

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. E-2, SUB 1174

In the Matter of  
Application of Duke Energy Progress, )  
LLC, for Approval of Demand-Side )  
Management and Energy Efficiency )  
Cost Recovery Rider Pursuant to N.C. )  
Gen. Stat. § 62-133.9 and Commission )  
Rule R8-69

TESTIMONY OF  
MICHAEL C. MANESS  
Public Staff – North Carolina  
Utilities Commission

September 4, 2018

1 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND**  
2 **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 the  
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. A summary of my qualifications and duties is set forth in Appendix  
9 A of this testimony.

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

11 A. The purpose of my testimony is to present my recommendations  
12 regarding the Demand-Side Management (DSM) and Energy  
13 Efficiency (EE) cost and incentive recovery rider (DSM/EE Rider),<sup>1</sup>  
14 proposed by Duke Energy Progress, LLC (DEP or the Company), in  
15 its Application filed in this docket on June 20, 2018 (Application).  
16 The DSM/EE Rider is authorized by N.C. Gen. Stat. § 62-133.9 and  
17 implemented pursuant to Commission Rule R8-69.

18 **Q. HOW IS YOUR TESTIMONY ORGANIZED?**

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<sup>1</sup> The DSM/EE Rider is comprised of various class-based DSM, EE, DSM Experience Modification Factor (DSM EMF), and Energy Efficiency Experience Modification Factor (EE EMF) billing rates.

1 A. My testimony begins with a review of the regulatory framework for  
2 DSM/EE cost recovery by electric utilities and the historical  
3 background of DEP's Application in this docket. I then discuss the  
4 Company's proposed billing rates and other aspects of its filing.  
5 Following a summary of my investigation, I present my conclusions  
6 and recommendations regarding the proposed billing rates and the  
7 overall DSM/EE Rider.

8 **THE PROCESS FOR SETTING DEP'S**  
9 **DSM/EE REVENUE REQUIREMENTS**

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

11 A. N.C. Gen. Stat. § 62-133.9(d) allows a utility to petition the  
12 Commission for approval of an annual rider to recover (1) the  
13 reasonable and prudent costs of new DSM and EE measures and  
14 (2) other incentives to the utility for adopting and implementing new  
15 DSM and EE measures. However, N.C. Gen. Stat. § 62-133.9(f)  
16 allows industrial and certain large commercial customers to opt out  
17 of participating in the power supplier's DSM/EE programs or paying  
18 the DSM/EE rider, if an eligible customer notifies its electric power  
19 supplier that it has implemented or will implement, at its own  
20 expense, alternative DSM and EE measures. Commission Rule  
21 R8-69 sets forth the general parameters and procedures governing  
22 approval of the annual rider.

1 In this proceeding, DEP has calculated its proposed DSM/EE Rider  
2 (incorporating both prospective and Experience Modification Factor  
3 (EMF) DSM and EE billing rates) using two “mechanisms”  
4 previously approved by the Commission. To calculate the billing  
5 rates related to DSM and EE measures installed or implemented in  
6 Vintage Years prior to 2016, DEP has used the Cost Recovery and  
7 Incentive Mechanism for Demand-Side Management and Energy  
8 Efficiency Programs (Initial Mechanism) approved by the  
9 Commission on June 15, 2009, in its *Order Approving Agreement*  
10 *and Stipulation of Partial Settlement, Subject to Certain*  
11 *Commission-Required Modifications*, in Docket No. E-2, Sub 931,  
12 as modified by the Commission’s November 25, 2009, *Order*  
13 *Granting Motions for Reconsideration in Part*, in the same docket.  
14 To calculate the billing rates related to DSM and EE measures  
15 actually or expected to be installed or implemented on and after  
16 January 1, 2016, the Company has used the Cost Recovery and  
17 Incentive Mechanism for Demand-Side Management and Energy  
18 Efficiency Programs (Revised Mechanism) approved by the  
19 Commission on January 20, 2015, in its *Order Approving Revised*  
20 *Cost Recovery and Incentive Mechanism and Granting Waivers*, in  
21 Docket No. E-2, Sub 931 (2015 Sub 931 Order). The Revised  
22 Mechanism was subsequently amended as approved by the

