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May 28, 2020

VIA ELECTRONIC FILING

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

**RE: Duke Energy Carolinas, LLC's Rebuttal Testimony
Docket No. E-7, Sub 1228**

Dear Ms. Campbell:

Please find enclosed Duke Energy Carolinas, LLC's Rebuttal Testimony of Kimberly D. McGee, in the above-referenced proceeding.

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

Sincerely,

A handwritten signature in black ink that reads "Jack Jirak". The signature is written in a cursive, slightly slanted style.

Jack E. Jirak

Enclosures

cc: Parties of Record

OFFICIAL COPY

May 28 2020

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. E-7, SUB 1228

In the Matter of)
Application of Duke Energy Carolinas, LLC)
Pursuant to G.S. 62-133.2 and NCUC Rule)
R8-55 Relating to Fuel and Fuel-Related)
Charge Adjustments for Electric Utilities)
)
)

**REBUTTAL TESTIMONY
OF KIMBERLY D. MCGEE**

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

2 A. My name is Kimberly D. McGee. My business address is 550 South Tryon Street,
3 Charlotte, North Carolina.

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

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

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

9 A. The purposes of my rebuttal testimony is to respond to the testimony of John A.
10 Rosenkranz on behalf of the Sierra Club.

11 **Q. PLEASE SUMMARIZE THE TESTIMONY.**

12 A. The Company's application (including the supporting testimony, exhibits and
13 workpapers) are fully compliant with applicable law and provide more than
14 sufficient information to demonstrate the reasonableness and prudence of the
15 Company's fuel costs, including its natural gas costs. The sufficiency of the
16 Company's application should be evaluated based on the requirements of
17 applicable law and not on the subjective judgment of particular intervenors,
18 particularly given that intervenors have the right to obtain any information that they
19 believe to be necessary through the well-established discovery process.
20 Nevertheless, the Company has engaged with Sierra Club on these issues
21 subsequent to the submission of Sierra Club's testimony and has achieved a
22 mutually acceptable solution whereby the Company will provide to Sierra Club in

1 future proceedings reports that should provide the vast majority of the information
2 identified by Witness Rosenkranz.

3 **Q. WHAT IS THE PURPOSE OF THIS PROCEEDING?**

4 A. The purpose of a fuel proceeding is to review the Company's proposed fuel rates.

5 **Q. HAS WITNESS ROSENKRANZ RECOMMENDED ANY CHANGES TO**
6 **THE FUEL RATES PROPOSED BY THE COMPANY?**

7 A. No. Witness Rosenkranz has not recommended any changes to the Company's
8 proposed fuel rates. Instead, Witness Rosenkranz has made certain allegations
9 regarding the amount of information provided by the Company in this proceeding
10 related to the Company's natural gas costs.

11 **Q. PLEASE COMMENT GENERALLY ON WITNESS ROSENKRANZ'S**
12 **ALLEGATION THE COMPANY HAS NOT PROVIDED SUFFICIENT**
13 **INFORMATION IN THIS PROCEEDING TO ESTABLISH ITS TEST**
14 **PERIOD FUEL AND FUEL-RELATED COSTS WERE REASONABLE**
15 **AND PRUDENTLY INCURRED.**

16 A. I strongly disagree with this assertion. The Company's application conformed in
17 all respects with the requirements outlined in Commission Rule R8-55, including
18 the specific information required to be included in a fuel rider application under
19 R8-55(e). Compliance with the Commission's clear and objective information
20 requirements is the appropriate standard for evaluating the sufficiency of the
21 Company's application and not Witness Rosenkranz's subjective judgement
22 regarding what he believes constitutes "sufficient" information.

1 **Q. HAS ANY OTHER PARTY TO THIS PROCEEDING IDENTIFIED ANY**
2 **ASPECT OF THE COMPANY’S FILING THAT DOES NOT CONFORM**
3 **TO THE COMMISSION’S FILING REQUIREMENTS?**

4 A. No. No other party in this proceeding, including Public Staff, has identified any
5 aspect of the Company’s filing that is not in compliance with applicable law.

6 **Q. IS THE CONTENT AND STRUCTURE OF THE COMPANY’S**
7 **APPLICATION IN THIS CASE CONSISTENT WITH ITS FILING IN**
8 **RECENT FUEL CASES?**

9 A. Yes. The content and structure of the Company’s application in this proceeding is
10 identical to that of all recent fuel rider applications.

11 **Q. IF SIERRA CLUB RECOMMENDS CHANGES TO THE FILING**
12 **REQUIREMENTS FOR THE COMPANY’S ANNUAL FUEL**
13 **PROCEEDING, WHAT IS THE APPROPRIATE ROUTE TO**
14 **IMPLEMENT SUCH CHANGES?**

15 A. While I am not an attorney, I have been advised by counsel that Sierra Club is free
16 to petition the Commission to initiate a rulemaking proceeding to modify
17 Commission Rule R8-55 if it believes the existing rule is insufficient in any respect.

