PLACE: Dobbs Building, Raleigh, North Carolina

DATE: Monday, September 19, 2022

TIME: 11:01 a.m. - 12:28 p.m.

DOCKET NO.: E-100, Sub 179

BEFORE: Chair Charlotte A. Mitchell, Presiding

Commissioner ToNola D. Brown-Bland

Commissioner Daniel G. Clodfelter

Commissioner Kimberly W. Duffley

Commissioner Jeffrey A. Hughes

Commissioner Floyd B. McKissick, Jr.

Commissioner Karen M. Kemerait

IN THE MATTER OF:

Duke Energy Progress, LLC, and

Duke Energy Carolinas, LLC,

2022 Biennial Integrated Resource Plans

and Carbon Plan

VOLUME: 15

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T A B L E O F C O N T E N T S

E X A M I N A T I O N S

CAROLINAS UTILITIES OPERATIONS PANEL OF NELSON PEELER AND LAURA BATEMAN — PAGE

E X H I B I T S

	IDENTIFIED/ADMITTED
Carolinas Utilities Operations ..... Panel Exhibit 1	41/-
CIGFUR II and III Carolinas .... Utilities Operations Panel Direct Cross Examination Exhibit Number 1	43/-
CIGFUR II and III Carolinas .... Utilities Operations Panel Direct Cross Examination Exhibit Number 2	45/-
CIGFUR II and III Carolinas .... Utilities Operations Panel Direct Cross Examination Exhibit Number 3	53/-
CIGFUR II and III Carolinas .... Utilities Operations Panel Direct Cross Examination Exhibit Number 4	57/-
CIGFUR II and III Carolinas .... Utilities Operations Panel Direct Cross Examination Exhibit Number 5	65/-
CIGFUR II and III Carolinas .... Utilities Operations Panel Direct Cross Examination Exhibit Number 6	68/-
CIGFUR II and III Carolinas .... Utilities Operations Panel Direct Cross Examination Exhibit Number 8	74/-
CIGFUR II and III Carolinas .... Utilities Operations Panel Direct Cross Examination Exhibit Number 9	81/-

P R O C E E D I N G S

CHAIR MITCHELL: All right. Good morning. Let's come to order and go back on the record, please. All right. Before we begin, any preliminary matters?

MR. JIRAK: No, Chair Mitchell.

CHAIR MITCHELL: Okay. Anybody on the intervenors? I'm not saying anything.

(No response.)

CHAIR MITCHELL: Okay. Duke, I believe you may call your next panel.

MS. NICHOLS: Sure. Lauren Nichols on behalf of Duke Energy. We call the Carolinas Utilities Operations Panel of Nelson Peeler and Laura Bateman.

CHAIR MITCHELL: Good morning. Let's get you sworn in, please.

Whereupon,

NELSON PEELER AND LAURA BATEMAN,

having first been duly sworn, was examined

and testified as follows:

CHAIR MITCHELL: You may proceed.

DIRECT EXAMINATION BY MS. NICHOLS:

Q. Beginning with you, Mr. Peeler, would you state your full name and business address for the record?

A. (Nelson Peeler) My name is V. Nelson Peeler. My business address is 526 South Church Street, Charlotte, North Carolina.

Q. By whom are you employed and in what capacity?

A. Employed by Duke Energy Corporation as senior vice president of transmission and fuel strategy and policy.

Q. Can you briefly describe your role and responsibilities at Duke Energy?

A. Yes. I lead the organization responsible for Duke Energy's fuel supply, system optimization, and long-term transmission planning.

Q. Turning to you, Ms. Bateman, would you state your full name and business address.

A. (Laura Bateman) Yes. My name is Laura A. Bateman, and my business address is 411 Fayetteville Street, Raleigh, North Carolina.

Q. And by whom are you employed and in what capacity?

A. I'm employed by Duke Energy Corporation as vice president of Carolinas rates and regulatory strategy.

Q. And could you please briefly describe your roles and responsibilities at Duke Energy?

A. Yes. I lead teams responsible for rate cases, annual rider filings, earnings surveillance reports, cost of service studies, and regulatory strategy and planning for North Carolina and South Carolina for Duke Energy Progress and Duke Energy Carolinas.

Q. Thank you. Mr. Peeler, did the panel cause to be prefiled in this docket direct testimony consisting of 19 page and one exhibit?

A. (Nelson Peeler) Yes.

Q. Do you have any changes to your direct testimony or exhibit at this time?

A. No.

Q. If I were to ask you the same questions today that appear in your prefiled direct testimony, would your answers be the same?

A. Yes, they would.

Q. And this panel's direct testimony does not include any confidential information, correct?

A. That is correct.

MS. NICHOLS: Chair Mitchell, I would

ask that the Carolinas Utilities Operations Panel direct testimony be entered into the record as if given orally from the stand.

CHAIR MITCHELL: All right. Hearing no objection to that motion, the direct testimony of the Carolinas Utilities Operations Panel filed in this docket on August 19, 2022, consisting of 19 pages, shall be copied into the record as if delivered orally from the stand.

(Whereupon, the prefiled direct testimony of Carolinas Utilities Operations Panel of Nelson Peeler and Laura Bateman was copied into the record as if given orally from the stand.)

(Whereupon, per request for admittance in Volume 16, the prefiled summary of the Carolinas Utilities Operations Panel of Nelson Peeler and Laura Bateman was also copied into the record as if given orally from the stand.)

STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH

DOCKET NO. E-100, SUB 179

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of: Duke Energy Progress, LLC, and Duke Energy Carolinas, LLC, 2022 Biennial Integrated Resource Plan And Carbon Plan	))))))))	**DIRECT TESTIMONY OF NELSON PEELER AND LAURA BATEMAN FOR DUKE ENERGY CAROLINAS, LLC AND DUKE ENERGY PROGRESS, LLC**

Q. MR. PEELER, PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND POSITION WITH DUKE ENERGY CORPORATION.

A. My name is V. Nelson Peeler Jr, and my business address is 526 S. Church Street, Charlotte, North Carolina, 28202. I am the Senior Vice President, Transmission and Fuels Strategy and Policy for Duke Energy Corporation.

Q. BEFORE INTRODUCING YOURSELF FURTHER, WOULD YOU PLEASE INTRODUCE THE PANEL?

A. Yes. I am appearing on behalf of Duke Energy Carolinas, LLC ("DEC") and Duke Energy Progress, LLC ("DEP" and together with DEC, the "Companies" or "Duke Energy") together with Laura Bateman as the "Carolinas Utilities Operations Panel."

Q. PLEASE BRIEFLY SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL QUALIFICATIONS.

A. I graduated from North Carolina State University with a bachelor's degree in electrical engineering and an MBA from Queens University. I'm a registered professional engineer in North Carolina and South Carolina.

Q. PLEASE DESCRIBE YOUR BUSINESS BACKGROUND AND EXPERIENCE.

A. I have more than 30 years of experience in the energy industry. I joined Duke Energy Corporation in 1988 and have held a variety of leadership positions in power delivery, system planning and operations, performance support, engineering, construction, business planning, contact management, process improvement and training. Prior to my current role in July 2020, I was the

Company's Chief Transmission Officer. In this role since 2016, I oversaw the safe, reliable and efficient operation of Duke Energy Corporation's electric transmission system. I have also been the Vice President of Transmission System Planning and Operations, where I had responsibility for real-time monitoring and control of Duke Energy Corporation's bulk electric transmission system.

Q. WHAT ARE YOUR RESPONSIBILITIES IN YOUR CURRENT POSITION?

A. I am the Senior Vice President of Transmission and Fuels Strategy and Policy. I lead the organization responsible for Duke Energy Corporation's fuel supply, system optimization, long-term transmission planning, and developing strategies and investment proposals to provide clean, affordable and reliable energy.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE COMMISSION?

A. Yes.

Q. ARE YOU SPONSORING ANY EXHIBITS WITH YOUR DIRECT TESTIMONY?

A. Yes, I am sponsoring Carolinas Utility Operations Panel Exhibit 1.

Q. MS. BATEMAN, PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND POSITION WITH DUKE ENERGY CORPORATION.

A. My name is Laura A. Bateman, and my business address is 411 Fayetteville Street, Raleigh, North Carolina, 27601. I am the Vice President of Carolinas Rates and Regulatory Strategy.

Q. PLEASE BRIEFLY SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL QUALIFICATIONS.

A. I obtained a Bachelor's degree from the University of Massachusetts at Amherst and a Master of Business Administration degree from the University of North Carolina at Chapel Hill.

Q. PLEASE DESCRIBE YOUR BUSINESS BACKGROUND AND EXPERIENCE.

A. Since 2003, I have worked for Duke Energy Corporation in a variety of roles in Risk Management, Treasury, and Regulatory. I have been in the Rates & Regulatory Strategy group since 2007. I assumed my current position in April 2020.

Q. WHAT ARE YOUR RESPONSIBILITIES IN YOUR CURRENT POSITION?

A. I lead teams responsible for rate cases, annual rider filings, cost of service studies, surveillance reporting, and regulatory strategy and planning for North and South Carolina for the Companies.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE COMMISSION?

A. Yes. I have testified before this Commission in connection with DEP's general rate case proceedings in Docket Nos. E-2, Sub 1142 and E-2, Sub 1023. I have also testified before this Commission or submitted written testimony in *The Investigation of Proposed Net Metering Rule* (Docket No. E-100, Sub 83), *Standards for Electric Utilities Relating to IRP, Rate Design Modifications to Promote Energy Efficiency Investments, Smart Grid Investments & Smart Grid*

Information Per Independence/Security Act 2007 (Docket No. E-100, Sub 123), and *Application for Approval of DSM and Energy Efficiency Cost Recovery Rider (*Docket No. E-2, Sub 931).

Q. MR. PEELER, PLEASE BRIEFLY SUMMARIZE YOUR JOINT TESTIMONY.

A. The Companies believe that a merger of DEP and DEC would be in the long-term best interest of customers from an overall efficiency perspective and, furthermore, would be the most straightforward solution to resolving both existing and potential future rate differences. However, the Companies cannot accomplish a merger unilaterally, but instead must work with all applicable regulators and stakeholders to identify an equitable merger pathway, recognizing that any merger will necessarily and unavoidably result in cost shifts. While a merger is the preferred path and the Companies intend to continue to pursue that avenue, the Companies have also evaluated potential other alternative methods (as discussed below) to address rate differences if a merger cannot be accomplished in a manner that is acceptable to all jurisdictions and the Companies. Finally, the Companies strongly believe in the continued benefits of a dual-state system and will continue to strive to maintain the necessary alignment. The timeline for Carolinas Carbon Plan ("Carbon Plan" or the "Plan") implementation and the 2024 biennial Carbon Plan update provides a sufficient runway to continue to evaluate these issues and allow for modification of the Carbon Plan if needed.

