**BEFORE THE NORTH CAROLINA UTILITIES COMMISSION**

**DOCKET NO. E-2, SUB 1300**

| | | |
|---|---|---|
| In the Matter of: | ) | |
| | ) | |
| Application of Duke Energy Progress, LLC For Adjustment of Rates and Charges Applicable to Electric Service in North Carolina and Performance-Based Regulation | ) ) ) ) ) ) | **APPLICATION TO ADJUST RETAIL BASE RATES AND FOR PERFORMANCE-BASED REGULATION, AND REQUEST FOR AN ACCOUNTING ORDER** |

Pursuant to N.C. Gen. Stat. §§ 62-133, 62-133.16, and 62-134, and North Carolina Utilities Commission ("Commission") Rules Rl-5, Rl-17, R1-17B and R8-27, Duke Energy Progress, LLC ("DEP," the "Company," or "Applicant") submits this Application to request approval to adjust and increase its retail electric base rates and charges, and for approval of performance-based regulation ("PBR"). More specifically, DEP requests approval of a series of rate increases based on the Company's proposed three-year multiyear rate plan ("MYRP"),[1] and other mechanisms required as part of PBR, with the first rate increase effective November 5, 2022. If the Commission suspends rates in this proceeding, the Company intends to implement interim rates on a temporary basis subject to refund on June 1, 2023, and respectfully requests rates otherwise become effective no later than October 1, 2023. In accordance with N.C. Gen. Stat. § 62-133.16(d)(3), in the event the Commission does not approve PBR for DEP, the Company respectfully requests that the Commission approve an increase to base rates based on the adjusted test year pursuant to N.C. Gen. Stat. § 62-133.

In support of this PBR Application, DEP respectfully shows the Commission the following:

1. The Company's general offices are at 410 South Wilmington Street, Raleigh, North Carolina, 27602, and its mailing address is:

Duke Energy Progress, LLC
P.O. Box 1551
Raleigh, North Carolina 27602

2. The names and addresses of Applicant's attorneys are:

[1] Capitalized terms not otherwise defined herein shall be defined as provided for in N.C. Gen. Stat. § 62-133.16 or Commission Rule R1-17B.

Jack E. Jirak
Deputy General Counsel
Duke Energy Corporation
PO Box 1551/NCRH 20
Raleigh, North Carolina 27602
Telephone: (919) 546-3257
jack.jirak@duke-energy.com

and

Melissa Oellerich Butler
Admitted *Pro Hac Vice*
Troutman Pepper Hamilton Sanders, LLP
600 Peachtree Street NE, Suite 3000
Atlanta, Georgia 30308
Telephone: 404-885-3939
Melissa.Butler2@duke-energy.com

3. Copies of all pleadings, testimony, orders, and correspondence in this proceeding should be served upon the attorneys listed above.

4. DEP is (1) a limited liability company duly organized and existing under the laws of the State of North Carolina; (2) duly authorized by its Articles of Organization to engage in the business of generating, transmitting, distributing, and selling electric power and energy; (3) a public utility under the laws of the State of North Carolina, and its operations in this State are subject to the jurisdiction of this Commission; (4) an investor-owned public utility that is subject to the emissions limitations set out under N.C. Gen. Stat. § 143-215.107D; (5) a public utility under the laws of the State of South Carolina, and its operations in South Carolina are subject to the jurisdiction of the Public Service Commission of South Carolina; and (6) a public utility under the Federal Power Act, and certain of its operations are subject to the jurisdiction of the Federal Energy Regulatory Commission ("FERC"). DEP's service territory covers approximately 29,000 square miles, including a substantial portion of the coastal plain of North Carolina extending from the Piedmont to the Atlantic coast between the Pamlico River and the South Carolina border, the lower Piedmont section of North

Carolina, an area in western North Carolina in and around the city of Asheville, and an area in the northeastern portion of South Carolina. The Company supplies retail electric service to approximately 1.5 million customers in North Carolina. During the twelve-month period ended December 31, 2021, DEP's electric revenues amounted to approximately $5.7 billion, of which approximately 67% was derived from North Carolina retail jurisdictional customers.

5. The current rates now in effect, excluding riders and the fuel cost component, were approved by the Commission in its *Order Accepting Stipulations, Granting Partial Rate Increase and Requiring Customer Notice* in Docket No. E-2, Sub 1219 (the "2019 Rate Case"). The appropriate test period for purposes of this Application is the twelve-month period ended December 31, 2021. The capital cut-off period for purposes of this Application is April 30, 2023.

6. Centered on the Company's obligation to provide reliable and dependable service, as well as to respond to the evolving energy and climate priorities of North Carolina and our customers, the Company has made significant investments, and will continue to make significant investments that will, in part, allow us to deliver increasingly clean energy. Recent and future investments needed to transition to a cleaner energy future, achieve operational excellence, and enhance the customer experience have made it necessary for DEP to request an increase in its traditional base rate retail revenues of approximately $227.6 million, which represents an overall increase in its retail revenues of approximately 5.9%. The requested increase in the traditional base rate revenue requirement is partially offset by a reduction to the EDIT-4 rider of $8.5 million, which results in a proposed net revenue increase of $219 million, or approximately 5.7%. In addition, DEP is requesting approval of PBR, which includes a MYRP with base rate increases for two successive years following the initial base rate increase. The Company is also seeking an accounting order in this Application related to ongoing costs for environmental compliance; bad debt expense related to the COVID-19 pandemic;

the impact of updated depreciation rates for its coal plants; costs associated with implementing customer service programs; and storm costs.

