

1 PLACE: Dobbs Building, Raleigh, North Carolina

2 DATE: Monday, September 9, 2019

3 TIME: 2:06 p.m. - 2:10 p.m.

4 DOCKET NO: E-2, Sub 1207

5 BEFORE: Chair Charlotte A. Mitchell, Presiding

6 Commissioner ToNola D. Brown-Bland

7 Commissioner Lyons Gray

8 Commissioner Daniel G. Clodfelter

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**IN THE MATTER OF:**

12

Application of Duke Energy Progress, LLC,

13

Pursuant to N.C.G.S. § 62-133.14 and NCUC Rule R8-70

14

for Approval of a Joint Agency Asset Rider for

15

Recovery of Joint Agency Asset Costs

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NORTH CAROLINA UTILITIES COMMISSION

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NORTH CAROLINA UTILITIES COMMISSION

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## P R O C E E D I N G S

CHAIR MITCHELL: Good afternoon. I'm Charlotte Mitchell, Chair of the Utilities Commission. With me this afternoon are Commissioners ToNola D. Brown-Bland, Lyons Gray, and Daniel G. Clodfelter.

I now call for hearing Docket Number E-2, Sub 1207, which is In the Matter of Application of Duke Energy Progress, LLC, Pursuant to North Carolina General Statute § 62-133.14 and Commission Rule R8-70 for Approval of a Joint Agency Asset Rider for Recovery of Joint Agency Asset Costs.

On June 11th, 2019, Duke filed its Application for approval of a Joint Agency Asset Rider for the recovery of costs incurred by Duke for the acquisition of ownership interests of the North Carolina Eastern Municipal Power Agency and associated estimated financing and non-fuel related operating costs expected to be incurred prior to December 1st, 2020. The Application was supported by the testimony and exhibits of LaWanda Jiggitts.

On June 24th, 2019, the Commission issued its Order Scheduling Hearing, Requiring the Filing of Testimony, Establishing Discovery Guidelines, and Requiring Public Notice.

1           On August 19th, 2019, the Public Staff filed  
2 the Notice of Affidavit and Affidavit of Darlene  
3 Peedin.

4           Petitions to Intervene have been filed by  
5 and granted to Carolina Utility Customers Association,  
6 Inc., and Carolina Industrial Group for Fair Utility  
7 Rates, II.

8           On August 22, 2019, Duke and the Public  
9 Staff filed a Joint Motion requesting that their  
10 witnesses be excused from attending the expert witness  
11 hearing on September 9th, 2019, the testimony and  
12 exhibits of the respective witnesses be received into  
13 the record. All parties have agreed to waive cross  
14 examination of these witnesses.

15           On August 28th, 2019, the Commission ordered  
16 that the Applicant's witnesses be excused from  
17 appearing at this hearing and that the testimony and  
18 exhibits of these witnesses be received into the  
19 record.

20           Pursuant to the State Ethics Act, I remind  
21 all members of the Commission of their duty to avoid  
22 conflicts of interest and inquire at this time as to  
23 whether any Commissioner has any known conflict of  
24 interest with respect to the matters appearing before

1 us this afternoon?

2 (No response)

3 Please let the record reflect that no  
4 conflicts of interest have been identified.

5 We'll move forward with the proceeding and I  
6 now call on counsel to announce their appearances for  
7 the record, beginning with the Applicant.

8 MR. SOMERS: Thank you. Good afternoon,  
9 Chair Mitchell. Members of the Commission, I am Bo  
10 Somers, Deputy General Counsel on behalf of Duke  
11 Energy Progress.

12 CHAIR MITCHELL: Good afternoon, Mr. Somers.

13 MR. PAGE: Robert Page representing Carolina  
14 Utility Customers Association.

15 MS. FENNEL: Heather Fennell, Public Staff,  
16 Using and Consuming Public.

17 MR. McDONALD: Good afternoon. I'm Ralph  
18 McDonald for the Carolina Industrial Group for Fair  
19 Utility Rates, II.

20 CHAIR MITCHELL: Thank you. Are there any  
21 preliminary matters that we need to take up before we  
22 move into the hearing?

23 MR. SOMERS: None from the Company.

24 MS. FENNEL: (Shakes head no).

1 CHAIR MITCHELL: Thank you. Has the Public  
2 Staff identified any witnesses wishing to -- public  
3 witnesses wishing to testify today?

4 MS. FENNELL: No.

5 CHAIR MITCHELL: Are there any members of  
6 the audience who wish to provide public testimony  
7 today?

8 (No response)

9 Please let the record reflect that no such  
10 witnesses have been identified.

11 Unless there are additional issues that the  
12 Commission needs to address before we close the  
13 evidentiary record, we will go ahead and close the  
14 evidentiary record for this proceeding and we will  
15 expect proposed orders 30 days from notice of mailing  
16 of transcript. Thank you.

