

WOMBLE
CARLYLE
SANDRIDGE
& RICE
A PROFESSIONAL LIMITED
LIABILITY COMPANY



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August 15, 2008

FILED

AUG 15 2008

Clerk's Office
N.C. Utilities Commission

VIA HAND DELIVERY

Ms. Renné Vance, Chief Clerk
North Carolina Utilities Commission
430 N. Salisbury Street
Raleigh, NC 27611

Re: Docket No. G-5, Sub 495

Dear Ms. Vance:

Enclosed please find the original and twenty-six (26) copies of the Supplemental Testimony and Exhibits of Candace A. Paton in the above referenced proceeding. Two extra copies are included, as is one to be file-stamped and returned.

If you have any questions or comments regarding this filing, please do not hesitate to call me. Thank you in advance for your assistance and cooperation.

Very truly yours,

WOMBLE CARLYLE SANDRIDGE & RICE
A Professional Limited Liability Company

Mary Lynne Grigg

Mary Lynne Grigg

Enclosures

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AUG 15 2008

Clerk's Office
N.C. Utilities Commission

BEFORE THE

NORTH CAROLINA UTILITIES COMMISSION

PUBLIC SERVICE COMPANY OF NORTH CAROLINA, INC.

DOCKET NO. G-5, SUB 495

SUPPLEMENTAL TESTIMONY

OF

CANDACE A. PATON

AUGUST 15, 2008

1 Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND CURRENT POSITION
2 WITH PUBLIC SERVICE COMPANY OF NORTH CAROLINA, INC.

3 A. My name is Candace A. Paton. I am employed by SCANA Services, Inc. as Rates &
4 Regulatory Manager for Public Service Company of North Carolina, Inc., d/b/a PSNC
5 Energy ("PSNC" or "the Company"). My business address is 800 Gaston Road, Gastonia,
6 North Carolina 28056.

7 Q. HAVE YOU PREVIOUSLY FILED TESTIMONY IN THIS PROCEEDING?

8 A. Yes. I pre-filed direct testimony in this proceeding on March 31, 2008.

9 Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL TESTIMONY?

10 A. To address and support the various adjustments reflected in the Stipulation filed in this
11 proceeding on August 13, 2008, as well as the changes to PSNC's rates, tariff and service
12 regulations adopted therein.

13 Q. PLEASE DESCRIBE THE EVENTS WHICH LEAD TO THE FILING OF A
14 STIPULATION IN THIS PROCEEDING.

15 A. Subsequent to the filing of the Company's Application in this docket, the Public Staff,
16 Carolina Utility Customers Association, Inc. ("CUCA") and the Attorney General engaged
17 in substantial discovery regarding the matters contained therein. Additionally, the Public
18 Staff spent several days in both Gastonia and Columbia performing on-site audits and
19 interviewing various Company personnel. Subsequent to the investigative portion of the
20 proceeding, representatives of PSNC, the Public Staff and CUCA met to see if an
21 agreement satisfactory to all parties could be reached.

22 Q. WHAT WAS THE OUTCOME OF THE NEGOTIATIONS?

1 A. The agreement set forth in the Stipulation and accompanying exhibits was the result of the
2 give-and-take negotiations in which each stipulating party made substantial compromises
3 on various issues in order to obtain an agreement on all issues. In the end, each stipulating
4 party believes that the results reached, in the aggregate, are fair to customers and the
5 Company.

6 Q. PLEASE SUMMARIZE THE EFFECT OF THE AGREEMENT ON PSNC'S
7 REQUESTED REVENUE INCREASE.

8 A. The stipulating parties agreed that the Company should be authorized to increase its annual
9 level of margin through the rates and charges approved in this case by \$9,104,984, offset
10 by \$8,376,707 of reductions in fixed gas costs, for a net annual increase in rates and
11 charges of \$728,277. The net effect of the agreed upon adjustments is reflected on
12 Supplemental Paton Exhibit 1.

13 Q. PLEASE DISCUSS THE ADJUSTMENTS TO THE COMPANY'S REQUESTED
14 REVENUE INCREASE REFLECTED ON SUPPLEMENTAL PATON EXHIBIT 1.

