



Camal O. Robinson
Associate General Counsel

Duke Energy
550 South Tryon St
DEC45A
Charlotte, NC 28202

o: 980.373.2631
f: 704.382.4439

camal.robinson@duke-energy.com

February 23, 2021

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

RE: Duke Energy Carolinas, LLC's and Duke Energy Progress, LLC's Verified Response to the North Carolina Utilities Commission's CCR Settlement Questions
Docket No. E-7, Sub 1213
Docket No. E-7, Sub 1214
Docket No. E-7, Sub 1187
Docket No. E-2, Sub 1142
Docket No. E-2, Sub 1219
Docket No. E-2, Sub 1193

Dear Ms. Campbell:

Enclosed for filing in the above-referenced dockets are the public and confidential versions of Duke Energy Carolinas, LLC's and Duke Energy Progress, LLC's Verified Response to the North Carolina Utilities Commission's CCR Settlement Questions. The Response contains commercially sensitive information that should be protected from public disclosure. The information designated by DEC and DEP as confidential qualifies as "trade secrets" under N.C. Gen. Stat. § 66-152(3). If this information were to be publicly disclosed, it would allow competitors, vendors, and other market participants to gain an undue advantage, which may ultimately result in harm and higher cost to customers. Pursuant to N.C.G.S. § 132-1.2, DEC and DEP request that the information marked "Confidential" be protected from public disclosure. DEC and DEP are filing all pages designed as confidential under seal and will make the information available to other parties to this docket pursuant to an appropriate nondisclosure.

OFFICIAL COPY

Feb 23 2021

If you have any questions, please let me know.

Sincerely,

/s/ Camal O. Robinson

Camal O. Robinson

Enclosures

cc: Parties of Record

1. In Section III, Paragraph E, Subsections iii. and iv., on pages 8-9 of the CCR Agreement, the Settling Parties agree to reduce the 2019 NC Rate Case deferred CCR balances as of December 31, 2020 by \$224 million for DEC and \$261 million for DEP.

(a) State the journal entries that will be recorded on each respective Company's books to reduce the deferred CCR balance as of December 31, 2020, and to reduce the related financing costs accrued during the deferral period. Also, state when these actual journal entries will be made on the Companies' books.

Response:

Duke Energy Carolinas, LLC (DEC) and Duke Energy Progress, LLC (DEP) defer cash expenditures for recovery based on Orders from Docket No. E-7, Sub 1146 for DEC and Docket No. E-2, Sub 1142 for DEP, as well as financing costs (debt and equity) for these cash expenditures during the deferral period, to a spend regulatory asset.

Based on the CCR Agreement, DEC/DEP agreed not to seek recovery of the balances noted above. According to Generally Accepted Accounting Principles (GAAP), in order to record a regulatory asset, the Companies must determine that the deferred costs are probable of recovery. DEC and DEP determined that this agreement to reduce the NC Rate Case deferred CCR balances did not allow the Companies to meet this threshold, even though the NCUC has not yet ruled on this agreement. As a result, as of December 31, 2020, the following entry was recorded to reduce the spend regulatory asset for the agreed upon reduction per the CCR Agreement:

	Debit (Credit)	
(in millions)	Balance Sheet: 182.3 Regulatory Assets "spend"	Income Statement: 426 Impairment Expense
DEC	(224)	224
DEP	(261)	261
Total DEC/DEP	(485)	485

(b) Regarding the recovery of the remaining balance of CCR Costs and Financing Costs accrued during the Deferral Period, state the journal entries that were recorded on each respective Company's books to reflect the accrual of Financing Costs during the Deferral Period. Also, state when these actual journal entries were recorded on the Companies' books.

