

**BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA**

DOCKET NO. 2009-226-E

In the Matter of:)	
)	
Application of Duke Energy Carolinas,)	SETTLEMENT TESTIMONY OF
LLC for Authority to Adjust and Increase)	JAMES L. TURNER FOR
Its Electric Rates and Charges)	DUKE ENERGY CAROLINAS, LLC
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I. INTRODUCTION AND PURPOSE

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND POSITION WITH DUKE ENERGY CAROLINAS.

A. My name is James L. Turner. My business address is 526 South Church Street, Charlotte, North Carolina. I am a Group Executive of Duke Energy Corporation (“Duke Energy”) and President and Chief Operating Officer of Duke Energy’s U.S. Franchised Electric and Gas business. I am also an officer and director of Duke Energy Carolinas, LLC (“Duke Energy Carolinas” or the “Company”).

Q. DID YOU PREVIOUSLY FILE DIRECT, SUPPLEMENTAL, AND REBUTTAL TESTIMONY IN SUPPORT OF DUKE ENERGY CAROLINAS’ APPLICATION IN THIS DOCKET?

A. Yes, I did.

Q. WHAT IS THE PURPOSE OF YOUR SETTLEMENT TESTIMONY?

A. After the Company filed its direct and supplemental testimony and exhibits and after extensive discovery was conducted by the South Carolina Office of Regulatory Staff (“ORS”) and other intervenors, the Company and certain parties engaged in settlement negotiations. As a result of these negotiations, Duke Energy Carolinas reached a full settlement of all issues, including the Company’s Modified Save-a-Watt (“SAW”) proposal, with ORS and the South Carolina Energy Users Committee (“SCEUC”). In addition, Duke Energy Carolinas reached agreement on the SAW proposal with the Southern Alliance for Clean Energy, Southern Environmental Law Center, the Natural Resources Defense Council, Environmental Defense Fund, and the South Carolina Coastal Conservation League (collectively referred to as the

1 “Environmental Intervenors”)¹. Duke Energy Carolinas, ORS, SCEUC, and the
2 Environmental Intervenors are referred to as the “Settling Parties.” The purpose of
3 my settlement testimony is to present and support the agreement reached by the
4 Settling Parties in this proceeding.

5 **II. OVERVIEW OF THE SETTLEMENT AGREEMENT**

6 **Q. PLEASE PROVIDE A FINANCIAL OVERVIEW OF THE SETTLEMENT.**

7 A. The Settlement provides for an increase in revenues for the Company of \$74.125
8 million in base rates or 5.2% compared to adjusted test year revenues. That increase
9 is 4.1% less than the \$132.9 million (or 9.3% increase) sought in this case. The
10 settlement also provides for establishment of a Return on Equity (“ROE”) of 11.0%
11 for the Company, with new rates set on a ROE of 10.7%.

12 **Q. PLEASE COMMENT ON THE SETTLEMENT AGREEMENT.**

13 A. The Company believes that the Settlement Agreement represents a just and
14 reasonable resolution of the issues presented in this case. The agreed-to resolution
15 of issues does not necessarily reflect specific positions asserted by any of the
16 Settling Parties, or the position any party would take if this matter were fully-
17 litigated. Rather, the Settlement Agreement represents a compromise of a complex
18 set of issues. Thus, the various provisions of the Settlement Agreement are
19 interrelated and it is important that the Settlement Agreement be accepted in its
20 entirety. The Settlement Agreement provides that it is only binding upon the
21 Settling Parties if the entire agreement is approved by the Commission.

¹ The Environmental Intervenors are joining the Settlement Agreement for the purpose of endorsing and supporting the settlement regarding Duke Energy Carolinas’ Modified Save-a-Watt program. The Environmental Intervenors take no position with regard to the remaining terms of the Settlement Agreement.

1 Essentially, the Settlement Agreement reflects a constructive approach to
2 providing necessary rate relief that will allow the Company to maintain its financial
3 strength and credit quality and continue to provide high quality electric utility
4 service to its customers, while at the same time mitigating the impact of the rate
5 increase on customers. The Settlement Agreement allows for an average rate
6 increase to customers of 1.7% effective February 1, 2010.

