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November 23, 2020

VIA ELECTRONIC FILING

Ms. Kimberley A. Campbell, Chief Clerk
North Carolina Utilities Commission
4325 Mail Service Center
Raleigh, North Carolina 27699-4300

RE: Duke Energy Progress LLC's Late-Filed Exhibit 24
Docket No. E-2, Sub 1219
Docket No. E-2, Sub 1193

Dear Ms. Campbell:

Enclosed for electronic filing on behalf of DEP in the above-referenced proceeding is *Late-Filed Exhibit 24*, ARO accounting journal entries. This exhibit parallels DEC Late-Filed Exhibit 6 and is being filed consistent with Presiding Commissioner Clodfelter's request that, where possible, late-filed exhibits in the DEC case should also be filed in the DEP case. The Public Staff also filed a DEC-version of this exhibit and may file a DEP-version as well.

Please do not hesitate to contact me should you have any questions. Thank you for your assistance in this matter.

Sincerely,

/s/ Kiran H. Mehta
Kiran H. Mehta

Enclosure

cc: Parties of Record

Duke Energy Progress, LLC
Docket No. E-2, Sub 1219
Late Filed Exhibit #24 - ARO Accounting Entries

Background:

This Late Filed Exhibit describes the life-cycle of asset retirement obligations from establishment through recovery, and the associated accounting entries. The described accounting treatment is consistent with DEP's accounting practices in place since the enactment of state and federal laws related to coal ash remediation. These practices were described in detail in the letter dated December 21, 2015 from Brian D. Savoy to the Commission (the "Savoy Letter" (DEP Exhibit No. 26)). The Savoy Letter was also filed in Docket No. E-2, Sub 1103, which was ultimately consolidated into the previous rate case (Docket No. E-2, Sub 1142). The accounting treatment described in the Savoy Letter is also consistent with the testimony filed and given in the current rate case (Docket No. E-2, Sub 1219) by witnesses Sean Riley and David Doss.

Period 1: Legal obligation imposed

An Asset Retirement Obligation (ARO) is recorded when an entity has a legal obligation associated with the retirement of a tangible asset. In the case of the coal ash basins operated by DEP, the requirement to establish AROs was triggered by the legal obligation, set forth in CAMA and the CCR Rule, to close the basins. GAAP and FERC accounting rules require that when the legal obligation is imposed, a liability and a corresponding asset are recorded. The amount initially recorded represents the present value of the expected future spend that will be required to settle the obligation. The asset retirement cost (ARC) asset is recorded as part of the property, plant and equipment costs of the related asset. In the case of coal ash ARO's, the costs are recorded as part of the cost of the related coal plant.

Period 2: Remaining life of the related asset

The ARC asset is depreciated straight-line over the remaining life of the related coal plant. Since the ARO liability was recorded at present value, it is accreted, or increased, each year to account for the time value of money, so that the liability will be sufficient to provide for the expected cash outlays associated with the ash basin closure activities when they occur, which may be at or several years after the date the related coal plant is retired. The depreciation and accretion are initially recorded as expense on the entity's financial statements; however, in accordance with the Order in Docket No. E-2, Sub 826, DEP defers the income statement impacts of ARO accounting to a regulatory asset until such time that the amounts are considered for recovery from rate payers. Throughout the remaining life of the related asset, the ARO liability estimates are reviewed and remeasured as needed to reflect changes in assumptions of the total amount that will be needed to settle the obligation. These deferred amounts are estimated costs to settle the ARO liability and do not represent actual cash spent to settle the obligation. These amounts are deferred to a "theory" regulatory asset account representing the estimated amount to settle the ARO. The Company does not seek recovery of amounts recorded to the "theory" regulatory asset, since those amounts are non-cash. In addition, being non-cash, the ARC asset and the ARO liability balances, as well as the "theory" regulatory asset account, do not represent amounts advanced either by investors – e.g., in order to fund actual spend by the Company – or by customers. As such, these amounts are not included in rate base, either as an addition to rate base in the case of investor funding, or an offset to rate base in the case of customer funding.

Period 3: Settlement of the ARO liability

As cash is spent to settle the ARO, DEP reclasses that amount out of the "theory" regulatory asset into a separate "spend" regulatory asset account that represents actual cash expenditures. Since the costs have yet to be included in customer rates, the cash spent to settle the ARO has been advanced by debt and equity investors of the Company and therefore financing costs (debt and equity) are also deferred to the "spend" regulatory asset based on the Company's weighted average cost of capital "WACC".

