

ERRATA

To: Shonta Dunston, Chief Clerk
From: Kim Mitchell, Hearings and Court Reporting Manager
CC: All parties of record
Date: September 26, 2023
Re: Docket No. E-7, Sub 1276, Transcript Volumes 8, 9, 13, 14, 15, and 16
Duke Energy Carolinas, LLC
Application for Adjustment of Rates and Charges Applicable to Electric Service
in North Carolina and for Performance-Based Regulation

Transcripts filed in the Commission's docket system have been corrected to reflect the changes below.

The corrected pages are attached for your review.

A separate Errata will be filed for confidential volumes 13, 14 and 15.

Tr. Volume /Page/Line(s)	Text	Should Be
V8 - 435/4	NC Warren	NC WARN
V9 - 51/20	non-rise	non-wires
V13 - 165/18	hear	here
V14 - 244/4	HP-951	H.B. 951
V14 - 255/7	Lowgap Nebo	Lowgap, Nebo
V14 - 266/19	E-7 Sub. 1276-A	E-7, Sub 1276-A
V15 - 22/19,21,22; 23/4	carbon plant	Carbon Plan
V16 -179/17	Mr. Morin's	Mr. Newlin's
V16 - 179/23,24	Mr. Morin	Mr. Newlin
V16 - 198/24; 199/20, 21; 200/7	FERP	FERC

1 Q. I apologize. Thank you very much. I'm
2 supposed to have a placard in front of me, which I
3 absentmindedly lost, and I apologize. But my name is
4 Matthew Quinn. I'm a lawyer for NC WARN and,
5 Mr. Maley, most of my questions are going to be for
6 you. And what I'd like to spend our time talking about
7 is the Clinton 100 kV line in the Lee and Piedmont 100
8 kV line, which you discussed in your prefiled direct
9 testimony. Okay?

10 A. (Daniel J. Maley) Sure.

11 Q. Now, these two lines, they are part of the
12 capacity and customer planning component of the
13 multiyear rate plan; is that correct?

14 A. That's correct.

15 Q. Okay. And all of the various components of
16 the multiyear rate plan were subject, were they not, to
17 a cost-benefit analysis; is that correct?

18 A. That is correct. We did perform cost-benefit
19 analysis.

20 Q. Okay. And the cost-benefit analysis is, of
21 course, an important part of DEC's consideration about
22 what to put into the multiyear rate plan and what not
23 to put into the multiyear rate plan, right?

24 A. It is one of the inputs we use. That's

1 identification, would that be something that we could
2 do.

3 We can identify the brownfield clusters that
4 exist that are there. How that impacts or interfaces
5 with the grid hosting capacity maps, that, I'm not -- I
6 don't know. We can't identify fleet clusters as I have
7 done in Supplemental Exhibit 7.

8 Q. Okay. Just a couple more questions. I think
9 Chair Duffley had some questions regarding Exhibit 2
10 from your direct testimony, specifically the strain
11 that DERs will place on the grid without proper
12 mitigation.

13 Do you recall that?

14 A. Correct.

15 Q. And during that exchange, you mentioned that
16 DEC is reviewing whether a NTS, or nontraditional
17 solution, might reduce some capacity constraints on the
18 system; is that right?

19 A. We do look at those as -- capacity as a
20 potential use of a non-wires alternative.

21 Q. So you would agree that, in addition, DERs
22 can also help reduce the strain on the grid?

23 A. Potentially, if properly sized, placed, any
24 other grid conditions. But that has to be analyzed.

1 MS. CRESS: Thank you.

2 Q. Mr. Lucas, are capacity costs and
3 transmission costs associated with purchase power
4 recovered through the fuel rider?

5 A. Give me one moment. I have to look at that
6 General Statute myself. Yes, capacity costs are a part
7 of the fuel rider.

8 Q. You would agree with -- I'm sorry, are you
9 still --

10 A. No, just let me find that transmission
11 component you asked about. Yeah, total delivered
12 non-capacity related costs, including all related
13 transmission charges.

14 Q. Would you agree with me that capacity costs
15 and transmission costs are capital costs and not fuel
16 costs?

17 A. Well, the law -- no, that's not correct. The
18 law here says -- and this is 62-133.2(a)(1), Section
19 4, it says:

20 "The total delivered non-capacity related
21 costs, including all related transmission
22 charges, of all purchases of electric power
23 by the electric public utility that are
24 subject to economic dispatch or economic

1 And we've taken a hard look at the
2 documentation that supports those estimates, but I --
3 I don't -- I don't know whether or not the MYRP
4 statute H.B. 951 actually is excluding routine items.

