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OFFICIAL COPY

JUN 29 2020

June 29, 2020

**VIA Electronic Filing**

Ms. Kimberley A. Campbell, Chief Clerk  
North Carolina Utilities Commission  
Dobbs Building  
430 North Salisbury Street  
Raleigh, North Carolina 27603

*Re: Docket No. G-5, Sub 565; Petition by Public Service Company of North Carolina, Inc. to Extend the Integrity Management Tracker Mechanism*

Dear Ms. Campbell:

Enclosed for filing on behalf of Public Service Company of North Carolina, Inc., (“PSNC”) is a Petition to Extend the Integrity Management Tracker Mechanism.

Thank you for your assistance with this matter. Feel free to contact me should you have any questions.

Very truly yours,

/s/Mary Lynne Grigg

MLG:sjg

Enclosures

**STATE OF NORTH CAROLINA  
UTILITIES COMMISSION  
RALEIGH**

**DOCKET NO. G-5, SUB 565**

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

|   |   |          |
|---|---|----------|
| In the Matter of  |   |          |
| Petition of Public Service Company of North Carolina, Inc. to Extend the Integrity Management Tracker Mechanism | ) | PETITION |

Pursuant to the *Order Approving Rate Increase and Integrity Management Tracker* (“Order”) issued by the North Carolina Utilities Commission (“Commission”) in Docket No. G-5, Sub 565, on October 28, 2016, Public Service Company of North Carolina, Inc., d/b/a Dominion Energy North Carolina (“PSNC” or the “Company”), hereby petitions the Commission to extend the Integrity Management Tracker (“IMT”) in Rider E of the Company’s Tariff (the “IMT Mechanism”) until the earlier of two years or the Company’s next general rate case, effective November 1, 2020, to facilitate the Company’s continued compliance with transmission and distribution pipeline regulations issued by federal authorities.

As discussed more fully herein, granting this extension of the IMT Mechanism without modification is beneficial and just and reasonable to the Company and its customers, consistent with the terms of the Amended Stipulation<sup>1</sup> approved by the Order, in furtherance of public safety, and in the public interest, consistent with N.C. Gen. Stat. § 62-133.7A.

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<sup>1</sup> See Amended Stipulation of Public Service Company of North Carolina, Inc., Carolina Utility Customers Association, Inc., Blue Ridge Paper Products Inc. d/b/a Evergreen Packaging, and the Public Staff, at 8-10, Docket No. G-5, Sub 565 (Aug. 29, 2016).

In support of this Petition, PSNC respectfully states as follows:

**THE PETITIONER**

1. PSNC is a corporation organized and existing under the laws of the State of South Carolina with its principal office and place of business located at 800 Gaston Road, Gastonia, North Carolina 28056. The Company operates a natural gas pipeline system for the transportation, distribution, and sale of natural gas within a franchised service area consisting of all or parts of twenty-eight (28) counties in central and western North Carolina as designated in certificates of public convenience and necessity issued by the Commission. PSNC is engaged in providing natural gas utility service to the public and is a “public utility” as defined in N.C. Gen. Stat. § 62-3(23), subject to the jurisdiction of the Commission.

2. The attorneys for PSNC to whom all notices or other communications should be sent are:

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## **BACKGROUND AND PROCEDURAL HISTORY**

3. On March 31, 2016, PSNC filed an Application for a General Rate Case in Docket No. G-5, Sub 565. In its Application, PSNC stated that it was incurring substantial and ongoing capital expenses associated with efforts to comply with federal pipeline safety and integrity management requirements of the Pipeline and Hazardous Materials Safety Administration (“PHMSA”) of the United States Department of Transportation. The PHMSA regulations that govern PSNC’s transmission integrity management program (“TIMP”) are within Subpart O of Part 192, Title 49, of the United States Code of Federal Regulations (“CFR”). The PHMSA regulations that govern PSNC’s distribution integrity management program (“DIMP”) are within Subpart P of Part 192, Title 49, of the CFR. In order to address the magnitude and impact of its capital investments required to comply with federal pipeline safety and integrity requirements on a going-forward basis, and as authorized by N.C. Gen. Stat. § 62-133.7A, PSNC requested approval of a rider to its rates to track and provide for ongoing recovery of capital expenses related to PSNC’s transmission and distribution pipeline integrity management programs.