I. MERGER, CSO, AND PLANS FOR ADDRESSING RATE DIFFERENCES BETWEEN DEP AND DEC

Q. MR. PEELER, THE CARBON PLAN ASSUMES CONSOLIDATED TRANSMISSION FUNCTIONS BETWEEN THE COMPANIES, INCLUDING ONE BALANCING AUTHORITY AREA (SUCH CONSOLIDATION COLLECTIVELY REFERRED TO AS "CONSOLIDATED SYSTEM OPERATIONS" OR "CSO"). WHAT BENEFITS DOES CSO PROVIDE TO ENABLE THE CARBON PLAN?

A. Overall, consolidated operations provide a number of customer benefits, including lowering reserve requirements, improving dispatch efficiencies, reducing carbon dioxide ("CO_2") emissions, and allowing more solar generation to serve our customers. Combining into a single balancing authority to manage load and resources produces savings annually for customers, helps accommodate expanded levels of variable renewable energy resources, substantially reduces forced solar curtailment, and eliminates several hundred annual combustion turbine starts that increase fleet maintenance costs. Each of these improvements provides annual direct benefits to customers in the form of lower fuel costs and reduced CO_2 emissions.

Q. ARE ALL OF THOSE SAME BENEFITS ACHIEVED THROUGH A MERGER?

A. Yes. All of those same benefits and more are achieved through a merger of DEP and DEC.

Q. IS A MERGER THE PREFERRED PATH FOR ACHIEVING THE BENEFITS DESCRIBED ABOVE, AS WELL AS ADDRESSING RATE DIFFERENCES?

A. Yes. The Companies believe a merger of DEP and DEC is the best long-term path for a number of reasons, if it can be achieved equitably. Importantly, a merger would solve rate differences between DEP and DEC over time while CSO would not (and would therefore require non-traditional solutions as further described below).

The merger of DEP and DEC would provide additional benefits for customers and allow for a more efficient achievement of the 2050 carbon neutrality target, such as balancing investments needed for a combined system across the combined service area, helping to moderate rate impacts by spreading new investments over a larger customer base, development of single resource plan, and joint unit commitment. Additionally, operating a single utility is less complex than operating under CSO. While CSO will provide benefits, each utility will still be required to meet certain obligations independently, which would not be the case for a single utility. Separate utility resource plans, unit commitments and rate structures are specific examples that ultimately add costs for customers. These requirements and complexity restrict efficient planning and operation of the system and limit allocation of costs across all customers. Finally, a merger would result in substantial regulatory efficiencies as well by avoiding duplicative regulatory proceedings (*e.g.,* separate base rate cases, fuel cases, *etc.*).

Q. WHAT ARE THE PRIMARY HURDLES THAT MUST BE ADDRESSED BEFORE A MERGER CAN BE ACCOMPLISHED?

A. The two primary hurdles that must be addressed, which are related, are (1) resolution of cost shifts resulting from the merger, and (2) navigating a pathway to the multiple regulatory approvals that will be needed, all of which will need to align to ensure an equitable outcome.

First, with respect to cost shifts, because the Companies' system costs and percentage of customers within each of the North Carolina retail, South Carolina retail, and wholesale jurisdictions are different, a merger creates certain rate impacts that must be addressed before any combined rate structure could be proposed. The DEP system is more costly, and DEP has a greater percentage of wholesale customers; thus, merging the Companies will result in a shift of cost responsibility from the wholesale jurisdiction to the retail jurisdictions for the combined utility. However, it is important to note that despite this allocation change, the Companies believe that the potential benefits to both utilities (and states) warrant investigation.

Second, accomplishing a merger of DEP and DEC is obviously not within the Companies' unilateral control but instead will require approval by this Commission, the Public Service Commission of South Carolina ("PSCSC") and the Federal Energy Regulatory Commission ("FERC"). Undoubtedly such proceedings would involve numerous stakeholders and intervenors. While a merger of DEP and DEC will enable the energy transition, simplify operations, and address rate differences, the Companies cannot achieve a merger on their own. Accomplishing a merger will require shared goals resulting in equitable treatment across all jurisdictions, customer classes and the Companies that regulators can support. As such, the conditions under which the merger is accomplished must be in the best interest of all customers, result in just and reasonable rates for all jurisdictions and ensure the merged utility can recover reasonably and prudently incurred costs and maintain the opportunity to earn the return on its investments required by its investors to ensure sufficient investment capital to fund the energy transition and maintain reliable service at affordable rates.

Q. PLEASE DESCRIBE THE PRIMARY STEPS AND TIMELINE FOR A MERGER.

A. To pursue a merger, the Companies would continue with certain CSO activities already underway to create a single Balancing Authority Area, Transmission Operator, and combine the Companies' respective Open Access Transmission Tariff rates, among others. A merger would further require a study of costs to achieve and benefits analysis across DEP and DEC; stakeholder engagement; cost of service studies; and the development of mitigation strategies in light of the cost shifts, distribution and customer service standardization, and rate design consolidation.

There are many factors outside of the Companies' control that will influence the timing of a merger. However, as shown in Carolinas Utility Operations Panel Exhibit 1, the Companies project the potential for a merger to be approved by this Commission, the PSCSC, and the FERC by the end of 2026.

After formal completion of the merger, additional standardization and consolidation activities (*e.g.*, processes and procedures, products, and services) will be required and reflected in the approved regulatory plan.

Q. MS. BATEMAN, PUBLIC STAFF AND INTERVENORS HAVE RAISED CONCERNS REGARDING CURRENT RATE DIFFERENCES BETWEEN DEP AND DEC AND THAT EXECUTION OF THE CARBON PLAN WOULD EXACERBATE EXISTING DIFFERENCES BETWEEN DEC AND DEP RETAIL RATES. WHAT IS THE CURRENT DIFFERENCE IN RETAIL RATES?

A. As shown below, there has been a material difference in retails rates between DEP and DEC for many years:

	Total Retail	
	DEC NC Avg Rate (cents per kwh)	**DEP NC Avg Rate (cents per kwh)**
2010	7.51	9.00
2011	7.49	8.66
2012	8.35	8.85
2013	8.36	9.01
2014	8.55	8.98
2015	8.48	9.24
2016	8.41	9.05
2017	8.21	8.61
2018	8.23	9.32
2019	8.30	9.81

Q. PLEASE COMMENT GENERALLY ON THE REASONS FOR THE CURRENT DIFFERENCE IN RETAIL RATES BETWEEN DEP AND DEC.

A. There are a number of factors that contribute to differences in retail rates between any two utilities, including DEC and DEP, related to the attributes and make-up of its service area footprint. Some of these factors include the type and timing of generation, customer diversity and density for each respective utility, and the cost of fuel based on plant location and fuel transportation.

Q. PLEASE COMMENT GENERALLY ON THE POTENTIAL TIMING OF A MERGER AND THE IMPACT OF THE CARBON PLAN ON EXISTING RATE DIFFERENCES.

A. Because the most substantial Carbon Plan-related investments are not placed into service until later 2026 and beyond, a merger that is consummated at the start of 2027 would largely address any further growth in rate differences arising from the Carbon Plan. That is, the Companies do not forecast any material widening of rate differences due to the Carbon Plan in the period of 2023-2026, and a merger in early 2027 would solve rate differences over the long term.

Q. IF THE COMPANIES WERE TO PURSUE A MERGER, HOW COULD THE RESULTING SINGLE UTILITY SEEK TO ADDRESS RATE DIFFERENCES BETWEEN THE LEGACY CUSTOMER CLASSES?

A. The Companies recognize the potential for increasing rate differences between DEP and DEC is a significant issue and, as discussed above, believe that pursuing a merger of the utilities is the preferred and most straightforward approach to address this issue. If stakeholders and regulators can agree on an approach that is equitable to all jurisdictions, customer classes and the Companies, and a merger receives the necessary approvals, there are various approaches to preventing further rate divergence and addressing historical differences between DEP and DEC.

First, it is important to note that the jurisdictional shift of costs away from wholesale to the North Carolina retail and South Carolina retail jurisdictions would happen right away. However, within the North Carolina retail jurisdiction, the Commission would have discretion on how quickly to merge the DEC and DEP rates. There are multiple options on how to accomplish this. For instance, Florida Power & Light ("FP&L") and Gulf Power proposed the combination of their utilities in Florida in Florida Public Service Commission Docket No. 20210015-E. At the time, Gulf Power's cost of service was higher than that of FP&L. In that docket, the utilities submitted three cost of service studies: (1) one combined cost of service study for the combined utility; (2) a cost of service study for FP&L standalone; and (3) a cost of service study for Gulf Power standalone. They proposed to set the rates for the customers of each utility initially based on the standalone cost of service studies. Then, they proposed a five-year rider that would move the rates from the standalone cost of service study for each utilities' customers to the combined one over a five-year period. Over that five-year period, the rider increased rates for FP&L customers and decreased rates for Gulf Power customers.

Another option would be to create a combined cost of service study with one rate base and combined accounting records, but maintain the separate legacy rate schedules. In each rate case, the combined utility could apply the new rate increase for each customer class to the legacy rate schedules within the class and then also make further adjustments to move the rate schedules closer together over time. This approach leaves more flexibility to consider other factors in each rate case rather than committing to a fixed five-year schedule, and is consistent with how the Companies currently address rate schedules that vary from the cost of service within a rate class. Eventually, when the rates are closer together, customers could be transitioned to a combined rate schedule. This is similar to the approach that DEC took after the merger with Nantahala Power & Light Company.

These two options address base rates. The Companies will also have to propose how to combine the riders, the most impactful of which will be the fuel riders. There is a difference between the two utilities in the cost of fuel. Again, the jurisdictional shifts in cost would happen right away, but the Commission would have discretion on how quickly to merge the DEC and DEP rates within the retail jurisdiction. As an example, the Commission currently uses an equal percent increase approach to allocate fuel costs to the customer classes. A similar approach could be applied to legacy DEC and DEP rate schedules, or different percent increases could be proposed in the fuel rider for the legacy rate schedules in order to bring them closer together over time. Again, this approach would allow for flexibility and could happen over whatever period of time the

Commission deems appropriate. A similar exercise will need to be followed for all other riders.[1]

In addition to merging the rates, there are numerous complexities that will need to be worked through before the rate schedules can be fully merged. For example, DEC currently offers voltage differentiated rates for commercial and industrial customers while DEP does not. DEC's fuel rates are differentiated between commercial and industrial, not by rate schedule. DEP fuel rates follow the rate schedules and are not different between commercial and industrial. These are just a few examples. There are many more differences that would need to be addressed. Maintaining separate rate schedules for some period of time following the merger can allow more time to work through these issues.

