

**STATE OF NORTH CAROLINA  
UTILITIES COMMISSION  
RALEIGH**

DOCKET NO. G-5, SUB 495

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of

Application of Public Service Company	)	ORDER APPROVING PARTIAL RATE
of North Carolina, Inc., for a General	)	INCREASE AND REQUIRING
Increase in its Rates and Charges	)	CONSERVATION PROGRAM FILING
	)	AND REPORTING

HEARD IN: Iredell County Hall of Justice, Statesville, North Carolina on July 8, 2008; Public Works Building, Asheville, North Carolina on July 8, 2008; Gastonia County Courthouse, Gastonia, North Carolina on July 9, 2008; Durham Chamber of Commerce, Durham, North Carolina on July 10, 2008; and the Commission Hearing Room, Dobbs Building, Raleigh, North Carolina on July 14, 2008, and August 26, 2008

BEFORE: Commissioner Lorinzo L. Joyner, Presiding; Chairman Edward S. Finley, Jr.; and Commissioners Robert V. Owens, Jr.; Sam J. Ervin, IV; Howard N. Lee; and William T. Culpepper, III

APPEARANCES:

For Public Service Company of North Carolina, Inc.:

B. Craig Collins, SCANA Corporation, 1426 Main Street, Columbia, South Carolina 29218

Mary Lynne Grigg, Womble Carlyle Sandridge & Rice, PLLC, Post Office Box 831, Raleigh, North Carolina 27602

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For the Using and Consuming Public:

Gina C. Holt, Staff Attorney, Public Staff – North Carolina Utilities Commission, 4326 Mail Service Center, Raleigh, North Carolina 27699-4326

Margaret A. Force, Assistant Attorney General, North Carolina Department of Justice, Post Office Box 629, Raleigh, North Carolina 27602

For Carolina Utility Customers Association, Inc.:

Robert F. Page, Crisp, Page & Currin, LLP, 4010 Barrett Drive, Suite 205  
Raleigh, North Carolina 27609

BY THE COMMISSION: On February 27, 2008, Public Service Company of North Carolina, Inc. (PSNC or Company), gave notice pursuant to Commission Rule R1-17(a) of its intent to file a general rate case.

On March 10, 2008, Carolina Utility Customers Association, Inc. (CUCA) filed a Petition to Intervene, which the Commission granted on March 11, 2008. On March 12, 2008, the Attorney General of North Carolina (Attorney General) filed his notice of intervention.

On March 31, 2008, PSNC filed its verified application for a general rate increase (Application). Included with the Application were the data required by NCUC Form G-1, and the direct testimony and exhibits of D. Russell Harris, Jimmy E. Addison, Dr. Donald R. Murry, Dr. Julius A. Wright, Sharon D. Boone, and Candace A. Paton.

By Order issued April 30, 2008, the Commission declared the Company's Application to be a general rate case pursuant to G.S. 62-137 and suspended the proposed rates for a period of 270 days from and after May 1, 2008. In that Order, the Commission also set the matter for hearing, required the Company to give notice of hearing, established discovery guidelines, and established dates for interventions and for the prefilings of direct testimony by intervenors and rebuttal testimony by the Company.

On May 30, 2008, PSNC filed an amendment to its Application providing supplemental NCUC Form G-1 data.

On June 25, 2008, PSNC filed its affidavits of publication of public notice.

On June 30, 2008, PSNC filed a Motion for Admission to Practice and Statements of PSNC and B. Craig Collins pursuant to G.S. 84-4.1 seeking an order from the Commission allowing Mr. Collins to appear before the Commission in this proceeding. On July 8, 2008, the Commission issued an Order granting PSNC's motion. On July 22, 2008, the Company filed a Pro Hac Vice registration statement which had been provided to the Administrative Office of the Courts.

On July 8, 2008, PSNC filed a revised Item 3 of its NCUC Form G-1 and revised Exhibits 5, 6, and 7 to witness Paton's testimony.

On July 8, 2008, a hearing on the Application was held in Statesville as scheduled. At the hearing in Statesville, David Pressly, Jeff Lineberry, Lonnie Troutman, and Doug Safriet testified as public witnesses. On July 8, 2008, a hearing was held in Asheville as scheduled. At the hearing in Asheville, Keith Levi testified as a public witness. On July 9, 2008, a hearing was held in Gastonia as scheduled. At the hearing in Gastonia, Janet Puett testified as a public witness. On July 10, 2008, a

hearing was held in Durham as scheduled. At the hearing in Durham, Richard Leber testified as a public witness. On July 14, 2008, a hearing was held in Raleigh as scheduled. At the hearing in Raleigh, no public witnesses testified.

On July 10, 2008, Texican Horizon Energy Marketing, LLC (Texican) filed a Petition to Intervene, which was granted by the Commission on July 18, 2008.

On August 13, 2008, the Attorney General filed the direct testimony and exhibits of Roger D. Colton.

On August 13, 2008, the Company, the Public Staff, and CUCA (the Stipulating Parties) filed a Stipulation and Exhibits (Stipulation) resolving all issues in this proceeding among the Stipulating Parties. Counsel for the Company reported that she was authorized to state that Texican did not oppose the Stipulation.

On August 15, 2008, the Company filed the supplemental testimony of Candace A. Paton in support of the Stipulation.

On August 15, 2008, the Attorney General filed a schedule that had been omitted from the direct testimony and exhibits of Roger D. Colton.

On August 20, 2008, the Attorney General filed a letter requesting that the Commission admit into evidence the testimony of Roger D. Colton without the need for him to appear at the hearing. Also, on August 20, 2008, PSNC requested that the testimony and exhibits of its witnesses D. Russell Harris, Sharon D. Boone, and Dr. Donald R. Murry be entered into evidence without the need for them to appear at the hearing.

On August 22, 2008, PSNC filed the Stipulating Parties' revised exhibits to the Stipulation.

On August 22, 2008, the Commission issued an Order granting the motions to excuse PSNC witnesses D. Russell Harris, Sharon D. Boone, and Dr. Donald R. Murry and Attorney General witness Roger D. Colton from attending the hearing and to allow their prefiled testimony to be copied into the record by stipulation of the parties.

On August 26, 2008, the hearing in Raleigh was held as scheduled. No person testified as a public witness. At the hearing, the various prefiled direct and supplemental testimony and exhibits of the following Company witnesses were offered and accepted into evidence: D. Russell Harris, Jimmy E. Addison, Dr. Donald R. Murry, Dr. Julius A. Wright, Sharon D. Boone, and Candace A. Paton. The prefiled direct testimony of Attorney General witness Roger D. Colton was also offered and accepted into evidence. Company witnesses Addison, Wright, and Paton testified at the hearing as a panel and answered questions from the Attorney General and the Commission.

On September 19, 2008, the Attorney General filed a Motion for Admission of Late-Filed Exhibits concerning evidence introduced at the August 26, 2008 hearing. In its Motion, the Attorney General requested that the updated information contained in

Commission reports relating to the earnings of Piedmont Natural Gas Company, Inc. (Piedmont), which was offered into evidence at Piedmont's general rate case hearing on September 5, 2008, in Docket No. G-9, Sub 550, be provided to the record in the instant docket. The Attorney General also requested that Late-Filed Exhibit 2 be admitted as that provided Piedmont's revised earnings information in summary form.

On September 23, 2008, PSNC filed an Objection and Motion to Strike. PSNC stated that the Attorney General should not be permitted to use either his evidence related to Piedmont's earnings presented at the August 26, 2008 hearing or the new evidence contained in the late-filed exhibits. On September 24, 2008, PSNC filed a Supplement in which PSNC identified the particular exhibits and testimony that PSNC moved to strike from the record.