18 **Q. WHAT OTHER AVENUES DOES SIERRA CLUB HAVE TO GATHER**
19 **INFORMATION?**

20 A. Sierra Club has the ability to pursue discovery regarding the Company’s request.

21 **Q. DID SIERRA CLUB IN FACT ISSUE DISCOVERY TO THE COMPANY**
22 **IN THIS PROCEEDING?**

1 A. Yes. Sierra Club did issue discovery to the Company and the Company responded
2 to all such requests in accordance with the well-established discovery practices
3 before the Commission.

4 **Q. WITNESS ROSENKRANZ ALSO ALLEGES DEFICIENCIES IN THE**
5 **COMPANY’S MONTHLY FUEL REPORTS. PLEASE COMMENT ON**
6 **THIS ALLEGATION.**

7 A. Witness Rosenkranz conflates two related but separate issues: (1) the required
8 contents of the Company’s fuel rider application as required under Commission
9 Rule R8-55(e) and (2) the required contents of the Monthly Fuel Reports under
10 Commission Rule R8-52. As discussed above, the Company’s fuel rider
11 application conforms in all respects with the requirements of Commission Rule R8-
12 55(e). Furthermore, the Company’s Monthly Fuel Reports, filed in Docket No. E-
13 7, Sub 1234, comply with all requirements under Commission Rule R8-52.

14 **Q. PLEASE PROVIDE BACKGROUND ON THE COMPANY’S MONTHLY**
15 **FUEL REPORTS.**

16 A. The contents of the Monthly Fuel Report are established by Commission Rule R8-
17 52. Moreover, the format of the Monthly Fuel Report was also established by the
18 Commission in its May 1, 1984 Order in Docket No. E-100, Sub 47 (“Monthly Fuel
19 Report Order”).

20 **Q. HAS THE COMPANY COMPLIED WITH COMMISSION RULE R8-52**
21 **AND THE COMMISSION’S MONTHLY FUEL REPORT ORDER?**

22 A. In all material respects, yes. The Company has elected to provide all information
23 that is not confidential or sensitive in nature within its publicly filed Monthly Fuel

1 Report. In the Monthly Fuel Report Order, the Commission noted that the
2 confidentiality of source of purchases, FOB mine costs of coal and freight costs of
3 coal should be protected to the extent reasonable and that such information should
4 be made available to intervenors on an as-needed basis. Consistent with this
5 direction, the Company has not historically included confidential information in the
6 Monthly Fuel Reports but has made it available for review during the annual fuel
7 filing review process.

8 **Q. PLEASE PROVIDE A HIGH LEVEL DESCRIPTION OF WHAT**
9 **INFORMATION CONCERNING NATURAL GAS IS PROVIDED IN THE**
10 **COMPANY'S MONTHLY FUEL REPORTS.**

11 A. The Company's Monthly Fuel Reports include summary information about
12 monthly fuel costs, purchases, and consumption. Schedule 2 of the Monthly Fuel
13 Report includes details of fuel costs at the general ledger account level. The total
14 cost of gas burned by type of generating plant is shown under the Subheading Other
15 Generation – Account 547. Schedule 5 includes the total delivered cost of
16 purchases of natural gas, the average cost per Mbtu purchased, the total delivered
17 cost of gas burned, total Mbtus burned and average cost per Mbtu burned on a per
18 plant basis. Schedule 6 is the fuel and fuel consumption and inventory report. The
19 Company does not maintain an inventory of natural gas at the plant level and thus
20 the report shows all amounts received during the period as burned during the period
21 at all gas generating stations.

22 **Q. TURNING NOW TO THE SPECIFIC INFORMATION DEFICIENCIES**
23 **ALLEGED BY WITNESS ROSENKRANZ, WHERE DOES THE**

1 **COMPANY IDENTIFY THE COST OF NATURAL GAS**
2 **TRANSPORTATION IN ITS FUEL APPLICATION AND MONTHLY**
3 **FUEL REPORTS?**

4 A. The cost of natural gas transportation is included in the total cost of natural gas
5 consumed. In the Company's fuel application, this information is contained in
6 Exhibit 6, Schedules 2, 5 and 6 and in the Monthly Fuel Reports, the information
7 is included in GL account 547 and is shown by generating type.

8 **Q. WHERE IN THE MONTHLY FUEL REPORTS DOES THE COMPANY**
9 **PROVIDE DETAILS REGARDING ITS NATURAL GAS**
10 **CONSUMPTION?**

11 A. The details of natural gas consumption can be found on Schedules 5 and 6 of the
12 Monthly Fuel Reports.

13 **Q. WHERE IN THE MONTHLY FUEL REPORT DOES THE COMPANY**
14 **PROVIDE INFORMATION CONCERNING ITS NATURAL GAS**
15 **INVENTORIES?**

16 A. The Company does not maintain an inventory of natural gas at the plant level but
17 Schedule 6 reflects the MCFs received and the MCFs consumed by gas generation
18 plant.

