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August 11, 2021

VIA ELECTRONIC FILING

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Interim Chief Clerk
North Carolina Utilities Commission
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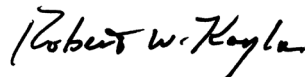
**RE: Duke Energy Carolinas, LLC's Testimony of H. Lee Mitchell, IV
Docket Nos. G-9, Sub 722; G-9, Sub 781; and G-9, Sub 786**

Dear Ms. Dunston:

Pursuant to the Commission's May 17, 2021 *Order Scheduling Investigation and Hearings, Establishing Intervention and Testimony Due Dates and Discovery Guidelines, and Requiring Public Notice* in the above-referenced proceedings, I enclose on behalf of Duke Energy Carolinas, LLC ("DEC" or the "Company") the Testimony of H. Lee Mitchell, IV. Terms of the underlying contract at issue in these proceedings, as well as portions of the Public Staff Comments, were filed under seal because they contain confidential, proprietary cost information. Accordingly, portions of DEC's Testimony are therefore being filed under seal. If this commercially sensitive business information were to be publicly disclosed, it would allow competitors, vendors and other market participants to gain an undue advantage, which may ultimately result in harm to customers. DEC respectfully requests that this information be treated confidentially pursuant to N.C. Gen. Stat. §132-1.2. Copies of the testimony will be delivered to the Clerk's Office by the next business day.

Please contact me if you have questions or need additional information.

Sincerely,



Robert W. Kaylor

Enclosures

cc: Parties of Record

OFFICIAL COPY

Aug 11 2021

STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH

DOCKET NO. G-9, SUB 722
DOCKET NO. G-9, SUB 781
DOCKET NO. G-9, SUB 786

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of)
)
DOCKET NO. G-9, SUB 722)
)
In the Matter of)
Consolidated Natural Gas Construction and)
Redelivery Services Agreement Between)
Piedmont Natural Gas Company, Inc., and)
Duke Energy Carolinas, LLC)
)
DOCKET NO. G-9, SUB 781)
)
In the Matter of)
Application of Piedmont Natural Gas)
Company, Inc., for an Adjustment of Rates,)
Charges, and Tariffs Applicable to Service)
in North Carolina)
)
DOCKET NO. G-9, SUB 786)
)
In the Matter of)
Application of Piedmont Natural Gas)
Company, Inc., for Modification to Existing)
Energy Efficiency Program and Approval of)
New Energy Efficiency Programs)
)

**DIRECT TESTIMONY OF
H. LEE MITCHELL, IV**

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

2 A. My name is H. Lee Mitchell IV. My business address is 526 S. Church St.,
3 Charlotte, North Carolina 28202.

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

5 A. I am employed by Duke Energy Carolinas, LLC (“DEC” or the “Company”)
6 as a Director of Fuel Strategy and Planning. My responsibilities include
7 providing leadership on enterprise fuel strategy and developing the corporate
8 direction on strategic fuel matters for all regulated Duke Energy electric
9 subsidiaries. Specifically, I support Duke Energy’s generation transition
10 away from coal to cleaner burning fuels, such as natural gas and other
11 developing alternatives. This includes the management of long-term fuel
12 planning, implementation of near-term strategic fuel initiatives, developing
13 strategies to improve fuel security and supply, and helping advance a
14 roadmap to fuel Zero-Emitting Load-Following Resources (“ZELFRs”)
15 through coordination with internal and external stakeholders.

16 **Q. PLEASE SUMMARIZE YOUR EDUCATION AND PROFESSIONAL**
17 **QUALIFICATIONS.**

18 A. I obtained a Bachelor of Science in Business Administration from the
19 University of Richmond and a Master of Science in Natural Gas Engineering
20 and Management from the University of Oklahoma. After five years trading
21 wholesale petroleum products, I started my career with Duke Energy in
22 January 2013 as a Real-Time Power Trader. In this role I optimized bulk
23 power for Duke Energy’s southeast utilities. From October 2015 to May

1 2019 I was employed as a Natural Gas Originator, where I was responsible
2 for physical gas procurement and gas transportation to support Duke
3 Energy’s regulated generation fleet. In May 2019, I assumed the role of
4 Manager of Coal and Gas Origination where I oversaw the coal and natural
5 gas origination teams responsible for fuel procurement on behalf of Duke
6 Energy’s regulated electric subsidiaries. I assumed my current position in
7 July 2020.

8 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS**
9 **COMMISSION?**

10 A. No, I have not previously testified before the Commission.

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

12 A. The purpose of my testimony is to explain why the Public Staff’s
13 recommendation with respect to the revised Consolidated Construction and
14 Redelivery Services Agreement (“Redelivery Service Agreement”) between
15 Piedmont Natural Gas Company, Inc. (“Piedmont”) and DEC would lead to
16 Piedmont overearning and to DEC customers subsidizing natural gas
17 company customers.

