



**BEFORE THE NORTH CAROLINA UTILITIES COMMISSION**

**DOCKET NO. E-2, SUB 1262**

**DOCKET NO. E-7, SUB 1243**

**Joint Testimony of Michael C. Maness and Michelle M. Boswell**

**On Behalf of the Public Staff**

**North Carolina Utilities Commission**

**December 22, 2020**

1 **Q. MR. MANESS, PLEASE STATE YOUR NAME, BUSINESS**  
2 **ADDRESS, AND PRESENT POSITION.**

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

7 **Q. BRIEFLY STATE YOUR QUALIFICATIONS AND DUTIES.**

8 A. My qualifications and duties are included in Appendix A.

9 **Q. MS. BOSWELL, PLEASE STATE YOUR NAME, BUSINESS**  
10 **ADDRESS, AND PRESENT POSITION.**

11 A. My name is Michelle M. Boswell. My business address is 430 North  
12 Salisbury Street, Dobbs Building, Raleigh, North Carolina. I am

1           Manager of the Electric Section of the Accounting Division of the  
2           Public Staff – North Carolina Utilities Commission (Public Staff).

3   **Q.    BRIEFLY STATE YOUR QUALIFICATIONS AND DUTIES.**

4   A.    My qualifications and duties are included in Appendix B.

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

6   A.    The purpose of our testimony is to present the Public Staff’s position  
7           on certain matters related to Docket No. E-7, Sub 1243 and Docket  
8           E-2, Sub 1262, the Joint Petition for Financing Orders (Petition) filed  
9           with the Commission by Duke Energy Carolinas, LLC (DEC) and  
10          Duke Energy Progress, LLC (DEP) (collectively, the Companies), on  
11          October 26, 2020. By way of the Petition, the Companies request  
12          that the Commission issue a Financing Order that will authorize and  
13          enable each of the Companies to engage in securitization of the  
14          expenses and capital costs associated with certain major storms  
15          experienced in 2018 and 2019. Our testimony is filed in conjunction  
16          with testimony filed in this proceeding by Calvin C. Craig, III,  
17          Financial Analyst, Public Staff Economic Research Division, and on  
18          behalf of the Public Staff by consultants from Saber Partners, LLC.

19   **Q.    PLEASE BRIEFLY EXPLAIN WHAT YOU MEAN BY THE TERM**  
20   **“SECURITIZATION.”**

1 A. Securitization, as the term is used in this proceeding, is a process by  
2 which a utility takes a large, specifically identified set of incurred  
3 costs subject to being recovered over time through depreciation or  
4 amortization, and instead of including the unamortized balance in  
5 rate base, finances it with debt-only securities financially and legally  
6 segregated from the capital structure used for ratemaking purposes.  
7 Therefore, because the undepreciated or unamortized balance is  
8 subject to only a debt return during the depreciation/amortization  
9 period, instead of the utility's full weighted average cost of capital  
10 (WACC) (both debt and equity components), the securitization  
11 process potentially reduces the overall cost to ratepayers principally  
12 by the difference between the WACC and the significantly lower  
13 interest rate. If a large amount of principal is securitized, this process  
14 can save ratepayers many millions of dollars.

15 **Q. PLEASE DESCRIBE THE TOPICS YOU WILL COVER IN YOUR**  
16 **TESTIMONY.**

- 17 A. In our testimony, we will address four basic topics:
- 18 1. Statutory Basis for the Petition and Specific Relevance to  
19 our Testimony.
  - 20 2. Relevant General Rate Case Proceedings.
  - 21 3. Costs to be Securitized.
  - 22 4. Conditions of the General Rate Case Stipulations Affecting  
23 Test of Quantifiable Benefits.
  - 24 5. Application of the net benefit test.

**STATUTORY BASIS FOR PETITION AND SPECIFIC  
RELEVANCE TO THIS TESTIMONY**

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**Q. WHAT IS THE BASIS FOR THE PETITION?**

A. The Petition has been filed with the Commission pursuant to N.C. Gen. Stat. § 62-172. *Financing for certain storm recovery costs* (G.S. § 62-172). This statute enables DEC and DEP to utilize the process of securitization for certain operations and maintenance expenses and capital expenditures associated with significant weather events and natural disasters. It contains provisions addressing, among other matters, the types of storms that may be considered for securitization, the nature of storm recovery costs that may be securitized, the determination of the storm recovery bonds and the resulting charges that may be charged to ratepayers, the financial comparison that must be made to determine if the proposed securitization provides quantifiable benefits to the ratepayers, the manner in which certain adjustments to storm recovery costs may be addressed and trued up during the process, and several measures intended to secure and ensure the non-bypassable charges to ratepayers that will be used to satisfy the payment of bond principal and financing costs. For purposes of our testimony, we are focusing particularly on (1) the portions of the statute that deal with the quantification and true-up of costs to be securitized (2) deferral accounts that will track items to be addressed in future rate cases,

1 and (3) the net present value comparison required by G.S. § 62-  
2 172(b)(1)g that measures quantifiable benefits.

