



Lawrence B. Somers  
Deputy General Counsel

Mailing Address:  
NCRH 20 / P.O. Box 1551  
Raleigh, NC 27602

o: 919.546.6722  
f: 919.546.2694

bo.somers@duke-energy.com

August 7, 2020

**VIA ELECTRONIC FILING**

Ms. Kimberley A. Campbell  
Chief Clerk  
North Carolina Utilities Commission  
4325 Mail Service Center  
Raleigh, North Carolina 27699-4300

**Re: Joint Petition of Duke Energy Carolinas, LLC and Duke Energy Progress, LLC for Approval of Accounting Orders to Defer Incremental COVID-19 Expenses  
Docket Nos. E-7, Sub 1241 and E-2, Sub 1258**

Dear Ms. Campbell:

I enclose the Joint Petition of Duke Energy Carolinas, LLC and Duke Energy Progress, LLC for Approval of Accounting Orders to Defer Incremental COVID-19 Expenses for filing in connection with the referenced matters.

Thank you for your attention to this matter. If you have any questions, please let me know.

Sincerely,

Lawrence B. Somers

Enclosure

cc: Parties of Record

OFFICIAL COPY

Aug 07 2020

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. E-7, SUB 1241

DOCKET NO. E-2, SUB 1258

In the Matter of	)	
	)	
Joint Petition of Duke Energy Carolinas, LLC	)	<b>JOINT PETITION OF DUKE</b>
and Duke Energy Progress, LLC	)	<b>ENERGY CAROLINAS, LLC</b>
for Approval of Accounting Order to Defer	)	<b>AND DUKE ENERGY</b>
Incremental Expenses as a Result of COVID-	)	<b>PROGRESS, LLC FOR</b>
19	)	<b>APPROVAL OF ACCOUNTING</b>
	)	<b>ORDERS TO DEFER</b>
	)	<b>INCREMENTAL COVID-19</b>
	)	<b>EXPENSES</b>
	)	

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Pursuant to North Carolina Utilities Commission (the “Commission”) Rules R1-5 and R8-27, Duke Energy Carolinas, LLC (“DEC”) and Duke Energy Progress, LLC (“DEP”) (collectively, the “Companies”) respectfully petition the Commission for approval of orders for regulatory accounting purposes authorizing both Companies to establish a regulatory asset to account for incremental costs resulting from the unprecedented COVID-19 Pandemic and declared State of Emergency (“COVID-19” or “Pandemic”), so that such costs can be deferred pending further action by the Commission in the Companies’ next general rate cases. The Pandemic continues to significantly impact economic activity throughout the state and country, resulting in unforeseeable reductions in demand, reducing and continuing to reduce revenue for the Companies, and increasing their unrecovered incremental costs.

The Companies have undertaken extraordinary measures in order to both ensure the continued reliable provision of electric service that its customers expect and to ensure that each Company is doing its part to mitigate the impact of the Pandemic on its customers. The Companies have and are continuing to undertake extraordinary actions and incur extra

costs that are not being recovered in current rates to maintain vital utility services during the Pandemic.

As discussed in more detail below, the Companies took swift action in response to the Pandemic, and the Commission has issued orders, to mitigate the impact from the economic hardship to customers due to COVID-19. Those actions included waiving disconnections due to non-payments and waiving numerous fees during the State of Emergency. While clearly appropriate under the circumstances, the Companies' actions to mitigate these customer impacts have resulted in additional loss of revenue and increases in costs beginning in March 2020. The revenue losses from lost fees and charges and increased costs for which the Companies seek a deferral are additive to the revenue loss attributable to load loss experienced due to the extraordinary circumstances caused by the Pandemic. Notwithstanding the foregoing, the Companies are not seeking deferral of lost revenues due to lost load as part of this Joint Petition.

Because the extreme impacts from a global pandemic necessitated extraordinary, unprecedented state action, such as closing non-essential businesses to slow the spread of COVID-19 and issuing shelter-in place orders - - and because the COVID-19 Pandemic was not and could not have been accounted for when setting the Companies' current rates - - the Companies should be permitted to recover the full amount of the deferrals, and a return equal to the weighted average cost of capital on the unrecovered balance. The Companies request that amortization of costs deferred under this Joint Petition be addressed in the Companies' next rate cases to be filed sometime after the conclusion of the rate cases currently pending before the Commission in Docket Nos. E-7, Sub 1214 and E-2, Sub 1219. Consequently, the accounting treatment being requested in this Petition

does not impact the pending general rate cases and would be subject to full review and consideration by the Commission and intervening parties when addressed in those future cases.

DEC and DEP do ask the Commission to take notice of the filings and evidence in the pending rate cases in Docket Nos. E-7, Sub 1214 and E-2, Sub 1219, respectively, in reaching its determination on this Joint Petition. Absent approval of the deferrals requested herein, the extraordinary COVID-19 costs, which in combination with the lost revenues are having a material adverse impact on the financial condition of each of the Companies, will not be eligible for recovery.

In support of this Joint Petition, the Companies respectfully present the Commission the following:

**Name and Address of the Companies**

1. The correct name and post office address of the Companies are:

Duke Energy Carolinas, LLC  
P.O. Box 1006  
Charlotte, North Carolina 28201-1006

Duke Energy Progress, LLC  
410 S. Wilmington Street, NCRH 20  
Raleigh, North Carolina 27601

**Notices and Communications**

2. The names and addresses of the attorneys for the Companies who are authorized to receive notices and communications with respect to this petition are:

Lawrence B. Somers  
Deputy General Counsel  
Duke Energy Corporation  
410 S. Wilmington Street, NCRH 20  
Raleigh, North Carolina 27601  
Telephone 919.546.6722  
[bo.somers@duke-energy.com](mailto:bo.somers@duke-energy.com)

Dwight Allen  
The Allen Law Offices, PLLC  
4030 Wake Forest Rd., Suite 115  
Raleigh, North Carolina 27609  
[dallen@theallenlawoffices.com](mailto:dallen@theallenlawoffices.com)

### **Description of the Companies**

3. DEC is engaged in the generation, transmission, distribution, and sale of electric energy at retail in the central and western portions of North Carolina and the western portion of South Carolina. DEC also sells electricity at wholesale to municipal, cooperative and investor-owned electric utilities, and its wholesale sales are subject to the jurisdiction of the Federal Energy Regulatory Commission. DEC is a public utility under the laws of North Carolina and is subject to the jurisdiction of this Commission with respect to its operations in this state. DEC is also authorized to transact business in the state of South Carolina and is a public utility under the laws of that state. Accordingly, its operations in that state are subject to the jurisdiction of the Public Service Commission of South Carolina.

