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VIA ELECTRONIC FILING

Office of the Chief Clerk
North Carolina Utilities Commission
4325 Mail Service Center
Raleigh, North Carolina 27699-4335

**Re: Joint Motion for Clarification
Docket Nos. E-7, Sub 1213, E-7, Sub 1214, and E-7, Sub 1187**

Dear Ms. Campbell:

Enclosed for filing in the above-referenced proceedings on behalf of Duke Energy Carolinas, LLC and the Public Staff of the North Carolina Utilities Commission is their Joint Motion for Clarification or, in the Alternative, Reconsideration.

Please feel free to contact me with any questions or concerns, and thank you for your assistance in this matter.

Sincerely,

A handwritten signature in dark ink, appearing to be "Camal O. Robinson", written over a horizontal line.

Camal O. Robinson

COR:sjg

Enclosure

**STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH**

DOCKET NO. E-7, SUB 1213
DOCKET NO. E-7, SUB 1214
DOCKET NO. E-7, SUB 1187

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. E-7, SUB 1213

In the Matter of
Petition of Duke Energy Carolinas,
LLC, for Approval of Prepaid
Advantage Program

DOCKET NO. E-7, SUB 1214

In the Matter of
Application by Duke Energy
Carolinas, LLC, for Adjustment of
Rates and Charges Applicable to
Electric Utility Service in North
Carolina

DOCKET NO. E-7, SUB 1187

In the Matter of
Application of Duke Energy
Carolinas, LLC for an Accounting
Order to Defer Incremental Storm
Damage Expenses Incurred as a
Result of Hurricanes Florence and
Michael and Winter Storm Diego

**JOINT MOTION FOR
CLARIFICATION OR, IN THE
ALTERNATIVE,
RECONSIDERATION**

NOW COME Duke Energy Carolinas, LLC (DEC or the Company) and the Public Staff—North Carolina Utilities Commission (Public Staff) (Movants), and hereby jointly file, pursuant to N.C. Gen. Stat. § 62-80 and North Carolina Utilities Commission (Commission) Rule R1-7, this joint motion for clarification or, in the

alternative, reconsideration of the Commission's Order Accepting Stipulation, Granting Partial Rate Increase, and Requiring Customer Notice (Order) issued on March 31, 2021 in the above-captioned dockets (Motion).

In support of this Motion, the Movants show as follows:

1. On September 30, 2019, DEC filed an Application to Adjust Retail Rates and Request for an Accounting Order, along with the required Rate Case Information Report, Form E-1, and the direct testimony and exhibits of numerous witnesses.
2. On March 4, 2020, the Company filed rebuttal testimony.
3. On March 25, 2020, DEC and the Public Staff filed their Agreement and Stipulation of Partial Settlement (First Partial Stipulation).
4. On July 31, 2020, DEC and the Public Staff filed their Second Agreement and Stipulation of Partial Settlement (Second Partial Stipulation), as well as supporting testimony.
5. On August 24, 2020, the matter came on for a consolidated expert witness hearing with Duke Energy Progress, LLC.
6. On September 8, 2020, the Public Staff filed the Second Supplemental Settlement Testimony of Michelle M. Boswell.
7. In accordance with orders of the Commission, several parties submitted post-hearing briefs and proposed orders on November 4, 2020. The Public Staff and the Company, in addition to each filing their own proposed order, also filed a Joint Proposed Order (JPO).
8. On March 31, 2021, the Commission issued its Order.

Request for Clarification on Other Production Interim Net Salvage
Discussion and Conclusions

9. Finding of Fact No. 9 on page 13 states:

Use of an interim net salvage percentage of zero for Accounts 342, 343, 344, 345, and 346 is reasonable.

10. The Commission's discussion and conclusions related to Finding of Fact No. 9 begins on page 38 of the Order, under the section titled *Other Production Interim Net Salvage*. The Commission's overall conclusion for the *Other Production Interim Net Salvage* discussion section states, in relevant part:

Based on the above evidence, the Commission finds that the Public Staff's proposal of a future net salvage percent of -10% for Account 366, Underground Conduit, is reasonable since it is within the range of the historic net salvage percentage, Spanos Ex. 1 at 342, and builds a reserve for future removal costs, tr. vol. 16, 623-24, while balancing the interests of current versus future ratepayers.