Response:

As discussed in DEC Late Filed Exhibit No. 6 and DEP Late Filed Exhibit No. 24, depreciation and accretion are initially recorded as expense on the entity's financial statements; however, in accordance with the Orders in Docket No. E-7, Sub 723 for DEC and Docket No. E-2, Sub 826 for DEP, the income statement impacts of ARO accounting are deferred to a "theory" regulatory asset until such time that the amounts are considered for recovery from rate payers. These deferred amounts are estimated costs to settle the ARO liability and do not represent actual cash spent to settle the obligation. As cash is spent to settle the ARO, DEC/DEP reclasses that amount out of the "theory" regulatory asset into a separate "spend" regulatory asset account that represents actual cash expenditures. Since the costs have yet to be included in customer rates, the cash spent to settle the ARO has been advanced by debt and equity investors of the Company and therefore financing costs (debt and equity) are also deferred to the "spend" regulatory asset based on the Company's weighted average cost of capital "WACC". These Financing Costs accrue on the cumulative balance of the spend regulatory asset during the Deferral period and are recorded monthly as the costs are incurred over the duration of the Deferral Period. Starting January 1, 2021, financing costs will continue to accrue on the balance, net of the impairment recorded, until new rates from the pending rate cases are made effective. Below is an example of the journal entries recorded that were also outlined in DEC Late Filed Exhibit No. 6 and DEP Late Filed Exhibit No. 24:

		Debit (Credit)	
		Balance Sheet	
		Cash	182.3 Regulatory Assets "spend"
<u>Settlement of ARO liability</u>			
Financing costs (debt and equity) for cash expenditures during the deferral period	Note 1	(100)	100
Note 1 - Cash has been advanced by debt and equity investors. This example assumes the financing costs at a weighted average cost of capital (WACC) of 10%. The associated financing costs are deferred during the deferral period through a credit to Other Income and Interest Expense and a debit to the "spend" regulatory asset.			

(c) Concerning the five-year Amortization Period of the remaining balance of the CCR costs, state the journal entries that will be recorded on the Companies' books to amortize the deferred CCR balance and to record the applicable Financing Costs during the Amortization Period.

Response:

The Settling Parties agreed to a 5 year amortization period with financing charges continuing to accrue on the un-amortized balance during the recovery period based on a Return on Equity (ROE) 150 basis points lower than the 9.6% ROE set forth in the Second Partial Stipulation, as the un-amortized balance represents amounts advanced by debt and equity investors but not yet recovered from customers.

Below is an example of the journal entries recorded that were also outlined in DEC Late Filed Exhibit No. 6 and DEP Late Filed Exhibit No. 24:

		Debit (Credit)			
		Balance Sheet		Income Statement	
		Cash	182.3 Regulatory Assets "spend"	400 Revenue	407 Amortization Expense
Recovery period					
Recovery of regulatory asset over approved amortization period		1,100	(1,100)	(1,100)	1,100
Recovery of financing costs (debt and equity) for the regulatory asset during recovery period	Note 1	89		(89)	
Note 1 - Represents the revenue requirement associated with the debt and equity financing costs (assumed to be at a WACC of 8.1%) for the unamortized balance during the recovery period.					

(d) Provide a written narrative to explain the journal entries provided in response to Items (a) – (c) above such that the impacts of the CCR Agreement on the respective Company's financial statements (income statement and balance sheet) is clearly set forth.

Response:

See Items (a) – (c) above for the narrative related to the respective journal entry.

2. In Section III, Paragraph F, Subsections i. and ii., on pages 9-10 of the CCR Agreement, with respect to Future CCR Costs, the Settling Parties agree that DEC and DEP will forbear from seeking recovery of \$108 million and \$162 million, respectively, on any regulatory asset it establishes and is found by the Commission to be prudently incurred and reasonable in order to defer for recovery Future CCR Costs. On page 10 the CCR Agreement states that the \$108 million and \$162 reductions “shall be applied to the balance of Future CCR Costs and Financing Costs accrued through December 31, 2020, that the Companies would otherwise seek to recover in a future rate case”.

(a) State the journal entries to record the \$108 million and \$162 million forbearance for DEC and DEP, respectively. Also state when these journal entries will be recorded on the Companies’ respective books.

Response:

Similar to item 1(a), DEC/DEP agreed not to seek recovery of the balances noted above and determined that the Companies did not meet the GAAP probability of recovery thresholds. As a result, as of December 31, 2020, the following entry was recorded to reduce the spend regulatory asset for the Future CCR Costs and Financing Costs accrued through December 31, 2020:

	Debit (Credit)	
	Balance Sheet: 182.3 Regulatory Assets "spend"	Income Statement: 426 Impairment Expense
(in millions)		
DEC	(108)	108
DEP	(162)	162
Total DEC/DEP	(270)	270

(b) Provide a written narrative as necessary to explain the journal entries provided in (a) such that the impacts of the CCR Agreement on the respective Company’s financial statements (income statement and balance sheet) is clearly set forth.

