

STATE OF NORTH CAROLINA

**UTILITIES COMMISSION
RALEIGH**

DOCKET NO. E-7, SUB 1146
DOCKET NO. E-7, SUB 819
DOCKET NO. E-7, SUB 1110
DOCKET NO. E-7, SUB 1152

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of)	
)	
DOCKET NO. E-7, SUB 1146)	
Application of Duke Energy Carolinas, LLC)	
for Adjustment of Rates and Charges)	
Applicable to Electric Utility Service in North)	
Carolina)	
)	
DOCKET NO. E-7, SUB 819)	
Amended Application of Duke Energy)	AGREEMENT AND STIPULATION
Carolinas, LLC for Approval of Decision to)	OF PARTIAL SETTLEMENT
Incur Nuclear Generation Project)	
Development Costs)	
)	
DOCKET NO. E-7, SUB 1110)	
Joint Petition of Duke Energy Progress,)	
LLC and Duke Energy Carolinas, LLC for)	
an Accounting Order to Defer)	
Environmental Compliance Costs)	
)	
DOCKET NO. E-7, SUB 1152)	
Petition of Duke Energy Carolinas, LLC for)	
an Order Approving a Job Retention Rider)	

Duke Energy Carolinas, LLC ("DEC" or the "Company") and the Public Staff, North Carolinas Utilities Commission (the "Public Staff"), collectively referred to herein as the "Stipulating Parties," through counsel and pursuant to G.S. 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 docket.

I. BACKGROUND

A. On August 25, 2017, DEC filed an application ("Application") for a general rate increase, pursuant to G.S. 62-133 and -134 and Commission Rule R1-17, along with direct testimony and exhibits requesting a non-fuel base rate increase of approximately 12.8 percent in retail revenues, or approximately \$611 million. The Company also requested a Grid Reliability and Resiliency Rider to recover an additional \$36 million, which has the effect of an additional 0.8 percent increase. The filing was based upon a 10.75 percent return on equity ("ROE") and a 53 percent equity component of the capital structure.

B. On October 18, 2017, the Commission issued an order consolidating the general rate proceeding in Docket No. E-7, Sub 1146, with DEC's request to cancel the Lee Nuclear Project in Docket No. E-7, Sub 819, and DEC's request to implement a job retention rider in Docket No. E-7, Sub 1152. On July 10, 2017, the Commission issued an order holding that DEC's request to defer certain environmental compliance costs regarding coal combustion residuals in Docket No. E-7, Sub 1110, shall be consolidated with DEC's next general rate case.

C. On December 15, 2017, the Company filed supplemental direct testimony and exhibits. On December 18, 2017, the Company filed Revised

Supplemental testimony. On January 16, 2018, the Company filed second supplemental direct testimony and exhibits. On January 23, 2018, the intervenors in this proceeding, including the Public Staff, filed testimony. On February 6, 2018, the Company filed rebuttal testimony and exhibits. The Public Staff filed supplemental and revised testimony on February 20, 2018 and corrections to supplemental testimony on February 22, 2018.

D. The parties to this proceeding have conducted substantial discovery on the issues raised in the Application, as well as on the direct, supplemental and rebuttal testimonies of the Company and the direct testimony of the Public Staff. Prior to the evidentiary hearing scheduled to begin March 5, 2018, the Stipulating Parties reached a partial settlement with respect to some of the revenue requirement 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

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

- a. Coal ash costs – Cost recovery of the Company's coal ash costs, recovery amortization period and return during the amortization period, allocation issues associated with coal ash costs, and ongoing costs to be included in rates.

- b. Lee Nuclear – Whether it is appropriate to allow a return on the unamortized balance during the amortization period.

- c. Job Retention Rider - As described in more detail below, the Stipulating Parties agree that the Company's proposed Job Retention Rider generally complies with the Commission's guidelines adopted in Docket No. E-100, Sub 73, but two issues remain to be decided upon by the Commission: (1) whether companies involved in the transportation or preservation of a raw material or a finished product (e.g., pipeline customers) should qualify; and (2) how or if the Job Retention Rider should be funded after the expiration of the initial year's \$4.5 million shareholder contribution.

- d. Nuclear Decommissioning Expense - The status of the Company's Nuclear Decommissioning Trust Fund and the Public Staff's proposal to adjust nuclear decommissioning expense.

- e. Updates - The final update month to be used for ratemaking in this case and what should be included in the update.

- f. The methodology for calculating customer usage through December 2017.

- g. Federal Tax Cuts and Jobs Act - The manner in which the Federal Tax Cuts and Jobs Act (the Tax Act) should be addressed in this case.

