BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. E-22, SUB 556

In the Matter of		
Application by Virginia Electric and Power Company, d/b/a Dominion Energy North Carolina, for Approval of Demand-Side Management and Energy Efficiency Cost Recovery Rider under N.C. Gen. Stat. § 62-133.9 and Commission Rule R8-69	)))))	TESTIMONY OF MICHAEL C. MANESS Public Staff – North Carolina Utilities Commission

October 25, 2018

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

A. My name is Michael C. Maness. My business address is 430 North Salisbury Street, Dobbs Building, Raleigh, North Carolina. I am the Director of the Accounting Division of the Public Staff – North Carolina Utilities Commission (Public Staff).

Q. BRIEFLY STATE YOUR QUALIFICATIONS AND DUTIES.

A. A summary of my qualifications and duties is set forth in Appendix A of this testimony.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to present my recommendations regarding (1) the prospective Demand-Side Management / Energy Efficiency rider (DSM/EE rider or Rider C) and (2) the DSM/EE Experience Modification Factor rider (DSM/EE EMF rider or Rider CE) proposed by Virginia Electric and Power Company d/b/a Dominion Energy North Carolina (DENC or the Company) in its Application filed in this docket on August 21, 2018.[1] In addition to my filing of this testimony, Public Staff witness David M. Williamson has filed testimony in this proceeding regarding DENC's DSM/EE portfolio (including certain new program approvals and program

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[1] Riders C and CE are each comprised of various class-based billing rates.

terminations), the cost-effectiveness of each program, and the 2018 Evaluation, Measurement, and Verification (EM&V) Report, which reported on the results of DENC's programs through December 31, 2017. The DSM/EE and DSM/EE EMF Riders are authorized by N.C. Gen. Stat. § 62-133.9 and implemented pursuant to Commission Rule R8-69.

Q. HOW IS YOUR TESTIMONY ORGANIZED?

A. My testimony begins with a review of the regulatory framework for DSM/EE cost recovery by electric utilities and the historical background of DENC's Application in this docket. I then discuss the Company's proposed billing rates and other aspects of its filing. Following a summary of my investigation, I present my conclusions and recommendations regarding approval of the proposed billing rates making up Riders C and CE.

THE PROCESS FOR SETTING DENC'S DSM/EE REVENUE REQUIREMENTS

Q. PLEASE DESCRIBE THE BASIS FOR THE COMPANY'S FILING.

A. N.C. Gen. Stat. § 62-133.9(d) allows a utility to petition the Commission for approval of an annual rider to recover (1) the reasonable and prudent costs of new DSM and EE measures and (2) other incentives to the utility (utility incentives) for adopting and implementing new DSM and EE measures. However, N.C. Gen.

Stat. § 62-133.9(f) allows industrial and certain large commercial customers to opt out of participating in the power supplier's DSM/EE programs or paying the DSM/EE rider, if an eligible customer notifies its electric power supplier that it has implemented or will implement, at its own expense, alternative DSM and EE measures. Commission Rule R8-69 sets forth the general parameters and procedures governing approval of the annual rider.

In this proceeding, DENC has calculated its proposed Riders C and CE using the Cost Recovery and Incentive Mechanism for Demand-Side Management and Energy Efficiency Programs approved by the Commission in its *Order Approving Revised Cost Recovery and Incentive Mechanism*, issued in Docket No. E-22, Sub 464, on May 22, 2017 (2017 Mechanism). The 2017 Mechanism became effective as of May 22, 2017, for projected costs and utility incentives beginning January 1, 2018, and for true-ups of costs and utility incentives beginning January 1, 2017.[2] The 2017 Mechanism changed the calculation of the bonus incentive approved for inclusion in its DSM/EE and DSM/EE EMF riders from a Program Performance Incentive to a Portfolio Performance Incentive (PPI), as further explained below.

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[2] For the levelization run-out of the trued-up bonus incentives for measures installed or implemented prior to 2017, the Company carried forward those incentives as calculated pursuant mechanisms approved by the Commission in 2015 and 2011.

Q. PLEASE DESCRIBE THE 2017 MECHANISM AND ITS MAJOR COMPONENTS.

A. The overall purpose of the 2017 Mechanism is to (1) allow DENC to recover all reasonable and prudent costs incurred for adopting and implementing new DSM and new EE measures; (2) establish the terms, conditions, and methodology for the recovery of certain utility incentives – Net Lost Revenues (NLR) and the PPI - to reward DENC for adopting and implementing DSM and EE measures and programs; (3) provide for an additional incentive to further encourage kilowatt-hour (kWh) savings achievements; and (4) establish certain requirements and guidelines for requests by DENC for approval, monitoring, and management of DSM and EE programs. The 2017 Mechanism includes many provisions that indirectly influence the ratemaking process for DSM and EE costs and utility incentives, including provisions that address program approval and tests of continuing cost-effectiveness, various procedural matters, reporting requirements, and future review of the 2017 Mechanism itself. Additionally, the provisions of the 2017 Mechanism that most directly address the determination of the annual DSM/EE and DSM/EE EMF riders include the following:

1. Special jurisdictional allocation procedures will be evaluated for programs that operate in only either the Virginia or North Carolina retail jurisdictions, or that are limited in their operation in either jurisdiction.