1 Commission in the Company's 2017 DSM/EE rider proceeding,  
2 Docket No. E-2, Sub 1145 (Sub 1145).

3 **Q. WHAT DID THE INITIAL MECHANISM PROVIDE AS TO**  
4 **RECOVERY OF COSTS AND UTILITY INCENTIVES?**

5 A. The Initial Mechanism approved by the Commission provided for  
6 recovery of program and common costs, as well as Net Lost  
7 Revenues (NLR) in a manner similar to that set forth in the Revised  
8 Mechanism, as further explained below. Additionally, the Initial  
9 Mechanism provided that DEP would be allowed to recover, subject  
10 to certain exceptions, a performance incentive (the Program  
11 Performance Incentive, or PPI<sub>1</sub><sup>2</sup>) for the implementation and  
12 operation of cost-effective new DSM and EE programs that achieve  
13 verified energy and peak demand savings. The PPI<sub>1</sub> is based on  
14 the net savings of each program or measure, as calculated using  
15 the Utility Cost Test (UCT), and is equal to 8% of net savings for  
16 DSM programs and measures and 13% for EE programs and  
17 measures.

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<sup>2</sup> In the Initial Mechanism, DEP was eligible for a Program Performance Incentive, based on the performance of each individual DSM/EE program (with a floor of \$0 for the incentive related to each program). I refer to the Program Performance Incentive as PPI<sub>1</sub>. Effective January 1, 2016, the Revised Mechanism replaced the calculation of an incentive for individual programs with a single net Portfolio Performance Incentive calculation, which I refer to as PPI<sub>2</sub>.

1 The Initial Mechanism's terms and procedures were to be reviewed  
2 by DEP and other parties at least every three years.

3 On January 15, 2015, the Commission issued the 2015 Sub 931  
4 Order, approving the Revised Mechanism. However, as the result  
5 of discussions that took place during the Company's 2017 Sub  
6 1145 proceeding, the Company and the Public Staff recommended  
7 certain changes to Paragraphs 18, 22, and 70 of the Revised  
8 Mechanism, and the addition of new Paragraphs 22A through 22D  
9 and 70A. These revisions were set forth in Public Staff witness  
10 Maness Exhibit II filed in Sub 1145, and were approved by the  
11 Commission in its *Order Approving DSM/EE Rider and Requiring*  
12 *Filing of Proposed Customer Notice*, issued November 27, 2017.  
13 For purposes of clarity and convenience, a copy of the entire  
14 Revised Mechanism is attached to my testimony in this docket as  
15 Maness Exhibit I.

16 **Q. PLEASE DESCRIBE THE REVISED MECHANISM (INCLUDING**  
17 **THE 2017 CHANGES) AND ITS MAJOR COMPONENTS.**

18 A. The overall purpose of the Revised Mechanism, as amended, is to  
19 (1) allow DEP to recover all reasonable and prudent costs incurred  
20 for adopting and implementing new DSM and new EE measures;  
21 (2) establish the terms, conditions, and methodology for the  
22 recovery of certain utility incentives - NLR and a PPI<sub>2</sub> - to reward

1 DEP for adopting and implementing DSM and EE measures and  
2 programs; (3) provide for an additional incentive to further  
3 encourage kilowatt-hour (kWh) savings achievements; and  
4 (4) establish certain requirements and guidelines to guide requests  
5 by DEP for approval, monitoring, and management of DSM and EE  
6 programs. The Revised Mechanism includes many provisions that  
7 indirectly influence the ratemaking process for DSM and EE costs  
8 and incentives, including provisions that address program approval,  
9 management, and modification; evaluation, measurement, and  
10 verification (EM&V) of program results; operation of a Stakeholder  
11 Collaborative; procedural matters and the general structure of the  
12 DSM/EE billing rates; allocation methodologies; reporting  
13 requirements; and provisions for the term and future review of the  
14 Revised Mechanism itself. Additionally, the provisions that most  
15 directly address the determination of the annual DSM/EE Rider  
16 include the following:

- 17 1. Eligible non-residential customers may opt out of either or  
18 both of the DSM and EE categories of programs, as well as  
19 opt back into either or both. Beginning on January 1, 2016,  
20 separate DSM and EE billing rates became available to Non-  
21 Residential opt-out-eligible customers. A customer receiving  
22 program incentives from either a DSM or an EE program will  
23 be required to pay the respective portion(s) of the DSM/EE  
24 and DSM/EE EMF billing rates for a period of not less than  
25 36 months.
- 26 2. In general, DEP shall be allowed to recover, through the  
27 DSM/EE and DSM/EE EMF rates, all reasonable and  
28 prudent costs of Commission-approved DSM/EE programs.