4. After several months of discussions regarding PSNC’s proposed mechanism, PSNC and the Public Staff agreed to modifications of the IMT Mechanism filed by the Company. The Public Staff agreed that the IMT Mechanism would assist PSNC in the implementation and timely recovery of costs associated with its investment of capital in compliance with the requirements of federal laws and regulations regarding pipeline integrity (including both transmission and distribution integrity), reliability, and safety. However, under the modified version of the IMT Mechanism, PSNC and the Public Staff agreed that costs incurred for system expansion/improvement or routine maintenance,

repair, and replacement of system components that are not primarily required to comply with federal gas pipeline safety requirements should not be recovered through the IMT Mechanism, but through inclusion in rate base in PSNC's next general rate case. PSNC and the Public Staff further agreed that certain costs associated with the Company's Integrity Management Plant Investment should be excluded from the IMT Mechanism as "Excluded Costs," which costs should be calculated by fixed percentages<sup>2</sup> based upon the Company's budgeted Integrity Management projects. The parties also agreed that only the costs associated with the replacement of 47.5 miles of 8" pipe reflected in the T-1 Line Project costs, in the amount of \$117,740,065, plus overheads, should be allowed recovery in the IMT Mechanism. Last, PSNC agreed to work with the Public Staff to determine the level of costs associated with the Highway 751 TIMP Project that should be allowed recovery in the IMT Mechanism, and the level of costs allowed for recovery through the IMT Mechanism associated with any future extraordinary projects that have a significant non-IMT Mechanism component.

5. On August 30, 2016, an Amended Stipulation was filed in Docket No. G-5, Sub 565, between PSNC, Carolina Utility Customers Association, Inc., Blue Ridge Paper Products Inc. d/b/a Evergreen Packaging, and the Public Staff ("Stipulating Parties"). The Stipulating Parties agreed that it was appropriate for PSNC to adopt the IMT Mechanism as Rider E to the Company's Tariff to recover capital expenses closed to plant in service after June 30, 2016, and related to the Company's TIMP and DIMP programs, in addition to the Excluded Cost provisions and terms negotiated between PSNC and the Public Staff.

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<sup>2</sup> Specifically, PSNC agreed to the following fixed percentages for each Excluded Cost: (1) 85% of right-of-way clearing costs in TIMP and DIMP projects; (2) 10% of DIMP project costs net of Excluded Costs related to right-of-way clearing; and, (3) 15% of TIMP project costs net of Excluded Costs related to right-of-way clearing.

The Stipulating Parties also agreed that the IMT mechanism shall be reviewed by the Commission at the earlier of four years from the date PSNC's IMT tariff takes effect or the date of PSNC's next general rate case filing, after which the IMT mechanism may be extended, modified, or terminated.

Last, the Stipulating Parties agreed that, unless otherwise ordered by the Commission, all Integrity Management Plant Investment made by PSNC after the termination of the IMT Mechanism shall be recoverable only through base rates.

6. On October 28, 2016, the Commission issued the Order, approving the Amended Stipulation and Rider E included therein.

7. Regarding the IMT Mechanism, the Order first concluded that the form of the IMT Mechanism “fell within the scope of N.C. Gen. Stat. § 62-133.7A” and was consistent with “normal regulatory practices.”<sup>3</sup> The Order then concluded that the IMT Mechanism was beneficial to customers “because it provides for the use of both the exclusion percentages determined using PSNC’s budgeted [integrity management] projects, as well as the direct assignment approach for specific projects that have a significant non-[integrity management] component.”<sup>4</sup> Third, the Order found persuasive the fact that “the proposed IMT [Mechanism] expressly provides for Commission review of the mechanism at the earlier of PSNC’s next general rate case proceeding or four years from the implementation of the mechanism and also specifically grants any party the right

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<sup>3</sup> Order, at 48. N.C. Gen. Stat. § 62-133.7A states “In setting rates for a natural gas local distribution company in a general rate case proceeding under G.S. 62-133, the Commission may adopt, implement, modify, or eliminate a rate adjustment mechanism to enable the company to recover the prudently incurred capital investment and associated costs of complying with federal gas pipeline safety requirements, including a return based on the company's then authorized return. The Commission shall adopt, implement, modify, or eliminate a rate adjustment mechanism authorized under this section only upon a finding by the Commission that the mechanism is in the public interest.”

