BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. E-22, SUB 589

In the Matter of

Application by Virginia Electric and Power Company, d/b/a Dominion Energy North Carolina, for Approval of Demand-Side Management and Energy Efficiency Cost Recovery Rider under N.C.G.S. § 62-133.9 and Commission Rule R8-69	)))))	TESTIMONY OF MICHAEL C. MANESS - PUBLIC STAFF – NORTH CAROLINA UTILITIES COMMISSION

October 26, 2020

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Testimony of Michael C. Maness

On Behalf of the Public Staff

North Carolina Utilities Commission

October 26, 2020

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

A. My name is Michael C. Maness. My business address is 430 North Salisbury Street, Dobbs Building, Raleigh, North Carolina. I am the Director of the Accounting Division of the Public Staff – North Carolina Utilities Commission (Public Staff).

Q. BRIEFLY STATE YOUR QUALIFICATIONS AND DUTIES.

A. A summary of my qualifications and duties is set forth in Appendix B of this testimony.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to present my recommendations regarding (1) the prospective Demand-Side Management / Energy Efficiency rider (DSM/EE rider or Rider C) and (2) the DSM/EE Experience Modification Factor rider (DSM/EE EMF rider or Rider CE) proposed by Virginia Electric and Power Company d/b/a

Dominion Energy North Carolina (DENC or the Company) in its Application filed in this docket on August 11, 2020.[1] The DSM/EE and DSM/EE EMF Riders are authorized by N.C. Gen. Stat. § 62-133.9 and implemented pursuant to Commission Rule R8-69. In addition to my filing of this testimony, Public Staff witnesses David M. Williamson and John R. Hinton have also filed testimony in this proceeding.

Q. HOW IS YOUR TESTIMONY ORGANIZED?

A. My testimony begins with a brief review of the regulatory framework for DSM/EE cost recovery by electric utilities and the historical background of DENC's Application in this docket. I then discuss the Company's proposed billing rates and other aspects of its filing. Following a summary of my investigation, I present my conclusions and recommendations regarding approval of the proposed billing rates making up Riders C and CE.

THE PROCESS FOR SETTING DENC'S DSM/EE REVENUE REQUIREMENTS

Q. PLEASE DESCRIBE THE BASIS FOR THE COMPANY'S FILING.

A. N.C.G.S. § 62-133.9(d) allows a utility to petition the Commission for approval of an annual rider to recover (1) the reasonable and prudent costs of new DSM and EE measures and (2) other incentives to the

[1] Riders C and CE are each comprised of various class-based billing rates.

utility (utility incentives) for adopting and implementing new DSM and EE measures. However, N.C.G.S. § 62-133.9(f) allows industrial and certain large commercial customers to opt out of participating in the power supplier's DSM/EE programs or paying the DSM/EE rider, if an eligible customer notifies its electric power supplier that it has implemented or will implement, at its own expense, alternative DSM and EE measures. Commission Rule R8-69 sets forth the general parameters and procedures governing approval of the annual rider.

In this proceeding, DENC has calculated its proposed Riders C and CE using the Cost Recovery and Incentive Mechanism for Demand-Side Management and Energy Efficiency Programs approved by the Commission in its *Order Approving Revised Cost Recovery and Incentive Mechanism*, issued in Docket No. E-22, Sub 464, on May 22, 2017 (2017 Mechanism). The 2017 Mechanism became effective as of May 22, 2017, for projected costs and utility incentives beginning January 1, 2018, and for true-ups of costs and utility incentives beginning January 1, 2017.[2] The 2017 Mechanism changed the calculation of the bonus incentive approved for inclusion in its DSM/EE and DSM/EE EMF riders from a Program Performance

[2] For the levelization run-out of the trued-up bonus utility incentives for measures installed or implemented prior to 2017, the Company carried forward those incentives as calculated pursuant to mechanisms approved by the Commission in 2015 and 2011. The program cost, common costs, and net lost revenue utility incentive revenue requirements are calculated in the same manner under the 2017 Mechanism as they were under the 2015 and 2011 mechanisms.