11. As illustrated by the above-cited language, the Order's *Other Production Interim Net Salvage* discussion contains no conclusions specific to the reasonableness of an interim net salvage percentage of zero for Accounts 342, 343, 344, 345, and 346. Instead, the *Other Production Interim Net Salvage* section makes a conclusion regarding a different DEC account, Account 366¹, which does not utilize a zero interim net salvage percent.

12. Ordering Paragraph No. 5 on page 199 of the Order does, however, order:

¹ Account 366 does not concern other production interim net salvage percentages and was addressed in Finding of Fact No. 11, the discussion and conclusion section titled "Mass Property Future Net Salvage" beginning on page 43 of the Order, and Ordering Paragraph No. 7.

That DEC shall use an interim net salvage percentage of zero for Accounts 342, 343, 344, 345, and 346.

13. Movants agree that when considered together, Finding of Fact No. 9 and Ordering Paragraph No. 5 require DEC to utilize an interim net salvage percentage of zero for Accounts 342, 343, 344, 345, and 346.

14. However, Movants also agree that the Commission's *Other Production Interim Net Salvage* discussion section does not conclude, or even discuss, that the interim net salvage percentage to be utilized for DEC Accounts 342, 343, 344, 345, and 346 is zero. This omitted conclusion, along with the reference to another, differing account number in this section (Account 366), causes the potential for confusion.

15. To avoid confusion and for the sake of clarity, Movants request that the Commission clarify that the Order's *Other Production Interim Net Salvage* discussion section supporting Finding of Fact No. 9 was intended to include the specific conclusion that the Public Staff's position of using an interim net salvage of zero percent for Accounts 342, 343, 344, 345, and 346 is reasonable. Movants additionally request that the reference to Account 366, which is properly addressed elsewhere in the Order², be deleted from the *Other Production Interim Net Salvage* discussion section. Attachment A to this Motion includes a revised *Other Production Interim Net Salvage* discussion section that includes a clarifying conclusion.

² *Id.*

**Request for Clarification or, in the Alternative, Reconsideration of
Vegetation Management Finding of Fact No. 69**

16. Finding of Fact No. 69 on page 19 of the Order states:

DEC's annual target for distribution system vegetation management has increased from 6,177 to 6,187 miles. DEC's annual target for distribution system vegetation management of 6,187 miles is an increase from the 5,559 miles trimmed in the test year. DEC's outside labor expense for vegetation management contract work has increased by 3%. **It is therefore appropriate to adjust DEC's vegetation management annual expense for these factors, subject to the Public Staff's corrected cost per mile adjustment.** (emphasis added).

17. The emphasized final sentence of Finding of Fact No. 69 is identical to Movants' JPO Finding of Fact No. 54, which also states "It is appropriate to adjust DEC's vegetation management annual expense for these factors, subject to the Public Staff's corrected cost per mile adjustment."³

18. However, Movants erroneously included the clause "subject to the Public Staff's corrected cost per mile adjustment" in JPO Finding of Fact No. 54, which is now similarly erroneously reflected in the Order's Finding of Fact No. 69. Additionally, Movants inadvertently omitted relevant evidence in the corresponding discussion and conclusion section of their JPO explaining why the Public Staff's cost per mile adjustment is no longer necessary. Joint Movants apologize to the Commission for these errors and any resulting inconvenience caused by such errors.

³ JPO, at Finding of Fact No. 54, page 25.

