

**STATE OF NORTH CAROLINA  
UTILITIES COMMISSION  
RALEIGH**

DOCKET NO. E-2, SUB 1176

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of:

Application by Duke Energy Progress, LLC )	
for Approval of Joint Agency Asset Rider )	ORDER APPROVING
for Recovery of Costs Related to Facilities )	JOINT AGENCY
Purchased from Joint Power Agency )	ASSET RIDER
Pursuant to N.C. Gen. Stat. § 62-133.14 )	ADJUSTMENT
and Rule R8-70 )	

HEARD: Tuesday, September 18, 2018, at 10:00 a.m. in the Commission Hearing Room, Dobbs Building, 430 North Salisbury Street, Raleigh, North Carolina

BEFORE: Commissioner Charlotte A. Mitchell, Presiding; Chairman Edward S. Finley, Jr., Commissioner ToNola D. Brown-Bland, Commissioner Jerry C. Dockham, Commissioner James G. Patterson, Commissioner Lyons Gray, and Commissioner Daniel G. Clodfelter

APPEARANCES:

For Duke Energy Progress, LLC:

Lawrence B. Somers, Deputy General Counsel, Duke Energy Corporation,  
NCRH 20/Post Office Box 1551, Raleigh, North Carolina 27602-1551

For the Using and Consuming Public:

Heather D. Fennell, Staff Attorney, Public Staff, North Carolina Utilities  
Commission, 4326 Mail Service Center, Raleigh, North Carolina  
27699-4300

For the Carolina Utility Customers Association, Inc.:

Robert F. Page, Crisp & Page, PLLC, 4010 Barrett Drive, Suite 205,  
Raleigh, North Carolina 27609

For the Carolina Industrial Group for Fair Utility Rates II:

Warren Hicks, Bailey & Dixon, LLP, Post Office Box 1351, Raleigh, North Carolina 27602

BY THE COMMISSION: On June 20, 2018, Duke Energy Progress, LLC (DEP or the Company) filed its Application for Approval of Joint Agency Asset Rider (JAAR) to recover costs related to facilities purchased from the North Carolina Eastern Municipal Power Agency (NCEMPA) pursuant to N.C. Gen. Stat. § 62-133.14 and Commission Rule R8-70. DEP's application was accompanied by the testimony and exhibits of LaWanda M. Jiggetts – Rates and Regulatory Strategy Manager. In its application and pre-filed testimony, DEP sought approval of the proposed rider, which incorporated the Company's proposed adjustments in its North Carolina retail rates.

On July 2, 2018, the Commission issued an Order Scheduling Hearing, Requiring Filing of Testimony, Establishing Discovery Guidelines, and Requiring Public Notice, in which the Commission set this matter for public witness and expert witness hearings, established discovery guidelines, and provided for public notice of the hearings.

On July 3, 2018, Carolina Industrial Group for Fair Utility Rates II (CIGFUR II) filed its petition to intervene. The Commission granted the petition on July 6, 2018. On July 19, 2018, Carolina Utility Customers Association, Inc. (CUCA) filed its petition to intervene. CUCA's petition was granted on July 24, 2018. The intervention and participation by the Public Staff is recognized pursuant to N.C. Gen. Stat. § 62-15(d) and Commission Rule R1-19(e).

On August 31, 2018, DEP filed the supplemental testimony and revised exhibits<sup>1</sup> of witness Jiggetts and a Motion for Additional Public Hearing and Public Notice of Revised Rates.

On September 4, 2018, the Public Staff filed the testimony of Darlene P. Peedin – Manager of the Electric Section of the Accounting Division of the Public Staff.

No other party pre-filed testimony in this docket.

On September 5, 2018, the Commission issued an Order Scheduling Additional Public Hearing and Requiring Public Notice.

On September 7, 2018, DEP and the Public Staff filed a Joint Motion to Excuse All Witnesses from appearing at the September 18, 2018 hearing in this proceeding. The Commission granted this motion on September 12, 2018.

