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PLACE: Dobbs Building, Raleigh, North Carolina

DATE: Tuesday, August 14, 2018

TIME: 10:00 a.m. - 11:11 a.m.

DOCKET NO: G-5, Sub 591

BEFORE: Commissioner ToNola D. Brown-Bland, Presiding

Commissioner Charlotte A. Mitchell

Commissioner Jerry C. Dockham

**FILED**

**AUG 23 2018**

Clerk's Office

N.C. Utilities Commission

**IN THE MATTER OF:**

Public Service Company of North Carolina, Inc.

Annual Review of Gas Costs Pursuant to  
G.S. 62-133.4(c) and Commission Rule R1-17(k)(6)

1 A P P E A R A N C E S:

2 FOR PUBLIC SERVICE COMPANY OF NORTH CAROLINA, INC.:

3 Andrea Kells, Esq.

4 McGuireWoods LLP

5 434 Fayetteville Street

6 Raleigh, North Carolina 27601

7

8 FOR THE USING AND CONSUMING PUBLIC:

9 Gina C. Holt, Esq.

10 Public Staff - North Carolina Utilities Commission

11 4326 Mail Service Center

12 Raleigh, North Carolina 27699-4300

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## P R O C E E D I N G S

COMMISSIONER BROWN-BLAND: Good morning.

Let's come to order and go on the record. I am Commissioner ToNola D. Brown-Bland with the North Carolina Utilities Commission. I've been assigned to preside at this hearing, and with me this morning are Commissioners Jerry C. Dockham and Charlotte A. Mitchell.

I now call for hearing Docket Number G-5, Sub 591, which is In the Matter of Application of Public Service Company of North Carolina, Inc., for Annual Review of Gas Costs Pursuant to G.S. 62-133.4(c) and Commission Rule R1-17(k)(6).

G.S. 62-133.4 authorizes gas cost adjustment proceedings for natural gas local distribution companies, and provides that the Utilities Commission shall conduct annual review proceedings to conduct each natural gas utility's prudently incurred costs with costs recovered from all of the utility's customers served during the test period.

Commission Rule R1-17(6)(k) (sic) prescribes the procedures for such annual reviews of natural gas costs.

On June 1, 2018, Public Service Company of

NORTH CAROLINA UTILITIES COMMISSION

1 North Carolina, Inc., hereafter Public Service, filed  
2 direct testimony and exhibits of Rose M. Jackson and  
3 Candace A. Paton relating to an annual review  
4 proceeding pursuant to G.S. 62-133.4 and Commission  
5 Rule R1-17(k)(6).

6 On June 7, 2018, the Commission issued an  
7 Order Scheduling Hearing, Requiring Filing of  
8 Testimony, Establishing Discovery Guidelines, and  
9 Requiring Public Notice. The Order scheduled a  
10 hearing for this date, Tuesday, August 14, 2018, at  
11 10:00 a.m.

12 On July 19, 2018, Public Service filed the  
13 Revised Exhibit 1 of Witness Rose M. Jackson.

14 On July 30, 2018, the Public Staff filed  
15 Joint Testimony with Appendices of Sonja R. Johnson,  
16 Geoffrey M. Gilbert and Julie G. Perry.

17 On August 3, 2018, Public Service filed  
18 Affidavits of Publication of Notice of today's  
19 hearing.

20 On August 8, 2018, the Commission issued an  
21 Order providing notice of Commission questions.

22 In compliance with the requirement of  
23 Chapter 138A of the State Government Ethics Act, I  
24 remind the members of the Commission of our

1 responsibility to avoid conflicts of interest, and I  
2 inquire whether any member this morning has a conflict  
3 with respect to the matter before us this morning?

4 (No response)

5 Let the record reflect that no conflicts  
6 were identified. And let us now have the appearances  
7 of counsel, beginning with Public Service.

8 MS. KELLS: Good morning, Presiding  
9 Commissioner Brown-Bland. I'm Andrea Kells with the  
10 Law Firm of McGuireWoods on behalf of PSNC Energy.

11 COMMISSIONER BROWN-BLAND: Good morning.

12 MS. HOLT: Good morning. I'm Gina Holt with  
13 the Public Staff appearing on behalf of the Using and  
14 Consuming Public.

15 COMMISSIONER BROWN-BLAND: Before we get  
16 started this morning, are there any preliminary  
17 matters that we need to handle?

18 MS. KELLS: No, ma'am.

19 MS. HOLT: (Shakes head no).

20 COMMISSIONER BROWN-BLAND: Ms. Holt, have  
21 you identified any public witnesses who wish to  
22 testify this morning?

23 MS. HOLT: No, I have not.

24 COMMISSIONER BROWN-BLAND: Just out of

1 caution, is there anyone present this morning in the  
2 audience who wishes to come forward and give testimony  
3 as a public witness?

4 (No response)

5 Let the record reflect no one came forward.  
6 So, with that, the case is with Public Service.

7 MS. KELLS: Thank you. PSNC calls Ms. Rose  
8 Jackson and Ms. Candy Paton, as a panel.

9 COMMISSIONER BROWN-BLAND: You've done this  
10 enough times? (Referring to witnesses)

11 (Laughter)

12 ROSE M. JACKSON and CANDACE A. PATON;  
13 having been duly sworn,  
14 testified as follows:

15 COMMISSIONER BROWN-BLAND: Thank you. You  
16 may be seated.

17 MS. KELLS: I'll start with Ms. Jackson.

18 DIRECT EXAMINATION BY MS. KELLS:

19 Q Ms. Jackson, please state your name and business  
20 address for the record.

21 A My name is Rose M. Jackson. My business address  
22 is 1300 12th Street, Cayce, South Carolina.

23 Q By whom are you employed and in what capacity?

24 A I'm employed by SCANA Services, Incorporated, as

1 the General Manager of Supply and Asset  
2 Management.

3 Q Did you cause to be prefiled in this docket on  
4 June 1, 2018, direct public and confidential  
5 testimony in question and answer form consisting  
6 of 18 pages and three exhibits of which the  
7 attachment to Exhibit 2 was also confidential?

8 A Yes, I did.

9 Q Did you also cause to be prefiled on July 19,  
10 2018, a Revised Jackson Exhibit 1?

11 A Yes, I did.

12 Q Are there any corrections you would like to make  
13 to your direct testimony at this time?

14 A Yes, I have a couple. Beginning on page 14 of my  
15 prefiled testimony, the redacted information on  
16 line 6 through line 10 is now public information.  
17 And then on that same page, line 14, Mountain  
18 Valley Pipeline has changed their projected  
19 in-service date to be the first quarter of 2019,  
20 and that's an update since my prefiled testimony  
21 was filed.

22 MS. KELLS: And those corrections are  
23 included on the page clipped to the testimony we  
24 handed out as a packet. So behind Ms. Jackson's

1 direct testimony there's a page 14 with those  
2 corrections and then followed by Ms. Paton's summary.

3 BY MS. KELLS:

4 Q With these corrections, if I asked you the  
5 questions in your direct testimony today, would  
6 your answers be the same?

7 A Yes, they would.

8 Q Do you have a summary of your direct testimony?

9 A Yes, do I.

10 Q Would you please read it now?

11 A I'd be glad to.

12 (WHEREUPON, the summary of ROSE M.  
13 JACKSON is copied into the  
14 record.)

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DOCKET NO. G-5, SUB 591  
SUMMARY OF DIRECT TESTIMONY OF  
ROSE M. JACKSON

The purpose of my testimony is to demonstrate that all PSNC's gas costs were prudently incurred during the review period ended March 31, 2018, and therefore meet the requirement for recovery. I also discuss PSNC's hedging program.

PSNC's system and its gas supply procurement policy are designed to serve firm customers reliably on a design day. In providing sales service, the Company must acquire supplies of natural gas and arrange for their delivery to PSNC's system. The most appropriate description of PSNC's procurement policy has been, and continues to be, a "best cost" supply strategy. This strategy is based on three primary criteria: supply security, operational flexibility, and the cost of gas. PSNC is committed to acquiring cost-effective supplies of natural gas while maintaining the necessary security and flexibility to serve our customers.

PSNC acquires capacity to meet its customers' demand. PSNC's design-day demand forecast projects firm customer load and is used to determine total asset needs. This forecast is updated annually and capacity alternatives are evaluated on an on-going basis. If needed, PSNC secures incremental storage and/or transportation capacity to meet the growth requirements of its firm sales customers consistent with its best-cost strategy. To acquire long-term expansion capacity precisely in balance with customer needs is impossible due to many external factors beyond the Company's control. In assessing the type of resources needed to meet its design-day demand, PSNC attempts to minimize the per unit delivered gas cost. This analysis incorporates any transportation charges, storage costs, and supplier reservation fees required to deliver gas to PSNC's system, as well as the reliability and timing of new services.

PSNC also utilizes a hedging program to help mitigate natural gas price volatility. The hedging program meets this objective by using financial instruments such as call options or futures.

In conclusion, it is my opinion that all of PSNC's gas costs were prudently incurred under its gas supply acquisition policy and I respectfully request that these costs be approved.

1 MS. KELLS: Thank you. Commissioner, I move  
2 that Ms. Jackson's direct testimony be copied into the  
3 record as if given orally from the stand, and that her  
4 three exhibits be marked for identification as  
5 prefiled with portions of her testimony and the  
6 attachment to Exhibit 2 containing confidential  
7 information filed under seal.

8 COMMISSIONER BROWN-BLAND: You're moving  
9 those at this time or you're just asking for  
10 identification?

11 MS. KELLS: I'm asking for them to be  
12 identified as premarked.

13 COMMISSIONER BROWN-BLAND: Ms. Kells, with  
14 respect to the public version of the testimony that  
15 was filed, and I heard you say this morning that her  
16 direct testimony was 18 pages, but the actual  
17 confidential version that were filed references 17  
18 pages. Eighteen pages is correct for both of them?  
19 There should be 18?

20 MS. KELLS: I would presume so but the  
21 confidential was filed, just the confidential portion  
22 so it should still be 18.

23 COMMISSIONER BROWN-BLAND: So, at the  
24 bottom, like when it said six of whatever --

1 MS. KELLS: Yes.

2 COMMISSIONER BROWN-BLAND: -- it was saying  
3 17, but actually there was a page 18 that I saw in the  
4 public.

5 MS. KELLS: I believe that's correct.

6 COMMISSIONER BROWN-BLAND: Okay. So that  
7 should be 18?

8 MS. KELLS: Yes, ma'am.

9 COMMISSIONER BROWN-BLAND: With that  
10 clarified, and the witness has already explained any  
11 once confidential but is now public today, there's no  
12 further update; we got it all?

13 MS. KELLS: Correct.

14 COMMISSIONER BROWN-BLAND: With that, the  
15 testimony, the direct testimony of Rose M. Jackson  
16 consisting of 18 pages will be received into evidence  
17 and treated as if given orally from the witness stand,  
18 and her three exhibits, exhibit -- the first exhibit  
19 is replaced by Revised Exhibit 1?

20 MS. KELLS: That's correct.

21 COMMISSIONER BROWN-BLAND: So with the  
22 Revised Exhibit 1 and the other Exhibits, 2 and 3,  
23 they will be identified as they were marked when  
24 prefiled.

1 MS. KELLS: Thank you.

2 (WHEREUPON, Revised Jackson  
3 Exhibit 1, and Jackson Exhibits 2  
4 and 3 are marked for  
5 identification as prefiled.

6 Confidential pages are filed under  
7 seal.)

8 (WHEREUPON, the prefiled direct  
9 testimony of ROSE M. JACKSON is  
10 copied into the record as if given  
11 orally from the stand with the  
12 confidential pages filed under  
13 seal.)

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1 Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, BY WHOM YOU  
2 ARE EMPLOYED, AND IN WHAT CAPACITY.

3 A. My name is Rose M. Jackson and my business address is 1300 12th Street, Suite  
4 F, Cayce, South Carolina. I am employed by SCANA Services, Inc. ("SCANA  
5 Services") as General Manager – Supply & Asset Management.

6 Q. WHAT ARE YOUR RESPONSIBILITIES?

7 A. I am responsible for managing the Gas Supply Group ("Gas Supply"), which  
8 supports the gas supply and capacity management functions for Public Service  
9 Company of North Carolina, Incorporated, d/b/a PSNC Energy ("PSNC" or the  
10 "Company"), and South Carolina Electric & Gas Company, the two regulated  
11 utility subsidiaries of SCANA Corporation ("SCANA"). Gas Supply's specific  
12 responsibilities include planning and procurement of gas supply and pipeline  
13 capacity, nominations and scheduling related to natural gas transportation and  
14 storage services on interstate pipelines and PSNC's system, gas cost  
15 accounting, state and federal regulatory issues concerning supply and capacity,  
16 asset and risk management, and gas transportation administration.

17 Q. PLEASE SUMMARIZE YOUR EDUCATIONAL AND PROFESSIONAL  
18 BACKGROUND.

19 A. I graduated from the University of South Carolina in 1988 with a Bachelor of  
20 Science degree in Accounting. Following graduation, I worked as an  
21 accountant for a national security services firm. In 1992, I began my  
22 employment with SCANA as an accountant. Over the years, I have held various  
23 positions of increasing responsibility related to gas procurement, interstate

1 pipeline and local distribution company scheduling, and preparation of gas  
2 accounting information. In May 2002, I became Manager of Operations and  
3 Gas Accounting with SCANA Services where I was responsible for gas  
4 scheduling on interstate pipelines and gas accounting for all SCANA  
5 subsidiaries. In November 2003, I became Fuels Planning Manager where I  
6 assisted all SCANA subsidiaries with strategic planning and special projects  
7 associated with natural gas. I held this position until promoted to my current  
8 position in December 2005.

9 Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS COMMISSION?

10 A. Yes. I have presented testimony on behalf of PSNC many times, including its  
11 last five annual gas cost reviews.

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

14 A. North Carolina General Statute Section 62-133.4 allows PSNC to track and  
15 recover from its customers the cost of natural gas supply and transportation and  
16 to adjust customer charges to reflect changes in those costs. Under subsection  
17 (c) of the statute, the Commission must conduct an annual review of PSNC's  
18 gas costs, comparing the Company's prudently incurred costs with the costs  
19 recovered from customers during a 12-month test period. To facilitate this  
20 review, Commission Rule R1-17(k)(6) requires PSNC to submit to the  
21 Commission, on or before June 1 of each year, certain information for the 12-  
22 month test period ended March 31.

1           The purpose of my testimony is to demonstrate that all PSNC gas costs  
 2           were prudently incurred during the review period ended March 31, 2018, and  
 3           therefore meet the requirement for recovery. My testimony also provides the  
 4           Commission with information pursuant to the Order Requiring Reporting  
 5           issued in Docket No. G-100, Sub 91, and describes the Federal Energy  
 6           Regulatory Commission ("FERC") proceedings in which PSNC participated,  
 7           as required by the Commission's Order on Annual Review of Gas Costs issued  
 8           in Docket No. G-5, Sub 533. In addition to my testimony, PSNC is submitting  
 9           the direct testimony and schedules of Candace A. Paton for the purpose of  
 10          providing the Commission with data necessary to true-up PSNC's gas costs  
 11          during the review period.

