



Heather Shirley Smith
Deputy General Counsel

Duke Energy
40 W. Broad Street
Suite 690
Greenville, SC 29601

o: 864.370.5045
f: 864.370.5183

heather.smith@duke-energy.com

November 27, 2017

VIA ELECTRONIC FILING AND HAND DELIVERY

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

**RE: Application of Duke Energy Progress, LLC for Adjustment of Rates
and Charges Applicable to Electric Service in North Carolina and
Request for an Accounting Order
Docket No. E-2, Sub 1142**

Dear Ms. Jarvis:

Enclosed for filing is Duke Energy Progress, LLC's Settlement Testimony of David B. Fountain, Settlement Testimony and Exhibits of Laura A. Bateman, Settlement Testimony and Exhibits of Robert B. Hevert, Settlement Testimony of Stephen G. De May, and Settlement Testimony and Exhibits of Steven B. Wheeler. The Company was unable to file before 5 p.m. on Wednesday, November 22, 2017 but did distribute the testimony to all parties prior to filing.

Pursuant to Commission Rule R1-28(e)(1), the Company plans to deliver 15 paper copies, as well as one single-sided copy of the entire filing, to the Commission prior to the hearing that begins November 27, 2017.

If you have any questions, please let me know.

Sincerely,

/s/ Heather Shirley Smith

Heather Shirley Smith

Enclosures

cc: Parties of Record

OFFICIAL COPY

Nov 27 2017

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. E-2, SUB 1142

In the Matter of:)	
	)	SETTLEMENT TESTIMONY OF
Application of Duke Energy Progress, LLC	)	DAVID B. FOUNTAIN
For Adjustment of Rates and Charges	)	FOR DUKE ENERGY
Applicable to Electric Service in North	)	PROGRESS, LLC
Carolina)	

I. WITNESS IDENTIFICATION AND QUALIFICATIONS

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. My name is David B. Fountain, and my business address is 411 Fayetteville
3 Street, Raleigh, North Carolina 27601.

4 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

5 A. I am the North Carolina President for Duke Energy Progress (“DE Progress”
6 or the “Company”), which is a wholly owned subsidiary of Duke Energy
7 Corporation, as well as Duke Energy Carolinas and Progress Energy Inc., also
8 wholly owned subsidiaries of Duke Energy.

9 **Q. DID YOU OFFER ANY DIRECT AND REBUTTAL TESTIMONY IN**
10 **THIS PROCEEDING?**

11 A. Yes. I filed direct testimony in this docket on June 1, 2017 and rebuttal
12 testimony on November 6, 2017.

13 **II. PURPOSE AND OVERVIEW OF TESTIMONY**

14 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

15 A. I support the Agreement and Stipulation of Partial Settlement the Company
16 reached with the North Carolinas Utilities Commission Public Staff (“Public
17 Staff”) filed with the Commission on November 22, 2017 in this docket (the
18 “Stipulation”), and introduce several other witnesses that support the
19 reasonableness of the Stipulation. The Company was able to reach a
20 Stipulation with the Public Staff subsequent to the Company's filing of its pre-
21 filed direct, rebuttal and supplemental testimony and exhibits and after

1 extensive discovery conducted by the Public Staff and other intervenors. The
2 Stipulation represents a balanced settlement for the parties, is in the public
3 interest, and should be approved by the Commission. My direct and rebuttal
4 testimony remain effective as applicable to the testimony of any non-settling
5 Party, including the unresolved matters between the Company and Public Staff
6 listed in the Stipulation.

7 **III. THE STIPULATION**

8 **Q. PLEASE PROVIDE AN OVERVIEW OF THE MAJOR COMPONENTS**
9 **OF THE STIPULATION.**

10 A. Overall, the Stipulation would resolve all revenue requirement issues between
11 the Company and the Public Staff, with the exception of issues related to coal
12 ash cost recovery and issues related to recovery of the costs the Company
13 incurred in restoring service and rebuilding the grid following numerous storms
14 in 2016 including winter storm Jonas and Hurricane Matthew.

15 As discussed in greater detail by other Company witness testimony being
16 filed today by Laura Bateman, Robert Hevert, Stephen De May, and Steven B.
17 Wheeler, the agreement reached between the Parties in the Stipulation can be
18 summarized as follows:

19 1. The Parties have agreed to a return on equity of 9.9 percent, based upon a
20 capital structure containing 52 percent equity and 48 percent debt as described
21 by Witnesses Hevert and De May. The Company's debt cost rate shall be set at
22 4.05 percent. The resulting weighted average rate of return is 7.09 percent.

- 1 2. Updated Plant and Accumulated Depreciation – Plant and accumulated
2 depreciation shall be calculated through October 31, 2017.
- 3 3. Updated revenues – Revenues shall be annualized through October 31, 2017.
- 4 4. The Company shall update its post-test year additions to include Asheville
5 construction work in progress through October 31, 2017.
- 6 5. Inflation – The effects of inflation shall be updated, except the effects of
7 inflation on vegetation management shall be removed.
- 8 6. Update labor – The Company’s annualized labor costs through September 30,
9 2017 shall be included.
- 10 7. Depreciation Rates – The Company’s depreciation rates shall be set based on the
11 rates set forth in the Company’s filed Depreciation Study, with exceptions
12 described in the Stipulation.
- 13 8. Distribution Vegetation Management -- The Public Staff and the Company have
14 agreed to the Company’ filed position on distribution vegetation management
15 costs.
- 16 9. Harris Combined Construction and Operating License Application (COLA) cost
17 amortization -- The Company agrees with the Public Staff’s recommendation to
18 amortize such costs over an eight year period.
- 19 10. Customer Connect Expenses – The Company accepts the Public Staff’s
20 adjustment but shall be authorized to establish a regulatory asset to defer and
21 amortize expenses associated with its Customer Connect project. The Company
22 shall be allowed to accrue a return on the regulatory asset in the same manner

1 that Construction Work in Progress (CWIP) balances accrue Allowance for
2 Funds Used During Construction (AFUDC). AFUDC shall end and a 15-year
3 amortization shall begin on the date the DEP Core Meter-to-Cash release
4 (“Releases 5-8”) of the project goes into service or January 1, 2022, whichever is
5 sooner.

6 11. Revenue requirement reductions are included in the Stipulation for Aviation,
7 Lost Industrial Revenues Due to Hurricane Matthew, Executive Compensation,
8 Board of Directors, Lobbying, Sponsorships and Donations for the U.S.
9 Chamber of Commerce, Incentive Compensation and Outside Services – The
10 Parties have reached an agreement on these issues resulting in revenue
11 requirement reductions included in the Stipulation.

12 12. Coal Inventory – The Parties agreed that for purposes of settlement, the
13 Company may set carrying costs included in base rates assuming a 35-day coal
14 inventory at 100 percent capacity factor (full load burn), and that a Coal
15 Inventory rider should be allowed to manage the transition that will terminate
16 upon the sooner of the Company reaching a 35-day coal inventory on a sustained
17 basis or two years from approval by the Commission. The Company will
18 conduct an analysis in consultation with the Public Staff demonstrating the
19 appropriate coal inventory level given market and generation changes since the
20 Company’s last rate case. The analysis shall be completed by December 31,
21 2018.

- 1 13. Mayo Zero Liquid Discharge and Sutton combustion turbine projects– The
2 Company will make an adjustment to rate base with depreciation expense and
3 other cost of capital effects to reflect the resolution reached in the Stipulation.
4 The adjustment will be permanent for ratemaking and regulatory accounting
5 purposes, and will result in a decrease to the revenue requirement from the
6 Company’s filed request. The Company agrees to these adjustments in an effort
7 to reach a settlement on all non-coal ash and storm related issues and does not
8 admit and explicitly rejects any imprudence on behalf of the Company regarding
9 the management of the two projects.
- 10 14. The Company accepts the Public Staff’s adjustment to end-of-life nuclear
11 materials and supplies reserve expense, as refined in the testimony of Company
12 witness Gillespie, and agrees that it will take appropriate action to conform its
13 practices and procedures to manage its Materials and Supplies inventory (nuclear
14 and non-nuclear) to the current practices and procedures utilized by Duke
15 Energy Carolinas, with the goal to ensure that proper levels of inventory are on
16 hand. DE Progress shall complete this action within 24 months after the entry of
17 the Commission rate case order.
- 18 15. The Company accepts the Public Staff’s recommended adjustment to remove the
19 Duke-Piedmont merger costs to achieve.
- 20 16. Power/Forward Carolinas Initiative -- To address concerns raised in this Docket
21 by multiple parties, the Company will host a technical workshop during the
22 second quarter of 2018 regarding the Company’s NC Power/Forward grid

1 investments to explain the need for and ongoing benefits of grid investments,
2 and to hear feedback from stakeholders in attendance. The Company will report
3 the results of the workshop to the Public Staff and the Commission.
4 Participation by or attendance of the Public Staff at the NC Power/Forward
5 workshop shall not estop the Public Staff from investigating or making
6 recommendations regarding any element of the Company's NC Power/Forward
7 program in a future rate case or pursuant to applicable statutes or Commission
8 Rules.

9 17. Job Retention Rider -- The parties have also agreed to resolve the Company's
10 Jobs Retention Rider proposal to be described within the settlement to be filed
11 with the Commission, except for two remaining items to be decided upon by the
12 Commission as described in the Stipulation.

13 18. Other Cost of Service and Rate Design Matters -- The Parties have also agreed
14 upon rate design and cost of service study parameters as proposed by Company
15 witnesses Wheeler and Hager and Public Staff witness Floyd.

16 19. Excess Deferred Tax Liability -- The Parties have agreed to return of an excess
17 deferred tax liability to customers over the next four years through a rider.

18 20. The Company and Public Staff have agreed upon a Basic Customer Charge for
19 Schedule RES of \$14.00 per month, and further agree upon a Basic Customer
20 Charges for Schedules R-TOUD and R-TOU of \$16.85 per month.

1 **Q. DOES THE COMPANY AGREE WITH THE CHARACTERIZATION**
2 **OF THE AGREED-UPON ADJUSTMENTS AS DESCRIBED IN THE**
3 **STIPULATION?**

4 A. Yes.

5 **Q. PLEASE ELABORATE HOW THE STIPULATION BALANCES THE**
6 **COMPANY'S NEED FOR RATE RELIEF WITH THE IMPACT OF**
7 **SUCH RATE RELIEF ON CUSTOMERS.**

8 A. I attended public hearings held by the Commission in this matter and personally
9 heard from dozens and dozens of our customers who are concerned about the
10 impacts of any rate increase on their families and businesses. I also followed
11 the consumer statement positions filed in this Docket. We are very mindful of
12 these concerns. Although we are pleased that our rates are competitive and
13 below the national average, and will remain so with this Stipulation, we know
14 that providing safe, reliable, increasingly clean electricity at competitive rates is
15 key to powering the State's economy and the lives of our customers. We believe
16 that the concessions the Company has made in this Stipulation fairly balance the
17 needs of our customers with the Company's need to recover substantial
18 investments made in order to continue to comply with regulatory requirements
19 and safely provide high quality electric service to our customers. Our rates need
20 to be adjusted to reflect these investments. Moreover, given the size of the
21 necessary capital and compliance expenditures we are facing, it is essential that
22 DE Progress maintain its financial strength and credit quality, so that we will be

1 in a position to finance these needs on reasonable terms for the benefit of our
2 customers. In my opinion, we have been able to strike that balance with this
3 Stipulation on the agreed upon items. However, we remain concerned about cash
4 recovery for the unresolved items, as that is important to the financial health of
5 the Company.

6 Just a few of the ways we have struck this reasonable balance include:
7 (1) the Company's willingness to settle for rates designed on the basis of a 9.9
8 percent return on equity and a 52 percent equity component of its capital
9 structure; both of which will mitigate the impact of the rate increase on
10 customers; (2) the Company's willingness to accept an overall lower revenue
11 requirement will also mitigate the impact on customers; (3) the Company's
12 agreement to support and fund for the first year a Jobs Retention Rider that will
13 help foster economic development and job growth within the State. Note,
14 however, the Company may elect to terminate the Jobs Retention Rider after the
15 initial year if the Company's funding request included in the Application is not
16 approved.

17 **Q. IN THE STIPULATION, DID THE COMPANY AND PUBLIC STAFF**
18 **REACH AGREEMENT ON ALL ISSUES IN THIS DOCKET?**

19 A. No. As I noted previously, two principal issues remain disputed between
20 Public Staff and the Company: (1) the Company's request to recover its
21 deferred coal ash costs and its ongoing environmental compliance costs
22 necessary to safely close the Company's coal ash basins, as well as the method

1 by which the Company should collect beneficiation costs (through fuel or base
2 rates as described by Witness McGee); and (2) the Company's request to
3 recover the costs the Company incurred in connection with the restoration and
4 rebuilding efforts caused by storms in 2016, particularly winter storm Jonas
5 and Hurricane Matthew, and for which the Company previously sought
6 deferral. As addressed by Witness Wheeler, the Company also has a different
7 view than Public Staff on certain items related to the Job Retention Rider.

