



**NORTH CAROLINA
PUBLIC STAFF
UTILITIES COMMISSION**

September 17, 2019

Ms. Kimberly A. Campbell, Chief Clerk
North Carolina Utilities Commission
4326 Mail Service Center
Raleigh, North Carolina 27699-4300

Re: Docket No. E-22, Sub 562 & E-22, Sub 566

Dear Ms. Campbell:

In connection with the above-captioned docket, I transmit herewith for filing on behalf of the Public Staff the Joint Testimony of James S. McLawhorn, Director, Electric Division and Sonja R. Johnson, Staff Accountant, Accounting Division.

By copy of this letter, we are providing copies to all other parties of record.

Sincerely,

/s/ Heather D. Fennell
Staff Attorney
heather.fennell@psncuc.nc.gov

Executive Director (919) 733-2435	Communications (919) 733-5610	Economic Research (919) 733-2267	Legal (919) 733-6110	Transportation (919) 733-7766
Accounting (919) 733-4279	Consumer Services (919) 733-9277	Electric (919) 733-2267	Natural Gas (919) 733-4326	Water (919) 733-5610

DOMINION ENERGY NORTH CAROLINA

DOCKET NO. E-22, SUB 562

DOCKET NO. E-22, SUB 566

**PARTIAL SETTLEMENT JOINT TESTIMONY OF
JAMES S. MCLAWHORN AND SONJA R. JOHNSON
ON BEHALF OF THE PUBLIC STAFF-
NORTH CAROLINA UTILITIES COMMISSION**

September 17, 2019

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

3 A. My name is James S. McLawhorn. My business address is 430 North
4 Salisbury Street, Raleigh, North Carolina. I am the Director of the
5 Public Staff – Electric Division.

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

7 A. My qualifications and duties are attached as Appendix A.

8 **Q. DID YOU FILE DIRECT TESTIMONY IN THIS PROCEEDING?**

9 A. No.

10 **Q. MS. JOHNSON, PLEASE STATE FOR THE RECORD YOUR**
11 **NAME, ADDRESS, AND PRESENT POSITION.**

12 A. My name is Sonja R. Johnson. My business address is 430 North
13 Salisbury Street, Raleigh, North Carolina. I am an Accountant with
14 the Public Staff – Accounting Division.

1 Q. DID YOU FILE DIRECT TESTIMONY ON AUGUST 23, 2019 IN
2 THIS PROCEEDING?

3 A. Yes.

4 Q. MS. JOHNSON AND MR. MCLAWHORN, WHAT IS THE
5 PURPOSE OF YOUR SETTLEMENT TESTIMONY IN THIS
6 PROCEEDING?

7 A. The purpose of our testimony is to support the Agreement and
8 Stipulation of Partial Settlement (Stipulation) between Virginia
9 Electric and Power Company, d/b/a Dominion Energy North Carolina
10 (DENC or Company) and the Public Staff (Stipulating Parties).

11 Q. PLEASE BRIEFLY DESCRIBE THE STIPULATION.

12 A. The Stipulation sets forth agreements between the Stipulating
13 Parties in the following areas:

- 14 (1) Capital Structure
- 15 (2) Return on equity
- 16 (3) Uncollectibles
- 17 (4) Allocation of state accumulated deferred income taxes (ADIT)
18 and certain ADIT balances
- 19 (5) Mount Storm impairment costs
- 20 (6) Non-utility generation (NUG) Contract Termination Expense
- 21 (7) Outside services
- 22 (8) Skiffes Creek mitigation costs
- 23 (9) Executive compensation
- 24 (10) Chesterfield Units 3&4 wet-to-dry conversion costs
- 25 (11) Federal unprotected excess deferred income taxes (EDIT)
- 26 (12) Lobbying
- 27 (13) Storm costs
- 28 (14) Employee severance program costs
- 29 (15) Advertising costs
- 30 (16) Incentive plan costs
- 31 (17) Employee Voluntary Retirement Program (VRP) Backfill costs
- 32 (18) Customer growth, usage, and weather normalization

- 1 (19) Variable Non-Fuel operations and maintenance (O&M)
2 expense for Displacement
3 (20) Inflation
4 (21) Kilowatt-hour (kWh) Change in Revenue Annualization
5 (22) Dominion Energy Services (DES) Office Building

6 The Stipulation also sets forth agreement between the Stipulating
7 Parties regarding the following non-revenue requirement area:
8 (1) Revenue apportionment

9 **Q. ARE THERE ANY UNRESOLVED ISSUES BETWEEN THE**
10 **STIPULATING PARTIES?**

11 A. Yes. The Stipulating Parties have not reached a compromise on the
12 recovery of coal combustion residual (CCR) costs.

