NORTH CAROLINA PUBLIC STAFF UTILITIES COMMISSION

September 16, 2019

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

Re: Docket No. G-9, Sub 752 – Annual Review of Gas Costs

Dear Ms. Campbell:

In connection with the above-captioned docket, I transmit herewith for filing on behalf of the Public Staff – North Carolina Utilities Commission the Joint Testimony of Poornima Jayasheela, Staff Accountant, Accounting Division; Zarka H. Naba, Public Utilities Engineer, Natural Gas Division; and Julie G. Perry, Manager, Natural Gas and Transportation Section, Accounting Division.

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

Sincerely,

/s/ Elizabeth D. Culpepper
Staff Attorney
elizabeth.culpepper@psncuc.nc.gov

PIEDMONT NATURAL GAS COMPANY, INC.

DOCKET NO. G-9, SUB 752

JOINT TESTIMONY OF

POORNIMA JAYASHEELA, ZARKA H. NABA,

AND JULIE G. PERRY

ON BEHALF OF

THE PUBLIC STAFF – NORTH CAROLINA UTILITIES COMMISSION

SEPTEMBER 16, 2019

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

A. My name is Poornima Jayasheela, and my business address is 430 North Salisbury Street, Raleigh, North Carolina. I am a Staff Accountant in the Accounting Division of the Public Staff. My qualifications and experience are provided in Appendix A.

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

A. The purpose of my testimony is (1) to present the results of my review of the gas cost information filed by Piedmont Natural Gas Company, Inc. (Piedmont or Company), in accordance with N.C. Gen. Stat. § 62-133.4(c) and Commission Rule R1-17(k)(6), (2) to provide my conclusions regarding whether the gas costs incurred by Piedmont during the 12-month review period ended May 31, 2019, were properly accounted for, and (3) to report on any changes in the deferred gas cost reporting during the review period.

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

A. My name is Zarka H. Naba, and my business address is 430 North Salisbury Street, Raleigh, North Carolina. I am a Public Utilities Engineer in the Public Staff's Natural Gas Division. My qualifications and experience are provided in Appendix B.

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

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

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

A. My name is Julie G. Perry, and my business address is 430 North Salisbury Street, Raleigh, North Carolina. I am the Accounting Manager for Natural Gas and Transportation with the Accounting

Division of the Public Staff. My qualifications and experience are provided in Appendix C.

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

A. The purpose of my testimony is to discuss the Public Staff's investigation and conclusions regarding the prudence of Piedmont's hedging activities during the review period.

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

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

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

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

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

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

ACCOUNTING FOR AND ANALYSIS OF GAS COSTS

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

A. Yes.

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

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

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

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

(3) Negotiated Losses – Negotiated prices for each customer are reviewed to ensure that the Company does not sell gas to the customer below the cost of gas to the Company or below the price of the customer's alternative fuel.

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

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

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

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

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

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

A. The Company filed total gas costs of $352,122,738 per Tomlinson Exhibit_(MBT-1), Schedule 1, for the current period as compared with $343,478,124 for the prior twelve-month period. The components of the filed gas costs for the two periods are as follows:

	12 Months Ended			
	May 31, 2019	May 31, 2018	Increase (Decrease)	% Change
Demand & Storage	$133,470,011	$129,398,029	$4,071,982	3.1%
Commodity	233,172,219	220,382,071	$12,790,148	5.8%
Other Costs	($14,519,492)	($6,301,977)	($8,217,515)	130.4%
Total	$352,122,738	$343,478,124	$8,644,614	2.5%

