

**STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH**

DOCKET NO. E-7, SUB 1213
DOCKET NO. E-7, SUB 1214
DOCKET NO. E-7, SUB 1187
DOCKET NO. E-2, SUB 1193
DOCKET NO. E-2, SUB 1219

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of		
Applications by Duke Energy Carolinas,)	
LLC, and Duke Energy Progress, LLC, for)	ORDER RESPONDING TO
Adjustment of Rates and Charges)	LETTER REQUESTING
Applicable to Electric Utility Service in)	CLARIFICATION
North Carolina)	

BY THE PRESIDING COMMISSIONERS: On September 3, 2020, during the expert witness hearing held by the Commission in Docket Nos. E-7, Subs 1213, 1214 and 1187 involving the general rate case application of Duke Energy Carolinas, LLC (DEC or Company), Commissioners Kimberly W. Duffley and Daniel G. Clodfelter requested late filed exhibits reflecting the impact on revenue requirement using the federal unprotected Excess Deferred Income Taxes (EDIT) to offset certain costs. Commissioner Duffley requested schedules showing the impact on DEC's and the Public Staff's proposed revenue requirement amounts that reflect an offset of federal unprotected EDIT and the Company's coal combustion residual (CCR) remediation costs. Commissioner Clodfelter requested that DEC and the Public Staff provide a schedule reflecting the revenue requirement impact if EDIT were used to offset the Company's calculation of accelerated depreciation associated with the early retirement of coal-fired electric generating plants, based on the Company's requested amount.

On September 29, 2020, during the expert witness hearing being held by the Commission in Docket Nos. E-2, Sub 1193 and E-2, Sub 1219 involving the general rate case application of Duke Energy Progress, LLC (DEP or Company), Commissioner Duffley and Presiding Commissioner Clodfelter made the same requests of DEP as were made of DEC concerning certain offsets.

On September 9, 2020, DEC and the Public Staff (Movants), filed a joint letter in Docket Nos. E-7, Sub 1213, E-7, Sub 1214, E-7, Sub 1187, E-2, Sub 1193, and E-2, Sub 1219 stating that they wanted to ensure that they provide exhibits that accurately reflect the information requested by the Commission. Movants attached to their letter questions intended to clarify the assumptions that DEC and the Public Staff should use in their respective analyses. In addition, Movants recommended that a telephone call among

DEC, the Public Staff and Commission Staff be held to discuss the questions posed for clarification.

The Presiding Commissioners appreciate Movants filing of the questions for clarification and find good cause to respond to the questions as follows.

EDIT Offset of CCR Costs:

Question A1. For purposes of the exhibit(s), include in the offset: (a) unprotected federal EDIT only, (b) both State EDIT and unprotected Federal EDIT, or (c) unprotected federal EDIT, deferred revenues, and State EDIT.

Commission Response: (b) Unprotected Federal EDIT, and then State EDIT, if necessary. The Commission's understanding is that all of the CCR costs DEC is seeking to recover in this rate case could be offset with a portion of the unprotected Federal EDIT, but that there is not enough unprotected federal EDIT in DEP's case for a complete offset. If this understanding is correct for DEC, the offset would be with the unprotected federal EDIT only, with a portion of the unprotected federal EDIT to remain and to be flowed back through a five-year levelized rider as stipulated to between DEC and the Public Staff. For DEP, all of the unprotected federal EDIT would be used and there would be no five-year levelized rider. Therefore, DEP should also use State EDIT, if necessary. If this is not correct, please explain.

To provide more specific details on this request, the Commission is seeking the revenue requirement impact of fully offsetting the CCR costs DEC and DEP are seeking to recover in these cases with the federal unprotected EDIT and State EDIT, if necessary; therefore, there would be no five year amortization of the CCR costs as proposed by DEC and no interest required over that five year amortization of CCR costs as proposed by DEC. However, there would be a portion that would remain for DEP, unless there is enough State EDIT to complete the offset. Within the context of these rate cases, it would be a full offset of all of the CCR costs DEC is seeking to recover in this case with a portion of the federal unprotected EDIT amount. For DEP, some CCR costs may still remain, even after using the State EDIT, too.

Specifically, the Commission requests DEC to rerun and file the schedules, as necessary, provided in witness McManeus' July 31, 2020 second supplemental testimony assuming that this offset is accomplished. All other aspects would remain the same, including DEC's position on the other unsettled issues and the issues stipulated to in the first and second settlement agreements between DEC and the Public Staff.