Incentive to a Portfolio Performance Incentive (PPI), as further explained below.

Q. PLEASE DESCRIBE THE 2017 MECHANISM AND ITS MAJOR COMPONENTS.

A. The overall purpose of the 2017 Mechanism is to (1) allow DENC to recover all reasonable and prudent costs incurred for adopting and implementing new DSM and new EE measures; (2) establish the terms, conditions, and methodology for the recovery of certain utility incentives – Net Lost Revenues (NLR) and the PPI - to reward DENC for adopting and implementing DSM and EE measures and programs; (3) provide for an additional incentive to further encourage kilowatt-hour (kWh) savings achievements; and (4) establish certain requirements and guidelines for requests by DENC for approval, monitoring, and management of DSM and EE programs. The 2017 Mechanism includes many provisions that indirectly influence the ratemaking process for DSM and EE costs and utility incentives, including provisions that address program approval and tests of continuing cost-effectiveness, various procedural matters, reporting requirements, and future review of the 2017 Mechanism itself. Additionally, the 2017 Mechanism includes provisions that directly address the determination of the annual DSM/EE and DSM/EE EMF riders. A summary of those provisions is set forth in Appendix A of this testimony.

THE COMPANY'S PROPOSED BILLING RATES

Q. PLEASE DESCRIBE THE BILLING FACTORS, VINTAGE YEARS, RATE PERIOD, AND TEST PERIOD BEING CONSIDERED IN THIS PROCEEDING.

A. The rate period proposed by DENC for this proceeding is the twelve-month period from February 1, 2021, through January 31, 2022. This is the proposed period over which the DSM/EE and DSM/EE EMF riders set herein will be charged, and follows the practice approved by the Commission in last year's proceeding. However, as explained in Company witness Bates' testimony, for purposes of this proceeding the Company has used estimated calendar year 2021 DSM/EE costs and benefits as a proxy for estimated rate period costs and benefits, because of the manner in which the Company normally models annual projected amounts.

The test period applicable to this proceeding (the presumptive period for which the under- or overrecoveries of DSM/EE costs and NLR are measured) is the twelve-month period ended December 31, 2019.[3]

Vintage Years, used for tracking PPI and NLR related to DSM/EE measures installed in those years, correspond to calendar years.

[3] DENC has not requested in this proceeding to incorporate in its DSM/EE EMF rider calculations the under- or overrecovery of DSM/EE costs experienced up to 30 days prior to the hearing, as would be permitted by Commission Rule R8-69(b)(2).

Thus, in this proceeding, prospective rates are being set based on Vintage Year 2021, while Vintage Year 2019 is being trued up.

In its Application, DENC requested approval of class-specific forward-looking DSM/EE billing rates (Rider C) based on a North Carolina retail revenue requirement of $2,567,620 (excluding any revenue adder for the North Carolina Regulatory Fee (NCRF)). Likewise, the Company requested approval of class-specific increment DSM/EE EMF billing rates (Rider CE) based on a North Carolina retail true-up revenue requirement increment of $467,202, excluding the NCRF. These revenue requirements are made up of the following components, as set forth in the testimony of the DENC witnesses and their accompanying exhibits:

RIDER C	
Program costs (including common costs)	$2,251,108
PPI	316,512
Total Rider C revenue requirement	$2,567,620

RIDER CE	
Program costs (including common costs)	$ 1,867,739
NLR	1,019,113
PPI	342,073
Test period Rider C revenues	(2,711,479)
Net rev. req. before carrying costs and int.	517,446
Carrying costs	(12,379)
Interest on EMF refund	(37,865)
Total Rider CE revenue requirement	$ 467,202

As in the 2014-2019 proceedings, DENC did not request NLR as part of Rider C. Also, consistent with the 2017 Mechanism, the Company calculated the PPI amount included in Rider C using a simplified approach. As explained in the testimony of Company witness Bates and set forth in his exhibits, the Company calculated the estimated PPI for Vintage Year 2021 by adding (a) the verified levelized amounts related to Vintage Years 2019 and prior that are due to be collected in 2021 to (b) a conservative estimate of the levelized PPI amounts related to Vintage Years 2020 and 2021 (2020 is included because the evaluation, measurement, and verification (EM&V) process for that year has not yet been completed). The 2020 estimate is based on the amount calculated by the Company in the 2019 proceeding for the 2020 rate year. The 2021 estimate is based on 1.00% (the ratio used in the 2019 proceeding) of the Company's estimates of 2021 DSM/EE operating expenses, with certain programs excluded altogether.