Q. WHAT ALTERNATIVES HAVE THE COMPANIES CONSIDERED TO ADDRESS CONCERNS EXPRESSED BY THE PUBLIC STAFF REGARDING THE EQUITABLE ALLOCATION OF CARBON PLAN COSTS IN LIEU OF A MERGER?

A. As discussed above, the Companies believe that a merger of DEP and DEC is the best path forward and, once accomplished, would allocate the Carbon Plan costs going forward to customers of both legacy utilities. However, as also

[1] Other riders include Demand-Side Management & Energy Efficiency (DSM/EE), Renewable Energy & Energy Efficiency Portfolio Standard (REPS), Competitive Procurement of Renewable Energy (CPRE), Joint Agency Asset Rider (JAAR), Excess Deferred Income Tax (EDIT), Bulk Power Marketing (BPM) and Existing DSM Program Rider (EDRP). Plus, each utility will propose additional decoupling, performance incentive, and earnings sharing riders in their upcoming Performance Based Regulation applications.

stated previously, the merger of DEP and DEC is not something that the Companies can accomplish unilaterally. As such, the Companies are evaluating alternatives to address rate differences created by the Carbon Plan in the event that a merger cannot be accomplished. One option the Companies are evaluating is whether DEC could own solar generation in DEP's service territory. For a variety of reasons (primarily cost, suitability and availability of land and insolation), the cost of siting solar in DEP's service territory is less than in DEC's territory.

In this same vein, if offshore or onshore wind is ultimately selected by the Commission, the Companies are also considering whether DEP and DEC could jointly own wind generation. The offshore and onshore wind modeled in the Companies' Carbon Plan is assumed to be owned by DEP and paid for by DEP customers. The Companies are exploring whether these investments could be jointly owned by the utilities without significant additional transmission costs. Other significant generation investments proposed in the Carbon Plan, such as an expansion of Bad Creek pumped storage and first addition of small modular reactors ("SMRs"), are proposed to be owned by DEC.

Similarly, the Companies are also looking at the allocation of transmission investments. Even without a merger of DEC and DEP, CSO would require a combination of the balancing authorities and a combined Open Access Transmission Tariff ("OATT") rate for wholesale customers. The Companies could take a similar approach in retail rates and combine the transmission costs for DEP and DEC and then allocate them back to the separate utilities based on a transmission allocation method. An alternative would be to take this approach only for new investments or some subset of new investments.

Once again, the Companies plan to pursue a merger of the DEC and DEP utilities and believe that is the optimal pathway, but are also evaluating these alternative options to address rate differences in the Carbon Plan should the merger not be achievable.

II. OPERATING IN A DUAL-STATE SYSTEM AND CONTINUED STATE ALIGNMENT

Q. MR. PEELER, PLEASE DESCRIBE THE DUAL-STATE SYSTEMS THAT THE COMPANIES OPERATE ACROSS NORTH CAROLINA AND SOUTH CAROLINA.

A. As explained in the Carbon Plan (see Chapter 1 – Introduction and Background), DEP and DEC have successfully operated dual-state systems[2] for more than a century. This effective model leverages efficiencies, scale and geographic characteristics to provide reliable and increasingly clean energy to customers at affordable rates. As an example, the scope and scale of the dual-state system supported construction of projects of the magnitude of the Companies' nuclear and pumped storage hydro facilities. These substantial zero carbon investments have been critical to the reliable and affordable service the Companies have provided over their histories and are foundational to the net carbon future. In addition, these investments have driven economic

[2] The term "dual-state system**s**" refers to the fact that DEC's system and DEP's system each operate across the North Carolina-South Carolina border.

development in both states and provided significant tax base and employment to thousands over the years.

Since the Duke Energy systems have been planned, built and operated as joint systems for over 100 years, customers from both states have benefited from the scale and diversity of the dual-state systems. Resources have been selected to meet combined needs and have been located in the most economic locations. Taking advantage of the geographic diversity of the two states has allowed for investment in the nation's second largest nuclear fleet and in significant flexible resources, such as pumped storage. It is not feasible to separate existing assets by state boundary as assets located in each state do not match the state specific needs, but rather serve the collective requirements of both states. Further, the Companies' transmission and distribution lines cross the border between North Carolina and South Carolina, and electrons flow both ways. Continuing to plan and operate the dual-state systems allows for the most economic dispatch of existing assets and the most efficient planning for future investments. The dual-state system provides both scale and flexibility to operate reliability and economically with increasing amounts of variable generation resources over the coming decades.

Operationally, moving away from the dual-state system developed over the last century would be extremely complex. There would be challenges assuring that real-time dispatch will be fully economic without regard to ownership of generation. Processes to equitably allocate variable generation and fuel costs based on actual generation and load as asset bases differ would be arduous. With the significant increase of variable energy resources placed on the grid, balancing a larger system increases system reliability and reduces reserve margin requirements and related additional capacity investments. Conversely, balancing separate state-specific systems could increase reserve margin requirements and related investments. There are not any current mechanisms in place to separately build the required enabling transmission. Overall, operating with a single stack economic dispatch model and joint unit commitment is the most efficient for all customers.

Q. THE CARBON PLAN NOTES THAT IF DIFFERENCES IN ENERGY POLICY BETWEEN NORTH CAROLINA AND SOUTH CAROLINA DO NOT ALLOW FOR ALIGNMENT AND CONTINUED DUAL-STATE PLANNING, THE COMPANIES MAY NEED TO PLAN TWO DIFFERENT SYSTEMS SEPARATED BY STATE LINES. DOES THIS CONCERN IMPACT THE COMPANIES' REQUEST IN THIS DOCKET?

A. It does not. Maintaining a dual-state system will continue to deliver benefits for customers, provide the most efficient pathway for the energy transition, and allow the Companies to pursue all available avenues to ensure ongoing alignment. The Companies remain convinced that a larger, combined system with scale, generation diversity, and operational flexibility provides substantial value and limits additional risk to customers and that the energy transition is ultimately consistent with prudent utility planning and in customers' best interest.

The Companies' Carbon Plan is focused first and foremost on the near-term procurement and development activities needed from now until the next biennial Carbon Plan decision at the end of 2024. Therefore, the Companies believe that focus on the near-term activities is an appropriate lens for this proceeding. In addition, this approach will provide time for the Companies to receive further clarity as to South Carolina utility regulation and energy policy and for the PSCSC to consider an Integrated Resource Plan ("IRP") that is consistent with the changes in conditions since the 2020 IRP and the Commission's final order in this docket. The PSCSC recently established dockets to (1) consider renewable resource procurement, and (2) explore the possibility of a study the integration of renewables on the system. The Companies have also been engaging with stakeholders on potential new renewable energy customer programs in both states. Each of these dockets will provide additional opportunities to advocate for the dual-state system and evaluate the extent of alignment between North Carolina and South Carolina on energy policy.

Q. HOW DO YOU RESPOND TO INTERVENORS THAT RAISE CONCERNS ABOUT SOUTH CAROLINA RETAIL COST DISALLOWANCE RESULTING IN INCREASED COSTS FOR NORTH CAROLINA RETAIL CUSTOMERS?

A. As stated above, the Companies believe that the focus of this proceeding should be on the near-term resource development and procurement activities and, as stated in the Carbon Plan, such near-term resources are no-regrets resources, meaning that they are a set of resources that will be needed for North Carolina-only even in an extreme scenario in which fully integrated dual-state planning is no longer possible.

Fundamentally, if the assets identified by the Commission in its order in this docket are needed to meet the requirements of North Carolina retail customers and North Carolina law, it is appropriate that the costs of such as assets be included in the North Carolina retail rate base. The Companies anticipate that by 2024 (the date for next biennial Carbon Plan update) there will be more clarity regarding the options available to facilitate continuation of the dual-state system, which will then inform some of the longer-term and more substantial decisions that will need to be made in connection with the Carbon Plan.

III. CONCLUSION

Q. MR. PEELER AND MS. BATEMAN, DOES THIS CONCLUDE YOUR PRE-FILED DIRECT TESTIMONY?

A. Yes.

Duke Energy Carolinas, LLC and Duke Energy Progress, LLC
Summary of Direct Testimony – Carolinas Utilities Operations Panel
Nelson Peeler and Laura Bateman
Carolina Carbon Plan
Docket No. E-100, Sub 179

I am Nelson Peeler, Senior Vice President of Transmission and Fuels Strategy and Policy. My co-panelist is Laura Bateman, Vice President of Carolinas Rates and Regulatory Strategy. I will provide a summary of our testimony to describe future Carolinas' utility operations and address rate differences between the utilities.

The Companies believe a merger of DEP and DEC would be in the long-term best interest of customers. Operating a single utility is less complex and a merger would provide planning and operational benefits that allow for a more efficient energy transition. A merger would be the most straightforward solution to resolve both existing and potential future rate differences between DEP and DEC. Finally, a merger would result in substantial regulatory efficiencies by avoiding duplicative regulatory proceedings.

But the Companies cannot accomplish a merger unilaterally. We must work with all applicable regulators and stakeholders to identify an equitable merger pathway, recognizing that any merger will necessarily and unavoidably result in cost shifts. The conditions under which the merger is accomplished must be in the best interest of North Carolina, South Carolina and Wholesale customers. The merged utility must be able to recover its reasonably and prudently incurred costs and maintain the opportunity to earn the return on its investments required by its investors. To do otherwise would inhibit the merged utility from obtaining sufficient investment capital to fund the energy transition and maintain reliable service at affordable rates.

While there are many factors outside of the Companies' control that will influence the timing of a merger, we project a merger could be implemented by the end of 2026. Because the most substantial Carbon Plan-related investments are not placed into service until later 2026 and beyond, this timeframe would largely address any further growth in rate differences arising from the Carbon Plan.