12    Q.   PLEASE BRIEFLY DESCRIBE PSNC AND THE COMPOSITION OF ITS  
 13          MARKET.

14    A.   PSNC is a local distribution company primarily engaged in the purchase,  
 15          transportation, distribution, and sale of natural gas to more than 563,000  
 16          customers in North Carolina. Approximately half of PSNC's throughput during  
 17          the review period was comprised of deliveries to industrial or large commercial  
 18          customers that either purchased gas from PSNC or transported gas on PSNC's  
 19          system. Many of these customers were served under interruptible rate  
 20          schedules. The remainder of PSNC's throughput consisted of firm sales service  
 21          to residential and small and medium commercial customers.

1 Q. PLEASE DESCRIBE PSNC'S GAS SUPPLY PROCUREMENT POLICY.

2 A. PSNC's system and its gas supply procurement policy are designed to serve  
3 firm customers reliably on a peak day. In providing sales services, the  
4 Company must acquire supplies of natural gas and arrange for their delivery to  
5 PSNC's system. The most appropriate description of PSNC's gas supply  
6 procurement policy would be a best-cost supply strategy, which is based on  
7 three primary criteria: supply security, operational flexibility, and cost of gas.

8 The first and foremost criterion is security of gas supply, which refers  
9 to the assurance that the supply of gas will be available when needed for  
10 PSNC's firm sales customers. Supply security is obtained through PSNC's  
11 diverse portfolio of suppliers, receipt points, purchase quantity commitments,  
12 and terms. Potential suppliers are evaluated on a variety of factors, including  
13 past performance, creditworthiness, available terms, gas deliverability options,  
14 and supply location.

15 The second criterion is maintaining the necessary operational flexibility  
16 that will enable PSNC to react to the effects of unpredictable weather on firm  
17 sales customer usage. PSNC's gas supply portfolio must be capable of handling  
18 the monthly, daily, and hourly changes in these customers' demand needs.  
19 Operational flexibility largely results from PSNC's gas supply agreements  
20 having different purchase commitments and swing capabilities (for example,  
21 the ability to adjust purchased gas within the contract volume on either a  
22 monthly or daily basis) and from PSNC's injections into and withdrawals out  
23 of storage.

1           The third criterion is the cost of gas. In evaluating costs, it is important  
2           to consider not only the actual commodity cost, but also any transportation-  
3           related charges such as reservation, usage, and fuel charges. PSNC routinely  
4           requests gas supply bids from suppliers to help ensure cost-effective proposals.  
5           In requests for proposal, suppliers are asked to submit alternative pricing  
6           options they believe may be of interest or value to PSNC and its customers.  
7           Typically, the greater the flexibility that PSNC has with a supply contract, the  
8           higher the premium assessed. In securing natural gas supply for its customers,  
9           PSNC remains committed to acquiring the most cost-effective supplies of gas  
10          available while maintaining the necessary supply security and operational  
11          flexibility.

12    Q.    WHAT TYPES OF SUPPLY CONTRACTS DOES PSNC HAVE IN ITS  
13          PORTFOLIO?

14    A.    PSNC has developed a gas supply portfolio made up of long-term agreements  
15          and supplemental short-term agreements with a variety of suppliers, including  
16          both producers and independent marketers. The portfolio includes:

- 17           •    Baseload contracts, which provide fixed volumes of gas each  
18                day of the contract term.
- 19           •    Physical option contracts, which provide flexibility to modify  
20                the volumes delivered on a monthly or daily basis in order to  
21                address changing demands and weather patterns.

- 1           • No-notice contracts, which provide flexibility to increase or  
2 decrease delivered volumes on a daily basis to respond to  
3 changing operational demands and weather.
- 4           • Spot (daily) market contracts, which are primarily used for price  
5 mitigation, system balancing, and peak shaving.

6           PSNC's gas supply portfolio had approximately 223,000 dekatherms  
7 per day under term contracts with eight different suppliers as of November 1,  
8 2017, the beginning of the winter heating season for the period under review.  
9 All of these contracts included provisions to ensure the prices paid were market  
10 based. PSNC's remaining contracts were for purchases in the spot market. Spot  
11 purchase contracts do not include reservation fees but reflect only commodity  
12 cost, generally by reference to standard indices or negotiated prices.

13 Q. HOW DOES THE COMPANY CALCULATE ITS FIRM CUSTOMERS'  
14 DEMAND REQUIREMENTS?

15 A. Projected design-day demand of PSNC's firm customers is calculated using a  
16 statistical modeling program prepared by SCANA Services Resource Planning  
17 personnel. The model assumes a 50 heating degree-day on a 60 degree  
18 Fahrenheit base and uses historical weather to estimate peak-day demand.

19 Q. WHAT DESIGN-DAY REQUIREMENTS WERE USED BY PSNC DURING  
20 THE REVIEW PERIOD AND HOW DID THE COMPANY PLAN TO MEET  
21 THOSE REQUIREMENTS?

22 A. Jackson Exhibit 1 is a table showing the forecasted firm peak-day demand  
23 requirements for the review period and for the next five winter seasons. It also

1 lists the assets available to meet those firm peak-day requirements. These assets  
2 include year-round, seasonal, and peaking capabilities and consist of firm  
3 transportation and storage capacity on interstate pipelines as well as the peaking  
4 capability of PSNC's on-system liquefied natural gas facility.

5 As shown on Jackson Exhibit 1, PSNC projects that by the winter of  
6 2019-20 it will need additional interstate capacity to serve expected peak-day  
7 requirements. Later in my testimony I will discuss what steps the Company has  
8 taken to acquire the necessary capacity.

9 Q. WHAT PROCESS DOES PSNC UNDERTAKE TO ACQUIRE CAPACITY  
10 TO MEET ITS CUSTOMER DEMAND?

11 A. PSNC's design-day demand forecast projects firm customer load growth and is  
12 used to determine total asset needs. This forecast is updated annually and  
13 capacity alternatives are evaluated on an on-going basis. If needed, PSNC  
14 secures incremental storage or transportation capacity to meet the growth  
15 requirements of its firm sales customers consistent with its best-cost strategy.  
16 To acquire long-term expansion capacity precisely in balance with customer  
17 needs is impossible due to many external factors beyond the Company's  
18 control. In assessing the type of resources needed to meet its design-day  
19 demand, PSNC attempts to minimize the per unit delivered gas cost. This  
20 analysis incorporates any transportation charges, storage costs, and supplier  
21 reservation fees required to deliver gas to PSNC's city gate, as well as the  
22 reliability and timing of new services.

1 Q. PLEASE DESCRIBE PSNC'S INTERSTATE CAPACITY.

2 A. The Company subscribes to interstate capacity so that gas can be delivered from  
3 supply areas or gas storage facilities to PSNC's local distribution system. The  
4 interstate transportation and storage providers with whom PSNC has  
5 transportation or storage service contracts include Transcontinental Gas  
6 Pipeline Company, LLC ("Transco"); Columbia Gas Transmission, LLC  
7 ("Columbia Gas"); Dominion Energy Cove Point LNG, LP ("Cove Point");  
8 Dominion Energy Transmission, Inc. ("DETI"); East Tennessee Natural Gas,  
9 LLC ("East Tennessee"); Pine Needle LNG Company, LLC ("Pine Needle");  
10 Saltville Gas Storage Company, LLC. ("Saltville"); and Texas Gas  
11 Transmission, LLC ("Texas Gas"). The vast majority of PSNC's firm  
12 transportation and storage capacity is obtained from Transco, the only interstate  
13 pipeline to which PSNC's system currently is directly connected. The  
14 Company has been able to use segmentation of the Transco firm transportation  
15 capacity and schedule backhaul deliveries of gas from Columbia Gas, Cove  
16 Point, DETI, East Tennessee/Saltville, Pine Needle, and Texas Gas – natural  
17 gas storage facilities and connecting pipelines located downstream of the PSNC  
18 system.

19 Q. PLEASE EXPLAIN WHAT YOU MEAN BY "BACKHAUL DELIVERIES  
20 FROM DOWNSTREAM OF THE PSNC SYSTEM."

21 A. Forward haul involves the transportation of gas in the same direction as the  
22 physical flow of gas in the pipeline and is typically achieved when the pipeline  
23 transports gas to a delivery point downstream from the point where the gas was

1 received by the pipeline. Backhaul involves the contractual delivery of natural  
2 gas in a direction opposite of the physical flow of gas in the pipeline; the receipt  
3 point is downstream from the point of delivery.

4 Historically, gas flowed on the Transco system from the Gulf of Mexico  
5 production area in a northerly direction. PSNC's system was downstream of  
6 the Gulf supply points and the Columbia Gas, Cove Point, DETI, East  
7 Tennessee/Saltville, Pine Needle, and Texas Gas points were downstream of  
8 PSNC's system.

9 Q. HOW CAN THE COMPANY UTILIZE SEGMENTATION?

10 A. The Company can use different segments of the transportation contract to  
11 schedule backhaul deliveries of gas to the PSNC system from the downstream  
12 storage facilities and pipelines and, at the same time, schedule gas for delivery  
13 on a forward-haul basis from the Gulf production area. This allows PSNC to  
14 obtain geographic supply diversity and reduces the amount of annual firm  
15 transportation needed on Transco. In addition, the Company can release  
16 segments of capacity when not needed to serve PSNC's customers, which  
17 generates revenue that mitigates capacity costs incurred by PSNC and passed  
18 on to customers.

19 Q. PLEASE DESCRIBE ANY LIMITATIONS ON THE USE OF  
20 SEGMENTATION.

21 A. PSNC's use of segmentation for backhaul deliveries on Transco can be limited  
22 because it is considered secondary firm in scheduling priority. This did not  
23 present any problems in the past, but now that gas flow on the Transco system

1 is bidirectional in nature due to the new connected shale gas supply areas of the  
2 Northeast, PSNC has on occasion been unable to use segmentation to schedule  
3 backhaul deliveries to its city gate. The Company is concerned that this could  
4 impair its ability to meet storage turnover requirements for storage fields  
5 downstream of the PSNC system on certain days.

6 Q. WHAT STEPS HAS THE COMPANY TAKEN TO ADDRESS ITS  
7 CONCERNS ABOUT LIMITATIONS ON THE USE OF TRANSCO  
8 SEGMENTATION?

9 A. Last summer, PSNC submitted a binding request for [BEGIN  
10 CONFIDENTIAL] [REDACTED] [END CONFIDENTIAL] dekatherms per day of  
11 capacity on Transco's Southeastern Trail Expansion project, which will provide  
12 additional firm transportation service with a receipt point at the existing  
13 Pleasant Valley Transco-Cove Point interconnection in Fairfax County,  
14 Virginia, and a delivery point at the existing Transco Station 65 pooling point  
15 in St. Helena Parish, Louisiana. In November 2017, PSNC and Transco  
16 executed a precedent agreement for this transportation service [BEGIN  
17 CONFIDENTIAL] [REDACTED]  
18 [END CONFIDENTIAL] The project has a target in-service date of late 2020.  
19 When the project is placed into service, this capacity will allow the Company  
20 to schedule deliveries from downstream storage facilities and pipelines on a  
21 primary firm, forward-haul basis and will replace the secondary backhaul  
22 transportation that PSNC has used in the past.

1 Q. WHAT OTHER STEPS DID PSNC TAKE DURING THE REVIEW PERIOD  
2 IN CONNECTION WITH ITS ACQUISITION OF ADDITIONAL  
3 INTERSTATE PIPELINE CAPACITY?

4 A. In previous gas cost reviews, I testified that PSNC entered into a precedent  
5 agreement with Atlantic Coast Pipeline, LLC ("ACP") to acquire capacity on  
6 ACP's 550-mile pipeline project that will run from Harrison County, West  
7 Virginia, to Robeson County, North Carolina. PSNC will take deliveries off  
8 the pipeline at points on the eastern side of the Company's system. The target  
9 in-service date for the project currently is late 2019. PSNC contracted for  
10 100,000 dekatherms per day of firm transportation for a 20-year term. [BEGIN

11 CONFIDENTIAL] [REDACTED]  
12 [REDACTED]  
13 [REDACTED]  
14 [REDACTED]  
15 [REDACTED]

16 [END CONFIDENTIAL]

17 Q. PLEASE ELABORATE.

18 A. [BEGIN CONFIDENTIAL] [REDACTED]  
19 [REDACTED]  
20 [REDACTED]  
21 [REDACTED]  
22 [REDACTED]  
23 [REDACTED]

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6 [REDACTED]

7 [REDACTED]

8 [REDACTED]

9 [REDACTED]

10 [REDACTED]

11 [REDACTED]

12 [REDACTED]

13 [REDACTED]

14 [REDACTED]

15 [REDACTED]

16 [REDACTED]

17 Q. [REDACTED]

18 [REDACTED]

19 A. [REDACTED] [END CONFIDENTIAL]

20 PSNC solicited interest from other interstate pipeline providers for natural gas

21 transportation capacity to meet forecasted incremental demand on the PSNC

22 system. Subsequently, the Company entered into precedent agreements with

23 Mountain Valley Pipeline, LLC ("MVP") to obtain capacity on its mainline

1 pipeline project running from northwestern West Virginia to Pittsylvania  
 2 County, Virginia, as well as on an approximately 70-mile lateral running from  
 3 the termination of the mainline to delivery points at PSNC's Dan River and  
 4 Haw River interconnects in Rockingham and Alamance Counties, North  
 5 Carolina, respectively. Specifically, PSNC contracted for 250,000 dekatherms  
 6 per day of mainline capacity and 300,000 dekatherms per day of lateral  
 7 capacity. The additional 50,000 dekatherms per day of lateral capacity will be  
 8 used by PSNC to receive primary firm, forward-haul deliveries directly from  
 9 East Tennessee through a new interconnection with MVP.

10 Q. WHEN ARE THE MVP FACILITIES EXPECTED TO BE PLACED INTO  
 11 SERVICE?

12 A. The projected in-service date for the mainline facilities is first quarter 2019 and  
 13 for the lateral facilities late 2020. [BEGIN CONFIDENTIAL] [REDACTED]  
 14 [REDACTED]  
 15 [REDACTED]  
 16 [REDACTED]  
 17 [REDACTED]  
 18 [REDACTED] [END CONFIDENTIAL]

\*corrected page 14 provided during hearing.  
 vtm

1 Q. HAVE YOU PROVIDED THE INFORMATION CONCERNING  
2 CAPACITY ACQUISITION AS REQUIRED BY THE COMMISSION'S  
3 ORDER IN DOCKET NO. G-100, SUB 91?

4 A. Yes. PSNC's responses to the ten questions set forth in that order are attached  
5 as Jackson Exhibit 2.

6 Q. WHAT ADDITIONAL ACTIONS HAS PSNC TAKEN TO ACCOMPLISH  
7 ITS BEST-COST POLICY?

8 A. PSNC continues to take the following steps to keep its gas costs as low as  
9 possible while accomplishing its stated policy goals of maintaining security of  
10 supply and delivery flexibility:

- 11 • Optimize the flexibility available within its supply and capacity  
12 contracts to realize their value.
- 13 • Monitor and intervene in matters before the FERC whose actions  
14 could impact the rates that PSNC pays and the services it receives  
15 from interstate pipelines and storage facilities.
- 16 • Work with industrial customers to facilitate transportation of  
17 customer-acquired natural gas.
- 18 • Communicate directly with customers, suppliers, and other  
19 industry participants and actively monitor developments in the  
20 industry.
- 21 • Conduct frequent internal discussions concerning gas supply  
22 policy and major purchasing decisions.

