



**NORTH CAROLINA
PUBLIC STAFF
UTILITIES COMMISSION**

September 23, 2021

Ms. A. Shonta Dunston, Chief Clerk
North Carolina Utilities Commission
4325 Mail Service Center
Raleigh, North Carolina 27699-4300

Re: Docket No. G-5, Sub 632 – Application of Public Service Company of North Carolina, Inc., for a General Increase in Rates and Charges; and G-5, Sub 634 - Application for Approval to Modify Existing Conservation Programs and Implement New Conservation Programs

Dear Ms. Dunston:

Attached for filing in the above-referenced docket is the confidential testimony and exhibit(s) of Julie G. Perry, Manager, Natural Gas & Transportation Section, Accounting Division.

Sincerely,

Electronically submitted
s/ Gina C. Holt
Staff Attorney
gina.holt@psncuc.nc.gov

s/ John Little
Staff Attorney
john.little@psncuc.nc.gov

Attachment

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(919) 733-5610

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

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

DOCKET NO. G-5, SUB 632)
)
)
 In the Matter of)
 Application of Public Service Company)
 of North Carolina, Inc., for an)
 Adjustment of Natural Gas Rates and)
 Charges in North Carolina)
)
 DOCKET NO. G-5, SUB 634)
)
)
 In the Matter of)
 Application for Approval to Modify)
 Existing Conservation Programs and)
 Implement New Conservation)
 Programs)

TESTIMONY OF
JULIE G. PERRY
PUBLIC STAFF – NORTH
CAROLINA UTILITIES
COMMISSION

**BEFORE THE NORTH CAROLINA UTILITIES COMMISSION
DOCKET NO. G-5, SUB 632**

**TESTIMONY OF JULIE G. PERRY
ON BEHALF OF THE PUBLIC STAFF –
NORTH CAROLINA UTILITIES COMMISSION**

SEPTEMBER 23, 2021

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

3 A. My name is Julie G. Perry. My business address is 430 North
4 Salisbury Street, Dobbs Building, Raleigh, North Carolina. I am the
5 Accounting Manager for Natural Gas and Transportation with the
6 Accounting Division of the Public Staff – North Carolina Utilities
7 Commission (Public Staff).

8 **Q. PLEASE BRIEFLY STATE YOUR QUALIFICATIONS AND**
9 **DUTIES.**

10 A. My qualifications and duties are set forth in Appendix A.

11 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
12 **PROCEEDING?**

13 A. The purpose of my testimony is to present my review of the proposed
14 ratemaking adjustments for regarding federal protected Excess
15 Deferred Income Taxes (EDIT), federal unprotected EDIT, state
16 EDIT, and the deferred revenues associated with the over collection

1 of taxes since January 1, 2018, due to changes in the federal tax rate
2 applicable to Public Service Company of North Carolina, Inc. (PSNC
3 or the Company).

4 I am also providing testimony regarding plant investment related to
5 the Integrity Management Tracker (IMT) mechanism and tariff,
6 Energy Efficiency and Green Therm mechanisms, a special contract
7 adjustment, and the Durham incident costs.

8 **Q. PLEASE DESCRIBE THE SCOPE OF YOUR INVESTIGATION**
9 **INTO THE COMPANY'S FILING.**

10 A. My investigation included a review of the application, testimony,
11 exhibits, and other data filed by PSNC. The Public Staff has also
12 conducted extensive discovery in this matter, reviewed responses
13 provided by the Company in response to the Public Staff's numerous
14 data requests, and participated in extensive virtual conference calls
15 with the Company.

16 **Q. PLEASE DESCRIBE YOUR TESTIMONY AND EXHIBITS.**

17 A. My exhibits are as follows:

- 18 • Perry Exhibit I, Schedule 1 sets forth the calculation of the
19 federal unprotected EDIT Rider to be in effect for five years.

1 A. Yes.

2 **Q. WHAT IS YOUR UNDERSTANDING OF THE COMPANY'S**
3 **PROPOSAL?**

4 A. The Company has proposed an EDIT Rider to return to ratepayers
5 (1) federal EDIT and (2) over collected revenues that have accrued
6 since January 1, 2018, both of which are related to the federal tax
7 rate decrease provision of the Tax Act, as well as state EDIT
8 resulting from various state income tax changes.

