

PLACE: WebEx Video Conference
DATE: Tuesday, June 9, 2020
TIME: 1:20 p.m. - 1:26 p.m.
DOCKET NO.: E-7, Sub 1231
BEFORE: Commissioner Kimberly W. Duffley, Presiding
Chair Charlotte A. Mitchell
Commissioner Tonola D. Brown-Blair
Commissioner Lyons Gray
Commissioner Daniel G. Clodfelter
Commissioner Jeffrey A. Hughes
Commissioner Floyd B. McKissick, Jr.

IN THE MATTER OF:

Application of Duke Energy Carolinas, LLC, for
Approval of CPRE Cost Recovery Rider Pursuant to
N. C. G. S. 62-110.8 and NCUC Rule R8-71.

VOLUME: 2



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P R O C E E D I N G S

COMMISSIONER DUFFLEY: Good afternoon.

Let's come to order and please go on the record.

I am Commissioner Kimberly W. Duffley, presiding commissioner for this hearing, and with me this afternoon are Chair Charlotte A. Mitchell, and Commissioners ToNola D. Brown-Blair, Lyons Gray, Daniel G. Clodfelter, Jeffrey A. Hughes, and Floyd B. McKissick, Jr.

I now call for hearing Docket Number E-7, Sub 1231, which is the application of Duke Energy Carolinas, herein after DEC, for approval of the CPRE Cost Recovery Rider, and the 2019 CPRE compliance report pursuant to North Carolina General Statute Section 62-110.8 and Commission Rule R8-71.

On February 25, 2020, DEC filed its application for approval of the CPRE Cost Recovery Rider, and the 2019 CPRE compliance report, along with the testimony and exhibits of Brian L. Sykes and Phillip H. Cathcart. On March 17, 2020, the Commission issued an order scheduling hearing, requiring filing of testimony, establishing discovery guidelines, and requiring public notice.

1 Timely petitions to intervene in this docket were
2 filed by Carolina Industrial Group for Fair Utility
3 Rates, III; North Carolina Sustainable Energy
4 Association; and Carolina Utility Customers
5 Association, Incorporated. The Commission granted
6 these petitions to intervene. The intervention and
7 participation by the Public Staff is recognized
8 pursuant to General Statute 62-15.

9 On May 29, 2020, the Commission issued
10 an order scheduling remote hearings for expert
11 witness testimony. All parties have consented to
12 the Commission holding this hearing by remote
13 means. An opportunity for public witnesses to
14 testify in this case was held this morning in the
15 Commission's hearing room. No public witnesses
16 appeared at that time.

17 On June 2, 2020, DEC filed a motion to
18 excuse all witnesses from appearing at this hearing
19 and to have the prefiled testimony and exhibits be
20 received into evidence and made part of the record.
21 The Commission granted DEC's motion on
22 June 4, 2020. On June 5, 2020, DEC filed an
23 affidavit of publication of notice.

24 In compliance with the State Ethics Act,

1 I remind all members of the Commission of our duty
2 to avoid conflicts of interest and inquire at this
3 time whether any member has a known conflict of
4 interest with respect to the matter before us this
5 afternoon.

6 (No response.)

7 COMMISSIONER DUFFLEY: Please let the
8 record reflect that no such conflicts were
9 identified.

10 I will now call for appearances of
11 counsel, beginning with the applicant.

12 MR. JIRAK: Good afternoon,
13 Commissioner Duffley. Jack Jirak on behalf of Duke
14 Energy Carolinas.

15 COMMISSIONER DUFFLEY: Good afternoon,
16 Mr. Jirak.

17 NCSEA?

18 MR. SMITH: Good afternoon. Ben Smith
19 on behalf of North Carolina Sustainable Energy
20 Association.

21 COMMISSIONER DUFFLEY: CIGFUR-III?

22 MS. HICKS: Good afternoon.

23 Warren Hicks on behalf of CIGFUR-III.

24 COMMISSIONER DUFFLEY: CUCA?

1 (No response.)

2 COMMISSIONER DUFFLEY: And Public Staff?

3 MS. CUMMINGS: Good afternoon.

4 Layla Cummings and Tim Dodge on behalf of the Using
5 and Consuming Public.

6 COMMISSIONER DUFFLEY: Are there any
7 preliminary matters before we begin?

8 MR. JIRAK: Nothing from the applicant.

9 COMMISSIONER DUFFLEY: Okay. We will
10 begin with the applicant, please.

11 MR. JIRAK: Thank you,
12 Commissioner Duffley. As you mentioned, the
13 Commission's June 4, 2020, order excused all of the
14 DEC's witnesses, and all Public Staff witnesses,
15 and allowed for the entry of the testimony and
16 exhibits of each witness into the record. Out of
17 an abundance of caution, I will now move all of the
18 direct, supplemental, and rebuttal testimony,
19 exhibits, and work papers of those DEC witnesses
20 into the record, along with the Company's
21 application in support of its rider -- CPRE rider
22 in this matter.

23 COMMISSIONER DUFFLEY: Are there any
24 objections?

1 (No response.)

2 COMMISSIONER DUFFLEY: Okay. Thank you,
3 Mr. Jirak. Without objection, that motion will so
4 be allowed.

5 MR. JIRAK: Thank you very much.

6 (Application by Duke Energy Carolinas,
7 LLC; Sykes Exhibits 1 through 6; Sykes
8 Workpapers 1 through 9; Confidential
9 Sykes Revised Exhibits 1 and 2; Sykes
10 Revised Exhibits 3 through 6;
11 Confidential Sykes revised Workpaper 1
12 and 9; Sykes Revised Workpapers 2
13 through 7; Sykes Revised Workpaper 8;
14 Confidential Cathcart Exhibit 1;
15 Cathcart Appendices A through C; and
16 Confidential Cathcart Revised Exhibit 1
17 were admitted into evidence.)

18 (Whereupon, the prefiled direct,
19 rebuttal and supplemental testimony of
20 Bryan L. Sykes and prefiled direct and
21 supplemental testimony of Phillip H.
22 Cathcart were copied into the record as
23 if given orally from the stand.)

24

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. E-7, SUB 1231

In the Matter of)
)
Application of Duke Energy Carolinas, LLC)
Pursuant to G.S. 62-110.8 and NCUC Rule)
R8-71 for Approval of CPRE Compliance)
Report and CPRE Cost Recovery Rider)
)
)
)

**DIRECT TESTIMONY OF
BRYAN L. SYKES**

- 1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**
- 2 A. My name is Bryan L. Sykes, and my business address is 550 South Tryon
3 Street, Charlotte, North Carolina.
- 4 **Q. WHAT IS YOUR POSITION WITH DUKE ENERGY CAROLINAS,
5 LLC?**
- 6 A. I am a Rates and Regulatory Strategy Manager for Duke Energy Carolinas,
7 LLC (“DEC” or the “Company”).
- 8 **Q. PLEASE BRIEFLY SUMMARIZE YOUR EDUCATIONAL
9 BACKGROUND, BUSINESS BACKGROUND AND
10 PROFESSIONAL AFFILIATIONS.**
- 11 A. I received my Bachelor of Science and Master of Science Degrees in
12 Accounting from East Carolina University. I am a certified public
13 accountant licensed in the State of North Carolina. I began my career in
14 2001 with Arthur Andersen, LLP as a staff auditor. From 2001 until 2006
15 I held various roles in public accounting firms, including Grant Thornton,
16 LLP (successor to Arthur Andersen, LLP) and subsequently
17 PricewaterhouseCoopers, LLP. In 2006, I started at Progress Energy, Inc.
18 as a financial auditor and subsequently held a variety of positions in the
19 accounting organization before and after the merger with Duke Energy
20 Corporation in 2012. I joined the Rates Department in 2019 as Manager,
21 Rates and Regulatory Filings.
- 22 **Q. WHAT ARE YOUR CURRENT RESPONSIBILITIES AT DEC?**

1 A. I am responsible for providing regulatory support for retail rates and
2 providing guidance on compliance with, and cost recovery related to, the
3 program for competitive procurement of renewable energy (“CPRE
4 Program”) established by North Carolina General Statute (“N.C. Gen.
5 Stat.”) § 62-110.8 and applicable to both DEC and Duke Energy Progress,
6 LLC (“DEP”).

7 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE NORTH**
8 **CAROLINA UTILITIES COMMISSION?**

9 A. No.

10 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

11 A. The purpose of my testimony is to describe the calculation of and present
12 the support for the CPRE Program rider (“Rider CPRE”) proposed by DEC
13 under N.C. Gen. Stat. § 62-110.8. I present the information and data
14 required by North Carolina Utilities Commission (“Commission”) Rule R8-
15 71 as set forth in Sykes Exhibit Nos. 1 through 6. N.C. Gen. Stat. § 62-
16 110.8(g) authorizes recovery of CPRE Program costs, and limits the annual
17 increase in the aggregate amount of these costs that are recoverable by an
18 electric public utility from its North Carolina retail (“NC Retail”) customers
19 to an amount not to exceed one percent (1%) of the electric public utility’s
20 total NC Retail jurisdictional gross revenues for the preceding calendar
21 year. Rule R8-71(j)(2) states “[t]he Commission shall permit each electric
22 public utility to charge an increment or decrement as a rider to its rates to
23 recover in a timely manner the reasonable and prudent costs incurred and

1 anticipated to be incurred to implement its CPRE Program and to comply
2 with G.S. 62-110.8.” Rule R8-71(j)(5) describes the CPRE Program
3 experience modification factor (“EMF”) component of the CPRE Program
4 rider as the difference between CPRE Program costs actually incurred and
5 CPRE Program revenues actually realized during the EMF test period,
6 representing a true-up increment or decrement related to CPRE Program
7 revenues collected during the EMF test period. In this initial CPRE
8 Program rider filing, the rider proposed by the Company includes both an
9 EMF rider component to recover DEC’s costs incurred during the EMF test
10 period, as well as a rider component to collect costs forecasted to be
11 incurred during the prospective twelve-month period over which the
12 proposed CPRE Program rider will be in effect.

13 **Q. PLEASE IDENTIFY THE EMF TEST PERIOD AND THE**
14 **PROSPECTIVE BILLING PERIOD APPLICABLE TO THE CPRE**
15 **PROGRAM RIDER PROPOSED BY THE COMPANY.**

16 A. The test period used in supplying the information and data included in my
17 testimony and exhibits is the twenty nine months beginning on August 1,
18 2017 and ending on December 31, 2019 (“Extended Initial Test Period” or
19 “EMF Period”), and the billing period for the CPRE Program rider
20 requested in the Company’s application is the twelve months beginning on
21 September 1, 2020 and ending on August 31, 2021 (“Billing Period”). As
22 discussed by witness Phillip H. Cathcart in his direct testimony filed in this
23 docket, the Company previously requested, and the Commission approved,

1 an extension of the EMF Period to encompass the twenty-nine months
2 beginning on August 1, 2017 (coincident with House Bill 589 being signed
3 into law on July 27, 2017) and ending December 31, 2019.

4 **Q. PLEASE DESCRIBE THE EXHIBITS TO YOUR TESTIMONY.**

5 A. Sykes Confidential Exhibit No. 1 identifies purchased power costs (and
6 generated power costs in the case of Company-owned facilities) in the
7 Billing Period for facilities that were selected during Tranche 1 of the CPRE
8 Program. There were no purchased or generated power costs during the
9 EMF Period since no facilities achieved commercial operation by the end
10 of the EMF Period. Certain of the winning facilities from Tranche 1 are
11 expected to achieve commercial operation by the end of the Billing Period,
12 and the capacity and energy components of purchased and generated power
13 have been calculated based on the forecasted megawatt hour (“MWh”)
14 production of each facility.

15
16 Sykes Confidential Exhibit No. 2 identifies the total CPRE Program
17 implementation costs for which the Company seeks full recovery from
18 DEC’s NC Retail customers for both the EMF Period and the Billing Period.

19
20 Sykes Exhibit No. 3 shows the calculation of the Rider CPRE amounts for
21 the Billing Period proposed by customer class: residential, general service
22 and lighting and industrial. The Company proposes implementing a charge
23 calculated on a cents per kilowatt hour (“kWh”) basis. The Rider CPRE rate

1 per customer class for purchased and generated power is determined by
2 dividing the sum of the Billing Period costs allocated to the class by the
3 forecast Billing Period MWh sales for the customer class. The Rider CPRE
4 rate per customer class for implementation costs is determined by dividing
5 the sum of the Billing Period costs allocated to the class, using a composite
6 rate determined in the purchased and generated power calculation, above,
7 by the forecast Billing Period MWh sales for the customer class.

8
9 Sykes Exhibit No. 4 shows the calculation of the Rider CPRE amounts for
10 the EMF Period proposed by customer class: residential, general service and
11 lighting and industrial. EMF Period costs represent the difference between
12 CPRE Program costs incurred and CPRE Program rider revenues collected
13 for the EMF Period. Since the Rider CPRE proposed in this docket is the
14 first CPRE Program rider, there were no rider revenues collected during the
15 EMF Period. Therefore, the under-collection for the EMF Period is the total
16 of CPRE Program implementation costs incurred for the period of August
17 1, 2017 through December 31, 2019. Similar to the Billing Period, the
18 Company proposes implementing a charge calculated on a cents per kWh
19 basis. The Rider CPRE rate per customer class is determined by dividing
20 the sum of the EMF Period costs allocated to the class by normalized test
21 period MWh sales for the customer class, including the customer growth
22 MWh adjustment and the weather MWh adjustment in the same manner as
23 the Company's annual fuel rider filing (Docket No. E-7, Sub 1228).

1

2 Sykes Exhibit No. 5 summarizes the components of the proposed “Rider
3 CPRE (NC)” calculated in Sykes Exhibit Nos. 3 and 4.