1           • Utilize deferred gas cost accounting to calculate the Company's  
2           benchmark cost of gas to provide a smoothing effect on gas price  
3           volatility.

4           • Conduct a hedging program to mitigate price volatility.

5 Q. PLEASE DESCRIBE THE FERC PROCEEDINGS THAT PSNC  
6 PARTICIPATED IN DURING THE REVIEW PERIOD.

7 A. Jackson Exhibit 3 is a complete listing of the new FERC matters that PSNC  
8 intervened in during the review period. The Company may not have stated a  
9 position in a particular proceeding but filed an intervention without protest or  
10 comment. Such interventions are made in proceedings where the Company has  
11 an interest and the issues or dollar impact appears to be relatively minor but  
12 might escalate and become significant at a later date or where the Company  
13 would like to receive more information from the participants on an issue in  
14 order to monitor future developments. Unless specifically indicated in the last  
15 column of Jackson Exhibit 3, the Company did not express a position during its  
16 participation in a matter listed.

17 Q. WHAT IS THE PURPOSE OF PSNC'S HEDGING PROGRAM?

18 A. The primary objective of PSNC's hedging program has always been to help  
19 mitigate the price volatility of natural gas for PSNC's firm sales customers at a  
20 reasonable cost. The hedging program meets this objective by having financial  
21 instruments such as call options or futures in place to mitigate in a cost-effective  
22 manner the impact of unexpected or adverse price fluctuations to customers.

1 Q. PLEASE DESCRIBE PSNC'S HEDGING PROGRAM.

2 A. PSNC's hedging program provides protection from higher prices through the  
3 purchase of call options for up to 25% of estimated firm sales volume. In order  
4 to help control costs, the call options are purchased at a price no higher than  
5 10% of the underlying commodity price. Hedges also are limited to a 12-month  
6 future time period, which allows PSNC to obtain favorable option pricing terms  
7 and better react to changing market conditions. The hedging program continues  
8 to utilize two proprietary models developed by Kase and Company that assist  
9 in determining the appropriate timing and volume of hedging transactions. The  
10 total amount available to hedge is divided equally between the two models.

11 Q. HAS THE COMPANY MADE ANY CHANGES TO ITS HEDGING PLAN?

12 A. No changes were made to PSNC's hedging program during the review period.  
13 However, the Company continues to analyze and evaluate the program and will  
14 implement changes as warranted.

15 Q. WHAT WAS THE NET ECONOMIC RESULT OF THE HEDGING  
16 PROGRAM DURING THE REVIEW PERIOD?

17 A. During this period, New York Mercantile Exchange prices at the Henry Hub in  
18 Louisiana ranged from a low of \$2.530 per dekatherm for the March 2018  
19 contract set on February 15, 2018, to a high of \$3.661 per dekatherm for the  
20 February 2018 contract set on January 29, 2018. Overall, the hedging program  
21 increased gas costs by \$2,376,550 during the review period.

1 Q. IN YOUR OPINION, WERE ALL OF THE REVIEW PERIOD GAS COSTS  
2 PRUDENTLY INCURRED?

3 A. Yes. All of these gas costs were incurred under PSNC's best-cost supply  
4 strategy, which this Commission has consistently upheld. In my opinion, they  
5 are the result of reasonable business judgments in light of the conditions under  
6 which the gas purchasing decisions were made.

7 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

8 A. Yes.

1 BY MS. KELLS:

2 Q Ms. Paton, would you please state your name and  
3 business address for the record?

4 A Yes. My name is Candace Paton. My business  
5 address is 800 Gaston Road, Gastonia, North  
6 Carolina.

7 Q By whom are you employed and in what capacity?

8 A I'm employed by SCANA Services as Rates and  
9 Regulatory Manager for PSNC.

10 Q Did you cause to be prefiled in this docket on  
11 June 1, 2018, direct public testimony in question  
12 and answer form, consisting of five pages, an  
13 Appendix A and one exhibit with 11 schedules?

14 A Yes, I did.

15 Q Are there any corrections you would like to make  
16 to your direct testimony at this time?

17 A No, there are not.

18 Q If I asked you the questions in your direct  
19 testimony today, would your answers be the same?

20 A Yes, they would.

21 Q Do you have a summary of your direct testimony?

22 A Yes, ma'am.

23 Q Would you please read it now?

24 A Okay.

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(WHEREUPON, the summary of CANDACE  
A. PATON is copied into the  
record.)

DOCKET NO. G-5, SUB 591  
SUMMARY OF DIRECT TESTIMONY OF  
CANDACE A. PATON

The purpose of my direct testimony is to present the information and data required pursuant to Commission Rule R1-17 (k) (6). The information and data contained in Schedules 1 through 11 attached to my testimony are based on the review period ended March 31, 2018 as prescribed by the Rule. All gas cost accounting during the review period was done in accordance with Sections 4 and 5 of Rule R1-17 (k).

At the end of the review period, the balance in the Sales Customers Only Deferred Account was \$1,443,014 due from customers. The balance in the Hedging Deferred Account was \$2,376,550 due from customers. When these balances are combined, the total balance due from customers is \$3,819,564. As of the end of July 2018, the combined balance due from customers decreased to \$2,955,796. PSNC is not proposing to implement a temporary increment applicable to the Sales Customers Only deferred account. The Company proposes to continue to take into consideration the balance in the Sales Customers Only deferred account when evaluating whether to file for a change in the benchmark.

At the end of the review period the balance in the All Customers deferred account was \$13,770,526 due to customers. As of the end of July 2018, the balance due to customers decreased to \$1,719,279. Temporary decrements applicable to the All Customers deferred account took effect January 1, 2018. PSNC proposes to leave the current temporary decrements applicable to the All-Customers deferred account in place and monitor the balance in the account to determine when or if changes are required.

This concludes my summary.

1 MS. KELLS: Thank you. Commissioner  
2 Brown-Bland, I move that Ms. Paton's direct testimony  
3 and Exhibit A (sic) be copied into the record as if  
4 given orally from the stand, and that her one exhibit  
5 be marked for identification as prefiled.

6 COMMISSIONER BROWN-BLAND: All right. The  
7 direct testimony of Witness Candace A. Paton will be  
8 received into evidence as if given orally from the  
9 witness stand along with her Appendix A, and the  
10 Exhibit 1 and 11 schedules will be identified as they  
11 were marked when prefiled.

12 MS. KELLS: Thank you.

13 (WHEREUPON, Paton Exhibit 1 is  
14 marked for identification as  
15 prefiled.)

16 (WHEREUPON, the prefiled direct  
17 testimony of CANDACE A. PATON is  
18 copied into the record as if given  
19 orally from the stand.)

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1 Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, BY WHOM YOU ARE  
2 EMPLOYED, AND IN WHAT CAPACITY.

3 A. My name is Candace A. Paton. I am employed by SCANA Services, Inc. as Rates  
4 & Regulatory Manager for Public Service Company of North Carolina,  
5 Incorporated, d/b/a PSNC Energy ("PSNC" or "the Company"). My business  
6 address is 800 Gaston Road, Gastonia, North Carolina 28056.

7 Q. PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND, WORK  
8 EXPERIENCE, AND OTHER QUALIFICATIONS.

9 A. My qualifications and work experience are set forth in Appendix A.

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

11 A. The purpose of my testimony is to provide the data necessary to true-up PSNC's  
12 actual gas costs with the gas costs billed to our customers during the 12-month  
13 review period ended March 31, 2018. Commission Rule R1-17(k)(6) sets forth the  
14 filing requirements for the annual review of gas costs. Subsection (c) requires the  
15 Company to file certain data showing actual gas costs, volumes of gas purchased,  
16 and such other information as may be directed by the Commission.

17 Q. HAVE YOU PREPARED AND FILED THE DATA REQUIRED BY  
18 COMMISSION RULE R1-17(k)(6)(c)?

19 A. Yes. The required information is provided in Schedules 1 through 10 attached to  
20 my testimony. The following schedules were prepared in the prescribed format:

- 21 Schedule 1: Summary of Cost of Gas Expense
- 22 Schedule 2: Summary of Demand and Storage Charges
- 23 Schedule 3: Summary of Commodity Gas Cost

- 1 Schedule 4: Summary of Other Cost of Gas Charges (Credits)  
2 Schedule 5: Summary of Demand and Storage Rate Changes  
3 Schedule 6: Summary of Demand and Storage Capacity Level Changes  
4 Schedule 7: Summary of Demand and Storage Costs Incurred Versus  
5 Collected  
6 Schedule 8: Summary of Deferred Account Activity - Sales Customers Only  
7 Account  
8 Schedule 9: Summary of Deferred Account Activity - All Customers  
9 Account  
10 Schedule 10: Summary of Gas Supply

11 In addition, Schedule 11 sets forth the review period Hedging Deferred Account  
12 Activity.

13 Q. DID PSNC FOLLOW THE GAS COST ACCOUNTING PROCEDURES  
14 PRESCRIBED BY RULE R1-17(k) FOR THE TWELVE MONTHS ENDED  
15 MARCH 31, 2018?

16 A. Yes. All accounting was done in accordance with Sections (4) and (5) of Rule R1-  
17 17(k).

18 Q. HAS PSNC FILED MONTHLY AN ACCOUNTING OF GAS COSTS AND  
19 DEFERRED ACCOUNT ACTIVITY WITH THE COMMISSION AND THE  
20 PUBLIC STAFF?

21 A. Yes, the required filings were made.

1 Q. WHAT ACTIVITY OCCURRED IN THE SALES CUSTOMERS ONLY  
 2 DEFERRED ACCOUNT DURING THE TWELVE MONTHS ENDED MARCH  
 3 31, 2018?

4 A. The activity in the Sales Customers Only deferred account is set forth below:

5	Over-Collection as of March 31, 2017	(\$6,021,495)
6	Commodity Cost Under-Collections	\$8,157,958
7	Hedging Deferred Account Balance as of March 31, 2017	(\$556,941)
8	Uncollectible Gas Cost	\$250,250
9	Miscellaneous Adjustments	(\$58,791)
10	Accrued Interest	<u>(\$327,969)</u>
11	Under-Collection as of March 31, 2018	<u>\$1,443,014</u>

12 Q. WHAT ACTIVITY OCCURRED IN THE ALL CUSTOMERS DEFERRED  
 13 ACCOUNT DURING THE TWELVE MONTHS ENDED MARCH 31, 2018?

14 A. The activity in the All Customers deferred account is set forth below:

15	Over-Collection as of March 31, 2017	(\$7,449,531)
16	Demand Cost Under-Collections	\$21,244,610
17	Commodity Cost Under-Collections	\$136,226
18	All Customers Decrement	\$7,589,506
19	Miscellaneous Adjustments	(\$768,231)
20	Secondary Market Transaction Credits	(\$34,269,198)
21	Supplier Refunds	(\$142,475)
22	Accrued Interest	<u>(\$111,433)</u>
23	Over-Collection as of March 31, 2018	<u>(\$13,770,526)</u>

1 Q. DID PSNC ACCOUNT FOR CAPACITY RELEASE AND OTHER  
2 SECONDARY MARKET TRANSACTIONS DURING THE REVIEW PERIOD  
3 IN ACCORDANCE WITH THE COMMISSION'S ORDER IN DOCKET NO.  
4 G-100, SUB 67?

5 A. Yes. PSNC recorded 75 percent of the net compensation received from secondary  
6 market transactions in the All Customers deferred account.

7 Q. PLEASE DISCUSS SCHEDULE 11.

8 A. Schedule 11 reflects the cash transactions associated with PSNC's hedging program  
9 during the 12-month review period ended March 31, 2018. As of the end of the  
10 current review period, the Company had a debit balance of \$2,376,550 due from  
11 sales customers in its Hedging deferred account. When added to the \$1,443,014  
12 debit balance in the Sales Customers Only deferred account, the total is \$3,819,564  
13 due from sales customers.

14 Q. DOES PSNC CURRENTLY HAVE ANY TEMPORARY RATE INCREMENTS  
15 OR DECREMENTS RELATED TO ITS SALES CUSTOMERS ONLY AND  
16 ALL CUSTOMERS DEFERRED ACCOUNTS?

17 A. Yes. Temporary decrements applicable to the All Customers deferred account took  
18 effect January 1, 2018.

19 Q. DOES THE COMPANY PROPOSE NEW TEMPORARY RATE INCREMENTS  
20 OR DECREMENTS?

21 A. The Company is not proposing new temporary rate increments or decrements at  
22 this time. The Company proposes to leave the current temporary decrements  
23 applicable to the All Customers deferred account in place and monitor the balance

1 in the account to determine when or if changes are required. The Company  
2 proposes to continue its practice of taking into consideration the balance in the Sales  
3 Customers Only deferred account when evaluating whether to file for a change in  
4 the benchmark cost of gas. The Company believes that making periodic, and  
5 smaller, adjustments in the benchmark cost of gas is preferable to making one  
6 adjustment annually based on the over- or under-collection in commodity cost of  
7 gas that may exist as of the end of the review period.

8 Q. IN DOCKET NO. G-5, SUB 442, THE COMMISSION STATED THAT IN  
9 FUTURE GAS COST PRUDENCE REVIEWS PSNC SHOULD DISCUSS ANY  
10 SIGNIFICANT ACCOUNTING CHANGES THAT OCCURRED DURING THE  
11 REVIEW PERIOD. WERE THERE ANY SUCH CHANGES DURING THE  
12 REVIEW PERIOD?

13 A. No.

14 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

15 A. Yes.

**CANDACE A. PATON  
QUALIFICATIONS & EXPERIENCE**

**EDUCATION:**

1979 Bachelor of Arts in Accounting  
North Carolina State University

**PROFESSIONAL LICENSURE:**

1983 Certified Public Accountant, State of North Carolina

**MEMBER:**

American Institute of Certified Public Accountants  
North Carolina Association of Certified Public Accountants

**PROFESSIONAL UTILITY REGULATORY EXPERIENCE:**

August 2002 to Present	Rates & Regulatory Manager, PSNC Energy <i>Presented testimony before the NCUC in annual prudence reviews, general rate cases, and expansion fund filing</i>
July 2001 to August 2002	Independent Consultant
April 1999 to March 2001	Supervisor, Regulatory Accounting Carolina Power & Light Company
January 1991 to April 1999	Manager, Regulatory Accounting Duke Power Company <i>Presented testimony before the NCUC in various fuel clause proceedings and an Integrated Resource Planning proceeding</i>
August 1987 to December 1990	Project Manager & Manager, Revenue Requirements Potomac Electric Power Company
January 1987 to August 1987 and October 1979 to July 1985	Public Staff of the North Carolina Utilities Commission Public Utilities Accountant II <i>Presented testimony before the NCUC in various telephone, electric and water &amp; sewer general rate case proceedings</i>
April 1986 to December 1986	Texas Office of Public Utility Counsel Chief Accountant <i>Presented testimony before the Texas Public Utility Commission in telephone &amp; electric rate case proceedings</i>
July 1985 to March 1986	Telecommunications Specialist North Carolina Utilities Commission

1 MS. KELLS: The panel is available for  
2 questions.

3 COMMISSIONER BROWN-BLAND: Is there any  
4 cross examination for these witnesses?

5 MS. HOLT: No.

6 COMMISSIONER BROWN-BLAND: I think the  
7 Commission has questions. Commissioner Mitchell.

8 EXAMINATION BY COMMISSIONER MITCHELL:

9 Q Good morning, Ms. Jackson.

10 A Good morning.

11 Q I have several questions for you and I'll do my  
12 best to move through them quickly. Beginning on  
13 page 10 of your testimony and for several pages  
14 thereafter, you discuss, I think there are four,  
15 interstate pipeline projects with which PSNC has  
16 contracted for capacity?