For purposes of the DEP late filed exhibit, DEP shall rerun and file the schedules, as necessary, provided in DEP witness Smith's July 2, 2020 second supplemental testimony assuming that this offset is accomplished. All other aspects would remain the same, including DEP's position on the other unsettled issues and the issues stipulated to in the first and second settlement agreements between DEP and the Public Staff.

Further, the Commission requests the Public Staff to rerun and file Boswell Second Supplemental and Stipulation Exhibit 1, pages 1 and 2, as filed on September 8, 2020 in the DEC rate case, reflecting a hypothetical situation wherein the Public Staff was proposing to fully offset all of the CCR costs DEC is seeking to recover in this case with the federal unprotected EDIT (again, assuming some of the federal unprotected EDIT would remain and would be flowed back through a levelized rider over a five year period as stipulated to with DEC).

For the DEP rate case, the Commission requests the Public Staff to rerun and file Maness Supplemental Testimony Supporting Second Partial Settlement Exhibit 1, pages 1 and 2, as filed on September 16, 2020, reflecting a hypothetical situation wherein the Public Staff was proposing to offset the CCR costs that DEP is seeking to recover in this case with the federal unprotected EDIT, again assuming none of the federal unprotected EDIT would remain to be flowed back, and the State EDIT, if necessary.

Question A2. CCR amortization period for baseline scenario:

(a) Company position, (b) Public Staff position, or (c) other, as defined by the Commission.

Commission Response: For DEC, there would be no amortization period for the CCR costs because all of the CCR costs DEC is seeking to recover in this case would be fully offset with the federal unprotected EDIT. For DEP, (a) Company position for remaining.

Question A3. CCR amortization period for alternate scenario:

(a) Company position, (b) Public Staff position, (c) other, as defined by the Commission.

Commission Response: For DEC, there would be no amortization period for the CCR costs because all of the CCR costs DEC is seeking to recover in this case would be fully offset with the federal unprotected EDIT. For DEP, (a) Company position for remaining.

Question A4. Rate of return on deferred CCR costs (after effective date of rates) for baseline scenario: (a) Return allowed (Company position), (b) Return not allowed (Public Staff position).

Commission Response: For DEC, there would be no rate of return needed for the CCR costs because all of the CCR costs DEC is seeking to recover in this case would be fully offset with the federal unprotected EDIT. For DEP, (a) Company position for remaining.

Question A5. Rate of return on deferred CCR costs (after effective date of rates) for alternate scenario: (a) Return allowed (Company position), (b) Return not allowed (Public Staff position).

Commission Response: For DEC, there would be no rate of return needed for the CCR costs because all of the CCR costs DEC is seeking to recover in this case would be fully offset with the federal unprotected EDIT. For DEP, (a) Company position for remaining.

Question A6. EDIT ratemaking treatment for alternate scenario: (a) Maintained as separate levelized rider(s) (as stipulated to by the Company and the Public Staff) over the amortization period chosen for CCR costs, per #A3 above), (b) Treated as a non-levelized component of base rates (with corresponding rate base impact), to be amortized over the amortization period chosen for CCR costs, per #A3 above.1, (c) other, as defined by the Commission.

Commission Response: For DEC, remainder (a) Maintained as separate levelized rider(s) (as stipulated to by the Company and the Public Staff) over the stipulated EDIT flowback periods.

Movants' Footnote 1: Please note that under the standard Public Staff Schedule 1 approach, only the first year impact will be shown, unless the Commission requests otherwise.

Commission Response: Please provide the impact in each of the next five years, not just the first year.

EDIT Offset of Early Coal Plant Retirement Accelerated Depreciation:

Question B1. For purposes of the exhibit(s), include in the offset: (a) unprotected Federal EDIT only, (b) both State EDIT and unprotected Federal EDIT, or (c) deferred revenues, unprotected Federal EDIT, and State EDIT.

Commission Response: (b) unprotected Federal EDIT first and then State EDIT, if necessary.

To provide more specific details on this request, the Commission is seeking the revenue requirement impact of fully offsetting the early coal plant retirement accelerated depreciation costs DEC and DEP are seeking to recover in these cases with the federal unprotected EDIT. Therefore, within the context of these rate cases, it would be an offset of all of the early coal

plant retirement accelerated depreciation costs DEC and DEP are seeking to recover in these cases with the federal unprotected EDIT and State EDIT, if necessary.

