STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH

DOCKET NO. E-100, SUB 190

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of Biennial Consolidated Carbon Plan and Integrated Resource Plans of Duke Energy Carolinas, LLC, and Duke Energy Progress, LLC, Pursuant to N.C.G.S. § 62-110.9 and § 62-110.1(c)	))))))	**DIRECT TESTIMONY OF LAURA BATEMAN AND NELSON PEELER ON BEHALF OF DUKE ENERGY CAROLINAS, LLC AND DUKE ENERGY PROGRESS, LLC**

I. INTRODUCTION AND OVERVIEW

Q. MS. BATEMAN, PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND POSITION WITH DUKE ENERGY CORPORATION.

A. My name is Laura A. Bateman, and my business address is 411 Fayetteville Street, Raleigh, North Carolina 27601. I am employed by Duke Energy Carolinas, LLC ("DEC") as Vice President of Carolinas Rates and Regulatory Strategy.

Q. BEFORE INTRODUCING YOURSELF FURTHER, WOULD YOU PLEASE INTRODUCE THE PANEL.

A. Yes. I am appearing on behalf of DEC and Duke Energy Progress, LLC ("DEP" and together with DEC, the "Companies" or "Duke Energy") together with Nelson Peeler as the "Carolinas Utility Operations Panel." Witness Peeler will introduce himself.

Q. PLEASE BRIEFLY SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL QUALIFICATIONS.

A. I obtained a Bachelor's degree from the University of Massachusetts at Amherst and a Master of Business Administration ("MBA") degree from the University of North Carolina at Chapel Hill.

Q. PLEASE DESCRIBE YOUR BUSINESS BACKGROUND AND EXPERIENCE.

A. Since 2003, I have worked for Duke Energy Corporation in a variety of roles in Risk Management, Treasury, and Regulatory. I have been in the Rates and

Regulatory Strategy group since 2007. I assumed my current position in April 2020.

Q. WHAT ARE YOUR RESPONSIBILITIES IN YOUR CURRENT POSITION?

A. I lead teams responsible for rate cases, annual rider filings, cost of service studies, surveillance reporting and regulatory strategy, and planning for North and South Carolina for the Companies.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE NORTH CAROLINA UTILITIES COMMISSION ("COMMISSION")?

A. Yes.

Q. MR. PEELER PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND POSITION WITH DUKE ENERGY CORPORATION.

A. My name is V. Nelson Peeler Jr., and my business address is 525 S. Tryon Street, Charlotte, North Carolina, 28202. I am the Senior Vice President, Transmission and Fuels Strategy and Policy for Duke Energy Corporation.

Q. PLEASE BRIEFLY SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL QUALIFICATIONS.

A. I graduated from North Carolina State University with a Bachelor's degree in electrical engineering and an MBA from Queens University. I am a registered professional engineer in North Carolina and South Carolina.

Q. PLEASE DESCRIBE YOUR BUSINESS BACKGROUND AND EXPERIENCE.

A. I have more than 35 years of experience in the energy industry. I joined Duke Energy Corporation in 1988 and have held a variety of leadership positions in power delivery, system planning and operations, performance support, engineering, construction, business planning, contract management, process improvement. and training. Prior to my current role which began in July 2020, I was the Company's Chief Transmission Officer. In this role since 2016, I oversaw the safe, reliable, and efficient operation of Duke Energy Corporation's electric transmission system. I have also been the Vice President of Transmission System Planning and Operations, where I had responsibility for real-time monitoring and control of Duke Energy Corporation's bulk electric transmission system.

Q. WHAT ARE YOUR RESPONSIBILITIES IN YOUR CURRENT POSITION?

A. I am the Senior Vice President of Transmission and Fuels Strategy and Policy. I lead the organization responsible for Duke Energy Corporation's fuel supply, system optimization, long-term transmission planning, and developing strategies and investment proposals to provide clean, affordable, and reliable energy.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE COMMISSION?

A. Yes.

Q. IS THE PANEL SPONSORING ANY EXHIBITS?

A. No.

Q. MS. BATEMAN, ON BEHALF OF THE PANEL, PLEASE DESCRIBE THE PURPOSE OF YOUR JOINT TESTIMONY.

A. As stated in the 2022 Carbon Plan Proceeding in Docket No. E-100, Sub 179 ("2022 Carbon Plan Proceeding") and further updated in the current 2023-2024 Carbon Plan and Integrated Resource Plan ("CPIRP" or the "Plan"), the Companies continue to believe that a merger of DEP and DEC would be in the long-term best interest of customers in the Carolinas. Towards that end, the Companies launched an enterprise-wide study of merging the DEC and DEP utilities in early 2023 to evaluate the cost to achieve a merger, estimate benefits and savings, and analyze rate impacts. We believe a merger is the best solution to address the Companies' future operational needs and rate disparity between DEC and DEP, as well as lowers costs for customers. In addition to the work on the merger plans, the Companies have taken additional steps since the 2022 Carbon Plan Proceeding to address the rate differences between DEP and DEC, which we discuss later in this Panel's testimony. This testimony addresses specific directives from the Commission's December 30, 2022 Order Adopting Initial Carbon Plan and Providing Direction for Future Planning issued in Docket No. E-100, Sub 179 ("Carbon Plan Order") to provide updates on rate disparity between DEC and DEP and recent actions to pursue a DEC and DEP merger.[1]

[1] Carbon Plan Order at 135 (Ordering Paragraph 38).