- 1                   However, any of the Stipulating Parties may propose a  
2                   procedure for the deferral and amortization over a maximum  
3                   of ten years of all or a portion of DEP's non-capital program  
4                   costs to the extent those costs are intended to produce  
5                   future benefits, and may propose to defer and amortize  
6                   related non-incremental administrative and general (A&G)  
7                   costs over a maximum of three years. Deferred program  
8                   and A&G costs shall be allowed to accrue a return at the  
9                   overall weighted average net-of-tax rate of return approved  
10                  in DEP's most recent general rate case (net of income  
11                  taxes). For program costs not deferred for amortization in  
12                  future DSM/EE riders, the accrual of a return on any under-  
13                  recoveries or over-recoveries of cost will follow the  
14                  requirements of Commission Rule R8-69(b), subparagraphs  
15                  (3) and (6), unless the Commission determines otherwise.
- 16                  3.       DEP shall be allowed to recover NLR as an incentive (with  
17                  the exception of those amounts related to research and  
18                  development or the promotion of general awareness and  
19                  education of EE and DSM activities), but shall be limited for  
20                  each measurement unit installed in a given vintage year to  
21                  those dollar amounts resulting from kWh sales reductions  
22                  experienced during the first 36 months after the installation  
23                  of the measurement unit. NLR related to pilot programs are  
24                  subject to additional qualifying criteria.
- 25                  4.       The eligibility of kWh sales reductions to generate  
26                  recoverable NLR during the applicable 36-month period will  
27                  cease upon the implementation of a Commission-approved  
28                  alternative recovery mechanism that accounts for NLR, or  
29                  new rates approved by the Commission in a general rate  
30                  case or comparable proceeding that account for NLR.
- 31                  5.       NLR will be reduced by net found revenues, as defined in  
32                  the Revised Mechanism, occurring in the same 36-month  
33                  period. Net found revenues will be determined according to  
34                  the "Decision Tree" process included in the Revised  
35                  Mechanism.
- 36                  6.       DEP shall be allowed to recover a PPI<sub>2</sub> per vintage year for  
37                  its DSM and EE portfolio based on a sharing of actually  
38                  achieved and verified energy and peak demand savings  
39                  (excluding those related to general programs and measures  
40                  and research and development activities). The inclusion of  
41                  pilot programs in any PPI<sub>2</sub> calculation is subject to additional  
42                  qualifying criteria. Unless the Commission determines  
43                  otherwise in an annual DSM/EE rider proceeding, the

1 amount of the pre-income-tax PPI<sub>2</sub> to be recovered for the  
2 entire allowable DSM/EE portfolio for a vintage year shall be  
3 equal to 11.75% multiplied by the present value of the  
4 estimated net dollar savings associated with the DSM/EE  
5 portfolio installed in that vintage year (as determined by the  
6 UCT). Low-income programs or other programs approved  
7 with expected UCT results less than 1.00 shall not be  
8 included in the portfolio for purposes of the PPI<sub>2</sub> calculation;  
9 nor shall the Demand Side Distribution Response (DSDR)  
10 program. The PPI<sub>2</sub> for each vintage year shall ultimately be  
11 trued up based on net dollar savings as verified by the  
12 EM&V process and approved by the Commission. Unless  
13 the Commission determines otherwise, the PPI<sub>2</sub> shall be  
14 converted into a stream of no more than ten levelized annual  
15 payments, incorporating the overall weighted average net-of-  
16 tax rate of return approved in DEP's most recent general rate  
17 case as the appropriate discount rate.