18 **Q. PLEASE PROVIDE A BRIEF HISTORY OF THE REDELIVERY**
19 **SERVICE AGREEMENT.**

20 A. DEC and Piedmont negotiated an arms-length Redelivery Service Agreement
21 related to the construction of new incremental natural gas facilities and the
22 provision of redelivery service by Piedmont to DEC through these facilities
23 at DEC’s Lincoln Combustion Turbine (“CT”) Plant. These incremental

1 facilities serve the new Lincoln CT Plant Unit 17, for which the Commission
2 issued a Certificate of Public Convenience and Necessity on December 7,
3 2017 in Docket No. E-7, Sub 1134. Piedmont filed the Redelivery Service
4 Agreement on April 23, 2018 to supersede, replace, and expand upon a
5 previous agreement which had been filed in Docket No. G-9, Sub 491. To
6 address concerns of the Public Staff, Piedmont recommended to DEC the
7 inclusion of additional volumetric charges for gas flows on the incremental
8 facilities. Therefore, a volumetric charge was negotiated and then filed in a
9 revised Redelivery Service Agreement on November 16, 2018, that also
10 included an updated construction schedule and cost projections for the
11 incremental facilities involved in the project. In this revised Redelivery
12 Service Agreement, DEC agreed to carry forward the Existing Facilities
13 Demand Charge per month and the Existing Facilities Volumetric Rate per
14 dekatherm (“Dth”) for CT Units 1-16 and to add an Incremental Facilities
15 Volumetric Rate for Lincoln CT Unit 17 in addition to the Fixed Demand
16 Charge for these Incremental Facilities. To protect DEC’s customers from
17 Piedmont further overearning on the Incremental Facilities, DEC and
18 Piedmont agreed that the annual charge of this Volumetric Rate [BEGIN
19 CONFIDENTIAL] [REDACTED]
20 [REDACTED] [END CONFIDENTIAL].

21 **Q. DO OTHER COMMISSION-APPROVED REDELIVERY SERVICE**
22 **AGREEMENTS CONTRACTED BY DEC HAVE VARIABLE OR**
23 **VOLUMETRIC CHARGES?**

1 A. Most of the Commission-approved local distribution company (“LDC”)
2 redelivery agreements contracted by DEC and Duke Energy Progress, LLC
3 (“DEP”) since the Lincoln CT Plant Agreement in 2004 included fixed
4 demand rates in lieu of variable (or volumetric) charges. Only [BEGIN
5 CONFIDENTIAL] [REDACTED] [END CONFIDENTIAL] DEC or
6 DEP combined cycle (“CC”) sites have gas redelivery contracts that include
7 a facilities volumetric charge. Indeed, this reflects an intentional and
8 appropriate shift in response to a fundamentally different power generation
9 market and evolving Construction and Redelivery Service Agreements.
10 Fixed demand rates give the LDC increased certainty of not under or over
11 earning on their cost of service model due to the unpredictability of
12 volumetric flows. DEC does not have the visibility to LDC cost of service
13 models as does Public Staff; however, it is understood by DEC that Piedmont
14 uses the same cost of service model for all Special Contracts. Since the early
15 2000s, demand rates with no volumetric charges have been both reasonable
16 and, in fact, common for power generation Special Contracts in North
17 Carolina.

18 **Q. PLEASE EXPLAIN THE PURPOSE OF VOLUMETRIC CHARGES**
19 **IN GENERAL.**

20 A. Most historical variable (or volumetric) charges are designed to partially
21 recover cost of service and a return to the LDC and are not exclusively for
22 system contribution. Specifically, historical variable charges have been
23 primarily designed to account for certain administrative and general expenses

1 (“A&G”) and operations and maintenance (“O&M”) for the facilities
2 designated to provide the Redelivery Service of that Agreement. For
3 example, volumetric charges are often used to offset variable O&M charges
4 of compression facilities. However, the Piedmont facilities at the Lincoln site
5 do not include any compression facilities.

6 **Q. HOW DOES THAT RELATE TO DEC’S REDELIVERY SERVICE**
7 **AGREEMENT?**

8 A. Historically speaking for the Lincoln site, volumetric charges were more
9 logical in previous agreements with different ratemaking constructs or for
10 facilities that have had their costs fully recovered by the LDC. For example,
11 DEC’s original Lincoln CT Agreement dated September 30, 1993 was a
12 bundled agreement with Piedmont that included both transportation services
13 and the physical gas commodity, in which there was a volumetric charge
14 within the commodity pricing. This agreement recovered the costs of the
15 original Lincoln facilities over the initial ten-year period. In the subsequent
16 June 28, 2004 Lincoln Agreement, the commodity portion of the agreement
17 was removed given the dated structure of the previous agreement; however,
18 despite the cost of facilities being fully recovered, to likely help cover system
19 overhead and O&M, a volumetric charge was retained in addition to a
20 **[BEGIN CONFIDENTIAL]** [REDACTED]
21 [REDACTED] **[END CONFIDENTIAL]** To account for
22 the capital required to expand the facilities for CT 17, a revised rate for
23 incremental facilities was negotiated while preserving the rate structure of the