17 A Yes, ma'am.

18 Q And then on page 14, you reference a 70-mile  
19 lateral off the Mountain Valley Pipeline. Has  
20 that lateral project been named yet?

21 A Yes, ma'am. That is going to be called the  
22 Mountain Valley South Gate Project.

23 Q Mountain Valley South Gate Project?

24 A Yes, ma'am.

1 Q Okay. And have any of the in-service dates for  
2 these projects changed? I believe you told us  
3 about one in the beginning of your testimony, but  
4 have any of the other in-service dates changed?

5 A No, ma'am. The only update that we've received  
6 since my testimony was filed was that one of MVP.

7 Q Okay. I now have several questions for you that  
8 pertains more generally to backhauling?

9 A Okay.

10 Q Can you tell me how many individual pipelines  
11 that Transco has basically running through North  
12 Carolina, in its right-of-way in North Carolina?

13 A How many physical pipelines?

14 Q Yes.

15 A I'm not quite sure of that answer.

16 Q Okay. And that's okay. Really my question is do  
17 any of the pipelines -- do any of Transco's  
18 pipelines in North Carolina still flow  
19 exclusively south to north to your knowledge?

20 A I believe that there is one pipeline that still  
21 flows south to north. I think the issue that  
22 Transco has brought to us is that they are in a  
23 period of time, if you will, a transition period  
24 where they are seeing gas flowing both south to

1 north and north to south. So that null point or  
2 that point where gas meets in both directions of  
3 flow moves along the South Carolina, between the  
4 South Carolina and Virginia border and the South  
5 Carolina -- I'm sorry, the North  
6 Carolina/Virginia border and the North  
7 Carolina/South Carolina border. So they're  
8 seeing that null point move and that's caused  
9 some issues with our operations.

10 Q Okay. Your testimony references the Transco  
11 Southeastern Trail Expansion Project.

12 A Yes, ma'am.

13 Q And does that project also include a reversal of  
14 flow? I mean, is that same phenomenon occurring?

15 A Yes, it does.

16 Q Okay. And I had a question for you on null point  
17 but you've sort of answered it. Do you -- is  
18 there any way for PSNC to anticipate where that  
19 null point will occur in the winter -- in this  
20 coming winter, the winter of 2018-2019?

21 A We can't even anticipate on a day-to-day or it  
22 may even change during a day when that null point  
23 shifts.

24 Q Okay.

1 A I do think long-term, as some of these major  
2 reversal of flow or backhaul projects come into  
3 play or come into service on Transco's system,  
4 we'll have a better indication, as that gas flows  
5 more southward, I think we'll see that settle out  
6 a little bit more. But right now with all these  
7 changes going on with Transco's system, it's very  
8 difficult to determine that.

9 Q Okay. Thank you. The Commission's Order that we  
10 issued on August 8, 2018, in this docket  
11 providing notice of questions asked the Company  
12 to provide additional information on pipeline and  
13 storage assets with which PSNC has contracted for  
14 capacity as you summarized in your testimony,  
15 specifically in your Exhibit 1, your revised  
16 Exhibit 1. That revised Exhibit 1 shows a total  
17 of eight hundred and ten -- just over 810,000  
18 dekatherms per day of capacity. And if you want  
19 to go there that's perfectly fine.

20 A Okay.

21 Q In your testimony you also explain that PSNC has  
22 been able to use segmentation of your firm  
23 Transco transportation capacity and schedule  
24 backhaul deliveries of gas from several different

1 locations including Columbia Gas, Cove Point,  
2 DETI, East Tennessee/Saltville, Pine Needle, and  
3 Texas Gas. Do any of those facilities that I  
4 referenced and that you discuss in your testimony  
5 provide storage to PSNC?

6 A Yes, ma'am. If you look, we have -- the storage  
7 on Transco's system, if you look in that  
8 component where it says seasonal capacity, the  
9 one that's referenced as Transco is actually GSS  
10 storage. Then we have DTI storage; we have  
11 Columbia storage; Saltville storage on East  
12 Tennessee. And then as far as peaking capacity  
13 goes, which is a short-term durational storage  
14 service, you see those listed under as -- listed  
15 as Transco is actually an LGA rate schedule; Pine  
16 Needle is actually LNG storage; PSNC, that's our  
17 own system LNG plant located in Cary; and then we  
18 have Cove Point storage as well, which is also  
19 LNG.

20 Q Okay. And when you discussed the Transco storage  
21 just a second ago you -- under seasonal capacity  
22 on that Exhibit 1, you said G-, is it GSS?

23 A GSS, that's correct; yes, ma'am.

24 Q I just want to make sure my notes are clear. And

1 the capacity that each of the -- the storage  
2 capacity that each of these facilities provides  
3 is indicated in this Revised Exhibit 1?

4 A Yes, ma'am. And, if it will help, we have  
5 prepared another exhibit that shows additional  
6 detail in response to that. I believe it's  
7 question number three.

8 Q Okay.

9 A It may be easier for us to look at that.

10 Q Okay.

11 A There's a handout that Ms. Kells has and this  
12 handout will actually cover items A, B, C and E  
13 of the questions that were filed from the  
14 Commission; and we really appreciate that. I  
15 would like to discuss Item D verbally because I  
16 want to go through this after we've gone through  
17 the details of the different assets.

18 Q Okay. So this exhibit is provided in response to  
19 that Commission question number three?

20 A Yes, ma'am.

21 Q Okay.

22 A So, if you look, Item A there lists the receipt  
23 point and a delivery point. It shows that which  
24 receipt, where we received the gas. But I think

1 the important thing is to note that with the  
2 exception of our own system, LNG facility,  
3 located in Cary, all of those specific storage  
4 facilities are delivered onto Transco's system  
5 and are backhauled to PSNC's system.

6 COMMISSIONER BROWN-BLAND: Before we move  
7 on, let's just identify this one for the record. Do  
8 we want to identify it as Jackson Exhibit 4?

9 MS. KELLS: Yes, ma'am, thank you.

10 COMMISSIONER BROWN-BLAND: All right. So  
11 identified.

12 (WHEREUPON, Jackson Exhibit 4 is  
13 marked for identification.)

14 BY MS. MITCHELL:

15 Q Ms. Jackson, we've -- you discussed just a moment  
16 ago sort of the changing phenomenon on the  
17 Transco system of the gas flowing  
18 bidirectionally.

19 A Yes, ma'am.

20 Q Is PSNC confident that there will be backhaul  
21 capacity available to deliver the full volumes  
22 from these assets that you've contracted for?

23 A No, ma'am, we are not. One of the issues that we  
24 have seen occur since the Leidy Southeast Project

1           came into service and also the Atlantic Sunrise  
2           Project that's coming into service, we have seen  
3           that in the past our backhaul services, which we  
4           were able to obtain through segmentation which  
5           had no additional reservation or demand charge  
6           cost for that service, they were considered  
7           highly reliable. Since those reversal of flow  
8           projects that flows gas on a primary firm basis  
9           from north to south, since they have come online  
10          we have actually experienced supply cuts from our  
11          storage facilities on shoulder days, not on the  
12          peak days but on those shoulder days. And so  
13          we're concerned long term what type of  
14          restrictions we may see and, therefore, we have  
15          contracted for a portion of our storage  
16          withdrawal capability on the Southeastern Trail  
17          Project on Transco's system.

18        Q     You anticipated my next question. So that's sort  
19              of one mitigating effort that the Company has  
20              undertaken?

21        A     Yes, ma'am.

22        Q     And are there any others that you can discuss at  
23              this time?

24        A     Yes, ma'am. We've contracted for capacity on

1 both Atlantic Coast Pipeline and on the Mountain  
2 Valley Pipeline which will diversify our  
3 interstate pipeline -- our interstate pipeline  
4 transportation services. So, instead of relying  
5 on one pipeline provider, Transco, we will in the  
6 future, in the very near future, have three  
7 pipeline providers.

8 Q Okay.

9 A Which will help our resiliency or provide  
10 redundancy.

11 Q And this question may reflect sort of my just  
12 coming to all of this information, but are there  
13 storage facilities that PSNC currently contracts  
14 with that are located downstream from PSNC city  
15 gate?

16 A Downstream, that would be -- all of these are  
17 considered downstream.

18 Q Okay.

19 A Because it's considered backhaul and we get  
20 confused with upstream/downstream reference.

21 A (Ms. Paton) I think north and south when I do it.

22 Q Okay.

23 A So they're all north.

24 A (Ms. Jackson) They're all north of PSNC's system.

1 Q So they are all downstream, okay.

2 A With the exception of Cary, Cary's own system.  
3 That's our own LNG facility.

4 Q Okay. Just a few more, and some of this you may  
5 have answered so I apologize if this is sort of  
6 duplicative. So is it fair to say that these  
7 downstream storage assets, that the capacity is  
8 or has been delivered by backhaul provide  
9 capacity that's a surrogate for or instead of  
10 the, sort of the firm transportation capacity?

11 A Yes, ma'am.

12 Q Okay. So now that there is this reversal of flow  
13 on Transco's system, is PSNC evaluating or  
14 reevaluating the quantities of capacity it needs  
15 in downstream market storage -- market area  
16 storage?

17 A We're definitely looking at any new projects. We  
18 have ongoing discussions with all of our current  
19 pipeline providers, and future pipeline  
20 providers, and also storage providers; we have  
21 continual discussions. We go to industry forums  
22 where we meet with different projects that are  
23 being considered, and so we are looking at that.  
24 We've had numerous discussions with Transco as

1 well, trying to figure out what exactly -- how  
2 their system is going to look in the future when  
3 all of these bidirectional projects come into  
4 play. They're not quite sure right now. I think  
5 we're just in a period of transition, and so once  
6 we see some of these other bigger projects, I  
7 think once we see ACP, once we see MVP come  
8 online that's going to help us sort out what our  
9 future is going to look like.

10 Q Okay. And how much of the backhauled storage is  
11 seasonal versus peaking. I mean, you've said --  
12 I know you've answered that some of it is, not  
13 all of it is peaking?

14 A Right. If you look -- the seasonal capacity is  
15 typically storages that we can turn numerous  
16 times so that's why it's in that seasonal  
17 component on that Exhibit 1. The peaking  
18 capacity is much shorter in duration. So, if you  
19 look on the handout that we just distributed, the  
20 Transco LGA, which is a peaking storage, that's  
21 only a five-day service. So, if you look in that  
22 section B, the far right-hand side column where  
23 it says days at maximum withdrawal, and the other  
24 three storages - Pine Needle, PSNC and Cove Point

1 - those are just 10-day services. Where, if you  
2 look up above in the seasonal capacity section,  
3 you see 55 days, 62, 90, and Saltville, even  
4 though it says 16 that is salt dome storage so  
5 you can turn that multiple times.

6 Q Okay.

7 A It has much more flexibility than the peaking.  
8 Excuse me.

9 Q And are any of these facilities depleted oil and  
10 gas reservoirs?

11 A To be honest, excuse me, I think -- I believe  
12 that all of the ones with the exception of  
13 Saltville could be; I'm just not sure  
14 specifically.

15 Q Okay.

16 A I know that's the only salt dome storage in the  
17 seasonal capacity.

18 Q Okay. And the last question on this line of  
19 questions, are there any depleted oil and gas  
20 reservoirs that are available to the Company here  
21 in North Carolina?

22 A No, ma'am.

23 Q Okay. I'm going to ask you a question that  
24 refers to Paton Exhibit 1. Do you have that in

1 front of you?

2 A I do. I can get there.

3 Q And, Ms. Paton, if you want to answer this one  
4 that would be perfectly fine.

5 A (Ms. Paton) Okay.

6 Q Please turn to Schedule 2 of her Exhibit 1. Are  
7 you there?

8 A (Ms. Jackson) Uh-huh.

9 Q If you look down to lines 27 and 28, we notice  
10 there is a line item for ESS Demand and Capacity  
11 and then there's Eminence Demand and Capacity.  
12 Do these both pertain to Eminent -- the Eminence  
13 Storage Field?

14 A They are. There is what we call ESS, the regular  
15 ESS, and then ESS enhanced, which we were given  
16 the option, I want to say two years ago, two to  
17 three years ago, maybe longer than that. A few  
18 years ago when Transco approached us to give us  
19 the option of subscribing to what they considered  
20 Eminence Enhanced Service, they were making some  
21 modifications to their storage fields, and as  
22 existing ESS capacity holders, storage capacity  
23 holders, we were given the option to participate  
24 in what they were calling the ESS Enhanced

1 Project. So that's why you see two line items  
2 there.

3 Q And can you explain or do you know the difference  
4 between just the regular ESS and the ESS  
5 Enhanced?

6 A It just has different storage withdrawal rights  
7 and injection quantities. So what's why they  
8 separate them into two different components.

9 Q Okay.

10 A I guess they -- it's almost as if they separate  
11 them because of the contract quantities.

12 Q Okay. So back to your testimony and generally  
13 on -- in Exhibit 3 you identify the FERC  
14 matters --

15 A Yes, ma'am.

16 Q -- in which the Company, PSNC, has intervened  
17 during the review period. Are you aware that in  
18 March of this year, specifically on March 15th,  
19 the North Carolina Utilities Commission initiated  
20 a docket at the FERC? The Docket Number is  
21 CP18-42.

22 A Yes, ma'am.

23 Q And we didn't see that identified in your Exhibit  
24 3. Was that just an oversight? Or it could have

1           been that it was so close in time to the end of  
2           the review period.

3    A       I believe it was due to the timing of when our  
4           testimony was due.

5    Q       Okay. But you are aware that that docket, that  
6           proceeding is ongoing?

7    A       Yes, ma'am.

8    Q       And are you aware that the Commission has asked  
9           that Transco pay demand credits?

10   A       Yes, ma'am.

11   Q       And has PSNC participated in that docket yet  
12           other than simply intervening? Do you --

13   A       No, ma'am, we've just filed an intervention.

14   Q       Okay.

15   A       To my knowledge, I don't think there's been any  
16           additional -- an ordering -- any type of Order  
17           issued.

18   Q       Okay. And if -- were the FERC to issue an Order  
19           directing that demand credits be issued by  
20           Transco relating to the Eminence Storage Field  
21           issues, would those demand credits be something  
22           that would be passed onto ratepayers?

