

**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) **CAROL E. SHRUM 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 Carol E. Shrum. My business address is 526 South Church Street, Charlotte, North Carolina. I am Vice President, Rates for 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 IN THIS PROCEEDING?

A. The purpose of my testimony is to support certain provisions of the Settlement Agreement, dated November 23, 2009 (the “Settlement” or the “Settlement Agreement”) entered into by and among Duke Energy Carolinas, the Office of Regulatory Staff (“ORS”), the South Carolinas Energy Users Committee (“SCEUC”), and Southern Alliance for Clean Energy, Southern Environmental Law Center, Natural Resources Defense Council, Environmental Defense Fund, and South Carolina Coastal Conservation League (collectively, the “Environmental Intervenors”) (collectively, the “Settling Parties”). In particular, I sponsor the following provisions of the Settlement Agreement:

- (1) Proposed rate increase;
- (2) Riders and base rate amounts relating to riders; and
- (3) Storm Reserve.

1 Finally, I discuss why I believe the Settlement Agreement is in the public interest.

2 **II. SETTLEMENT AGREEMENT PROVISIONS**

3 **Q. PLEASE SUMMARIZE THE COMPROMISES REFLECTED IN THE**
4 **SETTLEMENT AGREEMENT.**

5 A. Duke Energy Carolinas will adjust its South Carolina retail base rates and tariffs
6 to produce annual sales revenues of \$74.125 million from its South Carolina retail
7 electric operations. Duke Energy Carolinas, SCEUC, and ORS have agreed that
8 these revenues will provide Duke Energy Carolinas the opportunity to earn an
9 overall rate of return of 10.7% on a South Carolina retail jurisdictional rate base
10 of \$3,189,295,000, with a long-term debt cost of 5.82% and an allowed rate of
11 return of 11.0% on the common equity component of a capital structure based on
12 47% long term debt and 53% member's equity.

13 In the Settlement Agreement the Parties also state that the total proposed
14 revenue increase is subject to several riders. These riders are:

- 15 (a) A decrement rider to return funds to customers for the over-collection
16 balance in the deferral account for energy efficiency and demand-side
17 management programs (collectively "DSM") pursuant to Order No. 91-
18 1022. The decrement rider will be calculated to return the balance to
19 customers over approximately three years.
- 20 (b) An increment Rider EE effective February 1, 2010, to compensate for the
21 Modified Save-a-Watt program. This rider will be updated annually.
- 22 (c) An increment rider for coal inventory, to allow the Company to recover
23 the additional costs through April 30, 2011 of coal inventories exceeding a
24 40-day supply.
- 25 (d) An increment rider for pension expense to recover the actual amount of
26 pension expense incurred for the years 2010-2012. This rider will be
27 updated annually.

1 (e) A decrement rider to give \$13 million annually of the nuclear insurance
2 reserve to customers for two years.

3 **Q. PLEASE BRIEFLY DESCRIBE THE RIDERS PROPOSED IN THE**
4 **SETTLEMENT AGREEMENT.**

5 A. **DSM Decrement Rider**

6 As explained in more detail in my direct testimony and the testimony of Witness
7 Stillman, we proposed implementing a terminating rider for approximately five
8 years to return to customers the estimated balance of over-collections for DSM
9 costs. As a result of the Settlement, Duke Energy Carolinas agreed to accelerate
10 the return of the over-collection to approximately three years instead of five years.

11 **Increment Rider EE**

12 As explained in more detail in the direct testimony of Witness McManeus, we
13 proposed to implement a rider – Rider EE – to compensate the Company for its
14 demand-side management and energy efficiency programs. As discussed by
15 Witness McManeus in her settlement testimony, Duke Energy Carolinas has
16 agreed as part of the settlement to exclude from the Modified Save-a-Watt
17 recovery mechanism the avoided cost savings generated by the Company's
18 grandfathered demand-side management programs in South Carolina and North
19 Carolina.