4

5 Sykes Exhibit No. 6 is the tariff sheet for the Rider CPRE.

6 **Q. WERE THESE EXHIBITS PREPARED BY YOU OR AT YOUR**
7 **DIRECTION AND UNDER YOUR SUPERVISION?**

8 A. Yes.

9 **Q. WHAT COSTS ARE INCLUDED IN DEC’S PROPOSED CPRE**
10 **PROGRAM RIDER?**

11 A. The proposed Rider CPRE is designed to recover DEC’s costs to implement
12 the CPRE Program pursuant to N.C. Gen. Stat. § 62-110.8, in compliance
13 with the requirements of Commission Rule R8-71. As described above,
14 Rider CPRE includes the CPRE Program EMF component to recover the
15 difference between the implementation costs incurred and revenues realized
16 during the EMF Period. The costs incurred during the EMF Period are
17 presented in this filing to demonstrate their reasonableness and prudence as
18 provided in Commission Rule R8-71(j). The proposed Rider CPRE also
19 includes a component to recover the costs expected to be incurred for the
20 Billing Period.

21

22 The costs the Company proposes to recover are described in the direct
23 testimony of Company witness Cathcart, and detailed in Sykes Confidential

1 Exhibit No. 2. The costs that are included for recovery in this initial
2 proposed CPRE Program rider are incremental internal Company labor,
3 contract labor including legal fees, and other related costs of implementing
4 the CPRE Program.

5
6 The Company expects to incur costs in the Billing Period for the
7 procurement of power to meet CPRE Program requirements, as detailed in
8 Sykes Confidential Exhibit No. 1, and has included forecasted costs of
9 CPRE procurement and generation in the Billing Period cost recovery total.

10
11 Fees paid to the Independent Administrator (“IA”) and costs incurred by the
12 Company’s designated evaluation team for bid evaluation work, are not
13 included for recovery in the proposed CPRE Program rider, except as noted
14 on Sykes Confidential Exhibit No. 2 for the under-collection related to
15 Tranche 1, as described in witness Cathcart’s testimony. Rather, these costs
16 are funded through proposal fees collected by the Company from the
17 participants in the Company’s CPRE solicitation process.

18 **Q. PLEASE DESCRIBE THE METHOD USED BY DEC TO**
19 **ALLOCATE CPRE PROGRAM COSTS AMONG CUSTOMER**
20 **CLASSES FOR THE PURPOSE OF CALCULATING THE CPRE**
21 **PROGRAM RIDER FOR EACH CUSTOMER CLASS.**

22 A. Sykes Exhibit No. 3 shows the calculation of the Rider CPRE for each
23 customer class for the Billing Period. CPRE Program costs, including

1 purchased and generated power costs and implementation costs, are
2 incurred by the Company in its efforts to procure capacity and energy from
3 renewable energy facilities, pursuant to N.C. Gen. Stat. § 62-110.8.

4
5 Consistent with the Company's practice of employing cost causation
6 principles with respect to the allocation of various types of costs to customer
7 classes, CPRE Program costs related to purchased and generated power
8 costs are allocated to customer class in the same manner as purchased power
9 costs are allocated to customer class in its annual fuel adjustment clause
10 rider filing.

11
12 The capacity component of purchased power and generation cost is
13 allocated to each customer class based on 2019 peak demand, a proxy for
14 the cost of service production plant allocation factor since the cost of service
15 study is not available as of the CPRE Rider filing date. The energy
16 component of purchased power and generation cost is allocated to each
17 customer class based on projected MWh sales by class. The Company has
18 directly assigned the reasonable and prudent implementation costs incurred
19 and anticipated to be incurred to implement its CPRE Program and to
20 comply with N.C. Gen. Stat. § 62-110.8 and Rule R8-71(j)(2) to its NC
21 Retail customers using a composite rate determined in the purchased and
22 generated power calculation described above.

23

1 Sykes Exhibit No. 4 shows the calculation of the CPRE Program EMF rider
2 for each customer class for the EMF Period. CPRE Program costs related to
3 implementation costs are allocated to customer class using the production
4 plant allocator from 2018, the most recent cost of service study.

5
6 Sykes Exhibit No. 5 shows the total proposed CPRE Program rider as the
7 sum of the estimated CPRE Program rider and the CPRE Program EMF
8 rider applicable to the Billing Period. The applicable regulatory fee factor
9 is applied to each rider calculation described above to determine the final
10 rates proposed by customer class, as displayed on Sykes Exhibit No. 6.

11 **Q. HOW DOES THE COMPANY PROPOSE TO RECOVER ENERGY**
12 **AND CAPACITY ASSOCIATED WITH COMPANY-OWNED**
13 **FACILITIES?**

14 A. The costs associated with Duke-owned CPRE facilities has been included
15 at the price in which those facilities bid into the Tranche 1 RFP and
16 determined by the IA to be among the most cost-competitive resources.
17 Traditional cost-of-service based recovery is not being sought through the
18 CPRE Rider.

19 **Q. IS THE ANNUAL INCREASE IN COSTS THE COMPANY**
20 **PROPOSES TO RECOVER WITH ITS PROPOSED CPRE**
21 **PROGRAM RIDER AND EMF RIDER WITHIN THE LIMIT**
22 **ESTABLISHED IN N.C. GEN. STAT. § 62-110.8?**

1 A. Yes. N.C. Gen. Stat. § 62-110.8(g) limits the annual increase in costs
2 recoverable by an electric public utility to (1%) of the electric public utility's
3 total North Carolina retail jurisdictional gross revenues for the preceding
4 calendar year. Further, Rule R8-71 provides that “[t]he annual increase in
5 the aggregate costs recovered under G.S. 62-110.8(g) in any recovery
6 period from its North Carolina retail customers shall not exceed one percent
7 (1%) of the electric public utility’s North Carolina retail jurisdictional gross
8 revenues for the preceding calendar year as determined as of December 31
9 of the previous calendar year. Any amount in excess of that limit shall be
10 carried over and recovered in the next recovery period when the annual
11 increase in the aggregate amount of costs to be recovered is less than one
12 percent (1%)”. The increase in aggregate costs DEC seeks to recover
13 pursuant to its proposed CPRE Program rider and CPRE Program EMF
14 rider is less than the statutory maximum.

15 **Q. HOW DOES DEC PROPOSE TO COLLECT THE CPRE**
16 **PROGRAM RIDERS FROM EACH CUSTOMER CLASS?**

17 A. DEC’s proposed Rider CPRE is attached as Sykes Exhibit No. 6. As shown
18 on the rider, DEC proposes that a cents per kWh rate be applied to all NC
19 Retail kWh sales for the twelve-month Billing Period.

20 **Q. WHAT IS THE CPRE PROGRAM RIDER PROPOSED BY THE**
21 **COMPANY FOR EACH CUSTOMER CLASS?**

- 1 A. The Company proposes the following CPRE Program rider to be effective
 2 September 1, 2020, and to remain in effect for the twelve-month Billing
 3 Period ending August 31, 2021.

4 *Excluding regulatory fee:*

Cents per kWh					
Customer class	CPRE Program EMF rider	CPRE Program rider	Total CPRE Program rider	Current total CPRE Program rider	CPRE Program rider increase
Residential	0.0023	0.0150	0.0173	0.0000	0.0173
General Service	0.0018	0.0143	0.0161	0.0000	0.0161
Industrial	0.0014	0.0138	0.0152	0.0000	0.0152

5 *Including regulatory fee:*

Cents per kWh					
Customer class	CPRE Program EMF rider	CPRE Program rider	Total CPRE Program rider	Current CPRE Program rider	CPRE Program rider increase
Residential	0.0023	0.0150	0.0173	0.0000	0.0173
General Service	0.0018	0.0143	0.0161	0.0000	0.0161
Industrial	0.0014	0.0138	0.0152	0.0000	0.0152

6 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

7 A. Yes.

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. E-7, SUB 1231

In the Matter of)
)
)
Application of Duke Energy Carolinas, LLC)
Pursuant to G.S. 62-110.8 and Commission)
Rule R8-71 for Approval of CPRE)
Compliance Report and CPRE Cost)
Recovery Rider)

**REBUTTAL TESTIMONY
OF BRYAN L. SYKES**

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

2 A. My name is Bryan L. Sykes, and my business address is 550 South Tryon
3 Street, Charlotte, North Carolina. I am a Rates and Regulatory Strategy
4 Manager for Duke Energy Carolinas, LLC (“DEC” or the “Company”).

5 **Q. HAVE YOU PREVIOUSLY FILED TESTIMONY IN THIS**
6 **PROCEEDING?**

7 A. Yes, I filed direct testimony and supplemental testimony on February 25,
8 2020 and May 15, 2020, respectively, in this proceeding.

9 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

10 A. The purpose of my rebuttal testimony is to respond to the pre-filed direct
11 testimony of Public Staff witness Jeff Thomas in this proceeding.

12 **Q. PLEASE PROVIDE AN OVERVIEW OF WITNESS THOMAS’**
13 **TESTIMONY.**

14 A. Witness Thomas describes Public Staff’s review of the Company’s
15 proposed CPRE rider and its Compliance Report. The Company
16 appreciates the constructive dialogue with Public Staff regarding the
17 Company’s filing and made a number of modifications to the CPRE rider
18 and the Compliance Report based on such dialogue, as reflected in the
19 Company’s supplemental filing on May 15, 2020. In addition, Witness
20 Thomas recommended one adjustment to the CPRE Rider.

21 **Q. PLEASE DESCRIBE WITNESS THOMAS’ RECOMMENDED**
22 **ADJUSTMENT TO THE CPRE RIDER.**

1 A. The only change to the CPRE Rider recommended by Witness Thomas
2 relates to the allocation of CPRE implementation costs incurred during the
3 Company's Extended Initial Test Period and projected to be incurred in the
4 Billing Period, including internal labor and labor-related taxes and benefits,
5 external consulting, independent administrator costs, T&D Sub-Team labor
6 and labor-related costs in excess of fees collected from market participants.
7 As contemplated by Rule R8-71(j)(2), the Company has sought to recover
8 its CPRE implementation costs through its CPRE Rider ("...the
9 Commission shall permit each electric public utility to charge an increment
10 or decrement as a rider to its rates to recover in a timely manner the
11 reasonable and prudent costs incurred and anticipated to be incurred to
12 implement its CPRE Program and to comply with G.S. 62-110.8...").
13 While the Company had proposed that all such CPRE implementation costs
14 be allocated to the North Carolina retail jurisdiction, Witness Thomas
15 recommends the Company's CPRE implementation costs be allocated
16 among the Company's North Carolina and South Carolina retail and
17 wholesale customers in the same manner as CPRE energy and capacity
18 costs.

19 **Q. PLEASE SUMMARIZE WHY THE COMPANY CONTINUES TO**
20 **DISAGREE WITH WITNESS THOMAS' RECOMMENDATION.**

21 A. The Company's proposal to allocate CPRE implementation costs to North
22 Carolina retail customers is consistent with both general cost causation
23 principles and the manner in which program implementation costs have

1 historically been allocated in connection with North Carolina's Renewable
2 Energy and Energy Efficiency Portfolio Standard ("REPS") and South
3 Carolina's Distributed Energy Resource Program ("SC DERP").

4 **Q. PLEASE EXPLAIN HOW THE COST CAUSATION PRINCIPLES**
5 **APPLY IN THIS CONTEXT.**

6 A. N.C. Gen. Stat. § 62-110.8 established the competitive procurement of
7 renewable energy program in North Carolina for the purpose of adding
8 renewable energy to the State's generation portfolio in a manner that allows
9 public utilities to continue to reliably and cost-effectively serve customers'
10 future energy needs. The renewable resources procured through the CPRE
11 Program will be supply-side system resources and will be used to supply
12 electricity to the Company's native load retail and wholesale customers.
13 Because it is the combined demand of the Company's native load retail and
14 wholesale customers that is causing the Company to incur the energy and
15 capacity costs, it is appropriate for all customers to bear such costs. That is,
16 if the CPRE energy and capacity costs were not being incurred, there would
17 be some alternative energy and capacity costs incurred to serve all native
18 retail and wholesale customer load and such costs would similarly be
19 allocated across all jurisdictions. Public Staff agrees that it is appropriate
20 to allocate all of the capacity and energy cost across retail and wholesale
21 customers and this treatment is consistent with allocation of the cost of
22 energy and capacity up to avoided cost procured or produced in connection
23 with REPS and SC DERP.

1 In contrast, the CPRE implementation costs are caused solely by the
2 Company's obligation to comply with N.C. Gen. Stat. § 62-110.8 and
3 Commission Rule R8-71. Stated differently, the implementation costs
4 would not have been incurred "but for" the requirements of N.C. Gen. Stat.
5 § 62-110.8 and Commission Rule R8-71, in contrast with the energy and
6 capacity costs which would have incurred on a system basis even in the
7 absence of the CPRE program. Commission Rule R8-71 requires the
8 Company to develop and seek Commission approval of guidelines for the
9 implementation of its CPRE Program, utilize an independent third-party
10 administrator to administer the CPRE Program in accordance with N.C.
11 Gen. Stat. § 62-110.8, file annual CPRE Program plans with the
12 Commission covering the procurement remaining under the plan, and file
13 annual CPRE Program Compliance Reports, along with the direct testimony
14 and exhibits of expert witnesses. These tasks require the Company to incur
15 costs, including through the utilization of both internal and external
16 resources. Therefore, the cost causation principle supports the Company's
17 proposed allocation of CPRE implementation costs to North Carolina retail
18 customers.

19 **Q. PLEASE EXPLAIN HOW ALLOCATION OF IMPLEMENTATION**
20 **COSTS IN CONNECTION WITH REPS AND SC DERP ALSO**
21 **SUPPORTS THE COMPANY'S POSITION.**

22 A. Implementation costs for REPS and SC DERP have always been assigned
23 solely to North Carolina and South Carolina retail, respectively. However,

1 the Company has not fundamentally based this allocation on an assessment
2 of whether the implementation costs were or were not above the avoided
3 cost. Instead, the implementation costs were separated and allocated simply
4 on the basis of the cost causation principles above.