3 **REVIEW OF RELEVANT GENERAL RATE CASE**  
4 **PROCEEDINGS**

5 **Q. HOW DO THE COMPANIES' CURRENTLY PENDING GENERAL**  
6 **RATE CASES AFFECT THIS PROCEEDING?**

7 A. As discussed in the Petition and the testimony of DEC and DEP  
8 witness Abernathy, in their general rate cases filed in 2019 [for DEC,  
9 Docket No. E-7, Sub 1214 (Sub 1214); for DEP, Docket No. E-2, Sub  
10 1219 (Sub 1219)], prior to G.S. § 62-172 being enacted into law, DEC  
11 and DEP included proposals to defer and amortize the costs of  
12 several major storms experienced in 2018 and 2019. However, DEC  
13 and DEP witnesses testified that if the then-proposed securitization  
14 statute was passed, the Companies would consider removing the  
15 impacts of the deferred storm costs from the cases and pursuing  
16 securitization instead.

17 G.S. § 62-172 became law in the fall of 2019. Subsequently, on  
18 March 25, 2020 for DEC, and on June 2, 2020 for DEP, each of the  
19 Companies filed Partial Settlement Agreements (First Partial  
20 Stipulations) between it and the Public Staff, which, among other  
21 things, contained an agreement that each of the Companies would  
22 remove the capital and O&M impacts of the major storms from the

1 cost of service in the general rate cases, and pursue recovery  
2 through securitization pursuant to G.S. § 62-172. The First Partial  
3 Stipulations contain several provisions to protect the interests of the  
4 parties should securitization not be ultimately pursued or approved,  
5 and also provided for the effects of appeal of the Commission's rate  
6 case orders and the future filing of a petition for rulemaking to  
7 establish standards for future securitization proposals. Most  
8 significantly for our testimony, the First Partial Stipulations contain  
9 agreed-to assumptions that would be used in performing the net  
10 present value tests of quantified benefits in the securitization  
11 proceedings. These assumptions are discussed later in our  
12 testimony.

13 The Sub 1214 and Sub 1219 general rate cases remain pending  
14 before the Commission. However, we have proceeded in this  
15 securitization proceeding under the provisional assumption that the  
16 securitization-related proceedings of the First Partial Stipulations will  
17 be approved. The First Partial Stipulations in Sub 1214 and Sub  
18 1219 are filed with our testimony as Maness Boswell Exhibit 1 and  
19 Maness Boswell Exhibit 2, respectively.

1 **COSTS TO BE SECURITIZED**

2 **Storm Costs**

3 **Q. PLEASE PROVIDE A DESCRIPTION OF THE COMPANIES’**  
4 **STORM COSTS INCLUDED IN THE PRESENT SECURITIZATION**  
5 **FILING.**

6 A. In the present securitization filing, the Companies have included  
7 storm costs for Hurricanes Florence and Michael from 2018, Winter  
8 Storm Diego from 2018, and, for DEP only, Hurricane Dorian from  
9 2019. These were the same three and four storms for DEC and DEP,  
10 respectively, which were removed from the cost of service as part of  
11 the First Partial Stipulations between the Companies and the Public  
12 Staff in each of their currently pending general rate cases. The  
13 Companies have included incremental O&M and capital costs of  
14 \$739,008,000 (for DEP) and \$225,570,000 (for DEC), as depicted on  
15 witness Abernathy’s Exhibit 2 for each of the Companies. These  
16 amounts include O&M expenses and capital expenditures  
17 associated with the 2018 and 2019 storms, and carrying costs on all  
18 storm expenditures through May 31, 2021 at the net-of-tax weighted  
19 average cost of capital (WACC) either approved by the Commission  
20 in each of the Companies’ most recent general rate cases or  
21 proposed in the current general rate cases’ stipulations with the  
22 Public Staff.

