

BEFORE THE
NORTH CAROLINA UTILITIES COMMISSION

In the Matter of

Application by Virginia Electric and
Power Company, d/b/a Dominion
Energy North Carolina, for Authority to
Adjust its Electric Rates and Charges
and Revise its Fuel Factor Pursuant to
N.C. Gen. Stat. § 62-133.2 and NCUC
Rule R8-55

Docket No. E-22, Sub 644

Direct Testimony and Exhibits of

Brian C. Collins

On behalf of

CIGFUR I

October 24, 2022



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Oct 24 2022

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
9 have experience with more than 350 utilities, including many electric utilities, gas
10 pipelines, and local distribution companies. I have testified in many electric, gas, and
11 water rate proceedings on various aspects of ratemaking. More details are provided in
12 Appendix A of this testimony.

Q ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?

A I am testifying on behalf of a group of intervenors designated as the Carolina Industrial Group for Fair Utility Rates I ("CIGFUR I"),¹ a group of large industrial customers that purchase power from Dominion Energy North Carolina ("DENC," "Dominion," or "Company"). CIGFUR I's members receive electric service from Dominion under Rate Schedules 6VP and 6L.

Q HAVE YOU FILED TESTIMONY IN A PRIOR PROCEEDING BEFORE THE NORTH CAROLINA UTILITIES COMMISSION ("COMMISSION")?

A Yes.

Q WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A I am filing testimony on behalf of CIGFUR I's member companies to urge the Commission to lessen the rate shock and mitigate the financial harm resulting from this extraordinary and abnormal increase in fuel and fuel-related costs filed in this proceeding.

Q DOES YOUR TESTIMONY ADDRESS DENC'S NEED FOR AN INCREASE IN FUEL RATES?

A No. In order to make my presentation consistent with the revenue levels requested by DENC, I have, in many instances, used the Company's proposed figures for fuel cost. Use of these numbers should not be interpreted as an endorsement of them for

¹CIGFUR I's member companies are: Cummins Rocky Mount Engine Plant ("RMEP"), Domtar Corporation, Pfizer Inc., and WestRock Company.

1 purposes of determining the total dollar amount of fuel increase to which DENC may
2 be entitled.

3 **Q PLEASE DESCRIBE DENC'S PENDING FUEL APPLICATION.**

4 A The Company requests an increase for the February 1, 2023 through January 31, 2024
5 Rate Period of \$107.3 million, which includes a fuel under-recovery increase of
6 \$76.1 million. As explained by DENC, the fuel under-recovery was largely driven by
7 abnormal and unexpected commodity prices that occurred in the previous period.

8 The increase in the fuel rate is shown as \$0.025651/kWh and amounts to an
9 approximate 110% increase over the current fuel rate of \$0.023257/kWh.
10 The proposed increase is significant and, if approved in its entirety, will have a
11 detrimental impact on DENC's industrial customers, including but not limited to
12 rate shock and financial harm. It is difficult to overstate the catastrophic impact to
13 DENC's industrial customers associated with the total bill increase resulting from the
14 updated test period.

15 The entire increase, without mitigation, is shown in CIGFUR Exhibit BCC-1.

16 **Q WHAT IS RATE SHOCK AND WHY SHOULD IT BE AVOIDED?**

17 A Rate shock refers to a large increase, particularly when it is unexpected. For reference,
18 in Docket No. E-22, Sub 515, DENC's 2014 Fuel Adjustment proceeding, the Company
19 requested a large increase which would increase residential rates by 5.3% and 6VP
20 rates by 8.5%. The Public Staff referenced that level of increase as rate shock and the
21 Commission in that case approved DENC's mitigation plan (Commission Order E-22,
22 Sub 515, December 18, 2014, page 26). In this proceeding, DENC's full increase
23 would result in a residential increase of approximately 24.9% and a Rate 6VP increase

1 of approximately 41.6%. If the 2014 fuel increase was rate shock, the significantly
2 larger fuel increase in this case must be considered a financial crisis. Rate shock
3 constitutes a large level of increase, not included in customers' budgets, which can
4 cause a harmful impact on customers and should be avoided through mitigation
5 measures.