- h. Depreciation - The amount of annual depreciation expense and associated accumulated depreciation to be used for ratemaking in this case.
- i. Grid Reliability and Resiliency Rider ("GRR") - Whether a GRR should be adopted in this proceeding, and if so, which costs would be included in the GRR and the structure of a GRR.
- j. Basic Facilities Charge - The amount of the Basic Facilities Charge.
- k. Any other revenue requirement or non-revenue requirement issue other than those issues specifically addressed in this Stipulation or agreed upon in the testimony of the Stipulating Parties.

III. REVENUE REQUIREMENT ISSUES RESOLVED BETWEEN THE PARTIES

The Stipulating Parties have reached an agreement regarding the following revenue requirement issues. The actual amount of the agreed-upon adjustments may differ due to the effects of the Unresolved Issues. The revenue requirement effects of the agreed-upon issues are shown on Boswell Stipulation Exhibit 1 and McManeus Stipulation Exhibit 1, attached to their respective testimonies supporting this Stipulation.¹ The revenue requirement effects of this Stipulation provide sufficient support for the annual revenue required on the issues agreed to

¹ The total increase in base rate revenues and the resulting average increase, if any will not be determined until the Commission rules on the Unresolved Issues.

in this Stipulation. No Stipulating Party waives any right to assert a position in any future proceeding or docket before the Commission or in any court, as the adjustments agreed to in this Stipulation are strictly for purposes of compromise and are intended to show a rational basis for reaching the agreed-upon revenue requirement adjustments 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 Company should be allowed to recover distribution vegetation management costs in an annual amount of \$62.6 million, for purposes of settlement, on a total system basis, and this figure includes acceptance of the Public Staff's downward adjustment related to untrimmed, back-log miles as described by Public Staff witnesses Williamson and Boswell. For the purpose of complying with the Company's current vegetation management program, the Company commits to eliminate completely the 13,467 miles of existing back-log as of December 31, 2017 (as identified in the testimony of Public Staff witness Williamson) ("Existing Backlog") within five years after the date rates go into effect in this proceeding, and the Company additionally commits to spending the necessary amount on an annual basis to trim its annual target distribution miles under its 5/7/9 Plan. Notwithstanding the Company's obligation to provide safe, adequate, and reliable electricity service to its customers, fulfilling these commitments will be sufficient to return the Company's distribution line miles to a state so that thereafter vegetation can be trimmed on the following schedule:

trimming all 2,180 old urban miles every five years, all 7,831 mountain miles every seven years, and all 41,603 other miles every nine years. In addition, DEC agrees to provide a report annually to the Commission with the following information: (1) actual 5/7/9 and Existing Backlog miles maintained in the previous calendar year; (2) current level of Existing Backlog miles; (3) vegetation management maintenance dollars budgeted for the previous calendar year for 5/7/9 and Existing Backlog; and (4) vegetation management maintenance dollars expended in the previous calendar year for 5/7/9 and Existing Backlog. All data reported will be categorized by circuit type (e.g., old urban, mountain, other). The Company further agrees that any accelerated amount of expenditures to eliminate the Existing Backlog miles shall not be used to increase the level of vegetation management expenses in future proceedings, but shall not prohibit the Company from seeking adjustments for vegetation management contractor rate increases. This provision shall not be construed to prohibit the Parties from presenting evidence or arguments concerning vegetation management in the context of the Company's request for the GRR, which is an Unresolved Issue.

B. The State excess deferred income taxes (EDIT) that the Company collected pursuant to the Commission's May 13, 2014 order in Docket No. M-100, Sub 138 should be returned to customers through a levelized rider that will expire at the end of a four-year period.

C. The incremental operating expenses for the Customer Connect project should be removed from the Company's revenue requirement as recommended by the Public Staff. Instead, the Company should be authorized to establish a regulatory asset to defer and amortize expenses associated with the Customer Connect project. The Company should be allowed to accrue and recover AFUDC on the regulatory asset until the DEC Core Meter-to-Cash release (Releases 5-8) of the Customer Connect project goes into service or January 1, 2023, whichever is sooner, at which time a 15-year amortization shall begin. In order to provide the Commission and other interested parties with information concerning the status of development, spending, and the accomplishments to date, the Stipulating Parties will develop the reporting format and the content of that report within 90 days of the Commission's order approving the Stipulation, with the reports to be filed in this docket for the next five years on December 31 of each year or until Customer Connect is fully implemented, whichever is later.

D. The Stipulating Parties agree to remove 50 percent of the corporate aviation O&M expense requested in this case.

E. The Company accepts the Public Staff's proposed adjustment to executive compensation to remove 50 percent of the compensation of the five Duke Energy executives with the highest amounts of compensation, and to remove 50 percent of the benefits associated with those five executives.

F. The Company has agreed to remove certain costs associated with outside services in its rebuttal filing, as recommended by the Public Staff. This

amount does not include costs incurred for certain legal services related to coal ash, which are included in the Unresolved Issues.