5
6 In connection with NC REPS, N.C. Gen. Stat. § 62-133.8(h)(1) allows
7 “incremental costs” incurred by an electric power supplier in excess of
8 avoided costs to be recovered from its North Carolina retail customers. This
9 approach also follows cost causation principles in that the renewable
10 attribute that results in a premium above avoided cost is directly associated
11 with achieving the objective of the REPS program, whereas the portion of
12 the cost up to avoided cost is, as discussed above, allocated to all retail and
13 wholesale customers because it is “caused” by the need to meet all such
14 customers’ needs. But the Company’s allocation of implementation costs
15 solely to the applicable jurisdiction has not historically been based on
16 assessment of whether the implementation costs should be considered as
17 part of the portion of the energy and capacity costs above or below avoided
18 costs.

19
20 The existence (or not) of an incremental cost premium (i.e., those costs
21 above avoided cost) associated with a particular program should not take
22 precedence over cost causation principles and become the determinative
23 factor for direct assignment of implementation costs. Giving consideration

1 to the nature of the specific costs, and associated cost causation principles,
2 the incremental costs that are specific to statutory requirements of a
3 particular state are appropriately assigned to the specific state jurisdiction.
4 For this reason, the Company continues to believe that it should be allowed
5 to recover its CPRE Program implementation costs solely from North
6 Carolina retail customers.

7 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

8 A. Yes.

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. E-7, SUB 1231

In the Matter of)
)
)
Application of Duke Energy Carolinas, LLC)
Pursuant to G.S. 62-110.8 and Commission)
Rule R8-71 for Approval of CPRE)
Compliance Report and CPRE Cost)
Recovery Rider)

**SUPPLEMENTAL
TESTIMONY OF BRYAN L.
SYKES**

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

2 A. My name is Bryan L. Sykes, and my business address is 550 South Tryon
3 Street, Charlotte, North Carolina.

4 **Q. HAVE YOU PREVIOUSLY FILED TESTIMONY IN THIS**
5 **PROCEEDING?**

6 A. Yes, on February 25, 2020, I caused to be pre-filed with the Commission
7 my direct testimony and 6 exhibits and 9 supporting workpapers.

8 **Q. YOUR SUPPLEMENTAL TESTIMONY INCLUDES SIX (6)**
9 **REVISED EXHIBITS AND THREE (3) SUPPORTING**
10 **WORKPAPERS. WERE THESE SUPPLEMENTAL EXHIBITS AND**
11 **WORKPAPERS PREPARED BY YOU OR AT YOUR DIRECTION**
12 **AND UNDER YOUR SUPERVISION?**

13 A. Yes. These exhibits and workpapers were prepared at my direction and
14 under my supervision and consist of the following:

15

16 Sykes Revised Confidential Exhibit No. 1 – CPRE Purchased and
17 Generated Power Costs in the Experience Modification Factor (EMF) and
18 Billing Periods

19

20 Sykes Revised Confidential Exhibit No. 2 – CPRE Implementation Costs in
21 the EMF and Billing Periods

22

- 1 Sykes Revised Exhibit No. 3 – Allocation of Prospective Billing Period
2 CPRE Charges to Customer Classes
3
- 4 Sykes Revised Exhibit No. 4 – Allocation of Experience Modification
5 Factor (EMF) Period Charges to Customer Classes
6
- 7 Sykes Revised Exhibit No. 5 – Summary of CPRE Proposed Rider
8 Components
9
- 10 Sykes Revised Exhibit No. 6 – Proposed Rider CPRE (NC)
11
- 12 Sykes Revised Confidential Workpaper No. 1 – CPRE Forecast for the
13 Prospective Billing Period
14
- 15 Sykes Revised Workpaper No. 4 – Actual Sales by Jurisdictions – Subject
16 to Weather
17
- 18 Sykes Revised Workpaper No. 8 – 1% Calculation Test
19
- 20 **Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL**
21 **TESTIMONY IN THIS PROCEEDING?**
- 22 A. The purpose of my testimony is to present revised rates reflecting the
23 impacts of four updates to numbers presented in my direct exhibits and

1 workpapers. The first update relates to the forecast shown on Confidential
2 Workpaper No. 1 and used in determining the capacity and energy
3 purchases and generation, in the case of Duke-owned facilities, on Sykes
4 Confidential Exhibit No. 1 and is described further below. The second
5 update relates to implementation costs for the under-recovery of T&D Sub-
6 Team labor and labor-related taxes and benefits experienced during the
7 extended initial test period and is shown on Sykes Confidential Exhibit No.
8 2 and described further below. The third update relates to the customer
9 allocation factor used for implementation costs in the EMF Period and is
10 shown on Sykes Exhibit No. 4. The fourth update relates to a data entry
11 error for wholesale sales for the test period as shown on Sykes Workpaper
12 No. 4; however, this update has no impact on the computation of proposed
13 rates.

14 **Q. PLEASE EXPLAIN THE REASON FOR UPDATING THE**
15 **FORECAST.**

16 A. During a subsequent review of the CPRE forecast, it was noted that the
17 forecast was based on an in-service date rather than a commercial operation
18 date. The in-service date is the date when construction of both
19 interconnection facilities and system upgrades is completed and the CPRE
20 facility is granted permission to operate. The commercial operation date is
21 the date the CPRE facility declares commercial operation. The commercial
22 operation date typically occurs two to three months after the in-service date.
23 A change in the CPRE forecast was therefore required to better align with

1 the commercial operation dates. This update resulted in lower customer
2 rates for the billing period.

3 **Q. PLEASE EXPLAIN THE REASON FOR UPDATING**
4 **IMPLEMENTATION COSTS DURING THE EXTENDED INITIAL**
5 **TEST PERIOD RELATED TO T&D SUB-TEAM LABOR AND**
6 **LABOR-RELATED TAXES AND BENEFITS.**

7 A. During a subsequent review of implementation costs, it was noted that labor
8 and labor-related taxes and benefits incurred by the T&D Sub-Team were
9 not recovered through fees the Company charged market participants and
10 winners of the Tranche 1 Request for Proposal (RFP).

11
12 Rule R8-71(b)(16) defines the “T&D Sub-Team” as “...those members of
13 the Evaluation Team responsible for assessing the impacts of proposals on
14 the electric public utility’s transmission and distribution systems and
15 assigning any system upgrade costs attributable to each proposal pursuant
16 to R8-71(f)(3)(iii)...”

17
18 Rule R8-71(d)(10) states “the electric public utility shall be authorized to
19 collect proposal fees up to \$10,000 per proposal to defray its costs of
20 evaluating the proposals. In addition, the electric public utility may charge
21 each participant an amount equal to the estimated total cost of retaining the
22 Independent Administrator divided by the reasonably anticipated number of
23 proposals.”

1

2 Through its fees set forth in the Tranche 1 RFP, the Company collected all
3 but \$11,506 in T&D Sub-Team labor and labor-related taxes and benefits
4 incurred to evaluate the Tranche 1 proposals, which is being updated in this
5 supplemental filing, and \$310,807 in an additional under-collection of fees
6 charged by the Independent Administrator not recovered, which were
7 previously included as implementation costs in my direct testimony on
8 Confidential Exhibit No. 2.

9 **Q. PLEASE EXPLAIN THE REASON FOR UPDATING THE**
10 **CUSTOMER ALLOCATION FACTOR USED FOR**
11 **IMPLEMENTATION COSTS IN THE EMF PERIOD.**

12 A. Implementation costs in the EMF Period were allocated to customer class
13 using the 2018 production plant allocator in the Company's original filing.
14 However, to be consistent with the methodology used in the Billing Period,
15 the Company is updating the customer allocation factor used for
16 implementation costs in the EMF Period using the composite rate calculated
17 for the Billing Period as shown on Sykes Exhibit No. 3. Since the Company
18 is seeking full recovery of implementation costs from its North Carolina
19 Retail customers, this update lowers the EMF component of the rate for the
20 residential class and increases the EMF component of the rate for the
21 industrial class. The general service and lighting class is unaffected by this
22 update.

23

1 **Q. WHAT IS THE RATE IMPACT OF THESE UPDATES?**

2 A. The NC Retail CPRE Purchased and Generated Power Capacity and Energy
3 charges were decreased by \$5,349,323 from the amounts filed in my direct
4 Exhibit No. 3. The Total Implementation Costs were increased by \$11,506
5 from the amount filed in my direct Confidential Exhibit No 2.

6 The components of the CPRE Program rider to be effective September 1,
7 2020 and to remain in effect for the twelve-month Billing Period ending
8 August 31, 2021 are revised as follows:

9 *Excluding regulatory fee:*

Cents per kWh					
Customer class	CPRE Program EMF rider	CPRE Program rider	Total CPRE Program rider	Current total CPRE Program rider	CPRE Program rider increase
Residential	0.0020	0.0056	0.0076	0.0000	0.0076
General Service	0.0019	0.0054	0.0073	0.0000	0.0073
Industrial	0.0019	0.0051	0.0070	0.0000	0.0070

10 *Including regulatory fee:*

Cents per kWh					
Customer class	CPRE Program EMF rider	CPRE Program rider	Total CPRE Program rider	Current CPRE Program rider	CPRE Program rider increase
Residential	0.0020	0.0056	0.0076	0.0000	0.0076
General Service	0.0019	0.0054	0.0073	0.0000	0.0073
Industrial	0.0019	0.0051	0.0070	0.0000	0.0070

11

- 1 **Q. DOES THIS CONCLUDE YOUR PRE-FILED SUPPLEMENTAL**
2 **TESTIMONY?**
3 **A. Yes.**

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. E-7, SUB 1231

In the Matter of)
)
Application Pursuant to G.S. 62-)
110.8 and NCUC Rule R8-71 for)
Approval of CPRE Compliance)
Report and CPRE Cost Recovery)
Rider)
)

**DIRECT TESTIMONY OF
PHILLIP H. CATHCART**

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

2 A. My name is Phillip H. Cathcart, and my business address is 410 South
3 Wilmington Street, Raleigh, North Carolina.

4 **Q. PLEASE STATE YOUR POSITION WITH DUKE ENERGY AND**
5 **DESCRIBE YOUR CURRENT RESPONSIBILITIES.**

6 A. I am the Renewable Compliance Manager for Duke Energy within the
7 Business Development & Compliance Department. In my current position,
8 I am responsible for the development and implementation of the
9 competitive procurement of renewable energy program (“CPRE Program”)
10 established by Session Law 2017-192’s (“House Bill 589” or the “Act”)
11 enactment of North Carolina General Statute (“N.C. Gen. Stat.”) § 62-110.8
12 and applicable to both Duke Energy Carolinas, LLC (“DEC” or “the
13 Company”), and Duke Energy Progress, LLC (“DEP” and together with
14 DEC, “Duke”). My responsibilities include compliance with CPRE
15 Program requirements as well as interface with the North Carolina Utilities
16 Commission (“Commission”) approved CPRE Program independent
17 administrator, Accion Group, LLC (“Accion Group”, “Independent
18 Administrator”, or “IA”), on behalf of DEC and DEP.

19 **Q. PLEASE BRIEFLY SUMMARIZE YOUR EDUCATIONAL**
20 **BACKGROUND.**

21 A. I received a Bachelor of Arts degree in Economics from the University of
22 North Carolina in Chapel Hill.

1 **Q. PLEASE DESCRIBE YOUR BUSINESS BACKGROUND AND**
2 **EXPERIENCE.**

3 A. I managed a small business from 2003 until 2008. Between 2009 and 2012,
4 I held positions at Alabama Power as a Technical Analyst and Commercial
5 Account Manager. I joined Duke Energy in 2015 as a Renewable Account
6 Manager in the Distributed Energy Technology Department. In June of
7 2019, I moved to my current position as Renewable Compliance Manager
8 in the Business Development & Compliance Department.

9 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE NORTH**
10 **CAROLINA UTILITIES COMMISSION?**

11 A. No.

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

13 A. The purpose of my testimony is to describe DEC's activities in connection
14 with implementation of the CPRE Program and to describe the costs
15 incurred to implement the CPRE Program and comply with N.C. Gen. Stat.
16 § 62-110.8 during the twenty-nine months beginning on August 1, 2017 and
17 ending on December 31, 2019 ("Extended Initial Test Period"), and
18 purchased power and generated power costs projected to be incurred during
19 the CPRE Program rider billing period, which is the twelve month period
20 beginning on September 1, 2020 and ending on August 31, 2021 ("Billing
21 Period").

22 **Q. PLEASE DESCRIBE THE EXHIBIT TO YOUR TESTIMONY.**

1 A. My testimony includes one exhibit. Cathcart Exhibit No. 1 is the
2 Company's 2019 CPRE Compliance Report, which is being submitted in
3 this docket in compliance with Commission Rule R8-71(h). The
4 Compliance Report describes the Company's and DEP's ongoing joint
5 efforts to procure renewable energy resources under the CPRE Program and
6 ongoing actions to comply with the requirements of N.C. Gen. Stat. § 62-
7 110.8 during the reporting period, including a summary of key activities
8 during the reporting period, costs incurred to administer the CPRE Program,
9 cost incurred and fees collected by the Independent Administrator, and the
10 current status of CPRE Program requirements.

11 **Q. WAS THIS EXHIBIT PREPARED BY YOU OR AT YOUR**
12 **DIRECTION AND UNDER YOUR SUPERVISION?**

13 A. Yes. Cathcart Exhibit No. 1 was prepared by me or under my supervision.
14 Cathcart Exhibit No. 1, along with one of the appendices to Cathcart Exhibit
15 No. 1, contains confidential and proprietary information and is being filed
16 with the Commission under seal. A redacted version suitable for public
17 filing is attached to my testimony.