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

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

		Actual Amounts for the 12 Month Periods Ended			
		April 30, 2019	April 30, 2018	Increase (Decrease)	% Change
Transco	FT	$97,609,331	$93,988,018	$3,621,313	3.9%
Transco	GSS	3,878,202	3,679,481	198,721	5.4%
Transco	ESS	2,521,396	2,318,429	202,967	8.8%
Transco	WSS	1,884,058	1,796,037	88,021	4.9%
Transco	LNG Service	238,327	219,197	19,130	8.7%
Columbia	Firm Storage Service	3,331,131	3,331,131	0	0.0%
Columbia	SST	4,869,132	4,800,194	68,938	1.4%
Columbia	FTS	2,522,767	2,506,655	16,112	0.6%
Columbia	No Notice FT	939,390	941,770	(2,380)	-0.3%
Col Gulf	FTS	0	255,154	(255,154)	-100.0%
Dominion	GSS	575,032	575,112	(80)	0.0%
Dominion	FT - GSS	983,646	965,167	18,479	1.9%
ETN	FT	3,631,601	3,631,601	0	0.0%
Midwestern	FT	2,710,800	2,710,800	0	0.0%
Hardy Storage		14,342,063	14,550,258	(208,195)	-1.4%
Pine Needle LNG		8,850,739	7,922,018	928,721	11.7%
Cardinal	FT	6,520,529	6,917,009	(396,480)	-5.7%
LNG Processing		1,422,621	1,102,267	320,354	29.1%
Property Taxes		45,129	96,225	(51,096)	-53.1%
Other		0	(216,691)	216,691	-100.0%
NC/SC Costs Expensed		156,875,895	152,089,832	4,786,063	3.1%
NC Demand Allocator		85.08%	85.08%		
NC Costs Expensed		$133,470,012	$129,398,029	$4,071,982	3.1%

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

The increases in the Transcontinental Gas Pipe Line Company, LLC (**Transco**) **Firm Transportation (FT), the Transco General Storage Service (GSS), the Transco Eminence Storage Service (ESS), the Transco Washington Storage Service (WSS), and the Transco LNG Service** charges are due to an increase in Transco's commodity, demand, capacity and fuel rates, pursuant to FERC Docket No. RP18-1126-000, RP19-798-000, effective March 1, 2019, and April 1, 2019, respectively.

The decrease in Columbia Gulf Transmission, LLC (**Columbia**) **Firm Transportation Service (FTS)** charges is due to the termination of the Columbia Gulf contract, effective October 31, 2017.

The decrease in **Hardy Storage** charges is due to a compliance filing for reservation and capacity in FERC Docket No. RP19-262-000, effective January 1, 2019 and the annual Retainage Adjustment Mechanism filing in FERC Docket No. RP19-1040-000, effective May 1, 2019.

The increase in **Pine Needle LNG** charges is primarily due to the Electric Power (EP) Unit Rate Change and a change in the Fuel Retention percentage pursuant to FERC Docket No. RP18-652-000, effective May 1, 2018.

The decrease in **Cardinal Firm Transportation (FT)** charges is due to the North Carolina Utilities Commission Order directing certain utilities, including Cardinal Pipeline Company, LLC, to adjust their rates to reflect the reduction in the federal corporate income tax rate from 35% to 21% in Docket No. G-39, Sub 42, effective January 1, 2019.

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

The decrease in property taxes for the current review period is due to the Company being billed on a smaller inventory balance by the asset managers in July 2018, as compared to July 2017.

The **Other** amount of ($216,691) in the prior review period was a one-time Transco interconnect refund, which was recorded in April 2018. There were no other charges during the current review period.

Q. PLEASE EXPLAIN THE CHANGE IN COMMODITY GAS COSTS.

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

	Actual Amounts for the 12 Month Periods Ended			
	April 30, 2019	April 30, 2018	Increase (Decrease)	% Change
Gas Supply Purchases	$277,292,978	$260,145,619	$17,147,359	6.6%
Reservation Charges	3,482,171	3,512,866	(30,695)	(0.9%)
Storage Injections	(56,948,230)	(55,350,193)	(1,598,037)	2.9%
Storage Withdrawals	56,781,052	55,662,061	1,118,991	2.0%
Electric Compressor Costs	2,084,295	1,970,456	113,840	5.8%
Banked Gas Usage	444	(2,424)	2,868	(118.3%)
Cash Out Brokers (Long)	1,285,977	1,835,287	(549,310)	(29.9%)
NC/SC Commodity Costs	$283,978,687	$267,773,671	$16,205,016	6.1%
NC Commodity Costs	$233,172,219	$220,382,071	$12,790,148	5.8%
NC Dekatherms Delivered	72,259,869	74,847,698	(2,587,829)	(3.5%)
NC Cost per Dekatherm	$3.2269	$2.9444	$0.2824	9.6%

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

Gas Supply Purchases increased by $17,147,359 primarily due to a greater level of wellhead gas prices in the current review period when compared to the prior twelve-month review period.