17 MR. SOMERS: Thank you.

18 (WHEREUPON, Application of Duke  
19 Energy Progress, LLC, is received  
20 into evidence.)

21 (WHEREUPON, Jiggetts Exhibits A-E  
22 through L are marked for  
23 identification as prefiled and  
24 received into evidence.)



1 (WHEREUPON, the prefiled direct  
2 testimony of LaWanda M. Jiggetts  
3 is copied into the record as if  
4 given orally from the stand.)  
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## BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. E-2, SUB 1207

In the Matter of	)	
Application of Duke Energy Progress, LLC	)	
For Approval of Joint Agency Asset Rider to	)	<b>DIRECT TESTIMONY OF</b>
Recover Costs Related to Facilities Purchased	)	<b>LAWANDA M. JIGGETTS</b>
from Joint Power Agency Pursuant to N.C.	)	
Gen. Stat. §62-133.14 and Rule R8-70	)	

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

2    A.    My name is LaWanda M. Jiggetts. My business address is 410 South  
3           Wilmington Street, Raleigh, North Carolina.

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

5    A.    I am a Rates and Regulatory Strategy Manager for Duke Energy Carolinas,  
6           LLC (“DEC”). My responsibilities include providing rates and regulatory  
7           support for both DEC and Duke Energy Progress, LLC (“DEP”), primarily  
8           for the Joint Agency Asset Rider (“JAAR”) and the development of cost of  
9           service studies and quarterly financial reports.

10   **Q.    PLEASE SUMMARIZE YOUR EDUCATION AND PROFESSIONAL**  
11   **QUALIFICATIONS.**

12   A.    I graduated from the University of Virginia with a Bachelor of Science  
13          degree in Commerce with a concentration in Accounting. I received my  
14          Masters in Business Administration from Meredith College in Raleigh,  
15          North Carolina. From September 1997 – November 2002, I worked as an  
16          auditor with PricewaterhouseCoopers in Raleigh. I joined Duke Energy  
17          (formerly Progress Energy) in November 2002. I have had various roles in  
18          the Accounting Department during my tenure with the Company including  
19          roles in SEC Reporting and Analysis, Financial Reporting and  
20          Consolidations, Wholesale Contracts and Inventory Accounting, and Fuel  
21          Accounting from November 2002 – September 2015. I joined the Rates and  
22          Regulatory Strategy group in September 2015.

1   **Q.   HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS**  
2       **COMMISSION?**

3   A.   Yes, I provided testimony in DEP's JAAR cost recovery applications in  
4       Docket No. E-2, Sub 1143 in 2017 and Docket No. E-2, Sub 1176 in 2018.

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

6   A.   The purpose of my testimony is to provide support for proposed rate  
7       updates to the JAAR approved by the Commission in Docket No. E-2, Sub  
8       1176. The proposed rate updates will address the over recovery of costs that  
9       has occurred through the end of the calendar year test year ending  
10      December 31, 2018, as well as estimated costs for the rate period December  
11      2019 through November 2020.

12   **Q.   PLEASE GENERALLY DESCRIBE THE PROCESS OUTLINED IN**  
13       **COMMISSION RULE R8-70 FOR THE JOINT AGENCY ASSET**  
14       **RIDER.**

15   A.   Commission Rule R8-70 provides for the establishment of a Joint Agency  
16       Asset rider that will remain in effect, subject to annual updates, and  
17       continue until the end of the useful life of the acquired generating plants.  
18       The annual updates, subsequent to the initial rider, are handled much like  
19       other riders through an annual proceeding during which the Company  
20       makes a filing and the Commission conducts a hearing prior to rendering an  
21       order regarding the Company's request. The timing of the Joint Agency  
22       Asset annual proceeding is aligned with the timing of DEP's fuel cost  
23       recovery proceeding as established in Rule R8-55. Therefore, the annual

1 filing is made in June, a hearing is scheduled in September, and the  
2 Company will request that the Commission render its order so rate changes  
3 can become effective December 1. Each annual filing addresses actual  
4 costs incurred during a historical test period (which will be the calendar  
5 year that precedes the June filing for purposes of Rule R8-70) and any  
6 resulting over or under recovery of costs that has occurred, as well as costs  
7 expected to be incurred in the next rate period of December through  
8 November of the following year. The Rule provides for an over or under  
9 recovery component as a rolling recovery factor (“RRF”), or a “Joint  
10 Agency Asset RRF.” As provided in the Rule, the Company uses deferral  
11 accounting and maintains a cumulative balance of costs incurred but not  
12 recovered through the Joint Agency Asset rider. This cumulative balance  
13 accrues a monthly return as prescribed by the Rule. In determining the  
14 annual amount of the rider, the Commission shall allow the Company to  
15 recover acquisition costs as reasonable and prudent, and will also decide  
16 whether the capital additions and operating costs that the Company seeks to  
17 include in its rider are reasonable and prudent and should be recovered in  
18 the rider.

