NORTH CAROLINA
PUBLIC STAFF
UTILITIES COMMISSION

January 18, 2019

Ms. M. Lynn Jarvis, Chief Clerk
North Carolina Utilities Commission
Mail Service Center 4325
Raleigh, North Carolina 27699-4300

Re: Docket Nos. E-7, Sub 1181; SP-12478, Sub 0; and SP-12479, Sub 0

Dear Ms. Jarvis:

In connection with the above-captioned docket, I transmit herewith for filing on behalf of the Public Staff the Joint Testimony of Michael C. Maness and Dustin R. Metz.

By copy of this letter, we are forwarding copies to all parties of record.

Sincerely,

/s/ Tim R. Dodge
Staff Attorney
tim.dodge@psncuc.nc.gov

TRD/sld

cc: Parties of record

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NOS. E-7, SUB 1181, SP-12478, SUB 0,
AND SP-12479, SUB 0

In the Matter of		
Transfer of Certificates of Public Convenience and Necessity and Ownership Interests in Generating Facilities from Duke Energy Carolinas, LLC, to Northbrook Carolina Hydro II, LLC, and Northbrook Tuxedo, LLC	)))))	TESTIMONY OF MICHAEL C. MANESS AND DUSTIN R. METZ PUBLIC STAFF – NORTH CAROLINA UTILITIES COMMISSION

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION
DOCKET NOS. E-7, SUB 1181; SP-12478, SUB 0;
AND SP-12479, SUB 0

Testimony of Michael C. Maness and Dustin R. Metz
On Behalf of the Public Staff
North Carolina Utilities Commission

January 18, 2019

Q. MR. MANESS, PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND PRESENT POSITION.

A. My name is Michael C. Maness. My business address is 430 North Salisbury Street, Dobbs Building, Raleigh, North Carolina. I am Director of the Accounting Division of the Public Staff – North Carolina Utilities Commission. A summary of my qualifications and duties are included in Appendix A.

Q. MR. METZ, PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND PRESENT POSITION.

A. My name is Dustin Ray Metz. My business address is 430 North Salisbury Street, Dobbs Building, Raleigh, North Carolina. I am an Engineer with the Electric Division of the Public Staff – North Carolina Utilities Commission. A summary of my qualifications and duties are included in Appendix B.

Q. WHAT IS THE PURPOSE OF YOUR JOINT TESTIMONY?

A. The purpose of our testimony is to present the results of our technical investigation into the proposed sale and transfer of certificates of public convenience and necessity for five hydroelectric facilities (facilities) by Duke Energy Carolinas, LLC (DEC) to Northbrook Carolina Hydro II, LLC or Northbrook Tuxedo, LLC (collectively known as Northbrook) in this docket.[1]. In its November 29, 2018, Order Requiring Filing of Testimony and Scheduling Hearing, the Commission directed the parties to file testimony specifically addressing nine questions (Commission Questions), along with other evidence that supports their position in this matter.

In particular, our testimony will address the following topics:

- The Public Staff's opinion on the strengths and weaknesses of the present value of revenue requirements analysis (PVRR Analysis or Analysis) conducted by DEC, as requested by Commission Questions 1 and 2.
- A review of the capital expenditures made by DEC on the facilities from 2015 through 2018, as requested by Commission Question 3.

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[1] The five hydroelectric facilities in question are: Bryson, Franklin, Gaston Shoals, Mission, and Tuxedo. All but Gaston Shoals are located in North Carolina. Gaston Shoals is located in both North and South Carolina.

- The Public Staff's position on the standard the Commission should apply in assessing DEC's request to establish a regulatory asset to defer the North Carolina retail allocable portion of the loss on sale, and whether DEC's request in this proceeding meets that standard, as requested by Commission Questions 6 and 7.
- Support for the Public Staff's position that the amortization period should begin in the month in which the asset transfer is completed, subject to reevaluation and adjustment in the next general rate case, as requested by Commission Question 8.
- A review of the amounts of the expenditures that were included in the rates established by the Commission in its June 22, 2018, Order Accepting Stipulation, Deciding Contested Issues, and Requiring Revenue Reduction in Docket No. E-7, Sub 1146 (Sub 1146 Proceeding), and what amounts, if any, were not included in such rates, as requested by Commission Question 9.