7. As proposed, a typical residential customer using 1,000 kWh will see an increase of approximately $14.72 per month beginning with the effective date of Rate Year 1 in this case, requested to be October 1, 2023, if the Commission suspends rates in this proceeding. This amount will increase by approximately $5.62 per month in Rate Year 2, and $5.21 in Rate Year 3. In the event the Commission does not approve PBR in this case, a typical residential customer using 1,000 kWh will see an increase of approximately $9.89 per month under the proposed traditional component of the rate case.

8. DEP's request is driven by capital-intensive investments necessary to achieve a balanced transition to a cleaner energy future, continued operational excellence, and an enhanced customer experience. Since the 2019 Rate Case, the Company has continued working towards achieving a lower carbon future by reducing its reliance on coal-fired generation and expanding its resource portfolio to include more renewable resources such as solar. The traditional base rate case being proposed will adjust rates to reflect historic investments that are serving customers today, and the proposed MYRP will bring discrete and identifiable future investments into rates as they are brought into service to reliably serve our customers. The proposed MYRP is substantially comprised of distribution and transmission projects aimed at modernizing the grid, but also includes a balanced portfolio of storage, solar and other generation projects necessary to operate the system reliably and continue the clean energy transition. DEP has also updated the depreciation lives for its coal plants. The Company's investments also include costs associated with ash basin closure to adhere to environmental laws, rules and regulations, implementation of DEP's new billing and Customer Information System ("CIS") known as "Customer Connect," maintenance and enhancement of the

Company's nuclear fleet, DEP's COVID-19 response, and other costs incurred by DEP in providing reliable service to its North Carolina customers. The Company's traditional base revenue requirement includes approximately $276.3 million for capital additions incurred since its last rate case and projected to be placed in-service through April 30, 2023. Some of the major additions are described below.

9. A portion of the requested increase is driven by supply-side investments that will contribute towards a clean energy future. For example, since its last rate case, DEP has or will have by April 30, 2023 invested approximately $625 million in its existing nuclear plants to enhance safety, reliability, and efficiency, preserve performance and reliability of the plants throughout their extended life operations, and address regulatory requirements. The Company's existing nuclear fleet is a critical component of DEP's strategy for maintaining safe, reliable, and affordable electric service for its customers. These units have contributed to the Company's ability to provide such service for decades and are projected to be needed for decades more, which is why the Company is actively seeking to extend the life of these plants for up to an additional 20 years. In addition, due to its zero carbon emissions, the nuclear fleet is crucial to achieving a successful energy transition. Witness Tom Ray provides more details on the capital investments in the nuclear fleet in his pre-filed direct testimony. DEP also will have invested approximately $511 million in its traditional and renewable generation fleets, and in storage assets by the capital cutoff date. These investments include major capital maintenance to maintain the reliability and efficiency of the Company's gas powered fleet, which is a critical component of the Company's strategy to transitioning to a clean energy future. In addition, the Company has continued to invest in capital maintenance of its remaining coal units, in order to ensure the continued reliable operation of the coal fleet to support the energy needs of DEP customers during the Company's strategic management of the transition away from coal. The Company also

invested in capital additions and maintenance of its hydroelectric assets and added three battery installations as part of the continued diversification of its generation fleet. Witness Julie Turner provides more details regarding these investments in her pre-filed direct testimony.

10. This rate increase is further necessary to enable DEP to maintain its current financial position in light of these significant capital expenditures undertaken to meet its customers' needs. The Company has continued to make progress in achieving its goal of retiring and closing coal units and basins, adding carbon free technologies such as solar and storage, and upgrading the transmission and distribution system to be more reliable, resilient, and supportive of renewable technologies. These investments are not currently reflected in DEP's rates. As such, the Company's current rates are not providing sufficient revenues for the Company to meet its day-to-day operating expenses and provide its investors with reasonable returns on their up-front capital for DEP investments. This proposed rate adjustment is therefore being requested to support investments that benefit North Carolina and the Company's customers, while simultaneously preserving DEP's financial position and keeping service affordable.

11. In the 2019 Rate Case, DEP was authorized to defer certain ongoing Grid Improvement Plan ("GIP") costs in a regulatory asset account. These GIP investments supported grid conversion and modernization for enhancing reliability of service, facilitating the addition of distributed energy resources to DEP's system, and promoting a more dynamic and modern grid capable of reacting to the evolving needs of its customers (among other purposes). Since the time of the Commission's order in the 2019 Rate Case through the end of the deferral period on December 31, 2022, DEP will have invested approximately $213 million in distribution GIP capital and approximately $23.7 million in transmission GIP capital on a North Carolina retail basis. In this case, DEP proposes to roll these investments into rate base and also proposes to amortize and recover the

balance in its regulatory asset account as is discussed later in this Application.

12. DEP is seeking approval to adopt the depreciation study conducted by Gannett Fleming Valuation and Rate Consultants, LLC (the "2021 Depreciation Study"). Because of the study's determination of annual depreciation accrual rates and amounts for book and ratemaking purposes, the Company is seeking an approximate annual increase in depreciation expense of $143.0 million on a system basis or $67.9 million, which is net of a deferral of $31.8 million on a North Carolina retail basis when applied to end of 2021 plant balances. As explained by Witness John Spanos, the depreciation study includes additional updated retirement dates for coal units at Mayo 1 and Roxboro 3 and 4 to reflect the industry's shift towards retiring coal units earlier in light of changing economic conditions and environmental regulations. As explained in the Request for an Accounting Order below, because the updated dates reflected in the 2021 Depreciation Study would reduce the net book value of the plants at retirement, the Company is requesting regulatory asset treatment of a portion of these costs to allow customers to benefit from the savings that could potentially be provided through securitization.