19 **Q. I SHOW YOU WHAT HAVE BEEN MARKED AS JIGGETTS**  
20 **EXHIBITS “SUMMARY RATE” AND A THROUGH L. WOULD**  
21 **YOU PLEASE TELL US WHAT THESE ARE?**

22 **A.** Yes. Accompanying my testimony are a rate summary exhibit and two sets  
23 of supporting exhibits that are similar in nature. The set of exhibits labeled

1 A through K “E” addresses “estimated” costs expected to be incurred during  
2 the future rate period December 2019 through November 2020. These  
3 estimated costs will be adjusted to actual in subsequent annual rider  
4 proceedings through the Joint Agency Asset RRF. The set of exhibits  
5 labeled A through K “TU” addresses the “true-up” of costs incurred versus  
6 revenues realized during the calendar year 2018 test period, and supports  
7 the over collection experienced during the test period. The over collection  
8 associated with the test period corresponds to the Joint Agency Asset RRF  
9 provided for in Rule R8-70(b)(1)(vi). Finally, Exhibit L shows the total test  
10 period fuel savings by customer class as required under Rule R8-  
11 70(e)(1)(vi.).

12 **Q. WERE THESE EXHIBITS PREPARED BY YOU OR AT YOUR**  
13 **DIRECTION AND SUPERVISION?**

14 A. Yes.

15 **Q. PLEASE PROVIDE A SUMMARY DESCRIPTION OF THESE**  
16 **EXHIBITS.**

17 A. The following is a high level summary of the purpose of the exhibits;  
18 several of the exhibits are discussed in greater detail later in my testimony:

19 SUMMARY RATE – Summarizes the rates for which the Company is  
20 requesting approval.

21 Exhibit A series – Computes proposed rates by customer rate schedule for  
22 the Joint Agency Asset RRF and for the prospective rate period.

1 Exhibit B series – Summarizes the key components of revenue requirements  
2 on which customer rates are based.

3 Exhibit C series – Includes schedules showing the computation of the  
4 revenue requirement for the initial acquisition cost of the joint agency  
5 assets, by unit, including identification of the portion of the purchase price  
6 that is above book value. These schedules compute a revenue requirement  
7 amount that is levelized over the remaining life of the assets, in accordance  
8 with N.C. Gen. Stat. §62-133.14.

9 Exhibit D series – Includes schedules providing computation of revenue  
10 requirements for assets purchased and included as acquisition costs, but  
11 which are not included in the acquisition costs to be levelized in Exhibit C.  
12 These assets are not depreciated and include minor items such as nuclear  
13 fuel, dry cask storage and materials and supplies inventory.

14 Exhibit E series – Includes schedules that compute revenue requirements  
15 related to capital additions completed after acquisition of the joint agency  
16 assets.

17 Exhibit F series – Shows incremental operating costs that would have been  
18 reimbursed by NCEMPA but for the acquisition of the joint agency assets.

19 Exhibit G series – Computes the reduction in retail revenue requirements  
20 resulting from a change in jurisdictional allocation of costs of existing  
21 generation facilities owned at the time of the asset acquisition in accordance  
22 with N.C. Gen. Stat. §62-133.14. This reduction is no longer applicable in

1 the JAAR following the implementation of new base rates under DEP's  
2 general rate case proceeding in Docket No. E-2, Sub 1142.

3 Exhibit H – Computes the monthly revenue requirement to cover the costs  
4 incurred in the four-month period between the date of acquisition and the  
5 implementation of the Initial Rider (August through November 2015) that  
6 the Company was deferring. DEP was amortizing these deferred costs over  
7 a three-year period beginning December 1, 2015. The amortization period  
8 ended November 30, 2018. This exhibit will not be applicable to future test  
9 or prospective periods.

10 Exhibits I, J and K – Includes schedules showing derivation of various  
11 factors used to support the calculations in the other exhibits.

12 Exhibit L – Computes total fuel savings for the test period, by customer  
13 class, related to the acquisition of the joint power agency generating  
14 facilities as required by Rule R8-70(e)(1)(vi.).

15 **Q. WHAT COST RECOVERY ELEMENTS HAS THE COMPANY**  
16 **INCORPORATED INTO ITS PROPOSED NEW RATES?**

17 A. The proposed rider incorporates the cost recovery elements identified in  
18 N.C. Gen. Stat. §62-133.14(b), which consist of 1) acquisition costs  
19 levelized over the useful life of the assets, 2) financing costs using the  
20 weighted average cost of capital approved in DEP's most recent general rate  
21 case, 3) estimated operating costs and projected capital investments, 4)  
22 adjustments to reflect updated jurisdictional allocation factors and 5)  
23 customer allocation methods approved in DEP's last general rate case.



