

BEFORE THE  
NORTH CAROLINA UTILITIES COMMISSION  
PUBLIC SERVICE COMPANY OF NORTH CAROLINA, INC.

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

REBUTTAL TESTIMONY  
OF  
JAMES A. SPAULDING

OCTOBER 7, 2021

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

2 A. My name is James A. Spaulding. My business address is 800 Gaston Road,  
3 Gastonia, North Carolina 28056. I am employed by Dominion Energy Services,  
4 Inc. (“DESI”), a subsidiary of Dominion Energy, Inc. (“DEI”), as Manager –  
5 Financial & Business Services for Public Service Company of North Carolina,  
6 Inc., doing business as Dominion Energy North Carolina (“PSNC” or the  
7 “Company”).

8 Q. ARE YOU THE SAME JAMES A. SPAULDING WHO PROVIDED DIRECT  
9 TESTIMONY IN THIS PROCEEDING?

10 A. Yes.

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

13 A. The purpose of my rebuttal testimony is to respond to certain accounting  
14 adjustments proposed by the Public Staff. Specifically, I will address  
15 adjustments proposed by Public Staff witnesses Neha R. Patel, Lynn L. Feasel,  
16 Julie G. Perry, Mary A. Coleman, and Sonja R. Johnson.

17 Q. DO YOU AGREE WITH WITNESS PATEL’S CALCULATION OF OTHER  
18 OPERATING REVENUES?

19 A. No. Ms. Patel used a three-year average (2018, 2019, and 2020) to determine  
20 other operating revenues. The Company contends that it was not appropriate to  
21 include 2018 and 2019 in the calculation because these years do not reflect the  
22 ongoing impacts of the COVID-19 State of Emergency moratoriums. North  
23 Carolina has now been under a State of Emergency for 19 months, beginning

1 March 2020. The Governor chose not to rescind the State of Emergency in the  
2 most recent Executive Order issued September 24, 2021. As such, the  
3 Company continues to be unable to recognize late payment fees and it is not  
4 reasonable to predict this situation returning to a normalized level in the near  
5 future.

6 Q. DO YOU AGREE WITH WITNESS PATEL'S ADJUSTMENTS RELATED  
7 TO FIXED GAS COSTS?

8 A. Not completely. Witness Patel incorrectly reflected a three-year average for  
9 secondary market credits through a reduction in fixed gas costs when secondary  
10 market credits should be addressed in the All-Customers deferred account.  
11 Witness Patel also incorrectly calculated the step rates for Rates 125, 127, and  
12 140. It appears that the secondary market credit issue has been corrected in  
13 Public Staff witness Johnson's Revised Exhibit 1. However, the step rate issue  
14 has not been corrected.

15 Q. DO YOU AGREE WITH WITNESS FEASEL'S ADJUSTMENT RELATED  
16 TO DEFERRED DISTRIBUTION INTEGRITY MANAGEMENT  
17 PROGRAM ("DIMP") COSTS?

18 A. No. Witness Feasel removes what she characterizes as "non-eligible" deferred  
19 DIMP expenses. Ms. Feasel's workpapers indicate that she considers these  
20 "non-eligible" expenses to be June 2021 accruals. However, these accruals are  
21 accurately reflected and are appropriately included in DIMP expenses eligible  
22 for recovery in this proceeding.

1 Q. DO YOU HAVE ANY OTHER DISAGREEMENTS WITH WITNESS  
2 FEASEL'S TESTIMONY?

3 A. Yes. Ms. Feasel recommends a five-year amortization of Transmission  
4 Integrity Management Program and DIMP expenses. The Company believes a  
5 four-year amortization period is more appropriate as it allows the Company to  
6 recover its costs in a timelier manner.

7 Q. DOES THE COMPANY AGREE WITH WITNESS COLEMAN'S  
8 ADJUSTMENT RELATED TO EXECUTIVE COMPENSATION?

9 A. No, the Company disagrees with the adjustment as discussed in the rebuttal  
10 testimony of Company witness Regina J. Elbert.

11 Q. DO YOU AGREE WITH WITNESS PERRY'S ADJUSTMENTS RELATED  
12 TO THE DURHAM INCIDENT?

13 A. No, I do not. Ms. Perry correctly recognizes that there has been no report of  
14 any wrongdoing on PSNC's part from the April 10, 2019 Durham incident and  
15 that PSNC has incurred substantial legal bills related to pending litigation  
16 initiated by numerous parties in multiple lawsuits. However, she considers the  
17 Durham incident to be an extraordinary, non-recurring event and has removed  
18 the legal fees incurred in 2020 from the Company's cost of service. The  
19 Company does not agree. I understand that PSNC has already been named as a  
20 defendant in nineteen lawsuits, involving nearly thirty plaintiffs, currently  
21 pending in Durham County Superior Court. More lawsuits are anticipated as  
22 the statute of limitations has not expired. I further understand that these cases  
23 are in the most preliminary stages and will continue to require this level of legal

1 fees for many years. Depositions of myriad individuals will be taken, including  
2 of the plaintiffs, several co-defendants, and experts for each party. Written  
3 discovery will continue to be served; motions will be filed and argued; and trials  
4 and settlements are likely to occur. At present, it is anticipated that any trials  
5 of these lawsuits would occur through 2023. Any appeals of litigated cases  
6 would take years to be decided. The lack of report of wrongdoing does not  
7 obviate PSNC's duty to participate fully in the legal process. Ms. Perry's  
8 adjustment would prevent the Company from recovering these costs that the  
9 Company must incur for many years to defend itself from these and potentially  
10 other lawsuits.