Q. WHY ARE YOU PRESENTING JOINT TESTIMONY?

A. While we have received assistance from others, the two of us have conducted a significant portion of this investigation and have worked closely together. We have agreed upon the results and recommendations presented here. If we were to file separate testimonies, it would be largely redundant.

Q. PLEASE DESCRIBE THE TESTIMONY FILED BY DEC ON DECEMBER 21, 2018.

A. DEC witness Greg Lewis discussed DEC's decision to sell the small hydro facilities and the economic analysis used in making that decision. Witness Lewis also provided DEC's support for the capital investments made at the facilities from 2015 to 2018. DEC witness Manu Tewari described the RFP and selection process used by DEC and the terms of the asset purchase agreement between DEC and Northbrook. DEC witness Veronica Williams discussed the accounting treatment requested by DEC and the basis for the deferral request.

Q. PLEASE DESCRIBE THE TESTIMONY FILED BY NORTHBROOK ON DECEMBER 21, 2018.

A. Northbrook witness John Ahlrichs provided background information on Northbrook Energy's managerial, financial and technical capabilities to own and operate the small hydroelectric facilities.

PVRR ANALYSIS (COMMISSION QUESTION 2)

Q. PLEASE DESCRIBE THE PUBLIC STAFF'S REVIEW OF THE PVRR ANALYSIS CONDUCTED BY DUKE.

A. The PVRR Analysis, which has been summarized in Lewis Confidential Exhibit 1 and provided confidentially to the Commission in electronic form, is the same as was reviewed by the Public Staff prior to the filing of its Comments on September 4, 2018. The results of the Analysis indicate a significant PVRR advantage to disposing of the facilities in the 2018 time frame, even under what DEC witness Lewis describes as "aggressively low and optimistic budget" assumptions and estimates (the Low-Cost Case). Members of the Public Staff have reviewed the PVRR analysis in detail, including its structure and other cost and benefit inputs and assumptions.

Q. WHAT IS THE PUBLIC STAFF'S CONCLUSION REGARDING THE QUALITY OF THE ANALYSIS AND ITS RESULTS?

A. Notwithstanding a few concerns, the Public Staff finds that the analysis was reasonably performed. We believe that it adequately supports the Company's decision to dispose of the facilities, in that the disposition is likely to result in future net benefits to the Company's North Carolina retail ratepayers, subject to the accuracy of its cost and benefit assumptions.

Q. ARE THERE ANY SPECIFIC STRENGTHS AND WEAKNESSES OF THE PVRR ANALYSIS UPON WHICH THE PUBLIC STAFF'S WOULD LIKE TO COMMENT?

A. There are a few items that we would like to note regarding the structure of the PVRR Analysis, although none of them significantly affect or change the outcome:

1. The discount rate used by the Company in the Analysis differs somewhat from the weighted overall net-of-tax rate of return approved by the Commission in the Sub 1146 Proceeding. However, this difference does not have a significant effect on the outcome of the analysis.

2. The Company chose to use a beginning-of-year cash flow assumption for the Analysis. While this choice is not unheard of, the experience of the Public Staff is that an end-of-year assumption has been used more frequently, and is at times more accurate. In fact, in this case a mid-year cash flow assumption would probably be even more reasonable. Again, however, the difference between the outcome of the Analysis using a mid-year cash flow assumption versus either a beginning- or end-of-year assumption is not significant.

3. The methodology used by the Company in the Analysis for capital expenditures implicitly assumes that those costs would be deductible for income tax purposes at the time of each expenditure. However, each year's capital expenditure would in fact be deductible for income tax purposes over a period of

some years in the future. While the impact of this item would be somewhat more significant than the first two discussed above, it would not tend to reduce the benefit of disposing of the unit; in fact, it would tend to increase it (by increasing the net-of-tax cash outflow associated with retaining the unit).