1   **Q.     PLEASE EXPLAIN ITEM 4 -- THE ADJUSTMENTS TO REFLECT**  
2       **UPDATED JURISDICTIONAL ALLOCATION FACTORS.**

3   A.     The adjustments in item 4 must be included in the JAAR until retail and  
4       wholesale cost allocations are adjusted in a North Carolina retail rate case to  
5       reflect the change in jurisdictional allocation factors resulting from the  
6       additional NCEMPA load that will be served by the Company's portfolio of  
7       generating facilities. As a consequence of the joint agency asset purchase, a  
8       greater portion of the cost of the Company's other generating facilities  
9       reflected in DEP's existing base rates, should be allocated to its wholesale  
10      jurisdiction, while a lesser portion should be allocated to its retail  
11      jurisdictions. On Exhibits G-TU and G-1-TU the Company shows the  
12      decrease in amounts that would be allocated to North Carolina retail  
13      jurisdiction in DEP's general rate case in Docket No. E-2, Sub 1023 if  
14      additional wholesale sales to NCEMPA had been reflected. The reallocation  
15      between retail and wholesale jurisdictions is reflected in the base rates  
16      approved as a part of DEP's base rate filing in Docket No. E-2, Sub 1142.  
17      As such, the annual revenue reduction will not be included in the JAAR  
18      revenue requirements beyond March 16, 2018 (the effective date for new  
19      base rates under DEP's most recent rate case). In this filing, the annual  
20      revenue reduction to North Carolina retail revenue requirements for the test  
21      period January 2018 through December 2018 totals \$17 million. However,  
22      for the prospective period December 2019 through November 2020, the  
23      jurisdictional reallocation credit (revenue reduction) is not applicable.

1   **Q.    HOW CAN THE COSTS ALLOWABLE FOR RECOVERY BY THE**  
2       **STATUTE BE FURTHER SUBDIVIDED?**

3    A.    There are two broad categories of cost that the Company seeks to recover  
4       through its JAAR rates. First, the Company seeks to recover its acquisition  
5       costs, which are the amounts DEP paid to NCEMPA to acquire the  
6       proportional ownership interest in the joint agency assets. The assets  
7       purchased include net generating plant and land, construction work in  
8       progress associated with the generating plants, net nuclear fuel, and  
9       materials and supplies inventory. Within this first category of acquisition  
10      costs there are also two subgroups: costs for which the recovery is levelized  
11      and costs for which the recovery is not levelized. The recovery of the net  
12      nuclear fuel costs, and materials and supplies inventory acquired is not  
13      levelized, while all other acquisition costs are recovered as levelized  
14      revenue requirements. Later in my testimony I provide more detail about  
15      the levelized revenue requirements.

16               Second, the Company seeks to recover the costs incurred to own and  
17      operate the purchased assets after the acquisition date. These costs would  
18      previously have been paid by NCEMPA, but now will be recovered by DEP  
19      through this rider. The items in this category include the cost of capital  
20      additions and non-fuel operating costs from the closing date forward. These  
21      represent incremental costs related to ownership of the acquired assets and  
22      include the categories of return (i.e., financing cost) and  
23      depreciation/amortization expense related to capital additions and nuclear

1 fuel, operating and maintenance cost, nuclear decommissioning expense,  
2 current and deferred income taxes, property taxes, and Commission  
3 regulatory fees. This group of costs does not include any costs recoverable  
4 under N.C. Gen. Stat. §62-133.2 (i.e., fuel and fuel-related cost).

5 The total of all acquisition costs and non-fuel operating costs post-  
6 acquisition for a given period is the revenue requirement that DEP must  
7 collect from its North Carolina retail customers through this rider.

8 **Q. WHAT DO YOU MEAN BY “LEVELIZED REVENUE**  
9 **REQUIREMENT”?**

10 A. In general terms, levelized requirement represents recovery of certain  
11 acquisition costs for the NCEMPA assets, spread evenly over the life of the  
12 assets. The revenue requirement associated with the acquisition costs  
13 includes financing costs on the investment in generating facilities. The  
14 financing costs, comprised of debt and equity return, decline over the life of  
15 the facilities as the book value or investment, on which the financing costs  
16 are computed, declines through recognition of depreciation. A levelized  
17 amount represents an even amount of revenue requirement, rather than an  
18 unlevel amount, computed such that the present value of the even revenue  
19 requirement stream and the present value of the unlevel revenue  
20 requirement stream are equal. N.C. Gen. Stat. §62-133.14 requires that the  
21 acquisition costs be levelized over the useful life of the assets at the time of  
22 acquisition, for the benefit of consumers. The Company’s calculation of  
23 financing costs also reflects the benefit of accumulated deferred income

1 taxes related to accelerated tax depreciation, which represent cost-free funds  
2 associated with the purchased assets that reduce the Company's financing  
3 costs.

4 The C series exhibits illustrate the calculation of the levelized  
5 revenue requirements related to acquisition costs.

