

STATE OF NORTH CAROLINA  
BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

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<b>In the Matter of:</b>	)	
	)	
<b>Application of Duke Energy</b>	)	
<b>Progress, LLC Pursuant to N.C.</b>	)	<b>DOCKET NO. E-2, Sub 1321</b>
<b>Gen. Stat. § 62-133-.2 and</b>	)	
<b>Commission Rule R8-55 Relating</b>	)	
<b>to Fuel and Fuel-Related Charge</b>	)	
<b>Adjustments for Electric Utilities</b>	)	
_____	)	

Direct Testimony of

**Brian C. Collins**

On behalf of

**CIGFUR II**

September 1, 2023



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Adjustments for Electric Utilities ) )  
\_\_\_\_\_)

Direct Testimony of Brian C. Collins

I. INTRODUCTION AND SUMMARY

1 Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

2 A Brian C. Collins. My business address is 16690 Swingley Ridge Road, Suite 140,  
3 Chesterfield, MO 63017.

4 Q WHAT IS YOUR OCCUPATION?

5 A I am a consultant in the field of public utility regulation and a Managing Principal of  
6 Brubaker & Associates, Inc., energy, economic, and regulatory consultants. Our firm  
7 and its predecessor firms have been in this field since 1937 and have participated in  
8 more than 1,000 proceedings in 40 states and in various provinces in Canada. We have  
9 experience with more than 350 utilities, including many electric utilities, gas pipelines,  
10 and local distribution companies. I have testified in many electric, gas, and water rate  
11 proceedings on various aspects of ratemaking. More details are provided in Appendix  
12 A of this testimony.

1    **Q       ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?**

2    A       I am testifying on behalf of a group of intervenors designated as the Carolina Industrial  
3           Group for Fair Utility Rates II (“CIGFUR II”), a group of large industrial customers that  
4           purchase power from Duke Energy Progress (“DEP,” “Duke,” or “Company”).  
5           CIGFUR II’s members receive electric service from Duke primarily under Rate  
6           Schedule LGS.

7    **Q       HAVE YOU FILED TESTIMONY IN A PRIOR PROCEEDING BEFORE THE NORTH  
8           CAROLINA UTILITIES COMMISSION (“COMMISSION”)?**

9    A       Yes.

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

11   A       I am filing testimony on behalf of CIGFUR II’s member companies to urge the  
12          Commission to approve DEP’s proposed uniform percentage average bill adjustment  
13          method, consistent with past Commission findings since 2008.

14   **Q       DOES YOUR TESTIMONY ADDRESS DEP’S NEED FOR AN INCREASE IN FUEL  
15          RATES?**

16   A       No. In order to make my presentation consistent with the revenue levels requested by  
17          DEP, I have, in many instances, used the Company’s proposed figures for fuel cost.  
18          Use of these numbers should not be interpreted as an endorsement of them for  
19          purposes of determining the total dollar amount of fuel increase to which DEP may be  
20          entitled.

1    **Q       PLEASE DESCRIBE DEP’S PENDING FUEL APPLICATION.**

2    A       The Company requests an increase for the December 2023 - November 2024 Billing  
3       Period of \$208.4 million, which includes a fuel under-recovery of \$486.0 million. As  
4       explained by DEP, the fuel under-recovery was largely driven by abnormal and  
5       unexpected commodity price increases that occurred in the previous period.

6               The increase in the fuel rate as proposed by DEP will result in an approximate  
7       5.1% increase to total bills for all customers. DEP witness Dana M. Harrington’s  
8       testimony at page 17 indicates that 91% of the requested increase is associated with  
9       the under-collection of fuel cost from the previous period and the remaining 9% of the  
10      requested increase is associated with increased sales volume.

11   **Q       HOW WILL THE REQUESTED INCREASE IMPACT DEP’S INDUSTRIAL**  
12   **CUSTOMERS?**

13   A       The Company serves major industrial facilities including CIGFUR II’s members. Large  
14   industrial customers use power for around-the-clock manufacturing operations and  
15   operate at high load factors. A high load factor means a customer is using relatively  
16   more energy in relation to the demand for power. Energy usage is a much larger portion  
17   of the total bill for a large high load factor customer as compared to a smaller, lower  
18   load factor customer.