13. The Company requests to amortize existing regulatory assets and liabilities over time related to unrecovered Roxboro Wastewater Treatment plant costs; environmental asset retirement obligation ("ARO") costs; deferred GIP costs; gains related to the Harris Nuclear Plant land sales; COVID-19-related costs; Customer Connect costs; and rate case expenses. Witness LaWanda Jiggetts provides more details on these regulatory assets and liabilities in her pre-filed direct testimony and exhibits.

14. The Company also seeks recovery of actual compliance costs incurred from March 1, 2020 through March 31, 2022 and projected costs from April 1, 2022 through April 30, 2023 associated with the closure of its Coal Combustion Residuals ("CCR") basins and other CCR units at

its presently operating or now-retired coal-fired generating sites. These costs are discussed in detail by Witness Tim Hill, who also indicates that DEP's closure activities have been implemented in accordance with closure plans and (as applicable) corrective action plans as approved by the relevant state environmental agencies – in North Carolina, the Department of Environmental Quality; and in South Carolina, the Department of Health and Environmental Control. In this case, pursuant to the CCR Settlement Agreement approved by the Commission in the Company's 2019 Rate Case, the Company has reduced its request for recovery of otherwise recoverable coal ash costs by $162 million, included an offset for insurance proceeds received, and applied the weighted average cost of capital as specified in the CCR Settlement Agreement.

15. The 2019 Rate Case established a decrement rider to return excess deferred income taxes ("EDIT") to customers. The proposed rate increase in this case is partially offset by revisions to the existing EDIT rider to return additional amounts to customers. Specifically, the Company is proposing to revise the EDIT-4 rider to return an additional $16.2 million for Unprotected Federal EDIT and $4.5 million for Deferred Revenues to customers over the remaining 2.7 years of the total five years to return the Unprotected Federal EDIT approved in the prior rate case. The two-year period for Deferred Revenues under EDIT-3 will expire in June of 2023; therefore, the Company is proposing to flow the additional amounts back to customers over the remaining life of the EDIT-4 rider in lieu of creating a new decrement rider.

16. The Company must be financially sound to make the investments in its system discussed in this Application to continue providing the high-quality service that customers expect, improve customers' experience and offer increased convenience and information regarding customer energy usage, and achieve its goal of providing increasingly cleaner, affordable electric service to its North Carolina customers well into the future. Likewise, to support achievement of these goals and

continued support of North Carolina's economy, DEP must be able to attract and retain a qualified and diverse workforce. Therefore, it is imperative that the Company be attractive to the financial community to access the capital it needs on reasonable terms for the benefit of customers, as explained in detail in the Company's pre-filed direct testimony.

17. The opportunity for the Company's investors to earn a fair and reasonable return on equity ("ROE") will help ensure continued access to capital markets on reasonable terms. In his pre-filed direct testimony in this case, the Company's cost of capital expert Witness Dr. Roger Morin recommends that DEP be authorized to provide investors an ROE of 10.2%, on a proposed capital structure containing 53% equity and 47% debt. This recommendation is derived from multiple cost of capital studies performed by Dr. Morin, resulting in a range of ROEs from 9.3% to 11.1%, and his recommendation of 10.2% is at the midpoint of this range. Dr. Morin's recommendation reflects macroeconomic trends and capital market conditions that have greatly impacted the cost of capital since the Company's last rate case, including markedly higher interest rates and inflation, as well as what he terms a "Perfect Storm" impacting investor risk perception of electric utilities – declining sales per customer and rising costs, all at a time when large capital investment is needed to address aging infrastructure and other issues.

18. DEP also proposes modification of certain rate schedules to reflect its cost of service more accurately. Specifically, the Company is proposing a series of rate design changes to protect customers from cross-subsidization, send price signals that encourage system benefits, and generally modernize the Company's pricing structure. The Company is also proposing a number of innovative rate designs and pricing options to allow customers to better manage their electric usage, and as a result, their bills. For example, the Company is proposing to refresh its time-of-use periods for both residential and non-residential customers to better reflect cost causation and the growing impact of

solar generation; provide better price signals for electric vehicle charging; and make it easier for customers to modify energy consumption patterns and create bill savings. In addition, the Company seeks to modernize and improve several of its non-residential tariffs by, among other things, making important changes to the demand charge structure, as well as offering a new hourly pricing option.

19. To better serve our small and medium business customers, the Company proposes a fee-free payment option for small and medium nonresidential customers who make payments using a debit, credit, prepaid, or electronic check to pay their electric bills. Customer feedback has indicated that these customers want to leverage our digital payment channels. A fee-free card payment option gives them that flexibility.

