



**NORTH CAROLINA
PUBLIC STAFF
UTILITIES COMMISSION**

December 21, 2017

Ms. M. Lynn Jarvis, Chief Clerk
North Carolina Utilities Commission
Mail Service Center 4325
Raleigh, North Carolina 27699-4300

Re: Docket No. E-34, Sub 46

Dear Ms. Jarvis:

In connection with the above-referenced docket, I transmit herewith for filing on behalf of the Public Staff the Testimony of Michael C. Maness, Director, Accounting Division.

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

Sincerely,

/s/ Elizabeth D. Culpepper
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elizabeth.culpepper@psncuc.nc.gov

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BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. E-34, SUB 46

In the Matter of)	TESTIMONY OF
Application of Appalachian State)	MICHAEL C. MANESS
University, d/b/a New River Light and)	PUBLIC STAFF – NORTH
Power Company, for Adjustment of)	CAROLINA UTILITIES
Rates and Charges Applicable to)	COMMISSION
Electric Utility Service in North Carolina)	

TESTIMONY OF MICHAEL C. MANESS
PUBLIC STAFF – NORTH CAROLINA UTILITIES COMMISSION
DOCKET NO. E-34, SUB 46

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. E-34, SUB 46

Testimony of Michael C. Maness

On Behalf of the Public Staff

North Carolina Utilities Commission

December 21, 2017

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
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. My qualifications and duties are included in Appendix A.

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

10 A. The purpose of my testimony is to present the Public Staff's
11 recommendations regarding (1) continuation of the current
12 Purchased Power Adjustment (PPA) procedure utilized by New River

1 Light and Power Company (New River or the Company), and (2) New
2 River's proposal in this proceeding for a Coal Ash Cost Recovery
3 Rider (CACR).

4 **Purchased Power Adjustment Procedure**

5 **Q. PLEASE DESCRIBE THE CURRENT PPA PROCEDURE.**

6 A. On December 22, 2010, in Docket No. E-34, Sub 38 (which was not
7 a general rate case), the Commission, pursuant to its Order
8 Approving Rate Increase and Annual Procedure (Sub 38 Order),
9 approved a procedure for an annual adjustment of New River's
10 purchased power rates. Ordering Paragraph No. 6 of the Sub 38
11 Order reads as follows:

12 That, as set forth in this Order, New River shall file, no
13 later than October 1 of each year, for an adjustment to
14 its purchased power rates to be effective for the next
15 calendar year, such adjustment to include both an
16 estimate of purchased power costs for the coming
17 calendar year and an EMF to true up actual purchased
18 power revenues and expenses for a preceding 12-
19 month historical period, taking into consideration, as
20 appropriate, New River's overall level of earnings and
21 return on rate base at that time.

22 The reason that the ordering paragraph contains the phrase, "taking
23 into consideration, as appropriate, New River's overall level of
24 earnings and return on rate base at that time," is essentially that the
25 procedure was being approved outside of a general rate case. In
26 making its recommendation that the procedure be approved, the

1 Public Staff noted that New River (1) had not, since 1996, been
2 allowed to utilize any sort of mechanism providing for the automatic
3 pass-through of purchased power cost changes without regard to
4 overall earnings, and (2) had not been subject to a general rate case
5 review in 14 years.

6 **Q. SINCE NEW RIVER IS NOW UNDERGOING A GENERAL RATE**
7 **CASE REVIEW, WHAT IS YOUR RECOMMENDATION**
8 **REGARDING THE ANNUAL PPA PROCEDURE?**

9 A. Including the 2010 Sub 38 proceeding, New River has now been the
10 subject of seven annual PPA proceedings, each one of them
11 including a review by the Public Staff of the Company's earnings. In
12 none of these proceedings has New River's request been limited by
13 its earnings results. Additionally, the procedure has generally gone
14 well overall. Therefore, I recommend that the Commission approve
15 in this general rate case proceeding the continuation of the annual
16 PPA proceeding for New River, without the requirement that New
17 River's ongoing earnings be considered as part of the annual
18 purchased power rate adjustment.

19 **Q. IS THERE A RATEMAKING PRECEDENT FOR YOUR**
20 **RECOMMENDATION?**

21 A. Yes. In its November 24, 1993, Recommended Order Approving
22 Partial Rate Increase for Western Carolina University (WCU) in

1 Docket No. E-35, Sub 17, the Commission approved an annual
2 purchased power adjustment procedure very similar to that
3 conducted for New River, without the requirement that WCU's
4 earnings be considered in each annual PPA proceeding. The WCU
5 annual PPA proceeding has continued to the present day.

6 **Coal Ash Cost Recovery Rider**

7 **Q. PLEASE DESCRIBE NEW RIVER'S PROPOSAL FOR A COAL**
8 **ASH COST RECOVERY RIDER.**

9 A. In testimony filed in this case, New River refers to the fact that Duke
10 Energy Carolinas, LLC (DEC), its ultimate power supplier, has filed
11 a general rate case that includes a proposal for recovering its coal
12 ash compliance costs. New River states that the costs are expected
13 to materially impact all of DEC's customers, including Blue Ridge
14 Electric Membership Corporation (BREMCO) and, through
15 BREMCO, New River. In fact, DEC and BREMCO have agreed that
16 BREMCO will pay DEC's costs, from January 2015 forward, in a
17 manner designed to achieve some parity with the costs ultimately
18 approved by the Commission for recovery from DEC's N.C. retail
19 customers. However, until the current DEC general rate case is
20 concluded, the details of the costs to be charged will not begin to be
21 understood. Nonetheless, DEC indicated to BREMCO that even
22 prior to the outcome of the general rate case, it would begin charging

1 certain beneficial reuse costs through the fuel charge to BREMCO,
2 beginning in August 2017 (with true-ups for the January-June 2017
3 period).

