

McGuireWoods LLP
201 North Tryon Street
Suite 3000
Charlotte, NC 28202-2146
Phone: 704.343.2000
Fax: 704.343.2300
www.mcguirewoods.com

James H. Jeffries IV
Direct: 704.343.2348

McGUIREWOODS

jjeffries@mcguirewoods.com

October 25, 2021

VIA ELECTRONIC FILING

Ms. Antonia Dunston
Interim Chief Clerk
North Carolina Utilities Commission
430 N. Salisbury Street, Dobbs Building
Raleigh, North Carolina 27603

**Re: Docket No. G-9, Sub 781
Docket No. G-9, Sub 786
Docket No. G-9, Sub 722**

Dear Ms. Dunston:

Piedmont Natural Gas Company, Inc. (“Piedmont”), on behalf of itself, the Public Staff – North Carolina Utilities Commission (“Public Staff”), Carolina Utility Customers Association, Inc. (“CUCA”), and the Carolina Industrial Group for Fair Rates IV (“CIGFUR IV”), respectfully submits for filing with the Commission the enclosed Joint Proposed Order in the above-referenced dockets. Piedmont will also email a Word-formatted copy of the Joint Proposed Order to briefs@ncuc.net.

Piedmont will also concurrently, but separately, file its proposed findings and evidence and conclusions on the issues raised under Docket No. G-9, Sub 722.

Thank you for your assistance with this matter. If you have any questions regarding this filing, you may reach me at the number shown above.

Sincerely,

/s/ James H. Jeffries IV
James H. Jeffries IV

JHJ/rkg

Enclosure

cc: Elizabeth Culpepper
Bruce Barkley
Pia Powers
Parties of Record

CERTIFICATE OF SERVICE

The undersigned hereby certifies that a copy of the attached is being served this date upon all of the parties to this docket electronically or by depositing a copy of the same in the United States Mail, First Class Postage Prepaid, at the addresses contained in the official service list in this proceeding.

This the 25th day of October, 2021.

/s/ Richard K. Goley
Richard K. Goley

STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH

DOCKET NO. G-9, SUB 722
DOCKET NO. G-9, SUB 781
DOCKET NO. G-9, SUB 786

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of)	
)	
Docket No. G-9, Sub 722)	
)	
Consolidated Natural Gas)	
Construction and Redelivery Services)	
Agreement Between Piedmont)	
Natural Gas Company, Inc., and)	
Duke Energy Carolinas, LLC)	
)	JOINT PROPOSED ORDER OF
Docket No. G-9, Sub 781)	THE STIPULATING PARTIES
)	
Application of Piedmont Natural Gas)	
Company, Inc., for an Adjustment of)	
Rates, Charges, and Tariffs)	
Applicable to Service in North)	
Carolina)	
)	
Docket No. G-9, Sub 786)	
)	
Application of Piedmont Natural Gas)	
Company, Inc. for Modifications to)	
Existing Energy Efficiency Programs)	
and Approval of New Energy)	
Efficiency Programs)	

HEARD: Wednesday, July 14, 2021, at 1:30 p.m. and 6:30 p.m., via
WebEx Videoconference

Thursday, September 9, 2021, at 9:00 a.m., via WebEx
Videoconference

BEFORE: Chair Charlotte A. Mitchell, Presiding; and Commissioners
ToNola D. Brown-Bland, Lyons Gray, Daniel G. Clodfelter,

Kimberly W. Duffley, Jeffrey A. Hughes, and Floyd B. McKissick, Jr.

APPEARANCES:

For Piedmont Natural Gas Company, Inc.:

James H. Jeffries, IV, McGuireWoods LLP, 201 N. Tryon Street, Suite 3000, Charlotte, North Carolina 28202, and Brian S. Heslin and Amanda Johnson Demopoulos, Duke Energy Corporation, 550 South Tryon Street, Charlotte, North Carolina 28202

For Carolina Industrial Group for Fair Utility Rates IV:

Christina D. Cress, Bailey & Dixon, LLP, 434 Fayetteville Street, Suite 2500, Raleigh, North Carolina 27601

For Carolina Utility Customers Association, Inc.:

Marcus Trathen and Craig D. Schauer, Brooks Pierce, 150 Fayetteville Street, Suite 1700, Raleigh, North Carolina 27601

For Duke Energy Carolinas, LLC:

Robert W. Kaylor, Law Office of Robert W. Kaylor, 353 East Six Forks Road, Suite 260, Raleigh, North Carolina 27609

For Fayetteville Public Works Commission:

James West and Dustin Doty, 955 Old Wilmington Road, Fayetteville, North Carolina 28301

For the Using and Consuming:

Elizabeth D. Culpepper, Megan Jost, and Lucy E. Edmondson, Public Staff – North Carolina Utilities Commission, 4326 Mail Service Center, Raleigh, North Carolina 27699-4300

Margaret A. Force and Teresa L. Townsend, North Carolina Department of Justice, Post Office Box 629, Raleigh, North Carolina 27602

BY THE COMMISSION: On July 6, 2004, in Docket No. G-9, Sub 491, Piedmont Natural Gas Company, Inc. (Piedmont or the Company), filed an application for approval of a multiyear Gas Redelivery Agreement (2004 Agreement) between itself and Duke Power Company, the predecessor of Duke Energy Carolinas, LLC (DEC). The 2004 Agreement set the rates and terms by which Piedmont proposed to provide natural gas redelivery service to DEC's Lincoln County Combustion Turbine Facility (Lincoln Plant).

On September 3, 2004, the Commission issued an order approving the 2004 Agreement.

On September 29, 2016, in Docket Nos. E-2, Sub 1095, E-7, Sub 1100, and G-9, Sub 682, the Commission issued an Order Approving Merger Subject to Regulatory Conditions and Code of Conduct (Merger Order), approving the merger of Piedmont and Duke Energy Corporation (Duke Energy), the parent company of DEC. Among other things, the Merger Order resulted in DEC and Piedmont becoming affiliates of one another, with contracts between DEC and Piedmont thus being subject to the requirements of N.C. Gen. Stat. § 62-153.

On April 23, 2018, pursuant to N.C.G.S. § 62-153(b), in Docket No. G-9, Sub 722, Piedmont filed an application requesting approval of a Consolidated Natural Gas Construction and Redelivery Services Agreement related to the construction of new incremental natural gas facilities (New Facilities) and the provision of additional redelivery service by Piedmont to

DEC at the Lincoln Plant and DEC's agreement to pay special contract rates and to guarantee certain margin recoveries by Piedmont to cover the costs of such service (Revised Agreement). Piedmont stated that the Revised Agreement consolidated, superseded, and expanded upon DEC's and Piedmont's rights and responsibilities under the 2004 Agreement for services at the Lincoln Plant. During the review of the proposed Revised Agreement, the Public Staff – North Carolina Utilities Commission (Public Staff) raised several concerns, particularly with respect to the degree of system contribution provided for by the agreed rates set forth in the Revised Agreement.

On November 16, 2018, Piedmont filed a revised Consolidated Natural Gas Construction and Redelivery Services Agreement (Second Revised Agreement) between itself and DEC. Piedmont stated that the Second Revised Agreement added a usage-based system support surcharge that was renegotiated with DEC in order to address the Public Staff's concerns related to system contributions by the New Facilities. Piedmont requested that the Second Revised Agreement be substituted in its entirety for the previously filed Revised Agreement and that the Commission approve the Second Revised Agreement at its earliest convenience.

On January 10, 2020, Piedmont filed a Request for Authorization to Commence Service to the Lincoln Plant effective February 1, 2020, on an interim basis, at the rates included in the Second Revised Agreement.

On January 28, 2020, the Commission issued its Order Granting Interim Authority to Operate Under Second Revised Agreement and Requiring Public Staff Action (Interim Order), which authorized Piedmont to commence service to DEC at the Lincoln Plant under the rates and other terms set forth in the Second Revised Agreement. Such interim authority was effective on February 1, 2020, and scheduled to end at midnight on April 30, 2020, unless it was extended by order of the Commission prior to its expiration. The Interim Order also required that the rates paid by DEC and received by Piedmont should be subject to retroactive adjustment if the Commission determines such an adjustment to be appropriate when the Commission takes final action on the Second Revised Agreement. The Interim Order also required that on or before March 16, 2020, the Public Staff file its final recommendations and a proposed order with the Commission in this docket, or place this matter on a Regular Staff Conference agenda, otherwise the Public Staff should provide the Commission with a written report on the status of its review of the Second Revised Agreement no later than March 18, 2020.

On March 18, 2020, the Public Staff filed a status report indicating that it was finalizing its recommendations and proposed order, and anticipated that it should be able to make the filing in the near future.

On April 14, 2020, Piedmont filed a Motion for Extension of Authorization to Provide Service.

On April 20, 2020, the Commission issued the Order Granting Extension of Interim Authority to Operate Under Second Revised Agreement and Requiring Public Staff Action (Second Interim Order), which authorized Piedmont to operate under the Second Revised Agreement and required the Public Staff to file its final recommendation(s) and proposed order on or before June 1, 2020. The Commission ordered that the interim authority granted by this Order should expire without any further notice or action by the Commission at midnight on July 31, 2020, unless it was extended by order of the Commission prior to its expiration.

On June 1, 2020, the Public Staff filed its recommendations and proposed order. On June 24, 2020, the Public Staff filed corrections to its recommendations and proposed order (Public Staff Recommendations).

On June 26, 2020, Piedmont and DEC filed comments on the Public Staff's recommendations and proposed order.

On July 20, 2020, the Commission issued an order authorizing Piedmont to continue to serve DEC at the Lincoln Plant under the rates and other terms of the Second Revised Agreement until further order of the Commission.

On February 19, 2021, in Docket No. G-9, Sub 781, Piedmont gave notice pursuant to Commission Rule R1-17(a) of its intent to file a general rate case.

On March 2, 2021, Fayetteville Public Works Commission (FPWC) filed a Petition to Intervene in Docket No. G-9, Sub 781, which was granted by Commission order dated March 4, 2021.

On March 16, 2021, the Commission issued an order consolidating Piedmont's general rate case in Docket No. G-9, Sub 781, with its request for approval of the Second Revised Agreement in Docket No. G-9, Sub 722 (March Consolidation Order). The March Consolidation Order also directed Piedmont to file direct testimony in support of the Second Revised Agreement by April 19, 2021.

On March 19, 2021, Piedmont filed a Request for Modifications to Existing Energy Efficiency Program and for Approval of New Energy Efficiency Programs in Docket No. G-9, Sub 786 (Energy Efficiency Application). In its Energy Efficiency Application, Piedmont requested that the Commission: (1) modify its existing Equipment Rebate Program, an energy efficiency (EE) program authorized by the Commission's March 23, 2009 Order Approving Conservation Programs in Docket No. G-9, Sub 550A; and (2) approve the following three new EE programs: (a) Residential New Construction Program; (b) Commercial Food Services Program; and (c) Commercial HVAC & Water Heating Rebate Program.

On March 22, 2021, Piedmont filed a petition (Petition) seeking: (1) a general increase in and revisions to the rates and charges for customers served by the Company; (2) continuation of Piedmont's Integrity Management

Rider (IMR) contained in Appendix E to its approved service regulations; (3) continued regulatory asset treatment for certain incremental Transmission Integrity Management Program (TIMP) and Distribution Integrity Management Program (DIMP) Operations and Maintenance (O&M) expenses, and certain incremental environmental cleanup and remediation O&M expenses; (4) continued utilization of the depreciation rates for the Company's North Carolina and joint property assets approved in the Company's most recent general rate case in 2019; (5) revised and updated amortizations and recovery of certain regulatory assets accrued since Piedmont's last general rate case proceeding; (6) utilization of the lead-lag study filed by Piedmont in its most recent general rate case filing in 2019; (7) adoption of a Rider mechanism to allow Piedmont to recover the costs of its approved EE programs from customers or, in the alternative, authorization to defer costs associated with Piedmont's approved EE programs pending amortization at the Commission's discretion at some later date; and (8) other updates and revisions to Piedmont's rate schedules and service regulations. With its Petition, the Company also filed: (1) the direct testimony and exhibits of witnesses Sasha Weintraub, Senior Vice President; Karl W. Newlin, Senior Vice President, Corporate Development and Treasurer; Brian R. Weisker, Senior Vice President and Chief Operations Officer, Natural Gas; Pia K. Powers, Managing Director – Rates & Regulatory; Quynh P. Bowman, Director – Gas Rates & Regulatory Strategy; Kally A. Couzens, Manager of Rates & Regulatory Strategy; Dylan W. D'Ascendis, Director at ScottMadden,

Inc.; Cynthia A. Menhorn, Vice President for MCR Performance Solutions; and (2) the NCUC Form G-1 information required by Commission Rule R1-17(b)(12) (Form G-1).

On April 5, 2021, the Carolina Utility Customers Association, Inc. (CUCA), filed a Petition to Intervene in consolidated Docket No. G-9, Subs 722 and 781, which was granted by Commission order dated April 6, 2021.

On April 8, 2021, the Carolina Industrial Group for Fair Utility Rates IV (CIGFUR IV) filed a Petition to Intervene in consolidated Docket No. G-9, Subs 722 and 781, which was granted by Commission order dated April 9, 2021.

On April 9, 2021, Nucor Steel-Hertford (Nucor) filed a Petition to Intervene in consolidated Docket No. G-9, Subs 722 and 781, which was granted by Commission order dated April 13, 2021.

On April 13, 2021, in Docket No. G-9, Subs 722 and 781, the Commission issued its Order Establishing General Rate Case and Suspending Rates declaring the Company's application to be a general rate case pursuant to N.C.G.S. § 62-133 and Commission Rule R1-17, and suspending the proposed rates for a period of up to 270 days from and after April 13, 2021.

Also on April 13, 2021, in Docket No. G-9, Sub 786 and consolidated Docket No. G-9, Subs 722 and 781, the Public Staff filed a Motion to

Consolidate Dockets requesting that the Commission consolidate Piedmont's Energy Efficiency Application in Docket No. G-9, Sub 786 with the Company's general rate case application in Docket No. G-9, Sub 781.