Response:

See item 2(a) above for the narrative related to the respective journal entry.

3. In Section III, Paragraph F, Subsection iii., on page 10 of the CCR Agreement, with respect to the recovery of the remaining Future CCR Costs, the Settling Parties agree on the various assumptions to calculate Financing Costs during the Deferral Periods and during the Amortization Period.

(a) State the journal entries that will be recorded on each respective Company's books to reflect the accrual of Financing Costs for the Future CCR Costs during the Deferral Periods. Also, state when these actual journal entries will be recorded on the Companies' books.

Response:

See Item 1(b) above for an example journal entry that will be recorded on each respective Company's books and the timing of these entries. Starting January 1, 2021, financing costs will continue to accrue on the Future CCR Costs, net of the impairment recorded, until recovery of those amounts are included in customer rates.

(b) State the journal entries that will be recorded on the Companies' books when the Future CCR Costs deferred balances are amortized. Also, state the journal entries that will be made to record the applicable Financing Costs during the Amortization Period.

Response:

See Item 1(c) above for example journal entries that will be recorded on each respective Company's books.

(c) Provide a written narrative as necessary to explain the journal entries provided in response to items (a) and (b) above such that the impacts of the CCR Agreement on the respective Company's financial statements (income statement and balance sheet) is clearly set forth.

Response:

See item 1 above for the narrative related to the respective journal entries.

4. The Settling Parties proposed the use of a levelized amortization for the refund of excess deferred income taxes (EDIT) in these proceedings. Did the Settling Parties discuss the use of a levelized amortization for deferred CCR costs as well?

(a) If so, why did the Settling Parties decide to not propose a levelized amortization for deferred CCR costs for approval by the Commission?

(b) If the Settling Parties did not discuss use of a levelized amortization for deferred CCR costs, state your position as to why or why not use of a levelized amortization would be appropriate in these proceedings.

Response: DEC and DEP do not believe it is appropriate to disclose confidential settlement discussions, consistent with NC Rule of Evidence 408 and the supporting legal and policy considerations that encourage confidential settlement discussions. Notwithstanding this concern, the Companies do not believe the use of levelized amortization for deferred CCR costs in this proceeding would provide the same benefits to customers as it does in the case of the EDIT refund. The amortization structure agreed to in the CCR Settlement results in a revenue requirement that declines over time for the set of deferred CCR costs considered in each general rate case. The benefit of a declining revenue requirement is that it can partially mitigate the impact to customers of future rate increases, which will be the case with coal ash expenditures as incremental coal ash costs are recovered in future regulatory proceedings. For example, in the pending DEC and DEP rate cases, the revenue requirement on the first tranche of coal ash costs (established in the 2017 rate cases) decreased by \$8 million. This decrease served to partially offset the revenue increases being requested due to the second tranche of coal ash costs. Conversely, the EDIT benefit to customers is not expected to grow over time so levelizing the amortization mitigates the customer bill impact, whereas a declining amortization for EDIT would serve to increase customer bills at the same time as new costs are being recovered.

The Companies conferred with the other Settling Parties and are authorized to convey, on the Public Staff's behalf, that the Public Staff takes no position at this time on the comparable stand-alone benefits to ratepayers of a levelized amortization versus a non-levelized amortization. While the Public Staff recognizes the benefit described by the Company, it is also true that if a levelized approach was used, the revenue increase requested due specifically to the second tranche would be lower than it would be without levelization, thus providing some mitigation in and of itself. The Public Staff has not attempted to perform a specific quantification of the revenue increase patterns under each alternative. The CCR Settlement assumed a non-levelized approach, which was reflected in the revenue requirement calculations filed by the Companies and the Public Staff, and the Public Staff continues to support the settlement reached by the stipulating parties as fair and reasonable.

