

PUBLIC SERVICE COMPANY OF NORTH CAROLINA, INC.

DOCKET NO. G-5, SUB 565

TESTIMONY OF JULIE G. PERRY

ON BEHALF OF THE PUBLIC STAFF

NORTH CAROLINA UTILITIES COMMISSION

AUGUST 18, 2016

1 Q. WILL YOU STATE FOR THE RECORD YOUR NAME, ADDRESS,
2 AND PRESENT POSITION?

3 A. My name is Julie G. Perry. My business address is 430 North
4 Salisbury Street, Raleigh, North Carolina. I am the Supervisor of the
5 Natural Gas Section of the Accounting Division of the Public Staff.
6 My experience and qualifications are provided in Appendix A.

7 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS
8 PROCEEDING?

9 A. The purpose of my testimony is to (1) explain the level of fixed gas
10 costs contained in the cost of service reflected in the Partial
11 Stipulation between PSNC and the Public Staff filed in this
12 proceeding, (2) provide testimony on the proposed Rider E - Integrity
13 Management Tracker agreed to by the parties in this proceeding, and
14 (3) address changes in reporting requirements.

15 Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO FIXED GAS COSTS.

16 A. The Company's filing included an adjusted level of fixed gas costs of
17 \$67,431,969 that was determined by multiplying its proposed sales
18 and transportation volumes by the corresponding fixed gas cost

1 collection rates approved by the Commission in Docket No. G-5, Sub
2 524, the Company's 2011 Annual Review of Gas Costs proceeding.
3 These fixed gas costs collection rates were calculated on Paton
4 Exhibit 1, Schedule 13, filed in Sub 524, based on total fixed gas
5 costs of \$62,769,162 and the Company's proposed level of volumes
6 of 797,002,022 therms in this case.

7 The Partial Stipulation incorporates fixed gas costs at current level
8 of charges pursuant to pipeline and storage facility tariffs or contracts
9 as of May 31, 2016, of \$91,412,650, while also reflecting secondary
10 market credits of \$23,484,031 in the determination of the annual
11 fixed gas costs in this proceeding. The calculation of the new fixed
12 gas cost collection rates is based on annual fixed gas costs of
13 \$67,928,619 and sales and transportation volumes of 808,586,562
14 therms as recommended by Public Staff witness Larsen.

15 Q. PLEASE EXPLAIN THE INTEGRITY MANAGEMENT TRACKER
16 FILED BY THE COMPANY.

17 A. PSNC filed for approval of an Integrity Management Tacker (IMT)
18 pursuant to G.S. § 62-133.7:

19 In setting rates for a natural gas local distribution company in a
20 general rate case proceeding under G.S. 62-133, the Commission
21 may adopt, implement, modify, or eliminate a rate adjustment
22 mechanism for one or more of the company's rate schedules,
23 excluding industrial rate schedules, to track and true-up variations in
24 average per customer usage from levels approved in the general rate
25 case proceeding. The Commission may adopt a rate adjustment
26 mechanism only upon a finding by the Commission that the
27 mechanism is appropriate to track and true-up variations in average

1 per customer usage by rate schedule from levels adopted in the
2 general rate case proceeding and that the mechanism is in the public
3 interest.

4 PSNC's proposed Rider E was filed in Paton Exhibit 4. In broad
5 terms, the IMT provides for PSNC to adjust its rates biannually in
6 order to recover the revenue requirement associated with Integrity
7 Management Plant Investment and associated costs incurred by
8 PSNC resulting from prevailing federal standards for pipeline
9 integrity and safety that are not otherwise included in current base
10 rates.

11 Q. PLEASE EXPLAIN THE SETTLED IMT PROPOSAL?

12 A. After several months of discussions, PSNC and the Public Staff
13 agreed to a modified form of the IMT mechanism filed by the
14 Company. The IMT mechanism will assist PSNC in the
15 implementation and timely recovery of costs associated with its
16 investment of capital in compliance with the requirements of federal
17 and state laws and regulations regarding pipeline integrity (including
18 both transmission and distribution integrity), reliability and safety.

19 The Public Staff has had approximately 2 ½ years of experience
20 auditing the Piedmont IMR mechanism¹, which was very helpful in
21 our discussions with PSNC regarding its proposed IMT. The Partial
22 Stipulation includes a revised proposal that both parties have agreed

¹ See *Order Approving Partial Rate Increase and Allowing Integrity Management Rider* (G-9, Sub 631, December 17, 2013); and *Order Approving Stipulation* (G-9, Sub 631, November 23, 2015)

1 to that sets out how to determine excluded costs from the Company's
2 Integrity Management Plant Investment using both the exclusion
3 percentages determined using PSNC's budgeted IMT projects, as
4 well as the direct assignment approach for specific IMT projects that
5 may not be eligible for the exclusion percentages set out in the Partial
6 Stipulation. The Public Staff and PSNC have agreed that the
7 excluded reasonable and prudent costs shall be eligible for inclusion
8 in recoverable rate base in PSNC's next general rate case
9 proceeding.

10 The Public Staff and PSNC further agreed that costs incurred for
11 system expansion/improvement or routine maintenance, repair and
12 replacement of system components that are not required to comply
13 with federal gas pipeline safety requirements shall not be included in
14 amounts recovered under the IMT mechanism.

15 The Public Staff and PSNC have worked hard to determine a fair and
16 reasonable approach to enable the Company to recover its prudently
17 incurred capital investment and associated costs of complying with
18 federal gas pipeline safety requirements, and we recognize that an
19 agreement to implement this mechanism was an important part of
20 the Partial Stipulation in this proceeding.

21 Q. PLEASE PROVIDE THE AREAS IN THE PARTIAL STIPULATION
22 THAT ADDRESS CHANGES IN REPORTING REQUIREMENTS.

1 A. The Stipulating Parties have agreed to changes in certain PSNC
2 reporting requirements that include (1) using the net-of-tax overall
3 rate of return from the most recent general rate case as the
4 applicable interest rate on all amounts over-collected or under-
5 collected from customers reflected in its Sales Customers Only, All
6 Customers, and Hedging Deferred Gas Cost Accounts, (2) filing the
7 GS-1 Report in a format similar to the ES-1 filed by the electric
8 utilities effective with filings after January 1, 2017, and (3)
9 recognizing the state corporate income tax rate change from 4% to
10 3% beginning January 1, 2017, and working together to determine
11 the appropriate revenue requirement reduction and effectuating such
12 reductions.

13 Q. DOES THIS COMPLETE YOUR TESTIMONY?

14 A. Yes.

JULIE G. PERRY

Qualifications and Experience

I graduated from North Carolina State University in 1989 with a Bachelor of Arts degree in Accounting and I am a Certified Public Accountant.

Prior to joining the Public Staff, I was employed by the North Carolina State Auditor's Office. My duties there involved the performance of financial and operational audits of various state agencies, community colleges, and Clerks of Court.

I joined the Public Staff in September 1990, and was promoted to Supervisor of the Natural Gas Section in the Accounting Division in September 2000. I have performed numerous audits and/or presented testimony and exhibits before the Commission addressing a wide range of natural gas topics.

Additionally, I have filed testimony and exhibits in numerous water rate cases and performed investigations addressing a wide range of topics and issues related to the water, electric, and telephone industries.