

McGuireWoods LLP
434 Fayetteville Street
Suite 2600
PO Box 27507 (27611)
Raleigh, NC 27601
Phone: 919.755.6600
Fax: 919.755.6699
www.mcguirewoods.com

Mary Lynne Grigg
Direct: 919.755.6573

McGUIREWOODS

mgrigg@mcguirewoods.com

OFFICIAL COPY

Sep 17 2019

September 17, 2019

VIA ELECTRONIC FILING

Ms. Kimberley A. Campbell, Chief Clerk
North Carolina Utilities Commission
Dobbs Building
430 North Salisbury Street
Raleigh, North Carolina 27603-5918

Re: Docket No. E-22, Sub 562
Docket No. E-22, Sub 566

Dear Ms. Campbell:

Virginia Electric and Power Company, d/b/a Dominion Energy North Carolina (“DENC” or the “Company”), submits for filing in the above-referenced dockets the Agreement and Stipulation of Settlement as executed by the Company and the Public Staff—North Carolina Utilities Commission.

Please do not hesitate to contact me if you have any questions regarding this filing.

Sincerely,

/s/Mary Lynne Grigg

MLG:kjg

Enclosures

STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH

DOCKET NO. E-22, SUB 562

DOCKET NO. E-22, SUB 566

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of
Application of Dominion Energy North Carolina)
for Adjustment of Rates and Charges Applicable)
to Electric Service in North Carolina)
)
In the Matter of Petition of Virginia Electric and)
Power Company, d/b/a Dominion Energy North)
Carolina for an Accounting Order to Defer)
Certain Capital and Operating Costs Associated)
with Greenville County Combined Cycle)
Addition)

AGREEMENT AND
STIPULATION OF PARTIAL
SETTLEMENT

Virginia Electric and Power Company, d/b/a Dominion Energy North Carolina
("DENC" or the "Company") and the Public Staff – North Carolina Utilities Commission
("Public Staff"), collectively referred to as the Stipulating Parties, through counsel and
pursuant to N.C. Gen. Stat. § 62-69, respectfully submit the following Agreement and
Stipulation of Partial Settlement ("Stipulation") for consideration by the North Carolina
Utilities Commission ("Commission") in the above-captioned dockets.

I. BACKGROUND

A. On February 27, 2019, DENC filed a Notice of Intent to File a General Rate
Application.

- B. On March 1, 2019, Carolina Industrial Group for Fair Utility Rates I (“CIGFUR”) filed a Petition to Intervene. The Petition was granted by the Commission on March 7, 2019.
- C. On March 25, 2019, Nucor-Steel-Hertford (“Nucor”) filed a Petition to Intervene. The Petition was granted by the Commission on March 29, 2019.
- D. On March 29, 2019, DENC filed an application (Application) in Docket No. E-22, Sub 562, for a general rate increase, pursuant to N.C. Gen. Stat. §§ 62-133 and 62-134 and Commission Rule R1-17, along with direct testimony and exhibits requesting a non-fuel base rate increase of approximately \$27 million. The filing was based upon a rate of return on equity (“ROE”) of 10.75%, an embedded long-term debt cost of 4.451%, and the Company’s actual North Carolina ratemaking capital structure as of the end of the 2018 test period, consisting of 53.006% common equity and 46.99% long-term debt.
- E. On April 29, 2019, the Commission issued its Order Establishing General Rate Case and Suspending Rates.
- F. On May 2, 2019, the Commission issued its order Consolidating Dockets, which consolidated this general rate case with DENC’s pending petition for deferral accounting authority to defer post-in-service costs associated with commercial operations of the Greenville Power Station in Docket No. E-22, Sub 566.
- G. On May 30, 2019, the Commission issued an Order Scheduling Investigation and Hearings, Establishing Intervention and Testimony Due Dates and Discovery Deadlines and Requiring Public Notice.