6 An additional concern is that DENC has stated in its Integrated Resource Plan
7 that base rates will increase by a compound annual growth rate of 3.2% to 4.1% from
8 now through 2030 to implement its carbon dioxide emissions reduction plan. These are
9 additional increases to rates that must be paid by customers.

10 **Q HOW WILL THE REQUESTED INCREASE IMPACT DENC'S INDUSTRIAL**
11 **CUSTOMERS?**

12 **A** The Company serves major industrial facilities including CIGFUR I's members.
13 Large industrial customers use power for around-the-clock manufacturing operations
14 and operate at high load factors. A high load factor means a customer is using
15 relatively more energy in relation to the demand for power. Energy usage is a much
16 larger portion of the total bill for a large high load factor customer as compared to a
17 smaller, lower load factor customer. The increase in the fuel rate applies to energy
18 usage which translates into a higher-than-average increase to high load factor
19 industrial customers. DENC's Fuel Application requests that the Commission approve
20 a proposed total fuel rate (base fuel factor, Rider A, and EMF Rider B) of
21 \$0.048207/kWh for 6VP customers, which will result in a 41.6% increase over the
22 current total bill and an approximate 110% increase over the current fuel rate. For Rate
23 Schedule 6L, the increase is basically the same with customers facing an approximate
24 41.6% increase on the total bill, and 110% on fuel.

1 The proposed fuel increase will significantly increase the cost of energy for
2 DENC's industrial base. Energy costs are essential to the manufacturing processes of
3 these customers. In addition, energy costs are one of the most important factors
4 considered when manufacturers are making business decisions such as where to
5 locate new facilities, expand existing facilities, or, where no longer competitive to
6 operate, reduce operations or even close facilities. Along these lines, Eastern North
7 Carolina has to compete not just regionally, but nationally and globally, for the siting or
8 expansion of facilities that in turn employ North Carolinians, inject large revenues into
9 the local tax base, and stimulate the local economy directly and indirectly through the
10 economic multiplier effect. In my opinion, the proposed increase (1) will impose an
11 undue burden on DENC's industrial customers; (2) clearly constitutes rate shock;
12 (3) makes Eastern North Carolina a less competitive place to do business; and
13 (4) would result in detrimental consequences for both the local economies where these
14 industrial customers operate and the overall North Carolina economy.

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

17 **A**The northeastern portion of North Carolina, which includes DENC's service area, is an
18 economically disadvantaged area in terms of jobs, wages and income. In its recently
19 filed update to the 2020 Integrated Resource Plan (filed in Docket No. E-100, Sub 165
20 on September 1, 2021), DENC's Appendix 4C shows that the industrial class has
21 decreased in sales levels and will not return to previous levels. The industrial base in
22 DENC's service area has been shrinking and is not expected to return to prior levels
23 during DENC's current planning horizon.

1 CIGFUR I's member companies constitute a significant portion of the industrial
2 base of DENC's service area. CIGFUR I members are major employers in the counties
3 where they have manufacturing plants, and the jobs they provide are vital to the local
4 economies. Together, CIGFUR I members provide thousands of direct jobs in the
5 DENC service area. As shown on CIGFUR Exhibit BCC-2, Pfizer Inc. (formerly
6 Hospira) is the largest employer in Nash County, followed by Cummins RMEP (formerly
7 Consolidated Diesel Co.), the fourth largest employer in that county.
8 Domtar Corporation is likewise the largest private employer in Washington County.
9 WestRock Company is the second largest private employer and fifth largest overall
10 employer in Halifax County.² The economic effect of these jobs is of course multiplied
11 by other businesses and jobs indirectly created because of the existence of CIGFUR I
12 members' manufacturing operations and workforce. A study performed by Dr. Julius
13 A. Wright, provided as CIGFUR Exhibit BCC-3, vividly illustrated the rippling effect of
14 industrial manufacturing jobs on the local economy in North Carolina: for every new
15 (or lost) employee at an industrial facility, there are 1-3 additional new jobs created
16 (or lost) in the region; there is a region-wide increase (or loss) of approximately
17 \$500,000 per year in economic output; and there is a region-wide increase (or loss) of
18 \$200,000 to \$350,000 in employee earnings.³ Dr. Wright's study also describes the

