NORTH CAROLINA
PUBLIC STAFF
UTILITIES COMMISSION

September 24, 2020

Ms. Kimberley A. Campbell, Chief Clerk
North Carolina Utilities Commission
4325 Mail Service Center
Raleigh, North Carolina 27699-4300

Re: Docket No. G-9, Sub 771 – Annual Review of Gas Costs

Dear Ms. Campbell:

In connection with the above-referenced docket, I transmit herewith for filing on behalf of the Public Staff the joint testimony of Geoffrey M. Gilbert, Utilities Engineer, Natural Gas Section, Energy Division, and Julie G. Perry, Manager, Natural Gas & Transportation Section, Accounting Division.

By copy of this letter, we are forwarding copies to all parties of record.

Sincerely,

s/ Gina C. Holt
Staff Attorney
gina.holt@psncuc.nc.gov

Attachment

PIEDMONT NATURAL GAS COMPANY, INC.

DOCKET NO. G-9, SUB 771

JOINT TESTIMONY OF

GEOFFREY M. GILBERT AND JULIE G. PERRY

ON BEHALF OF

THE PUBLIC STAFF – NORTH CAROLINA UTILITIES COMMISSION

SEPTEMBER 24, 2020

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND PRESENT POSITION.

A. My name is Geoffrey M. Gilbert, and my business address is 430 North Salisbury Street, Raleigh, North Carolina. I am a Public Utilities Engineer in the Public Staff's Energy Division. My qualifications and experience are provided in Appendix A.

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

A. The purpose of my testimony is to (1) present the results of my 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), (2) provide my conclusions regarding whether the natural gas purchases made by Piedmont Natural Gas Company, Inc. (Piedmont or Company) during the review period were prudently incurred, (3) provide my recommendation regarding temporary rate increments or decrements, and (4) highlight my concerns about the Company's planning for future capacity needs.

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND PRESENT POSITION.

A. My name is Julie G. Perry, and my business address is 430 North Salisbury Street, Raleigh, North Carolina. I am the Accounting Manager for Natural Gas and Transportation with the Accounting Division of the Public Staff. My qualifications and experience are provided in Appendix B.

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

A. The purpose of my testimony is to (1) present the results of my review of the gas cost information filed by Piedmont in accordance with N.C.G.S. § 62-133.4(c) and Commission Rule R1-17(k)(6), (2) provide my conclusions regarding whether the gas costs incurred by Piedmont during the 12-month review period ended May 31, 2020, were properly accounted for, (3) discuss the Public Staff's investigation and conclusions regarding the prudence of Piedmont's hedging activities during the review period, and (4) report on any changes in the deferred gas cost reporting during the review period.

Q. PLEASE EXPLAIN HOW THE PUBLIC STAFF CONDUCTED ITS REVIEW.

A. We reviewed the testimony and exhibits of the Company's witnesses, the Company's monthly Deferred Gas Cost Account reports, monthly financial and operating reports, the gas supply, pipeline transportation, and storage contracts, the reports filed with the Commission in Docket No. G-100, Sub 24A, and the Company's responses to Public Staff data requests. The responses to the Public Staff data requests contained information related to Piedmont's gas purchasing philosophies, customer requirements, and gas portfolio mixes.

Q. MR. GILBERT, WHAT IS THE RESULT OF YOUR EVALUATION OF PIEDMONT'S GAS COSTS?

A. Based on my investigation and review of the data in this docket, I believe that Piedmont's gas costs were prudently incurred.

Q. WHAT OTHER ITEMS DID THE NATURAL GAS DIVISION REVIEW?

A. Even though the scope of Commission Rule R1-17(k) is limited to a historical review period, the Public Staff's Energy Division also considers other information received pursuant to the data requests 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.

<u>ACCOUNTING FOR AND ANALYSIS OF GAS COSTS</u>

Q. MS. PERRY, HAS THE COMPANY PROPERLY ACCOUNTED FOR ITS GAS COSTS DURING THE REVIEW PERIOD?

A. Yes.

Q. HOW DOES THE ACCOUNTING DIVISION GO ABOUT CONDUCTING ITS REVIEW OF THE COMPANY'S ACCOUNTING FOR GAS COSTS?

A. Each month the Public Staff's Accounting Division reviews the Deferred Gas Cost Account reports filed by the Company for accuracy and reasonableness, and performs several audit procedures on the calculations, including the following:

(1) <u>Commodity Gas Cost True-Up</u> – The actual commodity gas costs incurred are verified, the calculations and data supporting the commodity gas costs collected from customers are checked, and the overall calculation is reviewed for mathematical accuracy.

