

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

DOCKET NO. 2009-226-E

| | | |
|--------------------------------------|---|-----------------------------------|
| In the Matter of: |) | |
| |) | |
| Duke Energy Carolinas, LLC – |) | DUKE ENERGY CAROLINAS’ |
| Application for Increase to Existing |) | RESPONSE TO PUBLIC HEARING |
| Rates and Charges |) | TESTIMONY |

Duke Energy Carolinas, LLC (“Duke Energy Carolinas” or the “Company”) hereby submits this Response to Public Hearing Testimony (the “Response”) in support of Duke Energy Carolinas’ Application for Increase to Existing Rates and Charges (the “Application”) and in response to certain testimony provided by members of the public to the Public Service Commission of South Carolina (the “Commission”) during night hearings held in this docket. Section III of this Response is supported by the separate verification of Mr. Jim Lancaster, General Manager - Construction and Maintenance, which is appended to this Response.

I. INTRODUCTION

As part of the proceedings in this matter, the Commission convened three night hearings to receive testimony from members of the public. These hearings were conducted in Greenwood, South Carolina on November 19th, Greenville on November 23rd, and Spartanburg on November 24th (the “Night Hearings”). A total of sixty-one public witnesses appeared at the three hearings and presented a variety of views on various issues, only some of which are relevant to the issues in this rate case.

Because there was no pre-filing of testimony or opportunity for discovery related to the testimony of these public witnesses, at the Greenville hearing counsel for Duke Energy Carolinas requested an opportunity to review the transcript of the proceedings and to submit a response to issues raised at those hearings. This request was granted by Vice Chairman Howard. *See* Greenville Night Hearing Transcript, Vol. II at 147-148. Duke Energy Carolinas now submits the following response to certain issues raised at the Night Hearings. It is not possible or productive to respond to every statement made at the hearings and this submission does not attempt to do that.¹ However, by limiting its response, the Company does not waive its objections to the admissibility and relevance of the various comments made at the hearings. Those objections are specifically reserved.

II. TIMING OF THE PROPOSED RATE INCREASE

Many of the people who attended the Night Hearings complained about the timing of the proposed rate increase in relation to larger economic issues affecting the country and the upstate South Carolina region. The essence of the argument advanced by these speakers is that the Commission should turn down the Company's request for a rate increase because of the current recession. For example, Ms. Sylvia Martin of Greenville County testified at the Greenville hearing that, "I, too, oppose the increase right now. It is not the right time." *See* Greenville Night Hearing Transcript, Vol. II at 120. Although it is understandable that some of the speakers at the night hearings, like Ms. Martin, wish to deny the rate increase for now and delay it until a later time, this Commission has

¹ Duke Energy Carolinas will address legal issues raised by the public testimony given in this proceeding more fully in its proposed order and brief (*e.g.*, the fact that general economic conditions is a legally insufficient basis for turning down the Company's requested rate relief).

recognized that such actions can lead to larger increases in the future as well as more pronounced rate shock when rate increases do occur.

The rate relief requested in this proceeding is critical to the Company's ability to maintain its financial strength and credit quality – key factors to ensuring access to capital at reasonable rates to the continued benefit of our customers. As Dr. Vander Weide and other witnesses point out, the Company faces significant capital expenditure needs, along with increased financial risk in attracting the required capital to meet those needs. Because of the increasing risks and challenges confronting Duke Energy Carolinas, we continue to make necessary investments to serve our customers and to comply with regulatory requirements (even in the face of a tough economy). Consequently, the rate relief sought by the Company cannot be postponed. As Witnesses DeMay and Fetter discuss in their pre-filed testimony, failure to obtain rate relief now will adversely impact the Company's cost of and access to capital, which in turn will result in greater costs to customers in the long run.

In addition, as outlined in the testimony of Duke Energy Carolinas Witnesses Turner and Shrum, a substantial portion of the rate increase being sought by the Company in this case is for recovery of Construction Work in Progress ("CWIP") related to the construction of Unit 6 at the Cliffside Steam Station. Recovery of CWIP during the construction of generation resources has been repeatedly allowed by this Commission as being beneficial to customers in the long run. In Order No. 93-465 in Docket No. 92-619-E, the Commission gave an explanation of the benefits of this treatment in connection with the Cope generating plant of South Carolina Electric & Gas Company.