20. DEP is committed to helping customers who struggle to pay for basic needs with programs and options to assist them during times of financial hardship. The Company recognizes the additional strain and challenge brought on by the COVID-19 pandemic and the recent economic environment, including high commodity prices. Witness Lesley Quick discusses our response to assist customers with the impact of the pandemic. The Company also continues to be focused on supporting customers with affordability challenges in a number of ways. Since the Company's most recent general rate case, it has led, along with the Public Staff – North Carolina Utilities Commission, the Low-Income Affordability Collaborative ("LIAC"). Numerous interested stakeholders, including various state agencies and low-income customer advocates, participated in the LIAC virtual meetings over the course of 2021. Witness Quick's testimony describes the LIAC's work in more detail. Additionally, as part of the focus on affordability challenges, the Company is proposing several new low to moderate income assistance programs to help our customers most in need, including the Customer Assistance Program ("CAP") and a Tariffed On-Bill Program. The CAP is a low-income bill assistance proposal that provides eligible customers with a flat monthly bill credit. Where eligible,

CAP customers may be referred to income-qualified weatherization and energy efficiency services designed to lower a customer's electricity usage resulting in lower average bills over time. Pursuant to House Bill 951 (S.L. 2021-165) ("HB 951"), the Company recently filed a Tariffed On-Bill Program for approval that will allow customers to finance certain energy efficiency investments and energy upgrades on their electric bill. These proposals are as described further in the pre-filed direct testimony of Witness Bradley Harris and Witness Quick. These new programs will be in addition to existing assistance programs such as the Share The Light Fund, and our portfolio of demand-side management and energy efficiency programs. For example, the Neighborhood Energy Saver Program has helped many of our customers reduce energy costs and manage fluctuations in their monthly bill. These new and existing programs provide customers with tools to offset the rate increase proposed here.

21. While there is never a good time for a rate increase, DEP's requested rate increase is necessary and justified. The Company strives every day to contain costs and continually apply downward pressure to operation and maintenance ("O&M") expenses, which in this case is lower than the level of O&M expense in the prior rate case, so that rate increase requests are no more frequent than they need to be. The requested rate increases reflect investments the Company has made—and is continuing to make—to transition its generation and power delivery systems to more efficient, reliable, and cleaner technologies consistent with our customers' evolving needs.

**REQUEST FOR PERFORMANCE-BASED REGULATION**

22. On October 13, 2021, Governor Roy Cooper signed into law HB 951, which, inter alia, enacted N.C. Gen. Stat. § 62-133.16, titled "Performance-based regulation authorized." PBR is defined by HB 951 as "an alternative rate-making approach that includes decoupling, one or more performance incentive mechanisms, and a multiyear rate plan, including an earnings sharing

mechanism ("ESM"), or such other alternative regulatory mechanisms as may be proposed by an electric public utility."[2]

23. HB 951 establishes a framework administered by the Commission to achieve state carbon dioxide ("$CO_2$") emission reductions using least cost planning to ensure continued reliability and affordable rates for customers and authorizes the use of PBR in North Carolina. HB 951 recognizes that achievement of the targeted $CO_2$ reductions requires the modernization of the ratemaking construct in North Carolina through PBR. Traditional ratemaking is no longer adequate as utilities generally shift from larger and more infrequent investments (*e.g.*, building large-scale power plants) to smaller, more frequent investments (*e.g.*, grid improvement and distributed energy resource investments).

24. As discussed above, the Company is proposing a three-year MYRP. The plan period for purposes of this Application is the three-year (36-month) MYRP period beginning on October 1, 2023 and ending September 30, 2026 (the "Plan Period"). Rate Year 1 will begin October 1, 2023 and conclude September 30, 2024; Rate Year 2 will begin October 1, 2024 and conclude September 30, 2025; and Rate Year 3 will begin October 1, 2025 and conclude September 30, 2026. Each Rate Year will conclude synchronously with a quarter end, each September of the Plan Period.

25. DEP is proposing a MYRP to improve regulatory efficiency, provide timely rate recognition, and better align utility revenues and performance with customer and policy goals. The traditional revenue requirement is the foundation of the total base revenue requirement for each of the MYRP Rate Years. Each Rate Year revenue requirement during the MYRP results in an incremental base rate "step-up" from the traditional revenue requirement. The step-ups are cumulative. The

[2] N.C. Gen. Stat. § 62-133.16(a)(7).

MYRP increases the revenue requirement an additional $106.6 million, $150.8 million, and $138.3 million in Rate Year 1, Rate Year 2, and Rate Year 3, respectively. As described in the pre-filed direct testimony and exhibits of Witness Kathryn Taylor, each Rate Year will consist of a revenue requirement based on the adjusted historical test year (2021) and base rate "step-ups" for each Rate Year based on the projected revenue requirements associated with approved capital spending projects for each Rate Year of the MYRP.

26. The Company's PBR proposal includes discrete and identifiable capital spending projects that are projected to go in service during the course of the Plan Period. These capital spending projects consist of transmission and distribution infrastructure, solar and battery storage, and fossil, hydro, and nuclear investments.

27. Witness Justin LaRoche's pre-filed direct testimony and exhibits address the need, rationale, and cost estimates for two solar development projects that DEP has identified and included in the MYRP: the 2026 Solar Investment Project and the Asheville Solar Project. These projects support DEP's solar commitments and assist the Company in reliably serving its projected customer load.

28. The pre-filed direct testimony and exhibits of Witnesses Laurel Meeks and Evan Shearer details the discrete and identifiable battery energy storage projects included in the MYRP that advance DEP's renewable development and are a necessary part of the Company's resource portfolio as it transitions to a cleaner energy future.

29. In his pre-filed direct testimony and exhibits Witness Brent Guyton supports the inclusion of a set of defined distribution projects in the Company's MYRP necessary to maintain DEP's grid, integrate new grid technologies, interconnect distributed energy resources, and increase grid reliability and resiliency. The distribution projects included in the Company's MYRP are as

follows: Self-Optimizing Grid; Voltage Regulation & Management; Distribution Automation; Capacity; Hardening and Resiliency: Laterals; Hardening and Resiliency: Storm; Hardening and Resiliency: Public Interference; Equipment Retrofit; Long Duration Interruptions; Targeted Underground; Distribution Integrity; and Hazard Tree Removal. The distribution projects included in the Company's MYRP proposal are those discussed in the MYRP Technical Conference conducted by the Commission on July 25, 2022.