8 **Q. IS THE COMPANY PRESENTING TESTIMONY OF OTHER**
9 **WITNESSES IN SUPPORT OF THE AMENDED STIPULATION?**

10 A. Yes, Duke Energy Progress' Witness Bateman supports the adjustments, rate
11 making and accounting aspects of the Stipulation, while Witness De May
12 supports the capital structure provided in the Stipulation. Witness Wheeler
13 discusses the Job Retention Rider. Finally, Witness Robert Hevert supports the
14 overall return and capital structure provided in the Stipulation.

15 **Q. DOES THIS CONCLUDE YOUR PRE-FILED SETTLEMENT**
16 **TESTIMONY?**

17 A. Yes.

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. E-2, SUB 1142

In the Matter of:)	
	)	SETTLEMENT SUPPORT
Application of Duke Energy Progress, LLC	)	TESTIMONY OF
For Adjustment of Rates and Charges	)	LAURA A. BATEMAN FOR
Applicable to Electric Service in North	)	DUKE ENERGY PROGRESS,
Carolina	)	LLC

I. INTRODUCTION AND PURPOSE

1 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND**
2 **CURRENT POSITION.**

3 A. My name is Laura A. Bateman, and my business address is 411 Fayetteville
4 Street, Raleigh, North Carolina. I am a Director of Rates & Regulatory
5 Planning, employed by Duke Energy Carolinas, LLC, testifying on behalf of
6 Duke Energy Progress, LLC (“DE Progress” or the “Company”).

7 **Q. ARE YOU THE SAME LAURA A. BATEMAN WHO PREVIOUSLY**
8 **FILED DIRECT, SUPPLEMENTAL, SECOND SUPPLEMENTAL AND**
9 **REBUTTAL TESTIMONY AND EXHIBITS IN THIS PROCEEDING?**

10 A. Yes, I am.

II. PURPOSE AND SCOPE

12 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

13 A. The purpose of my testimony is to support the Agreement and Stipulation of
14 Partial Settlement (“Stipulation”) by commenting on certain accounting and
15 ratemaking adjustments agreed upon in the Stipulation with the Public Staff.

16 **Q. DO YOU HAVE ANY EXHIBITS TO YOUR SETTLEMENT**
17 **SUPPORTING TESTIMONY?**

18 A. Yes. Updated Bateman Exhibit 1 – Partial Settlement shows the Company’s
19 revised requested increase incorporating the provisions of the Stipulation.
20 Updated Bateman Exhibit 2 – Partial Settlement shows how the Company
21 proposes spreading the revised requested increase to the customer classes.

1 Both of these exhibits reflect the items agreed upon in the Stipulation and the
2 Company's position on the items for which there remains disagreement.

3 **Q. WERE THE EXHIBITS PREPARED BY YOU OR AT YOUR**
4 **DIRECTION AND UNDER YOUR SUPERVISION?**

5 A. Yes.

6 **III. STIPULATION WITH PUBLIC STAFF**

7 **Q. DOES THE COMPANY BELIEVE THE STIPULATION REPRESENTS**
8 **A BALANCED COMPROMISE THAT PROVIDES AN EQUITABLE**
9 **RESOLUTION FOR CERTAIN ITEMS IN THIS PROCEEDING FOR**
10 **ITS SHAREHOLDERS, CUSTOMERS AND OTHER**
11 **STAKEHOLDERS?**

12 A. Yes, the Company believes the Stipulation with the Public Staff balances the
13 financial impact on our customers with the Company's need to recover its
14 revenue requirement, for the items included in this Stipulation, to provide safe
15 and reliable electric utility service to our customers.

16 **Q. PLEASE EXPLAIN THE ACCOUNTING ADJUSTMENTS INCLUDED**
17 **IN THE STIPULATION.**

18 A. While the complete list of adjustments are described in the Stipulation, the
19 following are additional comments on certain accounting adjustments
20 identified in the Stipulation:

1 **1. Update plant and accumulated depreciation to October 31, 2017**

2 As part of settlement, the parties agreed to update both plant additions and
3 accumulated depreciation through October 31, 2017. As part of this
4 adjustment, for purposes of settlement, the parties agreed to remove the
5 Company's adjustments to accumulated depreciation that were contained in its
6 adjustments NC-0800 and NC-1100.

7 **2. Update revenues to October 31, 2017**

8 As part of settlement, the parties agreed to update revenues to reflect changes
9 in number of customers and, for the residential class, changes in weather-
10 normalized usage per customer through October 31, 2017.

11 **3. Adjust Harris COLA annual amortization**

12 As part of settlement, the parties agreed to an eight-year amortization period
13 for recovery of the deferred Harris COLA costs. In my rebuttal testimony, I
14 indicated that the Company would not oppose this adjustment by the Public
15 Staff.

16 **4. Adjust allocations by DEBS to DEP**

17 As part of settlement, the parties agreed to accept the Public Staff's
18 adjustment with a modification to include an annualized amount of DEBS
19 costs related to Piedmont in the calculation.

20 **5. Adjust for lost industrial revenues due to Hurricane Matthew**

21 As part of settlement, the parties agreed to accept the Public Staff's
22 adjustment with the modification proposed in my rebuttal testimony.

1 **6. Remove Customer Connect expenses**

2 As part of settlement, the parties agreed to accept the Public Staff's
3 adjustment to remove these costs. While these costs are operating expenses
4 per Generally Accepted Accounting Principles ("GAAP"), the settlement
5 attempts to treat them more like capital costs for ratemaking purposes. The
6 settlement, if approved by the Commission, would allow the Company to
7 establish a regulatory asset and defer to such regulatory asset the incremental
8 operating and maintenance costs associated with the Customer Connect
9 project. The regulatory asset would accrue a return in the same manner that
10 Construction Work in Progress (CWIP) balances accrue Allowance for Funds
11 Used During Construction (AFUDC). AFUDC would cease and the
12 amortization of the regulatory asset balance would begin on the date the DEP
13 Core Meter-to-Cash release ("Releases 5-8") goes into service or January 1,
14 2022, whichever is sooner. The parties also agree to a 15-year amortization
15 period, which is also the depreciable life of the majority of the capital assets
16 that are part of this release.

17 **7. Adjust aviation expenses**

18 In its initial filing, the Company removed 40.24% of the corporate aviation
19 costs. In its adjustment, the Public Staff removed 75.55% of the costs. For
20 the purposes of settlement, the parties agreed to an adjustment that removes
21 50% of the costs.

1 **8. Adjust depreciation rates**

2 As part of settlement, the parties agreed to make adjustments to the
3 Company's proposed depreciation study, as outlined in the Stipulation, that
4 result in a decrease in the overall revenue requirement.

5 **9. Adjust incentives**

6 As part of settlement, the parties agreed to accept the Public Staff's
7 adjustment with the modification to limit the incentives removed to those of
8 senior leaders within the Company.

9 **10. Adjust Sutton CT Blackstart plant cost**

10 As part of settlement, the parties agreed to reduce rate base by \$2.788 million
11 (NC Retail), along with other depreciation expense and cost of capital effects.
12 The Company believes these costs were prudently incurred. However, for the
13 purposes of settlement, we have agreed to the adjustment and that the
14 adjustment will be permanent for ratemaking and regulatory accounting
15 purposes.

16 **11. Adjust Mayo ZLD plant cost**

17 As part of settlement, the parties agreed to reduce rate base by \$10.393
18 million (N.C. Retail), along with depreciation expense and other cost of
19 capital effects. The Company believes these costs were prudently incurred.
20 However, for the purposes of settlement, we have agreed to the adjustment
21 and that the adjustment will be permanent for ratemaking and regulatory
22 accounting purposes.

1 **Q. IN YOUR OPINION, DOES THE STIPULATION REFLECT A FAIR,**
2 **JUST, AND REASONABLE RESOLUTION OF THE ISSUES IT**
3 **ADDRESSES?**

4 A. Yes. As stated previously, the Stipulation is the result of negotiations between
5 the Stipulating Parties and resolves many of the issues in the case between the
6 Stipulating Parties without the necessity of contentious litigation. Therefore,
7 we respectfully request that the Commission approve the Stipulation in its
8 entirety.

9 **IV. CONCLUSION**

10 **Q. DOES THIS CONCLUDE YOUR SETTLEMENT SUPPORT**
11 **TESTIMONY?**

12 A. Yes.

**DUKE ENERGY PROGRESS, LLC
OPERATING INCOME FROM ELECTRIC OPERATIONS
FOR THE TEST PERIOD ENDED DECEMBER 31, 2016
(Thousands of Dollars)**

Updated Bateman Exhibit 1 - Partial Settlement

Line No.	Description	Total Company Per Books (a) (Col. 1)	North Carolina Retail Operations				
			Per Books (Col. 2)	Accounting Adjustments (c) (Col. 3)	Before Proposed Increase (Col. 4)	Revenue and Expenses from Proposed Increase (d) (Col. 5)	After Proposed Increase (Col. 6)
1	Electric operating revenue	\$ 5,265,756 (b)	\$ 3,551,924	\$ (402,400)	\$ 3,149,524	\$ 348,532	\$ 3,498,056
	Electric operating expenses:						
	Operation and maintenance:						
2	Fuel used in electric generation	1,283,797	780,539	(142,545)	637,994		637,994
3	Purchased power	546,338	354,140	(31,603)	322,537		322,537
4	Other operation and maintenance expense	1,473,062	989,958	41,494	1,031,452	1,113	1,032,565
5	Depreciation and amortization	682,234	483,899	91,890	575,789		575,789
6	General taxes	153,758	100,952	(1,086)	99,866		99,866
7	Interest on customer deposits	9,342 (b)	8,662	-	8,662		8,662
8	Net income taxes	305,753	247,213	(132,551)	114,662	128,584	243,246
9	Amortization of investment tax credit	(5,305)	(3,323)	1,230	(2,093)	-	(2,093)
10	Total electric operating expenses	<u>4,448,978</u>	<u>2,962,039</u>	<u>(173,171)</u>	<u>2,788,869</u>	<u>129,697</u>	<u>2,918,566</u>
11	Operating income	<u>\$ 816,778</u>	<u>\$ 589,885</u>	<u>\$ (229,229)</u>	<u>\$ 360,655</u>	<u>\$ 218,835</u>	<u>\$ 579,490</u>
12	Original cost rate base	<u>\$ 12,915,879</u>	<u>\$ 8,465,228</u>	<u>\$ (317,749) (f)</u>	<u>\$ 8,147,479</u>	<u>\$ 23,561 (e)</u>	<u>\$ 8,171,039</u>
13	Rate of return on North Carolina retail rate base		<u>6.97%</u>		<u>4.43%</u>		<u>7.09%</u>

Notes: (a) From Form E-1, Item 45a

(b) Reclassifies interest on customer deposits to electric operating expense.

(c) From Page 4, Line 36.

(d) From Page 2.

(e) Reflects an increase in operating funds per lead-lag study for the adjusted total requirements in this rate case excluding the portion already adjusted in Col. 3, Line 12.

(f) From Page 4, Line 9

Additional base revenue requirement	348,532
Annual EDIT Rider for four year period	(42,577)
Net Revenue Increase	305,955
Excludes impact of coal inventory rider	

**DUKE ENERGY PROGRESS, LLC
CALCULATION OF ADDITIONAL REVENUE REQUIREMENT
FOR THE TEST PERIOD ENDED DECEMBER 31, 2016
(Thousands of Dollars)**

Line No.	Description	Dec. 31, 2016 Amount (Col. 1)	Pro forma Ratio (Col. 2)	North Carolina Retail Operations					
				Before Proposed Increase			After Proposed Increase		
				Retail Rate Base (Col. 3)	Embedded Cost/Return % (Col. 4)	Operating Income (Col. 5)	Retail Rate Base (Col. 6)	Embedded Cost/Return % (Col. 7)	Operating Income (Col. 8)
1	Long-term debt	\$ 6,907,045	48.00%	\$ 3,910,790	4.05%	\$ 158,387	\$ 3,922,099	4.05%	\$ 158,845
2	Members' equity (a)	7,644,578	52.00%	4,236,689	4.77%	202,268	4,248,941	9.90%	420,645
3	Total	<u>\$ 14,551,623</u>	<u>100.00%</u>	<u>\$ 8,147,479 (b)</u>		<u>\$ 360,655 (c)</u>	<u>\$ 8,171,039 (b)</u>		579,490
4	Operating income before increase (Line 3, Column 5)								<u>360,655</u>
5	Additional operating income required (Line 3 minus Line 4)								218,835
6	Calculate income tax on Incremental interest expense due to increase in cash working capital in proposed revenue (NC3500 Summary, Line 14 Proposed)								(169)
7	Uncollectible (.18%), regulatory fee (.14%) and income taxes (37.0599%)								<u>129,866</u>
8	Additional revenue requirement								<u>\$ 348,532</u>
9	Annual EDIT Rider for four year period								<u>\$ (42,577)</u>
10	Net Increase								<u>\$ 305,955</u>

Notes: (a) The equivalent of common equity for a limited liability company.
 (b) From Page 1, Line 12, Columns 4 & 6.
 (c) From Page 1, Line 11, Column 4.