15 A. As shown on Line 1, the Company requested an overall increase in margin revenues of
16 \$20,441,501. The determination of this amount was presented on Boone Exhibit 6, filed in
17 this docket on March 31, 2008. The adjustments presented on Lines 2 through 10, and
18 discussed below, resulted in an agreed to revenue increase of \$728,277.

19 *Line 2 - Change in Overall Rate of Return.* In PSNC's initial filing, the Company proposed
20 a return on common equity of 12% and a capital structure of 53.75% equity, 35.89% long-
21 term debt and 10.36% short-term debt, and a proposed overall rate of return of 9.36%. As a
22 result of the negotiations, the Company agreed to a substantial reduction in the requested

1 return on common equity. The stipulated return on common equity is lower than what the
2 Company would otherwise have agreed to had the stipulating parties not agreed, among
3 other considerations, to the implementation of the Company's proposed Customer Usage
4 Tracker ("CUT") mechanism. Ultimately, the stipulating parties agreed to an overall rate
5 of return of 8.54% determined as follows:

<u>Item</u>	<u>Ratio</u>	<u>Cost Rate</u>	<u>Return</u>
Long-term debt	35.50%	6.96%	2.47%
Short-term debt	10.50%	3.25%	0.34%
Common equity	<u>54.00%</u>	10.60%	<u>5.73%</u>
Total	<u>100.00%</u>		<u>8.54%</u>

11 *Line 3 - Update Plant in Service and Other Rate Base Items at June 30, 2008.* In its
12 Application, the Company updated plant in service for estimated net additions through June
13 30, 2008. The Company also reflected estimated June 30, 2008 balances for various other
14 rate base items. The adjustment agreed to in the Stipulation reflects actual rather than
15 estimated June 30th balances.

16 *Line 4 – Reflect Current Fixed Gas Cost Rates.* In its application the Company reflected
17 fixed gas cost expense using the currently effective pipeline and storage facility rates. The
18 fixed gas cost expense reflected in the Stipulation reflects rate changes that have taken
19 place since that time. Additionally, fixed gas costs were reduced by a pro-forma amount of
20 secondary market credits.

21 *Line 5 - Payroll and Related Expenses.* This adjustment reflects changes in the Company's
22 actual level of payroll costs subsequent to the filing of its Application as well as certain

1 adjustments agreed to by the stipulating parties.

2 *Line 6 - Various O&M Expense Adjustments.* The Public Staff recommended adjustments
3 to various O&M expense items that reduced the Company's revenue requirement. For
4 purposes of settlement, the stipulating parties agreed to compromise positions on various
5 adjustments which resulted in a total decrease in revenue requirement of \$1,121,174.

6 *Line 7 - Conservation Programs.* In its Application the Company proposed four
7 conservation initiatives: 1) communications program, 2) in-home energy audit program, 3)
8 energy-efficient equipment rebate program and 4) residential and commercial high-
9 efficiency rates. The Company proposed to defer, track and true-up actual program
10 expenses for the first three programs and proposed to recover the rate discount associated
11 with the fourth program through the fixed gas cost true-up. For purposes of settlement, the
12 stipulating parties agreed to include \$750,000 in the cost of service in this proceeding for
13 costs associated with these programs. Additionally, the Company is to file the proposed
14 programs for Commission approval within 30 days of issuance of the order in this
15 proceeding.

16 *Line 8 – MGP Costs – Update Balance and Amortize Over 3 Years.* This adjustment
17 updated the balance of deferred manufactured gas plant remediation costs to be amortized
18 to reflect actual rather than estimated expenditures as of June 30, 2008.

19 *Line 9 – PIM Costs – Amortize Actual Deferred Expenses at June 30, 2008 Over 3 Years.*
20 This adjustment updated the balance of deferred pipeline integrity management costs to be
21 amortized to reflect actual rather than estimated expenditures as of June 30, 2008. In
22 addition, the stipulating parties agreed that it is appropriate for the Company to continue

1 regulatory asset treatment of costs paid for services provided by independent contractors
2 and outside consultants, until the resolution of PSNC's next general rate case proceeding.

3 Q. WHAT ARE THE TOTAL ADJUSTMENTS TO THE COMPANY'S REQUESTED
4 REVENUE INCREASE OF \$20,441,501 REFLECTED ON SUPPLEMENTAL PATON
5 EXHIBIT 1?