30. In his pre-filed direct testimony and exhibits, Witness Guyton also provides support for certain non-distribution MYRP projects. These projects include DEP's allocated share of the cost for the Advanced Distribution Management System project and three enterprise communication projects: the Land Mobile Radio Replacement; the Towers, Shelters and Power Supplies; and the Mission Critical Transport. There are also 18 Facilities projects that include new and/or upgrades to distribution and transmission operations centers. Additionally, the MYRP includes the Electrification Charging Infrastructure project which will provide necessary charging stations for DEP facilities and DEP electric vehicles.

31. In his pre-filed direct testimony and exhibits Witness Daniel Maley discusses the transmission investments and work the Company intends to perform in order to address the evolving challenges of operating a safe and reliable modern grid capable of supporting a conversion to new sources of energy and equitable access to those sources. The transmission portion of DEP's MYRP includes grid investments in the following categories: System Intelligence; Hardening and Resiliency; Transformer and Breaker Upgrades; and Capacity & Customer Planning. The transmission projects included in the Company's MYRP proposal are those discussed in the MYRP Technical Conference conducted by the Commission on July 25, 2022.

32. As discussed in the pre-filed direct testimony and exhibits of Witness Tom Ray, the

nuclear projects included in the MYRP will enable DEP to maintain safe and reliable operation of the nuclear fleet, and address aging systems and equipment. Two fleet-wide projects will upgrade the system used to track and analyze station system and equipment performance and install a new firewall to allow DEP to maintain cyber security for its digital assets. The projects also include investments specific to each of the nuclear stations, including for example replacing feedwater heaters at Brunswick Nuclear Plant, replacing Robinson Station's combined emergency response facility information system, and replacing the start-up transformer at Harris Station.

33. In her pre-filed direct testimony and exhibits, Witness Julie Turner presents the MYRP projects for the traditional and hydro generation fleets. These projects are being undertaken to comply with regulatory requirements as well as to maintain DEP's traditional and hydro generation units in good, efficient and reliable working order. The projects include upgrades of the controls systems at the Smith and HF Lee combined cycle stations, replacement of turbine blades at Mayo Unit 1 and Roxboro Unit 4 and installation of fish passage structures at Blewett Falls hydro station.

34. In accordance with HB 951, the Company's Application includes three riders: (1) a decoupling mechanism for residential customers, (2) an ESM, and (3) Performance Incentive Mechanisms ("PIMs"). In her pre-filed direct testimony and exhibits, Witness Taylor describes the methodology for calculating each of these mechanisms and explains that the rider associated with each mechanism is set at $0 for Rate Year 1 and will be updated thereafter as part of the annual review process prescribed by Commission Rule R1-17B. Witness Teresa Reed provides the rate schedules for these riders.

35. The Company is proposing a residential revenue per customer decoupling mechanism. The mechanism is intended to break the link between the Company's profits and usage per customer in the residential class. The annual Decoupling Rider will reflect the difference between actual

revenue and the target revenue for the residential class.

36. The MYRP will also include an ESM that shares earnings with customers if the Company's adjusted earnings exceed a certain level. If the Company's adjusted earnings exceed the authorized ROE determined in this proceeding plus 50 basis points, the excess earnings above the ROE plus 50 basis points will be distributed to customers in the annual ESM Rider.

37. The Company recognizes that the scale and complexity of a clean energy transition imposes special obligations on the Company to deliver the sought-after benefits to customers in a least-cost manner, with flexibility to accommodate customer preferences and without adversely impacting the reliability they depend on. As discussed by Witnesses Laura Bateman and Phil Stillman, DEP is proposing a set of PIMs (Peak Load Reduction, Low-Income/Affordability, Reliability, and Renewables Integration and Encouragement) and three proposed tracking metrics (customer service, $CO_2$ emissions, and beneficial electrification from electric vehicles) designed to align utility incentives with customer needs and state energy policy objectives of decarbonization, reliability and affordability. The annual PIMs Rider is designed to distribute or collect penalties and rewards based on DEP's performance with respect to Commission-approved PIMs during each of the Rate Years.

**REQUEST FOR AN ACCOUNTING ORDER**

38. As part of this Application, the Company requests an accounting order for approval to: (i) continue the regulatory asset treatment for coal ash closure compliance costs after the April 30, 2023 capital cut-off date for this rate case; (ii) continue the deferral of bad debt expenses related to the impact of the COVID-19 pandemic; (iii) defer 50% of the impact of updated depreciation for coal plants based on the 2021 Depreciation Study for North Carolina retail; (iv) defer the costs with implementing certain customer service programs; (v) request a new methodology for tracking storm

costs incurred; and (vi) defer the incremental storm costs associated with Winter Storm Izzy.

39. DEP requests Commission authorization to continue to defer its environmental compliance costs beyond the April 30, 2023, cut-off period, for cost recovery consideration in a future traditional base rate case in accordance with the CCR Settlement.

40. As a result of the COVID-19 pandemic and resulting economic conditions, the Company is continuing to experience an increase in bad debt expense. The Company requests to continue to defer the incremental bad debt expense in excess of the amount included in customer rates for cost recovery consideration in a future case.