5 Q. Okay. And fair enough. And -- and so you
6 don't have an opinion on the intent of the
7 legislation?

8 A. No. Just -- just through reading the
9 legislation and then the -- the implementation of the
10 Commission Rule R1-17B, which implemented the -- that
11 Statute, but, yeah.

12 Q. And in your review of projects did you --
13 would you have excluded routine maintenance
14 expenditures from the projects that you reviewed?

15 A. In projects I reviewed, no. I don't believe
16 that we would have -- I did not personally exclude
17 projects simply for being routine. I think whether or
18 not a project was routine might have impacted the
19 level of documentation that was provided or for which
20 we sought, but I did not remove any projects or
21 recommend the removal of any projects simply for being
22 routine.

23 Q. So if -- if a project included an activity
24 that Duke would do anyway, a replacement of a

1 settlement of the microgrid issues. And on -- just to
2 give some background on page 22 of your direct
3 testimony, you were talking about the allocation
4 methodology, and you had suggested that 100 percent be
5 allocated to distribution.

6 And under that type of distribution the
7 Lowgap, Nebo projects would be sent to North
8 Carolina, and the Farris Bridge and Longtown projects
9 would be assigned directly to South Carolina.

10 It's the commission's understanding that
11 pursuant to the stipulation that the Lowgap microgrid
12 projects have been removed. So there -- the three
13 remaining microgrid projects are going to be
14 associated with -- you're not resolving it in the
15 Public Staff's favor; correct? The 100 percent to
16 distribution?

17 A. Yes. I believe that the Lowgap microgrid
18 costs were removed, but I believe that the allocation
19 was as the Company proposed for the remainder. So I
20 think, obviously, this is give and take of settlement
21 negotiations.

22 I think Lowgap had the lowest benefit cost
23 ratio of -- of the four. So I think in that case --
24 and as far as that particular microgrid project being

1 A. No, we do not.

2 Q. If you were asked the same questions today,
3 would your answers be the same?

4 A. They would.

5 Q. And on August 24, 2023 did you and
6 Mr. Thomas prepare and cause to be prefiled joint
7 testimony in support of settlement on performance
8 incentive mechanisms, tracking metrics and decoupling
9 mechanism consisting of seven pages?

10 A. We did.

11 Q. Do you have any corrections to your
12 testimony in support of settlement?

13 A. We do not.

14 Q. And if you were asked the same questions
15 today, would your answers be the same?

16 A. They would.

17 Q. And did you and Mr. Thomas also prepare and
18 cause to be prefiled on August 29, 2023 a summary of
19 your testimony in Docket Number E-7, Sub 1276-A?

20 A. We did.

21 MR. LUHR: Okay. Presiding
22 Commissioner Duffley, at this time I move that
23 the prefiled joint direct testimony, the prefiled
24 joint settlement testimony and the prefiled

1 But in North Carolina there is no baseline
2 for SAIDI as it stands currently. There is just a
3 need for improvement, a need for identifying SAIDI and
4 SAIFI with regards to the reliability Docket that we
5 have and with regards to a quarterly reporting.

6 And so that -- that and the -- necessarily
7 using North Carolina's data is -- is important,
8 because when you start comparing North Carolina -- or
9 the utilities data to other jurisdictions, you start
10 into -- get into differences in geographical
11 landscapes, customer landscapes, different general
12 assembly policy statute directions that might be
13 driving different reliability improvements that might
14 not be similar here in North Carolina.

15 So I don't know if Mr. Thomas has anything
16 else to add.

17 A. (Jeff Thomas) Yeah. Just -- I mean, just
18 also to add, you know, that the -- the PBR framework
19 was passed in HB 951, which included the Carbon Plan
20 and an explicit requirement that the -- achieving the
21 carbon reduction targets associated with the Carbon
22 Plan are -- do not result in a degradation of system
23 reliability.

24 And so I think setting the baseline at

1 where Duke has been on average represents a good
2 baseline for measuring that -- for ensuring that, you
3 know, as we proceed into the next few years and -- and
4 beyond and implementing the Carbon Plan that our
5 reliability is not slipping.

6 And so this is one -- one metric that --
7 that we looked as -- a good baseline would be Duke.
8 Compare Duke to Duke. Make sure that over time they
9 aren't slipping. And then, you know, penalize them
10 with these PIMs in the Stipulation if we see
11 reliability degrade over time, beyond these -- the
12 debt band that we established.