1   **Q.    ARE THE AMOUNTS OF STORM COSTS PRESENTED BY THE**  
2           **COMPANIES IN THIS PROCEEDING THE SAME AMOUNTS THAT**  
3           **WERE REMOVED FROM THE COST OF SERVICE IN EACH OF**  
4           **THE COMPANIES' CURRENT PENDING GENERAL RATE**  
5           **CASES?**

6    A.    The costs included by the Companies in the present securitization  
7           filing incorporate the costs included in each of the Companies'  
8           respective general rate cases currently pending before the  
9           Commission.  However, the Companies have updated certain  
10          amounts of the O&M storm expenses included in the general rate  
11          cases.  DEC's O&M storm expenses have decreased by the very  
12          small amount of \$31,000, although there are several upward and  
13          downward adjustments that net out to this amount.  DEP's O&M  
14          storm expenses have decreased by the larger amount of  
15          approximately \$10.7 million, again by way of several upward and  
16          downward adjustments.  Capital expenditures are unchanged from  
17          the amounts set forth in the general rate cases, while the carrying  
18          cost balances have been updated through May 31, 2021, and have  
19          also been adjusted to reflect, on and after January 1, 2021 for DEC  
20          and February 1, 2021 for DEP, the net-of-tax WACC stipulated to by  
21          the Public Staff and each of the Companies currently pending  
22          general rate cases.

1 DEC and DEP witness Abernathy confirms in her testimony that there  
2 will be no additional costs associated with the 2018 storms recorded  
3 after June 30, 2020, the period through which the Companies have  
4 included costs in the filing. Witness Abernathy further testifies that  
5 no further adjustments to incremental O&M or capital costs included  
6 in the securitization financing are expected for the 2019 storms,  
7 which have been updated through September 30, 2020.

8 **Q. WHAT ARE THE PUBLIC STAFF'S RECOMMENDATIONS**  
9 **REGARDING THE STORM COSTS INCLUDED IN THE STORM**  
10 **SECURITIZATION FILING?**

11 A. In the course of the Companies' respective general rate cases, the  
12 Public Staff reviewed the 2018 and 2019 storm costs, and concluded  
13 that overall they were prudently incurred and reasonable for  
14 ratemaking purposes. In this proceeding, the Public Staff has  
15 gathered certain supporting documentation for the net reduction in  
16 storm-related O&M expenses, and has verified the calculation of  
17 carrying costs, assuming a storm recovery bond issuance date of  
18 June 1, 2021 and Commission approval of the stipulated net-of-tax  
19 WACC rates as of January 1, 2021 (for DEC) and February 1, 2021  
20 (for DEP). However, due to the time constraints of this proceeding,  
21 the Public Staff has not been able to fully review all the changes in  
22 recorded O&M expenses since the general rate cases. Therefore,

1 those changes in expenses remain subject to future review.  
2 Likewise, the final carrying cost amount remains subject to the actual  
3 bond issuance date and the Commission's final decision in each  
4 case regarding the net-of-tax WACC. With regard to storm-related  
5 O&M expenses, the Public Staff recommends that the Companies be  
6 required to provide any further supporting documentation requested  
7 by the Public Staff to complete its review of the changes in storm  
8 costs recorded since each of the Companies' general rate cases, and  
9 that any differences between the final actual, prudent, and  
10 reasonable amounts and the amounts included in securitized storm  
11 recovery charges be addressed in each of the Companies' next  
12 general rate cases, as provided for in G.S. § 62-172(a)(14)c.  
13 Likewise, any difference between the final, accurately calculated  
14 carrying costs and the amounts included in securitized storm  
15 recovery charges should be addressed in each of the Companies'  
16 next general rate cases, as provided for in the statute.

17 **Upfront and Ongoing Financing Costs**

18 **Q. PLEASE DESCRIBE THE FINANCING COSTS INCLUDED BY THE**  
19 **COMPANIES IN THE FILING.**

20 A. The Companies have proposed that proceeds of storm recovery  
21 bonds be used to finance their total storm securitization costs as well  
22 as their up-front financing costs. The Companies also have proposed

1 that storm recovery charges be set and adjusted from time-to-time to  
2 pay their ongoing financing costs. Up-front financing costs are the  
3 fees and expenses incurred to obtain the Financing Orders, as well as  
4 the expenses for structuring, marketing, and issuing each series of the  
5 ratepayer-funded storm securitization bonds. According to DEC and  
6 DEP witness Heath, these expenses include external and internal  
7 legal fees, structuring advisory fees and expenses, interest rate swap  
8 or lock fees, underwriting fees and original issue discount, rating  
9 agency and trustee fees, accounting fees, information technology  
10 programming costs, servicer's set-up costs, printing and marketing  
11 expenses, stock exchange listing and compliance fees, filing and  
12 registration fees, and expenses of outside consultants and/or counsel  
13 if sought by the Commission or the Public Staff. The Companies have  
14 estimated these costs at \$5.2 million for DEC and \$8.9 million for DEP.  
15 Most of the up-front financing costs will not be determined until the  
16 issuance advice letter process.