41. The 2021 Depreciation Study for which the Company is seeking approval in this filing reflects updated retirement dates for Mayo Unit 1 and Roxboro Units 3 and 4 compared to the dates currently reflected in customer rates. HB 951 allows the Company to securitize 50% of the remaining net book value of these subcritical coal-fired generating facilities upon retirement. Because the updated dates reflected in the 2021 Depreciation Study would reduce the net book value of the plants at retirement, the Company is proposing an approach to allow customers to benefit from the savings that could potentially be provided through securitization. Specifically, DEP is requesting permission to establish a regulatory asset for coal plant costs to be securitized and to defer to that regulatory asset 50% of the incremental depreciation expense for North Carolina retail customers resulting from the updated retirement dates for these subcritical coal-fired generating units in the 2021 Depreciation Study. Upon retirement of the facilities, the Company would add to this regulatory asset 50% of the remaining net book value. This approach preserves for securitization the level of net book value that would have resulted had the expected retirement dates not been updated in the 2021 Depreciation Study. The Company also requests permission to defer to this regulatory asset any costs related to

obsolete inventory, net of salvage, at the time of retirement.

42. The Company is proposing several new programs in this rate case to benefit customers. For each program, the Company will incur certain implementation and administration costs that were not included in the Test Period and are not known and measurable at this point. If the Commission approves each program, the Company requests permission to establish a regulatory asset and defer to the account the incremental implementation and administrative O&M costs related to the programs. These programs include the CAP, Tariffed-On-Bill program, and the Payment Navigator program discussed in the pre-filed direct testimony and exhibits of Witnesses Harris and Quick. The Company also requests to defer to this regulatory asset the implementation costs for the Company's proposed PIMs, including, without limitations, certain costs relating to marketing, administration, and the PIMs Dashboard, as outlined in the pre-filed direct testimony and exhibits of Witnesses Laura Bateman and Phil Stillman.

43. In Docket No. E-2, Sub 1142, the Commission granted DEP recovery of its deferred incremental storm costs associated with Hurricane Matthew. The regulatory asset for the approved storm cost was fully amortized as of September 2021. Per the Commission's order in that case, the Company has continued to record the amortization and has a regulatory liability on its books. In 2022, the Company experienced extraordinary storm costs in response to Winter Storm Izzy and is requesting deferral of these incremental costs in this docket, as discussed below. If approved by the Commission, the Company requests to apply the excess amortization from Hurricane Matthew to the deferred costs for Winter Storm Izzy. This Application will leave a regulatory liability amount of $4 million. The Company requests to use this account to create a "balancing account" for storm costs going forward. This proposal establishes an average amount of incremental storm costs included in customer rates. Under the Company's proposal, each year, if the incremental storm expenses are over

the average amount in rates, the difference would be deferred to the account; if the incremental storm expenses are under the average amount in rates, the difference would be contributed to the account. If the average amount included in customer rates approximates the average amount of storm expense going forward, the balancing account balance should fluctuate around zero and not require additional funding. If the account does require additional funding, this could be evaluated in a future rate case or securitization proceeding. This proposed accounting mechanism would allow the Company to recover its actual costs for storm restoration efforts and ensure that the Company does not make or lose money related to its storm restoration efforts. The balancing account, whether in an asset or liability position, would be included in rate base.

44. In 2022, the Company experienced extraordinary storm costs in response to Winter Storm Izzy. DEP respectfully requests that the Commission issue an accounting order authorizing the Company to defer in a regulatory asset account the incremental O&M expenses incurred in connection with Winter Storm Izzy.

## REQUESTED RATES

45. Copies of the current schedules for which a change is requested are attached as **Exhibit A**. The proposed schedules of rates and charges, attached to this Application as **Exhibits B, B_1, B_2 and B_3**, are filed in accordance with the provisions of N.C. Gen. Stat. § 62-134 and Commission Rules R1-17 and R1-17B. **Exhibit B** has an effective date of November 5, 2022, in accordance with N.C. Gen. Stat. § 62-134(a). The Company's tariffs include all annual riders; therefore, the current and proposed rates include the fuel and fuel-related costs factors filed in Docket No. E-2, Sub 1272 as well as all other adjustment riders approved by the Commission.

46. The rates set forth in the Exhibits include a base fuel and fuel-related rate of Residential - 2.126 cents per kWh; Small General Service - 2.111 cents per kWh; Medium General

Service 2.169 cents per kWh; Large General Service - 1.019 cents per kWh; and Lighting - 1.682 cents per kWh, excluding the Experience Modification Factors as approved in Docket No. E-2, Sub 1272. The rates set forth in **Exhibits B, B_1, B_2 and B_3** (for Rate Years 0, 1, 2, and 3, respectively) are designed to increase annual revenues from North Carolina retail operations by approximately $615 million over the three-year Plan Period, which represents an approximate 16.0% increase in annual revenues on a cumulative basis and includes the impact of the refund of certain tax benefits. The proposed revenue increase, before the impact of the refund of certain tax benefits, is distributed among classes of customers by increasing the rate schedules by 18.9% for the residential class, 15.6% for the small general service class, 12.1% for the medium general service class, 10.1% for the large general service class, and 30.8% for the lighting class. Including the impact of the additional rider adjustment benefits, the percent increases are 18.7% for the residential class, 15.4% for the small general service class, 12.0% for the medium general service class, 10.0% for the large general service class, and 30.4% for the lighting class. The different percentage increases for customer classes reflect the allocation of the rate increase necessary to "gradually" move each customer class's current contribution to the overall retail rate of return. The Company also proposes modification of certain rate schedules to more accurately reflect the cost of service.