1 existing service to CT 1-16. In the Redelivery Service Agreement filed April
2 23, 2018, in order to revise the format to be more similar to the most recent
3 Commission-approved redelivery agreements, the A&G and O&M for the
4 incremental facilities were accounted for as part of the Fixed Demand Rate.
5 In response to the Public Staff's concerns, however, DEC and Piedmont
6 negotiated and agreed to a volumetric charge with a cap. While DEC does
7 not believe there should be any surcharges above the cost of service, given
8 that the historical service to CT 1-16 includes a volumetric charge, DEC has
9 agreed to a revised incremental facilities volumetric rate [BEGIN
10 CONFIDENTIAL] [REDACTED]. [END CONFIDENTIAL] A
11 volumetric rate was not considered when initial planning began for Lincoln
12 CT 17, nor was it imagined that any volumetric rate would ultimately be
13 greater than the fixed rate yet still not be satisfactory to the Public Staff.
14 Notwithstanding DEC's concerns with adding a volumetric charge to the
15 Redelivery Service Agreement, in the overall structure of the renegotiated
16 agreement, DEC supports the volumetric rate negotiated by DEC and
17 Piedmont in this instance and requests the Commission's approval.

18 **Q. PLEASE EXPLAIN THE PUBLIC STAFF'S CONCERNS WITH**
19 **RESPECT TO THE VOLUMETRIC CHARGE.**

20 A. The Public Staff expressed concern that the volumetric charge was
21 insufficient to recover Piedmont's costs related to existing infrastructure and
22 operations and to prevent subsidization of the contract customer, i.e., DEC,
23 by Piedmont's other customers.

1 Q. PLEASE EXPLAIN WHY DEC DISAGREES WITH THE PUBLIC
2 STAFF'S PROPOSED VOLUMETRIC CHARGE.

3 A. DEC contends that gas transportation rates, both fixed and volumetric, should
4 combine to enable recovery of the LDC's cost of service, plus the LDC's
5 regulated return, and should minimize system cross-subsidization.
6 Incremental "system support surcharge" or "system contributions" should
7 never lead to the LDC overearning and electric utility customers subsidizing
8 natural gas utility customers. Stated another way, punitive charges to DEC
9 customers would create overearnings from this Redelivery Service
10 Agreement that would ultimately reduce rates for Piedmont's other customers
11 at the expense of electric utility customers. The Redelivery Service
12 Agreement's revised fixed rate [BEGIN CONFIDENTIAL] [REDACTED]
13 [REDACTED] [END CONFIDENTIAL] already includes an allocated share
14 of the general system overhead costs per Piedmont's cost of service model.
15 Any further "system support surcharge" on DEC dedicated facilities creates
16 the forementioned electric customer subsidization of the gas customer. There
17 also needs to be a rational, repeatable and transparent methodology for any
18 "system support surcharge" beyond the cost of service calculation on Special
19 Contracts. DEC is not aware that such methodology exists. The Redelivery
20 Service Agreement for the Lincoln CT Plant will not provide any support to
21 the Piedmont system because the pipelines and associated facilities that serve
22 the Lincoln CT Plant are solely dedicated to serve that facility from the
23 Transcontinental Gas Pipe Line Company LLC pipeline and do not provide

1 natural gas service to any other customer on Piedmont's system. The pre-
2 existing facilities at the site were fully paid for by DEC and at no time were
3 utilized by any other Piedmont customers. Furthermore, DEC has not seen a
4 logical or appropriate reason for any "system support surcharge" since these
5 facilities do not rely on any of the other portion of Piedmont's system to
6 receive service. The Public Staff's proposed volumetric charge is
7 unreasonable and, if adopted by the Commission, would inappropriately
8 result in cross-subsidization of Piedmont by DEC customers. Implementing
9 a usage-based "system support surcharge" charge will cause DEC ratepayers
10 to increase Piedmont's returns on this Redelivery Services Agreement, likely
11 to levels above authorized limits. Equally important, the Public Staff's
12 recommendations, if adopted, would have far reaching consequences that
13 would unfairly harm the cost competitiveness of not only the new and
14 efficient Lincoln CT Plant Unit 17 compared to other less efficient generators
15 and wholesale power prices, but also disadvantage future natural gas
16 generation facilities that could be developed in the State of North Carolina.

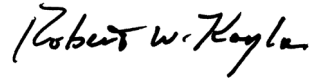
17 **Q. DOES THIS COMPLETE YOUR DIRECT TESTIMONY?**

18 A. Yes, it does.

CERTIFICATE OF SERVICE

I certify that a copy of Duke Energy Carolinas, LLC's Testimony of H. Lee Mitchell, IV in Docket Nos. G-9, Subs 722, 781 and 786 has been served by electronic mail, hand delivery, or by depositing a copy in the United States Mail, 1st Class Postage Prepaid, properly addressed to parties of record.

This the 11th day of August, 2021.



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