STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH

DOCKET NO. G-9, SUB 811

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. § 62-133.4(c) and Commission Rule R1-17(k)(6)	))))	ORDER ON ANNUAL REVIEW OF GAS COSTS

HEARD: Monday, October 4, 2022, at 10:00 a.m., Commission Hearing Room 2115, Dobbs Building, 430 North Salisbury Street, Raleigh, North Carolina (Public Witness Hearing, Hearing Examiner Dustin Rhodes, Presiding)

BEFORE: Commissioner ToNola D. Brown-Bland, Presiding; Commissioner Jeffrey A. Hughes, and Commissioner Floyd B. McKissick, Jr.

APPEARANCES:

For Piedmont Natural Gas Company, Inc.:

Kristin M. Athens, McGuireWoods LLP, 501 Fayetteville Street, Suite 500, Raleigh, North Carolina 27601

For the Using and Consuming Public:

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

BY THE COMMISSION: On August 1, 2022, 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; Todd Breece, Manager of Natural Gas Trading & Optimization; and Jeffrey Patton, Manager of Pipeline Services. Piedmont's witnesses attested to the prudence of the Company's gas purchasing practices and the accuracy of the Company's gas cost accounting for the 12-month period ended May 31, 2022.

On August 4, 2022, 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 4, 2022, set prefiled testimony dates, and required the Company to give notice to its customers of the hearing on this matter.

On September 19, 2022, the Public Staff prefiled the direct testimony and exhibits of Jordan A. Nader, Utilities Engineer, Energy Division; Dustin R. Metz, Utilities Engineer, Energy Division; and Sonja R. Johnson, Financial Manager, Accounting Division.

On September 22, 2022, the Company filed its affidavits of publication as required by the Scheduling Order.

On September 26, 2022, Piedmont filed a motion to substitute Bryan Manges as the sponsor of the testimony and exhibits prefiled by MaryBeth Tomlinson and to permit Mr. Manges to testify in place of Ms. Tomlinson at the hearing in this matter.

On September 29, 2022, Piedmont prefiled the rebuttal testimony of Jeffrey Patton and Todd Breece.

On September 30, 2022, the Public Staff and the Company filed a joint motion to excuse all witnesses from testifying at the hearing scheduled for October 4, 2022, and to accept the prefiled testimony and exhibits of all witnesses into the record at such hearing. The Company and Public Staff stated that they had consulted with each other and, because there were no issues in dispute between them requiring resolution by the Commission in the proceeding and no intervenors, they 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 3, 2022, the Commission issued its Order Accepting Substitution of Witness, Excusing Witnesses, Canceling Expert Witness Hearing, and Setting Date for Briefs and Proposed Orders (October 3 Order). In its October 3 Order, the Commission found good cause to grant the Company's September 26, 2022, Motion for Substitution of Witness and Adoption of Testimony, as well as the Public Staff's and Company's September 30, 2022, joint motion to excuse the expert witnesses from testifying at the hearing. The Commission therefore accepted the witnesses' prefiled testimony and exhibits into evidence and canceled the expert witness hearing scheduled for October 4, 2022. The Commission also found good cause to require that the parties file proposed orders, or a joint proposed order, on or before November 3, 2022.

On October 4, 2022, this matter came on for hearing as scheduled. Because of the Commission's prior orders accepting prefiled testimony and exhibits into the record and canceling the expert witness hearing, the October 4, 2022, hearing was solely for the purpose of receiving public witness testimony, if any, and was conducted before Hearing Examiner Dustin Rhodes. No public witnesses appeared at the hearing.

On November 3, 2022, Piedmont and the Public Staff filed a Joint Proposed Order.

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.G.S. § 62-133.4(c) and Commission Rule R1-17(k).

4. The review period in this proceeding is the 12 months ended May 31, 2022.

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 $415,672,939, which was comprised of demand and storage charges of $148,828,701, commodity gas costs of $307,719,348, and other gas costs of ($40,875,109).

7. On May 31, 2022, the Company had a debit balance of $32,917,295, owed from the customers to the Company, in its Sales Customers Only Deferred Account and a credit balance of $36,906,871, owed from the Company to the customers, in its All Customers Deferred Account.

8. During the review period, Piedmont actively participated in secondary market transactions and credited the All Customers Deferred Account in the amount of $52,494,333 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. As of May 31, 2022, the balance in the Company's Hedging Deferred Account was a credit balance of $18,021,467.