²Data as of the 2021 annual census of employment and wages of largest employers (North Carolina Department of Commerce). Domtar's property straddles Washington and Martin counties. Its manufacturing facility is physically located in Martin County, but its administrative offices are located in Washington County. The Department of Commerce associates the facility's employment with Washington County. Upon information and belief, if the facility's employment was associated with Martin County, Domtar would be the second largest employer in that county (and the largest private employer).

³See Julius A. Wright, *The Economic and Rate Implications from an Electric Utility's Loss of Large-Load Customers* [hereinafter, "Wright Study"], p. 3 (filed March 14, 2013 in Docket No. E-2, Sub 1023).

1 detrimental impact to all other customers and classes of customers in terms of rate
2 impacts when industrial load exits the system.

3 In DENC's recent base electric case, Docket No. E-22, Sub 532, Company
4 witness Paul Haynes stated at pages 10-11 of his direct testimony that the Company
5 was keenly aware of the reduction in industrial customers and industrial usage in its
6 North Carolina service territory and that the loss of industrial customers and industrial
7 electric usage can have drastic negative impacts on the economic well-being of local
8 communities and the State as a whole. Witness Haynes recognized that the loss of an
9 industrial customer often equates to the loss of jobs and can directly impact the
10 economic vitality of a locality and even an entire region of the State. Similarly, the
11 Commission twice recently recognized that the continued loss of industrial jobs will
12 have a detrimental effect on this State. *See Order Accepting Stipulation, Deciding*
13 *Contested Issues and Granting Partial Rate Increase*, p. 135, February 23, 2018,
14 NCUC Docket E-2, Sub 1142, and *Order Accepting Stipulation, Deciding Contested*
15 *Issues, and Requiring Revenue Reduction*, p. 204, June 22, 2018, NCUC Docket E-7,
16 Sub 1146.

17 Especially in light of global competitive concerns—both externally for customers
18 and internally for capital—market forces increasingly dictate production and siting
19 decisions for large manufacturers. It is no surprise, then, that electricity-intensive
20 industrial customers show dramatic responses to changes in electricity prices.⁴
21 A material change in the cost of electricity has the potential to impact employment,
22 production, and investment levels for large customers such as CIGFUR I members,
23 significantly impacting local communities that can least afford it.

⁴Wright Study, pp. 11-12.

1 **Q HAS DENC PROPOSED A SOLUTION TO MITIGATE THE IMPACT OF THE LARGE**
2 **UNDER-RECOVERY ON ITS NORTH CAROLINA RATEPAYERS?**

3 A Yes. DENC has proposed a mitigation effort that in essence will defer a small portion
4 of the increase but implement the full increase in six months. In my view, this mitigation
5 effort is not adequate particularly in light of the massive rate increases on the horizon.
6 The Company's proposed mitigation plan only very slightly lessens rate shock when
7 compared with full recovery. After six months, the entire increase is placed into rates
8 as shown in CIGFUR Exhibit BCC-1.

9 **Q WHAT DO YOU RECOMMEND?**

10 A I recommend a two-pronged approach. First, any increase granted should be spread
11 to classes on an equal percentage basis. The increases in fuel costs are not normal,
12 and to a large extent due to an extension of the Covid-related supply chain issues and
13 also caused by the energy crisis associated with the war in Europe. The fuel increase
14 in this filing is more like a tax or surcharge than a normal increase in commodity costs.
15 This type of abnormal increase is better reflected by an equal percentage increase to
16 customer bills.