It is, therefore, the Public Staff's conclusion that none of the issues discussed above would significantly affect the outcome of the PVRR Analysis, which shows a significant benefit of selling the facilities.

Q. HAS THE PUBLIC STAFF REVIEWED THE COST INPUTS TO THE PVRR ANALYSIS?

A. Yes.

Q. WHAT ARE THE PUBLIC STAFF'S CONCLUSIONS REGARDING THE COST INPUTS?

A. First, the Public Staff agrees with the use of avoided costs to represent the estimated cost of power purchases made in the absence of the facilities. Although virtually all forward-looking PVRR analyses must by necessity use estimates for future costs, the use of utility avoided costs in this instance is reasonable, given that they are the most current estimates approved by the Commission (in Docket No. E-100, Sub 148).

Second, the Public Staff has also reviewed the Company's estimates of future capital and operations and maintenance (O&M) expenditures. While this review has not revealed any specific issues with the Company's estimates, the Public Staff did test the results of the Analysis for sensitivity to lower cost estimates than those shown in the Low-Cost Case. The results of these tests indicate that the net benefit of selling the facilities remains positive except in some scenarios using very conservative estimates of future capital and O&M expenditures (especially when taking into account the three structural items mentioned earlier in my testimony).

Q. WHAT IS THE PUBLIC STAFF'S OVERALL CONCLUSION REGARDING THE PVRR ANALYSIS?

A. Within the context of a single analysis performed in the 2017-2018 time frame, the Public Staff believes that the PVRR Analysis presented by DEC supports the sale of the facilities to Northbrook. However, this conclusion is subject to any pro forma financial adjustments, as explained later in this testimony, that might prove appropriate once the reasonableness and prudence of the 2015-2018 expenditures is examined further, an examination that the Public Staff believes should be reserved for DEC's next general rate case.

<u>REVIEW OF CAPITAL EXPENDITURES</u>
<u>(COMMISSION QUESTION 3)</u>

Q. PLEASE BRIEFLY DISCUSS THE INVESTMENTS MADE BY DEC DURING 2015 THROUGH 2018.

A. In response to a Public Staff data request, DEC stated that it made capital expenditures between 2015 and 2017 totaling approximately $18 million, with another approximately $900,000 budgeted for 2018. Following the filing of the Public Staff Comments on September 4, 2018, DEC revised the total expenditures for the period 2015-2017 to approximately $17.3 million, and indicated that the planned 2018 expenditures were generally suspended pending the sale. Much of the work was for maintenance and refurbishment of turbine generators that had an installed life of 90-100 years, although other work dealt with compliance with each site's FERC operational license, as well as safety and overheads.

Q. WHY IS THE PUBLIC STAFF RAISING CONCERNS REGARDING DEC'S CAPITAL INVESTMENTS FOR THE REFERENCED HYDROELECTRIC FACILITIES DURING THE 2015 THROUGH 2017 PERIOD?

A. Despite making recent capital expenditures at the facilities that increased the book value of the facilities substantially, DEC determined in 2017 that the cost of maintaining the older facilities made it no longer cost effective to continue to operate the facilities to serve its customers, and more economical for DEC to sell the facilities. As described further in the motion filed concurrently with this testimony, the Public Staff believes that the proposal to sell the facilities so soon after making significant capital investments in them creates special circumstances meriting further consideration, and that the issues of prudence and reasonableness of the 2015-2018 expenditures should be preserved as an open issue until DEC's next general rate case, at which time the prudency and reasonableness of the deferred costs resulting from those expenditures can be further considered.

