



**NORTH CAROLINA  
PUBLIC STAFF  
UTILITIES COMMISSION**

July 31, 2020

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

Re: Docket No. E-2, Sub 1219 – Application of Duke Energy Progress, LLC for Adjustment of Rates and Charges Applicable to Electric Utility Service in North Carolina; Docket No. E-7, Sub 1213 – Petition of Duke Energy Carolinas, LLC for Approval of Prepaid Advantage Program; and Docket No. E-7, Sub 1214 – Application of Duke Energy Carolinas, LLC for Adjustment of Rates and Charges Applicable to Electric Utility Service in North Carolina

Dear Ms. Campbell:

In connection with the above-referenced dockets, we transmit herewith for filing on behalf of the Public Staff the testimony of J. Randall Woolridge, PH.D., supporting a second partial stipulation.

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

Sincerely,

/s/ Dianna W. Downey  
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Attachment

Executive Director (919) 733-2435	Communications (919) 733-5610	Economic Research (919) 733-2267	Legal (919) 733-6110	Transportation (919) 733-7766
Accounting (919) 733-4279	Consumer Services (919) 733-9277	Electric (919) 733-2267	Natural Gas (919) 733-4326	Water (919) 733-5610



**BEFORE THE NORTH CAROLINA UTILITIES COMMISSION**

**DOCKET NO. E-2 SUB 1219**

**DOCKET NO. E-7, SUBS 1213, 1214, AND 1287**

**Testimony of J. Randall Woolridge**

**On Behalf of the Public Staff**

**North Carolina Utilities Commission**

**Supporting Second Partial Stipulations**

**July 31, 2020**

1 **Q. PLEASE STATE YOUR FULL NAME, ADDRESS, AND**  
2 **OCCUPATION.**

3 A. My name is J. Randall Woolridge, and my business address is 120  
4 Haymaker Circle, State College, PA 16801. I am a Professor of  
5 Finance and the Goldman, Sachs & Co. and Frank P. Smeal  
6 Endowed University Fellow in Business Administration at the  
7 University Park Campus of the Pennsylvania State University. I am  
8 also the Director of the Smeal College Trading Room and President  
9 of the Nittany Lion Fund, LLC.

10 **Q. ARE YOU THE SAME J. RANDALL WOOLRIDGE WHO**  
11 **SUBMITTED DIRECT AND SUPPLEMENTAL TESTIMONY ON**  
12 **BEHALF OF THE PUBLIC STAFF-NORTH CAROLINA UTILITIES**  
13 **COMMISSION (“PUBLIC STAFF”) IN DOCKET NO. E-7, SUB**  
14 **1214 AND DIRECT TESTIMONY IN DOCKET NO. E-2, SUB 1219?**

1 A. Yes, I am.

2 **Q. WHAT IS THE PURPOSE OF YOUR CURRENT TESTIMONY?**

3 A. The purpose of my testimony is to provide my comments on the cost  
4 of capital components of the Second Agreement and Stipulation of  
5 Partial Settlement filed on July 31, 2020, between Duke Energy  
6 Carolinas, LLC (DEC), and the Public Staff (DEC Second Partial  
7 Stipulation) and the Second Agreement and Stipulation of Partial  
8 Settlement filed on July 31, 2020, between Duke Energy Progress,  
9 LLC (DEP), and the Public Staff (DEP Second Partial Stipulation)  
10 (together "Second Partial Stipulations") in these proceedings.<sup>1</sup>

11 **Q. WHAT IS YOUR UNDERSTANDING OF THE "TERMS" OF THE**  
12 **COST OF CAPITAL COMPONENTS OF THE PROPOSED**  
13 **SETTLEMENTS?**

14 A. It is my understanding that the following items have been agreed to  
15 between DEC, DEP (together "Duke") and the Public Staff on the  
16 issues of cost of capital:

17 Capital Structure – 52% common equity and 48% long-term debt for  
18 both companies

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<sup>1</sup> An Agreement and Stipulation of Partial Settlement between DEC and the Public Staff was filed on March 25, 2020. An Agreement and Stipulation of Partial Settlement between DEP and the Public Staff was filed on June 2, 2020. These First Partial Stipulations do not involve cost of capital issues.

1 Cost of Common Equity – 9.6% for both companies

2 Cost of Long-Term Debt – 4.27% DEC, 4.04% DEP

3 **Q. WHAT IS YOUR EXPERIENCE AND UNDERSTANDING OF**  
4 **SETTLEMENTS IN THE PUBLIC UTILITY PROCEEDINGS IN**  
5 **WHICH YOU HAVE BEEN INVOLVED IN OVER THE YEARS?**

6 A. It is my experience that settlements are generally the result of good  
7 faith, “give-and-take,” and compromise-related negotiations among  
8 the parties of utility rate proceedings, involving the utility, commission  
9 staff, and other parties. It is also my understanding that settlements,  
10 as well as the individual components of the settlements, are often  
11 achieved by the respective parties’ agreements to accept otherwise  
12 unacceptable individual aspects of individual issues in order to focus  
13 on other issues.