19              The proposed fuel increase will significantly increase the cost of energy for  
20   DEP’s industrial base. Energy costs are essential to the manufacturing processes of  
21   these customers. In addition, energy costs are one of the most important factors  
22   considered when manufacturers are making business decisions such as where to  
23   locate new facilities, expand existing facilities, or, where no longer competitive to  
24   operate, reduce operations or even close facilities. Along these lines, North Carolina

1 has to compete not just regionally, but nationally and globally, for the siting or  
2 expansion of facilities that in turn employ North Carolinians, inject large revenues into  
3 the local tax base, and stimulate the local economy directly and indirectly through the  
4 economic multiplier effect. In my opinion, the proposed increase (1) will impose a  
5 burden on DEP's industrial customers; (2) will make North Carolina a less competitive  
6 place to do business; and (3) would result in detrimental consequences for both the  
7 local economies where these industrial customers operate and the overall North  
8 Carolina economy.

9 This fuel increase will be in addition to the requested overall 18% MYRP  
10 increase pending before the Commission in Case No. E-2, Sub 1300.

11 **Q WHY MUST THE ABOVE-STATED HARM TO NORTH CAROLINA'S INDUSTRIAL**  
12 **BASE BE AVOIDED?**

13 A CIGFUR II's member companies constitute a significant portion of the industrial base  
14 of DEP's service area. CIGFUR II members are major employers in the counties where  
15 they have manufacturing plants, and the jobs they provide are vital to the local  
16 economies. Together, CIGFUR II members provide thousands of direct jobs in the DEP  
17 service area. The economic effect of these jobs is of course multiplied by other  
18 businesses and jobs indirectly created because of the existence of CIGFUR II  
19 members' manufacturing operations and workforce.

20 **Q DO YOU HAVE A RECOMMENDATION TO HELP MITIGATE THE IMPACT OF THE**  
21 **LARGE UNDER-RECOVERY ON ITS NORTH CAROLINA RATEPAYERS?**

22 A Yes. I recommend that any increase granted should continue to be spread to classes  
23 on an equal percentage basis, consistent with past practice. The increases in fuel costs

1 are not normal, and to a large extent due to an extension of the COVID-19 related  
2 supply chain issues and caused by the energy crisis associated with the war in Europe.  
3 The fuel increase in this filing is more like a tax or surcharge than a normal increase in  
4 commodity costs. This type of abnormal increase is better reflected by an equal  
5 percentage increase to customer bills as proposed by DEP.

6 Both DEP and Duke Energy Carolinas (“DEC”) have used this approach for  
7 many years in North Carolina. This approach is inherently fair, particularly for these  
8 abnormal circumstances. The volatility of cost changes is “dampened” by this method  
9 and overly harsh increases are to some extent reduced.

10 It should be noted that while the high load factor customer class sees reduced  
11 impacts during times of fuel cost increases, these customers receive less of a reduction  
12 during times of fuel cost decreases, making the approach symmetrical and fair over  
13 time. Certainly, fuel costs are expected to return to normal in the future and should, in  
14 theory, be significantly lower as additional renewable generation is added to DEP’s  
15 generation resource mix consistent with the policy goals set forth in House Bill 951  
16 (“HB 951”).

17 **Q HOW HAVE DEC AND DEP ALLOCATED ANNUAL FUEL AND FUEL-RELATED**  
18 **COST BETWEEN RATE CASES?**

19 **A** Since approximately 2008, DEP and its predecessor company have implemented  
20 annual changes in fuel costs on a uniform bill increase or decrease methodology. This  
21 allocation methodology was borne from a Commission-approved settlement agreeing  
22 to this methodology between DEP’s predecessor company, CUCA, CIGFUR II, and the  
23 Public Staff. To my knowledge, this methodology has been approved without objection  
24 by any party in every annual fuel charge adjustment proceeding since the order issued

1 in 2008 which is approaching 15 years ago. The method has served ratepayers well  
2 and should be continued during this time of increased volatility in fuel prices and upward  
3 pressure on electric rates. This method worked so well upon its initial implementation  
4 by DEP's predecessor company in 2008 that a few years later, DEC similarly proposed,  
5 and the Commission similarly approved, this method for DEC, which has continued for  
6 many years. For the reasons previously described, this method is symmetrical and fair  
7 over time and should not be changed.