(2) <u>Fixed Gas Cost True-Up</u> – The actual fixed gas costs incurred are compared with pipeline tariffs and gas contracts, the rates and volumes supporting the calculation of collections from customers are verified, and the overall calculation is reviewed for mathematical accuracy.

(3) <u>Negotiated Losses</u> – Negotiated prices for each customer are reviewed to ensure that the Company does not sell gas to the

customer below the cost of gas to the Company or below the price of the customer's alternative fuel.

(4) Temporary Increments and/or Decrements – Calculations and supporting data are verified regarding the collections from and/or refunds to customers that have occurred through the Deferred Gas Cost Accounts.

(5) Interest Accrual – Calculations of the interest accrued on the various deferred account balances during the month are verified in accordance with N.C.G.S. § 62-130(e) and the Commission's Order Approving Merger Subject to Regulatory Conditions and Code of Conduct issued September 29, 2016, in Docket Nos. G-9, Sub 682, E-2, Sub 1095, and E-7, Sub 1100 (Merger Order).

(6) Secondary Market Transactions – The secondary market transactions conducted by the Company are reviewed and verified to the financial books and records, asset management arrangements, and other deferred account journal entries.

(7) Uncollectibles – The Company records a journal entry each month in the Sales Customers' Only Deferred Account for the gas cost portion of its uncollectibles write-offs. The calculations supporting those journal entries are reviewed to ensure that the proper amounts are recorded.

(8) Supplier Refunds – Unless ordered otherwise, supplier refunds received by Piedmont should be flowed through to ratepayers in the All Customers' Deferred Account or in certain circumstances applied to the NCUC Legal Fund Reserve Account. Documentation is reviewed to ensure that the proper amount is credited to the correct account in a timely fashion.

Q. HOW DO THE COMPANY'S FILED GAS COSTS FOR THE CURRENT REVIEW PERIOD COMPARE WITH THOSE FOR THE PRIOR REVIEW PERIOD?

A. The Company filed total gas costs of $251,859,245 per Tomlinson Exhibit_(MBT-1), Schedule 1, for the current period as compared with $352,122,738 for the prior twelve-month period. The components of the filed gas costs for the two periods are as follows:

	12 Months Ended		Increase	%
	May 31, 2020	May 31, 2019	(Decrease)	Change
Demand & Storage	$152,562,398	$133,470,011	$19,092,387	14.3%
Commodity	148,405,851	233,172,219	($84,766,368)	(36.4%)
Other Costs	($49,109,003)	($14,519,492)	($34,589,511)	238.2%
Total	$251,859,245	$352,122,738	($100,263,493)	(28.5%)

Q. PLEASE EXPLAIN ANY SIGNIFICANT INCREASES OR DECREASES IN DEMAND AND STORAGE CHARGES.

A. The Demand and Storage Charges for the current review period and the prior twelve-month review period are as follows:

		Actual Amounts for the 12 Month Periods Ended			
				Increase	%
		April 30, 2020	April 30, 2019	(Decrease)	Change
Transco	FT	$118,589,799	$97,609,331	$20,980,468	21.5%
Transco	GSS	4,895,510	3,878,202	1,017,308	26.2%
Transco	ESS	3,542,584	2,521,396	1,021,188	40.5%
Transco	WSS	2,329,083	1,884,058	445,025	23.6%
Transco	LNG Service	334,575	238,327	96,249	40.4%
Columbia	Firm Storage Service	3,331,131	3,331,131	(0)	0.0%
Columbia	SST	5,224,055	4,869,126	354,929	7.3%
Columbia	FTS	2,703,457	2,522,758	180,699	7.2%
Columbia	No Notice FT	994,480	939,390	55,090	5.9%
Dominion	GSS	575,240	575,032	208	0.0%
Dominion	FT - GSS	1,118,689	983,646	135,043	13.7%
East Tennessee	FT	3,693,600	3,693,600	0	0.0%
Texas Eastern	FT	796,976	1,579,614	(782,638)	-49.5%
Midwestern	FT	1,069,200	1,069,200	0	0.0%
Hardy Storage		14,238,782	14,342,063	(103,281)	-0.7%
Pine Needle LNG		8,771,834	8,850,739	(78,905)	-0.9%
Cardinal	FT	6,229,434	6,520,529	(291,095)	-4.5%
LNG Processing		662,926	1,422,621	(759,695)	-53.4%
Property Taxes		39,697	45,129	(5,432)	-12.0%
Other		0	0	0	-
NC/SC Costs Expensed		179,141,052	156,875,894	22,265,158	14.2%
NC Demand Allocator [1/]		85.16%	85.08%		
NC Costs Expensed		$152,562,398	$133,470,010	$19,092,388	14.3%

[1/] Weighted average demand allocator due to change in rate case effective November 1, 2019.