2. In general, DENC shall be allowed to recover, through the DSM/EE and the DSM/EE EMF riders, all reasonable and prudent costs of Commission-approved DSM/EE programs. However, any of the Stipulating Parties may propose a procedure for the deferral and amortization of all or a portion of DENC's non-capital program costs to the extent those costs are intended to produce future benefits. For program costs not deferred for amortization in future DSM/EE riders, the accrual of a return on any under-recoveries or over-recoveries of cost will follow the requirements of Commission Rule R8-69(b), subparagraphs (3) and (6), unless the Commission determines otherwise.

3. DENC shall be allowed to recover net lost revenues (NLR) as a utility incentive (with the exception of those amounts related to research and development or the promotion of general awareness and education of EE and DSM activities), but shall be limited for each measurement unit installed in a given vintage year to those dollar amounts resulting from kilowatt-hour (kWh) sales reductions experienced during the first 36 months after the installation of the measurement unit. NLR related to pilot programs are subject to additional qualifying criteria. Recoverable NLR shall ultimately be based on kWh sales reductions and kilowatt (kW) savings verified through the evaluation, measurement, and verification (EM&V) process and approved by the Commission.

4. The eligibility of kWh sales reductions to generate recoverable NLR during the applicable 36-month period will cease upon the implementation of a Commission-approved alternative recovery mechanism that accounts for the otherwise eligible NLR, or new rates approved by the Commission in a general rate case or comparable proceeding that account for the NLR.

5. NLR will be reduced by net found revenues, as defined in the 2017 Mechanism, that occur in the same 36-month period. Net found revenues will be determined according to the "Decision Tree" process included in the 2017 Mechanism.

6. Subject to certain exceptions, DENC shall be allowed to collect a bonus utility incentive, the Portfolio Performance Incentive, for each DSM or EE program approved and in effect during a given vintage year. The Portfolio Performance Incentive is based on the net savings of each program or measure as calculated using the UCT, and is equal to 9.08% of the present value of net savings for DSM programs and measures and 14.76% of the present value of net savings for

EE programs and measures. The 9.08% and 14.76% factors shall be subject to review in each annual rider proceeding to ensure the continued reasonableness of the Portfolio Performance Incentive as a whole. The Portfolio Performance Incentive shall be converted into a stream of no more than 10 levelized annual payments. In determining the initial estimate of the Portfolio Performance Incentive to be included in the DSM/EE rider, DENC may utilize a reasonable and appropriate estimation accomplished by a simpler and conservative method.

7. The per kilowatt (kW) avoided capacity benefits used to calculate net savings for each Program and Vintage Year shall be determined annually by DENC using comparable methodologies to those used in the most recently approved biennial avoided cost proceeding. The per kWh avoided energy benefits used shall be those reflected in or underlying the most recently filed integrated resource plan (IRP). DENC's assumptions used in these methodologies, as well as the methodologies, are subject to the Public Staff's review and acceptance at the time DENC files its petition for annual cost recovery pursuant to Rule R8-69 and this Mechanism. Unless DENC and the Public Staff agree otherwise, DENC shall not be allowed to update its avoided capacity costs and avoided energy costs after filing its petition for its annual cost recovery proceeding pursuant to Rule R8-69 and this Mechanism and prior to the Commission's order establishing the rider for that rate period for purposes of calculating the PPI.

8. The per kW avoided transmission and avoided distribution (avoided T&D) costs used to calculate net savings for a Vintage Year shall be based on a study updated at least every five years, or as appropriate and agreed to by the Company and the Public Staff.

THE COMPANY'S PROPOSED BILLING RATES

Q. PLEASE DESCRIBE THE BILLING FACTORS, VINTAGE YEARS, RATE PERIOD, AND TEST PERIOD BEING CONSIDERED IN THIS PROCEEDING.

A. The rate period proposed by DENC for this proceeding is the twelve-month period from February 1, 2019, through January 31, 2020.