47. The rates set forth in **Exhibit A** are unjust and unreasonable because they do not allow the Company the opportunity to earn a fair rate of return. During the twelve-month period ending December 31, 2021, as adjusted for known changes, the rate of return on North Carolina retail rate base, as shown on **Exhibit C**, is only 5.72%, and the Company's return on equity is 7.51%.

48. N.C. Gen. Stat. § 62-133(c) requires that the Commission consider actual changes in costs, revenues or the value of a public utility's property "based upon circumstances and events occurring up to the time the hearing is closed." The Company has included in this Application

adjustments based upon its estimates of certain changes in costs that are anticipated to occur up to the time the hearing is closed. The Company intends to offer evidence to support these changes up to the time of the hearing. As required by Commission Rule R1-17(b), the Company's estimates of the items it intends to update are identified by asterisks on pages 4-11 of **Exhibit C**.

49. As required by Commission Rule Rl-17(b)(9)f, **Appendix 1** of this Application contains a summary of the proposed increases and changes affecting customers.

50. Included as **Appendix 2** to this Application is an index detailing how DEP's filing complies with the requirements of Commission Rule R1-17B(d) and where the information required by the Rule can be found within the Company's Application and pre-filed Direct Testimony and Exhibits.

51. The exhibits attached to this Application are as follows:

- **Exhibit A**. The schedule of the Company's electric rates and charges in effect and on file with the Commission at the time of filing this Application which the Company seeks to increase, as required by Commission Rule Rl-17(b)(l).

- **Exhibit B**. The schedules of electric rates and charges the Company proposes to put into effect on November 5, 2022, as required by Commission Rule R1-17(b)(2), in the event that the Commission does not approve the Company's request for performance-based regulation.

- **Exhibit B_1**. The schedules of electric rates and charges the Company proposes to put into effect for MYRP Rate Year 1 on October 1, 2023, as required by Commission Rule R1-17(b)(2).

- **Exhibit B_2**. The schedules of electric rates and charges the Company proposes to put into effect for MYRP Rate Year 2 on October 1, 2024, as required by Commission Rule R1-17(b)(2).

- **Exhibit B_3**. The schedules of electric rates and charges the Company proposes to put into effect for MYRP Rate Year 3 on October 1, 2025, as required by Commission Rule R1-17(b)(2).

- **Exhibit C**. The financial data for the 12-month period ended December 31, 2021, filed in compliance with Commission Rule Rl-17(b)(3)-(10) including data for MYRP Rate Year 1, Rate Year 2, and Rate Year 3.

- **Exhibit D**. A statement of the probable effect of the proposed rates on peak demand, as required by N.C. Gen. Stat.§ 62-155(e).

- **Exhibit E.** The Company's forecast of the weather-normalized revenues and costs for each Rate Year of the MYRP, filed in compliance with Commission Rule R1-17B(d)(2)b.

- **Exhibit F.** The Company's forecast, for each year of the MYRP, of the kW load (coincident peak demand, non-coincident peak demand), electric vehicle kWh sales, and the number of expected customers, with weather normalization, filed in compliance with Commission Rule R1-17B(d)(2)d.

- **Exhibit G.** The Company's forecasting methodology used for each of its forecasts, including its forecasts for all costs, energy sales, peak demand and number of expected customers for each year of the MYRP, filed in compliance with Commission Rule R1-17B(d)(2)e.

- **Exhibit H**. The Company's reconciliation of the capital expenditures and expenses associated with the capital spending projects set forth in response to Commission Rule R1-17B(d)(2)j., with the increases in annual expenses and capital investments set forth in subsections b. and c. of Commission Rule R1-17B(d), filed in compliance with Commission Rule R1-17B(d)(2)l.

- **Exhibit I.** The Company's weather normalization methodology, along with all underlying assumptions and calculations, filed in compliance with Commission Rule R1-17B(d)(2)m.(ii).

DEP Commission Form E-1 is filed with this Application in compliance with Commission Rule R1-17(b)(12)(a) and is incorporated herein by reference.

WHEREFORE, DEP respectfully requests the Commission approve the Company's request for performance-based regulation and the electric rates and charges filed as **Exhibit B_1**, effective October 1, 2023, the rates and charges filed as **Exhibit B_2**, effective October 1, 2024, and the rates and charges filed as **Exhibit B_3**, effective October 1, 2025, as indicated in the tariffs filed in this case. In the event the Commission does not approve the Company's request for performance-based regulation, the Company requests that the Commission approve the rates and charges filed as **Exhibit B**, effective November 5, 2022, and if the Commission suspends rates in this proceeding, the Company respectfully requests the rates in **Exhibit B** be effective no later than October 1, 2023.

Respectfully submitted this 6th day of October, 2022.

Jack E. Jirak
Deputy General Counsel
Duke Energy Corporation
PO Box 1551/NCRH 20
Raleigh, North Carolina 27602
Telephone: (919) 546-3257
jack.jirak@duke-energy.com

Melissa Oellerich Butler
Admitted *Pro Hac Vice*
Troutman Pepper Hamilton Sanders, LLP
600 Peachtree Street NE, Suite 3000
Atlanta, Georgia 30308
Telephone: 404-885-3939
Melissa.Butler2@duke-energy.com

**ATTORNEYS FOR DUKE ENERGY PROGRESS, LLC**

## APPENDIX 1

For the traditional general rate case (Rate Year 0), the base rates proposed by DEP are designed to produce a 5.9% increase in total electric operating revenues, or approximately $227.6 million, applicable to North Carolina retail operations as applied to the test year ended December 31, 2021. This requested increase is partially offset by a net rate reduction of $8.5 million to refund certain tax benefits resulting from the 2017 Federal Tax Cuts and Job Act (the "Tax Act") and the reduction in North Carolina's state-corporate tax rate, which results in a proposed net revenue increase of $219 million, or approximately 5.7%.