DUKE ENERGY PROGRESS, LLC
DETAIL OF ACCOUNTING ADJUSTMENTS-NORTH CAROLINA RETAIL
FOR THE TEST PERIOD ENDED DECEMBER 31, 2016
(Thousands of Dollars)

Line No.	Description	Electric Operating Revenue (Col. 1)	Fuel Used in Electric Generation (Col. 2)	Purchased Power (Col. 3)	Other O&M Expense (Col. 4)	Depreciation and Amortization (Col. 5)	General Taxes (Col. 6)	Income Taxes 37.0599% (Col. 7)	Amortization of ITC (Col. 8)
1	Annualize Retail revenues for current rates	(368,354)	-	-	(1,178)	-	-	\$ (136,076)	-
2	Adjust Other Revenue	(3,136)	-	-	(4)	-	-	(1,162)	-
3	Normalize for weather	(9,000)	(4,005)	-	(29)	-	-	(1,840)	-
4	Annualize revenues for customer growth	17,361	4,766	-	1,117	-	-	4,254	-
5	Eliminate unbilled revenues	(18,051)	-	-	-	-	-	(6,690)	-
6	Update fuel costs to approved rate	-	(143,306)	-	-	(4,379)	-	54,732	-
7	Eliminate costs recovered through non-fuel riders (a)	(35,049)	-	-	(138,905)	(55,126)	(6,726)	61,410	-
8	Annualize Depreciation on year end plant balances (a)	-	-	-	-	15,662	-	(5,804)	1,230
9	Annualize property taxes on year end plant	-	-	-	-	-	2,669	(989)	-
10	Adjust for new depreciation rates (a)	-	-	-	-	37,364	-	(13,847)	-
11	Adjust for post test year additions to plant in service (a)	-	-	-	-	28,249	2,446	(11,376)	-
12	Adjust for Asheville base load CWIP (a)	-	-	-	-	-	-	-	-
13	Adjust for transmission merger mitigation project (a)	-	-	-	-	-	-	-	-
14	Adjust nuclear decommissioning expense	-	-	-	-	9,902	-	(3,670)	-
15	Adjust reserve for end of life nuclear costs (a)	-	-	-	-	6,319	-	(2,342)	-
16	Adjust coal inventory (a)	-	-	-	-	-	-	-	-
17	Adjust for Harris COLA	-	-	-	-	5,666	-	(2,100)	-
18	Amortize deferred environmental costs (a)	-	-	-	-	48,378	-	(17,929)	-
19	Adjust for ongoing environmental costs	-	-	-	129,115	-	-	(47,850)	-
20	Normalize for storm costs (a)	13,829	-	-	22,769	-	-	(3,313)	-
21	Annualize O&M non-labor expenses	-	-	-	8,955	-	-	(3,319)	-

Updated
Bateman
Exhibit 1 -
Partial
Settlement
Page 3

DUKE ENERGY PROGRESS, LLC
DETAIL OF ACCOUNTING ADJUSTMENTS-NORTH CAROLINA RETAIL
FOR THE TEST YEAR ENDED DECEMBER 31, 2016
(Thousands of Dollars)

Line No.	Description	Electric Operating Revenue (Col. 1)	Fuel Used in Electric Generation (Col. 2)	Purchased Power and Net Interchange (Col. 3)	Wages Benefits Materials Etc. (Col. 4)	Depreciation and Amortization (Col. 5)	General Taxes (Col. 6)	Income Taxes 37.0599% (Col. 7)	Amortization of ITC (Col. 8)
22	Normalize O&M labor expenses	-	-	-	(1,748)	-	544	446	-
23	Update benefits costs	-	-	-	39,582	-	-	(14,669)	-
24	Levelize nuclear refueling outage costs	-	-	-	(2,199)	-	-	815	-
25	Amortize rate case costs	-	-	-	526	-	-	(195)	-
26	Adjust aviation expenses	-	-	-	(1,512)	-	(19)	567	-
27	Adjust for change in NCUC regulatory fee (a)	-	-	-	858	376	-	(457)	-
28	Adjust purchased power	-	-	(31,603)	-	-	-	11,712	-
29	Adjust O&M for executive compensation	-	-	-	(1,863)	-	-	690	-
30	Adjust for Customer Connect	-	-	-	-	-	-	-	-
31	Adjust for Long Term Service Agreements	-	-	-	(3,016)	-	-	1,118	-
32	Adjust for Deferred Tax Liability (a)	-	-	-	-	-	-	-	-
33	Adjust for tax rate change	-	-	-	-	-	-	(1,561)	-
34	Synchronize interest expense with end of period rate base	-	-	-	-	-	-	2,523	-
35	Adjust cash working capital for present revenue annualized and proposed revenue (a)	-	-	-	-	-	-	112	-
36	Correct charges/outside services	-	-	-	(873)	-	-	323	-
37	Remove Piedmont costs to achieve	-	-	-	(3,818)	-	-	1,415	-
38	Adjust incentives	-	-	-	(4,892)	-	-	1,813	-
39	Adjust Sutton CT blackstart plant cost	-	-	-	-	(126)	-	47	-
40	Adjust Board of Directors expense	-	-	-	(1,390)	-	-	515	-
41	Adjust Mayo ZLD plant cost	-	-	-	-	(395)	-	146	-
42	Total adjustments	<u>\$ (402,400)</u>	<u>\$ (142,545)</u>	<u>\$ (31,603)</u>	<u>\$ 41,494</u>	<u>\$ 91,890</u>	<u>\$ (1,086)</u>	<u>\$ (132,551)</u>	<u>\$ 1,230</u>

Notes: (a) Adjustments to rate base shown on pages 4-4d.

Updated Bateman Exhibit 1 - Partial Settlement Page 3 cont'd

DUKE ENERGY PROGRESS, LLC
ORIGINAL COST RATE BASE-ELECTRIC OPERATIONS
DECEMBER 31, 2016
(Thousands of Dollars)

Line No.	Description	Page Reference	Total Company Per Books (Col. 1)	North Carolina Retail Operations		
				Per Books (Col. 2)	Accounting Adjustments (Col. 3)	As Adjusted (Col. 4)
1	Electric plant in service	4a	\$ 25,049,935	\$ 16,624,154	\$ (164,573)	\$ 16,459,581
2	Less: Accumulated depreciation and amortization	4b	<u>(11,013,727)</u>	<u>(7,497,312)</u>	<u>(104,060)</u>	<u>(7,601,372)</u>
3	Net electric plant		14,036,208	9,126,842	(268,633)	8,858,209
4	Add: Materials and supplies	4c	1,162,558	786,038	(153,358)	632,680
5	Working capital investment	4d	1,200,341	741,674	(46,084)	695,590
6	Less: Accumulated deferred taxes		(3,380,514)	(2,122,336)	47,396	(2,074,940)
7	Operating reserves		(102,714)	(66,990)	-	(66,990)
8	Construction work in progress		<u>-</u>	<u>-</u>	<u>102,930</u>	<u>102,930</u>
9	Total		<u>\$ 12,915,879</u>	<u>\$ 8,465,228</u>	<u>\$ (317,749)</u>	<u>\$ 8,147,479</u>

DUKE ENERGY PROGRESS, LLC
ELECTRIC PLANT IN SERVICE AT ORIGINAL COST
DECEMBER 31, 2016
(Thousands of Dollars)

Line No.	Description	Total Company Per Books (Col. 1)	North Carolina Retail Operations		
			Per Books (Col. 2)	Accounting Adjustments (Col. 3)	As Adjusted (Col. 4)
1	Production Plant	\$ 15,238,931	\$ 9,102,670	\$ (330,273)	\$ 8,772,397
2	Transmission Plant	2,463,973	1,442,697	116,398	1,559,095
3	Distribution Plant	5,886,275	5,097,863	28,964	5,126,826
4	General Plant	613,022	442,331	25,243	467,575
5	Intangible Plant	<u>408,346</u>	<u>271,400</u>	<u>25,003</u>	<u>296,403</u>
6	Subtotal	24,610,547	16,356,961	(134,665)	16,222,296
7	Nuclear Fuel (Net)	<u>439,389</u>	<u>267,193</u>	<u>(29,908)</u>	<u>237,285</u>
8	Total electric plant in service	<u>\$ 25,049,935</u>	<u>\$ 16,624,154</u>	<u>\$ (164,573)</u>	<u>\$ 16,459,581</u>

DUKE ENERGY PROGRESS, LLC
ACCUMULATED DEPRECIATION AND AMORTIZATION - ELECTRIC PLANT IN SERVICE
DECEMBER 31, 2016
(Thousands of Dollars)

No.	Description	Total Company Per Books (Col. 1)	North Carolina Retail Operations		
			Per Books (Col. 2)	Accounting Adjustments (Col. 3)	As Adjusted (Col. 4)
1	Production Reserve	\$ (6,807,632)	\$ (4,161,088)	\$ (113,794)	\$ (4,274,882)
2	Transmission Reserve	(789,438)	(467,399)	(5,450)	(472,849)
3	Distribution Reserve	(2,899,918)	(2,511,501)	20,312	(2,491,189)
4	General Reserve	(243,874)	(175,969)	4,827	(171,142)
5	Intangible Reserve	<u>(272,864)</u>	<u>(181,354)</u>	<u>(9,956)</u>	<u>(191,310)</u>
6	Total	<u>\$ (11,013,727)</u>	<u>\$ (7,497,312)</u>	<u>\$ (104,060)</u>	<u>\$ (7,601,372)</u>
7	The annual composite rates based on the partial settlement agreement are as shown below				
8	Steam production plant	3.80%			
9	Nuclear production plant	2.73%			
10	Hydro production plant	3.49%			
11	Other production plant	4.51%			
12	Transmission plant	1.91%			
13	Distribution plant	2.21%			
14	General plant	Various			
15	Intangible plant	20.00%			

DUKE ENERGY PROGRESS, LLC
MATERIALS AND SUPPLIES
DECEMBER 31, 2016
(Thousands of Dollars)

Line No.	Description	Total Company Per Books (Col. 1)	North Carolina Retail Operations		
			Per Books (Col. 2)	Accounting Adjustments (Col. 3)	As Adjusted (Col. 4)
	Fuel Stock:				
1	Coal	\$ 147,383	\$ 89,624	\$ (31,229)	\$ 58,395
2	Oil	114,903	68,555		68,555
3	Total fuel stock	262,287	158,179	(31,229)	126,950
4	Other electric materials and supplies and stores clearing	900,271	627,859	(122,129)	505,730
5	Total Materials and Supplies	<u>\$ 1,162,558</u>	<u>\$ 786,038</u>	<u>\$ (153,358)</u>	<u>\$ 632,680</u>

DUKE ENERGY PROGRESS, LLC
WORKING CAPITAL INVESTMENT
DECEMBER 31, 2016
(Thousands of Dollars)

Line No.	Description	Total Company Per Books (Col. 1)	North Carolina Retail Operations		Impact of Rev Incr (Col. 5)	With Rev Incr (Col. 6)	
			Per Books (Col. 2)	Accounting Adjustments (Col. 3)			As Adjusted (Col. 4)
1	Investor advanced funds: Operating funds per lead-lag study	237,214	154,568	(15,600)	138,968	23,561	162,529
2	Unamortized Debt	46,441	30,261	-	30,261		30,261
3	Regulatory Assets	768,262	437,870	(30,484)	407,386		407,386
4	Other	289,473	240,360		240,360		240,360
5	Total investor advanced funds	1,341,390	863,059	(46,084)	816,974	23,561	840,535
6	Less: customer deposits	(141,049)	(121,384)	-	(121,384)		(121,384)
7	Total working capital investment	\$ 1,200,341	\$ 741,674	\$ (46,084)	\$ 695,590	\$ 23,561	\$ 719,151

DUKE ENERGY PROGRESS, LLC
DOCKET NO. E-2, SUB 1142
SPREAD OF PROPOSED INCREASE TO CUSTOMER CLASSES
(DOLLARS IN THOUSANDS)
NORTH CAROLINA RETAIL