4. DEP is engaged in the generation, transmission, distribution, and sale of electric energy at retail in portions of western, central, and eastern North Carolina and the eastern portion of South Carolina. DEP also sells electricity at wholesale to municipal, cooperative and investor-owned electric utilities, and its wholesale sales are subject to the jurisdiction of the Federal Energy Regulatory Commission. DEP is a public utility under

the laws of North Carolina and is subject to the jurisdiction of this Commission with respect to its operations in this state. DEP is also authorized to transact business in the state of South Carolina and is a public utility under the laws of that state. Accordingly, its operations in that state are subject to the jurisdiction of the Public Service Commission of South Carolina.

### **State Government Action in Response to COVID-19**

5. On March 10, 2020, in response to the Pandemic, Governor Roy Cooper issued Executive Order No. 116, declaring a State of Emergency in North Carolina to coordinate the response and protective actions to prevent the spread of COVID-19. In so doing, the Governor ordered state agencies to cooperate in the implementation of the provisions of the executive order.

6. In order to ensure that customers would not have to worry about having their electric service disconnected during this time of financial uncertainty, the Companies determined that they would not disconnect any customer's service for non-payment, effective March 13, 2020.

7. On March 14, 2020, Governor Cooper issued Executive Order No. 117, finding that further action was necessary to protect the health and safety of the residents of North Carolina, slow the spread of COVID-19, reduce the number of people infected, and avoid a strain on the healthcare system. Executive Order No. 117 prohibited mass gatherings of more than 100 persons and closed schools to limit the spread of COVID-19.

8. On March 17, 2020, Governor Cooper further issued Executive Order No. 118, closing restaurants and bars for dine-in service. In addition, that executive order

recognized and provided relief for the numerous workers in North Carolina who may have lost wages due to restaurant and mass gathering restrictions.

9. On March 19, 2020, the Companies, along with Piedmont Natural Gas Company, Inc. (“Piedmont”) jointly filed their Customer Response to COVID-19 and Request for Expedited Approval for the Companies to Waive Late-Payment and Reconnect Fees for their Customers, which also notified the Commission of the Companies’ decision to waive disconnections for non-payment. The Commission approved the Companies’ request to waive all late-payment fees, return check charges, reconnection fees, and residential customers’ electronic payment fees (credit cards, debit cards, electronic checks) (collectively, “the fees”), in its March 20, 2020 *Order Granting Additional Temporary Waivers of Specific Provisions of Commission Rules* in Docket Nos. E-7, Sub 1236, E-2, Sub 1228 and G-9, Sub 767.

10. On March 19, 2020, the Commission issued its *Order Suspending Utility Disconnections for Non-Payment, Allowing Reconnection, and Waiving Certain Fees* in Docket No. M-100, Sub 158. This Order required all regulated utilities immediately to cease customer disconnections due to non-payment of utility bills, except where necessary as a matter of safety or where requested by the customer and waived the application of late fees incurred during the State of Emergency. The Commission also suspended, pending further orders, all existing regulations and provisions of individual utility tariffs on file that prevent or condition reconnection of disconnected customers. The Order provided that customers having arrearages accrued during the State of Emergency shall be provided the opportunity to make a reasonable payment arrangement over no less than a six-month period and shall not be charged any late fees for late payment for arrearages accrued during

the State of Emergency. However, the Commission held that no provision in the Order shall be construed as relieving customers of their obligation to pay bills for receipt of any utility service covered by the Order.<sup>1</sup>

11. After the Commission issued its Waiver Orders, on March 31, 2020, Governor Cooper issued Executive Order No. 124, prohibiting utilities from terminating service, billing or collecting late fees, and providing an opportunity for customers to make reasonable payment arrangements, mostly in accordance with the Commission's March 19, 2020 Order. The Companies have been diligently complying with these requirements.

12. On May 30, 2020, Governor Cooper issued Executive Order No. 142, which extended the protections issued under Executive Order No. 124 until July 29, 2020. Executive Order No. 142 further implemented a "default repayment period" of six months, which is applicable to utility customers. Because of a potential conflict between the ending date of the State of Emergency under the Governor's Executive Orders and the Commission's Waiver Orders, on July 10, 2020, the Companies, along with Piedmont, filed a Petition for Clarification of the Expiration of the Commission's Waiver Orders. (Docket Nos. M-100, Sub 158, E-2, Sub 1228, E-7, Sub 1236 and G-9, Sub 767). On July 29, 2020, the Commission issued its *Order Lifting Disconnection Moratorium and Allowing Collection of Arrearages Pursuant to Special Repayment Plans* in Docket No. M-100, Sub 158, which *inter alia*, extended the prohibition of late fees until further order of the Commission; required extended payment plans for customers of at least twelve (12) months; and established that for bills rendered on or after September 1, 2020, utilities may resume normal disconnection and billing services. As such, uncertainties surrounding the

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<sup>1</sup> Order at p. 2.



impacts of the Pandemic on the Companies and its customers will continue for some indeterminate period into the future.

### **Operational Impacts Due to COVID-19 Pandemic**

13. As essential businesses with the mandated obligation to maintain reliable electric service for approximately four million combined customers in North Carolina and South Carolina even during the Pandemic, DEC and DEP have had to implement needed changes to their business operations. Among other things, the Companies have had to, and will continue to, provide employees with the appropriate personal protective equipment so that safe work practices to serve customers are possible and vital infrastructure work can continue. Information technology modifications have been required to implement remote work practices designed to facilitate continued operations and to mitigate the risk of social spread. These modifications have all been necessitated in response to North Carolina's State of Emergency orders and federal guidelines.