<sup>4</sup> Order at 48.

to apply to the Commission to terminate or modify the mechanism at any time on the grounds that the rider mechanism, as approved by the Commission, is no longer in the public interest.”<sup>5</sup>

8. Consistent with the requirements of N.C. Gen. Stat. § 62-133.7A, the Order also found that the IMT Mechanism was in the public interest, because it provided for regulatory efficiencies and customer cost savings, by allowing PSNC to avoid repeatedly filing general rate cases to recover federally-required capital investments in transmission and distribution pipeline integrity management projects.<sup>6</sup> Specifically, the Order found that the public interest was protected from any potentially adverse impacts from the IMT Mechanism due to: (1) the limited nature of the costs recoverable through the mechanism; (2) the use of the exclusion percentages<sup>7</sup> determined using PSNC’s budgeted integrity management projects, as well as the direct assignment approach for specific integrity management projects; (3) the special contract crediting provision contained in the mechanism; (4) the mandatory and permissive review provisions contained in the Rider E<sup>8</sup>; and (5) the Commission’s general and continuing oversight of the Company’s earnings.

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<sup>5</sup> *Id.*

<sup>6</sup> *Id.*

<sup>7</sup> *Supra* at note 2.

<sup>8</sup> In addition to Section XI of Rider E described herein, Section III(a) requires PSNC to file by January 31st and July 31st of each year information showing the computation of the Integrity Management Revenue Requirement, which forms the basis of the biannual Integrity Management Adjustment for the six-month period ending the prior December 31st and June 30th, respectively. Section IV requires PSNC to file by February 15th and August 15th of each year each year a revision to its Tariff (b) and information showing the computation of the Integrity Management Adjustment for each rate schedule that it proposes to charge during the six-month period beginning the following March 1st and September 1st, respectively. Section V requires that PSNC will file with the Commission by February 15th to recover through an Integrity Management Deferred Account True-Up Adjustment the balance in the Integrity Management Deferred Account as of the prior January 31st. Section VIII requires that PSNC shall file monthly (a) a report providing in detail the current month's Integrity Management Plant Investment, including supporting documentation for the amount incurred by project, (b) the cumulative Integrity Management Plant Investment subject to this Rider E, and (c) a report of the activity recorded for the month in the Integrity Management Deferred Account. Such reports will be filed within 45 days after the end of the month for which the report is being filed. Section IX of Rider E requires PSNC to file annually by January 31st its projected plan of Integrity Management Plant investment for its next three fiscal years. Section X of Rider E also requires PSNC to file by January

9. Last, the Order concluded that implementation of the IMT Mechanism would promote North Carolina’s goal of public safety by supporting the timely recovery of costs associated with pipeline safety and integrity expenditures by the Company.<sup>9</sup>

10. On November 1, 2016, the IMT Mechanism became effective.

11. Relevant to this Petition, on January 24, 2018, Dominion Energy, Inc. and SCANA Corporation— parent company of PSNC—filed an application for authorization to engage in a business combination transaction in Docket Nos. E-22, Sub 551, and G-5, Sub 585.

12. On October 4, 2018, an Agreement and Stipulation of Settlement between Dominion Energy, Inc., SCANA Corporation, Transcontinental Gas Pipe Line Company, LLC (“Transco”), and the Public Staff was filed, which included stipulated Regulatory Conditions and a Code of Conduct (“Merger Settlement”).<sup>10</sup> The Merger Settlement included a rate moratorium for PSNC, precluding PSNC from filing an application for a general rate case before April 1, 2021, as well as disallowing any increases in its non-gas cost margin in rates until November 1, 2021, except in certain circumstances, including adjustments pursuant to Rider E.