Line No.	Rate Class	Rate Base (A)	Present Rate Revenues Excl DSM/EE (B)	Net Operating Income (C)	Present ROR (D)	Gross Revenues At Average ROR (E)	Variance From The Average (F)	25.0% Reduction in Variance From The Average (G)	Proposed Rate Increase Before Reduction in Variance (H)	Proposed Rate Increase After Reduction in Variance (I)	Present Rate Revenues Incl DSM/EE, JAAR and REPS (J)	Proposed Percent Increase (K)	ROR at Proposed Rates (L)	EDIT Rider Revenue Impact (RR)	Proposed Rate Increase		Proposed Percent Increase plus EDIT Rider (KR)	ROR At Proposed Rates plus EDIT Rider (LR)
															After Reduction in Variance plus EDIT Rider (IR)	Incr. plus EDIT Rider (JR)		
		E-1 Item 45b	E-1 Item 45b, Summer CP	E-1 Item 45b	(C) / (A)	(B) - (E)		(F) * 25%	(H) + (G)		(I) / (J)		(I) + (RR)		(IR) / (J)			
1	RES	\$ 4,435,537	\$ 1,446,813	\$ 172,117	3.88%	\$ 1,485,300	\$ (38,487)	\$ 9,622	\$ 189,743	\$ 199,365	\$ 1,595,952	12.5%	6.68%	\$ (17,689)	\$ 181,675	11.4%	6.43%	
2	SGS	\$ 562,581	\$ 190,124	\$ 25,324	4.50%	\$ 189,455	\$ 670	\$ (167)	\$ 24,066	\$ 23,899	\$ 219,395	10.9%	7.15%	\$ (2,133)	\$ 21,766	9.9%	6.91%	
3	SGSCLR	\$ 8,153	\$ 2,865	\$ 344	4.22%	\$ 2,892	\$ (27)	\$ 7	\$ 349	\$ 355	\$ 3,684	9.7%	6.94%	\$ (31)	\$ 324	8.8%	6.70%	
4	MGS	\$ 1,850,442	\$ 800,032	\$ 91,531	4.95%	\$ 784,747	\$ 15,285	\$ (3,821)	\$ 79,158	\$ 75,337	\$ 830,246	9.1%	7.48%	\$ (12,685)	\$ 62,651	7.5%	7.05%	
5	LGS	\$ 1,008,097	\$ 465,647	\$ 35,248	3.50%	\$ 480,544	\$ (14,897)	\$ 3,724	\$ 43,124	\$ 46,848	\$ 479,689	9.8%	6.40%	\$ (9,534)	\$ 37,315	7.8%	5.80%	
6	SI	\$ 18,385	\$ 5,240	\$ 449	2.44%	\$ 5,819	\$ (579)	\$ 145	\$ 786	\$ 931	\$ 5,476	17.0%	5.61%	\$ (61)	\$ 871	15.9%	5.40%	
7	TSS	\$ 1,295	\$ 427	\$ 14	1.07%	\$ 496	\$ (69)	\$ 17	\$ 55	\$ 73	\$ 532	13.7%	4.58%	\$ (6)	\$ 66	12.5%	4.27%	
8	ALS, SLS	\$ 262,509	\$ 85,126	\$ 35,563	13.55%	\$ 47,084	\$ 38,042	\$ (9,510)	\$ 11,230	\$ 1,719	\$ 88,499	1.9%	13.92%	\$ (436)	\$ 1,283	1.4%	13.82%	
9	SFL	\$ 480	\$ 177	\$ 60	12.59%	\$ 115	\$ 62	\$ (16)	\$ 21	\$ 5	\$ 188	2.6%	13.21%	\$ (1)	\$ 4	1.9%	13.03%	
TOTAL RETAIL		\$ 8,147,478	\$ 2,996,451	\$ 360,650	4.43%	\$ 2,996,451	\$ (0)	\$ 0	\$ 348,532	\$ 348,532	\$ 3,223,661	10.8%	7.09%	\$ (42,577)	\$ 305,955	9.5%	6.77%	

Calculations for Rate Design in Order to Apply Increase to Unadjusted Billing Determinants

Line No.	Rate Class	Proposed Rate Increase After Reduction in Variance (M)	Customer Growth Adjustment in Present Revenues (N)	Weather Normalization Adjustment in Present Revenues (O)	Matthew Revenue Adjustment in Present Revenues (P)	Total Adjustments to Exclude for Rate Design (Q)	Ratio of Unadjusted Present Revenues to Adjusted (R)	Target Revenue Increase for Rate Design (to be applied to unadjusted billing determinants) (S)	Total Unadjusted Revenue with Clauses & REPS at Current Rates (T)	Proposed Percent Increase to unadjusted Revenues for Rate Design (U)	Target Revenue Increase for Rate Design (to apply to unadjusted billing determinants) plus EDIT Rider	
											(S) + (RR)	(SR) / (T)
10	RES	\$ 199,365	\$ (2,589)	\$ 6,411	\$ 6,751	\$ 10,573	99.269%	197,908	1,584,289	12.5%	180,219	11.4%
11	SGS	\$ 23,899	\$ 3,831	\$ (1,764)	\$ 802	\$ 2,868	98.491%	23,538	216,085	10.9%	21,405	9.9%
12	SGSCLR	\$ 355	\$ 88	\$ (26)	\$ 12	\$ 73	97.436%	346	3,589	9.7%	315	8.8%
13	MGS	\$ 75,337	\$ 9,629	\$ (7,835)	\$ 4,354	\$ 6,148	99.231%	74,758	823,865	9.1%	62,072	7.5%
14	LGS	\$ 46,848	\$ 5,913	\$ (5,785)	\$ 1,754	\$ 1,882	99.596%	46,659	477,750	9.8%	37,125	7.8%
15	SI	\$ 931	\$ -	\$ -	\$ 23	\$ 23	99.565%	927	5,452	17.0%	867	15.9%
16	TSS	\$ 73	\$ (24)	\$ -	\$ 0	\$ (24)	105.578%	77	562	13.7%	70	12.5%
17	ALS, SLS	\$ 1,719	\$ 520	\$ -	\$ 133	\$ 653	99.233%	1,706	87,820	1.9%	1,270	1.4%
18	SFL	\$ 5	\$ (7)	\$ -	\$ 1	\$ (6)	103.664%	5	195	2.6%	4	1.9%
TOTAL RETAIL		\$ 348,532	\$ 17,361	\$ (9,000)	\$ 13,829	\$ 22,190	99.259%	\$ 345,924	\$ 3,199,609	10.8%	\$ 303,347	9.5%
<i>Check</i>		348,532	17,361	(9,000)	13,829							

Tax Complement 62.94006%
Tax Complement Incl. GRT, Reg Fee & Uncollectibles 62.73881%

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. E-2, SUB 1142

In the Matter of:	)	SETTLEMENT TESTIMONY
Application of Duke Energy Progress, LLC	)	ROBERT B. HEVERT
For Adjustment of Rates and Charges	)	FOR DUKE ENERGY
Applicable to Electric Service in North	)	PROGRESS, LLC
Carolina)	

1

I. INTRODUCTION

2 **Q. PLEASE STATE YOUR NAME, AFFILIATION, AND BUSINESS**
3 **ADDRESS.**

4 A. My name is Robert B. Hevert. I am a Partner with ScottMadden, Inc., and my
5 business address is 1900 West Park Drive, Suite 250, Westborough
6 Massachusetts, 01581.

7 **Q. ARE YOU THE SAME ROBERT B. HEVERT WHO SUBMITTED**
8 **DIRECT AND REBUTTAL TESTIMONY IN THIS PROCEEDING?**

9 A. Yes, I filed both direct testimony (“Direct Testimony”) and rebuttal testimony
10 (“Rebuttal Testimony”) on behalf of Duke Energy Progress, LLC (the
11 “Company”). In my Direct and Rebuttal Testimonies I recommended an ROE
12 of 10.75 percent, within a range of 10.25 percent to 11.00 percent, and
13 supported the Company’s proposed capital structure.¹

14 **Q. WHAT IS THE PURPOSE OF YOUR SETTLEMENT SUPPORT**
15 **TESTIMONY?**

16 A. The purpose of my testimony is to explain my support for the Agreement and
17 Stipulation of Partial Settlement dated November 20, 2017 (the “Partial
18 Settlement”) among the Company and the Public Staff (collectively, the
19 “Settling Parties”). In particular, my testimony addresses the agreed-upon

¹ Direct Testimony of Robert B. Hevert, at 3-4; Rebuttal Testimony of Robert B. Hevert, at 8 - 9.

1 Return on Equity (“ROE” or “Cost of Equity”), capital structure, and overall
2 Rate of Return contained in the Partial Settlement.²

3 **Q. HAVE YOU PREPARED ANY EXHIBITS IN CONJUNCTION WITH**
4 **YOUR TESTIMONY?**

5 A. Yes. Exhibit No. RBH-S1 has been prepared by me, or under my direct
6 supervision.

7 **II. STIPULATED ROE, EQUITY RATIO, AND OVERALL RATE**
8 **OF RETURN**

9 **Q. ARE YOU FAMILIAR WITH THE TERMS OF THE PARTIAL**
10 **SETTLEMENT AS IT RELATES TO THE COMPANY’S RETURN ON**
11 **EQUITY?**

12 A. Yes. I understand the Settling Parties have agreed to an ROE of 9.90 percent,
13 and a capital structure including 52.00 percent common equity and 48.00
14 percent long-term debt. I further understand the overall Rate of Return
15 contained in the Partial Settlement is 7.09 percent.³

16 **Q. IN GENERAL, DO YOU SUPPORT THE COMPANY’S DECISION TO**
17 **AGREE TO THE STIPULATED ROE?**

18 A. Yes, I do. Although the Stipulated ROE is below the lower bound of my
19 recommended range (*i.e.*, 10.25 percent), I recognize the Partial Settlement
20 represents negotiations among the Settling Parties regarding several

² See, Docket No. E-2, Sub 1142, Preliminary Notice of Partial Settlement, November 20, 2017, at 2. I refer to the 9.90 percent ROE as the “Stipulated ROE”, the 52.00 percent equity ratio as the “Stipulated Equity Ratio”, and the 7.09 percent overall Rate of Return as the “Stipulated Rate of Return”.

³ See, Docket No. E-2, Sub 1142, Preliminary Notice of Partial Settlement, November 20, 2017, at 2.

1 otherwise-contested issues. I understand the Company has determined that
2 the terms of the Partial Settlement, in particular the Stipulated ROE and
3 Equity Ratio, would be viewed by the rating agencies as constructive and
4 equitable. I understand and respect that determination.

5 **Q. PLEASE NOW SUMMARIZE YOUR POSITION REGARDING THE**
6 **STIPULATED ROE.**

7 A. Although the Stipulated ROE falls below my recommended range (the low
8 end of which is 10.25 percent), it is within the range of the analytical results
9 presented in my Direct and Rebuttal Testimonies. As discussed throughout
10 my Direct and Rebuttal Testimonies, capital market conditions continue to
11 evolve and as a consequence, the models used to estimate the Cost of Equity
12 produce a wide range of estimates. Those market conditions, which include a
13 fundamental shift in monetary policy by the Federal Reserve and other central
14 banks, create a level of uncertainty suggesting increasing capital costs, which
15 is consistent with my Direct and Rebuttal testimony. Nonetheless, I recognize
16 the benefits associated with the decision to enter into the Partial Settlement
17 and as such, it is my view that the 9.90 percent Stipulated ROE is a reasonable
18 resolution of an otherwise contentious issue.

1 **Q. HAVE YOU ALSO CONSIDERED THE STIPULATED ROE IN THE**
2 **CONTEXT OF AUTHORIZED RETURNS FOR OTHER**
3 **VERTICALLY INTEGRATED ELECTRIC UTILITIES?**

4 A. Yes, I have. From January 2014 through November 2017, the average
5 authorized ROE for vertically integrated electric utilities was 9.85 percent,
6 only five basis points from the Stipulated ROE. Of the 75 cases decided
7 during that period, 31 included authorized returns of 9.90 percent or higher.

8 **Q. ARE THERE OTHER DISTINCTIONS THAT ARE IMPORTANT TO**
9 **CONSIDER WHEN REVIEWING AUTHORIZED RETURNS?**

10 A. Yes, there are. As noted in my Rebuttal Testimony, the Company's credit
11 rating and outlook depend substantially on the extent to which rating agencies
12 view the regulatory environment credit supportive, or not.⁴ I noted, for
13 example, that Moody's finds the regulatory environment to be so important
14 that 50.00 percent of the factors that weigh in its ratings determination are
15 determined by the nature of regulation.

16 Given the Company's need to access external capital and the weight
17 rating agencies place on the nature of the regulatory environment, I believe it
18 is important to consider the extent to which the jurisdictions that recently have
19 authorized ROEs for electric utilities are viewed as having constructive
20 regulatory environments.

⁴ Rebuttal Testimony of Robert B. Hevert, at 7.