19. Company witness McManeus' rebuttal testimony⁴ provides background as to why the Public Staff's initially-proposed cost per mile adjustment should no longer be included in Finding of Fact No. 69 or the Order's corresponding *Vegetation Management* discussion and conclusions section starting on page 193. To detail, her testimony explains how the Company's initial discovery response to a vegetation management-related data request did not properly include accounting accruals booked in DEC's test year. The Public Staff relied on those costs provided in the Company's initial response to propose the test year cost per mile vegetation management adjustment. However, after the Company supplemented its vegetation management discovery response to properly include the accounting accruals, the Public Staff no longer proposed a cost per mile adjustment and found the Company's vegetation management adjustment to be properly accounted for, as detailed in witness Boswell's Second Supplemental and Stipulation Exhibit 1 Schedule 3-1(d) reflecting no change to the Company's vegetation management adjustment.⁵

20. *State ex rel. Utilities Comm'n v. North Carolina Gas Service*, 128 N.C. App. 288, 293-294, 494 S.E.2d 621, 626, rev. denied, 348 N.C. 78, 505 S.E.2d 886 (1998) states that a Commission may only modify its order "due to a change of circumstances requiring it for the public interest. In the absence of any additional evidence or a change in conditions, the Commission has no power to

⁴ Rebuttal Testimony of Jane McManeus, at page 10, Docket No. E-7, Sub 1214 (filed Mar. 4, 2020).

⁵ Second Supplemental and Settlement Testimony of Michelle M. Boswell Public Staff – North Carolina Utilities Commission, at Exhibit 1 Schedule 3-1(d), Docket No. E-7, Sub 1214 (filed Sept. 8, 2020).

reopen a proceeding and modify or set aside an order made by it.” (internal citations omitted). *State ex rel. Utilities Comm’n v. Edmisten* 291 N.C. 575, 584, 232 S.E.2d 177 (1977) further states that Commission may also modify its order due “misapprehension of the facts, or disregard of facts.”

21. Accordingly, in light of these facts the Movants request that the Commission clarify or, in the alternative, reconsider the record in this docket by removing from the Order’s Finding of Fact No. 69 the clause “subject to the Public Staff’s corrected cost per mile adjustment,” as the adjustment is no longer proposed by the Public Staff or supported by the record evidence. Moreover, Movants request that the Commission further clarify or, in the alternative, reconsider the record by adding a summary of the evidence to the *Vegetation Management* discussion and conclusions section beginning on page 193 of the Order to support the revised Finding of Fact No. 69. Attachment B to this Motion provides a revised Finding of Fact No. 69 as well as a revised *Vegetation Management* discussion and conclusions section to the Order.

22. Counsel for Movants has contacted counsel for other parties to this proceeding regarding this joint motion for clarification or, in the alternative, reconsideration. No party has advised that it objects to this Motion.

CONCLUSION

THEREFORE, Duke Energy Carolinas, LLC and the Public Staff respectfully move:

1. That the Commission clarify the *Other Production Interim Net Salvage* discussion and conclusions section of the Order to specifically conclude

that DEC shall use an interim net savings percentage of zero for Accounts 342, 343, 344, 345, and 346;

2. That the Commission clarify or, in the alternative, reconsider Finding of Fact No. 69 of the Order to remove the clause “subject to the Public Staff’s corrected cost per mile adjustment,” and the corresponding *Vegetation Management* discussion and conclusions section to include additional record evidence supporting the revision to Finding of Fact No. 69.

Respectfully submitted this, the 12th day April, 2021.



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Attachment A

Other Production Interim Net Salvage

DEC witness Spanos testified that he recommended an interim net salvage percent of -6% for Other Production accounts, except for rotatable parts at combined cycle plants. Tr. vol. 22, 193. He recognized that the Commission adopted an estimate of 0% for these accounts in Sub 1146 but stated that data over the past two years supports a negative net salvage estimate for each of these accounts. *Id.* Witness Spanos contended that the higher gross salvage numbers in DEC's previous depreciation study were related to the rotatable parts of combined cycle facilities that are regularly refurbished and typically experience positive net salvage. *Id.* at 195. He noted that since the previous study, DEC has begun to account for rotatable parts in a separate sub-account, resulting in the nonrotatable parts accounts experiencing negative net salvage. *Id.* at 196.

