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OFFICIAL COPY

November 28, 2018

**VIA ELECTRONIC FILING**

Ms. M. Lynn Jarvis  
Chief Clerk  
North Carolina Utilities Commission  
430 N. Salisbury Street, Dobbs Building  
Raleigh, North Carolina 27603

Re: Docket No. G-9, Sub 727

Dear Ms. Jarvis:

Enclosed for filing is the Joint Proposed Order of Piedmont Natural Gas Company, Inc. and the Public Staff in the above-referenced docket. I have emailed the Proposed Order in word format to [briefs@ncuc.net](mailto:briefs@ncuc.net).

Thank you for your assistance with this matter. If you have any questions regarding this filing, you may reach me at the number shown above.

Sincerely,

/s/ James H. Jeffries IV  
James H. Jeffries IV

JHJ/rkg

Enclosure

cc: Bruce Barkley  
Pia K. Powers  
Brian Heslin  
Beth Culpepper

Nov 28 2018

**CERTIFICATE OF SERVICE**

The undersigned hereby certifies that a copy of the attached is being served this date upon all of the parties to this docket electronically or 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 28th day of November, 2018.

/s/ Richard K. Goley  
Richard K. Goley

**STATE OF NORTH CAROLINA  
UTILITIES COMMISSION  
RALEIGH**

DOCKET NO. G-9, SUB 727

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of  
Application of Piedmont Natural Gas )  
Company, Inc. for Annual Review of Gas ) JOINT PROPOSED ORDER OF  
Costs Pursuant to N.C. Gen Stat. § 62- ) PIEDMONT NATURAL GAS  
133.4(c) and Commission Rule R1-17(k)(6) ) COMPANY, INC. AND THE  
PUBLIC STAFF

HEARD: Tuesday, October 2, 2018, at 10:00 a.m., Commission Hearing Room 2115, Dobbs Building, 430 North Salisbury Street, Raleigh, North Carolina

BEFORE: Commissioner ToNola D. Brown-Bland, Presiding, and Commissioners Lyons Gray and Charlotte A. Mitchell

APPEARANCES:

For Piedmont Natural Gas Company, Inc.:

James H. Jeffries IV, McGuireWoods LLP, 201 N. Tryon Street, Suite 3000, Charlotte, North Carolina 28202

Brian S. Heslin, Duke Energy Corporation, 550 S. Tryon Street, Charlotte, North Carolina 28202

For the Using and Consuming Public:

Elizabeth D. Culpepper, Staff Attorney, Public Staff – North Carolina Utilities Commission, 4326 Mail Service Center, Raleigh, North Carolina 27699-4300

For Carolina Utility Customers Association, Inc.:

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

BY THE COMMISSION: On August 1, 2018, pursuant to N.C. Gen Stat. § 62-133.4(c) and Commission Rule R1-17(k)(6), Piedmont Natural Gas Company, Inc. (Piedmont or Company), filed the direct testimonies and exhibits

of MaryBeth Tomlinson, Manager of Gas Accounting; Gennifer Raney, Director of Pipeline Services; and Sarah E. Stabley, Managing Director of Gas Supply Optimization and Pipeline Services. Piedmont's witnesses attested to the prudence of the Company's gas purchasing practices and the accuracy of the Company's gas cost accounting for the twelve-month period ended May 31, 2018 (Review Period).

On August 7, 2018, the Commission issued its Order Scheduling Hearing, Requiring Filing of Testimony, Establishing Discovery Guidelines and Requiring Public Notice. This Order established a hearing date of October 2, 2018, set prefiled testimony dates, and required the Company to give notice to its customers of the hearing on this matter.

On August 23, 2018, Carolina Utility Customers Association, Inc. (CUCA) filed a petition seeking to intervene in this docket. On August 24, 2018, the Commission issued an Order Granting Petition to Intervene.

On September 17, 2018, the Public Staff filed the prefiled joint testimony of Poornima Jayasheela, Staff Accountant, Natural Gas Section, Accounting Division; Zarka H. Naba, Public Utilities Engineer, Natural Gas Division; and Michael C. Maness, Director, Accounting Division (Public Staff Panel or Panel). The Public Staff revised its filed testimony on October 1, 2018.

On September 24, 2018, the Commission issued its Order Providing Notice of Commission Questions.

Numerous Consumer Statements of Position were filed with the Commission on September 27, 2018, September 28, 2018, October 1, 2018, and October 2, 2018.