11 Ms. Perry also contends that excess insurance policies may cover these  
12 types of legal expenses once all the litigation is resolved. While there is a  
13 possibility that the Company may eventually recover some expenses once  
14 litigation is resolved, any recovery is speculative and many years away.

15 Q. SHOULD THE COMMISSION CHOOSE TO NOT INCLUDE THE LEGAL  
16 EXPENSES RELATED TO THE DURHAM INCIDENT IN BASE RATES,  
17 DOES THE COMPANY HAVE AN ALTERNATIVE PROPOSAL?

18 A. Yes. Absent alternative ratemaking treatment, the Company would not be able  
19 to recover costs that it is certain to incur. As an alternative, the Company would  
20 propose deferred accounting treatment for all legal costs related to the Durham  
21 incident. If the deferred accounting treatment is granted, these accumulated  
22 costs would be deferred until the Company's next general rate case.

1 Q. PLEASE DISCUSS THE ADJUSTMENTS PROPOSED BY WITNESS  
2 JOHNSON.

3 A. On page 8 of witness Johnson's testimony, she lists her accounting and  
4 ratemaking adjustments. The Company disagrees with several of her  
5 adjustments, and I will address certain of witness Johnson's adjustments in  
6 order below. However, I note that my silence in response to other adjustments  
7 should not be construed as my agreement with them.

8 Q. DO YOU AGREE WITH WITNESS JOHNSON'S ADJUSTMENT  
9 RELATED TO DEPRECIATION?

10 A. No, I do not. Witness Johnson has reduced depreciation expense by \$4,210,307  
11 based on the recommendations of Public Staff witness McCullar. For the  
12 reasons set forth in PSNC witness Spanos's rebuttal testimony, the Company  
13 disagrees with this adjustment.

14 Q. DO YOU AGREE WITH WITNESS JOHNSON'S ADJUSTMENT  
15 RELATED TO THE COMPANY'S INCENTIVE PLANS?

16 A. No, I do not, for the reasons set forth in the rebuttal testimony of Company  
17 witness Regina J. Elbert.

18 Q. DO YOU AGREE WITH WITNESS JOHNSON'S ADJUSTMENT  
19 RELATED TO THE COMPANY'S RATE CASE EXPENSES?

20 A. No. PSNC's level of rate case expenses is based on actual experience and  
21 estimates from outside consultants. The Public Staff's estimate, on the other  
22 hand, included only year-to-date charges through June 30, 2021, and then the  
23 Public Staff arbitrarily decreased the expenses by \$168,979, which would not

1 allow the Company to recover its projected rate case costs in this proceeding.  
2 The Company also recommends that these expenses be amortized over three  
3 years, as opposed to the Public Staff's recommendation of five years, to allow  
4 timelier recovery.

5 Q. DO YOU AGREE WITH WITNESS JOHNSON'S ADJUSTMENT  
6 RELATED TO THE COMPANY'S UNCOLLECTIBLES EXPENSE?

7 A. No, the Company disagrees with witness Johnson's treatment of uncollectibles  
8 expense. She appropriately removed the cost of gas from the write-off (the  
9 numerator) portion of the calculation but failed to remove the cost of gas from  
10 the revenue component (the denominator). The cost of gas should be removed  
11 from both parts of the equation. I am also recommending a 3-year average  
12 rather than a 5-year average, consistent with long standing practice. Using older  
13 data makes the resulting uncollectibles percentage less representative of the  
14 going level. Additionally, I excluded 2020 expenses because 2020 was an  
15 outlier due to the effects of the pandemic, such as economic volatility, the  
16 disconnection moratorium, and the Governor's State of Emergency. Finally,  
17 when commodity prices are higher (the closing price at Henry Hub was \$5.54  
18 per dekatherm on October 1, 2021), PSNC's customers' ability to pay is  
19 affected and the likelihood of write-offs is greatly increased.

20 Q. DO YOU AGREE WITH WITNESS JOHNSON'S ADJUSTMENT  
21 RELATED TO THE COMPANY'S ADVERTISING EXPENSES?

22 A. No, the Company disagrees with the Public Staff's characterization of certain  
23 advertising as promotional rather than informational. Additionally, the Public

1 Staff has excluded costs associated with the Company's mobile app, which  
2 serves a useful purpose in the provision of natural gas service in that almost  
3 50% of the Company's customers use the mobile app. It is a useful tool for  
4 providing customer billing and usage information and should not be disallowed.  
5 The Public Staff also applied an arbitrary percentage to disallow other various  
6 advertising invoices.

