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September 1, 2022

VIA ELECTRONIC FILING

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

**RE: Duke Energy Progress, LLC's Rebuttal Testimony
Docket No. E-2, Sub 1292**

Dear Ms. Dunston:

Please find enclosed Duke Energy Progress, LLC's Rebuttal Testimony of Dana M. Harrington, and James J. McClay, III, in the above-referenced proceeding.

If you have any questions, please do not hesitate to contact me. Thank you for your assistance with this matter.

Sincerely,

A handwritten signature in blue ink that reads "Ladawn S. Toon".

Ladawn S. Toon

Enclosure

cc: Parties of Record

OFFICIAL COPY

Sep 01 2022

STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH

DOCKET NO. E-2, SUB 1292

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of)	
Application of Duke Energy Progress, LLC)	REBUTTAL TESTIMONY OF
Pursuant to G.S. 62-133.2 and NCUC Rule)	DANA M. HARRINGTON FOR
R8-55 Relating to Fuel and Fuel-Related)	DUKE ENERGY PROGRESS, LLC
Charge Adjustments for Electric Utilities)	

1 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND POSITION**
2 **WITH THE COMPANY.**

3 A. My name is Dana M. Harrington, and my business address is 526 South Church
4 Street, Charlotte, North Carolina (“NC”). I am a Rates and Regulatory Strategy
5 Manager.

6 **Q. DID YOU PREVIOUSLY FILE DIRECT AND SUPPLEMENTAL**
7 **TESTIMONY IN SUPPORT OF THE COMPANY’S APPLICATION IN**
8 **THIS DOCKET?**

9 A. Yes. On June 14, 2022, I caused to be pre-filed with the Commission my direct
10 testimony. On August 12, 2022, I caused to be pre-filed with the Commission my
11 supplemental testimony.

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

13 A. The purpose of my rebuttal testimony is to respond to an inaccurate statement in
14 the testimony of Witness Ronald J. Binz filed on behalf of Southern Alliance for
15 Clean Energy as it relates to underpayments made by the customers of Duke
16 Energy Progress, LLC (“DEP” or “the Company”) and the accusation that DEP
17 customers will overpay in the future.

18 **Q. PLEASE SPECIFY THE INACCURATE STATEMENT.**

19 A. On page 12, lines 13 through 16, Witness Binz states “[d]ue to the volatility of gas
20 prices, this means that customers *underpaid* their fuel costs in the review period
21 and will now *overpay* their actual fuel costs in the Billing Period.”

22 **Q. HOW IS THIS STATEMENT UNTRUE?**

1 A. Commission rules and general statutes serve to safeguard customers from paying
2 more or less than the actual fuel costs incurred by the Company. The Company
3 does not earn a return (i.e., make a profit) on fuel costs incurred.

4 Commission Rule R8-55(d)(1) states, “Cost of fuel and fuel-related costs
5 will be preliminarily established utilizing the methods and procedures approved
6 in the utility’s last general rate case ... A cost of fuel and fuel-related cost rider
7 will then be determined based upon the difference between the cost of fuel and
8 fuel-related costs thus established and the base cost of fuel and fuel-related cost
9 component of the rates established in the utility’s most recent general rate case.”
10 Further, G.S. 62-133.2(d) states, “... The Commission shall incorporate in its cost
11 of fuel and fuel-related costs determination under this subsection the experienced
12 over-recovery or under-recovery of reasonable costs of fuel and fuel-related costs
13 prudently incurred during the test period, based upon the prudent standards set
14 pursuant to subsection (d1) of this section, in fixing an increment or decrement
15 rider.” This means that a basis for customer fuel rates is established in a general
16 rate case. This basis is substantiated by actual fuel costs previously incurred to
17 supply historical NC Retail demand for electricity. Secondly, it guides the
18 Commission to implement a fuel and fuel-related cost rider to account for any
19 difference between the fuel rate established in the general rate case and any future
20 variation in fuel and fuel-related costs, whether those costs increase or decrease.
21 The annual fuel and fuel-related cost rider updates the fuel rate established in a
22 general rate case, which was based on historical expenditures, to reflect more
23 recent fuel and fuel-related costs to be experienced by the Company. The
24 combination of the fuel rate determined in the most recent general rate case and

1 the annual fuel and fuel-related cost rider functions to keep the prospective
2 component of each annual fuel rate aligned with the current cost of fuel to serve
3 NC Retail customers.

4 **Q. DO COMMISSION RULES PROVIDE A TRUE-UP MECHANISM TO**
5 **ADJUST CUSTOMER BILLED RATES TO THOSE THAT ONLY PAY**
6 **THE FUEL AND FUEL-RELATED COSTS THAT WERE INCURRED?**

7 A. Yes. Commission Rule R8-55(d)(3) states, “The cost of fuel and fuel-related costs
8 as described above will be further modified through use of an experience
9 modification factor (EMF) rider, which may be different among customer classes.
10 The EMF rider will reflect the difference between reasonable and prudently
11 incurred cost of fuel and fuel-related costs and the fuel-related revenues that were
12 actually realized during the test period under the cost of fuel and fuel-related cost
13 components of rates then in effect.” This means that the third component of NC
14 Retail fuel ratemaking, the EMF, is a true-up mechanism to rectify any difference
15 between the fuel rates that customers were billed and the fuel rates that should
16 have been billed to match actual fuel and fuel-related costs as they were being
17 incurred had no cost estimations been necessary.

