NORTH CAROLINA UTILITIES COMMISSION

– PRESS RELEASE –

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North Carolina Utilities Commission Orders Revenue Reduction for Duke Energy Carolinas

Raleigh, NC – The North Carolina Utilities Commission today issued an order denying a rate increase for Duke Energy Carolinas, LLC (DEC), and requiring the Company to refund, for four years, $60 million annually of state excess deferred income taxes. DEC had initially requested a rate increase of approximately $611 million in annual revenues, which increased to $700 million during the case. One of the primary drivers for the order to reduce rates is the passage of the Federal Tax Cuts and Jobs Act, which reduced the corporate income tax rate from 35% to 21%.

DEC and the Public Staff of the North Carolina Utilities Commission (Public Staff) filed a settlement on February 28, 2018, that resolved some, but not all, of the issues in the case. In the settlement, DEC agreed to an overall rate of return of 7.35%, which included a rate of return on common equity of 9.9% applied to a capital structure with 52% members' equity. The Commission's decision today approves the return and capital structure that were agreed to by the Public Staff and DEC, finding these to be "just and reasonable." In DEC's last general rate case order issued September 24, 2013, the Commission approved a 10.2% rate of return on equity applied to a capital structure with 53% members' equity.

The Commission imposed a $70-million management penalty against the Company in the form of a rate reduction based on the Commission's determination that DEC's handling of coal ash "placed its consumers at risk of inadequate or unreasonably expensive service." In addition, the Commission found that "DEC admits to pervasive, system-wide shortcomings such as improper communication among those responsible for oversight of coal ash management." The penalty will be paid for by the Company and not by the Company's customers. The Commission's order also denies DEC's request for the recovery in this rate case of the Company's ongoing coal ash remediation costs. Instead, DEC is authorized to record these costs in a deferral account until its next general rate case, at which point the costs will be carefully scrutinized to determine the extent to which recovery from customers is appropriate.

DEC had requested to recover $52 million a year for 12 years for its cancelled Lee Nuclear Station in Cherokee, South Carolina. The Company asked to earn a return on the unrecovered balance of these costs. The Commission found that DEC's Lee Nuclear Station development efforts were reasonable and prudent, as was the Company's decision to cancel the project. While the Commission's order allows DEC to recover its Lee Nuclear Station costs from customers, the Commission denied the Company's request to earn a return on the project costs.

The Commission denied DEC's request for special ratemaking treatment to recover the Company's projected Power Forward Carolinas grid modernization program costs. DEC had requested to establish a cost-tracking rider (initially set at $35 million annually) to recover Power Forward spending or, alternatively, to allow deferral accounting of these costs. The Commission found that DEC "failed to show that exceptional circumstances exist to justify the establishment of the Grid Rider for recovery of its Power Forward costs." The order states that, with the limited exception of federally-mandated reliability standards, "DEC has complete control over the proposed spending, the rate of spending, and the timing of spending on Power Forward programs; it also has full control over its test year and the timing and frequency of when its applications for a general rate increase are filed. … Furthermore, there is no evidence in the record that without the Grid Rider DEC would not be able to remain a strong, financially viable company."

DEC had requested to increase the basic customer charge for residential customers from $11.80 to $17.79. Instead, the Commission set this monthly charge at $14.00 for residential customers. This increase will be offset by decreases in the per kilowatt-hour charges for residential customers. In the order, the Commission endorses DEC's commitment to mitigate the impact of its rate request on low-income customers via shareholder-funded contributions to the Helping Home Fund program and the Share the Warmth energy assistance fund.

The Commission's decision today follows 12 days of hearing in which expert witness testimony was presented by many parties to the proceeding. In addition, the Commission conducted three hearings for public witness testimony that were held throughout DEC's service area and at which 75 public witnesses testified.

The Commission's order is lengthy and addresses all issues raised in the proceeding. A copy of the complete order and the entire record in this proceeding is available on the Commission's website, www.ncuc.net, under Docket No. E-7 Sub 1146.

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