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Oct 15 2021

BEFORE THE

NORTH CAROLINA UTILITIES COMMISSION

PUBLIC SERVICE COMPANY OF NORTH CAROLINA, INC.

DOCKET NO. G-5, SUB 632
DOCKET NO. G-5, SUB 634

SETTLEMENT TESTIMONY

OF

JAMES A. SPAULDING

OCTOBER 15, 2021

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Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND POSITION.

A. My name is James A. Spaulding. My business address is 800 Gaston Road, Gastonia, North Carolina 28056. I am employed by Dominion Energy Services, Inc., a subsidiary of Dominion Energy, Inc. ("DEI"), as Manager – Financial & Business Services for Public Service Company of North Carolina, Inc., doing business as Dominion Energy North Carolina ("PSNC" or the "Company").

Q. ARE YOU THE SAME JAMES A. SPAULDING WHO PROVIDED DIRECT, SUPPLEMENTAL, AND REBUTTAL TESTIMONY IN THIS PROCEEDING?

A. Yes.

Q. WHAT IS THE PURPOSE OF YOUR SETTLEMENT TESTIMONY IN THIS PROCEEDING?

A. The purpose of my settlement testimony is to explain economic adjustments to the Company's application as reflected in the Stipulation of Settlement ("Stipulation") between PSNC, the Public Staff-North Carolina Utilities Commission, Carolina Utility Customers Association, Inc., and Evergreen Packaging, LLC (collectively, the "Stipulating Parties").

Q. PLEASE DISCUSS THE ADJUSTMENTS TO PSNC'S REVENUE REQUIREMENT AS AGREED TO IN THE STIPULATION.

A. Exhibit A to the Stipulation shows the adjustments agreed to by the Stipulating Parties to the revenue requirement proposed in the Company's supplemental testimony and exhibits filed on August 10, 2021, which reflected updates as of June 30, 2021. The adjustments included:

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- <u>Capital Structure and Cost of Capital</u>: The Stipulating Parties agreed that the appropriate capital structure for use in this proceeding consists of 51.60% common equity, 47.06% long-term debt, and 1.34% short-term debt. The agreed cost of long-term debt is 4.48% and the agreed cost of short-term debt is 0.25%. The agreed return on common equity appropriate for use in this proceeding is 9.60%.
- <u>Fixed Gas Costs Apportionment Percentages</u>: The Stipulating Parties agreed that it is appropriate to use the fixed gas costs apportionment percentages presented in Exhibit D to the Stipulation.
- <u>Customer Usage Tracker Factors:</u> The Stipulating Parties agreed that it is appropriate to utilize the "R" values, heat load factors, and base load factors as set forth in Exhibit E to the Stipulation.
- <u>Depreciation</u>: The Stipulating Parties agreed that effective November 1, 2021, PSNC will adopt the depreciation rates reflected in the depreciation study filed with and supported by the testimony of Company witness John J. Spanos.
- <u>Amortization of Deferred Assets</u>: The Stipulating Parties agreed that it is appropriate to amortize and allow recovery of $67,903,061, in deferred transmission integrity management program operations and maintenance ("O&M") costs, which reflect actual deferred expenses through June 30, 2021, net of regulatory amortizations through October 31, 2021, over a four-year period beginning with the effective date of rates in this proceeding. For deferred distribution integrity management

O&M costs, the Stipulating Parties agreed that it is appropriate to amortize and allow recovery of $38,116,252, which reflects actual deferred expenses through June 30, 2021, net of regulatory amortizations through October 31, 2021, over a four-year period beginning with the effective date of rates in this proceeding.

- Employee Compensation: The Stipulating Parties agreed to reduce the DEI Board of Directors expenses allocated to PSNC. The Stipulating Parties also agreed to downward adjustments for payroll, pension and other benefits, employee benefits, executive compensation, and incentives.
- Rate Case Expenses: The Stipulating Parties agreed that for purposes of this proceeding, it is appropriate to use an updated rate case expense and agreed to a reduction of rate case expense, which the Stipulating Parties further agreed should be amortized and collected over a three-year period beginning with the effective date of rates in this proceeding.
- Uncollectibles: The Stipulating Parties agreed that the revenue requirement presented in the Stipulation reflects a downward adjustment in the amount of non-gas cost uncollectibles expense after applying the non-gas cost uncollectibles ratio to the pro forma revenues, which results in an increase to O&M expenses. The Stipulating Parties also agree to reflect the non-gas cost uncollectibles ratio of 0.1532% in the revenue requirement retention factor used to compute the amount of the rate increase.

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- Other Operating Revenues: The Stipulating Parties agreed to use in the cost of service computation an increased level of pro forma other operating revenues.
- Non-Utility Adjustment: The Stipulating Parties agreed upon an adjustment attributable to non-utility operations.
- Miscellaneous Expense Adjustments: The Stipulating Parties agreed to downward adjustments to the following additional areas of PSNC's O&M expenses: Advertising; Lobbying; Service Company Costs; Sponsorships and Donations; Inflation; Research and Development Costs; Special Contracts Adjustment; and Interest on Customer Deposits.

Q. WHAT DID THE STIPULATING PARTIES AGREE TO REGARDING THE COMPANY'S LEGAL FEES FOR THE 2019 DURHAM INCIDENT?

A. The Stipulating Parties agreed to defer for recovery in the Company's next general rate case legal expenses incurred on or after January 1, 2020, relating to the 2019 Durham incident, offset by any insurance proceeds related to the incident.

Q. ARE THE ADJUSTMENTS TO REVENUES AND RATES PROPOSED IN THE STIPULATION FAIR, JUST, AND REASONABLE?

A. Yes. The revenues and rates agreed to as part of the Stipulation were the product of give and take negotiations between the Stipulating Parties. Each party analyzed the settlement terms, revenues, and rates and concluded they were reasonable for purposes of settling this proceeding. The settlement rates

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are also significantly lower in comparison to PSNC's proposed rates in this proceeding.

Q. DOES THIS CONCLUDE YOUR SETTLEMENT TESTIMONY?

A. Yes, it does.

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