amortization start date with that required by our
15 auditors and accounting guidance to reflect the
16 deferral in our financial statements. Finally, I
17 address issues raised by Department of Defense Witness
18 Cannady and one issue raised by CUCA Witness O'Donnell.

19 In my second supplemental direct testimony, I
20 update plant additions through October 2017 and include
21 an adjustment to reflect increases in vegetation
22 management costs.

23 In my settlement support testimony, I support
24 the accounting adjustments agreed to and described in

1 the Agreement and Stipulation of Partial Settlement.
2 In the settlement support testimony, I also attach an
3 Updated Bateman Exhibit 1 - Partial Settlement and
4 Updated Bateman Exhibit 2 - Partial Settlement, which
5 show the revised requested increase and incorporate the
6 impacts of the stipulation as well as the Company's
7 position on the unresolved issues.

8 This concludes the summary of my prefiled
9 testimony.

10 MS. SMITH: Mr. Chairman, the panel is
11 available for questions now.

12 CHAIRMAN FINLEY: Cross examination?

13 MR. PAGE: Mr. Chairman, I believe the
14 parties have agreed that I would have the first
15 crack at the panel. I am familiar with both
16 members of the panel and spoke to them prior to the
17 commencement of the hearings and indicated to them
18 that, while my questions are primarily designed to
19 be answered by Mr. Fountain, that Ms. Bateman
20 should feel free to join in with any responses she
21 deems appropriate, based on the question.

22 CROSS EXAMINATION BY MR. PAGE:

23 Q. Mr. Fountain, I hate to see you sit there
24 twisting your neck like that. Why don't you just -- I

1 am gonna try to do you a favor here. You don't have to
2 look at me. Go ahead and face the Commission.

3 A. (David Fountain) All right.

4 Q. As long as you can hear me --

5 A. (David Fountain) I can hear you.

6 Q. And respond to the questions, we will get
7 along just fine.

8 A lot of the testimony -- not only yours, but
9 several of the other Duke witnesses, especially about
10 the coal ash issue, gets into this question, does it
11 not, Mr. Fountain, of what is or is not within the
12 normal, or usual, or ordinary course of business for
13 Duke Energy and Duke Energy Progress?

14 A. (David Fountain) Yes. What we've included
15 in our request is to recover coal ash costs that were
16 incurred in 2015, 2016 and through a portion of 2017
17 along with a requested run rate based on our actual
18 test year coal ash expenses in 2016.

19 Q. I wanted to explore with you a little bit
20 some of the aspects of what would amount to a normal,
21 ordinary course of business action by your company or
22 expenditure by your company. And as a predicate to
23 that, may I ask, are you familiar with the history of
24 Duke Energy Progress, in terms of filing general rate

1 increase cases in the state of North Carolina?

2 A. (David Fountain) I have a general
3 familiarity with that, yes.

4 Q. All right. And you filed this case in 2017;
5 is that correct?

6 A. (David Fountain) We did.

7 Q. The previous case that you filed was
8 approximately four or five years earlier; is that
9 correct?

10 A. (David Fountain) Yes. The last time that
11 new rates went into effect as a result of a general
12 base rate case was in 2013.

13 Q. All right. Now, prior to the 2013 case, how
14 far back would we have to go to find the next previous
15 Duke Energy, or I think at the time it was either
16 Progress Energy or Carolina Power and Light, where they
17 filed a general rate increase case?

18 A. (David Fountain) I don't recall the specific
19 year at which Duke Energy Progress' predecessor named
20 company filed a rate case, but it would have been, I
21 expect, in the late '80s.

22 Q. All right. So it was probably 20-some years,
23 25 years maybe, prior to the last case that you filed?

24 A. (David Fountain) Yes. It was some time and

1 space in between those two cases.

2 Q. All right. So during the -- that 20-,
3 25-year period, it would be fair to say, would it not,
4 that it was not the normal course of business for Duke
5 Energy Progress or its predecessors to file general
6 rate cases on a regular 3-, 4-, 5-year cycle basis?

7 A. (David Fountain) Well, I would say that,
8 when we evaluate when to file a rate case, we do that
9 based on investments that have been made to benefit
10 customers and a variety of other financial
11 circumstances at the time. So no, I would not agree
12 that it's normal course for a company not to file a
13 rate case for several decades.

14 Q. All right. So you would say that, during
15 that period of 20, 25 years when no rate increases were
16 filed, that was unusual; that was not normal course of
17 business?

18 A. (David Fountain) That's correct.

19 Q. Well, let's look at some other examples and
20 compare and contrast. The Company, as it is currently
21 constituted, takes some action each and every month to
22 go and read the usage meters; does it not? Whether
23 it's a man in a truck or a guy with a Turtle remote
24 reader or whatever it is, you do to that?

1 A. (David Fountain) We do read our customers'
2 meters on a monthly basis.

3 Q. And you have regular billing cycles for that?

4 A. (David Fountain) We do.

5 Q. And you're talking about -- so that aspect of
6 it, just, you know, recording the consumption and
7 billing the consumption on a monthly basis, that would
8 be equivalent to ordinary course of business; would it
9 not?

10 A. (David Fountain) Yes. You know, recording
11 the usage, and then billing the customer for that usage
12 is ordinary course.

13 Q. And part of the proposal in this rate case is
14 to do a significant costly grid infrastructure
15 improvement to try to improve the ways in which the
16 Company can convey realtime usage information to its
17 customers; am I correct in that?

18 A. (David Fountain) Just to be clear, I think
19 what you are referencing is the Power/Forward Carolinas
20 Grid Modernization Initiative, and there is no cost
21 associated in this case with that initiative. However,
22 we have included background on the Power/Forward
23 Carolinas Grid Modernization Initiative in order to be
24 transparent.

1 Q. All right. I guess my point is, when that
2 investment is made and incorporated into rate base,
3 that's not something you do every month or every year;
4 am I correct in that?

5 A. (David Fountain) Yes. The Power/Forward
6 Carolinas Initiative would be a 10-year program where
7 we plan to invest about \$13 billion in improving the
8 grid infrastructure for the benefit of our customers
9 through improved reliability programs, storm hardening,
10 cyber security protections, as well as providing
11 customers with more options around their information
12 and control of that information in order to control
13 their energy usage.

14 Q. All right. Let's look at another example to
15 try to further illustrate this comparison and contrast.

16 Isn't it a fact that each and every month
17 Duke is in the wholesale power markets, both buying and
18 selling electricity?

19 A. (David Fountain) Yes. We are participants
20 in the wholesale power markets.

21 Q. And, you know, you do that for, among other
22 reasons -- when it makes more sense to buy power at the
23 market rate rather than firing up another one of your
24 generators, that's what you do; is that correct?

1 A. (David Fountain) Yes. We're driven by an
2 economic dispatch model, and so we look for the most
3 economic ways to provide electricity to our customers.

4 Q. All right. And that process that takes
5 place, certainly every month if not every day, that
6 would generally be described as routine, normal,
7 ordinary course of business for Duke; am I correct?

8 A. (David Fountain) We do engage in the
9 wholesale markets for the benefit of our customers
10 every day, so yes, that would be ordinary course.

11 Q. And the contrast with that -- for that would
12 be that, when you make a decision to invest in a new
13 generating production plant, whether it's coal, or
14 fossil, or natural gas, or nuclear, that's not
15 something that occurs every year in the ordinary course
16 of business, does it, other than being reflected in our
17 IRP plan?

18 A. (David Fountain) Well, you know, we do make
19 investments every year in our generation portfolio, and
20 so those investments, I believe, are made in the
21 ordinary course.

22 Q. All right. But you don't have new units
23 coming online every year?

24 A. (David Fountain) You're correct that we

1 don't have new units coming online every year, but we
2 are working to maintain the dispatch capacity of our
3 generation fleet for the benefit of customers.

4 Q. And the Company every week, I would imagine,
5 probably every day, performs routine maintenance and
6 repair on its transmission and distribution grids?

7 A. (David Fountain) We do that on an ongoing
8 basis, yes.

9 Q. And you're proposing in this case, are you
10 not, an extensive new investment to beef up the quality
11 of that infrastructure for transmission and
12 distribution?

13 A. (David Fountain) Yes. Again, there are none
14 of those costs that are included in this case for cost
15 recovery.

16 Q. But those are things that would not be in the
17 day-to-day routine, ordinary course of maintenance and
18 repair; am I correct about that?

19 A. (David Fountain) Well, I think what we are
20 working on here is really seeking a step-level change
21 in the performance of our grid. You know, we operate
22 one of the largest grids in the country. It's about
23 170,000 miles. That is enough to go around the earth
24 about seven times. And what we are really doing is

1 looking to perform the -- improve the performance of
2 the grid, because a lot of that infrastructure is
3 aging. And just like we've done with the replacement
4 of some of our older coal-fired generation units, we
5 have replaced those with state-of-the-art natural
6 gas-fired generation units, and we are looking to
7 replace other parts of aging infrastructure on our
8 grid.

9 Q. Turning to another topic, Mr. Fountain, would
10 you look, please, at page 17, beginning at line 15, and
11 then over onto page 18 of your testimony? And would I
12 be correct in saying that, in those pages, what you are
13 doing, essentially, is comparing the Company's proposal
14 to collect costs from the customers -- and I think the
15 amount in this case is approximately \$200 million --
16 related to coal ash cleanup expenses, and you're
17 comparing that to the operation of a tire shop?

18 A. (David Fountain) Yes. The coal ash costs
19 that we've incurred that are included in this case are
20 environmental compliance costs. So the comparison that
21 you are referring to in my direct testimony is an
22 analogy to a tire shop where there is an environmental
23 disposal fee that the tire shop would charge its
24 customer in order to safely store and dispose of that

1 tire. So the analogy is to coal ash; we are, for the
2 benefit of our customers, managing our coal ash basin
3 closure in ways that are environmentally compliant.

4 Q. So you contend that the analogy is correct
5 that, what Duke is doing is quantitatively or
6 qualitatively no different from what the tire shop does
7 when it charges you a little extra for a new set of
8 tires, because they are then going to have to recycle
9 or dispose of the old tires?

10 A. (David Fountain) Right. Just like Duke
11 Energy recycles coal ash that we are currently
12 producing and we are looking for other ways to
13 beneficially reuse historic ash and dispose of ash, you
14 know, those are all environmental compliance costs that
15 we are seeking cost recovery for, because those costs
16 were incurred in a reasonable and prudent manner. And
17 in fact, Mr. Page, no one has challenged the prudence
18 of any of those costs except for the Public Staff
19 witness Garrett and Moore.

20 Q. Okay. I want to follow up to the analogy and
21 suggest to you that there are some differences between
22 how Duke is going about cleaning up its coal ash and
23 the operation of the tire shop .

24 If I recall Dr. Wright's testimony correctly,

1 he says in part of his testimony, does he not, that
2 Duke Energy Progress and its predecessors have been
3 burning coal to heat water, produce steam, drive a
4 turbine for now close to 100 years?

5 A. (David Fountain) Yes. You will be able to
6 ask Dr. Wright a little more about that directly later
7 in the hearing.

8 Q. All right. But the tire company is not going
9 to accumulate 40, 60, 80, 100 years' worth of used
10 tires before they do something to either recycle or
11 dispose of them, is it?

12 A. (David Fountain) Well, I would suggest that,
13 you know, there have been emerging environmental
14 regulations around the automotive industry, whether
15 it's with respect to disposal of the tires or disposal
16 of waste oil, other products. Those have emerged over
17 the past several decades as well. And I think all of
18 us, as consumers, are paying those costs for
19 environmental compliance, and that's what we are
20 seeking recovery for here, is the recovery of the cost
21 of complying with those environmental laws. And as you
22 referenced, Dr. Wright will be able to address that
23 more directly.

24 Q. In the ordinary course of tire business or --

1 perhaps you are. I'm not an expert in the tire
2 business. I want to make that clear. But it seems to
3 me like the tire company is not gonna allow those used
4 tires to stack up and up and up and up for an
5 extensively long period of time before it gets those
6 used tires off of its property.

7 Does that seem like a safe assumption?

8 A. I have to admit, I'm not an expert in the
9 tire business either, Mr. Page.

10 Q. When we are talking about the way a tire
11 business operates, that when you go to buy a new set of
12 tires, you are paying something to recycle or dispose
13 of the old tires..

14 Would it make any difference if we were
15 talking about a battery -- automobile battery store?

16 A. Yes. As I said earlier, there are a number
17 of different environmental compliance costs associated
18 with the automotive industry, and those costs are
19 typically ultimately borne by consumers. In this case,
20 we have got coal ash compliance costs, but again, no
21 one in this case has challenged the reasonableness or
22 prudence of, except for Public Staff witness Garrett
23 and Moore.

24 Q. Typically, what I am saying is, when you go

1 to Firestone or Walmart and you want to change out the
2 battery in your automobile, part of what you pay for
3 the new battery is a cost that goes to retire or
4 recycle the old battery, just like the tires; isn't
5 that correct?

6 A. I believe that's correct.

7 Q. In the case of the tire or the battery,
8 wouldn't it be fair to say that the cost recovery for
9 that recycled retirement phaseout cost is much more
10 precisely targeted, in that you, as a customer, are
11 coming in and you are paying to have the tire company
12 or the battery company recycle something that you
13 probably bought within the last five years?

14 A. Again, as I have already stated, I'm not an
15 expert in the tire business nor am I an expert in the
16 battery business, so it's hard for me to follow your
17 line of questioning there.

18 Q. All right.

19 A. But what I would say, again, is that these
20 costs we are seeking recovery for are permitted to be
21 recovered pursuant to the facts, the law, and this
22 Commission's precedent, and that's what we are seeking
23 recovery for. And none of the intervenor witnesses
24 have challenged the reasonableness and prudence of

1 those costs, except for the Public Staff witness
2 Garrett and Moore.

3 Q. The tire company or battery company is not
4 coming up with a charge that seeks to require the
5 customer today to pay for disposal or recycle costs
6 that actually accrued 20, 40, 60, 80 years ago; isn't
7 that a fact? But that's what your coal ash cost
8 recovery is doing.

9 A. Well, you know, I'm not aware of a car
10 battery that's still in use from 40, 60, or 80 years
11 ago, much like some of the coal-fired generation that
12 we have been operating for the benefit of customers
13 over that length of time. And so whether it's with our
14 recently retired plants or our plants that are still in
15 operation, you know, we have been generating
16 electricity from those plants for the benefit of
17 customers for decades and decades. And the cost of
18 safely managing and disposing of the waste byproducts
19 from that generation is something that is a permitted
20 cost for recovery here in North Carolina.

21 Q. All right. Do you think that it's a fair
22 thing, that it's a fair rate-making practice, for Duke
23 to ask its customers, in the rates it will be paid as a
24 result of this proceeding, to pay for coal ash cleanup

1 and disposal that dates back to 20, 40, 60, 80 years
2 ago? Do you consider that fair?

3 A. You know, we are all benefitting today from
4 investments that others before us have made. You know,
5 the fact that nearly half of the electricity that is
6 generated here in the Carolinas by Duke Energy is
7 carbon free is a result of investments made in our
8 nuclear fleet by prior customers that we're still
9 enjoying the benefit of today. So yes, I do think it's
10 fair that customers who have enjoyed the benefits of
11 low-cost generation should also have to pay the
12 appropriate cost for environmental compliance
13 associated with that generation.

14 Q. All right. And typical utility rate making
15 and rate design specifically, isn't one of the axioms
16 or principles that we all are trying to follow, that
17 you're trying to, as precisely as you can, impose a
18 cost on the cost causer?