5. Provide the calculation supporting the statement on page 4, lines 12-14 of DEC and DEP witness De May's CCR Settlement Testimony which states that "DEP and DEC will together absorb approximately \$1.1 billion (on a North Carolina system basis) in CCR-related costs over the time period covered by the Agreement."

Response: Please see the attached file Confidential NCUC CCR 1-5 and 6.xlsx for the \$1.1 billion calculation. This amount represents the net present value of the amount the Company will absorb on a North Carolina system basis over the time period covered by the agreement.

6. Provide the calculation supporting the statement on page 4, lines 15-17 of DEC and DEP witness De May's CCR Settlement Testimony which states that "on a North Carolina retail basis, the net present value of the savings to customers from forgone CCR cost recovery (including applicable financing costs) amounts to in excess of \$900 million."

Response: Please see the file Confidential NCUC CCR 1-5 and 6.xlsx included in the question above for the calculation of the amount stated as in excess of \$900 million. This amount represents the net present value of the amount the Company will absorb on a North Carolina retail basis over the time period covered by the agreement.

ATTACHMENT “CONFIDENTIAL NCUC CCR 1-5 AND 6.xlsx”

HAS BEEN REDACTED IN ITS ENTIRETY

VERIFICATION

STATE OF NORTH CAROLINA)	DOCKET NO. E-7, SUB 1146
)	DOCKET NO. E-7, SUB 1187
)	DOCKET NO. E-7, SUB 1213
)	DOCKET NO. E-7, SUB 1214
COUNTY OF WAKE)	DOCKET NO. E-2, SUB 1142
)	DOCKET NO. E-2, SUB 1193
)	DOCKET NO. E-2, SUB 1219

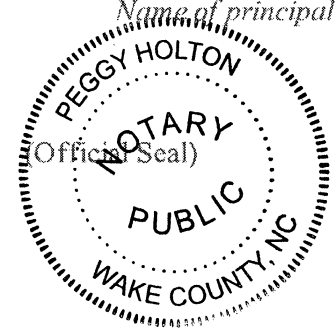
Laura A. Bateman, being first duly sworn, deposes and says: That she is the Vice President, Rates & Regulatory Strategy - Carolinas, petitioner in the above-referenced matters, that she has read the foregoing Duke Energy Carolinas, LLC and Duke Energy Progress, LLC's Verified Response to NCUC's February 17, 2021 Order Requiring Responses to Commission Questions Docket Nos. E-7, Subs 1146, 1213, 1214, 1187 and Docket Nos. E-2, Subs 1142, 1219 and 1193 and knows the contents thereof, and that the same is true of her own knowledge.

Laura A. Bateman
 Laura A. Bateman

Signed and sworn to before me this day by Laura A. Bateman
Name of principal

Date: 2-23-2021

Peggy Holton
 Official Signature of Notary



Peggy Holton, Notary Public
 Notary's printed or typed name

My commission expires: 12/22/2021

I signed this notarial certificate on 2/23/2021 according to the emergency video notarization requirements contained in G.S. 10B-25.

Notary Public location during video notarization: Wake County
 Stated physical location of principal during video notarization: Wake County

CERTIFICATE OF SERVICE

**DOCKET NO. E-7, SUB 1213
DOCKET NO. E-7, SUB 1214
DOCKET NO. E-7, SUB 1187
DOCKET NO. E-2, SUB 1142
DOCKET NO. E-2, SUB 1219
DOCKET NO. E-2, SUB 1193**

I hereby certify that a copy of the foregoing **DUKE ENERGY CAROLINAS, LLC'S AND DUKE ENERGY PROGRESS, LLC'S VERIFIED RESPONSE TO THE NORTH CAROLINA UTILITIES COMMISSION'S CCR SETTLEMENT QUESTIONS** was served electronically or by depositing a copy in United States Mail, first class postage prepaid, properly addressed to the parties of record.

This the 23rd day of February 2021.

/s/ Camal O. Robinson
Camal O. Robinson
Assistant General Counsel
Duke Energy Corporation
550 South Tryon Street
Charlotte, North Carolina 28202
Telephone: 980.373.2631
Camal.robinson@duke-energy.com