



**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

Dear Ms. Campbell:

In connection with the above-referenced docket, we transmit herewith for filing on behalf of the Public Staff the testimony of James S. McLawhorn, Director, Electric Division, supporting a second partial stipulation.

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

Sincerely,

/s/ Elizabeth D. Culpepper
Staff Attorney
elizabeth.culpepper@psncuc.nc.gov

/s/ William E. Grantmyre
Staff Attorney
william.grantmyre@psncuc.nc.gov

Attachment

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Jul 31 2020

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. E-2, SUB 1219

| | | |
|--|---|----------------------|
| In the Matter of |) | |
| Application of Duke Energy Progress, |) | TESTIMONY OF |
| LLC, for Adjustment of Rates and |) | JAMES S. MCLAWHORN |
| Charges Applicable to Electric Utility |) | PUBLIC STAFF – NORTH |
| Service in North Carolina |) | CAROLINA UTILITIES |
| |) | COMMISSION |
| |) | SUPPORTING SECOND |
| |) | PARTIAL STIPULATION |

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. E-2, SUB 1219

Testimony of James S. McLawhorn Supporting Second Partial

Stipulation

On Behalf of the Public Staff

North Carolina Utilities Commission

July 31, 2020

1 **Q PLEASE STATE FOR THE RECORD YOUR NAME, ADDRESS,**
2 **AND PRESENT POSITION.**

3 **A My name is James S. McLawhorn. My business address is 430 North**
4 **Salisbury Street, Raleigh, North Carolina. I am the Director of the**
5 **Public Staff – Electric Division.**

6 **Q. DID YOU FILE DIRECT TESTIMONY IN THIS CASE ON APRIL 13,**
7 **2020?**

8 **A. Yes.**

9 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
10 **PROCEEDING?**

11 **A. The purpose of my testimony is to support the Second Agreement**
12 **and Stipulation of Partial Settlement (Second Partial Stipulation) filed**

1 on July 31, 2020, between Duke Energy Progress, LLC (DEP or the
2 Company), and the Public Staff (Stipulating Parties) regarding
3 certain issues related to the Company's pending application for a
4 general rate increase.

5 **Q. WHAT BENEFITS DOES THE SECOND PARTIAL STIPULATION**
6 **PROVIDE FOR RATEPAYERS?**

7 A. From the perspective of the Public Staff, among the most important
8 benefits provided by the Second Partial Stipulation are:

9 (a) A significant reduction in the Company's proposed
10 revenue increase in this proceeding; and

11 (b) The avoidance of protracted litigation by the Stipulating
12 Parties before the Commission and possibly the appellate
13 courts.

14 Based on these ratepayer benefits, as well as the other provisions of
15 the Stipulation, the Public Staff believes the Stipulation is in the
16 public interest and should be approved.

17 **Q. WHAT ARE THE SPECIFIC AREAS OF AGREEMENT BETWEEN**
18 **THE STIPULATING PARTIES IN THE SECOND PARTIAL**
19 **STIPULATION?**

20 A. The Stipulating Parties were able to reach agreement on the
21 following issues in the Second Stipulation:

- 1 • The parties agree to a return on equity of ROE of 9.6% - This
2 ROE is below the 2020 average for vertically integrated
3 utilities, and is the lowest ROE for an investor-owned utility in
4 North Carolina in at least 30 years (in anyone's memory
5 currently on the Public Staff);
- 6 • The parties agree to a capital structure ratio for each company
7 of 52%/48% – This ratio is very close to DEP’s current capital
8 structure;
- 9 • The parties agree that DEP should return federal unprotected
10 EDIT over five years, NC EDIT over two years, and deferred
11 revenues over two years – this is consistent with the treatment
12 of EDIT for other utilities;
- 13 • The parties agree to the Company’s request for deferral
14 accounting treatment for the following programs, as described
15 in witness Oliver’s Exhibit 10, limited to the estimated three-
16 year capital budget period of 2020-2022: Self-Optimizing Grid
17 (SOG) (all subprograms including Capacity and Connectivity,
18 Segmentation and Automation, ADMS), Conversion to CVR,
19 Integrated Systems Operations Planning (ISOP),
20 Transmission System Intelligence, Distribution Automation,
21 Power Electronics, DER Dispatch Tool, and Cyber Security.
22 For all other GIP investments proposed by the Companies in

1 these dockets, the Companies agree that they should
2 withdraw their request for deferral accounting;

3 • DEP should update to its May 2020 cost of debt, which is
4 4.04%;

5 • DEP may update plant through May 2020. Its revenues should
6 be updated through May, but only 75% should be allowed to
7 recognize the uncertainty regarding effects of COVID. The
8 update should include benefits and executive compensation;

9 • Coal ash capital projects such as dry ash storage, STAR
10 water treatment project deferrals should be amortized over
11 eight years;

12 • For purposes of this case only with no precedential effect, the
13 Public Staff accepts the Summer Coincident Peak (SCP) cost
14 of service allocation methodology;

15 • This acceptance of the SCP cost of service allocation
16 methodology should have no impact on the rate design study
17 proposed by Public Staff witness Floyd and endorsed by DEP
18 and DEC witness Pirro. DEP also agrees to conduct an
19 analysis of various cost of service study methodologies;

20 • In addition to \$6 million DEP has agreed to contribute in its
21 settlement with the North Carolina Sustainable Energy
22 Association, the North Carolina Justice Center, the North

1 Carolina Housing Coalition, the Natural Resources Defense
2 Council, and the Southern Alliance for Clean Energy to the
3 Helping Home Fund, DEP agrees to contribute \$5 million to
4 assist low income customers with payment of their bills; and
5 • DEP should reduce the annual funding of its Nuclear
6 Decommissioning Fund by \$8.7 million.

7 **Q. ARE THERE ANY AREAS ABOUT WHICH THE STIPULATING**
8 **PARTIES DID NOT REACH AGREEMENT?**

9 A. Yes. The Stipulating Parties did not reach agreement regarding the
10 following:

- 11 • Coal ash costs - Cost recovery of the Company's coal ash
12 costs, recovery amortization period and return during the
13 amortization period;
- 14 • Depreciation Rates – The depreciation rates appropriate for
15 use in this case, including the Company's proposal to shorten
16 the lives of certain coal-fired generating facilities ; and
- 17 • any other revenue requirement or non-revenue requirement
18 issue not specifically addressed in the First Stipulation, the
19 Second Stipulation, or agreed upon in the testimony of the
20 Stipulating Parties.

1 The Public Staff fully supports its filed positions on these particular
2 issues, and intends to demonstrate the appropriateness and
3 reasonableness of its positions through litigation in this case.

4 **Q. DOES THIS COMPLETE YOUR TESTIMONY?**

5 A. Yes, it does.