Q. PLEASE EXPLAIN HOW THIS PANEL'S TESTIMONY IS ORGANIZED.

A. Section II of the Panel's testimony identifies the portions of the Plan that this Panel is sponsoring.

Section III of the Panel's testimony provides an update on the plans to merge the DEC and DEP utilities.

Section IV discusses the rate differences between DEC and DEP and how a merger will address those differences. Section IV also discusses the additional steps the Companies have taken, beyond the efforts to merge DEC and DEP, since the 2022 Carbon Plan Proceeding to mitigate against increasing rate differences.

Section V of the Panel's testimony addresses how the rate impacts included in the CPIRP are calculated and the differences between DEC and DEP.

II. <u>SPONSORSHIP OF THE PLAN</u>

Q. MS. BATEMAN, PLEASE IDENTIFY WHICH SECTIONS OF THE PLAN THE PANEL IS SPONSORING WITH ITS DIRECT TESTIMONY.

A. The Carolinas Utility Operations Panel adopts and sponsors those parts of the Plan describing the projected changes to a typical residential customer's bill for each of the Core Portfolios through 2033 and 2038 and providing updates on pursuing a recommended DEC and DEP merger.

III. UPDATE ON PLANS TO MERGE THE UTILITIES

Q. MR. PEELER, PLEASE PROVIDE AN UPDATE ON THE COMPANIES' EFFORTS TO MERGE THE DEC AND DEP UTILITIES.

A. A merger of the DEC and DEP utilities is believed to be the best solution for customers in the Carolinas. A merger provides a number of customer benefits, including lowering operating reserve requirements, improving dispatch efficiencies, enabling single unit commitment, reducing carbon dioxide ("CO_2") emissions, and allowing more solar generation to serve our customers. Combining into a single balancing authority to manage load and resources is more efficient for customers, helps accommodate expanded levels of variable renewable energy resources, reduces forced solar curtailment, and eliminates many annual combustion turbine starts. Each of these improvements provides annual direct benefits to customers in the form of lower fuel and fleet maintenance costs, and reduced CO_2 emissions.

The merger of DEP and DEC would also provide additional capital savings for customers by improving planning reserve margins and enabling a consolidated long-term resource plan. Customers will benefit from resources built in the most favorable locations and investment spread over a larger customer base moderating rate impacts along with overall simplifying operations and streamlining regulatory processes. A merger also addresses emerging and increasing cost allocation issues that contribute to rate disparity between DEC and DEP.

In early 2023, the Companies launched an enterprise-wide study of merging the DEC and DEP utilities. The study consists of three main components: (1) cost to achieve estimates of all work scope required to implement a merger along with the estimated durations and schedule, (2) detailed modeling of benefits/savings (*e.g.,* production cost, fuel, capital, and administrative), and (3) rate impact analysis and design. The legal day one timing of the merger could be executed by January 1, 2027.

IV. RATE DIFFERENCES

Q. MS. BATEMAN, PLEASE PROVIDE AN UPDATE ON THE RATE DIFFERENCES BETWEEN DEP AND DEC CUSTOMER RATES.

A. Since the 2022 Carbon Plan Proceeding, both DEP and DEC have each filed rate cases with three-year multiyear rate plans. In those rate cases, DEP initially requested an increase of 16.0% over the three-year period and DEC initially requested an increase of 15.7% over the same period. The DEC rate case is still pending, and the rates will continue to fluctuate based on annual riders, but I point this out as support for my assertion from the 2022 Carbon Plan Proceeding that we do not expect a significant widening of the difference in the rates between now and the targeted close of the merger. I continue to believe the merger is the best way to address the rate differences between DEP and DEC and can provide significant benefits to customers.

Q. PLEASE PROVIDE AN UPDATE ON HOW THE MERGER WILL ADDRESS RATE DIFFERENCES.

A. Once the merger is achieved, new cost increases will be spread to all customer classes of the combined system based on cost causation principles. This should prevent any widening of the rate differences from new investments. In addressing existing differences, the Companies will employ the principle of gradualism with the goal of bringing the rate schedules and riders together over time.

Q. IN ADDITION TO THE WORK ON THE MERGER PLANS, WHAT ADDITIONAL STEPS HAVE THE COMPANIES TAKEN TO ADDRESS RATE DIFFERENCES BETWEEN DEP AND DEC SINCE THE 2022 CARBON PLAN PROCEEDING?