23   A       (Ms. Paton) Yes.

24   Q       Okay. Just a few more for you.

1 A (Ms. Jackson) Okay.

2 Q In the Order that we issued on August 8th, we  
3 identified the variability that has occurred over  
4 the years in the Design-Day demand for the winter  
5 of 2018-'19.

6 A Yes, ma'am.

7 Q Can you just discuss that; help us understand why  
8 that variability exists?

9 A Yes, ma'am. What we do is we work in conjunction  
10 with our Resource Planning Group which is another  
11 group within SCANA Services. And what they do on  
12 an annual basis in preparation for our annual  
13 prudence review is they go in and they pull the  
14 latest information that we have, first of all  
15 associated with the previous winter and weather  
16 that we actually incurred during that winter  
17 season and then they pull our systemwide customer  
18 base, if you will. They're looking at throughput  
19 on our system, how much throughput actually  
20 occurred in the previous winter season and what  
21 type of breakdown we have on our total system.  
22 So, when you look at that Design-Day forecast and  
23 how it changes over a five-year period, you can  
24 go back and look at -- and specifically if you go

1 back, for instance, in Sub 558, that was filed in  
2 2015, that was on the heels of the first Polar  
3 Vortex event. So if you look at how that  
4 particular winter weather pattern impacted what  
5 we saw on our system you can see those variations  
6 over time. But we are constantly updating that  
7 forecast to get the best estimate of what we see  
8 our customers utilizing over time.

9 Q Okay. So you are taking into -- just to make  
10 sure I understand, you are taking into account  
11 customer behavior and --

12 A And customer growth.

13 Q -- customer --

14 A And, if you look, the difference from the lowest  
15 to the highest over that five-year period is just  
16 under 2 percent.

17 Q Okay.

18 A So while the numbers on this graph look like they  
19 fluctuate, when you look at it in totality, it's  
20 not that big of a fluctuation.

21 Q Okay.

22 A And that variation is handled through our reserve  
23 margin.

24 Q Okay. A few questions on the Customer Usage

1 Tracker.

2 A Uh-huh (yes).

3 Q Can you explain how the -- how, if at all, the  
4 implementation of the Customer Usage Tracker has  
5 impacted your Design Day requirement or demand  
6 calculations?

7 A The Customer Usage Tracker or the CUT Mechanism  
8 is not factored in at all into our Design Day  
9 forecast because we are looking at actual  
10 throughput on the system.

11 Q Okay. With respect to the CUT, we noticed -- so  
12 it is -- it's our understanding that the interest  
13 rate that's utilized in conjunction with the CUT  
14 is 6.6 percent as stipulated to in the last rate  
15 case. And this may be for --

16 A It's for Ms. Paton.

17 Q -- Ms. Paton. Okay. You're off the hook on  
18 this one.

19 A (Ms. Paton) I think that has changed because of  
20 the tax rate change. But, yes, it was the return  
21 from the last rate case and then we've recognized  
22 the tax rate changes this year actually in the  
23 federal tax rate.

24 Q Okay.

1 A It's -- I can get you the exact number, but I  
2 don't remember off the top of my head.

3 Q Okay. Because we noticed that up to -- well,  
4 through 2017 or -- yeah, through 2017, 6.6 was  
5 used and then at some point 6.9 begins to be  
6 used.

7 A Yeah.

8 Q And so we just -- we wanted to understand --

9 A It's because of the tax rate change.

10 COMMISSIONER MITCHELL: Okay. It might be  
11 helpful if we could get a late-filed exhibit on that  
12 issue.

13 THE WITNESS: (Ms. Paton) Yep.

14 COMMISSIONER MITCHELL: Okay.

15 MS. KELLS: Sure. We can do that.

16 MS. MITCHELL: And just -- we don't -- just  
17 a simple explanation is really all we need.

18 BY COMMISSIONER MITCHELL:

19 Q Just a few more questions for you, Ms. Jackson.  
20 Exhibit 2, paragraph 4 of your testimony  
21 describes the use of a 50 heating, HDD, on a 60  
22 degree Fahrenheit base.

23 A (Ms. Jackson) Yes, ma'am.

24 Q And the Public Staff still uses 55 on 65?

- 1 A Yes, ma'am.
- 2 Q Can you help us understand sort of the relative  
3 impact of those two sets of assumptions?
- 4 A Yes, ma'am. Overall, there are very little --  
5 there's very little difference when you look at  
6 the two ways of doing the Design Day forecast;  
7 however, when our Resource Planning Group ran  
8 both models they found that through statistical  
9 analysis that the 60-degree base with a heating  
10 degree days of 50 produces more accurate results  
11 than the 65 versus 55. So they ran a multiple  
12 regression model and it had a smaller root mean  
13 square error and a higher R-squared value, which  
14 I tend to look at the R-squared value. So when  
15 they provided both runs of their model, the one  
16 that we found that had a statistically sound  
17 basis was the 60 to 50 versus a 65/55, just based  
18 on how we run our models. But when you look at  
19 the two it really does not have a tremendous  
20 difference in the outcome; and I think Staff  
21 would agree with that as they've stated  
22 previously.
- 23 Q Okay. Thank you.
- 24 A Uh-huh (yes).

1 Q Okay. Interstate capacity question for you.  
2 With regard to the new interstate capacity that  
3 the Company has subscribed to, did the Company  
4 use negotiated rates?

5 A Yes, ma'am, we do.

6 Q And in the contracts that you all have entered --  
7 that the Company has entered into, do those  
8 contracts include a governmental action or a  
9 governmental out clause?

10 A No, ma'am, they do not. As part of a negotiated  
11 rate that is give and take before the filed  
12 rates, the recourse rates are filed at FERC and,  
13 therefore, in exchange for the negotiated rate  
14 typically they do not have a governmental out.

15 COMMISSIONER MITCHELL: Okay. Thank you. I  
16 have nothing further. Do you want me to ask them now?  
17 Okay.

18 Ms. Paton, I have just a few -- just a few  
19 for you.

20 BY COMMISSIONER MITCHELL:

21 Q The City of Monroe contract.

22 A (Ms. Paton) Yes.

23 Q So it's our understanding that the final payment,  
24 and this is worth \$6 million total, to Monroe was

1 made during that time last review period such  
2 that the only amounts owed to Monroe at this  
3 point in time are for the -- it's not operation  
4 and maintenance but it's more of the service  
5 component of that contract; is that correct?

6 A Yes, just pipeline work.

7 Q Pipeline work, okay. This year's -- it looks  
8 like this year's line item for that expense was  
9 significantly higher when compared to previous  
10 years and I can -- it's identified in your  
11 Exhibit 1, Schedule 2?

12 A Schedule 2?

13 Q Yeah, and I believe it's line 22.

14 A Twenty-two, yes. And I pulled -- if you look  
15 across there the reporting month of June '17 is  
16 \$22,000, and if you go out to the reporting month  
17 of January '18 it's \$15,000. And I pulled the  
18 invoices for those two months just because they  
19 were sort of the outliers and we had pigging  
20 charges those months --

21 Q Okay.

22 A -- which explains the difference. When you pull  
23 those out it's right in line with the past four  
24 years.

1 Q Got ya, okay. And is the pigging something -- is  
2 that something that will occur --  
3 A I believe it's every seven years --  
4 Q -- years?  
5 A Yes.  
6 Q Okay. Regular interval?  
7 A Uh-huh (yes).  
8 Q Okay. So next year we expect the expense to come  
9 back in line with what we've seen in previous  
10 years?  
11 A I would expect it and I don't.-- I don't know if  
12 there's been any pigging results that require  
13 additional work.  
14 Q Understood.  
15 A I would expect it to come back down.  
16 Q Okay.  
17 A Yeah.  
18 Q Okay. With regard to, let's see, miscellaneous  
19 charges that's mentioned on page 3 of your  
20 testimony.  
21 A Yes.  
22 Q Let me give you a line if you need a line.  
23 A One second. Yes, there were actually  
24 miscellaneous adjustments --

- 1 Q Yeah, miscellaneous adjustments.
- 2 A -- in both of the deferred accounts. And it  
3 might be -- if you look at Schedules 8 and 9 of  
4 my exhibit, that might give you a little, little  
5 better picture of the miscellaneous adjustments  
6 columns, there's a \$13,000 and a \$14,000  
7 adjustment.
- 8 Q Uh-huh (yes).
- 9 A We had curtailment over several days in January.  
10 And one of the customers contacted us and said  
11 that they challenged the charges because they  
12 said they had curtailed, and we investigated and  
13 discovered that there was a relief valve that  
14 had -- there was a leak and so the gas was going  
15 through our meter, but they had curtailed and  
16 their meter was showing no consumption. So we  
17 credited back those charges. And actually in May  
18 we credited back an additional day's charges  
19 because of the leak.
- 20 Q Okay. And that was just one customer.
- 21 A Just one customer, yes.
- 22 Q Okay. Several questions for you related to the  
23 CUT Mechanism. On your Schedule 4, I believe,  
24 can you explain to us or just help us understand

1           how much of the -- for the amounts identified  
2           with respect to the CUT are due to weather and  
3           how much are due to actual customer usage,  
4           customer conservation and efficiency?

5   A       Not really.

6   Q       Okay.

7   A       The normalized -- I could probably do a  
8           calculation to try to get that, but just the way  
9           the monthly calculation is done, you take the  
10          baseload, the non-weather sensitive usage for  
11          each rate schedule and then for the heat  
12          sensitive factor you multiple it by the actual  
13          degree days. So we could single out just the  
14          degree day usage, but we -- I don't have that  
15          calculation.

16   Q       You don't have it, okay.

17   A       Yes.

18   Q       Is that something that you could do and provide  
19          in a late-filed exhibit?

20   A       I can do it. I'm trying to make sure in my head  
21          that it's going to make sense to do that, but  
22          yes.

23   Q       Okay. Thank you.

24           MS. KELLS: Yes.

1 BY COMMISSIONER MITCHELL:

2 Q If the -- and this may be a question that's  
3 difficult to answer but, if the current CUT  
4 programs were abandoned, how would you see sort  
5 of the miscellaneous adjustments changing?

6 A Well, if we did not have the CUT any longer, I  
7 would hazard to guess that we might want to go  
8 back to a weather normalization adjustment. But  
9 if the CUT were just gone, we would not have any  
10 of these CUT adjustments on here. It would  
11 just -- our margin would be up or down depending  
12 on usage.

13 Q Okay. And so the -- and so you couldn't identify  
14 a specific mis- -- any of those charges  
15 identified or costs identified under the  
16 miscellaneous charges? You couldn't say  
17 how those would be impacted?

18 A Well, if -- if we no longer had the CUT, the  
19 two -- the CUT deferral and the CUT deferral line  
20 is the entry each month that recognizes the  
21 margin difference due to actual usage versus  
22 normal, and then the increment/decrement is  
23 either giving back or collecting whatever is in  
24 rates. If the CUT went away, those charges would

1 not show up in gas costs.

2 Q Okay.

3 A They would just -- our margin would be impacted  
4 by that much.

5 Q Okay. One last question for you. We -- the  
6 report filed by the Company in G-5, Sub 495B  
7 reflects a total interest charge over this review  
8 period of approximately \$2.3 million for the CUT  
9 program. Can you discuss the benefits that  
10 customers receive as a result of the CUT programs  
11 being in place, the CUT Tracker being utilized by  
12 the Company?

13 A Thinking back to the rate case when we got this,  
14 it -- we're -- the whole purpose of the CUT was  
15 to try to sort of disconnect margin recovery from  
16 usage. Without some type of mechanism we are --  
17 we have no reason to really want to promote  
18 conservation for customers. If they don't use  
19 then we're not going to be recovering all of our  
20 costs. So the CUT Mechanism to the extent that  
21 people use more than normal, they will be  
22 refunded that money. I do think recently it's  
23 probably been the other direction. They have  
24 used less but it sort of stabilizes rates. It

1 keeps us out of rate cases; just we looked at it  
2 as a, hopefully a win-win. We do encourage  
3 customers to conserve.

4 Q So the possibility exists that it would extend  
5 the time between general rate cases.

6 A Yes.

7 A (Ms. Jackson) Yes.

8 COMMISSIONER MITCHELL: Okay. That's all  
9 for me.

10 COMMISSIONER BROWN-BLAND: I have just a  
11 few.

12 EXAMINATION BY COMMISSIONER BROWN-BLAND:

13 Q Ms. Jackson, you mentioned that due to the issues  
14 that you discussed with Commissioner Mitchell  
15 regarding backhaul that one of the plans to  
16 become less dependent on Transco is to move to  
17 the ACP and you had on the -- is it MVP?

18 A (Ms. Jackson) Yes, ma'am.

19 Q Yet you had plans made to get capacity on those  
20 pipelines. But have we thought ahead to sort of  
21 have a backup plan if there's further delay or  
22 one or both of those don't come to be? What  
23 has -- does the Company know what it might do?

24 A Yes, ma'am. What we have done in the past and

1           what we are looking to do in the future is we are  
2           in constant communication with suppliers and  
3           those suppliers have traditional, either a  
4           forward haul, and some of the suppliers even have  
5           capacity on these new Transco backhaul projects,  
6           and so we issue RFPs on an annual basis and a  
7           seasonal basis. And we seek opportunities in the  
8           market to provide a delivered service, if you  
9           will, or what I consider a bundled service which  
10          would be potentially storage and transportation  
11          capacity where they would deliver that to PSNC's  
12          system, or it may be supply and transportation  
13          that would be delivered to our system. So,  
14          instead of PSNC being the contract holder for  
15          that capacity, on a short-term basis we would go  
16          out and contract for what we consider a bundled  
17          service.

18                               We're also looking at the bulletin  
19          boards on an ongoing basis and, if there is  
20          opportunity for us to pick up traditional  
21          capacity, if you will, on Transco's system, we  
22          have been able to take advantage of small pieces  
23          of that capacity as well because it's at a lower  
24          cost.

1 A (Ms. Paton) If I can supplement --

2 Q Yes.

3 A If you look at my Schedule 6, you can see that we  
4 did pick up some additional short-term --

5 A (Ms. Jackson) That's right.

6 A (Ms. Paton) -- capacity during this review  
7 period.

8 Q Does it go without saying that if you are not  
9 confident in the 2018-'19 numbers in terms of  
10 being able to get that backhaul that you're  
11 equally not confident in the next winter?

12 A (Ms. Jackson) That's correct. And that capacity  
13 that we picked up was to supplement. We were  
14 able to acquire that capacity from Transco and we  
15 were able to firm up that backhaul path so they  
16 had capacity available, and we were able to pick  
17 up that capacity on a short-term release so that  
18 we could firm up that backhaul. And, if you look  
19 at these projects -- that's one thing to keep in  
20 mind. When we are negotiating with pipelines for  
21 new projects, you'll see that we tend to  
22 subscribe to larger quantities than what our  
23 demand forecast will need over the next say two,  
24 three years because right now the FERC timeline

1 is approximately at a minimum five years. So  
2 once you go through the contracting process, you  
3 get the precedent agreements in place. Even with  
4 pre-filing we're seeing -- we used to say the  
5 FERC timeline was three years, we're now saying  
6 five years, and depending on the location of that  
7 pipe some pipelines will tell you it may take as  
8 long as seven years so we're having to perform.  
9 In the past, we used to look at five to 10 years  
10 on our demand -- Design-Day forecast, we're now  
11 looking at a minimum 10, 15 years because we're  
12 having to go back in and talk with the pipelines,  
13 try to gain those economies of scales -- economy  
14 of scale by having other shippers join in a  
15 project so we can lower our overall costs. But  
16 these short-term capacity options that we have  
17 allow us to help mitigate if there is a delay in  
18 those in-service dates of the big projects.