11. It is appropriate for the Company to include the $18,021,467 credit balance in its Hedging Deferred Account in its Sales Customers' Only Deferred Account. The combined balance for the Hedging and Sales Customers' Only Deferred Accounts is a net debit balance of $14,895,828.

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

13. The Company utilized a "best cost" gas purchasing policy during the 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 gas costs during the review period were prudently incurred, and the Company should be permitted to recover 100% of such prudently incurred gas costs.

16. No new temporary rate increments or decrements should be implemented as a result of this proceeding.

17. During the first seven months of the review period, June 1, 2021, through December 31, 2021, an interest rate of 6.66% was applied to Piedmont's Deferred Gas Cost Accounts. During the remaining five months of the review period, January 1, 2022, through May 31, 2022, the Company's overall allowed rate of return on a net-of-tax basis became 6.45%, which was the interest rate applied to Piedmont's Deferred Gas Cost Accounts.

18. 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 Manges, Breece, and Patton. 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 Manges, Breece, and Patton, the testimony of the Public Staff witnesses Johnson, Metz, and Nader, and the provisions of N.C.G.S. § 62-133.4(c) and Commission Rule R1-17(k)(6).

Pursuant to N.C.G.S. § 62-133.4, Piedmont is required to submit to the Commission information and data for a historical 12-month review period concerning its actual cost of gas, volumes of purchased gas, sales volumes, negotiated sales volumes, and transportation volumes. Commission Rule R1-17(k)(6)(a) establishes May 31, 2022, 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 its annual review filing.

Company witness Manges 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 Manges included the annual data required by Commission Rule R1-17(k)(6)(c) as Exhibit_(MBT-1) to his direct testimony. Public Staff witness Johnson stated that she had presented the results of her 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).

Based upon the foregoing, the Commission concludes that Piedmont has complied with the procedural requirements of N.C.G.S. § 62-133.4(c) and Commission Rule R1-17(k) for the 12-month review period ended May 31, 2022.

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 Manges and the testimony of Public Staff witness Johnson.

Company witness Manges testified that Piedmont incurred total North Carolina gas costs of $415,672,939 during the review period, which was comprised of demand and storage charges of $148,828,701, commodity gas costs of $307,719,348, and other gas costs of ($40,875,109).

Public Staff witness Johnson’s testimony explained the significant increases or decreases in demand and storage charges. Witness Johnson testified that the decreases in the Transcontinental Gas Pipe Line Company, LLC (Transco) Firm Transportation (FT), the Transco Eminence Storage Service (ESS), the Transco Washington Storage Service (WSS), and Dominion FT- GSS charges are due to decreases related to Transco’s general rate case and fuel tracker filings, pursuant to Federal Energy Regulatory Commission (FERC) Docket Nos. RP21-1160-000 and RP21-579-000 effective November 1, 2021, and April 1, 2021, respectively. Public Staff witness Johnson further testified that the increases in Columbia Gas Transmission, LLC (Columbia), Firm Storage Service, Columbia Storage Service Transportation (SST), Columbia Firm Transportation Service (FTS), and No Notice Transportation FT Service charges are primarily due to a general rate case filing in FERC Docket No. RP20-1060-000, effective February 1, 2021, and a Capital Cost Recovery Mechanism compliance filing for recovery of specified capital investments under Columbia’s Modernization Program in FERC Docket No. RP22-654-000, effective April 1, 2022. Witness Johnson stated that the East Tennessee Natural Gas (ETN) FT charges increased due to various FERC amendments involving filings with ETN and Texas Eastern Transmission, LP (TETCO), including rate increases from a TETCO general rate case proceeding in FERC Docket No. RP21-1001-003, effective February 1, 2022. Witness

Johnson testified that the Hardy Storage charges increased by 15.6% due to changes in tariff rates in several Modernization Cost Recovery Mechanism (MCRM) FERC filings as well as a supplier refund issued to the Company in April 2022. Witness Johnson also stated that the Liquified Natural Gas (LNG) Processing charges increased due to a higher level of LNG withdrawal volumes when compared to the withdrawal volumes from the prior review period due to the addition of the Robeson County LNG facility being included in Piedmont's supply and capacity portfolio. Finally, witness Johnson stated that Property Taxes increased due to the inclusion of an improperly excluded property tax bill in the prior review period that was corrected during the current annual review period along with the associated interest. The Summary of Demand and Storage Rate Changes as a result of various FERC rulings in its dockets during the review period can be found in Company witness Manges's Exhibit_(MBT-1), Schedule 5.