A. As discussed in the 2022 Carbon Plan Proceeding, the projected impact of the Carbon Plan on current rate differences prior to the targeted DEC/DEP merger date at the end of 2026 is minimal to non-existent. However, as noted in the DEP and DEC rate case proceedings in Docket Nos. E-2, Sub 1300 and E-7, Sub 1276, respectively, the Companies have taken several steps to address and minimize current and future differences between the utilities.

First, in the DEC and DEP rate case proceedings, the Companies initially provided an alternative allocation of the Red Zone Expansion Plan ("RZEP") transmission projects to show what the North Carolina retail revenue requirement would be for both DEC and DEP if the RZEP transmission project costs were distributed to the two utilities based on their North Carolina retail transmission demand load ratio share. Ultimately, the Companies and the Public

Staff of the North Carolina Utilities Commission (the "Public Staff") entered into a Transmission Cost Allocation Agreement and Stipulation of Settlement ("TCA Stipulation"). In the TCA Stipulation, the parties agreed to a pro forma adjustment to increase the revenue requirement for DEC in the DEC rate case and decrease the revenue requirement for DEP in the DEP rate case by approximately $20 million on a North Carolina retail basis. The adjustment calculated a pro forma amount of transmission expense for DEC and transmission revenue for DEP by multiplying the net transfers from DEP to DEC under the Joint Dispatch Agreement in 2022 by the DEP non-firm rate from the Federal Energy Regulatory Commission's approved Joint Open Access Transmission Tariff of DEP, DEC, and Duke Energy Florida, LLC. The adjustment was for North Carolina retail ratemaking purposes and, if approved by the Commission, will reduce the rate differences between DEC and DEP during an interim period until the targeted merger effective date.[2]

Second, DEC and DEP have taken steps to mitigate rate disparity that could result from the 2022 Solar Procurement. Pursuant to an agreement between the Companies and the Public Staff that was approved by Commission in the 2022 Solar Procurement Proceeding, a 1,200-megawatt ("MW") Target Procurement Volume was established for solar generation. The 2022 Solar Procurement sought at least one-third of the Target Procurement Volume to be

[2] The TCA Stipulation was approved by the Commission in the DEP rate case in Order Accepting Stipulations, Granting Partial Rate Increase, and Requiring Public Notice issued on August 18, 2023 in Docket No. E-2, Sub 1300 but is still pending in the DEC rate case in Docket No. E-7, Sub 1276.

located in DEC, one-third in DEP and the remaining one-third from the highest ranked, least cost remaining projects, whether located in DEP's or DEC's service territory. The 2022 Solar Procurement achieved these 400 MW minimums (despite some of the selected winners declining to continue with their projects) with 416 MW in DEC and 549 MW in DEP. The establishment of a minimum level of MW for each utility was an attempt to mitigate an increase in rate disparity that could result from greater imbalance in the winning bids between the two utilities.

V. PLAN RATE IMPACTS

Q. MS. BATEMAN, PLEASE DESCRIBE HOW THE RATE IMPACTS PRESENTED IN THE PLAN ARE CALCULATED.

A. First, the generation costs and annual production cost changes received from the IRP and Near-Term Actions Panel are allocated to all jurisdictions – North Carolina retail, South Carolina retail, and wholesale – based on normal cost of service allocation factors, and then they are converted to annual revenue requirements for each portfolio. Next, the applicable production tax credits and investment tax credits are calculated and included in the revenue requirement calculations. Finally, the annual revenue requirement savings from securitizing 50% of the net book value of the retired subcritical coal units is calculated and included in the annual impacts for North Carolina retail customers. Using the annual revenue requirements, including savings, from each portfolio, the average annual North Carolina retail rate impacts are calculated through 2033 and 2038 as shown in Tables C-65 through C-68 in Appendix C (Quantitative Analysis). The Companies allocated the costs to all jurisdictions because we believe the Plan meets the resource needs, statutory requirements, and energy policy objectives of both North Carolina and South Carolina with respect to resource planning. However, should South Carolina choose not to participate in one or more of the generation units in the Plan, there is the potential that both the costs and benefits from the units would be assigned only to North Carolina. The Companies want to be transparent about this possibility and believe that, if necessary, a revised cost allocation methodology can be developed that is fair and equitable to both states.

Q. PLEASE COMMENT ON THE PLAN RATE IMPACT DIFFERENCES BETWEEN DEP AND DEC.

A. While the Companies are targeting a merger of the DEP and DEC utilities effective January 2027, at this point the utilities are still separate, and therefore, rate impacts were calculated separately. However, the combined impacts, which are a weighted average of the separate utility impacts, are also shown. The combined impacts do not include projected merger benefits, but do provide a projection of how each portfolio, in relative terms, would impact the customers of a future merged utility and are likely the most relevant and helpful rate impacts to look at.

VI. CONCLUSION

Q. MS. BATEMAN AND MR. PEELER, DOES THIS CONCLUDE YOUR PRE-FILED DIRECT TESTIMONY?

A. Yes.