19 Q Thank you. Then you had a discussion about  
20 the -- with Ms. Mitchell about the Design Day,  
21 using the HDD of 50 on a 60 degree -- and that  
22 discussion. And then at the end of that you said  
23 that there wasn't a tremendous difference between  
24 the two ways where the Public Staff still uses

1 the 65 --

2 A Correct.

3 Q But how does -- can you shed some light on how  
4 the difference does affect the Design-Day  
5 requirement?

6 A As I stated you can have a slight variation and  
7 any type of variance, even when you go back and  
8 look at that five-year period. If you're looking  
9 at this upcoming winter season, if you look at  
10 the low number to the high number, there's right  
11 at a 2 percent difference. So any difference  
12 that you may see in the two models we'll handle  
13 that through our reserve margin.

14 Q And then with regard to your contracted capacity,  
15 and I think it was on Exhibit 4 and Exhibit 1, I  
16 think your Exhibit 1.

17 A Exhibit 1, uh-huh (yes).

18 Q Both of them you talk about the DTI. What's DTI?

19 A That's Dominion Energy Transmission,  
20 Incorporated.

21 Q Okay. And does that actually deliver gas to your  
22 city gate?

23 A No, ma'am. That actually is backhauled on  
24 Transco.

- 1 Q Okay.
- 2 A There is a transportation component so that is  
3 storage. If you look at the seasonal capacity  
4 you see the DTI storage and that's delivered to  
5 Zone 5 there on Transco and then backhauled to  
6 our system.
- 7 Q Thank you for that clarification. And then  
8 finally, with regard to the FERC Docket CP18-42  
9 that you have intervened in, is that right, as of  
10 March? What -- and you had that discussion with  
11 Commissioner Mitchell about the demand credits  
12 and everything --
- 13 A Yes, ma'am.
- 14 Q But when would you or should you in your view  
15 stop paying that full price to Transco and ask  
16 for demand credits? Does the Company have a view  
17 on that?
- 18 A No, ma'am. I think we would determine that based  
19 on what the FERC Order stated at the time it's  
20 issued.
- 21 Q Okay. And so the Commission asked for those  
22 demand credits, I guess I'm getting at the  
23 Commission asked but the Company didn't ask.  
24 What would prompt the Company to ask.

1 A (Ms. Paton) I'm looking back at my attorney.

2 A (Ms. Jackson) I know, I'm not sure of --

3 Q And it's just if you have -- if you know or if

4 you have an opinion. If you don't --

5 A No, ma'am, I don't. I apologize.

6 Q All right. And that reminded me --

7 A And that is one thing, Commissioner Brown-Bland,

8 is with respect to the ESS Storage Service we

9 have not encountered any interruptions in our

10 service so that's why we continue to contract for

11 that storage service.

12 Q Okay. And if you know or you have an opinion,

13 and this is to either one of you, do you know if

14 customers in general are conserving or being more

15 efficient due to building standards or other

16 factors that are outside of what you offer in

17 your annual conservation program report?

18 A I do think that as customers replace their

19 appliances with more energy efficient appliances

20 we have seen a decline. I checked with our

21 Resource Planning Group and they said that if you

22 go back and look since 2007, so a decade of

23 consumption analysis, that the residents on Rate

24 101 has declined a little over a half a percent.

1 The commercial rate, Rate 125, has not seen a  
2 decline and it's remained basically flat at  
3 .2 percent. So I think over time we are seeing  
4 that as those appliances are replaced that the  
5 average use per customer is going down. But I  
6 will tell you that when you look at the Design  
7 Day, which is typically a three-day peak, we  
8 continue to see growth because when you look at  
9 the efficiency of any appliance, when they're  
10 operating at its maximum for that three-day  
11 period, excuse me, we do not see the efficiencies  
12 that we typically see on average use. So I think  
13 that's the challenge for us is we're continuing  
14 to see growth on a Design Day basis, which is the  
15 coldest day we can anticipate but on an average  
16 use, if you look at annual throughput, our  
17 customers are using a little bit less.

18 Q And are you able at all to quantify how much less  
19 by customer class?

20 A That was the one customer class they went back  
21 and compared and -- or two classes, the  
22 residential which is 101 and commercial is 125,  
23 and that's where they gave me those statistics.

24 A (Ms. Paton) I think the -- probably what has been

1 working against that is just gas prices are so  
2 low now. People probably don't have quite as  
3 much worry about their heating bill as maybe they  
4 did in the past.

5 A (Ms. Jackson) And when you can look at the -- I  
6 mean, we've had -- we've encountered some, I  
7 won't say cold, you know, we had the two Polar  
8 Vortex events, but then when you look at our  
9 winters, we have had pretty decent normal  
10 weather, if you will, where we've had two of the  
11 normal temperatures and that coupled with stable  
12 gas prices, I think you tend less to see people  
13 more -- less concerned about conservation.

14 COMMISSIONER BROWN-BLAND: Commissioner  
15 Mitchell.

16 EXAMINATION BY COMMISSIONER MITCHELL:

17 Q Ms. Jackson, one question for you. You mentioned  
18 the Atlantic Sunrise. I believe that's what  
19 you --

20 A Yes.

21 Q Can you just tell me where that project is  
22 located?

23 A That is another backhaul project on Transco's  
24 system and it, I can't remember the exact receipt

1 area but it comes off of -- it's above 210, I  
2 believe, and it backhauls down to Station 85 on  
3 Transco's system.

4 Q Okay. So it is currently in service?

5 A A portion of it is on the main line.

6 COMMISSIONER MITCHELL: Okay. Thank you.

7 COMMISSIONER BROWN-BLAND: Give us a second,  
8 please.

9 (Pause)

10 COMMISSIONER BROWN-BLAND: Are there  
11 questions on Commission's questions?

12 MS. KELLS: No, ma'am.

13 MS. HOLT: No.

14 COMMISSIONER BROWN-BLAND: Then we will  
15 excuse the witnesses from the witness stand. Thank  
16 you.

17 MS. JACKSON: Thank you.

18 MS. PATON: Thank you.

19 (The witnesses are excused.)

20 MS. KELLS: At this time, I would move that  
21 Ms. Jackson's four exhibits, including the one  
22 introduced today and including confidential  
23 information in the attachment to Exhibit 2, and  
24 Ms. Paton's one exhibit be admitted into evidence.

1           COMMISSIONER BROWN-BLAND: Without  
2 objection, that motion will be allowed and the  
3 exhibits will be received into evidence.

4           And, Madam Court Reporter, just as a  
5 reminder, the testimony previously received as well as  
6 those items marked as confidential in the exhibits  
7 should remain so in the transcript.

8                           (WHEREUPON, Jackson Revised  
9 Exhibit 1, Jackson Exhibits 2, 3  
10 and 4, and Paton Exhibit 1 are  
11 admitted into evidence.

12                           Confidential pages are filed under  
13 seal.)

14           COMMISSIONER BROWN-BLAND: And, Ms. Kells, I  
15 believe there are two -- I think Commissioner Mitchell  
16 requested two late-filed exhibits and you --

17           MS. KELLS: Yes, ma'am.

18           COMMISSIONER BROWN-BLAND: Okay.

19           MS. KELLS: We'll get those.

20           COMMISSIONER BROWN-BLAND: So we're good  
21 with that?

22           MS. KELLS: Yes. Thank you.

23           COMMISSIONER BROWN-BLAND: Thank you. And  
24 that concludes your case?

1 MS. KELLS: Yes, ma'am. Sorry. That  
2 concludes PSNC's case.

3 COMMISSIONER BROWN-BLAND: Then the case is  
4 with the Public Staff.

5 MS. HOLT: The Public Staff calls as a panel  
6 Sonja R. Johnson, Geoffrey Gilbert and Julie Perry.

7 SONJA R. JOHNSON, GEOFFREY M. GILBERT

8 and JULIE G. PERRY, as a panel;

9 having been duly sworn,

10 testified as follows:

11 DIRECT EXAMINATION BY MS. HOLT:

12 Q Ms. Johnson, could you please state your name,  
13 business address and present position for the  
14 record?

15 A My name is Sonja R. Johnson; business address is  
16 430 North Salisbury Street in Raleigh, North  
17 Carolina, and I am a Public Staff Accountant.

18 Q Mr. Gilbert, please state your name, business  
19 address and position for the record.

20 A My name is Geoffrey M. Gilbert. I'm an Engineer  
21 with the Public Staff, Natural Gas Division at  
22 430 North Salisbury Street.

23 Q Ms. Perry, please state your name, business  
24 address and position for the record.

1 A My name is Julie G. Perry. I'm the Accounting  
2 Manager for the Accounting Division of the Public  
3 Staff, and I'm at 430 North Salisbury Street,  
4 Raleigh, North Carolina.

5 Q Thank you. Ms. Johnson, speaking on behalf of  
6 the entire panel did the panel prepare and cause  
7 to be filed in this docket on July 30, 2018,  
8 testimony consisting of 21 pages and three  
9 Appendices?

10 A (Ms. Johnson) Yes, we did.

11 Q Do you have any additions or corrections to that  
12 testimony?

13 A No, we do not.

14 Q If each of you were asked those same questions  
15 today would your answers be the same?

16 A Yes.

17 MS. HOLT: Madam Chairman, I move that the  
18 Joint Testimony of Sonja R. Johnson, Geoffrey M.  
19 Gilbert and Julie G. Perry filed on July 30, 2018,  
20 consisting of 21 pages be copied into the record as if  
21 given orally from the stand, and that the three  
22 Appendices be identified as marked when filed and  
23 entered into evidence?

24 COMMISSIONER BROWN-BLAND: That motion,

1 without objection, is allowed and the Joint Testimony  
2 is received into evidence as if given orally from the  
3 witness stand, and the Appendices A, B and C are  
4 received into evidence at this time, and they are  
5 marked as they were when they were prefiled.

6 (WHEREUPON, the prefiled Joint  
7 Testimony of SONJA R. JOHNSON,  
8 GEOFFREY M. GILBERT, and JULIE G.  
9 PERRY, including Appendices A, B  
10 and C is copied into the record as  
11 if given orally from the stand.)  
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**PUBLIC SERVICE COMPANY OF NORTH CAROLINA, INC.**

**DOCKET NO. G-5, SUB 591**

**JOINT TESTIMONY OF**

**SONJA R JOHNSON, GEOFFREY M GILBERT, AND JULIE G PERRY**

**ON BEHALF OF**

**THE PUBLIC STAFF – NORTH CAROLINA UTILITIES COMMISSION**

**July 30, 2018**

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

3 A. My name is Sonja R. Johnson, and my business address is 430 North  
4 Salisbury Street, Raleigh, North Carolina. I am an Accountant with the  
5 Public Staff's Accounting Division. My qualifications and experience are  
6 provided in Appendix A.

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

9 A. The purpose of my testimony is (1) to provide recommendations based on  
10 my conclusions regarding whether the gas costs incurred by Public  
11 Service Company of North Carolina, Inc. (PSNC or Company), during the  
12 twelve-month review period ended March 31, 2018, were properly  
13 accounted for, and (2) to present the results of my review of gas cost  
14 information filed by PSNC, in accordance with N. C. Gen. Stat. § 62-  
15 133.4(c) and Commission Rule R1-17(k)(6).

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

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

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

9 A. The purpose of my testimony is to present my conclusions regarding  
10 whether the natural gas purchases made by PSNC during the review  
11 period ended March 31, 2018, were prudently incurred. My testimony also  
12 presents the results of my review of the gas cost information filed by  
13 PSNC in accordance with N. C. Gen. Stat. § 62-133.4(c) and Commission  
14 Rule R1-17(k)(6), and provides my recommendation regarding temporary  
15 rate increments and/or decrements.

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

18 A. My name is Julie G. Perry, and my business address is 430 North  
19 Salisbury Street, Raleigh, North Carolina. I am the Accounting Manager  
20 of the Natural Gas & Transportation Section in the Accounting Division of  
21 the Public Staff. My qualifications and experience are provided in  
22 Appendix C.

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

3 A. The purpose of my testimony is to discuss my investigation and  
4 conclusions regarding the prudence of PSNC's hedging activities during  
5 the review period.

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

8 A. We reviewed the testimony and exhibits of the Company's witnesses, the  
9 Company's monthly deferred account reports, monthly financial and  
10 operating reports, gas supply, pipeline transportation and storage  
11 contracts, and the Company's responses to Public Staff data requests.  
12 Each month, the Public Staff reviews the deferred account reports filed by  
13 the Company for accuracy and reasonableness and performs many audit  
14 procedures on the calculations.

15 Public Staff witness Gilbert reviewed the testimony and exhibits of  
16 Company witnesses Jackson and Paton; monthly operating reports; gas  
17 supply and pipeline transportation and storage contracts; and the  
18 Company's responses to the Public Staff's data requests.

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

1 A. Based on my investigation and review of the data in this docket, I believe  
2 that PSNC's gas costs were prudently incurred for the 12-month review  
3 period ending March 31, 2018.

4 **Q. MS. JOHNSON, HAS THE COMPANY PROPERLY ACCOUNTED FOR  
5 ITS GAS COSTS DURING THE REVIEW PERIOD?**

6 A. Yes. I believe that PSNC properly accounted for its gas costs during the  
7 review period from April 1, 2017 through March 31, 2018.

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

9 A. Even though the scope of Commission Rule R1-17(k) is limited to a  
10 historical review period, the Public Staff's Natural Gas Division also  
11 considers other information received in response to data requests in order  
12 to anticipate the Company's requirements for future needs, including  
13 design day estimates, forecasted gas supply needs, projected capacity  
14 additions and supply changes, and customer load profile changes.

**ACCOUNTING FOR AND ANALYSIS OF GAS COSTS**

15 **Q. MS. JOHNSON, HOW DOES THE ACCOUNTING DIVISION GO ABOUT  
16 CONDUCTING ITS REVIEW OF THE ACCOUNTING FOR GAS COSTS?**

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

- 1 (1) **Commodity Gas Cost True-Up** - The actual commodity gas costs  
2 incurred are verified, the calculations and data supporting the commodity  
3 gas costs collected from customers are checked, and the overall  
4 calculation is reviewed for mathematical accuracy.
- 5 (2) **Fixed Gas Cost True-Up** - The actual fixed gas costs incurred are  
6 compared with pipeline tariffs and gas contracts, the rates and volumes  
7 supporting the calculation of collections from customers are verified, and  
8 the overall calculation is reviewed for mathematical accuracy.
- 9 (3) **Negotiated Losses** - Negotiated prices for each customer are  
10 reviewed to ensure that the Company does not sell gas to the customer  
11 below the cost of gas to the Company or the price of the customer's  
12 alternative fuel.
- 13 (4) **Temporary Increments and/or Decrements** - Calculations and  
14 supporting data are verified regarding the collections and/or refunds from  
15 customers that have occurred through the Deferred Account.
- 16 (5) **Interest Accrual** - Calculations of the interest accrued on the  
17 account balance during the month are verified in accordance with N. C.  
18 Gen. Stat. § 62-130 (e) and the Commission's Order in G-9, Sub 309.
- 19 (6) **Secondary Market Transactions** - The secondary market  
20 transactions conducted by the utility are reviewed and verified to the

1 financial books and records, asset manager agreements, and the monthly  
2 Deferred Gas Cost Accounts.