Q. PLEASE DESCRIBE THE PUBLIC STAFF'S REVIEW OF THE INVESTMENTS MADE DURING THE 2015-2017 TIME PERIOD.

A. The Public Staff sent multiple data requests, reviewed Company responses, and participated in multiple detailed meetings and conference calls with DEC personnel regarding these investments (see DEC witness Lewis Exhibit No. 2). In his November 29, 2018, testimony, DEC witness Lewis testified that these major capital expenditures were "necessary to meet various regulatory, license, operational, and safety requirements." However, based upon the information gathered to date, we are unable to determine if the costs were for timely compliance with license and safety requirements, reflected capital projects that were deferred from previous years that were made to secure the sale of the assets, or other reasons.

Q. CAN YOU DISCUSS THE MAIN ISSUE THAT REMAINS OPEN IN THE PUBLIC STAFF'S REVIEW OF THESE COSTS?

A. DEC failed to demonstrate that a "holistic" evaluation of its investments was taken to justify the continued plant operation under the license extensions. We believe it would have been reasonable to perform such an evaluation, particularly when considering these levels of investment on "facilities [that] were originally commissioned between 1908 and 1925, when many regulatory agencies did not exist…" (Lewis p. 9). Duke has faced similar decisions regarding whether to retire or retrofit small hydroelectric facilities in recent years, and in some of those circumstances, determined that retirement was reasonable, as evidenced by its decision to retire the following units in 2018: Rocky Creek Units 1-8; Great Falls Units 3, 4, 7, and 8; and Ninety-Nine Islands Units 5, 6.

Q. WHEN DOES THE PUBLIC STAFF PROPOSE TO MAKE A RECOMMENDATION TO THE COMMISSION ON THE CAPITAL EXPENDITURE DECISIONS FOR THESE FACILITIES?

A. For the reasons outlined in the Public Staff's Comments filed in this docket on September 4, 2018, and reiterated in its motion filed on

January 18, 2019, we recommend that the Commission allow the Public Staff further review of the reasonableness of these costs up to and including the time of DEC's next general rate case.

DEFERRAL STANDARD (COMMISSION QUESTIONS 6 AND 7)

Q. WHAT DEFERRAL STANDARD DOES DEC RECOMMEND THAT THE COMMISSION APPLY TO THIS REQUEST?

A. On page 4 of her testimony, DEC witness Williams states that DEC does not believe that the two-prong test the Commission sometimes utilizes should apply to this request based on the unique nature of the transaction. Instead, witness Williams stated that the Commission has discretion to also consider the equitable treatment for both shareholder and customers. Witness Williams does, however, indicate that DEC believes the transaction is unusual and large enough to merit deferral.

Q. DOES THE PUBLIC STAFF AGREE WITH THE DEFERRAL STANDARD RECOMMENDED BY DUKE IN THIS PROCEEDING?

A. Yes, in part. The Public Staff agrees that it is reasonable for the Commission to consider the apparent benefit of this transaction to the ratepayers, and in its discretion to therefore authorize the creation of a regulatory asset and amortize it to expenses over a period of time, subject to review in DEC's next general rate case.

However, the Public Staff does not necessarily agree that the transaction is otherwise unusual or large enough to merit deferral.

The "two-prong test" set forth in Commission Question No. 6 that it sometimes applies when considering whether deferral into a regulatory asset of a cost that would otherwise be expensed in a given time period is as follows: "whether the costs in question are unusual or extraordinary in nature, and (2) whether absent deferral, the costs would have a material impact on DEC's financial condition." The types of costs to which this or a similar test is applicable typically fall into one of the following categories:

1. Major storm repair expenses that are relatively unusual and so large in magnitude (often expressed as an impact on earnings) that it is not reasonable to presume that the expenses are being recovered in then-current rates.
2. Other unexpected expenses or losses so obviously unusual in nature and large enough in magnitude (often expressed as an impact on earnings) that it is not reasonable to presume that the expenses/losses are being recovered in then-current rates.
3. Other expenses or losses that may not be so unusual in nature but are so <u>excessively</u> large in magnitude (often expressed as an impact on earnings) that it is not reasonable

to presume that the expenses/losses are being recovered in then-current rates.