6 **Q. YOUR FILED EXHIBITS INCLUDE SEVERAL VERSIONS OF THE**  
7 **"C EXHIBITS." PLEASE EXPLAIN THE NEED FOR THESE**  
8 **EXHIBITS.**

9 A. For the true-up calculations, the Company intends to file two versions of the  
10 C Exhibits each year. One set of Exhibits will support the estimated  
11 levelized revenue requirement for the test period. This version of the  
12 Exhibits may be revised/restated at the beginning of the year to reflect  
13 changes in certain key inputs (e.g., changes that impact the after-tax cost of  
14 capital). For test year 2018, there were no revisions to the estimated  
15 levelized calculations (as filed on Exhibits C-1-E through C-6-E under  
16 Docket No. E-2, Sub 1176). A second set of C Exhibits is included in the  
17 C-TU set of work papers to compute the true-up for the difference between  
18 the estimated unlevelized revenue requirements for the test period compared  
19 to the actual requirements for the test period.

20 For the prospective period December 2019 through November 2020,  
21 the levelization schedules (C-1-E through C-6-E) have been recast to reflect  
22 the new composite tax rate based on the change in the corporate tax rate in  
23 North Carolina in 2019.

1   **Q.    WHAT IS THE COMPANY'S APPROACH TO COMPUTING**  
2       **TRUE-UPS TO THE LEVELIZED ACQUISITION COSTS?**

3    A.    Each year, in order to determine whether a true-up is needed related to the  
4       test period being presented, the Company will compare the actual unlevel  
5       revenue requirement for the test period year to the original unlevel revenue  
6       requirement for the test period year. If there is a difference in the unlevel  
7       amounts for the test period, then the Company will include the difference in  
8       its determination of the test period true-up (or Joint Agency Asset RRF).  
9       For example, in this proceeding the Company has compared the actual  
10      unlevel revenue requirement for test period year 2018 to the estimated  
11      unlevel revenue requirement for test period 2018 to determine the test  
12      period true-up amount that is part of the proposed Joint Agency Asset RRF.  
13      In its next annual proceeding in 2020, the Company will compare the actual  
14      unlevel revenue requirements for test period 2019 to the original unlevel  
15      revenue requirement for 2019 to compute a true-up for the 2019 test period.  
16      In this manner, the Company will continue to use the original level revenue  
17      requirements for initial billing purposes, accompanied by a subsequent true-  
18      up based on the unlevel revenue requirement for each annual test period.

19   **Q.    ARE THERE ACQUISITION COSTS NOT INCLUDED IN THE**  
20       **LEVELIZED REVENUE REQUIREMENT?**

21   A.    Yes. As mentioned previously in my testimony, there are a few cost items  
22       included in the original purchase price that are not included in the levelized  
23       revenue requirement computations noted above. These items include

1 inventory amounts that are part of the asset acquisition costs, including  
2 nuclear fuel inventory, dry cask storage and materials and supplies  
3 inventory. Because these assets are not depreciated, the financing costs for  
4 these amounts are calculated on the basis of the investment balances for the  
5 test period or rate period.

6 **Q. HOW ARE ACQUISITION COSTS AND INCREMENTAL COSTS**  
7 **ALLOCATED TO NORTH CAROLINA RETAIL JURISDICTION?**

8 A. Costs are allocated to the North Carolina retail jurisdiction using the  
9 production demand allocation factor from the Company's cost of service  
10 studies filed annually with the Commission. This allocation method is  
11 consistent with that used in DEP's last general rate case. In most cases the  
12 peak demand allocation factor from the 2018 cost of service study has been  
13 used to allocate costs to North Carolina retail in this rider filing. In the case  
14 of the levelized acquisition costs, the C1 – C6 Estimate TU schedules use  
15 the factor from the 2017 cost of service study. As of the beginning of the  
16 2018 test period, the 2017 cost of service study was the latest one available.

17 **Q. HOW IS THE NORTH CAROLINA RETAIL REVENUE**  
18 **REQUIREMENT ALLOCATED AMONG CUSTOMER CLASSES?**

19 A. The North Carolina retail revenue requirement is allocated among customer  
20 classes, as shown on Exhibits A-E and A-TU, using the production demand  
21 allocation factors from the Company's 2018 cost of service study. The  
22 allocated revenue requirement for each North Carolina retail customer class

1 is then divided by estimated billing units, either kWh or kW, to produce a  
2 billing factor per unit.