13 **Q. WHAT BENEFITS DOES THE STIPULATION PROVIDE FOR**
14 **RATEPAYERS?**

15 A. From the perspective of the Public Staff, the most important benefits
16 provided by the Stipulation are as follows:

17 (a) A significant reduction of \$13.517 million in the base non-fuel
18 revenue increase from the \$24.879 million increase requested
19 in the Company's Supplemental Filing on August 5, 2019,
20 resulting from the adjustments agreed to by the Stipulating
21 Parties.

22 (b) The avoidance of protracted litigation between the Stipulating
23 Parties before the Commission on the settled issues and
24 possibly the appellate courts, and the associated increased

1 accumulation of rate case expense recoverable from rate
2 payers.

3 Based on these ratepayer benefits, as well as the other provisions of
4 the Stipulation, the Public Staff believes the Stipulation is in the
5 public interest and should be approved.

6 **Q. WOULD YOU BRIEFLY DESCRIBE THE PUBLIC STAFF'S**
7 **PRESENTATION OF THE REVENUE REQUIREMENT ASPECTS**
8 **OF THE STIPULATION?**

9 A. Yes. The attached Johnson Settlement Exhibit 1 sets forth the
10 accounting and ratemaking adjustments, and the resulting rate base,
11 net operating income, return, and rate increase, to which DENC and
12 the Public Staff have agreed plus the Public Staff's position on the
13 unresolved CCR cost recovery issue. Johnson Settlement Exhibit 1,
14 Schedule 1 is also attached to the filed Stipulation in this proceeding,
15 as Settlement Exhibit I. Settlement Exhibit II is a calculation of the
16 revenue requirement for the EDIT rider agreed to by the Stipulating
17 Parties.

18 We would note that not until the Commission makes a determination
19 regarding the yet unresolved issue of the CCR costs, can the
20 accounting and ratemaking adjustments be finalized, and the
21 resulting rate base, net operating income, return, and rate increase
22 be calculated.

- 1 Q. DOES THIS CONCLUDE YOUR TESTIMONY?
- 2 A. Yes, it does.

APPENDIX A**QUALIFICATIONS AND EXPERIENCE****JAMES S. MCLAWHORN**

I graduated with honors from North Carolina State University with the Bachelor of Science Degree in Industrial Engineering in May of 1984. I received the Master of Science Degree in Management with a finance concentration from North Carolina State University in December of 1991. While an undergraduate, I was selected for membership in both Tau Beta Pi and Alpha Pi Mu engineering honor societies.

I began my employment with the Public Staff Communications Division in June of 1984. While with the Communications Division, I testified before the Commission in general rate proceedings regarding matters of telephone quality of service.

In September of 1987, I was employed by GTE-South as an engineer in the Capital Recovery Department. I was responsible for analysis and recommendations to Company management regarding appropriate depreciation rates for recovery of the Company's capital investments.

I began my employment with the Electric Division of the Public Staff in November of 1988. I assumed my present position as Director of the Electric Division in October of 2006. It is my responsibility to supervise and make policy recommendations on all electric utility matters before the Commission.

I have testified previously before the Commission in numerous proceedings including Virginia Electric and Power Company Rate Cases Docket No. E-22, Subs 314, 333, 412, and 532; in Duke Energy Carolinas, LLC's Rate Cases Docket No. E-7, Subs 487, 909, 989, and 1146; in Duke Energy Progress, LLC's Rate Cases Docket No. E-2, Subs 1023 and 1142; in New River Light and Power Company Rate Cases Docket No. E-34, Subs 28 and 32; in Nantahala Power and Light Company Rate Case Docket No. E-13, Sub 157; in the Application of Dominion North Carolina Power to join PJM in Docket No. E-22, Sub 418; in Duke Power Company's request to merge with in Duke Power Company's request to merge with Cinergy Corporation in Docket No. E-7, Sub 795; in Dominion Energy, Inc.'s request to merge with SCANA Corporation in Docket No. E-22, Sub 551; in Duke Energy Carolinas, LLC's request for approval of its Save-A-Watt cost recovery model in Docket No. E-7, Sub 831; in Duke Energy Carolinas, LLC's solar distributed generation program in Docket No. E-7, Sub 856; and, in the Generic Investigation into Section 111 of the 1992 Energy Policy Act in Docket No. E-100, Sub 69.