Another category of costs that is often approved for deferral is related to new generating plants coming into service, typically just around the time that a general rate case is being filed. These costs (depreciation expense and the return requirement on rate base, sometimes supplemented by property taxes and certain O&M expenses) are not truly unusual in nature or significantly larger than would be expected, but it is often recognized that they are a major driver of the general rate case, and deferral is a method of virtually "synchronizing" the beginning of commercial operation of the plant with the effective date of the rate change found appropriate and reasonable in the rate case (and may be an alternative to interim rates). However, revenue requirements related to a generation plant small enough in size or earnings impact might not qualify for deferral treatment.

The expense/loss under consideration in this proceeding does not truly fall into any of the categories listed above. It is not unusual enough, in the Public Staff's opinion, to be considered to be something other than the result of an action taken in the normal course of business, nor is it large enough in magnitude to automatically be considered the be a properly deferrable item in the absence of some other underlying rationale that justifies deferral. Finally, it is not large enough in magnitude to be considered a major driver of a general rate case.

Q. IF THE LOSS ON DISPOSAL DOES NOT FALL INTO ONE OF THE CATEGORIES YOU HAVE NOTED, WHY DOES THE PUBLIC STAFF BELIEVE THAT DEFERRAL IS JUSTIFIED?

A. The Public Staff believes that deferral is justified in this specific case because of the nature of the actions that gave rise to the loss and the costs that make up the loss. The Company has taken the initiative in this matter to cease utility operation of the facilities and engage in a transaction that is expected to reduce the future cost of service (and thus, implicitly or explicitly, customers' rates) to a level below what would have been experienced in the absence of the action(s), regardless of costs incurred in the past. The book loss recorded as part of the sales transaction is made up of those costs incurred in the past (net of closure and sales-related expenses), in a manner that was prudent and reasonable,[2] and not yet recovered in rates. Any reasonable and prudent costs incurred in the <u>past</u> generally remain reasonable and prudent, no matter what decision the Company makes regarding <u>future</u> costs. Since the sale of the

[2] Subject to the later review of 2015-2018 expenditures that the Public Staff is advocating in this proceeding.

facilities is expected to be the best forward-looking action for the Company to take, and since the loss consists of costs incurred in the past on behalf of the ratepayers, the Public Staff believes that in this specific case, it is reasonable for the unrecovered costs (the loss) to be preserved for continued recovery in rates (subject to reasonable and appropriate amortization in the interim and subject to further investigation of the reasonableness and prudence of the 2015-2018 expenditures). The appropriate regulatory accounting mechanism to achieve this preservation is deferral of the loss by way of a regulatory asset.

Q. DOES THE PUBLIC STAFF BELIEVE THAT THE RATIONALE SET FORTH ABOVE FOR THIS CASE SHOULD BE CONSIDERED PRECEDENTIAL?

A. No. Cases where questions of future economic benefit are combined with the incurrence of book losses are unusual and unique enough that the issue of possible deferral should be considered on a case-by-case basis, as it normally is with other deferral requests.

Q. DOES THE PUBLIC STAFF AGREE WITH THE REQUESTED N.C. RETAIL DEFERRAL AMOUNT OF APPROXIMATELY $27 MILLION?

A. The Public Staff has not yet reviewed the Company's precise calculations of estimated net book value and net loss at time of sale.

If the sale is approved and consummated, the Public Staff will request that the Company provide the calculation of actual net book value and net loss at closing for each facility. This calculation will be subject to review for accuracy and reasonableness at that time and up through the Company's next general rate case.

In her testimony in this proceeding, Company witness Williams describes the estimated net loss as being the difference between sales proceeds, on the one hand, and the sum of the net book value of the facilities, plant-related materials and supplies, legal and transaction-related costs, and sale-related transmission work. The Commission does not specifically mention accumulated deferred income taxes in this list. The Public Staff notes that the loss on sale should also be net of any related accumulated deferred income tax liabilities and unamortized tax credits existing at the time of closing.