The record contains testimony by Company witnesses McClellan and Brigham supporting the inclusion of CWIP in rate base without AFUDC income offset. As stated in that testimony, this CWIP treatment creates multiple benefits for the Company and its customers. It reduces total costs to the construction projects by reducing the amount of carrying costs booked to them in the form of AFUDC. When CWIP is allowed without AFUDC offset, the result is that customers begin paying part of the financing cost of the project while construction is ongoing. As a result, when the plant is completed and added to the rate base the total costs are greatly reduced. For this reason, where CWIP is allowed, rates upon completion of the plant are never as high as they would have been had CWIP not been included and had full AFUDC costs during construction been added to the final cost of construction. Allowance of CWIP without AFUDC offset creates a number of other benefits for utility customers. The rate shock that can occur when a new plant is added to rates is reduced because of the smoothing effect of incremental rate increases while the plant is being constructed. Not only does this minimize rate shock, inclusion of construction also sends better pricing signals to customers during the construction phase.

Order No. 93-465, at 39-40.

This reasoning from Order 93-465 applies with equal force to the present application of Duke Energy Carolinas. Approving a reasonable increase now will result in lower future rates to customers and will avoid the substantial rate shock they would otherwise experience. This Commission's wise resolution of this issue in the past has been beneficial to generations of South Carolina ratepayers. Similar treatment will be beneficial to the customers of Duke Energy Carolinas, even those who appeared at the Night Hearings to oppose the Company's current Application.

Finally, it is important to note that as a regulated utility, Duke Energy Carolinas has an obligation to serve its customers and cannot cut back operations or planning in tough economic times. The Company must be ready to meet customer demand when the economy rebounds. As a result, Duke Energy Carolinas cannot defer making the capital

investments needed to ensure both the present and future supply of safe, reliable electricity.

III. RESPONSE TO CONCERNS RAISED BY MR. ROBERT SELLERS

At the Spartanburg public hearing on November 24th, Mr. Robert Sellers raised certain concerns regarding the reliability of his electric service in the Pauline community in Spartanburg County. Specifically, Mr. Sellers complained about the number of outages he has experienced over the last several years. *See* Spartanburg Night Hearing Transcript, Vol. III at 204. As Mr. Sellers noted in his testimony, Mr. Jim Lancaster of Duke Energy Carolinas met with him prior to the Spartanburg Night Hearing to review his service issues. The Company's records show that in the past three years there have been 18 separate outage events that have occurred on the circuit that serves Mr. Sellers. This circuit is a long rural circuit that feeds down to the Pauline/Glenn Springs area and is the end of Duke Energy Carolinas' service area. The Company's investigation of the outage events has revealed that most of the service problems experienced by Mr. Sellers have been caused by trees outside our maintained right-of-way during major weather events. The right-of-way was cut in 2006 and remains reasonably clear. Also in 2006, Duke Energy Carolinas performed some "declared circuit" work on the backbone feeder to improve the reliability. The outages Mr. Sellers experienced this year were primarily the result of the March ice and snow storm, two wind events in June and the heavy rain and wind in November that caused trees outside the right-of-way to fall across Hwy 56 blocking it for several hours. A complete three year listing of the outage events affecting Mr. Sellers and their causes is set forth in Appendix A hereto. Because Mr. Sellers is at

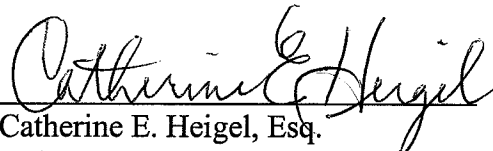
the end of this circuit he regrettably will see any incidents/blinks/outages that occur from there back to the station.