G. The Company accepts the Public Staff's proposed adjustment to remove costs to achieve the Duke-Piedmont merger.

H. Company employee incentives should be adjusted to remove the cost of the Short Term Incentive Plan based on the Company's earnings per share for employees who qualify for the Company's Long Term Incentive Plan.

I. The Company shall reduce the amount of coal inventory included in working capital. Further, an increment rider should be approved to manage the transition, effective on the same date as new base rates approved in this proceeding and continuing until inventory levels reach a 35-day supply to allow the Company to recover the additional costs of carrying coal inventory in excess of a 35-day supply (priced at \$73.23 per ton). The rider will terminate the earlier of (a) May 31, 2020, or (b) the last day of the month in which the Company's actual coal inventory levels return to a 35-day supply on a sustained basis. For this purpose, three consecutive months of total coal inventory of 37 days or below will constitute a sustained basis. The Company reserves the right to request an extension of the May 31, 2020, date. The Company will adjust this rider annually, concurrently with DEC's DSM/EE Rider, REPS Rider, and Fuel Adjustment Rider, and any over- or under-collection of costs experienced as a result of this rider shall be trued up in that annual rider filing. For purposes of the coal inventory rider, the Stipulating Parties agree that interest on any under- or over-collection shall be set at the

Company's net-of-tax overall rate of return, as approved by the Commission in this proceeding. In addition, the Company will conduct an analysis in consultation with the Public Staff demonstrating the appropriate coal inventory level given market and generation changes since the Company's rate case in Docket No. E-7, Sub 1026. The analysis shall be completed by March 31, 2019.

J. The Public Staff agrees to accept the Company's rebuttal position on sponsorships and donations expense, which removed amounts paid to the U.S. Chamber of Commerce and certain other expenses.

K. The Company accepts the Public Staff's recommended adjustments to lobbying and Board of Directors' expenses.

L. The Lee CC is almost complete, but is not anticipated to come online until later in March. The parties agree to the following:

1. The Company withdraws its adjustment to include incremental O&M expenses for the Lee CC and the Public Staff withdraws its displacement adjustment for Lee CC. The Parties therefore agree that the appropriate level of ongoing O&M expense is \$0.

2. The appropriate amortization period for the deferred expenses is four years.

3. It is appropriate to hold the record open until March 23, 2018, for the sole purpose of allowing Company to provide the Public Staff and the Commission with the final cost amounts to be included in

this proceeding for determining the impact of the Lee CC on the overall revenue increase or decrease approved by the Commission. The Public Staff will utilize these amounts to work with the Company to file with the Commission, by April 6, 2018, the Parties' final recommendation with regard to the Lee CC-related revenue requirement, including Lee CC deferred costs, using the methodology recommended by the Public Staff in this proceeding, excluding the appropriate amortization period for Lee CC deferred costs.

4. It is appropriate to hold the record open until April 22, 2018 for the sole purpose of allowing the filing by the Company of an affidavit indicating that the plant has closed to service for operational and accounting purposes and that is used and useful for the benefit of customers.

M. The Company accepts the Public Staff's recommended adjustment regarding DEBS to DEC allocation as set forth in the supplemental testimony of Public Staff witness Michelle Boswell.

N. The Company accepts the Public Staff's methodology as to how to calculate salaries and wages as set forth in the supplemental testimony of Public Staff witness Boswell.

O. Revenues approved for DEC in this proceeding should be adjusted to provide DEC, through sound management, the opportunity to earn an ROE of 9.9 percent. This ROE will be applied to the common equity component of the Company's ratemaking capital structure consisting of 52% equity and 48% long term debt. The embedded cost of debt agreed to by the Parties as appropriate and reasonable for purposes of this proceeding is 4.59%. The weighted overall rate of return resulting from the above inputs is 7.35%.

P. Given the Commission's Findings of Fact Nos. 57-59 and associated conclusions in its Order entered February 23, 2018 in Docket No. E-2, Sub 1142, the Company hereby withdraws its request to recover certain coal combustion residuals ("CCR") costs through the fuel adjustment clause related to the excavation and movement of CCRs from the Riverbend Plant in Gaston County, North Carolina to the Brickhaven facility in Chatham County, North Carolina. The effect of this is that the Stipulating Parties agree that the recovery of these costs are left in the Company's deferred CCR balance for consideration of recovery in the Company's base rates.

IV. OTHER AREAS OF AGREEMENT

The parties also agree to the following:

A. The Parties have reached agreement on the Company's proposal for a Job Retention Rider as described by Company witness Pirro in his direct testimony, except for the Unresolved Issues.