18 **Compliance with CPRE Program Requirements**

19 **Q. PLEASE PROVIDE BACKGROUND REGARDING THE**
20 **ESTABLISHMENT OF THE CPRE PROGRAM.**

21 A. On July 27, 2017, House Bill 589 was signed into law, thereby enacting
22 several amendments to the Public Utilities Act. Part II of the Act enacted
23 N.C. Gen. Stat. § 62-110.8, which mandates that Duke obtain Commission

1 approval to implement a CPRE Program to competitively procure 2,660
2 megawatts (“MW”) of additional renewable energy resource capacity
3 (subject to adjustment) over a 45 month period commencing from the date
4 of Commission approval of the CPRE Program, to be accomplished through
5 a series of distinct Requests for Proposals (“RFPs”) referred to as
6 “Tranches.” N.C. Gen. Stat. § 62-110.8(g) establishes a new annual CPRE
7 rider cost recovery mechanism to recover the costs incurred by DEC and
8 DEP to implement the CPRE Program.

9 **Q. HAS THE COMPANY FILED AN UPDATED CPRE PROGRAM**
10 **PLAN SINCE THE INITIAL CPRE PROGRAM PLAN WAS**
11 **APPROVED BY THE COMMISSION IN FEBRUARY 2018?**

12 A. Yes, the Company filed an updated CPRE Program Plan on September 3,
13 2019 in Docket E-100, Sub 157, as required by Commission Rule R8-71(g).
14 The updated CPRE Program Plan was approved by the Commission by
15 order date July 2, 2019 in Docket Nos. E-2, Sub 1159 and E-7, Sub 1156.

16
17 One of the key updates provided in that plan was a projected increase in the
18 “Transition MW,” which has the potential to reduce the total amount of MW
19 to be procured through the CPRE Program.

20 **Q. PLEASE EXPLAIN WHAT YOU MEAN BY TRANSITION MW.**

21 A. N.C. Gen. Stat. § 62-110.8(b)(1) provides that if prior to the end of the initial
22 45-month competitive procurement period, Duke has executed PPAs and
23 interconnection agreements for renewable energy capacity within their

1 Balancing Authorities (“BAs”) that are not subject to economic dispatch or
 2 curtailment and were not procured under the Green Source Advantage
 3 program pursuant to N.C. Gen. Stat. § 62-159.2 (“Transition MW” or
 4 “Transition MW Projects”) having an aggregate capacity in excess of 3,500
 5 MW, the Commission shall reduce the aggregate targeted competitive
 6 procurement amount (2,660 MW) by the amount of such exceedance (such
 7 adjusted targeted procurement amount, the “CPRE Targeted Amount”). If
 8 the aggregate capacity of such Transition MW Projects is less than 3,500
 9 MW at the end of the initial 45-month competitive procurement period, the
 10 Commission shall require Duke to conduct an additional competitive
 11 procurement in the amount of such deficit.

12
 13 The amount of Transition MW is currently projected to significantly exceed
 14 3,500 MW. In the updated CPRE Program Plan, the total number of
 15 Transition MW is projected to be between 4,300 and 4,900 MW, which
 16 would reduce the potential total MW to be procured through CPRE to
 17 somewhere in the range of 1,231 to 1,881 MW. Table 1 below provides the
 18 anticipated allocation to DEC and DEP:

19 **Table 1 Allocation of MW between DEC and DEP**

	DEC (Approximate MW)	DEP (Approximate MW)
Tranche 1 - Contracted	435	86
Tranche 2 - Issued	600	80
Tranch 3	0 to 570	0 to 80
Total	1,065 to 1,635	166 to 246

20

1 **Q. HAS TRANCHE 1 OF THE CPRE RFP BEEN COMPLETED?**

2 A. Yes. DEC and DEP jointly issued CPRE Tranche 1 solicitation on July 10,
3 2018, targeting 600 MW of capacity in DEC and 80 MW of capacity in
4 DEP. The deadline for proposal submissions was October 9, 2018 (October
5 8 for proposals submitted by DEC / DEP). On April 9, 2019 the IA
6 completed the evaluation process and notified the selected winning
7 proposals. On that same day, the IA filed a final Tranche 1 summary report
8 in Docket E-7, Sub 1156 providing information on the selected proposals,
9 as well as a summary of the overall process and resulting selections.

10

11 For DEC, twelve projects totaling 515 MW were selected as winning
12 proposals. One of the selected winners failed to execute the Purchase Power
13 Agreement (“PPA”) by the July 8, 2019 contracting period deadline,
14 reducing the number of projects to eleven with a total of 465 MW. On
15 December 3, 2019, DEC received notification that another project selected
16 as a winning proposal would be terminating its PPA, reducing the DEC
17 Tranche 1 totals to ten projects and 435 MW.

18

19 Eight of the ten projects selected for DEC in Tranche 1 are anticipated to
20 achieve commercial operation and begin producing energy prior to the end
21 of the Billing Period. Purchased power cost and potential authorized

1 revenue of utility-owned CPRE assets estimates are described in the direct
2 testimony of Company witness Sykes, and detailed in Sykes Exhibit No. 1.

3 **Q. WHAT IS THE STATUS OF THE TRANCHE 2 CPRE**
4 **SOLICITATION?**

5 A. DEC and DEP jointly issued the CPRE Tranche 2 solicitation on October
6 15, 2019, targeting 600 MW of capacity in DEC and 80 MW of capacity in
7 DEP. The deadline for proposal submissions is March 9, 2020 (March 6 for
8 proposals submitted by DEC / DEP).

9 **Q. HAS DEC PREPARED THE ANNUAL CPRE COMPLIANCE**
10 **REPORT AS REQUIRED BY SECTION (H) OF THE CPRE RULE?**

11 A. Yes, the annual CPRE Compliance Report is attached as Exhibit 1 to my
12 testimony. DEC requests that the Commission find that the Company's
13 ongoing actions to implement the CPRE Program requirements, as
14 described in the Compliance Report, are reasonable and prudent, in
15 accordance with NCUC Rule R8-71(i)(l).

16 **Costs of CPRE Program Compliance**

17 **Q. PLEASE DESCRIBE THE PERIOD OF COST RECOVERY**
18 **UNDER REVIEW IN THIS PROCEEDING.**

19 A. The CPRE Program rider authorized under subsection (j) of the CPRE Rule
20 allows the Company to establish "an increment or decrement as a rider to
21 its rates to recover in a timely manner the reasonable and prudent costs
22 incurred and anticipated to be incurred to implement its CPRE Program and
23 to comply with N.C. Gen. Stat. § 62- 110.8."

1

2 Subsection (j)(3) of the CPRE Rule provides that, “[u]nless otherwise
3 ordered by the Commission,” the CPRE Program Rider test period shall be
4 the same as the annual fuel factor test period, which, for DEC, is the
5 calendar year, January 1 through December 31. The forecasted Billing
6 Period is also the same as DEC’s annual fuel factor, extending September
7 1, 2020 to August 31, 2021.

8 **Q. PLEASE EXPLAIN WHY THE COMPANY REQUESTED AND THE**
9 **COMMISSION APPROVED THE EXTENDED INITIAL TEST**
10 **PERIOD FOR USE IN THIS PROCEEDING.**

11 A. Under the CPRE Rule, DEC was authorized to pursue CPRE Program cost
12 recovery beginning in 2018. At that time, however, the CPRE Program had
13 only recently been approved by the Commission and the Company was still
14 in the process of developing the initial CPRE Program implementation
15 framework. Thus, DEC had only incurred limited CPRE Program
16 development and implementation costs and, importantly, the Company did
17 not anticipate that any new renewable energy facilities to be procured
18 through the CPRE Program Tranche 1 RFP would be placed into service
19 until late 2019 or early 2020. Accordingly, DEC elected to delay cost
20 recovery in 2018 and, instead, petitioned the Commission to defer recovery
21 of its reasonable and prudently-incurred costs to implement its CPRE
22 Program to 2019 and to extend the test period backwards by five months to

1 August 1, 2017, to encompass the full period since House Bill 589 became
2 law.

3
4 On September 24, 2018, the Commission issued its *Order Approving*
5 *Proposed Accounting Treatment and Authorizing Extended Test Period* in
6 Docket No. E-7, Sub 1170, which approved the Company's proposal to
7 defer recovery of CPRE Program costs to its initial application to be filed
8 in 2019, and authorizing a 17-month test period beginning on August 1,
9 2017, and ending December 31, 2018.

10
11 The Company made a substantially similar request in 2019 and the
12 Commission approved a further extension of the test period for the 29-
13 month period beginning on August 1, 2017, and ending December 31, 2019
14 in its April 16, 2019 *Order Cancelling Annual Public Hearing, Approving*
15 *Proposed Accounting Treatment, and Approving CPRE Compliance Report*
16 in Docket No. E-7, Sub 1193.

17 **Q. IS THE COMPANY PROJECTING TO INCUR CPRE PROGRAM**
18 **PURCHASED POWER EXPENSES OR POTENTIAL**
19 **AUTHORIZED REVENUE OF UTILITY-OWNED CPRE ASSETS**
20 **THAT WOULD BE RECOVERABLE DURING THE BILLING**
21 **PERIOD AT ISSUE IN THIS PROCEEDING?**

22 A. Yes. Eight DEC projects selected in the Tranche 1 RFP are expected to be
23 placed in service and begin generating power during the Billing Period.

1 Estimated purchased power expenses and authorized revenue of utility-
2 owned CPRE asset estimates are described in the direct testimony of
3 Company witness Sykes and detailed in Sykes Exhibit No. 1.

4 **Q. IS THE COMPANY REQUESTING THE COMMISSION**
5 **ESTABLISH A CPRE RIDER TO RECOVER ITS REASONABLE**
6 **AND PRUDENTLY-INCURRED CPRE COSTS IN THIS**
7 **PROCEEDING?**

8 A. Yes. Now that the Company will begin incurring PPA expenses and
9 authorized revenues of utility-owned assets associated with winning CPRE
10 Tranche 1 bids, the Company requests to establish a CPRE rider.

11 **Q. PLEASE DESCRIBE THE CATEGORIES OF COSTS INCURRED**
12 **OR POTENTIALLY EXPECTED TO BE INCURRED TO**
13 **IMPLEMENT THE REQUIREMENTS OF THE CPRE PROGRAM.**

14 A. The following is a summary of the types of costs that were and will likely
15 continue to be incurred to implement the CPRE Program and comply with
16 the procurement requirements of N.C. Gen. Stat. § 62-110.8:

- 17 • Fees for the Independent Administrator and internal Company labor
18 costs for bid proposal evaluation
- 19 • Purchased power and potential authorized revenues of utility-owned
20 generation related to CPRE Program renewable resources
- 21 • Internal Company labor, contract labor including legal fees, and other
22 related costs of implementing the CPRE Program

1 **Q. PLEASE DESCRIBE HOW COSTS FOR RETAINING THE**
2 **INDEPENDENT ADMINISTRATOR AND FOR INTERNAL**
3 **COMPANY LABOR TO EVALUATE PROPOSALS WILL BE**
4 **RECOVERED.**

5 A. Subsection (d)(10) of the CPRE Rule provides that Duke's estimated
6 expense to retain the IA to administer the CPRE Program RFP should be
7 recovered from market participants through proposal fees. To the extent
8 that the total cost of retaining the IA exceeds the proposal fees recovered
9 from market participants, Duke is required to pay the IA the balance owed
10 for services rendered and subsequently charge the winning participants in
11 the CPRE RFP solicitation.

12 The CPRE Rule also authorizes Duke to collect proposal fees up to \$10,000
13 per proposal to defray its costs of evaluating CPRE proposals. As provided
14 for in subsection (f)(3) of the CPRE Rule, the Companies have established
15 a designated internal evaluation team specifically assigned to the CPRE
16 proposal evaluation process.

17 In Tranche 1 of the CPRE Program RFP, DEC and DEP elected to structure
18 the proposal fees and winners' fees as follows:

19 1) Proposal Fees were required of each proposal submitted on the
20 Independent Administrator's website, including Asset Acquisition
21 proposals. This fee was set at \$500/MW, based on the facility's
22 nameplate capacity, up to a maximum of ten thousand dollars
23 (\$10,000). Proposal Fees received in Tranche 1 totaled \$901,382.

1 2) In addition, a Winners' Fee was collected on a pro-rata basis from
2 each winning proposal. This fee was calculated on the amount of
3 the IA costs that was not recovered through the Proposal Fees. The
4 Winners' Fees were determined upon conclusion of the RFP.
5 Winners' Fees were allocated among all winning Proposals selected
6 by both DEC and DEP on a pro-rata basis on a per MW basis. The
7 total of the Winners' Fees was capped at five hundred thousand
8 dollars (\$500,000). Winners' Fees received in Tranche 1 totaled
9 \$500,000.

10 Actual IA expenses for Tranche 1 were approximately \$2M, exceeding
11 Proposal Fee and Winners' Fee collections by approximately \$600k. The
12 IA fees not recovered are allocated equally between DEC and DEP and is
13 included in the CPRE rider filing as detailed in Sykes Exhibit 2. A number
14 of factors caused the IA expenses to exceed estimates, including extensive
15 unanticipated stakeholder processes and reporting obligations. For Tranche
16 2, the Winners' Fee cap has been increased to \$1M to better account for IA
17 fees.

18 **Q. PLEASE DESCRIBE THE COMPANY'S COSTS ASSOCIATED**
19 **WITH THE CPRE PROGRAM INCURRED DURING THIS**
20 **EXTENDED INITIAL TEST PERIOD.**

21 A. DEC's costs associated with implementing its CPRE Program include
22 internal labor associated with development of the CPRE Program Plan and
23 Guidelines and the initial Tranche 1 RFP documents, as well as interaction

1 with the Independent Administrator and the execution of the initial RFP
2 process. In addition to internal labor, costs were incurred for external legal
3 support to support the initial CPRE Program filing, the requested
4 modifications to the interconnection procedures, and the initial RFP
5 solicitation. Finally, in the early stages of the development of the CPRE
6 Program, DEC and DEP engaged outside consultants to assist with this
7 significant effort, including development of initial CPRE Program filing
8 documents and schedules, support with drafting RFP documents, and
9 development of alternative approaches to incorporating network upgrades
10 in the CPRE Program proposals and evaluation.