On September 25, 2008, the Attorney General filed a Reply Concerning Late-Filed Exhibits. On September 26, 2008, the Commission issued an Order on Motion for Admission of Late-Filed Exhibits. In its Order, the Commission allowed the Attorney General's proposed late-filed exhibits and denied PSNC's Motion to Strike.

On October 6, 2008, the Joint Proposed Order of PSNC and the Public Staff was filed. Also, on October 6, 2008, the Attorney General filed its Brief.

Based upon the verified Application; the testimony and exhibits received into evidence at the hearings; the Stipulation; and the entire record in this proceeding, the Commission now makes the following

#### FINDINGS OF FACT

1. PSNC is a corporation duly organized and existing under the laws of the State of South Carolina, having its principal office and place of business in Gastonia, North Carolina. PSNC operates a natural gas pipeline system for the transportation, distribution, and sale of natural gas within a franchised area consisting of all or parts of 28 counties in central and western North Carolina.

2. PSNC is engaged in providing natural gas service to the public and is a public utility as defined in G.S. 62-3(23), subject to the jurisdiction of this Commission.

3. The Commission has jurisdiction over the rates and charges, rate schedules, rate classifications, and practices of public utilities, including the Company.

4. In its Application in this docket, the Company sought: (i) an increase of \$20,441,501 in revenues; (ii) certain changes to the cost allocations and rate designs underlying existing rates for the Company; (iii) certain revisions to the current tariff language; (iv) amortization of certain deferred account balances; (v) the implementation of a Customer Usage Tracker (CUT); and (vi) the implementation of a cost-recovery mechanism for customer conservation programs.

5. PSNC is properly before the Commission with respect to the relief sought in its Application pursuant to the provisions of Chapter 62 of the General Statutes of North Carolina.

6. The appropriate test period for use in this proceeding is the 12-month period ended December 31, 2007, updated for certain known and measurable changes through June 30, 2008.

7. The Stipulation executed by PSNC, the Public Staff, and CUCA settles all matters in this docket with respect to the Stipulating Parties and is not opposed by Texican.

8. The Attorney General, the only other party to the proceeding, had no objection to the Stipulation except for the proposed CUT mechanism.

9. The Stipulation provides for an increase in annual revenues for the Company of \$9,104,984 offset by \$8,376,707 of reductions in fixed gas costs, for a net increase in rates and charges of \$728,277, as set forth in Paragraph 5.E of the Stipulation. This provision is just and reasonable and should be approved.

10. The Stipulating Parties agreed that the appropriate level of original cost rate base used and useful, or to be used and useful within a reasonable time after the test period, in providing natural gas utility service to the Company's customers within North Carolina is \$709,665,864, consisting of gas plant in service of \$1,178,638,190 and working capital of \$60,839,439 reduced by accumulated depreciation of \$423,701,529 and accumulated deferred income taxes of \$106,110,237, as described and set forth in Paragraph 4 and Exhibit A of the Stipulation. These provisions are just and reasonable and should be approved.

11. The Stipulating Parties agreed that the Company's end-of-period pro forma revenues under present rates for use in this proceeding are \$687,359,831, a figure which is comprised of \$683,396,160 of sales and transportation revenues, \$618,496 of special contract revenues, and \$3,345,175 of other operating revenues as described and set forth in Paragraph 5.A and Exhibit A of the Stipulation and that the pro forma annual operating revenues under the agreed-upon rates are \$688,088,108, which includes annual sales and transportation revenues of \$684,124,437, as set forth in Paragraph 5.E and Exhibit A of the Stipulation. These provisions of the Stipulation are just and reasonable and should be approved.

12. The Stipulation provides that the Company's operating expenses, including actual investment currently consumed through reasonable actual depreciation are \$158,031,684, as set forth in Paragraph 5.A and Exhibit A. This provision is just and reasonable and should be approved.

13. The Stipulating Parties agreed that the overall rate of return that the Company should be allowed the opportunity to earn on the cost of the Company's used and useful property, as described in Finding of Fact No. 10 above, is 8.54%, as set forth in Paragraph 5.D and Exhibit A of the Stipulation, which includes a return on common

equity of 10.60%, as set forth in Paragraph 5.C of the Stipulation. Further, the Stipulating Parties agreed that the appropriate capital structure consists of 54.00% common equity, 10.50% short-term debt, and 35.50% long-term debt, with the cost of short-term debt and long-term debt being 3.25% and 6.96%, respectively, as set forth in Paragraph 5.B of the Stipulation. These provisions are just and reasonable and should be approved.

14. The Stipulation provides that, for purposes of this proceeding, the appropriate level of adjusted sales and transportation volumes is 748,884,204 therms, which is comprised of 465,456,764 therms of sales quantities, 250,486,091 therms of transportation quantities and 32,941,349 therms of special contract quantities, as described and set forth in Paragraph 3.A and Exhibit B. The Stipulating Parties agreed that the appropriate level of company use gas is 726,910 therms, that the appropriate level of lost and unaccounted for gas is 5,691,520 therms and that the appropriate level of purchased gas supply is 471,875,194 therms, consisting of sales volumes, company use gas, and lost and unaccounted for gas, as described and set forth in Paragraphs 3.B and 3.C, respectively, and Exhibit G of the Stipulation. These provisions are just and reasonable and should be approved.

15. The Stipulating Parties agreed that the fixed gas costs that should be embedded in the proposed rates and used in true-up of fixed gas costs in proceedings under Rule R1-17(k) until the resolution of PSNC's next general rate case are those derived from the fixed gas cost allocation percentages set forth in Exhibit C to the Stipulation. This provision is just and reasonable and should be approved.

16. The agreed-upon rate design and rates, including volumetric rates, fixed monthly charges, and other charges, as described in Paragraph 6 of the Stipulation and as set forth on Exhibits B and E attached thereto (as the same may be adjusted for any changes in the Company's benchmark cost of gas or changes in demand and storage charges prior to the effective date of the revised rates), are just and reasonable and should be approved.

17. The Stipulating Parties agreed to an increment of \$0.00136 per therm, applicable to Rate 101, based on the October 31, 2008 rate deferral balance of \$381,330 as shown on Paton Exhibit 14 and as described and set forth in Paragraph 7 of the Stipulation. Such increment is to recover the rate differential between Rate 105 and Rate 110 pursuant to the Commission's May 21, 2007 Order on Reconsideration in Docket No. G-5, Sub 481. This provision is just and reasonable and should be approved.

18. The Stipulating Parties agreed that the reasonable adjusted level for the total cost of gas in this proceeding is \$468,578,855, as described in Paragraph 11.B and Exhibit G to the Stipulation. This provision is just and reasonable and should be approved.

19. The Stipulation provides that the current temporary rate decrements applicable to the All Customers Deferred Account will remain in effect until addressed

by the Commission in the Company's pending annual review of gas costs in Docket No. G-5, Sub 497. This provision is just and reasonable and should be approved.

20. The Stipulating Parties agreed to charge a portion of compensation charged to PSNC for SCANA Corporation (SCANA) executives listed in its 2008 proxy statement to nonutility operations as described in Paragraph 13 of the Stipulation. This provision is just and reasonable and should be approved.

21. The Stipulating Parties agreed that the appropriate Allowance for Funds Used During Construction (AFUDC) rate for the Company should be the overall rate of return, adjusted for income taxes. This provision is just and reasonable and should be approved.

22. The Stipulation provides for the amortization of manufactured gas plant costs and pipeline integrity management costs, as set forth and described in Paragraph 12. This provision is just and reasonable and should be approved.

23. The Stipulation provides that PSNC will file its proposed conservation programs for conservation communications, in-home energy audits, energy efficiency equipment rebates, and high-efficiency discount rates for approval within 30 days of this Order. The Stipulation also provides that PSNC will be allowed to recover \$750,000 of conservation program expenditures through the cost of service in this proceeding. These provisions are just and reasonable and should be approved subject to the additional filing and reporting requirements as set forth hereinafter.