- H. On August 5, 2019, the Company filed supplemental direct testimony and exhibits, supplemental Form E-1 items and supplemental Commission Rule R1-17 information.
- I. On August 14, 2019, the Company filed additional supplemental direct testimony and exhibits.
- J. On August 23, 2019, intervenors, including the Public Staff, Nucor, and CIGFUR, filed testimony and exhibits.
- K. On September 12, 2019, the Company filed second supplemental direct testimony and exhibits, supplemental Form E-1 items and supplemental Commission Rule R1-17 information.
- L. Also on September 12, 2019, DENC filed rebuttal testimony and exhibits.
- M. The parties to this proceeding have conducted substantial discovery on the issues raised in the Company's Application as well as on the direct, supplemental, and rebuttal testimony of the Company and the testimony of the intervenors.
- N. Prior to the evidentiary hearing scheduled to begin on September 22, 2019, the Stipulating Parties reached a partial settlement with respect to some of the revenue requirement and rate design issues presented by the Company's Application, including those arising from the supplemental and rebuttal testimonies and exhibits. The Stipulating Parties agree and stipulate as follows:

II. UNRESOLVED ISSUES

- A. The Stipulating Parties have not reached a compromise on the following issues ("Unresolved Issues"):

- i. Coal Combustion Residual (CCR) costs – Cost recovery of the Company’s CCR costs, the recovery amortization period and return during the amortization period.
- ii. Any other revenue requirement or non-revenue requirement issue other than those issues specifically addressed in this Stipulation

III. RATE OF RETURN AND RATE INCREASE RECOMMENDATIONS

- A. The Stipulating Parties agree that the revenues approved in this proceeding should provide the Company, through sound management, the opportunity to earn an ROE of 9.75%. This ROE will be applied to the common equity component of the stipulated ratemaking capital structure consisting of 52% equity and 48% long-term debt. The embedded cost of debt agreed to by the Stipulating Parties as appropriate and reasonable for purposes of this proceeding is 4.442 %. The weighted overall rate of return resulting from the above inputs is 7.20%.
- B. Through discussions regarding certain corrections and adjustments, and further confidential negotiations, the Stipulating Parties have agreed that the revenue requirement increase of \$24,879,000 proposed by the Company in its August 15, 2019, supplemental filing should be reduced by at least \$13,517,000.¹ The specific adjustments to the revenue requirement that result in this agreed-to decrease are set forth on Settlement Exhibit I.

¹ As of the date of the filing of this Stipulation, the Stipulating Parties have not had sufficient time to reformat Settlement Exhibit I to take into account the additional supplemental and rebuttal filings made by the Company; however, any such reformatting will have no effect on the final impact of the resolved issues on the revenue requirement.

C. As a result of the Unresolved Issues, the Public Staff believes that the \$24,879,000 proposed revenue requirement increase should be further reduced by \$7,170,000 for a final approved non-fuel base revenue requirement increase of \$4,192,000, as set forth on Settlement Exhibit I and explained in the testimony and exhibits of Public Staff witnesses Maness and Lucas. As explained in the rebuttal testimony of Company witness McLeod, the Company believes that it would be reasonable not to reduce the revenue requirement increase further, but would not object to a further reduction of \$2.8 million, if the Commission determines that period to be in the best interests of DENC's customers. As set forth on Settlement Exhibit I, this possible reduction would result in a final revenue requirement increase of \$8,583,000.