Note: Actual amounts lag one-month behind the accounting period. The May 31 review periods reflect actual amounts for the 12-month periods ended April 30.

The increases in the **Transcontinental Gas Pipe Line Company, LLC (Transco) Firm Transportation (FT), the Transco General Storage Service (GSS), the Transco Eminence Storage Service (ESS), the Transco Washington Storage Service (WSS), and the Transco LNG Service** charges are due to increases related to Transco's general rate case and fuel tracker filings, pursuant to FERC Docket Nos. RP18-1126-000 and RP19-798-000, effective March 1, 2019, and April 1, 2019, respectively, which were in effect for a majority of the current review period.

The increase in **Columbia Storage Service Transportation (SST), Firm Transportation Service (FTS), and No Notice Transportation Service (NTS)** charges is primarily due to a Capital Cost Recovery Mechanism compliance filing for recovery of specified capital investments under its Modernization Program in FERC Docket No. RP20-382-000, effective February 1, 2020.

The **Dominion FT – GSS** increased due to changes from Transco's general rate case filed in Docket No. RP18-1126-000 related to the firm transportation needed to deliver the storage gas to the Piedmont city gate, effective April 1, 2019. The charges were in effect for a large portion of the current review period.

The **Texas Eastern Transmission, LP** (TETCO) charges decreased due a renegotiated contract rate involving the TETCO Section 4 general rate case proceeding in FERC Docket No. RP19-343-000, effective November 1, 2019.

The **Liquefied Natural Gas (LNG) Processing** charges are the electric bills associated with the liquefaction expense for Piedmont's two on-system LNG facilities. These charges decreased due to a lower level of LNG withdrawal volumes when compared to the withdrawal volumes from the prior review period.

The decrease in **Property Taxes** for the current review period is due to a lower property tax billing rate in July 2019, as compared to July 2018.

Q. PLEASE EXPLAIN THE CHANGE IN COMMODITY GAS COSTS.

A. Commodity gas costs for the current review period and the prior twelve-month period are as follows:

	Actual Amounts for the 12 Month Periods Ended			
	April 30, 2020	April 30, 2019	Increase (Decrease)	% Change
Gas Supply Purchases	$173,924,604	$277,292,978	($103,368,374)	(37.3%)
Reservation Charges	4,128,438	3,482,171	646,267	18.6%
Storage Injections	(43,751,165)	(56,948,230)	13,197,065	(23.2%)
Storage Withdrawals	42,417,719	56,781,052	(14,363,332)	(25.3%)
Electric Compressor Costs	1,901,849	2,084,295	(182,446)	(8.8%)
Banked Gas Usage	5,744	444	5,300	1193.2%
Cash Out Brokers (Long)	1,790,739	1,285,977	504,762	39.3%
NC/SC Commodity Costs	$180,417,929	$283,978,687	($103,560,758)	(36.5%)
NC Commodity Costs	$148,405,851	$220,382,071	($71,976,221)	(32.7%)
NC Dekatherms Delivered	65,930,466	74,847,698	(8,917,232)	(11.9%)
NC Cost per Dekatherm	$2.2509	$2.9444	($0.6935)	(23.6%)

Note: Actual amounts lag one-month behind the accounting period. The May 31 review periods reflect actual amounts for the 12-month periods ended April 30.

Gas Supply Purchases decreased by $103,368,374 primarily due to a lower level of wellhead gas prices in the current review period when compared to the prior twelve-month review period. In addition, there was a lower level of purchased volumes during the current review period.

Reservation Charges are fixed or minimum monthly charges a local distribution company (LDC) may pay a supplier in connection with the supplier providing the LDC an agreed-upon quantity of gas, regardless of whether the LDC takes it or not. The increase in reservation charges reflects a higher level of volumes as well as the market-driven increase in prices in the current review period as compared to the prior review period.

The decrease in **Storage Injections** is primarily due to a lower cost of gas supply injected into storage. The average cost of gas injected into storage during the current review period was $2.1881 per dekatherm (dt) as compared with $2.8202 per dt for the prior period. Piedmont injected 19,995,342 dts into storage in the current review period as compared to 20,193,266 dts for the prior period.

The decrease in **Storage Withdrawal charges** is due to both a lower average cost of supply withdrawn from storage and lower volumes withdrawn from storage. Piedmont's average cost of gas withdrawn was $2.5386 per dt for this review period as compared to $2.9865 per dt in the prior period. Piedmont withdrew 16,709,344 dts from storage in the current review period as compared to 19,012,399 dts for the prior period.