3 **Q. WHAT IS THE SOURCE OF THE INFORMATION USED TO**  
4 **COMPUTE THE COMPANY'S PROPOSED RATES?**

5 A. The information to compute the rider comes from three sources. The  
6 acquisition costs for the generating assets purchased are based on the actual  
7 amounts paid to NCEMPA to complete the purchase. For actuals associated  
8 with nuclear fuel, dry cask storage, materials and supplies inventory, capital  
9 additions and operations and maintenance expenses, the primary source of  
10 data is DEP's internal accounting records, including records from the  
11 general ledger as well as records from its asset accounting sub ledger. The  
12 Company's books, records and reports are subject to review and audit by  
13 regulatory agencies, as well as periodic audits by independent auditors to  
14 provide assurances that, in all material respects, internal accounting controls  
15 are operating effectively and the Company's financial statements are  
16 accurate. The estimated costs for the December 2019 through November  
17 2020 rate period are based on information from the Company's financial  
18 budget. In most cases the data gathered is recorded and captured at a  
19 generating unit level, and then multiplied by the unit ownership percentage  
20 purchased by DEP to determine the incremental amounts that should be  
21 recovered through this rider.

1   **Q.    WHAT IS THE RESULT OF THE COMPANY'S CALCULATION**  
2       **OF ACTUAL TEST PERIOD COSTS COMPARED TO REVENUES**  
3       **REALIZED IN THE TEST PERIOD?**

4    A.    During the test period, calendar year 2018, the Company collected more  
5       revenue than its revenue requirement, resulting in an over collection. The  
6       key drivers of the over collection were higher than expected jurisdictional  
7       reallocation credit and a reduction in both the levelized revenue requirement  
8       and the revenue requirement associated with acquisition costs not subject to  
9       levelization.

10               Rates established for the JAAR assumed new base rates would be  
11       effective January 1, 2018, and thus the jurisdictional reallocation credit  
12       would not be applicable for the 2018 test year. New base rates which  
13       incorporated the credit did not go into effect until March 16, 2018;  
14       accordingly, credits totaling \$17M are included in the JAAR revenue  
15       requirement for the test year. The levelized revenue requirement associated  
16       with assets in service at the time of acquisition decreased due to changes in  
17       the weighted average cost of capital because of new debt and equity returns  
18       approved under DEP's most recent rate case and the decrease in the  
19       corporate federal tax rate due to the Tax Cuts and Jobs Act of 2017.  
20       Similarly, the revenue requirement for assets acquired not subject to  
21       levelization decreased primarily due to the change in the debt and equity  
22       return rates. The reductions discussed above were partially offset by higher  
23       operating expenses driven by increased administrative and general



1 expenses. The increase in administrative and general expenses is due to the  
2 expiration of a cap that was given to NCEMPA based on previous contract  
3 terms through 2017.

4 The Company has computed the amount of over collection,  
5 including an appropriate return, at both the North Carolina retail level and  
6 the customer class level based on the peak demand of the classes. These  
7 calculations are part of the Joint Agency Asset RRF, shown on Exhibit A-  
8 TU.

9 **Q. HOW DO THE ESTIMATED COSTS FOR THE RATE PERIOD**  
10 **DECEMBER 2019 THROUGH NOVEMBER 2020 COMPARE TO**  
11 **THE LEVEL OF ESTIMATED COSTS IN CURRENT RATES?**

12 A. The estimated costs in this filing for the rate period December 2019 through  
13 November 2020 are higher than the costs that were estimated for the prior  
14 rate period December 2018 through November 2019 which are reflected in  
15 current rates. The increase in the estimated revenue requirement is due  
16 primarily to increases for capital additions and operating and maintenance  
17 costs. The estimated operating expenses (depreciation) and return on  
18 capital additions increased due to more assets going into service.  
19 Operation and maintenance expenses increased due to higher administrative  
20 and general costs. As previously stated, a cap that was given to NCEMPA  
21 based on previous contract terms expired at the end of 2017.

1    **Q.    HOW ARE FUEL-RELATED BENEFITS ASSOCIATED WITH THE**  
2           **ACQUISITION OF THE JOINT AGENCY ASSETS REFLECTED IN**  
3           **CUSTOMER RATES?**

4    A.    The fuel-related benefits arise from the reduction in system average fuel  
5           costs per kilowatt-hour which results from the addition of lower cost  
6           generation to DEP's generation portfolio. The actual fuel savings continue  
7           to be reflected in DEP's fuel costs and in its subsequently proposed fuel  
8           rates. In compliance with Rule R8-70(e)(1)(vi), the Company has included  
9           as Exhibit L a report of the actual fuel savings experienced during the test  
10          period from January 2018 – December 2018. The exhibit shows a total of  
11          \$50 million in savings for the test period.

12   **Q.    WHAT IS THE NET IMPACT TO CUSTOMERS OF THE**  
13          **PROPOSED CHANGE IN RATES?**

14   A.    The requested rate decrease represents a 0.4% and 0.9% decrease in rates  
15          for the average residential and commercial customer, respectively. There is  
16          no impact to the average industrial customer. The impact of the rate change  
17          for a residential customer consuming 1,000 kWh per month is a decrease of  
18          \$0.51.

19   **Q.    WHAT SPECIFIC REQUEST IS BEING MADE OF THE**  
20          **COMMISSION?**

21   A.    The Company requests that the Commission approve the following Joint  
22          Agency Asset Rider rates, to become effective December 1, 2019. The

- 1 estimated costs recovered in these rates will be subject to true-up in  
 2 subsequent annual rider proceedings.