17 Ongoing financing costs are expenses incurred throughout the life of  
18 the ratepayer-funded storm recovery bonds to support the ongoing  
19 operations of the special purpose entity (SPE). According to DEC and  
20 DEP witness Heath, ongoing financing costs include servicing fees,  
21 return on invested capital, administration fees, accounting and  
22 auditing fees, legal fees, rating agency surveillance fees, trustee fees,  
23 independent director or manager fees, and other miscellaneous fees

1 associated with servicing the ratepayer-funded storm recovery bonds.  
2 The Companies have estimated the annual ongoing financing costs at  
3 approximately \$0.44 million for DEC and \$0.91 million for DEP. A  
4 portion of the ongoing financing costs will be known by the issuance  
5 of a series of ratepayer-funded storm recovery bonds, while other  
6 costs will vary over the term of the bonds.

7 **Q. DOES THE PUBLIC STAFF BELIEVE IT REASONABLE TO**  
8 **INCLUDE THE UP-FRONT AND ONGOING FINANCING FEES IN**  
9 **THE OVERALL COSTS OF THE STORM SECURITIZATION**  
10 **BONDS?**

11 A. The Public Staff believes the Companies will incur some costs  
12 associated with originating the bonds as well as the ongoing  
13 maintenance of the bonds, and it is reasonable to include an estimate  
14 of those costs in the overall costs of the ratepayer-funded storm  
15 securitization bonds.

16 **Q. PLEASE EXPLAIN ANY TRUE-UPS AND DEFERRALS THAT**  
17 **WOULD BE NEEDED IN ORDER TO REFLECT ACTUAL COSTS.**

18 A. In its filing, the Companies have proposed estimated costs for both  
19 the up-front and ongoing financing costs, and the costs will need to be  
20 updated for actual known and measurable costs. In addition, the fees  
21 payable to the Companies pursuant to their Servicing Agreements and  
22 Administration Agreements are likely to differ from the Companies'

1 direct and incremental costs of providing those services. The  
2 differences between the actual prudently incurred and properly  
3 accounted for costs and the estimated costs included by the  
4 Companies, or the differences between the fees payable to the  
5 Companies pursuant to their Servicing Agreements and  
6 Administration Agreements and the Companies' direct and  
7 incremental costs of providing those services will either need to be  
8 refunded to or collected from ratepayers.

9 The Companies have proposed that if the actual up-front financing  
10 costs are less than the estimated costs (resulting in an overrecovery  
11 of financing costs), the difference in the costs will be credited back to  
12 ratepayers in a manner to be determined in the Financing Orders,  
13 provided that adjustments are not made to storm recovery charges for  
14 such excess as prohibited by G.S. § 62-172. However, if the actual  
15 up-front fees are more than the estimate included by the Companies  
16 (resulting in an underrecovery), the Companies are requesting that a  
17 regulatory asset be established to allow the Companies to collect such  
18 costs through the normal ratemaking process. The Public Staff does  
19 not oppose establishing a regulatory asset for prudently incurred and  
20 properly accounted for underrecoveries of up-front costs. The Public  
21 Staff believes the regulatory asset should include only the excess  
22 costs, adjusted if appropriate for income taxes, and accrued carrying  
23 costs at the Companies' respective net-of-tax WACC, and collected

1 from ratepayers in an appropriate manner in each of the Companies'  
2 next general rate cases.

3 In regards to the overrecovery of up-front financing costs, the Public  
4 Staff believes that these amounts should be credited back to the  
5 ratepayers through use of a deferred regulatory liability and  
6 subsequent credit to the cost of service as part of the normal  
7 ratemaking process, adjusted if appropriate for income taxes and  
8 accrued carrying costs at the Companies' respective net-of-tax  
9 WACC, returning the monies to the ratepayers in an appropriate  
10 manner in each of the Companies' next general rate cases. The  
11 Public Staff does not believe that this approach would violate the  
12 terms of G.S. § 62-172. The deferred regulatory liability for up-front  
13 financing costs could be combined with the regulatory asset for the  
14 same type of costs, but should not be combined with the regulatory  
15 assets and liabilities for other types of securitization-related costs  
16 and benefits.

17 For ongoing financing costs, the Companies propose to resolve any  
18 over- or underrecoveries of actual costs through the semi-annual,  
19 quarterly, and or optional interim true-up mechanism. While the Public  
20 Staff understands the administrative ease that this approach would  
21 afford the Companies, as well as the need to periodically adjust storm  
22 recovery charges to reflect true-up of these over- and