IV. ADJUSTMENTS TO COST OF SERVICE

For settlement purposes only, the Stipulating Parties have agreed to certain cost of service adjustments addressed in the testimony of Public Staff witness Sonja R. Johnson and the rebuttal testimony of Company witness Paul M. McLeod and as further negotiated by the Stipulating Parties. The agreement of the Stipulating Parties on resolution of these issues is reflected in Settlement Exhibit I. No Stipulating Party waives any right to assert any position in any future proceeding or docket before the Commission or in any court regarding these adjustments, as the adjustments on Settlement Exhibit I are strictly for purposes of compromise and are intended to show a rational basis for reaching the revenue requirement without either party conceding any specific adjustment. The Stipulating Parties agree that settlement on these

issues will not be used as a rationale for future arguments on contested issues brought before the Commission. The areas of agreement are as follows:

- A. The Stipulating Parties agree to remove 50% of the Mount Storm impairment costs and amortize those costs over 2.75 years.
- B. The Stipulating Parties agree to reduce the revenue requirement in the amount of \$177,000 to reflect a downward adjustment for the outside services costs requested in the case.
- C. The Stipulating Parties agree to reduce the revenue requirement in the amount of \$153,000 to reflect a downward adjustment for the Skiffes Creek mitigation costs requested in this case.
- D. The Company accepts the Public Staff's proposed adjustment to the NUG contract termination expense.
- E. The Stipulating Parties agree to reduce the revenue requirement in the amount of \$287,000 to reflect the removal of federal unprotected EDIT from rate base, which will be recovered by the Company through a rider as discussed in Section VIII below.
- F. The Company accepts the Public Staff's proposed adjustment to uncollectibles costs.
- G. The Company accepts the Public Staff's proposed adjustment to executive compensation costs.
- H. The Stipulating Parties agree to reduce the revenue requirement in the amount of \$42,000 to reflect a downward adjustment for the lobbying costs requested in this case.

- I. The Stipulating Parties agree to reduce the revenue requirement in the amount of \$81,000 to reflect a downward adjustment for the storm costs requested in this case.
- J. The Stipulating Parties agree to reduce the revenue requirement in the amount of \$304,000 to reflect a downward adjustment for the costs related to the employee severance program requested in this case and a normalization of those costs over 4.5 years. The Public Staff agrees to withdraw its proposed adjustment for the VRP backfill costs.
- K. The Stipulating Parties agree to reduce the revenue requirement in the amount of \$12,000 to reflect a downward adjustment for the advertising costs requested in the case.
- L. The Stipulating Parties agree to remove 50% of the costs associated with the Company's executive incentive plan.
- M. The Stipulating Parties agree to reduce the revenue requirement in the amount of \$720,000 to reflect the updated, actual costs of the Company's new office building located in Richmond, Virginia.
- N. The Company accepts the Public Staff's proposed change in the retention factor.
- O. The Stipulating Parties agree to reduce the revenue requirement in the amount of \$90,000 to reflect updated and corrected customer growth, usage, and weather normalization numbers.
- P. The Stipulating Parties agree to reduce the revenue requirement in the amount of \$142,000, for the variable non-fuel O&M expenses for displacement, to

reflect updated and corrected purchased energy and electric test year output numbers.

- Q. The Stipulating Parties agree to reduce the revenue requirement in the amount of \$7,000 to reflect updated data related to inflation.
- R. The Stipulating Parties agree to increase the revenue requirement in the amount of \$49,000 to reflect the Company's updated kilowatt hour (kWh) sales.
- S. The Public Staff accepts the proposed Company's depreciation rates as filed in its Application.

V. BASE FUEL AND FUEL-RELATED COST ISSUES

- A. The Stipulating Parties agree that a decrease in the Company's base fuel revenue requirement as set forth in Settlement Exhibit I, incorporating the base fuel rate and Rider A as set forth in the Additional Supplemental Testimony of Company witness Paul B. Haynes and recommended by Public Staff witness Jack L. Floyd, is appropriate to be included in the Company's base rates, subject to any adjustment based on the outcome of the Company's ongoing fuel proceeding in Docket No. E-22, Sub 579.
- B. The Stipulating Parties agree that decrement Rider A1, equal to (\$0.00375) per kWh on a jurisdictional basis, proposed by Company witness Paul B. Haynes in Table 5 of his Additional Supplemental Testimony, filed on August 14, 2019, is appropriate to become effective November 1, 2019 to coincide with the effective date of interim rates in this proceeding. The Company has

stated in the 2019 Fuel Case that it is anticipating over-recovering fuel expenses in the second half of 2019.