Specifically, the Commission requests DEC to rerun and file the schedules, as necessary, provided in witness McManeus' July 31, 2020 second supplemental testimony assuming that this offset is accomplished. All other aspects would remain the same, including DEC's position on the other unsettled issues and the issues stipulated to in the first and second settlement agreements between DEC and the Public Staff.

For purposes of the DEP late filed exhibit, DEP shall rerun and file the schedules, as necessary, provided in DEP witness Smith's July 2, 2020 second supplemental testimony assuming that this offset is accomplished. All other aspects would remain the same, including DEP's position on the other unsettled issues and the issues stipulated to in the first and second settlement agreements between DEP and the Public Staff.

Further, the Commission requests the Public Staff to rerun and file Boswell Second Supplemental and Stipulation Exhibit 1, pages 1 and 2, as filed on September 8, 2020 in the DEC rate case, reflecting a hypothetical situation wherein the Public Staff was proposing to offset the early coal plant retirement accelerated depreciation costs DEC is seeking to recover in this case with the federal unprotected EDIT (if any EDIT remained, it would be flowed back based on the stipulations between DEC and the Public Staff) and State EDIT, if necessary.

For the DEP rate case, the Commission requests the Public Staff to rerun and file Maness Supplemental Testimony Supporting Second Partial Settlement Exhibit 1, pages 1 and 2, as filed on September 16, 2020, reflecting a hypothetical situation wherein the Public Staff was proposing to offset the early coal plant retirement accelerated depreciation costs that DEP is seeking to recover in this case with the federal unprotected EDIT (if any EDIT remained, it would be flowed back based on the stipulations between DEP and the Public Staff) and State EDIT, if necessary.

Question B2. For baseline scenario, depreciation/amortization of remaining costs of plants planned to be retired early: (a) Company position, (b) Public Staff position, (c) other, as defined by the Commission.

Commission Response: If there is enough unprotected federal EDIT and State EDIT for a full offset, there would be no remaining costs for plants planned to be retired early because all of those costs DEC and DEP are seeking to recover in these cases would be fully offset with the federal unprotected EDIT and State EDIT, if necessary. If there is not enough unprotected federal EDIT and State EDIT, (a) Company position.

Question B3. For alternate scenario, depreciation/amortization of remaining costs of plants planned to be retired early: (a) Company position, (b) Public Staff position, (c) other, as defined by the Commission.

Commission Response: If there is enough unprotected federal EDIT and State EDIT for a full offset, there would be no depreciation/amortization of remaining costs of plants planned to be retired early because all of those costs DEC and DEP are seeking to recover in these cases would be fully offset with the federal unprotected EDIT and State EDIT, if necessary. If there is not enough unprotected federal EDIT and State EDIT, (a) Company position.

Question B4. EDIT ratemaking treatment for alternate scenario: (a) Maintained as separate levelized rider(s) (as stipulated to by the Company and the Public Staff) over the depreciation/amortization period chosen for costs, per #B3 above), (b) Treated as a non-levelized component of base rates (with corresponding rate base impact), to be amortized over the depreciation/amortization period chosen for costs, per #B3 above.2, (c) other, as defined by the Commission

Commission Response: To the extent any unprotected federal EDIT and/or State EDIT remains after the offset: (a) Maintained as separate levelized rider(s) (as stipulated to by the Companies and the Public Staff) over the stipulated EDIT flowback periods.

Question B5. EDIT offset for alternate scenario: (a) Offset the associated increase in depreciation expense for the five years that EDIT is amortized, (b) Offset the full impact, which is more than five years, to the EDIT balance.

Commission Response: (b) Offset the full impact, which is more than five years, to the EDIT balance.

Movants' Footnote 2 - Please note that under the standard Public Staff Schedule 1 approach, only the first year impact will be shown, unless the Commission requests otherwise.

Commission Response: Please provide the impact in each of the next five years, not just the first year.

Finally, DEC, DEP, and the Public Staff shall file their late filed exhibits in response to this Order, including a copy of the schedules in excel format with the formulas intact, on or before Friday, October 9, 2020.

IT IS, THEREFORE, SO ORDERED.

ISSUED BY ORDER OF THE COMMISSION.

This the 2nd day of October, 2020.

NORTH CAROLINA UTILITIES COMMISSION

A handwritten signature in dark ink, appearing to read "Janice H. Fulmore", is written over a faint, circular official seal of the North Carolina Utilities Commission.

Janice H. Fulmore, Deputy Clerk