STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH

DOCKET NO. G-9, SUB 771

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of Application of Piedmont Natural Gas Company, Inc. for Annual Review of Gas Costs Pursuant to N.C. Gen Stat. § 62-3.4(c) and Commission Rule R1-17(k)(6)	))))	ORDER ON ANNUAL REVIEW OF GAS COSTS

HEARD: Tuesday, October 6, 2020, 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; Commissioner Lyons Gray, and Commissioner Jeffrey A. Hughes

BY THE COMMISSION: On July 31, 2020, 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; Jeffrey Patton, Manager of Pipeline Services; and Todd Breece, Manager of Natural Gas Trading and Optimization. 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, 2020.

On August 4, 2020, the Commission issued its Order Scheduling Hearing, Requiring Filing of Testimony, Establishing Discovery Guidelines and Requiring Public Notice (Scheduling Order). The Scheduling Order established a hearing date of October 6, 2020, set prefiled testimony dates, and required the Company to give notice to its customers of the hearing on this matter. The Scheduling Order also directed Piedmont "to file testimony and supporting schedules that enable the Public Staff and Commission to review the interest rate presently being applied to Piedmont's deferred accounts, including deferred income tax accounts, and to determine whether a change in the interest rate is warranted."

On August 10, 2020, the Company filed the Supplemental Testimony and Exhibit of MaryBeth Tomlinson addressing the interest rate presently being applied to Piedmont's deferred accounts, including deferred income tax accounts, and whether a change in the interest rate is warranted.

On August 24, 2020, the Commission issued its Order Scheduling Remote Expert Witness Hearing, Requiring Filing of Cross-Exam and Redirect Exhibits, and Addressing Other Matters. This Order established, upon stated consent of the parties, that the expert witness portion of the hearing would be held by remote means on Webex, and established procedures for providing cross-examination exhibits and redirect examination exhibits for the hearing.

On September 18, 2020, the Public Staff filed a motion for a three-day extension of time, until September 24, 2020, to file its prefiled testimony. This motion was granted by Commission Order issued on September 18, 2020.

On September 21, 2020, the Public Staff and the Company each filed notices of consent to a remote expert witness hearing in this docket.

On September 24, 2020, the Public Staff prefiled the joint testimony of Geoffrey M. Gilbert, Utilities Engineer, Natural Gas Section, Energy Division; and Julie G. Perry, Accounting Manager, Natural Gas and Transportation Section, Accounting Division (Public Staff Panel or Panel).

On September 28, 2020, the Company filed its affidavits of publication.

The Public Staff filed revised pages to the Panel's testimony on September 29, 2020 and September 30, 2020.

On September 30, 2020, the Company filed the Rebuttal Testimony of Jeffrey Patton.

On October 1, 2020, the Company filed a motion to excuse all witnesses from testifying at the remote hearing scheduled for October 6, 2020, and to accept the prefiled testimony and exhibits of all witnesses into the record. The Company stated that it consulted with the Public Staff, and, because there were no intervenors and issues in dispute between Piedmont and the Public Staff, both parties agreed to waive cross-examination of all expert witnesses, and did not object to the witnesses' prefiled testimony and exhibits being received into evidence.

On October 2, 2020, the Commission issued its Order Excusing Expert Witnesses, Accepting Testimony and Exhibits, and Canceling Expert Witness Hearing. In its Order, the Commission found good cause to grant the Company's October 1, 2020 motion. The Commission therefore accepted the witnesses' prefiled testimony and exhibits into evidence and cancelled the expert witness hearing scheduled for October 6, 2020. The Commission also found good cause to require that the parties file proposed orders, or a joint proposed order, on or before November 6, 2020.

On October 6, 2020, this matter came on for hearing as scheduled before Hearing Examiner Heather Fennell for the purpose of receiving public witness testimony. No public witnesses appeared at the hearing.

On November 6, 2020, 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, 2020.

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 $251,859,245[1], which was comprised of demand and storage charges of $152,562,398, commodity gas costs of $148,405,851, and other gas costs of ($49,109,003).

7. On May 31, 2020, the Company had a credit balance of $12,763,549, owed from the Company to its customers, in its Sales Customers Only Deferred Account and a debit balance of $21,209,945, owed from the customers to the Company, in its All Customers Deferred Account.

8. During the review period, Piedmont actively participated in secondary market transactions earning actual margins of $25,312,170 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, 2020, the balance in the Company's Hedging Deferred Account was a debit balance of $3,976,782.