3 (7) **Uncollectibles** – In Docket No. G-5, Sub 473, the Commission  
4 approved a mechanism to recover the gas cost portion of the difference  
5 between the Company's cost of gas incurred and the amount collected  
6 from customers, effective for service rendered on and after December 1,  
7 2005. The Company records a journal entry each month in the Sales  
8 Customers' Only Deferred Account for the gas cost portion of its  
9 uncollectibles write-offs. We review the calculations supporting those  
10 journal entries to ensure that the proper amounts are recorded.

11 (8) **Supplier Refunds** – In Docket No. G-100, Sub 57, the Commission  
12 held that, unless it orders refunds to be handled differently, supplier  
13 refunds should be flowed through to ratepayers in the All Customers'  
14 Deferred Account, or may be applied to the NCUC Legal Fund Reserve  
15 Account. We review documentation received by the Company from its  
16 suppliers to ensure that the amount received by the Company is flowed  
17 through to ratepayers.

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

21 **A.** The Company filed total gas costs of \$235,756,953 per Paton Exhibit 1,  
22 Schedule 1, for the current review period as compared with \$154,728,840

1 for the prior twelve-month period. The components of the filed gas costs  
2 for the two periods are as follows:

	12 Months Ended		Increase (Decrease)	% Change
	March 31, 2018	March 31, 2017		
Demand & Storage	\$91,043,579	\$93,299,905	(\$2,256,326)	(2.42%)
Commodity	145,801,389	102,332,518	43,468,871	42.48%
Other Costs	(1,088,016)	(40,903,584)	39,815,568	(97.34%)
Total	\$235,756,953	\$154,728,839	\$81,028,113	52.37%

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

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

	12 Months Ended		Increase (Decrease)	%Change
	March 31, 2018	March 31, 2017		
<b>Transco:</b>				
FT Reservation	\$49,153,763	\$48,859,298	\$294,465	0.60%
FT Momentum	2,576,207	2,580,863	(4,656)	(0.18%)
Southern Expansion	1,974,279	1,978,120	(3,841)	(0.19%)
Southeast Expansion	5,642,131	5,651,255	(9,124)	(0.16%)
GSS	1,576,812	1,576,704	108	0.01%
WSS	549,942	539,290	10,652	1.98%
LGA	128,991	128,991	-	0.00%
ESS	1,893,065	1,893,065	-	0.00%
Total Transco Charges	\$63,495,190	\$63,207,586	\$287,604	0.46%
<b>Other Charges:</b>				
Pine Needle LNG	\$3,116,591	\$3,897,224	(\$780,633)	(20.03%)
Cardinal	6,504,118	7,798,513	(1,294,395)	(16.60%)
Dominion Transmission Service	5,087,079	5,079,894	7,185	0.14%
Texas Gas Transmission	500,313	500,313	-	0.00%
Texas Eastern	563,328	563,328	0	0.00%
Columbia FSS/SST	3,708,372	3,666,465	41,907	1.14%
East Tennessee (Patriot Expansion)	5,004,480	5,004,480	0	0.00%
Saltville Gas Storage	2,178,274	2,178,274	0	0.00%
Cove Point LNG	788,055	848,520	(60,465)	(7.13%)
Piedmont Redelivery Agreement	9,120	9,120	-	0.00%
City of Monroe	88,660	546,188	(457,528)	(83.77%)
Total Other Charges	\$27,548,390	\$30,092,319	(\$2,543,929)	(8.45%)
Total Demand and Storage Charges	\$91,043,579	\$93,299,905	(\$2,256,325)	(2.42%)

1 The primary reason for the modest increase in **Transco FT Reservation**  
2 charges during the review period is due to the expiration in March 2017 of  
3 PSNC's acquisition of additional capacity on Transco's mainline in order to  
4 obtain more reliable deliverability of the Dominion and Columbia storage  
5 services on non-peak days.

6 **Pine Needle LNG** charges decreased as a result of an Electric Power and  
7 Fuel Tracker adjustment, effective May 1, 2017, in FERC Docket No.  
8 RP17-576-000.

9 The decrease in **Cardinal** is primarily due to a decrease in rates, effective  
10 August 1, 2017, pursuant to Commission Order dated July 27, 2017, in  
11 Docket No. G-39, Sub 38.

12 **Cove Point LNG** charges decreased as a result of a General Rate Case,  
13 effective October 1, 2017, in FERC Docket No. RP17-197-000.

14 The decrease in the **City of Monroe** charges relates to the Joint Venture  
15 Agreement (Agreement), as amended, between PSNC and the City of  
16 Monroe<sup>1</sup>, whereby PSNC leased 17,250 dekatherms (dts) per day of  
17 intrastate capacity from the City of Monroe. The Agreement stated that  
18 PSNC would pay monthly payments beginning July 2010 through June  
19 2016. The decrease in charges during the current review period reflects

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<sup>1</sup> The amended Agreement was a part of the Settlement Agreement approved by Commission Order dated May 18, 2010 in Docket No. G-5, Sub 510.

1 the end of that agreement, while the prior review period reflected six  
2 months of the charges.

3 Q. PLEASE EXPLAIN THE CHANGE IN COMMODITY GAS COSTS.

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

	12 Months Ended		Increase (Decrease)	% Change
	March 31, 2018	March 31, 2017		
Gas Supply Purchases	\$145,656,452	\$98,636,009	\$47,020,443	47.67%
Transportation Charges				
from Pipelines	1,244,611	883,006	361,605	40.95%
Storage Injections	(28,720,168)	(18,705,561)	(10,014,607)	53.54%
Storage Withdrawals	27,620,494	21,519,065	6,101,429	28.35%
Total Commodity Gas				
Costs Expensed	\$145,801,388	\$102,332,519	\$43,468,870	42.48%
Gas Supply for				
Deliveries (dt)	49,083,753	40,336,551	8,747,202	21.69%
Commodity Cost per dt	\$2.9705	\$2.5370	\$0.43	17.09%

6 **Gas Supply Purchases** increased by \$47,020,443 primarily due to a  
7 higher level of volumes purchased during the current review period as  
8 compared with the prior twelve-month review period. As indicated in the  
9 chart above, the total commodity cost per dt for the current review period  
10 increased by \$0.43, or 17.09%, when compared to the prior review period.  
11 This increase is generally consistent with the changes in market indices  
12 and spot market prices experienced between the two periods.

13 The increase in **Storage Injections** was due to both the higher cost of gas  
14 supply injected into storage and the increased volumes injected into  
15 storage. The average cost of gas injected into storage during the current

1 review period was \$2.8393 per dt as compared with \$2.1306 per dt for the  
 2 prior period. PSNC injected 10,115,402 dts into storage in the current  
 3 review period as compared to 8,779,330 dts for the prior period.

4 The increase in **Storage Withdrawal** charges was primarily due to a  
 5 higher average cost of supply withdrawn from storage. PSNC's average  
 6 cost of gas withdrawn was \$2.7494 per dt in this review period as  
 7 compared to \$2.4687 per dt in the prior review period.

8 **Q. PLEASE EXPLAIN THE CHANGE IN OTHER GAS COSTS.**

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

	12 Months Ended		Increase (Decrease)
	March 31, 2018	March 31, 2017	
Deferred Account Activity	(\$37,011,566)	(\$35,058,500)	(\$1,953,066)
Estimate to Actual Gas Cost True-Up	6,417,374	7,924,859	(1,507,485)
CUT Deferral	(4,658,583)	(32,812,080)	28,153,497
CUT Increment/Decrement	39,419,119	23,886,539	15,532,580
High Efficiency Discount Rate	(325,566)	(288,294)	(37,272)
Miscellaneous Adjustments	-	-	-
IMT Deferral	746,750	6,047	740,703
EDIT Amortization	(5,674,552)	(4,561,587)	(1,112,965)
Gas Loss-Facilities Damages	(991)	(567)	(424)
<b>Total Other Gas Costs</b>	<b>(\$1,088,016)</b>	<b>(\$40,903,583)</b>	<b>\$39,815,568</b>

11 The **Deferred Account Activity** amounts reflect offsetting accounting  
 12 journal entries for most of the information recorded in the Company's  
 13 Deferred Gas Cost Account during the review periods.

1 The **Estimate to Actual Gas Cost True-Up** amount results from the  
2 Company's monthly account closing process. Each month, the Company  
3 estimates its current month's gas costs for financial reporting purposes  
4 and trues-up the prior month's estimate to reflect the actual cost incurred.

5 The **CUT Deferral** entries relate to the Order issued in Docket No. G-5,  
6 Sub 495 (Sub 495 Order), in which the Commission approved the use of a  
7 Customer Usage Tracker (CUT) by the Company beginning November 1,  
8 2008. The Company charges or credits other cost of gas for the  
9 accounting journal entry that offsets its CUT deferral.

10 The **CUT Increment/Decrement** entries relate to the Sub 495 Order in  
11 which the Commission authorized the Company to collect from or refund  
12 to customers balances in the CUT Deferred Account by imposing either an  
13 increment or a decrement to rates, effective April and October of each  
14 year.

15 The **High Efficiency Discount Rate** and the **Conservation Program**  
16 **Accrual** entries represent accruals and expenses associated with  
17 \$750,000 of conservation-related expenses allowed in PSNC's prior rate  
18 case in Docket No. G-5, Sub 495.

19

SECONDARY MARKET ACTIVITIES

1

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

4 A. The Company recorded \$45,692,268 of margins on secondary market  
5 transactions, including capacity release transactions, asset management  
6 arrangements, and other secondary market transactions during the review  
7 period. Of this amount, \$34,269,198 (\$45,692,268 x 75%) was credited to  
8 the All Customers' Deferred Account for the benefit of ratepayers.  
9 Presented below is a chart that compares the margins recorded by PSNC  
10 on the various types of secondary market transactions in which it was  
11 engaged during the review period and the prior review period.

	<u>Actual 12 Month Period Ended</u>		Increase (Decrease)	Change
	<u>March 31, 2018</u>	<u>March 31, 2017</u>		
Capacity Release	\$2,525,124	\$2,889,602	(\$364,478)	(12.61%)
Asset Management	39,551,582	41,749,746	(2,198,164)	(5.27%)
Bundled Sales	2,749,946	3,141,197	(391,251)	(12.46%)
Straddles	776,575	722,596	53,979	7.47%
Spot Sales	89,041	-	89,041.00	-
Total Secondary Market Margins	<u>\$45,692,268</u>	<u>\$48,503,141</u>	<u>(\$2,810,873)</u>	<u>(5.80%)</u>

12 **Capacity Release** is the short-term posting of unutilized firm capacity on  
13 the electronic bulletin board that is released to third parties at a biddable  
14 price. The overall net compensation from capacity release transactions  
15 decreased by 12.61% primarily due to fewer volumes being released  
16 during the current review period as compared to the prior period.

1        **Asset Management Agreements (AMAs)** are contractual relationships  
2        where a party agrees to manage gas supply and delivery arrangements,  
3        including transportation and storage capacity, for another party. Typically  
4        a shipper holding firm transportation and/or storage capacity on a pipeline  
5        or multiple pipelines temporarily releases all or a portion of that capacity  
6        along with associated gas production and gas purchase agreements to an  
7        asset manager. The asset manager uses that capacity to serve the gas  
8        supply requirements of the releasing shipper, and, when the capacity is  
9        not needed for that purpose, uses the capacity to make releases or  
10       bundled sales to third parties. The 5.27% decrease in net compensation  
11       from Asset Management Agreements results primarily from a decrease in  
12       the interstate pipeline and storage capacity that PSNC has subject to  
13       AMAs.

14       **Bundled Sales** are sales of delivered gas supply to a third-party  
15       consisting of gas supply and pipeline capacity at a specified receipt point.  
16       During the current winter period, PSNC's bundled sales decreased by  
17       12.46% due to a decrease in the level of volumes as well as a decrease in  
18       the price per dt as compared to the prior review period.

19       **Straddle** transactions are the physical exchange of gas allowing a third-  
20       party to either put gas to the LDC or call on gas from an LDC for a fee.  
21       The level of volumes associated with the straddle transactions decreased  
22       slightly during the current review period, although the net compensation  
23       received increased due to higher market prices.



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

3           8.     Minutes from meetings of SCANA's Risk Management  
4 Committee (RMC);

5           9.     Minutes from meetings of SCANA's Board of Directors and  
6 its committees that pertain to hedging activities;

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

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

12           12.    Communications with Company personnel regarding key  
13 hedging events and plan modifications under consideration by SCANA's  
14 RMC; and,

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

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

20 **A.**    In its February 26, 2002, Order on Hedging in Docket No. G-100, Sub 84  
21 (Hedging Order), the Commission stated that the standard for reviewing  
22 the prudence of hedging decisions is that the decision "must have been  
23 made in a reasonable manner and at an appropriate time on the basis of

1 what was reasonably known or should have been known at that time.”

2 Hedging Order, 92 NCUC 4, 11-12 (2002).

3 **Q. PLEASE DESCRIBE THE ACTIVITY REPORTED IN THE COMPANY’S**  
4 **HEDGING DEFERRED ACCOUNT DURING THE REVIEW PERIOD.**

5 A. The Company experienced net debits of \$2,376,550 in its Hedging  
6 Deferred Account during the review period. This net debit amount at  
7 March 31, 2018, is composed of the following items:

Economic (Gain)/Loss - Closed Positions	(\$271,330)
Premiums Paid	2,591,190
Brokerage Fees & Commissions	14,375
Interest on Hedging Deferred Account	42,316
Hedging Deferred Account Balance	<u>\$2,376,550</u>

8 The first item shown in the chart above, Economic (Gain)/Loss – Closed  
9 Positions, is the gain on hedging positions that the Company realized  
10 during the review period. Premiums Paid is the amount spent by the  
11 Company on futures and options positions during the current review  
12 period. As of March 31, 2018, this amount includes call options  
13 purchased by PSNC for the May 2019 contract period, a contract period,  
14 which is 13 months beyond the end of the current review period and 12  
15 months beyond the April 2018 prompt month.<sup>2</sup> Brokerage Fees and  
16 Commissions are the amounts paid to brokers to complete the  
17 transactions. The Interest on Brokerage Account amount is the interest  
18 earned by the Company on amounts deposited with its broker, and the

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<sup>2</sup> Prompt month refers to the futures contract that is closest to expiration and is usually for delivery in the next calendar month (e.g., prompt month contracts traded in February are typically for delivery in March).