7 Q. DO YOU AGREE WITH WITNESS JOHNSON'S ADJUSTMENT  
8 RELATED TO THE COMPANY'S LOBBYING EXPENSES?

9 A. No, the Public Staff arbitrarily excluded as lobbying expenses certain labor  
10 costs of internal affairs employees who are not registered lobbyists. These  
11 employees perform many hours of duties associated with communications or  
12 activities as part of a business, civic, religious, fraternal, or commercial  
13 relationship which is not connected to legislative or executive action, or both.  
14 Expenses in connection with these activities were appropriately recorded  
15 above-the-line. These employees follow Company procedures and, for  
16 example, record any hours associated with time spent attending town and city  
17 hall meetings below-the-line, despite the fact that this time involves an above-  
18 the-line activity.

19 Q. DO YOU AGREE WITH WITNESS JOHNSON'S ADJUSTMENT  
20 RELATED TO THE COMPANY'S SPONSORSHIP EXPENSES?

21 A. No, the Public Staff incorrectly disallowed a portion of industry association  
22 dues and sponsorships that the Company already had included below-the-line  
23 in FERC Account 426. Additionally, the Public Staff disallowed some industry



1 association dues and sponsorships that result in benefits to customers and which  
2 were recorded above-the-line. For example, the 811 Annual Membership fee  
3 was disallowed. PSNC's participation in this important safety-focused  
4 organization is critical to assist in the prevention of third-party damage.

5 Q. DO YOU AGREE WITH WITNESS JOHNSON'S ADJUSTMENT  
6 RELATED TO THE COMPANY'S INFLATION EXPENSES?

7 A. The Company disagrees with Public Staff witness Johnson's inflation  
8 adjustment to the extent it is applied to other adjustments to which the Company  
9 does not agree.

10 Q. DO YOU AGREE WITH WITNESS JOHNSON'S ADJUSTMENT  
11 RELATED TO THE COMPANY'S NON-UTILITY EXPENSES?

12 A. No. The Public Staff adjustment incorrectly assumes that the Company has not  
13 appropriately allocated the costs to non-utility accounts. The adjustment Ms.  
14 Johnson recommends should be rejected because the Company already  
15 allocates an appropriate portion of these operating costs to non-utility accounts  
16 through its normal accounting practices.

17 Q. DO YOU AGREE WITH WITNESS JOHNSON'S ADJUSTMENT  
18 RELATED TO SERVICE COMPANY EXPENSES?

19 A. No. The Public Staff estimated the Company's going level of Dominion Energy  
20 Services, Inc. ("DES") expense by using a 12-month ended June 30, 2021. In  
21 the test year, PSNC received a partial allocation of costs from DES due to the  
22 fact that PSNC did not transition its accounting system from PeopleSoft to SAP  
23 until January 2021. In 2021, however, PSNC will receive a full allocation of

1 DES costs. Therefore, the Company's methodology of establishing an ongoing  
2 level of DES costs is based on more recent experience and is more accurate than  
3 Ms. Coleman's recommended level, which includes a six-month period when  
4 PSNC was not charged a full allocation of DES costs.

5 Q. DO YOU AGREE WITH WITNESS JOHNSON'S ADJUSTMENT  
6 RELATED TO THE COMPANY'S SEVERANCE EXPENSES  
7 REGARDING RETIREMENTS?

8 A. No. The Company recorded all severance costs related to retirements below-  
9 the-line and no further adjustment is appropriate.

10 Q. DO YOU AGREE WITH WITNESS JOHNSON'S ADJUSTMENT  
11 RELATED TO THE COMPANY'S CNG TAX CREDIT EXPENSES?

12 A. No, witness Johnson reversed the Company's CNG Tax Credit adjustment. The  
13 current CNG Tax Credit expires on December 31, 2021, absent congressional  
14 action to renew the credit. Neither PSNC nor the Public Staff can predict if, or  
15 when, the CNG Tax Credit might get renewed. Therefore, the Company's  
16 adjustment to the CNG Tax Credit is appropriate. Moreover, consistent with  
17 prior practice, if the CNG Tax Credit is renewed, PSNC will thereafter reflect  
18 this credit in the price charged to PSNC's CNG customers.

19 Q. ARE THERE OTHER AREAS OF ADJUSTED EXPENSE FROM THE  
20 PUBLIC STAFF TESTIMONY THAT YOU DISAGREE WITH?

21 A. Yes, but they are fundamentally flow-through impacts of the contested  
22 adjustments discussed above. They include, but are not limited to, the

1 following: depreciation and accumulated depreciation, property tax expense,  
2 payroll tax expense, the regulatory fee, and all components of rate base.

3 Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

4 A. Yes, however, I reserve the right to supplement or amend my testimony before  
5 or during the Commission's hearing.