14. DEC and DEP have and will continue to incur materially negative financial impacts from the measures required to cope with COVID-19 over and above the revenue impact from reduced sales. Although the Companies have been adversely impacted by reduced revenues due to loss of demand, DEC and DEP seek deferral authority for only the increased costs and not the lost revenues caused by reduced demand. More specifically, the Companies request deferral of the following COVID-19 related incremental costs:

- **Customer fees waived:** Beginning March 20, 2020, after receiving Commission approval, the Companies began waiving late-payment fees, return check charges, reconnection fees, and residential customers' electronic payment fees (credit cards, debit cards, electronic checks). The Companies request to record such waived fees

in a regulatory asset account and defer such waived fees for recovery in a future rate proceeding. Other than electronic payment fees, no adjustments were made in the current rate cases to account for the reduced revenues from these fees. For the electronic payment fees, the Companies only request deferral for fees waived up until interim rates in the Companies' pending rate cases are effective, as the socialization of those fees proposed in the pending rate cases is reflected in the interim rates.

- **Bad debt/charge-offs:** As a result of the Pandemic and the Commission's order suspending disconnections and late fees, the Companies have experienced an increase in bad debt expense. No changes were made in the pending rates cases to reflect this higher level of bad debt expense. The Companies request deferral of the incremental bad debt expense in excess of the amount included in customer rates.
- **Employee stipends:** Certain eligible employees of the Companies received a one-time cash payment of \$1,500 to help with unplanned expenses associated with COVID-19. The costs are not in current rates, and no changes were made to the pending rate cases to reflect these costs.
- **Employee safety-related costs:** The Companies have provided, and will continue to provide, employees with the appropriate personal protective equipment to facilitate the continuation of work for customers in a safe manner. Additionally, the Companies incurred incremental costs associated with cleaning supplies, health care, as well as testing and temperature checks. The costs are not in current rates, and no changes were made to the pending rate cases to reflect these costs.

- **Costs for remote work:** In order to facilitate employees working remotely to protect their health and safety during the Pandemic, the Companies incurred incremental costs associated with expanded conference line capacity, increased network bandwidth, other required information technology improvements, expanded video conferencing licenses, and increased company cellular telephone and data usage. The costs are not in current rates, and no changes were made to the pending rate cases to reflect these costs.
- **Other.** This category includes overtime to implement COVID-19 guidelines to ensure employee safety and increased costs due to expected increased call volume at call centers when normal billing practices resume.

Although it is unknown how long the COVID-19 impacts will last beyond 2020, the tables below show actual costs incurred through June 30, 2020 for which each Company seeks deferral authority, as well as projected costs through December 2020:

<b>DEC Incremental Covid-19 Costs (\$000s)</b>	<b>As of June 30, 2020</b>	<b>Projected Annual 2020</b>
Customer fees waived	\$ 6,048	\$ 11,716
Bad Debt/Charge-offs (incremental to amount set in rates)	2,752	5,191
Employee stipends	1,296	1,296
Employee safety related	3,777	4,070
Costs for remote work	544	926
Other	507	2,431
<b>DEC Total Incremental Covid-19 Costs</b>	<b>\$ 14,924</b>	<b>\$ 25,630</b>

<b>DEP Incremental Covid-19 Costs (\$000s)</b>	<b>As of June 30, 2020</b>	<b>Projected Annual 2020</b>
Customer fees waived	\$ 3,925	\$ 7,601
Bad Debt/Charge-offs (incremental to amount set in rates)	3,668	7,047
Employee stipends	717	717
Employee safety related	2,392	2,783
Costs for remote work	376	640
Other	324	1,358
<b>DEP Total Incremental Covid-19 Costs</b>	<b>\$ 11,402</b>	<b>\$ 20,146</b>

15. DEC and DEP, like other public utilities are not immune to the financial challenges brought on by the crisis and are experiencing reductions in load and associated revenues due to the lack of operations of non-essential businesses during this crisis. Numerous commissions across the country have addressed similar requests and situations resulting from the Pandemic. As of July 30, 2020, approximately twenty-nine states and the District of Columbia have issued orders or have legislation related to cost recovery that allow deferral/regulatory asset treatment in connection with COVID-19.<sup>2</sup> Petitions for

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<sup>2</sup> **Alaska** (ALASKA STAT. § SB 241 (2020)) (the Regulatory Commission of Alaska also opened Docket No. I-20-001 to gather information related to public utilities' actions and compliance with SB 241); **Arkansas** (*In the Matter of Administrative Orders Relating to the Covid-19 State of Emergency*, Docket No. 20-012-A (May 27, 2020)), (*In the Matter of Administrative Orders Relating to the COVID-19 State of Emergency*, Order No. 4, Docket No. 20-012A (July 10, 2020)); **Connecticut** (*Emergency Petition of William Tong, Attorney General for the State of Connecticut, for a Proceeding to Establish a State of Emergency Utility Shut-Off Moratorium, Interim Decision*, Docket No. 20-03-15 (Apr. 29, 2020)); **Delaware** (*In the Matter of the State of Emergency for the State of Delaware Due to a Public Health Alert*, Order No. 9588 (May 14, 2020)); **District of Columbia** (*In the matter of the Establishment of Regulatory Assets for Covid-19 Related Incremental Costs*, Order No. 20329, Docket No. GD-2020-01-M (Apr. 15, 2020)); **Florida** (*Re: Docket No. 20200151-EI—Petition for Approval of a Regulatory Asset to Record Costs Incurred Due to COVID-19, by Gulf Power Company*, Docket No. 20200151-EI (June 24,2020)); (Transcript of Commission Conference Agenda Item No.6, *Petition for approval of a regulatory asset to record costs incurred due to COVID-19, by Gulf Power Company*, Docket No. 20200151-EI (July 7, 2020); *see also Re: Docket No. 20200151-EI—Petition for Approval of a Regulatory Asset to Record Costs Incurred Due to COVID-19, by Gulf Power Company*, Docket No. 20200151-EI (June 24,2020) (Note: In Florida, there was a deferral approved for at least one company on a company specific basis, and pending for others within the jurisdiction.)); **Georgia** (*In Re: Georgia Power Company's 2019 Rate Case, Order on COVID-19 Costs*, Docket No. 42516 (Apr. 7, 2020); *In Re: Georgia Power Company's 2019 Rate Case, Order Approving Deferral of Incremental COVID-19 Costs*, Docket No. 42516 (July 16, 2020) (Note: in Georgia, the PSC stated that COVID-19 costs will be addressed through an existing adjustment mechanism for at least one utility)); **Hawaii** (*Hawaiian Electric Company, Inc., Hawaii Electric Light Company, Inc., and Maui Electric Company, Limited, For Approval*

accounting treatment of COVID-19 costs are currently pending in approximately eleven states.<sup>3</sup> Other Commissions have opened dockets and established working groups to