18 To make all parties (NC Retail ratepayers and the Company) whole, the
19 (1) fuel rate approved in the most recent general rate case, (2) the annual fuel and
20 fuel-related cost rider, and (3) the EMF rider, collectively ensure that NC Retail
21 customers only pay for the actual cost of fuel, no more, nor less. G.S. 62-133.2
22 and Rule R8-55 mandate an annual fuel proceeding to reconcile all components
23 of the fuel rate so that, over a period of 32 months, DEP customers do not over or
24 under pay for the cost of fuel needed to supply their electricity.

1 **Q. THE EXCERPT QUOTED FROM WITNESS BINZ’S TESTIMONY**
2 **SUGGESTS THAT REVIEW PERIOD COSTS HAVE AN IMPACT ON**
3 **BILLING PERIOD COSTS. IS THIS TRUE?**

4 A. No. Review period costs do not have an impact on billing period costs. The review
5 period (termed as the “test period” in Commission Rule R8-55(c)) in this
6 proceeding is the twelve months beginning April 1, 2021 and ending March 31,
7 2022. The billing period in this proceeding is the twelve months beginning
8 December 1, 2022 and ending November 30, 2023. There is a breach of eight
9 months between these two periods. The Company incurs fuel and fuel-related
10 costs on a monthly basis to serve the electric needs of customers and to engage in
11 intersystem sales. There is no precedent that the fuel expenses incurred to meet
12 customer demand and engage in intersystem sales of a specific twelve-month term
13 would impact the books and records of a twelve-month term eight months later.

14 **Q. IS THE COMPANY PROPOSING AN EMF RATE IN THIS**
15 **PROCEEDING, AND IF SO, WHAT TIME PERIOD DOES THE**
16 **PROPOSED EMF RATE ENCOMPASS?**

17 A. Yes, the Company is proposing an EMF rate in this proceeding. In addition to the
18 test period defined above as April 1, 2021 through March 31, 2022, Commission
19 Rule R8-55(d)(3) allows the Company to update the fuel and fuel-related cost
20 recovery balance up to thirty (30) days prior to the hearing. The Company elected
21 this option and supplemented the EMF rate proposed before the Commission in
22 this proceeding to encompass the fuel and fuel-related cost recovery balance as of
23 the 15 months ended June 30, 2022.

1 **Q. DO THE FUEL AND FUEL-RELATED COSTS THAT COMPRISE THE**
2 **PROPOSED EMF RATE ONLY REFLECT COSTS THAT HAVE**
3 **ALREADY BEEN INCURRED BY THE COMPANY IN THE**
4 **PRODUCTION OR PURCHASE OF ELECTRICITY?**

5 A. Yes. The Company is only requesting reimbursement of costs previously incurred
6 by the Company in the production or purchase of electricity in accordance with
7 Commission Rule R8-55. There are no cost projections included in the proposed
8 EMF rate.

9 **Q. WHAT TIME PERIOD DOES THE COMPANY EXPECT THE**
10 **COMMISSION-APPROVED EMF RATE WILL BE IN EFFECT?**

11 A. The Company expects that an EMF rate approved by the Commission will be in
12 effect for the billing period applicable to this proceeding, which is December 1,
13 2022 through November 30, 2023.

14 **Q. DOES THIS MEAN THAT FUTURE CUSTOMER BILLS WILL**
15 **INCLUDE A COMPONENT THAT REIMBURSES THE COMPANY**
16 **FOR HISTORICALLY INCURRED FUEL COSTS?**

17 A. Yes, if the Commission approves an EMF increment, then future customer billings
18 will reimburse the Company for historically incurred costs.

19 **Q. DOES THIS CONCLUDE YOUR PRE-FILED REBUTTAL**
20 **TESTIMONY?**

21 A. Yes, it does.

STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH

DOCKET NO. E-2, SUB 1292

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of)	
Application of Duke Energy Progress, LLC)	REBUTTAL TESTIMONY OF
Pursuant to G.S. 62-133.2 and NCUC Rule)	JAMES J. MCCLAY, III FOR
R8-55 Relating to Fuel and Fuel-Related)	DUKE ENERGY PROGRESS, LLC
Charge Adjustments for Electric Utilities)	

1 **I. INTRODUCTION AND PURPOSE**

2 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND POSITION**
3 **WITH THE COMPANY.**

4 A. My name is James J. McClay, III. My business address is 526 South Church
5 Street, Charlotte, North Carolina 28202. I am employed as Managing Director
6 Natural Gas Trading for Duke Energy Corporation (“Duke Energy”). In that
7 capacity, I manage the organization responsible for the natural gas trading,
8 optimization and scheduling functions for the regulated gas-fired generation assets
9 in the Carolinas, Duke Energy Carolinas (“DEC”) and Duke Energy Progress
10 (“DEP” or the “Company”), Duke Energy Florida, Duke Energy Indiana and
11 Duke Energy Kentucky (collectively, the “Utilities”), as well as the organization
12 responsible for power trading for Duke Energy Indiana and Duke Energy
13 Kentucky. Additionally, I oversee the execution of the Utilities’ financial hedging
14 programs, fuel oil procurement, and emissions trading.