Notwithstanding the weather-related challenges that have affected Mr. Sellers (and are largely outside of the Company's control), Duke Energy Carolinas continues to look for ways to maintain its service reliability. To this end, the Company has inspected the circuit (Camp Croft 1206) from the station to the end where Mr. Sellers lives. During this inspection, we found and replaced one broken insulator and two broken guys that could have caused a future outage. In addition, during the week of November 30th we began reviewing the entire circuit that serves Mr. Sellers again to determine if there are other potential causes of outages. The Company expects to complete that review during the week of December 14th. Finally, we are working on plans to have our right-of-way forester for the Spartanburg area look at the main line along Hwy 56 for any opportunity to remove defective large trees outside the right-of-way. To the extent any such trees are located, Duke Energy Carolinas will work with affected land owners to obtain permission to cut outside the Company's right-of-way. The Company has scheduled a follow-up meeting with Mr. Sellers later this month to discuss further our findings and action recommendations.

IV. CONCLUSION

Duke Energy Carolinas respectfully submits this Response to the public testimony received by the Commission at the Night Hearings.

This 9th day of December, 2009.



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ATTORNEYS FOR DUKE ENERGY CAROLINAS, LLC

APPENDIX A

Outage History for Mr. Robert Sellers

| Event | Date | Duration (in minutes) | Device | Cause |
|---------|------------|--------------------------|--------------------|---|
| 1846865 | 4/11/2007 | 131 | TX Fuse | Tree on tx |
| 1847265 | 4/12/2007 | 63 | Tap Fuse | Tree on primary |
| 1893828 | 5/1/2007 | 4 | Circuit Breaker | Vehicle Accident |
| 2008487 | 7/25/2007 | 42 | Recloser 200L | Vehicle Accident |
| 2058687 | 8/27/2007 | 227 | Recloser 1004H | Line pulled out of splice on #6 copper |
| 2361994 | 5/20/2008 | 125 | Recloser 200L | Limb on line |
| 2386236 | 6/8/2008 | 59 | Recloser 200L | Vehicle Accident |
| 2398364 | 6/15/2008 | 232 | Recloser 200L | Tree outside R/W (wind) |
| 2546440 | 9/24/2008 | 69 | Circuit Breaker | Tree outside R/W |
| 2592873 | 11/3/2008 | 4 | Recloser 1004H | Pulled off for tree crew |
| 2609070 | 11/17/2008 | 79 | Recloser 1004H | Tree outside R/W |
| 2732751 | 3/1/2009 | 1955 | Recloser 200L | Tree outside R/W snow storm |
| 2751117 | 3/3/2009 | 2021 | Tap Fuse | Tree outside R/W snow storm |
| 2868008 | 6/11/2009 | 389 | Circuit Breaker | Tree outside R/W June wind storm |
| 2873074 | 6/13/2009 | 479 | Disconnects | Tree outside R/W 2nd June wind storm |
| 2873008 | 6/14/2009 | 591 | Recloser 200L | Tree outside R/W 2nd June wind storm |
| 3054752 | 11/11/2009 | 225 | Recloser 1004H | Tree limb on #6 copper |
| 3055963 | 11/11/2009 | 300 | Disconnects | Tree outside R/W |
| | | | | |
| 18 | outages | | | |

VERIFICATION

STATE OF SOUTH CAROLINA)
)
COUNTY OF SPARTANBURG ___)

JIM LANCASTER, being first duly sworn, deposes and says:

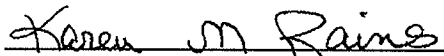
That he is General Manager, Construction and Maintenance for Duke Energy Carolinas, LLC; that he has read the foregoing Section III and Appendix A of the Response to Public Testimony, and knows the contents thereof; that the same is true as to matters stated therein on information and belief, and as to those matters he believes it to be true.



Jim Lancaster

Sworn to and subscribed before me

This 8th day of December, 2009.



Notary Public My Commission Expires 4/24/11

My Commission Expires: _____

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2009-226-E

In the Matter of:)
)
Application of Duke Energy Carolinas,)
LLC for Authority to Adjust and Increase)
its Electric Rates and Charges)
)
)
)

CERTIFICATE OF SERVICE

This is to certify that I have caused to be served this 9th day of December 2009
Duke Energy Carolinas, LLC's **Response to Public Testimony** via electronic mail to the
persons named below at the addresses set forth:

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Rolf Baghdady
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This 9th day of December 2009.

/s/ Catherine E. Heigel
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