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*to Defer Costs Associated with the COVID-19 Pandemic Emergency Related Costs and Expenses*, Order No. 37192, Docket No. 2020-0069 (June 30, 2020)); **Idaho** (*In the Matter of Deferred Accounting of Incremental Costs Associated with COVID-19 Public Health Emergency*, Case Nos. GNR-U-20-03, AVU-E-20-03, AVU-G-20-03, FLS-W-20-02, GSW-W-20-01, IPC-E-20-19, and PAC-E-20-04 (April 23, 2020)); **Illinois** (*In the Matter of Moratorium on Disconnection of Utility Services During the Public Health Emergency Declared on March 9, 2020 Pursuant to Sections 4 and 7 of the Illinois Emergency Management Agency Act*, Docket No. 20-0309 (June 18, 2020)); **Indiana** (*Phase 1 and Interim Emergency Order of the Commission*, Cause Nos. 45377, 45380 (June 29, 2020)); **Iowa**, *Order Authorizing Regulatory Accounts Establishing Additional Reporting Instructions*, Docket Nos. SPU-2020-0003, ARU-2020-0123, ARU-2020-0150, ARU-2020-0156, ARU-2020-0222, ARU-2020-0225 (May 1, 2020)); **Kansas** (*In the Matter of Addressing the COVID-19 Pandemic in the State of Kansas, Order Concerning Kansas Jurisdictional Utilities Following Expiration of Prohibition of Disconnects*, Docket No. 20-GIMX-393-MIS (May 21, 2020)); **Louisiana** (*In Re: Special Orders 22-2020 and 28-2020, ratification and termination of Executive Order dated March 13, 2020 regarding utilities prohibited from disconnecting customers during the statewide public health emergency associated with COVID-19*, Special Order No. 44-2020 (July 1, 2020)); **Maryland** (*State of Emergency and Public Health Emergency in the State of Maryland Due to Covid-19, Order Authorizing Establishment of a Regulatory Asset for COVID-19 Related Incremental Costs*, Case No. 9639 (Apr. 9, 2020)); **Michigan** (*In the matter, on the Commission's own motion, to review its response to the novel coronavirus (COVID-19) pandemic, including the statewide state of emergency, and to provide guidance and direction to energy and telecommunications providers and other stakeholders*, Case No. U-20757 (July 23, 2020)); **Minnesota** (*In the Matter of the Request of Minnesota Regulated Gas and Electric Utilities for Authorization to Track Expenses Resulting from the Effects of COVID-19 and Record and Defer Such Expenses into a Regulatory Asset*, Docket Nos. E,G-999/CI-20-425, E,G-999/M-20-427 (May 22, 2020)); **Mississippi** (*In Re: Mississippi Public Service Commission Omnibus Docket, Order Authorizing Utility Response and Accounting for COVID-19*, Docket No. 2018-AD-141 (Apr. 14, 2020)); **Nevada** (*Emergency Order Related to Utility Service and COVID-19*, Docket No. 20-03021 (Mar. 27, 2020)); **New Jersey** (*In the Matter of the New Jersey Board of Public Utilities' Response to the COVID-19 Pandemic, Order Authorizing Establishment of a Regulatory Asset for Incremental COVID-19 Related Expenses*, Docket No. AO20060471 (July 12, 2020)); **New Mexico** (*Order Authorizing Creation of a Regulatory Asset by Public Utilities for Costs Associated with Emergency Conditions*, Case No. 20-00069-UT (June 24, 2020)); **Ohio** (*Finding and Order*, Case Nos. 20-650-EL-AAM, 20-651-EL-UNC, 20-652-EL-WVR, 20-755-EL-AEC (May 20, 2020)); **Oklahoma** (*Interim Order*, Order No. 711412, Cause No. PUD 202000050 (May 7, 2020)); **Pennsylvania** (*Re: COVID-19 Tracking and Creation of Regulatory Asset*, Docket No. M-2020-3019775 (May 13, 2020)); **Texas** (*Issues Related to the State of Disaster for the Coronavirus Disease 2019, Order Related to Accrual of Regulatory Assets*, Project No. 50664 (Mar. 26, 2020) (Note: in Texas, a deferral order was approved for at least one vertically integrated utilities and delivery-only utilities; the PUC established a COVID-19 specific funding mechanism to address bad debt for competitive retail electric providers)); **Virginia** (*Ex Parte: Authority to Create Regulatory Asset*, Case No. PUR-2020-00074 (Apr. 29, 2020)); **West Virginia** (*Commission General Order Regarding Additional, Extraordinary Costs During COVID-19 West Virginia State of Emergency*, General Order No. 262.4 (May 15, 2020) (allowing deferral for privately-owned utilities and use of cash working capital reserve funds to offset COVID-19 costs for publicly-owned utilities)); **Wisconsin** (*Accounting Treatment for Utility Costs Incurred Due to and During Declared Public Health Emergency for COVID-19, Supplemental Order-First*, PSC REF#: 389500, 5-AF-105 (May 14, 2020)); **Wyoming** (*In the Matter of the Commission's Consideration on Its Own Motion or a Temporary Grant of Authority for Public Utilities to Suspend Certain Tariffs Pertaining to Discontinuation of Service, Late Charges and Similar Matters, Order Authorizing Suspension of Certain Tariffs, Rules, Regulations and Similar Terms of Service*, Docket No. 90000-151-XO-20, Record No. 15474 (Mar. 26, 2020)).

<sup>3</sup> Due to space considerations, please see the attached Appendix A for the supporting citations, which are incorporated herein.

consider the impact of the Pandemic and report back to the state commissions on cost recovery activity in other states.<sup>4</sup> Finally, while a few states have not provided for any cost recovery for utilities yet, they have issued orders/directives requiring the utilities to track their incremental COVID-19 related costs.<sup>5</sup> It is possible the Commissions with inquiries/working groups and those that are requiring cost tracking will also eventually issue orders permitting cost recovery of COVID-19 related costs. This Commission should likewise approve the deferrals requested herein due to the extraordinary impacts of the Pandemic.