Company witness Manges's prefiled testimony and exhibits reflected a debit balance of $14,895,828 in the Company's Sales Customers Only Deferred Account (which includes an ending debit balance of $32,917,295 and a hedging deferred account credit balance of $18,021,467), and a credit balance of $36,906,871 in its All Customers Deferred Account as of May 31, 2022. Public Staff witness Johnson 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 $415,672,939. The Commission further concludes that the appropriate deferred account balances as of May 31, 2022, are a debit balance of $32,917,295, owed from the customers to the Company, in its Sales Customers Only Deferred Account, and a credit balance of $36,906,871, owed from the Company to the customers, in its All Customers Deferred Account.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 8

The evidence supporting this finding of fact is contained in the testimony of Company witness Breece and in the testimony of Public Staff witness Johnson.

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 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, awards volumes based on bids received and its evaluation. Witness Breece further stated that, for short-term transactions (daily or monthly), Piedmont monitors prices and volumes on the Intercontinental Exchange, talks to various market participants, and for less liquid trading points, estimates prices based on price relationships with more liquid points.

Witness Breece stated that the Company also evaluates the amount of supply available for sale and weighs that against current market conditions in formulating its sales strategy.

Public Staff witness Johnson testified that the Company earned actual margins of $78,491,679 on secondary market transactions and credited the All Customers Deferred Account in the amount of $52,494,333 for the benefit of North Carolina ratepayers (($78,491,679 – 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 were earned as 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 $52,494,333 net margin for the benefit of North Carolina ratepayers during the review period.[1]

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 Manges and Breece and the testimony of Public Staff witness Johnson.

Company witness Manges stated in his testimony that the Company had a credit balance of $18,021,467 in its Hedging Deferred Account at May 31, 2022. Public Staff witness Johnson testified that the net hedging benefits were composed of Economic Gains on Closed Positions of ($18,106,560), Premiums Paid of $345,980, Brokerage Fees and Commissions of $11,612, and Interest on the Hedging Deferred Account of ($272,499).

Company witness Breece testified that Piedmont's Hedging Plan accomplished its goal of providing an insurance policy to reduce gas cost volatility for customers in the event of a gas price fly up. Witness Breece testified that the Company did not make any changes 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 cost, and that the Company's Equal Payment Plan, the use of the Purchased Gas Adjustment benchmark price, and deferred gas cost accounting also provide a smoothing effect on gas prices charged to customers.

Public Staff witness Johnson testified that the Public Staff's review of the Company's hedging activities is performed on an ongoing basis and includes analysis and evaluation of information contained in 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. Further, the Public Staff reviews periodic reports on the

[1]As noted on page 13 of Public Staff witness Johnson's direct testimony, this dollar amount is slightly different than the dollar amount reflected on Piedmont witness Manges's Exhibit_(MBT-1), Schedule 9, since the Company's deferred account includes estimates for the May 2022 secondary marketing transactions.

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 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.

Public Staff witness Johnson concluded that Piedmont's hedging activities were reasonable and prudent and recommended that the $18,021,467 credit 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, witness Johnson stated that the combined balance in the Sales Customers Only Deferred Account as of May 31, 2022, is a net debit balance of $14,895,828, owed by the customers to the Company.

As demonstrated by the testimony and exhibits provided by Piedmont and the Public Staff, the Commission finds that Piedmont's hedging program 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 $18,021,467 credit balance in the Hedging Deferred Account as of the end of the review period should be transferred to the Sales Customers Only Deferred Account. The combined balance for the Hedging and Sales Customers Only Deferred Accounts is a net debit balance of $14,895,828, owed by the customers to the Company.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 12-15

The evidence supporting these findings of fact is contained in the direct testimony of Company witnesses Breece, the direct and rebuttal testimony and exhibits of Company witness Patton, and the direct testimony and exhibits of Public Staff witnesses Johnson, Nader, and Metz.

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 the gas supply; flexibility of the 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 reputable gas producers and marketers. In general, under the Company's firm gas supply contracts, Piedmont may pay negotiated reservation fees for the right to reserve and call on firm supply service up to a maximum daily contract quantity (nominated either on a monthly or daily basis), with market-based commodity prices tied to indices published in industry trade publications. Some of these firm contracts are for winter only (peaking or seasonal) service and some provide for 365-day (annual) service. Firm gas supplies are purchased for reliability and security of service and are generally priced on a reservation fee basis according to the amount of nomination flexibility built into the contract with daily swing service generally being more expensive than monthly baseload service.