1 **Q. IS NORTH CAROLINA GENERALLY CONSIDERED TO HAVE A**
2 **CONSTRUCTIVE REGULATORY ENVIRONMENT?**

3 A. Yes, it is. As discussed in my Rebuttal Testimony, Regulatory Research
4 Associates (“RRA”), which is a widely referenced source of rate case data,
5 provides an assessment of the extent to which regulatory jurisdictions are
6 constructive from investors’ perspectives, or not.⁵ As RRA explains, less
7 constructive environments are associated with higher levels of risk:

8 RRA maintains three principal rating categories, Above
9 Average, Average, and Below Average, with Above Average
10 indicating a relatively more constructive, lower-risk regulatory
11 environment from an investor viewpoint, and Below Average
12 indicating a less constructive, higher-risk regulatory climate
13 from an investor viewpoint. Within the three principal rating
14 categories, the numbers 1, 2, and 3 indicate relative position.
15 The designation 1 indicates a stronger (more constructive)
16 rating; 2, a mid range rating; and, 3, a weaker (less
17 constructive) rating. We endeavor to maintain an
18 approximately equal number of ratings above the average and
19 below the average.⁶

20 Within RRA’s ranking system, North Carolina is rated “Average/1”, which
21 falls in the top one-third of the 53 regulatory commissions ranked by RRA.

22 **Q. DID YOU CONSIDER THOSE DISTINCTIONS IN YOUR REVIEW**
23 **OF AUTHORIZED RETURNS RELATIVE TO THE STIPULATED**
24 **ROE?**

25 A. Yes. Across the 75 cases noted above, there was a 51-basis point difference
26 between the median return for “Above Average” and “Below Average”
27 jurisdictions (the higher-ranked jurisdictions providing the higher authorized

⁵ Rebuttal Testimony of Robert B. Hevert, at 158.

⁶ Source: Regulatory Research Associates, accessed November 20, 2017. *See, also*, Rebuttal Testimony of Robert B. Hevert, at 158.

1 returns, see Table 1, below). As Table 1 indicates, authorized ROEs for
 2 vertically integrated electric utilities in jurisdictions that, like North Carolina,
 3 are rated at least Average/1 range from 9.50 percent to 10.55 percent, with a
 4 median of 10.04 percent.

5 **Table 1: Average Authorized ROE by RRA Ranking⁷**

RRA Ranking	Authorized ROE (%)		
	Vertically Integrated Electric Utilities		
	Above Avg.	Avg.	Below Avg.
Average	10.03	9.63	9.84
Median	10.04	9.58	9.53
Maximum	10.55	10.10	11.95
Minimum	9.50	9.20	9.30

6 **Q. WHAT CONCLUSIONS DO YOU DRAW FROM THAT DATA?**

7 A. The Stipulated ROE falls 13 to 14 basis points below the mean and median
 8 authorized ROE, respectively, for jurisdictions that are comparable to North
 9 Carolina’s constructive regulatory environment, and 37 basis points above the
 10 median return authorized in less supportive jurisdictions. Taken from that
 11 perspective, the Stipulation ROE is a reasonable, if not somewhat
 12 conservative measure of the Company’s Cost of Equity.

13 **Q. DO YOU BELIEVE THE STIPULATED CAPITAL STRUCTURE**
 14 **ALSO IS REASONABLE?**

15 A. Yes, I do. As demonstrated in Table 2 (below) the Stipulated Equity Ratio is
 16 nearly equal to the median authorized equity ratio (*i.e.*, 51.90 percent), and is

⁷ Source: Regulatory Research Associates. “Above Average” includes Above Average/1,2,3 and Average/1; “Average” includes Average/2 and Average/3; “Below Average” includes Below Average/1,2,3. The “Above Average” group includes 18 of 53 jurisdictions, or about one-third of the total.

1 within the range of equity ratios authorized in those jurisdictions (40.25
2 percent to 58.96 percent).

3 **Table 2: Average Authorized Equity Ratio by RRA Ranking⁸**

RRA Ranking	Authorized Equity Ratio (%) Vertically Integrated Electric Utilities		
	Above Avg.	Avg.	Below Avg.
Average	51.12	51.01	51.07
Median	51.90	51.00	50.09
Maximum	58.96	56.00	58.18
Minimum	40.25	44.00	47.16

4 As discussed in my Rebuttal Testimony, because no two companies
5 are identical, we should not view the average (or median) equity ratio
6 (whether authorized or observed) as a strict measure of industry practice. My
7 Rebuttal Testimony noted that capital structure management and optimization
8 is complex, and one company should not be viewed as the standard for
9 another.⁹ Nonetheless, the Stipulated Equity Ratio falls within the range of
10 authorized equity ratios, and within ten basis points of the median for Above
11 Average jurisdictions. In my view, that finding provides additional support
12 for its acceptance.

⁸ Source: Regulatory Research Associates. Excludes capital structure decisions from Arkansas, Florida, Indiana, and Michigan, all of which include some form of non-investor supplied capital in the ratemaking capital structure.

⁹ See, Rebuttal Testimony of Robert B. Hevert, at 138 – 139.

1 **Q. HOW DOES THE 7.09 PERCENT OVERALL RATE OF RETURN**
2 **CONTAINED IN THE PARTIAL SETTLEMENT COMPARE TO**
3 **RECENTLY AUTHORIZED RETURNS?**

4 A. It is low. Since January 2014, there have been 65 cases reported by RRA (for
5 vertically integrated electric utilities) in which an overall Rate of Return was
6 specified. Over those 65 cases, the median Rate of Return was 7.45 percent,
7 36 basis points above the 7.09 percent Rate of Return contained in the Partial
8 Settlement. From a slightly different perspective, 50 of the 65 cases had
9 overall Rates of Return greater than 7.09 percent. In fact, the Partial
10 Settlement's overall Rate of Return falls in the bottom 22nd percentile of the
11 65 cases decided since 2014.

12 The low overall Rate of Return contained in the Partial Settlement is
13 brought about by the Company's rather low cost of debt. That low cost of
14 debt is supported by reasonable regulatory outcomes, including constructive
15 decisions regarding the Return on Equity, and capital structure. In my view,
16 the Partial Settlement continues that support, and produces the low overall
17 Rate of Return on which customer rates would be set. From that important
18 perspective, the Stipulated ROE and capital structure strike the necessary
19 balance between customer and investor interests.

1 **Q. LASTLY HAS YOUR TESTIMONY CONSIDERED ECONOMIC**
2 **CONDITIONS IN NORTH CAROLINA?**

3 A. Yes, it has. As explained in my Direct Testimony, I understand and
4 appreciate the Commission's need to balance the interests of investors and
5 ratepayers, and to consider economic conditions in the State, as it sets rates. I
6 therefore reviewed several measures of economic conditions, and concluded
7 that North Carolina, and the counties contained within the Company's service
8 territory, have experienced significant improvement over the past several
9 years, and expect further improvement over the coming years.¹⁰ That review
10 does not alter my conclusion that the Stipulated ROE, Equity Ratio, and Rate
11 of Return are reasonable resolutions to otherwise contentious issues.¹¹

12 **Q. DOES THIS CONCLUDE YOUR SETTLEMENT TESTIMONY?**

13 A. Yes, it does.

¹⁰ Direct Testimony of Robert B. Hevert, at 60-71. I also have read many of the consumer Statements of Position filed with the Commission in this proceeding, as well as transcripts of the public hearings held in Rockingham (September 12, 2017), Raleigh (September 25, 2017), Asheville (September 27, 2017), and Snow Hill (October 11, 2017).

¹¹ Direct Testimony of Robert B. Hevert, at 71.

Recently Authorized ROEs and Common Equity Ratios for Vertically Integrated Electric Utilities

State	Company	Case Identification	Service	Case Type	Date	Return on Equity (%)	Common Equity to Total Capital (%)	Return on Original Cost Rate (%)	RRA Rank	ROE			Equity Ratio		
										Above Average	Average	Below Average	Above Average	Average	Below Average
Alaska	Alaska Electric Light Power	D-U-16-086	Electric	Vertically Integrated	11/15/2017	11.95	58.18	8.91	Below Average / 1			11.95			58.18
Arizona	UNS Electric Inc.	D-E-04204A-15-0142	Electric	Vertically Integrated	8/18/2016	9.50	52.83	7.22	Average / 3		9.50			52.83	
Arizona	Tucson Electric Power Co.	D-E-01933A-15-0322	Electric	Vertically Integrated	2/24/2017	9.75	50.03	7.04	Average / 3			9.75		50.03	
Arizona	Arizona Public Service Co.	D-E-01345A-16-0036	Electric	Vertically Integrated	8/15/2017	10.00	55.80	7.85	Average / 3			10.00		55.80	
Arkansas	Entergy Arkansas Inc.	D-15-015-U	Electric	Vertically Integrated	2/23/2016	9.75	28.46	4.52	Average / 1	9.75					
Arkansas	Oklahoma Gas and Electric Co.	D-16-052-U	Electric	Vertically Integrated	5/18/2017	9.50	36.38	5.42	Average / 1	9.50					
California	Liberty Utilities CalPeco Ele	A-15-05-008	Electric	Vertically Integrated	12/1/2016	10.00	52.50	7.51	Above Average / 3	10.00			52.50		
California	San Diego Gas & Electric Co.	Advice No. 3120-E	Electric	Vertically Integrated	10/26/2017	10.20	52.00	7.55	Above Average / 3	10.20			52.00		
California	Pacific Gas and Electric Co.	Advice No. 3887-G/5148-E	Electric	Vertically Integrated	10/26/2017	10.25	52.00	7.69	Above Average / 3	10.25			52.00		
California	Southern California Edison Co.	Advice No. 3665-E	Electric	Vertically Integrated	10/26/2017	10.30	48.00	7.61	Above Average / 3	10.30			48.00		
Colorado	Black Hills Colorado Electric	D-14AL-0393E	Electric	Vertically Integrated	12/18/2014	9.83	49.83	7.55	Average / 2		9.83			49.83	
Colorado	Public Service Co. of CO	D-14AL-0660E	Electric	Vertically Integrated	2/24/2015	9.83	56.00	7.55	Average / 2		9.83			56.00	
Colorado	Black Hills Colorado Electric	D-16AL-0326E	Electric	Vertically Integrated	12/19/2016	9.37	52.39	7.43	Average / 2		9.37			52.39	
Florida	Florida Public Utilities Co.	D-140025-EI	Electric	Vertically Integrated	9/15/2014	10.25	NA	NA	Above Average / 2	10.25					
Florida	Florida Power & Light Co.	D-160021-EI	Electric	Vertically Integrated	11/29/2016	10.55	NA	NA	Above Average / 2	10.55					
Florida	Gulf Power Co.	D-160186-EI	Electric	Vertically Integrated	4/4/2017	10.25	NA	NA	Above Average / 2	10.25					
Florida	Tampa Electric Co.	D-20170210	Electric	Vertically Integrated	11/6/2017	10.25	NA	NA	Above Average / 2	10.25					
Idaho	Avista Corp.	C-AVU-E-15-05	Electric	Vertically Integrated	12/18/2015	9.50	50.00	7.42	Average / 2		9.50			50.00	
Idaho	Avista Corp.	C-AVU-E-16-03	Electric	Vertically Integrated	12/28/2016	9.50	50.00	7.58	Average / 2		9.50			50.00	
Illinois	MidAmerican Energy Co.	D-14-0066	Electric	Vertically Integrated	11/6/2014	9.56	51.73	7.14	Average / 2		9.56			51.73	
Indiana	Indianapolis Power & Light Co.	Ca-44576	Electric	Vertically Integrated	3/16/2016	9.85	37.33	6.51	Average / 1	9.85					
Indiana	Northern IN Public Svc Co.	Ca-44688	Electric	Vertically Integrated	7/18/2016	9.98	47.42	6.74	Average / 1	9.98					
Kansas	Kansas City Power & Light	D-15-KCPE-116-RTS	Electric	Vertically Integrated	9/10/2015	9.30	50.48	7.44	Below Average / 1			9.30			50.48
Kentucky	Kentucky Utilities Co.	C-2016-00370	Electric	Vertically Integrated	6/22/2017	9.70	NA	NA	Average / 1	9.70			NA		
Kentucky	Louisville Gas & Electric Co.	C-2016-00371 (elec.)	Electric	Vertically Integrated	6/22/2017	9.70	NA	NA	Average / 1	9.70			NA		
Louisiana	Entergy Louisiana LLC	D-UD-13-01	Electric	Vertically Integrated	7/10/2014	9.95	NA	NA	Average / 2			9.95		NA	
Michigan	Wisconsin Public Service Corp.	C-U-17669	Electric	Vertically Integrated	4/23/2015	10.20	NA	6.01	Above Average / 3	10.20					
Michigan	Consumers Energy Co.	C-U-17735	Electric	Vertically Integrated	11/19/2015	10.30	41.50	6.18	Above Average / 3	10.30					
Michigan	DTE Electric Co.	C-U-17767	Electric	Vertically Integrated	12/11/2015	10.30	38.03	5.70	Above Average / 3	10.30					
Michigan	Upper Peninsula Power Co.	C-U-17895	Electric	Vertically Integrated	9/8/2016	10.00	53.49	7.47	Above Average / 3	10.00					
Michigan	DTE Electric Co.	C-U-18014	Electric	Vertically Integrated	1/31/2017	10.10	37.49	5.55	Above Average / 3	10.10					
Michigan	Consumers Energy Co.	C-U-17990	Electric	Vertically Integrated	2/28/2017	10.10	40.75	5.94	Above Average / 3	10.10					
Minnesota	Northern States Power Co. - MN	D-E-002/GR-13-868	Electric	Vertically Integrated	3/26/2015	9.72	52.50	7.37	Average / 2		9.72			52.50	
Minnesota	Otter Tail Power Co.	D-E-017/GR-15-1033	Electric	Vertically Integrated	3/2/2017	9.41	52.50	7.51	Average / 2		9.41			52.50	
Minnesota	Northern States Power Co. - MN	D-E-002/GR-15-826	Electric	Vertically Integrated	5/11/2017	9.20	52.50	7.08	Average / 2		9.20			52.50	
Mississippi	Entergy Mississippi Inc.	D-2014-UN-0132	Electric	Vertically Integrated	12/11/2014	10.07	NA	7.51	Above Average / 3	10.07			NA		
Missouri	Union Electric Co.	C-ER-2014-0258	Electric	Vertically Integrated	4/29/2015	9.53	51.76	7.60	Below Average / 1			9.53			51.76
Missouri	Kansas City Power & Light	C-ER-2014-0370	Electric	Vertically Integrated	9/2/2015	9.50	50.09	7.53	Below Average / 1			9.50			50.09
Missouri	Kansas City Power & Light	C-ER-2016-0285	Electric	Vertically Integrated	5/3/2017	9.50	49.20	7.43	Below Average / 1			9.50			49.20
Nevada	Nevada Power Co.	D-14-05004	Electric	Vertically Integrated	10/9/2014	9.80	48.17	8.09	Average / 2		9.80			48.17	
Nevada	Sierra Pacific Power Co.	D-16-06006	Electric	Vertically Integrated	12/22/2016	9.60	48.03	6.65	Average / 2		9.60			48.03	
New Mexico	Southwestern Public Service Co	C-12-00350-UT	Electric	Vertically Integrated	3/26/2014	9.96	53.89	8.26	Below Average / 2			9.96			53.89
New Mexico	El Paso Electric Co.	C-15-00127-UT	Electric	Vertically Integrated	6/8/2016	9.48	49.29	7.67	Below Average / 2			9.48			49.29
New Mexico	Public Service Co. of NM	C-15-00261-UT	Electric	Vertically Integrated	9/28/2016	9.58	49.61	7.71	Below Average / 2			9.58			49.61