B. BASE FUEL AND FUEL-RELATED COST FACTORS. The total of the approved base fuel and fuel related cost factors, by customer class, will be as set forth in the following table (amounts are ¢/kWh excluding regulatory fee):

	Residential	General Service/Lighting	Industrial
Total Base Fuel (matches approved fuel rate effective September 1, 2017, in Sub 1129)	1.7828	1.9163	2.0207

C. DEC has based its filing in this docket on the Summer Coincident Peak ("SCP") methodology for cost allocation between jurisdictions and among customer classes. The Public Staff does not oppose the Company's cost of service study and allocation methodology for purposes of settlement in this case only, with the exception of allocation of coal ash costs, which is included within the Unresolved Issues.

D. The Public Staff and the Company agree that DEC shall prepare and file a lead-lag study in its next general rate case.

E. 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 order and other rate design matters proposed by DEC:

1. 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.

2. Except for the amount of the Basic Facilities Charge, which is an Unresolved Issue, the Parties agree that the Company shall implement the rate design proposed by Company witness Pirro within his direct testimony, filed contemporaneously with the Company's Application in this docket, as adjusted by this Stipulation.

F. The Stipulating Parties will cooperate in providing pre-filed testimony to explain and support this Stipulation. The Parties agree that DEC's Application and the testimony and exhibits of the Stipulating Parties will provide sufficient support for the annual revenue requirement amounts agreed to in this Stipulation, subject to the revenue requirement effect of the Commission's decisions on the Unresolved Issues.

G. Within 30 days after the Commission's issuance of an order approving this Stipulation, but no later than ten business days after the Effective Date of the new rates, DEC will file for Commission approval five copies of all rate schedules designed to comply with the paragraphs above, accompanied by calculations showing the revenues that will be produced by the rates for each schedule. These calculations shall include a schedule comparing the revenue produced by the filed schedules during the test period with the revenue that will be

produced under the proposed settlement schedules (in the format of Company witness Pirro Exhibit 2), and a schedule illustrating the rates of return by class based on the revenues produced by the rates for each schedule (in the format of Company witness Pirro Exhibit 4).

H. The effective date of the rate change ("Effective Date") shall be the date the Commission issues an order regarding the requested rate increase ("Approval Order"), provided the Commission issues the Approval Order by May 1, 2018. If the Approval Order is issued later than May 1, 2018, the Company reserves its rights to implement temporary rates under bond pursuant to G.S. 62-135 on or after May 1, 2018. Any temporary rates the Company could implement under G.S. 62-135 will be designed to produce revenues no more than the revenue requirement agreed upon in this Stipulation using the Company's calculated amounts as set forth in McManeus Stipulation Exhibit 1.

I. The Stipulating Parties further agree that JRR revenue credits shall be recovered through a rider from all retail customers concurrent with JRR implementation, which is anticipated to occur approximately six months following the Commission's decision. Rider JRR and the JRR Recovery Rider revenues shall be reported to the Commission annually and the Recovery Rider shall be reviewed and will be subject to adjustment annually coincident with the September fuel adjustment to match anticipated recovery revenues and true-up any past over- or under-recovery. Due to the uncertain date of implementation, compliance tariffs shall be filed prior to implementation of the JRR Recovery Rider and customers

shall be notified by bill insert or message upon implementation.

J. The Stipulating Parties agree that the overall quality of electric service provided by DEC is adequate.

V. 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 reflects a give-and-take of contested issues and results in rates that are just and reasonable. The Stipulation 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 (as to the stipulated issues) to allow the Company to maintain its financial strength and credit quality and continue to provide high quality electric utility services 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 the terms shall be admissible in any court or 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 Parties with regard to any issue in any other proceeding or docket before this Commission

or in any court.

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 between 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. This Stipulation is a product of negotiation among the Stipulating Parties, and no provision of this Stipulation shall be strictly construed in favor of or against any Party.

VI. RECEIPT OF TESTIMONY AND WAIVER OF CROSS- EXAMINATION

Except for testimony and exhibits related to the Unresolved Issues, the pre-filed testimony and exhibits of the Stipulating Parties may be received in evidence without objection, and each 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 Party, then any Party may respond to such questions by presenting testimony or exhibits and cross-examining any witness with respect to such testimony and exhibits.

VII. 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 Parties unless the entire Agreement and Stipulation of Settlement 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 Commission's approval of this Stipulation is rejected or conditioned by a reviewing court, the Stipulating 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.

VIII. 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 this the 28th day of February, 2018.

Duke Energy Carolinas, LLC

By: 

David B. Fountain
North Carolina President

Public Staff – North Carolina Utilities
Commission

By: 

Christopher J. Ayers
Executive Director

CERTIFICATE OF SERVICE

I certify that I have served a copy of the foregoing Agreement and Stipulation of Partial Settlement on all parties of record in accordance with Commission Rule R1-39, by United States mail, postage prepaid, first class; by hand delivery; or by means of facsimile or electronic delivery upon agreement of the receiving party.

This the 28th day of February, 2018.

Electronically submitted
/s/ Dianna Downey