Period 4: Recovery period

The Company seeks recovery of the "spend" regulatory asset and will receive an amortization period for recovery (i.e. 5 year amortization period was approved in the last rate case for the amounts included for recovery in that case). Additionally, as approved in the last rate case, financing charges continue to accrue on the un-amortized balance during the recovery period because the un-amortized balance represents amounts advanced by debt and equity investors but not yet recovered from customers. Ultimately, only amounts actually spent to settle the ARO and associated financing costs for cash advanced by debt and equity investors are sought for recovery from customers.

Below is an example of the basic accounting entries recorded for AROs. The assumptions used for this example are as detailed below:

Assumptions:
- Estimated cost to settle ARO in the future is $1,050.
- Present Value of estimated spend is $1,000 at date ARO established.
- For this simplified example, actual spend equals estimated spend. In reality, as noted above, liability estimates would be re-measured periodically throughout the life of the asset.
- Spend and recovery period are assumed to be 1 year in this example.
- For ease of illustration, this example does not show the effect of income taxes.

		Debit (Credit)									
	Note 1	Balance Sheet						Income Statement			
		Cash	101 Electric Plant in Service	108 Accumulated Depreciation	182.3 Regulatory Assets "theory"	182.3 Regulatory Assets "spend"	230 Asset Retirement Obligation	400 Revenue	403.1 Depreciation Expense	411.10 Accretion Expense	407 Amortization Expense
Period 1: Legal obligation imposed											
Recognize creation of the ARO liability and corresponding ARC asset at present value of expected future spend			1,000				(1,000)				
Period 2: Remaining life of the related asset											
Accretion of the ARO liability over remaining life of related asset							(50)			50	
Depreciation of the ARC asset over remaining life of related asset	Note 2			(1,000)					1,000		
Regulatory deferral of accretion and depreciation expense	Note 3				1,050				(1,000)	(50)	
Balance prior to settlement of ARO liability		0	1,000	(1,000)	1,050	0	(1,050)	0	0	0	0
Period 3: Settlement of ARO liability (cash expenditure)	Note 4										
Cash spent to settle liability		(1,050)					1,050				
Reclass cash expenditures to "spend" regulatory asset for recovery	Note 5				(1,050)	1,050					
Financing costs (debt and equity) for cash expenditures during the deferral period	Note 6	(105)				105					
Balance for recovery, before adding financing costs during recovery period		(1,155)	1,000	(1,000)	0	1,155	0	0	0	0	0
Period 4: Recovery period											
Recovery of regulatory asset over approved amortization period		1,155				(1,155)		(1,155)			1,155
Recovery of financing costs (debt and equity) for the regulatory asset during recovery period	Note 7	116						(116)			

Note 1 - As it relates to ARO accounting, the only amounts included in rate base are the actual cash expenditures and financing costs recorded to the 182.3 "spend" regulatory asset once amounts have been approved for recovery.

Note 2 - Depreciate straight-line over remaining life of related asset. If asset/plant is already retired, depreciate full value of ARC asset immediately after recording the entry in Period 1 above.

Note 3 - Defer income statement impacts based on Order from Docket No. E-2, Sub 826

Note 4 - Immaterial cost of removal (COR) collections received from customers from July 1, 2012 to March 15, 2018, related to coal ash sites, were applied as a reduction to incurred spend, recorded in the spend regulatory asset. For simplicity, the entry is not shown in the example.

Note 5 - Reclass to a spend regulatory asset based on Order from Docket No. E-2, Sub 1142

Note 6 - Cash has been advanced by debt and equity investors. This example assumes the financing costs at a weighted average cost of capital (WACC) of 10%. The associated financing costs are deferred during the recovery period to the "spend" regulatory asset.

Note 7 - Represents the revenue requirement associated with the debt and equity financing costs (assumed to be at a WACC of 10%) for the unamortized balance during the recovery period.

CERTIFICATE OF SERVICE

DOCKET NO. E-2, SUB 1219
DOCKET NO. E-2, SUB 1193

I hereby certify that a copy of the foregoing **DUKE ENERGY PROGRESS, LLC'S LATE FILED EXHIBIT 24** was served electronically or by depositing a copy in United States Mail, first class postage prepaid, properly addressed to the parties of record.

This the 23rd day of November 2020.

/s/ Kiran H. Mehta
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