

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. E-7, SUB 1213)
)
In the Matter of)
Application of Duke Energy Carolinas,)
LLC for Approval of Proposed Prepaid)
Advantage Program)
)
DOCKET NO. E-7, SUB 1214)
)
In the Matter of)
Application of Duke Energy Carolinas,)
LLC, for Adjustment of Rates and)
Charges Applicable to Electric Utility)
Service in North Carolina)
)
)
DOCKET NO. E-7, SUB 1187)
)
In the Matter of)
Application of Duke Energy Carolinas,)
LLC for an Accounting Order to Defer)
Incremental Storm Damage Expenses)
Incurred as a Result of Hurricanes)
Florence and Michael and Winter Storm)
Diego)

TESTIMONY
SUPPORTING COAL
COMBUSTION
RESIDUALS
SETTLEMENT
AGREEMENT OF
MICHAEL C. MANESS
PUBLIC STAFF – NORTH
CAROLINA UTILITIES
COMMISSION

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. E-7, SUBS 1187, 1213, AND 1214

Testimony Supporting Coal Combustion Residuals Settlement

Agreement of Michael C. Maness

On Behalf of the Public Staff

North Carolina Utilities Commission

February 5, 2021

1 **Q. PLEASE STATE FOR THE RECORD YOUR NAME, ADDRESS,**
2 **AND PRESENT POSITION.**

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

6 **Q. HAVE YOU PREVIOUSLY FILED TESTIMONY IN THIS CASE?**

7 A. Yes. I filed Direct Testimony and Exhibits on February 18, 2020,
8 First Supplemental Testimony and Exhibits on February 25, 2020,
9 Second Supplemental Testimony and Exhibits on March 25, 2020,
10 and Third Supplemental Testimony on September 9, 2020.

11 **Q. MR. MANESS, WHAT IS THE PURPOSE OF YOUR TESTIMONY**
12 **FILED TODAY?**

1 A. The purpose of my testimony is to support the Coal Combustion
2 Residuals Settlement Agreement (CCR Settlement Agreement)
3 entered into by the North Carolina Office of the Attorney General, the
4 Sierra Club, Duke Energy Carolinas, LLC (DEC), Duke Energy
5 Progress, LLC (DEP), and the Public Staff that was filed with the
6 Commission on January 25, 2021, and to present the revisions to the
7 accounting and ratemaking adjustments I am recommending in this
8 proceeding to the coal ash clean-up, disposal, and remediation cost
9 amounts proposed for recovery by DEC that would result if the
10 Commission approves the CCR Settlement Agreement. These
11 revisions affect my adjustments to the Company-proposed
12 amortization expenses and unamortized balances associated with
13 DEC's Asset Retirement Obligation (ARO) – related coal ash
14 activities. I have provided my revised adjustments to Public Staff
15 witness Michelle M. Boswell for inclusion in her CCR Settlement
16 Exhibit 1, in which she calculates the revised overall change
17 recommended by the Public Staff to the Company's updated
18 proposed base rate revenue increase.

19 **Q. PLEASE PROVIDE A BRIEF DESCRIPTION OF THE CCR**
20 **SETTLEMENT AGREEMENT.**

21 A. The CCR Settlement Agreement seeks to comprehensively resolve
22 issues involving the costs DEC and DEP may recover in connection
23 with their management, handling, and remediation of CCR (CCR

1 Costs) and the financing costs incurred while those costs were
2 deferred and as they are recovered (Financing Costs) from January
3 1, 2015, through January 31, 2030, for DEC and through February
4 28, 2030, for DEP. It would resolve: (1) issues pending before the
5 Commission in DEC's and DEP's 2017 general rate cases, Docket
6 Nos. E-7, Sub 1146, and E-2, Sub 1142, which were recently
7 remanded to the Commission by the North Carolina Supreme Court
8 in *State ex rel. Utils. Comm'n v. Stein* ("Stein"), Nos. 271A18 and
9 401A18, 2020 WL 7294770 (N.C. Dec. 11, 2020); as well as (2)
10 issues in this proceeding, DEC's 2019 general rate case, and in
11 DEP's 2019 general rate case, Docket No. E-2, Sub 1219. The CCR
12 Settlement Agreement also addresses the treatment of CCR Costs
13 incurred by DEC from February 1, 2020, through January 31, 2030,
14 and by DEP from March 1, 2020, through February 28, 2030, along
15 with associated Financing Costs. The Agreement also addresses
16 how any proceeds received from insurance litigation related to CCR
17 costs would be shared by ratepayers, DEC, and DEP.