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<sup>1</sup> DEP filed two revised exhibits to reflect changes to certain calculations from what was originally filed.

On September 13, 2018, DEP filed its affidavits of publication for the initial public notice, and on October 5, DEP filed affidavits for the additional public notice.

This matter came on for hearing as scheduled on September 18, 2018. No public witnesses appeared. Because the parties had waived cross-examination of witnesses, DEP asked that the Company's application and the direct and supplemental testimony of witness Jiggetts be copied into the record and that her initial exhibits and revised exhibits be entered into evidence. The Commission granted those requests.

The Public Staff also moved into evidence the testimony of witness Peedin. That request was also granted. No other party presented witnesses.

The matter came on for hearing for an additional public witness hearing on October 8, 2018. No public witnesses appeared.

Based upon the foregoing, DEP's verified application, the testimony, supplemental testimony, initial exhibits, and revised exhibits received into evidence at the hearing, and the entire record in this proceeding, the Commission makes the following:

#### FINDINGS OF FACT

1. DEP is a duly organized corporation existing under the laws of the State of North Carolina, engaged in the business of developing, generating, transmitting, distributing, and selling electric power to the public in North Carolina and South Carolina, and is subject to the jurisdiction of the North Carolina Utilities Commission as a public utility. DEP is lawfully before this Commission based upon its application filed pursuant to N.C. Gen. Stat. § 62-133.14 and Commission Rule R8-70.

2. On July 31, 2015, DEP acquired NCEMPA's undivided ownership interests of 18.33% in the Brunswick Steam Electric Plant (Brunswick Units 1 and 2), 12.94% in Unit No. 4 of the Roxboro Steam Electric Plant (Roxboro Unit 4), 3.77% in the Roxboro Plant Common Facilities, 16.17% in the Mayo Electric Generating Plant (Mayo Unit 1), and 16.17% in the Shearon Harris Nuclear Power Plant (Harris Unit 1) (collectively, Joint Units). On May 12, 2015, the Commission issued an Order Approving Transfer of Certificate and Ownership Interests in Generating Facilities in Docket No. E-2, Sub 1067 and Docket No. E-48, Sub 8, which approved the transfer of NCEMPA's ownership interests in the Joint Units to DEP.

3. Pursuant to N.C. Gen. Stat. § 62-133.14, DEP is allowed to recover the North Carolina retail portion of all reasonable and prudent costs incurred to acquire, operate, and maintain the proportional interest in the generating facilities purchased from NCEMPA. Commission Rule R8-70(c) provides for an annual proceeding to establish the

JAAR and requires the electric public utility to submit an application at the same time that it files the fuel proceeding information required by Commission Rule R8-55.

4. Commission Rule R8-70 schedules an annual adjustment hearing for DEP and requires that the Company use a test period of the calendar year that precedes the end of the test period used for purposes of Commission Rule R8-55. The test period covered by the proposed rates in this proceeding is January 1, 2017 through December 31, 2017. Pursuant to Commission Rule R8-70, each annual filing will provide for the recovery of costs expected to be incurred in the rate period (prospective component), including the levelized annual cost of the plant initially acquired and appropriate annual portions of the cost of other assets acquired (excluding construction work in progress), as well as ongoing annual non-fuel operating costs, reduced by the annual effects of the acquisition on North Carolina retail allocation factors. Commission Rule R8-70(b) provides for an over- or underrecovery component as a Rolling Recovery Factor, or a "Joint Agency Asset RRF," and requires the Company to use deferral accounting and maintain a cumulative balance of costs incurred but not recovered through the JAAR. This cumulative balance will accrue a monthly return as prescribed by the Rule.

5. DEP's proposed rates consist of a prospective component related to the future billing period December 2018 through November 2019, and a Joint Agency Asset RRF component that accomplishes the true-up of costs incurred through the test year ended December 31, 2017.