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

The increase in **Storage Injections** is due to both higher cost of gas supply injected into storage and increased volumes injected into storage. The average cost of gas injected into storage during the current review period was $2.8202 per dekatherm (dt) as compared with $2.8309 per dt for the prior period. Piedmont injected 20,193,266 dts into storage in the current review period as compared to 19,552,162 dts for the prior period.

The increase in **Storage Withdrawal charges** is due to a higher average cost of supply withdrawn from storage and higher volumes withdrawn from storage. Piedmont's average cost of gas withdrawn was $2.9865 per dt for this review period as compared to $2.9723 per dt in the prior period. Piedmont withdrew 19,012,399 dts from storage in the current review period as compared to 18,726,868 dts for the prior period.

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

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

Cash Out Brokers (Long) represents the purchases made by Piedmont from brokers that brought too much gas to the city gate. The reduction in Cash Out Brokers (Long) was due to the decrease in price per dt paid during the current review period as compared to the prior review period. During the current period, the average price per dt for Cash Out Brokers (Long) was $0.7715 while the previous period's average price per dt was $1.0140.

Q. PLEASE EXPLAIN THE CHANGE IN OTHER GAS COSTS.

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

Other Gas Costs

	Actual Amounts for the 12 Mon h Periods Ended		
	April 30, 2019	April 30, 2018	Increase (Decrease)
Total Deferred Acct Activity COG Items	($2,000,065)	$13,026,040	($15,026,105)
Actual vs. Estimate Reporting Month Adj.	1,223,798	(1,584,982)	2,808,780
Total Other Costs	(13,743,225)	(17,743,034)	3,999,809
Total NC O her Cost of Gas Expense	($14,519,492)	($6,301,976)	($8,217,515)

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

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

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

SECONDARY MARKET ACTIVITIES

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

A. During the review period, the Company earned actual margins of $36,913,765 on secondary market transactions, and credited the All Customers' Deferred Account in the amount of $23,603,588 (($36,913,765 – 100% Duke secondary market sales) x NC demand allocator x 75% ratepayer sharing percentage) + (100% Duke secondary market sales x NC demand allocator)) for the benefit of ratepayers, in accordance with the Commission's Order Approving Stipulation issued on December 22, 1995, in Docket No. G-100, Sub 67. This dollar amount is slightly different than the amount recorded on Tomlinson Exhibit_(MBT-1), Schedule 9, since the Company’s deferred account includes estimates for the May 2019 secondary market transactions. Presented below is a chart that compares the actual Total Company margins earned by Piedmont on the various types of secondary market transactions in which it was engaged during the review period and the prior review period.

	Actual Amounts for he 12 Mon h Periods Ended			
	April 30, 2019	April 30, 2018	Increase (Decrease)	% Change
Asset Management Arrangements	$9,367,894	$10,885,208	($1,517,314)	(13.9%)
Capacity Releases	15,323,755	20,465,242	(5,141,487)	(25.1%)
Off System Sales	12,222,116	20,069,813	(7,847,697)	(39.1%)
Total Company Margins on Secondary Market Transactions	$36,913,765	$51,420,263	($14,506,498)	(28.2%)

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

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

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

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

Piedmont had seven AMAs during the current review period and the prior review period. The 13.9% decrease in net compensation from AMAs is due to a decrease in the value of the interstate pipeline and storage capacity that Piedmont has subject to the AMAs.