13. On November 19, 2018, the Commission issued its *Order Approving Merger Subject to Regulatory Conditions and Code of Conduct* (“Merger Order”) in Docket Nos. E-22, Sub 551, and G-5, Sub 585. Ordering Paragraph Six of the Merger Order stated that “PSNC will not file an application for a general rate case proceeding to

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31st an annual report summarizing the Integrity Management Plant Investment of the prior 12-month period ending December 31st and the data substantiating and supporting its IMRR calculation for the next biannual Integrity Management Adjustment.

<sup>9</sup> Order at 48.

<sup>10</sup> Agreement and Stipulation of Settlement Between the Applicants, Transco and the Public Staff, at ¶ 5, Docket Nos. E-22, Sub 551 and G-5, Sub 585 (Nov. 19, 2018).

adjust its rates and charges before April 1, 2021” and “will not increase its non-gas cost margin in its rates until November 1, 2021, except for...adjustments or changes pursuant to...Rider E (Integrity Management Tracker) pursuant to N.C. Gen. Stat. § 62-133.4, N.C. Gen. Stat. § 62-133.7, N.C. Gen. Stat. § 62-133.7A...”<sup>11</sup>

14. The IMT Mechanism must be reviewed no later than November 1, 2020, four years from Rider E’s initial effective date of November 1, 2016. Due to the rate moratorium included in the Merger Order, PSNC may not file an application for a general rate case until April 1, 2021. Therefore, the IMT Mechanism must be reviewed and extended outside of a general rate case.

15. PSNC has discussed this matter with the Public Staff and the Public Staff does not oppose extending the IMT Mechanism for up to two additional years. The Company therefore petitions the Commission to extend the IMT Mechanism for the earlier of two years or the Company’s next general rate case.

#### **ADDITIONAL INVESTMENTS TO COMPLY WITH FEDERAL PIPELINE SAFETY AND INTEGRITY REQUIREMENTS**

16. As most recently described in the Public Staff’s 2019 Annual IMT Report<sup>12</sup>, since the Company’s last general rate case in 2016, PSNC has made substantial capital investments in projects designed to enable the Company to comply with federal pipeline safety and integrity management requirements. PSNC’s capital investment projects, costs, and accounting thereof are detailed in PSNC’s biannual and monthly compliance reports filed in Docket No. G-5, Sub 565C. As the Public Staff stated in its recent report, since inception of the IMT Mechanism, the Company has invested \$366,743,000 in integrity

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<sup>11</sup> Merger Order at 39.

<sup>12</sup> Public Staff 2019 Annual IMT Report, Docket No. G-5, Subs 565C and 618 (May 29, 2020).

management.<sup>13</sup> Note also that no party has ever commented, let alone intervened, to dispute the Company's compliance reports, or petitioned the Commission to modify or terminate Rider E.

17. As further described in the Public Staff's 2019 Annual IMT Report, PSNC's Projected Integrity Management Plant Investment includes projects planned over the next three years in Wake, Chatham, Durham, and Buncombe counties.<sup>14</sup> These projects will allow PSNC to reduce the pressure on transmission pipelines to distribution operating pressure levels. The derating will take these pipelines out of transmission pressure which will reduce future costs of complying with federal pipeline safety regulations. The Company's Projected Integrity Management Plant Investments for Fiscal Years 2020, 2021, and 2022, which are included in the Company's January 31, 2020, Integrity Management Tracker Biannual Report<sup>15</sup>, is \$127,474,200.

18. Additionally, dollars not reflected in the \$127,474,200 Project Integrity Management Plant Investment may be spent due to the new rule from the PHMSA, published on October 1, 2019, that covers gas transmission pipelines. The new PHMSA rule, effective July 1, 2020, provides guidelines on matters such as the reconfirmation of the maximum allowable operable pressure of previously untested natural gas transmission pipelines and pipelines lacking certain records, the periodic assessment of pipelines in populated areas not designated as "high consequence areas", safety features on in-line inspection launchers and receivers, and related recordkeeping provisions.

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<sup>13</sup> *Id.* at 3.

<sup>14</sup> *Id.* at 3-4.