State	Company	Case Identification	Service	Case Type	Date	Return on Equity (%)	Common Equity to Total Capital (%)	Return on Original Cost Rate (%)	RRA Rank	ROE			Equity Ratio		
										Above Average	Average	Below Average	Above Average	Average	Below Average
North Carolina	Virginia Electric & Power Co.	D-E-22, Sub 532	Electric	Vertically Integrated	12/22/2016	9.90	51.75	7.37	Average / 1	9.90			51.75		
North Dakota	Northern States Power Co. - MN	C-PU-12-813	Electric	Vertically Integrated	2/26/2014	9.75	52.56	7.45	Average / 1	9.75			52.56		
North Dakota	MDU Resources Group Inc.	C-PU-16-666	Electric	Vertically Integrated	6/16/2017	9.65	51.40	7.36	Average / 1	9.65			51.40		
Oklahoma	Public Service Co. of OK	Ca-PUD201500208	Electric	Vertically Integrated	11/10/2016	9.50	44.00	6.94	Average / 3		9.50			44.00	
Oklahoma	Oklahoma Gas and Electric Co.	Ca-PUD201500273	Electric	Vertically Integrated	3/20/2017	9.50	53.31	7.69	Average / 3		9.50			53.31	
Oregon	Portland General Electric Co.	D-UE-283	Electric	Vertically Integrated	12/4/2014	9.68	50.00	7.56	Average / 2		9.68			50.00	
Oregon	Portland General Electric Co.	D-UE-294	Electric	Vertically Integrated	12/15/2015	9.60	50.00	7.51	Average / 2		9.60			50.00	
South Carolina	Duke Energy Progress LLC	D-2016-227-E	Electric	Vertically Integrated	12/7/2016	10.10	53.00	7.21	Average / 2		10.10			53.00	
Tennessee	Kingsport Power Company	D-16-00001	Electric	Vertically Integrated	8/9/2016	9.85	40.25	6.18	Above Average / 3	9.85			40.25		
Texas	Entergy Texas Inc.	D-41791	Electric	Vertically Integrated	5/16/2014	9.80	NA	NA	Average / 2		9.80			NA	
Texas	Southwestern Public Service Co	D-43695	Electric	Vertically Integrated	12/17/2015	9.70	51.00	7.88	Average / 2		9.70			51.00	
Utah	PacifiCorp	D-13-035-184	Electric	Vertically Integrated	8/29/2014	9.80	51.43	7.57	Average / 1	9.80			51.43		
Vermont	Green Mountain Power Corp.	D-8190, 8191	Electric	Vertically Integrated	8/25/2014	9.60	50.00	7.46	Average / 2		9.60			50.00	
Virginia	Appalachian Power Co.	C-PUE-2014-00026	Electric	Vertically Integrated	11/26/2014	9.70	42.89	6.88	Above Average / 2	9.70			42.89		
Washington	PacifiCorp	D-UE-140762	Electric	Vertically Integrated	3/25/2015	9.50	49.10	7.30	Average / 3		9.50			49.10	
Washington	Avista Corp.	D-UE-150204	Electric	Vertically Integrated	1/6/2016	9.50	48.50	7.29	Average / 3		9.50			48.50	
Washington	PacifiCorp	D-UE-152253	Electric	Vertically Integrated	9/1/2016	9.50	49.10	7.30	Average / 3		9.50			49.10	
West Virginia	Appalachian Power Co.	C-14-1152-E-42T	Electric	Vertically Integrated	5/26/2015	9.75	47.16	7.38	Below Average / 1			9.75			47.16
Wisconsin	Wisconsin Power and Light Co	D-6680-UR-119 (Elec)	Electric	Vertically Integrated	6/6/2014	10.40	50.46	NA	Above Average / 2	10.40			50.46		
Wisconsin	Wisconsin Public Service Corp.	D-6690-UR-123 (Elec)	Electric	Vertically Integrated	11/6/2014	10.20	50.28	8.39	Above Average / 2	10.20			50.28		
Wisconsin	Wisconsin Electric Power Co.	D-05-UR-107 (WEP-Elec)	Electric	Vertically Integrated	11/14/2014	10.20	51.90	8.60	Above Average / 2	10.20			51.90		
Wisconsin	Madison Gas and Electric Co.	D-3270-UR-120 (Elec)	Electric	Vertically Integrated	11/26/2014	10.20	58.96	7.96	Above Average / 2	10.20			58.96		
Wisconsin	Northern States Power Co - WI	D-4220-UR-120 (Elec)	Electric	Vertically Integrated	12/12/2014	10.20	52.54	NA	Above Average / 2	10.20			52.54		
Wisconsin	Wisconsin Public Service Corp.	D-6690-UR-124 (Elec)	Electric	Vertically Integrated	11/19/2015	10.00	50.47	8.24	Above Average / 2	10.00			50.47		
Wisconsin	Northern States Power Co - WI	D-4220-UR-121 (Elec)	Electric	Vertically Integrated	12/3/2015	10.00	52.49	7.81	Above Average / 2	10.00			52.49		
Wisconsin	Madison Gas and Electric Co.	D-3270-UR-121 (Elec)	Electric	Vertically Integrated	11/9/2016	9.80	57.16	7.89	Above Average / 2	9.80			57.16		
Wisconsin	Wisconsin Power and Light Co	D-6680-UR-120 (Elec)	Electric	Vertically Integrated	11/18/2016	10.00	52.20	7.91	Above Average / 2	10.00			52.20		
Wyoming	Cheyenne Light Fuel Power Co.	D-20003-132-ER-13	Electric	Vertically Integrated	7/31/2014	9.90	54.00	7.98	Average / 3		9.90			54.00	
Wyoming	PacifiCorp	D-20000-446-ER-14	Electric	Vertically Integrated	1/23/2015	9.50	51.43	7.41	Average / 3		9.50			51.43	
Wyoming	PacifiCorp	D-20000-469-ER-15	Electric	Vertically Integrated	12/30/2015	9.50	51.44	7.41	Average / 3		9.50			51.44	
Wyoming	MDU Resources Group Inc.	D-20004-117-ER-16	Electric	Vertically Integrated	1/18/2017	9.45	50.99	7.25	Average / 3		9.45			50.99	
Total Cases						75	65	65		36	30	9	19	28	9
Mean						9.85	49.54	7.31		10.03	9.63	9.84	51.12	51.01	51.07
Median						9.80	50.48	7.45		10.04	9.58	9.53	51.90	51.00	50.09
Maximum						11.95	58.96	8.91		10.55	10.10	11.95	58.96	56.00	58.18
Minimum						9.20	28.46	4.52		9.50	9.20	9.30	40.25	44.00	47.16
Cases >=						9.90	31								
Cases >=						7.09		50							
Percentile								22.10%							

Source: SNL Financial

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. E-2, SUB 1142

In the Matter of:)	
	)	SETTLEMENT TESTIMONY OF
Application of Duke Energy Progress, LLC	)	STEPHEN G. DE MAY
For Adjustment of Rates and Charges	)	FOR DUKE ENERGY
Applicable to Electric Service in North	)	PROGRESS, LLC
Carolina)	

1 **I. WITNESS IDENTIFICATION AND QUALIFICATIONS**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is Stephen G. De May. My business address is 550 South Tryon
4 Street, Charlotte, North Carolina, 28202.

5 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

6 A. I am employed by Duke Energy Business Services, LLC (“DEBS”) as Senior
7 Vice President Tax and Treasurer. DEBS provides various administrative and
8 other services to Duke Energy Progress, LLC (“DE Progress” or the
9 “Company”) and other affiliated companies of Duke Energy Corporation
10 (“Duke Energy”).

11 **Q. DID YOU OFFER DIRECT AND REBUTTAL TESTIMONY IN THIS**
12 **PROCEEDING?**

13 A. Yes.

14 **II. PURPOSE AND OVERVIEW OF TESTIMONY**

15 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

16 A. My testimony supports the capital structure proposed in the Agreement and
17 Stipulation of Partial Settlement by and between DE Progress and the Public
18 Staff (the “Partial Settlement”) when that provision is viewed as part of the
19 overall terms of the Partial Settlement. My direct and rebuttal testimony
20 remain effective as applicable to the testimony of any non-settling Party, and
21 as to the point that cash flows, including from the unresolved issues of coal

1 ash and storm cost recovery, have a significant impact on DE Progress'
2 financial health.

3 **Q. PLEASE PROVIDE AN OVERVIEW OF YOUR TESTIMONY.**

4 A. The 52 percent to 48 percent equity-to-debt capital structure is reasonable and
5 appropriate when viewed in the context of the overall Partial Settlement. All
6 other things equal, credit rating agencies view the constructiveness of the
7 regulatory environment and the Company's ability to timely recover prudently
8 incurred costs as important ratings criteria in their assessment of the
9 Company's credit quality. The Partial Settlement, on a stand alone basis,
10 demonstrates an ability to do this and I believe its approval would be viewed
11 by the rating agencies as constructive and equitable.

12 The Partial Settlement, however, leaves two principal issues
13 unresolved: coal ash and storm cost recovery. I will not address the merits of
14 the coal ash and storm cost recovery; other Company witnesses address the
15 specifics of these topics. I will note the importance of cash as a financial
16 matter to inform the Parties of the impacts to the Company's liquidity and
17 debt ratings which assess how much cash the Company is receiving to fund its
18 operations. This is a different matter than earnings. Even if a Company's
19 earnings are reasonable, if it lacks the cash to fund operations and provide an
20 adequate return to investors then the Company's ability to raise capital – both
21 debt and equity – on reasonable terms is materially weakened.

