

STATE OF NORTH CAROLINA
BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

_____)	
In the Matter of:)	
)	
Application of Duke Energy)	
Carolinas, LLC Pursuant to)	DOCKET NO. E-7, Sub 1282
N.C.G.S. § 62-133.2 and)	
Commission Rule R8-55)	
Regarding Fuel and Fuel-Related)	
Cost Adjustments for Electric)	
Utilities)	
_____)	

Direct Testimony of
Brian C. Collins

On behalf of
CIGFUR III

May 9, 2023



STATE OF NORTH CAROLINA
BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of:)
)
)
Application of Duke Energy)
Carolinas, LLC Pursuant to) DOCKET NO. E-7, Sub 1282
N.C.G.S. § 62-133.2 and)
Commission Rule R8-55)
Regarding Fuel and Fuel-Related)
Cost Adjustments for Electric)
Utilities)
)

Table of Contents to the Direct Testimony of Brian C. Collins

Qualifications of Brian C. Collins.....Appendix A

STATE OF NORTH CAROLINA
BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

_____)
In the Matter of:)
)
Application of Duke Energy)
Carolinas, LLC Pursuant to) DOCKET NO. E-7, Sub 1282
N.C.G.S. § 62-133.2 and)
Commission Rule R8-55)
Regarding Fuel and Fuel-Related)
Cost Adjustments for Electric)
Utilities)
_____)

Direct Testimony of Brian C. Collins

I. INTRODUCTION AND SUMMARY

- 1 Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.
- 2 A Brian C. Collins. My business address is 16690 Swingley Ridge Road, Suite 140,
3 Chesterfield, MO 63017.
- 4 Q WHAT IS YOUR OCCUPATION?
- 5 A I am a consultant in the field of public utility regulation and a Managing Principal of
6 Brubaker & Associates, Inc., energy, economic, and regulatory consultants. Our firm
7 and its predecessor firms have been in this field since 1937 and have participated in
8 more than 1,000 proceedings in 40 states and in various provinces in Canada. We have
9 experience with more than 350 utilities, including many electric utilities, gas pipelines,
10 and local distribution companies. I have testified in many electric, gas, and water rate

1 proceedings on various aspects of ratemaking. More details are provided in Appendix
2 A of this testimony.

3 **Q ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?**

4 A I am testifying on behalf of a group of intervenors designated as the Carolina Industrial
5 Group for Fair Utility Rates III (“CIGFUR III”), a group of large industrial customers that
6 purchase power from Duke Energy Carolina (“DEC,” “Duke,” or “Company”).
7 CIGFUR III’s members receive electric service from Duke primarily under Rate
8 Schedule OPT.

9 **Q HAVE YOU FILED TESTIMONY IN A PRIOR PROCEEDING BEFORE THE NORTH**
10 **CAROLINA UTILITIES COMMISSION (“COMMISSION”)?**

11 A Yes.

12 **Q WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

13 A I am filing testimony on behalf of CIGFUR III’s member companies to urge the
14 Commission to lessen the rate shock and mitigate the financial harm resulting from this
15 extraordinary and abnormal increase in fuel and fuel-related costs filed in this
16 proceeding.

17 **Q DOES YOUR TESTIMONY ADDRESS DEC’S NEED FOR AN INCREASE IN FUEL**
18 **RATES?**

19 A No. In order to make my presentation consistent with the revenue levels requested by
20 DEC, I have, in many instances, used the Company’s proposed figures for fuel cost.
21 Use of these numbers should not be interpreted as an endorsement of them for

1 purposes of determining the total dollar amount of fuel increase to which DEC may be
2 entitled.

3 **Q PLEASE DESCRIBE DEC'S PENDING FUEL APPLICATION.**

4 A The Company requests an increase for the September 2023-August 2024 Billing Period
5 of \$934.2 million, which includes a fuel under-recovery of \$998 million. As explained by
6 DEC, the fuel under-recovery was largely driven by abnormal and unexpected
7 commodity price increases that occurred in the previous period.

8 The increase in the fuel rate as proposed by DEC will result in an approximate
9 18% increase to total bills for all customers. This increase is significant and, if approved
10 in its entirety, will have a detrimental impact on DEC's industrial customers.

11 **Q WHAT IS RATE SHOCK AND WHY SHOULD IT BE AVOIDED?**

12 A Rate shock refers to a large increase, particularly when it is unexpected.

13 **Q HOW WILL THE REQUESTED INCREASE IMPACT DEC'S INDUSTRIAL
14 CUSTOMERS?**

15 A The Company serves major industrial facilities including CIGFUR III's members.
16 Large industrial customers generally use power for around-the-clock manufacturing
17 operations and operate at high load factors. A high load factor means a customer is
18 using relatively more energy in relation to the demand for power. Energy usage is a
19 much larger portion of the total bill for a large high load factor customer as compared
20 to a smaller, lower load factor customer.