18 **Q. PLEASE DESCRIBE THE PROVISIONS OF THE CCR**
19 **SETTLEMENT AGREEMENT THAT WOULD AFFECT THIS**
20 **CASE.**

21 A. If approved by the Commission, the CCR Settlement Agreement
22 provides that the combination of CCR Costs and Financing Costs
23 sought to be recovered from DEC Customers will be reduced by

1 \$224 million, with the remaining balance of CCR Costs and
2 Financing Costs amortized over five years at a return based upon (i)
3 the Company's cost of debt as stipulated by the Company and the
4 Public Staff in the Company's Second Partial Stipulation with the
5 Public Staff, filed on July 31, 2020, adjusted as appropriate to reflect
6 the deductibility of interest expense, (ii) a cost of equity 150 basis
7 points below the 9.6% stipulated to in the Second Partial Stipulation,
8 and (iii) a 48% debt and 52% equity capital structure. My CCR
9 Settlement Agreement Exhibit 1 incorporates this adjustment.

10 **Q. WHAT BENEFITS DOES THE CCR SETTLEMENT AGREEMENT**
11 **PROVIDE FOR RATEPAYERS?**

12 A. From the perspective of the Public Staff, among the most important
13 benefits provided by the CCR Settlement Agreement are:

14 (1) the agreement of DEC and DEP to forego recovery of CCR Costs
15 and associated Financing Costs in excess of \$900 million (combined
16 DEC and DEP), on a present value basis, over the period from
17 January 1, 2015, through January 31, 2030 (DEC), and February 28,
18 2030 (DEP), resulting in a significant reduction in the proposed
19 revenue increase in this case;

20 (2) the agreement to allocate any proceeds of CCR insurance
21 litigation;

1 (3) and the avoidance of protracted litigation over CCR and
2 Financing Costs into 2030 among the parties to the Agreement and
3 possibly the appellate courts.

4 Based on these ratepayer benefits, the Public Staff believes the CCR
5 Settlement Agreement is in the public interest and should be
6 approved.

7 **Q. DOES THIS COMPLETE YOUR TESTIMONY?**

8 **A.** Yes, it does.

DUKE ENERGY CAROLINAS
Docket No. E-7, Subs 1187, 1213, and 1214
North Carolina Retail Operations
ADJUSTMENT TO DEFERRED ARO-RELATED
ENVIRONMENTAL COSTS
For the Test Year Ended December 31, 2018
(in Thousands)

Public Staff
Maness CCR Settlement Agreement Exhibit I
Schedule 1

Line No.	Item	NC Retail Amount
Income statement impact		
1	Balance for Amortization	\$ 169,528 ^{1/}
2	Years to Amortize	<u>5</u> ^{2/}
3	Annual amortization per Public Staff (L1 / L2)	33,906
4	Annual amortization per Company	<u>75,693</u> ^{3/}
5	Public Staff adjustment to amortization expense (L3 - L4)	<u>\$ (41,787)</u>
6	Statutory tax rate	<u>23.35025%</u> ^{4/}
7	Public Staff adjustment to income taxes (-L5 x L6)	<u>\$ 9,757</u>
Rate base impact		
8	Coal Ash Balance at May 31, 2021 per Public Staff (L1)	\$ 169,528
9	Less annual amortization (-L3)	<u>(33,906)</u>
10	Annualized Coal Ash Deferral Balance per Public Staff (L8 + L9)	135,622
11	Coal Ash Deferral Balance per Company filings	<u>302,772</u> ^{5/}
12	Public Staff annualization adjustment to coal ash deferral balance (L10 - L11)	(167,150)
13	Adjustment to remove remaining coal ash deferral balance from rate base	<u>-</u>
14	Total Public Staff adjustment to regulatory assets and liabilities (L12 + L13)	<u>\$ (167,150)</u>
15	Adjustment to ADIT (-L14 x L6)	<u>\$ 39,030</u>
Cost of capital discount		
16	Net-of-tax weighted average cost of capital on unamortized ARO-related environmental costs:	
17	Allowed per CCR Settlement	0.0578301 ^{6/}
18	Undiscounted	<u>0.0656301</u> ^{7/}
19	Difference (L17 - L18)	<u>(0.0078000)</u>
20	Annualized Coal Ash Deferral Balance per Public Staff (L10)	\$ 135,622
21	ADIT (L10 x L6)	<u>(31,668)</u>
22	Net rate base amount (L20 - L21)	<u>103,954</u>
23	Net-of-tax cost of capital discount (L19 x L22)	<u>(811)</u>
24	Pre-tax component (L23 / (1 - L6))	<u>\$ (1,058)</u>
25	Income tax component (L24 x L6)	<u>\$ 247</u>

- 1/ Maness CCR Settlement Agreement Exhibit I, Schedule 1-1, Line 42, Column (k).
2/ Amortization period agreed to in CCR Settlement.
3/ McManeus Second Settlement Exhibit 1, NC-1101, Page 1 of 1, ARO column, Line 7.
4/ NCUC E-1, Item 10, NC-0104 - 2019 Calculation of Tax Rates - Statutory Tax Rate, Line 10 (unrounded).
5/ McManeus Second Settlement Exhibit 1, NC-1101, Page 1 of 1, ARO column, Line 18.
6/ Maness CCR Settlement Agreement Exhibit I, Schedule 1-2, Line 3, Column (e).
7/ Maness CCR Settlement Agreement Exhibit I, Schedule 1-2, Line 6, Column (e).