1 Interest on Hedging Deferred Account is the amount accrued by the  
2 Company on its Hedging Deferred Account in accordance with N. C. Gen.  
3 Stat. § 62-130(e).

4 The Company proposed that the \$2,376,550 debit balance in the Hedging  
5 Deferred Account as of the end of the review period be transferred to its  
6 Sales Customers' Only Deferred Account. The hedging charges result in  
7 an annual charge of \$3.15 for the average residential customer, which  
8 equates to approximately \$0.26 per month. PSNC's weighted average  
9 hedged cost of gas for the review period was \$3.81 per dt.

10 **Q. WHAT IS YOUR CONCLUSION REGARDING THE PRUDENCE OF THE**  
11 **COMPANY'S HEDGING ACTIVITIES?**

12 **A.** Based on what was reasonably known or should have been known at the  
13 time the Company made its hedging decisions affecting the review period,  
14 as opposed to the outcome of those decisions, our analysis leads us to  
15 the conclusion that the decisions were prudent. We recommend that the  
16 \$2,376,550 debit balance in the Hedging Deferred Account as of the end  
17 of the review period be transferred to the Company's Sales Customers'  
18 Only Deferred Account.

19

1

**DESIGN DAY REQUIREMENTS**

2 Q. MR. GILBERT, DO YOU HAVE ANY COMMENTS REGARDING  
3 COMPANY WITNESS JACKSON'S EXHIBIT 1 AND DISCUSSION  
4 REGARDING PEAK DAY DEMAND AND AVAILABLE ASSETS  
5 PROJECTIONS?

6 A. Yes. The Public Staff has done an independent analysis using similar  
7 calculations to determine peak day demand levels and compares that to  
8 the assets the Company has available (or is planning to have available  
9 when needed in the future) to meet that demand. The Public Staff uses  
10 the review period data of customer usage and heating degree days  
11 (HDDs), which are calculated by taking the average of the minimum and  
12 maximum daily temperature and subtracting that quotient from 65  
13 degrees. (For example, a low of 10 degrees and a high of 30 would yield  
14 45 HDDs.) Base load (usage that does not fluctuate with weather) plus a  
15 usage per HDD factor is developed, and the projected peak day demand  
16 is calculated. The assumption in developing a peak design day demand is  
17 55 HDDs, which is the accepted peak coldest day that would be  
18 anticipated to be experienced in PSNC's territory. The results of our  
19 analysis are similar to the levels presented by PSNC in Jackson Exhibit 1.  
20 PSNC's design day demand models show a shortfall of capacity beginning  
21 in the 2019 – 2020 winter season. In order to overcome this anticipated  
22 shortfall, PSNC has contracted for necessary capacity on the Atlantic  
23 Coast Pipeline (ACP), which is expected to come into service by late

1 2019, and the Mountain Valley Pipeline, LLC (MVP), which is expected to  
 2 have lateral facilities capable of delivering capacity to PSNC completed by  
 3 late 2020. PSNC witness Jackson has addressed this in her testimony.

4 **DEFERRED ACCOUNT BALANCES**

5 **Q. MS. JOHNSON, BASED ON YOUR REVIEW OF GAS COSTS IN THIS**  
 6 **PROCEEDING, WHAT ARE THE APPROPRIATE DEFERRED**  
 7 **ACCOUNT BALANCES AS OF MARCH 31, 2018?**

8 **A.** The All Customers Deferred Account balance filed by the Company was a  
 9 credit of \$13,770,526, owed to the customers. This balance consists of  
 10 the following deferred account activity:

Beginning Balance as of April 1, 2017	(\$7,449,531)
Commodity Costs Under Collections	136,226
Demand Costs Under Collections	21,244,610
(Increment)/Decrement	7,589,506
Secondary Market Transaction Credits	(34,269,198)
Supplier Refunds	(142,475)
Miscellaneous Adjustments	(768,231)
Accrued Interest	(111,433)
Ending Balance as of March 31, 2018	<u>(\$13,770,526)</u>

11 Paton Exhibit 1, Schedule 8 reflects a debit balance in the Sales  
 12 Customers' Only Deferred Account balance as of March 31, 2018, of  
 13 \$1,443,014, owed by the customers to the Company. After the Hedging  
 14 Deferred Account debit balance of \$2,376,550 has been transferred to the  
 15 Sales Customers' Only Deferred Account, we recommend that the Sales  
 16 Customers' Only Deferred Account as of March 31, 2018, is a net debit

1 balance, owed by the customers to the Company, of \$3,819,564,  
2 determined as follows:

Balance per Paton Exhibit, Schedule 8	\$1,443,014
Transfer of Hedging Balance	<u>2,376,550</u>
Balance per Public Staff	<u>\$3,819,564</u>

3 **Q. MR. GILBERT, DO YOU HAVE ANY RECOMMENDATIONS**  
4 **REGARDING PSNC'S DEFERRED ACCOUNT BALANCES AND ANY**  
5 **PROPOSED TEMPORARY INCREMENTS OR DECREMENTS?**

6 A. Yes, I do. The All Customers Deferred Account reflects a credit balance  
7 of \$13,770,526 owed by the Company to customers. PSNC has proposed  
8 not to place a decrement in rates for the recovery of this credit balance.  
9 At the end of May, the over-collection had decreased to \$9,145,536, and  
10 the Company estimates the balance will "flip" to an under-collection of  
11 approximately \$8.4 million by the end of October 2018. The Sales  
12 Customers' Only Deferred Account reflects an under-collection of  
13 \$1,443,014, owed by customers to the Company. The current tariff rates,  
14 which were approved in the Company's Purchased Gas Adjustment (PGA)  
15 filing in Docket No. G-5, Sub 583 and became effective January 1, 2018,  
16 are based on an over-collection of approximately \$15 million in the All  
17 Customers' Deferred Account. Removing the decrements that are  
18 currently in place and implementing a new rate based on the \$13,770,526  
19 in the All Customers' Deferred Account would not be beneficial to the rate  
20 payers. The Public Staff notes that it is not unusual to have a change in  
21 the balances, since fixed gas costs are typically over-collected during the

1 winter period when throughput is higher due to heating load, and under-  
2 collected during the summer when throughput is lower. The Company  
3 proposes to leave the current temporary decrements applicable to the All  
4 Customers' Deferred Account in place and monitor the balance in the  
5 account to determine when or if changes are required. I recommend that  
6 PSNC continue to monitor the balances in both the All Customers' and the  
7 Sales Customers' Only Deferred Accounts and file for a request to  
8 implement new temporary increments or decrements, as applicable,  
9 through the PGA mechanism to avoid significant over-collections of its  
10 fixed gas costs. I agree with PSNC's reasonable proposal of not taking  
11 any action on the All Customers' and the Sales Customers' Deferred  
12 Accounts at this time in this docket.

13 **Q. WHAT IS YOUR RECOMMENDATION REGARDING ANY TEMPORARY**  
14 **RATE INCREMENTS OR DECREMENTS?**

15 A. PSNC has proposed not to place a decrement in rates for the recovery of  
16 this credit balance, but to manage it by using the PGA mechanism,  
17 pursuant to N. C. Gen. Stat. § 62-133.4, which PSNC has previously used  
18 for this purpose. I believe that requiring PSNC to implement temporary  
19 rate changes in the instant docket at this time would not be productive,  
20 and, therefore, agree with the Company's proposals

21 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

22 A. Yes.

## APPENDIX A

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**SONJA R. JOHNSON**Qualifications and Experience

I am a graduate of North Carolina State University with a Bachelor of Science and Master of Science degree in Accounting. I was initially an employee of the Public Staff from December 2002 until May 2004, and rejoined the Public Staff in January 2006.

I am responsible for analyzing testimony, exhibits, and other data presented by parties before this Commission. I have the further responsibility of performing and supervising the examinations of books and records of utilities involved in proceedings before the Commission, and summarizing the results into testimony and exhibits for presentation to the Commission.

Since initially joining the Public Staff in December 2002, I have filed testimony or affidavits in several water and sewer general rate cases. My experience also includes filing affidavits in several fuel rate cases of Duke Energy Carolinas, LLC and Dominion North Carolina Power. I have also performed audits and/or presented testimony or affidavits in Public Service Company of North Carolina Annual Gas Cost reviews.

Jul 30 2018

## APPENDIX B

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Jul 30 2018

**GEOFFREY M. GILBERT**  
Qualifications and Experience

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. I worked out of TRC's Raleigh, NC office and specialized 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.

**JULIE G. PERRY****Qualifications and Experience**

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.

1 BY MS. HOLT:

2 Q Ms. Johnson, do you have a summary of your Joint  
3 Testimony --

4 COMMISSIONER BROWN-BLAND: Ms. Holt, I will  
5 interrupt right there to say the Commission is  
6 prepared to waive reading of the summary, if that is  
7 satisfactory, and no one objects.

8 MS. HOLT: Thank you.

9 COMMISSIONER BROWN-BLAND: All right. We'll  
10 dispense with that and we -- well, I don't know what  
11 might happen when we ask our question; it may become  
12 longer but right now we don't anticipate that we have  
13 much for you. And I will give that to Commissioner  
14 Mitchell.

15 COMMISSIONER MITCHELL: Two questions; I  
16 will just pose them to the panel and you all can  
17 decide who is best suited to answer.

18 EXAMINATION BY COMMISSIONER MITCHELL:

19 Q You all heard the discussion related to the  
20 calculation of the Design Day requirement, the 50  
21 days on a 60-degree base versus 55 days on a  
22 65-degree base. Can you just confirm the Public  
23 Staff's position on the impact to the Design Day  
24 requirement of using those two different sets of

1 assumptions?

2 A (Mr. Gilbert) Sure. I guess it's just  
3 historical, what the State has done, 65-degree  
4 day and that's the typical base. But when you  
5 look at it, they're -- even though they're on a  
6 60-degree base with a 50-degree day, you still  
7 end up with a peak cold day of 10 degrees.  
8 It's -- I mean, the numbers are shifted but you  
9 get the same information. It's just a different  
10 set of data. So technically, I guess from their  
11 models they've found that it's more accurate, but  
12 I'm sure if more tests were done they'd find a  
13 couple that varied from that. So I think it's  
14 just easier for us to stick with something we  
15 know works right now. And even, I mean, it's a  
16 small difference but they even admit there's no  
17 significant difference so I don't think there's a  
18 reason we need to change the way we calculate it.

19 Q Okay. Let's see, one more question. We  
20 discussed the proceeding that's ongoing at the  
21 FERC related to the Eminence Storage Field and  
22 the issues that have been ongoing there. And as  
23 y'all know the Commission has -- the Commission  
24 initiated that proceeding and is seeking demand

1 credits from Transco because of the problems that  
2 have been ongoing there. Does the Public Staff  
3 have a position on whether it's prudent for PSNC  
4 to continue to pay full price to Transco with no  
5 effort to obtain demand credits in light of the  
6 issues ongoing there?

7 A (Ms. Perry) So from what we've -- we've talked  
8 with Public Service a number of times on the  
9 issues with the storage. They have not seen a  
10 problem with what they've -- their deliverability  
11 basically. But they do know that the risk is out  
12 there, and I think -- I believe in discussions  
13 Transco has said they might not have full  
14 deliverability if they needed it at some point.  
15 They haven't -- but that hasn't shown to be true  
16 by any means. So I think, if they don't have all  
17 their storage operating at full capacity and they  
18 couldn't get full deliverability, yes, there  
19 should be some credits. I don't know what those  
20 would be at this point or at what point they  
21 would start those credits but it would really  
22 depend on what they're contracting for and if  
23 they're getting their full amount that they are  
24 paying for, or could they get their full amount

1 if they needed it.

2 Q Okay.

3 A And I'm not sure; I don't have the data yet for  
4 that but we'll see it in the -- if they rule on  
5 it, we'll see it.

6 MS. MITCHELL: Okay. I have nothing  
7 further.

8 COMMISSIONER BROWN-BLAND: I just have a  
9 curiosity question, just regarding the work of the  
10 Public Staff and the oversight that you provide to the  
11 regulated entities.

12 EXAMINATION BY COMMISSIONER BROWN-BLAND:

13 Q In your individual tenure, are you familiar with  
14 and have you gone on site to do audits and  
15 reviews of, either on the engineering side or  
16 accounting side; do you do that?

17 A (Ms. Johnson) Yes, we do. We have this annual  
18 review annually. And from time to time we  
19 communicate with the Company and we just ensure  
20 that we keep the lines of communication open and  
21 we know what's going on at all times.

22 A (Ms. Perry) And I think you'll typically see us  
23 maybe every other year being on site. We were  
24 down there last -- I believe we were down there

1 during the -- 2016 for the rate case; we sort of  
2 made it a dual effort there. And we've been down  
3 to the other LDCs. We're going down this year  
4 for Piedmont. So we typically do try to make it  
5 at least every other year down to each of them.  
6 I think last year I visited two last year for the  
7 annual reviews. So we may not make it every  
8 single year but we at least make it every other  
9 year, and we always have conference calls. We're  
10 always constantly in communication and, if need  
11 be, they'll come up and talk to us, too.

12 COMMISSIONER BROWN-BLAND: Any questions on  
13 Commission's questions?

14 MS. HOLT: No.

15 MS. KELLS: No.

16 COMMISSIONER BROWN-BLAND: Then this panel  
17 is excused.

18 (The witnesses are excused.)

19 COMMISSIONER BROWN-BLAND: Ms. Kells, out of  
20 an abundance of caution, we were discussing four  
21 exhibits when we were doing our clean up and admitting  
22 exhibits into evidence. I want to be clear that we're  
23 also receiving into evidence the exhibit that was  
24 filed and attached to Witness Paton's testimony?

1 MS. KELLS: That's right. Yes, ma'am. Her  
2 one exhibit with 11 schedules included.

3 COMMISSIONER BROWN-BLAND: Right. So that  
4 is received. And anything else further to come before  
5 the Commission?

6 MS. KELLS: No, ma'am.

7 MS. HOLT: No, ma'am.

8 COMMISSIONER BROWN-BLAND: And with regard  
9 to the proposed orders is 30 days from the  
10 availability of the transcript sufficient for both  
11 sides?

12 MS. KELLS: Yes.

13 MS. HOLT: Yes, ma'am.

14 COMMISSIONER BROWN-BLAND: So ordered. And,  
15 if there's nothing further, we'll stand adjourned.

16 (WHEREUPON, the proceedings were adjourned.)

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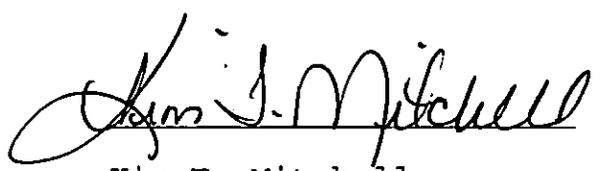
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C E R T I F I C A T E

I, KIM T. MITCHELL, DO HEREBY CERTIFY that  
the Proceedings in the above-captioned matter were  
taken before me, that I did report in stenographic  
shorthand the Proceedings set forth herein, and the  
foregoing pages are a true and correct transcription  
to the best of my ability.



Kim T. Mitchell  
Court Reporter II

**FILED**

**AUG 23 REC'D**

**Clerk's Office  
N.C. Utilities Commission**