21 The proposed fuel increase will significantly increase the cost of energy for
22 DEC's industrial base. Energy costs are essential to the manufacturing processes of

1 these customers. In addition, energy costs are one of the most important factors
2 considered when manufacturers are making business decisions such as where to
3 locate new facilities, expand existing facilities, or, where no longer competitive to
4 operate, reduce operations or even close facilities. Along these lines, North Carolina
5 has to compete not just regionally, but nationally and globally, for the siting or
6 expansion of facilities that in turn employ North Carolinians, inject large revenues into
7 the local tax base, and stimulate the local economy directly and indirectly through the
8 economic multiplier effect. In my opinion, the proposed increase (1) will impose an
9 undue burden on DEC's industrial customers; (2) clearly constitutes rate shock;
10 (3) makes North Carolina a less competitive place to do business; and (4) would result
11 in detrimental consequences for both the local economies where these industrial
12 customers operate and the overall North Carolina economy.

13 **Q WHY MUST THE ABOVE-STATED HARM TO NORTH CAROLINA'S INDUSTRIAL**
14 **BASE BE AVOIDED?**

15 A CIGFUR III's member companies constitute a significant portion of the industrial base
16 of DEC's service area. CIGFUR III members are major employers in the counties where
17 they have manufacturing plants, and the jobs they provide are vital to the local
18 economies. Together, CIGFUR III members provide thousands of direct jobs in the
19 DEC service area. The economic effect of these jobs is of course multiplied by other
20 businesses and jobs indirectly created because of the existence of CIGFUR III
21 members' manufacturing operations and workforce.

22 **Q DO YOU HAVE A PROPOSED A SOLUTION TO MITIGATE THE IMPACT OF THE**
23 **LARGE UNDER-RECOVERY ON ITS NORTH CAROLINA RATEPAYERS?**

1 A Yes. I recommend a two-prong approach. First, any increase granted should continue
2 to be spread to classes on an equal percentage basis, consistent with past practice.
3 The increases in fuel costs are abnormal, and to a large extent due to an extension of
4 the COVID-19 related supply chain issues and also in part caused by the energy crisis
5 associated with the war in Europe. The fuel increase in this filing is more like a tax or
6 surcharge than a normal increase in commodity costs. This type of abnormal increase
7 is more appropriately reflected by an equal percentage increase to customer bills as
8 proposed by DEC.

9 Both Duke Energy Progress, LLC (DEP) and DEC have used this approach for
10 many years in North Carolina. This approach is inherently fair, particularly for these
11 abnormal circumstances. The volatility of cost changes is “dampened” by this method
12 and overly harsh increases are to some extent reduced.

13 It should be noted that while the high load factor customer class sees reduced
14 impacts during times of fuel cost increases, these customers receive less of a reduction
15 during times of fuel cost decreases, making the approach symmetrical and fair over
16 time. Certainly, fuel costs are expected to return to normal in the future and should, in
17 theory, be significantly lower as additional renewable generation is added to DEC’s
18 generation resource mix consistent with the policy goals set forth in House Bill 951
19 (HB 951).

20 **Q WHAT IS THE SECOND PRONG OF YOUR RECOMMENDED APPROACH?**

21 A An interest-free deferral or spreading out of the increase, particularly for the
22 under-recovered amount from the previous period is warranted, at least for the
23 industrial class of customers.

1 **Q SHOULD THERE BE AN AVERSION TO A DEFERRAL TO A FUTURE PERIOD?**

2 A No. Deferrals are often used. This Commission recently deferred the return of ratepayer
3 money associated with the over-collection of federal taxes. The return of excess
4 deferred income taxes (“EDIT”) to ratepayers is currently included in DEC rates. These
5 deferrals associated with the over-collection of federal taxes can last years before
6 being returned to customers. The deferral of an abnormal cost in this fuel proceeding
7 is appropriate and will to a certain extent lessen rate shock and help allow industrial
8 customers continue to operate in North Carolina.

9 **Q HAS THE COMMISSION PREVIOUSLY APPROVED THE DEFERRAL OF A LARGE**
10 **FUEL EXPENSE FOR ANY UTILITY?**

11 A Yes. In Dominion Energy North Carolina’s (“DENC”) 2014 fuel proceeding, Docket No.
12 E-22, Sub 515, the Commission concluded that, in order to lessen rate shock to
13 DENC’s customers, it was appropriate to approve a mitigation proposal by the
14 Company, which amortized an under-collection over two years without interest. In a
15 similar situation to the large increase requested in the instant proceeding, DEP’s
16 predecessor company similarly assisted customers in 2008.