1 **III. PARTIAL SETTLEMENT**

2 **Q. PLEASE DESCRIBE YOUR INTERACTION WITH CREDIT RATING**
3 **AGENCIES.**

4 A. One of my primary responsibilities is to manage the relationship with each of
5 the major credit rating agencies for Duke Energy and all of its utility
6 subsidiaries, including DE Progress. I maintain frequent and regular contact
7 with the agencies, providing them with information and updates on Duke
8 Energy and DE Progress.

9 **Q. HOW DO YOU BELIEVE THE AGENCIES WOULD LIKELY REACT**
10 **IF THE COMMISSION WERE TO APPROVE THE COMPANY'S**
11 **PARTIAL SETTLEMENT AGREEMENT WITH PUBLIC STAFF?**

12 A. DE Progress' credit rating agencies view the constructiveness of the
13 regulatory environment and the Company's ability to recover prudently
14 incurred costs as important ratings criteria in their assessment of the credit
15 quality of DE Progress. The Partial Settlement demonstrates this ability and I
16 believe its approval would be viewed by the rating agencies as constructive
17 and equitable. Approval of the Partial Settlement will support the Company's
18 ability to achieve its financial objectives all other things being equal and
19 depending on the outcome of the unresolved issues in the case.

20 **Q. WHAT ARE DE PROGRESS' FINANCIAL OBJECTIVES?**

21 A. As I discussed in my Direct and Rebuttal Testimony, the Company at all times
22 seeks to maintain its financial strength and flexibility, including its strong

1 investment-grade credit ratings, ensuring reliable access to capital on
2 reasonable terms. Financial strength and access to capital are necessary for
3 DE Progress to provide cost-effective, safe, environmentally-compliant and
4 reliable service to its customers. Specific objectives that support financial
5 strength and flexibility include: (a) maintaining a reasonable common equity
6 for DE Progress on a regulatory capitalization basis; (b) maintaining current
7 credit ratings; (c) ensuring timely recovery of prudently incurred costs; (d)
8 maintaining sufficient cash flows to meet obligations; and (e) maintaining a
9 sufficient return on equity to fairly compensate shareholders for their invested
10 capital. The ability to attract capital (both debt and equity) on reasonable
11 terms is vitally important to the DE Progress and its customers, and each of
12 these help the Company meet its overall financial objectives.

13 **Q. HOW DO CUSTOMERS BENEFIT FROM THE COMPANY'S**
14 **STRONG CREDIT RATINGS?**

15 A. To assure reliable and cost effective service, fund infrastructure projects, and
16 refinance maturing debt, DE Progress must be able to finance without
17 interruption, regardless of capital market conditions. The lack of access to
18 capital can force interruption of capital projects to the long-term detriment of
19 customers, and the financial crisis of 2008-09 illustrates the importance of
20 maintaining financial strength and flexibility. Although market conditions are
21 presently stable, they remain uncertain, and increased volatility can return at

1 anytime. Strong credit ratings result in lower debt costs for our customers and
2 greater assurance of access to capital, even in challenging market conditions.

3 **Q. WHAT ISSUES COULD AFFECT THE COMPANY’S CREDIT**
4 **RATINGS IN THIS CASE NOTWITHSTANDING THE APPROVAL OF**
5 **THE PROPOSED PARTIAL SETTLEMENT?**

6 A. The Commission’s ultimate resolution of the two main unresolved issues in
7 the case – coal ash and storm cost recovery – could affect DE Progress’ credit
8 ratings and the overall financial health of the DE Progress notwithstanding
9 approval of the Partial Settlement.

10 **Q. DOES THIS CONCLUDE YOUR PRE-FILED SETTLEMENT**
11 **TESTIMONY?**

12 A. Yes.

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. E-2, SUB 1142

In the Matter of)	
	)	SETTLEMENT TESTIMONY
Application of Duke Energy Progress, LLC For	)	OF STEVEN B. WHEELER
Adjustment of Rates and Charges Applicable to	)	FOR DUKE ENERGY
Electric Service in North Carolina	)	PROGRESS, LLC
)	

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

3 A. My name is Steven B. Wheeler, P.E., and my business address is 411
4 Fayetteville Street, Raleigh, North Carolina 27601. I am Pricing and
5 Regulatory Solutions Director for Duke Energy Business Services, LLC,
6 which provides services to Duke Energy Progress, LLC.

7 **Q. ARE YOU THE SAME STEVEN B. WHEELER THAT PREVIOUSLY**
8 **FILED DIRECT AND REBUTTAL TESTIMONY IN THIS**
9 **PROCEEDING?**

10 A. Yes, I filed direct and rebuttal testimony supporting Duke Energy Progress
11 LLC (“DE Progress” or “the Company”) overall rate design and sponsoring
12 the proposed tariffs in this proceeding.

13 **Q. WHAT IS THE PURPOSE OF YOUR SETTLEMENT TESTIMONY IN**
14 **THIS PROCEEDING?**

15 A. My settlement testimony describes changes to the Job Retention Rider
16 (“JRR”) and Application and Agreement for Job Retention Rider JRR and
17 describes the proposed JRR Recovery Rider JRRR and its cost support
18 resulting from the Company’s settlement with the Public Staff.

19 **Q. PLEASE DESCRIBE THE SETTLEMENT EXHIBITS ATTACHED TO**
20 **YOUR TESTIMONY.**

21 A. I have four exhibits to my settlement testimony:

- 22 • Wheeler Settlement Exhibit No. 1 – revised Job Retention Rider JRR

- 1 • Wheeler Settlement Exhibit No. 2 – revised Application and Agreement for
2 Job Retention Rider JRR
- 3 • Wheeler Settlement Exhibit No. 3 – new JRR Recovery Rider JRRR
- 4 • Wheeler Settlement Exhibit No. 4 – cost support for the rateset forth in JRR
5 Recovery Rider JRRR

6 **Q. HAVE THE COMPANY AND THE PUBLIC STAFF RESOLVED ALL**
7 **DIFFERENCES IN THE TERMS AND CONDITIONS SET FORTH IN**
8 **RIDER JRR AND THE CORRESPONDING APPLICATION?**

9 A. Yes, the Company has accepted all changes recommended by the Public Staff
10 and has attached revised Job Retention Rider JRR and Application and
11 Agreement for Job Retention Rider JRR as Wheeler Settlement Exhibits 1 and
12 2, respectively, to reflect these changes.

13 **Q. HAVE THE STIPULATING PARTIES RESOLVED ALL ISSUES**
14 **RELATED TO THE JOB RETENTION RIDER?**

15 A. No. The Parties reached agreement on the Company’s proposal for the JRR
16 except for two remaining items to be decided upon by the Commission: (1)
17 whether companies involved in the transportation or preservation of a raw
18 material or a finished product qualify (e.g., pipeline customers) should
19 qualify; and (2) how or if the Job Retention Rider will be funded after the
20 expiration of the initial year’s \$3.5 million shareholder contribution. The
21 Parties agree that the two remaining items should be decided by the
22 Commission, and all parties are free to advocate their respective positions at a
23 hearing before the Commission. If the funding the Company has requested

1 past the initial year is not approved by the Commission, the Company may
2 elect to terminate the Rider prior to the full 5-year pilot life.

3 **Q. HAVE THE PARTIES RESOLVED COST RECOVERY OF**
4 **DISCOUNTED REVENUES, AS PROPOSED BY THE PUBLIC**
5 **STAFF?**

6 A. Yes. The Parties propose that Rider JRR revenue credits be recovered from
7 all retail customers concurrent with Rider JRR implementation, which is
8 anticipated to occur approximately 6 months following the Commission's
9 decision. A JRR Recovery Rider JRRR and cost support for the requested rate
10 are attached as Wheeler Settlement Exhibit 3 and 4, respectively and will be
11 applicable to all North Carolina retail sales. The recovery rate is set at
12 \$0.00051 per kWh to recover the first year revenue impact, less \$3.5 million
13 absorbed by the Company, reduced by 10% for application lag. The Company
14 believes that this is a conservative estimate of the anticipated revenue impact.

15 **Q. HOW WILL FUTURE REVENUE CREDITS BE ADDRESSED?**

16 A. An annual report will be provided to the Commission of Rider JRR and the
17 JRR Recovery Rider revenues. The JRR Recovery Rider shall be reviewed
18 and will be subject to adjustment annually coincident with the December fuel
19 adjustment to match anticipated recovery revenues and true-up any past over-
20 or under-recovery. The JRR Recovery Rider is intended to keep the Company
21 revenue neutral with respect to the Rider, other than the one-time \$3.5 million
22 contribution from shareholders, over the 5-year pilot period. If needed, a final
23 true-up shall be applicable upon termination of Rider JRR.

1 **Q. WHY IS THE EFFECTIVE DATE OF RIDER JRR AND THE JRR**
2 **RECOVERY RIDER DELAYED FOR 6 MONTHS?**

3 A. Due to IT lead times necessary to support changes to the billing system, the
4 Company's application in Docket No. E-2, Sub 1153 sought an approximate 6
5 month delay to implement the rider upon Commission approval. Due to the
6 delayed date of implementation, the Company will file compliance tariffs to
7 include the JRR Recovery Rider prior to implementation of the Rider and will
8 notify customers by separate bill insert or message concurrent with
9 implementation of the rate.

10 **Q. DOES THIS CONCLUDE YOUR PRE-FILED SETTLEMENT**
11 **TESTIMONY?**

12 A. Yes.

JOB RETENTION RIDER JRR-1

AVAILABILITY

This Rider is offered as a pilot program for electric metered service to a nonresidential customer meeting the following conditions of service: (1) Customer shall use electric power as a principal motive power for the manufacture of a finished product, the extraction, fabrication or processing of a raw material, or the transportation or preservation of a raw material or a finished product and (2) Customer shall perform an energy audit within six (6) months of initiation of service under the Rider unless verification is provided that such audit has been performed within the past 36 months.

This Rider is not available for (1) service bases served under an outdoor lighting schedule, (2) Customers concurrently receiving rate discounts under Economic Development Rider ED, Economic Redevelopment Rider ERD or a self-generation deferral rate, (3) for customers with an aggregate demand of less than 3,000 kW at all facilities operated by the Customer within the service territory, (4) to facilities with less than 12 months of continual historic service, and (5) for service on and after five (5) years from initial implementation of the Rider. Changes in the ownership or metering of the Facility shall not restart or otherwise affect the application of the Rider.

MONTHLY RATE

The monthly billing shall be the amount calculated under the applicable schedule and other riders with which this Rider is used less the following Credit:

\$0.00323 per kWh

APPLICATION REQUIREMENTS

Customer shall submit a written request for service under the Rider. The request shall include a statement or documentation demonstrating that (i) the customer has or is considering acquiring the ability to shift production from the Facility to facilities in other states or countries, (ii) the customer reasonably expects to reduce its employment level at the Facility due in whole or in part to the impact of electricity cost on the Facility's profit or loss, (iii) the customer intends to reduce or is presently evaluating reducing its production levels or load due in whole or in part to the impact of electricity cost on the Facility's profit, loss or cost efficiency, or (iv) the customer's load is otherwise at risk of loss. Customer shall also submit current financial statements or other documentation demonstrating its financial viability. All such statements and documentation shall be confidential, but shall be subject to in camera review by only the Commission and Public Staff upon request.

The Customer's request shall also identify all accounts and/or service bases to which the Rider is requested to apply. The request shall include minimum employment level for the Customer's facilities seeking service under the Rider. The minimum shall be guided by Customer's present employment level, but may utilize a commercially reasonable buffer to account for periodic turnover, retirements, and seasonal variances in employment levels.

ANNUAL REPORTING REQUIREMENT

Customer shall submit in writing to Company by no later than March 1 annually, a report verifying the year-end employment level at the Customer's facilities. If the annual report indicates a reduction in the number of jobs below the minimum level agreed in the Customer's Application, Company shall provide written notice to Customer indicating that service under the Rider shall be cancelled 60 days following notification unless an appeal is filed with the Commission. Failure to submit this report by this date shall also be grounds for 60 day notification of forfeiture of service under the Rider. The subscriber's employment, financial information, electric demand, annual kWh sales, and other usage information shall be kept confidential, but shall be subject to an in camera review by the Commission and Public Staff upon request.

The Customer may petition the Commission to continue service under the Rider and the Rider shall continue to apply while this request is pending. The Customer's petition should demonstrate, among other things, (i) whether the Breach is temporary, (ii) whether the Breach would have been greater without the JRT, (iii) whether the Breach was caused by circumstances beyond the customer's reasonable control, such as a loss of a major contract, (iv) whether the Breach was caused by energy efficiency gains or equipment or process improvements, or (v) whether the Breach was caused by foreign competition.

GENERAL

Service rendered under this Rider is subject to the provisions of the Service Regulations of the Company on file with the state regulatory commission. The provisions of this Rider are subject to change upon approval by the North Carolina Utilities Commission.

The provisions of the Schedule with which this Rider is used are modified only as shown herein.