6 A. The adjustments listed above, plus rounding of \$2, total \$19,713,224, which reduces the
7 requested revenue increase to \$728,277.

8 Q. ARE THERE ANY OTHER ISSUES ADDRESSED IN THE STIPULATION?

9 A. Yes. Paragraph 7 of the Stipulation addresses the residential rate differential deferral
10 established in Docket No. G-5, Sub 481. The stipulating parties have agreed that an
11 increment of \$0.00136 per therm, applicable to Rate 101, should be established as shown
12 on Supplemental Paton Exhibit 2.

13 As discussed in paragraph 9 of the Stipulation, the stipulating parties agreed that it is
14 appropriate to implement the Company's proposed CUT mechanism in the form of Rider C
15 to the Company's tariffs. As a consequence of the implementation of the CUT, the
16 stipulating parties agree that it is appropriate to eliminate the Weather Normalization
17 Adjustment mechanism in the Company's tariffs. Exhibit D to the Stipulation presents the
18 base load, heat sensitive and R_i factors to be used in calculating amounts to be recorded in
19 the Customer Usage Deferred Account as provided for in Rider C. The normal degree days
20 to be used in the calculation are set forth on Paton Exhibit 9, page 3 of 3.

21 Q. IN YOUR OPINION DO THE COST OF SERVICE SETTLEMENT REFLECTED ON
22 SUPPLEMENTAL PATON EXHIBIT 1, AND THE RESULTING RATES AND

1 CHARGES REFLECTED ON EXHIBIT B ATTACHED TO THE STIPULATION,
2 REFLECT A FAIR, JUST AND REASONABLE RESOLUTION OF THIS CASE?

3 A. Yes. The agreed upon margin increase of \$9,104,984 represents what the stipulating
4 parties agree is fair to the Company and its customers. In addition, the stipulating parties
5 agree that the rates reflected on Exhibit B attached to the Stipulation are just and reasonable
6 and reflect a fair and reasonable allocation of cost responsibility to the various customer
7 classes. Supplemental Paton Exhibit 3 presents the impact on each rate schedule of the
8 agreed upon net revenue increase of \$728,277.

9 Q. PLEASE SUMMARIZE.

10 A. The Stipulation is the result of negotiations among the stipulating parties who, collectively,
11 represent each segment of PSNC's customer base impacted by this rate case. It would not
12 be consistent with the agreement of the stipulating parties for the Commission to accept
13 certain provisions of the Stipulation while rejecting others. In summary, I respectfully
14 request that the Commission adopt the Stipulation and approve the matters set forth therein.

15 Q. DOES THIS COMPLETE YOUR SUPPLEMENTAL TESTIMONY?

16 A. Yes, it does.

BEFORE THE
NORTH CAROLINA UTILITIES COMMISSION
PUBLIC SERVICE COMPANY OF NORTH CAROLINA, INC.
DOCKET NO. G-5, SUB 495
EXHIBITS TO ACCOMPANY THE
SUPPLEMENTAL TESTIMONY
OF
CANDACE A. PATON

AUGUST 15, 2008

PUBLIC SERVICE COMPANY OF NORTH CAROLINA, INC.
DOCKET NO. G-5, SUB 495
RECONCILIATION OF GROSS REVENUE INCREASE REQUESTED BY THE COMPANY TO
THE SETTLEMENT AMOUNT
For The Test Year Ended December 31, 2007

Line No.	Item	Amount
1	Additional Revenue Requirement Filed by Company	\$20,441,501
	Revenue Requirement Effect of Adjustments	
2	Change in Overall Rate of Return	(9,366,358)
3	Update Plant in Service and Other Rate Base Items at June 30, 2008	(1,733,121)
4	Reflect Current Fixed Gas Cost Rates	(8,372,894)
5	Payroll and Related Expenses	161,514
6	Various O&M Expense Adjustments	(1,121,174)
7	Conservation Program Expenditures	754,501
8	MGP Costs - Update Balance and Amortize over 3 years	(30,204)
9	PIM Costs - Amortize Actual Deferred Expenses @ June 30, 2008 over 3 years	(5,490)
10	Rounding	2
11	Total Revenue Requirement Effect of Settlement Adjustments	<u>(19,713,224)</u>
12	Settlement Revenue Requirement Increase	<u><u>\$728,277</u></u>