19 **Q. PLEASE COMMENT ON WITNESS ROSENKRANZ'S ALLEGATION**
20 **THAT THE COMPANY SHOULD BE REQUIRED TO IDENTIFY THE**
21 **DIFFERENCE BETWEEN THE COSTS OF NATURAL GAS PURCHASED**
22 **AND THE COSTS OF NATURAL GAS BURNED.**

1 A. As noted above, the Company does not maintain an inventory of natural gas at the
2 plant level. Instead, any gas purchased and not consumed in a given period is
3 pooled at two off-site storage facilities and used as needed to manage intraday
4 supply adjustments on the pipeline, including on weekends and holidays when the
5 gas markets are closed, in order to ensure reliable generation supply and mitigate
6 potential pipeline imbalance penalties.

7 Because it is not possible to distinguish between individual molecules of gas to
8 determine when they were consumed, the Company includes in its monthly fuel
9 filings the cost of both that month's physical gas purchases and the weighted
10 average cost of inventory change. These costs are then allocated across the DEC
11 and DEP generating units based on the methodology prescribed under the approved
12 Affiliate Asset Management and Delivered Supply Agreement ("AMA")
13 implemented in January 2013.

14 **Q. WITNESS ROSENKRANZ ALSO IDENTIFIES A SUBSTANTIAL**
15 **AMOUNT OF ADDITIONAL INFORMATION THAT HE BELIEVES IS**
16 **NECESSARY TO ESTABLISH THE REASONABLENESS AND**
17 **PRUDENCE OF THE COMPANY'S NATURAL GAS COSTS. PLEASE**
18 **EXPLAIN WHY YOU BELIEVE THAT THE INFORMATION INCLUDED**
19 **IN THE COMPANY'S APPLICATION IS SUFFICIENT TO ESTABLISH**
20 **THE REASONABLENESS AND PRUDENCE OF THE COMPANY'S**
21 **COSTS.**

22 A. As an initial matter, because its application satisfied the express requirements of
23 the applicable Commission Rule (R8-55), the Company believes that, as a matter

1 of law, it has provided sufficient information to demonstrate the reasonableness and
2 prudence of its fuel costs. Furthermore, in its application, the Company provides
3 total delivered cost of fuel purchased and burned, which can be benchmarked
4 against peers and market prices for purposes of assessing the reasonableness and
5 prudence of the Company's actions.

6 **Q. FINALLY, WITNESS ROSENKRANZ SEEKS TO IMPOSE CERTAIN**
7 **REQUIREMENTS ON THE COMPANY'S TESTIMONY IN FUTURE**
8 **FUEL PROCEEDINGS. PLEASE RESPOND.**

9 A. Once again, the Company reaffirms its position that its application complies in all
10 respects with applicable law. In addition, there is no basis in Commission practice
11 for parties to seek to dictate the contents of future direct testimony, particularly
12 given that if Sierra Club believes that more information is needed, it is free to seek
13 to modify the applicable Commission rule or, in the alternative, pursue such
14 information through discovery rather than seek to impose additional testimony
15 requirements. Further and more specifically, while Witness Rosenkranz seeks to
16 impose an obligation to offer testimony regarding "changes to natural gas supply
17 resources commitments" and a detailed explanation of how entering or extending
18 specific agreements "will benefit customers," this information is either already
19 provided in the Company's application or available for review through the standard
20 data request process. For instance, DEC Witness Phipps addresses in his testimony
21 the Company's fossil fuel procurement practices and the intended customer benefits
22 of these practices. Phipps Exhibit 1 summarizes the Company's Fossil Fuel
23 Procurement Practices and also includes additional discussion of how the Company

1 establishes its consumption needs not only for natural gas, but coal and fuel oil as
2 well. In fact, Witness Phipps' testimony also included, at the direction of the
3 Commission, a detailed evaluation of historic natural gas price fluctuations and its
4 forecasting and hedging programs.

5 **Q. PLEASE DESCRIBE THE COMPANY'S FURTHER ENGAGEMENT**
6 **WITH SIERRA CLUB WITH RESPECT TO THESE ISSUES.**

7 A. While the Company continues to affirm that its fuel application is fully compliant
8 with applicable law and reiterates that it has complied with all discovery requests,
9 the Company also engaged with Sierra Club subsequent to the submission of their
10 pre-filed direct testimony to assess whether it would be possible to provide some
11 or all of the additional information that Witness Rosenkranz identified in his
12 testimony that was not already made available to Sierra Club. Through those
13 discussions, the Company and Sierra Club have reached a mutually acceptable
14 understanding pursuant to which the Company will make available to Sierra Club
15 in future fuel proceedings upon their request certain reporting that will include the
16 vast majority of the information requested.

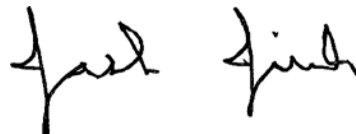
17 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

18 A. Yes.

CERTIFICATE OF SERVICE

I certify that a copy of Duke Energy Carolinas, LLC's Rebuttal Testimony, in Docket No. E-7, Sub 1228, has been served by electronic mail, hand delivery or by depositing a copy in the United States mail, postage prepaid to parties of record.

This the 28th day of May, 2020.

Handwritten signature of Jack E. Jirak in black ink.

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