On September 28, 2018 and October 1, 2018, Piedmont filed written responses to the Commission's September 24, 2018 questions.

On October 1, 2018, the Company filed its affidavits of publication.

On October 2, 2018, this matter came on for hearing as scheduled, and all prefiled testimony and exhibits were admitted into evidence. Public witness Cathy Buckley testified on behalf of members of the Sierra Club.

On November 28, 2018, the Joint Proposed Order of Piedmont and the Public Staff was filed.

Based on the testimony and exhibits received into evidence and the record as a whole, the Commission makes the following:

#### **FINDINGS OF FACT**

1. Piedmont is a public utility as defined in Chapter 62 of the North Carolina General Statutes and is subject to the jurisdiction and regulation of the Commission.

2. Piedmont is engaged primarily in the business of transporting, distributing, and selling natural gas to customers in North Carolina, South Carolina, and Tennessee.

3. Piedmont has filed with the Commission and submitted to the Public Staff all of the information required by N.C. Gen Stat. § 62-133.4(c) and Commission Rule R1-17(k).

4. The review period in this proceeding is the twelve months ended May 31, 2018 (Review Period).

5. The Company properly accounted for its gas costs incurred during the Review Period.

6. During the review period, the Company incurred total North Carolina gas costs of \$343,478,124, which was comprised of demand and storage charges of \$129,398,029, commodity gas costs of \$220,382,071, and other gas costs of (\$6,301,977).

7. At May 31, 2018, the Company had a debit balance of \$5,191,871, owed from the customers to the Company, in its Sales Customers' Only Deferred Account and a credit balance of (\$17,078,428), owed from the Company to the customers, in its All Customers' Deferred Account.

8. During the review period, Piedmont actively participated in secondary market transactions earning actual margins of \$32,831,848 for the benefit of North Carolina ratepayers.

9. Piedmont operated a gas cost hedging program on behalf of customers during the review period. Piedmont's hedging activities during the review period were reasonable and prudent.

10. At May 31, 2018, the balance in the Company's Hedging Deferred Account was a debit balance of \$5,207,171.

11. It is appropriate for the Company to include the \$5,207,171 debit balance in its Hedging Deferred Account in its Sales Customers' Only Deferred

Account. The combined balance for the Hedging and Sales Customers' Only Deferred Accounts is a net debit balance of \$5,191,871.

12. The Company has transportation and storage contracts with interstate pipelines, which provide for the transportation of gas to the Company's system, and long-term supply contracts with producers, marketers, and other suppliers.

13. The Company utilized a "best cost" gas purchasing policy during the applicable review period consisting of five main components: price of gas, security of the gas supply, flexibility of the gas supply, gas deliverability, and supplier relations.

14. The Company's gas purchasing policy and practices during the review period were prudent.

15. The Company's capacity acquisition planning and arrangements are reasonable and prudent.

16. The Company's gas costs during the review period were prudently incurred, and the Company should be permitted to recover 100 percent of such prudently incurred gas costs.

17. The Company should implement the temporary rate decrement and increments proposed by Company witness Tomlinson and agreed to by the Public Staff Panel.

18. Questions raised by Public witness Buckley and in various consumer statements of position regarding the public interest underlying the

certification and construction of the Atlantic Coast Pipeline (ACP) project and Piedmont's proposed Robeson LNG project are not relevant to this proceeding.

19. There is insufficient evidence in this proceeding to conclude whether or not Piedmont's Margin Decoupling Tracker (MDT) mechanism has an impact on Piedmont's customer demand.

#### **EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 1-2**

The evidence supporting these findings of fact is contained in the official files and records of the Commission and the testimony of Company witnesses Tomlinson, Raney, and Stabley. These findings are essentially informational, procedural, or jurisdictional in nature and are not contested by any party.

#### **EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 3-4**

The evidence supporting these findings of fact is contained in the testimony of Company witnesses Tomlinson, Raney, and Stabley, the revised testimony of the Public Staff Panel, and the provisions of N.C. Gen Stat. § 62-133.4(c) and Commission Rule R1-17(k)(6).

N.C. Gen Stat. § 62-133.4 requires that each natural gas utility submit to the Commission information and data for an historical twelve-month review period concerning its actual cost of gas, volumes of purchased gas, sales volumes, negotiated sales volumes, and transportation volumes. Commission Rule R1-17(k)(6)(a) establishes May 31, 2018, as the end date of the annual Review Period for the Company in this proceeding. Commission Rule R1-17(k)(6)(c) requires that Piedmont file weather-normalized sales volumes, workpapers, and direct testimony and exhibits supporting the information.