PUBLIC SERVICE COMPANY OF NORTH CAROLINA, INC
DOCKET NO. G-5, SUB 495.
RESIDENTIAL RATE DIFFERENTIAL DEFERRAL
TEMPORARY INCREMENT

	Jun-07	Jul-07	Aug-07	Sep-07	Oct-07	Nov-07	Dec-07	Jan-08	Feb-08
Beginning Balance	\$0	\$29,714	\$70,203	\$108,283	\$144,262	\$201,507	\$355,838	\$358,117	\$360,410
Deferral	\$29,622	\$40,170	\$37,510	\$35,199	\$56,141	\$152,609			
Balance:	\$29,622	\$69,884	\$107,713	\$143,482	\$200,403	\$354,116	\$355,838	\$358,117	\$360,410
Interest	\$92	\$319	\$570	\$780	\$1,104	\$1,722	\$2,279	\$2,293	\$2,159
Ending Balance:	\$29,714	\$70,203	\$108,283	\$144,262	\$201,507	\$355,838	\$358,117	\$360,410	\$362,569
Interest Rate	0.0061973	0.0064038	0.0064038	0.0061973	0.006403836	0.0061973	0.0064038	0.0064038	0.0059907
	Mar-08	Apr-08	May-08	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08	
Beginning Balance	\$362,569	\$364,891	\$367,152	\$369,503	\$371,793	\$374,174	\$376,570	\$378,904	
Interest	\$2,322	\$2,261	\$2,351	\$2,290	\$2,381	\$2,396	\$2,334	\$2,426	
Ending Balance:	\$364,891	\$367,152	\$369,503	\$371,793	\$374,174	\$376,570	\$378,904	\$381,330	
Interest Rate	0.0064038	0.0061973	0.0064038	0.0061973	0.006403836	0.0064038	0.0061973	0.0064038	