24. The proposed CUT, as described in Paragraph 9 and set forth in Exhibit E to the Stipulation, and the proposed "R" values, base load, and heat sensitive factors, as set forth in Exhibit D to the Stipulation, are appropriate to track and true-up variations in average per customer usage by rate schedule from levels adopted in this general rate case proceeding. The proposed CUT mechanism is in the public interest and should be approved. As a consequence, the corresponding termination of the Weather Normalization Adjustment (WNA) mechanism in the Company's tariffs is just and reasonable and should be approved.

25. The agreed-upon tariffs, attached to the Stipulation as Exhibit E, are just and reasonable and should be approved.

26. The agreed-upon changes to the Rules and Regulations, which are reflected in Exhibit F of the Stipulation, are just and reasonable and should be approved.

27. All of the provisions of the Stipulation are just and reasonable under the circumstances of this proceeding and should be approved, subject to the additional filing and reporting requirements related to the conservation program process as set forth hereinafter.

## EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 1 – 5

The evidence supporting these findings of fact is contained in the Company's verified Application; the testimony and exhibits of the various witnesses; the NCUC Form G-1 that was filed with the Application, as modified; the provisions of Chapter 62 of the General Statutes; and the Commission's records as a whole. These findings are primarily jurisdictional and informational and are not contested by any party.

## EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 6

The Company filed its Application and exhibits using a test period consisting of the 12 months ended December 31, 2007. In its April 30, 2008 Order in this docket, the Commission ordered the parties to use a test period consisting of the 12 months ended December 31, 2007, with appropriate adjustments. The Stipulation is based upon the test period ordered by the Commission, and this test period was not contested by any party. In the Stipulation, the Stipulating Parties agreed to make appropriate adjustments to the test period data for circumstances occurring or becoming known through June 30, 2008. These adjustments were not contested by any party.

## EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 7

This finding is supported by the Stipulation and the supplemental testimony of Company witness Paton.

The Stipulation recites that it was filed on behalf of PSNC, the Public Staff, and CUCA. The Stipulation provides that it represents a settlement of all the Stipulating Parties' issues in the proceeding. Counsel for the Company stated that she was authorized by Texican's counsel to represent that Texican takes no position regarding the Stipulation and does not oppose it.

## EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 8

This finding is supported by the statements of counsel for the Attorney General.

Assistant Attorney General Margaret A. Force stated at the hearing of this matter that the Attorney General opposes the CUT mechanism, but in other respects does not object to the Stipulation.

## EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 9

This finding is supported by the Application; the direct testimony of Company witness Boone; supplemental testimony of Company witness Paton; the Stipulation; and the testimony of Company witness Paton at the hearing.

Boone Exhibit 6 reflects that the Company filed for a net revenue increase of \$20,441,501 in its Application. The Stipulation in Paragraph 5.E provides that the Company should be allowed to increase its annual level of margin through the rates and charges approved in this case by \$9,104,984, offset by \$8,376,707 of reductions in fixed



gas costs, for a net annual increase in rates and charges of \$728,277. This finding is not contested by any party.

#### EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 10

The reasonable original cost of the Company's property used and useful, or to be used and useful within a reasonable time after the test period, in providing natural gas utility service to the public within its service territory, less that portion of the cost which has been consumed by depreciation expense, is described and set forth in Paragraph 4 and Exhibit A to the Stipulation and reflected on Schedule 1 included herein.

The amounts provided in Exhibit A to the Stipulation are the result of negotiations among the Stipulating Parties in this docket, as described in the Stipulation and in the supplemental testimony of Company witness Paton, and are not opposed by any party. The stipulated reasonable original cost of the Company's property used and useful or to be used and useful within a reasonable time after the test period, in providing natural gas service to the public, less depreciation expense, is not contested by any party. The Commission has carefully reviewed these amounts, as well as all the record evidence relating to the Company's rate base, and concludes that the stipulated amounts are appropriate for use in this docket.

#### EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 11

The end-of-period pro forma revenues under the Company's present and stipulated rates are set forth in Paragraph 5.A and Exhibit A to the Stipulation and reflected on Schedule 1 included herein.

The amounts on Exhibit A to the Stipulation are the result of negotiations among the Stipulating Parties in this docket, as described in the Stipulation and the supplemental testimony of Company witness Paton, and are not contested by any party. The Commission has carefully reviewed these amounts, as well as all record evidence relating to the Company's pro forma revenues, and concludes that the stipulated pro forma revenues are reasonable and appropriate for use in this docket.

#### EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 12

The Company's reasonable operating expenses, including actual investment currently consumed through reasonable actual depreciation, are set forth in Paragraph 5.A and Exhibit A to the Stipulation and reflected on Schedule 1 included herein.

The amounts on Exhibit A to the Stipulation are the result of negotiations among the Stipulating Parties in this docket, as described in the Stipulation and the supplemental testimony of Company witness Paton, and are not contested by any party. The Commission has carefully reviewed these amounts, as well as all record evidence relating to the Company's reasonable operating expenses, and concludes that the stipulated reasonable operating expenses, including actual investment currently

consumed through reasonable actual depreciation, are reasonable and appropriate for use in this docket.

#### EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 13

The overall rate of return on the cost of the Company's used and useful property is set forth in Paragraph 5.D and Exhibit A to the Stipulation and reflected on Schedule 1 included herein. The overall rate of return, the return on common equity, and the capital structure are the result of negotiations among the Stipulating Parties, as described in the Stipulation and the supplemental testimony of Company witness Paton, and they are not contested by any party. The Stipulation stated, and Company witness Addison testified at the hearing, that the stipulated return on common equity is lower than what the Company would otherwise have agreed to if the Stipulating Parties had not agreed, among other considerations, to the implementation of the CUT mechanism. The Commission has carefully reviewed the stipulated overall rate of return, the return on common equity, and the capital structure and the evidence of record relating to rate of return and concludes that the stipulated overall rate of return, the return on common equity, and the capital structure are just and reasonable.

The Commission also concludes that the stipulated overall rate of return and return on common equity will allow the Company, by sound management, the opportunity to produce a fair return for its shareholders, considering changing economic conditions and other factors, as they now exist, to maintain its facilities and services in accordance with the reasonable requirements of its customers in the territory covered by its franchise and to compete in the market for capital funds on terms which are reasonable and which are fair to its customers and to its existing investors.

#### EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 14

The level of adjusted sales and transportation volumes used in the Stipulation is 748,884,204 therms as shown on Exhibit B and the level of purchased gas supply as shown on Exhibit G to the Stipulation is 471,875,194 therms. The throughput volume level is derived as follows:

<u>Item</u>	<u>Amount (therms)</u>
Sales	465,456,764
Transportation	250,486,091
Special Contracts	<u>32,941,349</u>
Total Throughput	<u>748,884,204</u>

The level of purchased gas supply is 471,875,194 therms, derived as follows:

<u>Item</u>	<u>Amount (therms)</u>
Sales	465,456,764
Company Use	726,910
Lost & Unaccounted for	<u>5,691,520</u>
Total Gas Supply	<u>471,875,194</u>

The throughput level and level of purchased gas supply are the result of negotiations among the Stipulating Parties, as described in Paragraph 3 of the Stipulation, and are not opposed by any party. The Commission has carefully reviewed this throughput level and concludes that it is a just and reasonable approximation of the Company's pro forma adjusted sales and transportation volumes. The Commission has also carefully reviewed the purchased gas supply level and concludes that it is a just and reasonable approximation of the Company's pro forma purchased gas supply level.

#### EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 15

Under the Commission's procedures for truing-up fixed gas costs in proceedings under Rule R1-17(k), it is necessary and appropriate to determine the amount of fixed gas costs that are embedded in the rates approved herein. In Paragraph 8 of the Stipulation, the Stipulating Parties agreed that, for the purpose of this proceeding and future proceedings under R1-17(k), the appropriate amount of fixed gas costs allocated to each rate schedule is set forth below, as well as in Exhibit C to the Stipulation:

<u>Rate Schedule</u>	<u>Description</u>	<u>Fixed Gas Cost Unit Rate (\$/therm)</u>	<u>Fixed Gas Cost Apportionment %</u>
101 – Summer	Residential	\$0.07790	5.700%
101- Winter	Residential	\$0.13790	59.178%
125 – Step 1	Small General Service	\$0.13532	17.026%
125 – Step 2	Small General Service	\$0.08176	9.019%
125 – Step 3 & Rate 126	Small General Service	\$0.04272	0.280%
145	LGS Firm Sales	\$0.05436	2.092%
150	LGS Interruptible Sales	\$0.03392	1.775%
175	Firm Transportation	\$0.01114	1.442%
180	Interruptible Transportation	\$0.01089	3.489%

These amounts were not contested by any party. The Commission has carefully examined these amounts, as well as all record evidence on fixed gas cost allocations, and concludes that the stipulated allocations of fixed gas costs are just and reasonable and should be approved.

## EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 16

The evidence for this finding is contained in the Application; in Paragraph 6 of the Stipulation and Exhibits B and E attached thereto; in the direct and supplemental testimony of Company witness Paton; and in the testimony of Attorney General witness Colton.

The computation of revenues under the proposed rates (based on a Benchmark Commodity Cost of Gas of \$0.875 per therm) is set forth on Exhibit B to the Stipulation. These computations show that the proposed rates will produce the revenues calculated under the rate design approved for use in this proceeding.

In its Application, the Company proposed to increase monthly facilities charges for residential customers on Rate Schedule 101 from \$10.00 to \$12.00 and for commercial customers on Rate Schedule 125 from \$17.50 to \$20.00. Attorney General witness Colton testified that elderly and low-income customers use less natural gas and that, therefore, PSNC's proposal to raise residential facilities charges from \$10 per month to \$12 per month would disproportionately burden low-income customers. Witness Colton also testified that the proposed rate structure will shift risks from PSNC's shareholder to its customers.

In the Stipulation and as reflected in the supplemental testimony of Company witness Paton, the Stipulating Parties agreed to retain the \$10.00 monthly facilities charge for residential customers and the \$17.50 monthly facilities charge for commercial customers, a proposal which is not opposed by any party. The Commission concludes that the monthly facilities charges reflected in the Stipulation are appropriate and should be approved.

With respect to the issue of the appropriate rates and rate design for use in this proceeding, Company witness Paton testified in her supplemental testimony that the proposed rates and underlying rate design reflected in Exhibit B to the Stipulation are just and reasonable and fair to consumers and the Company in the context of the Stipulation as a whole. The Stipulating Parties agreed that these rates are proper, just and reasonable. Witness Paton's conclusions and the conclusions set forth in the Stipulation are uncontested.

The Commission has carefully reviewed these rates, as well as all record evidence relating to the proper rates to be implemented in this proceeding, and concludes that the stipulated rates are just and reasonable.

## EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 17

The evidence for this finding is contained in Paragraph 7 of the Stipulation and the testimony of Company witness Paton.

In the Commission's May 21, 2007 Order on Reconsideration in PSNC's prior rate case in Docket No. G-5, Sub 481, the Commission ordered PSNC to defer the rate differential between Rate 105 and Rate 110 beginning June 1, 2007, for a period no

longer than November 1, 2007, and to accrue interest at the Company's net-of-tax overall rate of return. The Stipulating Parties agreed to establish an increment of \$0.00136 per therm, applicable to Rate 101, based on the October 31, 2008 rate deferral balance of \$381,330 shown on Paton Exhibit 14. Company witness Paton testified at the hearing that the Company will file monthly updates in deferred account reports tracking recovery of the balance.

The agreed-upon increment is not contested by any party. The Commission has fully considered this provision of the Stipulation and concludes that it is just and reasonable and should be approved.

#### EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 18

The evidence for this finding is contained in Paragraph 11.B of the Stipulation and the supplemental testimony of Company witness Paton.

The Stipulating Parties support the adjusted level of total cost of gas after the rate increase as described in Paragraph 11.B of the Stipulation. No party has contested this level. The Commission has carefully examined the amounts set forth in Paragraph 11.B of the Stipulation and finds that they are just and reasonable and concludes they should be approved.

#### EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 19

The evidence for this finding is contained in the testimony at the hearing of Company witness Paton.

At the hearing, witness Paton testified that existing decrements will remain in place until the Commission's order in the Company's pending annual review of gas costs proceeding, Docket No. G-5, Sub 497, at which time new temporaries will be determined.

The Commission has carefully reviewed the proposed treatment of the temporary rate decrements and concludes that they are just and reasonable.

#### EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 20

The evidence for this finding is found in the Stipulation and the supplemental testimony of Company witness Paton.

The Stipulating Parties agreed to charge a portion of compensation charged to PSNC for SCANA executives listed in its 2008 proxy statement to nonutility operations as described in Paragraph 13 of the Stipulation. No party opposed this provision of the Stipulation.

The Commission has carefully reviewed this provision of the Stipulation and concludes that it just and reasonable and should be approved.

## EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 21

The evidence for this finding is contained in Paragraph 15 of the Stipulation and the supplemental testimony of Company witness Paton.

The Stipulating Parties agreed that the appropriate AFUDC rate for the Company, effective November 1, 2008, should be the agreed-upon overall rate of return, adjusted for income taxes. No party objected to this provision of the Stipulation. Company witness Paton testified in response to a question from the Commission that the AFUDC rate would remain in effect until the Company's next general rate case proceeding.

The Commission has carefully reviewed this provision of the Stipulation and concludes that the agreed-upon AFUDC rate is just and reasonable and should be adopted and should remain in effect until PSNC's next general rate case proceeding.

## EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 22

The evidence for this finding is contained in the Company's Application and the direct testimony of Company witnesses Boone and Paton, the Stipulation, and the supplemental testimony of Company witness Paton.

The Stipulation provides certain agreed-upon amounts and amortization periods for the treatment of deferred manufactured gas plant costs and deferred pipeline integrity management costs as of June 30, 2008, as described and set forth in Paragraph 12. The Stipulating Parties agreed that the appropriate amount of deferred manufactured gas plant costs was \$3,494,563; the appropriate amount of deferred pipeline integrity management costs was \$2,287,037; and that both deferred amounts should be amortized over three years. The Stipulating Parties further agreed that it is appropriate to continue, until the resolution of PSNC's next general rate case proceeding, the regulatory asset treatment for costs paid to outside contractors and outside consultants incurred as a result of the Pipeline Safety Improvement Act of 2002, pending the establishment of an appropriate recovery mechanism in a future proceeding.

No party contested the provision of the Stipulation contained in Paragraph 12. The Commission has carefully considered the agreed-upon amounts and amortization periods and related matters set forth in Paragraph 12 of the Stipulation, as well as all record evidence on the amortization of these deferred costs, and concludes that the stipulated amounts and amortization periods are just and reasonable and should be approved. The Commission further concludes that the proposed continuation of regulatory asset treatment for pipeline integrity management costs is just and reasonable and should be approved.

## EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 23

The evidence for this finding is found in PSNC's Application; the prefiled direct testimony of Company witnesses Harris, Paton, and Wright; the Stipulation; the supplemental testimony of witness Paton; and the testimony at the hearing.