Capacity Releases are the short-term posting of unutilized firm capacity on the electronic bulletin board that is released to third parties at a biddable price. The overall net compensation from capacity release transactions decreased due to a lower level of released volumes, as well as a decrease in the market value of capacity releases, for the current review period as compared to the previous period.

Off System Sales on Piedmont's system are also referred to as bundled sales. Bundled sales are gas supplies delivered to a third party at a specified receipt point in the Transco market area. Because bundled sales move gas from the production area to the market area, these sales utilize pipeline capacity, and thus involve both gas supply and capacity. During the current review period as compared to the prior review period, the net compensation from off system sales decreased by approximately 39.1% due to the lower market prices that were paid by shippers and a decrease in the value of the interstate pipeline capacity.

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

A. During the current review period, Piedmont entered into multi-month, monthly, and daily off system sales transactions with approximately thirty shippers. 32.7% of these off system sales transaction volumes consisted of daily transactions, 1.9% were monthly transactions and 65.3% were multi-month transactions.

HEDGING ACTIVITIES

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

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

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

5. Periodic reports on the market values of the various financial instruments used by the Company to hedge (Mark-to-Market Report);

6. The monthly Hedging Program Status Report;

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

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

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

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

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

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

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

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

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

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

A. The Company experienced net costs of $1,177,357 in its Hedging Deferred Account during the review period. This net cost amount in the account at May 31, 2019, is composed of the following items:

Economic (Gain)/Loss - Closed Positions	($2,884,060)
Premiums Paid	3,766,200
Brokerage Fees & Commissions	58,094
Interest on Hedging Deferred Account	237,123
Hedging Deferred Account Balance	$1,177,357

The Company proposed that the $1,177,357 debit balance in the Hedging Deferred Account at of the end of the review period be transferred to its Sales Customers' Only Deferred Account.

The first item shown in the chart above, Economic (Gain)/Loss - Closed Positions, is the gain on hedging positions that the Company realized during the review period. Premiums Paid is the amount spent by the Company on futures and options positions during the current review period for contract periods that closed during the review period or that will close after May 31, 2019. As of May 31, 2019, this amount includes call options purchased by Piedmont for the May 2020 contract period, a contract period that is 12 months beyond the end of the current review period and 12 months beyond the May 2019 prompt month. Brokerage Fees and Commissions are the amounts paid to brokers to complete the transactions. The Interest on Hedging Deferred Account is the amount accrued by the Company on its Hedging Deferred Account in accordance with N.C. Gen. Stat. § 62-130(e) and the Merger Order, effective October 1, 2017.

The hedging costs incurred by the Company during the review period represent approximately 0.33% of total gas costs or $0.02 per dt. The average monthly cost per residential customer for hedging is approximately $0.08 per dt.

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

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

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

A. Based on the Public Staff's analysis and what was reasonably known or should have been known at the time the Company made its hedging decisions affecting the review period, as opposed to the outcome of those decisions, I conclude that the Company's decisions were prudent. I recommend that the $1,177,357 debit balance in the Hedging Deferred Account as of the end of the review period be transferred to Piedmont's Sales Customers' Only Deferred Account.

DESIGN DAY REQUIREMENTS

Q. MS. NABA, HAVE YOU DRAWN ANY CONCLUSION FROM YOUR REVIEW AS TO THE COMPANY'S FUTURE CAPACITY REQUIREMENTS?

A. I reviewed the Company's testimony and information submitted by the Company in response to data requests that dealt with how well the projected firm demand requirements aligned with the available capacity in the future. I also performed independent calculations which projected demand versus capacity requirements.

Our calculations show a capacity deficit for the winter period of 2020-2021. Furthermore, unless the Atlantic Coast Pipeline project comes online by its scheduled in service date of 2021, Piedmont's capacity deficit will continue to increase for all future periods. I recommend that the Company continue to carefully review its demand projections as it considers acquisition of future capacity.