The **Electric Compressor Costs** are associated with electric compressors related to power generation contracts. There is no impact on the deferred account since these costs are recovered through the contract payments.

Banked Gas is the cost of gas associated with the month-end volume imbalances that are not cashed out with customers. Piedmont currently has four banked gas customers, all former NCNG customers, who may exercise the right per contract to carry forward their monthly volume imbalances instead of cashing out monthly. The change in the banked gas represents the difference in the cost of gas supply of the volume imbalances carried forward from month to month.

Cash Out Brokers (Long) represents the purchases made by Piedmont from brokers that brought too much gas to the city gate. The reduction in Cash Out Brokers (Long) was due to the decrease in price per dt paid during the current review period as compared to the prior review period. During the current period, the average price per dt for Cash Out Brokers (Long) was $0.9663, while the previous period's average price per dt was $0.7715.

Q. PLEASE EXPLAIN THE CHANGE IN OTHER GAS COSTS.

A. Other gas costs for the current review period and the prior twelve-month period are as follows:

	Actual Amounts for the 12 Month Periods Ended		
	April 30, 2020	April 30, 2019	Increase (Decrease)
Total Deferred Acct Activity COG Items	($29,025,681)	($2,000,065)	($27,025,616)
Actual vs. Estimate Reporting Month Adj.	(271,578)	1,223,798	(1,495,376)
Total Other Costs	(19,811,744)	(13,743,225)	(6,068,520)
Total NC Other Cost of Gas Expense	($49,109,003)	($14,519,492)	($34,589,511)

The **Total Deferred Acct Activity COG Items** reflect offsetting journal entries for the cost of gas recorded in the Company's Deferred Gas Cost Accounts during the review periods. This amount includes offsetting journal entries for the commodity true-up, fixed gas cost true-up, negotiated losses, and increments/decrements.

The **Actual vs. Estimate Reporting Month Adj.** amounts result from the Company's monthly accounting closing process. Each month, the Company estimates its current month's gas costs for financial reporting purposes and adjusts the prior month's estimate to reflect the actual cost incurred for that month.

Total Other Costs are primarily the North Carolina ratepayers' portion of capacity release margins and the allocation factor differential for bundled sales. The allocation factor differential is due to the utilization of the NC/SC sales allocation factor in the commodity gas cost calculation and the demand allocation factor utilized in the secondary market calculation.

SECONDARY MARKET ACTIVITIES

Q. MS. PERRY, PLEASE SUMMARIZE THE COMPANY'S SECONDARY MARKET ACTIVITIES DURING THE REVIEW PERIOD.

A. During the review period, the Company earned actual margins of $38,891,792 on secondary market transactions, and credited the All Customers' Deferred Account in the amount of $25,312,170 (($38,861,750 – 100% Duke secondary market sales) x NC demand allocator x 75% ratepayer sharing percentage) + (100% Duke secondary market sales x NC demand allocator)) for the benefit of ratepayers, in accordance with the Commission's Order Approving Stipulation issued on December 22, 1995, in Docket No. G-100, Sub 67. This dollar amount is slightly different than the amount recorded on Tomlinson Exhibit_(MBT-1), Schedule 9, since the Company's deferred account includes estimates for the May 2020 secondary market transactions. Presented below is a chart that compares the actual Total Company margins earned by Piedmont on the various types of secondary market transactions in which it was engaged during the review period and the prior review period.

	Actual Amounts for the 12 Month Periods Ended			
	April 30, 2020	April 30, 2019	Increase (Decrease)	% Change
Asset Management Agreements	$14,629,754	$9,367,896	$5,261,858	56.2%
Capacity Releases	17,017,876	15,323,757	1,694,119	11.1%
Off System Sales	7,244,162	12,222,116	(4,977,954)	(40.7%)
Total Co Margins on Secondary Market Transactions	$38,891,792	$36,913,769	$1,978,023	5.4%

Note: Actual amounts lag one-month behind the accounting period. The May 31 review periods reflect actual amounts for the 12-month periods ended April 30.

Asset Management Arrangements (AMAs), according to the FERC,

> are contractual relationships where a party agrees to manage gas supply and delivery arrangements, including transportation and storage capacity, for another party. Typically a shipper holding firm transportation and/or storage capacity on a pipeline or multiple pipelines temporarily releases all or a portion of that capacity along with associated gas production and gas purchase agreements to an asset manager. The asset manager uses that capacity to serve the gas supply requirements of the releasing shipper, and, when the capacity is not needed for that purpose, uses the capacity to make releases or bundled sales to third parties.