On April 19, 2021, the Commission issued its order consolidating Piedmont's general rate case in Docket No. G-9, Sub 781 with the Company's Energy Efficiency Application in Docket No. G-9, Sub 786.

Also on April 19, 2021, in Docket No. G-9, Sub 722 and consistent with prior Commission Order, Piedmont filed the direct testimony and exhibits of witnesses Bruce P. Barkley, Vice President – Rates and Natural Gas Supply of Piedmont and Matthew DeCoursey, Managing Director in the Power & Utilities practice at FTI Consulting, Inc. (FTI).

On May 17, 2021 the Commission issued its Order Scheduling Investigation and Hearings, Establishing Intervention and Testimony Due Dates and Discovery Guidelines, and Requiring Public Notice (May 17 Order).

On June 8, 2021, the Commission issued its Order Scheduling Expert Witness Hearing to be Held in Person in Raleigh, North Carolina, beginning on September 7, 2021.

On June 22, July 14, and July 16, 2021, Piedmont filed affidavits attesting to the required publication of notice of this matter.

In accordance with the May 17 Order, the Commission held two public hearings, both remotely, on July 14, 2021, for the purpose of hearing from Piedmont's customers. The following public witnesses appeared and testified:

First Session: Robin Marrs, Lawrence Drew, Ronald Stephenson, Kimberly Nofsinger, Nadia Minniti, Steve Hahn, and Marth Boger

Second Session: Kris Klenke and Anne Schrader

On July 28, 2021, pursuant to its reservation of its right to do so in its Petition as permitted by N.C.G.S. § 62-133(c), Piedmont filed updated versions of its schedules reflecting updates to its rates, revenues, rate base, cost of capital, and expenses as of June 30, 2021 as well as for the effect of the projected in-service amount for two large capital projects – the Robeson LNG plant and associated facilities (inclusive of Lines 456 and 457 which connect the plant to Piedmont's transmission system) (Robeson LNG Plant) and Pender-Onslow Expansion project – nearing completion at that time (June Updates). Piedmont also filed supporting supplemental testimony and exhibits of Company witnesses Bowman and Couzens.

On August 2, 2021, the North Carolina Attorney General's Office (AGO) filed a Notice of Intervention on behalf of the using and consuming public.

On August 3, 2021, the Public Staff filed a motion for extension of the deadline for filing intervenor and Public Staff direct testimony and exhibits to August 11, 2021, and for the filing of Company rebuttal testimony and exhibits to August 25, 2021. The Commission granted the motion by order dated August 4, 2021.

On August 11, 2021, the Public Staff filed the direct testimony and exhibits of Mary A. Coleman, Staff Accountant, Accounting Division; Lynn L. Feasel, Staff Accountant, Accounting Division; Jack L. Floyd, Manager, Electric Section – Electric Revenues, Rates, and Services, Energy Division; John R. Hinton, Director, Economic Research Division; Dustin R. Metz, Utilities Engineer, Electric Section, Energy Division; Neha R. Patel, Manager, Natural Gas Section, Energy Division; Julie G. Perry, Manager, Natural Gas & Transportation Section, Accounting Division; James M. Singer, Utilities Engineer, Natural Gas Section, Energy Division; and David M. Williamson, Utilities Engineer, Electric Section, Energy Division.

Also on August 11, 2021, CUCA filed the testimony and exhibits of its witness Kevin W. O'Donnell; CIGFUR IV filed the testimony and exhibits of its witness Nicholas Phillips, Jr.; and DEC filed the testimony of its witness H. Lee Mitchell, IV.

On August 12, 2021, the Commission issued its Order Providing Hearing Procedures.

On August 16, 2021, the Public Staff filed corrections to the testimony of its witness Hinton and CIGFUR IV filed revised testimony of its witness Phillips.

On August 20, 2021, CIGFUR IV filed a motion for special accommodations for its witness Phillips, which was denied by Commission order dated August 30, 2021.

On August 23, 2021, Piedmont filed a motion to substitute Kenneth A. Sosnick, Managing Director in the Power & Utilities practice at FTI, as the sponsor of the direct testimony of witness DeCoursey in Docket No. G-9, Sub 722. This motion was granted by Commission order dated August 31, 2021.

On August 24, 2021, the Public Staff filed the supplemental testimony of its witness Metz.

On August 25, 2021, Piedmont filed rebuttal testimony of its witnesses Barkley, Bowman, Couzens, and Menhorn, and rebuttal testimony and exhibits of its witnesses D'Ascendis and Newlin. Piedmont also filed rebuttal testimony of Adam Long, Vice President – Gas Pipeline Operations of Piedmont.

On August 26, 2021, Public Staff filed amended exhibits of its witness Perry.

On August 30, 2021, the Commission issued its Order Establishing Remote Procedures for Expert Witness Hearing. All Parties to this proceeding filed statements consenting to the remote expert witness hearing.

On September 2, 2021, Piedmont filed notice with the Commission that it had reached a settlement in principle with the Public Staff resolving a majority of the issues in Piedmont's rate case in Docket No. G-9, Sub 781 and, as such, requested that the Commission suspend the beginning of the evidentiary hearing until Thursday, September 9, 2021. The Commission approved Piedmont's request and rescheduled the evidentiary hearing to begin on Thursday, September 9, 2021, at 9:00 a.m. by order dated September 3, 2021.

Also on September 2, 2021, a Consumer Statement of Position was filed by an unidentified individual claiming to be an employee of Piedmont. In the Consumer Statement of Position, the individual claimed that Piedmont's Vice President of Project Management, Amy Presson, unnecessarily mandated that the Company apply a coating called ScarGuard to the entire length of pipe on all horizontal drilling projects. The unidentified author of the Consumer Statement of Position also questioned Ms. Presson's qualifications and management.

On September 7, 2021, DEC filed a motion to excuse its witness Mitchell from testifying at the September 9, 2021 evidentiary hearing, which was denied by Commission order dated September 8, 2021.

Also on September 7, 2021, Piedmont, the Public Staff, CUCA, and CIGFUR IV (collectively, the Stipulating Parties) filed a Stipulation of Partial Settlement (Stipulation) and exhibits. The Company also filed the settlement testimony and exhibits of witnesses D'Ascendis and Powers; settlement testimony of witness Couzens; and supplemental testimony of witness Long. Public Staff filed the settlement testimony and exhibit of its witness Hinton and the supplemental and settlement testimony and exhibit of its witness Perry. Piedmont also filed its Late-Filed Exhibit No. 1 to the direct testimony of Piedmont witness Weisker.

In the Stipulation, the Stipulating Parties included two sets of revenue related schedules (Exhibits A, C, E, J, K, and L). One set, designated as Exhibits A1, C1, E1, J1, K1, and L1, showed the stipulated revenue requirement without including capital related to the Robeson LNG Plant (or lines 456 and 457) or the Pender-Onslow Expansion project. The other set, designated as Exhibits A2, C2, E2, J2, K2, and L2, showed the stipulated estimated revenue requirement inclusive of the estimated additional capital as of August 31, 2021 for the Robeson LNG Plant (inclusive of Lines 456 and 457) and the Pender-Onslow Expansion project.

On September 9, 2021, the matter came on for the expert witness hearing. Piedmont presented the testimony of witnesses Weintraub, Weisker, Newlin, Barkley, Long, Powers, Bowman, Couzens, D'Ascendis, Menhorn, and Sosnick. CUCA presented the testimony of witness O'Donnell. CIGFUR

IV presented the testimony of witness Phillips. DEC presented the testimony of witness Mitchell. The Public Staff presented the testimony of witnesses Coleman, Feasel, Floyd, Hinton, Patel, Perry, Metz, Singer, and Williamson. The prefiled testimony of each of these witnesses was copied into the record as if given orally from the stand and their exhibits were entered into evidence.

On September 17, 2021, the Public Staff filed its Late-Filed Exhibit No. 1 as requested of Public Staff witness Perry by the Commission.

On September 20, 2021, consistent with the Stipulation, Piedmont filed a statement of the actual amounts closed to plant as of August 31, 2021 for the Robeson LNG Plant (inclusive of lines 456 and 457) and the Pender-Onslow Expansion project.

On September 22, 2021, Piedmont filed Late-Filed Exhibit Nos. 2-3 and 5, and Confidential Late-Filed Exhibit No. 4 as requested by the Commission.

On September 27, 2021, Piedmont and the Public Staff filed the details of a mechanism governing Piedmont's EE programs under the Stipulation.

On September 28, 2021, the Public Staff filed its Confidential Late Filed Exhibit No. 2 as requested of Public Staff witness Perry by the Commission.

On October 8, 2021, Piedmont and the Public Staff filed an agreed form of rider tariff under the Stipulation and initial proposed rates for Piedmont's proposed EE rider.

On October 11, 2021, Piedmont filed the affidavit of Adam Long attesting to the completeness, operability, and operations of the Robeson LNG Plant (inclusive of lines 456 and 457).

On October 12, 2021, Piedmont filed its Motion for Expedited Approval of Notice and Undertaking Required by N.C.G.S. § 62-135(c) to Implement Temporary Rates, Subject to Refund (Interim Rate Motion) in which it requested Commission approval to implement temporary rates under bond in this case.

On October 14, 2021, the Commission issued its Order Approving Public Notice of Interim Rates Subject to Refund and Financial Undertaking, wherein it approved the relief requested in Piedmont's Interim Rate Motion.

On October 18, 2021, Piedmont filed the supplemental settlement testimony of Piedmont witness Powers and the second supplemental testimony of witness Long, and Public Staff filed the supplemental settlement testimony of witness Perry, each attesting to the propriety of including in rate base in this proceeding, the capital investment closed to plant as of August 31, 2021 for the Robeson LNG Plant (inclusive of lines 456 and 457) and the Pender-Onslow Expansion project. Witness Powers' supplemental settlement

testimony included revised versions of the revenue related Stipulation Exhibits A, C, E, J, K, and L (denoted as Stipulation Exhibits A3, C3, E3, J3, K3, and L3), incorporating the various accounting changes implicated by the agreed inclusion of the August 31, 2021 plant balances for the Robeson LNG Plant (inclusive of Lines 456 and 457) and the Pender-Onslow Expansion project.

On October 25, 2021, the parties filed briefs and/or proposed orders.

Based upon the verified Petition, the testimony and exhibits received into evidence at the hearings, the Stipulation, and the record as a whole, the Commission makes the following:

FINDINGS OF FACT

Jurisdiction

1. Piedmont is a wholly-owned subsidiary of Duke Energy, duly authorized to do business in and engaged in the business of transporting, distributing, and selling natural gas within the states of North Carolina, South Carolina, and Tennessee. Piedmont's principal place of business is located in Charlotte, North Carolina.

2. Piedmont is a public utility within the meaning of N.C.G.S. § 62-3(23).

3. The Commission has jurisdiction over, among other things, the rates and charges, rate schedules, classifications, and practices of Piedmont in its capacity as a North Carolina public utility.

4. Piedmont is lawfully before the Commission pursuant to N.C.G.S. § 62-133 and Commission Rule R1-17 for a determination on its Petition in this proceeding.

Piedmont's Petition

5. Piedmont's Petition sought approval of a general increase in and revisions to the rates and charges for customers served by the Company; continuation of the Company's IMR mechanism; continuation of regulatory asset treatment for certain incremental TIMP and DIMP O&M expenses, and certain incremental environmental cleanup and remediation O&M expenses; continuation of the depreciation rates for the Company's North Carolina and joint property assets approved in the Company's most recent general rate case in 2019; revised and updated amortizations and recovery of certain regulatory assets accrued since Piedmont's last general rate case proceeding; utilization of the lead-lag study filed by Piedmont in its most recent general rate case filing; adoption of a Rider mechanism to allow Piedmont to recover the costs of its approved EE programs from customers or, in the alternative, authorization to defer costs associated with Piedmont's approved EE programs pending amortization at the Commission's discretion

at some later date; and other updates and revisions to Piedmont's rate schedules and service regulations.

6. The Petition included information and data required by NCUC Form G-1 and was supported by the direct prefiled testimonies and exhibits of Company witnesses.

Test Period

7. The only parties submitting evidence in this case with respect to revenue, expenses, and rate base levels used a test period of the twelve months ended December 31, 2020, adjusted for certain known and measurable changes through June 30, 2021. The Stipulation is based upon the same test period.

8. The appropriate test period for use in this proceeding is the twelve months ended December 31, 2020, updated for certain known and measurable changes through June 30, 2021, and further updated for the actual plant in service amounts for the Company's Robeson LNG Plant and Pender-Onslow Expansion project as of August 31, 2021.

Stipulation

9. The Stipulation executed by Piedmont, the Public Staff, CUCA, and CIGFUR IV is supported by those parties.

10. The Stipulation settles the vast majority of matters in Docket Nos. G-9, Sub 781 and G-9, Sub 786 at issue between the Stipulating Parties. The only unresolved issues identified in the Stipulation are (1) the issues raised by the pleadings and testimony in Docket No. G-9, Sub 722, and (2) the proposed allocation of costs to be recovered through the EE rider in Docket No. G-9, Sub 786. The latter issue, as between the Stipulating Parties, however, was resolved through the respective filings of Piedmont and the Public Staff on September 27 and October 8, 2021, to which no party has objected.

11. The revenue impact of the Stipulation is reflected in the provisions of the Stipulation and in Schedule A3 thereto.

12. The Stipulation is the product of give-and-take settlement negotiations between the Stipulating Parties, is material evidence as to the appropriate outcome of this proceeding, and is entitled to be given appropriate weight in this proceeding along with the other evidence provided by the Company, the Public Staff, intervenor parties, and the public.

13. There is no evidence in the record presented by other intervening parties (e.g., AGO, DEC, FPWC, or Nucor), opposing the Stipulation.