If stakeholders and regulators can agree on an equitable approach and a merger receives necessary approvals, there are various options to prevent further rate divergence and address historical differences between DEP and DEC rates. We recommend an approach that creates a single rate base while maintaining legacy rate schedules to provide flexibility for appropriate adjustments over time. Although a merger is the preferred path, we have also evaluated other alternative methods to address rate differences if a merger cannot be accomplished in a manner that is acceptable to all jurisdictions and the Companies.

Finally, the Companies strongly believe in the benefits of a dual-state system and will continue to strive to maintain the necessary alignment. Duke Energy systems have been planned, built and operated as joint systems for over 100 years to the benefit of customers in both states. The Companies' investments have driven economic development in both states and provided significant tax base and employment to thousands over the years. A larger, combined system with scale, generation diversity, and operational flexibility provides substantial value and limits additional risk to customers, particularly through the energy transition.

The Companies plan to file with the PSCSC IRPs that are consistent with the Commission's final order in this docket. Several current SC dockets address aspects of the energy transition. These dockets provide additional opportunities to advocate for the dual-state system and evaluate the extent of alignment between North Carolina and South Carolina on energy policy. The Carbon Plan is focused on near-term procurement and development activities needed from now until the next biennial Carbon Plan decision in 2024. This approach provides sufficient runway to receive further clarity as to South Carolina utility regulation and energy policy.

This concludes our summary.

MS. NICHOLS: And I would also ask the panel's Exhibit Number 1 be marked as labeled for the record.

CHAIR MITCHELL: All right. And the exhibit to that testimony shall be marked for identification as it was when prefiled.

(Carolinas Utilities Operations Panel Exhibit 1 was identified as they were marked when prefiled.)

MS. NICHOLS: The panel is now available for questions from the parties and the Commission on their direct testimony.

CHAIR MITCHELL: All right. Attorney General?

MR. MOORE: No questions.

CHAIR MITCHELL: All right. CIGFUR?

MS. CRESS: Thank you, Chair Mitchell.

CROSS EXAMINATION BY MS. CRESS:

Q. Good morning, Mr. Peeler, good morning, Ms. Bateman.

A. Good morning.

A. (Laura Bateman) Good morning.

Q. Ms. Bateman, going to you first. In your role as the vice president of Carolinas rates and regulatory strategy for Duke Energy, are you responsible for cost of service and cost allocation studies for North Carolina and South Carolina?

A. Correct.

Q. And that includes cost allocation at both the jurisdictional and the customer class level; is that correct?

A. Yes, it does.

Q. Ms. Bateman, were you in the hearing room when your colleague, Ms. Bowman, referred me to you on jurisdictional cost allocation issues?

A. Yes, I was.

Q. Great. So we'll come back to that in a few moments. But switching gears now, Mr. Peeler, you testify at the bottom of page 15 and the top of page 16 -- and I'll give you a moment to get there.

A. (Witness peruses document.)

(Nelson Peeler) Okay.

Q. Do you see there that you say that the Companies' investments, quote, have driven economic development in both states and provided significant tax base and employment to thousands over the years?

A. Yes, I do.

Q. Okay. So a question for either or both of you.

Did Duke perform any studies or conduct any analyses regarding the economic impact of rate increases on industrial load in DEC and DEP?

A. (Laura Bateman) I'm trying to -- I don't think we've had a recent study. I think there was one maybe almost 10 years ago.

MS. CRESS: So at this time, I'll ask the Chair if I may introduce Duke's response to CIGFUR's Data Request 4-7, which I'll request permission from the Chair to mark for identification as CIGFUR II and III Carolinas Utilities Operations Panel Direct Cross Examination Exhibit Number 1.

CHAIR MITCHELL: All right. The document will be marked for identification as CIGFUR II and III Carolinas Utilities Operations Panel Direct Cross Examination Exhibit 1.

(CIGFUR II and III Carolinas Utilities Operations Panel Direct Cross Examination Exhibit Number 1 was marked for identification.)

MS. CRESS: Thank you, Chair Mitchell.

Q. I'll give you a second to review this response to data request.

A. (Witness peruses document.)

Q. So now that you've had a chance to review Duke's response to this data request, can you please confirm that, for purposes of the Carbon Plan filing, Duke did not conduct any studies or analyses regarding the impact of cost increases on the number of industrial customers or their load in North Carolina?

A. I think I would agree with this response that we are not aware of any studies.

Q. And, Mr. Peeler and/or Ms. Bateman, are you aware -- I think, Ms. Bateman, you referenced a study that was conducted perhaps around 10 years ago?

A. Yes. And I don't know whether it's a study, but there was the load retention rider that we were supporting that -- and there was -- we had a witness that spoke to just the importance of industrial customers in our service territory.

Q. Would you recognize that document if it was shown to you?

A. I probably would.

Q. This was a docket that you previously provided testimony to this Commission regarding; is that accurate?

A. In that rate case, yes.

Q. And that's Docket Number E-2, Sub 1023?

A. I will -- subject to check, I will take your word for that.

Q. Excellent. Okay.

MS. CRESS: At this time now, I'll ask the Chair for permission to introduce as CIGFUR II and III Carolinas Utilities Operations Panel Direct Cross Examination Exhibit Number 2, the executive summary and Chapter 1 of the study referenced by Ms. Bateman.

(Pause.)

CHAIR MITCHELL: All right. The document will be marked for identification as CIGFUR II and III Carolinas Utilities Operations Panel Direct Cross Examination Exhibit 2.

MS. CRESS: Thank you, Chair Mitchell.

(CIGFUR II and III Carolinas Utilities Operations Panel Direct Cross Examination Exhibit Number Defendant's was marked for identification.)

Q. Ms. Bateman, can you please turn to page 2 of the executive summary, and read the first sentence of the second paragraph on this page?

A. "Intuitively, if electricity is a major cost to a large electric load customer, the price of electricity can play a role in a firm's decision about a facility's location, expansion, or closing."

Q. And next can you please read the first sentence of the third paragraph on the same page?

A. "This report also confirmed the importance of reliability and favorably priced electricity to economic development and that the Carolinas are experiencing a transition in their economy generally to a more energy intensive types of industries and facilities."

Q. Thank you. And finally, will you please turn to page 3 and read the first two sentences of the second full paragraph beginning with "beyond these more region-wide"?

A. "Beyond these more region-wide economic impacts, there could be an effect on the remaining customers' rates when large electric users depart any regulated electricity -- electric utility system. When electric load is lost from customers, severely cutting back on load, moving out of an electric utilities service territory or by going out of business entirely, the remaining customers will theoretically have to pay the fixed cost non-energy related portion of revenues no longer being recovered from the lost customer."

Q. Thank you.

MS. CRESS: At this time, I'd ask the Commission to please take judicial notice of the entirety of this document, which, for conservation purposes, the entire document was not printed because it is quite lengthy. But I would ask the Commission take judicial notice of this filing in Docket Number E-2, Sub 1023.

MS. NICHOLS: No objection.

CHAIR MITCHELL: Okay. I'm not hearing any objection to that request. The Commission will take judicial notice of the -- of the document titled "The Economic and Rate Implications from an Electric Utility's Loss of Large-Load Customers" dated March 9, 2013, filed in Docket Number E-2, Sub 1023. Do we know the date on which it was filed?

MS. CRESS: That's a great question. I can tell you when it was drafted, but I cannot confirm that was also the date on which it was filed.

CHAIR MITCHELL: Okay. And I see that

it was an exhibit to the testimony -- Exhibit 2 to the testimony of Julius Wright. Okay. Please proceed.

MS. CRESS: Thank you, Chair Mitchell.

Q. Ms. Bateman, can you help us understand why Duke Energy did not commission a similar study or analysis when it was preparing its proposed Carbon Plan?

A. So I think what was behind, or the reason behind the preparation of this study is because we were supporting a reduction or a discount for industrial customers in this -- and we wanted to support that discount. I'm not aware of any discount that we're proposing in this for any class of customers. In fact, the legislation says that we should avoid cross-subsidization.

Q. So is it your position that the portions of this document that you read into the record are no longer true as we sit here today?

A. I wouldn't say that. I would just say that that's why we didn't commission a specific study on that. I do think it's true that -- that cost impacts industrial customers and that can overflow into communities.

But I also think, if you look at this legislation, first of all, there's some protections in there for industrial customers in terms of how costs are allocated; and then I also think that there is -- we're seeing a growing interest in renewable energy from industrial customers. They either have their own renewable goals or own carbon goals, and so we think this legislation has actually been a positive, in terms of economic development.

And so I think -- I don't see this legislation or this Carbon Plan as a negative overall for industrial customers. I think there is definitely different things that you balance, in terms of least cost and carbon reductions and all of that, but I don't think overall that it's negative.

Q. But just to confirm, Duke did not analyze price-induced demand erosion as part of its proposed Carbon Plan filing, correct?

A. Correct.

Q. And the Companies, likewise, did not do any analysis to allocate projected Carbon Plan rate increases across customer classes; is that right?

A. So there -- yeah, we did not for the long term. There's a lot of uncertainty, in terms of which cost allocation methodology will be approved by this Commission in the next rate case and then also in future rate cases. So the particular cost allocation methodology is uncertain, different rate design structures are uncertain.

And so we thought it would not be helpful to try to model out a specific allocation to each class for this long-term modeling, but instead looked at overall percentage increases.

Q. And so the projected rate impacts that were provided as part of the Carbon Plan, they reflect an equal percentage increase across customer classes; is that right?

A. Correct. We thought that was the most -- most appropriate way to model it at this point with all of the uncertainty.

Q. Ms. Bateman, you were involved in the legislative stakeholder process that culminated in the filing and enactment of House Bill 951, correct?

A. Correct.

Q. Would you agree that the --

A. Well, I would say to a minimal amount, but yes.

Q. Would you agree that the House version of

House Bill 951, if it had been enacted into law, would have prescribed the specific resource mix to serve as replacement capacity for Duke's retiring subcritical coal fleet?

A. Yes, I would agree with that.

Q. Would you also agree that the Senate version, which was the one that was ultimately enacted into law, is different in that it gives the Commission discretion to select the best resource mix for those replacement resources; is that fair to say?

A. Yes. I would say the Senate version gave a lot more discretion to this Commission.

Q. And as part of that legislative stakeholder process, are you aware of whether Duke shared a handout tending to show typical bill impacts broken down by customer class associated with the early retirement of Duke's coal fleet?

A. So I believe we shared projected rate impacts of the House version of the bill, but not broken down by customer class. I believe we also shared some projections of T&D costs in our base case IRP, which you know, obviously not related to a carbon reduction plan, broken down by customer class. And the main point of that was to show the difference in the T&D

impact on the different customer classes.