The components of the Company's proposed N.C. retail Rider C and Rider CE revenue requirements were largely calculated by DENC witnesses Bates and Lecky, using jurisdictional allocation factors provided by DENC witness Miller in accordance with the 2017 Mechanism. Witness Miller indicated in his testimony that he then took the jurisdictional revenue requirements and assigned or allocated them to the various North Carolina retail rate classes consistent with the 2017 Mechanism.

In her testimony, DENC witness Lawson indicated that she took the class-specific Rider C and Rider CE revenue requirements developed by witness Miller and converted them into per-kWh billing rates, using projected rate period kWh sales for each customer class, excluding estimated kWh sales related to opted-out customers. The specific billing rates proposed by the Company in its Application are set forth in witness Lawson' exhibits.

INVESTIGATION AND CONCLUSIONS

Q. PLEASE DESCRIBE YOUR INVESTIGATION OF DENC'S FILING.

A. My investigation of DENC's filing in this proceeding focused on determining whether the proposed DSM/EE and DSM/EE EMF billing rates (a) were calculated in accordance with the 2017 Mechanism, and (b) otherwise adhered to sound ratemaking concepts and principles. The procedures I and other members of the Public Staff's Accounting Division acting under my supervision utilized included a review of the Company's filing, relevant prior Commission proceedings and orders, and workpapers and source documentation used by the Company to develop the proposed billing rates. Performing the investigation required the review of responses to data requests, as well as discussions with Company personnel. The investigation also included a review of the actual DSM/EE program costs incurred by DENC during the twelve-month period ended December 31, 2019. To accomplish this, the Accounting Division selected and reviewed samples of source documentation for test year costs included by the Company for recovery through the DSM/EE Rider. Review of these samples, which is still underway as of the date of pre-filing of this testimony, is intended to test whether the actual costs included by the Company in the DSM and EE billing rates are either valid costs of approved DSM and EE programs or administrative (common) costs supporting those programs.

The investigation, including the sampling of source documentation, concentrated primarily on costs and NLR related to the test period, and verified PPIs related to the 2011-2019 period, all of which are to be included in the true-up DSM/EE EMF billing rates approved in this proceeding. The Public Staff also performed a more general review of the prospective billing rates proposed to be charged for the rate period, which are subject to true-up in future proceedings.

Q. WHAT ARE YOUR FINDINGS AND CONCLUSIONS?

A. Based on my investigation, I am of the opinion that the Company has generally calculated its proposed DSM/EE billing rates (included in Rider C) and DSM/EE EMF billing rates (included in Rider CE) in a manner consistent with N.C.G.S. § 62-133.9, Commission Rule R8-69, and the 2017 Mechanism. However, this conclusion is subject to the caveat that the Public Staff is still in the process of reviewing certain data responses received from the Company in the last few days, including documentation of costs selected for review in the Public Staff's sample; once this review is complete, the Public Staff will file the results with the Commission, as it has in certain past utility DSM/EE rider proceedings.

Q. WHAT IS THE IMPACT OF RECOMMENDATIONS MADE BY PUBLIC STAFF WITNESSES WILLIAMSON AND HINTON IN THEIR TESTIMONY ON YOUR CONCLUSIONS REGARDING THE DSM/EE REVENUE REQUIREMENTS IN THIS PROCEEDING?

