

**THE OFFICE OF REGULATORY STAFF
SURREBUTTAL TESTIMONY**

OF

SHARON G. SCOTT

NOVEMBER 23, 2009



DOCKET NO. 2009-226-E

**Application of Duke Energy Carolinas, LLC
for Authority to Adjust and Increase
Its Electric Rates and Charges**

1 **SURREBUTTAL TESTIMONY OF SHARON G. SCOTT**

2 **FOR**

3 **THE OFFICE OF REGULATORY STAFF**

4 **DOCKET NO. 2009-226-E**

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7 **IN RE: APPLICATION OF DUKE ENERGY CAROLINAS, LLC**
8 **FOR AUTHORITY TO ADJUST AND INCREASE**
9 **ITS ELECTRIC RATES AND CHARGES**
10

11
12 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND OCCUPATION.**

13 A. My name is Sharon G. Scott. My business address is 1401 Main Street, Suite
14 900, Columbia, South Carolina, 29201. I am employed by the South Carolina Office of
15 Regulatory Staff (“ORS”) as a Senior Manager for Rate Cases.

16 **Q. DID YOU PREVIOUSLY FILE DIRECT TESTIMONY IN THIS DOCKET?**

17 A. Yes, I did.

18 **Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY IN THIS**
19 **PROCEEDING?**

20 A. The purpose of my surrebuttal testimony is to address certain accounting and pro
21 forma adjustments discussed in the rebuttal testimonies of Duke Energy Carolinas, LLC
22 (“Company” or “Duke”) witnesses James L. Turner, Phillip O. Stillman, and Carol E.
23 Shrum.
24

1 **Q. IN RESPONSE TO DUKE WITNESS TURNER’S REBUTTAL TESTIMONY,**
2 **PLEASE EXPLAIN WHY YOU RECOMMENDED EXCLUDING 50% OF**
3 **BONUSES RELATED TO THE COMPANY’S EARNINGS PER SHARE.**

4 A. The Commission has historically allowed bonuses, or incentives, paid by utilities
5 when such bonuses were based upon improvements to the safety, service quality,
6 efficiency, and reliability of the utility. With regard to bonuses paid by utilities which are
7 based upon improvements in earnings per share (“EPS”), however, ORS supports a
8 sharing of these costs between the customers and the shareholders. This approach seems
9 consistent with Witness Turner’s assertion that, in the case of EPS, “the interests of
10 shareholders and the interests of our customers are directly aligned.” As such, ORS
11 recommended that each be responsible for their respective benefits derived from the
12 attraction and retention of talented workers. Accordingly, ORS recommends that the half
13 of bonus expenses benefitting the shareholders be excluded.

14 **Q. DID YOU PROPOSE TO EXCLUDE ANY BONUSES RELATED TO**
15 **IMPROVEMENTS IN SAFETY, SERVICE QUALITY, EFFICIENCY, OR**
16 **SYSTEM RELIABILITY?**

17 A. No, I did not.

18 **Q. DO YOU AGREE WITH DUKE WITNESS STILLMAN’S ASSERTION THAT**
19 **THE REJECTION OF ADJUSTMENTS BASED UPON CPI AND PPI FAILS TO**
20 **RECOGNIZE THE IMPACT OF INFLATION ON TEST YEAR O&M**
21 **EXPENSES?**

1 A. No, I do not. Duke selected the year ending December 31, 2008 as the appropriate
2 test year to evaluate its cost of service and to determine the adequacy of its current base
3 rates as well as the increase in rates being sought. As a test year represents actual
4 revenues and expenditures experienced by the Company, it does recognize the impact, if
5 any, of inflation on O&M expenses. The Commission has traditionally allowed historical
6 test year revenues and expenditures with adjustments made only for known and
7 measurable changes.

8 **Q. COMMENT ON THE ORS ADJUSTMENT ASSOCIATED WITH THE**
9 **OPERATING COSTS OF THE ALLEN SCRUBBERS AND ADDITIONAL**
10 **OWNERSHIP INTEREST IN CATAWBA NUCLEAR STATION.**

11 A. At the time of our examination, ORS was provided with actual and estimated
12 costs for the Allen scrubbers and the additional ownership purchase in the Catawba
13 Nuclear Station. The time period associated with actual and estimated expenses was
14 discussed in my direct testimony. The adjustment was based on the current information
15 provided during ORS's examination. It appears from Witness Stillman's rebuttal
16 testimony that the Company used actual expenditures through a later date. This
17 information was not available to ORS during its examination.

18 **Q. DO YOU AGREE WITH DUKE WITNESS SHRUM THAT SEVERAL ITEMS OF**
19 **COSTS, SHOWN ON LINE 26 OF SHRUM'S EXHIBIT 1, DID NOT WARRANT**
20 **DISALLOWANCE FROM COST OF SERVICE?**

1 A. No, I do not. Costs associated with donations, lobbying expenses, service awards,
2 advertising, certain aircraft expenses, and half of Chamber of Commerce dues were not
3 necessary to provide electric service. These types of expenses have been disallowed by
4 this Commission in previous cases.

5 **Q. COMMENT ON ADDITIONAL ORS ADJUSTMENTS CONTESTED BY THE**
6 **COMPANY IN SHRUM'S REBUTTAL TESTIMONY.**

7 A. Witness Shrum refers to adjustments shown on lines 30, 32, 35, and 36 on
8 Shrum's Rebuttal Exhibit 1. These adjustments relate to interest synchronization,
9 accumulated depreciation, annualized depreciation expense, amortization of rate case costs,
10 and annualized interest expense. Each adjustment was made in accordance with recognized
11 accounting and regulatory procedures accepted by this Commission.

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

13 A. Yes, it does.