1 underrecoveries, we are not sure that allowing all changes in ongoing  
2 financing costs to avoid Commission oversight would be in keeping  
3 with the provisions of G.S. § 62-172(b)(3)d, which states, with regard  
4 to the investigation of the true-up filings, “The review of the filing shall  
5 be limited to determining whether there are any mathematical or  
6 clerical errors in the application of the formula-based mechanism  
7 relating to the appropriate amount of any overcollection or  
8 undercollection of storm recovery charges and the amount of an  
9 adjustment.” Changes in financing costs might well create the need  
10 for review and investigation that could not be accomplished within  
11 the 30-day window established by the statute for review of these  
12 filings. The Public Staff believes that the changes in costs to be  
13 charged or refunded to ratepayers should be subject to audit and  
14 review for prudence and proper accounting prior to finalizing the  
15 amounts to be collected from or returned to ratepayers. Therefore,  
16 the Public Staff recommends that adjustments to ongoing financial  
17 costs that are passed through to the non-bypassable storm recovery  
18 charges be matched with an offsetting regulatory asset or liability in  
19 the Companies’ traditional ratemaking cost of service, adjusted if  
20 appropriate for income taxes and accrued carrying costs at the  
21 Companies’ respective net-of-tax WACC. If upon later review, the  
22 changes in costs prove to be imprudently incurred or otherwise  
23 unreasonable, appropriate adjustments can be made to the cost of

1 service in a future general rate case proceeding. These deferred  
2 regulatory assets or liabilities for ongoing financing costs could be  
3 combined, but should not be combined with the regulatory assets  
4 and liabilities for other types of securitization-related costs and  
5 benefits.

6 We also recommend that in the periodic true-ups DEC and DEP each  
7 be required to inform the Commission in the filing of any changes to  
8 the ongoing financing costs from the previous filing, and the  
9 cumulative balance of all changes since the most recent general rate  
10 case.

11 **Service Fees Paid to DEC and DEP**

12 **Q. PLEASE DESCRIBE THE TREATMENT OF THE SERVICER FEES**  
13 **AND ADMINISTRATION FEES BETWEEN THE COMPANIES AND**  
14 **THE SPE.**

15 A. The Companies have included a servicing fee of 0.05 percent of the  
16 total ratepayer-funded storm securitization bond issuance, plus out-  
17 of-pocket expenses. The servicing fee will be charged by DEC and  
18 DEP to the SPEs, collected through the storm recovery charges by  
19 the SPEs, and then passed by the SPEs to DEC and DEP, where it  
20 will be recorded as revenue on each of the respective Companies'  
21 books and where the Companies' actual and direct expenses  
22 incurred in providing those services will be included in the cost of

1 service. The servicing fee is designed to recover the Companies'  
2 direct and incremental costs associated with billing, monitoring,  
3 collecting, and remitting securitization charges; complying with the  
4 reporting requirements imposed by the servicing agreement;  
5 implementing the true-up mechanism; conducting procedures  
6 required to coordinate required audits related to the Companies' role  
7 as servicers; performing legal and accounting functions related to the  
8 servicing obligation; and communicating with rating agencies. All of  
9 the above costs will be recorded as expenses on the Companies'  
10 books, and also included in the cost of service.

11 Similarly, the Companies have included an administration fee of  
12 \$50,000 per annum, plus out-of-pocket expenses. The  
13 administration fee will be charged by DEC and DEP to the SPEs,  
14 collected through the storm recovery charges by the SPEs, and then  
15 passed by the SPEs to DEC and DEP, where it will be recorded as  
16 revenue on each of the respective Companies' books, and where the  
17 Companies' actual and direct expenses incurred in providing those  
18 services will be included in the cost of service. The administration  
19 fee is designed to recover the Companies' direct and incremental  
20 costs associated administering the SPE. The above costs will be  
21 recorded as expenses on the Companies' books, and also included  
22 in the cost of service.

1 **Q. PLEASE DESCRIBE ANY DEFERRALS PROPOSED BY THE**  
2 **COMPANIES REGARDING THE SERVICING FEE AND THE**  
3 **ADMINISTRATION FEE.**

4 A. In the proposed form of Financing Order attached as Exhibits B and  
5 C to the Joint Petition, the Companies request that servicing and  
6 administration fees collected by the Companies be included in the  
7 Companies' cost of service, and that the Companies credit back the  
8 fees to the ratepayers as part of the Companies' cost of service in  
9 the next general rate case, along with all of the incremental costs of  
10 performing servicing and administration functions, as well as the  
11 expenses incurred by the Companies to perform obligations under  
12 the Servicing Agreement or Administrative Agreement not otherwise  
13 recovered through the storm recovery charge.