16. As essential businesses, the Companies cannot limit their losses by simply shutting down. Rather, the Companies have an obligation to serve their customers and must continue to have adequate resources and facilities available to deliver safe and reliable electric service, even during extraordinary circumstances such as the Pandemic. Further, they must be ready to meet the pre-Pandemic demand when it returns. At the same time, the Companies are mindful of the economic impacts these events have on their customers and are taking cost cutting measures, as appropriate, to reduce their operating expenses, without negatively impacting reliability of service to customers. Notwithstanding these measures, the resulting reduction in cash generation due to the Pandemic is a burden to the Companies during a time when liquidity is a challenge throughout the industry. The above-described actions already taken by the Companies in response to COVID-19 and Commission's orders addressing this crisis have impacted the Companies' revenues and cash flows. Additionally, the recent volatility in the debt and equity markets has increased pressure on liquidity for most industries, including utilities. For these reasons, DEC and

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<sup>4</sup> *Id.*

<sup>5</sup> *Id.*

DEP seek carrying costs on the deferred amounts to compensate the Companies for the time value of money advanced by shareholders until recovery is complete and the deferred amounts can be addressed by the Commission in future rate cases. The Companies propose to use their respective weighted average cost of capital, as approved in the Companies' pending base rate cases.

17. In addition to the incremental additional operational costs incurred to continue their critical business operations during the Pandemic, the Companies are, as noted above, taking actions to ensure service continuity for customers. In waiving the fees and suspending disconnections for non-payment, however, the Companies are incurring incremental financial losses. The financial losses incurred in responding to the Pandemic, including forgoing the types the revenue streams afforded through tariffed charges for late payment and reconnections, are all costs being incurred by the Companies.

18. COVID-19 and its effect on the Companies' operations have arisen unexpectedly and could not have been anticipated when the Companies filed their rate case requests. Not insignificantly, the test year in the pending Docket Nos. E-7, Sub 1214 and E-2, Sub 1219 rate cases is 2018, well before the effects of the Pandemic arose. In the interim, the Pandemic has caused unprecedented delays and postponements in the rate cases, adding to the need to acknowledge in these dockets the significant harmful effects to the Companies' financial wellbeing. In consideration of the impacts that COVID-19 has had on customers and the need to appropriately delay the hearings in the pending rate cases due to health and safety concerns amid the State of Emergency, the Companies elected not to increase rates after the 270-day suspension period outlined in N.C. Gen. Stat. § 62-134(a). Although the Companies filed revised motions in the pending rate cases on August

4, 2020 for DEC and on August 7, 2020 for DEP, to implement a portion of the requested revenue requirement under bond as authorized under N.C. Gen. Stat. § 62-135(a), the Companies, in consideration of the Pandemic's impact on customers, proposed, at the same time, to implement a temporary decrement rider for Excess Deferred Income Taxes ("EDIT"), which would result in a net zero rate increase for almost all customers.

19. As stated previously, the Companies have not updated the pending rate cases to include any of the COVID-19 related incremental costs for which they seek deferral. The Companies would have been justified under the N.C. Gen. Stat. § 62-133(c) rate case procedures to adjust the test year requests to recognize these changes occurring prior to the conclusion of the hearings. Instead, the Companies are requesting a deferral so that the effect on rates will be postponed into the future when the Commission can address the deferred costs and determine their disposition. This proposed process benefits the Companies' customers by mitigating short-term rate impacts on customers who have also been impacted by COVID-19. Moreover, the Companies seek deferral of only a limited portion of the rate impacts from the Pandemic on its operations by including only the increased incremental costs and not the more significant reduction in current revenue caused by reduced demand.

20. Because this is not a request for a deferral made out of period or between rate cases, without an impact on rates, and because the deferral benefits customers, not the Companies, the Companies submit that the tests required to justify out of period deferrals do not apply. This case is similar to the Commission's decision in a general rate case of Virginia Electric and Power Company, d/b/a Dominion Energy North Carolina ("Dominion"). *In the Matter of Application by Dominion for Adjustment of Rates and*



*Charges Applicable to Electric Utility Service in North Carolina*, Order Approving Rate Increase and Cost Deferrals and Revising PJM Regulatory Conditions, Docket No. E-22, Sub 532 (December 22, 2016). Prior to its general rate case, Dominion filed an out of period request to defer the costs and expenses of the company's Warren County combined cycle natural gas fired plant, contending that it was not earning its authorized rate of return. The Commission originally denied the request, concluding that Dominion failed to meet the second prong of what is sometimes referred to as the two-part test for an out of period deferral, specifically that the company was not earning its authorized rate of return when the plant went into service. *Id.* at 66-67. In Dominion's subsequent general rate case, the Commission looked at Dominion's total cost of service, determined that Dominion was not earning its authorized return, reversed its earlier determination and accepted the deferral. Thus, and appropriately so, the Commission's analysis of deferral requests differs when made in the context of a general rate case. *Id.* Because DEC and DEP have general rate cases pending and the Commission can assess their total cost of service, the same analysis should apply in this case. The same rationale was also followed in the Commission's orders in the Companies' most recently completed general rate cases where the Commission in Docket Nos. E-7, Sub 1146 and E-2, Sub 1142, without additional discussion, approved a second deferral for future incurred coal ash remediation costs (rather than the Companies' requested run rate or rider) without reliance on a two-part test used in out of period deferral requests. See *In the Matter of Application by DEP for Adjustment of Rates and Charges Applicable to Electric Utility Service*, Order Accepting Stipulation, Deciding Contested Issues and Granting Partial Rate Increase, Docket No. E-2, Sub 1142, p 18 (February 23, 2018) and *In the Matter of Application of DEC for Adjustment of Rates and Charges*

*Applicable to Electric Utility Service, Order Accepting Stipulation, Deciding Contested Issues, and Requiring Revenue Reduction, Docket No. E-7, Sub 1146, pp 22-23 (June 22, 2018).*