[1] The difference of $1 between the North Carolina gas costs and the charges and costs it is comprised of is due to rounding.

11. It is appropriate for the Company to transfer the $3,976,782 debit balance in its Hedging Deferred Account to its Sales Customers Only Deferred Account. The combined balance for the Hedging and Sales Customers Only Deferred Accounts is a net credit balance of $8,786,766.

12. The Company has transportation and storage contracts with interstate and intrastate 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% of such prudently incurred gas costs.

17. The Company should remove the existing temporaries as approved in the Company's prior annual review of gas costs proceeding (Docket No. G-9, Sub 752), and implement the temporary decrement and increments as proposed by Company witness Tomlinson and agreed to by the Public Staff.

18. The appropriate interest rate to apply to Piedmont's Deferred Gas Cost Accounts is 6.95% for the first five months of the review period (June 1, 2019 to October 31, 2019), and 6.66% for the last seven months of the review period (November 1, 2019 to May 31, 2020).

19. It is appropriate for Piedmont to continue calculating interest using its overall allowed rate of return on a net-of-tax basis in its Deferred Gas Cost Accounts, adjusted for known tax changes.

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, Patton, and Breece. 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, Patton, and Breece, the 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).

Pursuant to N.C. Gen. Stat. § 62-133.4, Piedmont is required to submit to the Commission information and data for an historical 12-month review period including 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, 2020, 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 data, 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, 2020.

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 Public Staff Panel. Company witness Tomlinson testified that Piedmont incurred total North Carolina gas costs of $251,859,245[2] during the review period, which according to Public Staff Panel testimony was comprised of demand and storage charges of $152,562,398, commodity gas costs of $148,405,851, and other gas costs of ($49,109,003).

The Public Staff Panel testimony explained the significant increases or decreases in demand and storage charges. The Public Staff Panel testified that 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 Tranco 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

[2] The difference of $1 between the total North Carolina gas costs and the charges and costs it is comprised of is due to rounding.

March 1, 2019, and April 1, 2019, respectively. The Public Staff Panel further testified that 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 Public Staff Panel stated that 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 Public Staff Panel also stated that the Texas Eastern Transmission, LP (TETCO) charges decreased due to a renegotiated contract involving the TETCO Section 4 general rate case proceeding in FERC Docket No. RP19-343-000, effective November 1, 2019. The Summary of Demand and Storage Rate Changes as a result of various Federal Energy Regulatory Commission (FERC) rulings in its dockets during the review period can be found in Company witness Tomlinson's Exhibit MBT-1, Schedule 5.

Company witness Tomlinson's prefiled testimony and exhibits reflected a credit balance of $12,763,549[3] in the Company's Sales Customers Only Deferred Account (which includes an ending credit balance of $8,786,766 and a hedging deferred account balance of $3,976,782), and a debit balance of $21,209,945 in its All Customers Deferred Account as of May 31, 2020. 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 $251,859,245. The Commission further concludes that the appropriate Deferred Gas Cost Account balances as of May 31, 2020 are a credit balance of $12,763,549, owed from the Company to the customers, in its Sales Customers Only Deferred Account, and a debit balance of $21,209,945, owed from the customers to the Company, 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 Breece and the Public Staff Panel.

Company witness Breece 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 secondary market sales. Witness Breece explained that the process and information used by Piedmont in pricing secondary market sales depends upon the location of the sale, term and type of the sale, and prevailing market conditions at the time

[3] The difference of $1 between the balance of the total Company's Sales Customers Only Deferred Account and the balances it is comprised of is due to rounding.

of the sale. Witness Breece stated that for long-term delivered sales (longer than one month), Piedmont generally solicits bids from potential buyers and, if acceptable, evaluates and awards available volumes. Witness Breece 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, estimates 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 $38,891,792 on secondary market transactions and credited the All Customers Deferred Account in the amount of $25,312,170 for the benefit of North Carolina ratepayers (($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). 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 $25,312,170 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 Breece and the Public Staff Panel testimony.

Company witness Tomlinson stated in her testimony that the Company had a debit balance of $3,976,782 in its Hedging Deferred Account at May 31, 2020. The Public Staff Panel testified that the net hedging costs were composed of Economic Gains on Closed Positions of $0, Premiums Paid of $3,710,810, Brokerage Fees and Commissions of $57,257, and Interest on the Hedging Deferred Account of $208,715.