DUKE ENERGY CAROLINAS
Docket No. E-7, Subs 1187, 1213, and 1214
North Carolina Retail Operations

Public Staff
Maness CCR Settlement Agreement Exhibit I
Schedule 1-1

AMORTIZATION SCHEDULE FOR DEFERRED
ARO-RELATED ENVIRONMENTAL COSTS
For the Test Year Ended December 31, 2018
(in Thousands)

Line No.	Description	Duke Energy Carolinas Coal Ash Spend			Duke Energy Carolinas Coal Ash Deferral (North Carolina)							
		System Spend per Company 1/	Public Staff Adjustments 2/	System Spend per Public Staff 3/	% to NC for Spend 4/	Beginning Balance 5/	NC Spend 6/	Ending Balance 7/	Deferred Cost of Debt 8/	Deferred Cost of Equity 9/	Total Return 10/	Ending Balance 11/
		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)
1	Dec-17							\$ -				
2	Jan-18	\$ 17,379	\$ -	\$ 17,379	66.6244%	\$ -	\$ 11,578	11,578	\$ 9	\$ 26	\$ 35	\$ 11,614
3	Feb-18	14,580	-	14,580	66.6244%	11,578	11,578	21,292	26	74	100	\$ 21,428
4	Mar-18	22,410	-	22,410	66.6244%	21,292	14,931	36,223	45	130	175	\$ 36,533
5	Apr-18	19,654	-	19,654	66.6244%	36,223	13,095	49,318	67	193	260	\$ 49,887
6	May-18	15,699	-	15,699	66.6244%	49,318	10,459	59,777	86	246	332	\$ 60,678
7	Jun-18	23,765	-	23,765	65.9759%	59,777	15,679	75,456	106	305	411	\$ 76,769
8	Jul-18	15,741	-	15,741	65.9759%	75,456	10,385	85,841	127	363	490	\$ 87,644
9	Aug-18	20,091	-	20,091	65.9759%	85,841	13,255	99,096	130	397	526	\$ 101,425
10	Sep-18	23,461	-	23,461	65.9759%	99,096	15,479	114,575	150	458	608	\$ 117,512
11	Oct-18	22,328	-	22,328	65.9759%	114,575	14,731	129,306	171	523	694	\$ 132,938
12	Nov-18	22,193	-	22,193	65.9759%	129,306	14,642	143,948	192	586	778	\$ 148,357
13	Dec-18	11,608	-	11,608	65.9759%	143,948	7,658	151,606	207	634	841	\$ 156,857
14	Jan-19	16,290	-	16,290	65.9759%	156,857	10,748	167,604	228	696	924	\$ 168,528
15	Feb-19	24,409	-	24,409	65.9759%	167,604	16,104	183,708	247	754	1,001	\$ 185,633
16	Mar-19	24,062	-	24,062	65.9759%	183,708	15,875	199,583	270	822	1,092	\$ 202,600
17	Apr-19	20,018	-	20,018	65.9759%	199,583	13,207	212,790	290	885	1,175	\$ 216,982
18	May-19	27,202	-	27,202	65.9759%	212,790	17,946	230,737	312	951	1,263	\$ 236,192
19	Jun-19	18,738	-	18,738	65.8832%	230,737	12,346	243,082	333	1,016	1,350	\$ 249,887
20	Jul-19	16,267	-	16,267	65.8832%	243,082	10,717	253,799	350	1,066	1,415	\$ 262,019
21	Aug-19	58,647	-	58,647	65.8832%	253,799	38,639	292,438	384	1,172	1,556	\$ 302,214
22	Sep-19	28,293	-	28,293	65.8832%	292,438	18,640	311,078	425	1,295	1,719	\$ 322,574
23	Oct-19	15,789	-	15,789	65.8832%	311,078	10,402	321,481	445	1,357	1,802	\$ 334,778
24	Nov-19	12,379	-	12,379	65.8832%	321,481	8,155	329,636	458	1,397	1,855	\$ 344,788
25	Dec-19	15,830	-	15,830	65.8832%	329,636	10,429	340,066	471	1,437	1,908	\$ 357,126
26	Jan-20	10,386	-	10,386	65.8832%	357,126	6,843	363,968	507	1,547	2,054	\$ 366,023
27	Feb-20	-	-	-	65.8832%	363,968	-	363,968	512	1,561	2,074	\$ 368,096
28	Mar-20	-	-	-	65.8832%	363,968	-	363,968	512	1,561	2,074	\$ 370,170
29	Apr-20	-	-	-	65.8832%	363,968	-	363,968	512	1,561	2,074	\$ 372,244
30	May-20	-	-	-	65.8832%	363,968	-	363,968	512	1,561	2,074	\$ 374,317
31	Jun-20	-	-	-	65.8832%	363,968	-	363,968	512	1,561	2,074	\$ 376,391
32	Jul-20	-	-	-	65.8832%	363,968	-	363,968	512	1,561	2,074	\$ 378,464
33	Aug-20	-	-	-	65.8832%	363,968	-	363,968	512	1,561	2,074	\$ 380,538
34	Sep-20	-	-	-	65.8832%	363,968	-	363,968	512	1,561	2,074	\$ 382,612
35	Oct-20	-	-	-	65.8832%	363,968	-	363,968	512	1,561	2,074	\$ 384,685
36	Nov-20	-	-	-	65.8832%	363,968	-	363,968	512	1,561	2,074	\$ 386,759
37	Dec-20	-	-	-	65.8832%	363,968	-	363,968	512	1,561	2,074	\$ 388,833
38	Jan-21	-	-	-	65.8832%	164,833	12/	164,833	232	707	939	\$ 165,772
39	Feb-21	-	-	-	65.8832%	164,833	-	164,833	232	707	939	\$ 166,711
40	Mar-21	-	-	-	65.8832%	164,833	-	164,833	232	707	939	\$ 167,650
41	Apr-21	-	-	-	65.8832%	164,833	-	164,833	232	707	939	\$ 168,589
42	May-21	-	-	-	65.8832%	164,833	-	164,833	232	707	939	\$ 169,528
43	Total	\$ 517,219	\$ -	\$ 517,219			\$ 341,658		\$ 12,832	\$ 39,038	\$ 51,870	