17 **Q HAVE YOU CALCULATED A UNIFORM EQUAL PERCENTAGE AND DEFERRAL**
18 **APPROACH FOR CONSIDERATION?**

19 A Yes. Since the total increase proposed by DEC is approximately 18%, a uniform equal
20 percentage approach combined with year 2- or 3-year deferral, amounts to a 9% or a
21 6% increase, respectively. This approach lessens rate shock and helps to manage this
22 abnormal increase. In my view, all customers are better off with this approach.

1 **Q HOW HAVE DEC AND DEP ALLOCATED ANNUAL FUEL AND FUEL-RELATED**
2 **COST BETWEEN RATE CASES?**

3 A Since approximately 2008, DEP and its predecessor company have implemented
4 annual changes in fuel costs on a uniform bill increase or decrease methodology. This
5 allocation methodology was borne from a Commission-approved settlement agreeing
6 to this methodology between DEP's predecessor company, CUCA, CIGFUR II, and the
7 Public Staff. To my knowledge, this methodology has been approved without objection
8 by any party in every annual fuel charge adjustment proceeding since the order issued
9 in 2008 which is approaching 15 years ago. The method has served ratepayers well
10 and should be continued during this time of increased volatility in fuel prices and upward
11 pressure on electric rates. This method worked so well upon its initial implementation
12 by DEP's predecessor company in 2008 that a few years later, DEC similarly proposed,
13 and the Commission similarly approved, this method for DEC, which has continued for
14 many years. For the reasons previously described, this method is symmetrical and fair
15 over time and should not be changed.

16 **Q WHY SHOULD THIS UNIFORM BILL INCREASE (DECREASE) METHODOLOGY**
17 **BE MAINTAINED IN THIS PROCEEDING?**

18 A This method has withstood the test of time and changing it now when fuel costs are
19 extremely volatile would be unfair, unreasonable, and disruptive, particularly to high
20 load factor customers. The uniform bill methodology levelizes over time any harsh
21 impacts and results in equal percentage increases or decreases to all customers, which
22 are fair, just, and reasonable. While the high load factor customer classes see reduced
23 impacts during times of fuel cost increases, these same customers receive less of a
24 reduction during times of fuel cost decreases, thereby resulting in a fair and

1 symmetrical approach over time. Certainly, fuel costs are expected to return to normal
2 in the future and should be significantly lower as additional renewable generation is
3 added to the resource mix.

4 In addition, many years ago, the fuel adjustment only involved cost recovery for
5 fuel and fuel-related costs. Over time, and pursuant to changes in applicable law,
6 various non-fuel costs have been allowed to be recovered through the fuel rider.
7 Many such costs are basically capital costs. For example, renewable costs, such as
8 purchased power from solar or other renewable energy facilities, are not fuel expenses;
9 yet such costs are allowed to be recovered through the fuel rider. To the extent these
10 costs are included in the annual fuel adjustment, an equal percentage basis is
11 appropriate.

12 Other things were allowed in the Rider such as chemical cost, transmission
13 charges, power purchases, costs from renewable purchases including capital costs and
14 profit, net gains and losses from sales of by-products including coal ash. These are not
15 fuel costs and contain no btu or heat content. Recovering these costs
16 disproportionately from industrial customers through energy charges collected through
17 the fuel rider penalizes higher load factor customers, who in fact require less costs to
18 serve per unit of energy. This would in turn create more subsidization between
19 customers with varying load factors, thereby rewarding inefficient use of system
20 resources.

1 **Q PRIOR TO ANY POTENTIAL CHANGE IN THE CURRENT UNIFORM BILL**
2 **INCREASE/DECREASE METHOD, SHOULD CERTAIN REASONABLE**
3 **MEASURES BE ADOPTED?**

4 A Yes. First, the subsidy paid by industrial customers in base rates should be eliminated.
5 Second, all non-fuel costs should be removed from the fuel adjustment mechanism,
6 including the various non-fuel costs described herein. If both two conditions were
7 satisfied, then it may be appropriate to consider evaluating whether a change to the
8 equal percentage approach is appropriate. Unless and until such time as both
9 conditions are satisfied, however, it would be inappropriate, unreasonable, and unjust
10 to change this methodology. It is important to note that the fuel rider is an annual
11 abbreviated cost recovery mechanism to reflect changes in the base established in the
12 base rate case. The base rate must be set at cost without subsidies before
13 modifications to the annual rider which by its nature is subordinate to the base rate.
14 The current subsidy paid by Rate OPT customers to other DEC customers is \$85.4
15 million, as calculated by DEC in its filing in Docket E-7, Sub 1276, Beveridge Direct
16 Exhibit No. 4_1, which I hereby incorporate by reference.

17 **Q PLEASE ESTIMATE THE BILL IMPACT TO THE INDUSTRIAL CLASS OF A**
18 **CHANGE FROM THE EQUAL PERCENTAGE APPROACH TO A UNIFORM CENTS**
19 **PER KWH MECHANISM.**

20 A The industrial class total bill increase would approach 27% if this Commission changed
21 to a uniform cents per kWh mechanism rather than the current equal percentage
22 approach. A customer with a higher-than-average load factor would see an even higher
23 bill increase.