Promotion of a More Efficient Capacity Release Market, Order No. 712, 123 FERC ¶ 61,286, Paragraph 110 (June 19, 2008).

Piedmont had seven AMAs during the current review period and the prior review period. The 56.20% increase in net compensation from AMAs is due to an increase in the value of the interstate pipeline and storage capacity that Piedmont has subject to the AMAs.

Capacity Releases are the short-term postings of unutilized firm capacity on the electronic bulletin board that are released to third parties at a biddable price. The overall net compensation from capacity release transactions primarily increased due to a higher level of released volumes, even though there was a slight decrease in the market value of capacity releases, for the current review period as compared to the previous period.

Off System Sales on Piedmont's system are also referred to as bundled sales. Bundled sales are gas supplies delivered to a third party at a specified receipt point in the Transco market area. Because bundled sales move gas from the production area to the market area, these sales utilize pipeline capacity, and thus involve both gas supply and capacity. During the current review period as compared to the prior review period, the net compensation from off system sales decreased by approximately 40.70% due to a lower level of bundled sales transactions entered into during the current review period as compared to the prior period, as well as a decrease in the value of the transactions.

Q. PLEASE PROVIDE A FURTHER DESCRIPTION OF PIEDMONT'S OFF SYSTEM SALES TRANSACTIONS.

A. During the current review period, Piedmont entered into multi-month, monthly, and daily off system sales transactions with approximately thirty shippers. 25.4% of these off system sales transaction volumes consisted of daily transactions, 1.8% were monthly transactions, and 72.8% were multi-month transactions.

HEDGING ACTIVITIES

Q. MS. PERRY, PLEASE EXPLAIN HOW THE PUBLIC STAFF CONDUCTED ITS REVIEW OF THE COMPANY'S HEDGING ACTIVITIES.

A. The Public Staff's review of the Company's hedging activities is performed on an ongoing basis and includes the analysis and evaluation of the following information:

1. The Company's monthly hedging deferred account reports;
2. Detailed source documentation, such as broker statements, that provide support for the amounts spent and received by the Company for financial instruments;
3. Workpapers supporting the derivation of the maximum hedge volumes targeted for each month;
4. Periodic reports on the status of hedge coverage for each month (Hedging Position Report);
5. Periodic reports on the market values of the various financial instruments used by the Company to hedge (Mark-to-Market Report);
6. The monthly Hedging Program Status Report;

7. The monthly report reconciling the Hedging Program Status Report and the hedging deferred account report;

8. Minutes from meetings of Piedmont's Gas Market Risk Committee;

9. Minutes from the Board of Directors and its committees that pertain to hedging activities;

10. Reports and correspondence from the Company's external and internal auditors that pertain to hedging activities;

11. Hedging plan documents that set forth the Company's gas price risk management policy, hedge strategy, and gas price risk management operations;

12. Communications with Company personnel regarding key hedging events and plan modifications under consideration by Piedmont's Gas Market Risk Committee; and

13. Testimony and exhibits of the Company's witnesses in the annual review proceeding.

Q. WHAT IS THE STANDARD SET FORTH BY THE COMMISSION FOR EVALUATING THE PRUDENCE OF A COMPANY'S HEDGING DECISIONS?

A. In its February 26, 2002, Order on Hedging in Docket No. G-100, Sub 84 (Hedging Order), the Commission stated that the standard for reviewing the prudence of hedging decisions is that the decision "must have been made in a reasonable manner and at an appropriate time on the basis of what was reasonably known or should have been known at that time." Hedging Order, 92 NCUC 4, 11-12 (2002).

Q. PLEASE DESCRIBE THE ACTIVITY REPORTED IN THE COMPANY'S HEDGING DEFERRED ACCOUNT DURING THE REVIEW PERIOD.

A. The Company experienced net costs of $3,976,782 in its Hedging Deferred Account during the review period. This net cost amount in the account at May 31, 2020, is composed of the following items:

Economic (Gain)/Loss - Closed Positions	$0
Premiums Paid	3,710,810
Brokerage Fees & Commissions	57,257
Interest on Hedging Deferred Account	208,715
Hedging Deferred Account Balance	$3,976,782

The Company proposed that the $3,976,782 debit balance in the Hedging Deferred Account at of the end of the review period be transferred to its Sales Customers' Only Deferred Account.