13 MS. LUHR: No further questions.

14 COMMISSIONER DUFFLEY: Okay.

15 Commissioner questions?

16 Commissioner Hughes.

17 EXAMINATION BY COMMISSIONER HUGHES:

18 Q. Back to you, gentlemen.

19 If I could call your attention to page 39 of
20 your direct testimony. Do you have that in front of
21 you? The question, which you'll see in a second --

22 Sorry about that.

23 The -- if you go to line 10 of page 39,
24 Mr. Williamson, you're responding to a -- a question

1 formula rate plan in Vermont, and I'm very familiar
2 with that case. That's -- their -- their -- Vermont
3 and Illinois are the two states that I'm aware of
4 where they tie ROEs to treasury yields. And the
5 treasury yields, as we know, have been very low, and
6 as a result of that, those two states have had some
7 of the lowest ROEs for their utilities as a result of
8 those formulas. I would say unintendedly low in
9 terms of their outcomes, but that's what's behind
10 Vermont.

11 Q. That's just the sort of three recent ones
12 that I saw when I looked at the data. If you're
13 aware of any from -- well, I guess that would be --
14 that's all August, isn't it, because it went through
15 the 31st? So --

16 A. Well, I think -- I think Table 2 in
17 Mr. Newlin's rebuttal testimony is -- is important
18 because it summarized a lot of ROEs for vertical --
19 first of all, the utilities you mentioned do not look
20 like Duke Energy Carolina in terms of their business
21 profile, their operating profile, their generation
22 mix and things of that nature.

23 And what I like about the Table 2 that Mr.
24 Newlin prepared is that it summarizes the allotted

1 vice versa.

2 And what -- what I've illustrated in
3 Figure 6 in my rebuttal testimony is that that --
4 that doesn't appear to be the case with Kroll because
5 the actual line show -- this is their equity risk
6 premium that -- that Mr. Walters has relied on in
7 relationship to interest rates, And there's no
8 statistical -- apparent statistical relationship
9 between them. Whereas if you were to run a -- a
10 regression analysis of the market-based equity risk
11 premium, you would find strongly an inverse
12 relationship. So as interest rates go down, the
13 equity risk premium comes up.

14 The -- the Kroll equity risk premium, which
15 is so fundamental to the CAPM model that Mr. Walters
16 has relied on that case is only 5.5 percent. And
17 that produces a very -- a very low result and -- in
18 between 8.4 and 8.76 percent. If he were to -- and
19 what Mr. Walters did do, and I give him credit for
20 this, is he did use some reasonable approaches that
21 are just -- these other approaches brought down the
22 average of his results so much that the overall
23 recommendation, I think, is -- is unduly biased by it.

24 If you were to -- to do what FERC does and

1 you estimate a market equity risk premium using a DCF
2 model with analyst growth rates, as we talked about
3 earlier, for the DCF model, that would produce -- and
4 this is his own analysis -- a 10.68 percent total
5 market return less a 3.7 percent risk-free rate for 7
6 percent equity risk premium. And that is consistent
7 with a long-term history for -- for the market equity
8 risk premium.

9 If you look at the -- Kroll also publishes
10 that history of market equity risk premiums, and that
11 historical return is one of the ones that Dr. Morin
12 relied on. And that number is -- that number is 7.17
13 percent. So from the same source, Kroll, I went back
14 and looked at actual equity market returns from 1926
15 through 19- -- through 2022. And that historical
16 equity market return is 7.1 percent.

17 So it's odd to me that you would pick this
18 number from Kroll, which is their current estimate of
19 5.5 percent, and not consider that long-term history
20 or put more weight on the FERC forward-looking --
21 the FERC methodology forward-looking market equity
22 risk premium, which is, as I mentioned, seven
23 percent.

24 So the -- if you look at the table -- and
I know you asked him about this. If you look at the

1 table of his CAPM results, some of them -- some of
2 them are -- are -- are reasonable if you look at the
3 reasonable inputs to the CAPM model.

4 I would turn you to Page 73 of -- of his
5 testimony. And in Table CCW-11, he has a risk
6 premium method using current Value Line betas and the
7 FERC DCF method using current Value Line methods.
8 And in those two approaches, Mr. Walters, in my view,
9 is more mainstream with the inputs he's using into
10 these models. And also, it gives you results that I
11 think are more in tune with what you would expect for
12 a utility like Duke today in terms of its required
13 cost of equity capital.

14 Q. All right. Thank you, Mr. Coyne. All
15 right. I've -- I've got a follow-up question for you
16 there. And this one is -- is -- comes from
17 Commission staff and is not my own question. So it's
18 getting down into the weeds that are less familiar for
19 me.

20 But the -- so you criticize the betas that
21 Mr. Walters uses in his CAPM, and the -- as we
22 understand adjustments that you make reflected on
23 Page 36 of your testimony, you appear only to exclude
24 the Kroll method.