11 **Q. PLEASE PROVIDE DETAIL FOR THE INTERNAL LABOR COSTS**
12 **INCURRED TO IMPLEMENT THE CPRE PROGRAM THAT**
13 **WERE INCURRED DURING THE EXTENDED INITIAL TEST**
14 **PERIOD.**

15 A. DEC includes only the incremental cost of CPRE Program compliance for
16 recovery through its CPRE rider. Company employees that work to
17 implement the requirements of N.C. Gen. Stat. § 62-110.8 charge only that
18 portion of their labor hours to CPRE accounting codes. Note that the
19 Company instructed individuals to begin charging new CPRE Program
20 accounting codes as of October 2018, after receiving the Commission order
21 approving the Extended Initial Test Period. Labor hours related to a very
22 limited number of employees are included in test period costs for months
23 prior to October 2018. Labor costs associated with these employees reflect

1 work performed that was associated with the structure of the initial RFP
2 offering, the drafting of key documents, development of the evaluation
3 methodology, the issuance of pre-solicitation documents for the initial
4 Tranche and other CPRE Program compliance activities.

5 **Q. HOW ARE CPRE-RELATED COSTS SUCH AS EXTERNAL**
6 **LEGAL AND CONSULTING SUPPORT BEING ALLOCATED**
7 **BETWEEN DEC AND DEP?**

8 A. These costs have been allocated equally between DEC and DEP. While the
9 overall CPRE Program is expected to procure significantly more total
10 megawatts for DEC versus DEP, these costs related to implementing the
11 CPRE Program are associated with administrative activities that benefit
12 DEC and DEP equally. Thus, the Company's proposed CPRE rider in this
13 docket appropriately reflects recovery of one half of the shared outside
14 administrative costs incurred.

15 **Q. ARE YOU SATISFIED THAT THE ACTUAL COSTS DEC HAS**
16 **INCURRED DURING THE EXTENDED INITIAL TEST PERIOD**
17 **ARE REASONABLE AND HAVE BEEN PRUDENTLY**
18 **INCURRED?**

19 A. Yes.

20 **Q. DOES THIS CONCLUDE YOUR PRE-FILED DIRECT**
21 **TESTIMONY?**

22 A. Yes.

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. E-7, SUB 1231

In the Matter of)
)
)
Application of Duke Energy Carolinas, LLC)
Pursuant to G.S. 62-110.8 and Commission)
Rule R8-71 for Approval of CPRE)
Compliance Report and CPRE Cost)
Recovery Rider)

**SUPPLEMENTAL
TESTIMONY OF PHILLIP
H. CATHCART**

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

2 A. My name is Phillip H. Cathcart, and my business address is 410 South
3 Wilmington Street, Raleigh, North Carolina.

4 **Q. HAVE YOU PREVIOUSLY FILED TESTIMONY IN THIS**
5 **PROCEEDING?**

6 A. Yes, on February 25, 2020, I caused to be pre-filed with the Commission
7 my direct testimony including one exhibit.

8 **Q. YOUR SUPPLEMENTAL TESTIMONY INCLUDES ONE REVISED**
9 **EXHIBIT. WAS THIS SUPPLEMENTAL EXHIBIT PREPARED BY**
10 **YOU OR AT YOUR DIRECTION AND UNDER YOUR**
11 **SUPERVISION?**

12 A. Yes. This exhibit was prepared at my direction and under my supervision
13 and consists of the following:

14 Cathcart Revised Exhibit No. 1 – 2019 Compliance Report

15 **Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL**
16 **TESTIMONY IN THIS PROCEEDING?**

17 A. The purpose of my supplemental testimony is to describe certain limited
18 updates to the 2019 CPRE Compliance Report based on discussions with
19 Public Staff.

20 **Q. PLEASE EXPLAIN THE ADDITIONAL DETAIL BEING**
21 **PROVIDED.**

1 A. The 2019 Compliance Report attached to this supplemental testimony as
2 Cathcart Revised Exhibit No. 1 includes updates to Sections II, IV, and X
3 as follows:

4 Section II – Section II of the 2019 CPRE Compliance Report includes a
5 table with summary information on 10 winning proposals in Tranche 1. My
6 revised exhibit adds a column to this table identifying the estimated
7 commercial operation date for each project.

8
9 Section IV - In its 2018 CPRE Compliance Report, filed in Docket No. E-
10 7, Sub 1193, DEC stated that “As of the filing date of this CPRE
11 Compliance Report, Tranche 1 is still in the evaluation process. Therefore,
12 this report does not identify any proposals submitted by Duke or its
13 affiliates. Such information will be provided in the 2019 CPRE Compliance
14 Report.” The 2019 CPRE Compliance Report has been updated to include
15 this information.

16
17 Section X – In its February 21, 2018 *Order Modifying and Approving Joint*
18 *CPRE Program* in Docket No. E-7, Sub 1156, the Commission required
19 Duke to “report on grid upgrade costs on a per-proposal basis in its future
20 CPRE compliance reports.” The 2019 CPRE Compliance Report includes
21 a table with winning bids and their upgrades cost estimates. The revised
22 exhibit includes upgrades costs, where available, for non-winning bids.

23

- 1 **Q. DOES THIS CONCLUDE YOUR PRE-FILED SUPPLEMENTAL**
2 **TESTIMONY?**
3 **A. Yes.**

1 COMMISSIONER DUFFLEY: Now that the
2 evidence and the exhibits are in the record, unless
3 there is an objection, the Commission will accept
4 proposed orders 30 days from the filing of the
5 notice of the transcript. Any objection?

6 MS. CUMMINGS: Commissioner Duffley, I
7 would also just like to move -- in an abundance of
8 caution, move the Public Staff's prefiled testimony
9 and exhibits into the record.

10 COMMISSIONER DUFFLEY: So moved. The
11 Public Staff's evidence will be received into
12 evidence and the exhibits will be marked as
13 identified when prefiled.

14 (Public Staff J. Thomas Exhibit 1 and
15 Maness Exhibit 1 were admitted into
16 evidence.)

17 (Whereupon, the prefiled direct
18 testimony and Appendix A of Jeff Thomas,
19 and direct testimony and Appendix A of
20 Michael C. Maness was copied into the
21 record as if given orally from the
22 stand.)

23
24

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. E-7, SUB 1231

In the Matter of)	
Application of Duke Energy Carolinas,	)	TESTIMONY OF
LLC for Approval of CPRE Compliance	)	JEFF THOMAS
Report and CPRE Cost Recovery Rider	)	PUBLIC STAFF – NORTH
	)	CAROLINA UTILITIES
	)	COMMISSION

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION**DOCKET NO. E-7, SUB 1231****TESTIMONY OF JEFF THOMAS
ON BEHALF OF THE PUBLIC STAFF
NORTH CAROLINA UTILITIES COMMISSION****MAY 18, 2020**

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

3 A. My name is Jeff Thomas. My business address is 430 North
4 Salisbury Street, Dobbs Building, Raleigh, North Carolina. I am an
5 engineer with the Electric Division of the Public Staff – North Carolina
6 Utilities Commission.

7 **Q. BRIEFLY STATE YOUR QUALIFICATIONS AND DUTIES.**

8 A. My qualifications and duties are included in Appendix A.

9 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

10 A. The purpose of my testimony is to make recommendations to the
11 Commission regarding the Public Staff's investigation into the application
12 for recovery of costs associated with the implementation of the
13 Competitive Procurement of Renewable Energy (CPRE) Program,
14 enacted through N.C. Gen. Stat. § 62-110.8, that was filed by Duke
15 Energy Carolinas, LLC (DEC) on February 25, 2020.

1 The Public Staff Electric Division's specific responsibilities in this and
2 future CPRE rider proceedings are to (a) review the Company's
3 application and proposed rates for compliance with N.C. Gen. Stat.
4 62-110.8 and Commission Rule R8-71; (b) review the CPRE
5 Compliance Report and address any deficiencies pursuant to
6 Commission Rule R8-71(h) and Commission Orders, and (c) make
7 recommendations regarding changes to the Company's calculations
8 of the proposed rates.

9 **Q. HOW IS YOUR TESTIMONY ORGANIZED?**

10 A. My testimony summarizes the CPRE Program Rider request and the
11 CPRE Compliance Report, presents the results of our investigation,
12 and makes recommendations for the Commission's consideration.

13 **Q. ARE YOU PROVIDING ANY EXHIBITS WITH YOUR TESTIMONY?**

14 A. Yes. I am including one exhibit, described below:

15 Exhibit 1. DEC response to PS DR 2-5.

16 A. Overview of CPRE Rider Request

17 **Q. WHAT COSTS DOES DEC SEEK TO RECOVER ASSOCIATED**
18 **WITH THE CPRE PROGRAM IMPLEMENTATION?**

19 A. As described in the direct and supplemental testimony of DEC
20 witness Sykes, DEC seeks to recover \$1,138,297 in implementation

1 costs incurred during the initial test period from August 1, 2017
2 through December 31, 2019 (Extended Initial Test Period). These
3 costs reflect internal company labor and associated costs, outside
4 consulting and legal services, and \$310,807 in Independent
5 Administrator (IA) fees and \$11,506 in T&D Sub-Team labor costs
6 not recovered from Market Participants (MP) in Tranche 1. In
7 addition, DEC forecasts ongoing implementation costs of \$384,533
8 from September 1, 2020 through August 31, 2021 (Billing Period),
9 associated with internal labor and external consulting.

10 **Q. HOW DOES DEC ALLOCATE THESE IMPLEMENTATION**
11 **COSTS?**

12 A. In its application, DEC requests to allocate 100% of the
13 implementation costs to North Carolina retail customers. These
14 jurisdictional costs are then allocated to customer classes based on
15 an allocation factor that is a weighted average of the energy and
16 capacity allocation factors ("Composite Factor"), as described by
17 witness Sykes on page 6 of his direct testimony.

18 **Q. WHAT COSTS DOES DEC SEEK TO RECOVER ASSOCIATED**
19 **WITH PURCHASES OF ENERGY AND CAPACITY FROM**
20 **WINNING PROJECTS?**

21 A. Within the Extended Initial Test Period, there were no incurred costs
22 associated with purchases of energy and capacity from winning

1 projects, as the earliest date by which any CPRE Tranche 1 winning
2 project is expected to come online is in early 2021. Within the Billing
3 Period, DEC estimates that it will incur a total of approximately \$4.1
4 million (system costs) in purchased and generated power,¹
5 consisting of \$700,331 in capacity costs and \$3.4 million in energy
6 costs. The North Carolina retail portion of these total costs is
7 approximately \$2.7 million.²

8 **Q. HOW DOES DEC ALLOCATE THESE PURCHASED AND**
9 **GENERATED POWER COSTS?**

10 A. DEC requests to recover from North Carolina retail customers its
11 capacity costs based upon its 2019 Peak Demand jurisdictional
12 allocation factor (67.55%), and its energy costs based upon its
13 Projected Billing Period Sales jurisdictional allocation factor
14 (66.02%). These costs are then allocated to North Carolina customer
15 classes in a similar manner as purchased power costs are allocated
16 in its annual fuel adjustment clause rider filing.

17 **Q. TURNING NOW TO DEC'S CPRE COMPLIANCE REPORT, CAN**
18 **YOU PLEASE PROVIDE AN OVERVIEW?**

¹ Purchased power refers to third-party and unregulated Duke affiliates who have entered into PPAs with DEC. Generated power refers to DEC-owned facilities that are seeking market-based cost recovery through this rider at the as-bid price.

² These numbers reflect the revised exhibits filed on May 15, 2020. The original application estimated \$12.2 million in system costs during the Billing Period, \$8 million of which was assigned to North Carolina retail customers.

1 A. Yes. DEC filed its 2019 CPRE Compliance Report pursuant to
2 Commission Rule R8-71(h). This report included information
3 required by the Rule for calendar year 2019. Tranche 1 closed on
4 October 9, 2018, and Tranche 2 opened on October 15, 2019 and
5 closed on March 9, 2020. Thus, 2019 actions included evaluation,
6 selection, and contract execution for Tranche 1 projects, as well as
7 significant CPRE Program regulatory activity in advance of Tranche
8 2. The report states that 515 MW of capacity was originally selected
9 in Tranche 1, with the final amount of procured capacity reduced to
10 434.5 MW after two projects withdrew. The Compliance Report also
11 provides average pricing for each of the selected proposals, avoided
12 cost thresholds, costs and authorized revenue, grid upgrade costs
13 on a per-project basis, and a certification from the IA stating that “[a]ll
14 proposals were evaluated using the same criteria and evaluation
15 modeling, consistent with the CPRE Program Methodology.”

16 B. CPRE Rider and Compliance Report Investigation

17 **Q. REGARDING THE COSTS INCURRED DURING THE EXTENDED**
18 **INITIAL TEST PERIOD, DID THE PUBLIC STAFF’S**
19 **INVESTIGATION IDENTIFY ANY ISSUES?**

20 A. Yes. As this is the first CPRE rider application for cost recovery, the
21 Public Staff identified several issues for the Commission’s
22 consideration: (1) DEC has allocated CPRE implementation costs

1 (including excess IA fees) entirely to North Carolina retail jurisdiction
2 customers, both in the Extended Initial Test Period and the Billing
3 Period; (2) some program implementation costs incurred during the
4 Extended Initial Test Period will be spread over all three Tranches;
5 and (3) the IA costs and T&D Sub-Team labor and labor-related
6 costs incurred during the Extended Initial Test Period were greater
7 than the fees recovered from the MPs, and DEC is requesting to
8 recover this excess from North Carolina retail customers.