VI. COST ALLOCATION, RATE DESIGN, AND TERMS AND CONDITIONS

- A. For purposes of settlement only, the Stipulating Parties agree that the Company's Summer-Winter Peak and Average ("SWPA") methodology calculated using the system load factor to weight the average component and (1 – system load factor) to weight the peak demand component is appropriate for use in allocating the Company's per books cost of service to the North Carolina jurisdiction and between the customer classes in this case. This shall not be a precedent for and may be contested in future general rate case proceedings. The Stipulating Parties further agree to two adjustments made in the course of calculating the SWPA: i) the Company's proposed adjustment to its recorded summer and winter peaks to recognize the peak demand contributions of non-utility generators interconnected to the Company's distribution system is appropriate and reasonable, and ii) the Company's proposed adjustment to remove the demand and energy requirements of three customers, one wholesale customer, NCEMC, and two large industrial customers in the Company's Virginia jurisdiction for whom the obligation to provide generation service has ended or will end during 2019.
- B. The Stipulating Parties agree on the following with regard to assignment of the revenue requirement and the accompanying rate schedules to be filed by the Company in compliance with the Commission's final order:

- i. To the extent possible, the Company shall assign the approved revenue requirement consistent with the principles regarding revenue apportionment described in the testimony of Public Staff witness Floyd.
- ii. The Parties agree that the Company shall implement the rate design proposed by Company witness Haynes in his direct testimony, filed contemporaneously with the Company's Application in this docket, as adjusted by this Stipulation.
- iii. In meeting the provisions of (1) and (2) in apportioning the approved revenue requirement to the customer classes, awareness and consideration shall be given to the rate of return indexes for the LGS and 6VP classes being above 1.20 and an appropriate rate of return index for the Schedule NS class.

The parties agree that all classes should share in the total base rate revenue increase.

VII. CHESTERFIELD POWER STATION UNITS 3 AND 4

- A. The Stipulating Parties' dispute regarding the inclusion of certain wet-to-dry conversion costs at the Chesterfield Power Station ("Chesterfield") has been resolved for purposes of this proceeding by including these costs in the stipulated revenue requirement, pending resolution of a similar dispute in Virginia.² See Virginia State Corporation Commission's Final Order in Case

² *Virginia Electric & Power Company, For approval of a rate adjustment clause, designated Rider E, for the recovery of costs incurred to comply with state and federal environmental regulations pursuant to § 56-585.1 A 5 e of the Code of Virginia*, Case No. PUR-2018-00195, Final Order (Aug. 5, 2019); Order Granting Reconsideration (Aug. 26, 2019).

No. PUR-2018-00195. If the final resolution in Virginia results in such costs being removed from the Virginia Rider E revenue requirement, the Company will establish a regulatory liability for estimated amounts recovered from North Carolina customers associated with [Chesterfield wet-to-dry conversion costs] beginning November 1, 2019, and ending on the effective date of rates established in the Company's next general rate case. The amortization of the regulatory liability balance will be incorporated into the revenue requirement developed in the Company's next general rate case.

VIII. RIDER EDIT TO RECOVER FEDERAL EXCESS DEFERRED INCOME TAXES ("EDIT")

- A. The Stipulating Parties agree that the Company shall implement Rider EDIT to allow for recovery of federal EDIT of \$1.3 million on a levelized basis over a two-year period, with a return. The \$1.3 million is comprised of 1) the amortization of all unprotected federal EDIT totaling approximately \$8.0 million partially offset by 2) the refund of approximately \$6.8 million associated with federal EDIT amortization attributable to the 22-month period January 1, 2018 through October 31, 2019. The appropriate revenue level of EDIT to be recovered by the Company is presented on Settlement Exhibit [II]. The Stipulating Parties agree that the Company shall implement Rider EDIT as described in the stipulation testimony of Company witnesses McLeod.