Rate Class	Applicable Schedule(s)	Incremental Rate*
<b>Non-Demand Rate Class (dollars per kilowatt-hour)</b>		
Residential	RES, R-TOUD, R-TOUE, R-TOU	0.00390
Small General Service	SGS, SGS-TOUE	0.00343
Medium General Service	CH-TOUE, CSE, CSG	0.00253
Seasonal and Intermittent Service	SI	(0.00172)
Traffic Signal Service	TSS, TFS	0.00171
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	0.88
Large General Service	LGS, LGS-TOU	1.37

- 3 \* Incremental Rates, shown above, include North Carolina regulatory fee of 0.140%.

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

5 A. Yes, it does.

1 (WHEREUPON, the prefiled affidavit  
2 and Appendix A of DARLENE P.  
3 PEEDIN is copied into the record  
4 as if given orally from the  
5 stand.)  
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## DOCKET NO. E-2, SUB 1207

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of )  
 Application of Duke Energy Progress, LLC, )  
 for Approval of a Joint Agency )  
 Asset Rider for Recovery of Joint Agency Asset )  
 Costs Pursuant to G.S. 62-133.14 and )  
 Commission Rule R8-70 )

AFFIDAVIT  
OF  
Darlene P. Peedin

STATE OF NORTH CAROLINA

COUNTY OF WAKE

I, Darlene P. Peedin, first being duly sworn, do depose and say:

I am the Accounting Manager – 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 public 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. A summary of my education and experience is attached to this affidavit as Appendix A.

The purpose of my affidavit is to present the results of the Public Staff's investigation of the application of Duke Energy Progress, LLC (DEP or the Company), to revise the Joint Agency Asset Rider (JAAR) rates approved by the Commission in Docket No. E-2, Sub 1143, pursuant to N.C. Gen. Stat. § 62-133.14

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and Commission Rule R8-70. N.C. Gen. Stat. § 62-133.14 allows DEP to recover the North Carolina retail portion of all reasonable and prudent costs incurred to acquire, finance, operate, and maintain the proportional interest in the generating units purchased from the North Carolina Eastern Municipal Power Agency, or NCEMPA (Joint Unit Costs).

The portions of the generating facilities that can be recovered through the JAAR are DEP's acquired percentages of NCEMPA's ownership interests of 18.33% in the Brunswick Nuclear Plant, 12.94% in Unit No. 4 of the Roxboro Steam Plant, 3.77% in the Roxboro Plant Common Facilities, 16.17% in Unit No. 1 of the Mayo Steam Plant, and 16.17% in the Shearon Harris Nuclear Plant.

#### **The Current JAAR Rates**

DEP's current JAAR rates were approved by the Commission in its *Order Approving Joint Agency Asset Rider Adjustment*, issued on November 8, 2018, in Docket No. E-2, Sub 1176 (Sub 1176 Order), which provided for recovery during the period December 1, 2018, through November 30, 2019 of (a) estimated Joint Unit Costs applicable to or expected to be incurred during that period and (b) a Rolling Recovery Factor (RRF) true-up of applicable costs actually incurred as compared to JAAR revenues recovered.

#### **The Proposed JAAR Rates**

The Company filed its initial application on June 11, 2019, and requested approval of prospective JAAR rates to recover the levelized acquisition costs and other estimated and annually apportioned costs that are (a) associated with the



acquired ownership interests from NCEMPA and (b) applicable to or expected to be incurred during the period December 1, 2019, through November 30, 2020 (rate period). The application also requested approval of a proposed RRF to return the over-recovery of the same categories of costs as of December 31, 2018, which includes the cumulative unrecovered RRF balance as of December 31, 2017 plus the net over-recovery of costs that accrued during the test period in this proceeding (January 1, 2018, through December 31, 2018). The specific rates requested by the Company, including the North Carolina regulatory fee, to become effective for the rate period, are as follows:

<b>Rate Class</b>	<b>Prospective Incremental Rate</b>	<b>Rolling Recovery Incremental Rate</b>	<b>Combined Incremental Rate<sup>1</sup></b>
Residential (\$/kWh)	0.00474	(0.00084)	0.00390
Small General Service (\$/kWh)	0.00522	(0.00179)	0.00343
Medium General Service (\$/kWh)	0.00415	(0.00162)	0.00253
Seasonal & Intermittent Svc. (\$/kWh)	0.00251	(0.00423)	(0.00172)
Traffic Signal Service (\$/kWh)	0.00236	(0.00065)	0.00171
Outdoor Lighting Service (\$/kWh)	0.00000	0.00000	0.00000
Medium General Service (\$/kW)	1.37	(0.49)	0.88
Large General Service (\$/kW)	1.45	(0.08)	1.37

The prospective incremental rates reflected above were determined by the

<sup>1</sup> The Company utilized a regulatory fee rate of 0.140%, which was revised by the North Carolina General Assembly, effective July 1, 2019, to 0.130%. This change in the regulatory fee does not change the rates as filed by the Company.