19 A. (Laura Bateman) So I would like to jump in
20 just for a little bit here, since we are talking about
21 rate-making issues. One of the things that I would
22 like to point out -- and I see your line of
23 questioning, but one of the things I would like to
24 point out is that, in our last rate case, the Company

1 did include about a little over \$10 million for coal
2 ash pond closure costs, and that would have
3 recovered -- based on the existing rules at the time
4 and the existing standards at the time, it would have
5 recovered the cost to close the ash ponds at the
6 retired plants over a 10-year period, so 2022, and it
7 would have recovered the cost to close the ash ponds at
8 the active plants by their estimated retirement date.
9 So we did include an amount that, if there had been no
10 change in law, that would have been fine to close our
11 ash ponds. The reason that the costs have increased is
12 due to changes in the regulations. And so now we are
13 asking for an increase due to those changes.

14 Q. But isn't it also true that the result of
15 that is that you're taking costs that probably --
16 properly ought to be attributable to Duke customers
17 back in the 1970s, '80, '90s, and the early part of
18 this century, and you're imposing those costs to people
19 who are customers today and in the future; is that
20 fair?

21 A. Yes, I think it is. If you think back to --
22 kind of what you are suggesting is that the Company
23 should have looked forward into the future, anticipated
24 the changes in environmental regulations, and charged

1 customers 50 years ago for the projected changes in
2 environmental regulations, and that just wouldn't have
3 been allowed. That's not normal rate making. When we
4 do have changes in environmental regulations, it is
5 fair for the Company to ask current customers to pay
6 for the costs of those changes.

7 Q. And if the horse is already dead, I don't
8 want to keep beating on it, but the simple fact of the
9 matter is Duke is today trying to clean up coal ash
10 that accumulated as a byproduct of generations years
11 and decades ago. And the people who were customers
12 then may not be the same people who are the customers
13 today; is that correct?

14 A. I would just like to say again, in our last
15 rate case, and no one -- no party to that rate case
16 opposed this, we included coal ash remediation costs in
17 a plan to close our coal ash ponds that was based on
18 the environmental regulations at the time. Those
19 environmental regulations have changed, so it is
20 appropriate to ask current customers to change -- to
21 pay for increased costs due to changes in environmental
22 regulations.

23 Q. Is it the contention of Duke Energy Progress
24 that it has followed either the best or at least sound

1 business and environmental practices in managing its
2 coal ash or CCR stock piles?

3 A. (David Fountain) Yes. We have certainly
4 followed the industry standard practices for managing
5 those stock piles, and that is something that our
6 Company witnesses, John Kerin and Joe Miller, will be
7 able to provide more background on.

8 Q. Following the Dan River spill, the federal
9 government didn't necessarily agree with that position,
10 did they, in the sense that they brought criminal
11 charges for coal ash mismanagement against the Company,
12 to which Duke pled guilty and agreed to pay a
13 substantial fine; is that correct?

14 A. Well, I will make two points about that,
15 Mr. Page. One is that the Dan River release occurred
16 in our Duke Energy Carolinas utility, so that's a
17 separate rate proceeding. The other point I would make
18 is that, certainly, no customers are being asked to pay
19 for any of the costs associated with the response to
20 the Dan River release nor any fines or penalties
21 related to the coal ash issue.

22 Q. Is the -- are the acts of pleading guilty to
23 federal criminal charges and paying millions of dollars
24 in fines, is that part of the normal course of business

1 for Duke, either Duke Carolinas or Duke Progress?

2 A. Again, I would say that the Duke Energy
3 Carolinas facility, again, which is not part of this
4 case, the Dan River release did not live up to our
5 expectations of ourselves. And the Company has taken
6 accountability for that. And we have used that as a
7 real inflection point for us to be able to change the
8 way that we manage our ash basins. And you will hear
9 more about that from the Company witnesses, John Kerin
10 and Joe Miller.

11 I will also say that the fact that the
12 Company has never requested any type of customer
13 contribution towards the fines and penalties which you
14 are referencing, again is something that the Company
15 has taken accountability for early on.

16 MR. PAGE: At this point, Mr. Chairman,
17 I would like to pass out a cross examination
18 exhibit, and I have taken the liberty, subject to
19 the Chair's ruling, of pre-marking this cross
20 examination exhibit as CUCA Fountain Cross Exam
21 Exhibit Number 1, and would request that it be so
22 marked.

23 CHAIRMAN FINLEY: We will mark it that
24 way.

1 (Whereupon, CUCA Fountain Cross
2 Examination Exhibit No. 1 was marked for
3 identification.)

4 BY MR. PAGE:

5 Q. Mr. Fountain, if you could read while I'm
6 walking around and passing it out, we will move along a
7 little more expeditiously.

8 MR. RUNKLE: Your Honor, while Counsel
9 is passing out a cross examination exhibit, I would
10 like to pass out two cross examination exhibits.

11 CHAIRMAN FINLEY: Go right ahead.

12 MS. SMITH: Question here. Is that for
13 NC WARN's cross?

14 MR. RUNKLE: Yes.

15 MS. SMITH: May we please pass that out
16 when it's NC WARN's time to cross and let --

17 CHAIRMAN FINLEY: He may pass that out
18 now to save time. No problem.

19 MS. SMITH: Mr. Chair, I would like to
20 object to this exhibit from CUCA. The words Duke
21 Energy Progress don't appear anywhere in this
22 article, and the issue of Scandinavian investment
23 plan has nothing to do with the testimony of
24 Mr. Fountain or the Company's environmental

1 compliance efforts.

2 MR. PAGE: Well, I think it goes
3 directly to the issue of what is or what is not the
4 ordinary course of business, and it shows the
5 judgment of one of Duke's major investors of its
6 opinion about Duke's environmental practices, which
7 I think is very relevant to the issues of coal ash
8 cleanup cost recovery.

9 CHAIRMAN FINLEY: There is an issue in
10 the case about ordinary course of business, so I
11 will allow it at the moment, at least. Go ahead.

12 BY MR. PAGE

13 Q. Mr. Fountain, have you had an opportunity to
14 review the article?

15 A. I have scanned it.

16 Q. Would I be correct in saying that the general
17 thrust or gist of the article is that the state
18 retirement plan for the country of Norway, which once
19 upon a time had about a half a billion dollars worth of
20 stocks and bonds in Duke Energy and three of Duke's
21 subsidiaries, divested itself of those investments
22 following the Dan River spill?

23 A. That appears to be an accurate summary.

24 Q. All right. Would you say that, losing an

1 investor who has put almost -- or half a billion
2 dollars in your company, is that a normal or ordinary
3 course of business for Duke?

4 A. Well, we have investors who invest in our
5 company's stocks and bonds every day, and so I would
6 not be in a position to speak to whether or not that's
7 normal course, but we have thousands if not hundreds of
8 thousands of investors in Duke Energy stocks.

9 Q. Would you turn to page 2 of 5 in the article,
10 and the first full paragraph beginning, "Fund manager
11 Norges Bank," would you read that paragraph into the
12 record, please?

13 A. "Fund manager Norges Bank announced the
14 decision on Wednesday, following an April
15 recommendation by the fund's counsel on ethics that
16 detailed North Carolina-based Duke's history of illegal
17 dumping of toxic waste into surface water and
18 groundwater, decades of poor structure maintenance,
19 resistance to federal mandates to cut high sulfur oxide
20 emissions from its coal plants and tens of millions of
21 dollars in fines for flouting environmental safety
22 regulations."

23 CHAIRMAN FINLEY: Ms. Smith, I will give
24 you a continuing objection to question on this

1 exhibit.

2 MS. SMITH: Yes.

3 BY MR. PAGE:

4 Q. Thank you, sir. Now, if I could,
5 Mr. Fountain, I'd like to get out of coal ash and onto
6 something else for a while. On page 35 of your
7 testimony you are discussing the need for approximately
8 \$1.6 billion in capital, and some additional millions
9 in O&M costs to address the aging grids, grid
10 modernization, and you say it's over and above the
11 Company's \$3.2 billion of customary spend to maintain
12 and incorporate new customers.

13 Have I correctly summarized that aspect of
14 your testimony?

15 A. You have.

16 Q. The \$3.2 billion, the customary spend, is
17 that amount of money or the recovery of that amount of
18 money in the existing rates, or is that proposed to be
19 recovered in the future rates?

20 A. (Laura Bateman) So the Power/Forward cost,
21 the forward-looking costs are proposed to be recovered
22 in a future proceeding. There are no forward-looking
23 costs included in this rate case.

24 Q. All right. Also on page 35, lines 11 through

1 '19 -- let's see if I could get over there -- you talk
2 about some of the positive economic impacts of the
3 Power/Forward Carolinas investment; do you not?

4 A. (David Fountain) Yes. Created nearly 14,000
5 direct and indirect good-paying jobs across the state
6 each year over a 10-year period.

7 Q. Okay. And that's my question. It just
8 wasn't 100 percent clear to me. Maybe it should have
9 been.

10 Are we talking about a total of 14,000 or
11 140,000 jobs?

12 A. Well, it's about 14,000 jobs across the state
13 every year, and that's something that our witness,
14 Bobby Simpson, will be able to speak more directly to.

15 Q. So it's not 14,000 for the whole 10 years,
16 it's 14,000 times 10, or 140,000?

17 A. 14,000 direct and indirect jobs per year.

18 Q. All right. Can you clarify for me what
19 percentage of that 144,000 [sic] would be direct and
20 what percent will be indirect?

21 A. Now I'm not able to clarify that at this
22 point. Again, our witness, Bobby Simpson, will be able
23 to speak to that.

24 Q. All right. When you say a direct

1 relationship between the job and the modernization
2 project, does that mean the hiring of people who are
3 gonna be working on construction of that protect?

4 A. Direct jobs would be any job that is a direct
5 employee of the Company or potentially hired directly
6 by the Company through a contractor. Again,
7 Bobby Simpson will be able to speak to that.

8 Q. All right. Once that basic backbone smart
9 grid infrastructure is built, those jobs tend to go
10 away, don't they?

11 A. No. This will be a 10-year investment plan,
12 so these jobs would be created during the course of the
13 next decade, and I don't know that those jobs would go
14 away or not. It would be premature for me to speculate
15 on that 10 years out.

16 Q. Has Duke done any modeling of the expected
17 impact of the proposed rate increase in this case,
18 either as originally proposed or is now modified
19 through stipulation, as to what impact that was going
20 to have on businesses and industry?

21 A. (Laura Bateman) So if you are talking about
22 the rate increase in this case, I just want to
23 reiterate that there are no -- these investments that
24 are outlined in Witness Fountain's testimony, these are

1 not included in the cost recovery for this rate case.

2 Q. Yeah. I didn't want to limit that last
3 question simply to the infrastructure grid
4 improvements, but just to say, you know, we started out
5 with a 14-point-something percent increase, and I know
6 that's been modified by the settlement, but then we
7 have the coal ash and the storm still out there.

8 So as to whatever the Company views the
9 impact of the increase that you're asking for today,
10 whether it's 10 percent, or 11 percent, or 7 percent,
11 or something less than 15 percent, have you done any
12 studies to show what the impact of that level of rate
13 increase will have on your business and industrial
14 customers?

15 A. (David Fountain) Yes. As we have continued
16 to mature the plan, we have done some projections for
17 different customer classes. But again, those aren't
18 part of this proceeding, so we will not be --

19 Q. Same question, really, have you done any
20 modeling about the impact of this rate increase on the
21 residential customers?

22 A. Yes, we have. When you talk about this rate
23 increase, just to clarify, you are talking about the
24 current Duke Energy Progress rate case --

1 Q. Yes, sir.

2 A. -- not the Power/Forward Carolinas. Okay.

3 Q. So the answer is --

4 A. Yes.

5 Q. You have done modeling studies for the
6 residential customers?

7 A. Yes. For this current rate case.

8 Q. Did those studies indicate that you were
9 going to gain or lose customers as a result of the rate
10 increases if granted by the Commission?

11 A. (Laura Bateman) Are you asking what the
12 percent increase is in this rate case for the different
13 customer classes?

14 Q. No. I'm asking what percent of your customer
15 base would be gained or lost if these new rates go into
16 effect at a higher level than they are currently?

17 A. So you are asking if we would lose
18 residential customers or gain residential customers as
19 the result of an increase?

20 Q. I am.

21 A. I don't believe we have done that analysis,
22 and I don't believe we typically do that kind of
23 analysis.

24 Q. Same question for business industry.

1 A. And the same thing. I mean, we have the job
2 retention rider, which we are proposing.

3 A. (David Fountain) Right. As Ms. Bateman
4 said, we have proposed the job retention rider for
5 industrial customers as part of the partial settlement
6 that's been stipulated with the Public Staff, although
7 there are a couple of remaining issues for the
8 Commission to decide about the job retention rider, but
9 our witness, Steve Wheeler, would be able to speak to
10 that.

11 Q. Your summary indicates, does it not, that,
12 even after the increase, based on what we now know of
13 the stipulation, Duke's overall, I suppose, average
14 rates will still be below the national average; is that
15 correct?

16 A. Yes, that's correct.

17 Q. Depending on how much of the proposed
18 increase the Commission wants to grant or is able to
19 grant, you are gonna be closer to the national average
20 than you were before this case was filed; is that
21 correct?

22 A. Yes. And again, our witness, Steve Wheeler,
23 can speak to that directly.

24 Q. All right. Ms. Bateman, at this point, I was

1 going to apologize for not asking you any questions,
2 but apparently I did unbeknowing [sic].

3 MR. PAGE: And that's all I have,
4 Mr. Chairman.

5 CHAIRMAN FINLEY: Who is next?

6 MR. PAGE: I would like to move for
7 introduction of cross examination exhibits.

8 CHAIRMAN FINLEY: We will take it
9 subject to the ongoing objection and have them
10 admitted.

11 (Whereupon, CUCA Fountain Cross
12 Examination Exhibit No. 1 was admitted
13 into evidence.)

14 CROSS EXAMINATION BY MR. RUNKLE:

15 Q. Good afternoon. My name is John Runkle
16 representing NC WARN. Again, I have questions
17 primarily for Mr. Fountain, but Ms. Bateman, if you
18 feel the need to give your opinion, that would be just
19 fine. So my colleague looked at your tire shop analogy
20 and was probably more subtle than I'm going to be.

21 CHAIRMAN FINLEY: Let's pull that mic
22 up, Mr. Runkle, just to make sure everybody can
23 hear your questions.

24 MR. RUNKLE: Okay.

1 BY MR. RUNKLE:

2 Q. My counter analogy is that, over the years,
3 Duke has piled up 100 million tires, and then they all
4 fell apart, and so that's why, at this point, we are
5 trying -- Duke is trying to recover all the money for
6 that.

7 Is that a better analogy?

8 A. (David Fountain) No.

9 Q. Why not?

10 A. Well, again, the cost of complying with
11 changing and emerging environmental laws and
12 regulations is one that has developed since our last
13 rate case, and so I would not agree that the analogy
14 that there has been coal ash piling up is one that is a
15 good one.

16 A. (Laura Bateman) Yeah. And I would just add
17 the fact that we have an amount in rates to close our
18 coal ash ponds. So I mean, coal ash has been piling
19 up, but we have been collecting an amount that would
20 have been sufficient to close those coal ash ponds
21 under the prior environmental regulations. The reason
22 the costs have increased is due to changes in
23 environmental regulations.

24 Q. And those environmental regulations, one is

1 the Coal Combustion Residuals Rules, the CCR; is that
2 correct?