6. In its application and testimony in this proceeding, as revised, DEP requested a total of \$147.654 million for the prospective component of its North Carolina retail revenue requirement, for the period December 1, 2018 through November 30, 2019, associated with the acquisition and operating costs of NCEMPA's undivided ownership interest in the Joint Units.

7. The annual levelized costs associated with the acquisition of the Joint Units at the time of purchase were \$56.314 million. DEP also requested an additional \$8.276 million in annual pre-tax costs associated with the acquisition costs not included in the levelized costs. The acquisition costs underlying these amounts are deemed reasonable and prudent under N.C. Gen. Stat. § 62-133.14(b)(1).

8. DEP requested an additional \$12.473 million in annual financing and operating costs relating to estimated capital additions during the rate period. The Commission finds it reasonable for the Company to recover these estimated costs during the rate period, subject to true-up through the Joint Agency Asset RRF.

9. DEP estimates the annual non-fuel operating costs from December 1, 2018 to November 30, 2019 to be \$70.385 million. The Commission finds it reasonable for the

Company to recover these estimated costs during the rate period, subject to true-up through the Joint Agency Asset RRF.

10. DEP requested \$0.207 million for incremental regulatory fees. The Commission finds it reasonable for the Company to recover these estimated costs during the rate period, subject to true-up through the Joint Agency Asset RRF.

11. The prospective annual revenue requirement of \$147.654 million resulting from the summing of the amounts set forth in Findings of Fact Nos. 7 through 10 has not been reduced by the annual effects of the acquisition on North Carolina retail allocation factors. This prospective credit is no longer applicable in the JAAR as new North Carolina retail base rates were effective March 16, 2018, as established in DEP's general rate case in Docket No. E-2, Sub 1142. North Carolina retail base rates approved in Sub 1142 reflect greater costs being allocated to wholesale customers because the Company is now supplying the entire electric requirements for NCEMPA.

12. In addition to the prospective components, DEP requests to return \$9.196 million in its application and testimony in this proceeding through the Joint Agency Asset RRF component of its North Carolina retail revenue requirement charged during the period December 1, 2018 through November 30, 2019, related to the overrecovery of financing and non-fuel operating costs experienced through the test year ended December 31, 2017. The Commission finds the actual costs and credits underlying this true-up amount to be reasonable and prudent for purposes of this proceeding, and the return of this amount to be reasonable and appropriate.

13. Under N.C. Gen. Stat. § 62-133.14(b)(5), the prospective components and Joint Agency Asset RRF have been allocated under the customer allocation methodology approved by the Commission in Docket No. E-2, Sub 1142, DEP's most recent general rate case, to produce the following rates by customer class, which rates the Commission finds to be just and reasonable.

<b>Rate Class</b>	<b>Applicable Schedule(s)</b>	<b>Prospective Rate</b>	<b>Rolling Recovery Factor</b>	<b>Combined Rate*</b>
<b>Non-Demand Rate Class (dollars per kilowatt-hour)</b>				
Residential	RES, R-TOUD, R-TOUE, R-TOU	0.00456	(0.00015)	0.00441
Small General Service	SGS, SGS-TOUE	0.00542	(0.00044)	0.00498
Medium General Service	CH-TOUE, CSE, CSG	0.00411	(0.00039)	0.00372
Seasonal and Intermittent Service	SI	0.00412	0.00037	0.00449
Traffic Signal Service	TSS, TFS	0.00248	(0.00011)	0.00237
Outdoor Lighting Service	ALS, SLS, SLR, SFLS	-	-	-
<b>Demand Rate Classes (dollars per kilowatt)</b>				
Medium General Service	MGS, GS-TES, AP-TES, SGS-TOU	1.35	(0.18)	1.17
Large General Service	LGS, LGS-TOU	1.38	(0.02)	1.36

\*Incremental Rates, shown above, include North Carolina regulatory fee of 0.14%.

#### EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 1

This Finding of Fact is essentially informational, procedural, and jurisdictional in nature and is uncontroverted.

## EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 2-4

The evidence for these Findings of Fact can be found in DEP's application, N.C. Gen. Stat. § 62-133.14, and Commission Rule R8-70.