21. The Companies submit that this request is consistent with the case law and policy of the State of allowing unique regulatory treatment of extraordinary costs. The costs are material and extraordinary and are not being recovered in current rates or those to be approved in the pending cases. The event or change results in revenues or costs that would materially impact a utility's financial condition. *See e.g., In the Matter of Implementation of House Bill 356 -- An Act to Clarify the Cap on the Utilities Regulatory Fee Reserve, to Set the Regulatory Fee in Statute, and to Allow the Commission to Raise or Lower the Fee, Order Amending Commission Rule R15-1, Docket No. M-100, Sub 142 (August 15, 2016). See also, In the Matter of Application by Virginia Electric and Power Company, d/b/a Dominion North Carolina Power, for Approval of Amended Schedule NS, Order Approving Amended Schedule NS and Denying Deferral Accounting, Docket No. E-22, Sub 517, pp 11-12 (March 29, 2016)* ("Because deferral accounting is appropriately used only sparingly, the Commission has required that deferrals be justified on the basis of an unusual or extraordinary event or change of circumstance.... Revenues or costs can be unusual or extraordinary either because of their occurrence or size or both. The issue of whether an event or change results in revenues or costs that would materially impact a utility's financial condition, while in some cases may be dispositive, it is secondary to the first prong of the test historically relied on by the Commission to determine whether deferral accounting should be permitted or required.... Under the Uniform Systems of Accounts, adopted by the Commission for electric utilities, extraordinary items are generally those

that are unusual, unexpected, and that would not be expected to recur or be recurring factors in the ordinary normal operation of business. Extraordinary events or occurrences are unique in nature.”)

### **Financial Consequences of the COVID-19 Pandemic**

22. North Carolina has not yet emerged from the impacts of the Pandemic, and it is impossible to predict when that will occur or how long those impacts will linger. It is known that DEC and DEP are experiencing a significant reduction and fluctuation in the Companies’ demand and associated revenues due to many reasons including, but not limited to, commercial and industrial customers closing or scaling back operations.

23. The Companies are hopeful that the impacts to date on their operations and the toll that has been taken on their customers will end sooner rather than later. However, although Governor Cooper had hoped to move from Phase Two to Phase Three in reopening the economy, on August 5, 2020, he announced that North Carolina will continue to remain in Phase Two until at least September 11, 2020. With a rise in reported COVID-19 cases and deaths, it is unclear whether this step can be accomplished or indeed whether it will be necessary to backtrack and retreat again to greater restrictions on economic activity. As the Commission noted *In the Matter of Investigation of Necessary and Appropriate Responses to the Novel Coronavirus COVID-19*, in its July 29, 2020 *Order Lifting Disconnection Moratorium and Allowing Collection of Arrearages Pursuant to Special Repayment Plans* in Docket No. M-100, Sub 158,<sup>6</sup> “[u]ncertainties remain as to how long the State of Emergency will last and how soon North Carolina’s economy will

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<sup>6</sup> See also Docket Nos. E-2, Sub 1228, E-7, Sub 1236, E-22, Sub 583, G-5, Sub 617 and G-9, Sub 767.

return to a normal level of operation once the emergency is over.” The Commission further stated:

When the Commission entered the Public Utility, Dominion, and Duke Waiver Orders, it was not anticipated that the State of Emergency would extend into or beyond summer. Unfortunately, more than a month into summer, there is no objective or factual indication that the State of Emergency stemming from the coronavirus pandemic is near an end. Thus, the Commission is concerned that the accumulation of significant unpaid utility charges over a continuing and most-likely extended period of time into the future will put both customers and utilities in financial positions where it may be difficult or in some cases even impossible for customers to repay and utilities to recoup the revenues uncollected during the State of Emergency.

*Id.* at 6. This recent decision by the Commission further supports the conclusion that the Companies should be permitted to track and adjust the deferred balance while the effects of the Pandemic continue to affect their operations.

24. Although the Companies are not requesting deferral of net lost revenues due to load reductions, the Companies are experiencing significant impacts from these changes in load. During the second quarter in 2020, billed weather normalized total retail sales are down for DEC approximately 6% compared to 2019; and for DEP they are down approximately 4% compared to 2019. The detailed chart below shows the billed volume differences for the periods April through June 2020 versus April through June 2019:

DEC 2nd Quarter 2019 vs 2020 Billed sales variances		
	Total Variance	Weather Normal Variance
Residential	-5.0%	3.7%
General Service	-13.0%	-6.8%
Industrial	-17.4%	-16.8%
<b>Total Retail</b>	<b>-11.6%</b>	<b>-6.3%</b>

DEP  
2nd Quarter 2019 vs 2020  
Billed sales variances

	Total Variance	Weather Normal Variance
Residential	-6.4%	5.2%
General Service	-15.4%	-12.6%
Industrial	-9.3%	-4.5%
<b>Total Retail</b>	<b>-10.4%</b>	<b>-3.9%</b>

25. The Companies have attempted to estimate the impacts of COVID-19. For purposes of illustration only, should there be a return to normal load by year-end, this projection, when compared to pre-COVID levels included in the Companies' supplemental filings in the current rate cases, shows a reduction to the contribution to fixed costs for the year 2020 of \$55 to \$65 million for DEC due to reduction in customer load; and a reduction to the contribution to fixed costs for the year 2020 of \$5 to \$10 million for DEP due to reduction in customer load. The Second Partial Settlements between the Companies and the Public Staff filed in the pending rate cases on July 31, 2020 reflect a portion of this decreased load (~\$8.6 million for DEC and ~\$2.7 million for DEP).

26. Absent approval of the deferral requested herein, DEC will face significant earnings degradation arising from the Pandemic, impacting the Company's return on equity by approximately 70 basis points. These effects are material to DEC's financial standing. It's important to note that if the requested accounting treatment is granted, the impact is still negative, but somewhat mitigated. Even if regulatory asset treatment is granted, the Company's return on equity would be impacted by approximately 48 basis points. As noted earlier, DEC currently has a pending rate case before the Commission. The adjusted return on equity under current rates as presented in the rate case is 6.08% as shown on

McManeus Second Settlement Exhibit 1, Page 2, Line 2. The adjusted return on equity under proposed rates as presented on the same exhibit is 9.60%.