- 18 7. For Vintage Years 2019 and afterwards, the program-specific  
19 per kilowatt (kW) avoided capacity benefits and per kWh  
20 avoided energy benefits used for the initial estimate of the  
21 PPI<sub>2</sub> and any PPI<sub>2</sub> true-up will be derived from the underlying  
22 resource plan, production cost model, and cost inputs that  
23 generated the avoided capacity and avoided energy credits  
24 reflected in the most recent Commission-approved Biennial  
25 Determination of Avoided Cost Rates as of December 31 of  
26 the year immediately preceding the date of the annual  
27 DSM/EE rider filing, but using, for program-specific avoided  
28 energy benefits, the projected EE portfolio hourly shape  
29 rather than an assumed 24x7 100 megawatt (MW) reduction.
- 30 8. If the Company achieves incremental energy savings of 1%  
31 of its prior year's system retail electricity sales in any year  
32 during the five-year 2015-2019 period, the Company will  
33 receive a bonus incentive of \$400,000 for that year.

34 **THE COMPANY'S PROPOSED BILLING RATES**

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

1 A. In its Application in this proceeding, DEP requested approval of  
2 prospective and EMF DSM and EE billing rates that would result in  
3 annual North Carolina retail revenue of approximately \$187 million  
4 [including a revenue adder for the North Carolina Regulatory Fee  
5 (regulatory fee)]. DEP's request would be an increase of  
6 approximately \$ 29 million from the annual revenues that would be  
7 produced by the rates currently in effect. These proposed billing  
8 rates are set forth on DEP witness Miller's Exhibit 1. The rates, as  
9 applicable to each class, are proposed by the Company to be  
10 charged to all participating North Carolina retail customers [i.e.,  
11 those who have not opted out pursuant to N.C. Gen. Stat. § 62-  
12 133.9(f)] served during the rate period.

13 The rate period for this proceeding is the twelve-month period from  
14 January 1, 2019, through December 31, 2019. This is the period  
15 over which the prospective DSM and EE billing rates and the DSM  
16 and EE EMF billing rates determined in this proceeding will be  
17 charged. It is also the period for which the estimated revenue  
18 requirements to be recovered through the prospective DSM/EE  
19 rates are determined.

20 The test period applicable to this proceeding is the twelve-month  
21 period ended December 31, 2017. This is the presumptive period  
22 for which the under- or overrecovery of DSM/EE revenue

1 requirements is measured for purposes of determining the DSM  
2 and EE EMF billing rates. Actual program costs considered for  
3 true-up in this proceeding are either costs actually incurred during  
4 the test period, or amortizations, depreciation, and/or return  
5 associated with costs incurred in prior test periods.

6 NLR, PPI<sub>1</sub>, and PPI<sub>2</sub> reflected in the EMF revenue requirements  
7 being set in this proceeding are associated with Vintage Years  
8 2015, 2016, and 2017.

9 **Q. WHAT ARE SOME OF THE GENERAL CHARACTERISTICS OF**  
10 **DEP'S PROPOSED DSM/EE BILLING FACTORS?**

11 A. The prospective DSM and EE billing rates incorporate several cost  
12 recovery elements as estimated for the rate period, including  
13 amortizations of operations and maintenance and A&G costs,  
14 capital costs of DSDR, carrying costs (return on deferred costs),  
15 NLR, and levelized PPI<sub>1</sub> and PPI<sub>2</sub> incentives. The test period true-  
16 up DSM and EE EMF billing rates contain test period actual  
17 amounts of the same types of costs and incentives as do the  
18 prospective rates. The DSM and EE EMF billing rates also include  
19 adjustments to the 2015 and 2016 NLR, PPI<sub>1</sub>, and PPI<sub>2</sub>, a reduction  
20 for the DSM/EE billing rate amounts billed during the test period,  
21 and interest on overcollections and undercollections.

1 NLR amounts included in the DSM and EE billing rates have also  
2 been affected by the Company's recently concluded general rate  
3 case (Docket No. E-2, Sub 1142). The revenue requirement filed  
4 by the Company in that case took into account DEP's total net  
5 revenue losses through December 31, 2016, and further residential  
6 losses through October 31, 2017. The effective date of the rates  
7 set in the case was March 16, 2018. Therefore, NLR being  
8 requested in this proceeding should exclude, effective March 16,  
9 2018, any net revenue losses due to DSM/EE measures installed  
10 or implemented on or prior to December 31, 2016, for all  
11 customers, and on or prior to October 31, 2017, for residential  
12 customers. This matter is further addressed later in my testimony.