Company witness Tomlinson testified that the Company filed with the Commission and submitted to the Public Staff throughout the review period complete monthly accountings of the computations required by Commission Rule R1-17(k)(6)(c). Witness Tomlinson included the annual data required by Commission Rule R1-17(k)(6)(c) as Exhibit\_(MBT-1) to her direct testimony. The Public Staff Panel stated that they had presented the results of their review of the gas cost information filed by Piedmont in accordance with N.C. Gen Stat. § 62-133.4(c) and Commission Rule R1-17(k)(6).

Based upon the foregoing, the Commission concludes that Piedmont has complied with the procedural requirements of N.C. Gen Stat. § 62-133.4(c) and Commission Rule R1-17(k) for the twelve-month review period ended May 31, 2018.

#### **EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 5-7**

The evidence supporting these findings of fact is contained in the testimony of Company witness Tomlinson and the revised Public Staff Panel testimony.

Company witness Tomlinson testified that Piedmont incurred total North Carolina gas costs of \$343,478,124 during the review period, which was comprised of demand and storage charges of \$129,398,029, commodity gas costs of \$220,382,071, and other gas costs of (\$6,301,977).<sup>1</sup>

Company witness Tomlinson's prefiled testimony and exhibits reflected

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<sup>1</sup> Immaterial difference of \$1 between this total and the individual components listed is due to rounding of amounts shown on Exhibit\_(MBT - 1), Schedule 1.

a debit balance of \$5,191,871 in its Sales Customers' Only Deferred Account and a credit balance of (\$17,078,428) in its All Customers' Deferred Account as of May 31, 2018. The Public Staff Panel agreed with these balances and testified that the Company properly accounted for its gas costs incurred during the review period.

Based upon the foregoing, the Commission concludes that the Company properly accounted for its gas costs incurred during the review period. The Commission also concludes that the appropriate level of total North Carolina gas costs incurred for this proceeding is \$343,478,124. The Commission further concludes that the appropriate deferred account balances as of as of May 31, 2018, are a debit balance of \$5,191,871, owed from the customers to the Company, in its Sales Customers' Only Deferred Account, and a credit balance of (\$17,078,428), owed from the Company to the customers, in its All Customers' Deferred Account.

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

The evidence supporting this finding of fact is contained in the testimony of Company witness Stabley and the revised Public Staff Panel testimony.

Company witness Stabley provided testimony on the process that Piedmont utilized and the market intelligence that was evaluated during the review period to determine the prices charged for off-system sales. Witness Stabley explained that the process and information used by Piedmont in pricing off-system sales depends upon the location of the sale, term and type of the sale, and prevailing market conditions at the time of the sale. Witness Stabley

stated that for long-term delivered sales (longer than one month), Piedmont generally solicits bids from potential buyers and, if acceptable, awards volumes based on bids received and its evaluation. Witness Stabley further stated that, for short-term transactions (daily or monthly), Piedmont monitors prices and volumes on the Intercontinental Exchange, as well as by talking to various market participants and, for less liquid trading points, estimating prices based on price relationships with more liquid points. The Company also evaluates the amount of supply available for sale and weighs that against current market conditions in formulating its sales strategy.

The Public Staff Panel testified that the Company earned actual total company margins of \$51,420,263 on secondary market transactions and credited the All Customers' Deferred Account in the amount of \$32,831,848 for the benefit of North Carolina ratepayers  $((\$51,420,263 - 100\% \text{ of Duke Off System Sales}) \times \text{NC demand allocator} \times 75\% \text{ ratepayer sharing percent}) + (100\% \text{ Duke Off System Sales} \times \text{NC demand allocator})$ . The margins earned were a result of Piedmont's participation in asset management arrangements, capacity releases, and off system sales.

Based on the foregoing, the Commission concludes that Piedmont actively participated in secondary market transactions, resulting in \$32,831,848 of margin for the benefit of North Carolina ratepayers during the review period.

#### **EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 9-11**

The evidence supporting these findings of fact is contained in the testimony of Company witnesses Tomlinson and Stabley and the revised Public

Staff Panel testimony.

Company witness Tomlinson stated in her testimony that the Company had a debit balance of \$5,207,171 in its Hedging Deferred Account at May 31, 2018. The Public Staff Panel testified that the net hedging costs were composed of Economic Gains on Closed Positions of (\$114,950), Premiums Paid of \$5,016,010, Brokerage Fees and Commissions of \$69,440, and Interest on the Hedging Deferred Account of \$236,671.