27. Absent approval of this deferral request, DEC's return on equity for its North Carolina retail operations is expected to be 5.38% under current rates and 8.90% under proposed rates - - both likely well below the return to be authorized by the Commission in the pending rate case.

28. As with DEC, DEP will face significant earnings degradation from COVID-19 impacts if this deferral request is not granted, impacting the Company's return on equity by approximately 42 basis points. These effects are material to the Company's financial standing. It is important to note that if the requested accounting treatment is granted, the impact is still negative, but somewhat mitigated. Even if regulatory asset treatment is granted, the Company's return on equity would be impacted by approximately 15 basis points. DEP also currently has a pending rate case before the Commission. The adjusted return on equity under current rates as presented in the rate case is 4.08% as shown on Smith Second Supplemental Exhibit 1, Page 2, Line 2. The adjusted return on equity under proposed rates as presented on the same exhibit is 9.60%.

29. Absent approval of this deferral request, DEP's return on equity for its North Carolina retail operations is expected to be 3.66% under current rates and 9.18% under proposed rates - - both likely below the return to be authorized by the Commission in the pending rate cases.

30. The circumstances surrounding the variable and increased costs and loss of revenues from COVID-19 are unprecedented. They result not from normal cyclical economic changes or expected storm activity, but rather from the unprecedented Pandemic

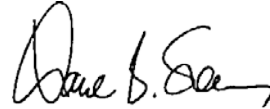
itself as well as state actions taken to protect public health and safety. This Commission has previously recognized the impact of state actions on the operations of public utilities, even in the absence of pending general rate cases. *State ex rel. Utilities Comm. v. Nantahala Power & Light Co.*, 326 N.C. 190, 388 S.E. 2d 118 (1990); *In the Matter of Implementation of House Bill 998 – An Act to Simplify the North Carolina Tax Structure and to Reduce Individual and Business Tax Rates*, Order Addressing the Impacts of HB 998 on North Carolina Public Utilities, Docket No. M-100, Sub 138 (May 13, 2014). The pending rate cases for the Companies offer the Commission the opportunity to assess the Companies’ total cost of service and is further justification for the approval of the requested deferral. There is no need to guess about the Companies’ current financial condition or engage in debates about single issue ratemaking or isolated adjustments. The deferrals requested herein are justified under North Carolina law and precedent, and this Commission should act consistent with the numerous other commissions across the country which have likewise approved deferrals due to the unprecedented Pandemic impacts.

### **CONCLUSION**

For all the foregoing reasons, the Companies respectfully petition the Commission (1) to allow the Companies to each establish a regulatory asset for deferral of their respective incremental costs incurred in connection with the Pandemic as detailed in this Joint Petition, plus carrying costs at the approved overall cost of capital approved in the pending rate cases, from March 1, 2020 until the Commission addresses the deferrals for ultimate disposition in the Companies’ next rate cases; (2) to authorize the Companies to track and adjust the regulatory asset from March 2020 until the Commission addresses the deferral for ultimate disposition in the Companies’ next rate cases; and (3) take notice of

the filings and evidence in the Companies' pending two general rate cases in Docket Nos. E-7, Sub 1214 and E-2, Sub 1219.

Respectfully submitted this the 7<sup>th</sup> day of August, 2020.



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Lawrence B. Somers  
Deputy General Counsel  
Duke Energy Corporation  
NCRH 20  
410 S. Wilmington Street  
Raleigh, North Carolina, 27601  
Telephone 919.546.6722  
[bo.somers@duke-energy.com](mailto:bo.somers@duke-energy.com)

Dwight Allen  
The Allen Law Offices  
4030 Wake Forest Rd., Suite 115  
Raleigh, North Carolina, 27609  
Telephone: 919 838.0529  
[dallen@theallenlawoffices.com](mailto:dallen@theallenlawoffices.com)

Attorneys for Duke Energy Carolinas, LLC  
and Duke Energy Progress, LLC



## APPENDIX A

### SURVEY OF STATE REGULATORY COVID-19 PENDING COST RECOVERY AND COST TRACKING DOCKETS

Inquiries have been made or petitions are currently pending in several states. States with petitions/applications pending requesting deferral/regulatory asset accounting total eleven states including:

**Arizona** (*Re: Commission Establishment of a Process to Track Financial Impacts of COVID-19 on Regulated Utilities and Utility Customers in Arizona*, Docket No. AU-00000A-20-0094) (May 20, 2020); *see also*, Stanfield, Jeff, *Ariz. Regulators reject blanket order for utility COVID-19 cost tracking*, S&P Global Market Intelligence, (May 21, 2020) (On May 19, the agency stopped short of issuing blanket order directing utilities to track and record expenses to file for future cost recovery instead noting that the utilities could make accounting order requests on their own); **Colorado** *Unanimous and Comprehensive Stipulation and Settlement Agreement*, Docket No. 20V-0159EG (July 16, 2020)); **Missouri** (*Verified Application of Spire Missouri Inc. for an Accounting Authority Order Related to COVID-19 Impacts and Request for Waiver of 60 Day Notice Rule*, Docket No. GU-2020-0376 (May 18, 2020); *Application of Evergy Missouri Metro and Evergy Missouri West for Accounting Authority Order Related to COVID-19 Costs and Financial Impacts*, Docket No. EU-2020-0350 (May 6, 2020)); **Montana** *In the Matter of an Application for Authorization to Track Financial Effects of COVID-19 and Record and Defer Such Financial Effects into a Regulatory Asset*, Docket No. 2020.05 (May 8, 2020); **Nebraska** (*In the Matter of the Application of Black Hills Nebraska Gas, LLC d/b/a Black Hills Energy for a Deferred Accounting Order Allowing to Record and Preserve Costs Related to the COVID-19 Pandemic*, Docket No. NG-107 (Apr. 22, 2020)); **New York** (Lisa Fontanella, *Corning Natural Gas files Revised Rate Hike, Seeks Deferral Related to COVID-19*, S&P Global Market Intelligence, (Case No. 20-G-0101) (May 15, 2020); **North Dakota** (*Application to Track and Defer Costs Incurred Resolution from COVID-19 Pandemic*, Docket No. PU-20-191 (Apr. 24, 2020)); **Oregon** (*In the Matter of AVISTA Corporation, dba AVISTA Utilities, Application for Deferral of Costs Associated with the COVID-19 Emergency*, Docket No. UM 2069 (Mar. 25, 2020); *In the Matter of Northwest Natural Gas, dba NW Natural, Application to Defer Costs Associated with the COVID-19 Public Health Emergency*, Docket No. UM 2068 (Mar. 24, 2020); *In the Matter of Idaho Power Company's Application for an Order Approving Deferred Accounting of Costs Associated with Response to COVID-19 Public Health Emergency*, Docket No. UM 2067