Finally, as previously described in our testimony, as well as in our Comments and motion, the Public Staff recommends that the prudence and reasonableness of expenditures during the 2015-2018 period remain subject to review for prudence and reasonableness until DEC's next general rate case. It should be noted that any of those costs found imprudent or unreasonable would be removed from the deferred regulatory asset ultimately found appropriate and reasonable for recovery from the ratepayers.

Q. COMPANY WITNESS WILLIAMS STATES IN HER TESTIMONY THAT "THE SALE OF GENERATING ASSETS BY THE REGULATED UTILITY IS CERTAINLY UNUSUAL AND NOT PART OF THE CONDUCT OF [DEC'S] ORDINARY COURSE OF BUSINESS." DOES THE PUBLIC STAFF AGREE WITH THIS CHARACTERIZATION?

A. Not in this case. It appears to the Public Staff that, as has apparently been the case with other relatively recent closures of hydroelectric generating facilities, the Company evaluated whether operating these facilities continued to be cost-effective. This general evaluation of cost-effectiveness of operations is something that the Public Staff believes is integral to the Company's ordinary course of business. Although an asset retirement due to such an evaluation might be eligible for deferral based on magnitude, the Public Staff is not certain it would recommend a deferral on that basis alone in this case. However, the Public Staff does believe that deferral in this case is justified by the reasons previously set forth in this testimony, and does not believe that the loss is so small as to make deferral inappropriate.

AMORTIZATION PERIOD (COMMISSION QUESTION 8)

Q. WHEN DOES THE PUBLIC STAFF PROPOSE THAT THE AMORTIZATION PERIOD SHOULD BEGIN?

A. In our September 4, 2018, Comments, the Public Staff recommended that the Commission require DEC to begin amortization in the month in which the transaction closes. In addition, the Public Staff recommended that the amortization period for the regulatory asset be set at 20 years, which is comparable to the period of time over which the facilities would have been depreciated if they had remained in service. The amortization period should be reevaluated and adjusted as needed in the Company's next general rate case.

Q. WHAT IS THE BASIS FOR THIS POSITION?

A. As stated in our Comments, the decision as to when the amortization of a regulatory asset should begin is a matter within the discretion of the Commission. As the Commission has found in previous cases, the proper default position is to presume that the rates approved by the Commission at any given point in time are sufficient to and presumed to recover the annual capital and operating costs incurred by the utility at that time. However, in some cases, as when the purpose of the creation of the regulatory asset (the deferral) is largely to more precisely synchronize the beginning of the recovery of the costs of a large generating plant with the effective date of the rates approved in a general rate case that is largely driven by the costs of that plant being transferred to plant in service as the plant becomes commercially operational, it is considered reasonable for the plant's capital costs (principally depreciation expense and return) to be deferred during the period between the commercial operation date and the effective date of the rate approved in the case, with the amortization beginning with that effective date. Similarly, in other cases, when the costs underlying the regulatory asset are so large and unique as to make it clearly unfair and unreasonable to assume that existing rates are recovering those costs, it may be reasonable and appropriate for the beginning of the amortization period to be delayed until the effective date of rates (as was the case with DEC's recently approved amortization of deferred coal ash disposal expenditures).

The above notwithstanding, the Public Staff believes that in most cases, even when it is not reasonable to assume that the entire cost underlying a requested regulatory asset is recovered in the rates existing at the time the cost is incurred, and thus deferral and amortization of the cost is appropriate, it is nonetheless also not reasonable for the beginning of the amortization of the cost to be delayed until the next general rate case. This approach is most in keeping with the underlying ratemaking policy followed by the Commission in North Carolina; namely, that the utility's regulatory books and records should reflect the actual costs of providing utility service to the ratepayers (including the reasonable amortization of periodically deferred costs), and then it should be up to the utility to decide whether that annual cost of service affects its overall return in a manner that justifies the filing of a general rate case. This approach is also most appropriate when the nature of the underlying cost to be deferred is such that it is best considered in general as a normal part of the cost of conducting utility business.