20 **Coal Inventory Increment Rider**

21 The Company buys most of its coal under 1-3 year contracts with staggered terms
22 in order to maintain an adequate supply. In order to obtain low contract prices,
23 the coal vendors require fixed amounts of coal deliveries so Duke Energy
24 Carolinas must anticipate its future needs. The economic downturn has resulted

1 in a decrease in coal generation. As a result, coal inventories have increased. The
2 coal inventory increment rider will allow the Company to recover these additional
3 costs of carrying coal inventory in excess of a 40-day supply. The additional
4 costs to be recovered in this rider will not extend past April 30, 2011.

5 **Pension Expense Increment Rider**

6 As explained in more detail in my Supplemental Direct Testimony, the Company
7 will experience increased pension expense as a direct result of an unusually large
8 reduction in the fair value of pension assets driven by the recent downturn in the
9 economy. The Pension Expense Increment Rider would allow the Company to
10 recover the actual amount for pension expense on an annual basis for the period
11 2010-2012 or until further review by the Commission in a future general rate case.

12 **Nuclear Insurance Reserves Decrement Rider**

13 Duke Energy Carolinas, SCEUC, and ORS propose the rider associated with
14 nuclear insurance in recognition of the realities customers are facing in these
15 difficult economic times in order to provide a two-year benefit by lowering
16 customers' rates. The Company has concluded this reduction to be reasonable
17 under the circumstances. Given that the Company's nuclear operating licenses
18 have been extended and it expects its insurer, Nuclear Electric Insurance Limited,
19 to continue its dividend payout policy as its financial performance allows, the
20 Company recommends the Commission and ORS may periodically review the
21 balance in the nuclear insurance reserve account and make future determinations
22 about the proper rate making for this balance.

1 **Q. PLEASE EXPLAIN THE AGREEMENT OF DUKE ENERGY**
2 **CAROLINAS, SCEUC, AND ORS WITH REGARD TO THE**
3 **ESTABLISHMENT OF A STORM RESERVE.**

4 A. The revenue requirement agreed to by Duke Energy Carolinas, SCEUC, and ORS
5 includes a pro forma adjustment to establish a storm reserve to be funded at an
6 approximate level of \$5 million per year to a maximum fund level of \$50 million.

7 **Q. WHAT IS THE BOTTOM LINE IMPACT TO CUSTOMER RATES AS A**
8 **RESULT OF THE SETTLEMENT AGREEMENT?**

9 A. In Paragraph 14 of the Company's Application, we provided a table that showed
10 the average bottom line rate impact of the Company's rate request by customer
11 class. If the Commission approves the Settlement Agreement, the revised average
12 impact by customer type would be:

Customer	General Rate Increase	Coal Inventory and Pension Expense Riders	DSM and Nuclear Insurance Credits	Energy Efficiency Rider	Overall Change
Residential	9.3%	0.4%	-2.7%	2.2%	9.2%
General Service	5.5%	0.4%	-3.0%	1.0%	3.9%
Industrial	-0.1%	0.6%	-6.4%	1.0%	-4.9%
Lighting	7.9%	0.2%	-0.4%	1.0%	8.7%

13 **III. CONCLUSION**

14 **Q. IN YOUR VIEW, IS THE SETTLEMENT REACHED BY THE SETTLING**
15 **PARTIES IN THE PUBLIC INTEREST?**

16 A. Yes, I believe the Settlement Agreement represents a just and reasonable resolution
17 of the issues in this proceeding. The Settlement Agreement reflects a constructive

1 approach to providing necessary rate relief that will allow the Company to maintain
2 its financial strength, while also mitigating the impact of this rate increase on
3 customers. For these reasons, I believe the Settlement Agreement is in the public
4 interest and should be accepted by the Commission as a fair and reasonable
5 resolution of the issues in this proceeding.

6 **Q. DOES THIS COMPLETE YOUR PRE-FILED SETTLEMENT**
7 **TESTIMONY?**

8 A. Yes, it does.