14 **Q. PLEASE EXPLAIN THE PUBLIC STAFF'S RECOMMENDATION**  
15 **REGARDING THE SERVICING FEE AND ADMINISTRATION FEE.**

16 A. Because general rate cases do not occur every year, and sometimes  
17 several years can pass between them, the Public Staff believes the  
18 servicing and administrative fees collected on behalf of the  
19 Companies in excess of the actual direct and incremental costs  
20 associated with providing those services should, instead of simply  
21 being passed annually through the cost of service, be held in a  
22 regulatory liability account, separate from the regulatory assets and

1 liabilities for other types of securitization-related costs and benefits,  
2 adjusted if appropriate for income taxes and accrued carrying costs  
3 at the Companies' respective net-of-tax WACC, and refunded to  
4 ratepayers in an appropriate manner in the next general rate case.  
5 This methodology will ensure the Companies recover the actual  
6 costs they incur to service the storm recovery bonds and to  
7 administer the SPEs while providing assurance to ratepayers that the  
8 actual excess amounts collected by the Companies' will be passed  
9 through to them, even if they are collected from the SPEs in years  
10 between general rate cases, thus avoiding any windfalls associated  
11 with the storm securitization. It should be noted that this approach  
12 does not preclude setting a normalized net revenue amount during  
13 general rate cases, and then truing up over- or underrecoveries in  
14 future general rate cases.

15 **Tail-End Collections**

16 **Q. PLEASE EXPLAIN THE TAIL-END COLLECTIONS.**

17 A. The Companies, through the SPE, will collect storm recovery  
18 charges until such time the entire storm recovery bonds and ongoing  
19 financing charges are paid in full. Since it is not possible to know the  
20 exact billing or collections before they are made, the Companies will  
21 continue to bill and collect from ratepayers the storm recovery charge  
22 for a period of typically 60 to 90 days after the storm recovery bonds

1 would have been fully recovered. The overcollection is due to the  
2 timing difference of when billing and collections cease and the storm  
3 recovery bonds are fully recovered.

4 **Q. PLEASE EXPLAIN THE COMPANIES' RECOMMENDATION AS**  
5 **TO HOW TO REFUND THE OVERCOLLECTION TO**  
6 **RATEPAYERS.**

7 A. In the present case, the Companies have proposed to credit a  
8 regulatory liability account for any amounts remaining in each  
9 Collection Account, less the amount of any Capital Subaccount, and  
10 credit the net amount back to ratepayers in the Companies' next  
11 general rate case following maturity of the storm recovery bonds.

12 **Q. PLEASE EXPLAIN THE PUBLIC STAFF'S RECOMMENDATION**  
13 **AS TO HOW TO REFUND THE TAIL-END CREDIT.**

14 A. The Public Staff believes the overcollection due to all tail-end  
15 collections of storm recovery charges should be held in a regulatory  
16 liability account, separate from other securitization-related regulatory  
17 assets and liabilities, adjusted if appropriate for income taxes and  
18 accrued carrying costs at the Companies' respective net-of-tax  
19 WACC, and then refunded to ratepayers in an appropriate manner in  
20 the next general rate case. The Public Staff believes this  
21 methodology is reasonable, as the Companies' have not historically  
22 filed rate cases on an annual basis. Separating this regulatory

1 liability from other amounts receiving deferral treatment for  
2 securitization that occurred in years prior to the tail-end credit would  
3 avoid delay in collecting or refunding any of those other regulatory  
4 assets or liabilities.

5 **Capital Contributions**

6 **Q. PLEASE EXPLAIN THE CAPITAL CONTRIBUTIONS INCLUDED**  
7 **IN THE COMPANIES' FILING.**

8 A. In the present filing, the Companies propose to each make a capital  
9 contribution of at least 0.50 percent of the original principal amount  
10 of the storm recovery bonds for their utility to their respective SPE.  
11 The SPE will deposit the contributions into a Capital Subaccount,  
12 which will be used as collateral to facilitate timely payment of  
13 principal and interest on the storm recovery bonds. The Capital  
14 Subaccount will be invested in short-term high-quality investments,  
15 and any remaining amounts in the Capital Subaccount will be  
16 returned to the Companies upon full payment of the storm recovery  
17 bonds.

18 **Q. PLEASE EXPLAIN THE RETURN THE COMPANIES ARE**  
19 **SEEKING ON THE CAPITAL CONTRIBUTIONS.**

20 A. The Companies are requesting a return on the capital contributions  
21 made to the Capital Subaccount based upon the interest rate of the

1 longest maturing tranche of storm recovery bonds. The Companies  
2 are requesting the return on capital be treated much like ongoing  
3 finance costs, and be recovered through the storm recovery charges.

4 **Q. WHAT IS THE PUBLIC STAFF'S RECOMMENDATION**  
5 **REGARDING THE RETURN ON CAPITAL CONTRIBUTIONS?**

6 A. The Public Staff believes the Companies should not earn an  
7 additional return on the contributed capital over and above what the  
8 SPE actually earns on its investments and returns to the Companies.  
9 Public Staff witness Sutherland addresses this issue in detail in his  
10 testimony, pointing out that the Companies' capital is not at risk. In  
11 addition to what is included in his testimony, we would like to point  
12 out that securitization is a process that, pursuant to G.S. § 62-172, is  
13 entirely at the discretion of the Companies to propose undertaking.  
14 Any opportunity cost incurred by the Companies as a result of not  
15 having "free" capital is incurred by their choice to pursue  
16 securitization, which, as witness Sutherland points out, has its own  
17 benefits to the Company.