Effective for bills rendered on and after _____
NCUC Docket No. E-2, Sub _____

Application and Agreement for Job Retention Rider – JRR

Customer Name: _____ Date of Application: _____
(hereinafter referred to as "Customer")

Mailing Address: _____

Federal Tax ID: _____ Phone Number: _____

To qualify for the Job Retention Rider the Customer shall:

- Have an aggregate demand of 3,000 KW or more,
- Use electric power as a principal motive power for the manufacture of a finished product, the extraction, fabrication or processing of a raw material, or the transportation or preservation of a raw material or a finished product, and
- Perform an energy audit within six (6) months of initiation of service under this Rider, unless verification is provided that such audit has been performed within the past 36 months.
- Use the discount received under the Rider to achieve job retention as well as to retain load at the Customer's operations in North Carolina, as agreed to elsewhere in this Application and Agreement.

A list of the accounts to be served by Duke Energy Progress, LCC (DEP) under the Job Retention Rider is attached to this Application and Agreement as Appendix A.

Customer agrees to maintain a minimum aggregate employment level of _____ for the facility(s) listed in this application. This threshold is guided by the current employment level, and utilizes a commercially reasonable buffer to account for periodic turnover, retirements, and seasonal variances in employment level.

Reason for Application

By applying for the Job Retention Rider, we certify that one or more of the following conditions exist at the facility(s) served by DEP:

- The Customer has or is considering acquiring the ability to shift production from the facility to facilities in other states or countries.
- The Customer reasonably expects to reduce its employment level at the facility due in whole or in part to the impact of electricity cost on the Facility's profit or loss.
- The Customer intends to reduce or is presently evaluating reducing its production levels or load due in whole or in part to the impact of electricity cost on the facility's profit, loss or cost efficiency.
- The customer's load and supporting jobs are otherwise at risk of loss. Explain: _____

The Customer has attached current financial statements or other documentation demonstrating its financial viability. All such statements and documents shall be confidential, but shall be subject to an in camera review by only the North Carolina Utilities Commission (NCUC) and Public Staff upon request.

If this Application and Agreement is approved and accepted by DEP, the Customer shall submit in writing to DEP by no later than March 1 annually, a report verifying the year-end employment level at the Customer's facility(s) receiving the Job Retention Rider credits. If the annual report indicates a reduction in the number of jobs below the minimum level agreed in this application, DEP shall provide written notice to Customer at the billing address that service under this Rider shall be cancelled 60 days following notification unless an appeal is filed with the NCUC. Failure to submit this report by this date shall also be grounds for 60 days notification of forfeiture of service under this Rider.

DEP may compile a customer by customer analysis of participants in the tariff that reflects each customer's reported employment level, electric demand and annual kWh sales. This report shall remain confidential, but may be subject to review on an annual basis by the NCUC and Public Staff, upon request.

The Customer requests that the accounts listed in Appendix A be billed through the Job Retention Rider and affirms that these accounts meet all the qualifications stated in this Application and Agreement.

This Application and Agreement and all attachments shall remain confidential except the reviews set out above for the NCUC and Public Staff.

If approved and the Customer meets the annual requirements, this Job Retention Rider Agreement shall remain in effect in accordance with the approved tariff by the NCUC.

Customer Name

Signature: _____

Name: _____
(Type/Print)

Title: _____

Date: _____

Return this completed application to Duke Energy Progress using one of the following:

Fax: XXX-XXX-XXXX

E-Mail: xxxxxxxx@duke-energy.com

Mail: 412 S. Wilmington Street, Raleigh, NC 27601 Attention: _____

----- FOR INTERNAL USE ONLY -----

This application is Approved Declined

This _____ day of _____, 20_____.

Duke Energy Progress, LLC

By: _____

Name: _____
(Type/Print)

Title: _____

Appendix A

Accounts to be served by Duke Energy Progress, LLC (DEP) under the Job Retention Rider:

(Accounts must have 12 months or more of continual historic service, cannot be under Economic Development Rider ED, Economic Redevelopment Rider ERD or a self-generation deferral rate, and must be a metered service.)

Account Number	Description	Facility Address (Street, City, State, Zip)	KW Demand	Current and Minimum Expected Number of Employees at this Facility	For Internal Use Only	
					Approved	Declined
					<input type="checkbox"/>	<input type="checkbox"/>
					<input type="checkbox"/>	<input type="checkbox"/>
					<input type="checkbox"/>	<input type="checkbox"/>
					<input type="checkbox"/>	<input type="checkbox"/>
					<input type="checkbox"/>	<input type="checkbox"/>
					<input type="checkbox"/>	<input type="checkbox"/>
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					<input type="checkbox"/>	<input type="checkbox"/>
					<input type="checkbox"/>	<input type="checkbox"/>
					<input type="checkbox"/>	<input type="checkbox"/>
					<input type="checkbox"/>	<input type="checkbox"/>
					<input type="checkbox"/>	<input type="checkbox"/>
					<input type="checkbox"/>	<input type="checkbox"/>
					<input type="checkbox"/>	<input type="checkbox"/>
					<input type="checkbox"/>	<input type="checkbox"/>
TOTAL					<input type="checkbox"/>	<input type="checkbox"/>

JRR RECOVERY RIDER JRRR-1

APPLICABILITY

The rate shown below is included in the MONTHLY RATE provision in each residential, general service and lighting schedule. This adjustment recovers revenue credits received under Job Retention Rider JRR. This Rider shall be subject to revision annually.

MONTHLY RATE

Effective for service rendered on and after implementation of the Job Retention Rider JRR, the applicable kilowatt hour rider amount, including current North Carolina regulatory fees, is 0.051¢ per kilowatt hour.

Effective for service rendered on and after _____
NCUC Docket No. E-2, Subs 1142 and 1153

Duke Energy Progress, LLC
Docket No. E-2, Subs 1142 and 1153
JRR Recovery Rider Rate Derivation

Description	Amount	Source:
1 Estimated Rider JRR Annual Revenue Credit	\$24,800,000	See Application dated August 14, 2017, Paragraph 6 on Page 4
2 less: First Year Company Contribution	\$3,500,000	See Application dated August 14, 2017, "Impact on Other Customers" on Page 6
3 Year 1 Revenue Credit	\$21,300,000	(1) - (2)
4 Application Process Adjustment	\$2,130,000	(3) * 10%
5 Adjusted Revenue Target	\$19,170,000	(3) - (4)
6 Annual North Carolina Retail Sales (kWh)	37,272,476,588	NC Retail Billed Sales per CIM Report RMC1Y for the year ended December 2016
7 JRR Recovery Rate (\$/kWh)	\$0.00051	(5) / (6)

CERTIFICATE OF SERVICE
Docket No. E-2, Sub 1142

I certify that a copy of Duke Energy Progress, LLC's Settlement, Settlement Testimony and Exhibit(s) have been served by hand delivery, depositing a copy in the United States Mail, first class postage prepaid, or by electronic mail, properly addressed to the following parties of record:

David Drooz, Chief Counsel
Dianna Downey, Counsel
Lucy Edmondson, Counsel
Public Staff
North Carolina Utilities Commission
4326 Mail Service Center
Raleigh, NC 27699-4326
david.drooz@psncuc.nc.gov
dianna.downey@psncuc.nc.gov
lucy.edmondson@psncuc.nc.gov

Ralph McDonald
Warren Hicks
Bailey & Dixon, LLP
Counsel for CIGFUR
PO Box 1351
Raleigh, NC 27602-1351
rmcdonald@bdixon.com
whicks@bdixon.com

Jennifer T. Harrod, Special Deputy
Attorney General
Margaret Force, Assistant Attorney
General
Teresa L. Townsend, Assistant Attorney
General
NC Department of Justice
P O Box 629
Raleigh, NC 27602-0629
pforce@ncdoj.gov
ttownsend@ncdoj.gov
jharrod@ncdoj.gov

Peter H. Ledford
NC Sustainable Energy Association
4800 Six Forks Road, Suite 300
Raleigh, NC 27609
peter@energync.org

Sharon Miller
Carolina Utility Customers Assoc.
1708 Trawick Road, Suite 210
Raleigh, NC 27604
smiller@cucainc.org

Robert Page
Counsel for CUCA
Crisp, Page & Currin, LLP
4010 Barrett Drive, Ste. 205
Raleigh, NC 27609-6622
rpage@cpclaw.com

John Runkle, Attorney
Counsel for NC WARN
2121 Damascus Church Rd.
Chapel Hill, NC 27516
jrunkle@pricecreek.com

James P. West,
West Law Offices PC
434 Fayetteville Street
Suite 2325
Raleigh, NC 27601
jpwest@westlawpc.com

Alan R. Jenkins
Jenkins At Law, LLC
2950 Yellowtail Ave.
Marathon, FL 33050
aj@jenkinsatlaw.com

Glen C. Raynor
Young Moore and Henderson, PA
P.O. Box 31627
Raleigh, NC 27627
gcr@youngmoorelaw.com

Michael Color
Counsel for ASU
Poyner Spruill LLP
P.O. Box 353
Rocky Mount, NC 27802
mscolo@poynerspruill.com

Dayton Cole
Appalachian State Univ.
PO Box 32126
Boone, NC 28608
coledt@appstate.edu

Matthew Quinn
F. Bryan Brice, Jr.
Law Offices of F. Bryan Brice, Jr.
127 W. Hargett St., Ste. 600
Raleigh, NC 27602
matt@attybryanbrice.com

Stephen Hamlin
Piedmont EMC
PO Drawer 1179
Hillsborough, NC 27278
Steve.hamlin@pemc.coop

Thomas Batchelor
Haywood Electric Membership Corp.
376 Grindstone Road
Waynesville, NC 28785
Tom.batchelor@haywoodemc.com

Kyle Smith
US Army Legal Svcs Agency
9275 Gunston Road
Fort Belvoir, VA 22060
Kyle.j.smith124.civ@mail.mil

Daniel Whittle
Environmental Defense Fund
4000 Westchase Blvd, Ste 510
Raleigh, NC 27607
dwhittle@edf.org

Bridget Lee
Dorothy Jaffe
Sierra Club
50 F St NW, 8th floor
Washington, DC 20001
Bridget.lee@sierraclub.org
Dori.jaffe@sierraclub.org

Nickey Hendricks
The City of Kings Mountain
PO Box 429
Kings Mountain, NC 28086
nickh@cityofkm.com

Michael Youth
Richard M. Feathers
NCEMC
PO Box 27306
Raleigh, NC 27306
Rick.feathers@ncemcs.com
Michael.youth@ncemcs.com

Jody Kyler Cohn, Esq.
Kurt J. Boehm, Esq.
Boehm, Kurtz & Lowry
36 E. Seventh St., Ste. 1510
Cincinnati, OH 45202
jkyler@bkllawfirm.com
kboehm@bkllawfirm.com

Ben M. Royster
Royster & Royster
851 Marshall Street
Mt. Airy, NC 27030
benroyster@roysterlaw.com

Paul A. Raaf
Office of the Forscom SJA
4700 Knox Street
Fort Bragg, NC 28310
Paul.a.raa.civ@mail.mil

Catherine Cralle Jones
Law Office of F. Bryan Brice, Jr.
127 W. Hargett St, Ste. 600
Raleigh, NC 27601
cathy@attybryanbrice.com

H. Julian Philpott, Jr.
NC Farm Bureau Federation, Inc.
PO Box 27766
Raleigh, NC 27611
Julian.philpott@ncfb.org

Nadia Luhr
Gudrun Thompson
David Neal
SELC
601 W. Rosemary St., Ste. 220
Chapel Hill, NC 27516
nluhr@selcnc.org
gthompson@selcnc.org
dneal@selcnc.org

Kevin Higgins
Energy Strategies
201 S. State St., Suite 200
Salt Lake City, UT 84111
khiggins@energystrat.com

Mona Lisa Wallace
John Hughes
Marlowe Rary
Wallace & Graham PA
525 N. Main St.
Salisbury, NC 28144
mwallace@wallacegraham.com
jhughes@wallacegraham.com
mrarry@wallacegraham.com

Karen Kemerait
Deborah Ross
Smith Moore Leatherwood LLP
434 Fayetteville Street, Suite 2800
Raleigh, NC 27601
Karen.kemerait@smithmoorelaw.com
Deborah.ross@smithmoorelaw.com

J. Brian Pridgen
Gabriel Du Sablon
Cauley Pridgen, P.A.
2500 Nash St., Ste. C
Wilson, NC 27896
bpridgen@cauleypridgen.com
gdusablon@cauleypridgen.com

This the 27nd day of November, 2017.

/s/ Heather Shirley Smith

Heather Shirley Smith
Deputy General Counsel
Duke Energy Corporation
Attorney for Duke Energy Progress, LLC
40 W. Broad Street, Suite 690
Greenville, South Carolina 29601