IX. QUALITY OF ELECTRIC SERVICE

The Parties agree that the overall quality of electric service provided by DENC is good.

X. AGREEMENT IN SUPPORT OF SETTLEMENT; NON-WAIVER

- A. The Stipulating Parties shall act in good faith and use their best efforts to recommend to the Commission that this Stipulation be accepted and approved. The Stipulating Parties further agree that this Stipulation is in the public interest because it reasonably balances customer interests in mitigating rate impacts with investor interests in providing for reasonable recovery of investments, thereby providing the necessary level of revenue requirement to allow the Company to maintain its financial strength and credit quality and continue to provide high quality electric utility service to its customers. The Stipulating Parties intend to support the reasonableness of this Stipulation in any hearing before the Commission and any proposed order or brief in this docket.
- B. Neither this Stipulation nor any of its terms or conditions shall be admissible in any court or before the Commission except insofar as the Commission is addressing litigation arising out of the implementation of the terms herein or the approval of this Stipulation. This Stipulation shall not be cited as precedent by any of the Stipulating Parties with regard to any issue in any other proceeding or docket before this Commission or in any court. This Stipulation is not intended nor shall it be construed in any way as an admission or accusation of imprudence by the Stipulating Parties.

- C. The provisions of this Stipulation do not reflect any position asserted by any of the Stipulating Parties, but reflect instead the compromise and settlement among the Stipulating Parties as to all of the issues covered hereby. No Stipulating Party waives any right to assert any position in any future proceeding or docket before this or any other Commission and in any court.
- D. The Stipulation is the product of negotiation between the Stipulating Parties, and no provision of this Stipulation shall be strictly construed in favor or against any Party.

XI. RECEIPT OF TESTIMONY AND WAIVER OF CROSS-EXAMINATION

The Stipulating Parties agree that all pre-filed testimony and exhibits may be received in evidence without objection. Each Stipulating Party waives all right to cross-examine any witness with respect to such pre-filed testimony and exhibits. If, however, questions are asked by any Commissioner, or if questions are asked or positions are taken by any person who is not a Stipulating Party, then any Stipulating Party may respond to such questions by presenting testimony or exhibits and cross-examining any witness with respect to such testimony and exhibits, provided such testimony, exhibits, and cross-examination are not inconsistent with this Stipulation.

XII. STIPULATION BINDING ONLY IF ACCEPTED IN ITS ENTIRETY

This Stipulation is the product of negotiation and compromise of a complex set of issues, and no portion of this Stipulation is or will be binding on any of the Stipulating Parties unless the entire Agreement and Stipulation is accepted

by the Commission. If the Commission rejects any part of this Stipulation or approves this Stipulation subject to any change or condition or if the Commissions approval of this Stipulation is rejected or conditioned by a reviewing court, the Parties agree to meet and discuss the applicable Commission or court order within five business days of its issuance and to attempt in good faith to determine if they are willing to modify the Stipulation consistent with the order. No Party shall withdraw from the Stipulation prior to complying with the foregoing sentence. If any Party withdraws from the Stipulation, each Party retains the right to seek additional procedures before the Commission, including cross-examination of witnesses, with respect to issues addressed by the Stipulation and shall not be bound or prejudiced by the terms and conditions of the Stipulation.

XIII. COUNTERPARTS

This Stipulation may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. Execution by facsimile signature shall be deemed to be, and shall have the same effect as, execution by original signature.

The foregoing is agreed and stipulated to this the ___th day of September, 2019.

Dominion Energy North Carolina

By: /s Mary Lymne Grigg

Public Staff – North Carolina Utilities
Commission

By: /s Heather Fennell

CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing Agreement and Stipulation of Settlement, as filed in Docket No. E-22, Subs 562 and 566, were served electronically or via U.S. mail, first-class postage prepaid, upon all parties of record.

This the 17th day of September, 2019.