Annualized Residential Sales Volumes 279,690,581

Proposed Temporary Increment (\$/therm) \$0.00136


PUBLIC SERVICE COMPANY OF NORTH CAROLINA, INC.
DOCKET NO. G-5, SUB 495
PROPOSED RATE DESIGN

Rate	Block	Bills	Therms	Facilities Charge	Energy Charge	Facilities Charge Revenue	Energy Charge Revenue	Total Revenue	Present Rates	Change	% Change
101 - Residential Service											
Summer Energy Charge - Per Therm	All	2,512,313	40,727,703	\$10.00	\$1.31752	\$25,123,130	\$53,659,563	\$78,782,693			
Winter Energy Charge - Per Therm	All	2,550,357	238,962,878	\$10.00	\$1.37752	\$25,503,570	\$329,176,144	\$354,679,714			
	Total		<u>279,690,581</u>					<u>\$433,462,407</u>	<u>\$432,071,001</u>	<u>\$1,391,406</u>	<u>0.32%</u>
115 - Unmetered Lighting Service											
Summer Energy Charge - Per Therm	All	308	23,364	\$10.00	\$1.31752	\$3,080	\$30,783	\$33,863			
Winter Energy Charge - Per Therm	All	317	24,900	\$10.00	\$1.37752	\$3,170	\$34,300	\$37,470			
	Total		<u>48,264</u>					<u>\$71,333</u>	<u>\$71,084</u>	<u>\$249</u>	<u>0.35%</u>
125 - Small General Service											
Energy Charge - Per Therm	First 500	470,900	70,068,895	\$17.50	\$1.26976	\$8,240,750	\$88,970,680	\$97,211,430			
	Next 4,500		61,428,864		\$1.21620		\$74,709,784	\$74,709,784			
	All Over 5,000		3,556,794		\$1.17716		\$4,186,916	\$4,186,916			
	Total		<u>135,054,553</u>					<u>\$176,108,130</u>	<u>\$175,543,703</u>	<u>\$564,427</u>	<u>0.32%</u>
126 - Small General Service - Cooling											
Energy Charge - Per Therm	All	90	86,981	\$30.00	\$1.17716	\$2,700	\$102,391	\$105,091	\$103,646	\$1,445	1.39%
145 - Large-Quantity General Service											
Energy Charge - Per Therm	First 15,000	2,620	18,704,463	\$300.00	\$1.06871	\$786,000	\$19,989,847	\$20,775,647			
	Next 15,000		1,822,188		\$1.04678		\$1,907,430	\$1,907,430			
	Next 15,000		449,953		\$1.02718		\$462,183	\$462,183			
	Next 15,000		236,135		\$1.00159		\$236,510	\$236,510			
	All Over 60,000		219,960		\$0.98030		\$215,627	\$215,627			
	Total		<u>21,432,699</u>					<u>\$23,597,397</u>	<u>\$23,597,242</u>	<u>\$155</u>	<u>0.00%</u>
150 - Large-Quantity Interruptible Commercial & Industrial Service											
Energy Charge - Per Therm	First 15,000	281	3,208,390	\$600.00	\$1.00457	\$168,600	\$3,223,052	\$3,391,652			
	Next 15,000		2,628,622		\$0.98357		\$2,585,434	\$2,585,434			
	Next 70,000		7,409,387		\$0.96260		\$7,132,276	\$7,132,276			
	Next 500,000		14,512,402		\$0.94192		\$13,669,522	\$13,669,522			
	All Over 600,000		1,364,665		\$0.92095		\$1,275,410	\$1,275,410			
	Total		<u>29,143,686</u>					<u>\$28,054,294</u>	<u>\$28,054,586</u>	<u>(\$292)</u>	<u>0.00%</u>
160 - Special Sales Rate											
Energy Charge - Per Therm	All	(a)		\$600.00	Negotiated						
165 - Special Transportation Rate											
Energy Charge - Per Therm	All	(b)		\$600.00	Negotiated						
175 - Firm Transportation Service For Customers Qualifying For Service On Rate Schedule No. 145											
Energy Charge - Per Therm	First 15,000	2,810	33,396,636	\$300.00	\$0.15049	\$843,000	\$5,025,860	\$5,868,860			
	Next 15,000		15,547,405		\$0.12856		\$1,998,774	\$1,998,774			
	Next 15,000		8,108,516		\$0.10896		\$883,504	\$883,504			
	Next 15,000		4,818,930		\$0.08337		\$401,754	\$401,754			
	All Over 60,000		10,216,709		\$0.06208		\$634,253	\$634,253			
	Total		<u>72,088,196</u>					<u>\$9,787,146</u>	<u>\$10,457,633</u>	<u>(\$670,488)</u>	<u>-6.41%</u>
180 - Interruptible Transportation Service For Customers Qualifying For Service on Rate Schedule No. 150											
Energy Charge - Per Therm	First 15,000	2,082	28,770,710	\$600.00	\$0.10654	\$1,249,200	\$3,065,231	\$4,314,431			
	Next 15,000		23,669,279		\$0.08554		\$2,024,670	\$2,024,670			
	Next 70,000		60,647,872		\$0.06457		\$3,916,033	\$3,916,033			
	Next 500,000		59,842,566		\$0.04389		\$2,626,490	\$2,626,490			
	All Over 600,000		5,467,467		\$0.02292		\$125,314	\$125,314			
	Total		<u>178,397,895</u>					<u>\$13,006,939</u>	<u>\$13,565,458</u>	<u>(\$558,519)</u>	<u>-4.12%</u>
Total Rate Schedule Revenue		5,542,078	715,942,855					<u>\$684,192,736</u>	<u>\$683,464,353</u>	<u>\$728,382</u>	
Rounding								\$0	\$105	(\$105)	
Special Contract Revenue		24	32,941,349					<u>\$618,496</u>	<u>\$618,496</u>	<u>\$0</u>	
Other Operating Revenues								<u>\$3,345,175</u>	<u>\$3,345,175</u>	<u>\$0</u>	
Total Revenues		5,542,102	748,884,204					<u>\$688,156,406</u>	<u>\$687,428,129</u>	<u>\$728,277</u>	<u>0.11%</u>

CERTIFICATE OF SERVICE

The undersigned hereby certifies that a copy of the attached *Testimony and Exhibits* are being served upon the parties to this docket by depositing a copy of the same in the United States Mail, First Class, Postage Prepaid, at the addresses contained in the official service list in this proceeding.

This the 15th day of August, 2008.



Mary Lynne Grigg