13 **Q. WILL THERE BE FUTURE TRUE-UPS OF THE DSM/EE**  
14 **REVENUE REQUIREMENTS?**

15 A. The finalization of the true-ups of NLR, PPI<sub>1</sub>, and PPI<sub>2</sub> sometimes  
16 tends to lag behind the true-ups of program costs and A&G  
17 expenses subject to amortization. This feature of the true-up  
18 process is due to the fact that while cost amounts are typically  
19 known and determinable very soon after they are incurred, it can  
20 take several months to complete the applicable EM&V process and  
21 to refine and adjust the cost savings results for a given vintage year  
22 so that the final actual incentives payable to the utility can be

1 determined. Therefore, while the cost amounts to be trued up as  
2 part of the test period DSM/EE EMF revenue requirement in a  
3 given annual proceeding typically correspond very closely to the  
4 actual costs incurred during the test period, the test period revenue  
5 requirement often contains incentives related to more than one  
6 vintage year. Additionally, certain components of the revenue  
7 requirements related to prior years will remain subject to  
8 prospective update adjustments and retrospective true-ups in the  
9 future, as participation and EM&V analyses are finalized, reviewed,  
10 and perhaps refined.

11 **INVESTIGATION AND CONCLUSIONS**

12 **Q. PLEASE DESCRIBE YOUR INVESTIGATION OF DEP'S FILING.**

13 A. My investigation of DEP's filing in this proceeding focused on  
14 determining whether the proposed DSM/EE Rider (a) was  
15 calculated in accordance with the Initial or Revised Mechanisms, as  
16 applicable, and (b) otherwise adhered to sound ratemaking  
17 concepts and principles. The procedures I and other members of  
18 the Public Staff's Accounting Division acting under my supervision  
19 utilized included a review of the Company's filing, relevant prior  
20 Commission proceedings and orders, and workpapers and source  
21 documentation used by the Company to develop the proposed  
22 billing rates. Performing the investigation required the review of

1 responses to written and verbal data requests, as well as  
2 discussions with Company personnel. As part of its investigation,  
3 the Accounting Division performed a review of the actual DSM/EE  
4 program costs incurred by DEP during the 12-month period ended  
5 December 31, 2017. To accomplish this, the Accounting Division  
6 selected and reviewed samples of source documentation for test  
7 year costs included by the Company for recovery through the  
8 DSM/EE Rider. Review of this sample, which is still underway as of  
9 the date of pre-filing of this testimony, is intended to test whether  
10 the actual costs included by the Company in the DSM and EE  
11 billing rates are either valid costs of approved DSM and EE  
12 programs or administrative costs supporting those programs.

13 My investigation, including the sampling of source documentation,  
14 concentrated primarily on costs and incentives related to the  
15 January through December 2017 test period, which will begin to be  
16 trued up through the DSM and EE EMF billing rates approved in  
17 this proceeding. The Public Staff also performed a more general  
18 review of the prospective billing rates proposed to be charged for  
19 Vintage Year 2019, which are subject to true-up in future  
20 proceedings.

21 **Q. WHAT ARE YOUR FINDINGS AND CONCLUSIONS?**

1 A. With the exception of items specifically described later in this  
2 testimony, I am of the opinion that the Company has calculated its  
3 proposed DSM, EE, DSM EMF, and EE EMF billing rates in a  
4 manner consistent with N.C. Gen. Stat. § 62-133.9, Commission  
5 Rule R8-69, and the Initial and Revised Mechanisms. However,  
6 this conclusion is subject to the caveat that the Public Staff is still in  
7 the process of reviewing certain data responses received from the  
8 Company in the last few days, including documentation of costs  
9 selected for review in the Public Staff's sample; should this review  
10 result in any further issues, the Public Staff will file additional  
11 information with the Commission.

12 I would like to note the following regarding the Public Staff's  
13 investigation:

14 (1) Avoided Costs to be Used in the Determination of the PPI –  
15 In his testimony in this proceeding, Public Staff witness Hinton  
16 recommends that the avoided capacity cost benefits used to  
17 determine the PPI<sub>2</sub> should be consistent with the avoided cost rates  
18 for capacity set by the Commission for Qualifying Facilities (QFs)  
19 under PURPA,<sup>3</sup> as provided for in the Revised Mechanism, as  
20 amended. Per Mr. Hinton, maintaining this consistency requires

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<sup>3</sup> The Public Utility Regulatory Policy Act of 1978.