9 **Q. PLEASE ADDRESS THE ALLOCATION OF IMPLEMENTATION**
10 **COSTS TO NORTH CAROLINA RETAIL CUSTOMERS.**

11 A. DEC has requested to allocate all implementation expenses – which
12 include internal labor, external consulting, IA costs and T&D Sub-
13 Team labor and labor-related costs in excess of fees collected from
14 MPs – incurred during the Extended Initial Test Period and projected
15 to be incurred in the Billing Period to its North Carolina retail
16 jurisdiction, rather than allocate them between the North Carolina
17 retail, South Carolina retail, and wholesale jurisdictions. DEC’s
18 stated rationale for this decision is that “the CPRE Program was
19 mandated by the General Assembly of North Carolina, and as such,
20 the Company believes it reasonable that its implementation costs
21 should be directly assigned to its NC Retail customers.”³ The

³ DEC response to PS DR 2-14.

1 Company then goes on to cite examples of a similar direct
2 assignment of implementation costs, referring to how implementation
3 costs were assigned for the North Carolina Renewable Energy and
4 Energy Efficiency Portfolio Standards (REPS) Program⁴ and the
5 South Carolina Distributed Energy Resource Program (SC DERP).⁵

6 **Q. DOES THE PUBLIC STAFF AGREE WITH THIS DIRECT**
7 **ASSIGNMENT?**

8 A. No. I believe that the implementation costs should be allocated
9 between North Carolina and South Carolina retail and wholesale
10 customers in the same manner as energy and capacity costs, for
11 several reasons discussed below.

12 **Q. DEC COMPARES THE CPRE PROGRAM TO ITS OTHER**
13 **CAROLINAS RENEWABLE ENERGY PROGRAMS. IS THIS**
14 **COMPARISON ACCURATE?**

15 A I do not believe so. There are several significant differences between
16 the CPRE Program and the REPS and SC DERP Programs. The
17 CPRE Program provides system power to all jurisdictions at or below
18 avoided costs; so there is no premium, as in the REPS and SC DERP
19 Programs. For REPS, N.C. Gen. Stat. § 62-133.8(h) authorizes a

⁴ N.C. Gen. Stat. § 62-133.8, commonly referred to as SB 3.

⁵ South Carolina Distributed Energy Resources Program Act of 2014 (Act 236), available at <https://www.scstatehouse.gov/code/t58c039.php>.

1 utility to recover the "incremental costs" of compliance, including all
2 reasonable and prudent costs incurred that are in excess of the
3 utility's avoided costs, from its retail customers through an annual
4 rider, subject to certain caps on annual expenditures by customer
5 class. Similarly, SC DERP authorizes a utility to recover the
6 incremental costs resulting from implementation of the SC DERP
7 program from its South Carolina retail customers as a component of
8 its annual fuel cost factor, subject to similar caps by customer class.⁶
9 In addition, unlike REPS and SC DERP, which both have policies
10 and elements supporting the development of resources in their
11 respective states,⁷ CPRE specifically calls for the renewable energy
12 to be competitively procured from "within their respective balancing
13 authority areas, whether located inside or outside the geographic
14 boundaries of the State," while taking into consideration the several
15 factors that are designed to ensure the most cost-effective options
16 across each utility's service territory are selected.⁸ To date, the

⁶ S.C. Code Ann. §§ 58-39-140 and 58-39-150.

⁷ For REPS, see, e.g., N.C. Gen. Stat. § 62-2(a)(10), N.C.G.S. § 62-1338.8(b)(2)d. and e. For SC DERP, see, e.g., S.C. Code Ann. § 58-39-130(B), (C), and (D).

⁸ N.C.G.S. § 62-110.8(c) provides that: the electric public utilities shall take the following factors in consideration in determining the location and allocated amount of the competitive procurement across their respective balancing authority areas:

- (i) the State's desire to foster diversification of siting of renewable energy resources throughout the State;
 - (ii) the efficiency and reliability impacts of siting of additional renewable energy facilities in each public utility's service territory;
- and

1 CPRE program has selected the most cost-effective facilities in both
2 states.⁹

3 **Q. THE CPRE PROGRAM IS PROCURING POWER AT OR BELOW**
4 **AVOIDED COSTS. DO SOUTH CAROLINA AND WHOLESALE**
5 **CUSTOMERS BENEFIT?**

6 A. Yes. Over the next 20 years, Tranche 1 projects are estimated to
7 save all DEC customers over \$200 million relative to DEC's avoided
8 costs.¹⁰ In contrast, both North Carolina's REPS Program and SC
9 DERP procures renewable energy at prices above avoided cost,
10 imposing a premium on DEC customers. While the CPRE Program
11 was enacted by North Carolina, it provides benefits to South Carolina
12 and wholesale customers from direct renewable energy investments,
13 low-cost power, and the experience gained by DEC in establishing a
14 robust competitive procurement program,¹¹ all of which have the

-
- (iii) the potential for increased delivered cost to a public utility's customers as a result of siting additional renewable energy facilities in a public utility's service territory, including additional costs of ancillary services that may be imposed due to the operational or locational characteristics of a specific renewable energy resource technology, such as nondispatchability, unreliability of availability, and creation or exacerbation of system congestion that may increase redispatch costs.

⁹ In DEC's Tranche 1, 11% of the total capacity of 434.5 MW is located in South Carolina.

¹⁰ See Final IA Tranche 1 Report, filed July 23, 2019, in Docket Nos. E-2, Sub 1159 and E-7, Sub 1156, Figure 1.

¹¹ For example, N.C. Gen. Stat. § 62-110.8(a) grants the Commission the authority to establish additional competitive procurement programs beyond the CPRE:

1 potential to reduce power costs in the future. It is inequitable for
2 South Carolina and wholesale customers to benefit as described
3 without being assigned their jurisdictional share of the
4 implementation costs necessary to secure these benefits.

5 **Q. ARE THERE EXAMPLES OF OTHER COSTS THAT ARISE FROM**
6 **NORTH CAROLINA STATUTORY OR REGULATORY ACTIONS**
7 **BEING ALLOCATED TO ALL RETAIL AND WHOLESALE**
8 **JURISDICTIONS FOR NORTH CAROLINA RETAIL**
9 **RATEMAKING PURPOSES?**

10 A. Yes. The Clean Smokestacks Act (CSA),¹² a North Carolina law that
11 imposed costs on DEC to reduce certain emissions from its coal
12 generating plants, is one example. 100% of the incremental costs of
13 implementing the CSA that were incurred through December 31,
14 2007, were treated for N.C. retail cost of service purposes as having
15 been recovered from the North Carolina retail ratepayers. However,
16 as a result of DEC's general rate case proceeding held in Docket No.
17 E-7, Sub 828, incremental CSA compliance costs incurred on and
18 after January 1, 2008, were allocated to the North Carolina retail,

In addition, at the termination of the initial competitive procurement period of 45 months, the offering of a new renewable energy resources competitive procurement and the amount to be procured shall be determined by the Commission, based on a showing of need evidenced by the electric public utility's most recent biennial integrated resource plan or annual update approved by the Commission pursuant to G.S. 62-110.1(c).

¹² Session Law 2002-4, SB 1078; later amended by Session Law 2009-390, SB 1004.

1 South Carolina retail, and wholesale jurisdictions. In that case, the
2 Commission found that the *Agreement and Partial Settlement*,¹³
3 which allocated some costs to comply with the CSA among all DEC
4 jurisdictions and customer classes, was “just and reasonable.”¹⁴ In
5 testimony supporting the allocation of these compliance costs among
6 all jurisdictions and customer classes, the Public Staff stated that
7 “[this] method of cost recovery will recognize the co-benefits that will
8 be shared by all jurisdictions regarding compliance with emissions
9 limitations under the CSA and compliance with federal emissions
10 limitations, as described by Public Staff witness Floyd.”¹⁵

11 A second example is the allocation of costs incurred by DEC and
12 Duke Energy Progress, LLC, (DEP) to comply with North Carolina’s
13 Coal Ash Management Act (CAMA) and related North Carolina
14 statutes. In DEP’s most recently completed general rate case, the
15 Commission found the following:¹⁶

¹³ Filed October 5, 2007, in Docket Nos. E-7, Sub 828, E-7, Sub 829, and E-100, Sub 112. The stipulating parties included DEC, the Public Staff, the North Carolina Attorney General’s Office, Carolina Utility Customers Association, Inc., Carolina Industrial Group for Fair Utility Rates III, and Wal-Mart Stores East, LP.

¹⁴ See the Commission’s December 20, 2007 *Order Approving Stipulation And Deciding Non-Settled Issues* in Docket Nos. E-7, Sub 828, E-7, Sub 829, E-100, Sub 112, and E-7, Sub 795, at 14.

¹⁵ See Testimony of Darlene P. Peedin, filed October 5, 2007, in Docket Nos. E-7, Sub 828, E-7, Sub 829, and E-100, Sub 112, at 7, lines 4-9.

¹⁶ *Order Accepting Stipulation, Deciding Contested Issues, and Granting Partial Rate Increase*, Docket No. E-2, Sub 1142, at 218-19 (February 23, 2018). The Commission made a consistent finding in the most recently completed DEC general rate case *Order Accepting Stipulation, Deciding Contested Issues, and Requiring Revenue Reduction*, at 325-26 (June 22, 2018).

1 [Public Staff] [w]itness Maness recommended two
2 adjustments to the jurisdictional allocation factors used
3 by the Company to allocate system-level CCR costs to
4 the North Carolina retail jurisdiction. The first such
5 adjustment was to allocate the costs DEP identified as
6 "CAMA-only" costs by a comprehensive allocation
7 factor, rather than DEP's proposed factor, which did
8 not allocate costs to the South Carolina retail
9 jurisdiction. Company witness Bateman stated in her
10 testimony that there is a small portion of CCR
11 management costs that under CAMA that are unique
12 to North Carolina and appropriate for direct assignment
13 to North Carolina. Company witness Kerin stated that
14 these costs include groundwater wells used specifically
15 for CAMA purposes and permanent water supplies
16 provided to North Carolina customers pursuant to
17 North Carolina law. Consequently, the Company
18 utilized North Carolina retail allocation factors for its
19 CAMA-only costs that did not allocate any of the
20 system level costs to South Carolina retail operations.
21 However, witness Maness stated that even though
22 some of the costs incurred by DEP are being incurred
23 pursuant to North Carolina law, it is still fair and
24 reasonable to allocate those costs to the entire DEP
25 system because the coal plants associated with the
26 costs are being or were operated to serve the entire
27 DEP system. (Tr. Vol. 18, pp. 305-06.)

28 In rebuttal, Company witness Bateman testified that in
29 general she agreed with witness Maness that the costs
30 of a system should be borne by all of the users of the
31 system. However, she stated that the Company had
32 identified very specific cost categories, groundwater
33 wells used specifically for CAMA purposes and
34 permanent water supplies provided to North Carolina
35 customers pursuant to North Carolina law, and that
36 they should be treated as an exception to this general
37 rule, due to their nature as being unique to North
38 Carolina. She stated that this unique treatment would
39 be consistent with other examples where the
40 Commission had allowed direct assignment to North
41 Carolina, including the incremental costs associated
42 with the North Carolina Renewable Energy and Energy
43 Efficiency Standard (REPS) and the costs to comply
44 with the North Carolina Clean Smokestacks Act. (Tr.
45 Vol. 6, pp. 142-43.)

1 After consideration of this issue, the Commission finds
2 and concludes that the adjustment recommended by
3 Public Staff witness Maness to allocate all system-level
4 CCR costs by a comprehensive allocation factor
5 produces a more reasonable and appropriate outcome
6 than the proposal by the Company to allocate a portion
7 of these costs in a manner that does not allocate them
8 to the South Carolina retail jurisdiction. Although the
9 costs in question were required pursuant to North
10 Carolina law, the costs are inherently related to the
11 burning of coal to provide electricity to the entire DEP
12 system, including the South Carolina retail jurisdiction.
13 The fact that these particular costs are associated with
14 plants that are geographically located in North Carolina
15 is no more relevant with regard to the proper allocation
16 of these costs than it is to the proper allocation of other
17 costs, such as fuel expense and other variable O&M
18 expenses, which are allocated to the entire DEP
19 system.

20 Further, the Commission concludes that these CAMA
21 compliance costs are distinguishable from the
22 examples of REPS and Clean Smokestacks costs cited
23 by the Company. With regard to REPS costs, it is
24 important to note that those costs are by their very
25 nature in excess of the normal level of costs that would
26 otherwise need to be incurred to provide an equivalent
27 amount of energy to the Company's customers. Thus,
28 it is appropriate that the Commission allocates the
29 REPS costs to North Carolina customers. With regard
30 to Clean Smokestacks costs, the Commission notes
31 that those costs were closely related to a rate freeze
32 that was instituted by the General Assembly for North
33 Carolina retail purposes. However, the legislature
34 could not require a similar freeze to be established with
35 regard to South Carolina retail customers.

36 Another example is the Certificate of Public Convenience and
37 Necessity (CPCN) granted for utility-owned solar facilities built to
38 satisfy the requirements of North Carolina's REPS law. In its May 16,
39 2016 *Order Transferring Certificate Of Public Convenience And*

1 *Necessity* for DEC’s Monroe Solar Facility,¹⁷ the Commission
2 conditioned its granting of the CPCN for the facility in part on
3 ensuring that only the incremental portion of the facility costs
4 attributable to REPS compliance were solely recovered from North
5 Carolina customers through the REPS rider, whereas the remainder
6 of the costs that were recovered in base rates should be allocated
7 among jurisdictions and customer classes in the same manner as
8 any other plant in DEC’s generation portfolio. Similar conditions were
9 included in the CPCN orders for DEC’s Mocksville and Woodleaf
10 facilities, as well.¹⁸

11 **Q. HOW DOES DEC PROPOSE TO ALLOCATE CPRE**
12 **IMPLEMENTATION COSTS AMONG NORTH CAROLINA RETAIL**
13 **CUSTOMERS?**

14 A. DEC witness Sykes states that DEC “has directly assigned the
15 reasonable and prudent implementation costs incurred and
16 anticipated to be incurred to implement its CPRE Program and to
17 comply with N.C. Gen. Stat. § 62-110.8 and Rule R8-71(j)(2) to its

¹⁷ Docket No. E-7, Sub 1079.