18 **CONDITIONS OF THE GENERAL RATE CASE STIPULATIONS**  
19 **AFFECTING TEST OF QUANTIFIABLE BENEFITS**

20 **Q. PLEASE DESCRIBE THE PORTIONS OF THE STIPULATIONS**  
21 **THAT AFFECT THE NET PRESENT VALUE TESTS OF**  
22 **QUANTIFIABLE BENEFITS?**

1 A. As previously noted, each of the First Partial Stipulations includes  
2 agreed-to assumptions to be used in the net present value tests  
3 applied pursuant to N.C.G.S. § 62-172(b)(1)g. For DEC, these  
4 assumptions, as set forth in Section III.3 of the Sub 1214 First Partial  
5 Stipulation, are as follows:

6 a. For traditional storm cost recovery, 12 months of amortization  
7 for each Storm was expensed prior to the new rates going  
8 into effect;

9 b. For traditional storm cost recovery, no capital costs incurred  
10 due to the Storms during the 12-month period were included  
11 in the deferred balance;

12 c. For traditional storm cost recovery, no carrying charges were  
13 accrued on the deferred balance during the 12-month period  
14 following the date(s) of the Storm(s);

15 d. For traditional cost recovery, the amortization period for the  
16 Storms is a minimum of 10 years; and

17 e. For securitization, the imposition of the Storm recovery  
18 charge begins nine months after the new rates go into effect.

19 For DEP, the assumptions set forth in Section III.3 of the Sub 1219  
20 First Partial Stipulation are the same as those set forth for DEC,  
21 except that assumption d. uses a minimum of 15 years instead of 10.

22 **Q. WHAT ARE THE REASONS FOR THESE ASSUMPTIONS?**

23 A. The reason that most of the assumptions were included is that there  
24 are certain differences between the manner in which the deferral and  
25 amortization of major storm costs has been generally treated for  
26 traditional ratemaking purposes by the Commission and the manner

1 that storm recovery costs and charges are required to be treated for  
2 securitization purposes pursuant to N.C.G.S. § 62-172, and the  
3 Public Staff, in particular, believed that these differences should be  
4 taken into account when determining whether securitization provides  
5 quantifiable benefits for each of the Companies' ratepayers. For  
6 example, under the traditional ratemaking method as generally  
7 practiced by the Commission, any storm O&M amortization,  
8 depreciation and return on capital investments, or carrying charges  
9 on deferred costs are assumed to be recovered in then-existing rates  
10 between the time the storms occur and the dates rates in the next  
11 general rate case go into effect. Therefore, for purposes of this  
12 proceeding, a 12-month period was assumed to occur in which no  
13 impact of those items was assumed to affect current rates (thus  
14 decreasing the net present value revenue requirement resulting from  
15 the traditional method). Additionally, an assumption needed to be  
16 made for the securitization option regarding how long after new rates  
17 went into effect the non-bypassable charge would begin to be  
18 collected, in order to reasonably calculate the net present value of  
19 revenue requirements under that option. For purposes of this  
20 proceeding, a nine-month lag was assumed in the First Partial  
21 Stipulation. Finally, also in order to perform a proper net present  
22 value comparison, at least a minimum hypothetical amortization  
23 period needed to be assumed under the traditional ratemaking

1 approach. The parties decided that this period would be 10 years for  
2 DEC and 15 years for DEP.

3 **Q. DO THESE ASSUMPTIONS APPLY FOR PURPOSES OTHER**  
4 **THAN G.S. § 62-172(b)(1)g.?**

5 A. No. These assumptions apply solely for purposes of testing  
6 compliance with the net present value tests in G.S. § 62-172(b)(1)g.  
7 These assumptions do not apply for other purposes of this  
8 proceeding.

9 For example, other Public Staff witnesses in this proceeding  
10 recommend that the Commission exercise its authority under G.S. §  
11 62-172(b)(3)b.12 to require that the structuring, marketing and  
12 pricing of the storm recovery bonds result in the lowest storm  
13 recovery charges consistent with market conditions at the time of  
14 pricing and the terms of the Financing Order. The assumptions set  
15 forth in Section III.3 of the Sub 1219 First Partial Stipulation would  
16 not apply for this purpose.