Company witness Stabley testified that Piedmont's Hedging Plan accomplished its goal of providing an insurance policy to reduce gas cost volatility for customers in the event of a gas price fly up. Witness Stabley testified that the Company did not make any changes to its Hedging Plan during the review period. Witness Stabley further testified that the Company continues to utilize storage as a physical hedge to stabilize cost, and that the Company's Equal Payment Plan, the use of the Purchased Gas Adjustment benchmark price, and deferred gas cost accounting also provide a smoothing effect on gas prices.

The Public Staff Panel testified that its review of the Company's hedging activities is performed on an ongoing basis and includes analysis and evaluation of information contained in several documents and other data. These include the Company's monthly hedging deferred account reports, detailed source documentation, workpapers supporting the derivation of the maximum targeted hedge volumes for each month, periodic reports on the status of hedge coverage for each month, periodic reports on the market values

of the various financial instruments used by the Company to hedge, monthly Hedging Program Status Reports, monthly reports reconciling the Hedging Program Status Report and the hedging deferred account report, minutes from the meetings of Piedmont's Gas Market Risk Committee (GMRC) – formerly the Energy Price Risk Management Committee (EPRMC), minutes from the meetings of the Board of Directors and its committees that pertain to hedging activities, reports and correspondence from the Company's internal and external auditors, hedging plan documents, communications with Company personnel regarding key hedging events and plan modifications under consideration by the GMRC, and the testimony and exhibits of the Company's witnesses in the annual proceeding.

The Public Staff Panel concluded that Piedmont's hedging activities were reasonable and prudent and recommended that the \$5,207,171 debit balance in the Hedging Deferred Account as of the end of the review period be transferred to the Sales Customers' Only Deferred Account. Based on this recommendation, the Panel stated that the combined balance in the Sales Customers' Only Deferred Account as of May 31, 2018 is a net debit balance, owed to the Company, of \$5,191,871.

As demonstrated by the testimony and exhibits provided by Piedmont and the Public Staff's revised testimony, the Commission finds that Piedmont's hedging program has met the objective of contributing to the mitigation of gas price volatility and avoiding rate shock to customers. The Commission concludes that Piedmont's hedging activities were reasonable and prudent and

the \$5,207,171 debit balance in the Hedging Deferred Account as of the end of the review period should be transferred to the Sales Customers' Only Deferred Account. The combined balance for the Hedging and Sales Customers' Only Deferred Accounts is a net debit balance of \$5,191,871, owed to the Company.

#### **EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 12-16**

The evidence supporting these findings of fact is contained in the testimony of Company witnesses Stabley and Raney, and the revised Public Staff Panel testimony.

Company witness Stabley testified that the Company maintains a "best cost" gas purchasing policy. This policy consists of five main components: price of the gas; security of the gas supply; flexibility of the gas supply; gas deliverability; and supplier relations. Witness Stabley testified that all of these components are interrelated and that the Company weighs the relative importance of each of these factors in developing its overall gas supply portfolio to meet the needs of its customers.

Witness Stabley further testified that the Company purchases gas supplies under a diverse portfolio of contractual arrangements with a number of reputable gas producers and marketers. In general, under the Company's firm gas supply contracts, Piedmont may pay negotiated reservation fees for the right to reserve and call on firm supply service up to a maximum daily contract quantity (nominated either on a monthly or daily basis), with market-based commodity prices tied to indices published in industry trade publications. Some of these firm contracts are for winter only (peaking or seasonal) service

and some provide for 365 day (annual) service. Firm gas supplies are purchased for reliability and security of service and are generally priced on a reservation fee basis according to the amount of nomination flexibility built into the contract with daily swing service generally being more expensive than monthly baseload service.

Witness Stabley testified that the Company identifies the volume and type of supply that it needs to fulfill its market requirements and generally solicits requests for proposals from a list of suppliers that the Company continuously updates as potential suppliers enter and leave the market place. The type of supply is classified as either baseload or swing. Witness Stabley stated that swing supplies priced at first of month indices command the highest reservation fees because suppliers incur all the price risk associated with market volatility during the delivery period. Keep-whole contracts require the Company to reimburse suppliers for the difference between first of the month index prices and lower daily market prices if the Company does not take its full contractual volume.