The first item shown in the chart above, Economic (Gain)/Loss - Closed Positions, is the gain on hedging positions that the Company realized during the review period. In this case, the Company did not exercise any hedging positions during the review period due to lower natural gas prices. Premiums Paid is the amount spent by the Company on futures and options positions during the current review period for contract periods that closed during the review period or that will close after May 31, 2020. As of May 31, 2020, this amount includes call options purchased by Piedmont for the May 2021 contract period, a contract period that is 12 months beyond the end of the current review period and 12 months beyond the May 2020 prompt month. Brokerage Fees and Commissions are the amounts paid to brokers to complete the transactions. The Interest on Hedging Deferred Account is the amount accrued by the Company on its Hedging Deferred Account in accordance with N.C. Gen. Stat. § 62-130(e) and the Merger Order, effective October 1, 2017.

The hedging costs incurred by the Company during the review period represent approximately 1.58% of total gas costs or $0.06 per dt. The average monthly cost per residential customer for hedging is approximately $0.30 per dt.

Q. DID THE COMPANY MODIFY ITS HEDGING PLAN DURING THE REVIEW PERIOD?

A. No. The Company did not modify its hedging plan during the current review period.

Q. MS. PERRY, WHAT IS YOUR CONCLUSION REGARDING THE PRUDENCE OF THE COMPANY'S HEDGING ACTIVITIES?

A. Based on the Public Staff's analysis and what was reasonably known or should have been known at the time the Company made its hedging decisions affecting the review period, as opposed to the outcome of those decisions, I conclude that the Company's decisions were prudent. I recommend that the $3,976,782 debit balance in the Company's Hedging Deferred Account as of the end of the review period be transferred to Piedmont's Sales Customers' Only Deferred Account.

DESIGN DAY REQUIREMENTS

Q. MR. GILBERT, HAVE YOU DRAWN ANY CONCLUSIONS FROM YOUR REVIEW OF THE COMPANY'S DESIGN DAY DEMAND REQUIREMENTS?

A. I reviewed the Company's testimony and other information submitted by the Company in response to data requests, and also had discussions with Company personnel that dealt with how well the Company's projected firm demand requirements aligned with the available capacity over the next five years. The Energy Division also performed independent calculations utilizing the Company's assumptions, and it appears that the Company has adequate capacity to meet firm demand for the next five years. The calculations are based on the Company's assumptions of maintaining a design day temperature of 8.71° Fahrenheit, 65° Fahrenheit HDD standard, incorporation of a five percent reserve margin, and other extraneous planning conditions listed in detail in Company witness Patton's direct testimony in this case.

Q. MR. GILBERT, DO YOU HAVE CONCERNS RELATED TO THE COMPANY'S DESIGN DAY DEMAND REQUIREMENTS?

A. While I am not recommending specific changes at this time, the Public Staff would like to point out some areas of concern we have identified during our review which we may address in more detail in future proceedings. Our areas of concern are as follows:

a) Piedmont should continue to evaluate the demand projections resulting from an extreme Design Day Temperature (DDT) coupled with a reserve margin.

b) The significant impact DDT has on the System Design Day Firm Sendout[1] planning value.

c) Baseload Firm Sales (FS)[2] and Firm Transportation (FT) should be properly isolated from one another in the regression analysis, and appropriate multipliers applied to FS and FT separately as appropriate.

We encourage the Company to carefully review these areas related to its demand projections associated with its design day

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[1] Over the years Piedmont made some changes to its design day methodology such as changing its Design Day temperature from 11° to ~8.71° Fahrenheit for the review period of 2014-2015 after the Polar Vortex.

[2] Our calculations add the five percent reserve margin to the Total Firm Sales Customers only.

methodology, and make any appropriate changes related to capacity additions in the future. As always, the Public Staff is willing to work with the Company in the review process.

Q. MR. GILBERT, DO YOU HAVE ANY COMMENTS REGARDING THE COMPANY'S FUTURE AVAILABLE CAPACITY RESOURCES?

A. Yes. The Public Staff has reviewed the Company's filed testimony and exhibits, as well as data request responses provided by Piedmont in regards to the Company's capacity resources. Company witness Patton's testimony (exhibit JCP_4C) shows that the Company had subscribed to 160,000 dts per day of additional year-round capacity on the Atlantic Coast Pipeline (ACP). Witness Patton stated that the Company only recently learned of Dominion Energy and Duke Energy's decision to cancel the ACP project on July 5, 2020. Mr. Patton further stated that the Company is in the early stages of evaluating alternatives to ensure that the future needs of Piedmont's customers are met. These alternatives may include additional system infrastructure to strengthen eastern North Carolina and additional services from the Company's existing pipeline suppliers.

In data request responses, the Company explained that acquiring short-term capacity on a month-ahead short-term basis during winter periods is not a recommended approach given that market conditions limit the availability of open capacity during traditional peak demand times. Mr. Patton also stated in testimony that in order for Piedmont to secure incremental capacity to meet growth requirements, the Company evaluates interstate capacity and storage offerings at the time additional future firm delivery service is required, or existing firm delivery service contracts are expiring.