This approach has been most typically used in cases involving the expenses of storm damage repair expenses. In the most recent example, that of the abnormal level of storm damage expenses incurred in 2016 by Duke Energy Progress, LLC (DEP), which was considered in DEP's most recent general rate case, Docket No. E-2, Sub 1142 (which was consolidated with Docket No. E-2, Sub 1131, the proceeding in which DEP requested deferral of the costs), the Public Staff recommended that the deferred costs approved by the Commission be amortized for regulatory accounting purposes over a ten-year period, beginning in the month the largest storm (Hurricane Matthew) occurred. The Public Staff argued in that case that for storm costs and, in general, other events that cause fluctuations in utility income between rate cases, it is most appropriate and reasonable for the Company to begin amortizing deferred costs into cost of service immediately. The purpose of deferral accounting is not to preserve costs for an indefinite period of time. Only in unusual circumstances, where costs are extremely high and/or extremely unusual, or in cases where a general rate case is pending, and the Commission particularly wants to synchronize the recognition of a deferred costs and the approval of new rates, is the delay of beginning an amortization generally appropriate. The Commission approved the Public Staff's recommendation that the amortization begin in the month that Hurricane Matthew occurred.[3]

The Public Staff believes that the same rationale that supported the amortization of DEP's deferred storm costs beginning at the time the storm costs were incurred also supports the amortization of the deferred book loss in this case beginning at the closing date of the sale of the hydro facilities. Except as described above, it is most appropriate and reasonable for the Company to begin amortizing deferred costs into cost of service immediately upon their incurrence. Therefore, the Public Staff recommends that the Commission should require DEC to begin amortizing the regulatory asset resulting from

[3] In another notable case, that of the treatment of the deferred costs related to the never-operational GridSouth Regional Transmission Organization, the Commission decided, in Docket No. E-7, Sub 828, that amortization of the costs should be considered to have begun in June 2002, the date that the GridSouth participants notified FERC that they had ceased incurring GridSouth costs, rather than at the time of the Sub 828 general rate case (2007), as was proposed by DEC. In its Order, the Commission stated, "[T]he Commission agrees with the Public Staff that, as a matter of ordinary practice, amortization of deferred costs should begin as soon as the relevant regulatory asset is or should be established."

the book loss on the sale of the hydro facilities as of the date the sale is closed.

Q. WHEN DOES DUKE RECOMMEND THAT THE AMORTIZATION PERIOD BEGINS?

A. DEC generally agrees with the Public Staff's position. On page 8, DEC witness Williams testifies that:

> [T]he Company proposes approval of the regulatory asset, with amortization beginning at the time the regulatory asset is recorded on the books, at a rate equivalent to the remaining 20-year life of the assets. Once established, the Company would plan to address the proper amortization period for the then-remaining regulatory asset balance in its next general rate case.

While there might be slight differences between the annual amounts of amortization expense recorded under the Company's proposal from what would be recorded under the Public Staff's, the Public Staff considers the Company's proposal reasonable.

<u>COSTS INCLUDED IN THE SUB 1146 PROCEEDING (COMMISSION QUESTION 9)</u>

Q. WHAT COSTS RELATED TO THE FACILITIES WERE INCLUDED IN THE SUB 1146 PROCEEDING?

A. DEC witness Williams on page 8 of her testimony states that:

> Net plant balances were updated through December 31, 2017, and reflected in the revenue requirement in the Company's general rate case in Docket No. E-7, Sub 1146. Capital expenditures incurred and closed to plant in service through December 31, 2017 would

> have been included in the costs approved in the Sub 1146 Proceeding.

DEC witness Lewis also summarizes these costs in Lewis Exhibit No. 2. The Public Staff agrees that these costs were included in the net plant in rate base in the Sub 1146 Proceeding. However, in order to determine the net loss related to these amounts, one would also need to know the accumulated depreciation, deferred income taxes, and unamortized tax credits (if any) related to these expenditures on the books as of December 31, 2017.

