

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. E-22, SUB 590

In the Matter of
Application by Virginia Electric and)
Power Company, d/b/a Dominion)
Energy North Carolina Pursuant to)
N.C.G.S. § 62-133..2 and Commission)
Rule R8-55 Regarding Fuel and Fuel-)
Related Costs Adjustments for Electric)
Utilities)

TESTIMONY OF
MICHAEL C. MANESS -
PUBLIC STAFF – NORTH
CAROLINA UTILITIES
COMMISSION

November 2, 2020

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Testimony of Michael C. Maness

On Behalf of the Public Staff

North Carolina Utilities Commission

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1 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND**
2 **PRESENT POSITION.**

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

7 **Q. BRIEFLY STATE YOUR QUALIFICATIONS AND DUTIES.**

8 A. A summary of my qualifications and duties is set forth in Appendix A
9 of this testimony.

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

11 A. The purpose of my testimony is to inform the Commission of a matter
12 that the Public Staff is currently in the process of reviewing that
13 involves the intersystem sales component of the fuel and fuel-related
14 cost factor (fuel factor) of Virginia Electric and Power Company d/b/a
15 Dominion Energy North Carolina (DENC or the Company). The

1 Public Staff is not recommending an adjustment regarding this
2 matter in this proceeding, but may recommend an adjustment in next
3 year's or another future DENC fuel factor proceeding.

4 **Q. PLEASE DESCRIBE THE MATTER THAT THE PUBLIC STAFF IS**
5 **IN THE PROCESS OF REVIEWING.**

6 A. First, pursuant to N.C. Gen. Stat. § 62-133.2:

7 The Commission shall permit an electric public utility
8 that generates electric power by fossil fuel or nuclear
9 fuel to charge an increment or decrement as a rider to
10 its rates for changes in the cost of fuel and fuel-related
11 costs used in providing its North Carolina customers
12 with electricity from the cost of fuel and fuel-related
13 costs established in the electric public utility's previous
14 general rate case on the basis of cost per kilowatt hour.
15 [Emphasis added.]

16 "North Carolina" customers as used here in the statute is interpreted
17 by the Public Staff to mean "North Carolina retail customers" (N.C.
18 retail customers), because the Commission has no authority to set
19 rates for sales to the investor-owned utilities' wholesale customers,
20 either those considered to be "on" the system or "off" the system.¹
21 Sales to the former are typically characterized as "system" wholesale
22 sales, while sales to off-system wholesale customers are typically
23 characterized as "off-system" or "intersystem" sales. For N.C. retail

¹ The Commission does not have the authority to set rates for sales to other retail jurisdictions either, but these are not particularly relevant to my testimony. The revenues and costs of these are typically separated from N.C. retail revenues and costs in a manner similar to that used for system wholesale sales.

1 ratemaking purposes, the revenues and costs of system wholesale
2 sales are typically determined through direct assignment of revenues
3 and allocation of total system-level costs to stand-alone wholesale
4 jurisdictions, while the specifically determined net revenues of
5 intersystem sales are allocated to each of the retail and system
6 wholesale jurisdictions for N.C. retail ratemaking purposes, thus
7 reducing each jurisdiction's specific cost of service.

8 The impact of this methodology on DENC fuel cases is that the fuel
9 cost of sales made to system wholesale customers is separated from
10 N.C. retail fuel cost through a system cost allocation very similar to
11 that used in general rate cases, while the N.C. retail allocated portion
12 of the fuel cost associated with intersystem sales is directly deducted
13 from the N.C. retail portion of allocated fuel costs associated with the
14 overall generation or purchase of energy.

15 **Q. HOW IS THE AMOUNT OF FUEL COST ASSOCIATED WITH**
16 **INTERSYSTEM SALES DETERMINED?**

17 A. The fuel cost of intersystem sales is typically determined with the use
18 of a resource "stacking" process that helps ensure that the highest
19 cost resources are used for intersystem sales, while lower-cost
20 resources are used for system retail and wholesale sales.

21 **Q. WHAT IS THE OVERALL OBJECTIVE OF THIS ALLOCATION**
22 **AND DEDUCTION PROCESS?**

1 A. The overall objective is to ensure that the fuel costs that are assigned
2 or allocated to N.C. retail customers are the costs of only the kWh
3 sales made to those customers, and that the assignment or
4 allocation is determined by inclusion of lower-cost resources than
5 those assigned to intersystem wholesale sales. No profit, or sales
6 margin, associated with intersystem sales is intended to be flowed
7 through to N.C. retail customers in the fuel factor; instead, profit on
8 DENC intersystem sales is flowed through to customers in general
9 rate cases.