9 **Q. WHAT ARE THE DIFFERENCES BETWEEN THE COMPANY'S**
10 **AND THE PUBLIC STAFF'S PROPOSALS TO ADDRESS THE**
11 **EFFECTS OF THE TAX ACT AND THE STATE TAX CHANGES?**

12 A. The Company and the Public Staff differ as to (1) the rate at which
13 unprotected federal EDIT should be flowed back to ratepayers, (2)
14 the rate at which state EDIT should be flowed back to ratepayers,
15 and (3) the rate at which the over collection (since January 1, 2018)
16 of deferred revenues due to the decrease in federal tax rates should
17 be flowed back to ratepayers.

18 **Q. PLEASE EXPLAIN THE PUBLIC STAFF'S GENERAL**
19 **CONCERNS REGARDING PSNC'S PROPOSED EDIT RIDER.**

20 A. PSNC has proposed an EDIT Rider that contains the following
21 categories of refunds for customers:

- 1 (1) Federal EDIT – Unprotected
- 2 (2) State EDIT
- 3 (3) Deferred Revenue from Tax Act Over Collections

4 The Public Staff notes and agrees with PSNC's adjustment to reflect
5 the Federal EDIT – Protected amortization in base rates, as well as
6 PSNC removed the accumulated deferred income taxes related to
7 the three EDIT riders proposed from rate base in this case.

8 **FEDERAL EDIT:**

9 **Q. PLEASE EXPLAIN WHAT IS MEANT BY PROTECTED AND**
10 **UNPROTECTED FEDERAL EDIT.**

11 A. The federal EDIT consists of two categories, protected and
12 unprotected EDIT. The protected EDIT are deferred taxes related to
13 timing differences arising from the utilization of accelerated
14 depreciation for tax purposes and another depreciation method for
15 book purposes. These deferred taxes are deemed protected
16 because the IRS does not permit regulators to flow back the excess
17 to ratepayers immediately, but instead requires that the excess be
18 flowed back to ratepayers ratably over the life of the timing difference
19 that gave rise to the excess, per IRC Section 203(e).

20 **Q. WHAT IS THE COMPANY'S PROPOSAL WITH RESPECT TO**
21 **PROTECTED FEDERAL EDIT?**

1 A. The Company has calculated the known and measurable protected
2 EDIT based on Internal Revenue Service (IRS) normalization rules,
3 as required by the Tax Act. The Company reflected the amortization
4 of the refund of its protected EDIT balance in base rates using the
5 ARAM method. The Public Staff agrees with the Company's
6 approach.

7 **Q. WHAT IS THE COMPANY'S PROPOSAL WITH RESPECT TO**
8 **UNPROTECTED FEDERAL EDIT?**

9 A. In its proposed EDIT Rider, the Company seeks to amortize its
10 unprotected EDIT balance over seven years.

11 **Q. PLEASE DESCRIBE YOUR PROPOSED ADJUSTMENT TO**
12 **UNPROTECTED FEDERAL EDIT.**

13 A. I agree with the removal of unprotected federal EDIT from rate base
14 and I recommend amortizing the unprotected EDIT regulatory liability
15 in a rider to be refunded to ratepayers over five years on a levelized
16 basis, with carrying costs.

17 The immediate removal of unprotected federal EDIT from rate base
18 increases the Company's rate base and mitigates regulatory lag that
19 might result from refunds of unprotected EDIT not being
20 contemporaneously reflected in rate base. Furthermore, removing
21 the total amount of the unprotected federal EDIT credit from rate
22 base in the current rate case provides the Company with an increase

1 in rates to moderate any cash flow issues that might arise. The
2 financing cost to the Company will be imposed ratably over the
3 period that the EDIT is returned through the levelized rider.