Company witness Breece testified that Piedmont's Hedging Plan accomplished its goal of providing an insurance policy to reduce gas cost volatility for customers if gas prices fly up. Witness Breece testified that the Company did not make any deviations to its Hedging Plan during the review period. Witness Breece further testified that the Company continues to utilize storage as a physical hedge to stabilize the cost of gas, 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 charged to customers.

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. In addition, the Public Staff also reviews minutes from the meetings of Piedmont's Gas Market Risk Committee (GMRC), 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 review proceeding.

The Public Staff Panel concluded that Piedmont's hedging activities were reasonable and prudent and recommended that the $3,976,782 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, 2020, is a net credit balance, owed by the Company to the customers, of $8,786,766.

As demonstrated by the testimony and exhibits provided by Piedmont and the Public Staff, 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 $3,976,782 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 that results in a combined balance for the Hedging and Sales Customers Only Deferred Accounts is a net credit balance of $8,786,766, owed by the Company to the customers.

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 Patton and Breece and the Public Staff Panel.

Company witness Breece testified that the Company maintains a "best cost" gas purchasing policy. This policy consists of five main components: price of the gas; security of gas supply; flexibility of gas supply; gas deliverability; and supplier relations. Witness Breece 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 Breece further testified that the Company purchases gas supplies under a diverse portfolio of contractual arrangements with several 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 (elected either on a monthly or daily basis), with market-based commodity prices. These market-based commodity prices are published daily and monthly 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 flexibility built into the contract with daily swing service generally being more expensive than monthly baseload service.

Witness Breece testified that the Company identifies the volume and type of supply that it needs to fulfill its customer demand requirements and generally solicits requests for proposals (RFPs) from a list of suppliers that the Company continuously updates as potential suppliers enter and leave the marketplace. The RFPs may be for firm baseload or swing supply. Witness Breece 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.

Witness Breece testified that lower reservation fees are associated with swing contracts based upon daily market conditions since both buyer and seller assume the risk of daily market volatility. Witness Breece 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 Breece also testified regarding the current U.S. supply situation and the various pricing alternatives available to the Company, such as fixed prices, monthly market indexing, and daily spot market pricing.

Witness Breece also described how the combination of the five factors of its “best cost” policy affects the Company’s gas supply and capacity contracts 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 informed about all aspects of the natural gas industry by intervening in all major Federal Energy Regulatory Commission 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 Breece further testified that the Company did not implement any changes in its “best cost” gas purchasing policies or practices during the review period. Witnesses Patton and Breece 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, transportation and storage contracts to purchase and dispatch gas, release transportation and storage capacity, and initiate secondary marketing sales in the most cost effective manner. Witness Breece testified that the Company is active in proceedings at the FERC not only with respect to the level of pipeline charges under these contracts, but also the tariff terms and conditions that apply to these pipeline services. Witness Patton included a current summary of the interstate natural gas pipeline proceedings in which Piedmont is a party before the FERC in Exhibit__(JCP-6) – Piedmont's FERC Filing Activity.

Company witness Patton testified about the market requirements of Piedmont's North Carolina customers and the acquisition of capacity to serve those markets. Witness Patton also testified that the Company expects the economy to continue to grow 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 Patton 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 Patton testified that Piedmont is confident the conservative approach to design day forecasting is the most prudent approach.

Witness Patton testified that the Company currently believes that it has sufficient supply and capacity rights to meet its near term customer needs into the 2020-2021 winter period timeframe but that due to the recent cancellation of the Atlantic Coast Pipeline Project (ACP), Piedmont is examining alternatives to serve future demand and system infrastructure that would have been met by ACP. Witness Patton further stated that the Company subscribed to the Leidy Southeast Expansion Project (Leidy Southeast) of 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). Additionally, the Company has increased the design day output of its Bentonville liquefied natural gas (LNG) peaking facility from 90,000 dts per day to 110,000 dts per day beginning in the 2020-2021 winter season. Company witness Patton stated that the 20,000 dts a day increase was a result of a combination of customer load growth in eastern North Carolina and system pipeline upgrades, including the Line 439 upgrade near Greenville, N.C., which allowed for increased volume to be withdrawn on a design day at the Bentonville LNG facility. Witness Patton further testified that Piedmont plans to supply its estimated future growth requirements for the 2021-2022 through 2024-2025 winter seasons through the addition of a LNG facility in Robeson County, N.C. (Robeson LNG). Witness Patton testified that the Robeson LNG facility is anticipated to be completed in the summer of 2021, and that it is forecasted to provide 200,000 dts per day of peaking support starting in the 2021-2022 winter season.