Under N.C. Gen. Stat. § 62-133.14(a), upon the filing of a petition of an electric public utility and a public hearing, the Commission is required to approve an annual rider to the utility's rates for the North Carolina retail portion of reasonable and prudent costs incurred to acquire, operate and maintain the Joint Units. The acquisition costs shall be deemed reasonable and prudent and shall be levelized over the useful life of the Joint Units at the time of acquisition. Financing costs shall be included and shall be equal to the weighted average cost of capital as authorized in the utility's most recent general rate case.

The utility may recover an estimate of operating costs based on the experience of the test period and the costs projected for operation of the Joint Units for the next twelve months, subject to the filing of an annual adjustment including any under- or overrecovery, any changes necessary to recover costs for the next twelve-month period, or any changes to the cost of capital or customer allocation methodology occurring in a general rate case after the establishment of the initial rider. Commission Rule R8-70(c) requires the Company to propose annual updates to its JAAR in order for the hearing to be held as soon as practicable after the hearing held by the Commission under Rule R8-55.

The Commission concludes that DEP's application is in compliance with N.C. Gen. Stat. § 62-133.14 and Commission Rule R8-70.

## EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 5-7

The evidence for these Findings of Fact can be found in the direct testimony of DEP witness LaWanda M. Jiggetts and in the testimony of Public Staff witness Darlene P. Peedin.

Witness Jiggetts' exhibits reflect that DEP's annual levelized cost associated with the acquisition price of the Joint Units was \$56.314 million. In her direct testimony, witness Jiggetts explained that the Company seeks to recover its acquisition costs, which are the amounts DEP paid to NCEMPA to acquire the proportional ownership interest in the Joint Units, including the amount paid above the net book value of the facilities. Within this first category of acquisition costs there are also two subgroups: costs for which the recovery is levelized and costs for which the recovery is not levelized. In general terms, the levelized revenue requirement represents recovery of the acquisition cost for the NCEMPA assets, spread evenly over the remaining life of the assets at the time the Joint Units were purchased. Witness Jiggetts also included additional financing and operating costs of \$8.276 million associated with assets purchased that were not included as part of the levelized costs. In her direct testimony, witness Jiggetts described these costs as including inventory amounts that are part of the asset acquisition costs, nuclear fuel inventory, dry cask storage, and materials and supplies inventory. Because these assets

are not depreciated, the financing costs for these amounts are calculated on the basis of the average investment for the rate period.

Pursuant to N.C. Gen. Stat. § 62-133.14(b)(2), the JAAR shall include financing costs equal to the weighted average cost of capital as authorized by the Commission in the electric public utility's most recent general rate case. Witness Jiggetts' exhibits reflect that the Company computed the debt and equity rate of return and the Company's weighted average net-of-tax cost of capital as authorized by the Commission in DEP's most recent general rate case. The net of tax cost of capital incorporates the 3% North Carolina state income tax rate that became effective January 1, 2017.

In her testimony filed with the Commission, Public Staff witness Peedin stated that the Public Staff's investigation included a review of DEP's application, testimony, and exhibits filed in this docket. Additionally, the Public Staff's investigation included the review of responses to written and verbal data requests, as well as discussions with the Company. She further testified that the Public Staff performed a limited review of the underlying capital additions and operating costs added to the calculation of the rider in this proceeding and did not perform a full-scale review of the prudence and reasonableness of all such additions or expenses. She testified that Commission Rule R8-70(b)(4) provides that the Commission is to determine the reasonableness and prudence of the cost of capital additions or operating costs incurred related to the acquired plant in a general rate proceeding. However, should the Public Staff discover imprudent or unreasonable costs in a JAAR proceeding, it will recommend an adjustment in that proceeding; in that case, it would also recommend that the impact of any disallowance also be reflected in the Company's cost of service in a general rate case. She testified the Public Staff did not find any adjustments that should be made to the calculations of either the prospective or Joint Agency Asset RRF revenue requirements.