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

16 A. The purpose of my rebuttal testimony is to briefly respond to the testimony and
17 recommendations of Mr. John R. Hinton of the Public Staff as it relates to
18 DEP’s financial natural gas hedging program.

19 **Q. HAS ANY PARTY RECOMMENDED AN ADJUSTMENT TO THE**
20 **FUEL RATES PROPOSED BY THE COMPANY?**

21 A. No.

22 **Q. PLEASE PROVIDE YOUR GENERAL RESPONSE TO THE**
23 **TESTIMONY AND RECOMMENDATIONS OF PUBLIC STAFF**
24 **WITNESS JOHN R. HINTON.**

1 A. DEP appreciates Mr. Hinton's analysis which, "indicates that DEP's hedging
2 programs are reasonable. The management of the hedging program has worked
3 to stabilize natural gas price swings."¹ As noted by Witness Hinton, for the
4 review period, the Company hedged nearly 50% of its actual natural gas
5 volumes resulting in a total savings of approximately \$122M. Additionally, the
6 Company's billing period estimates are also inclusive of the Company's
7 forward hedging positions in place at the time the estimate is calculated further
8 stabilizing customers exposure to gas price volatility in the estimated billing
9 period.

10 However, DEP disagrees with Witness Hinton's recommendation to
11 shorten its hedging program from a phased financial hedging program over a
12 rolling 60-month period to a shorter program over a rolling 36-month period.
13 DEP believes having a rolling approach that gradually increases hedging
14 percentages over time by layering in hedging transactions represents a balanced
15 fuel price risk management approach that results in greater fuel cost certainty for
16 a portion of forecasted natural gas burns. As DEP's use of natural gas continues
17 to increase and make up a larger component of overall fuel costs, DEP believes
18 hedging natural gas over a rolling 60-month time horizon is a balanced fuel price
19 risk management approach. The Company does not disagree that targeting a
20 lower hedging percentage for the period beyond 36 months is reasonable as
21 neither DEP nor any forecaster can predict with certainty where actual natural
22 gas prices and volatility will be in the future. This is consistent with DEP's
23 documented approach of targeting higher hedging percentages in the first 12 to

¹ Hinton Direct pg. 10, lines 3-5

1 36 months and lower hedging percentages in the 37 to 60-month period. The
2 actual hedge percentage positions can change as commodity price relationships
3 between coal and natural gas impact the economic dispatch order; but the hedge
4 targets provide a framework for executing a layered hedging strategy.

5 Lastly, it's important to note that the results of the Company's hedging
6 activity may or may not result in net fuel cost savings and prior results are not an
7 indication or expectation of future hedging results. Instead, the program's purpose
8 is to provide a reasonable and prudent approach to mitigate price volatility in
9 uncertain fuel markets. Following DEP's current methodology to financially
10 hedge a portion for the rolling future periods beyond the front 36 months provides
11 benefits given the number of risk factors that can impact price volatility. In his
12 testimony, Witness Hinton identifies some of these factors, "*risks of the unknown
13 future causing unforeseen substantial or frequent changes in prices and can
14 unexpectedly happen at any time (witness the current conflict between Russia and
15 Ukraine, unforeseen weather events, economic changes, and the recent global
16 energy crisis to name a few). Thus, it is difficult to accurately predict where (for
17 example) natural gas prices will be in future months or years.*"² Two important
18 additional factors that could influence future volatility include continued growth
19 in liquified natural gas ("LNG") export demand as forecasted by the U.S. Energy
20 Information Administration ("EIA") and the potential for changes in government
21 policy that may reduce future drilling and production of natural gas and oil.

22 In conclusion, DEP believes continuing to hedge periods beyond the 36-
23 month hedge horizon at lower hedging targets is reasonable and continues to be

² Ibid pg. 3, lines 4-19

1 an important part of prudently managing the risk of volatility in customers' future
2 fuel costs. As in the past DEP will continue to review its hedging program
3 annually and recommend modifications in response to changing fundamental
4 market signals to ensure that it remains appropriate based on market conditions
5 and the Company's strategy.

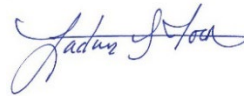
6 **Q. DOES THIS CONCLUDE YOUR PRE-FILED REBUTTAL**
7 **TESTIMONY?**

8 A. Yes, it does.

CERTIFICATE OF SERVICE

I certify that a copy of Duke Energy Progress, LLC's Rebuttal Testimony, in Docket No. E-2, Sub 1292, has been served by electronic mail, hand delivery or by depositing a copy in the United States mail, postage prepaid to the parties of record.

This the 1st day of September, 2022.



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