1 that beginning with Vintage Year 2019, avoided capacity cost  
2 benefits for purposes of the PPI<sub>2</sub> be calculated under the  
3 assumption that generation kW (capacity) avoided prior to year  
4 2022 be assigned a zero dollar value, consistent with the  
5 Commission's Order in Docket No. E-100, Sub 148 (Sub 148), for  
6 QFs under PURPA. Mr. Hinton testifies that instead of assigning a  
7 zero dollar value to such avoided generation kW, the Company has  
8 assigned full capacity value to them.

9 I concur with Mr. Hinton's recommendation. Paragraph 70A of the  
10 Revised Mechanism, as amended, reads as follows:

11 70A. For the PPI for Vintage Years 2019 and  
12 afterwards, the program-specific per kW avoided  
13 capacity benefits and per kWh avoided energy  
14 benefits used for the initial estimate of the PPI and  
15 any PPI true-up will be derived from the underlying  
16 resource plan, production cost model, and cost inputs  
17 that generated the avoided capacity and avoided  
18 energy credits reflected in the most recent  
19 Commission-approved Biennial Determination of  
20 Avoided Cost Rates for Electric Utility Purchases from  
21 Qualifying Facilities as of December 31 of the year  
22 immediately preceding the date of the annual  
23 DSM/EE rider filing. However, for the calculation of  
24 the underlying avoided energy credits to be used to  
25 derive the program-specific avoided energy benefits,  
26 the calculation will be based on the projected EE  
27 portfolio hourly shape, rather than the assumed 24x7  
28 100 MW reduction typically used to represent a  
29 qualifying facility.

30 Pursuant to Paragraph 70A, for purposes of this proceeding, the  
31 treatment recommended by Mr. Hinton should be applied to

1 calculate the estimated (and the eventually trued-up) PPI<sub>2</sub> for  
2 Vintage Year 2019. Since the Company did not do so, it is  
3 appropriate and necessary to make an adjustment to the estimated  
4 Vintage Year 2019 PPI<sub>2</sub> proposed in this case by DEP to bring it  
5 into compliance with the Revised Mechanism. It is particularly  
6 important to note that Paragraph 70A states that the avoided  
7 capacity benefits “will be derived from the ... cost inputs that  
8 generated the avoided capacity and avoided energy credits”, thus,  
9 it is not just the methodology from the biennial proceeding that is to  
10 be used, but the cost inputs themselves, including, in the Public  
11 Staff’s opinion, the zero avoided cost inputs for the years 2019  
12 through 2021 mandated in Sub 148.

13 In the course of its investigation, the Public Staff asked the  
14 Company to provide a calculation of estimated avoided cost  
15 benefits related to Vintage Year 2019 under the assumption that  
16 avoided capacity kW occurring prior to year 2022 is assigned a  
17 zero dollar value.<sup>4</sup> According to the Company’s calculation, making  
18 this assumption reduces the estimated Vintage Year 2019 system-

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<sup>4</sup> Certain DSM/EE measures installed or implemented in Vintage Year 2019 have lives extending into and beyond 2022, meaning that assigning an avoided capacity cost benefit of \$0 to kW savings achieved before 2022 does not reduce the avoided capacity cost benefit for the entire Vintage Year to \$0.

1 level PPI<sub>2</sub> (before levelization) from \$14,913,197 to \$13,404,068, a  
2 decrease of \$1,509,129.

3 (2) Cut-Off of NLR to Reflect Outcome of General Rate Case –  
4 Paragraph 58 of the Revised Mechanism reads as follows:

5 58. Notwithstanding the allowance of 36 months’  
6 Net Lost Revenues associated with eligible kWh sales  
7 reductions, the kWh sales reductions that result from  
8 measurement units installed shall cease being eligible  
9 for use in calculating Net Lost Revenues as of the  
10 effective date of (a) a Commission-approved  
11 alternative recovery mechanism that accounts for the  
12 eligible Net Lost Revenues associated with eligible  
13 kWh sales reductions, or (b) the implementation of  
14 new rates approved by the Commission in a general  
15 rate case or comparable proceeding to the extent the  
16 rates set in the general rate case or comparable  
17 proceeding are set to explicitly or implicitly recover the  
18 Net Lost Revenues associated with those kWh sales  
19 reductions. [Emphasis added].