Based on the evidence on the record, the Commission concludes that, pursuant to N.C. Gen. Stat. § 62-133.14(b)(1), DEP is allowed to recover in the annual JAAR the financing and depreciation costs associated with the acquisition costs of the Joint Units on a levelized basis in the amount of \$56.314 million annually, and the annual amount of \$8.276 million of financing and operating costs associated with acquisition costs that are not levelized. To the extent the costs underlying these amounts are acquisition costs, such costs are deemed reasonable and prudent under N.C. Gen. Stat. § 62-133.14(b)(1). The Commission further finds it reasonable for the Company to recover the remainder of these estimated costs during the rate period, subject to true-up through the Joint Agency Asset RRF.

#### EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 8-9

The evidence for these Findings of Fact can be found in DEP's application, the testimony of DEP witness LaWanda M. Jiggetts and the testimony of Public Staff witness Darlene P. Peedin.



The Company requested annual costs of \$12.473 million to be included in the JAAR for financing and operating costs related to estimated capital additions to be incurred during the period December 1, 2018 through November 30, 2019, and an estimated \$70.385 million for annual non-fuel operating costs over the period December 1, 2018 to November 30, 2019. Under N.C. Gen. Stat. § 62-133.14(b)(3), the Commission shall include in the rider an estimate of operating costs based on the prior year's experience and the costs projected for the next twelve months, and shall include the annual financing and operating costs for any proportional capital investments in the acquired electric generation facility. Public Staff witness Peedin did not oppose the recovery of these cost components in her testimony filed in this proceeding, and stated that the Public Staff recommended approval of the Company's revised proposed JAAR rates. The Commission concludes that it is reasonable for the Company to recover these estimated costs during the rate period, subject to true-up through the Joint Agency Asset RRF.

#### EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 10

The evidence for this Finding of Fact can be found in the testimony of DEP witness Lawanda M. Jiggetts.

Witness Jiggetts' exhibits reflected a decrease in DEP's regulatory fee to \$0.207 million based on the decrease in the estimated JAAR costs for the period December 1, 2018 through November 30, 2019. The Commission concludes that the calculation of the regulatory fee is just and reasonable.

#### EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 11

The evidence for this Finding of Fact can be found in DEP's application and the testimony of DEP witness LaWanda M. Jiggetts, as well as the testimony of Public Staff witness Darlene P. Peedin.

Under N.C. Gen. Stat. § 62-133.14(b)(4), the JAAR shall include adjustments to reflect the North Carolina retail portion of financing and operating costs related to the electric public utility's other used and useful generating facilities owned at the time of the acquisitions to properly account for updated jurisdictional allocation factors. This adjustment benefits DEP customers by reducing DEP's annual retail revenue requirement. Witness Jiggetts testified that the revenue reductions reflect changes in jurisdictional allocation factors resulting from the additional NCEMPA load that will be served by the Company's portfolio of generating facilities owned at the time of the acquisition. As a consequence, a greater portion of the cost of the Company's other generating facilities will be allocated to its wholesale jurisdiction, while a lesser portion will be allocated to its retail jurisdictions. In her direct testimony, witness Jiggetts testified that in the Company's filing, the annual revenue reduction to North Carolina retail revenue requirements for the test period January 2017 through December 2017 totaled \$87 million. For the prospective period December 2018 through November 2019, the reduction is zero. Witness Jiggetts testified that the change in allocation approach was

due to the Company's base rate request filed in Docket No. E-2, Sub 1142. The reallocation between retail and wholesale jurisdictions is reflected in the base rates approved by the Commission in Docket No. E-2, Sub 1142. Therefore the reduction will not be included in JAAR revenue requirements from March 16, 2018 forward, the effective date for DEP's new base rates.

#### EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 12

The evidence for this Finding of Fact can be found in DEP's application, the direct testimony of DEP witness LaWanda M. Jiggetts, DEP's exhibits to the JAAR, and the testimony of Public Staff witness Darlene P. Peedin.