Witness Breece testified that the Company identifies the volume and type of supply 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. Witness Breece also testified regarding the current U.S. supply situation and the various pricing alternatives available, such as fixed prices, monthly market indexing, and daily spot market pricing.

Witness Breece also described how the interrelationship of the five factors of its "best cost" policy affects the Company's construction of its gas supply and capacity portfolio under its best cost policy. The long-term contracts, supplemented by long-term peaking services and storage, generally are aligned with the firm market; the short-term spot gas generally serves the interruptible market. In order to weigh and consider the five factors, the Company stays abreast of current issues facing the natural gas industry by intervening in all major FERC proceedings involving its pipeline transporters, maintaining constant contact with existing and potential suppliers, monitoring gas prices on a real-time basis, subscribing to industry literature, following supply and demand developments, and attending industry seminars. Witness Breece further testified that the Company did not make 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 and capacity contracts to purchase and dispatch gas, release capacity, and initiate secondary marketing sales in the most cost effective manner. 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 Filings June 2021-May 2022.

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 increasing residential and commercial 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 for firm customer load occurs during Design Day (DD) conditions. For that reason, witness Patton testified that Piedmont is confident the conservative approach to DD forecasting is the most prudent approach.

Witness Patton testified that the Company currently believes it has sufficient supply and capacity rights to meet its customer needs for the upcoming 2022-2023 winter season. Specifically, witness Patton testified that Piedmont increased the DD output of its Bentonville LNG peaking facility from 90,000 dekatherms (dts) per day to 110,000 dts per day beginning in the winter 2020-2021 season and that Piedmont's newest LNG facility – the Robeson LNG facility – was placed into service in late August 2021, and the facility currently provides 200,000 dts per day of peaking supply of natural gas. Additionally, witness Patton testified that in light of cancellation of the Atlantic Coast Pipeline Project (ACP) the Company entered into a confidential, binding precedent agreement with Transco to secure additional incremental firm pipeline service via Transco's Southside Reliability Enhancement (SRE) Project that is targeted to be placed in-service on December 1, 2024. According to witness Patton, the SRE Project will provide Piedmont with 160,000 dts per day of incremental firm pipeline service via Transco's South Virginia Lateral to delivery points in Piedmont's eastern North Carolina service territory. Additionally, the SRE Project will provide a separate firm pipeline service path of 263,400 dts per day from Transco's interconnect with Pine Needle LNG to Piedmont's Iredell meter located in Iredell County, North Carolina.

Witness Patton also testified that capacity additions are acquired in "blocks" of additional transportation, storage, or LNG 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 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.

Public Staff witness Johnson testified that she reviewed the testimony and exhibits of the Company's witnesses, the monthly Deferred Gas Cost Account, 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, as well as the Company's responses to the Public Staff's data requests.

Public Staff witness Nader testified that, although the scope of Commission Rule R1-17(k) is limited to a historical review period, the Public Staff also considered information received in response to data requests in order to anticipate the Company's requirements for future needs, including DD estimates, forecasted gas supply needs, projection of capacity additions and supply changes, and customer load profile changes. Based on his review, witness Nader testified that the Company's review period gas costs were prudently incurred.

Public Staff witness Nader expressed a concern with the availability of Piedmont's Pine Needle supplies at this time (pending completion of the SRE Project). The Public Staff proposed to work with the Company prior to the filing of the next annual review to address the Company's future supply capacity. In response, Piedmont witness Patton testified in rebuttal testimony that Piedmont was in the process of "firming up" the Pine Needle supplies that historically had been delivered through secondary firm backhaul transactions on Transco, and that it had not experienced cuts or disruptions of Pine Needle deliveries in the past and did not anticipate any in the period between now and the in-service date of the SRE Project.

Public Staff witness Metz expressed concern regarding the potential impact of the Marquette Study on Piedmont's calculation of DD requirements. In particular, he found the Marquette Study to be inconclusive and also indicated that it was unclear how Piedmont intended to use the study going forward. Based on these conclusions, witness Metz recommended that Piedmont "promptly determine a final DD planning methodology and provide the results in next year's annual review proceeding." Witness Metz also expressed concern with the adequacy of Piedmont's capacity assets in light of the Marquette Study.

In his rebuttal testimony, witness Patton testified that the Company opted to utilize the Marquette Study for computing DD requirements for the winter of 2022-2023 because the study addressed each of the five refinements discussed in the Public Staff's testimony from last year's prudence review proceeding but that Piedmont was still reviewing the study and considering its usefulness in the Company's future DD planning. Witness Patton also indicated that Piedmont had not yet committed to or incurred any additional cost associated with the study. Finally, witness Patton indicated that, as part of its next prudence filing, the Company would provide a discussion of the assumptions, methodology, and reasoning behind the Company's DD demand and winter load duration curve planning process.