Revenue Increase

14. The Petition sought an increase in annual margin revenues for the Company of \$109,025,725.

15. Pursuant to Piedmont's June Updates, this margin revenue request decreased to \$96,872,105.

16. The Stipulation, as filed, initially provided for an increase in annual margin revenues of \$34,133,660; however, the Stipulation also anticipated the subsequent inclusion of additional capital in rate base from the Robeson LNG Plant (inclusive of lines 456 and 457) and the Pender-Onslow Expansion project which were not, at the time of the filing of the Stipulation, eligible for inclusion in rate base. The annual stipulated margin increase after inclusion of these projects in rate base, as is reflected on Stipulation Exhibit A3 attached to the October 18, 2021 supplemental settlement testimony of Piedmont witness Powers and supplemental settlement testimony of Public Staff witness Perry, is \$67,314,874.

17. The effective rate increases applicable to Piedmont's customers resulting from the Stipulation Exhibit J3 of the amount to \$74,245,421¹.

18. Through the rates and charges approved in this case, the Company should be authorized to increase its annual level of operating revenues by \$74,246,161 per year, as shown on Exhibit A3 of the Stipulation.

¹ The total stipulated revenue increase is \$74,246,161, which is \$740 more than the amount shown in Stipulation Exhibit J3 due to rounding. The rate and revenue calculations supporting Stipulation Exhibit J3 give rise to the rounding difference of \$740.

Of this amount, the margin revenue increase is \$67,314,874 and the cost of gas revenue increase is \$6,931,287, as shown on Exhibit A3 of the Stipulation.

19. The stipulated annual revenue increases shown above are just, reasonable, and appropriate for use in this proceeding.

Rate Base

20. The Company's rate base as of June 30, 2021, adjusted to include the Robeson LNG Plant (inclusive of lines 456 and 457) and the Pender-Onslow Expansion project, is \$4,731,144,325, which includes the original cost of the Company's property used and useful in providing natural gas utility service to the Company's customers within North Carolina, including gas plant in service of \$7,081,638,114, cash working capital (lead-lag) of \$66,716,330, other working capital of \$105,078,018, and deferred regulatory assets of \$68,738,002, reduced by accumulated depreciation of \$1,680,866,275, and accumulated deferred income taxes of \$910,159,864, all as described and set forth in Exhibit A3 to the Stipulation filed with the supplemental settlement testimony of Piedmont witness Powers and supplemental settlement testimony of Public Staff witness Perry on October 18, 2021.

Revenues and Operating Expenses

21. The Company's end-of-period pro forma revenues under present rates of \$1,115,726,625 as set forth in Exhibit A3 to the Stipulation is reasonable and appropriate for use in this docket.

22. The Company's total annual operating expenses under current rates are \$474,503,756. Total annual operating expenses, less interest on customers' deposits of \$894,784, is subtracted from margin revenues to arrive at net operating income for return under present rates. This is all set forth in Stipulation Exhibit A3 and is reasonable and appropriate for use in this docket.

23. The various adjustments to annual operating expenses reflected in the Stipulation in Sections III.K through III.N and Sections III.P through III.R, encompassing non-utility adjustments, Board of Directors expense, compensation adjustments, miscellaneous expense adjustments, uncollectibles expense, regulatory fee adjustments, and rate case expense, are reasonable and appropriate for use in this docket.

Capital Structure, Cost of Capital, and Overall Rate of Return

24. As set forth in Section III.E.4 and Exhibit B of the Stipulation, the Stipulating Parties agreed on a capital structure consisting of 51.60% common equity, 47.75% long-term debt, and 0.65% short-term debt,

25. The Company's cost of long-term debt is 4.08%, as set forth in Section III.E.4 and Exhibit B of the Stipulation.

26. The Company's cost of short-term debt is 0.20%, as set forth in Section III.E.4 and Exhibit B of the Stipulation.

27. The rate of return on common equity (ROE) that the Company should be allowed an opportunity to earn is 9.60%, as set forth in Section III.E.5 and Exhibit B of the Stipulation.

28. The overall rate of return that the Company should be allowed the opportunity to earn on the cost of the Company's used and useful property is 6.90%, as set forth in Section III.E.6 and Exhibit A3 of the Stipulation. This also is the rate to be used by the Company as its Allowance for Funds Used During Construction (AFUDC) rate effective upon approval by the Commission.

29. The overall rate of return and ROE are supported by competent, material, and substantial record evidence; are consistent with the requirements of N.C.G.S. § 62-133 in light of changing economic conditions; and appropriately balance the Company's need to maintain the safety, adequacy, and reliability of its service with the benefits received by Piedmont's customers from safe, adequate, and reliable natural gas service.

30. The capital structure, ROE, and overall rate of return set by this Order will result in just and reasonable rates.

Throughput

31. For the purpose of this proceeding, as set forth in Section III.B of the Stipulation, the appropriate level of adjusted sales and transportation volumes is 135,394,767 dekatherms (dts), which is comprised of 72,624,021 dts of sales quantities and 62,770,746 dts of transportation quantities. The total throughput, which reflects the total gas sales and transportation quantities plus electric generation and other special contract quantities, is 422,497,539 dts. The appropriate level for company use and lost and unaccounted for gas is 1,958,090 dts.

Cost of Gas

32. The total cost of gas reasonable and appropriate for use in this proceeding is \$370,632,970, consisting of \$244,251,008 in commodity cost of gas² and \$126,381,962 in fixed cost of gas, as described in Section III.C.2 and Exhibit A3 to the Stipulation. Any subsequent changes approved to the Company's Benchmark Cost of Gas are incorporated by reference.

33. The Benchmark Cost of Gas (Benchmark) reasonable and appropriate for use in this proceeding is \$3.25 per dt, as reflected in Section III.C.1 of the Stipulation.

34. The fixed cost of gas embedded in the proposed rates and used in future true-ups of fixed gas costs for periods subsequent to November 1, 2021, in proceedings under Commission Rule R1-17(k), subject to any filed

² Of this total amount of commodity cost of gas, \$6,363,793 is the commodity cost of gas for company use and lost and unaccounted for gas quantities.

changes in such costs prior to November 1, 2021, are those derived from the fixed gas cost apportionment percentages discussed in Section III.C.2 of the Stipulation and set forth in Exhibit D to the Stipulation until the resolution of Piedmont's next general rate case proceeding or the outcome of the study referenced in Section III.AB.2. of the Stipulation, whichever occurs first.

Rate Design

35. The rate schedules reflecting new volumetric rates, monthly charges, and demand charges, as discussed in Section III.F of the Stipulation and reflected in Exhibit C3 of the Stipulation, are just and reasonable and appropriate for use in this docket. Furthermore, it is appropriate to adjust rates to reflect any Commission-approved: (1) changes in the Company's Benchmark on or before the date that the rates approved in this docket become effective; or (2) changes in the gas demand and storage charges (components of the fixed cost of gas shown in Exhibit I to the Stipulation) that occur between the date of this Stipulation and the date that the rates approved in this docket become effective. The percentage increases by customer class that result from the aforementioned rate design are shown on Exhibit J3 to the Stipulation and are just and reasonable.

Integrity Management Rider

36. Continuation of the IMR in the form set forth in Appendix E to Piedmont's current North Carolina Service Regulations is reasonable and

appropriate and consistent with N.C.G.S. § 62-133.7A, and should be approved and implemented as provided in Section III.H of the Stipulation.

Margin Decoupling Factors

37. The “R” values, heat load factors, and base load factors, as set forth in Exhibits E3 of the Stipulation and incorporated by reference in Section III.I of the Stipulation are reasonable and appropriate for use with the Company’s Margin Decoupling Tracker (MDT) mechanism and should be approved.

Amortization of Certain Regulatory Deferred Assets/Liabilities

38. The quantification and amortization of certain regulatory deferred assets/liabilities, including deferred TIMP O&M costs (PIM-T) and deferred DIMP O&M costs (PIM-D), Eastern NCNG O&M costs, environmental compliance assessment and clean-up O&M costs, and under-collected regulatory fee payments, all as set forth and described in Section III.J. of the Stipulation, are reasonable and appropriate and should be approved.

Amortization of Federal Protected Excess Deferred Income Taxes

39. Updating the amortization of protected excess deferred income taxes (EDIT) in the cost of service for the Stipulation using the current

average rate assumption method (ARAM), as set forth in Section III.T. of the Stipulation, is reasonable and appropriate and should be approved.

EDIT Riders

40. Continuation of the Federal Unprotected EDIT and State EDIT rider rates based on the remaining amortization periods approved in Docket No. G-9, Sub 743, and updating the Federal Unprotected EDIT and State EDIT rider rates based upon the overall rate of return of 6.90% provided for in the Stipulation, as reflected in Exhibit L3 to the Stipulation and as set forth in Section III.U. of the Stipulation, is reasonable and appropriate and should be approved.

Depreciation

41. Continuation of the depreciation rates and reallocations of book reserves, as approved in Docket No. G-9, Sub 743, and reducing depreciation expense to reflect the impacts of the reallocation of the reserve accounts related to the North Carolina direct and corporate allocated general plant accounts, as set forth in Section III.V. of the Stipulation, is reasonable and appropriate and should be approved.

EE Programs and Rider

42. Authorization of Piedmont's entire EE program portfolio, consisting of the School Conservation Education Program, Low-Income

Program, Residential HVAC and Water Heating Program, Commercial HVAC & Water Heating Rebate Program, Commercial Food Services Program, and Residential New Construction Program, for a three-year pilot program, commencing within six months of a final Commission order in this proceeding, and recovery of EE program costs through a rider recovery mechanism, as set forth in Section III.AA of the Stipulation, as supplemented by the joint September 27, 2021 filing by Piedmont and the Public Staff and the subsequent rider/initial rate filing made by Piedmont and the Public Staff on October 8, 2021 are reasonable and appropriate and should be approved.

Studies

43. The study of (i) whether Piedmont's current method of allocating its transmission plant assets to North Carolina and South Carolina is fair to each state's customers in light of the fact that the Company plans for future supply and capacity resources based on a combination of both North Carolina and South Carolina demands, and (ii) whether an updated regression analysis to determine a more accurate breakdown of system usage among customer classes and the North Carolina and South Carolina jurisdictions, prior to the earlier of the Company's next general rate case or its 2023 annual review of gas costs proceeding (2023 Annual Review), all as set forth in Section III.AB of the Stipulation, is reasonable and appropriate and should be approved.

Changes to Tariffs and Service Regulations

44. The changes to the Company's Tariffs and Service Regulations as specified in Section III.W of the Stipulation and set forth in Exhibits G and H to the Stipulation, respectively, are reasonable and appropriate and should be approved.

Gas Extension Feasibility Model

45. Revisions to Piedmont's model used to calculate the feasibility of extending natural gas service to its residential and commercial customers to reflect: (1) use of an investment horizon of 40 years or an appropriate length of time that matches the book lives of the gas plants; (2) use of the Company's approved net of tax overall rate of return as the discount rate employed for the net present value analysis approved in the Company's most recent rate case; and (3) an adjustment of all future cash inflows by a long-term inflation rate of 2%, as set forth in Section III.Y of the Stipulation, is reasonable and appropriate and should be approved.

Affordability

46. The participation of Piedmont in the affordability stakeholder collaborative currently being conducted pursuant to the Commission's Order Accepting Stipulations, Granting Partial Rate Increase, and Requiring Customer Notice issued on March 31, 2021, in Docket No. E-7, Subs 1213, 1214, and 1187; and Order Accepting Stipulations, Granting Partial Rate Increase, and Requiring Customer Notice issued April 16, 2021, in Docket

No. E-2, Subs 1219, and 1193, as set forth in Section III.Z. of the Stipulation, is reasonable and appropriate and should be approved.

Termination of Line 434 Revenue Rider

47. Termination of the Line 434 Rider, approved in Docket No. G-9, Sub 743, is reasonable and appropriate and should be approved.

Stipulation as a Whole

48. All the provisions of the Stipulation are just and reasonable to all parties to this proceeding, serve the public interest, and should be approved.

Docket No. G-9, Sub 722 Issues (Sub 722 Issues)

[Proposed Findings of Fact for Sub 722 Issues will be filed separately by the individual parties taking a position on those issues.]

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 1-6

The evidence supporting these findings of fact and conclusions is contained in the Company's verified Petition, the testimony and exhibits of the Company's witnesses, the Form G-1 that was filed with the Petition, the provisions of Chapter 62 of the General Statutes, and the entire record in this proceeding. These findings are informational, jurisdictional, and procedural in nature and are not contested by any party.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 7-8

The evidence supporting these findings of fact and conclusions is contained in the Petition, the direct testimony of Piedmont witness Bowman, the Stipulation, and the entire record in this proceeding.

In its Petition, the Company utilized a test period of the twelve months ended December 31, 2020, in presenting its Petition and exhibits for the requested rate increase. This test period was confirmed in the direct testimony of Piedmont witness Bowman who indicated that the Company had based its Petition on the twelve-month period ended December 31, 2020. In its May 17 Order, the Commission ordered the parties to use a test period consisting of the twelve months ended December 31, 2020, with appropriate adjustments.

The Stipulation reflects that the test period for this rate case is the twelve months ending December 31, 2020, adjusted for certain changes in plant, throughput, and costs that were not known at the time the case was filed but are based upon circumstances occurring or becoming known through June 30, 2021. This test period was not contested by any party.

Based upon the unopposed evidence, the Commission concludes that the twelve months ended December 31, 2020, adjusted for certain changes in plant, throughput, and costs that were not known at the time the case was filed but are based upon circumstances occurring or becoming known through June 30, 2021, is the appropriate test period for use in this proceeding.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 9-13

The evidence for these findings of fact and conclusions is contained in the Stipulation, the Petition, the direct testimony and exhibits of the witnesses, the settlement testimony of Piedmont witnesses Powers, Couzens, and D'Ascendis, the settlement testimony of Public Staff witnesses Hinton and Perry, and the entire record in this proceeding.