Witness Patton also 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 Patton 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 Patton 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 Deferred Gas Cost Account and operating reports, the gas supply, pipeline transportation, and storage contracts, the reports filed with the Commission in Docket No. G-100, Sub 24A, as well as the Company's responses to the Public Staff's data requests. The Public Staff Panel further testified that, although the scope of Commission Rule R1-17(k) is limited to a historical review period, the Public Staff 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.

The Panel further testified that it 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 Panel stated that the Energy Division also performed independent calculations utilizing the Company's assumptions, and it appeared 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.

While not recommending specific changes at this time, the Public Staff pointed out some areas of concern that were identified during their review, which may be addressed in more detail in future proceedings. The areas of concern were 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[4] planning value, and (c) Baseload Firm Sales (FS)[5] and FT should be properly isolated from one another in the regression analysis, and appropriate multipliers applied to FS and FT separately as appropriate.

The Public Staff Panel encouraged the Company to carefully review these areas related to its demand projections associated with its design day methodology, and make any appropriate changes related to capacity additions in the future. The Panel further stated that it is willing to work with the Company in the review process.

The Public Staff Panel also provided comments on the Company's future available 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. Witness Patton further stated that the Company is in the early stages of

[4] Over the years, Piedmont has 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.

[5] The Public Staff calculations add the five percent reserve margin to the Total Firm Sales Customers only.

evaluating alternatives to ensure that the future needs of Piedmont's customers are met. These alternatives may include additional system infrastructure to strengthen Piedmont's system in eastern North Carolina and additional services from the Company's existing pipeline suppliers.

The Public Staff stated that the Company explained in data request responses 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. Witness Patton also stated in testimony that in order for Piedmont to secure incremental capacity to meet growth requirements of its firm sales customers, 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. Witness Patton stated in his testimony that due to a combination of customer load growth in eastern North Carolina and system pipeline upgrades 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 LNG facility.

Witness Patton further discussed in his testimony that the Company anticipates the Robeson LNG facility in Robeson County, N.C., 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 stated 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 testified that it believes that the Company should carefully review its demand projections as it considers adding any future capacity to its existing supply portfolio.

The Public Staff stated that in 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), approving the merger of Duke Energy Corporation and Piedmont, Regulatory Condition No.11.9 states that the Company shall meet annually with the Public Staff. Further, the Public staff stated that 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.

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

Company witness Patton also provided rebuttal testimony to address concerns and recommendations raised in the Public Staff Panel's testimony. Specifically, witness Patton addressed the Public Staff Panel's concerns regarding the Company's methodology for evaluating its design day demand requirements. Witness Patton testified that, while he did not share the Public Staff Panel's concerns about the Company's design day demand estimation methodology, he was in agreement with the Public Staff Panel's recommendation that the Company continue to carefully review these matters. Witness Patton stated that Piedmont has and will continue to carefully review these matters and will engage in discussions with the Public Staff on these areas of concern and potential opportunities for improvement.

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. The Commission also directs Piedmont to include in its direct testimony next year an update on its discussions with the Public Staff regarding the Company's design day demand estimation methodology and a description ofany changes Piedmont has made to its demand forecasting and capacity planning as a result.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 17

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

Company witness Tomlinson testified that based on the end-of-period balances in the Company's Deferred Gas Cost Accounts, as reflected in 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 decrement applicable to the Sales Customers Only Deferred Account balance in Tomlinson Exhibit_(MBT-3) and the proposed temporary rate increments applicable to the All Customers Deferred Account balance in Tomlinson Exhibit_(MBT-4). The Public Staff Panel agreed with the accuracy of the calculations.

The Public Staff testified that supplier refunds received by Piedmont are flowed through to ratepayers in the All Customers Deferred Account or in certain circumstances applied to the NCUC Legal Fund Reserve Account. The Public Staff Panel also testified 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 No. RP18-1126 (July Transco Refund). The Public Staff Panel stated that, as indicated in a letter filed with the Commission on July 6, 2020 in Docket No. G-100, Sub 57, Piedmont stated that the total North Carolina portion of the refund was $21,773,966.54, and Piedmont had credited $21,459,154.78 to the All Customers Deferred Account and credited the remaining $314,811.76 to the NCUC Legal Fund Account per Commission Order dated October 25, 2007 in Docket No. G-9, Sub 547.