In its Application, subject to the Commission's authorization of the proposed CUT mechanism, PSNC proposed to file conservation programs and to discontinue its WNA mechanism. PSNC observed that the current volumetric rate structure causes a disincentive for the Company to promote energy efficiency and conservation measures for its customers. PSNC remarked that the decoupling of margin from usage will better align the interests of the Company and its customers with respect to conservation, which is particularly important in today's environment. PSNC proposed the following four conservation initiatives (three programs and the discount rates initiative): (1) a communications program that would educate customers and encourage conservation including an "Energy Conservation School Initiative"; (2) an in-home energy audit program that would provide for weatherization and conservation measures to be installed at the time of the visit; (3) an energy efficiency rebate program where appliances such as tankless water heaters, commercial water heaters with a high thermal efficiency, and furnaces with an annual fuel utilization efficiency (AFUE) greater than 90% would qualify for a rebate; and (4) discount rates for high-efficiency residential homes and commercial buildings that meet certain energy efficiency standards, including Energy Star standards and Leadership in Energy and Environmental Design (LEED) certification.

PSNC witnesses Paton and Addison testified that PSNC's programs were not filed prior to or as a part of the case since the programs were dependent upon PSNC receiving approval to implement the CUT and the programs were still being developed. PSNC witness Wright explained that the primary objectives that PSNC believes are important in identifying appropriate conservation and efficiency programs are the following: (1) the initiative should produce actual and identifiable conservation benefits and have lasting impact, (2) the initiative should be beneficial and valuable to PSNC's customers, and (3) the initiative should be easy to understand and communicate to customers. Witness Wright testified that the Company's proposed conservation initiatives would meet these primary objectives.

Further, witness Wright stated that the Company had proposed that the three programs be paid for by customers using the true-up mechanism detailed in witness Paton's testimony and remarked that customers would be responsible for paying only those costs that are actually incurred. Witness Wright explained that, after approval of the three programs is obtained, any funds used for these programs would be recorded in a separate account up to a limit of \$1.3 million per year. Although PSNC did not ask the Commission to approve the three programs and related costs in its initial filing, it stated that it would file for approval of its proposed programs within 60 days after an order was issued approving the Company's CUT and its mechanism for recovering the cost of conservation programs.

In prefiled testimony, witness Paton stated that, with regard to the Company's initiative regarding discount rates, PSNC proposed to discount the fixed gas cost components of Rates 101 (Residential) and 125 (Small General Service) to determine the rates applicable to Rates 102 (High-Efficiency Residential) and 127 (High-Efficiency Small General Service). Therefore, the cost of the discounts would be recovered through the normal fixed gas cost true-up procedure. For the other three initiatives, witness Paton observed that the Company had proposed to defer, track, and true-up actual program expenses. Witness Paton explained that, after approval and implementation of these programs, the Company proposed to record related expenses in separate accounts. If applicable, separate accounts for residential and commercial programs would be maintained. Further, witness Paton explained that twice a year, at the same time that the Company files for a rate adjustment pursuant to the CUT, the Company would file for recovery of incurred program costs.

For purposes of settlement of this case, the Stipulating Parties agreed that PSNC should be allowed to recover \$750,000 of conservation program expenditures incurred for its conservation initiatives through the cost of service instead of the rate tracker approach initially filed by the Company. The Stipulating Parties also agreed that PSNC should file the proposed programs for Commission approval within 30 days of the issuance date of the Order in this proceeding.

In this regard, the Stipulation provides as follows:

14. Conservation Program Expenditures. The Stipulating Parties agree that PSNC should be allowed to recover \$750,000 of conservation program expenditures incurred for its conservation communications, in-home energy audit, energy efficient equipment rebate programs, and a high efficiency discount rate schedule proposal through the cost of service instead of the rate tracker approach initially filed by the Company. These conservation programs should be filed for approval within 30 days of the order in this proceeding and an annual report of expenditures detailing the funds spent on these programs should be filed by February 15th for each calendar year.

No party explicitly contested the proposed \$750,000 annual level of conservation spending or recovery of conservation dollars as provided for in the Stipulation. In his Brief, the Attorney General stated that he supports the development of cost effective energy conservation programs. The Attorney General remarked that such programs have been funded through rates in other states and have produced substantial savings for many customers over time. The Attorney General recommended that, if the Commission approves the funding of energy conservation programs in PSNC's rates, then PSNC's efforts should be closely monitored given its lack of experience and the lack of detail in its proposals.

The Commission is of the opinion that, in general, energy conservation and energy efficiency measures serve the public interest and that measures such as



weatherization should typically provide long-term and year-round benefits to PSNC's customers and to the public as a whole. The Commission finds that the Company's commitment to file programs of the nature described in this case for approval within 30 days of this Order and the strong public policy in support of promoting conservation warrants allowing the proposed \$750,000 of expenditures for conservation programs to be included in the cost of service in this proceeding. Therefore, the Commission finds and concludes that these provisions are just and reasonable under the circumstances of this particular case and should be approved subject to the additional filing and reporting requirements discussed below. Consequently, consistent with the Stipulation, within 30 days following the issuance date of this Order, the Commission requires PSNC to file its specific program proposals for review and approval by the Commission. Such filing of PSNC's conservation programs should be made in accordance with Commission Rule R6-95,<sup>1</sup> where applicable, for any proposed programs. Additionally, the Commission believes that it is reasonable to require that the Company's soon-to-be-filed package of conservation proposals include one or more programs which offer an opportunity for all residential and commercial ratepayers to participate, if they so choose. Subsequent to PSNC's formal filing of its conservation program proposals, the Commission will provide an opportunity for interested parties to comment on such proposals. Thereafter, the Commission will review all filings on this matter and subsequently issue an order regarding the same.

Further, PSNC witness Paton testified that it will take a month or two after Commission approval to have its programs up and running. Consequently, the Commission finds and concludes that it is appropriate and reasonable to require that, to the extent the Company does not actually incur expenditures of \$750,000 for its conservation programs in the first year, PSNC should be required to spend the remaining balance in the following year, in addition to the \$750,000 for that next year.

In addition, consistent with the Stipulation, the Commission also requires that the Company file annual reports of expenditures detailing the funds spent on its conservation programs by February 15th for each calendar year. Furthermore, the Commission is of the opinion that these annual reports should provide detailed information for each program that will be beneficial in analyzing the effectiveness of having such programs in place, i.e., are such programs worthwhile and are the total costs of each program reasonable in light of the resulting benefits from the perspective of societal benefits and benefit-cost ratio analyses, where feasible; and should such programs be continued. Such reports should include relevant and useful information for each individual program such as (1) the purpose of program; (2) the duration of the program; (3) the classes of persons to whom the program is offered; (4) the number of participants; (5) the annual amounts for each element of costs incurred in connection with the program, e.g., labor, advertising, contracts, materials, equipment, direct payments, rebates, etc.; (6) the expected and achieved energy savings in total and

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<sup>1</sup> Rule R6-95 (Incentive programs for natural gas utilities) was adopted by Commission Order Adopting Final Rules, issued February 29, 2008, in Docket No. E-100, Sub 113. As used in Rule R6-95, "Program" means any natural gas utility action or planned action that involves offering "Consideration," as defined in said rule.

average per customer; (7) the total dollar savings and average savings per customer; (8) any sources and amounts of funding from third parties and the reasons those parties are providing such funding; (9) a description of the tests used in evaluating cost effectiveness and any test results; (10) any proposed program modifications; and (11) any other pertinent information. The Commission encourages the Company, the Public Staff, and the Attorney General to engage in discussions, at their convenience, for the purpose of developing a consistent, relevant, and systematic reporting format to be followed by the Company in its annual reports, which should include the aforementioned information and other additional data and analyses used in performing and providing a proper and adequate evaluation of the effectiveness of PSNC's conservation programs.

#### EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 24

The evidence for this finding is found in the Application; the direct testimony of Company witnesses Harris, Addison, Murry, Wright, and Paton; the Stipulation; the supplemental testimony of Company witness Paton; and testimony at the hearing.