Witness Stabley testified that because the Company assumes the volatility risk associated with falling prices, a lower reservation fee is warranted. Lower reservation fees are also associated with swing contracts based upon daily market conditions since both buyer and seller assume the risk of daily market volatility. Witness Stabley stated that after forecasting the ultimate cost delivered to the city gate for each point of supply and evaluating the cost of the reservation fees associated with each type of supply and its corresponding bid,

the Company makes a “best cost” decision on which type of supply and supplier best fulfills its needs. Company witness Stabley also testified regarding the current U.S. supply situation and the various pricing alternatives available, such as fixed prices, monthly market indexing, and daily spot market pricing.

Witness Stabley also described how the interrelationship of the five factors of its “best cost” policy affects the Company’s construction of its gas supply and capacity portfolio under its best cost policy. The long-term contracts, supplemented by long-term peaking services and storage, generally are aligned with the firm market; the short-term spot gas generally serves the interruptible market. In order to weigh and consider the five factors, the Company stays abreast of current issues facing the natural gas industry by intervening in all major Federal Energy Regulatory Commission (FERC) proceedings involving its pipeline transporters, maintaining constant contact with existing and potential suppliers, monitoring gas prices on a real-time basis, subscribing to industry literature, following supply and demand developments, and attending industry seminars. Witness Stabley further testified that the Company did not make any changes in its best cost gas purchasing policies or practices during the test period. Witnesses Raney and Stabley also indicated that during the past year the Company has taken several additional steps to manage its costs, including, actively participating in proceedings at the FERC and other regulatory agencies that could reasonably be expected to affect the Company’s rates and services, promoting more efficient peak day use of its system, and utilizing the flexibility within its existing supply and capacity



contracts to purchase and dispatch gas, and release capacity in the most cost effective manner.

Company witness Raney testified about the market requirements of Piedmont's North Carolina customers and the acquisition of capacity to serve those markets. Witness Raney also testified that the Company expects the economy to continue recovering and to result in potentially increasing residential, commercial, and industrial demand, and in turn, result in greater firm temperature sensitive requirements that will require firm sales service from the Company.

Witness Raney further testified that Piedmont and the natural gas industry have not seen evidence that conservation/reduced usage occurs during design day conditions. For that reason, witness Raney testified that Piedmont is confident the conservative approach to design day forecasting is the most prudent approach.

Witness Raney testified that the Company currently believes that it has sufficient supply and capacity rights to meet its near term customer needs into the 2018-2019 winter period timeframe but that growth projections begin to show a capacity deficit beginning in the 2019-2020 timeframe if the ACP capacity does not go into service as projected. Witness Raney testified that in light of prospective growth requirements, Piedmont reviewed new capacity options in addition to continuous monitoring of interstate pipeline and storage capacity offerings. Witness Raney further stated that the Company subscribed to the Leidy Southeast Expansion Project (Leidy Southeast) of

Transcontinental Gas Pipe Line Company, LLC (Transco), for 100,000 dekatherms (dts) per day of year around capacity and 20,000 dts per day on Transco's Virginia Southside Expansion Project (Virginia Southside), and that the Company signed a Precedent Agreement with ACP in October of 2014 for 160,000 dts of firm capacity, which is scheduled to go in service in November of 2019. Witness Raney testified that previously contracted capacity for Leidy Southeast and Transco's Virginia Southside went into service in late 2015 and 2016.

Witness Raney testified that capacity additions are acquired in "blocks" of additional transportation, storage, or liquefied natural gas capacity, as they become needed, to ensure Piedmont's ability to serve its customers based on the options available at that time. Witness Raney explained that as a practical matter, this means that at any given moment in time, Piedmont's actual capacity assets will vary somewhat from its forecasted demand capacity requirements. Witness Raney also stated that this aspect of capacity planning is unavoidable but Piedmont attempts to mitigate the impact of any mismatch through its use of bridging services, capacity release, and off-system sales activities.

The Public Staff Panel testified that they had reviewed the testimony and exhibits of the Company's witnesses, the monthly operating reports, and the gas supply and pipeline transportation and storage contracts, as well as the Company's responses to the Public Staff's data requests. Based on this

review, the Panel testified that the Company's gas costs were prudently incurred.

The Public Staff Panel further testified that, although the scope of Commission Rule R1-17(k) is limited to a historical review period, they also considered other information in order to anticipate the Company's requirements for future needs, including design day estimates, forecasted gas supply needs, projection of capacity additions and supply changes, and customer load profile changes.