8 **Q WHY SHOULD THIS UNIFORM BILL INCREASE (DECREASE) METHODOLOGY**  
9 **BE MAINTAINED IN THIS PROCEEDING?**

10 A This method has withstood the test of time and changing it now when fuel costs are  
11 extremely volatile would be unfair, unreasonable, and disruptive, particularly to high  
12 load factor customers. The uniform bill methodology levelizes over time any harsh  
13 impacts and results in equal percentage increases or decreases to all customers, which  
14 are fair, just, and reasonable. In addition, many years ago, the fuel adjustment only  
15 involved cost recovery for fuel costs. Over time other costs have been included which  
16 are basically capital costs. For example, renewable costs, such as purchased power  
17 from solar or other renewable energy facilities, are not fuel expenses. To the extent  
18 these costs are included in the annual fuel adjustment, an equal percentage basis is  
19 appropriate.

20 Other things were allowed in the fuel rider such as chemical cost, transmission  
21 charges, power purchases, costs from renewable purchases including capital costs and  
22 profit, net gains and losses from sales of by-products including coal ash. These are not  
23 fuel cost and contain no btu or heat content. Recovering these costs disproportionately  
24 from industrial customers through energy charges collected through the fuel rider

1 penalizes higher load factor customers, who in fact require less costs to serve per unit  
2 of energy. This would in turn create more subsidization between customers with varying  
3 load factors, thereby rewarding inefficient use of system resources.

4 **Q PRIOR TO ANY CHANGE IN THE CURRENT UNIFORM BILL**  
5 **INCREASE/DECREASE METHOD SHOULD CERTAIN REASONABLE MEASURES**  
6 **BE ADOPTED?**

7 **A** Yes. First, the subsidy paid by industrial customers in base rates should be eliminated.  
8 Second, all non-fuel costs should be removed from the fuel adjustment mechanism,  
9 including the various non-fuel costs described herein. If both two conditions were  
10 satisfied, then it may be appropriate to consider evaluating whether a change to the  
11 equal percentage approach is appropriate. Unless and until such time as both  
12 conditions are satisfied, however, it would be inappropriate, unreasonable, and unjust  
13 to change this methodology. It is important to note that the fuel rider is an annual  
14 abbreviated cost recovery mechanism to reflect changes in the base established in the  
15 base rate case. The base rate must be set at cost without subsidies before  
16 modifications to the annual rider which by its nature is subordinate to the base rate.  
17 The current subsidy paid by Rate LGS customers to other DEP customers is  
18 \$47.7 million, as calculated by DEP in its filing in Docket E-2, Sub 1300, Reed Direct  
19 Exhibit No. 4, which I hereby incorporate by reference.

20  
21 **Q DID YOU REVIEW THE TESTIMONY OF PUBLIC STAFF WITNESS LUCAS**  
22 **(DOCKET NO. E-2, SUB 1300) THAT HB 951 INCLUDES “THE REQUIREMENT TO**  
23 **ELIMINATE SUBSIDIES” (TR. VOL. 20, P. 53)?**



1 A Yes. In that case, Witness Lucas proposed to eliminate a small token subsidy he  
2 claimed was in the fuel rider but continue the large \$47.7 million subsidy contained in  
3 the LGS class base rate. The flaw in that proposal (in addition to the faulty calculation  
4 of the claimed fuel rider subsidy) is that the annual fuel rider is an annual true-up and  
5 subservient to the base rate. The base rate continues until a new base rate case is filed  
6 and establishes the base or basis for the annual fuel rider. The current \$47.7 million  
7 subsidy paid by Rate LGS customers must be eliminated prior to any change in the fuel  
8 rider methodology.