7 **Q. HOW DOES THE SETTLEMENT DEAL WITH RATE OF RETURN**
8 **ISSUES?**

9 A. An appropriate rate of return for Duke Energy Carolinas was one of the principle
10 differences in the positions of certain of the Settling Parties at the outset of the
11 settlement negotiations. The Company has made and continues to make substantial
12 investments in order to continue to comply with regulatory requirements and provide
13 high quality electric utility service to our customers. Our rates need to be adjusted to
14 reflect these investments. Moreover, given the size of the necessary capital
15 expenditures we are facing, it is imperative that Duke Energy Carolinas maintain its
16 financial strength and credit quality, so that we will be in a position to finance these
17 capital needs on reasonable terms. In recognition of the current economic recession
18 we proposed that new base rates be calculated using a lower return on equity than
19 the actual cost of equity we supported in the case. To resolve our differences with
20 certain of the Settling Parties, we stipulated to a ROE of 11.0% and a revenue
21 adjustment of \$74.125 million. All other things being equal, a revenue adjustment
22 of \$74.125 million would have resulted in a test-period ROE of 10.7%. We believe
23 that our current risk profile under the current market conditions justifies an allowed

1 ROE of over 11%, but in the spirit of compromise, the Company agreed with the
2 Settling Parties to 11% as a just and reasonable ROE to be approved for the
3 Company. The Company is willing to accept rates set at 10.7% and the risk of not
4 earning the allowed ROE until a future rate proceeding.

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

8 A. As I emphasized in both my direct testimony and rebuttal testimony, we are very
9 cognizant of the fact that our nation and the regions we serve are still in the midst of
10 a recession (although there have been some positive signs recently), and that the
11 timing of this rate increase is not optimal. Yet, the Company has made and
12 continues to make significant capital investments on behalf of our customers, and
13 without timely and adequate rate relief, we face increased financial risk in attracting
14 the required capital to meet our customers' needs. The difficulty lies in providing
15 needed rate relief for the Company that will be viewed positively by the financial
16 community during these difficult financial times, and at the same time mitigating the
17 impact of that rate relief for our customers.

18 Through our extensive discussions and negotiations with the Settling Parties,
19 in my opinion, we were able to strike that balance with this Settlement Agreement.
20 Specifically, the Settlement Agreement constructively balances the Company's need
21 to update its rates to reflect recent significant investments and to maintain its
22 financial strength going forward, with customers' needs for more modest rate
23 increases, in the following ways:

- 1 • As discussed above, the Company’s willingness to settle for rates designed
2 on the basis of a 10.7% return on equity – below what we believe the
3 evidence shows our true cost of equity capital to be – will mitigate the
4 impact of the rate increase on customers. Similarly, our willingness to
5 accept an overall lower amount of revenue requirement will mitigate the
6 impact on customers.
- 7 • The accelerated return of DSM overcollection and the return of a portion of
8 the distributions credited to certain insurance reserves to customers will
9 mitigate the rate impact to customers, but will not cause a severe adverse
10 impact on the Company because these amounts have been held by the
11 Company on behalf of its customers.
- 12 • The Coal Inventory Rider and the Pension Costs Rider likewise strike an
13 appropriate balance. The Coal Inventory Rider provides for the recovery of
14 the carrying (or financing) costs on the inventory in excess of 40 days during
15 the limited term of this rider. Base rates reflect coal inventory at the 40 day
16 target level. This treatment will give the Company some financial flexibility
17 to manage its coal inventory that has increased beyond target levels as a
18 result of the downturn in the economy, a circumstance that is clearly beyond
19 the Company’s control. The recent downturn in the economy also has
20 caused an increase in the Company’s pension expense. The new Pension
21 Costs Rider will allow recovery for the actual amount of pension expense on
22 an annual basis.

1 resulting from the Settlement Agreement to the total system impacts for the SAW
2 plan and the Company's proposed opt-out eligibility criteria for Rider EE. Finally,
3 Witness Stevie explains the revised values for the PowerShare demand-side
4 management program, as well as the agreement of the Settling Parties concerning
5 independent oversight of the SAW mechanism by a third party consultant to be hired
6 by ORS.

7 **Q. DOES THIS CONCLUDE YOUR PRE-FILED SETTLEMENT**
8 **SUPPORTING TESTIMONY?**

9 A. Yes, it does.