In her settlement testimony, Piedmont witness Powers describes an extensive audit and negotiation process between the Company and the Public Staff, in which the Company responded to more than 840 discrete questions (not including parts and subparts) of 137 sets of discovery requests and participated in several video conference meetings with the Public Staff in an effort to reach an agreed resolution of this proceeding. According to witness Powers, as supported by the record in this proceeding, those efforts were fruitful and Piedmont and the Public Staff were able to reach an agreement on several issues in this proceeding. Piedmont also held discussions with CUCA and CIGFUR IV in an effort to obtain their consent to join in the settlement and was able to do so after reaching a proposed rate design that was acceptable to all. That agreement is reflected in the Stipulation filed in this matter. The Stipulation is binding as between Piedmont, the Public Staff, CUCA, and CIGFUR IV and conditionally resolves all matters in this case as

between those parties, except as specifically indicated otherwise in Section II.A. of the Stipulation.³

Additionally, Piedmont witness D'Ascendis and Public Staff witness Hinton filed settlement testimony supporting the stipulated capital structure and overall rate of return agreed to in the Stipulation. The revenue allocation and rate design agreed to in the Stipulation was supported by the testimony of Piedmont witness Couzens.

Further, in her settlement testimony, Public Staff witness Perry outlined the benefits the Stipulation provided for ratepayers and provided a reconciliation of the June Updates and settlement adjustments to Piedmont's filed rate increase.

According to witness Powers, the Company did not reach out to the AGO, DEC, Nucor, or FPWC as these parties did not file testimony in this proceeding on any of the stipulated issues. These parties did not join in the Stipulation, nor did they oppose the Stipulation in any filing or at the hearing of this matter. The Commission concludes that these actions indicate that the AGO, DEC, Nucor and FPWC neither support nor oppose the Stipulation.

Under North Carolina law, a stipulation entered into by less than all parties in a contested case proceeding under Chapter 62 "should be

³ At the time the Stipulation was filed there were two unresolved issues between the Stipulating Parties described in Section II.A. and II.B of the Stipulation. The EE rider cost allocation issue originally reflected in Section II.B. has now been resolved.

accorded full consideration and weighed by the Commission with all other evidence presented by any of the parties in the proceeding.” State ex rel. Utilities Commission v. Carolina Utility Customers Association, Inc., 348 N.C. 452, 466, 500 S.E.2d 693, 703 (1998). Further, “[t]he Commission may even adopt the recommendations or provisions of the nonunanimous stipulation as long as the Commission sets forth its reasoning and makes ‘its own independent conclusion’ supported by substantial evidence on the record that the proposal is just and reasonable to all parties in light of all the evidence presented.” Id.

The Commission concludes based upon all of the evidence presented that the Stipulation was entered into by the Stipulating Parties after full discovery and extensive negotiations and represents a reasonable and appropriate proposed negotiated resolution of most of the matters in dispute in this proceeding, with the exception of the issues raised by the pleadings and testimony in Docket No. G-9, Sub 722, that is supported, or not opposed, by all parties. Accordingly, the Stipulation constitutes material evidence of the appropriate resolution of most of the issues in this proceeding and will be treated as such by the Commission.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 14-19

The evidence for these findings of fact and conclusions is set forth in the Petition, the June Updates, the Stipulation, the prefiled direct and settlement testimony and exhibits of Piedmont witness Powers, and the

prefiled direct, supplemental and settlement testimony and exhibits, and supplemental settlement testimony and exhibits of Public Staff witness Perry.

In the Petition, as supported by the prefiled direct testimony and exhibits of Piedmont witness Bowman, Piedmont sought a margin revenue increase in this case of \$109,025,725. As reflected in the prefiled testimony and exhibits of Public Staff witness Perry, the Public Staff's initial recommendation was for a margin revenue decrease of \$462,808.

In the June Updates, as supported by the supplemental testimony of Piedmont witness Bowman, the proposed margin revenue decreased to \$96,872,105.

In the Stipulation, and as reflected on Stipulation Exhibit A3, the Stipulating Parties agreed to a margin revenue increase of \$67,314,874 – an approximately \$41.7 million reduction from Piedmont's original margin revenue request.

In her direct testimony, witness Powers explained that Piedmont's revenue request, as filed in the Company's Petition, at a total increase of \$109.0 million would increase Piedmont's annual revenue by approximately \$95 per residential customer (or an average monthly increase of just under \$8). In her settlement testimony, witness Powers stated that the annual residential customer impact under the Stipulation, excluding the Robeson LNG Plant costs and Pender-Onslow Expansion project costs, is

approximately \$37 (or an average monthly increase of approximately \$3). Witness Powers stated that including the Robeson LNG Plant costs and Pender-Onslow Expansion project costs, as currently estimated, results in an annual residential customer impact under the Stipulation of approximately \$65 (or an average monthly increase of approximately \$5.50).

In her settlement testimony, witness Perry stated that once Public Staff has completed the audit of Piedmont's actual costs booked to plant based on the performance metrics agreed to with Public Staff for the Robeson LNG Plant and the actual cost data closed to plant for the Pender-Onslow Expansion project, as set forth in Section III.D.1 and III.D.2 of the Stipulation, the Public Staff would file schedules supporting the Public Staff's final recommended revenue requirement. That filing was made by the Public Staff on October 18, 2021 and reflects a total revenue requirement increase of \$74,246,160.

No other party filed testimony as to the appropriate level of revenues for this proceeding.

Based on the Stipulation and related evidence recited above and the cumulative testimony and exhibits supporting individual components of the stipulated revenue requirement increase discussed throughout this Order, including the discussion and analysis related to the proper rate of overall return and ROE for use in this proceeding, the Commission finds, in the exercise of its independent judgment, that the stipulated revenue requirement

increase in this case, subject to final update, is just, reasonable, and fair to all parties.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 20

The evidence for this finding of fact is contained in the Petition, the June Updates, the prefiled direct and supplemental testimony and exhibits of Piedmont witness Bowman, the prefiled direct testimony and exhibits of Public Staff witnesses Perry and Feasel, the Stipulation, the Affidavit of Adam Long filed on October 11, 2021, and the supplemental settlement testimony of Piedmont witness Powers and the supplemental settlement testimony of Public Staff witness Perry filed on October 18, 2021.

In the Petition, Piedmont sought a net annual revenue increase of approximately \$109 million based, in part, on increases in rate base since its last general rate proceeding in 2019 in Docket No. G-9, Sub 743. In the Petition, the Company also reserved its rights pursuant to N.C.G.S. § 62-113(c) to update its projected plant up to and including the date of hearing in this matter.

In her prefiled direct testimony, at Exhibit (QPB-1), Piedmont witness Bowman indicates that the end of test period rate base for Piedmont – consisting of plant in service plus an allowance for working capital less accumulated depreciation and accumulated deferred income taxes – was

\$4,219,562,288. In that same testimony, Ms. Bowman projected rate base as of June 30, 2021, at \$4,822,658,811.

In Perry Exhibit I, Schedule 2, and based in part on the testimony of Public Staff witness Feasel, Public Staff witness Perry indicates that the Public Staff's projected rate base at the end of the test period was \$4,253,910,975.

On July 28, 2021, and consistent with the Commission's Rules and the provisions of the Commission's May 17 Order, Piedmont filed its June Updates. These June Updates were supported by concurrently filed supplemental testimony of Piedmont witnesses Bowman and Couzens. In the supplemental testimony of Company witness Bowman on Exhibit__ (QPB-1 Updated), she testifies that Piedmont's updated rate base at June 30, 2021, was \$4,736,323,899, consisting of plant in service of \$7,088,221,950, plus an allowance for working capital of \$243,781,462, less accumulated depreciation of (\$1,685,129,720) and accumulated deferred income taxes of (\$910,549,794). Witness Bowman testified that the June Updates reflects actual rate base as of June 30, 2021, with the exception of the projected in-service amounts of the Robeson LNG Plant and Pender-Onslow Expansion project, which were pending completion and closure to plant at that time. Witness Bowman explained that the Robeson LNG Plant and Pender-Onslow Expansion project were not in service as of June 30, 2021, but that they were expected to be in service before the hearing concluded. As such, witness

Bowman stated that Bowman Exhibit __ (QPB-1 Updated) reflects actual rate base as of June 30, 2021, as amended for the effect of the current projection of the in service amounts of the Robeson LNG Plant and Pender-Onslow Expansion project.

In the Stipulation, as reflected on Exhibit A1 and in Section III.D.3 thereof, the Stipulating Parties agreed that the Company's rate base, subject to adjustment as provided in Sections III.D.1 and III.D.2 of the Stipulation, for purposes of this proceeding should be \$4,444,264,180, consisting of gas plant in service of \$6,790,930,589, other working capital of \$105,078,018, cash working capital of \$64,571,272, and deferred regulatory assets of \$68,738,002, less accumulated depreciation of (\$1,674,893,838), and accumulated deferred income taxes of (\$910,159,864). However, the Stipulating Parties explained that these rate base amounts do not include the estimated plant in service attributable to the Robeson LNG Plant and Pender-Onslow Expansion project. Due to the potential impacts on rate base to include the costs of the Robeson LNG Plant and Pender-Onslow Expansion project, Piedmont also reflected estimated revised rate base calculations inclusive of estimated in-service costs of the Robeson LNG Plant and Pender-Onslow Expansion project in Exhibit A2 to the Stipulation.

On September 27, 2021, Piedmont filed its compliance filing in this proceeding consisting of Piedmont's actual costs for the Robeson LNG Plant and Pender-Onslow Expansion project closed to plant as of August 31, 2021.

On October 11, 2021, with leave of the Commission, Piedmont filed the affidavit of Adam Long attesting to the completion, operability, and closure to plant of the Robeson LNG Plant.

On October 18, 2021, Piedmont filed the supplemental settlement testimony and exhibits of witness Powers and the second supplemental testimony of witness Long and the Public Staff filed the supplemental settlement testimony of witness Perry, all of which supported the inclusion of actual Robeson LNG Plant and Pender-Onslow Expansion Project plant additions filed by Piedmont on September 27, 2021 into rate base in this proceeding.

No other party presented evidence on Piedmont's rate base.

The amounts shown on Exhibit A3 to the Stipulation are the result of negotiated adjustments to the Company's June Updates position reflecting actual investment for the Robeson LNG Plant and Pender-Onslow Expansion project closed to plant as of August 31, 2021, and were agreed to by the Stipulating Parties in this docket, as described in the Stipulation and the supplemental settlement testimony of Company witness Powers, the affidavit and supplemental testimonies of Company witness Long, and the supplemental settlement testimony of Public Staff witness Perry. Under the Stipulation, and by and through the filings of Piedmont and the Public Staff after the Stipulation, the Stipulating Parties agreed to a rate base that includes the final actual costs of these two projects closed to plant as of

August 31, 2021. Through these same filings, Piedmont and the Public Staff demonstrated that this plant is used and useful in providing utility service to the public and is eligible for rate base treatment in this proceeding pursuant to G.S. 62-133(c).

The Commission has carefully reviewed these amounts and all record evidence relating to the Company's rate base. The Commission has considered the benefits of the Stipulation as a whole to customers in its treatment of rate base, deferred regulatory assets, and regulatory liabilities and has considered the right of the Company and the Public Staff to present "relevant, competent and material evidence . . . tending to show actual changes in . . . the public utility's property used and useful within a reasonable time after the test period, in providing the service rendered to the public within this state, . . ." In light of the support for the Stipulation by the majority of parties to this proceeding, and the absence of any evidence challenging the stipulated rate base or any of the respective components thereof, the Commission concludes that the stipulated rate base at June 30, 2021, and components thereof, and updated for the Robeson LNG Plant and Pender-Onslow Expansion project as of August 31, 2021, are just and reasonable and appropriate for use in this proceeding.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 21-23

The evidence supporting these findings of fact and conclusions is set forth in the Stipulation, the Company's Petition, the testimony and exhibits of

the Piedmont's witnesses, including the settlement testimony of Piedmont witness Powers, the Public Staff testimony and exhibits of its witnesses, and the entire record in this proceeding.

The end of test period margin revenues under the Company's present and stipulated proposed rates are set forth in Section III.E and Exhibit A3 to the Stipulation. The amounts shown on Exhibit A3 to the Stipulation are the result of negotiations among the Stipulating Parties in this docket following an extensive audit of the Company's filed case by the Public Staff and are described in the Stipulation and the settlement and supplemental testimonies of the Company and Public Staff witnesses. The stipulated margin revenues represent a reduction of approximately \$41.7 million from the margin revenues contained in the original Petition and a reduction of \$29.66 million from the revenues reflected in the June Updates.

No other party except the Public Staff submitted evidence on the Company's revenues, stipulated capital structure, ROE, and the stipulated revenues.

The Company's annual operating expenses under present rates, including the settlement adjustments, are \$474,503,756. The total annual operating expenses, less interest on customers' deposits of \$894,784, are subtracted from margin revenues to arrive at net operating income for return under present rates. This is set forth in Section III.E.3 to the Stipulation and reflected on Exhibit A3 to the Stipulation. This amount includes, among

others, the individual adjustments described in Sections III.K through III.N and Sections III.P through III.R of the Stipulation and in the settlement testimony of Piedmont witness Powers. These adjustments, as shown on Piedmont witness Powers' Settlement Exhibit_(PKP-1) and Exhibit_(PKP-2) and also shown in in witness Powers' Supplemental Settlement Exhibit_(PKP-1), are as follows: (a) an adjustment of (\$547,483) for non-utility operations; (b) an adjustment of (\$362,829) to Board of Directors expense; (c) adjustments to compensation related expenses of (\$15,965) for payroll, (\$436,672) for pension and other benefits, (\$1,313,594) for employee benefits, (\$270,949) for executive compensation, and (\$367,973) for incentives; (d) adjustments for miscellaneous expenses such as (\$384,905) for advertising, (\$192,202) for aviation expense, (\$76,564) for lobbying, (\$63,771) for sponsorships and donations, (\$160,589) for inflation, and (\$438,384) for COVID-related expenses; (e) an adjustment of (\$1,015,778) for uncollectibles expense; (f) an adjustment to bring the regulatory fee expense to a level based on the current effective rate of 0.13%; and (g) an adjustment to rate case expense of (\$175,794).