9 **Q DID PUBLIC STAFF OR DEP PROPOSE TO ELIMINATE THE \$47.7 MILLION**  
10 **SUBSIDY CURRENTLY PAID BY RATE LGS CUSTOMERS IN THE MYRP CASE**  
11 **PENDING BEFORE THE COMMISSION?**

12 A No. DEP proposed only a 10% subsidy reduction. The Public Staff, in testimony filed  
13 after the record was closed in the MYRP case, essentially adopted the Company's  
14 proposal for a 10% subsidy reduction. Regarding a 10% subsidy reduction, if DEP files  
15 rate cases on a three-year cycle, it would take 30 years to achieve subsidy elimination.  
16 That time period is too long and defies the clear directive and intent of HB 951.

17 **Q IS IT YOUR UNDERSTANDING THAT THE FUEL RIDER OPERATES**  
18 **INDEPENDENTLY AND IS CONSIDERED SEPARATELY FROM RIDERS OR**  
19 **OTHER COST RECOVERY MECHANISMS AUTHORIZED BY THE PBR STATUTE.**

20 A Yes. Though I am not a lawyer, that is my understanding.

1    **Q     PLEASE EXPLAIN YOUR SECOND POINT REGARDING NON-FUEL COST**  
2    **CONTAINED IN THE FUEL RIDER.**

3    A     Capacity costs associated with solar purchases and other costs such as chemical  
4         costs, transmission costs are now included in the fuel rider. These costs have no  
5         heat-content and are not fuel costs. There is no showing that these costs vary by  
6         kilowatt-hour and therefore, they should be removed from the fuel rider prior to any  
7         change in the equal percent methodology since those costs will continue to grow as  
8         DEP phases out its coal generating capacity and replaces it with solar and wind  
9         capacity resources.

10                 Eliminating the equal percent methodology in the fuel rider without resolving the  
11                 substantial interclass subsidies in base rates that benefit residential customers would  
12                 exacerbate the worsening affordability challenges affecting industrial customers.

13                 This affordability challenge was recognized by DEP witness Bowman in the  
14                 DEP rate case. She testified that one thing the Commission could do to provide rate  
15                 mitigation for industrial customers is to simply maintain the status quo in terms of cost  
16                 allocation methodology for fuel and fuel-related costs.<sup>1</sup>

17    **Q     PLEASE ESTIMATE THE BILL IMPACT TO THE INDUSTRIAL CLASS OF A**  
18    **CHANGE FROM THE EQUAL PERCENTAGE APPROACH TO A UNIFORM CENTS**  
19    **PER KWH MECHANISM.**

20    A     The change in methodology would cause the industrial class increase to exceed 8%  
21         from the DEP proposed increase of 5.1%. A customer with a higher-than-average load  
22         factor would see an even higher bill increase. This fuel adjustment clause increase

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<sup>1</sup>See Docket No. E-2, Sub 1300, Tr. Vol. 21, pp. 1221-23.

1 would be an addition to DEP's requested 18% three-year MYRP increase, which would  
2 have a compounding effect.

3

4 **Q WHAT IS YOUR RECOMMENDATION IN THIS PROCEEDING?**

5 A Based on the continuing subsidy in base rates paid by LGS customers and the inclusion  
6 of non-fuel costs in the fuel rider, I recommend that DEP's proposed uniform  
7 percentage average bill adjustment method be again approved by the Commission in  
8 this proceeding.

9

10 **Q DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

11 A Yes, it does.

**Qualifications of Brian C. Collins**

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

2 A Brian C. Collins. My business address is 16690 Swingley Ridge Road, Suite 140,  
3 Chesterfield, MO 63017.

4 **Q WHAT IS YOUR OCCUPATION AND BY WHOM ARE YOU EMPLOYED?**

5 A I am a consultant in the field of public utility regulation and a Managing Principal with  
6 the firm of Brubaker & Associates, Inc. ("BAI"), energy, economic and regulatory  
7 consultants.