Q. Okay.

MS. CRESS: I'd like to introduce what I will request from the Chair be marked for identification as CIGFUR II and III Carolinas Utilities Operations Panel Direct Cross Examination Exhibit Number 3, which is a typical bill calculation handout that Ms. Bateman was just testifying about that was provided to the legislature last year.

MS. NICHOLS: Chair Mitchell, I just want to mention that this is really getting into Ms. Bateman's rebuttal testimony where she addresses the request from intervening parties for an all-in bill estimate. We're comfortable with the testimony going forward, just would ask that we not have repeat questions when she comes up on rebuttal.

MS. CRESS: Chair Mitchell, I understand Ms. Nichols' concern; however, the line of questioning here is really going to the jurisdictional cost allocation issue rather than the all-in rate impact issue.

CHAIR MITCHELL: All right. And I

understand Ms. Nichols to say that they're comfortable with the questions moving forward. She's not objecting to the questions at this point in time, just asking that there be -- be mindful of redundancy when this panel is up on rebuttal.

MS. CRESS: Understood. There won't be duplicative cross. Thanks.

CHAIR MITCHELL: All right. Ms. Cress, let's mark this document. Did you already make that request?

MS. CRESS: I did, Chair Mitchell, but I can repeat it.

CHAIR MITCHELL: All right. Well, I didn't hear any objection, so we'll go ahead and mark it as CIGFUR II and III Carolinas Utilities Panel Direct Cross Examination Exhibit 3.

(CIGFUR II and III Carolinas Utilities Operations Panel Direct Cross Examination Exhibit Number 3 was marked for identification.)

MS. CRESS: Thank you, Chair Mitchell.

Q. Ms. Bateman, can you please turn to page 2 of this handout?

A. Yes.

Q. And under the first bullet titled "Cost of Service," would you please read the first two bullet points?

A. Let me just look at what this is.

(Witness peruses document.)

I'll just say I'm not familiar with this particular PowerPoint, so I don't have any context for that. But I can read the bullet points.

Q. So is it your testimony that you did not prepare this document or have anything to do with presenting it to the legislative stakeholder process participants?

A. (Witness peruses document.)

I wouldn't say I didn't have anything to do with it, but I don't -- I don't recognize this particular PowerPoint. There are pieces in it that I recognize, but I don't recognize the PowerPoint.

Q. Okay. Well, let's talk about the pieces in the PowerPoint that you do recognize.

Which portions do you recognize?

A. So I recognize slide -- well, I recognize slide 5, but it's missing some footnotes from what I provided. And then I'm generally familiar with the typical bill calculations. But yeah, I would -- I would say slide 5, and it's missing some footnotes.

Q. Well, understanding that this was not altered from the state in which it was received, is it fair to say that, on page 3, the estimated bill impacts appear to be shown broken down by customer class?

MS. NICHOLS: I'm gonna object to this line of questioning since the witness doesn't recognize the document and there's been no foundation laid for it.

MS. CRESS: Chair Mitchell, the witness testified moments ago that there were portions of the document she is familiar with, including, as she testified, the estimated bill impacts, which is the page on which I'm asking her questions.

CHAIR MITCHELL: All right. I'm gonna overrule the objection, and I'll allow you to ask the questions, recognizing that the witness has testified that there are -- there is information missing from the document based on her recollection. And we'll give her testimony the weight it's due.

MS. CRESS: Thank you.

THE WITNESS: And I will just clarify, this estimated bill impacts, slide 3, I'm not familiar with this slide. I am familiar with, kind of, how we break down typical commercial and typical industrial customers in the most left-hand column.

Q. Okay. And on page 2, bill impact modeling assumptions, do you agree with me that this document appears to show that costs will be shared across jurisdictions, both North Carolina and South Carolina customers?

A. (Witness peruses document.)

I don't see that on here.

Q. Does it say combined North Carolina and South Carolina in bullet point 2?

A. Yes, yes. Okay. I see it. Yes.

Q. Thank you. We will move on, unless, Mr. Peeler, you happen to be familiar with this document?

A. (Nelson Peeler) I'm not.

Q. Then we'll move on. Okay. Ms. Bateman, are you familiar with a projected rate impact analysis that was performed for the house version of House Bill 951 by the Public Staff?

A. (Laura Bateman) Yes.

Q. Okay.

MS. CRESS: At this time I'd like to mark for identification the Public Staff's House Bill 951 Version 10 analysis dated July 9, 2021. And I'd request that this be marked as CIGFUR II and III Carolinas Utilities Operations Panel Direct Cross Examination Exhibit Number 4.

CHAIR MITCHELL: All right. The document will be marked as CIGFUR II and III Carolinas Utilities Operations Panel Direct Cross Examination Exhibit 4.

(CIGFUR II and III Carolinas Utilities Operations Panel Direct Cross Examination Exhibit Number 4 was marked for identification.)

Q. Ms. Bateman, do you agree with me that this document provides estimated rate impacts associated with the House version of House Bill 951 broken down by customer class?

A. Yes, it does.

Q. Okay. And would you also agree with me that this document provides a comparison between estimated rate impacts associated with Duke's 2020 IRP plan as contrasted to the House version of House Bill 951?

A. Yes. I think it was one of the portfolios in the 2020 IRP.

Q. Has Duke performed an apples-to-apples comparison comparing its 2020 IRP estimated rate impacts versus the house version of House Bill 951, as compared to its proposed Carbon Plan filing? So essentially adding a third bucket here to the Public Staff's framework.

A. No. We -- so you're asking if we prepared, kind of, the 2020 IRP to the House Bill version -- to the House version of the bill to the Carbon Plan on like an apples-to-apples basis with all the same input assumptions?

Q. That's right.

A. We had not done that. We did provide bill impacts in the 2020 IRP. We provided bill impacts in the Carbon Plan, but they were at different points in time with different assumptions that were appropriate, based on when they were prepared.

Q. How would the proposed Carbon Plan rate impacts compare to the rate impacts listed on the Public Staff's analysis here?

A. (Witness peruses document.)

Just give me a minute to get that.

Q. Absolutely. Thanks.

A. (Witness peruses document.)

Looking at 2030, it looks like, for DEP, most of the -- hold on a second here. It looks like most of the Carbon Plan impacts are higher.

Q. Thank you. Ms. Bateman, were you in the hearing room when your colleagues on the Modeling Panel testified that the Carbon Plan assumes costs will be shared across Duke's North and South Carolina customers?

A. Yes.

Q. Okay. And is it fair to say that revenue requirements are established based on cost of service studies that your team will have a role in preparing?

A. Yes.

Q. And then those costs will be allocated on a jurisdictional and customer class basis?

A. Yes.

Q. Okay. For a utility operating in multiple jurisdictions, is it fair to say that consistency between regulatory bodies of those jurisdictions is important to the utility?

A. I would say in some aspects, yes.

Q. Help us understand in what aspects it would not be important.

A. There could be particular rate design offerings that can vary from jurisdiction to jurisdiction. There are some things that can vary from jurisdiction to jurisdiction without an impact on the utility.

Q. With respect to jurisdictional cost allocation, is consistency across the regulatory bodies important to the utility?

A. Yes.

Q. Why is that?

A. Because when you allocate to the jurisdictions -- jurisdictions use different allocation methodologies, there could be leakage where s utility is not able to recover its full cost.

Q. So a possible under-collection of the total revenue requirement?

A. Correct.

Q. And what happens in a scenario where there is an under-collection of revenue by the utility as a result of a jurisdictional inconsistent fee?

A. So it can sometimes just result in under-collected costs.

Q. And in other times?

A. If there's an inconsistency, it can be under or over.

Q. And then how does the utility attempt to rectify that situation?

A. We attempt to have consistency in the allocation methodologies.

Q. Right. But when there is not consistency in the allocation methodologies, what are the options available to the utility to try to recoup those lost revenues?

A. I'm not sure kind of -- I'm not sure what you're asking.

Q. I'll try restating it. So you've testified that plan A is consistency across jurisdictions.

What happens when there is inconsistency across jurisdictions and then there's been, as you testified, an under-collection of revenues? What options are available to the utility to remedy that situation?

A. So I think what you might be asking about -- and I'll just go ahead and hit it directly -- is we have assumed consistency or alignment between North and South Carolina in terms of this Carbon Plan. We are still hopeful that that will happen. We see evidence of interest in renewables in South Carolina, so they've recently opened a docket on renewables procurement. We see indications of interest along those lines.

We do plan to file an IRP next year that is -- in South Carolina that is informed by the Commission's ultimate decision in this docket. So that is -- that is our plan and our hope. However, I understand there is a possibility that that won't happen, that South Carolina will opt for different policy than North Carolina.

And so that is something that we are aware of, that we have been thinking about. But we believe -- so while we're hopeful for that, we are also starting to look at a framework that could allow for the dual-state system to continue, because we think there's a lot of benefits to the dual-state system, but that would also allow for differences in state policy.

And so I'll flip to it so I get the names of the utilities correct. But we have -- you know, fortunately we are not the first utility to grapple with this issue of operating a dual-state system and having differences in state policy. And so just some other utilities that we are starting to look at, there's Appalachian Power, they operate in Virginia and West Virginia. And, of course, Virginia has the Clean

Economy Act and West Virginia does not. And so they have developed a framework where West Virginia, for certain resources, can participate or not participate.

We looked at -- or we're looking at Southwestern Electric Power Company, also known as SWEPCO. They operate in Texas, Louisiana, and Arkansas, and three different states, three different policies. And they've developed a framework where the states can either opt in or opt out of different resources.

And so we are looking at developing a framework in the Carolinas that will work for North and South Carolina. So, you know, there's other utilities that have done this that maybe worked for those states. We have lessons that we can learn. But we want to work with the Public Staff, the ORS, both Commissions to develop a framework that will work for North and South Carolina.

And I believe both witness Bowman and witness Snider, kind of, alluded to that framework would not be South Carolina just opts out of a particular resource, North Carolina pays 100 percent of that resource, end of story. The benefits would flow with the costs. And so if North Carolina is paying for 100 percent of a resource, 100 percent of the output from that generation would go to North Carolina customers, and so their allocation of the rest of the system would be lower.

And so it's still very much a work in progress, but it is -- it is a concern for us and it is something that we are actively looking at. And we hope to have more clarity by the time we get to this -- the next Carbon Plan proceeding.