¹⁸ See May 16, 2016 *Order Transferring Certificate Of Public Convenience And Necessity* in Docket No. E-7, Sub 1098 for Mocksville facility, and June 16, 2016 *Order Granting Certificate Of Public Convenience And Necessity* in Docket No. E-7, Sub 1101 for Woodleaf facility.

1 NC Retail customers using a composite rate determined in the
2 purchased and generated power calculation described above.”

3 **Q. DOES THE PUBLIC STAFF AGREE WITH THIS ALLOCATION**
4 **METHODOLOGY?**

5 A. Notwithstanding our concerns regarding the direct assignment of
6 these costs, the Public Staff believes the Composite Factor used to
7 allocate Billing Period implementation costs among North Carolina
8 retail customer classes is reasonable.¹⁹ In its initial application, DEC
9 used its 2018 Production Plant Allocation Factors when allocating
10 the implementation costs incurred during the Extended Initial Test
11 Period.²⁰ This was corrected in DEC’s Supplemental testimony and
12 exhibits filed on May 15, 2020.

13 **Q. PLEASE ADDRESS IMPLEMENTATION COSTS THAT DEC**
14 **PROPOSES TO SPREAD OVER FUTURE CPRE TRANCHES.**

15 A. DEC stated that approximately \$374,000 of the total IA costs incurred
16 during the Extended Initial Test Period, for activities such as website
17 design and the initial four months of overall program design, are for
18 initiatives that will be utilized in all three Tranches. DEC proposes to
19 split these costs equally over all three Tranches of the CPRE.

¹⁹ See witness Sykes Exhibit 3, line 22.

²⁰ See witness Sykes Exhibit 4, line 3.

1 **Q. DOES THE PUBLIC STAFF HAVE CONCERNS WITH**
2 **SPREADING THESE COSTS OVER FUTURE TRANCHES?**

3 A. No. The Public Staff agrees that it is appropriate for these costs to
4 be recovered in future CPRE rider proceedings, since those initial
5 steps will be utilized in future tranches.

6 **Q. PLEASE ADDRESS THE IA FEES BEING SOUGHT FOR**
7 **RECOVERY IN THIS PROCEEDING.**

8 A. As previously stated, DEC is seeking recovery of approximately
9 \$310,000 in IA fees, as the proposal and winners' fees collected were
10 not sufficient to cover all IA costs. This amount represents 50% of
11 the total IA fees not recovered, while the remaining 50% will be
12 recovered in Duke Energy Progress, LLC's (DEP) annual CPRE cost
13 recovery proceeding, to be filed later this year. In DEC's
14 supplemental filing, it also includes \$11,506 in T&D Sub-Team labor
15 and labor-related costs that were not recovered through fees. The
16 Public Staff notes that Commission Rule R8-71(d)(10) authorizes
17 DEC to charge reasonable proposal fees and to fund the IA and T&D
18 Sub-Team costs, and to the extent these fees were insufficient to pay
19 the total cost of retaining the IA, the winning participants would pay
20 the balance through a winners' fee.

21 **Q. HOW MUCH DID DUKE COLLECT IN FEES FROM MARKET**
22 **PARTICIPANTS?**

1 A. DEC and DEP collected approximately \$901,000 in net proposal fees
2 and \$500,000 in winners' fees.²¹ These fees were used to fund the
3 grouping studies as well as the IA fees. These fees were insufficient
4 to cover the entirety of the IA costs and T&D Sub-Team costs sought
5 for recovery in this proceeding.

6 **Q. HAS DEC PROVIDED A REASONABLE EXPLANATION FOR**
7 **WHY IA FEES EXCEEDED THE FEES RECOVERED FROM**
8 **MARKET PARTICIPANTS?**

9 A. Yes, I believe so. During Tranche 1, which opened on July 10, 2018,
10 DEC set a maximum cap on the winners' fee to be collected of
11 \$500,000, collected from all winning proposals. This maximum was
12 defined in the Tranche 1 Request for Proposals (RFP) in order to
13 provide certainty of costs to the MPs. This maximum was estimated
14 in mid-2018 based on the IA contract²² and estimated costs to set up
15 and implement Tranche 1.

16 In response to questions regarding the IA fees, DEC responded that,
17 in 2019, there were several regulatory proceedings which caused the
18 "duration, scope, and complexity of the IA's engagement"²³ to

²¹ DEC collected approximately 75% of these total fees.

²² The IA contract was filed with the Commission on May 11, 2018, in compliance with Commission Rule R8-71(d)(4).

²³ See DEC response to PS DR 2-5, attached as Thomas Exhibit 1.

1 expand significantly from what was envisioned when CPRE was
2 initially implemented. These included: participation in a May 23,
3 2019, technical conference; comments on bid refresh procedures;²⁴
4 participation in monthly stakeholder meetings hosted by Duke;²⁵ and
5 comments on the applicability of the Solar Integration Services
6 Charge to CPRE projects.²⁶ DEC notes that additional reporting
7 requirements have also been imposed on the IA since the release of
8 the Tranche 1 RFP.

9 **Q. HAS DEC TAKEN ANY EFFORTS TO ENSURE THAT FUTURE IA**
10 **FEES WILL BE RECOVERED FROM MARKET PARTICIPANTS?**

11 A. Yes. In its Tranche 2 RFP, Duke doubled the maximum winners' fee
12 from \$500,000 to \$1 million. The Public Staff believes this should be
13 sufficient to ensure that IA fees are recovered from MPs, and not
14 from retail ratepayers, in future cost recovery proceedings.

15 **Q. REGARDING THE PROJECTED COSTS DURING THE BILLING**
16 **PERIOD, PLEASE SUMMARIZE THE PUBLIC STAFF'S**
17 **INVESTIGATION.**

²⁴ Requested in the Commission's May 1, 2019 *Order Postponing Tranche 2 CPRE RFP Solicitation and Scheduling Technical Conference*.

²⁵ See Ordering Paragraph No. 3 in July 3, 2019, *Order Modifying and Accepting CPRE Program Plan* in Docket Nos. E-2, Sub 1159 and E-7, Sub 1156.

²⁶ Requested in the Commission's October 7, 2019 *Order Requesting Comments*.

1 A. The Public Staff's investigation found that DEC's estimation of Billing
2 Period costs and energy sales is generally reasonable. The
3 Company estimated the total energy production for each CPRE
4 facility based on two generic output profiles – one applicable to solar
5 only facilities, and one applicable to two solar-plus-storage facilities.
6 DEC also used actual bid prices from each project's Power Purchase
7 Agreement (PPA) (or, in the case of utility-owned projects, the as-bid
8 price) to estimate total costs. To calculate the Billing Period energy
9 sales from each customer class, the Company used the same
10 weather and customer growth adjustments proposed in its fuel
11 adjustment clause proceeding.²⁷

12 **Q. DO THE TOTAL COSTS DEC SEEKS TO RECOVER IN THIS**
13 **PROCEEDING EXCEED THE COST CAP ESTABLISHED BY N.C.**
14 **GEN. STAT. § 62-110.8(g)?**

15 A. No. Total costs sought for recovery in this proceeding are less than
16 1% of DEC's total North Carolina retail jurisdictional gross revenues
17 for 2019.

18 **Q. HOW DOES DEC SEEK TO RECOVER THE COST OF ITS SELF-**
19 **BUILD FACILITIES?**

²⁷ Docket No. E-7, Sub 1228.

1 A. DEC submitted two winning bids in Tranche 1: the 69.3 MW Maiden
2 Creek facility, and the 25 MW Gaston facility. DEC seeks market-
3 based recovery of these facilities, pursuant to N.C. Gen. Stat. § 62-
4 110.8(g). Thus, DEC will not recover the costs of these facilities in
5 base rates; rather, it will recover the costs through the CPRE rider,
6 recovering the as-bid price for only the power actually produced.

7 **Q. HAS DEC PROVIDED SUFFICIENT JUSTIFICATION THAT**
8 **MARKET-BASED RECOVERY IS IN THE PUBLIC INTEREST?**

9 A. Commission Rule R8-71(j)(2) requires that if DEC seeks market-
10 based recovery of its utility-owned facility, it must “support its
11 application with testimony specifically addressing the calculation of
12 those costs and revenues sufficient to demonstrate that recovery on
13 a market basis is in the public interest.” In this proceeding, DEC does
14 not provide this justification; in response to discovery on this matter,
15 DEC states that:

16 Since the final cost information and therefore revenue
17 requirement was not known as of the filing date, the
18 Company included these facilities’ as-bid prices,
19 representing market basis recovery, in its 2020 CPRE
20 filing. Once the final cost for the facilities is known and
21 a revenue requirement for each facility is determined,
22 the Company will compare its traditional cost-of-
23 service amount to the recovery the Company is
24 currently seeking on a market basis and will propose
25 for recovery the lesser of the two amounts in keeping
26 with the intent of N.C. Gen. Stat. § 62-110.8(g) and
27 Rule R8-71(j)(2).

1 The Public Staff believes this is a reasonable proposal and will
2 review the final cost reports of Maiden Creek and Gaston facilities
3 when they are available, to ensure that market-based recovery is in
4 the public interest.

5 **Q. REGARDING THE CPRE COMPLIANCE REPORT, DOES THE**
6 **PUBLIC STAFF BELIEVE THE REPORT SATISFIES THE**
7 **REQUIREMENTS OF COMMISSION RULE R8-71(H)?**

8 A. The Public Staff identified a number of deficiencies within the
9 Compliance Report as originally filed. The Public Staff has reviewed
10 the revised Compliance Report filed by DEC on May 15, 2020 and
11 concludes that each deficiency identified was addressed.

12 **Q. DOES THE COMPLIANCE REPORT PROVIDE ANY**
13 **INFORMATION AS TO THE STATUS OF THE 30% UTILITY-**
14 **OWNED LIMIT ENACTED BY N.C. GEN. STAT. § 62-110.8(b)(4)?**

15 A. No. The Public Staff found that approximately 44% of Tranche 1
16 capacity in DEC was won by utility-owned and affiliate-owned
17 projects; approximately 36% of total Tranche 1 capacity was
18 awarded to Duke and Duke affiliates.²⁸ Due to the increasing amount
19 of Transition MW connected to Duke's system, the Company
20 estimates that the final CPRE procurement target will range from

²⁸ In DEP, no winning projects were owned by DEP or DEP affiliates.

1 1,231 MW to 1,881 MW.²⁹ Thus, it is important that the IA, in Tranche
2 2 and 3, be vigilant that the 30% cap on utility and affiliate owned
3 projects for the entire CPRE Program is not exceeded.

4 **Q. DURING THE IMPLEMENTATION OF THE CPRE PROGRAM,**
5 **THE PUBLIC STAFF RAISED CONCERNS REGARDING**
6 **“PHANTOM UPGRADES” THAT MAY ARISE DUE TO THE WAY**
7 **THE GROUPING STUDY BASELINE WAS DEFINED. HAS THE**
8 **PUBLIC STAFF INVESTIGATED THIS MATTER?**

9 A. Yes. We requested a list of all projects that were included in the study
10 baseline but have since withdrawn. Approximately 23 projects
11 (representing 1,773 MW of capacity) that were included in the CPRE
12 Tranche 1 grouping study baseline have since withdrawn their
13 interconnection requests. The withdrawn projects consist of 1,169
14 MW of solar, 540 MW of natural gas, and 400 MW of biomass.
15 However, DEC confirmed that no winning CPRE project was
16 dependent on any upgrades that were assigned to the withdrawn
17 projects. The withdrawal of such a significant number of projects

²⁹ See CPRE Compliance Report, at 6. Transition MW is the term use to refer to projects that qualify under N.C. Gen. Stat. § 62-110.8(b)(1) as having executed PPAs and interconnection agreements within the DEC and DEP balancing Authorities that are not subject to economic dispatch or curtailment and were not procured under the Green Source Advantage program. Should the level of Transition MW exceed 3,500 MW, the aggregate CPRE target of 2,660 MW will be reduced by such excess capacity.

1 highlights the importance of defining an accurate grouping study
2 baseline.

3 C. Public Staff Recommendations

4 **Q. ARE YOU MAKING ANY RECOMMENDATIONS TO THE**
5 **COMMISSION?**

6 A. Yes. I recommend that DEC allocate CPRE implementation costs
7 between its North Carolina and South Carolina retail and wholesale
8 customers, and refile its witness Sykes exhibits reflecting this
9 change. I am not recommending any adjustments to the system-level
10 Extended Initial Test Period or Billing Period costs sought for
11 recovery.

12 **Q. WHAT RATES HAS DEC REQUESTED FOR ITS EMF AND CPRE**
13 **RIDER?**

14 A. In its Supplemental Testimony, DEC requested the following charges
15 (excluding regulatory fee):

DEC's Rider Request Filed on May 15, 2020 (cents per kWh)			
Customer Class	EMF Rate	CPRE Rider Rate	Total CPRE Rate
Residential	0.0020	0.0056	0.0076
General Service	0.0019	0.0054	0.0073
Industrial	0.0019	0.0051	0.0070

1 **Q. WHAT RATES DOES THE PUBLIC STAFF RECOMMEND FOR**
 2 **THE EMF AND CPRE RIDER?**

3 A. The below table summarizes the Public Staff's proposed rates
 4 (excluding regulatory fee). These figures are supported by Public
 5 Staff witness Mike Maness' Exhibit 1.