Company based on an estimated North Carolina retail JAAR revenue requirement of \$152,923,000 for the rate period, and the RRF incremental rates were determined based on an over-recovery of \$33,618,000 in test period Joint Unit Costs.

The Company's proposed prospective JAAR annual revenue requirement in the current proceeding of \$152,923,000 is an increase of approximately \$5.269 million above the \$147,654,000 of costs estimated for the JAAR rate period of December 2018 through November 2019. Company witness Jiggetts states in her testimony that the primary drivers of the increase in the estimated revenue requirement are: (1) increases in capital additions and (2) increases in operating and maintenance costs.

#### **Fuel Savings**

As required by Commission Rule R8-70(e)(1)(vi), Company witness Jiggetts' Exhibit L sets forth the fuel savings associated the repurchase of the NCEMPA undivided ownership interest for the twelve-month period from January through December 2018. The calculated North Carolina retail fuel savings set forth on Exhibit L (approximately \$50,496,000) have been or will be (through the fuel cost true-up process) flowed through to DEP's customers through its fuel and fuel-related cost rider. Although flowed through in that rider, those fuel savings are effectively an offset to the JAAR, as they represent a benefit of the Company's acquisition of NCEMPA's undivided ownership interest.

#### **Investigation of Proposed Rates**

The Public Staff's investigation in this proceeding included a review of



DEP's application, testimony, and exhibits filed in this docket as well as the JAAR monthly reports. Additionally, the Public Staff's investigation included the review of responses to written data requests.

The Public Staff reviewed the underlying capital additions and operating costs added to the calculation of the JAAR rider in this proceeding but did not perform a full-scale investigation of the prudence and reasonableness of all such additions or expenses. 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.

Based on its investigation of the Company's filing, the Public Staff has not found any adjustments that should be made to the calculations of either the prospective or RRF revenue requirement. Therefore, the Public Staff recommends that the rates requested by the Company, including the regulatory fee, to become effective for the rate period are as follows:

Rate Class	Prospective Incremental Rate	Rolling Recovery Incremental Rate	Combined Incremental Rate
Residential (\$/kWh)	0.00474	(0.00084)	0.00390
Small General Service (\$/kWh)	0.00522	(0.00179)	0.00343
Medium General Service (\$/kWh)	0.00415	(0.00162)	0.00253
Seasonal & Intermittent Svc. (\$/kWh)	0.00251	(0.00423)	(0.00172)
Traffic Signal Service (\$/kWh)	0.00236	(0.00065)	0.00171
Outdoor Lighting Service (\$/kWh)	0.00000	0.00000	0.00000
Medium General Service (\$/kW)	1.37	(0.49)	0.88
Large General Service (\$/kW)	1.45	(0.08)	1.37

This completes my affidavit.

*Darlene P. Peedin*  
Darlene P. Peedin

Sworn to and subscribed before me  
this the 19 day of August, 2019.

*Joanne M. Berube*  
Joanne Berube - Notary Public

Joanne M. Berube  
NOTARY PUBLIC  
WAKE COUNTY, N.C.  
My Commission Expires 12-17-2022.

My Commission Expires: 12/17/2022

## APPENDIX A

**DARLENE P. PEEDIN**

I am a 1989 graduate of Campbell University with a Bachelor of Business Administration degree in Accounting. I am a Certified Public Accountant and a member of the North Carolina Association of Certified Public Accountants.

Since joining the Public Staff in September 1990, I have filed testimony or affidavits in several general and fuel clause rate cases of utilities currently organized as Duke Energy Carolinas, LLC, Duke Energy Progress, LLC, Virginia Electric and Power Company (Dominion Energy North Carolina), Nantahala Power & Light Company, Western Carolina University, and Shipyard Power and Light Company, 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 and applications for the approval of cost recovery for Renewable Energy and Energy Efficiency Portfolio Standard (REPS) cases.

I was promoted to Accounting Manager with responsibility for electric matters in January 2017. I have had supervisory responsibility over the Electric Section of the Accounting Division since 2009.

Prior to joining the Public Staff, I was employed by the North Carolina Office of the State Auditor. My duties included the performance of financial, compliance, and operational audits of state agencies, community colleges, and Clerks of Court.

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CHAIR MITCHELL: We're adjourned.  
(The proceedings were adjourned)

## C E R T I F I C A T E

I, KIM T. MITCHELL, DO HEREBY CERTIFY that  
the Proceedings in the above-captioned matter were  
taken before me, that I did report in stenographic  
shorthand the Proceedings set forth herein, and the  
foregoing pages are a true and correct transcription  
to the best of my ability.

Kim T. Mitchell

Kim T. Mitchell  
Court Reporter