14 Settlements are often the result of agreement on all or a significant  
15 portion of the issues that would otherwise be litigated in a rate  
16 proceeding; or sometimes are restricted to individual issues.

17 **Q. BESIDES THE COST OF CAPITAL COMPONENTS, WHAT IS**  
18 **YOUR UNDERSTANDING OF THE NATURE OF THE**  
19 **SETTLEMENTS IN THESE PROCEEDINGS?**

20 A. It is my understanding that the proposed settlements cover many of  
21 the issues including:

- 1       • a return of federal unprotected Excess Deferred Income Tax (EDIT)  
2           over five years, North Carolina EDIT over two years, and deferred  
3           revenues over two years.
  
- 4       • deferral accounting treatment for certain Grid Improvement  
5           programs and withdrawal of deferral requests for the remainder.
  
- 6       • updates of plant (including benefits and executive compensation)  
7           through May, but recognition of only 75% of revenues to recognize  
8           the uncertainty regarding effects of COVID-19.
  
- 9       • a \$19.1 million disallowance for a portion of the costs of the Clemson  
10          Combined Heat and Power Project on a system basis.
  
- 11      • Amortization of coal ash capital projects over eight years.
  
- 12      • Acceptance of the Summer Coincident Peak cost of service  
13          allocation methodology for purposes of this case only with no  
14          precedential effect.
  
- 15      • Duke agreement to conduct a cost of service study.
  
- 16      • In addition to \$6 million DEC and DEP have agreed to contribute in  
17          their settlement with the North Carolina Justice Center to the Helping  
18          Home Fund for energy efficiency , DEC and DEP agree to contribute  
19          \$5 million each over two years to assist low income customers with  
20          payment of their bills.

- 1       • Reduction of DEP's annual funding of its Nuclear Decommissioning  
2       Fund by \$8.7 million.
- 3       • There were also a number of accounting issues, including storm  
4       securitization, reductions to executive compensation, aviation costs,  
5       and employee incentives resolved in the first partial stipulations  
6       reached with each company.

7       The settlements explicitly exclude coal ash costs, depreciation rates,  
8       and an adjustment for Hydro Station sales in the DEC proceeding.  
9       Additionally, the settlements exclude any revenue or nonrevenue  
10      item that has not been specifically addressed in the First or Second  
11      Partial Stipulation between DEC and the Public Staff, the First or  
12      Second Partial Stipulation between DEP and the Public Staff, or  
13      agreed upon in the testimony of the Duke and the Public Staff.

14   **Q.    DID YOU PARTICIPATE IN THE NEGOTIATIONS LEADING UP  
15        TO THE PROPOSED SETTLEMENTS IN THIS PROCEEDING?**

16   A.    No, I was not involved in the negotiations leading up to the proposed  
17        settlements.

18   **Q.    DO YOU AGREE THAT THE COST OF CAPITAL COMPONENTS  
19        OF THE PROPOSED SETTLEMENTS ARE REASONABLE  
20        WITHIN THE CONTEXT OF THE OVERALL SETTLEMENTS?**

1 A. Yes I do, for the reasons stated in this testimony. As I have indicated,  
2 the proposed settlements reflect the results of good faith negotiations  
3 and compromises.

4 I note that it remains my position that, should this be a fully litigated  
5 proceeding, I would continue to recommend as my primary  
6 recommendation for each company a capital structure with 50%  
7 common equity and 50% long-term debt and an ROE of 9.00%.  
8 However, given the benefits associated with entering settlements, it  
9 is my view that the cost of capital components of the proposed  
10 settlements are reasonable resolutions of otherwise contentious  
11 issues.

12 **Q. HOW DO THE COST OF CAPITAL COMPONENTS OF THE**  
13 **PROPOSED SETTLEMENTS BETWEEN THE TWO COMPANIES**  
14 **AND THE PUBLIC STAFF COMPARE TO EACH COMPANY'S**  
15 **REQUESTS?**

16 A. There are three components in the cost of capital issue of the  
17 proposed settlements.

18 The first component is the capital structure. Each company's  
19 proposed hypothetical capital structure was comprised of 53%  
20 common equity and 47% long-term debt. The proposed settlements  
21 utilize a slightly lower common equity ratio (52%) and a slightly  
22 higher long-term debt ratio (48%). The second cost of capital

1 component is the cost of equity (“ROE”). Each company's ROE  
2 expert recommended an ROE of 10.50%,<sup>2</sup> whereas the proposed  
3 settlements contain a 9.6% ROE.

4 The third cost of capital component is the cost of long-term debt.  
5 DEC’s proposed cost of long-term debt is 4.29%, as compared to the  
6 4.27% cost of debt in the DEC proposed settlement. DEP's proposed  
7 cost of long-term debt is 4.11%, as compared to the 4.04% cost of  
8 debt in the DEP proposed settlement.