8 **Q PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND WORK**  
9 **EXPERIENCE.**

10 A I graduated from Southern Illinois University Carbondale with a Bachelor of Science  
11 degree in Electrical Engineering. I also graduated from the University of Illinois at  
12 Springfield with a Master of Business Administration degree. Prior to joining BAI, I was  
13 employed by the Illinois Commerce Commission and City Water Light & Power  
14 ("CWLP") in Springfield, Illinois.

15 My responsibilities at the Illinois Commerce Commission included the review of  
16 the prudence of utilities' fuel costs in fuel adjustment reconciliation cases before the  
17 Commission as well as the review of utilities' requests for certificates of public  
18 convenience and necessity for new electric transmission lines. My responsibilities at  
19 CWLP included generation and transmission system planning. While at CWLP, I  
20 completed several thermal and voltage studies in support of CWLP's operating and  
21 planning decisions. I also performed duties for CWLP's Operations Department,

1 including calculating CWLP's monthly cost of production. I also determined CWLP's  
2 allocation of wholesale purchased power costs to retail and wholesale customers for  
3 use in the monthly fuel adjustment.

4 In June 2001, I joined BAI as a Consultant. Since that time, I have participated  
5 in the analysis of various utility rate and other matters in several states and before the  
6 Federal Energy Regulatory Commission ("FERC"). I have filed or presented testimony  
7 before the Arkansas Public Service Commission, the California Public Utilities  
8 Commission, the Colorado Public Utilities Commission, the Delaware Public Service  
9 Commission, the Public Service Commission of the District of Columbia, the Florida  
10 Public Service Commission, the Georgia Public Service Commission, the Guam Public  
11 Utilities Commission, the Idaho Public Utilities Commission, the Illinois Commerce  
12 Commission, the Indiana Utility Regulatory Commission, the Kentucky Public Service  
13 Commission, the Public Utilities Board of Manitoba, the Minnesota Public Utilities  
14 Commission, the Mississippi Public Service Commission, the Missouri Public Service  
15 Commission, the Montana Public Service Commission, the North Carolina Utilities  
16 Commission, the North Dakota Public Service Commission, the Public Utilities  
17 Commission of Ohio, the Oklahoma Corporation Commission, the Oregon Public Utility  
18 Commission, the Rhode Island Public Utilities Commission, the Public Service  
19 Commission of Utah, the Virginia State Corporation Commission, the Washington  
20 Utilities and Transportation Commission, the Public Service Commission of Wisconsin,  
21 and the Wyoming Public Service Commission. I have also assisted in the analysis of  
22 transmission line routes proposed in certificate of convenience and necessity  
23 proceedings before the Public Utility Commission of Texas.

1           In 2009, I completed the University of Wisconsin – Madison High Voltage Direct  
2           Current (“HVDC”) Transmission Course for Planners that was sponsored by the  
3           Midwest Independent Transmission System Operator, Inc. (“MISO”).

4           BAI was formed in April 1995. BAI and its predecessor firm have participated in  
5           more than 1,000 regulatory proceedings in forty states and Canada.

6           BAI provides consulting services in the economic, technical, accounting, and  
7           financial aspects of public utility rates and in the acquisition of utility and energy  
8           services through RFPs and negotiations, in both regulated and unregulated markets.  
9           Our clients include large industrial and institutional customers, some utilities and, on  
10          occasion, state regulatory agencies. We also prepare special studies and reports,  
11          forecasts, surveys and siting studies, and present seminars on utility-related issues.

12          In general, we are engaged in energy and regulatory consulting, economic  
13          analysis and contract negotiation. In addition to our main office in St. Louis, the firm  
14          also has branch offices in Corpus Christi, Texas; Detroit, Michigan; Louisville, Kentucky  
15          and Phoenix, Arizona.

**CERTIFICATE OF SERVICE**

The undersigned counsel for CIGFUR II hereby certifies that he did cause to be served this day the Direct Testimony of CIGFUR II Witness Brian C. Collins on all parties of record pursuant to the Service List maintained by the NCUC – Chief Clerk’s Office, by electronic mail.

This the 1st day of August, 2023.

/s/ Douglas E. Conant

Douglas E. Conant