In its prefiled questions and at the hearing of this matter, the Commission made inquiry into variations in projected customer demand for future periods reflected in successive Piedmont annual prudence filings. In particular, the Commission focused on changes in projected demand for the Winter of 2018-2019 in the four (4) previous annual prudence review filings by Piedmont, which reflected a decrease in projected demand of approximately 47,000 dekatherms between Docket No. G-9, Sub 690 filing and the G-9, Sub 710 filing. Piedmont's witnesses clarified that the projected demand for this future winter period was calculated in each annual review filing using a consistently applied linear regression analysis based upon an assumed usage per heating degree day. The assumed usage per heating degree day was based on actual experience over the preceding seven (7) year period. According to Piedmont witness Raney, the drop in projected demand for the Winter 2018-2019 period was attributable to the inclusion of two relatively warm

winter periods and the impacts of Hurricane Matthew in recent years of the look back period utilized to calculate usage per heating degree day.<sup>2</sup>

In its Order Providing Notice of Commission Questions in this docket, and on questions from the Commission at the hearing of this matter, the issue was raised as to whether Piedmont's capacity acquisition planning and arrangements were adequate to meet customer needs in light of customer growth and changing dynamics on the interstate pipelines through which Piedmont receives upstream supplies of gas. Piedmont's written responses to the Commission's prefiled questions, as well as the testimony of Company Witness Raney and the revised testimony of the Public Staff Panel support the conclusion that Piedmont's capacity acquisition planning and arrangements are reasonable and prudent to meet projected customer demand.

Piedmont's testimony (and/or written responses to Commission questions) and the Public Staff's Panel revised testimony support the fact that Piedmont has an affirmative legal obligation to maintain sufficient upstream capacity assets to serve its firm customers' natural gas needs. These needs are not constant throughout the year and, accordingly, Piedmont acquires upstream capacity for baseload supply, seasonal demand during the November through March timeframe each year, and for peak day projected demand on the coldest days of the year. In order to meet its legal obligations to customers, Piedmont must ensure that these baseload, seasonal, and peak

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<sup>2</sup> Both Piedmont witness Raney and Public Staff witness Naba indicated that they were comfortable with Piedmont's design day calculation methodology and the use of a five percent (5%) reserve margin.

day assets exceed projected customer consumption patterns. In addition, Piedmont utilizes a five percent (5%) reserve margin in its capacity planning and acquisition activities in order to provide a cushion against higher than projected customer demand or the potential for a constraint on its upstream capacity assets on a peak day. The uncontroverted testimony in this proceeding supports the conclusion that Piedmont's capacity planning and acquisition activities are reasonable and prudent in this regard.

The evidence also demonstrates, however, that Piedmont's capacity planning has been impacted by changes in flow patterns that have occurred in recent years on the Transco pipeline. These changing flow dynamics, which include the reversal of flows in Transco's Zone 5 on occasion, have created uncertainty about the relative firmness of deliverability of supply utilizing North to South secondary segmented transportation rights from downstream supply sources on Transco. Piedmont has recently undertaken certain steps to "firm up" its capacity portfolio with respect to these supplies by purchasing additional primary firm North to South capacity rights on Transco in lieu of relying on secondary segmentation rights. According to Piedmont witness Raney, the additional capacity promised by the ACP project and the proposed Robeson LNG project will also mitigate the negative impacts of changing flow dynamics on Transco, which currently provides the vast majority of natural gas supplied to Piedmont in North Carolina.

Based on the foregoing, the Commission concludes that the Company's gas costs incurred during the review period were reasonable and prudently

incurred and that the Company should be permitted to recover 100% of its prudently incurred gas costs.

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

The evidence supporting this finding of fact is contained in the testimony of Company witness Tomlinson and the revised Public Staff Panel testimony.

Company witness Tomlinson testified that based on the Company's deferred accounts end-of-period balances, as reflected on Tomlinson Exhibit\_(MBT-1), she recommended that the increments/decrements to Piedmont's rates be placed into effect for a period of twelve months after the effective date of the final order in this proceeding.

The Public Staff Panel testified that they had reviewed Company witness Tomlinson's proposed temporary rate increment applicable to the Sales Customers' Only Deferred Account balance in Tomlinson Exhibit\_(MBT-4) and the proposed temporary rate decrements applicable to the All Customers' Deferred Account balance in Tomlinson Revised Exhibit\_(MBT-3) and agreed that they should be implemented. The Panel also recommended that Piedmont remove all temporary rates that were implemented in Docket No. G-9, Sub 710, Piedmont's last annual review proceeding. However, the Public Staff Panel's testimony inadvertently reversed the terms "decrement" and "increment" when referring to the deferred account balances and erroneously stated that a temporary rate **decrement** should be implemented for Sales Customers and temporary rate **increments** should be implemented for All Customers. The Commission notes that regardless of the inadvertent error, the Public Staff

Panel agreed with the temporary rates proposed by Company witness Tomlinson which included a temporary rate increment for Sales Customers' Only Deferred Account and various temporary rate decrements for the All Customers Deferred Account. Therefore, the Commission concludes that the Company's proposed temporary rates should be implemented.