4 **Q. WHY DOES THE PUBLIC STAFF RECOMMEND A FIVE-YEAR**
5 **AMORTIZATION FOR UNPROTECTED EDIT?**

6 A. The Public Staff believes that a five-year period would increase rate
7 stability for ratepayers during the flow back period. While a shorter
8 rider would flow the money back to ratepayers more quickly, it would
9 also result in a larger de facto rate increase when the rider expired
10 at the end of the amortization period. A five-year rider would smooth
11 the rate impact and result in a significantly smaller increase after the
12 rider expires. Additionally, the levelized rider would include a return,
13 thus ensuring that ratepayers are made whole.

14 This amortization period is consistent with the amortization period
15 approved by the Commission in general rate cases, including Duke
16 Energy Carolina's (DEC) 2019 general rate case (Docket No. E-7,
17 Sub 1214), Duke Energy Progress's (DEP) 2019 general rate case
18 (Docket No. E-2, Sub 1219), Carolina Water Service Inc. of North
19 Carolina's 2018 general rate case in Docket No. W-354, Sub 360,
20 and in Piedmont Natural Gas, Inc.'s (Piedmont) general rate case in
21 Docket No. G-9, Sub 743.

22

1 **STATE EDIT:**

2 **Q. WHAT IS THE COMPANY'S PROPOSAL WITH RESPECT TO**
3 **STATE EDIT?**

4 A. PSNC has proposed to refund the state EDIT resulting from the
5 various state income tax changes to ratepayers, including the
6 correction of a previous state income tax refund calculation, over a
7 five-year period.

8 **Q. PLEASE EXPLAIN THE PUBLIC STAFF'S ADJUSTMENT TO**
9 **STATE EDIT.**

10 A. I am recommending an adjustment to the amortization period
11 proposed for the state EDIT in this case. Specifically, I recommend
12 the amount be refunded to ratepayers over a two-year period on a
13 levelized basis, with carrying costs. The immediate removal of state
14 EDIT from rate base increases the Company's rate base, and
15 mitigates regulatory lag that might occur from refunds of state EDIT
16 not being contemporaneously reflected in rate base. As with my
17 proposed adjustment to unprotected federal EDIT, removing the total
18 amount of the state EDIT credit from rate base in the current case
19 provides the Company with an increase in rates to moderate any
20 cash flow issues that may occur.

21 **Q. WHY DID THE PUBLIC STAFF RECOMMEND A TWO-YEAR**
22 **AMORTIZATION PERIOD FOR STATE EDIT?**

1 A. The Public Staff's recommended amortization period is consistent
2 with Commission orders in PSNC's last general rate case in Docket
3 No. G-5, Sub 565 and in Dominion Energy North Carolina's (DENC)
4 general rate case in Docket No.
5 E-22, Sub 532, in which the Commission approved either a one-year
6 flow back or a two-year flow back of state EDIT to ratepayers. We
7 believe that this amortization period represents a reasonable and
8 consistent methodology and should be approved for PSNC in this
9 case as well.

10 **REVENUE DEFERRAL FROM OVERCOLLECTION OF FEDERAL**

11 **TAXES:**

12 **Q. WHAT IS THE COMPANY'S PROPOSAL WITH RESPECT TO ITS**
13 **REVENUE DEFERRAL FROM THE OVERCOLLECTION OF**
14 **FEDERAL INCOME TAXES SINCE JANUARY 1, 2018?**

15 A. The Company proposes to refund to ratepayers the overcollection
16 of federal taxes (from January 1, 2018, through January 31, 2019),
17 which resulted from the Tax Act's reduction of federal tax rates, over
18 a two-year period. PSNC has been accruing interest on these funds
19 calculated at the net of tax overall rate of return since January 1,
20 2018.

1 Q. WHAT IS YOUR RECOMMENDATION REGARDING HOW THE
2 COMPANY SHOULD REFUND THE OVERCOLLECTION OF
3 FEDERAL TAXES DUE TO THE TAX ACT?

4 A. I recommend that PSNC refund the amount plus interest as of the
5 effective date of rates in the current docket, over a one-year period.

6 Q. WHY DOES THE PUBLIC STAFF RECOMMEND A ONE-YEAR
7 AMORTIZATION PERIOD FOR THE OVERCOLLECTION OF
8 REVENUE DUE TO THE FEDERAL INCOME TAX CHANGE?