Q. Thank you for that. You've already testified that you were in the hearing room when your colleagues on the Modeling Panel testified that the Carbon Plan assumes costs will be shared across both jurisdictions.

But have the Companies modeled cost estimates and bill impacts in the event that South Carolina does not approve the Carbon Plan or otherwise disallows Carbon Plan cost recovery?

A. So no, we have not. And like I said, I mean, there's probably many reasons that the modeling team did not model that. But also, we're just now developing this framework, so it's not clear exactly how it would work, in terms of being able to model it.

Q. Okay.

MS. CRESS: I'd like to introduce what

I'll ask the Chair for permission to mark for identification purposes as CIGFUR II and III Carolinas Utilities Operations Panel Direct Cross Examination Exhibit Number 4 -- 5, excuse me, which is Duke's response to CIGFUR Data Request 1-3.

CHAIR MITCHELL: All right. Document will be marked for identification as CIGFUR II and III Carolinas Utilities Operations Direct Cross Examination Exhibit Number 5.

(CIGFUR II and III Carolinas Utilities Operations Panel Direct Cross Examination Exhibit Number 5 was marked for identification.)

MS. CRESS: Thank you, Chair Mitchell.

Q. Ms. Bateman, do you see about -- I'm sorry, you're just now getting the document.

A. (Witness peruses document.)

Yes.

Q. Do you see about middle of the way through the response where it states, "To the extent that alignment cannot be achieved, it will be necessary for each state to separately plan to serve its respective retail load"?

A. Yes.

Q. Have the Companies undertaken any analysis or modeling to the effect of what that would cost if the Companies had to pursue those options?

A. So I don't think there's clarity yet on what that would look like. And so when I read that statement, we would have to know what North Carolina -- what that resource would be for North Carolina, what differences South Carolina would want. And -- and then how we go about modeling that, in terms of, you know, if there's some joint resources. Like our system today, our dual-state system has been developed, there are a lot of benefits to it, but all of our resources are joint resources between North and South Carolina.

If going forward we have this world where we have joint resources, but then we are also able to have North Carolina-only resources and South Carolina-only resources, I don't think we have a clear vision yet of what that would look like.

And I think we really do need to go through the process of this Carbon Plan and then the IRP proceeding that I referenced in South Carolina next year to get more information from both Commissions on what types of resources they would want us to invest in.

Q. So is it fair to say that Duke's approach at this juncture is that this issue would fall under the overarching check-and-adjust strategy of coming back in 2024 for the next Carbon Plan proceeding and potentially modifying in accordance with what may or may not happen in South Carolina?

A. I would agree with that. I think, you know, we think the near-term actions are appropriate regardless of how that turns out. We think -- but I do think our first hope is for alignment, and that is the plan A. However, if -- we should have more clarity by the time we get here in 2024, in terms of what that will look like.

Q. What happens to the Carbon Plan costs incurred between 2022 and 2024, to the extent that the South Carolina jurisdictional allocable share is not able to be recovered from Duke's South Carolina ratepayers?

A. Yeah. And so I mentioned the near-term actions, that we think those are appropriate whether South Carolina is participating in any one specific resource or not. If you look at -- I think we're getting a little bit into my rebuttal testimony, but I had referenced that North Carolina is about 80 percent of the system. And if you look at the near-term actions, what we'd be doing in the near-term, that 80 -- I'm sorry, that it is less than 80 percent of what will ultimately be required.

And so we think the resources in the Near-Term Action Plan will be required whether or not South Carolina participates in them. And I'll say there's one exception to that, I believe it's the CTs. But, you know, South Carolina can't opt out of all of the resources. There will be guidelines along that they need to build something for their load.

Q. Okay. Thank you for that.

MS. CRESS: At this time, I would like to introduce what I'll request be marked as CIGFUR II and III Carolinas Utilities Operations Panel Direct Cross Examination Exhibit Number 6, which is Duke's response to Walmart Data Request 1-7.

CHAIR MITCHELL: All right. Document will be marked CIGFUR II and III Carolinas Utilities Operations Panel Direct Cross Examination Exhibit Number 6.

MS. CRESS: Thank you, Chair Mitchell.

(CIGFUR II and III Carolinas' Utilities Operations Panel Direct Cross

Examination Exhibit Number 6 was marked for identification.)

Q. Ms. Bateman, would you agree with me that subpart C to this data request asks, "Have the Companies performed any estimate of the increased cost to customers if there is a, quote, ultimate separation of the utilities? If so, please provide that analysis including a description of the types of cost the Companies would expect to incur and the amount of such costs, if known"?

Did I read that correctly?

A. Yes.

Q. And can you please read Duke's response to subpart C for the record?

A. And I'll just note that I did not respond to this. So I'm reading it for the first time, but I'll read it. "The Companies object to the request to the extent it seeks analysis that is subject to the attorney-client and attorney work product privileges. Notwithstanding and without waiving this objection, separation of the utilities, if ultimately deemed necessary, would require consideration of multiple different scenarios and potential options. Legacy assets, new resource plans and ownership, credit and financing impacts, along with required changes to operational functions and enabling infrastructure would need to be studied in detail and would be subject to regulatory review and approval from the NCUC and Public Service Commission of South Carolina and FERC."

Q. So Duke has acknowledged, then, that the Carbon Plan, as a resource plan, would be different if South Carolina refuses to allow or approve Duke's proposed Carbon Plan filing?

A. I'm not sure that that's what this says. It just says that if we were to separate the utilities, that there would be a lot of work involved with that, a lot of complications. And I think what we're looking at now is an alternative to completely legally separating North and South Carolina, and instead looking at some -- what some of these other utilities have done, where we could maintain a dual-state system but allow for differences in state policy.

And I don't know what that would look like. So I think that's something that we need to have some more conversations about and get more clarity about. If there's particular resources that South Carolina may not want to participate in, but maybe they want 100 percent of something else. And so we would just have to see what that looks like.

Q. Okay. Thank you. Earlier you testified about the Virginia Clean Economy Act.

A. Yes.

MS. CRESS: I'd like to introduce what I'll request be marked as CIGFUR II and III Carolinas Utilities Operations Panel Direct Cross Examination Exhibit Number 7, which is a copy of the Virginia Clean Economy Act.

MS. NICHOLS: Chair Mitchell, I'm not sure what relevance a Virginia statute has to the discussion that we're having today. We would be happy to stipulate the statute into the record, but we have our own statute.

MS. CRESS: Chair Mitchell, the witness brought up the Virginia Clean Economy Act specifically regarding to the jurisdictional cost allocation issue. And my question is going to be a single question directly relevant to that issue pertaining to her prior testimony about this very legislation.

CHAIR MITCHELL: All right. Well, my -- I'm gonna overrule the objection, allow the question. My recollection is that her testimony pertained to the Appalachian Power scenario, the Virginia and West Virginia jurisdictional differences. So I'll allow the question.

MS. CRESS: Thank you, Chair Mitchell.

Q. Ms. Bateman, if you could just turn with me to page 29.

A. (Witness complies.)

Yes.

Q. Can you tell me if I'm reading this correctly. In section F, the very last sentence of section F, on page 29, which reads, "If a phase 1 or phase 2 utility serves customers in more than one jurisdiction, such utility shall recover all of the costs of compliance with the RPS program requirements from its Virginia customers through the applicable cost recovery mechanism. And all associated energy capacity and environmental attributes shall be assigned to Virginia to the extent that such costs are requested but not recovered from any system customers outside the commonwealth."

Did I read that correctly?

A. You read that correctly, but I'm not sure that we should assume that what Virginia does is exactly what will happen in North and South Carolina.

Q. You were anticipating my question, but you didn't anticipate it quite correctly.

The question is, there's no language like that in House Bill 951, correct?

A. That is correct.

Q. All right.

A. And I will just add, I think we're looking at developing a framework that can accommodate differences in state policy, and not just direct assign costs to one state versus another without making sure that the benefits go along with those costs.

Q. Okay. And you also testified earlier that Duke is -- and I'll characterize it this way, tell me if you disagree -- Duke is optimistic that it will be able to continue dual-state operations through constructive regulatory environments in both North Carolina and South Carolina, correct?

A. I think I used the word "hopeful."

Q. Hopeful. Okay. Well, can you stipulate that those are synonyms, for the most part? In any event --

MS. NICHOLS: Objection.

MS. CRESS: Yeah. It was a joke, but okay.

Q. Ms. Bateman, I would like to ask some questions exploring that hopefulness, to use your word, regarding the South Carolina -- the ability for Duke to continue operating as a dual-state utility, specifically in the context of the Carbon Plan.

MS. CRESS: At this time, I would like to -- I think this is my last exhibit, or if not, it's a second to last. But I request permission to mark for identification as CIGFUR II and III Carolinas Utilities Operations Panel Direct Cross Examination Exhibit Number 8. And this is a letter that I will be asking the witness about.

CHAIR MITCHELL: All right. The document will be marked for identification purposes as Carolinas Utilities Operations Panel Direct Cross Examination Exhibit Number 8.

(CIGFUR II and III Carolinas Utilities Operations Panel Direct Cross Examination Exhibit Number 8 was marked for identification.)

MS. CRESS: Thank you, Chair Mitchell.

CHAIR MITCHELL: To be clear, CIGFUR II and II Carolinas Utilities Operations Panel Direct Cross Examination Exhibit Number 8.

Q. Ms. Bateman, have you seen this letter before?

A. Yes.

Q. What is your understanding about the purpose of this letter?

A. (Witness peruses document.)

I might need to refresh just a little bit.

Q. Sure.

A. (Witness peruses document.)

So I believe it was citing some legal concerns with having a joint Carbon Plan proceeding with North and South Carolina. It's from the Attorney General in South Carolina to one of the legislators.

Q. Okay. And is it fair to say that Chair Sandifer reached out to the South Carolina Attorney General's Office requesting an advisory letter regarding House Bill 951 which, quote, will impose North Carolina's legislatively mandated greenhouse costs onto Duke Energy's South Carolina customers?

MS. NICHOLS: Objection. I don't know that this witness has any knowledge of what members of the General Assembly or the AG's office in South Carolina intended.

MS. CRESS: Chair Mitchell, I was reading an excerpt from the letter that stated the inquiry from Chairman Sandifer to Attorney General Wilson.

CHAIR MITCHELL: All right. I'm gonna sustain the objection. You can ask her to read the letter or ask the question in a -- ask a different question on the letter.

Q. Okay. Ms. Bateman, can you please turn to page 3 of this letter?

A. Yes.

Q. Can you please read -- beginning with the first full sentence, can you please read the remainder of the paragraph at the top of the page?