The Public Staff Panel further testified that Piedmont monitor the balances in both the All Customers' and Sales Customers' Only Deferred Accounts, and, if needed, file an application for authority to implement new temporary increments or decrements through the Purchased Gas Adjustment mechanism in order to keep the deferred account balances at reasonable levels.

Based on the foregoing, the Commission concludes that it is appropriate for the Company to remove the temporary rates that were implemented in Docket No. G-9, Sub 710, and implement the Company's proposed temporaries in the instant docket.

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

The evidence supporting this finding is contained in N.C. Gen Stat. § 62-133.4, Commission Rule R1-17(k)(6) and in the Commission's official files and records.

Ms. Cathy Buckley testified as a public witness on behalf of Sierra Club's National Dirty Fuels Team. Her testimony was clear that she is not a Piedmont customer.<sup>3</sup> Ms. Buckley generally testified to her (and the Sierra Club's) opposition

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<sup>3</sup> There is a latent issue as to whether Ms. Buckley's testimony, in a representative capacity

to the ACP project based upon concerns of self-dealing, lack of public need for the project, and rate hikes related to new pipeline transportation costs. Ms. Buckley further requested Commission review of the contracts between ACP and Duke relating to the Duke utilities' subscription to capacity from ACP. On questions from the Commission Ms. Buckley made it clear that the majority of her concerns about the ACP project were centered on global warming and opposition to fossil fuels in favor of renewable fuel sources. Ms. Buckley also questioned the necessity of the proposed Piedmont Robeson LNG project. In addition to Ms. Buckley's testimony, the Commission has received numerous "form" statement of position letters from various persons in this docket. These "form" letters are substantially identical to the concerns expressed by Ms. Buckley.

The Commission appreciates Ms. Buckley's testimony and the consumer statement of position letters offered by a number of North Carolina citizens in this docket. Having said that, the Commission finds that the concerns expressed in Ms. Buckley's testimony and in the consumer statement of position letters are not relevant to or appropriate for consideration in this proceeding for several reasons.

First, this Commission does not have jurisdiction over either the certification or construction of the ACP project. ACP will be an interstate natural gas pipeline which, under the provisions of the Federal Natural Gas Act, is subject to the exclusive jurisdiction of the Federal Energy Regulatory Commission. As such, concerns about the public need for the project which might encompass concerns

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and on behalf of an entity that did not seek to intervene as a party to this proceeding, is even appropriate for inclusion in the record in this proceeding. In the absence of any objection from the parties to this docket, however, the Commission will accept her testimony in this case.



over both global warming impacts and whether the actual capacity to be provided by the project is required by the public convenience and necessity are matters properly addressed to the FERC and not to this Commission.

With respect to the request to conduct an inquiry into the agreements between Duke Energy utility subsidiaries subject to this Commission's jurisdiction and ACP, the Commission would note that utility self-dealing between affiliates of Duke Energy is prohibited under existing statutes and the Regulatory Conditions and Code of Conduct approved by the Commission in the dockets approving the merger between Duke Energy and Piedmont. The Commission would also note that pursuant to the Regulatory Conditions and N.C. Gen Stat. § 62-153, it has previously reviewed the form of agreements between ACP and these utilities in Docket Nos. G-9, Sub 655 and E-7, Sub 1062 and E-2, Sub 1052 and authorized the Duke subsidiary utilities to enter into agreements for service from ACP. Finally, the Commission would note that no monies have been paid under any of these agreements to date (and are thus not part of the gas costs sought to be approved and recovered in this docket) but that the Commission will have authority to and will review costs attributable to ACP (and to the Piedmont Robeson LNG project) before such costs are recovered from customers of Piedmont or its sister electric utilities.

Because the concerns expressed by Ms. Buckley and various consumers relate to matters (i) beyond the Commission's jurisdiction, (ii) that are prospective in nature, or (iii) that have already been addressed by this Commission in prior dockets, the Commission concludes that none of the expressed concerns with the

ACP project or the prospective Robeson LNG project are relevant to the matters properly at issue in this proceeding.