1 Q DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

2 A Yes, it does.

Qualifications of Brian C. Collins

1 **Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A Brian C. Collins. My business address is 16690 Swingley Ridge Road, Suite 140,
3 Chesterfield, MO 63017.

4 **Q WHAT IS YOUR OCCUPATION AND BY WHOM ARE YOU EMPLOYED?**

5 A I am a consultant in the field of public utility regulation and a Managing Principal with
6 the firm of Brubaker & Associates, Inc. ("BAI"), energy, economic and regulatory
7 consultants.

8 **Q PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND WORK**
9 **EXPERIENCE.**

10 A I graduated from Southern Illinois University Carbondale with a Bachelor of Science
11 degree in Electrical Engineering. I also graduated from the University of Illinois at
12 Springfield with a Master of Business Administration degree. Prior to joining BAI, I was
13 employed by the Illinois Commerce Commission and City Water Light & Power
14 ("CWLP") in Springfield, Illinois.

15 My responsibilities at the Illinois Commerce Commission included the review of
16 the prudence of utilities' fuel costs in fuel adjustment reconciliation cases before the
17 Commission as well as the review of utilities' requests for certificates of public
18 convenience and necessity for new electric transmission lines. My responsibilities at
19 CWLP included generation and transmission system planning. While at CWLP, I
20 completed several thermal and voltage studies in support of CWLP's operating and
21 planning decisions. I also performed duties for CWLP's Operations Department,

1 including calculating CWLP's monthly cost of production. I also determined CWLP's
2 allocation of wholesale purchased power costs to retail and wholesale customers for
3 use in the monthly fuel adjustment.

4 In June 2001, I joined BAI as a Consultant. Since that time, I have participated
5 in the analysis of various utility rate and other matters in several states and before the
6 Federal Energy Regulatory Commission ("FERC"). I have filed or presented testimony
7 before the Arkansas Public Service Commission, the California Public Utilities
8 Commission, the Colorado Public Utilities Commission, the Delaware Public Service
9 Commission, the Public Service Commission of the District of Columbia, the Florida
10 Public Service Commission, the Georgia Public Service Commission, the Guam Public
11 Utilities Commission, the Idaho Public Utilities Commission, the Illinois Commerce
12 Commission, the Indiana Utility Regulatory Commission, the Kentucky Public Service
13 Commission, the Public Utilities Board of Manitoba, the Minnesota Public Utilities
14 Commission, the Mississippi Public Service Commission, the Missouri Public Service
15 Commission, the Montana Public Service Commission, the North Carolina Utilities
16 Commission, the North Dakota Public Service Commission, the Public Utilities
17 Commission of Ohio, the Oklahoma Corporation Commission, the Oregon Public Utility
18 Commission, the Rhode Island Public Utilities Commission, the Public Service
19 Commission of Utah, the Virginia State Corporation Commission, the Washington
20 Utilities and Transportation Commission, the Public Service Commission of Wisconsin,
21 and the Wyoming Public Service Commission. I have also assisted in the analysis of
22 transmission line routes proposed in certificate of convenience and necessity
23 proceedings before the Public Utility Commission of Texas.

1 In 2009, I completed the University of Wisconsin – Madison High Voltage Direct
2 Current (“HVDC”) Transmission Course for Planners that was sponsored by the
3 Midwest Independent Transmission System Operator, Inc. (“MISO”).

4 BAI was formed in April 1995. BAI and its predecessor firm have participated in
5 more than 1,000 regulatory proceedings in forty states and Canada.

6 BAI provides consulting services in the economic, technical, accounting, and
7 financial aspects of public utility rates and in the acquisition of utility and energy
8 services through RFPs and negotiations, in both regulated and unregulated markets.
9 Our clients include large industrial and institutional customers, some utilities and, on
10 occasion, state regulatory agencies. We also prepare special studies and reports,
11 forecasts, surveys and siting studies, and present seminars on utility-related issues.

12 In general, we are engaged in energy and regulatory consulting, economic
13 analysis and contract negotiation. In addition to our main office in St. Louis, the firm
14 also has branch offices in Corpus Christi, Texas; Detroit, Michigan; Louisville, Kentucky
15 and Phoenix, Arizona.

CERTIFICATE OF SERVICE

The undersigned counsel for CIGFUR III hereby certifies that she did cause to be served this day the Direct Testimony of CIGFUR III Witness Brian C. Collins, on all parties of record pursuant to the Service List maintained by the NCUC – Chief Clerk’s Office, by electronic mail.

This the 9th day of May, 2023.

/s/ Christina D. Cress

Christina D. Cress