With regard to the CUT, the Stipulation provides as follows:

9. Implementation of the Customer Usage Tracker and Elimination of Weather Normalization Adjustment Mechanism. The Stipulating Parties agree that it is appropriate to implement the Company's proposed customer usage tracker in the form of Rider C to the Company's tariffs, included in Exhibit E attached hereto, and designated as the "Customer Usage Tracker." The "R" values, baseload and heat sensitive factors to be used in the Company's Customer Usage Tracker in the future are set forth in Exhibit D attached hereto and incorporated by reference herein. As a consequence of the implementation of the Customer Usage Tracker mechanism, the Stipulating Parties further agree that it is appropriate to eliminate the Weather Normalization Adjustment mechanism in the Company's tariffs. Additionally, the stipulated return on common equity is lower than what the Company would otherwise have agreed to had the Stipulating Parties not agreed, among other considerations, to the implementation of the Customer Usage Tracker mechanism.

The proposed CUT addresses the issue of declining per customer usage of natural gas. While the number of customers continues to grow, the weather-normalized usage per residential customer continues to decrease due to improved appliance efficiency and better insulated homes and office buildings. Volatile natural gas prices have also caused customers to conserve. Company witnesses Wright and Harris testified that the Company has experienced a decline in usage per residential customer of approximately 2% per year over the last five years. Company witness Wright testified that, when PSNC has a rate case under the current regulatory model, the Company will not collect the approved revenues due to declining use per customer and that the CUT

mechanism will adjust revenues to correspond to the volumes determined in this general rate case.

Company witness Paton testified that, because the proposed CUT mechanism will account for all variances in consumption, including those related to weather, the Company will no longer need the WNA. Additionally, Company witnesses Addison and Wright testified at the hearing to the disadvantages of the WNA.

At the hearing, the Company witnesses testified that, while the Company has added new customers, the growth in plant necessary to serve them has exceeded the revenues derived from those customers. Therefore, any decline in per-customer usage will not be offset by growth in the number of customers served. Company witnesses testified that, if per-customer natural gas consumption increases, the CUT adjustment will prevent the Company from recovering more than the margin set in this rate case. If per-customer usage continues to decline, even with the CUT mechanism, customers using less gas will have lower bills because the largest component of their bills is the cost of gas.

Based on the evidence as a whole, the Commission finds that it is appropriate to adopt the proposed CUT mechanism. Recently enacted legislation authorizes the Commission to approve a mechanism that tracks and trues-up gas utility rates for variations in average per-customer usage, upon making certain findings. G.S. 62-133.7 states, "The Commission may adopt a rate adjustment mechanism only upon a finding by the Commission that the mechanism is appropriate to track and true-up variations in average per customer usage by rate schedule from levels adopted in the general rate case proceeding and that the mechanism is in the public interest." The Attorney General opposed PSNC's proposal to create such a rate mechanism. The Attorney General argued that the proposed CUT (1) is not in the public interest when viewed in the context of the policies in Chapter 62; and (2) is not appropriate, i.e., that it will not function to obtain the intended result.

With regard to the public interest, the Attorney General contended that the proposed CUT is overly broad as a tool for stabilizing revenues and that the benefits to the utility in terms of revenue stability and energy conservation incentives are not sufficient to offset the harm to consumers from frequent, unsupervised rate adjustments and upward pressure on rates. From the consumers' perspective, the CUT increases the variability of rates because it allows rate changes twice per year and does not limit the amount by which rates may increase. The Attorney General argued that the proposed CUT guarantees the utility full recovery of margin from residential and commercial customers without regard to volumes sold, thereby reducing shareholder risk and transferring considerable risk to customers. The Attorney General contended that, in order to be fair, consumers should realize a corresponding benefit, but no such benefit has been proposed. The Attorney General stated that, while the utility contended that the purpose of the CUT is to moderate revenues, the CUT will in fact grow revenues over time. With its customer base increasing, to the extent that the Company is shielded from the effect of declining per-customer consumption, its prospect for revenue growth is greatly enhanced. Further, the Attorney General argued that the

proposed CUT is not tailored to encourage effective utility-sponsored energy conservation programs and that other incentives would likely be more effective and less costly.

In addition to a finding of the public interest, the Commission must also find that the proposed CUT is “appropriate” in order to approve it. The Attorney General argued that the Company has not shown that the CUT is designed appropriately because there is a “considerable delay” between deferral and recovery: most revenue deferrals are recorded during winter months, but the CUT would tend to increase rates at other times of the year, when natural gas is used for different purposes. The Attorney General contended that the proposed CUT does not provide sufficient safeguards when the semiannual rate adjustments are made: other factors that might affect the need for a rate adjustment are not examined and the scrutiny of proposed CUT adjustments is “cursory.” Finally, if approved, the Attorney General argued that it would be advisable to limit the CUT mechanism to a period of years unless it is reauthorized in a future general rate case.

The Commission has considered the Attorney General’s arguments against the proposed CUT and finds them unpersuasive. First, as testified to by PSNC witness Wright, the level of usage per customer established in a rate case is an assumption used to allocate revenue responsibility for the approved revenue requirement across a volumetric rate structure. This assumption inevitably turns out to be inaccurate in practice due to a variety of factors. Without the CUT, this inaccuracy benefits either the Company, if actual usage is greater than assumed usage, or the customers, if actual usage is lower than assumed usage. Under the CUT, both the Company and its customers know exactly how much margin the Company will collect from residential and commercial customers, which is the amount the Commission has determined to be reasonable.

Second, the proposed CUT tracks margin revenues against the Commission-approved margin levels and trues-up variations in margin recovery over time. The mechanism is bilateral in nature: it protects customers from an overcollection of margin revenues to the same degree that it protects the Company from an undercollection of margin revenues. In this manner, it protects against the possibility that the Company may receive a windfall between rate cases due to changes in residential and commercial customer usage. It is also clear from the evidence that the proposed CUT, in and of itself, will not cause the Company to overearn. The CUT will recover only PSNC’s approved margin from residential and commercial customers.

Third, while the CUT works to avoid both overcollection and undercollection of margins revenues based on changes in residential and commercial customer usage, it is clear that there is a general trend toward reduced usage. PSNC witness Harris testified that, over the last five years, weather-normalized usage per residential customer has declined an average of 2% per year. PSNC witness Wright stated that the declining use per customer is expected to continue; that the Company’s growth has largely been in the residential market; that new homes are better insulated; and that old

homes are insulated as they are remodeled. He also stated that federal furnace and boiler efficiency standards have been increased. Finally, he testified that higher natural gas commodity prices have tended to result in customers increasing their conservation efforts. Company witness Harris testified that it has come to the point that declining usage is significantly limiting the Company's ability to earn a fair return. Witness Wright testified that the CUT more closely aligns the interests of the customer and the shareholder, as well as furthering the State's policy to promote conservation.

Growth on the Company's system is responsible for increases in margin revenues between rate cases, but this also occurred under traditional rate designs before the CUT. The Company is continuing to experience system growth as it has for many years, and such growth produces additional margin revenues. It is equally clear, however, that increased margin revenues do not automatically mean an increased return for the Company. When a utility adds customers, it also incurs additional costs to install and maintain facilities and otherwise support service to the additional customers. The additional margin revenues received for serving the new customers are an offset against the additional costs, but do not typically cause a utility to overearn its rate of return. In fact, PSNC witness Addison indicated that the addition of customers between rate cases typically erodes margin because the costs of serving new customers tend to be higher than the costs of serving existing customers. One of the advantages of the CUT is that any growth that adds margin revenues at a rate higher than that approved by the Commission in this case will actually lower rates for existing customers.