DOMINION ENERGY NORTH CAROLINA
Docket No. E-22, Sub 562
North Carolina Retail Operations
REVENUE IMPACT OF SETTLED AND UNRESOLVED ADJUSTMENTS
For the Test Year Ended December 31, 2018
(in Thousands)

Johnson Settlement Exhibit 1
Schedule 1

Line No.	Item	Per Public Staff (a)	Per Company (b)	Difference (c)	9/
1	Non-fuel revenue requirement increase per Company application	\$ 26,958	\$ 26,958	\$ -	
2	Revenue impact of Company update in first supplemental filing	(2,079)	(2,079)	-	
3	Non-fuel revenue requirement increase per Company after updates	24,879	24,879	\$ -	
4	Revenue impact of Public Staff adjustments: 3/				
5	Settled Issues:				
6	Change in equity ratio from 53.65% to 52.00% equity	(1,903)	(1,903)	-	
7	Change in debt cost rate from 4.442% to 4.442%	-	-	-	
8	Change in return on equity from 10.75% to 9.75%	(8,064)	(8,064)	-	
9	Change in retention factor - uncollectibles	(17)	(17)	-	
10	Adjust uncollectibles	(238)	(238)	-	
11	Adjust allocation of state accumulated deferred income taxes	-	-	-	
12	Remove Mt Storm Impairment costs	(470)	(470)	-	
13	Adjust NUG Contract Termination Expense - Regulatory Asset	(36)	(36)	-	
14	Adjust outside services	(177)	(177)	-	
15	Eliminate certain ADIT balances	-	-	-	
16	Remove Skiffes Creek mitigation costs	(153)	(153)	-	
17	Remove executive compensation costs	(92)	(92)	-	
18	Remove Chesterfield Units 3 & 4 wet-to-dry conversion costs	-	-	-	
19	Adjustment to remove federal unprotected EDIT treatment as a rider	(287)	(287)	-	
20	Adjust lobbying expense	(42)	(42)	-	
21	Adjust storm costs	(81)	(81)	-	
22	Remove employee severance program costs	(304)	(304)	-	
23	Remove advertising costs	(12)	(12)	-	
24	Adjust annual incentive plan costs	(358)	(358)	-	
25	Adjust employee VRP Backfill costs	-	-	-	
26	Adjust expenses for customer growth, usage, and weather normalization	(90)	(90)	-	
27	Adjust variable non-fuel O&M expenses for displacement	(142)	(142)	-	
28	Adjust inflation adjustment	(9)	(9)	-	
29	Adjust uncollectibles for decrease in base fuel rate	(7)	(7)	-	
30	Adjust cash working capital under present rates	(83)	(83)	-	
31	Adjust cash working capital under proposed rates	(282)	(282)	-	
32	Adjustment to reflect kWh change in revenue annualization	49	49	-	
33	Adjustment for New Office Building	(720)	(720)	-	
34	Rounding	1	1	-	
35	Total Settled Issues	(13,517)	(13,517)	-	
36	Unsettled Issues:				
37	Adjust coal combustion residual (CCR) costs	(7,096)	(2,750)	(4,346)	
38	Adjust cash working capital for CCR adjustment	(74)	(29)	(45)	
39	Total Unsettled Issues	(7,170)	(2,779)	(4,391)	
40	Recommended increase in non-fuel revenue requirement	\$ 4,192	\$ 8,583	\$ (4,391)	
41	Public Staff recommended decrease in base fuel revenue requirement	\$ (2,155)	\$ (2,155)	\$ -	
42	Annual EDIT Rider recommended by Public Staff for 5 year period	\$ 649	\$ 649	\$ -	

1/ Company Exhibit PMM-1, Page 1, Line 6, Column (6).

2/ Company Supplemental Exhibit PMM-1, Page 10.

3/ Calculated based on Johnson Settlement Exhibit 1, Schedules 2, 3, 4, 5, and backup schedules.

4/ Johnson Settlement Exhibit 1, Schedule 5, Line 7.