The amounts shown on Exhibit A3 to the Stipulation and the adjustments reflected in Settlement Exhibit__(PKP-1) and Exhibit_(PKP-2) and in Supplemental Settlement Exhibit_(PKP-1), are the result of negotiations between the Stipulating Parties in this docket as described in the settlement testimony of Ms. Powers.

No other party submitted evidence as to the Company's reasonable operating expenses and the stipulated reasonable operating expenses of the Company are not contested by any party.

The Commission has carefully reviewed the pro forma margin revenues and operating expenses set forth in the Stipulation, as well as all record evidence relating to pro forma revenues and operating expenses, and concludes based on its own independent judgment that the stipulated pro forma margin annual revenues and operating expenses are reasonable and appropriate for use in this docket.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 24 -30

The evidence for these findings of fact s is contained in the verified Application and Form G-1, the prefiled direct and rebuttal testimony and exhibits of Piedmont witnesses Newlin and D'Ascendis, the direct testimony and exhibits of Public Staff witness Hinton, the direct testimony and exhibits of CUCA witness O'Donnell, the direct testimony and exhibits of CIGFUR IV witness Phillips, the settlement testimony and exhibits of Piedmont witness D'Ascendis and Public Staff witness Hinton, and the Stipulation.

A. Capital Structure and Cost of Debt

Summary of the Evidence

In his prefiled direct testimony, Piedmont witness Newlin proposed a capital structure consisting of 52.00% common equity, 47.45% long-term debt at a cost of 4.09%, and 0.55% short-term debt at a cost of 0.47%. As has been consistently the case in prior Piedmont rate cases, the short-term debt figure was calculated based upon Piedmont's gas in storage inventory costs.

Witness Newlin testified in his direct testimony that Piedmont's capital structure changes over time based on a variety of factors, including issuances of debt and equity and the accumulation of retained earnings, but that the Company would manage its operations within a reasonable range of the proposed capital structure. Witness Newlin also testified that the proposed capital structure was reasonable because it balanced risk with cost to customers, would provide Piedmont with an opportunity to compete for capital at reasonable rates, and was generally supportive of Piedmont's ability to reasonably manage its costs of capital.

Finally, Witness Newlin provided examples of Piedmont's anticipated actual capital structure⁴ at four points in time differentiated by projected changes in that capital structure resulting from debt and equity transactions of the Company and the accumulated impacts of retained earnings over time. The four dates used by witness Newlin for this purpose were December 31, 2020, March 31, 2021, December 31, 2021, and December 31, 2022. At the first of these dates, December 31, 2020, which was the end of the test period

⁴ Piedmont's anticipated actual capital structure includes a proxy for short-term debt as proposed in the testimony of Piedmont witness Newlin and Public Staff witness Hinton.

in this proceeding, Piedmont's actual capital structure was 50.59% equity, 48.74% long-term debt, and 0.67% short-term debt. At March 31, 2021, witness Newlin projected a capital structure of 51.63% equity, 47.79% long-term debt, and 0.58% short-term debt. At December 31, 2021, witness Newlin projected a capital structure of 52.56% equity, 46.87% long-term debt, and 0.56% short-term debt. And finally, at December 31, 2022, witness Newlin projected that Piedmont's capital structure would be 51.87% equity, 46.61% long-term debt, and 0.52% short-term debt. These projections as to Piedmont's anticipated actual capital structure at these dates are set forth on Exhibit __ (KWN-1).

In his direct testimony, Public Staff witness Hinton recommended a capital structure for Piedmont consisting of 50.54% equity, 48.81% long-term debt at a cost of 4.08%, and 0.65% short-term debt at a cost of 0.20%. Witness Hinton's analysis of Piedmont's capital structure was based upon his calculation of a 13-month average of equity, long-term debt, and gas inventory costs from May 31, 2020, through May 31, 2021. His projected costs of debt were based upon his calculation of Piedmont's actual long-term debt costs at May 31, 2021, and a 13-month average of Piedmont's short-term debt costs at May 31, 2021.

In his direct testimony, CUCA witness O'Donnell disagreed with Piedmont's proposed capital structure but accepted Piedmont's cost of debt. Specifically, witness O'Donnell recommended a capital structure for Piedmont

consisting of 50.00% equity, 49.43% long-term debt at a cost of 4.09%, and 0.57% short-term debt at a cost of 0.47%.

In his rebuttal testimony, witness Newlin responded to recommendations related to capital structure raised by Public Staff witness Hinton and CUCA witness O'Donnell. Witness Newlin testified that witness Hinton's equity ratio calculation was flawed because it did not account for significant equity increases underlying Piedmont's capitalization, one of which had already occurred. Witness Newlin also testified that he disagreed with witness O'Donnell's equity ratio because the basis from which witness O'Donnell formed his recommendation is flawed. Specifically, witness Newlin stated that most of the comparative equity ratios witness O'Donnell cites are not applicable to Piedmont's equity ratio for rate-setting purposes.

In the Stipulation, Piedmont, the Public Staff, CUCA, and CIGFUR IV agreed that the capital structure appropriate for use in this proceeding is 51.60% equity, 47.75% long-term debt at a cost of 4.08%, and 0.65% short-term debt at a cost of 0.20%.⁵

In his settlement testimony filed in support of the Stipulation, Public Staff witness Hinton explained some of the factors underlying the difference between his original proposed capital structure and the capital structure reflected in the Stipulation. He also indicated that in the context of

⁵ The debt costs reflected in the Stipulation are those recommended by Public Staff witness Hinton in his direct testimony.

settlements, parties sometimes agree to individual adjustments, structures, or costs as part of a whole agreement, when those adjustments, structures, or costs might not be acceptable to them in isolation. Witness Hinton also testified that it was his view that given the benefits of the settlement as a whole, he believed the cost of capital components of the settlement were a reasonable resolution of otherwise contentious issues. Witness Hinton also testified that the stipulated capital structure was supported by the fact that nationally, the average equity ratio approved for natural gas utilities over the period January 1, 2018, through August 31, 2021, was 51.94% and since January 1, 2020, the average approved ratio has been 51.80%.⁶ Moreover, witness Hinton testified that the Commission's recent rate case orders for natural gas and electric utilities were consistent with a 51.60% equity ratio for Piedmont in this rate case. On balance, witness Hinton indicated a belief that the stipulated cost of capital components are a reasonable resolution of an otherwise contentious issue.

In his settlement testimony, Company witness D'Ascendis testified in support of the stipulated capital structure. He stated that the stipulated equity ratio is slightly below the median authorized equity ratio in supportive regulatory jurisdictions (51.98%) and is well within the range of equity ratios

This calculation excludes the decisions of four states – Arkansas, Florida, Indiana, and Michigan – because these jurisdictions include deferred taxes and other non-capital items in the approved capital structure. As such, the approved equity ratios are not comparable to those used in North Carolina ratemaking and would bias the average equity ratio downward.

authorized in those jurisdictions (38.30% to 59.64%). Therefore, witness D'Ascendis testified that he supports the stipulated capital structure.

Discussion and Conclusions

Based upon its own review and independent analysis of the evidence, the Commission concludes that a capital structure of 51.60% equity, 47.75% long-term debt at a cost of 4.08%, and 0.65% short-term debt at a cost of 0.20%, as is reflected in the Stipulation, is just and reasonable and appropriate for use in this proceeding on several grounds.

First, this capital structure is very close to the capital structures initially proposed by both the Company and the Public Staff in this proceeding. Second, as testified to by Piedmont witness Newlin, it is reflective of the actual experience and planned capitalization of the Company from December 31, 2020, through December 31, 2022. Third, the cost of debt underlying this capital structure was recommended by Public Staff witness Hinton in his direct testimony. Fourth, while the Commission recognizes that Public Staff witness Hinton recommended a lower equity component in his original testimony, his settlement testimony makes clear that the primary differences between his calculation of an equity band and the Company's calculation are differences in methodology. Furthermore, his settlement testimony is unequivocal in its opinion that the stipulated capital structure is reasonable for use in this proceeding and is below national averages. Accordingly, based on the matters set forth above, and in the exercise of its independent judgment,

the Commission finds that the weight of the evidence in this proceeding favors using the stipulated capital structure and that such capital structure is just, reasonable, and appropriate for use in setting rates in this docket.

The Commission also finds the 4.08% stipulated cost of long-term debt 0.20% cost of short-term debt are just and reasonable. These debt costs are supported by the direct and settlement testimony of Public Staff witness Hinton, and by the settlement testimony of Company witness D'Ascendis. The Commission therefore finds and concludes that the use of a long-term debt cost of 4.08% and a short-term debt cost of 0.20 per the terms of Section E.4 of the Stipulation is supported by the greater weight of the substantial evidence and is just and reasonable to all parties in light of all the evidence presented.

B. Rate of Return on Equity Capital

Summary of the Evidence

In its Petition, the Company requested approval for its rates to be set using an overall rate of return of 7.27% and a rate of return on equity of 10.25%. This request was based upon and supported by the direct testimony and exhibits of Piedmont witness D'Ascendis. These rates of return compare to an overall return of 7.14% and a rate of return on equity of 9.70%

underlying Piedmont's current rates.⁷ Other witnesses for the Public Staff, CUCA, and CIGFUR IV also filed direct testimony on the appropriate rate of return on equity. This evidence was followed by the rebuttal testimony of Piedmont witness D'Ascendis, the Stipulation, and settlement testimony filed by Piedmont witnesses D'Ascendis and Powers and Public Staff witness Hinton. In addition to this expert testimony, the Commission received the testimony of a number of public witnesses on Piedmont's proposed rate increase (which indirectly implicated the question of what is the appropriate rate of return on common equity for the Company. All of this evidence is summarized below.

Direct Testimony of Dylan W. D'Ascendis (Piedmont)

Company witness D'Ascendis in his direct testimony recommended a rate of return on equity within the range of 9.58% to 12.30%. In his direct testimony he indicated that because all models are subject to various assumptions and constraints, equity analysts and investors tend to use multiple methods to develop their return requirements. For this reason, he applied the following three accepted approaches to develop his rate of return recommendation: (1) the Discounted Cash Flow (DCF) model; (2) the Risk Premium Model (RPM) model; and (3) the Capital Asset Pricing Model (CAPM). Witness D'Ascendis applied these three methodologies to a proxy

⁷ Order Approving Stipulation, Granting Partial Rate Increase, Line 434 Revenue Rider, EDIT Riders, Provisional Revenues Rider, and Requiring Customer Notice, Docket No. G-9, Sub 743 (Oct. 31, 2019) (rates effective November 1, 2019).

group of eight publicly traded natural gas distribution companies (Utility Proxy Group). Witness D'Ascendis also utilized the cost of equity applied to a proxy group of 47 domestic, non-price regulated companies (Non-Price Regulated Companies).

In his direct testimony, witness D'Ascendis testified that applying the DCF, RPM and CAPM to the Utility Proxy Group and Non-Price Regulated Proxy Group resulted in a range of common equity cost rates before any relative risk adjustment of 9.46% and 12.18%. However, witness D'Ascendis recommended that the common equity range of 9.46% to 12.18% should be adjusted to reflect floatation costs. Witness D'Ascendis testified that applying the recommended 0.12% floatation cost adjustment to the indicated cost of common equity range of 9.46% and 12.18% resulted in a Company-specific cost of common equity range of 9.58% to 12.30%. Based on that range and his analyses, witness D'Ascendis concluded that 10.25% was a reasonable and appropriate estimate of the Company's cost of common equity in this proceeding.

In assessing the reasonableness of his recommended return, witness D'Ascendis testified that he also considered the economic conditions in North Carolina. Specifically, witness D'Ascendis testified that he considered: (1) the economic conditions in North Carolina in light of the COVID-19 pandemic; (2) unemployment at both the state and county level as compared to national rates of unemployment; (3) real Gross Domestic Product (GDP) in North

Carolina; and (4) the median household income in North Carolina as it corresponds to national levels. He concluded that the economic conditions in North Carolina are highly correlated to those of the United States as a whole, and as such, are reflected in the analyses used to determine the cost of common equity.

Direct Testimony of John R. Hinton (Public Staff)

In his direct testimony, Public Staff witness Hinton testified as to the fair rate of return to be used in establishing Piedmont's rates. To determine the cost of common equity for Piedmont, witness Hinton used a DCF model and a regression analysis of approved returns for local distribution companies (LDC) to determine the cost of equity. He also used a Comparable Earnings Analysis as a check on the results of his DCF analysis and his Regression Analysis of Approved Equity Returns. Public Staff witness Hinton disagreed with witness D'Ascendis' exclusive use of forecasted earnings per share in the DCF model, his estimate of the expected market return, and the market premium used in his CAPM. According to witness Hinton, the results of his DCF analysis indicated a cost of equity ranging from 9.10% using historical growth rates, to 9.73% using predicted growth rates, to 9.35% based on an average of all of the growth rates. Mr. Hinton combined these results with a Regression Analysis result that indicates a cost of equity of 9.50%. The average of the four estimates produces an average cost of equity of 9.42%, which is central to a range of cost of equity estimates ranging from 9.10% to

9.73%. As such, Public Staff witness Hinton recommended a cost of common equity for the Company of 9.42%.

In assessing the reasonableness of his recommended return, Public Staff witness Hinton also considered: (1) Piedmont's credit quality; (2) the continued role of the Company's IMR mechanism in reducing regulatory lag; (3) the role the Company's MDT has played in stabilizing the residential and small commercial customers' revenue and on the Company's earnings; and (4) the impact of changing economic circumstances.