The Attorney General argued that customers receive no benefit from the CUT. However, in this rate case, PSNC witness Addison stated that the Company would not have accepted the return on equity in the Stipulation without a CUT, although he did not quantify the reduction that the Company accepted relating to the CUT. The Commission has testimony before it that the Company agreed to give up a higher return on equity and higher monthly charges in exchange for the CUT. The Commission accepts this testimony, and so cannot agree with the Attorney General's assertion that customers will receive no benefit.

The Commission disagrees with the contention that the CUT will remove the Company's incentive to operate efficiently. PSNC witness Wright testified that, since the CUT does not address the level of expenses incurred, the Company must continue to operate efficiently in order to maintain profitability. Additionally, the Commission finds that the CUT is fair to customers. If per-customer natural gas consumption increases, the CUT adjustment will prevent the Company from recovering more than the margin set in this rate case. If per-customer usage declines, even with the CUT, customers using less gas will have lower bills because, as witnesses Wright and Addison stated, the largest component of the customers' bills is the cost of gas, and it is not subject to the CUT mechanism.

The CUT mechanism requires monthly reports to be filed showing activity in the CUT deferred accounts, requires 14 days notice to implement a rate adjustment under the CUT, and clearly provides that adjustments will be filed "for Commission approval."

The Attorney General argues that such procedures are inadequate, that scrutiny will be “cursory,” and that other factors will not be examined. The Commission requires that notice of the CUT mechanism explaining its purpose and workings shall be given to all affected customers following the issuance of this Order and to new customers and, thereafter, that notice of each increment or decrement approved as a result of the Company’s semi-annual CUT rate adjustment filings shall be given with the first monthly bill reflecting the rate change. The Commission finds such to be adequate. The original public notice of this rate case proceeding ordered back in April 2008 gave notice that the CUT was proposed. The public has had notice and ample opportunity to weigh in on the policy considerations for and against the CUT. Once approved, the CUT adjustments will essentially be calculated and reviewed according to the mathematical formula set forth in the tariff. It is true, as argued by the Attorney General, that many factors will not be considered when the CUT adjustments are made, but that is inherent in the nature of the CUT mechanism. The CUT is not intended to operate as a mini-rate case in which all factors that might affect rates will be considered.

The Commission will not place any caps on the CUT. While it may be possible to design a capped CUT mechanism, there is no evidence in the record to support specific caps or explain how they would be designed or implemented or what effect they would have on ratepayers or the Company. Although the Attorney General referred to mechanisms in other states with such caps, he did not propose such a mechanism in this case. Further, adoption of a capped mechanism would maintain the adverse interests of the Company and its customers with respect to conservation. A major advantage of the CUT is that it neutralizes the Company’s interest in maximizing customer usage. If a capped CUT mechanism were implemented, the Company would continue to have an interest in promoting customer usage because profits would increase if customers used more gas. Company-sponsored conservation programs would be at odds with the interests of the Company’s shareholders since successful conservation programs would reduce usage and Company profits. For the reasons cited above, the Commission finds that a capped CUT mechanism should not be adopted.

Similarly, the Commission will not adopt the Attorney General’s suggestion that the CUT, if authorized at all, be limited to a three-year life and terminated unless reauthorized in a future proceeding. The Commission has had some experience with a CUT mechanism by way of the three-year CUT experiment authorized for Piedmont in Docket No. G-9, Sub 499. While it is true that this experiment covered a truly extraordinary time and while it will be interesting to see how a CUT works in the future under what will presumably be very different conditions, the Commission, rather than prescribing a three-year life for the CUT, will instead simply note its authority to review and reconsider its orders. As with all orders, the Commission retains authority under the provisions of G.S. 62-80 to revisit the CUT mechanism, on its own motion or on the motion of a party, should circumstances justify such.

The Commission has carefully reviewed the evidence in this proceeding with regard to the question of whether the proposed CUT should be approved as agreed to

by the Stipulating Parties. The Commission has carefully considered all of the Attorney General's arguments in light of the legal standard set forth by the General Assembly in G.S. 62-133.7. Based on this analysis, the Commission concludes that the CUT as stipulated is appropriate because it effectively operates as intended to decouple the Company's margin recovery from the usage patterns of its customers and that the mechanism is otherwise in the public interest because it stabilizes margin recovery for the Company and its customers; reduces risk to the Company and its customers arising from potential variations in usage patterns from multiple causes; facilitates the continued utilization of a volumetric rate structure; helps to preserve the Company's ability to recover its approved margin; ensures that the Company will not over-recover its approved margin; removes Company disincentives as to efficiency efforts and conservation programs; and reduces the need for the Company to make future rate filings.

#### EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 25 AND 26

The evidence supporting these findings is contained in the direct and supplemental testimony of Company witness Paton, the Stipulation, and Exhibits E and F attached thereto.

Company witness Paton testified to the proposed additional changes to the Company's tariffs and Rules and Regulations and the reasons underlying those changes. In general, witness Paton maintained that the changes are necessary and appropriate to reflect changes in market, usage, and regulatory conditions and to improve service.

The changes to the Company's tariffs and Rules and Regulations, which were agreed to among the Stipulating Parties, are reflected in Exhibits E and F to the Stipulation. No party objected to these changes except for the Attorney General, who objected to the implementation of the CUT mechanism as set forth in Rider C to the Company's tariffs. The Commission has carefully reviewed these changes to the Company's tariffs, including Rider C, as discussed in the Evidence and Conclusions for Finding of Fact No. 24, and to the Company's Rules and Regulations, and concludes that they are just and reasonable and should be approved.

#### EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 27

For the reasons set forth in the foregoing Evidence and Conclusions For Findings of Fact Nos. 1 - 26, the Commission concludes that the Stipulation in this proceeding provides a just and reasonable resolution of all the issues in this case; it will allow the Company a reasonable opportunity to earn a fair return; and it provides just and reasonable rates for all customer classes. The Commission finds and concludes that all of the provisions of the Stipulation, taken together, are just and reasonable under the circumstances of this proceeding and should be approved, subject to the additional filing and reporting requirements related to the conservation program process.

The following Schedule 1 summarizes the net operating income for return, rate

base, and overall rate of return under present rates and approved rates as agreed to by the Stipulating Parties and as approved herein by the Commission. As reflected in Schedule 1, PSNC is granted an increase in its annual level of sales and transportation of revenues of \$9,104,984 offset by \$8,376,707 of reductions of fixed gas costs, for a net increase in rates and charges of \$728,277, based upon the adjusted test-year level of operations approved herein.

## SCHEDULE 1

### PUBLIC SERVICE COMPANY OF NORTH CAROLINA, INC.

Docket No. G-5, Sub 495

### STATEMENT OF NET OPERATING INCOME FOR RETURN, RATE BASE, AND OVERALL RATE OF RETURN For the Test Period Ended December 31, 2007