3 A. (David Fountain) Correct. That's the
4 federal rule.

5 Q. And when did that come into play?

6 A. It came into play since 2014. I can't
7 remember the year exactly, but Dr. Wright will be able
8 to speak to that.

9 Q. And I think the actual rule itself is an
10 attachment to Mr. Kerin's testimony?

11 A. I don't dispute that.

12 Q. Okay. Now, the other one would be the Coal
13 Ash Management Act; that's a North Carolina act; is
14 that correct?

15 A. That's correct.

16 MR. RUNKLE: And for the record, Your
17 Honor, that's Session Log 2014-122.

18 BY MR. RUNKLE:

19 Q. Now -- and when -- the Coal Ash Management
20 Act came into effect in 2014; did it not?

21 A. The Coal Ash Management Act did come into
22 effect in 2014, after our last rate case.

23 Q. Yes. And that requires -- that requires Duke
24 to really do what with the coal ash? I mean, is this

1 cleaning up the coal ash dumped, or is it -- just what
2 is -- what did you think the requirements under CAMA
3 required you to do?

4 A. Again, John Kerin would be able to speak to
5 how we are complying with both CAMA and the federal CCR
6 rule, but I would say that, you know, the requirements
7 are largely duplicative to the federal CCR rule and the
8 state CAMA law, and so we're working to ensure
9 compliance with both.

10 Q. And if I draw your attention to one of the
11 cross examination exhibits as NC Department of
12 Secretary of State.

13 MR. RUNKLE: If we could mark that NC
14 WARN Fountain Cross Number 1.

15 CHAIRMAN FINLEY: Shall be so marked.
16 (Whereupon, NC WARN Fountain Cross
17 Examination Exhibit No. 1 marked for
18 identification.)

19 BY MR. RUNKLE:

20 Q. Sir, in 2013 and 2014 Duke had lobbyists
21 within the General Assembly, did you not?

22 A. Yes. We do have lobbyists in the General
23 Assembly, just like a lot of other organizations and
24 businesses.

1 Q. Would you check, subject to check, that these
2 are the lobbyists that were registered with the
3 Secretary of State for those two years?

4 A. Subject to check.

5 Q. Now, as a Duke lobbyist in the General
6 Assembly, what issues do they get involved in?

7 A. Our lobbyists get involved in issues relating
8 to energy policy and customer benefits here in
9 North Carolina.

10 Q. And in 2013, 2014 did the Duke lobbyists get
11 involved in the Coal Ash Management Act?

12 A. Certainly we had, you know, voices, along
13 with many, many others who were lobbying the General
14 Assembly around what an appropriate policy for coal ash
15 should be in North Carolina.

16 Q. And so did -- in looking at the Coal Ash
17 Management Act, did the Duke lobbyists take a
18 significant role in getting that act together and
19 passing it through the legislature?

20 A. I really can't speak to that, because I was
21 not responsible for management of the group at that
22 time, but I can say that the Coal Ash Management Act
23 ultimately was very similar to the federal Coal
24 Combustion Residual Rules that had been promulgated, at

1 least in rule-making format, for several years prior to
2 the adoption of the North Carolina Coal Ash Management
3 Act.

4 Q. So now if I could turn you to the other cross
5 examination witnesses, Duke Energy PAC expenditures and
6 North Carolina races.

7 MR. RUNKLE: Your Honor, if you could
8 label this as NC WARN Fountain Cross Exhibit
9 Number 2.

10 CHAIRMAN FINLEY: Shall be so marked.
11 (Whereupon, NC WARN Fountain Cross
12 Examination Exhibit No. 2 marked for
13 identification.)

14 BY MR. RUNKLE:

15 Q. Now, as a political action committee, is that
16 requirement to notify the North Carolina Board of
17 Elections of contributions it makes to candidates in
18 the North Carolina General Assembly?

19 A. All organizations who make political
20 contributions that satisfy a threshold have compliance
21 reporting requirements, and we comply with those
22 requirements as they are applicable to the Company.

23 Q. And Duke Energy has a political action
24 committee; does it not?

1 A. The Company does have a political action
2 committee, just like many other businesses.

3 Q. And it makes contributions to various
4 candidates to the North Carolina General Assembly?

5 A. We evaluate how to spend those funds in ways
6 that are good for the Company and its customers, so
7 , yes.

8 Q. And certainly not criticizing the Company for
9 making the contributions, but what are you trying to
10 get out of making a contribution to a candidate?

11 A. Well, you know, there are, you know, a
12 variety of political dynamics that are at play in our
13 current environment, and, you know, we want to ensure
14 that there are balanced points of view that are being
15 presented in conjunction with all policy-making in
16 North Carolina.

17 A. (Laura Bateman) And I would just like to
18 clarify that none of the political contribution amounts
19 are included in the rate request.

20 Q. Thank you for that. I apologize. I do see
21 one for the treasurer's position, but I think the rest
22 of them are probably the General Assembly races. I
23 just pulled one -- the final one for 2013 before the --
24 that's before the 2014 General Assembly, and it was

1 \$108,000 listed as contributions.

2 Would you accept that amount, subject to
3 check; is that what Duke Energy gave to candidates
4 during that time?

5 A. (David Fountain) Yes. I'm not sure of the
6 source of the report here, but subject to check.

7 Q. Would you accept that it's a filing with the
8 North Carolina State Elections -- Board of Elections?

9 A. I'm not sure what the -- again, the source of
10 the document is, but the document could speak for
11 itself.

12 Q. And so with the \$108,000 worth of
13 contributions, does that give Duke employees and Duke
14 lobbyists better access to those legislators if they
15 win?

16 A. Well, I think the point here is that, you
17 know, it's important for there to be balanced points of
18 view that are presented by all policymakers, and just
19 as we are doing here today, we want to ensure that
20 there is informed -- an opportunity for, you know,
21 informed decision-making that results in sound policy.

22 Q. And do you think that the Coal Ash Management
23 Act was sound policy?

24 A. I believe that the Coal Ash Management Act

1 was developed by the State of North Carolina as a
2 policy that was largely duplicative of the federal Coal
3 Combustion Residual Rule; to the extent that that's the
4 policy of the State and the policy of the federal
5 government, then we have got a compliance obligation,
6 which I believe that we are gonna comply with those
7 emerging environmental laws and regulations.

8 Q. Now, did Duke go to various insurance
9 companies to look for payments of some of the coal ash
10 costs?

11 A. The Company has filed some claims against
12 insurance companies, and the outcome of those
13 proceedings has not yet been determined.

14 Q. In fact, some of them are being litigated at
15 this time; is that correct?

16 A. Some of those are being litigated.

17 Q. How much money did Duke go to the insurance
18 companies for compensations for claims related on coal
19 ash costs?

20 A. Again, I'm not sure of the amount, but any
21 proceeds that we recover from those insurance companies
22 will be applied to customers. We felt like it was
23 important for us to continue to advocate for our
24 customers to find appropriate sources of funding for

1 compliance with these emerging federal and state laws.
2 and regulations.

3 Q. In your opinion -- in your understanding, why
4 did the insurance companies not pay for the claims that
5 you submitted on the coal ash costs?

6 A. Well, in my experience, it's not uncommon for
7 insurance companies to deny claims the first time there
8 has been a submission, and you have to follow up and
9 pursue your claims, and that's what we are doing.

10 Q. And how many -- how much money is in play on
11 these insurance company --

12 A. I'm not sure what the amount is, but whatever
13 amount we recover will be applied for the benefit of
14 the customers to offset coal ash costs that may be
15 awarded in this case or future cases.

16 Q. Now, let's look a little bit at your
17 testimony pages 15 and 16 going into page 17, the
18 direct testimony.

19 A. (Witness peruses document.)

20 Q. And not getting into the weeds on this, but
21 staying at a fairly high level, you're -- the Company
22 is proposing that it recover the cost it has spent on
23 coal ash cleanup to date; is that correct?

24 A. The Company is requesting the recovery of

1 amounts that have been incurred in 2015, 2016, and a
2 portion of 2017 in order to comply with the emerging
3 coal ash regulations with the exclusion of any fines
4 and penalties.

5 Q. And that's spread out \$66.5 million over five
6 years -- for each year over five years?

7 A. Yes. That's our proposal, is that we would
8 seek to recover those deferred balances over a
9 five-year period in order to mitigate customer rate
10 impacts.

11 Q. And this is an issue that the Company and the
12 Public Staff has not been able to find an agreement on;
13 is that correct?

14 A. That's correct. The recovery coal ash cost
15 is not part of the partial settlement among the
16 stipulated parties.

17 Q. And so in the settlement Exhibit 1, which is
18 the final schedule as corrected, that -- how much
19 difference is there between what the Company is
20 proposing and what the Public Staff is proposing on the
21 coal ash cleanup?

22 A. (Laura Bateman) I will take this one. So we
23 are about \$55 million apart -- and also, I did want to
24 clarify that, when I filed my supplemental testimony,

1 which updated with actuals through August 31st, that
2 amount for coal ash from our initial filing did go down
3 a little bit. So it would be about \$61 million, based
4 on the supplemental filing. And also, just to clarify,
5 that would be the 2015, 2016, and 2017 cost through
6 August, and that we netted that with the amount that's
7 currently in rates.

8 Q. So going down from \$66.5 mill a year for five
9 years, it's now closer to 61?

10 A. Correct.

11 CHAIRMAN FINLEY: Speak up Mr. Runkle,
12 please.

13 MR. RUNKLE: Sorry, Your Honor.

14 BY MR. RUNKLE:

15 Q. Now, also as part of the recovery for coal
16 ash, you are looking -- forward-looking costs of
17 \$129 million a year?

18 A. That is correct.

19 Q. How many years?

20 A. So we did not put a limit on it, but what we
21 did instead is request a deferral of any amount over or
22 under the amount. So if our actual spend is over or
23 under that amount, we would request deferral of that to
24 be considered in the next rate case, and if you look at

1 our ARO protection, so where the Company for accounting
2 purposes is required to project out its coal ash spend,
3 the average that we're projecting over the next four
4 years is about \$176 million. So we've asked to include
5 in this case about 73 percent of that projected spend,
6 which was also the test year level of spend. And then
7 any amount over or under that that we actually spend
8 would be deferred to a regulatory asset or liability.

9 Q. So on top of the \$300 million that the
10 Company's already spent on coal ash cleanup, how much
11 additional money are you expecting to spend on it?

12 A. Okay. So the total projected spend for both
13 active and retired plants is about \$2.6 billion, based
14 on our latest projections, and that would be for DEP
15 total. So the North Carolina retail portion of that
16 would be approximately \$1.6 billion.

17 Q. And that's to clean up the coal ash in the
18 DEP side of things?

19 A. Yeah. That would be the DEP ash pond closure
20 costs.

21 Q. And that includes cleaning up the Sutton
22 plant and moving it to -- a lot of that coal ash to
23 Chatham County?

24 A. Yes, it includes the Sutton plant.

1 Q. And that goes to the Charah plant -- the
2 Charah facility, the Green Meadows facility at
3 Brickhaven in Chatham County?

4 A. You are going to have to speak to Witness
5 Kerin about the specifics of the closure plans unless
6 Mr. Fountain wants to do that.

7 Q. So your position is that none -- nothing --
8 or that none of the fines and penalties are in that
9 amount?

10 A. That is correct.

11 Q. But everything else is?

12 A. Not everything else. We have some settlement
13 amounts. We really -- that amount is just the asset
14 retirement obligation cost. So it would be ash pond
15 closure costs that trigger asset requirement obligation
16 accounting. So normal O&M, capital costs, and then --
17 would not be included, and then also there have been
18 some settlements for which we have excluded those
19 amounts from rates, and those would not be included as
20 well.

21 Q. Now, just to get off coal ash for just a
22 minute, looking at the settlement Exhibit 1, the final
23 as-corrected schedule, looking at line 11, the -- just
24 Harris COLA annual amortization, and this was a part of

1 the settlement between Duke and the Public Staff; was
2 it not?

3 A. (David Fountain) Yes.

4 Q. And my understanding is that there were costs
5 associated with Harris COLA for additional units there,
6 and that process stopped?

7 A. Yes. The Company had been pursuing a
8 combined construction operating license application
9 with the Nuclear Regulatory Commission, and then
10 ultimately made a determination not to move forward and
11 kept this Commission apprised of that.

12 Q. And approximately how much of -- what was the
13 total amount for the Harris COLA?

14 A. (Laura Bateman) The Harris 2 and 3
15 development costs on a North Carolina retail basis was
16 \$45.3 million.

17 Q. And is the Company not going to request
18 that -- those costs in this proceeding or any future
19 proceedings?

20 A. We are requesting recovery of those costs
21 through an amortization over an eight-year period, as
22 detailed in the stipulation.

23 Q. I read it the other way, that you were not
24 adjusting that. So I thought, looking at number 11,

1 there was a decrease of the annual amortization.

2 A. Yes. The Company had originally proposed a
3 five-year amortization period, and as part of the
4 settlement, we agreed to an eight-year amortization
5 period, which reduces the annual amount.

6 Q. Okay. Thank you.

7 MR. RUNKLE: Chairman, I have no further
8 questions.

9 CHAIRMAN FINLEY: All right. Who is
10 next?

11 MR. RUNKLE: Move to introduce NC WARN
12 Cross Examination Exhibits 1 and 2.

13 CHAIRMAN FINLEY: No Objection, NC WARN
14 Fountain Cross Examination Exhibits 1 and 2 are
15 received into evidence.

16 (Whereupon, NC WARN Fountain Cross
17 Examination Exhibits 1 and 2 were
18 admitted into evidence.)

19 CROSS EXAMINATION BY MR. QUINN:

20 Q. Thank you. Mr. Fountain, Ms. Bateman. I'm
21 Matthew Quinn. I am with Sierra Club. I hope you are
22 both doing well this afternoon. Mr. Fountain, I
23 believe most of my questions are going to be directed
24 at yourself, but Ms. Bateman, if you, at any time, feel

1 like you have something pertinent to add, please, by
2 all means, feel free to do so.

3 So Mr. Fountain, I want to start off talking
4 about some of the coal ash-related issues in this case.
5 And I think you talked about, with Mr. Page, how for
6 decades before 2014, Duke Energy Progress and its
7 predecessors had stored its coal ash in unlined earthen
8 dams; is that right?

9 A. (David Fountain) I believe I said we stored
10 coal ash consistent with industry standards.

11 Q. And in 2014, there were some regulatory
12 changes regarding the storage of coal ash, right?

13 A. There were regulatory changes at both the
14 state and federal levels since we had our last rate
15 case.

16 Q. So at the state level, obviously, we have
17 CAMA, the Coal Ash Management Act, and at the federal
18 level we have the CCR rules, right?

19 A. That's correct.

20 Q. So I believe Duke's position has been that
21 there is a great deal of overlap between those two
22 different regulatory schemes, but isn't it fair to say
23 that there are additional requirements imposed by the
24 North Carolina rule, CAMA, that do not exist under the

1 CCR rule of the federal standards; is that correct?

2 A. There are some slight differences between the
3 requirements of the two, but they are largely
4 duplicative, as our witness, John Kerin, will explain.

5 Q. As a matter of fact, one of the Public
6 Staff's witnesses, Maness, has identified an amount
7 attributable directly to CAMA; is that right?

8 A. You have to ask Mr. Maness that question.
9 I'm not familiar with his testimony.

10 Q. Are you familiar -- I'm sorry, Ms. Bateman.

11 A. (Laura Bateman) If you want me to clarify,
12 since I rebutted that section of Witness Maness'
13 testimony, that amount was actually identified by the
14 Company, and Witness Maness discussed his view on the
15 allocation of those costs. So Witness Kerin can speak
16 more to specifically what is included in those costs.