/s/Mary Lynne Grigg

Mary Lynne Grigg

McGuireWoods LLP

434 Fayetteville Street, Suite 2600

PO Box 27507 (27611)

Raleigh, North Carolina 27601

(919) 755-6573 (Direct)

mgrigg@mcguirewoods.com

*Attorney for Virginia Electric and Power
Company, d/b/a Dominion Energy North
Carolina*

DOMINION ENERGY NORTH CAROLINA
Docket No. E-22, Sub 562
North Carolina Retail Operations
REVENUE IMPACT OF SETTLED AND UNRESOLVED ADJUSTMENTS
For the Test Year Ended December 31, 2018
(in Thousands)

Settlement Exhibit I

Line No.	Item	Per Public Staff (a)	Per Company (b)	Difference (c)
1	Non-fuel revenue requirement increase per Company application	\$ 26,958	\$ 26,958	\$ -
2	Revenue impact of Company update in first supplemental filing	(2,079)	(2,079)	-
3	Non-fuel revenue requirement increase per Company after updates	24,879	24,879	\$ -
4	Revenue impact of Public Staff adjustments:			
5	<u>Settled Issues:</u>			
6	Change in equity ratio from 53.65% to 52.00% equity	(1,903)	(1,903)	-
7	Change in debt cost rate from 4.442% to 4.442%	-	-	-
8	Change in return on equity from 10.75% to 9.75%	(8,064)	(8,064)	-
9	Change in retention factor - uncollectibles	(17)	(17)	-
10	Adjust uncollectibles	(238)	(238)	-
11	Adjust allocation of state accumulated deferred income taxes	-	-	-
12	Remove Mt Storm Impairment costs	(470)	(470)	-
13	Adjust NUG Contract Termination Expense - Regulatory Asset	(36)	(36)	-
14	Adjust outside services	(177)	(177)	-
15	Eliminate certain ADIT balances	-	-	-
16	Remove Skiffes Creek mitigation costs	(153)	(153)	-
17	Remove executive compensation costs	(92)	(92)	-
18	Remove Chesterfield Units 3 & 4 wet-to-dry conversion costs	-	-	-
19	Adjustment to remove federal unprotected EDIT treatment as a rider	(287)	(287)	-
20	Adjust lobbying expense	(42)	(42)	-
21	Adjust storm costs	(81)	(81)	-
22	Remove employee severance program costs	(304)	(304)	-
23	Remove advertising costs	(12)	(12)	-
24	Adjust annual incentive plan costs	(358)	(358)	-
25	Adjust employee VRP Backfill costs	-	-	-
26	Adjust expenses for customer growth, usage, and weather normalization	(90)	(90)	-
27	Adjust variable non-fuel O&M expenses for displacement	(142)	(142)	-
28	Adjust inflation adjustment	(9)	(9)	-
29	Adjust uncollectibles for decrease in base fuel rate	(7)	(7)	-
30	Adjust cash working capital under present rates	(83)	(83)	-
31	Adjust cash working capital under proposed rates	(282)	(282)	-
32	Adjustment to reflect kWh change in revenue annualization	49	49	-
33	Adjustment for New Office Building	(720)	(720)	-
34	Rounding	1	1	-
35	Total Settled Issues	(13,517)	(13,517)	-
36	<u>Unsettled Issues:</u>			
37	Adjust coal combustion residual (CCR) costs	(7,096)	(2,750)	(4,346)
38	Adjust cash working capital for CCR adjustment	(74)	(29)	(45)
39	Total Unsettled Issues	(7,170)	(2,779)	(4,391)
40	Recommended increase in non-fuel revenue requirement	\$ 4,192	\$ 8,583	\$ (4,391)
41	Public Staff recommended decrease in base fuel revenue requirement	\$ (2,155)	\$ (2,155)	\$ -
42	Annual EDIT Rider recommended by Public Staff for 5 year period	\$ 649	\$ 649	\$ -