Direct Testimony of Kevin W. O'Donnell (CUCA)

In his direct testimony, CUCA witness O'Donnell recommended that Piedmont be given the opportunity to earn a 9.0% rate of return on equity, which is based on the upper end of the DCF results for the proxy group (7.50%-9.50%), well above the CAPM results (6.0%-8.0%), and at the low end of his Comparable Earnings results (9.0%-10.0%). O'Donnell contended that Piedmont's requested rate of return on equity is excessive, unnecessary, and burdensome on North Carolina ratepayers, especially in light of the current economic conditions brought on by the COVID-19 pandemic. He alleged that the models and inputs used by Company witness D'Ascendis to determine Piedmont's cost of equity are flawed and do not reflect market conditions.

Witness O'Donnell also testified that Piedmont's return on equity request (10.25%) was inappropriate in light of the current state of the financial markets. Even though all markets were impacted by the COVID-19 pandemic, witness O'Donnell testified that utilities such as Piedmont have not had an issue accessing the capital markets. In light of this, witness O'Donnell stated that Piedmont does not need a 10.25% return on equity to attract and compete for capital in the current economic environment.

Direct Testimony of Nicholas Phillips, Jr. (CIGFUR IV)

In his direct testimony, Mr. Phillips offered the opinion that Piedmont's proposed return on equity of 10.25% was excessive and that its allowed return on equity in this proceeding should be capped at 9.56% because that was the average rate of return on equity approved for natural gas LDCs for the twelve months ending March 31, 2021, as reported by Regulatory Research Associates. Witness Phillips further opined that the Commission also should consider the IMR, and any other cost recovery mechanisms, which provide Piedmont with additional cost recovery outside of a base rate case in setting a reasonable rate of return on equity.

Rebuttal Testimony of Dylan W. D'Ascendis (Piedmont)

In his rebuttal testimony, Company witness D'Ascendis responded to the direct testimony of Public Staff witness Hinton, CUCA witness O'Donnell, and CIGFUR IV witness Phillips. His testimony also updated many of the

analyses contained in his direct testimony to reflect current data. Witness D'Ascendis testified that based on his updated analyses, the range of reasonable rates of return on equity attributable to Piedmont is between 9.59% and 12.72% (unadjusted) and 9.70% to 12.83% (adjusted). Therefore, witness D'Ascendis testified that his rate of return on equity recommendation of 10.25% remains reasonable, if not conservative.

Witness D'Ascendis testified that witness Hinton's and witness O'Donnell's recommended rates of return on equity were insufficient, in part, due to their substantial and excessive reliance on the DCF model results which tend to understate Piedmont's return requirement in the current market. Instead, witness D'Ascendis recommended the use of multiple cost of equity models in conjunction with informed expert judgment to provide a clearer picture of the investor-required rate of return on equity.

The areas in which witness D'Ascendis disagreed with witness Hinton specifically include: (1) witness Hinton's proxy group; (2) witness Hinton's use of growth rates other than projected growth in earnings per share (EPS) in his application of the DCF; (3) certain inputs used in witness Hinton's RPM; (4) certain assumptions and inputs in witness Hinton's CEM; and (5) witness Hinton's failure to reflect flotation costs.

The areas in which witness D'Ascendis disagreed with witness O'Donnell include: (1) witness O'Donnell's interpretation of capital market conditions; (2) witness O'Donnell's proxy group selection; (3) witness

O'Donnell's consideration of growth rates other than the expected EPS rate for his DCF analysis; (4) witness O'Donnell's use and miscalculation of the sustainable growth rate; (5) the applicability of the CEM; (6) witness O'Donnell's application of the CPAM; and (7) witness O'Donnell's failure to reflect flotation costs.

Witness D'Ascendis' rebuttal testimony also took issue with witness Phillips' use of average authorized return data and his testimony concerning cost recovery mechanisms. With respect to witness Phillips' testimony concerning Piedmont's cost recovery mechanisms, witness D'Ascendis observed that ten of the 11 companies in witness Hinton's proxy group have a capital investment rider and ten of his 11 proxy group companies have a decoupling mechanism in at least one of their jurisdictions.

In sum, witness D'Ascendis testified that his recommended cost of common equity of 10.25% is both reasonable and conservative and would provide the Company with sufficient earnings to attract necessary capital efficiently and at a reasonable cost, to the benefit of both customers and investors. Witness D'Ascendis contended that none of the arguments advanced by witnesses Hinton, O'Donnell, and Phillips should persuade the Commission to lower the return on equity below 10.25%.

Stipulation

In the Stipulation, Piedmont, the Public Staff, CUCA, and CIGFUR IV agreed that the appropriate overall rate of return and rate of return on equity for use in this proceeding were 6.90% and 9.60% respectively. This agreement represents substantial movement by the various parties from the positions on overall return rate of return on equity articulated in testimony. This stipulated overall return of 6.90% and return on equity of 9.60% were supported by settlement testimony filed by Public Staff witness Hinton and Company witness D'Ascendis. The overall reasonableness of the stipulated rates of return is also addressed by Piedmont witness Powers in her settlement testimony.

Settlement Testimony of John R. Hinton (Public Staff)

In his settlement testimony, Public Staff witness Hinton testified that, pursuant to the Stipulation the Stipulating Parties had agreed to an overall rate of return on investment of 6.90%, which included a return on equity of 9.60% and the long and short-term debt rates recommended in his direct testimony. After noting that settlements often contain compromises from the various parties' litigation positions, and that this settlement was the same, witness Hinton indicated his belief that the stipulated rate of return on equity of 9.60% was reasonable. In this regard, he noted that the stipulated rate of return on equity fell within his range of estimated cost rates for common equity of 9.10% to 9.73%, at the lower end of the Company's unadjusted range of 9.59% and 12.72%, and slightly below the Company's adjusted

range of 9.70% to 12.83%. As such, witness Hinton testified that the stipulated rate of return on equity, and the entire stipulated capital structure, represented a reasonable middle ground between the original positions of Public Staff and the Company.

Settlement Testimony of Dylan W. D'Ascendis (Piedmont)

In his settlement testimony, Company witness D'Ascendis testified in support of the stipulated rate of return on equity of 9.60%. He stated that although the stipulated 9.60% rate of return on equity is somewhat below the lower bound of his recommended range, he understood that the Stipulation reflects negotiations among the Stipulating Parties regarding multiple issues and noted that the stipulated rate of return on equity generally is within the ranges of analytical results presented in his direct and rebuttal testimonies.

Witness D'Ascendis also testified that it remains his position that in a fully litigated proceeding, a range of 9.70% to 12.83% represents an appropriate and defensible range of the Company's cost of equity. Nonetheless, he recognized the benefits associated with the Company's decision to enter into the Stipulation. On balance, witness D'Ascendis believes that the stipulated rate of return on equity is a reasonable resolution of a complex, and frequently contentious issue.

Public Witness Testimony/Statement of Consumer Position

In addition to the direct prefiled testimony of the expert witnesses for the parties, a number of public witnesses also gave testimony suggesting that Piedmont customers would experience difficulty paying the increased rates requested in the Petition and opposing the rate increases proposed by Piedmont.

Law Governing the Commission's Decision on Return on Equity

Rate of return on equity is often one of the most contentious issues to be addressed in a rate case, even in a case such as this one in which a Stipulation between Piedmont, the Public Staff, CUCA, and CIGFUR IV has been reached. In the absence of a settlement agreed to by all the parties, the law of North Carolina requires the Commission to exercise its independent judgment and arrive at its own independent conclusion as to the proper rate of return on common equity. See, e.g., State ex rel. Utils. Comm'n v. Carolina Util. Customers Ass'n, 348 N.C. 452, 466, 500 S.E.2d 693, 707 (1998) (CUCA I).⁸ In order to reach an appropriate independent conclusion regarding the rate of return on equity, the Commission must evaluate the available evidence, particularly that presented by conflicting expert witnesses. State ex rel. Utils. Comm'n v. Cooper, 366 N.C. 484, 491-93, 739 S.E.2d 541, 546-47 (2013) (Cooper I).

⁸ The Commission would note that even though the Stipulation is not unanimous among all parties to this proceeding, no parties have indicated opposition to the settlement reflected in the Stipulation and it is, therefore, technically uncontested. Notwithstanding this fact, the Commission will treat the Stipulation in this docket as among less than all parties.

The baseline for establishment of an appropriate rate of return on common equity is the constitutional constraints established by the decisions of the United States Supreme Court in Bluefield Water Works & Improvement Co., v. Pub. Serv. Comm'n of W. Va., 262 U.S. 679 (1923) (Bluefield), and Fed. Power Comm'n v. Hope Natural Gas Co., 320 U.S. 591 (1944) (Hope) which establish that:

To fix rates that do not allow a utility to recover its costs, including the cost of equity capital, would be an unconstitutional taking. In assessing the impact of changing economic conditions on customers in setting an ROE [rate of return on equity], the Commission must still provide the public utility with the opportunity, by sound management, to (1) produce a fair profit for its shareholders, in view of current economic conditions, (2) maintain its facilities and service, and (3) compete in the marketplace for capital.

Order Accepting Stipulation, Deciding Contested Issues, and Requiring Revenue Reduction, Docket No. E-7, Sub 1146, p. 50 (June 22, 2018). See also State ex rel. Utils. Comm'n v. General Telephone Co. of the Southeast, 281 N.C. 318, 370, 189 S.E.2d 705, 738 (1972). As the North Carolina Supreme Court held in General Telephone, these factors constitute “the test of a fair rate of return declared” in Bluefield and Hope. Id.

The rate of return on equity is, in fact, a cost. The return that equity investors require represents the cost to the utility of equity capital:

[T]he cost of capital to the utility is synonymous with the investor's return, and the cost of capital is the earnings which must be generated by the investment of that capital in

order to pay its price, that is, in order to meet the investor's required rate of return.

Morin, Roger A., Utilities' Cost of Capital 19-21 (Public Utilities Reports, Inc. 1984), "The term 'cost of capital' may [also] be defined as the annual percentage that a utility must receive to maintain its credit, to pay a return to the owners of the enterprise, and to ensure the attraction of capital in amounts adequate to meet future needs." Phillips, Charles F., Jr., The Regulation of Public Utilities (Public Utilities Reports, Inc. 1993), at 388.

Long-standing decisions of the North Carolina Supreme Court have recognized that the Commission's subjective judgment is a necessary part of determining the authorized rate of return on equity. State ex rel. Utils Comm'n v. Public Staff-N.C. Utils. Comm'n, 323 N.C. 481, 490, 374 S.E.2d 361, 369 (1988) (Public Staff). Likewise, the Commission has observed as much in exercising its duty to determine the ROE, noting that such determination is not made by application of any one simple mathematical formula:

Throughout all of its decisions, the [United States] Supreme Court has formulated no specific rules for determining a fair rate of return, but it has enumerated a number of guidelines. The Court has made it clear that confiscation of property must be avoided, that no one rate can be considered fair at all times and that regulation does not guarantee a fair return. The Court also has consistently stated that a necessary prerequisite for profitable operations is efficient and economical management. Beyond this is a list of several factors the commissions are supposed to consider in making their decisions, but no weights have been assigned.

The relevant economic criteria enunciated by the Court are three: financial integrity, capital attraction and comparable earnings. Stated another way, the rate of return allowed a public utility should be high enough: (1) to maintain the financial integrity of the enterprise, (2) to enable the utility to attract the new capital it needs to serve the public, and (3) to provide a return on common equity that is commensurate with returns on investments in other enterprises of corresponding risk. These three economic criteria are interrelated and have been used widely for many years by regulatory commissions throughout the country in determining the rate of return allowed public utilities.

In reality, the concept of a fair rate of return represents a “zone of reasonableness.” As explained by the Pennsylvania commission:

There is a range of reasonableness within which earnings may properly fluctuate and still be deemed just and reasonable and not excessive or extortionate. It is bounded at one level by investor interest against confiscation and the need for averting any threat to the security for the capital embarked upon the enterprise. At the other level it is bounded by consumer interest against excessive and unreasonable charges for service.

As long as the allowed return falls within this zone, therefore, it is just and reasonable. . . . It is the task of the commissions to translate these generalizations into quantitative terms.

Charles F. Phillips, Jr., The Regulation of Public Utilities, 3d ed. 1993, pp. 382. (Notes omitted).

Order Granting General Rate Increase, Application of Carolina Power & Light Co., d/b/a Progress Energy Carolinas, Inc., for Adjustment of Rates and Charges Applicable to Electric Utility Service in North Carolina, No. E-2, Sub

1023, at 35-36 (N.C.U.C. May 30, 2013), aff'd, State ex rel. Utils. Comm'n v. Cooper, 367 N.C. 444, 761 S.E.2d 640 (2014) (2013 DEP Rate Order).

Moreover, in setting rates the Commission must not only adhere to the dictates of both the United States and North Carolina Constitutions, but as has been held by the North Carolina Supreme Court, it must set rates as low as possible consistent with constitutional law. Public Staff, 323 N.C. at 490, 374 S.E.2d at 370. Further, the North Carolina General Assembly has provided that the Commission must also set rates employing a multi-element formula set forth in N.C.G.S. § 62-133. The formula requires consideration of elements beyond just the ROE element, and it inherently necessitates that the Commission make many subjective determinations, in addition to the subjectivity required to determine the ROE. The subjective decisions the Commission must make as to each of the elements of the formula can and often do have multiple and varied impacts on all of the other elements of the formula. In other words, the formula elements are intertwined and often interdependent in their impact to the setting of just and reasonable rates.

The fixing of a rate of return on the cost of property used and useful to the provision of service (as determined through the end of the historic 12-month test period prior to the proposed effective date of a requested change in rates and adjusted for proven changes occurring up to the close of the expert witness hearing) is but one of several interdependent elements of the statutory formula to be used in setting just and reasonable rates. See

N.C.G.S. § 62-133. N.C.G.S. § 62-133(b)(4) provides, in pertinent part, that the Commission shall:

[f]ix such rate of return on the cost of the property . . . as will enable the public utility by sound management [1] to produce a fair return for its shareholders, *considering changing economic conditions and other factors* . . . [2] to maintain its facilities and services in accordance with the reasonable requirements of its customers in the territory covered by its franchise, and [3] to compete in the market for capital funds on terms that are reasonable and that are fair to its customers and to its existing investors. [Emphasis added.]