Public Staff witness McCullar recommended an adjustment to the interim net salvage percentages of -5% proposed by DEC for Other Production Accounts 342, 343, 344, 345, and 346. Tr. vol. 16, 613. Witness McCullar pointed out that the historical analyses for these accounts show that, on average, the net salvage has been a positive \$6,404,164 per year for the last three years and a positive \$7,593,793 per year for the last five years. She explained that these positive net salvage amounts indicated that DEC's booked gross salvage exceeded the Company's incurred costs of removal and thus, DEC did not need to collect interim removal costs for these accounts. Therefore, witness McCullar proposed the continued use of a 0% interim net salvage, consistent with the Commission's finding in Sub 1146 and based on DEC's actual experience since that time. She noted that the 0% interim net salvage would not include the final decommissioning costs. *Id.*

Public Staff witness McCullar testified that in addition to relying on historic net salvage ratios, which are influenced by historic inflation levels, she also reviewed future net salvage costs included in DEC's proposed depreciation accrual and the actual net salvage costs incurred by DEC on average over the recent five-year period. Tr. vol. 16, 22. Witness McCullar noted cases in several jurisdictions that have adopted future net salvage percentages that recognized the inflated dollars included in the historic net salvage ratio and adopted future percentages that recognized the time value of cost of removal due to inflation. *Id.* at 619-21. Table 3 included in Witness McCullar's testimony provided a comparison of the actual net salvage costs incurred by DEC on average over the recent five-year period to future net salvage costs included in DEC's and the Public Staff's proposed depreciation accruals. Witness McCullar testified that her analysis provides a "reasonableness check" of the proposed future net salvage percentages, and that her "proposed future net salvage accrual amounts consider DEC's historic practices, the impact of inflation, and builds a reserve for reasonable estimated future net removal costs associated with future retirements, based on the type of investments in the account, and my previous experience." *Id.* at 624. As a result of her analysis, for Account 366, Underground Conduit, Witness McCullar recommended a future net

salvage percent of -10%, which differs from DEC's proposed -15%. *Id.* at 615. Witness McCullar noted that even under her recommendation, the annual accrual for Account 366, Underground Conduit net salvage would still be \$231,716, which is about 14.3 times the average annual amount DEC actually incurred. She further testified that her recommendation provides recovery of the expected cost of removal in the near future and builds the reserve for the future cost of removal associated with future retirements. *Id.* at 625.

DEC witness Spanos in rebuttal stated that the existence of a small number of instances where different approaches were used does not indicate that DEC's approach is consistent with the method used in the vast majority of jurisdictions. Tr. vol. 22, 184. He also testified that he did not believe that witness McCullar's analysis provides a reasonable basis to estimate future net salvage because it is based on the premise that depreciation accruals for net salvage should be similar to, if not the same as, the net salvage occurred each year. He stated that the goal of depreciation is to recover capital costs, including net salvage, over the service life of the assets and that there is not necessarily alignment between depreciation accruals for net salvage and incurred net salvage. Lastly, he noted that expressing historical net salvage as a percentage of historical retirements as he proposes properly recognizes the relationship between net salvage and retirements. *Id.* at 191-92.

On cross-examination, DEC witness Spanos testified that because the net salvage percent should reflect what is expected to happen going forward, sole focus on historical analysis is not sufficient. *Id.* at 262. He noted that with regard to Account 366, however, based on informed judgment, relying on historic salvage over a longer period of time is more representative than the most recent five-year period of time. *Id.* at 264. Witness Spanos acknowledged that the Kansas State Corporation Commission (KSCC) in a recent decision found that a net salvage analysis that estimates appropriate levels of future net salvage and does not rely solely on historic expense levels is appropriate. *Id.* at 265-67 (citing Order on Atmos Energy Corporation's Application for a Rate Increase; No. 19-ATMG-525-RTS, at ¶¶ 52-54 (K.S.C.C. Feb. 24, 2020)). He also acknowledged that the KSCC found that the approach recommended by the KSCC Staff in that proceeding, which in part considered the level of net salvage in recent years, not as a percentage of retirements, best balanced the interests of the utility's current and future ratepayers. *Id.*

Based on the above evidence, the Commission finds that DEC's use of an interim net salvage percentage of zero for Accounts 342, 343, 344, 345, and 346 is reasonable. the Public Staff's proposal of a future net salvage percent of -10% for Account 366, Underground Conduit, is reasonable since it is within the range of the historic net salvage percentage, Spanos Ex. 1 at 342, and builds a reserve for future removal costs, tr. vol. 16, 623-24, while balancing the interests of current versus future ratepayers.