1/ McManeus Second Settlement Exhibit 1, NC-1102, Page 1 of 1, Column (a).

2/ Adjustment removed per CCR Settlement

3/ Column (a) plus Column (b).

4/ NCUC E-1, Item 10, NC-1102, Page 1 of 1, Column (b).

5/ Amount in Column (g) of previous line, plus return for prior 12 months at beginning of each year.

6/ Column (c) times Column (d).

7/ Column (e) plus Column (f).

8/ Column (e) plus Column (g), divided by 2, times after tax cost of debt for applicable time period per NC-1107, divided by 12.

9/ Column (e) plus Column (g), divided by 2, times after tax cost of equity for applicable time period per NC-1107, divided by 12.

10/ Column (h) plus Column (i).

11/ Column (g) plus total return for year to date from Column (j).

12/ Reflects disallowance of \$224,000,000 per CCR Settlement.

DUKE ENERGY CAROLINAS
Docket No. E-7, Subs 1187, 1213, and 1214
North Carolina Retail Operations
CALCULATION OF DISCOUNTED AND
UNDISCOUNTED
COST OF CAPITAL FOR CCR SETTLEMENT
For the Test Year Ended December 31, 2018
(in Thousands)

Public Staff
Maness CCR Settlement Agreement Exhibit I
Schedule 1-2

NET-OF-TAX RATE OF RETURN

DISCOUNTED						
Line No.	Item	Capital Structure 1/	Embedded Costs 1/	Weighted Cost Rates 2/	Income Tax Factors 3/	Net-of-Tax Weighted Cost Rates 4/
		(a)	(b)	(c)	(d)	(e)
1	Long-term debt	48.00%	4.270% 1/	2.050%	0.7664975 3/	0.0157101
2	Common equity	52.00%	8.100% 5/	4.212%	1.000000	0.0421200
3	Total (L1 + L2)	<u>100.00%</u>		<u>6.262%</u>		<u>0.0578301</u>

UNDISCOUNTED						
Line No.	Item	Capital Structure 1/	Embedded Costs 1/	Weighted Cost Rates 2/	Income Tax Factors 3/	Net-of-Tax Weighted Cost Rates 4/
		(a)	(b)	(c)	(d)	(e)
4	Long-term debt	48.00%	4.270%	2.050%	0.7664975 3/	0.0157101
5	Common equity	52.00%	9.600%	4.992%	1.000000	0.0499200
6	Total (L4 + L5)	<u>100.00%</u>		<u>7.042%</u>		<u>0.0656301</u>

- 1/ Per CCR Settlement; reflects stipulated capital structure and embedded costs per Second Partial Stipulation.
- 2/ Column (a) x Column (b).
- 3/ 1 - Maness CCR Settlement Agreement Exhibit I, Schedule 1, Line 6.
- 4/ Column (c) x Column (d).
- 5/ Return on equity per Second Partial Stipulation reduced by 150 basis points per CCR Settlement.