9 **Q. DO YOU CONSIDER EACH OF THESE COST OF CAPITAL**  
10 **COMPONENTS IN THE PROPOSED SETTLEMENTS AS BEING**  
11 **“REASONABLE” IN THE CONTEXT OF A STIPULATED**  
12 **PROCEEDING?**

13 A. Yes, I do. Each of these components can be considered as  
14 reasonable within the context of the proposed settlements. I note that  
15 Duke and the Public Staff, in their respective direct testimonies,  
16 proposed fundamentally different views on a number of issues, such  
17 as current market conditions and related current costs of common  
18 equity, as well as the appropriate capital structure. The proposed

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<sup>2</sup> While each company found the ROE expert's 10.50% ROE recommendation to be a reasonable and appropriate estimate of its cost of equity capital, as a rate mitigation measure and in recognition of each company’s ongoing efforts to keep rates affordable for customers, each company proposed rates to be set with an ROE of 10.30%.

1 settlements represent a compromise, or middle ground between their  
2 respective positions.

3 Further, the cost of capital components of the proposed settlements  
4 can be considered reasonable within a broad negotiation and  
5 resolution of most of the issues in this proceeding.

6 **Q. PLEASE FIRST ADDRESS THE CAPITAL STRUCTURE**  
7 **COMPONENT OF THE PROPOSED SETTLEMENTS. WHY DO**  
8 **YOU CONSIDER THIS AS “REASONABLE”?**

9 A. In each application, DEC and DEP both requested a hypothetical  
10 capital structure with a common equity ratio of 53% common equity  
11 and 47% long-term debt. This proposed capital structure in each  
12 case was sponsored by Duke witness Karl Newlin, who described it  
13 as the “optimal” capital structure in his direct testimony for each  
14 company and, in his rebuttal testimony for each company, described  
15 it as “consistent with the Company’s financial objectives.”

16 My direct testimony, in contrast, proposed for each company a  
17 capital structure with 50% common equity and 50% long-term debt.

18 I note that both DEC's and DEP's actual capital structures were 52%  
19 equity / 48% debt as of December 31, 2019, according to discovery  
20 provided to the Public Staff.

1 The 52% common equity ratio in the proposed settlements is  
2 reflective of each company's current equity ratio and is also  
3 consistent with their currently authorized equity ratios.

4 **Q. PLEASE NOW TURN TO THE COST OF COMMON EQUITY IN**  
5 **THE PROPOSED SETTLEMENTS AND INDICATE WHY THE 9.6%**  
6 **ROE IS REASONABLE FOR EACH COMPANY IN A**  
7 **SETTLEMENT CONTEXT.**

8 A. Both companies requested an ROE of 10.30%, which I indicated in  
9 my direct testimony to be well above industry norms in recent years.  
10 I, in turn, proposed as my primary recommendation a 9.0% ROE.  
11 Whereas, I continue to believe my 9.0% ROE recommendation is  
12 appropriate at this time, a 9.6% ROE is 0.60% above my 9.0%  
13 recommendation and is 0.70% below Duke's 10.30% ROE requests  
14 and 0.90% below the ROEs recommended by each company's ROE  
15 expert. As a result, the 9.6% ROE in the proposed settlements is a  
16 "compromise" between Duke's and the Public Staff's respective  
17 proposals. The 9.6% ROE also reflects a reduction from the 9.9%  
18 authorized in each company's last rate proceeding. I also note that  
19 the 9.6% ROE is below the 9.67% average authorized ROE for  
20 vertically integrated electric utilities during the first half of 2020 as  
21 calculated by Regulatory Research Associates. In addition, it is my  
22 understanding that this is the lowest ROE for a vertically integrated

1 investor-owned electric utility for at least the last 30 years in North  
2 Carolina.

3 **Q. PLEASE NOW DISCUSS THE 4.27% COST OF LONG-TERM**  
4 **DEBT IN THE PROPOSED DEC SETTLEMENT.**

5 A. DEC's application contained a cost of long-term debt of 4.51%. In my  
6 supplemental testimony, I proposed an updated cost of long-term  
7 debt (as of January 31, 2020) of 4.29%, and DEC updated its cost of  
8 debt to 4.29% in supplemental testimony filed July 6, 2020. The  
9 proposed settlement recognizes the updated 4.27% cost of long-  
10 term debt (i.e., updated cost of debt as of May 2020).

11 **Q. PLEASE NOW DISCUSS THE 4.04% COST OF LONG-TERM**  
12 **DEBT IN THE PROPOSED DEP SETTLEMENT.**

13 A. DEP's application contained a cost of long-term debt of 4.15%. In my  
14 testimony, I proposed a cost of long-term debt (as of December 31,  
15 2019) of 4.11%, and DEP updated its cost of debt to 4.11% in second  
16 supplemental testimony filed July 10, 2020. The proposed settlement  
17 recognizes the updated 4.04% cost of long-term debt (i.e., updated  
18 cost of debt as of May 2020).

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

20 A. Yes, it does.