9 A. The Public Staff's recommended amortization period is consistent
10 with Commission orders in both Cardinal Pipeline, Docket No. G-39,
11 Sub 42, DENC, Docket No. E-22, Sub 560, [tax dockets], and the
12 Sub 743 Piedmont rate case docket in which the Commission
13 approved a one-year time period or a one-time bill credit over which
14 to flow back the overcollection of revenues to ratepayers due to the
15 federal income tax change. We believe that this amortization period
16 represents a reasonable and consistent methodology and should be
17 approved for PSNC as well.

18 **SPECIAL CONTRACTS**

19 Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO SPECIAL
20 CONTRACTS.

21 A. The Company provides natural gas transportation service to a power
22 plant located near Asheville, North Carolina, pursuant to a contract

1 numerous affected parties in several filed cases. The Public Staff
2 considers the Durham Incident to be an extraordinary, non-recurring
3 event and has removed the legal fees incurred in 2020 from the
4 Company's cost of service. In addition, there are excess liability
5 insurance policies in place that may cover these types of legal
6 expenses once all litigation is resolved.

7 **DEFERRAL REQUEST – AFUDC EQUITY**

8 **Q. PLEASE EXPLAIN YOUR RECOMMENDATION TO THE**
9 **COMPANY'S DEFERRAL REQUEST REGARDING AFUDC**
10 **EQUITY.**

11 A. The Public Staff is completing its investigation into the Company's
12 deferral request related to AFUDC Equity. We have a few
13 outstanding questions and a final recommendation of the Public Staff
14 will be provided in supplemental testimony.

15 **IMT MECHANISM AND TARIFF**

16 **Q. WHAT IS YOUR RECOMMENDATION REGARDING THE IMT**
17 **MECHANISM?**

18 A. As discussed in the Public Staff's 2020 Annual IMT Report in Docket
19 No. G-5, Subs 565C and 628, the Public Staff determined during its
20 review of PSNC's IMRR model that additional modifications may be
21 needed to the model to address some of the Public Staff's concerns.

22 The Public Staff is primarily concerned with how the Company

1 determines accumulated depreciation and ADIT in the IMRR
2 calculation and believes that these entries should be recorded in the
3 same month that plant and annual depreciation expense is allowed
4 to begin. The Public Staff plans to send to PSNC a template of its
5 proposed modifications to the mechanism prior to the Company's
6 Annual IMR filing on January 31, 2022 and will work with the
7 Company to implement these changes.

8 The Public Staff will also work with the Company to update the tariff
9 inputs for the margin percentages by month and by rate class, as
10 well as the special contract credits once this hearing is complete and
11 a final order has been issued.

12 **ENERGY EFFICIENCY PROGRAM MECHANISM**

13 **Q. WHAT IS YOUR RECOMMENDATION REGARDING THE**
14 **RECOVERY OF THE EE PROGRAMS?**

15 A. Based on the Public Staff's recommendation to approve the
16 Company's portfolio of programs as pilot programs for a three-year
17 period, we have determined that the Public Staff does not oppose
18 the implementation of an EE Rider. The structure of this Rider still
19 remains under discussion and the final recommendation of the Public
20 Staff will be provided in supplemental testimony.

1 **GREEN THERM PROGRAM MECHANISM**

2 **Q. WHAT IS YOUR RECOMMENDATION REGARDING THE**
3 **RECOVERY OF THE GREEN THERM PROGRAM?**

4 A. The Public Staff is not recommending approval of the Company's
5 Green Therm Program at this time; however, the Public Staff
6 supports PSNC's proceeding with developing the program and then
7 filing with the Commission for final approval. The Public Staff intends
8 to reserve its recommendation until the Company has determined its
9 final costs. Therefore, the recovery mechanism remains under
10 discussion and the final recommendation of the Public Staff will be
11 provided in supplemental testimony.

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

13 A. Yes, it does.

QUALIFICATIONS AND EXPERIENCE

JULIE G. PERRY

I graduated from North Carolina State University in 1989 with a Bachelor of Arts degree in Accounting and I am a Certified Public Accountant.

Prior to joining the Public Staff, I was employed by the North Carolina State Auditor's Office. My duties there involved the performance of financial and operational audits of various state agencies, community colleges, and Clerks of Court.