The Company's filing also includes a request for approval of performance-based regulation pursuant to N.C. Gen. Stat. § 62-133.16 and Commission Rule R1-17B, including proposed changes in customer rates authorized by that statute and rule. Specifically, the Application includes (1) a residential decoupling ratemaking mechanism that would distribute to or collect from the residential class of customers amounts based on differences between actual and target revenues per residential customer established in this case; (2) a MYRP, which increases base rates each year to reflect costs and savings associated with discrete and identifiable capital investments projected to be used and useful during the course of the three-year Plan Period; (3) an ESM that would require sharing of earnings over a certain threshold each year of the Plan Period; and (4) four PIMs that would penalize or reward the Company based on its achievement of, or failure to achieve, Commission-approved policy goals.

In this Application, the Company has identified present total base rate service revenues (plus the forward-looking component of the annual fuel and fuel-related costs rider) under current rates for the 2021 test period of $3.471 billion. When combined with riders, total present revenues under current rates are $3.849 billion. The Company requests that the Commission allow it to recover total additional base rate service revenues of $334.3 million in Rate Year One (including the traditional general rate case increase above of $227.6 million and $106.6 million for MYRP projects in Year 1), effective October 1, 2023 through September 30, 2024; base service revenues of $485.1 million (incremental change of $150.8 million) in Rate Year Two, effective October 1, 2024 through September 30, 2025; and base service revenues of $623.5 million (incremental change of $138.3 million) in Rate Year Three, effective October 1, 2025 through such time as new rates are approved by the Commission. These requested increases are partially offset by a net rate reduction of $8.5 million each year in the EDIT-4 rider to refund certain tax benefits resulting from the Tax Act and the reduction in North Carolina's state-corporate tax rate, which results in a proposed net revenue increase of $325.8 million for Rate Year 1, an additional $150.8 million for Rate Year 2, and an additional $138.3 million for Rate Year 3, totaling $615.0 million. The proposed EDIT rider reduction would expire in June 2026 (part way through Rate Year 3) along with the rest of the EDIT-4 rider.

The proposed net revenue increases for each Rate Year is distributed among classes of customers as follows:

| **Customer Class** | **Present Base Rate Revenues** | **Present Total Revenues, Including Riders** | **Base Case** | **MYRP Year 1** | **Total Year 1 Increase** | **MYRP Year 2** | **MYRP Year 3** | **Total Increase** |
|---|---|---|---|---|---|---|---|---|
| **Total Base Rate Revenue** | $3,471M | $3,849M | $219M | $107M | $326M | $151M | $138M | $615M |
| Average % Increase on Total Bill | | | 5.7% | 2.8% | 8.5% | 3.9% | 3.6% | 16.0% |
| | | | | | | | | |
| Residential | $1,865M | $2,056M | 6.7% | 3.2% | 9.9% | 4.5% | 4.3% | 18.7% |
| Small General Service | $228M | $260M | 5.0% | 2.8% | 7.8% | 4.0% | 3.6% | 15.4% |
| Medium General Service | $787M | $888M | 4.1% | 2.1% | 6.2% | 3.0% | 2.8% | 12.0% |
| Large General Service | $489M | $545M | 3.2% | 1.9% | 5.1% | 2.5% | 2.4% | 10.0% |
| Lighting | $97M | $95M | 15.6% | 4.5% | 20.1% | 5.7% | 4.6% | 30.4% |
| Seasonal | $4.5M | $4.9M | 11.1% | 3.9% | 15.0% | 5.5% | 5.0% | 25.5% |

The different percentage increases for customer classes reflect the allocation of the rate increase necessary to "gradually" move each customer class's current contribution closer to the overall retail rate of return average. The Company proposes modification of certain rate schedules to reflect more accurately the cost of service. While the unit cost study justifies an increase to the fixed monthly customer charges to recover the basic cost of providing electric service independent of customer usage, the Company is not proposing to raise the fixed monthly charges for residential rate schedules at this time.

All proposed changes to the Company's rate schedules are shown in **Exhibits B, B_1 B_2 and B-3** in the Application. The energy rates shown on the rate schedules in **Exhibits B, B_1, B_2 and B_3** include the proposed base fuel and forward-looking fuel adjustment rates as filed by the Company in Docket No. E-2, Sub 1272. Present and proposed base fuel and forward-looking fuel adjustment rates by customer class are as follows (including the regulatory fee)[3]:

| Customer Class | Present Base Fuel Rate | Present Fuel Adjustment Rate | Proposed Base Fuel Rate | Proposed Fuel Adjustment Rate |
|---|---|---|---|---|
| Residential | $0.02083 | $0.00046 | $0.02129 | $0.00000 |
| Small General Service | $0.02129 | -$0.00015 | $0.02114 | $0.00000 |
| Medium General Service | $0.02231 | -$0.00059 | $0.02172 | $0.00000 |
| Large General Service | $0.02207 | -$0.00185 | $0.02022 | $0.00000 |
| Lighting | $0.01394 | $0.00290 | $0.01684 | $0.00000 |

[3] Base fuel and forward-looking fuel adjustment rates will be updated after December 1, 2022, when new fuel rates become effective under Docket No. E-2, Sub 1292.