The North Carolina Supreme Court has interpreted the above-emphasized language as requiring the Commission to make findings regarding the impact of changing economic conditions on customers when determining the proper ROE for a public utility. Cooper I, 366 N.C. at 495, 739 S.E.2d at 548. The Commission must exercise its subjective judgment so as to balance two competing ROE-related factors — the economic conditions facing the Company’s customers and the Company’s need to attract equity financing on reasonable terms in order to continue providing safe and reliable service. 2013 DEP Rate Order at 35-36. The Commission’s determination in setting rates pursuant to N.C.G.S. § 62-133, which includes the fixing of the ROE, always takes into account affordability of public utility service to the using and consuming public. The impact of changing economic conditions on customers is embedded in the analyses conducted by the expert witnesses on ROE, as the various economic models widely used and accepted in utility regulatory rate-setting proceedings take into account such economic conditions. 2013 DEP Rate Order at 38. Further,

[t]he Commission always places primary emphasis on consumers' ability to pay where economic conditions are difficult. By the same token, it places the same emphasis on consumers' ability to pay when economic conditions are favorable as when the unemployment rate is low. Always there are customers facing difficulty in paying utility bills. The Commission does not grant higher rates of return on common equity when the general body of ratepayers is in a better position to pay than at other times

Id. at 37. Economic conditions existing during the modified test year, at the time of the public hearings, and at the date of the issuance of the Commission's order setting rates will affect not only the ability of the utility's customers to pay rates but also the ability of the utility to earn the authorized rate of return during the period the new rates will be in effect. However, in setting the ROE, just as the Commission must assess the impact of economic conditions on customers' ability to pay for service, it likewise must assess the effect of regulatory lag⁹ on the Company's ability to access capital on reasonable terms. The Commission sets the ROE considering both of these impacts taken together in its ultimate decision fixing a utility's rates.

Thus, in summary and in accordance with the applicable law, the Commission's duty under N.C.G.S. § 62-133 is to set rates as low as reasonably possible to the benefit of the customers without impairing the Company's ability to attract the capital needed to provide safe and reliable electric service and recover its cost of providing service.

⁹ Regulatory lag can cause a utility's realized, earned return to be less than its authorized return, negatively affecting the shareholder's return on investment as other expenses and debts owed are paid ahead of investor return.

Discussion and Application of Law to the Facts

The Commission has examined the Company's Petition and supporting testimony and exhibits and Form G-1 filings seeking to justify its requested increase. Piedmont's updated request prior to entering into the Stipulation was a retail revenue increase of \$96.9 million in annual revenues. The Public Staff, who in this docket represents all users and consumers of the Company's natural gas service, Piedmont, CUCA, and CIGFUR IV entered into a Stipulation that resulted in reducing the retail revenue increase sought by the Company. As with all settlement agreements, each party to the Stipulation gained some benefits that it deemed important and gave some concessions for those benefits. Based on Piedmont's Petition, it is apparent that the Stipulation ties the 9.60% rate of return on equity to substantial agreed upon concessions made by Piedmont. As noted above, since the AGO, DEC, Nucor, and FPWC, all parties in this docket, did not participate in the Stipulation, the Commission is required to examine the Stipulation and exercise its independent judgment to arrive at its own independent conclusion as to the proper rate of return on common equity.

The starting point for an examination of what constitutes a reasonable rate of return on equity begins with the various economic and financial analyses provided by the parties' expert witnesses. In this proceeding, those analyses were provided in the testimonies of four different witnesses: witness D'Ascendis for Piedmont; witness Hinton for the Public Staff; witness O'Donnell for CUCA; and witness Phillips for CIGFUR IV. These testimonies,

as summarized above, provide a relatively broad range of methods, inputs, and recommendations regarding the proper rate of return on equity determination for Piedmont. For example, witness D'Ascendis relied in his direct testimony on three different analyses to arrive at his rate of return on equity recommendation. These analyses were a DCF analysis, a RPM analysis, and a CAPM analysis. By way of comparison, witness Hinton, used a DCF analysis and a regression analysis of allowed returns for natural gas LDCs to reach his conclusions and Comparable Earnings analysis to check those results. Witness O'Donnell, in turn, performed a DCF analysis, a Comparable Earnings analysis, and a CAPM analysis. Witness Phillips looked at the average allowed rates of return on equity for natural gas LDCs for the twelve months ending March 31, 2021, of 9.56% and recommended that as a cap to the allowed rate of return on equity.

These varying analyses, as is typical, produced varying results. Witness D'Ascendis' analyses presented in his direct testimony prompted him to propose a rate of return on equity range of 9.58% to 12.30% with a specific rate of return on equity recommendation of 10.25%. Witness Hinton indicated that his DCF analysis yielded a rate of return on equity range of 9.10% to 9.73% but that his regression analysis supported a 9.50% rate of return on equity and that his ultimate recommended rate of return on equity was 9.42%. Witness O'Donnell's analyses produced a rate of return on equity ranges of 7.50% to 9.50% under his DCF analysis, 9.00% to 10.00% under his Comparable Earnings analysis, and 6.0% to 8.0% under his CAPM analysis,

with an ultimate recommendation of 9.0%. Finally, witness Phillips recommended a cap on rate of return on equity of 9.56%.

The Commission finds the cost of equity analyses helpful in reaching its conclusion on an appropriate rate of return on equity for Piedmont but notes that the ranges of the various analyses span a range from 6.0% to 12.30% and the specific rate of return on equity recommendations of the witnesses span a range from 9.0% on the low end to 10.25% on the high end.

The Commission finds the risk premium regression analysis and Comparable Earnings analysis of Public Staff witness Hinton, the DCF, the CAPM analysis, and RPM analysis of Piedmont witness D'Ascendis, the Comparable Earnings analyses of CUCA witness O'Donnell, and the Stipulation are credible, probative, and entitled to substantial weight.

Public Staff witness Hinton conducted an equity risk premium regression analysis analyzing the relationship between approved returns on equity for natural gas utilities and Moody's Bond Yields for A rated utility bonds. He testified that the differential between the two rates of return is indicative of the return investors require in order to compensate for the additional risk. The results of this regression analysis are shown on Hinton Exhibit 7, and produce a cost of equity of 9.50%, only ten basis points below the Commission's approved 9.60% rate of return on equity. Witness Hinton's Comparable Earnings analysis used as a check on his overall rate of return on equity recommendation reviewed the earned returns on equity for his

proxy group of comparable natural gas utilities, and produced an average historical earned return of 10.0% and a median earned return of 9.5%. The Commission finds that witness Hinton's risk premium regression analysis and his Comparable Earning analysis are credible, probative, and entitled to substantial weight.

Piedmont witness D'Ascendis in his rebuttal testimony updated his DCF analysis. His updated DCF model results of 9.59% is shown on Schedule DWD-1R, page 3. The Commission finds witness D'Ascendis' constant growth DCF analyses mean and median rate of return on common equity results credible, probative, and entitled to substantial weight.

Witness D'Ascendis' updated CAPM analysis for his Proxy Group Average Bloomberg Beta Coefficient, as shown on Schedule DWD-1R, page 23, includes updated current 30-year treasury rates to calculate the risk free rate of 2.14% producing what witness D'Ascendis describes as a Traditional CAPM rate of return on common equity of 11.7% and an Empirical CAPM of 11.88%. The Commission approves of the use of current risk-free rates rather than predicted near-term or long-term rates. The Commission finds the above-described CAPM analyses credible, probative, and entitled to substantial weight.

In his rebuttal testimony, Piedmont witness D'Ascendis updated his RPM analysis, as shown on Schedule DWD-1R, page 10. Using the current interest rates results in a rate of return on common equity of 10.25%. As

previously stated, the Commission approves the use of current interest rates, rather than projected near-term or long-term interest rates. The Commission finds witness D'Ascendis' updated RPM analysis using current interest rates to be credible, probative, and entitled to substantial weight.

The Commission also concludes that the Comparable Earnings analysis by CUCA witness O'Donnell is credible, probative, and entitled to substantial weight. Witness O'Donnell testified that the comparable earnings for his proxy group of natural gas utilities produced earned returns of 9.00% to 10.00% over the period 2019 through 2026 balancing historical and forecasted returns. The Commission-approved 9.60% rate of return on equity is well within that range.

The Commission has carefully evaluated the DCF analyses recommendations of witnesses Hinton, O'Donnell, and D'Ascendis. As shown on D'Ascendis Settlement Exhibit DWD-1, from 2017 through 2021, there were 144 natural gas utility decisions by public service commissions resulting in a mean and median approved rate of return on equity of 9.61% and 9.60%, respectively.

As shown on D'Ascendis Settlement Exhibit DWD-1, of the 144 cases decided during this period, 80 included authorized rates of return on equity of 9.60% or higher. Public Staff witness Hinton's DCF results were 9.10%, 9.73%, and 9.35% with an average of 9.39%. CUCA witness O'Donnell's DCF range was 7.50% to 9.50%. The Commission has historically evaluated DCF

analyses in determining rates of return on equity in general rate cases. However, the DCF analyses by the two witnesses are below the mean allowed rate of return on equity of 9.61% in 2017 through 2021.

In summary, the Commission finds the stipulated ROE to be reasonable and appropriate, as well as supported by the substantial weight of the evidence presented.

The Commission, of course, does not blindly follow ROE results allowed by other commissions. The Commission determines the appropriate ROE based upon the evidence and particular circumstances of each case. However, the Commission believes that the ROE trends and decisions by other regulatory authorities deserve some consideration, as (1) they provide a check or additional perspective on the case-specific circumstances, and (2) the Company must compete with other regulated utilities in the capital markets, meaning that an ROE significantly lower than that approved for other utilities of comparable risk would undermine the Company's ability to raise necessary capital, while an ROE significantly higher than other utilities of comparable risk would result in customers paying more than necessary. Both of those outcomes are undesirable and would result in unjust and unreasonable rates. The fact that the approved ROE falls within the range of recently approved ROEs for other natural gas distribution utilities lends additional support to the Commission's approval.

The record contains substantial evidence supporting the reasonableness of a rate of return on equity of 9.60%. The overall rate of return and allowed ROE underlying Piedmont's current rates are 7.14% and 9.70% respectively, which is higher than the stipulated overall and rate of return and ROE of 6.90% and 9.60%. Further, the stipulated rates of return on rate base are well below the Company's originally proposed rates of 7.27% and 10.25% respectively. Additionally, the stipulated ROE is equal to the lowest allowed ROE granted by the Commission to a major natural gas or electric utility in at least the last decade and is equal to or lower than any current allowed ROE in effect for such utilities in North Carolina. As such, the Commission concludes that 9.60% is within the "zone of reasonableness" that leading commentators and the North Carolina Supreme Court have indicated is presumptively just and reasonable. *See State ex rel. Utils. Comm'n v. Gen. Tel. Co. of the Southeast*, 285 N.C. 671, 681 (1974) (a "zone of reasonableness extending over a few hundredths of one percent" exists within which the Commission may appropriately exercise its discretion in choosing a proper ROE).

As the Supreme Court made clear in CUCA I and CUCA II, the Commission should give full consideration to a nonunanimous stipulation itself, along with all evidence presented by other parties, in determining whether the stipulation's provisions should be accepted. In this case, insofar as expert ROE testimony is concerned, both witness D'Ascendis and witness Hinton support an ROE at 9.60%. Further, the two other parties that provided

testimony on ROE support the stipulated ROE of 9.6%. Thus, the Commission finds and concludes that the Stipulation, along with the expert testimony of witnesses D'Ascendis, Hinton, and O'Donnell is credible evidence of the appropriate ROE and is entitled to substantial weight in the Commission's ultimate determination of this issue.

In summary, the Commission concludes there is substantial evidence supporting the reasonableness of an ROE of 9.60%.

However, to meet its obligation in accord with the holding in Cooper I, the Commission will next address the impact of changing economic conditions on customers. In this case, all parties had the opportunity to present the Commission with evidence concerning changing economic conditions as they affect customers. The testimony of Company witnesses D'Ascendis and Powers, which the Commission finds entitled to substantial weight, address changing economic conditions at some length. Witness D'Ascendis provided detailed data concerning changing economic conditions in North Carolina, as well as nationally, and concluded that the North Carolina-specific conditions are "highly correlated" with conditions in the broader nationwide economy. As such, witness D'Ascendis testified that changing economic conditions, both nationally and specific to North Carolina, are reflected in his rate of return on equity estimates. In her direct testimony, Piedmont witness Powers provided evidence of the improving overall state of the economy in North Carolina including growth and unemployment figures.

She also indicated that the requested overall and allowed ROE were low by historical standards. Notwithstanding this evidence, witness Powers conceded that no matter how strong the economy, some of Piedmont's customers would always struggle to pay their utility bills. Witness Powers also pointed out, however, that even with the rate increase proposed in the Stipulation, customer annual bills in the early years would compare favorably with annual bills from as much as a decade ago.

Based upon the general state of the economy, and after weighing and balancing factors affected by the changing economic conditions in making the subjective decisions required, the Commission concludes that the stipulated rate of return on equity of 9.60% will not cause undue hardship to customers even though some will struggle to pay the increased rates resulting from the Stipulation.

The many Commission-approved adjustments reduced the revenues to be recovered from customers and the return to be paid to equity investors. Some adjustments reduced the authorized rate of return on investment financed by equity investors. These adjustments have the effect of reducing rates and providing rate stability to consumers (and return to equity investors) in recognition of the difficulty some consumers will have paying increased rates in the current economic environment. While the equity investor's cost was calculated by resort to a rate of return on equity of 9.60% instead of 10.25%, this is only one approved adjustment that reduced ratepayer

responsibility and equity investor reward. Many other adjustments reduced the dollars the investors actually have the opportunity to receive. Therefore, nearly all of the adjustments reduce ratepayer responsibility and equity investor returns in compliance with the Commission's responsibility to establish rates as low as reasonably permissible without transgressing constitutional constraints, and thus, inure to the benefit of consumers' ability to pay their bills in this economic environment.