I joined the Public Staff in September 1990 and was promoted to Supervisor of the Natural Gas Section in the Accounting Division in September 2000. I was promoted to Accounting Manager – Natural Gas & Transportation effective December 1, 2016. I have performed numerous audits and/or presented testimony and exhibits before the Commission addressing a wide range of natural gas topics.

Additionally, I have filed testimony and exhibits in numerous water rate cases and performed investigations and analyses addressing a wide range of topics and issues related to the water, electric, transportation, and telephone industries.

Public Service Company of North Carolina
Docket No. G-5, Sub 632
CALCULATION OF LEVELIZED FEDERAL UNPROTECTED EDIT
RIDER CREDIT
 For The Test Year Ended December 31, 2020

Line No.	Item	Year 1 Revenue Requirement (a)	Year 2 Revenue Requirement (b)	Year 3 Revenue Requirement (c)	Year 4 Revenue Requirement (d)	Year 5 Revenue Requirement (e)	Total Revenue Requirement (f)
	<u>Annuity Factor</u>						
1	Number of years	5					
2	Payment per period	1					
3	After tax rate of return	6.470%					
4	Present value of 1 dollar over number of years with						
5	with 1 payment per year	4.1590					
6	1 plus (interest rate divided by two)	<u>1.0324</u>					
7	Annuity factor (L5 x L6)	<u><u>4.2938</u></u>					
8	Total NC retail regulatory liability to be amortized	(\$12,393,343)	(\$12,393,343)	(\$12,393,343)	(\$12,393,343)	(\$12,393,343)	
9	Line 7	<u>4.2938</u>	<u>4.2938</u>	<u>4.2938</u>	<u>4.2938</u>	<u>4.2938</u>	
10	Levelized rider federal EDIT regulatory liability (L8 / L9)	<u>(2,886,334)</u>	<u>(2,886,334)</u>	<u>(2,886,334)</u>	<u>(2,886,334)</u>	<u>(2,886,334)</u>	(14,431,670)
11	Retention factor	<u>0.7677101</u>	<u>0.7677101</u>	<u>0.7677101</u>	<u>0.7677101</u>	<u>0.7677101</u>	<u>0.7677101</u>
12	Levelized rider federal EDIT credit (L10 / L11)	<u><u>(\$3,759,667)</u></u>	<u><u>(\$3,759,667)</u></u>	<u><u>(\$3,759,667)</u></u>	<u><u>(\$3,759,667)</u></u>	<u><u>(\$3,759,667)</u></u>	<u><u>(\$18,798,333)</u></u>

1/ Rider period recommended by Public Staff.
 2/ Perry Exhibit I, Schedule 1(a), Line 3.
 3/ Per Data Request Responses to DR 59 and Item 4a11B - EDIT - 2021 - June Excel file.
 4/ Johnson Exhibit I, Schedule 5, Line 4.
 5/ Sum of Column (a) through (e).

Public Service Company of North Carolina
Docket No. G-5, Sub 632
CALCULATION OF ANNUITY FACTOR FOR EDIT LIABILITY
RIDER
 For The Test Year Ended December 31, 2020

Line No.	Item	Amount
<u>Annuity Factor</u>		
1	Number of years	5 ^{1/}
2	Payment per period	1
3	After tax rate of return (L9)	6.470%
4	Present value of 1 dollar over number of years with with 1 payment per year	4.1590
5	1 plus (interest rate divided by two)	1.0324
6	Annuity factor (L4 x L5)	<u>4.2938</u>

	Capital Structure (a)	Cost Rates (b)	Overall Rate of Return ^{8/} (c)	Net of Tax Rate (d)
<u>After Tax Rate of Return</u>				
7	47.71% ^{2/}	4.45% ^{5/}	2.12%	1.64% ^{9/}
8	1.39% ^{3/}	0.25% ^{6/}	0.00%	0.00% ^{9/}
9	<u>50.90% ^{4/}</u>	9.48% ^{7/}	<u>4.83%</u>	<u>4.83% ^{10/}</u>
10	<u>100.00%</u>		<u>6.95%</u>	<u>6.47%</u>