17 Q. And Ms. Bateman, I appreciate that. Can you
18 identify what that -- I don't recall off the top of my
19 head -- what that amount is for CAMA, specifically?

20 A. (Witness peruses documents.) So for the
21 deferred spend, the deferred amount would be
22 approximately \$13 million of the \$242 million deferred
23 asset, and then for the ongoing amount of
24 \$129.1 million, it would be approximately \$6.5 million.

1 Q. So my math is not great, but that's about
2 \$19-and-a-half million in expenses related to CAMA, but
3 not the federal standards; is that right?

4 A. Correct.

5 Q. Okay. And then, Mr. Fountain, I think we are
6 probably going to be going back to you now.

7 A. (David Fountain) Okay.

8 Q. The CAMA rule was passed in 2014, right?

9 A. It was.

10 Q. Okay. And in 2014, there were -- coal ash
11 was in the news a lot at that time, I'm sure you will
12 admit; fair enough?

13 A. Fair enough.

14 Q. Okay. For instance, Duke Energy Progress'
15 sister company, Duke Energy Carolinas, was dealing with
16 the fallout from the spill into the Dan River, correct?

17 A. Yes. That occurred in 2014.

18 Q. Okay. And then furthermore, in 2013/2014
19 time range, Duke Energy Progress was dealing with some
20 coal ash-related issues in some of its plants as well;
21 is that correct?

22 A. Yes. We have coal ash basins in both Duke
23 Energy Carolinas and Duke Energy Progress.

24 Q. And just to give an example, at Duke Energy

1 Progress' Asheville steam electric plant, in 2013, I
2 believe, DENR staff identified some seeps flowing from
3 toe drains from a coal ash basin; is that consistent
4 with your knowledge?

5 A. I have some general recollection of that, but
6 our company witness, Jim Wells, will be able to speak
7 to seeps more directly.

8 Q. Okay. And is it consistent with your
9 recollection of the timeline that Duke Energy Progress
10 was dealing with those issues at the Asheville steam
11 electric plant in 2013/2014?

12 A. Yeah. Seeps have been an issue of discussion
13 with the Department of Environmental Quality for some
14 period of years.

15 Q. Okay. And I believe there were also some
16 issues going on with Duke Energy Progress' Sutton
17 plant, similar issues; is that correct?

18 A. We have coal ash basins at Sutton as well,
19 yes, and so we are addressing those.

20 Q. And seeps related to those coal ash basins in
21 Sutton?

22 A. Yes.

23 Q. And I'm not going to belabor this, because
24 Mr. Page talked to you about it a moment ago, but DEP

1 did -- Duke Energy Progress did plead guilty to several
2 criminal charges related to its management of coal ash
3 impoundments, correct?

4 A. Pled guilty to several misdemeanor charges,
5 yes.

6 Q. All right. So in 2014, then, there is kind
7 of a lot going on: We have got the criminal case, we
8 have seeps going out of Duke Energy Progress' coal ash
9 cache impoundments, and we have the CAMA law being
10 passed, right?

11 A. Yes, those are all historic events in
12 2013/2014 time frame.

13 Q. Now, in light of that confluence of events,
14 isn't it fair to say that the CAMA law passed by the
15 North Carolina General Assembly is the product of
16 issues going on with Duke Energy Progress', among other
17 utilities', coal ash impoundments?

18 A. Well, I don't know that you can say that.
19 The federal CCR rule had been under development for
20 some time by the EPA and had been through numerous
21 comment periods. So the state does have a history of
22 enacting its own forms of environmental statutes. For
23 instance, the Clean Smoke Stacks Act, which was a
24 byproduct of the Federal Clean Air Act. So as our

1 witness, Dr. Wright, will explain, we believe that the
2 state CAMA law might well have been enacted whether or
3 not the Duke -- excuse me, the Dan River release
4 occurred.

5 Q. Okay. So Duke -- can you admit that CAMA was
6 at least, in part, motivated by the ongoing issues in
7 2014 -- 2014 time frame with Duke Energy Progress' coal
8 ash impoundments?

9 A. No. I really can't admit that. Like I said,
10 the federal rule had been under development, and it's
11 not uncommon for the State of North Carolina to adopt
12 rules that are separate, or in this case similar to the
13 federal rule.

14 Q. Now, I wonder if you would admit something
15 here, or I want to ask you about something else on the
16 Public Utilities Act.

17 My understanding, and tell me if I'm wrong,
18 is that, under the Public Utilities Act, Duke Energy
19 Progress cannot recover from its retail customers the
20 cost resulting from unlawful discharges from a coal ash
21 impoundment; is that consistent with your
22 understanding?

23 A. No. What we are seeking the cost of recovery
24 for here are environmental compliance costs associated

1 with the emerging laws and regulations.

2 Q. And I appreciate that, but I just want to
3 understand if you agree with me that, under Public
4 Utilities Act, Duke could not request -- recover from
5 retail customers the costs that Duke incurred resulting
6 from unlawful discharges from its coal ash
7 impoundments.

8 A. I'm sorry, I'm not sure I agree with you.

9 Q. What is the basis for the disagreement?

10 A. Because I'm not an expert in that area, and
11 so the Commission will have the final determination
12 about what can and cannot be recovered, based on what's
13 reasonable and prudent.

14 Q. So we -- I want to talk to you about the test
15 year that has been used, or to calculate coal ash -- or
16 environmental compliance costs moving forward, okay?

17 Now, my understanding is that Duke Energy
18 Progress is requesting \$129 million in future
19 environmental compliance costs, and that that is
20 calculated based on a test year, which is 2016; is that
21 right?

22 A. Just to clarify, we are requesting an ongoing
23 run rate of \$129 million for coal ash compliance costs
24 that we believe we will continue to incur. Those are

1 the actual costs we incurred during the 2016 test year,
2 and as Witness Bateman previously explained, we would
3 look to have a deferral for any over-collection or
4 under-collection to ensure that customers only pay the
5 actual costs for compliance with those environmental
6 laws and regulations.

7 Q. And I appreciate that. So the accuracy of
8 this request depends upon whether or not 2016, the test
9 year, is representative of environmental compliance
10 costs moving forward, right?

11 A. There will be a true-up mechanism associated
12 with that, as Witness Bateman explained, so that
13 whatever the actual cost of compliance with the laws
14 and regulations are, is the cost the customers bear.

15 A. (Laura Bateman) And then just to reiterate,
16 it is below the level that is projected for the next
17 four years.

18 Q. And so -- fair enough. And if the test year,
19 it turns out, is higher than what the years are moving
20 forward, say 2017 or '18, then customers will be
21 overcharged; is that correct?

22 A. So that would be correct, but like I stated
23 earlier, the current -- the test year amount of
24 \$129 million is approximately 73 percent of what the

1 Company projects it will spend on an average basis over
2 the next four years. So I think that gives us some
3 room. You know, we purposely didn't want to request an
4 amount than what was higher than we are projecting, so
5 we are requesting an amount that is lower to ensure
6 that that doesn't happen. But then, in addition to
7 that, we are requesting the deferral of any amount over
8 or under.

9 Q. All right. The discount, I think you said
10 the 73 percent, does that discount reflect some of the
11 uncertainty about what the expense is going to be
12 moving forward? In other words, it's possible that,
13 moving forward, the Company could spend considerably
14 less than what it did in that test year?

15 A. So I wouldn't call it a discount. I'm just
16 saying that the actual test year spend is 73 percent of
17 what we project to spend on an average basis over the
18 next four years, and it is the -- what I -- the amount
19 that we project to spend over the next four years is,
20 in fact, a projection, and like any projection, it is
21 subject to change.

22 Q. And if the projection turns out to be
23 incorrect, that's gonna have to -- the adjustment is
24 going to have to be made in a future rate proceeding;

1 is that right?

2 A. I think that would be the typical process,
3 but I think this Commission and the Public Staff have
4 authority to do things outside of that as well.

5 Q. Okay. In its application or in testimony, I
6 believe, the way this concept was conveyed, this
7 overcharge or undercharge issue would be addressed in a
8 future rate proceeding; is that fair?

9 A. That's correct.

10 Q. So it could be that somebody request that
11 there be an adjustment, but the way that this is
12 intended to be handled is it's going to be a future
13 rate increase proceeding?

14 A. That is correct.

15 Q. Of course, it's been Duke Energy Progress'
16 authority to decide when it's going to file that
17 application for another rate proceeding, right?

18 A. Well, I think both the Company, and the
19 Commission, and other parties can request a rate
20 proceeding.

21 CHAIRMAN FINLEY: While you're pausing
22 there, Mr. Quinn, we are going to take a 15-minute
23 recess and come back at 3:30.

24 (At this time, a recess was taken from

1 3:15 p.m. to 3:30 p.m.)

2 CHAIRMAN FINLEY: All right, Mr. Quinn.

3 MR. QUINN: I have no further questions
4 for these witnesses.

5 CHAIRMAN FINLEY: Who is next?

6 CROSS EXAMINATION BY MR. CULLEY:

7 Q. Good afternoon, Mr. Fountain, Ms. Bateman.
8 How are you today?

9 A. (Laura Bateman) Good.

10 Q. My name is Thad Culley, counsel for North
11 Carolina Sustainable Energy Association. And I think,
12 Ms. Bateman, let me start with you. Just a few short
13 questions here.

14 So on -- this is on page 33 of your direct
15 testimony, and I will go ahead and proceed with the
16 question. I don't think it requires a word-by-word
17 follow-along here.

18 So in your discussion with solar resources
19 that Duke Energy Progress is seeking to add to its rate
20 case, you state that, quote, levelized revenue
21 requirements for all four solar facilities are both
22 below the original estimates, CPC and proceedings at
23 below avoided costs?

24 A. That is correct.

1 Q. And while I don't expect you to necessarily
2 be an expert in avoided costs calculations or
3 methodology, would you agree, generally, that the
4 Company's avoided cost calculation is based on the cost
5 of constructing a natural gas generation unit?

6 A. Yes.

7 Q. And given that, would you conclude that DEP's
8 solar assets are currently less expensive than
9 constructing new natural gas?

10 A. I'm not sure that I would say that. The
11 avoided cost is -- the capacity cost of a combustion
12 turbine and then the incremental energy cost of the --
13 or the marginal energy cost of the system. So that may
14 be the case, but I don't think it's as clear cut. The
15 avoided cost isn't just a natural gas -- the cost of
16 running -- building and running a natural gas facility.

17 Q. Okay. Thank you for that.

18 And Mr. Fountain, I believe the remainder of
19 my questions are going to be directed towards you, but
20 as everyone else has said, Ms. Bateman, please jump in
21 where you see fit.

22 And Mr. Fountain, this is your first general
23 rate case at the helm, I would assume; is that right?

24 A. (David Fountain) This is my first rate case

1 in this role.

2 Q. Right. So it's quite a measuring stick, I
3 would imagine, for all future ones. Have you been
4 directly involved in previous rate cases? I know you
5 mentioned to Mr. Page that you had general familiarity
6 with some of the progress previously, but in your role
7 as an attorney in private practice and your role --
8 have you previously been involved in litigating or
9 preparing general rate cases?

10 A. No. That's not been within my primary job
11 scope in prior roles.

12 Q. Okay. But in your current role and previous
13 roles, have you stayed abreast of generally what
14 happened in the regulatory side for other Duke Energy
15 companies?

16 A. Yes.

17 Q. Okay. And would you say that Duke Energy
18 Corporation encourages a culture of sharing and learned
19 experiences across jurisdictions?

20 A. Certainly we have a culture of working
21 together and working as one.

22 Q. Okay. And are you aware of, currently, which
23 other Duke Energy utilities are in the process of
24 rolling out Advanced Metering Infrastructure, AMI?

1 A. I have a general familiarity of that.

2 Q. And are you familiar with the relative state
3 of deployment in each of those jurisdictions?

4 A. No, but our witness, Don Schneider will be
5 able to answer the status of our rollout of AMI across
6 jurisdictions.

7 Q. Thank you. I will be sure to follow up with
8 him.

9 And are you aware of any Duke Energy utility
10 that's completed its AMI rollout?

11 A. I'm not aware of one that's completed it yet,
12 but again, that's a better question for
13 Witness Schneider.

14 Q. Thank you. And turning to grid modernization
15 plans, which the Company is going to raise
16 Power/Forward, are you aware of how many utilities --
17 how many Duke Energy utilities are proceeding with
18 similar plans or have announced similar plans?

19 A. Yes. We all operate within our respective
20 jurisdictions and are working to promote customer
21 benefits like improved reliability across those
22 jurisdictions. So yes, that's something that we are
23 doing here in North Carolina, and also had plans
24 underway in other jurisdictions, but I'm not as

1 familiar with those as I am those here in
2 North Carolina.

3 Q. Okay. Thank you. Mr. Fountain, were you
4 aware of, kind of, the genesis of this program? Was it
5 any one utility that spurred the need, looking at the
6 state of the grid, or was this kind of a global
7 assessment of the state of the grid and the age of
8 assets across all utilities?

9 A. Well, from my own experience, you know, we
10 have been evaluating ways to improve reliability for
11 several years, but really, it was the storm season of
12 2016 that made it clear that we needed to address
13 the -- a number of challenges to our grid. So when you
14 have a historic storm like Hurricane Matthew, or Winter
15 Storm Jonas, or any of those other types of storms for
16 which we are seeking cost recovery in this case, we did
17 identify additional opportunities associated with our
18 grid improvement plan.

19 Q. Okay. Thank you. I will skip down here a
20 bit and just ask you -- this is a pretty
21 straightforward question -- is the Power/Forward
22 investment, as it's currently proposed and
23 contemplated, is it the largest-scale program that you
24 have, kind of, experienced or seen in your time working

1 for a utility?

2 A. I have worked on a couple of potential other
3 projects that were larger, but it's a significant
4 project for our customers.

5 Q. And would you say this is the largest
6 non-generation related?

7 A. Yes. This would be the largest
8 non-generation investment over a 10-year period that I
9 have been involved in.

10 Q. Okay. Thank you. Now, in response to
11 questions from Mr. Page earlier, you characterized --
12 and correct me if I'm misremembering this, but you
13 generally characterize grid modernization to be similar
14 to replacing coal generation with natural gas using
15 state-of-the-art technology; do you recall that?

16 A. Yes. We are working to always improve the
17 reliability of our system on both the generation side
18 as well as on the grid side of the system.

19 Q. And for generation planning, would you agree
20 with me there is a Commission-guided process, IRP
21 process, where some of those decisions about what
22 resource is the next appropriate step are made?

23 A. Yes. For generation planning, a combination
24 of the integrated resources planning process along with

1 certificate of public convenience and necessity are
2 processed for any individual plant that would come on
3 to meet those criteria.

4 Q. And switching to the distribution planning
5 perspective, is a CPCN required for distribution
6 planning assets that are contemplated within
7 Power/Forward?

8 A. No. There is not a specific CPCN proceeding
9 for the Power/Forward initiative that we are pursuing.
10 One of the reasons that we included background about
11 that initiative in this case is that we wanted to
12 ensure transparency about the investments that we are
13 making to benefit our customers.

14 Q. Okay. Thank you. And there is no analog to
15 the generation planning for distribution? There is no
16 IRP, so to speak, of distribution planning?

17 A. That's correct.

18 Q. Okay. So I think we have established there
19 is a good bit of your testimony that relates to future
20 plans and things that are not necessarily being
21 recovered in this rate case. And are you aware that --
22 I will phrase this a different way.