The Public Staff testified 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 of $13,524,959 owed by the customers to the Company. This change includes the July Transco Refund credit as well as the under-collections for the months of June and July 2020. The Public Staff Panel stated that 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, the Panel concluded that the temporary gas cost rate 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 Public Staff Panel stated that the Sales Customers Only Deferred Account balance at May 31, 2020, reflects a credit balance of $12,763,548 owed from the Company to customers. The Public Staff Panel testified that this balance increased to a credit balance of $20,627,413 at the end of July 2020. The Company projected this balance to further increase throughout the summer period, therefore, the Panel agreed 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.

The Public Staff further recommended 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 gas costs 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 752, and to implement the Company's temporary decrement and increments as proposed in the instant docket.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 18-19

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

Company witness Tomlinson testified in her supplemental testimony that it is appropriate for the Company to use its overall allowed rate of return on a net-of-tax basis as the interest rate for the Sales Customers Only Deferred Account, the All Customers Deferred Account, the Hedging Deferred Account, the NCUC Legal Fund Account, the Margin Decoupling Tracker and the Integrity Management Rider deferred accounts, as well as the regulatory liability account holding the overcollected tax revenues associated with the federal tax reform changes effective January 1, 2018.

The Public Staff Panel stated that the requirement regarding the current interest rate to use in the Deferred Gas Cost Accounts was established in the Commission's Merger Order. The Panel explained that any change in the overall rate of return from a general rate case and in the federal and state tax rates should lead to changes in the interest rate. The Panel testified that 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 or 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 corporate income tax rate. The Panel further testified that during the remaining seven months of the review period, the Company's interest rate of 6.66% was based on the net-of-tax overall rate or return from its general rate case filed on April 1, 2019, in Docket No. G-9, Sub 743. The Public Staff Panel agreed that the Company appropriately changed its interest rate in the Deferred Gas Cost Accounts.

Based on the foregoing, the Commission concludes that the appropriate interest rate to apply to Piedmont's Deferred Accounts should be 6.95% for the first five months of the review period and 6.66% for the last seven months of the review period. The Commission further concludes that it is appropriate for Piedmont to continue calculating interest using its overall Commission approved allowed rate of return on a net-of-tax basis in its Deferred Gas Cost Accounts, adjusted for known tax changes, and that the Company file such testimony and supporting schedules as part of its direct testimony in subsequent cost of gas proceedings.

IT IS, THEREFORE, ORDERED as follows:

1. That the Company's accounting for gas costs during the twelve-month period ended May 31, 2020, is approved;

2. That the gas costs incurred by Piedmont during the twelve-month period ended May 31, 2020, including the Company's hedging costs, were reasonably and prudently incurred, and Piedmont is hereby authorized to recover 100% of its gas costs incurred during the period of review;

3. That Piedmont include in its direct testimony next year an update on its discussions with the Public Staff regarding the Company's design day demand estimation methodology, including an explanation of any changes Piedmont has made to its demand forecasting and capacity planning as a result;

4. That the Company shall remove the existing temporaries that were implemented in Docket No. G-9, Sub 752, and implement the temporaries, as found

appropriate herein, effective for service rendered on and after the first day of the month following the date of this Order;

5. That it is appropriate to apply to Piedmont's Deferred Gas Cost Accounts an interest rate of 6.95% for the first five months of the review period and 6.66% for the last seven months of the review period;

6. That it is appropriate for Piedmont to continue calculating interest using its Commission approved overall allowed rate of return on a net-of-tax basis in its Deferred Gas Cost Accounts, adjusted for known tax changes;

7. That in subsequent annual review proceedings, Piedmont shall file in its direct testimony an explanation and supporting schedules that enable the Public Staff and Commission to review the interest rate being applied to Piedmont's deferred accounts, including deferred income tax accounts;

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

9. That Piedmont shall file revised tariffs within five business days of the date of this Order implementing the rate changes approved in Ordering Paragraph No. 4 above.

ISSUED BY ORDER OF THE COMMISSION.

This the 21st day of January, 2021.

NORTH CAROLINA UTILITIES COMMISSION

Kimberley A. Campbell

Kimberley A. Campbell, Chief Clerk