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

The evidence supporting this finding is contained in the testimony of Piedmont witnesses Raney and Stabley and in the Commission's official files and records.

During the hearing of this matter and in the Commission's prefiled questions, an issue was raised as to whether Piedmont's Margin Decoupling Tracker mechanism has impacted the Company's design day requirements in any way. Based on the record in this proceeding and in the proceedings in which the Commission approved the MDT mechanism, Docket No. G-9, Sub 550, the Commission concludes that there is insufficient evidence at this point to determine whether the MDT has had any direct impact on Piedmont's design day requirements.

As a general statement, Piedmont's MDT mechanism is designed to normalize variations in customer usage attributable to weather and other causes such as declining per customer usage. See *Order Approving Partial Rate Increase and Requiring Conservation Program Filing and Reporting*, Docket No. G-9, Sub 550 (October 24, 2008) at pp. 19-25. Such normalization adjusts customer billings to remove the impacts of variable usage and thereby preserve the assumptions upon which Piedmont's rates were established in its most recent general rate case. The mechanism works by recording the positive and negative revenue impacts from variations in customer usage in a deferred

account and then periodically establishing temporary rate increments and/or decrements to balance revenue recovery with the usage assumptions from Piedmont's last rate case. This mechanism prevents customers from overpaying Piedmont when customer usage is higher than "normal" and also prevents Piedmont from under-recovering its costs when usage is less than normal. The need for the mechanism is driven by the fact that Piedmont recovers a significant percentage of its fixed costs through usage based charges. The advantage of the mechanism is that it has a stabilizing impact on natural gas customer costs and helps ensure that Piedmont's actual earnings are consistent with the revenue requirement established by the Commission in general rate case proceedings. An additional advantage of the mechanism is that it renders Piedmont neutral on the question of customer conservation and allows the Company to actively promote reduced customer usage through energy efficiency programs and otherwise because such reduced usage does not economically harm the Company between rate cases.

The primary function of the MDT does not have any implications for Piedmont's design day requirements because it relates simply to normalization of revenue recovery and has no impact on actual customer usage – which is what drives Piedmont's design day calculations. The secondary function of the MDT – neutralizing Piedmont's natural opposition to reductions in customer usage between rate cases – has a potential indirect impact on design day requirements because it promotes Company neutrality toward such adjustments, but there is insufficient evidence in this proceeding to conclude

that a causal link exists between the MDT mechanism and customer usage and no evidence that would support the scope or scale of that causal link if it exists. Any reductions in customer demand related to conservation prompted by the existence of the MDT would be absorbed into Piedmont's general design day calculations and attempting to measure the amount of gas Piedmont's customers didn't use because of conservation is inherently problematic. Tying such reductions in usage to the MDT is even more speculative. Finally, as Public Staff witness Jayasheela pointed out in the hearing of this matter, operation of the MDT does not impact Piedmont's gas cost deferred accounts and Public Staff witness Naba further stated that the Public Staff reviews that mechanism in the context of general rate cases rather than annual gas cost prudence review proceedings. T. at pages 160-161.

Based on the foregoing, the Commission concludes that there is simply not enough evidence in this proceeding to determine whether Piedmont's MDT mechanism impacts customer usage to a degree that would be material to Piedmont's demand day requirements.

IT IS, THEREFORE, ORDERED as follows:

1. That the Company's accounting for gas costs during the twelve-month period ended May 31, 2018, is approved;
2. That the gas costs incurred by Piedmont during the twelve-month period ended May 31, 2018, including the Company's hedging costs, were reasonably and prudently incurred, and Piedmont is hereby authorized to recover 100 percent of its gas costs incurred during the period of review;

3. That the Company shall remove the existing temporaries that were implemented in Docket No. G-9, Sub 710, and implement the temporary rate increment for the Sales Customers' Only Deferred Account and the temporary rate decrements for the All Customers' Deferred Account, as found appropriate herein, effective for service rendered on and after the first day of the month following the date of this Order;

4. That Piedmont shall give notice to its customers of the rate changes allowed in this Order; and

5. That Piedmont shall file revised tariffs within five (5) days of the date of this Order implementing the rate changes shown in Ordering Paragraph No. 3 above.

ISSUED BY ORDER OF THE COMMISSION.

This the \_\_\_\_ day of \_\_\_\_\_, 2018.

NORTH CAROLINA UTILITIES COMMISSION

M. Lynn Jarvis, Chief Clerk