23 So the customer information system upgrade
24 that is being contemplated, there is some cost that is

1 going to be recovered in this rate case for that; is
2 that correct?

3 A. Yes, that's correct.

4 Q. And are you aware if CIS upgrades are part
5 and parcel of Power/Forward in other jurisdictions?

6 A. Well, the way I think about our customer
7 information system here is that we've really got an
8 outdated tool that prohibits us from being able to
9 provide customers the types of information, the types
10 of control, and the types of convenience that they
11 would like to have with modern technology. And so our
12 witness, Retha Hunsicker, will talk about the benefits
13 of investing in our customer information system in
14 order to provide customers with those type of features.

15 Q. Thank you. And are you aware if those type
16 of upgrades are being contemplated in the other
17 jurisdictions that are moving forward with the AMI
18 rollout and the Power/Forward?

19 A. Yes, I'm aware of that.

20 Q. Okay. And would you agree that the
21 investment in the CIS is related to AMI rollout and
22 some of the bigger picture Power/Forward programs?

23 A. You know, really, we operate an interlocking
24 system of assets from our generation throughout our

1 grid, through our customer information -- customer
2 facing systems, and so this is part of an interlocking
3 group of systems that we are investing in to provide
4 improved service to customers.

5 Q. And would you agree with me that the CIS has
6 a billing system and the customer interface is the key
7 customers base and component of Power/Forward?

8 A. Well, I'll, again, defer to our witness,
9 Bobby Simpson about the ingredients of the
10 Power/Forward campaign, and particularly what's
11 customer facing and what may be, you know, not as
12 obvious to customers. But the customer information
13 system is going to be an important tool for us to
14 really unlock additional customer benefits.

15 Q. Right. And in terms of unlocking those
16 customer benefits, and some of those you have described
17 in your testimony as providing some new -- possibly new
18 rate designs, expanded access to data.

19 To what extent did the Company specifically
20 consider the ability to provide and package customer
21 usage data in, say, an exportable format? Was this
22 something, when you considered the investment in the
23 CIS, that you took into account those future
24 capabilities?

1 A. Yeah. I can't speak to that question. I
2 think our witness, Retha Hunsicker, will be in a better
3 position to talk about any specific planning that we
4 did in that regard.

5 Q. Okay. Let me just skip ahead here. We will
6 make good time. Mr. Page was also asking you about the
7 potential job benefits that would enure from
8 Power/Forward program.

9 Now, I just want to ask one question on that,
10 which is, is it the Company's position that it's
11 appropriate for the Commission to consider those types
12 of external benefits in determining whether or not a
13 program is worthy or the resulting rates are going to
14 be just and reasonable?

15 A. These are ancillary economic benefits that
16 will resonate throughout the state from the mountains
17 to the sea, across rural and urban areas, and so those
18 are economic benefits which I think are valuable for
19 the Commission to consider, but ultimately, it will
20 make a determination on the factors that it deems to be
21 most important.

22 Q. Okay. Thank you. And you would agree there
23 could be similar-type benefits in other
24 utility-response programs, that that would be credible

1 evidence?

2 A. There are -- you know, I could only speak to
3 Duke Energy, but we have a lot of focus on economic
4 development throughout the state. We have got a
5 dedicated team of teammates that continue to help
6 promote economic development throughout the state. So
7 there are benefits, certainly, for economic development
8 beyond that in the Power/Forward Carolinas Initiative
9 that the Company is pursuing.

10 MR. CULLEY: With that, I have a few
11 more questions I think I'm going to save for
12 another panel. So I appreciate your time.

13 CROSS EXAMINATION BY MR. NEAL:

14 Q. Good afternoon. My name is David Neal. I'm
15 with the Southern Environment Law Center. We are
16 representing the North Carolina Justice Center, the
17 North Carolina Housing Coalition, the Southern Alliance
18 For Clean Energy, and the Natural Resources Defense
19 Council in this docket.

20 As others have said before me, my questions
21 are primarily for you, Mr. Fountain, and starting with
22 your summary today, you identified four major issues;
23 is that correct?

24 A. (David Fountain) I identified four major

1 issues in the summary of my rebuttal testimony.

2 Q. That's right. So those -- you were referring
3 today to the four issues that you identified in the
4 rebuttal testimony filed back on November 6th; is that
5 correct?

6 A. I can't recall the specific date, but yes,
7 those four issues basically relate to a summary of my
8 rebuttal testimony whenever it was filed.

9 Q. And you did not identify your company's
10 proposal to increase the basic customer charge by
11 75 percent as a major issue in this case, did you?

12 A. I included that as one of the benefits to
13 customers that's included, and I believe that's
14 included in the summary of my testimony that I reviewed
15 this morning. It's on page 8.

16 Q. So you included the 75 percent proposed
17 increase in the basic customer charge as a benefit to
18 customers in this case, Mr. Fountain?

19 A. My specific sentence that I read from my
20 summary of my testimony was the Company has also agreed
21 to reduce the monthly basic customer charge from the
22 requested amount of \$19.50 down to \$14 per month, which
23 would help moderate the rate impact on certain customer
24 groups.

1 Q. Now, Mr. Fountain, again, turning your
2 attention to page 4 of your rebuttal testimony, my
3 original question was, in your identification of the
4 four major issues in this case, you did not identify
5 the 75 percent proposed increase of the basic customer
6 charge as a major issue in this case, did you?

7 A. Not in the context of that.

8 Q. Thank you. Now, Mr. Fountain, you also said
9 in your prefiled testimony that you are responsible for
10 the Company's rate and regulatory initiatives; is that
11 correct?

12 A. I am responsible for the customer's rate and
13 regulatory initiatives in North Carolina.

14 Q. And you state that the customers are
15 increase -- the customers increasingly want access to
16 information about their energy usage and tools to
17 manage that energy use and save money, and that's on
18 page 10, lines 21 through 23 of your direct testimony;
19 does that sound familiar?

20 A. (Witness peruses document.)

21 I'm sorry, what pages did you say that was
22 on?

23 Q. From page 10, lines 21 through 23 of your
24 direct testimony.

1 A. Thank you.

2 (Witness peruses document.)

3 Yes. I believe what it says, "Also,
4 customers increasingly want access to information about
5 their energy usage and tools to manage that energy use
6 and save money."

7 Q. Now, the basic customer charge is the amount
8 that every customer must pay each month, regardless of
9 whether the customer uses electricity that month; is
10 that correct?

11 A. That is correct.

12 Q. So customers cannot make use of information
13 about their energy usage in order to save money on the
14 basic customer charge; isn't that correct?

15 A. They can use information that's provided to
16 them about their energy usage in order to control their
17 overall monthly bill.

18 Q. But they cannot use information about their
19 energy usage in order to save money on the basic
20 customer charge portion of their bill; is that correct?

21 A. Well, our company witness, Steven Wheeler,
22 will be able to speak directly to how the customer
23 charge is calculated, but we are working to provide
24 customers with opportunities to have additional

1 information about their energy usage so they can save
2 money on their monthly bills.

3 Q. But you would agree that, no matter what
4 information you provide a customer, they can't save
5 money on the basic customer charge portion of the bill,
6 based on their usage; isn't that right?

7 A. The basic customer charge is a fixed charge.

8 Q. So the customer cannot reduce the basic
9 customer charge by using less electricity?

10 A. A customer would not be able to reduce their
11 basic customer charge by using less electricity, but
12 they could still manage their overall bill by changing
13 behaviors.

14 Q. In your direct testimony -- again, this is on
15 page 21 -- you testified that, on an inflation-adjusted
16 basis, the customers would pay lower rates today than
17 they did in 1991; is that correct?

18 A. (Witness peruses document.)

19 Q. Lines 5 through 7.

20 A. Thank you. Yes, that's correct.

21 Q. Mr. Fountain, there has been some testimony
22 today already about your general familiarity with prior
23 rate cases back when the predecessor company was
24 Carolina Power and Light.

1 Do you know what the basic customer charge
2 was in 1991?

3 A. I do not.

4 Q. So you do not know whether or not the
5 proposed -- the initially-proposed \$19.50 basic
6 customer charge would be more than the basic customer
7 charge imposed in 1991 on an inflation-adjusted basis?

8 A. Well, I can tell you that we work to have the
9 basic customer charge reflect the actual cost of
10 serving a residential customer. And at the proposed
11 partial settlement with the Public Staff at \$14 per
12 month, and even at the rate we requested, at \$19.50 per
13 month, it would not have recovered the actual cost for
14 serving those customers.

15 Q. But you don't know whether or not the
16 inflation-adjusted basic customer charge in 1991 would
17 be higher or lower than what you asked for in this
18 case?

19 A. My reference to -- even with the rates having
20 been approved by the Commission as requested in this
21 case, being below the amount they were in 1991 on an
22 inflation-adjusted basis, was based on their total
23 bill, so it would not have been specific to the fixed
24 monthly customer charge.

1 Q. And so if you were to go back to
2 Docket E-2, Sub 537 and see that the basic customer
3 charge was \$6.75, subject to check, does that sound
4 about right?

5 A. I really can't speak to that. That was
6 before I, you know, would have started either with the
7 Company or in the industry.

8 Q. Now, again, you have testified that customers
9 would continue to pay rates below the national average
10 with the rate increase proposed by your company in this
11 docket, and that would be on your same page 21, line 7
12 through 8?

13 A. Correct.

14 Q. Now, in preparation for this hearing, did you
15 read the testimony of Mr. Barnes that was submitted on
16 behalf of the NC Sustainable Energy Association?

17 A. No, I did not.

18 Q. So do you know whether or not the proposed
19 75 percent increase in the basic customer charge would
20 have been above the national average or not above the
21 national average for fixed charges?

22 A. I do not know that, but that would be a
23 question, again, for our customer charge witness,
24 Steven Wheeler.

1 Q. So I guess, by the same token, you don't know
2 if the proposed settlement amount of \$14 a month
3 would -- if adopted, would be greater than or less than
4 the national average?

5 A. I do know that for a customer using 1,000 kW
6 per month, the overall customer bill would still be
7 less than the national average, but not specific to the
8 fixed customer charge.

9 CHAIRMAN FINLEY: kWh, I think you
10 meant.

11 MR. NEAL: Thank you, kWh.

12 BY MR. NEAL:

13 Q. The proposed settlement amount of \$14, that
14 would represent about a 25.8 percent increase over the
15 current basic customer charge of \$11.13 a month; is
16 that right?

17 A. I'm not sure of the math on that, but again,
18 our witness, Steven Wheeler, can speak to that.

19 Q. But for purposes of your questioning,
20 assuming that it is a 25.8 percent increase, would you
21 agree that that's greater than the overall percentage
22 increase of residential rates that you were originally
23 seeking in this case; isn't that correct?

24 A. It would be larger than the amount that we

1 were seeking on an overall basis in this case, but it
2 still does not reflect the full cost of service to
3 serve individual residential customers.

4 Q. Now, you also testified -- and this is on
5 page 10 -- that in order to accomplish the Company's
6 goals it must make investments while keeping -- this is
7 the quote, keeping rates affordable for our diverse
8 customer base. That's page 10, line 7 through 8.

9 Does that ring a bell?

10 A. (Witness peruses document.)

11 Yes.

12 Q. Mr. Fountain, do you know -- are you familiar
13 with the rule that requires your company to make
14 monthly filings on the number of disconnections for
15 nonpayment?

16 A. Yes, we do make filings around customer
17 issues like disconnections.

18 MR. NEAL: Chairman, if I may?

19 BY MR. NEAL:

20 Q. Mr. Fountain, I will be handing up what is
21 marked as NCJC for North Carolina Justice Center, et
22 al. Cross Exam Exhibit 1. If I may so mark?

23 CHAIRMAN FINLEY: Shall be so marked.

24 (Whereupon, NCJC Fountain Cross

1 Examination Exhibit No. 1 marked for
2 identification.)

3 BY MR. NEAL:

4 Q. And again, for the copies, there is a blank
5 where, if you could fill in "1," I would appreciate it.

6 So Mr. Fountain, directing your attention to
7 what's been marked as NCJC et al. Cross Exam Exhibit 1,
8 are you familiar with this document?

9 A. I'm not familiar with this specific document,
10 but I am familiar with the process pursuant to which
11 this document was created.

12 Q. Can you identify NCJS [sic] Cross Exam
13 Exhibit 1?

14 CHAIRMAN FINLEY: I'm not sure I
15 understand that question. Would you rephrase it,
16 please?

17 MR. NEAL: Sure.

18 BY MR. NEAL:

19 Q. Could you describe -- you would agree that
20 this is the -- your company's filing from -- filed
21 September 1, 2016, in accordance with
22 Docket M-100 Sub 61A; is that correct?

23 A. That's what it appears to be.

24 Q. Filed with the clerk on September 9, 2016?

1 A. Yes.

2 Q. And I apologize. This is -- okay. So this
3 is the filing from last year for August.

4 Do you agree that your company, subject to
5 check, that this is an accurate document, reported
6 disconnections of 6,350 for nonpayment in
7 August of 2016?

8 A. Yes. The last sentence of the document
9 reads, "Customers disconnected for nonpayment of
10 residential utility service, 6,350."

11 Q. Now, do you know whether this, the number
12 from August of 2016, would be higher or lower from
13 August of 2017?

14 A. I do not know offhand, as those amounts
15 fluctuate month to month.

16 Q. So do you have any idea what -- in any given
17 month, what percentage of those customers disconnected
18 for nonpayment are senior citizens?

19 A. I don't know what percentage every month the
20 customers who are disconnected are senior citizens, but
21 I do have a general familiarity with our demographics
22 of our customer base.

23 Q. And do you know what percentage of those
24 customers disconnected for nonpayment live at or below

1 the federal poverty level?

2 A. I do not know which amount of customers at or
3 below the federal poverty level would have been
4 disconnected, but again, I have some general
5 information about the demographics of our entire
6 customer base.

7 Q. Do you know what percentage of those
8 customers disconnected for nonpayment are
9 African-American?

10 A. I don't know exactly the percentage of that
11 either, but again, we've got general information about
12 the demographics of our whole customer base.

13 Q. And do you know whether any of the customers
14 who were disconnected for nonpayment in a given month
15 had participated in one of your company's
16 Commission-approved energy efficiency programs?

17 A. I do not know if those customers would have
18 been participants in the energy efficiency programs,
19 but we do have a number of programs that we offer for
20 low- and fixed-income customers to help manage their
21 energy use. In addition to home -- free home energy
22 audits, we have a neighborhood energy saver program
23 where the Company provides free weatherization services
24 and energy-saving tips to customers to help them manage

1 their energy usage. I hope you can appreciate, the
2 last thing we want to do is disconnect any of our
3 customers.

4 Q. And does your company track the ZIP Codes or
5 other geographic data that would show where residents
6 live who are disconnected for nonpayment?

7 A. I'm not sure of the answer to that question.

8 Q. And what about information about late fees,
9 those customers that were charged late fees? Does your
10 company track geographic data about where customers
11 live who are being charged late fees?

12 A. Well, one of the things the new customer
13 information system would provide us with is a little
14 bit better visibility into that type of information
15 that you are asking about. But I'm not familiar
16 offhand if we are tracking late fees by ZIP Code
17 currently.

18 Q. When you were -- when Mr. Page was
19 questioning you earlier this afternoon, you mentioned
20 that the Company had modeled studies of how your
21 proposed rate increase would impact residential
22 customers; is that correct?

23 A. Yes; that's correct.

24 Q. In the course of doing those studies, did you

1 analyze how many additional late fees the Company would
2 likely receive if the rate increase was approved, as
3 originally proposed?