(Mar. 24, 2020); *PGE's Application for Authorization to Defer Costs Associated with the COVID-19 Emergency*, Docket No. UM 2064 (Mar. 20, 2020)); **South Dakota** (*In the Matter of Deferred Treatment of the Financial Effects of COVID-19 and the Creation of Regulatory Assets, Petition*, Docket No. GE20-002 (May 1, 2020)); **Utah** (*Application of Rocky Mountain Power for a Deferred Accounting Order Regarding Costs Incurred due to the COVID-19 Public Health Emergency*, Docket No. 20-035-7 (Apr. 3, 2020)); **Washington** (*Petition for Order that Authorizes the Accounting Treatment of Approving Deferral of Costs Associated with the COVID-19 Public Health Emergency, on behalf of PacifiCorp d/b/a Pacific Power & Light Company*, Docket No. UE-200234 (Mar. 20, 2020); *Petition for order that authorizes the accounting treatment of costs associated with the COVID-19 public health emergency, on behalf of Northwest Natural Gas Company*, Docket No. UG-200264 (Mar. 24, 2020); *Petition for an Order Authorizing Deferral of Costs and Benefits Associated with COVID-19 Public Health Emergency, on behalf of Avista Corporation*, Docket No. UE-200407 (May 4, 2020); *Petition for order that authorizes the accounting treatment of Deferral of Costs and Benefits Associated with COVID-19 Public Health Emergency, on behalf of Avista Corporation*, Docket No. UG 200408 (May 4, 2020)).

Some states have established working groups or have issued inquiries/information requests to consider the impacts of the Pandemic and presumably will make future recommendations regarding cost recovery. These states include:

**Maine** (*Public Utilities Commission Inquiry into Effect of Coronavirus Pandemic on Transmission and Distribution Utilities and Natural Gas Utilities and Their Customers*, Docket No. 2020-00136 (June 1, 2020); **Massachusetts** (*Inquiry of the Department of Public utilities into Establishing Policies and Practices for Electric and Gas Companies Regarding Customer Assistance and Ratemaking Measures in Connection to the State of Emergency Regarding the Novel Coronavirus (COVID-19) Pandemic, Order on Customer Outreach Plan from the First Report of the Customer Assistance and Ratemaking Working Group*, D.P.U. 20-58-A (June 26, 2020); **Missouri** (*In the Matter of a Working Case to Consider Best Practices for Recovery of Past-Due Utility Customer Payments After the COVID-19 Pandemic Emergency, Order Opening a Working Case to Consider Best Practices for Recovery of Past-Due Customer Payments After the Covid-19 Pandemic Emergency*, File No. AW-2020-0356 (May 13, 2020); **New Hampshire** (*Investigation into the Effects of Covid-19 Emergency on Utilities and Utility Customers, Order Denying Petition for Emergency Rulemaking or Evidentiary Hearing and Scheduling Public Hearing*, Order No. 26,379 (July 8, 2020) (Note: in New Hampshire, the Governor's executive order called for customer repayment. The commission has since opened an investigation that could lead to other cost recovery options.)); **New York** (*Proceeding on Motion of the Commission*

*Regarding the Effects of COVID-19 on Utility Service, Order Establishing Proceeding, Docket No. 20-M-0266 (June 11, 2020); Vermont (Vermont Legal Aid Request for Moratorium on Utility and Telecommunications Shutoffs During State of Emergency, Order Extending Moratorium and Requesting Utility Plans, Case No. 20-0703-PET (May 28, 2020);*

Finally, a few states have not approved regulatory asset/deferral accounting, but have directed the utilities to track costs related to COVID-19. These states include:

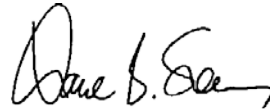
**California** (*Emergency Authorization and Order Directing Utilities to Implement Emergency Customer Protections to Support California Customers During the Covid-19 Pandemic, Resolution M-4842 (Apr. 17, 2020)*); **Rhode Island** (*Utility Financial Reporting Requirements Related to COVID-19 Pandemic, Docket No. 5026 (Apr. 24, 2020)*); and **South Carolina** (*In Re: Actions in Response to COVID-19, Order on Petition for Waiver of Certain Commission Regulations and for Amendment of Commission Order Related to COVID-19 Pandemic, Docket No. 2020-106-A, Order No. 2020-344 (May 7, 2020)*).

CERTIFICATE OF SERVICE

I certify that a copy of Duke Energy Carolinas, LLC and Duke Energy Progress, LLC's Joint Petition for Approval of Accounting Orders to Defer Incremental COVID-19 Expenses, in Docket Nos. E-7, Sub 1241 and E-2, Sub 1258, has been served by electronic mail, hand delivery, or by depositing a copy in the United States Mail, 1<sup>st</sup> Class Postage Prepaid, properly addressed to the following parties of record:

Dianna Downey  
Gina Holt  
Reita Coxton  
Public Staff  
North Carolina Utilities Commission  
4326 Mail Service Center  
Raleigh, NC 27699-4300  
[dianna.downey@psncuc.nc.gov](mailto:dianna.downey@psncuc.nc.gov)  
[gina.holt@psncuc.nc.gov](mailto:gina.holt@psncuc.nc.gov)  
[reita.coxton@psncuc.nc.gov](mailto:reita.coxton@psncuc.nc.gov)

This the 7<sup>th</sup> day of August, 2020.



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Lawrence B. Somers  
Deputy General Counsel  
Duke Energy Corporation  
P.O. Box 1551/NCRH 20  
Raleigh, NC 27602-1551  
Tel: 919.546.6722  
[bo.somers@duke-energy.com](mailto:bo.somers@duke-energy.com)