20 The effective date of the rates approved in DEP’s most recent  
21 general rate case, Docket No. E-2, Sub 1142, was March 16, 2018.  
22 In its *Order Accepting Stipulation, Deciding Contested Issues and*  
23 *Granting Partial Rate Increase*, issued on February 23, 2018, the  
24 Commission stated in the Evidence and Conclusions for Findings of  
25 Fact Nos. 10-15 that “DEP witness Bateman testified that as part of  
26 the settlement, the Stipulating Parties agreed to update revenues to  
27 reflect changes in number of customers and, for the residential  
28 class, changes in weather-normalized usage per customer through  
29 October 31, 2017,” and further, in Finding of Fact No. 36, “The

1 provisions of the Stipulation are just and reasonable to all parties to  
2 this proceeding and serve the public interest. Therefore, the  
3 Stipulation should be approved in its entirety.”

4 In its filing in this proceeding, the Company cut off NLR, as of the  
5 March 16, 2018 effective date of the Sub 1142 general rate  
6 increase, associated with DSM/EE measures installed through  
7 December 31, 2016, the end of the nominal Sub 1142 test year.  
8 However, it did not further reduce NLR to reflect the update  
9 adjustment made in Sub 1142 to capture changes in residential per  
10 customer usage through October 31, 2017. After discussions with  
11 the Public Staff, the Company agreed to make an adjustment to  
12 remove from residential NLR the impacts of the measures  
13 installed/implemented through October 31, 2017. However, the  
14 Company has also indicated to the Public Staff that in calculating  
15 this adjustment related to 2017, it has also determined that it  
16 initially overstated the amount of residential and nonresidential NLR  
17 related to 2016 that should be removed. The Company has  
18 provided workpapers to the Public Staff that indicate that the net of  
19 the two corrections for the 2019 rate period is a reduction in N.C.

1 retail NLR of approximately \$308,000<sup>5</sup>; I am in the process of  
2 reviewing the Company's adjustments. It is the Public Staff's  
3 understanding that the Company will incorporate this adjustment in  
4 a supplemental filing to be made in this case. Once it has reviewed  
5 the Company's supplemental filing, the Public Staff will inform the  
6 Commission as to whether it believes that the adjustment has been  
7 made correctly.

8 (3) Recommended Termination of Residential Smart Saver EE  
9 Program – In his testimony, Public Staff witness Williamson has  
10 recommended that the Residential Smart Saver EE Program be  
11 terminated as of the end of 2018. Consistent with his  
12 recommendation, I conclude that all associated Vintage 2019  
13 program costs, NLR, and PPI<sub>2</sub> should be removed from the  
14 calculated billing factors. The N.C. retail impacts of this removal  
15 (applied to the Company's filing) are (a) a reduction in estimated  
16 2019 program costs of approximately \$322,000, (b) a reduction in  
17 estimated Vintage 2019 NLR of approximately \$110,000, and (c) an  
18 increase in Vintage 2019 levelized PPI<sub>2</sub> of approximately \$8,000.

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<sup>5</sup> For rate period 2018, the net adjustment is estimated to be an increase of approximately \$1,022,000; however, this adjustment would not be reflected in the rates until rate period 2018 is trued up in a future proceeding.

1 (4) Other Adjustments to Rate Calculations – The Company has  
2 provided workpapers to the Public Staff indicating that, in addition  
3 to the adjustment regarding the general rate case cut-off of NLR  
4 described above, it recommends two further adjustments, one to  
5 EM&V results and one to non-residential lost revenues. It is my  
6 understanding that the Company intends to make a supplemental  
7 filing in this proceeding that will incorporate these adjustments.  
8 Once it has reviewed the Company’s supplemental filing, the Public  
9 Staff will inform the Commission as to whether it believes that the  
10 adjustments have been made correctly.