10 **Q. IS THERE ANYTHING UNIQUE ABOUT DENC'S INTERSYSTEM**
11 **SALES?**

12 A. One feature of DENC's intersystem sales that distinguishes them
13 from those made by the other major North Carolina investor-owned
14 electric public utilities is that all or most of DENC's intersystem sales
15 are made to or through PJM Interconnection, LLC (PJM), and thus
16 the PJM cost and billing system is intertwined with the determination
17 of the fuel cost of these sales.

18 **Q. WHAT IS THE SPECIFIC MATTER REGARDING THE**
19 **INTERSYSTEM SALES COMPONENT OF DENC'S FUEL**
20 **FACTOR THAT THE PUBLIC STAFF IS CURRENTLY IN THE**
21 **PROCESS OF REVIEWING?**

1 A. As noted above, no profit on intersystem sales is supposed to flow
2 through the fuel factor. The intention is that only the fuel cost of the
3 resources used to make the sales is supposed to be included as a
4 charge, or increase, to the fuel factor, and, likewise, only the fuel cost
5 of the resources used to make the sales is supposed to be deducted
6 from the calculation of the fuel factor in order to reflect the impact of
7 the sales themselves. The matter that the Public Staff is reviewing
8 is related to the fact that during our review of the Experience
9 Modification factor (EMF) proposed in this proceeding, we have
10 discovered that it appears possible that while only the fuel costs
11 associated with intersystem sales are being deducted from the EMF
12 calculation the corresponding increase in the fuel factor includes a
13 portion of the margin above fuel costs associated with the purchase
14 of that energy from PJM, thus creating a mismatch.

15 **Q. WHY HAS THE PUBLIC STAFF NOT BEEN ABLE TO REACH A**
16 **CONCLUSION REGARDING THIS MATTER AND PROPOSE A**
17 **RECOMMENDATION TO THE COMMISSION?**

18 A. Because the determination of the fuel and other costs associated
19 with intersystem sales is intertwined with the complex cost
20 calculations performed by PJM and set forth in its billings to DENC,
21 the Public Staff has not been able to reach a definitive conclusion
22 regarding this matter within the time constraints imposed by the
23 annual fuel factor investigation and hearing process. Furthermore,

1 once a definitive conclusion is reached, it will be necessary to review
2 the calculation of the base fuel factor established in DENC's most
3 recent general rate case, to determine if non-fuel costs have been
4 included in the base fuel factor and need to be addressed, as
5 occurred several years ago in Docket No. E-22, Sub 304. This
6 process would add a second layer of complexity to the investigation
7 and resolution of this matter.

8 **Q. SINCE THE PUBLIC STAFF IS NOT READY TO RECOMMEND AN**
9 **ADJUSTMENT AT THIS TIME, WHY ARE YOU BRINGING THIS**
10 **MATTER TO THE COMMISSION'S ATTENTION?**

11 A. First, the Public Staff simply wishes for the Commission to be aware
12 of the Public Staff's concern regarding this matter. Second, the
13 Public Staff wishes to ensure that the fact that it is not prepared to
14 recommend an adjustment in this proceeding will not preclude it from
15 raising the issue in a future proceeding. Therefore, the Public Staff
16 requests the Commission to effectuate a "placeholder" in this case,
17 and specifically reserve the right for the Public Staff to raise this issue
18 in future fuel rider or other rate proceedings.

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

20 A. Yes, it does.

QUALIFICATIONS AND EXPERIENCE

MICHAEL C. MANESS

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

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

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

certificates of public convenience and necessity for the construction of generating facilities, approval of self-generation deferral rates, approval of cost and incentive recovery mechanisms for electric utility demand-side management and energy efficiency (DSM/EE) efforts, and approval of cost and incentive recovery pursuant to those mechanisms.

I have also been involved in several other matters that have come before this Commission, including the investigation undertaken by the Public Staff into the operations of the Brunswick Nuclear Plant as part of the 1993 Carolina Power & Light Company fuel rate case (Docket No. E-2, Sub 644), the Public Staff's investigation of Duke Power's relationship with its affiliates (Docket No. E-7, Sub 557), and several applications for business combinations involving electric utilities regulated by this Commission. Additionally, I was responsible for performing an examination of Carolina Power & Light Company's accounting for the cost of Harris Unit 1 in conjunction with the prudence audit performed by the Public Staff and its consultants in 1986 and 1987.

I have had supervisory or management responsibility over the Electric Section of the Accounting Division since 1986, and also was assigned management duties over the Water Section of the Accounting Division during the 2009-2012 time frame. I was promoted to Director of the Accounting Division in late December 2016.