A. Starting with "The recent South Carolina Supreme Court"?

Q. Starting with "first of all."

A. Oh, "first of all" and then through the end of that paragraph?

Q. Yes, ma'am, thank you.

A. "First of all, we are aware of no instance where this statute has been employed for such a joint hearing since its enactment in 1932. Regardless, however, we do not think that the Commission may order South Carolina ratepayers to cover the cost of Duke Energy's compliance with HB 951, a North Carolina statute, through utilization of 58-27-170. The recent South Carolina Supreme Court decision in Duke Energy Carolinas, which will be discussed below, illustrates vividly that the South Carolina General Assembly has not authorized the PSC to develop a Carbon Plan on the basis of a North Carolina statute pursuant to a proceeding presided over by the NCUC and using only North Carolina law as its basis. We think that this proposal stretches South Carolina law and federal constitutional law past the breaking point. Indeed, rather than seeking a constitutionally authorized compact between the two states, such a joint proceeding raises significant constitutional concerns as well. Thus, to our mind, if the PSC engaged in this plan, it would run the risk of usurping the legislative powers of the General Assembly and could well violate the state and federal constitutions. We do not believe that current law nor constitution so permits."

Q. Ms. Bateman -- I'm sorry, go ahead.

A. Go ahead.

Q. Can you help us understand the basis for Duke's hopefulness that it will be able to continue its dual-state operations with the Carbon Plan, in light of this type of political and legal environment in

South Carolina?

A. Yes. So I think I said that we were hopeful that we can achieve alignment, in terms of the resources. So I think this is mainly a legal letter about a particular joint proceeding, but some of the things that make us still hopeful is that the South Carolina Commission has opened a docket to consider renewable procurement similar to the 2022 solar procurement docket before this Commission.

They've also -- they have a docket to study integration of renewable resources on the system and recently had a workshop on that. The South Carolina General Assembly is exploring renewable resources and the impact on economic development, so we see interest there. The Companies have engaged with stakeholders on potential new renewable customer programs in the state and see a lot of interest there. And then also just the growing need of our customers. And so just like many members of CIGFUR, we have industrial customers in South Carolina that have their own renewable and carbon goals and are expressing interest in procurement of those resources.

So those are just a few of the things that lead us to believe that South Carolina is interested in renewable generation and some of the very same resources that we have listed in the Carbon Plan. And so I know they don't want to be controlled by a North Carolina law, but I do think that they may end upcoming to the exact same resource plan. We see a lot of interest in renewables, a lot of change moving in that direction in South Carolina.

But nevertheless, we are working on developing a framework where, if we don't achieve alignment, that we can maintain the dual-state system and allow for differences in state policy. That would be fair and equitable to both states. So again, benefits going with costs.

Q. Thank you. If the Commission were to order Duke to model a scenario in which South Carolina does not pay for its jurisdictional allocable share of Carbon Plan costs, would Duke do so?

A. Well --

MS. NICHOLS: I just want to object. The question includes an assumption about jurisdictional allocable costs, and what Ms. Bateman was just testifying about is a different type of allocation methodology.

MS. CRESS: Chair Mitchell, it was a

hypothetical, and I think it's absolutely relevant and material to this line of questioning, this inquiry. There has been testimony from multiple witnesses about this --

CHAIR MITCHELL: All right. I'll overrule the objection. Answer the question, please, ma'am.

THE WITNESS: So, obviously, we would do our very best to do anything that this Commission asks us to do. However, I do think it would be difficult, given that we are just starting to develop this framework where costs go with benefits. And so I think we would need to make some assumptions, and that might not be where we land with the framework.

Q. Okay. Thank you. And last but not least, Mr. Peeler, I've got a few questions for you.

MS. CRESS: I will ask that CIGFUR II and III's final exhibit for this panel be identified and marked for the record as CIGFUR II and III Carolinas Utilities Operations Panel Direct Cross Examination Exhibit Number 9, which is Duke's response to Public Staff Data Request 13-9.

CHAIR MITCHELL: All right. The

document will be marked as CIGFUR II and III Carolinas Utilities Operations Panel Direct Cross Examination Exhibit Number 9.

(CIGFUR II and III Carolinas Utilities Operations Panel Direct Cross Examination Exhibit Number 9 was marked for identification.)

MS. CRESS: Thank you, Chair Mitchell.

Q. Mr. Peeler, you were the responder for this data request; is that right?

A. (Nelson Peeler) Yes.

Q. Okay. And am I correct that, in response to subpart D of this data request, you state in part that, quote, developing execution plans for a merger is not timely until more clarity is gained regarding the direction resource planning will take in South Carolina?

A. Just give me just a minute to read it.

(Witness peruses document.)

Could you just repeat the question? Make sure I answer exactly what you asked.

Q. How about you, sir, read your answer, just subpart D into the record, please.

A. "Developing execution plans for a merger is not timely until more clarity is gained regarding the direction resource planning will take in South Carolina. CSO execution plans are being developed to allow for future flexibility if merging the utilities is later determined to be most beneficial for both North and South Carolina customers and stakeholders."

Q. Thank you. Nothing further for this panel.

CHAIR MITCHELL: All right. Let's see. Next up would be SACE. Go ahead, Mr. Neal.

MR. NEAL: Thank you, Chair Mitchell.

CROSS EXAMINATION BY MR. NEAL:

Q. David Neal for SACE, et al. Good morning, Mr. Peeler, Ms. Bateman.

A. (Nelson Peeler) Good morning.

A. (Laura Bateman) Good morning.

Q. Oh, gosh, good afternoon. Mr. Peeler, starting with you, on page 5 of y'all -- of your testimony.

Could you read the first sentence there -- I'm sorry, the -- on line 12, the sentence starting "combining into a single?"

A. (Nelson Peeler) "Combining into a single balancing authority to manage load and resources produces savings annually for customers, helps accommodate expanded levels of variable renewable energy resources, substantially reduces forced solar curtailment, and eliminates several hundred annual combustion turbine starts that increase fleet maintenance costs."

Q. Thank you. And you would agree that the next sentence you also note benefits to customers in the form of lower fuel costs and reduced carbon dioxide emissions, correct?

A. Correct.

Q. And would you agree that one reason for the benefits you outline in your testimony is that the aggregate output from variable renewable generation becomes less variable as the geographic size of the balancing area containing those resources and the load that they serve increase?

A. To an extent, yes.

Q. And by the same token, enhanced interregional connections with neighboring utilities or wholesale energy markets could provide similar economic and reliability benefits to the ones that you outlined in your testimony?

A. So not completely in this context, but to some extent, a larger footprint, as you describe, can support, you know, improved dispatch. But in this regard, such a construct doesn't really support resource plans like we're talking about here to actually place renewable resources. So the type of construct you're talking about is an operating only construct, not a resource plan.

Q. But you would agree that, from an operational point of view, some of the benefits of -- that you described from having variable resources serve a larger area, could apply, from an operations point of view?

A. Again, I would agree up to a certain point. There's diminishing return on scale and resources. The Duke Energy system scale is very large when combined and has variable -- has a wide range of diverse resources that actually support that. Things like pump storage, various types of generation that's very capable of managing the variability.

So there's a diminishing return is my point. The Duke Energy system is very large and reaches near that diminishing return.

Q. And, Ms. Bateman, turning to your testimony on the issue of rate disparities between the Duke utilities, which I believe you discuss on page 9.

A. (Laura Bateman) Yes.
Q. As I recall your testimony there was in the context of this issue of a merger of DEC and DEP.
And is it fair to say that that merger would take some time?
A. Yes. I believe we had an appendix to our testimony that laid out a potential timeline.
Q. And so even following a merger, as I understand your testimony, rate disparities may persist, such that retail customers of the current DEP service territory may remain higher than for retail customers in the DEC territory; isn't that right?
A. So yes, I think I talked about, if we were to merge, the discretion that this Commission would have on how quickly or slowly to merge those rates. And this is something that this Commission deals with in every rate case, but typically between customer classes. And so sometimes there's different returns that are being earned from different classes.
So one class might be subsidizing another class. And we try to move those returns closer together, but we employ a principle of gradualism to avoid rate shock. And I think those are two principles that I know the Public Staff has testified to and that

we employ in establishing those rate increases by customer class.

Q. And given that disparity that exists and may persist, even following a merger, to the extent a Carbon Plan compliance pathway that otherwise complies with all the requirements of House Bill 951 -- least cost, reliability, carbon reduction, all that -- to the extent that you had a compliance pathway that had relatively higher rate increases for the DEC retail customers than the DEP retail customers, that would help to mitigate that disparity; isn't that right?

A. So no. If we're in a scenario where a merger between DEC and DEP is accomplished, new costs or cost increases, so back to kind of how we deal with differences in customer classes today, so new increases are spread typically based on rate base. So they're spread more proportionally. And to the customer classes and this example would be spread more proportionally to DEC and DEP customers.

It's how you address that existing disparity that can be done over time and with gradualism.

Q. So to the extent that the Companies incurred carbon compliance costs before a merger and had to allocate those costs between DEC and DEP, to the extent that occurred and you had relatively higher costs imposed on DEC customer than DEP customers, in that scenario, that would help to mitigate the existing rate disparity, right?

A. So potentially. I think I testify in my rebuttal testimony, if we look at revenue requirement impacts through 2026, that they tend to be -- the difference between DEP and DEC is very small, and in several of the portfolios, in fact, I think a majority of the portfolios, the impact to DEC is greater than DEP.

But some of that will depend on rate case timing, and our modeling assumes perfect ratemaking, meaning that as soon as the costs are incurred, they're reflected in customers' rates. And that's not necessarily how the real world works, so there could be some other factors that weigh into that.

Q. Returning to the topic that you were discussing earlier about jurisdictional allocation, you would agree that whatever Carbon Plan this Commission adopts -- or whatever resource portfolio is adopted to comply with HB 951, the focus on any dispute between North and South Carolina would be really on the incremental costs of meeting those carbon reduction goals, not the entire PVRR, present value revenue requirement; isn't that right?

A. So I think the way that we've been thinking about it is we're asking the Commission to approve the near-term actions that we requested in this proceeding, and then we've been thinking about a framework where, not necessarily looking at incremental cost versus base cost, because I think that's gonna evolve as we get further out in time. And it's just not how we've been thinking it. But instead we've been thinking about resource by resource.