4 A. Again, I'm not specifically familiar with our
5 modeling in that regard, but, you know, one of the
6 benefits of having our advanced metering infrastructure
7 deployed, as we are proposing, is that it would allow
8 flexible payment options for customers. For example,
9 customers would be able to pay in advance, they would
10 be able to potentially eliminate the need for a
11 security deposit, they would also be able to get
12 realtime usage alerts that could give them an update
13 mid-month as to whether or not they are trending above
14 or below their typical monthly pattern. We think those
15 types of tools will enable our customers to make more
16 informed choices about their energy consumption and
17 hopefully manage their bills in ways that support their
18 lifestyle.

19 Q. In the course of analyzing or modeling how
20 the proposed rate increase would impact residential
21 customers, did you analyze how many additional
22 disconnections there might be in any given month if the
23 rate increase were approved?

24 A. I did not analyze any additional

1 disconnections.

2 Q. So turning again to previous rate cases, you
3 testified that you were generally familiar with the
4 2013 approval for rate increases for, again, the Duke
5 Energy Progress predecessor company; is that correct?

6 A. Yes.

7 Q. And do you recall that there was a settlement
8 between Duke Energy Progress and the Public Staff in
9 that case?

10 A. Yes.

11 Q. And do you recall that, as a portion of that
12 settlement, there was an agreed-upon \$20 million
13 investment in low-income bill payment systems? Or
14 split between \$10 million for low-income bill payment
15 system, and energy efficient upgrades, and workforce
16 development?

17 A. I am familiar with the commitment of the
18 \$20 million to support low-income programs.

19 Q. And turning your attention to the proposed
20 partial settlement between your company and the Public
21 Staff, there is no such commitment from your company to
22 increase funds for low-income, energy efficiency, or
23 bill pay assistance, is there?

24 A. That is correct.

1 Q. Would you be willing to commit the Company to
2 an increase of \$10 million low-income, energy
3 efficiency investments at this time?

4 A. Well, the way the partial settlement is
5 developed and has been stipulated by the parties is
6 that it be approved, as presented, and so that would be
7 really outside the scope of the settlement in this
8 case.

9 A. (Laura Bateman) And I will just clarify that
10 that \$20 million from the last settlement was funded by
11 reversing some cost of removal from the Company's cost
12 of removal reserve. And so we could not unilaterally
13 make that kind of commitment.

14 MR. NEAL: Thank you. No other
15 questions, Mr. Chairman.

16 CHAIRMAN FINLEY: Thank you, Mr. Neal.
17 Who is next?

18 CROSS EXAMINATION BY MR. SMITH:

19 Q. Good afternoon. I'm Kyle Smith with the
20 United States Department of Defense and all other
21 federal executive agencies.

22 CHAIRMAN FINLEY: Mr. Smith, pull that
23 mic up, please.

24 MR. SMITH: Sure. I'm not sure it's on.

1 BY MR. SMITH:

2 Q. Can you hear me now?

3 A. (David Fountain) Yes.

4 Q. Mr. Fountain, I want to ask you a few
5 questions to begin.

6 And I want to start out by asking you, is it
7 correct that the Company is including \$87 million in
8 construction work in progress for the Asheville
9 combined cycle plant in this case?

10 A. (Laura Bateman) So, if it's okay, I will
11 take that one, because we did update those amounts in
12 supplemental and then also in settlement testimony. So
13 the current amount of the revenue requirement would be
14 \$91.6 million, approximately. And the total amount of
15 CWIP included is \$718 million.

16 Q. Okay. And that plant won't be serving Duke
17 Energy Progress customers until 2019; is that correct?

18 A. I'm sorry, I do need to correct that. That
19 was way too much money. It was \$103 million was the
20 amount included of CWIP, and the revenue requirement is
21 \$10.5 million. Sorry about that.

22 A. (David Fountain) And to answer your last
23 question, the plant is scheduled to come online, like,
24 2019 or early 2020.

1 Q. Is it on schedule?

2 A. It is currently on schedule, yes.

3 Q. And let me just make it clear today, that
4 amount, the CWIP amount increase in settlement; is that
5 correct?

6 A. (Laura Bateman) Yes. We updated through
7 October.

8 Q. Okay. And that Asheville combined cycle
9 plant is replacing the coal-fired Asheville plants 1
10 and 2; is that correct?

11 A. Yes. We will be retiring the Asheville units
12 upon the commercial operation of the new natural
13 gas-fired plants there after a transition period.

14 Q. Okay. So at the time that the combined cycle
15 plant comes online, the Asheville 1 and 2 plants will
16 be retired; is that correct?

17 A. Correct.

18 Q. And are you retiring those Asheville 1 and 2
19 plants early?

20 A. Yes. We would be retiring those plants a
21 little bit earlier than they would otherwise have been
22 projected, pursuant to the terms of our plan.

23 Q. And the Asheville 1 and 2 plants are
24 currently in this case; are they not?

1 A. Yeah. The current Asheville units that are
2 generating electricity for the benefit of our customers
3 are included as part of the current case. The cost of
4 constructing the new natural gas-fired units, the CWIP,
5 is also included in this case.

6 Q. And you will be recovering them both at the
7 same time; so all the Asheville 1 and 2 plants are
8 operational and you are recovering amounts for their
9 operation, you are also recovering for CWIP?

10 A. That's consistent with how we've recovered
11 costs associated with the retirement of other coal
12 plants in the state, where we are building natural
13 gas-fired facilities at those locations.

14 Q. And that answer was "yes" then?

15 A. Yes.

16 Q. Now I want to switch to discussion of the job
17 retention rider.

18 Is Duke Energy Progress pursuing the job
19 retention rider as the result of an agreement with any
20 other party?

21 A. Well, we are pursuing the job retention
22 rider, which has been the top pick of a separate docket
23 for several years now, but ultimately, we believe it's
24 important to maintain North Carolina industrial

1 manufacturing jobs here in the state, and that's what
2 the job retention rider is designed to help support.

3 Q. Are you familiar at all with the industrial
4 economic rider that was pursued by Duke Energy Progress
5 in the last rate case?

6 A. I'm not as familiar with that, no.

7 Q. Are you aware at all that that industrial
8 economic rider was proposed as a result of an agreement
9 for the settlement of -- in the merger case between
10 Progress Energy and Duke Energy, that Duke Energy
11 agreed that it would pursue rates favorable to
12 industrial customers for a period of five years in that
13 merger?

14 A. Yes. I'm not as familiar with the
15 previously-proposed industrial economic development
16 rider, because that was outside my job scope at the
17 time.

18 Q. Okay. Is there any agreement currently in
19 place between Duke Energy Progress and any other party
20 to pursue rates favorable to industrial customers?

21 A. We do have a variety of different rate
22 classes that our witness, Steven Wheeler, will speak
23 to, and there are separate rate classes for industrial
24 customers included as part of that.

1 Q. Do you have an agreement to any of those
2 customers to pursue rates favorable to them?

3 A. We work to ensure that, you know, all of our
4 customers are treated fairly and have rates that
5 support their livelihoods or businesses, so, you know,
6 we have different rate schedules, which Steven Wheeler
7 will speak to, but there is not any agreement or
8 anything --

9 Q. Okay.

10 A. -- to have preferential treatments.

11 Q. What is the current economic climate in
12 North Carolina today?

13 A. Well, I'm no economist here, but generally, I
14 would say that certain portions of the state have
15 enjoyed some favorable economic conditions more so than
16 other portions of the state. In particular, we hear a
17 lot about the difference between rural and urban
18 communities, but there are a number of populations
19 within urban communities that aren't enjoying the
20 benefit of economic expansion either.

21 Q. Do you know what the unemployment rate is in
22 North Carolina?

23 A. Not currently.

24 Q. Do you know what the average subsidy to an

1 industrial customer would be if the JRR is granted by
2 Duke Energy Progress?

3 A. No.

4 Q. Can I ask that question of Ms. Bateman; are
5 you aware?

6 A. (Laura Bateman) No, I'm not familiar with
7 that either. I think Witness Wheeler is the
8 appropriate witness to speak to the specifics of the
9 JRR rider.

10 Q. Similarly, are you aware of what the cost to
11 other large customers would be, related to -- if the
12 JRR is approved as it's proposed?

13 A. (David Fountain) I don't have any specific
14 familiarity with that. Again, that would be a good
15 question for Witness Wheeler.

16 Q. Has the Company done any studies or analysis
17 on what the cost to other customers would be,
18 especially large customers, if the JRR is approved?

19 A. Again, that would be a question I think that
20 would be best answered by Witness Wheeler.

21 Q. Okay. So you're not aware of whether or not
22 the Company has done any analysis on that?

23 A. I'm, personally, not aware of that; that's
24 correct.

1 Q. Would you agree that the Department of
2 Defense is a large customer of Duke Energy Progress?

3 A. Yes, I would agree that the Department of
4 Defense is an important customer for the Company.

5 Q. And would you agree they are a large employer
6 in the state of North Carolina?

7 A. Yes, I would agree that they are a large
8 employer here in the state.

9 Q. Okay. Now I have got some questions for you,
10 Ms. Bateman. The initial question I have is related to
11 the settlement on something I'm not completely clear
12 on.

13 Our staff's adjustments to the end-of-life
14 nuclear inventory that DEP has agreed to in the partial
15 settlement, are they being applied to the reserve
16 inventories as well?

17 A. (Laura Bateman) So the adjustment that's
18 included in the partial settlement and was also -- or
19 that's included in the partial settlement is to the
20 accrual that the Company makes for the end-of-life
21 nuclear materials and supplies, and that was introduced
22 in the last rate case. We accrue a certain amount each
23 year in order to have a reserve on hand at the end of
24 the nuclear plant's life in order to cover the cost of

1 materials and supplies at that point.

2 Q. Okay. And you're referring to the 20 percent
3 adjustment or to another number?

4 A. I'm not sure what you mean by the
5 20 percent -- oh, you're talking about the net salvage
6 that's assumed?

7 Q. Right.

8 A. So in that calculation of the annual accrual,
9 when we look at what we project the nuclear materials
10 and supplies to be on hand at the end of the nuclear
11 plant's life, we also assume a certain amount of net
12 salvage value for those material and supplies, and I
13 think that would be the 20 percent that you are
14 referring to. So we made that adjustment to that
15 annual accrual.

16 Q. Okay. And that 20 percent adjustment, is
17 that just being carried over from what was agreed to in
18 the last rate case?

19 A. So I think the partial settlement wasn't
20 really related to the 20 percent assumption around net
21 salvage value. That is included in the calculation,
22 but what is excluded is an amount for inventory that is
23 in certain on-hold positions.

24 Q. Okay. And now I'm asking you a question

1 about the 20 percent.

2 That's included in the numbers, correct?

3 A. Yeah. That would be a part of the
4 calculation.

5 Q. And was that 20 percent just carried over
6 from what was agreed to in the last rate case?

7 A. Yes.

8 Q. Was there any independent study done to
9 determine whether or not that 20 percent is accurate
10 today?

11 A. I wouldn't say that there was an independent
12 study done. However, Witness Gillespie could speak to
13 the appropriateness of that 20 percent and its salvage
14 value as an estimate of what the salvage value would be
15 at the end of the plant's life.

16 Q. Okay. Now I want to ask you some questions
17 about other post-retirement benefits.

18 The Company's request in this case is to
19 increase employee benefits for an accumulated prior
20 service cause that would be fully amortized by the next
21 actuarial study; is that correct?

22 A. So it would be fully amortized by the end of
23 2017.

24 Q. Okay.

1 A. And so we made an adjustment to renew the
2 expiring amortization.

3 Q. So that won't carry over into 2018 at all?

4 A. No.

5 Q. Okay. I have one final area. The Company's
6 also including amounts related to allowing an
7 unamortized balance of environmental expenses and storm
8 damages that would be included in rate base with a
9 return in this case; is that correct?

10 A. Correct.

11 Q. And you're reducing that by one year of
12 amortization; is that correct?

13 A. That's correct.

14 Q. But the way you will actually account for
15 that will be that it will be reduced each year that
16 it's amortized; is that correct?

17 A. That is correct for how that regulatory asset
18 will look going forward, but I would also add that many
19 items within rate base will change over the next five
20 years, or however many years the amortization period
21 is.

22 Q. But by doing it that way, would you
23 necessarily over-recover for that amount because you
24 are not reducing it over the period or normalizing it

1 over the -- over some certain period?

2 A. No. I would disagree with that. So we have
3 made an adjustment to reduce it by one year's worth of
4 amortization expense, which is consistent with how the
5 Company has made these adjustments previously in prior
6 rate cases, and the fact that you can't predict when
7 the next -- well, I guess that would make two issues.
8 One, you can't predict when the next rate case will be.
9 And so to say that, 20 years from now, if the Company
10 has a rate case, would we be over-collecting on that
11 one item, I think that's the argument that the
12 Department of Defense is trying to make. We can't
13 predict when that next rate case is going to be.

14 And then the other point I would make is
15 that, once rates go into effect, a lot of items change.
16 So rate base components will go up and down. And
17 overall, our rate base will increase after new rates go
18 into effect. I'm not aware of any year where the
19 actual total rate base for the Company has decreased.
20 So to decrease one component many years out into the
21 future is just not appropriate. It would be
22 inappropriate to do that for one component without also
23 including the increases that will happen for other
24 components.

1 Q. But with respect to this one component, would
2 the over-recovery just be greater if the period between
3 rate cases is larger?

4 A. I think we file surveillance reports with
5 this Commission every quarter, and the surveillance
6 reports show whether the Company is over-recovering or
7 under-recovering, or what the returns are compared to
8 the last authorized. So I think it's inappropriate to
9 single out one specific item of rate base that is
10 decreasing and saying that the rates are not
11 appropriate for that one single item.

12 MR. SMITH: Okay. That's all the
13 questions I have.

14 CHAIRMAN FINLEY: All right. Who is
15 next? Better hurry. You will lose your chance.
16 Who is next?

17 MS. FORCE: We could go. The Attorney
18 General's office was going to go just before the
19 Public Staff.

20 CHAIRMAN FINLEY: Anyone else want to
21 cross examine this panel besides the Attorney
22 General and Public Staff? All right, Ms. Force.

23 MS. FORCE: Okay. Good afternoon. I
24 will start off with --

1 CHAIRMAN FINLEY: Bring the mic up.

2 MS. FORCE: Sorry.

3 CROSS EXAMINATION BY MS. FORCE:

4 Q. Good afternoon.

5 A. (Laura Bateman) Good afternoon.

6 Q. I'm Margaret Force from the Attorney
7 General's Office. We have talked, and most of my
8 questions are for Ms. Bateman. Ms. Harrod will have
9 some questions that are more directed to Mr. Fountain.

10 I have a question for you, because I have
11 trouble with the numbers that flow through from your
12 Bateman Settlement, the page 1 of your exhibit, and how
13 that number I read to be \$348.5 million of rate
14 adjustment coincides with the corrected settlement
15 exhibit which shows \$348.2 million.

16 Is there a difference between those numbers
17 that you could explain for me?

18 CHAIRMAN FINLEY: Get up to the mic,
19 Ms. Force, please.

20 MS. FORCE: Sorry.

21 BY MS. FORCE:

22 Q. So I'm looking at Updated Bateman Exhibit 1,
23 and I look at that as being a summary of where you
24 started and what you are adding in the case with the

1 adjustments that have been made, and as I see it, at
2 the top, the number is \$348.5 million; am I right?

3 A. Correct.

4 Q. So what is the difference between that and
5 \$348.2 million that is shown on the settlement
6 agreement; is there some reason?