Q. WHAT AMOUNTS, IF ANY WERE NOT INCLUDED IN THE SUB 1146 PROCEEDING?

A. Lewis Exhibit No. 2 also provides a list of actual capital expenditures through year-to-date November 2018. These expenditures were not included in rate base in the Sub 1146 Proceeding. In addition, DEC witness Williams on page 3 of her testimony indicates approximately $0.2 million of plant material and operating supplies, $1.4 million of legal and transaction-related costs, and $1.6 million of transmission-related work required by the sale as part of the loss that were not considered during the Sub 1146 Proceeding.

Q. DOES THIS CONCLUDE YOUR JOINT TESTIMONY?

A. Yes.

Appendix A

Michael C. Maness

Qualifications and Experience

I am a graduate of the University of North Carolina at Chapel Hill with a Bachelor of Science degree in Business Administration with Accounting. I am a Certified Public Accountant and a member of both the North Carolina Association of Certified Public Accountants and the American Institute of Certified Public Accountants.

As Director of the Accounting Division of the Public Staff, I am responsible for the performance, supervision, and management of the following activities: (1) the examination and analysis of testimony, exhibits, books and records, and other data presented by utilities and other parties under the jurisdiction of the Commission or involved in Commission proceedings; and (2) the preparation and presentation to the Commission of testimony, exhibits, and other documents in those proceedings. I have been employed by the Public Staff since July 12, 1982.

Since joining the Public Staff, I have filed testimony or affidavits in a number of general, fuel, and demand-side management/energy efficiency rate cases of the utilities currently organized as Duke Energy Carolinas, LLC, Duke Energy Progress, LLC., and Virginia Electric and Power Company (Dominion Energy North Carolina), as well as in several water and sewer general rate cases. I have also filed testimony or affidavits in other proceedings, including applications for certificates of public convenience and necessity for the construction of generating facilities, approval of self-generation deferral rates, approval of cost and incentive recovery mechanisms for electric utility demand-side management and energy efficiency (DSM/EE) efforts, and approval of cost and incentive recovery pursuant to those mechanisms.

I have also been involved in several other matters that have come before this Commission, including the investigation undertaken by the Public Staff into the operations of the Brunswick Nuclear Plant as part of the 1993 Carolina Power & Light Company fuel rate case (Docket No. E-2, Sub 644), the Public Staff's investigation of Duke Power's relationship with its affiliates (Docket No. E-7, Sub 557), and several applications for business combinations involving electric utilities regulated by this Commission. Additionally, I was responsible for performing an examination of Carolina Power & Light Company's accounting for the cost of Harris Unit 1 in conjunction with the prudence audit performed by the Public Staff and its consultants in 1986 and 1987.

I have had supervisory or management responsibility over the Electric Section of the Accounting Division since 1986, and also was assigned management duties over the Water Section of the Accounting Division during the 2009-2012 time frame. I was promoted to Director of the Accounting Division in late December 2016.

Appendix B

Dustin R. Metz

Qualifications and Experience

Through the Commonwealth of Virginia Board of Contractors, I hold a current Tradesman License certification of Journeyman and Master within the electrical trade, 2008 and 2009 respectively. I graduated from Central Virginia Community College with Associates of Applied Science degrees in Electronics & Electrical Technology (Magna Cum Laude), 2011 and 2012 respectively, and an Associates of Arts in Science in General Studies (Cum Laude) in 2013. I graduated from Old Dominion University in 2014, earning a Bachelor of Science degree in Engineering Technology with a major in Electrical Engineering and a minor in Engineering Management.

I have 12 plus years of combined experience in engineering, electromechanical system design, troubleshooting, repair, installation, commissioning of electrical & electronic control system in industrial and commercial nuclear facilities, project planning & management, and general construction experience.

I joined the Public Staff in the fall of 2015. Since that time, I have worked on general rate cases, fuel cases, applications for certificates of public convenience and necessity, customer complaints, nuclear decommissioning, power plant performance, and other aspects of utility regulation.