- 1/ Rider period recommended by Public Staff.
- 2/ Johnson Exhibit I, Schedule 5(a), Column (a), Line 1.
- 3/ Johnson Exhibit I, Schedule 5(a), Column (a), Line 2.
- 4/ Johnson Exhibit I, Schedule 5(a), Column (a), Line 3.
- 5/ Johnson Exhibit I, Schedule 5(a), Column (b), Line 1.
- 6/ Johnson Exhibit I, Schedule 5(a), Column (b), Line 2.
- 7/ Johnson Exhibit I, Schedule 5(a), Column (b), Line 3.
- 8/ Column (a) times Column (b).
- 9/ Column (c) times (1 minus combined income tax rate of 22.975%)
- 10/ Amount from Column (c).

Public Service Company of North Carolina
Docket No. G-5, Sub 632
CALCULATION OF LEVELIZED STATE EDIT RIDER CREDIT
For The Test Year Ended December 31, 2020

<u>Line No.</u>	<u>Item</u>	<u>Year 1 Revenue Requirement (a)</u>	<u>Year 2 Revenue Requirement (b)</u>	<u>Total Revenue Requirement (c) 4/</u>
1	Total NC retail regulatory liability to be amortized	<u>(\$3,696,741) 1/</u>	<u>(\$3,696,741) 1/</u>	
2	Annuity factor	<u>1,8804 2/</u>	<u>1,8804 2/</u>	
3	Levelized rider EDIT regulatory liability (L1 / L2)	<u>(1,965,933)</u>	<u>(1,965,933)</u>	<u>(\$3,931,866)</u>
4	Retention factor	<u>0.7677101 3/</u>	<u>0.7677101 3/</u>	<u>0.7677101 3/</u>
5	Levelized rider EDIT credit (L3 / L4)	<u>(\$2,560,775)</u>	<u>(\$2,560,775)</u>	<u>(\$5,121,550)</u>

- 1/ Per Data Request Responses to DR 59 and Item 4a11B - EDIT - 2021 - June Excel file.
- 2/ Perry Exhibit I, Schedule 2(a), Line 3.
- 3/ Johnson Exhibit I, Schedule 5(a), Line 13.
- 4/ Column (a) plus Column (b).

Perry Exhibit I
Schedule 2(a)

Public Service Company of North Carolina
Docket No. G-5, Sub 632
CALCULATION OF ANNUITY FACTOR FOR EDIT LIABILITY RIDER
 For The Test Year Ended December 31, 2020

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)					6.470%
4	Present value of 1 dollar over number of years with with 1 payment per year					1.8214
5	1 plus (interest rate divided by two)					1.0324
6	Annuity factor (L4 x L5)					<u>1.8804</u>
		<u>Capital Structure</u>	<u>Cost Rates</u>	<u>Overall Rate of Return</u>	8/	<u>Net of Tax Rate</u>
		(a)	(b)	(c)		(d)
	<u>After Tax Rate of Return</u>					
7	Long-term debt	47.71% 2/	4.45% 5/	2.12%		1.64% 9/
8	Short-term debt	1.39% 3/	0.25% 6/	0.00%		0.00% 9/
9	Common equity	50.90% 4/	9.48% 7/	4.83%		4.83% 10/
10	Total	<u>100.00%</u>		<u>6.95%</u>		<u>6.47%</u>

- 1/ Rider period recommended by Public Staff.
- 2/ Johnson Exhibit I, Schedule 5(a), Column (a), Line 1.
- 3/ Johnson Exhibit I, Schedule 5(a), Column (a), Line 2.
- 4/ Johnson Exhibit I, Schedule 5(a), Column (a), Line 3.
- 5/ Johnson Exhibit I, Schedule 5(a), Column (b), Line 1.
- 6/ Johnson Exhibit I, Schedule 5(a), Column (b), Line 2.
- 7/ Johnson Exhibit I, Schedule 5(a), Column (b), Line 3.
- 8/ Column (a) times Column (b).
- 9/ Column (c) times (1 minus combined income tax rate of 22.975%)
- 10/ Amount from Column (c).