7 A. So if you look at Peedin Revised Exhibit 1,
8 Schedule 1, which was part of the settlement, and then
9 there is a column for the company amount, if you go all
10 the way down to row 41, you will see the 348.532. That
11 is the Company's position including the impacts of the
12 partial settlement.

13 Q. Say that for me one more time, just so I can
14 jot it down and look later.

15 A. Peedin Revised Exhibit 1, Schedule 1, that
16 was filed in support of the settlement, there is two
17 columns. One is the Public Staff amount and one of the
18 Company amount. If you go all the way down to line 41,
19 it's labeled "Recommended Increase in Revenue
20 Requirement." Under the Company amount you will see
21 the 348.532. That matches my Bateman Exhibit 1, which
22 also was filed supporting settlement.

23 Q. Okay. So we are talking about -- I have some
24 questions specifically about the coal ash portion of

1 this. We have talked -- and forgive me, the numbers
2 changed somewhat as you filed supplements. The
3 \$129.5 million for ongoing costs hasn't changed, but
4 the other number has changed..

5 Those are two amounts, as I understand your
6 original testimony, the -- those -- the 538.385, when I
7 look at how that -- the starting point number that you
8 used of \$482.7 million for three years matched up, as I
9 understood it, to Kerin Exhibit 11. I'm jumping down.

10 A. Yeah. I'm trying to --

11 Q. In your original filing you had
12 \$98.7 million --

13 A. 98 --

14 Q. -- of costs in 2015; does that -- in your
15 original?

16 A. So that is on a system basis.

17 Q. System basis.

18 A. That is the 2015 spend.

19 Q. Okay. And then \$212.7 million in 2016?

20 A. Correct.

21 Q. And, originally, you had \$171.3 million
22 estimated through August 31st, right?

23 A. Correct, or subject to check. I have the
24 updated number.

1 Q. And so when that -- I assume that the 2015
2 and 2016 numbers, did those change?

3 A. No.

4 Q. But the number for estimate on
5 August 31st of '17 changed to, ultimately, to what?

6 A. \$133.3 million.

7 Q. And that was because it was actual rather
8 than estimated?

9 A. Correct.

10 Q. But if you look at the original numbers that
11 you filed, am I right that, if you -- that those relate
12 to the Exhibit 11 that was filed by Mr. Kerin showing
13 the ARO balance associated with coal ash costs?

14 A. I'm not familiar with his exhibit. I'm not
15 that familiar with his exhibit.

16 Q. Okay.

17 A. But if that exhibit shows the spend at a
18 system basis, those would be those numbers.

19 Q. All right. This is all -- I think you said
20 earlier in your cross examination, this is all related
21 to an ARO, asset retirement obligation?

22 A. Correct. This is the spend that is subject
23 to asset retirement obligation accounting since the
24 passage of the CCR rule and CAMA.

1 Q. So is that related to an obligation for
2 closing the coal operations then?

3 A. Yeah. It's an accounting requirement, that
4 when you have an obligation to close an asset, you have
5 to record those estimates on your books.

6 Q. So retirement can mean two things: Either
7 the plant, itself, is being retired, or that that's a
8 way that you are retiring the capital amount; does it
9 mean both those things?

10 A. So the costs included in our deferral are
11 related to the ash pond closure costs.

12 Q. Okay. In the application, there is an
13 indication that there are some other costs that are not
14 included in that, right, that are coal ash
15 cost-related? Do you want me to be specific?

16 A. Sure.

17 Q. The two costs that we just talked about are
18 mentioned, the \$129.5 and \$53.4 million that was later
19 revised said, in addition, the application mentions
20 that DEP is adding dry ash and FGB blowdown-handling
21 systems to coal-fired plants.

22 Are there any costs associated with that in
23 this case?

24 A. So I would direct that question to

1 Witness Kerin. It would depend on whether or not those
2 capital investments are -- or were in service by
3 October 31st of this year. If they were, then they
4 would be included. If not, then they would not.

5 Q. And is that a -- are those items that are
6 considered capital and booked for recovery as part of
7 the plan; is that the idea?

8 A. Yeah. Those investments would be recorded as
9 capital investments.

10 Q. Part of the rate base, then, I assume?

11 A. Yes.

12 Q. Okay. And what about the -- do you know
13 where that would be, then? Would that just be at Mayo
14 and Roxboro, or don't you know?

15 A. I would address that to Witness Kerin.

16 Q. Okay. There is also a statement in the
17 application that DEP is modifying all of its active and
18 decommissioned coal-fired plants to divert storm water
19 and low-volume wastewater away from the basins.

20 That sounds to me like those costs are
21 not -- when you say "in addition," that those are not
22 included in the ARO dollars; is that right?

23 A. Correct. I believe those would be capital
24 investments if they are at the active plants.

1 Q. So they would be capital investments. So are
2 you saying, then, that those are -- do you know if any
3 of those are included?

4 A. I would ask Witness Kerin. If they were in
5 service as of October 31st of this year, they would be
6 included. Otherwise, they would not be.

7 Q. And when you say included, if it's in
8 service, then that would be added to rate base in some
9 portion?

10 A. Correct.

11 Q. And until they are put in service, then, is
12 that one of those items that accumulates what they call
13 AFUDC?

14 A. That is correct.

15 Q. All right. There are requirements for
16 monitoring wells at plants that are either retired or
17 operating; am I right?

18 A. Correct.

19 Q. So is that two different components, then, of
20 cost? Are those included in your ARO item?

21 A. Those would be included in the ARO. And I
22 may not have heard your full question on the capital
23 investments. If they are at active plants, they are
24 not considered part of -- for the specific items you

1 mentioned, they would be considered capital.

2 Q. Oh, so we are going back -- I think you are
3 talking about the basin -- diverting storm water and
4 low-volume wastewater away from the basins?

5 A. Correct.

6 Q. At active plants, those would be part of the
7 rate base, but if they are -- for those plants, I
8 assume?

9 A. Correct.

10 Q. And if they are not active, if they are
11 retired plants, where are they then?

12 A. I would assume they would be part of the ARO
13 then.

14 Q. Now, when we're talking about the amount
15 that -- is it eventually -- you told me, but is it
16 \$52.1 million per year now that is the amount that
17 reflects spent money on coal ash for that ARO? I'm
18 sorry, let me do it this way.

19 What is the amount, then? There was 129.5
20 for ongoing costs, and then there is another dollar
21 amount?

22 A. The revenue requirement for the deferred
23 amounts from the Company's position?

24 Q. Deferred, uh-huh.

1 A. Would be approximately \$61 million.

2 Q. \$61 million --

3 A. Or \$60.9 million.

4 Q. 60 point?

5 A. 60.9.

6 Q. 9 million. Now, is that dollars that have
7 been spent 2015 through -- was that updated to
8 October 31st or is that through August --

9 A. No. That is through August 2017.

10 Q. And so is some portion of that, didn't you
11 say in testimony, that some portion of that reflects
12 the -- what you call carrying costs, or rate of return
13 to the Company?

14 A. Correct.

15 Q. So did you -- you broke down the original
16 number. Is there a breakdown of how much of that is
17 the dollars spent and how much of it is carrying cost?

18 A. Yes.

19 (Witness peruses document.)

20 I'm gonna have approximate numbers here, but
21 approximately \$48 million would be the amortization
22 expense, and approximately \$13 million would be the
23 return on the deferred balance.

24 Q. And so the amount that we are talking about

1 start -- that started to accumulate in 2015, has the
2 Company taken any amortization yet for those dollars
3 amount -- involved, or is the amortization just gonna
4 start after, assuming that those were approved by the
5 Commission in this case?

6 A. So the amount in the deferred balance are
7 netted against the amount that's currently being
8 amortized or depreciated for coal ash pond closure cost
9 recovery, and that is \$10.1 million per year.

10 Q. Are you saying that \$10.1 million is the cost
11 of removal --

12 A. Yes. That is the cost of removal that the
13 currently -- that the Company is currently collecting
14 in rates, and so those amounts each year have been used
15 to reduce the deferred balance.

16 Q. So to clarify, then, when we are talking
17 about \$60.9 million, am I understanding you right that
18 that has already been -- that \$10.1 million per year
19 has already been netted out?

20 A. Correct. It was netted out in the
21 calculation of the deferred balance. However, in
22 ongoing rates, we have removed the 10.1 million from
23 the depreciation study.

24 Q. So there is no cost of removal for the ash

1 basins included in the depreciation moving forward?

2 A. Yeah. Not in depreciation. We are asking
3 for it separately as part of that \$129 million and the
4 \$60.9 million.

5 Q. Okay. When we are talking about \$13 million
6 of the \$60.9 million per year, that relates to the
7 carrying costs, after you have taken out the cost of
8 removal; am I getting that straight? So you are not
9 deferring for that cost of removal, so the carrying
10 costs are applied to the balance?

11 A. So the -- when new rates go into effect in
12 this rate case, we will request for our deferred
13 balance the \$48 million of amortization expense, and we
14 will have approximately \$13 million return on rate base
15 included. Now, there will not be any cost of removal
16 netting going forward, because these amounts will
17 replace what was previously collected for cost of
18 removal.

19 Q. All right. So forgive me. It's not in rate
20 base. You are not -- this amount has not been in rate
21 base; so far, it's just been deferred, right?

22 A. It has been deferred, and then there was also
23 a return accrued on the deferred amount net of the cost
24 of removal. Maybe that's what you are referring to.

1 Q. So there was -- there were carrying costs
2 that accumulated that make up part of this total dollar
3 amount?

4 A. Correct.

5 Q. And then you are saying the \$13 million in
6 revenue requirement is what you would be getting going
7 forward, because you want to put it in rate base?

8 A. Correct.

9 Q. Oh, I see. But just to say one more time,
10 the \$48 million part, then, does that include some
11 amount of carrying cost too?

12 A. It would include the carrying costs that were
13 accrued during the deferral period.

14 Q. Okay. So there is carrying costs -- getting
15 down to the bottom line, to the extent there was a
16 deferral, there were carrying costs applied from the
17 time 2015 to the present?

18 A. Correct.

19 Q. Recognizing that you had some netting out of
20 cost of removal?

21 A. Correct.

22 Q. And then you are also applying carrying costs,
23 by rate basing the unamortized balance for this ARO?

24 A. Yes. So return during the amortization

1 period as well.

2 Q. Okay. Thanks. I was -- that's what I
3 thought, but it's kind of a confusing thing to follow.
4 Now, one of the things I noticed in your detailed
5 schedule -- and I may get myself tied up -- I think you
6 are talking about 48. There is some amount of taxes
7 that are reduced, am I right, because you are gonna
8 take a -- when you spend money that's a deduction on
9 your income taxes, then, so that affects the income
10 taxes that are paid by the Company; am I right about
11 that, in your detailed schedule?

12 A. Which detailed schedule are you referring to?

13 Q. Oh, boy. Let's see if I could pull it up.

14 A. I filed a lot of schedules in this case.

15 Q. Yes, you did. I was having trouble figuring
16 out where to put everything so I could grab it when I
17 need it. Let me see if I have got it in one of the
18 piles. I found one. I can't tell you which version
19 this comes from, but there is an NC-1800, which
20 includes a narrative.

21 A. Yeah.

22 Q. And then page 1, which follows the narrative.
23 This is -- am I right that --

24 A. Are you -- just to clarify, are you in my

1 supplemental testimony or are you in the original?

2 Q. You know, I'm afraid this isn't marked, but
3 let's see. The amount --

4 A. If it was supplemental, it would say
5 supplemental at the top.

6 Q. Then this is the initial.

7 A. Okay.

8 Q. But for it gives a sense of what's involved,
9 my question is this: In the initial filing, then, it
10 looks to me like you showed \$52 million as the amount
11 that would be in cost of service related to the coal
12 ash cost, and that's the amortized amount, right?

13 A. Yes. That would be the amortization expense
14 based on the initial filing.

15 Q. And then there are -- there is an amount in
16 line 14 on that schedule that shows almost \$20,000 of
17 income taxes reduced, so that the net operating expense
18 is \$32.8 million, something like that?

19 A. That is correct.

20 Q. So that income tax amount is reflected here,
21 but when you did the settlement with the Public Staff,
22 you're showing this amount of cost. Do you reflect, in
23 your dollars of settlement, the difference between the
24 Company and the Public Staff -- do you reflect the

1 income tax impact of the -- whether these costs are
2 found to be recoverable or not from rate payers?

3 A. Yes. We reflected the income tax impact of
4 the expenses, but then there is also an income tax
5 impact on the revenue as well.

6 Q. Uh-huh, that makes sense. Okay. All right.
7 Down that far. We are getting into the weeds. The --
8 I'm eliminating some questions that have already been
9 asked.

10 CHAIRMAN FINLEY: That's good. That's
11 good.

12 BY MS. FORCE:

13 Q. You're pleased, I'm sure. In this case,
14 there were costs that -- still looking at that
15 increment for the costs that have already been
16 incurred. You called them the spent costs, I think.
17 They come from several years, right? Not just 2016,
18 but also goes back to 2015 that you are seeking
19 recovery of these costs?

20 A. So yeah, the deferred coal ash pond closure
21 costs include '15, '16, and '17 through August.

22 Q. And then, going forward, there is also an
23 element in rates that would reflect ongoing costs.

24 So these are not what you would call ordinary

1 expenses for the utility, though, right, as to the
2 ongoing costs or these costs that we are talking about,
3 ordinary operating expenses?

4 A. So these costs were included in the last rate
5 case, and I can talk about the accounting treatment
6 maybe prior to the asset retirement obligation
7 accounting treatment that was triggered. So I wouldn't
8 call them the accounting ordinary, because they are
9 subject to asset retirement obligation accounting.

10 Prior to the asset retirement obligation accounting
11 being triggered, the cost for the active plants would
12 have been cost of removal, and they would have been
13 booked in depreciation expense, the cost of removal
14 amount that we were collecting from the last rate case,
15 and then any difference between the actual costs and
16 the amount that was in the depreciation expense would
17 be recorded to account 108, accumulated depreciation.

18 For the retired plants, in the last rate case
19 we established a regulatory asset, so 182 account. And
20 in that last rate case, the Public Staff had testimony,
21 and no one foresaw what would happen with the changes
22 in the environmental regulations, so the Public Staff
23 had testimony that any differences between the amount
24 established in that case and the actual expenses

1 incurred for the cost of removal should be booked to a
2 regulatory asset. So that would have been the normal
3 accounting.

4 Q. And is the last rate case the first time that
5 you had part -- an element in depreciation for cost of
6 removal that would relate to this sort of thing? You
7 didn't have anything specific for coal ash before that,
8 but say in 1988, were there also cost of removal items
9 in the rate case?

10 A. The last rate case was the first time that we
11 included end-of-life cost of removal in the deprecation
12 rate. And at that time, we were looking at retiring
13 several of the coal plants.

14 Q. So the depreciation cost of removal that you
15 had used in the Harris case, that 1988 case, that cost
16 of removal didn't relate to end-of-life of coal plants;
17 is that what you are saying?

18 A. Correct. It would have included what they
19 call interim retirements, but not end-of-life
20 retirements.

21 Q. What do you mean by interim? I'm just
22 curious.

23 A. Before the end of the plant life.

24 Q. So --

1 A. As you change out pieces of the plant.

2 Q. Oh, so if you were replacing a steam turbine,
3 for instance --

4 A. Uh-huh.

5 Q. -- for the coal? Okay.

6 MS. FORCE: Now -- actually, I have a
7 question for the Chairman. This is a docket that
8 was -- there is another docket that was
9 consolidated with this one that concerns the
10 accounting treatment and the request for deferral
11 that the Company made at the end of 2016. Can I
12 just ask that we would include in this record the
13 application and the reply comments that were filed
14 by Duke Energy Progress combined with Duke in that
15 case, or is that something that we should be
16 providing as an exhibit?