DOMINION ENERGY NORTH CAROLINA
Docket No. E-22, Sub 562
CALCULATION OF LEVELIZED FEDERAL
UNPROTECTED EDIT RIDER CREDIT
For the Test Year Ended December 31, 2018

Settlement Exhibit II
Schedule 2

Line No.	Item	Year 1 Revenue Requirement (a)	Year 2 Revenue Requirement (b)	Total Revenue Requirement (c)
	<u>Annuity Factor</u>			
1	Number of years	2	2	
2	Payment per period	1	1	
3	After tax rate of return	6.654%	6.654%	
4	Present value of 1 dollar over number of years with			
5	with 1 payment per year	1.8167		
6	1 plus (interest rate divided by two)	1.0333		
7	Annuity factor (L4 x L5)	<u>1.8772</u>		
8	Total NC retail regulatory liability to be amortized	(\$1,214,000)	(\$1,214,000)	
9	Annuity factor (L7)	1.8772	1.8772	
10	Levelized rider federal EDIT regulatory liability (L8 / L9)	(646,708)	(646,708)	(1,293,416)
11	One minus composite income tax rate	74.377%	74.377%	74.377%
12	Net operating income effect (L10 x L11)	(481,003)	(481,003)	(962,007)
13	Retention factor	0.740365	0.740365	0.740365
14	Levelized rider federal EDIT credit (L5 / L6)	<u>(\$649,684)</u>	<u>(\$649,684)</u>	<u>(\$1,299,369)</u>

1/ Rider period per Settlement Agreement.

2/ Johnson Settlement Exhibit II, Schedule 2(a), Line 3.

3/ Company Supplemental Exhibit PMM-2, Schedule 1, page 3, lines 86 plus 87, plus one year EDIT Rideer amount originally proposed by the Company.

4/ One minus the composite income tax rate of 25.6228%.

5/ Johnson Settlement Exhibit 1, Schedule 1-2, Column (d), Line 14.

6/ Sum of Columns (a) through Column (e).

DOMINION ENERGY NORTH CAROLINA
Docket No. E-22, Sub 562
CALCULATION OF ANNUITY FACTOR FOR EDIT
LIABILITY RIDER
For the Test Year Ended December 31, 2018

Settlement Exhibit II
Schedule 2(a)

Line No.	Item	Amount
<u>Annuity Factor</u>		
1	Number of years	2 ^{1/}
2	Payment per period	1
3	After tax rate of return (L9)	6.654%
4	Present value of 1 dollar over number of years with with 1 payment per year	1.8167
5	1 plus (interest rate divided by two)	<u>1.0333</u>
6	Annuity factor (L4 x L5)	<u><u>1.8771</u></u>

	<u>Capital Structure</u> (a)	<u>Cost Rates</u> (b)	<u>Overall Rate of Return</u> ^{6/} (c)	<u>Net of Tax Rate</u> (d)
<u>After Tax Rate of Return</u>				
7	48.00% ^{2/}	4.442% ^{4/}	2.13%	1.58% ^{7/}
8	<u>52.00% ^{3/}</u>	<u>9.75% ^{5/}</u>	<u>5.07%</u>	<u>5.070% ^{8/}</u>
9	<u>100.00%</u>		<u>7.20%</u>	<u>6.654%</u>

- 1/ Rider period per Settlement Agreement.
- 2/ Johnson Settlement Exhibit 1, Schedule 1-2, Column (a), Line 2.
- 3/ Johnson Settlement Exhibit 1, Schedule 1-2, Column (a), Line 3.
- 4/ Johnson Settlement Exhibit 1, Schedule 1-2, Column (b), Line 2.
- 5/ Johnson Settlement Exhibit 1, Schedule 1-2, Column (b), Line 3.
- 6/ Column (a) times Column (b).
- 7/ Column (c) times 1 minus the composite income tax rate of 25.6228%.
- 8/ Amount from Column (c).