<sup>15</sup> Integrity Management Tracker Biannual Report, at Schedule 1 "Projected Integrity Management Plant Investment For Fiscal Years 2020, 2021 & 2022," Docket No. G-5, Sub 565C (Jan. 31, 2020).

## REQUEST FOR EXTENSION OF IMT MECHANISM

19. Consistent with the Order and approved Amended Stipulation, PSNC respectfully proposes to extend operation of its approved IMT Mechanism set forth in Rider E for the following reasons:

a. First, extension of the IMT Mechanism is necessary to ensure PSNC's ability to continue to timely invest in and earn on capital expenditures required by federal pipeline safety and integrity management regulations.

b. Second, as the Order noted, allowing PSNC to avoid repeatedly filing general rate cases to recover federally-required capital investments in transmission and distribution pipeline integrity management projects is in the public interest because it provides for regulatory efficiencies and customer cost savings.

c. Third, because the currently-approved IMT Mechanism will remain unchanged, the public interest will continue to be protected by the provisions included in Rider E, which protections the Order notes as: (1) the limited nature of the costs recoverable through the IMT Mechanism; (2) the use of the exclusion percentages determined using PSNC's budgeted integrity management projects, as well as the direct assignment approach for specific integrity management projects; (3) the special contract crediting provision contained in the IMT Mechanism; (4) the mandatory and permissive review provisions; and, (5) the Commission's general and continuing oversight of the Company's earnings.

d. Fourth, as indicated above, the IMT Mechanism facilitates PSNC's ability to comply with PHMSA regulations. In the face of potentially expanded PHMSA regulatory requirements under the new rule expected July 1, 2020, it is imperative

to maintain the IMT Mechanism as a means of facilitating PSNC's investment in projects improving the safety and reliability of the Company's operations.

20. PSNC is authorized to state that the Public Staff does not oppose this Petition.

In summary, PSNC submits that granting an extension of the IMT Mechanism is consistent with the terms of the Order and Amended Stipulation, beneficial and just and reasonable to the Company and its customers, in furtherance of pipeline safety and reliability, and in the public interest, consistent with N.C. Gen. Stat. § 62-133.7A.

### CONCLUSION

WHEREFORE, Public Service Company of North Carolina, Inc. respectfully requests that the Commission issue an order granting extension of Integrity Management Tracker – Rider E until the earlier of two years or the Company's next general rate case, as well as grant such any other and further relief as may be necessary.

Respectfully submitted, this the 29th day of June, 2020.

*/s/ Mary Lynne Grigg*

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*Counsel for Public Service Company of  
North Carolina, Inc., d/b/a Dominion  
Energy North Carolina*

**VERIFICATION**

**Docket No. G-5, Sub 565**

STATE OF NORTH CAROLINA  
COUNTY OF GASTON

Michael Shaun Randall, being first duly sworn, says that (i) he is Vice President – Gas Operations for Public Service Company of North Carolina, Inc., doing business as Dominion Energy North Carolina (“PSNC”), and, as such, he is authorized, and has been designated by PSNC, to make this proof on its behalf; (ii) he has read the foregoing petition and the matters and things stated therein are true of his own knowledge, except as to those matters and things stated therein on information and belief, and as to those, he believes them to be true.



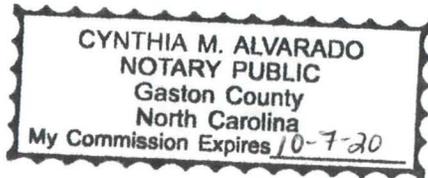
Michael Shaun Randall

Subscribed and sworn to before me, this 29<sup>th</sup> day of June, 2020.

  
\_\_\_\_\_  
, Notary Public

My commission expires: 10/7/2020

[OFFICIAL SEAL]



**CERTIFICATE OF SERVICE**

I hereby certify that a copy of the foregoing *Petition by Public Service Company of North Carolina, Inc. to Extend the Integrity Management Tracker Mechanism*, filed in Docket No. G-5, Sub 565, all parties of record were served electronically or via U.S. mail, first-class postage prepaid, as follows:

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This the 29<sup>th</sup> day of June, 2020.

*/s/Mary Lynne Grigg*

\_\_\_\_\_  
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