17 CHAIRMAN FINLEY: I think, if it is on
18 record with the Commission, you don't need to
19 present a copy to this record.

20 MS. FORCE: No more paper needed?

21 CHAIRMAN FINLEY: No more paper needed.

22 MS. FORCE: I am happy to provide a copy
23 to the witness, then, and refer to it. I just
24 wanted to establish that that was involved.

1 CHAIRMAN FINLEY: Tell me the docket
2 number you are talking about.

3 MS. FORCE: All right.

4 (Counsel peruses documents.)

5 All right. And I can introduce this
6 either way, but in Docket Number E-2, Sub 1103, and
7 that's combined with E-7, Sub 1110, a letter was
8 filed by Ms. Smith on December 30, 2016. Duke
9 Energy Progress and Duke Energy Carolinas petition
10 for an accounting order, and I would like to make
11 sure that's part of the record in this case. I
12 have a couple of questions about that.

13 CHAIRMAN FINLEY: Any objection?

14 MS. SMITH: No.

15 CHAIRMAN FINLEY: You may ask questions
16 about it, and it will be considered in evidence.

17 MS. FORCE: Appreciate that.

18 BY MS. FORCE:

19 Q. And would you like a copy when I ask you
20 questions?

21 A. Sure.

22 Q. It's hard to know how many copies to bring.

23 A. Actually, I have it back at my chair, if
24 that's more convenient.

1 Q. I have got one right here. So that's
2 probably better.

3 MS. FORCE: Would you like a copy?

4 MS. SMITH: I have it.

5 MS. FORCE: You should be familiar with
6 it.

7 BY MS. FORCE:

8 Q. I don't have a lot of questions, but this was
9 an accounting order request that was filed relating to
10 coal ash for Progress and Duke Energy Carolinas; am I
11 right?

12 A. Correct.

13 Q. And it was filed on the
14 30th of December, 2016?

15 A. Correct.

16 Q. And attached to the back is an explanation
17 letter that had been filed on December 30, 2016 --
18 excuse me, December 21, 2015, by Duke; do you see that?

19 A. Yes.

20 Q. Okay. It's my understanding -- let me get my
21 notes, because I will get these account numbers mixed
22 up.

23 It's my understanding that the request that
24 Duke asked for was authority to report the costs as

1 they were from these coal ash spent dollars in perk
2 account 182.3; am I right about that?

3 A. Correct.

4 Q. And it's my understanding that, in reply
5 comments that Duke filed after comments were filed by
6 others, that they said, right now, those -- that amount
7 is being accounted for in perk account 186; am I right
8 about that?

9 A. That is correct.

10 Q. Okay. So -- now I do have something to pass
11 out. We are passing out a copy of two pages that, I
12 apologize, I didn't consolidate it into one exhibit.
13 It would have made sense. When I was printing it I did
14 it separately. For those different accounting
15 descriptions in the perk system of accounts, I would
16 like you to look at and see if you agree with me that
17 that's what it is.

18 CHAIRMAN FINLEY: You've got this order
19 826 marked as a cross examination exhibit; do you
20 want to use it that way?

21 MS. FORCE: I'm sorry, I didn't hear it.

22 CHAIRMAN FINLEY: You have this order
23 from 826, it's labeled at the top as a cross
24 examination exhibit. Do you want to mark it that

1 way or not?

2 MS. FORCE: The first one that I want to
3 mark is Attorney General's Office Bateman Cross
4 Examination Number 1, and it would be for the Burke
5 Uniforce System (phonetic spelling) account. 182.3
6 appears on that page. And we can put those two
7 together, although they are being passed out
8 separately. The second one is the next page. Do
9 you see that?

10 CHAIRMAN FINLEY: All right. So the one
11 at the top here, it's got the far right-hand corner
12 it's got PT-101? Is that your first?

13 MS. FORCE: That's right.

14 CHAIRMAN FINLEY: That will be marked as
15 Attorney General Office Bateman Cross Examination
16 Exhibit 1.

17 (Whereupon, Attorney General's Office
18 Bateman Cross Examination Exhibit No. 1
19 marked for identification.)

20 MS. FORCE: Let's call that a two-page.
21 The second page at the top says 18 CFR Ch. 4-1.

22 CHAIRMAN FINLEY: Those will be two
23 pages, the same exhibit.

24 MS. FORCE: Right. So that's -- there

1 is a third that we can mark now, or we can hold off
2 on it.

3 THE WITNESS: Can we get one more copy
4 of that? Of both exhibits -- of all three?

5 MS. FORCE: I don't have the copies.
6 I'm sorry.

7 CHAIRMAN FINLEY: What is the third one?
8 That's the Commission Order E-2, Sub 826.

9 MS. FORCE: Those are the extras.

10 CHAIRMAN FINLEY: Ms. Force, I had you
11 in mind when I asked you to get your documents
12 straight.

13 MS. FORCE: I'm sorry.

14 CHAIRMAN FINLEY: Never mind. Go ahead.

15 MS. FORCE: Next time.

16 BY MS. FORCE:

17 Q. Other regulatory assets are described in --
18 excuse me, in the application that was filed for
19 deferral; does this fit under that category? Is there
20 a particular one that it fits under? A, B, C, and D
21 that's described on the perk account, or is this --

22 A. (Witness peruses document.)

23 Q. This is -- it's paragraph B of this. If you
24 look at that, does it require that you have --

1 COMMISSIONER CLODFELTER: Paragraph B of
2 which the exhibit?

3 MS. FORCE: The AG -- it's PT 101 is at
4 the top corner. Do you have that?

5 CHAIRMAN FINLEY: Yes.

6 COMMISSIONER CLODFELTER: Yes. It's
7 Exhibit 1.

8 MS. FORCE: I'm sorry, yes, Exhibit 1.

9 BY MS. FORCE:

10 Q. If you look at 182.3, is there a requirement
11 in that that, in order to defer costs under that
12 account, that you need to have permission from a
13 Commission in order to do it; is that how that normally
14 works?

15 A. So -- I mean, I could read through this, but
16 I think in North Carolina, we generally need the
17 Commission's approval to establish regulatory assets.

18 Q. And is there a Commission rule to that
19 effect; do you know?

20 A. That could be the case. I mean, I understand
21 that that's what we need to do.

22 Q. And there is a Rule R8-27-A2 that says the
23 utility must apply to use this account -- this other
24 regulatory assets account; does that sound right to

1 you?

2 A. That sounds right.

3 Q. So it's your experience that the Company
4 comes in and applies. Now, when there is this 186, is
5 there a distinction in that -- that's the second page
6 of the exhibit -- that there is -- it's not as certain
7 that those funds are going to be recovered?

8 A. That's labeled miscellaneous deferred debits,
9 and it's exactly that. If it doesn't fit into another
10 account, but is an appropriate asset, it's booked
11 there.

12 Q. Okay. Now, I also passed out, with some
13 assistance I appreciate, there is a document that says
14 E-2, Sub 826 at the top of it; do you see that?

15 A. Yes.

16 Q. Do you recognize this? Have you had a chance
17 to look at it?

18 A. I recognize this. I have not just now had a
19 chance to read the whole thing.

20 CHAIRMAN FINLEY: Do you want to mark
21 it, Ms. Force?

22 MS. FORCE: That's fine. I ask that
23 this be Attorney General's Office Bateman Cross
24 Exhibit 2.

1 CHAIRMAN FINLEY: 2. It shall be so
2 marked.

3 (Whereupon, Attorney General's Office
4 Bateman Cross Examination Exhibit 2
5 marked for identification.)

6 UNIDENTIFIED MALE: Mr. Chairman, has
7 that been distributed?

8 CHAIRMAN FINLEY: Yes.

9 UNIDENTIFIED MALE: Thank you.

10 BY MS. FORCE:

11 Q. So this is an order that's been referenced in
12 Duke's petition for accounting order in this case;
13 would you agree with that?

14 A. Yes.

15 Q. And is it my understanding -- do you agree
16 with the understanding that Duke had indicated that
17 it's on the basis of this order concerning the
18 accounting for AROs that the application was filed, or
19 the petition was filed, concerning recovery of coal ash
20 costs?

21 A. So I think there is a couple of things. The
22 December 2015 letter that we filed indicated the
23 accounting -- just indicated the accounting that we
24 were doing for these costs. So, like I said

1 previously, these costs would have been booked to 108
2 or the retirement plant regulatory asset, 182. With
3 the triggering of the ARO accounting, that created
4 different accounting from a gap perspective, and my
5 understanding of this order, that was primarily dealing
6 with nuclear decommissioning at the time, and this is
7 probably a very high-level summary, but my
8 understanding of the order is that gap has created this
9 ARO accounting, but it should not impact how we do rate
10 making. And so for the purposes of keeping the rate
11 making the way that it had been previously, the Company
12 had permission to defer the impacts of the asset
13 retirement obligation accounting. And so that is
14 similar to what we have done with the coal ash costs.
15 When asset retirement obligation was triggered, the
16 accounting was triggered, we deferred the impacts that
17 that accounting would have and continued the previous
18 rate-making treatment.

19 Q. You mentioned -- I'm sorry. Go ahead.

20 A. Now, the following year -- in that 2015
21 letter we said that we would file a more formal
22 deferral request with the Commission for those costs,
23 and that's what we filed at the end of 2016. Given the
24 magnitude of the increase in the cost, we thought it

1 was appropriate to file a deferral request specifically
2 for those costs, even though they previously, a portion
3 of them, would have been accounted for in a regulatory
4 asset and a portion in 108.

5 Q. Previously a portion would have been in the
6 regulatory asset and that part -- I lost you on that.

7 A. So the regulatory asset that was established
8 for the retired -- early retired plants in the last
9 rate case that included cost of removal, and any cost
10 that varied from the amounts established in that rate
11 case, it's in the Public Staff testimony, it's also,
12 basically, quoting the Commission's order in a Dominion
13 case regarding one of their retired coal plants, that
14 any amount different should be booked to the regulatory
15 asset for consideration in a future rate proceeding.

16 Q. Okay. Now, that was -- I think you said
17 somewhere in your explanation that the -- at the time
18 that this order was issued, that the costs were
19 primarily and almost entirely nuclear-cost related; is
20 that right?

21 A. Yes. The asset retirement obligations at the
22 time of this order would have primarily been related to
23 nuclear decommissioning expense.

24 Q. So could you take a look at pages 11 and 12

1 in -- at the bottom -- toward the bottom -- well,
2 midway through the page, and would you just read for us
3 the paragraphs starting with, "As the Public Staff
4 noted"?

5 A. "As the Public Staff noted, historically,
6 cost of removal has been a component of PEC's
7 depreciation rates as approved by this Commission. As
8 PEC noted, it has accrued cost of removal on all of its
9 long-lived assets through its depreciation rates as
10 described most recently in the Commission's 1988
11 general rate case order issued in Docket Number E-2,
12 Sub 537."

13 Q. Continue on, please.

14 A. All right. "Depreciation expense, which is
15 part of a function of depreciation rates, was included
16 as a component of the Company's North Carolina retail
17 cost of service established in the context of the
18 Company's last general rate proceeding. Consequently,
19 the recovery of that expense, which includes the cost
20 of removal, is now provided for in the rates and
21 charges PEC is authorized to charge for its sales of
22 service with respect to its NC retail operations.
23 Consistent with the economic consequence of that
24 regulatory treatment, the cost of removal is accrued

1 and recognized as an operating revenue deduction over
2 the useful life of the related assets rather than
3 waiting to record the expense until the assets are
4 actually removed and the related costs actually paid.
5 It is the Public Staff's position that any changes in
6 accounting in these costs should be considered in a
7 general rate case or other appropriate proceeding."

8 Q. So the next paragraph considers that --

9 CHAIRMAN FINLEY: Ms. Force, let's --
10 while we are studying these three documents, we are
11 gonna take our evening's recess and come back in
12 the morning at 9:30.

13 MS. FORCE: Do you want me -- I'm just
14 about done with this. Do you want me to finish
15 this part up?

16 CHAIRMAN FINLEY: Please do, if you
17 could finish quickly.

18 BY MS. FORCE:

19 Q. The next paragraph, if you could look at that
20 briefly, does it not say that in light of what is being
21 ordered in this, that when there is a change in how
22 items are going to be accounted for, that the
23 Commission requires the Company to come in and seek
24 prior approval before implementing a change in

1 accounting?

2 A. So --

3 Q. You can look at that.

4 A. In the context of the nuclear decommissions,
5 the asset retirement obligation accounting had been
6 triggered, or had been introduced as a result of gap,
7 and instead of changing the rate making, this order
8 basically says the Company should continue to collect
9 depreciation -- I'm sorry, nuclear decommissioning
10 expense the way that it has previously, and that that
11 rate-making treatment should not be impacted by the
12 introduction of asset retirement obligation accounting.

13 Q. But doesn't it also say that, because of this
14 change in accounting, the Company should be and is
15 hereby explicitly placed on notice that any proposed
16 changes in the cost of removal for long-lived assets
17 and/or the accounting of such must be submitted to the
18 Commission for its approval in the context of a general
19 rate case, and it identifies prior approval as being
20 required?

21 A. For the nuclear decommissioning expense?

22 Q. No. For the use of ARO accounting, changing
23 the accounting.

24 A. (No response.)

1 Q. Am I misunderstanding that?

2 A. I'm sorry, where are you pointing to?

3 Q. In that paragraph, "In consideration"?

4 A. (Witness peruses document.)

5 Q. To avoid any misconception for the
6 Commission to confirm -- any modification -- am I
7 misreading this, that it is required for the Company to
8 come in and have approval before changing the method of
9 accounting for these ARO-type items?

10 A. (Witness peruses document.)

11 So I would not say that any change in the
12 Company's accounting requires Commission approval or
13 pre-approval, but this seems to suggest that the cost
14 of removal, if you are gonna change the cost of
15 removal, have it as accounted for, then you would need
16 to seek Commission approval.

17 MS. FORCE: I don't have any other
18 questions.

19 CHAIRMAN FINLEY: All right. Come back
20 in the morning with the Public Staff cross
21 examination. 9:30.

22 MS. HARROD: Chairman Finley, I will
23 have some questions of Mr. Fountain.

24 CHAIRMAN FINLEY: Okay. Resume with the

1 Attorney General.

2 MS. HARROD: Thank you.

3 (The hearing was adjourned at 5:05 p.m.

4 and set to reconvene at 9:30 a.m. on

5 Tuesday, November 28, 2017.)

6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24

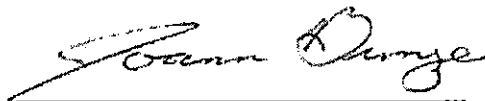
CERTIFICATE OF REPORTER

STATE OF NORTH CAROLINA)

COUNTY OF WAKE)

I, Joann Bunze, RPR, the officer before whom the foregoing hearing was taken, do hereby certify that the witnesses whose testimony appears in the foregoing hearing were duly sworn; that the testimony of said witnesses was taken by me to the best of my ability and thereafter reduced to typewriting under my direction; that I am neither counsel for, related to, nor employed by any of the parties to this; and further, that I am not a relative or employee of any attorney or counsel employed by the parties thereto, nor financially or otherwise interested in the outcome of the action.

This the 29th day of November, 2017



JOANN BUNZE, RPR

Notary Public #200707300112



FILED

NOV 30 2017

Clerk's Office
N.C. Utilities Commission