The Company requested a Joint Agency Asset RRF decrement adjustment of \$9.196 million related to the overrecovery of costs incurred through the test year ended December 31, 2017. The Commission notes that DEP should file a Joint Agency Asset RRF adjustment rider to include a true-up between estimated and actual costs incurred during the test period under N.C. Gen. Stat. § 62-133.14(c). The deferred costs related to any true-up are to be recorded as a regulatory asset or regulatory liability, including a return on the deferred balance each month. Public Staff witness Peedin did not oppose the return of this rate component in her testimony filed in this proceeding. The Commission finds the actual costs and credits underlying this true-up amount to be reasonable and prudent, and that the return of this amount is reasonable and appropriate.

#### EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 13

The evidence for this Finding of Fact can be found in DEP's application, the direct testimony and supplemental testimony of DEP witness LaWanda M. Jiggetts, DEP's revised exhibits, and the testimony of Public Staff witness Darlene P. Peedin.

Pursuant to N.C. Gen. Stat. § 62-133.14(b)(5), the costs of the rider shall be allocated utilizing the cost allocation methodology approved in DEP's last general rate case, Docket No. E-2, Sub 1142. In her direct testimony, witness Jiggetts testified that the Company's filing used the customer allocation methods approved in DEP's last general rate case. The North Carolina retail revenue requirement was allocated among customer classes using the production demand allocation factors. For the prospective revenue requirement, rates were set for each customer class. For the Joint Agency Asset RRF rates, production demand was used to split the revenue requirement between two customer groups, customers billed by kW and customers billed by kWh. This approach resulted in one common rate being applied to all customer classes within the respective group.

In her supplemental testimony, witness Jiggetts testified that the Company revised its approach to calculate the rates associated with the Joint Agency Asset RRF, based on the Public Staff's inquiries regarding the methodology used in developing uniform rates for the two customer groups. Instead of using a common rate for the two customer groups, rates were established for each North Carolina retail customer class based on the

over/under collection position using production demand allocation factors. Witness Jiggetts also testified that the total revenue requirement did not change as a result of this revision due to the fact that the total dollars needed for the Rolling Recovery Factor were not impacted. The revision only impacts how the Rolling Recovery Factor is recovered between different rate classes of North Carolina retail customers. The table included in Finding of Fact No. 13 sets forth the revised rates.

The Company agreed with Public Staff witness Peedin's recommendation regarding the usage of the production demand allocation factors to set rates for each of the North Carolina retail customer classes. Witness Peedin agreed with the revised RRF on a class-specific basis as opposed to the uniform rates that are initially proposed. The class specific calculation for the Joint Agency RRF conforms with DEP's approved customer allocation methodology set forth in the most recent general rate case.

Based on the evidence and the record, the Commission finds and concludes that the rates set forth in the table included in Finding of Fact No. 13 are just and reasonable.

IT IS, THEREFORE, ORDERED as follows:

1. That DEP shall be allowed to charge in a rider \$138.458 million (\$147.654 million as the prospective component and (\$9.196) million in the Joint Agency Asset RRF) on an annual basis to recover the costs in relation to the acquisition and operation of the Joint Units;
2. That the costs shall be allocated using the customer allocation methodology used in DEP's last general rate case as shown in DEP's application and the supplemental testimony of DEP witness Jiggetts;
3. That DEP shall file appropriate rate schedules and riders with the Commission in order to implement these approved rate adjustments to be effective for service rendered on and after December 1, 2018, as soon as practicable; and,
4. That DEP shall work with the Public Staff to jointly prepare a proposed notice to customers of the rate adjustments ordered by the Commission in Docket Nos. E-2, Subs 1173, 1175, and 1176 and the Company shall file the proposed notice to customers for Commission approval as soon as practicable.

ISSUED BY ORDER OF THE COMMISSION.

This the 8<sup>th</sup> day of November, 2018.

NORTH CAROLINA UTILITIES COMMISSION



Janice H. Fulmore, Deputy Clerk