<u>Item</u>	<u>Per Company</u> (a)	<u>Adjustments</u> (b)	<u>After</u> <u>Adjustments</u> (c)	<u>Rate</u> <u>Increase</u> (d)	<u>After Rate</u> <u>Increase</u> (e)
<b>NET OPERATING INCOME FOR RETURN</b>					
<u>Operating Revenues:</u>					
Sales and transportation of gas	\$ 683,356,654	\$ 39,506	\$ 683,396,160	\$728,277	\$ 684,124,437
Other operating revenues	<u>3,345,175</u>		<u>3,345,175</u>		<u>3,345,175</u>
Operating revenues, excl special contracts	686,701,829	39,506	686,741,335	728,277	687,469,612
Special contract revenues	<u>618,496</u>		<u>618,496</u>		<u>618,496</u>
Total operating revenues	687,320,325	39,506	687,359,831	728,277	688,088,108
Cost of gas	<u>476,879,986</u>	<u>(8,301,131)</u>	<u>468,578,855</u>		<u>468,578,855</u>
Margin	210,440,339	8,340,637	218,780,976	728,277	219,509,253
<u>Operating Expenses:</u>					
Operating and maintenance	86,959,335	(267,579)	86,691,756	4,346	86,696,102
Depreciation	37,555,784	(385,068)	37,170,716		37,170,716
General taxes	9,344,474	(21,427)	9,323,047		9,323,047
State income tax (6.9%)	3,798,385	688,643	4,487,028	49,951	4,536,979
Federal income tax (35%)	17,937,733	3,252,082	21,189,815	235,893	21,425,708
Amortization of investment tax credits	(185,253)		(185,253)		(185,253)
Amortization of EDIT	<u>(645,425)</u>		<u>(645,425)</u>		<u>(645,425)</u>
Total operating expenses	<u>154,765,033</u>	<u>3,266,651</u>	<u>158,031,684</u>	<u>290,190</u>	<u>158,321,874</u>
Interest on customer deposits	(609,946)		(609,946)		(609,946)
Net Operating Income for Return	<u>\$ 55,065,360</u>	<u>\$ 5,073,986</u>	<u>\$ 60,139,346</u>	<u>\$438,087</u>	<u>\$ 60,577,433</u>
<b>RATE BASE</b>					
Plant in service	\$1,191,285,223	(\$12,647,033)	\$1,178,638,190		\$1,178,638,190
Accumulated depreciation	<u>(427,817,811)</u>	<u>4,116,282</u>	<u>(423,701,529)</u>		<u>(423,701,529)</u>
Net plant in service	763,467,412	(8,530,751)	754,936,661		754,936,661
Gas in storage	76,622,602	(2,725,017)	73,897,585		73,897,585
Materials & supplies	6,609,100	(16,269)	6,592,831		6,592,831
Other working capital	(20,192,106)	541,129	(19,650,977)		(19,650,977)
Deferred income taxes	(106,359,412)	249,175	(106,110,237)		(106,110,237)
Rounding adjustment		<u>1</u>	<u>1</u>		<u>1</u>
Original Cost Rate Base	<u>\$ 720,147,596</u>	<u>(\$10,481,732)</u>	<u>\$ 709,665,864</u>		<u>\$ 709,665,864</u>
<b>Overall Rate of Return on Rate Base</b>	7.65%		8.47%		8.54%

IT IS, THEREFORE, ORDERED as follows:

1. That PSNC is hereby authorized to adjust its rates and charges in accordance with the Stipulation in this proceeding (as such rates may be adjusted for any changes in the Benchmark Cost of Gas and changes in Demand and Storage



Charges prior to the effective date of the revised rates) effective for service rendered on and after November 1, 2008.

2. That PSNC is hereby authorized to implement the tariffs attached to the Stipulation as Exhibit E effective November 1, 2008.

3. That PSNC is hereby authorized to implement the changes to the Rules and Regulations attached as Exhibit F to the Stipulation effective November 1, 2008.

4. That PSNC shall file tariff and Rules and Regulations to comply with this Order within ten days from the date of this Order.

5. That, in the true-up of fixed gas costs for periods subsequent to October 31, 2008, in proceedings under Rule R1-17(k), the Company shall use the fixed gas cost allocations set forth in Exhibit C to the Stipulation.

6. That the decoupling mechanism factors set forth on Exhibit D to the Stipulation are approved for use in the implementation of the provisions of that mechanism subsequent to October 31, 2008.

7. That PSNC shall file its specific conservation program proposals, and the amounts allocated to each such program for approval by the Commission, pursuant to Rule R6-95, within 30 days from the date of this Order. PSNC shall file annual reports accounting for its conservation program spending for the previous year on or before February 15<sup>th</sup> of each year. In addition, such annual reports shall include specific detailed information for each program that provides an analysis of the effectiveness of each program as discussed hereinabove. The first of these reports should be filed by February 15, 2010.

8. That, if PSNC does not incur \$750,000 of expenditures for its conservation initiatives in the first year that the new rates are in effect, the Company shall spend that balance in the following year in addition to the \$750,000 for that year.

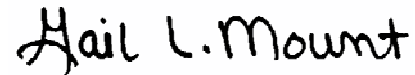
9. That PSNC is hereby authorized to implement the other actions, practices, principles, and methods agreed upon in the Stipulation and not inconsistent with this Order.

10. That PSNC shall send the notice attached hereto as Appendix A to its customers beginning with the next billing cycle that includes the rate changes approved herein.

ISSUED BY ORDER OF THE COMMISSION.

This the 24<sup>th</sup> day of October, 2008.

NORTH CAROLINA UTILITIES COMMISSION

A handwritten signature in black ink that reads "Gail L. Mount". The signature is written in a cursive, flowing style.

Gail L. Mount, Deputy Clerk

kh102408.01

**STATE OF NORTH CAROLINA  
UTILITIES COMMISSION  
RALEIGH**

DOCKET NO. G-5, SUB 495

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of  
Application of Public Service Company )  
of North Carolina, Inc., for a General ) PUBLIC NOTICE  
Increase in its Rates and Charges )  
)

The North Carolina Utilities Commission has issued an Order allowing Public Service Company of North Carolina, Inc. (PSNC or the Company), to increase its rates and charges by approximately \$9.1 million annually, offset by an \$8.4 million reduction in fixed gas costs, for a net increase of approximately \$700,000. The overall increase of 0.11% is effective November 1, 2008.

On March 31, 2008, PSNC filed an application seeking a general increase in its rates and charges, approval of changes to its tariff and rate schedules, approval of a customer usage tracker mechanism applicable to its residential and commercial rate schedules, and approval of a cost recovery mechanism for customer conservation programs.

In its application, the Company requested an increase of approximately \$20.4 million annually. The Company stated that the increase was needed to recover costs related to expanding and operating its pipeline system and the need to earn a fair and reasonable return on its investment. Since December 2005, PSNC has added more than 929 miles of transmission and distribution mains, installed over 41,000 new service lines, and has added more than 30,000 customers to its system.

The increase approved by the Commission was the result of a stipulation (Stipulation) entered into between the Company and other parties to the proceeding, including the Public Staff – North Carolina Utilities Commission. The Commission notes that the increase to specific classes of customers will vary in order to have each customer class pay its fair share of the cost of providing service. These approved increases are associated with allowed expenses and return on investment only and do not contemplate increases or decreases that may occur in association with gas cost adjustments to rates as allowed by G.S. 62-133.4.

Overall, the Commission has approved a residential rate increase for the Company of 0.32%, although individual residential customers may experience larger or smaller percentage increases.

The Commission has approved a customer usage tracker mechanism, which will allow the Company to recover its approved margin independent of customer usage patterns. It will protect customers from the potential over-recovery of margin by the Company and will protect the Company from potential under-recovery of margin. The customer usage tracker mechanism will track margin recovery on a monthly basis and make semi-annual adjustments to usage rates to refund or recover differences from the Commission-approved margin level.

The Commission has also approved the annual expenditure of \$750,000 on conservation programs to be recovered through rates and directed the Company to file its initial programs for approval by the Commission within 30 days from the date of the Commission's Order.

A list of approved rates effective November 1, 2008, can be obtained from the Company's website, [www.psnenergy.com](http://www.psnenergy.com), or at the Office of the Chief Clerk of the Commission, Dobbs Building, 430 North Salisbury Street, Raleigh, North Carolina, where copies of the Commission's Order and the Stipulation are available for review by any interested party. The Commission's Order and the Stipulation, as well as other filings in these dockets can be viewed/printed from the Commission's website at [www.ncuc.net](http://www.ncuc.net) using the Docket Search function.

ISSUED BY ORDER OF THE COMMISSION.

This the 24<sup>th</sup> day of October, 2008.

NORTH CAROLINA UTILITIES COMMISSION

*Gail L. Mount*

Gail L. Mount, Deputy Clerk

(SEAL)