11 **Q. DO YOU PLAN TO PRESENT TO THE COMMISSION THE**  
12 **OVERALL EFFECT OF THESE THE DSM/EE BILLING RATES?**

13 A. Yes. I plan to incorporate each adjustment described above into an  
14 exhibit that will set forth the overall billing factors recommended by  
15 the Public Staff, to be filed prior to or at the time of the hearing in  
16 this case, subsequent to the supplemental exhibit that the  
17 Company has indicated to the Public Staff that it intends to file.

18 **Q. WHAT IS THE IMPACT OF RECOMMENDATIONS MADE BY**  
19 **PUBLIC STAFF WITNESS WILLIAMSON IN HIS TESTIMONY ON**  
20 **YOUR CONCLUSIONS REGARDING THE DSM/EE REVENUE**  
21 **REQUIREMENTS IN THIS PROCEEDING?**

1 A. Public Staff witness Williamson has filed testimony in this  
2 proceeding discussing several topics and issues related to the  
3 Company's filing. Except as noted above, none of these topics and  
4 issues necessitates an adjustment in this particular proceeding to  
5 the Company's billing factor calculations, although some of the  
6 recommendations made by Mr. Williamson may affect the revenue  
7 requirements in future proceedings.

8 **Q. PLEASE SUMMARIZE YOUR CONCLUSIONS REGARDING**  
9 **DEP'S BILLING RATES.**

10 A. In summary, other than the issues identified above, the Public Staff  
11 has found no errors or other issues necessitating an adjustment to  
12 DEP's proposed billing rates.

13 **RECOMMENDATION**

14 **Q. WHAT IS YOUR RECOMMENDATION IN THIS PROCEEDING?**

15 A. Based on the results of the Public Staff's investigation (subject to  
16 completion of its review of 2017 program costs and further review  
17 of Company-provided information), I recommend that the  
18 adjustments I have set forth earlier in my testimony be made to the  
19 calculation of the DSM/EE billing rates proposed in this proceeding.  
20 To summarize, these recommended adjustments are in the  
21 following areas:

- 1 (1) Avoided costs to be used in the determination of the PPI.
- 2 (2) Cut-off of NLR to reflect outcome of general rate case.
- 3 (3) Recommended termination of Residential Smart \$aver EE
- 4 Program.
- 5 (4) Other Adjustments to Rate Calculations.

6 As stated previously, I plan to incorporate these adjustments into an  
7 exhibit that will set forth the overall billing factors recommended by  
8 the Public Staff, to be filed prior to or at the time of the hearing in  
9 this case.

10 I also recommend that the \$1,509,129 reduction in the system PPI<sub>2</sub>  
11 related to avoided capacity costs be included in all future true-ups  
12 of the Vintage 2019 DSM/EE revenue requirement and billing  
13 factors. Furthermore, I recommend that for as long as the Sub 148  
14 avoided cost rates remain in effect, the Company continue to  
15 assign a capacity cost value of zero to all kW savings occurring  
16 before year 2022 that are related to Vintage Years 2019 and  
17 afterwards, consistent with Paragraph 70A of the Revised  
18 Mechanism.

19 The billing rates ultimately found reasonable and appropriate by the  
20 Commission should be approved subject to any true-ups in future  
21 cost recovery proceedings consistent with the Initial or Revised  
22 Mechanisms as applicable, as well as other relevant orders of the  
23 Commission.

1 In making its recommendation, the Public Staff notes that reviewing  
2 the calculation of the DSM/EE rider is a process that involves  
3 reviewing numerous assumptions, inputs, and calculations, and its  
4 recommendation with regard to this proposed rider is not intended  
5 to indicate that the Public Staff will not raise questions in future  
6 proceedings regarding the same or similar assumptions, inputs,  
7 and calculations.

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

9 **A.** Yes, it does.

**MICHAEL C. MANESS**

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

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

Since joining the Public Staff, I have filed testimony or affidavits in a number of general, fuel, and demand-side management/energy efficiency rate cases of the utilities currently organized as Duke Energy Carolinas, LLC, Duke Energy Progress, LLC., and Virginia Electric and Power Company (Dominion Energy North Carolina) as well as in several water and sewer general rate cases. I have also filed testimony or affidavits in other proceedings, including

applications for certificates of public convenience and necessity for the construction of generating facilities, 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.