DEFERRED ACCOUNT BALANCES

Q. MS. JAYASHEELA, BASED ON YOUR REVIEW OF GAS COSTS IN THIS PROCEEDING AND MS. NABA'S OPINION THAT THE COMPANY'S GAS COSTS WERE PRUDENTLY INCURRED, WHAT ARE THE APPROPRIATE DEFERRED ACCOUNT BALANCES AS OF MAY 31, 2019?

A. The appropriate All Customers' Deferred Account balance is a credit of $17,913,017, owed by the Company to its customers, as filed by the Company.

The Public Staff recommends transferring the debit balance of $1,177,357 in the Hedging Deferred Account as of the end of the review period to the Sales Customers' Only Deferred Account. The recommended balance for the Sales Customers' Only Deferred Account as of May 31, 2019, is a net debit balance, owed to the Company, of $1,093,864, determined as follows:

Balance per Exhibit MBT-1 Sch 8	($83,493)
Transfer of Hedging Balance	1,177,357
Balance per Public Staff	$1,093,864

Q. MS. NABA, WHAT IS YOUR RECOMMENDATION REGARDING ANY PROPOSED INCREMENTS/DECREMENTS?

A. I have determined that the temporary increments applicable to the All Customers' Deferred Account balance at May 31, 2019, as proposed by the Company in Tomlinson Exhibit_(MBT-3), are properly and accurately calculated.

While I agree that the temporary increment calculations as shown in Tomlinson Exhibit_(MBT-4) for the Sales Customers' Only Deferred Account are accurately computed, I do not recommend that the Company implement the increment in this proceeding.

Q. WHY ARE YOU RECOMMENDING THAT THE COMPANY NOT IMPLEMENT AN INCREMENT REGARDING THE SALES CUSTOMERS' ONLY DEFERRED ACCOUNT?

A. Piedmont's Sales Customers' Only Deferred Account balance (including the Hedging Deferred Account balance) has "flipped" from a debit balance to a credit balance of ($4,895,050) as of June 30, 2019. Also, this trend is continuing as the estimated balance in this deferred account, including the Hedging Deferred Account balance, is projected to be ($8,630,224) as of August 31, 2019. Implementing an increment (which is an increase to customers) while there is a credit balance (a refund is due to customers) is counter-productive.

I also recommend that Piedmont remove the existing temporary decrements and increment approved in the Company's prior annual review of gas costs proceeding (Docket No. G-9, Sub 727) and implement the temporaries to the All Customers' Deferred Account as calculated in Tomlinson Exhibit_(MBT-3). I further recommend that no temporaries be implemented for the Sales Customers' Only Deferred Accounts at this time. I recommend that Piedmont monitor the balances in both, the All Customers' and Sales Customers' Only Deferred Accounts and, if needed, file an application for authority to implement new temporary increments or decrements through the Purchased Gas Adjustment mechanism in order to keep the deferred account balances at reasonable levels.

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

A. Assuming the Commission approves the Public Staff's recommendation for the implementation of the temporary decrements as explained above, the typical residential customer will experience an annual decrease of $5.65.

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

A. No.

ADDITIONAL ISSUES

Q. MS. JAYASHEELA, DOES THE PUBLIC STAFF RECOMMEND ADDITIONAL MONTHLY SECONDARY MARKET REPORTING?

A. Yes. The Public Staff recommends that the Company provide more detailed information regarding its monthly capacity release and off system sales transactions beginning with the month of June 2019. The monthly information should include information regarding the accounting month, date of the transaction, third party shipper/customer, sales price charged, gas costs assigned to each transaction, volume, term of the transaction, basis of the sales price, and the basis for the gas costs assigned. The Company has indicated that it agrees with our recommendation and plans to work with the Public Staff on the format to provide the information.