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 further concludes that the Company should provide, in its next annual review filing, (1) an update on Transco's SRE Project, specifically on the relative firmness of Pine Needle supplies, and (2) a discussion of the assumptions, methodology, and reasoning behind its DD demand and winter load duration curve planning process.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 16

The evidence supporting this finding of fact is contained in the testimony of Company witness Manges and the testimony of Public Staff witness Nader.

Company witness Manges did not propose any new increments or decrements. Public Staff witness Nader testified that the deferred account balances of local distribution companies (LDCs) vary between winter and summer months, as gas costs are typically over-collected during the winter period when throughput is higher due to heating load and under-collected during the summer due to lower throughput. Witness Nader further testified that the Public Staff generally recommends that LDCs monitor the deferred account balances and, if necessary, file an application for authority to adjust their benchmark cost of gas and/or temporary rate per dt; however, he testified that he believes the Company is actively managing its deferred account through the Purchased Gas Adjustment procedures. On September 16, 2022, Piedmont filed a petition in Docket No. G-9, Sub 813, seeking approval to increase its rates and charges effective October 1, 2022, as a result of the net effect of: (1) a proposed increase in its Benchmark Cost of Gas from the current rate of $6.00 per dt to a rate of $8.25 per dt; and (2) a reduction in the demand charge component of its rates. The Commission approved the requested rate adjustments by Order issued on September 26, 2022.

The Public Staff did not recommend any new increments or decrements in this proceeding.

Based on the foregoing, the Commission concludes that no new temporary increments or decrements should be implemented as a result of this proceeding.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 17-18

The evidence supporting these findings of fact is contained in the testimony and exhibits of Company witness Manges and the testimony of Public Staff witness Johnson.

Company witness Manges testified that it is appropriate for the Company to use its overall allowed rate of return on a net-of-tax basis of 6.45%, which was approved in the Company's last general rate case in Docket No. G-9, Sub 781, as the interest rate for the Sales Customers Only Deferred Account, the All Customers Deferred Account, the Hedging Deferred Account, and the NCUC Legal Fund Account (Deferred Gas Cost Accounts), beginning in January 2022. Prior to January 2022, and within the review period, Piedmont applied an interest rate of 6.66% to the Deferred Gas Cost Account balances. This rate reflected the overall rate of return on a net-of-tax basis, which was set in Piedmont's general rate case in Docket No. G-9, Sub 743.

Public Staff witness Johnson stated that the requirement regarding the current interest rate to use in the Deferred Gas Cost Accounts was established 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. Witness Johnson 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. Witness Johnson testified that during the first seven months of the review period, June 1, 2021, through December 31, 2021, Piedmont utilized an interest rate of 6.66% consistent with changes to the net-of-tax overall rate of return from its general rate case in Docket No. G-9, Sub 743. During the remaining five months of the review period, January 1, 2022, through May 31, 2022, the Company utilized an interest rate of 6.45% consistent with the net-of-tax overall rate of return from its last general rate case in Docket No. G-9, Sub 781. Witness Johnson agreed that it is appropriate for the Company to use the 6.45% 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 Gas Cost Accounts for the review period should be 6.66% for the first seven months of the review period and 6.45% for the last five 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 12-month period ended May 31, 2022, is approved;

2. That the gas costs incurred by Piedmont during the 12-month period ended May 31, 2022, 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 review period;

3. That it is appropriate to apply to Piedmont's Deferred Gas Cost Accounts an interest rate of 6.66% for the first seven months of the review period (June 1, 2021, to December 31, 2021) and 6.45% for the last five months of the review period (January 1, 2022, to May 31, 2022);

4. 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;

5. That in subsequent annual review proceedings, Piedmont shall continue to 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;

6. That in its next annual review proceeding, Piedmont shall file in its direct testimony an update on Transco's SRE Project, specifically on the relative firmness of Pine Needle capacity and a discussion on the assumptions, methodology, and reasoning behind the Company's DD demand and winter load duration curve planning process; and

7. That Piedmont shall not implement any temporary rate changes in this docket.

ISSUED BY ORDER OF THE COMMISSION.

This the 6th day of January, 2023.

NORTH CAROLINA UTILITIES COMMISSION

A. Shonta Dunston

A. Shonta Dunston, Chief Clerk