A. Public Staff witnesses Williamson and Hinton have filed testimony in this proceeding regarding DENC's DSM/EE portfolio (including certain new programs currently filed with the Commission for approval), the cost-effectiveness of each program, and the 2020 Evaluation, Measurement, and Verification (EM&V) Report, which reported on the results of DENC's programs through December 31, 2019. None of the topics and issues he discusses necessitates an adjustment in this particular proceeding to the Company's billing factor calculations.

In last year's rider proceeding, Mr. Williamson noted that the Public Staff believes that a combustion turbine (CT) is the appropriate input to use in the determination of avoided capacity cost benefits, rather than the mixture of generation resource types used by the Company in its DSM/EE modeling. He stated that the Public Staff intended to further discuss this matter with the Company. In accordance with this intent, I recommended that the final determination of Vintage 2020 per kW avoided capacity cost benefits for PPI purposes be delayed until this year's DSM/EE rider proceeding.

It is my understanding that, as discussed in the testimony of Mr. Hinton in this proceeding, this matter has now been resolved between the Company and the Public Staff, at least with regard to the current year's and last year's proceeding. Therefore, the Public Staff is not recommending any adjustment in this proceeding to Vintage 2020 costs as developed by the Company in last year's proceeding.

Q. PLEASE SUMMARIZE YOUR CONCLUSIONS REGARDING DENC'S BILLING RATES.

A. In summary, subject to completion of the review of sampled cost items and other recently received data, the Public Staff has found no errors or other issues necessitating an adjustment to DENC's proposed billing rates in this proceeding.

RECOMMENDATION

Q. WHAT IS YOUR RECOMMENDATION IN THIS PROCEEDING?

A. Based on the results of the Public Staff's investigation, and subject to the caveat above, I recommend approval of the Rider C and CE rates as proposed by DENC in its August 11, 2020 Application. The recommended billing rates should be approved subject to any true-ups in future cost recovery proceedings consistent with the 2017 Mechanism, N.C.G.S. § 62-133.9, Commission Rule R8-69, and future Commission orders. The Public Staff notes that reviewing the calculation of the DSM/EE and DSM/EE EMF riders is a process that involves reviewing numerous assumptions, inputs, and calculations, and its recommendation with regard to this proposed rider is not intended to indicate that the Public Staff will not raise questions in future proceedings regarding the same or similar assumptions, inputs, and calculations.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.

SUMMARY OF CERTAIN PORTIONS OF DENC'S DSM/EE MECHANISM

1. Special jurisdictional allocation procedures will be evaluated for programs that operate in only either the Virginia or North Carolina retail jurisdictions, or that are limited in their operation in either jurisdiction.

2. In general, DENC shall be allowed to recover, through the DSM/EE and the DSM/EE EMF riders, all reasonable and prudent costs of Commission-approved DSM/EE programs. However, any of the Stipulating Parties may propose a procedure for the deferral and amortization of all or a portion of DENC's non-capital program costs to the extent those costs are intended to produce future benefits. For program costs not deferred for amortization in future DSM/EE riders, the accrual of a return on any underrecoveries or overrecoveries of cost will follow the requirements of Commission Rule R8-69(b), subparagraphs (3) and (6), unless the Commission determines otherwise.

3. DENC shall be allowed to recover NLR as a utility incentive (with the exception of those amounts related to research and development or the promotion of general awareness and education of EE and DSM activities), but shall be limited for each measurement unit installed in a given vintage year to those dollar amounts resulting from kWh sales reductions experienced during the first 36 months after the installation of the measurement unit. NLR related to pilot programs are subject to additional qualifying criteria. Recoverable NLR shall ultimately be based on kWh sales reductions and kilowatt (kW) savings verified through the EM&V process and approved by the Commission.

4. The eligibility of kWh sales reductions to generate recoverable NLR during the applicable 36-month period will cease upon the implementation of a Commission-approved alternative recovery mechanism that accounts for the otherwise eligible NLR, or new rates approved by the Commission in a general rate case or comparable proceeding that account for the NLR.

5. NLR will be reduced by net found revenues, as defined in the 2017 Mechanism, that occur in the same 36-month period. Net found revenues will be determined according to the "Decision Tree" process included in the 2017 Mechanism.