This is the proposed period over which the DSM/EE and DSM/EE EMF riders set herein will be charged. In his testimony, Company witness Hubbard explains that subsequent to the Company's 2017 DSM/EE Rider proceeding, the Company and the Public Staff engaged in discussions that resulted in the Company proposing that the rate periods for the DSM/EE, fuel, and REPS rider proceedings all be changed from beginning each January 1 to beginning one month later. The reason for this change is to lengthen the time in each case for the Commission to issue its final orders and for the Company to finalize the rates approved in the orders. However, in this proceeding, because of the manner in which the Company models annual projected costs, the proposed period for which the estimated costs supporting the DSM/EE rider are determined will remain calendar year 2019.

In order to span the gap between the end of the rate period approved in the 2017 DSM/EE Rider case (December 31, 2018) and the beginning of the rate period proposed in this proceeding (February 1, 2020), for the month of January 2019 DENC is proposing to keep existing Rider C in place (subject to future true-up) and to reduce Rider CE to zero.

The test period applicable to this proceeding (the presumptive period for which the under- or overrecoveries of DSM/EE costs and NLR are measured) is the twelve months ended December 31, 2017.[3] Vintage Years, used for tracking PPI and NLR related to DSM/EE measures installed in those years, correspond to calendar years. In this proceeding, prospective rates are being set for Vintage Year 2019, while Vintage Year 2017 is being trued up.

In its Application, DENC requested approval of class-specific DSM/EE billing rates (Rider C) based on a North Carolina retail revenue requirement of $2,510,301 (excluding any revenue adder for the North Carolina Regulatory Fee (NCRF)). Likewise, the Company requested approval of class-specific decrement DSM/EE EMF billing rates (Rider CE) based on a North Carolina retail true-up revenue requirement increment of $1,839,922, excluding the NCRF. These revenue requirements are made up of the following components, as set forth in the testimony of the DENC witnesses and their accompanying exhibits:

[3] DENC has not requested in this proceeding to incorporate in its DSM/EE EMF rider calculations the under- or overrecovery of DSM/EE costs experienced up to 30 days prior to the hearing, as would be permitted by Commission Rule R8-69(b)(2).

RIDER C

Program costs (including common costs)	$2,207,366
PPI	302,935
Total Rider C revenue requirement	$2,510,301

RIDER CE

Program costs (including common costs)	$ 2,707,087
NLR	375,822
PPI	257,971
Test period Rider C revenues	(1,611,659)
Net rev. req. before carrying costs and int.	1,729,221
Carrying costs	110,700
Interest on EMF refund	0
Total Rider CE revenue requirement	$ 1,839,921[4]

As in the 2014-2017 proceedings, DENC did not request NLR as part of Rider C. Also, consistent with the 2017 Mechanism, the Company calculated the PPI amount included in Rider C using a simplified approach. As explained in the testimony of Company witness Bates and set forth in his exhibits, the Company calculated the estimated PPI for Vintage Year 2019 by adding (a) the verified levelized amounts related to Vintage Years 2017 and prior that are due to be collected in 2019 to (b) a conservative estimate of the levelized PPI amounts related to Vintage Years 2018 and 2019 (2018 is included because the EM&V process for that year has not yet been completed). The 2018 estimate is based on the amount calculated by the Company in the 2017 proceeding for the 2018 rate year. The

[4] Immaterial rounding difference of $1 on Rider CE from amounts shown in witness Stephens' exhibits are due to internal rounding in Company exhibits.

2019 estimate is based on 1.00% (the ratio used in the 2017 proceeding) of the Company's estimates of 2019 DSM/EE operating expenses, with certain programs excluded altogether.

The components of the Company's proposed Rider C and Rider CE revenue requirements were largely calculated by DENC witnesses Bates and Moore, using jurisdictional allocation factors provided by DENC witness Crouch in accordance with the 2017 Mechanism. Witness Crouch indicated in his testimony that he took the jurisdictional revenue requirements and assigned or allocated them to the various North Carolina retail rate classes consistent with the Mechanism.

In her testimony, DENC witness Stephens indicated that she took the class-specific Rider C and Rider CE revenue requirements developed by witness Crouch and converted them into per-kWh billing rates, using projected rate period kWh sales for each customer class, excluding estimated kWh sales related to opted-out customers. The specific billing rates proposed by the Company in its Application are set forth in witness Stephens' exhibits.

INVESTIGATION AND CONCLUSIONS

Q. PLEASE DESCRIBE YOUR INVESTIGATION OF DENC'S FILING.

A. My investigation of DENC's filing in this proceeding focused on determining whether the proposed DSM/EE and DSM/EE EMF billing rates were (a) calculated in accordance with the 2017 Mechanism, and (b) otherwise adhered to sound ratemaking concepts and principles. The procedures I and other members of the Public Staff's Accounting Division acting under my supervision utilized included a review of the Company's filing, relevant prior Commission proceedings and orders, and workpapers and source documentation used by the Company to develop the proposed billing rates. Performing the investigation required the review of responses to written and verbal data requests, as well as discussions with Company personnel. The investigation also included a review of the actual DSM/EE program costs incurred by DENC during the 12-month period ended December 31, 2017. To accomplish this, the Accounting Division selected and reviewed samples of source documentation for test year costs included by the Company for recovery through the DSM/EE Rider. Review of these samples is intended to test whether the actual costs included by the Company in the DSM and EE billing rates are either valid costs of approved DSM and EE programs or administrative (common) costs supporting those programs.