Company witness Patton also discussed Piedmont's two additional peaking supplies, Bentonville and Robeson LNG peaking facilities. Mr. Patton stated in his testimony that due to a combination of customer load growth and system pipeline upgrades in eastern North Carolina (including the Line 439 upgrade near Greenville, NC) that went into service in early 2020, the design day output of its Bentonville LNG peaking facility increased from 90,000 dts per day to 110,000 dts per day, beginning with the 2020-2021 winter season. He explained that this would allow for an increased volume to be withdrawn on a design day at the Bentonville facility.

Mr. Patton further discussed in his testimony that the Company anticipates the Robeson LNG facility in Robeson County, NC to be complete by the summer of 2021 and will provide 200,000 dts per day of peaking supply of natural gas during peak usage days starting in the 2021-2022 winter season.

The Public Staff has found that once the Robeson facility is completed as anticipated, the Company will have adequate capacity to cover its firm customers in its five-year planning portfolio. Based on the Company's available peaking capacity and supply resources, the Public Staff believes that the Company should carefully review its demand projections as it considers adding any future capacity to its existing supply portfolio.

In the Merger Order, Condition 11.9 states that the Company shall meet annually with the Public Staff. After discussions with the Company, Piedmont has indicated that they would like to address all concerns pertaining to the design day requirements referred to herein, as well as any questions regarding capacity resource planning, in the upcoming annual meeting currently anticipated to occur in November 2020.

DEFERRED ACCOUNT BALANCES

Q. MS. PERRY, BASED ON YOUR REVIEW OF GAS COSTS IN THIS PROCEEDING AND MR. GILBERT'S OPINION THAT THE COMPANY'S GAS COSTS WERE PRUDENTLY INCURRED, WHAT ARE THE APPROPRIATE DEFERRED ACCOUNT BALANCES AS OF MAY 31, 2020?

A. The appropriate All Customers' Deferred Account balance is a debit balance of $21,209,945, owed by the customers to the Company, as filed by the Company.

The appropriate Sales Only Customers' Deferred Account balance is a credit balance of $12,763,548.52, owed by the Company to the customers, as filed by the Company.

The Public Staff recommends transferring the debit balance of $3,976,782 in the Hedging Deferred Account as of the end of the review period to the Sales Customers' Only Deferred Account. The recommended balance for the Sales Customers' Only Deferred Account as of May 31, 2020, is a net credit balance, owed to the Company, of $8,786,766, determined as follows:

Balance per Exhibit MBT-1 Sch 8	($12,763,549)
Transfer of Hedging Balance	3,976,782
Balance per Public Staff	($8,786,766)

Q. MR. GILBERT, WHAT IS YOUR RECOMMENDATION REGARDING ANY PROPOSED INCREMENTS AND DECREMENTS?

A. I have determined that the temporary increments applicable to the All Customers' Deferred Account balance at May 31, 2020, as proposed by the Company in Tomlinson Exhibit_(MBT-4), are properly and accurately calculated. The Public Staff notes that deferred account balances naturally vary between winter and summer months, since fixed gas costs are typically over-collected during the winter period when throughput is higher due to heating load, and under-collected during the summer when throughput is lower.

The Public Staff also acknowledges that the Company received a $25,544,306.12 refund from Transco on July 1, 2020, pursuant to Article IV of the Stipulation and Agreement filed on December 31, 2019 in FERC Docket RP18-1126 (July Transco Refund). As indicated in a letter filed with the Commission on July 10, 2020, in Docket G-100, Sub 57, Piedmont stated it intends to credit the North Carolina portion of $21,773,966.54 to the All Customers' Deferred Account and apply the remaining $314,811.76 as a credit to the Legal Fund Account per Commission Order dated October 25, 2007 in Docket G-9, Sub 547.

The Public Staff determined that at the end of July 2020, the All Customers' Deferred Account balance had decreased from a debit balance of $21,209,945 as of May 31, 2020, to a debit balance $13,524,959, owed by the customers to the Company. This change includes the July Transco Refund credit as well as under-collections for the months of June and July 2020. The Company projects that the All Customers' Deferred Account will continue to reflect under-collections during the summer period, thus increasing the debit balance to approximately $31.7 million as of October 2020. Therefore, I believe that the temporary increments applicable to the All Customers' Deferred Account balance at May 31, 2020, as proposed by the Company in Tomlinson Exhibit_(MBT-4), are appropriate to implement at this time.