17 **APPLICATION OF NET BENEFIT TEST**

18 **Q. HAVE YOU REVIEWED THE COMPANY'S APPLICATION OF THE**  
19 **NET PRESENT VALUE COMPARISON IN THIS PROCEEDING?**

20 A. Yes. During the negotiations that led to the First Partial Stipulations,  
21 the Companies and the Public Staff developed a model that

1 calculated the difference in the net present value of revenue  
2 requirements between the securitization approach and the traditional  
3 ratemaking approach. This model incorporated the assumptions  
4 agreed to by the Companies and the Public Staff in the First Partial  
5 Stipulations. DEC and DEP witness Abernathy presented these  
6 analyses as part of her Exhibits filed in this proceeding. She  
7 calculates net present value benefits of securitization in the amounts  
8 of \$58,038,000 for DEC and \$199,019,000 for DEP.

9 **Q. HAVE THE COMPANIES CALCULATED THE NET PRESENT**  
10 **VALUE BENEFITS OF SECURITIZATION IN A REASONABLE**  
11 **MANNER, INCORPORATING THE ASSUMPTIONS AGREED TO**  
12 **IN THE FIRST PARTIAL STIPULATIONS?**

13 A. In general, yes. The Company's calculations have been performed  
14 in a generally reasonable manner, and demonstrate that in this  
15 instance securitization does provide quantifiable benefits to  
16 ratepayers. However, we agree with the testimony of the other  
17 Public Staff witnesses in this case, who point out certain problems  
18 with certain assumptions and calculations made by the Companies,  
19 and also speak to ways in which the Companies can not only pass  
20 the bar of justifying securitization, but also take steps to maximize  
21 those benefits.

1 **Q. DO YOU HAVE ANY COMMENTS REGARDING THE TERMS OF**  
2 **THE STORM RECOVERY BONDS?**

3 A. Yes. Other Public Staff witnesses, particularly witness Sutherland,  
4 speak to the benefit that could be obtained by lengthening the term  
5 of the storm recovery bonds from 15 years to 18 or even 20 years.  
6 We agree with this recommendation in this proceeding, particularly  
7 in this time of dramatically low interest rates. However, we would like  
8 to sound a note of caution for the long term. If the recent pattern of  
9 large storms with large dollar impacts occurring every two years or  
10 so were to continue for the long term, it would be appropriate for the  
11 Commission to take into consideration the potential “snowball effect”  
12 on future rates that could develop from continuing to provide for long  
13 bond amortization periods. That beneficial effect would need to be  
14 measured against the dollar benefits that could arise from such  
15 lengthened terms. However, in this proceeding, we believe that the  
16 benefits of lengthening the amortization periods, as presented by  
17 witness Sutherland, are clearly large enough to justify the  
18 lengthening.

19 **Q. DO YOU HAVE ANY COMMENTS REGARDING THE**  
20 **ASSUMPTIONS MADE IN THE ANALYSES REGARDING THE**  
21 **WACC?**

1 A. Yes. For purposes of the analyses, DEC and DEP witness  
2 Abernathy has used the WACC agreed to by the Companies and the  
3 Public Staff in the Sub 1214 and Sub 1219 general rate cases. As  
4 noted previously, these cases are still pending, and so this WACC is  
5 not yet approved. However, the Public Staff considers the use of  
6 these stipulated WACCs to be reasonable, given that neither the  
7 actual approved WACC currently in effect nor any reasonable WACC  
8 that the Commission might approve in the Sub 1214 and Sub 1219  
9 proceedings would alter the conclusion that securitization does in  
10 fact provide quantifiable benefits in this case.

11 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

12 A. Yes, it does.

**MICHAEL C. MANESS**

**Qualifications and Experience**

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 several 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, applications for approval of self-generation deferral rates, applications for approval of cost and incentive recovery mechanisms for electric utility demand-side management and energy efficiency (DSM/EE) efforts, and applications for 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.

**MICHELLE M. BOSWELL**

**Qualifications and Experience**

I graduated from North Carolina State University in 2000 with a Bachelor of Science degree in Accounting. I am a Certified Public Accountant.

As Manager of the Electric Section 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 joined the Public Staff in September 2000.

I have performed numerous audits and/or presented testimony and exhibits before the Commission addressing a wide range of electric, natural gas, and water topics. I have performed audits and/or presented testimony in Duke Energy's 2010 REPS Cost Recovery Rider; the 2008 REPS Compliance Reports for North Carolina Municipal Power Agency 1, North Carolina Eastern Municipal Power Agency, GreenCo Solutions, Inc., and EnergyUnited Electric Membership; four recent Piedmont rate cases; PSNC's 2016 rate case, DNCP's 2012 rate case, DEP's 2013 rate case, several Piedmont, NUI, and Toccoa annual gas cost reviews; Piedmont and NUI's merger; and Piedmont and NCNG's merger.

Additionally, I have filed testimony and exhibits in numerous water rate cases and performed investigations addressing a wide range of topics and issues related to the water, electric, and telephone industries.