Public Staff's Recommended Rates (cents per kWh)			
Customer Class	EMF Rate	CPRE Rider Rate	Total CPRE Rate
Residential	0.0013	0.0054	0.0067
General Service	0.0013	0.0051	0.0064
Industrial	0.0012	0.0049	0.0061

6 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

7 A. Yes, it does.

APPENDIX A**QUALIFICATIONS AND EXPERIENCE**

JEFFREY T. THOMAS

I graduated from the University of Illinois Champaign-Urbana in 2009, earning a Bachelor of Science in General Engineering. Afterwards, I worked in various operations management roles for General Electric, United Technologies Corporation, and Danaher Corporation. My first role was a manufacturing process engineer in GE's Operations Management and Leadership program; I eventually became a production supervisor, where I was responsible for the safety and productivity of a team of employees. I left manufacturing in 2015 to attend North Carolina State University, earning a Master of Science degree in Environmental Engineering. At NC State, I performed cost-benefit analysis evaluating smart grid components, such as solid-state transformers and grid edge devices, at the Future Renewable Energy Electricity Delivery and Management Systems Engineering Research Center. My master's thesis focused on electric power system modeling, capacity expansion planning, linear programming, and the effect of various state and national energy policies on North Carolina's generation portfolio and electricity costs. After obtaining my degree, I joined the Public Staff in November 2017. In my current role, I have filed testimony in avoided cost proceedings, general rate cases, and CPCN applications, and have been involved in the implementation of HB 589 programs, utility cost recovery, renewable energy program management, customer complaints, and other aspects of utility regulation.

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. E-7, SUB 1231

In the Matter of)	
Application of Duke Energy Carolinas,	)	TESTIMONY OF
LLC, for Approval of CPRE Cost	)	MICHAEL C. MANESS
Recovery Rider Pursuant to N.C.G.S §	)	PUBLIC STAFF – NORTH
62-110.8 and Commission Rule R8-71	)	CAROLINA UTILITIES
	)	COMMISSION

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION
DOCKET NO. E-7, SUB 1231
TESTIMONY OF MICHAEL C. MANESS
ON BEHALF OF THE PUBLIC STAFF
NORTH CAROLINA UTILITIES COMMISSION

May 18, 2020

1 **Q. PLEASE STATE YOUR NAME AND ADDRESS FOR THE**
2 **RECORD.**

3 A. My name is Michael C. Maness. My business address is 430 North
4 Salisbury Street, Raleigh, North Carolina.

5 **Q. PLEASE BRIEFLY STATE YOUR QUALIFICATIONS AND DUTIES.**

6 A. My qualifications and duties are included in Appendix A to my
7 testimony.

8 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

9 A. Pursuant to N.C. Gen. Stat. § 62-110.8(g) and Commission Rule R8-
10 71(j), an electric public utility shall be authorized to recover the costs
11 of all purchases of energy, capacity, and environmental and
12 renewable attributes from third-party renewable energy facilities
13 procured pursuant to the statute, and to collect the authorized
14 revenue related to any utility-owned assets pursuant to the statute,
15 through a Competitive Procurement of Renewable Energy (CPRE)
16 annual rider. Commission Rule R8-71 also provides the following:

1 (1) that the CPRE rider will be recovered over the same period as
2 the utility's fuel and fuel-related cost rider, and (2) that the costs and
3 authorized revenue will be modified through the use of a CPRE
4 Program experience modification factor (CPRE EMF) rider. The
5 CPRE EMF rider is utilized to "true-up" the recovery of reasonable
6 and prudently incurred CPRE Program costs incurred during the test
7 period established for each annual rider proceeding. Thus, each
8 total CPRE rider has at least two components: a forward-looking, or
9 prospective CPRE rider component, and a true-up CPRE EMF
10 component.

11 The purpose of my testimony is to present the results of the Public
12 Staff's investigation of the CPRE prospective rider component
13 (CPRE prospective rider) and the CPRE EMF rider component
14 (CPRE EMF rider) proposed by Duke Energy Carolinas, LLC (DEC
15 or the Company) in this proceeding. Typically, DEC's test period in
16 this proceeding would be the 12 months ended December 31, 2019;
17 however, the Commission issued Orders on September 24, 2018, in
18 Docket No. E-7, Sub 1170, and on April 16, 2019, in Docket No.
19 E-7, Sub 1193, to approve DEC's request to defer recovery of CPRE
20 Program costs reasonably and prudently incurred, and extended the
21 test period to be used in DEC's initial application to recover CPRE
22 Program costs to a 29-month period beginning on August 1, 2017
23 and ending December 31, 2019 (the Extended Initial Test Period).

1 Since this is the initial application to recover CPRE Program costs,
 2 and there were no actual purchases of energy and capacity or
 3 revenue requirements associated with CPRE facilities, there are no
 4 revenues that have been collected during the Extended Initial Test
 5 Period.

6 The Public Staff Accounting Division's specific responsibilities in this
 7 CPRE rider proceeding are (a) to participate in the overall Public
 8 Staff investigation of the Company's filing and proposed rates; (b) to
 9 review the incurred costs and received revenues proposed for
 10 inclusion in the CPRE EMF rider; and (c) to investigate the
 11 Company's calculations of the proposed rates and present the
 12 calculations of the Public Staff's recommended rates.

13 **Q. PLEASE EXPLAIN THE INCREMENT CPRE EMF RIDERS**
 14 **INITIALLY PROPOSED BY DEC IN THIS PROCEEDING.**

15 A. In its application filed on February 26, 2020, DEC set forth the
 16 following CPRE Program implementation costs undercollected for
 17 each of the North Carolina retail customer classes during the
 18 Extended Initial Test Period:

19 Residential	\$517,889
20 General Service/Lighting	\$436,158
21 Industrial	\$172,744

1 DEC's proposed CPRE EMF increment rider in cents per kilowatt-
 2 hour (kWh), excluding the North Carolina regulatory fee, for each
 3 North Carolina retail customer class, is as follows:

4 Residential	0.0023 cents per kWh
5 General Service/Lighting	0.0018 cents per kWh
6 Industrial	0.0014 cents per kWh

7 The Company's initially proposed riders were calculated by
 8 allocating 100% of the \$1,126,791 of CPRE Program implementation
 9 costs to North Carolina retail (NC retail) operations, and then further
 10 allocating those costs to each of the NC retail customer classes
 11 utilizing the NC retail 2018 Production Plant allocation factors. Once
 12 the CPRE Program implementation costs underrecoveries were
 13 determined for each class, each of the underrecovered amounts
 14 were then divided by DEC's normalized test year North Carolina
 15 retail sales of 22,444,481 megawatt-hours (MWh) for the residential
 16 class, 23,688,549 MWh for the general service/lighting class, and
 17 12,489,508 MWh for the industrial class.

18 **Q. PLEASE DESCRIBE THE PUBLIC STAFF'S INVESTIGATION OF**
 19 **THE INCREMENT CPRE EMF RIDERS.**

20 A. The Public Staff's investigation included procedures intended to
 21 evaluate whether the Company properly determined its per books
 22 CPRE costs and revenues during the test period. These procedures

1 included a review of the Company's filing, prior Commission orders,
2 and other Company data provided to the Public Staff. The Public
3 Staff also reviewed certain specific types of expenditures impacting
4 the Company's test year CPRE Program implementation costs,
5 including Company internal labor, outside services, and independent
6 administrator fees not recovered through proposal and subsequent
7 winners' fees that have been equally split between DEC and Duke
8 Energy Progress, LLC (DEP). Performing the Public Staff's
9 investigation required the review of numerous responses to written
10 and verbal data requests, and several teleconferences with
11 Company representatives.

12 **Q. PLEASE DESCRIBE THE COMPANY'S SUPPLEMENTAL**
13 **TESTIMONY AND REVISED EXHIBITS.**

14 A. On May 15, 2020, DEC filed the Supplemental Testimony and
15 Revised Exhibits of Bryan L. Sykes, including supporting
16 workpapers. The purpose of DEC's supplemental testimony and
17 revised exhibits are to reflect the impact of four updates to numbers
18 presented in witness Sykes' direct exhibits and workpapers. They
19 are as follows: 1) to update the forecast used in determining the
20 capacity and energy purchases and generation in the case of Duke-
21 owned facilities; 2) to update the implementation costs of the T&D
22 Sub-Team labor and labor-related taxes and benefits experienced
23 during the Extended Initial Test Period; 3) to update the customer

1 allocation factor used for implementation costs in the EMF period;
 2 and, 4) to update a data entry error for wholesale sales for the test
 3 period that has no impact on the proposed rates.

4 **Q. PLEASE EXPLAIN THE REVISED CPRE EMF RIDER BEING**
 5 **PROPOSED BY DEC IN THIS PROCEEDING.**

6 A. In witness Sykes' Revised Exhibits filed on May 15, 2020, DEC's
 7 proposed revised undercollection of CPRE Program Implementation
 8 costs for each of the North Carolina retail customer classes during
 9 the Extended Initial Test Period is as follows:

10 Residential	\$444,866
11 General Service/Lighting	\$461,194
12 Industrial	\$232,237

13 DEC's revised CPRE EMF increment rider in cents per kilowatt-hour
 14 (kWh), excluding the North Carolina regulatory fee, for each North
 15 Carolina retail customer class, is as follows:

16 Residential	0.0020 cents per kWh
17 General Service/Lighting	0.0019 cents per kWh
18 Industrial	0.0019 cents per kWh

19 The revised riders were calculated by allocating 100% of the
 20 \$1,138,297 of CPRE Program implementation costs to NC retail
 21 operations and then allocating those costs to each of the North
 22 Carolina retail customer classes, utilizing a composite weighted

1 average of the purchased and generated power for capacity and
2 energy allocation factors. Once the CPRE Program implementation
3 cost underrecoveries were determined for each class, each of the
4 underrecovered amounts were divided by DEC's normalized test
5 year North Carolina retail sales of 22,444,481 MWh for the residential
6 class, 23,688,549 MWh for the general service/lighting class, and
7 12,489,508 MWh for the industrial class.

8 **Q. PLEASE EXPLAIN THE PUBLIC STAFF'S ADJUSTMENT TO THE**
9 **CPRE EMF RIDER.**

10 A. The Public Staff is not recommending any adjustments to the total
11 system CPRE Program implementation costs of \$1,138,297
12 proposed by the Company in witness Sykes' Revised Exhibits.
13 However, Public Staff witness Jeff Thomas has proposed that this
14 system amount should **not** be allocated by a factor of 100% to NC
15 retail operations. He has incorporated a detailed discussion of the
16 system benefits of the CPRE in his testimony. As a result, I have
17 incorporated the NC retail portion of the CPRE Program
18 implementation costs in the amount of \$754,459¹, set forth on
19 Maness Exhibit 1, to adjust the underrecovery amounts for each
20 North Carolina retail customer class.

¹ CPRE Program implementation costs of \$1,138,297 multiplied by an NC retail allocation factor of 66.28%. This allocation factor, the calculation of which is explained on Maness Exhibit 1, Schedule 1, is a weighted average of the North Carolina jurisdictional allocation factors for energy and capacity used in the Billing Period.

1 **Q. ARE YOU PROPOSING ANY ADJUSTMENTS TO DEC'S TEST-**
 2 **YEAR KWH SALES?**

3 A. No. I am not proposing any change to the normalized North Carolina
 4 retail sales as proposed by DEC of 22,444,481 MWh for the
 5 residential class; 23,688,549 MWh for the general service/lighting
 6 class, and 12,489,508 MWh for the industrial class, as set forth in
 7 DEC's testimony.

8 **Q. WHAT CPRE EMF RIDERS ARE YOU PROPOSING FOR DEC'S**
 9 **CUSTOMER CLASSES IN THIS PROCEEDING?**

10 A. My recommended underrecovery amounts for the Extended Initial
 11 Test Period, as set forth in Maness Exhibit 1 for each North Carolina
 12 retail customer class, are as follows (excluding the North Carolina
 13 regulatory fee):

14	Residential	\$294,856
15	General Service/Lighting	\$305,678
16	Industrial	\$153,926

17 My recommended CPRE EMF increment riders in cents per kilowatt-
 18 hour (kWh), for each North Carolina retail customer class, as follows
 19 (excluding the regulatory fee):

20	Residential	0.0013 cents per kWh
21	General Service/Lighting	0.0013 cents per kWh
22	Industrial	0.0012 cents per kWh

1 The calculations of these rates are set forth in Maness Exhibit 1. I
2 have provided these amounts to Public Staff witness Thomas for
3 incorporation into his recommended final CPRE factors.

4 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

5 **A. Yes, it does.**

APPENDIX A**QUALIFICATIONS AND EXPERIENCE**

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

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COMMISSIONER DUFFLEY: And hearing no objections regarding the proposed order dates, it's so ordered. Are there any other matters before we adjourn?

MR. JIRAK: None from the applicant.

COMMISSIONER DUFFLEY: Okay. Hearing nothing, thank you, we are adjourned.

(Hearing concluded at 1:26 p.m.)

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CERTIFICATE OF REPORTER

STATE OF NORTH CAROLINA)
COUNTY OF WAKE)

I, Joann Bunze, RPR, the officer before whom the foregoing hearing was taken, do hereby certify that the witnesses whose testimony appear in the foregoing hearing were duly sworn; that the testimony of said witnesses were taken by me to the best of my ability and thereafter reduced to typewriting under my direction; that I am neither counsel for, related to, nor employed by any of the parties to the action in which this hearing was taken, and further that I am not a relative or employee of any attorney or counsel employed by the parties thereto, nor financially or otherwise interested in the outcome of the action.

This the 17th day of June, 2020.

Joann Bunze



JOANN BUNZE, RPR

Notary Public #200707300112