Is this a joint-state resource; is this a North Carolina-only resource; is this a South Carolina-only resource. And then the cost of that resource, as well as the output of that resource, would go directly to that state, if it were a North Carolina-only or South Carolina-only resource.

Q. Thank you. No further questions.

CHAIR MITCHELL: All right. Tech Customers?

MR. SCHAUER: Thank you, Chair Mitchell.

CROSS EXAMINATION BY MR. SCHAUER:

Q. Craig Schauer on behalf of the Tech Customers.

If at the conclusion of South Carolina's 2023 IRP, Duke finds a disalignment of policies between North Carolina and South Carolina, will Duke model the potential disallowance of costs by South Carolina as part of Duke's next Carbon Plan?

A. (Laura Bateman) So I might phrase it differently, because again, the framework that we've been thinking of is you have joint resources, North Carolina-only resources, and South Carolina-only resources. So if we had more clarity at that point on both the resource plans and the framework, then I think we would.

Q. Thank you. No further questions.

CHAIR MITCHELL: All right. Walmart?

MR. SMITH: Commissioner, counsel for Walmart instructed me to tell you that she wouldn't have any questions after CIGFUR's line of questions, and she had to take a phone call.

CHAIR MITCHELL: Okay. Public Staff?

CROSS EXAMINATION BY MS. EDMONDSON:

Q. Good afternoon, Ms. Bateman, Mr. Peeler. Lucy Edmondson with the Public Staff.

When do you expect the South Carolina IRP proceeding to conclude?

A. (Laura Bateman) Actually, I don't know for sure. I think we're gonna file it in the middle of next year, but I don't know.

A. (Nelson Peeler) I don't know. We can certainly find that out, but it's to be filed in, I believe it's the third quarter of '23.

Q. And do you recall how long the last one took, not counting appeals?

A. I do not.

Q. So just trying to get an idea of when we could expect a decision from South Carolina; do you think it would be in 2023, '24, '25?

A. (Laura Bateman) I think we could get an answer for you, but I don't know off the top of my head.

Q. Okay. I may ask you that on the rebuttal.

A. Okay. Or I'm sure you could ask the Modeling Panel.

Q. Okay. Great. Ms. Bateman, Mr. Peeler, on page 9 of your testimony, you have a chart showing the difference in retail rates between DEC and DEP.

A. Yes.

Q. And those rates are an average retail rate in cents per kilowatt hour?

A. Correct.
Q. And your numbers go through 2019?
A. Correct.
Q. Did you-all have a chance to review Mr. McLawhorn's testimony?
A. I did.
Q. Did you -- on page 6 -- do you have the testimony with you?
A. Yes.
Q. On page 6 of his testimony, he has a Table 1.
A. Yes.
Q. And he is using a different basis for his table, correct?
A. Correct. He is looking at the typical residential customer using 1,000 kWh, and I believe it's -- and I probably have to ask Mr. McLawhorn. I wasn't able to tie exactly to his numbers, but there's many different ways that you can look at it: summer, winter, annualized, I know he's got as of August in there. So don't have any reason to dispute his numbers. But there's many different ways to look at it and you get slightly different answers.
Q. Did your numbers include the various riders?
A. Yes, they did.

Q. And so you couldn't tie his numbers, but do you dispute his numbers?
A. No.
Q. And understanding that your two charts compare different things, you would agree Mr. McLawhorn's chart shows a much larger disparity between DEC and DEP customers?
A. (Witness peruses document.)
I don't -- I don't know that I would agree with that.
Q. Okay.
A. I think they both show a disparity, and they both show that disparity changing over time. That's what I would say is that -- so, for example, on my chart, in 2010, if you're doing cents per kWh, you know, maybe that's the same as dollars per 1,000 kWh. Or I'm sorry -- yeah, I think you could compare that. So I've got, like, a dollar -- one-and-a-half dollars and he's got, like, $10. I think they're pretty comparable.
I think they both show that DEP has higher rates, and they both show that that -- how far apart they are fluctuates over time. In some years it gets closer together, in other years it gets further apart.

And I think I testified in my rebuttal testimony that a significant portion of that difference is due to the fuel rates, differences in the fuel rates.

And so if you think about the volatility of the fuel, the timing of the different fuel proceedings, you could have an issue with where one utility has an over-recovery and the other one has an under-recovery. In the same -- in the same time period one might be collecting an over-recovery and the other an under-recovery, and so that can make your rates look further apart or closer together, depending on what's going on with the over- or under-recovery in the fuel.

Q. But his chart also included 2020, '21, and '22?

A. Correct.

Q. And those show an increasing disparity?

A. Well, yeah. I would just say that they show a disparity. And since most of it is driven by fuel, I don't know that you can look at any particular trend. And I think they go further apart, they go closer together, they go further apart, they go closer together. And we've seen that over many, many years. I think he goes back to 2007. You know, we went from 2007 to 2012, but you can see it over that whole time period. They go closer together, they go further apart.

Q. All right. Turning to page 14 of your testimony. On lines 4 through 6, you say that one option to address rate disparities is to evaluate whether DEC could own solar generation in DEP's territory.

A. Yes.

Q. What is the status of that evaluation?

A. So I'll speak to it a little bit. I mean -- and then I'm gonna ask Nelson maybe to help, because it has to do with transmission. So DEC could own the solar generation, but if it's used for capacity, in order to get any capacity credit for it, there would have to be firm transmission, I believe.

And so I think just working through that -- what would be the most cost-effective way to do it. Is it more cost effective on for DEC to own solar generation in DEC service territory or to own in DEP service territory and build the transmission for it, or is there some other creative scenario or arrangement that we haven't thought of?

A. (Nelson Peeler) Yeah. I'll just add, and Ms. Bateman covered it, but looking at the options, if we're gonna count capacity of that solar, we'd need a firm path to get it to the other operating company. And that potentially adds cost which might make that not the most cost-effective way to do it.

So I'll just say the evaluation's really in that preliminary somewhat of a discussion stage to determine if it's feasible. But no real thorough analysis about all those potential complications.

Q.   When do you expect this evaluation to be concluded?

A.   So it's part of our overall, you know, work here around the work with -- the framework that Ms. Bateman mentioned earlier about the potential for a framework that allows some variation in state policy. We're really focused on that right now. This is an alternative.

So I would say, you know, it's definitely not while we're doing these proceedings. I would think it goes in that same timeline with the other work with South Carolina. So into next year as a potential option.

Q.   All right. And also in -- on line 9, you say you're evaluating joint ownership of wind generation?

A.   (Laura Bateman) Correct.

Q. Is that being evaluated on the same timeline, Mr. Peeler?

A. (Nelson Peeler) I would say yes. Just again, this is intended to provide some potential scenarios of options, the things that could be done certainly with wind -- wind's a capacity resource, so there would definitely need to be some transmission to be addressed, but it's in the same time frame of the overall review.

Q. And on line 18 of that same page, you talk about allocating transmission investment.

Is that, again, sort of on the same time frame as well?

A. It is. And I'll just add, the other piece to that one is, if we do not end up going forward with the utility merger, we still would intend to go forward with consolidated operations as defined in here, which would create a single transmission planning footprint and a single transmission tariff for the Carolinas operation. So that would create a single transmission rate in the Carolinas.

A. (Laura Bateman) Yeah. And I think that's -- just to add that that would be -- the wholesale OATT transmission rate would be one rate. And so one thing that we could consider if a merger was not feasible is proposing something similar in the retail rates.

Q. And when would you expect Duke and all of us to know whether a merger was feasible or not?

A. (Nelson Peeler) I'll just reference the timeline in our exhibit. It's just kind of an indicative timeline, but really we were looking at some evaluation over roughly the next nine months that helps us do some cost benefit analysis and other things. And then following that with, you know, stakeholder engagement. So it's probably late '23, early '24 before there's a clear direction on that.

A. (Laura Bateman) And then I would just add that approval is needed from three regulatory commissions. And so there might not be clarity on that until we get further into the timeline.

Q. Were you here for the line of questioning during the Modeling Panel regarding the selection of combined cycles in P1 through P4 which would have one located in DEC territory and one in DEP? Are you familiar with that.

A. I was here for most of their testimony.

A. (Nelson Peeler) I'm not certain, but I'm certainly happy to take a question.

Q. Okay. And you'll accept that, in P1 through P4, it has one CC in each territory?

A. Yes.

Q. And then in Portfolio 5, both CCs are in the DEC territory.

If the Commission's Carbon Plan selected both CCs to be in DEC territory, would Duke propose to construct one CC in DEP's territory or come up with a way to allocate?

A. Just to make sure I got the question right, are you asking would we site one in DEP and one in DEC? I guess my answer would be that we aren't to the siting point yet, that those discussions are really just for modeling and indicative of where they would be.

So we would select the best location, whether it would be DEC or DEP, based on assuming a merger. Based on a lot of things that go into that, fuel supply, you know, transmission access, all those types of things.

A. (Laura Bateman) And just to clarify your hypothetical, are you saying the Commission adopts a Carbon Plan that has one combined cycle in DEC and one combined cycle in DEP service territories?

Q. Right.

A. So I would assume, if that's what the Commission directs us to do, that we would do that.

A. (Nelson Peeler) Yeah, I misunderstood. I'm sorry.

Q. That's fine. And you would agree that siting of the new Carbon Plan generation is gonna be an important consideration as to cost allocation?

A. Yeah. Siting is important for a number of reasons.

Q. And you would agree a merger of the DEC and DEP could potentially obviate the issues about siting and allocation?

A. (Laura Bateman) Yes, I would agree.

Q. All right. That's all I have. Thank you.

CHAIR MITCHELL: All right. At this point, we're gonna break for lunch, and we'll be back on -- so we'll go off the record. We'll be back on at 1:45.

(The hearing was adjourned at 12:28 p.m. and set to reconvene at 1:45 p.m. on Monday, September 19, 2022.)

CERTIFICATE OF REPORTER

STATE OF NORTH CAROLINA)
COUNTY OF WAKE)

I, Joann Bunze, RPR, the officer before whom the foregoing hearing was conducted, do hereby certify that any witnesses whose testimony may appear in the foregoing hearing were duly sworn; that the foregoing proceedings were taken by me to the best of my ability and thereafter reduced to typewritten format under my direction; that I am neither counsel for, related to, nor employed by any of the parties to the action in which this hearing was taken, and further that I am not a relative or employee of any attorney or counsel employed by the parties thereto, nor financially or otherwise interested in the outcome of the action.

This the 22nd day of September, 2022.

JOANN BUNZE, RPR
Notary Public #200707300112