17 Dominion basically proposes the same per-unit increase in energy cost per
18 kilowatt-hour for each unit of energy used (there may be slight adjustments for losses).
19 This approach causes high load factor customers to receive a higher-than-average
20 percentage increase on total bills. Implementing the increase on a uniform equal
21 percentage basis results in each class receiving the same percentage increase as the
22 North Carolina jurisdictional increase. For these reasons, I recommend a shift to the
23 uniform equal percentage method for both this fuel proceeding and continuing forward
24 with future fuel proceedings.

1 **Q HAS THE COMMISSION USED AN EQUAL PERCENTAGE APPROACH FOR**
2 **OTHER UTILITIES IN NORTH CAROLINA?**

3 A Yes. Both Duke Energy Progress and Duke Energy Carolinas have used this approach
4 for many years in North Carolina. This approach is inherently fair, particularly for these
5 abnormal circumstances. The volatility of cost changes is “dampened” by this method
6 and overly harsh increases are to some extent reduced. The result of a uniform equal
7 percentage increase without mitigation is shown on CIGFUR Exhibit BCC-4.

8 It should be noted that while the high load factor customer class sees reduced
9 impacts during times of fuel cost increases, these customers receive less of a reduction
10 during times of fuel cost decreases, making the approach symmetrical and fair over
11 time. Certainly, fuel costs are expected to return to normal in the future and should be
12 significantly lower as additional renewable generation is added to the resource mix.

13 **Q WHAT IS THE SECOND PRONG OF YOUR RECOMMENDED APPROACH?**

14 A A deferral or spreading out of the increase, particularly for the under-recovered amount
15 from the previous period is warranted, at least for the industrial class of customers.
16 Dominion has endorsed this method in previous filings and is currently using this
17 approach in Virginia.

18 **Q SHOULD THERE BE AN AVERSION TO A DEFERRAL TO A FUTURE PERIOD?**

19 A No. Deferrals are often used. The Commission recently deferred the return of
20 ratepayer money associated with the over-collection of federal taxes from January 1,
21 2018 to January 1, 2019. The return of excess deferred income taxes (“EDIT”) to
22 ratepayers is also often deferred. These deferrals associated with the over-collection
23 of federal taxes can last up to three years before being returned to customers. The

1 deferral of an abnormal cost in this fuel proceeding is appropriate and will to a certain
2 extent lessen rate shock and help allow industrial customers to continue to operate in
3 North Carolina.

4 **Q HAS THE COMMISSION PREVIOUSLY APPROVED THE DEFERRAL OF A LARGE**
5 **FUEL EXPENSE FOR DENC?**

6 A Yes. In the Company's 2014 fuel proceeding, Docket No. E-22, Sub 515, the
7 Commission concluded that, in order to lessen rate shock to DENC's customers, it was
8 appropriate to approve a near-identical mitigation proposal by the Company, which
9 amortized a \$16.6 million under-collection over two years without interest.

10 **Q HAVE YOU CALCULATED A UNIFORM EQUAL PERCENTAGE AND DEFERRAL**
11 **APPROACH FOR CONSIDERATION?**

12 A Yes. CIGFUR Exhibit BCC-5 shows the results of a uniform equal percentage
13 approach combined with year 1 of a 3-year deferral of the under-collection.
14 This approach lessens rate shock and helps to manage this abnormal increase.
15 In my view, all customers are better off with this approach.

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

17 A Yes.

Qualifications of Brian C. Collins

Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

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

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

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

Q PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND WORK EXPERIENCE.

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

My responsibilities at the Illinois Commerce Commission included the review of the prudence of utilities' fuel costs in fuel adjustment reconciliation cases before the Commission as well as the review of utilities' requests for certificates of public convenience and necessity for new electric transmission lines. My responsibilities at CWLP included generation and transmission system planning. While at CWLP, I completed several thermal and voltage studies in support of CWLP's operating and 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
5 in 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.