Q. HAVE YOU READ THE COMPANY'S SUPPLEMENTAL TESTIMONY OF ITS WITNESS TOMLINSON?

A. Yes. I have.

Q. HAS THE COMPANY APPROPRIATELY CHANGED ITS INTEREST RATE IN THE DEFERRED ACCOUNTS BASED ON THE CHANGES IN TAX RATES?

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

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

A. The Public Staff believes that any change in federal and state tax rates should lead to changes in interest rate. As stated earlier in testimony, each month the Public Staff's Accounting Division reviews the Deferred Gas Cost Account reports filed by the Company for accuracy and reasonableness, and performs several audit procedures on the calculations, including, but not limited to, the interest calculations. During the first seven months of the current review period, Piedmont's interest rate of 6.94% reflected the state corporate income tax rate of 3%, as well as the 21% federal income tax rate in effect as of January 1, 2018. Because the state corporate income tax rate changed to 2.5% on January 1, 2019, the Company's net-of-tax overall rate of return during the remaining five months of the review period, January 1, 2019 through May 31, 2019, was 6.95%. The Public Staff agrees with these interest rates.

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

A. Yes.

APPENDIX A

QUALIFICATIONS AND EXPERIENCE

POORNIMA JAYASHEELA

I received a Bachelor of Science degree and a Master of Business Administration degree from Osmania University, Hyderabad, India. I was employed by the Michigan Public Service Commission (MPSC) from July 2004 to August 2015. During my employment with the MPSC, I participated in contested rate cases, Times Interest Earned Ratio (TIER) case audits for regulated co-operatives, Power Supply Cost Recovery reconciliation audits, reconciliations of uncollectible expense tracking mechanism and revenue decoupling mechanism, and any special audits required by the MPSC.

I started employment with the Public Staff of North Carolina Utilities Commission in August 2015 as a staff accountant. I have presented testimony and exhibits or assisted with the following general rate case audits: Docket No. G-9, Sub 743, Piedmont Natural Gas Company, Inc.; Docket No. E-35, Sub 45, Western Carolina University; Docket No. W-1058, Sub 7, Elk River Utilities, Inc.; Docket No. E-34, Sub 46, New River Light and Power; and Docket No. W-567, Sub 8, Prior Construction Inc. I have also presented testimony and exhibits in Piedmont Natural Gas Company Inc.'s annual gas cost review cases in Docket No. G-9, Sub 690; Docket No. G-9, Sub 710; and Docket No. G-9, Sub 727.

APPENDIX B

QUALIFICATIONS AND EXPERIENCE

ZARKA H. NABA

I am a graduate of The City University of New York with a Bachelor of Science degree in Environmental Engineering.

I began working in the environmental field in June 2016 as an Environmental Engineering Intern. I've worked with the New York City Department of Sanitation's Vehicle Acquisition Warranty Division (DSNY) to assist in several fuel usage tracking projects installed in their fleet vehicles. While employed at DSNY, I was responsible for reporting installation projects, as well as researching environmental and safety impacts of various new technologies introduced.

I joined the Public Staff in September of 2017 as a Public Utilities Engineer with the Natural Gas Division. My work to date includes General Rate Case Proceedings, Purchased Gas Cost Adjustment Procedures, Tariff Amendments, Fuel Tracker & Power Cost Adjustments, Compressed Natural Gas Special Contracts, Annual Review of Gas Costs, Margin Decoupling Trackers, Gas Resellers, Weather Normalization, Peak Day Demand and Capacity Calculations, and Customer Complaint Resolutions.

APPENDIX C

QUALIFICATIONS AND EXPERIENCE

JULIE G. PERRY

I graduated from North Carolina State University in 1989 with a Bachelor of Arts degree in Accounting and I am a Certified Public Accountant.

Prior to joining the Public Staff, I was employed by the North Carolina State Auditor's Office. My duties there involved the performance of financial and operational audits of various state agencies, community colleges, and Clerks of Court.

I joined the Public Staff in September 1990, and was promoted to Supervisor of the Natural Gas Section in the Accounting Division in September 2000. I was promoted to Accounting Manager – Natural Gas & Transportation effective December 1, 2016. I have performed numerous audits and/or presented testimony and exhibits before the Commission addressing a wide range of natural gas topics.

Additionally, I have filed testimony and exhibits in numerous water rate cases and performed investigations and analyses addressing a wide range of topics and issues related to the water, electric, transportation, and telephone industries.