5/ Johnson Settlement Exhibit 1, Schedule 5, Line 6.

6/ Johnson Settlement Exhibit 2, Schedule 1, Line 14.

7/ DENC and the Public Staff have agreed on a small portion of this issue involving compounding of financing costs.

8/ Calculated based on including and excluding Public Staff and Company CCR adjustments in spreadsheet calculation.

9/ Column (a) - Column (b).

DOMINION ENERGY NORTH CAROLINA
Docket No. E-22, Sub 562
CALCULATION OF LEVELIZED FEDERAL
UNPROTECTED EDIT RIDER CREDIT
For the Test Year Ended December 31, 2018

Johnson Settlement Exhibit II
Schedule 2

Line No.	Item	Year 1 Revenue Requirement (a)	Year 2 Revenue Requirement (b)	Total Revenue Requirement (c)
	<u>Annuity Factor</u>			
1	Number of years	2	2	
2	Payment per period	1	1	
3	After tax rate of return	6.654%	6.654%	
4	Present value of 1 dollar over number of years with			
5	with 1 payment per year	1.8167		
6	1 plus (interest rate divided by two)	1.0333		
7	Annuity factor (L4 x L5)	<u>1.8772</u>		
8	Total NC retail regulatory liability to be amortized	(\$1,214,000)	(\$1,214,000)	
9	Annuity factor (L7)	1.8772	1.8772	
10	Levelized rider federal EDIT regulatory liability (L8 / L9)	(646,708)	(646,708)	(1,293,416)
11	One minus composite income tax rate	74.377%	74.377%	74.377%
12	Net operating income effect (L10 x L11)	(481,003)	(481,003)	(962,007)
13	Retention factor	0.740365	0.740365	0.740365
14	Levelized rider federal EDIT credit (L5 / L6)	<u>(\$649,684)</u>	<u>(\$649,684)</u>	<u>(\$1,299,369)</u>

1/ Rider period per Settlement Agreement.

2/ Johnson Settlement Exhibit II, Schedule 2(a), Line 3.

3/ Company Supplemental Exhibit PMM-2, Schedule 1, page 3, lines 86 plus 87, plus one year EDIT Rideer amount originally proposed by the Company.

4/ One minus the composite income tax rate of 25.6228%.

5/ Johnson Settlement Exhibit 1, Schedule 1-2, Column (d), Line 14.

6/ Sum of Columns (a) through Column (e).

DOMINION ENERGY NORTH CAROLINA
Docket No. E-22, Sub 562
CALCULATION OF ANNUITY FACTOR FOR EDIT
LIABILITY RIDER
For the Test Year Ended December 31, 2018

Johnson Settlement Exhibit II
Schedule 2(a)

Line No.	Item	Amount
<u>Annuity Factor</u>		
1	Number of years	2 ^{1/}
2	Payment per period	1
3	After tax rate of return (L9)	6.654%
4	Present value of 1 dollar over number of years with with 1 payment per year	1.8167
5	1 plus (interest rate divided by two)	<u>1.0333</u>
6	Annuity factor (L4 x L5)	<u><u>1.8771</u></u>

	<u>Capital Structure</u> (a)	<u>Cost Rates</u> (b)	<u>Overall Rate of Return</u> ^{6/} (c)	<u>Net of Tax Rate</u> (d)
<u>After Tax Rate of Return</u>				
7	48.00% ^{2/}	4.442% ^{4/}	2.13%	1.58% ^{7/}
8	<u>52.00% ^{3/}</u>	<u>9.75% ^{5/}</u>	<u>5.07%</u>	<u>5.070% ^{8/}</u>
9	<u><u>100.00%</u></u>		<u><u>7.20%</u></u>	<u><u>6.654%</u></u>

- 1/ Rider period per Settlement Agreement.
- 2/ Johnson Settlement Exhibit 1, Schedule 1-2, Column (a), Line 2.
- 3/ Johnson Settlement Exhibit 1, Schedule 1-2, Column (a), Line 3.
- 4/ Johnson Settlement Exhibit 1, Schedule 1-2, Column (b), Line 2.
- 5/ Johnson Settlement Exhibit 1, Schedule 1-2, Column (b), Line 3.
- 6/ Column (a) times Column (b).
- 7/ Column (c) times 1 minus the composite income tax rate of 25.6228%.
- 8/ Amount from Column (c).