The investigation, including the sampling of source documentation, concentrated primarily on costs and NLR related to the test period, and verified PPIs related to the 2011-2017 period, all of which are to be included in the true-up DSM/EE EMF billing rates approved in this proceeding. A more general review was conducted of the prospective billing rates proposed to be charged for Vintage Year 2017, which are subject to true-up in future proceedings.

Q. WHAT ARE YOUR FINDINGS AND CONCLUSIONS?

A. Based on my investigation, I am of the opinion that the Company has generally calculated its proposed DSM/EE billing rates (included in Rider C) and DSM/EE EMF billing rates (included in Rider CE) in a manner consistent with N.C. Gen. Stat. § 62-133.9, Commission Rule R8-69, and the 2017 Mechanism. The review of sampled program and common costs resulted in no exceptions.

I would like to note the following regarding the Public Staff's investigation:

(1) <u>EM&V Adjustment to Residential Light-Emitting Diode Program (LED Program)</u> – In his testimony, Public Staff witness Williamson has recommended reductions to the Vintage 2017 and Vintage 2018 kWh savings associated with the LED Program, as a result of the Public Staff's review of the Company's 2018 EM&V Report. The adjustment to the Vintage 2018 PPI related to the Vintage 2018 kWh adjustments will be reflected in the 2019 DSM/EE Rider proceeding, as would normally be expected. With regard to the adjustment to the Vintage 2017 PPI, usually the Public

Staff would have the option of recommending this adjustment in the current proceeding, if necessary and appropriate due to materiality, since the initial true-up of the overall 2017 PPI takes place in this proceeding. However (according to Company personnel), due to the specific characteristics of the LED Program, no initial PPI true-up was proposed for that program in this proceeding, and is instead planned to be included in next year's proceeding. Given the relative immateriality of the annual impact on the DSM/EE rider of the PPI associated with the LED Program and the fact that it would result in a rate increase, the Public Staff does not object to the initial true-up of the Vintage 2017 PPI for the LED Program being included in next year's DSM/EE proceeding (with the Public Staff's recommended adjustments).

(2) <u>Internal Audit of Controls over DSM/EE Activities</u> – During the course of the review of program costs, the Public Staff became aware of and reviewed the report on a 2017 internal audit of controls surrounding DENC's DSM/EE rebate and incentive activities, ordered by the Virginia State Corporation Commission (VSCC). The VSCC has ordered that the same type of audit be performed on a biennial basis in the future. I consider such an audit to be a valuable and informative

exercise, and the Public Staff plans to monitor the future audits.

Q. WHAT IS THE IMPACT OF RECOMMENDATIONS MADE BY PUBLIC STAFF WITNESS WILLIAMSON IN HIS TESTIMONY ON YOUR CONCLUSIONS REGARDING THE DSM/EE REVENUE REQUIREMENTS IN THIS PROCEEDING?

A. Public Staff witness Williamson has filed testimony in this proceeding discussing several topics and issues related to the Company's filing. None of these topics and issues necessitates an adjustment in this particular proceeding to the Company's billing factor calculations, although some of the recommendations made by Mr. Williamson may affect the revenue requirements in future proceedings, including the EM&V adjustment discussed previously in my testimony.

Q. PLEASE SUMMARIZE YOUR CONCLUSIONS REGARDING DENC'S BILLING RATES.

A. In summary, the Public Staff has found no errors or other issues necessitating an adjustment to DENC's proposed billing rates in this proceeding.

RECOMMENDATION

Q. WHAT IS YOUR RECOMMENDATION IN THIS PROCEEDING?

A. Based on the results of the Public Staff's investigation, I recommend approval of the Rider C and CE rates as proposed by DENC in its August 21, 2018 Application. The recommended billing rates should be approved subject to any true-ups in future cost recovery proceedings consistent with the 2017 Mechanism, N.C. Gen. Stat. § 62-133.9, Commission Rule R8-69, and future Commission orders. The Public Staff notes that reviewing the calculation of the DSM/EE and DSM/EE EMF riders is a process that involves reviewing numerous assumptions, inputs, and calculations, and its recommendation with regard to this proposed rider is not intended to indicate that the Public Staff will not raise questions in future proceedings regarding the same or similar assumptions, inputs, and calculations.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.

APPENDIX A

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