4 New River indicates that BREMCO included in its August 2017
5 invoices to New River the January and February 2017 true-ups for
6 beneficial reuse costs, which New River paid under protest.
7 BREMCO eventually removed the charges from the invoice, but
8 indicated that it plans to include them in its regular 2017 general true-
9 up, which is planned to be charged to the Company in June 2018.

10 New River states that it is attempting to reach agreement with
11 BREMCO on a contract amendment that would specifically allow for
12 the coal ash costs imposed by DEC to be assigned or allocated in
13 part to New River.

14 In the current proceeding, New River is proposing that the
15 Commission establish a CACR, beginning January 1, 2018, in order
16 to allow New River to flow through to its retail customers any charges
17 passed through to it by BREMCO. The Company is proposing that
18 the CACR be allowed to change on a monthly basis, and that it follow
19 an estimate-and-true-up process for recovery of the actual amount
20 of coal ash costs charged by BREMCO. New River also states that
21 it does not wish for the CACR to simply be combined with the PPA
22 factor, because estimation of future CACR costs may be difficult, and

1 New River also believes that a separate CACR rider will be more
2 transparent to ratepayers. New River submitted a proposed tariff for
3 approval, and some example CACR calculations, but did not provide
4 a proposed initial rate. New River has indicated to the Public Staff
5 that although it desires a CACR that changes monthly, it is possible
6 that Commission review of the monthly rate changes could occur on
7 an annual basis.

8 **Q. WHAT ARE THE PUBLIC STAFF'S RECOMMENDATIONS**
9 **REGARDING NEW RIVER'S PROPOSED CACR?**

10 A. The Public Staff does not oppose the concept of a rider by which
11 New River can recover appropriate and reasonable coal ash
12 compliance costs from its ratepayers. However, because (1) the
13 DEC general rate case is still ongoing, (2) New River and BREMCO
14 are still negotiating the possible terms by which BREMCO can pass
15 through DEC-imposed coal ash costs to New River, and (3) it is
16 unclear how an acceptable level of parity between the costs charged
17 to DEC's N.C. retail customers and those charged to BREMCO will
18 be achieved, it is premature for the Commission to establish a CACR
19 process or tariff. Instead, the Public Staff recommends that the
20 Commission require the following:

- 1 (1) That New River file its amended contract with BREMCO with
2 the Commission for review, once agreement between the
3 parties is reached.
- 4 (2) Additionally, once the Commission has issued an order in the
5 DEC general rate case, and DEC and BREMCO reach
6 agreement as to how parity with Commission treatment of
7 N.C. retail ratepayers will be achieved and costs will be
8 charged to BREMCO, that New River be required to file with
9 the Commission the details of the DEC-BREMCO
10 arrangements, the details of the costs expected to be charged
11 to New River in light of those arrangements, and an updated
12 proposal for how New River proposes to pass those costs
13 along to its ratepayers, through a CACR or otherwise.
- 14 (3) That New River not be allowed to pass any coal ash
15 compliance costs (including beneficial reuse costs) on to its
16 ratepayers, through its PPA or by other means, until the
17 details noted above are reviewed by the Commission, and
18 recovery of such costs is explicitly approved by the
19 Commission.
- 20 Notwithstanding the above, the Public Staff does have some general
21 recommendations regarding the mechanism and procedures for a
22 possible eventual CACR. First, the Public Staff does not believe that

1 the CACR rate should be allowed to change on a monthly basis with
2 only an annual review by the Commission. The Public Staff is
3 uncomfortable with the idea that New River would be allowed to
4 unilaterally change rates on a monthly basis, with only retroactive
5 Commission review. This arrangement could prove to be particularly
6 problematic if the costs varied significantly from month to month, thus
7 potentially causing numerous customer inquiries of the Public Staff
8 and the Commission.

9 Second, the Public Staff does not believe that it would be
10 administratively feasible to provide for monthly Commission review
11 of a monthly-changing rate, given that with monthly changes in costs,
12 the time needed to investigate those changes twelve times per year
13 could overwhelm the procedural need to issue an order approving
14 the changed rates on a monthly basis.

15 Because of these two factors, the Public Staff would recommend that
16 any CACR process be set up to provide for rate changes on an
17 annual basis, similar to the current PPA procedure. Additionally,
18 while the Public Staff is sympathetic to the proposal to establish a
19 CACR separate from the PPA rider, we believe that the Commission
20 should carefully investigate the feasibility of combining the review
21 and rate adjustment for the CACR with that used for the PPA, in the
22 interest of administrative efficiency (although it is certainly still

1 possible that two separate riders, or subcomponents of one overall
2 PPA rider, could be the result of such a process). If one single
3 proceeding would prove not to be substantively or administratively
4 feasible, then possibly two separate proceedings could be held at
5 six-month or other intervals.

6 It is clear that many substantive details regarding the appropriate and
7 reasonable costs for New River to recover, and the means by which
8 those costs should be recovered, remain to be resolved. This fact
9 certainly informs the Public Staff's recommendation that
10 establishment of a CACR be delayed. However, no matter the
11 mechanism that the Commission establishes to recover such costs,
12 the Public Staff recommends that the Commission make it clear that
13 the types and amounts of costs eventually allowed for recovery
14 should only be those amounts that the Commission finds reasonable
15 and appropriate for New River's customers to pay in their role as
16 retail electricity customers in North Carolina similarly situated in that
17 status to the N.C. retail customers of DEC.

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

19 **A.** Yes, it does.

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 several 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, applications for approval of self-generation deferral rates, applications for approval of cost and incentive recovery mechanisms for electric utility demand-side management and energy efficiency (DSM/EE) efforts, and applications for 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.