6. Subject to certain exceptions, DENC shall be allowed to collect a portfolio-based bonus utility incentive, the PPI, for each DSM or EE program approved and in effect during a given vintage year. The PPI is based on the net savings of each program or measure as calculated using the Utility

Cost Test, or UCT, and is equal to 9.08% of the present value of net savings for DSM programs and measures and 14.76% of the present value of net savings for EE programs and measures. The 9.08% and 14.76% factors shall be subject to review in each annual rider proceeding to ensure the continued reasonableness of the PPI. The PPI shall be converted into a stream of no more than 10 levelized annual payments. In determining the initial estimate of the PPI to be included in the DSM/EE rider, DENC may utilize a reasonable and appropriate estimation accomplished by a simpler and conservative method.

7. The per kW avoided capacity benefits used to calculate net savings for each Program and Vintage Year shall be determined annually by DENC using comparable methodologies to those used in the most recently approved biennial avoided cost proceeding. The per kWh avoided energy benefits used shall be those reflected in or underlying the most recently filed integrated resource plan (IRP). DENC's assumptions used in these methodologies, as well as the methodologies, are subject to the Public Staff's review and acceptance at the time DENC files its petition for annual cost recovery pursuant to Rule R8-69 and this Mechanism. Unless DENC and the Public Staff agree otherwise, DENC shall not be allowed to update its avoided capacity costs and avoided energy costs after filing its petition for its annual cost recovery proceeding pursuant to Rule R8-69 and this Mechanism and prior to the Commission's order establishing the rider for that rate period for purposes of calculating the PPI.

8. The per kW avoided transmission and avoided distribution (avoided T&D) costs used to calculate net savings for a Vintage Year shall be based on a study updated at least every five years, or as appropriate and agreed to by the Company and the Public Staff.

QUALIFICATIONS AND EXPERIENCE

MICHAEL C. MANESS

I am a graduate of the University of North Carolina at Chapel Hill with a Bachelor of Science degree in Business Administration with Accounting. I am a Certified Public Accountant and a member of both the North Carolina Association of Certified Public Accountants and the American Institute of Certified Public Accountants.

As Director of the Accounting Division of the Public Staff, I am responsible for the performance, supervision, and management of the following activities: (1) the examination and analysis of testimony, exhibits, books and records, and other data presented by utilities and other parties under the jurisdiction of the Commission or involved in Commission proceedings; and (2) the preparation and presentation to the Commission of testimony, exhibits, and other documents in those proceedings. I have been employed by the Public Staff since July 12, 1982.

Since joining the Public Staff, I have filed testimony or affidavits in a number of general, fuel, and demand-side management/energy efficiency rate cases of the utilities currently organized as Duke Energy Carolinas, LLC, Duke Energy Progress, LLC., and Virginia Electric and Power Company (Dominion Energy North Carolina), as well as in several water and sewer general rate cases. I have also filed testimony or affidavits in other proceedings, including applications for certificates of public convenience and necessity for the construction of generating facilities, approval of self-generation deferral rates, approval of cost and incentive recovery mechanisms for electric utility demand-side management and energy efficiency (DSM/EE) efforts, and approval of cost and incentive recovery pursuant to those mechanisms.

I have also been involved in several other matters that have come before this Commission, including the investigation undertaken by the Public Staff into the operations of the Brunswick Nuclear Plant as part of the 1993 Carolina Power & Light Company fuel rate case (Docket No. E-2, Sub 644), the Public Staff's investigation of Duke Power's relationship with its affiliates (Docket No. E-7, Sub 557), and several applications for business combinations involving electric utilities regulated by this Commission. Additionally, I was responsible for performing an examination of Carolina Power & Light Company's accounting for the cost of Harris Unit 1 in conjunction with the prudence audit performed by the Public Staff and its consultants in 1986 and 1987.

I have had supervisory or management responsibility over the Electric Section of the Accounting Division since 1986, and also was assigned management duties over the Water Section of the Accounting Division during the 2009-2012 time frame. I was promoted to Director of the Accounting Division in late December 2016.