The Sales Customers' Only Deferred Account balance at May 31, 2020 reflects a credit balance of $8,786,766.36, owed from the Company to customers. Public Staff notes that this balance has increased to a credit balance of $20,627,413 at the end of July 2020. The Company projects this balance to further increase throughout the summer period, therefore, I agree with the Company's proposal of implementing a decrement in rates to refund the Sales Customers' Only Deferred Account balance to customers as shown on Tomlinson Exhibit_(MBT-3) in the instant docket.

I recommend that Piedmont continue to monitor the balances in both the All Customers' and Sales Customers' Only Deferred Accounts, and, if needed, file an application for authority to change the benchmark commodity cost of gas or implement new temporary increments or decrements through the Purchased Gas Adjustment mechanism in order to keep the deferred account balances at reasonable levels.

Q. WHAT AFFECT DOES THIS CHANGE IN TEMPORARIES HAVE ON THE TYPICAL RESIDENTIAL BILL?

A. Assuming the Commission approves the Public Staff's recommendation for the implementation of the temporary increments as explained above, the typical residential customer will experience an annual increase of $7.38.[3]

Q. MS. PERRY, DID PIEDMONT HAVE ANY CHANGES TO ITS DEFERRED ACCOUNT REPORTING DURING THE REVIEW PERIOD?

A. Yes. The interest rate changed during the current review period.

Q. HAS THE COMPANY APPROPRIATELY CHANGED ITS INTEREST RATE IN THE DEFERRED ACCOUNTS?

A. Yes. The requirement regarding the current interest rate to use in the deferred gas cost accounts was established in the Merger Order. Ordering Paragraph 9 of the Merger Order states that "beginning with the month in which the merger closes, Piedmont shall use the net-of-tax overall rate of return from its last general rate case as the applicable interest rate on all amounts over-collected or under-collected from customers reflected in its Sales Customers Only, All Customers, and Hedging Deferred Gas Cost Accounts." The Public Staff believes that the Company has complied with Ordering Paragraph 9 of the Merger Order.

Q. WHAT IS THE PUBLIC STAFF'S POSITION REGARDING THE CHANGES IN THE INTEREST RATE APPLIED TO PIEDMONT'S DEFERRED ACCOUNTS?

[3] This annual increase is based on normalized usage of 31,019,259 dts during the winter months and 8,286,562 dts during the summer months.

A. The Public Staff believes that any changes in the overall rate of return from a general rate case and in the federal and state income tax rates should lead to changes in the interest rate. As stated earlier in our testimony, each month the Public Staff's Accounting Division reviews the Deferred Gas Cost Account reports filed by the Company for accuracy and reasonableness, and performs several audit procedures on the calculations, including, but not limited to, the interest calculations. During the first five months of the current review period, Piedmont's interest rate of 6.95% was based on the Company's net-of-tax overall rate of return from its general rate case in Docket No. G-9, Sub 631, as adjusted to reflect the state corporate income tax rate of 2.5%, as well as the 21% federal income tax rate. On April 1, 2019, Piedmont filed a general rate case in Docket No G-9, Sub 743, in which rates became effective November 1, 2019. This resulted in a change to the Company's net-of-tax overall rate of return used to calculate interest on the deferred account balances during the remaining seven months of the review period, November 1, 2019 through May 31, 2020, of 6.66%. The Public Staff agrees with the change in the interest rate.

Q. DOES THIS CONCLUDE THE PUBLIC STAFF'S TESTIMONY?

A. Yes.

APPENDIX A

Qualifications and Experience

GEOFFREY M. GILBERT

I am a graduate of North Carolina State University with a Bachelor of Science Degree in Environmental Engineering.

I began working in the environmental field in October 2008 with TRC Solutions, specializing in air emissions testing and monitoring. In May 2015, I accepted a position in Charlotte, NC with Geo-Technology Associates, Inc. (GTA). While employed at GTA I was responsible for completing Transaction Screens, Phase I Environmental Site Assessments (ESA), and Phase II ESA for a variety of sites, including residential, commercial, industrial, and brownfield.

I joined the Public Staff in August of 2017 as a member of the Natural Gas Division. My work to date includes Purchased Gas Cost Adjustment Procedures, Customer Utilization Trackers, Integrity Management Riders, Peak Day Demand and Capacity Calculations, and Customer Complaint Resolutions.

APPENDIX B

QUALIFICATIONS AND EXPERIENCE

JULIE G. PERRY

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 was promoted to Accounting Manager – Natural Gas & Transportation effective December 1, 2016. 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 and analyses addressing a wide range of topics and issues related to the water, electric, transportation, and telephone industries.