Attachment B

(1) Finding of Fact Revisions

Service Regulations, Vegetation Management, and Quality of Service

69. DEC's annual target for distribution system vegetation management has increased from 6,177 to 6,187 miles. DEC's annual target for distribution system vegetation management of 6,187 miles is an increase from the 5,559 miles trimmed in the test year. DEC's outside labor expense for vegetation management contract work has increased by 3%. It is therefore appropriate to adjust DEC's vegetation management annual expense for these factors, ~~subject to the Public Staff's corrected cost per mile adjustment.~~

(2) Discussion and Conclusions Revisions

Vegetation Management

In his prefiled direct testimony, DEC witness Oliver testified that vegetation management is a critical component of the Company's customer delivery operations. He stated that the Company uses a combination of a reliability-based and a time-based prioritization model to drive its vegetation management program. He indicated that the Company's need for a funding increase adjustment for the program is two-fold. First, contractor labor costs have increased from the levels upon which the Company's current annual vegetation management costs are calculated. Tr. vol. 11, 609. Second, the number of annual miles targeted for vegetation management has also increased due to Hurricanes Florence and Michael and Winter Storm Diego. *Id.* In DEC witness McManeus' direct testimony and exhibits, she calculated the distribution system vegetation management cost increase to be \$5,490,000, the amount found reasonable in Sub 1146. McManeus Direct Ex. 1, Item NC 2701, line 2.

In their direct testimony, Public Staff witnesses Tommy Williamson and David Williamson testified that they investigated the Company's vegetation management activities and found that the Company has eliminated 6,859 miles of the 13,467 miles of vegetation management backlog identified in Docket No. E-7, Sub 1146. Tr. vol. 17, 295-97. They also testified that the Company is on track to eliminate the remaining vegetation management backlog by 2022. *Id.* at 297. Nevertheless, they testified that Public Staff recommends that the Commission continue to require the Company to file semi-annual VM Plan reports as outlined in the Commission's Orders in Docket Nos. E-7, Subs 1146 and 1182, so that Public Staff may monitor the reports and inform the Commission of any issues or if it appears the Company is no longer on track to eliminate the backlog. They further agreed that the Company's target annual miles have increased, and that contract labor charges have also increased. *Id.* at 298. As a result, the Public Staff agreed that the 3% increase cited by the Company in contract labor charges is reasonable. *Id.*

The Public Staff witnesses further testified, however, that their analysis uncovered an error in the Company's calculation of vegetation management costs per mile and corrected that calculation before reporting the results of their investigation to Public Staff witness Boswell. *Id.* at 299. According to them, the Company utilized the wrong dollar amount per mile trimmed for the test period. Witness Boswell thus appropriately made an adjustment of \$205,000 to the Company's proposed annual vegetation management cost increase. *Id.*; tr. vol. 17, 254-55; Boswell Ex. 1, Schedule 3-1(d).

~~DEC did not dispute the Public Staff's adjustment, and no other party presented evidence on DEC's annual vegetation management costs or cross-examined the Company's witnesses on this issue.~~

In her rebuttal testimony, Company witness McManeus stated that the Company responded to a data request providing a detailed view of the costs included in the cost-per-mile calculation but did not include accounting accruals booked in the test year in its

original response. The Public Staff relied on the detailed view of the costs provided in the data request to propose an adjustment to the Company's vegetation management adjustment to the test year cost per mile. The Company supplemented its response to the data request to include the accounting accruals, which supports the Company's test year cost per mile. In Public Staff Witness Boswell's Supplemental and Stipulation Exhibit 1 Schedule 3-1(d), she reflects no change to the Company's adjustment.

No other party presented evidence on DEC's annual vegetation management costs or cross examined the Company's witness on this issue. DEC's annual vegetation management costs are hereby approved.

CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing Joint Motion for Clarification or, in the Alternative, Reconsideration as filed in Docket Nos. E-7, Sub 1213, E-7, Sub 1214, and E-7, Sub 1187 and were served via electronic delivery or mailed, first-class, postage prepaid, upon all parties of record.

This, the 12th day of April, 2021.

/s/Kristin M. Athens

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