For example, to the extent the Commission made downward adjustments to rate base, or disallowed test year expenses, or increased test year revenues, or reduced the equity capital structure component, the Commission reduced the rates consumers will pay during the future period when rates will be in effect. Because the compensation owed to investors for investing in the Company's provision of service to consumers takes the form of return on investment, downward adjustments to rate base or disallowances of test year expenses or increases to test year revenues, or reduction in the equity capital structure component, will reduce investors' return on investment irrespective of the determination of rate of return on equity.

Considering the changing economic conditions and their effects on Piedmont's customers, the Commission recognizes the financial difficulty that an increase in Piedmont's rates may create for some of Piedmont's customers, especially low-income customers. As shown by the evidence, relatively small changes in the rate of return on equity have a substantial

impact on a utility's base rates. Therefore, the Commission has carefully considered changing economic conditions and their effects on Piedmont's customers in reaching its decision regarding Piedmont's approved rate of return on equity.

The Commission also recognizes that the Company is in a significant construction mode, and much of the associated investment is responsive to safety related regulatory requirements. The need to invest significant sums in safety improvements to serve its customers requires the Company to maintain its creditworthiness in order to compete for large sums of capital on reasonable terms. The Commission must weigh the impact of changing economic conditions on Piedmont's customers against the benefits that those customers derive from the Company's ability to provide safe, adequate, and reliable natural gas service. Safe, adequate, and reliable natural gas service is essential to the well-being of the people, businesses, institutions, and economy of North Carolina. Thus, the Commission finds and concludes that such capital investments by the Company provide significant benefits to all of Piedmont's customers.

The Commission concludes in the exercise of its independent judgment and discretion that a 9.60% rate of return on equity is supported by the evidence and should be adopted. The hereby approved rate of return on equity appropriately balances the benefits received by Piedmont's customers from Piedmont's provision of safe, adequate, and reliable natural gas service

in support of the well-being of the people, businesses, institutions, and economy of North Carolina (which benefits are symbiotically linked to the Company's ability to compete in the equity capital market to access capital on reasonable terms that will be fair to ratepayers) with the difficulties that some of Piedmont's customers will experience in paying Piedmont's adjusted rates. The Commission further concludes that a 9.60% rate of return on equity will allow Piedmont to compete in the market for equity capital, providing a fair return on investment to its investor-owners and, the lowering of the rate from the requested 10.25% to 9.60% has the effect of lowering the cost of service which forms the basis the rates the ratepayers must pay for service. Accordingly, the Commission concludes, taking into account changing economic conditions and their impact on customers that the approved rate of return on equity will result in the lowest rates constitutionally permissible in this proceeding.

Finally, in approving the 9.60% rate of return on equity, the Commission gives significant weight to the Stipulation and the benefits that it provides to Piedmont's customers, which the Commission is obliged to consider as an independent piece of evidence under the Supreme Court's holding in CUCA I.

As a result, the Commission concludes that the 9.60% stipulated ROE is reasonable and appropriate and is supported by the greater weight of the substantial evidence in the record.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 30

The evidence supporting this finding of fact and conclusion is contained in the Company's Petition, the direct testimony and rebuttal testimony and exhibits of the witness Couzens, and the Stipulation.

Section III.B.1 and Exhibit C3 to the Stipulation set forth the agreed throughput volumes established by the Stipulating Parties. The level of adjusted sales and transportation volumes used in the Stipulation is 135,394,767 dts. Total throughput, including electric generation and special contract quantities, is 422,497,539 dts. The sales and transportation throughput volume level is derived as follows:

Sales	72,624,021
Transportation	<u>62,770,746</u>
Total Sales and Transportation	135,394,767

These volume levels are the result of negotiations among the Stipulating Parties and are not opposed by any party. No other party submitted evidence on the Company's throughput.

The Commission has carefully reviewed the evidence regarding the appropriate throughput level in this docket and concludes that the stipulated throughput levels, which include total gas sales and transportation quantities plus electric generation and other special contract quantities, are fair and reasonable and should be approved.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 31-33

The evidence for these findings of fact and conclusions is contained in the Company's Petition, the direct, supplemental, and settlement testimony and exhibits of Company witness Couzens, the direct testimony and exhibits of Public Staff witness Patel, and the Stipulation.

The appropriate level for the total cost of gas for use in this proceeding is \$370,632,970 as determined and reflected in Section III.C.2 and Exhibits A1 and A2 to the Stipulation. The Stipulation is the result of negotiations among the Stipulating Parties in this docket and reflects the encompassing commodity gas costs and fixed gas costs as follows:

Commodity Costs ¹⁰	\$244,251,008
Fixed Costs	<u>\$126,381,962</u>
Total Cost of Gas	\$370,632,970

The stipulated cost of gas is not contested by any party to this proceeding. The Commission has carefully reviewed these amounts, as well as all record evidence relating to the total cost of gas for use in this proceeding, and concludes that the stipulated cost of gas is reasonable and appropriate for use in this docket.

¹⁰ Of this total amount of commodity cost of gas, \$6,363,793 is the commodity cost of gas for company use and lost and unaccounted for gas quantities.

Under the Commission's procedures for truing-up fixed gas costs in proceedings under Commission Rule R1-17(k), it is necessary and appropriate to determine the amount of fixed gas costs that are embedded in the rates approved herein. In Section III.G to the Stipulation, the Stipulating Parties agree that for the purpose of this proceeding and future proceedings under Rule R1-17(k) during the effective period of rates approved in this proceeding, the appropriate amount of fixed gas costs to be allocated to each rate schedule is as set forth in Exhibit D to the Stipulation. No party contests this allocation and no other party submitted evidence supporting a different allocation.

The Commission has carefully examined these amounts, as well as all record evidence on fixed gas cost allocations, and concludes that the stipulated allocations of fixed gas costs are fair and reasonable.

Under the Commission's procedures for establishing rates and truing-up commodity gas costs, it is necessary to establish a Benchmark embedded in sales customer rates. Section III.C.1 of the Stipulation provides that in establishing rates for this proceeding, the Stipulating Parties have agreed to a Benchmark of \$3.25 per dt. No party contests the use of a \$3.25 per dt Benchmark in establishing rates for this proceeding and no other party submitted evidence on this issue. The Commission has carefully examined this proposal and concludes that the use of a \$3.25 per dt Benchmark for purposes of establishing rates in this proceeding is fair and reasonable

subject to adjustment for the interim Benchmark change approved by the Commission in Docket No. G-9, Sub 792.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 34-35

The evidence for this finding of fact and conclusions is set forth in the direct testimony and exhibits of Company witnesses Couzens and Menhorn, the direct testimony of Public Staff witness Floyd, the direct testimony of CUCA witness O'Donnell, the direct testimony of CIGFUR IV witness Phillips, the Stipulation, and the settlement testimony of Piedmont witness Couzens.

Company witnesses Couzens and Menhorn, in their direct testimonies, indicate that the Company's initial proposal on cost allocation and rate design was to preserve the basic rate structure approved in Piedmont's last rate case but to spread any increase in costs across rate classes on a proportional basis and to include those additional costs in the revised volumetric rate component of Piedmont's rates. Witness Couzens' direct testimony indicates that this approach would result in varying rates of return on rate base by Piedmont's various customer classes ranging from a high of 34.24% for large interruptible sales to a low of -1.78% for military transportation.

In his direct testimony, Public Staff witness Floyd testified that due to constraints on time and resources, he was unable to complete a thorough review of the Company's rate design. Witness Floyd testified that he believed it was appropriate to conduct a deeper investigation into the Company's

revenue apportionment and rate design given the disparities in class rates of return, the need to more fully understand the Company's calculations and applications of some of the allocation factors, and the degree to which interruptible customers and contract-related customers share in the recovery of fixed costs. Witness Floyd explained that Public Staff intended to work with Piedmont to gain a better understanding of the cost of service and revenue apportionment prior to the Company's next general rate case filing.

In witness O'Donnell's direct testimony, he also took issue with Piedmont's proposed rate design. Witness O'Donnell discussed the relative impacts of utilizing a peak and average cost allocation methodology versus a peak day allocation approach in conducting cost of service studies for Piedmont's proposed rate increase. Based on his analysis of the propriety of use and results of each of these two allocation methodologies, witness O'Donnell contended that a proportional allocation of the proposed rate increase would lead to unreasonable cost of service study rates of return for Interruptible Sales Service (Rate Schedule 104) and Interruptible Transportation Service (Rate Schedule 114) customers.

In his direct testimony, CIGFUR IV witness Phillips provided an extensive critique of Piedmont's proposed rate structure. This critique included pointing out a number of factors which witness Phillips testified indicated flaws in Piedmont's original proposed rate design. These factors included, among others: (a) the assertion that Piedmont's rates should be

based on costs and that the proposed rate structure was not based on costs; (b) the observation that even according to Piedmont the disparity between the respective customer class rates of return produced by Piedmont's proportional rate increase proposal were large; and (c) the assertion that rates for large interruptible customers should be decreased rather than increased.

In the Stipulation, in Section III.F, the Stipulating Parties agreed to rates and allocations of the stipulated revenue requirement to Piedmont's customer classes that were acceptable to all of the Stipulating Parties, which included all of the parties who filed rate design or cost allocation testimony in this docket. Those rates and allocated revenue responsibilities, subject to adjustment pursuant to Sections III.D.1 and III.D.2 of the Stipulation, are reflected in Exhibits C1 and C2 to the Stipulation. In Section III.X of the Stipulation, the Stipulating Parties agree that the rates reflected on Exhibit C3 are comprised of the rate elements reflected on Exhibit K3. Exhibit J3 to the Stipulation sets out the relative impact on Piedmont's various customer classes of the stipulated cost allocation and rate design.

Ms. Couzens, in her settlement testimony, explained that the stipulated rates and rate design were the result of give and take negotiations and that ultimately they were acceptable to each of the parties to the Stipulation. Witness Couzens further testified that the rates agreed to were highly

beneficial to Piedmont's customers in comparison to the rates originally proposed in this proceeding.

No party has contested the use of the rates, cost allocations, or rate design elements reflected in the Stipulation and no other party has submitted evidence in this proceeding regarding rate design and cost allocations except those discussed above.

Based on the totality of the evidence in this proceeding, including the substantial evidence supporting a reallocation of costs away from large general customers reflected in the testimony of CUCA witness O'Donnell and CIGFUR IV witness Phillips, as well as the Stipulation, and in the absence of other credible evidence on this issue, the Commission concludes based upon its own independent judgment that the stipulated rate design reflected in Exhibit C3 and Exhibit J3 of the Stipulation is just, reasonable, and appropriate for use in this proceeding.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 36

The evidence supporting this finding of fact and conclusions is contained in the Petition, the direct testimony and exhibits of Company witness Weisker, the direct and settlement testimony of Company witness Powers, the direct testimony of Public Staff witness Patel, the direct testimony of CIGFUR IV witness Phillips, and the Stipulation.

In its Petition, Piedmont indicated that it was incurring substantial and ongoing capital investments associated with efforts to comply with federal pipeline safety and integrity management requirements. In order to facilitate Piedmont's continued compliance with transmission and distribution integrity regulations issued by federal authorities, and as authorized by N.C.G.S. § 62-133.7A, Piedmont proposed to continue the Company's IMR mechanism in its tariffs. According to Piedmont, the IMR mechanism has been highly effective in facilitating compliance with the Pipeline and Hazardous Materials Safety Administration's (PHMSA) federal pipeline safety and integrity regulations and reducing the frequency of general rate cases.

In his direct testimony and exhibits, Piedmont's witness Weisker testified as to the requirements of federal pipeline safety and integrity regulations and the Company's incurred and projected costs of compliance with those regulations along with major system enhancements needed to provide reliable service to Piedmont's growing customer base. Witness Weisker explained that since the Company's last general rate case and through the end of the test period for this rate case (i.e., June 30, 2019, through December 31, 2020), Piedmont spent more than \$396 million on a variety of projects to ensure that Piedmont remained in compliance with PHMSA's regulatory requirements. Witness Weisker also testified that the Company estimates that an additional \$137 million will be needed to complete capital projects during the six months ending June 30, 2021, and that the ongoing level of integrity management capital investment is expected to vary

between approximately \$188 million and \$417 million per year over the next three years.

In her direct testimony, witness Powers testified about the public benefits inherent in the continued operation of the Company's IMR mechanism and discussed how the Company expects to continue to experience significant amounts of capital investment related to PHMSA compliance. Witness Powers also testified as to Piedmont's proposal to modify Appendix E to the Company's Service Regulations to include updated percentages and throughput in the calculation of Piedmont's annual Integrity Management Revenue Requirement (IMRR).

In her direct testimony, Public Staff witness Patel recommended that Piedmont's IMR mechanism remain in place given the importance of pipeline safety in complying with federal safety guidelines to protect Piedmont's customers, employees, contractors, and the general public.

Finally, in his direct testimony, CIGFUR IV witness Phillips commented that Special Contract customers are not directly included in the Company's IMR mechanism but provide a credit to the IMR. Witness Phillips testified that there is no showing of the adequacy of this credit and, as such, recommended that the IMR be borne by all customers.

As discussed in Section III.H of the Stipulation, and as authorized by N.C.G.S. § 62-133.7A, the Stipulating Parties agreed that it is appropriate to

continue the Company's IMR mechanism in the form attached as Appendix E to Piedmont's current North Carolina Service Regulations and attached as Exhibit F to the Stipulation.

The Commission has carefully considered the evidence in this proceeding related to the continuation of Piedmont's IMR mechanism and has reached the following conclusions. First, the Commission concludes that the form of IMR mechanism attached as Exhibit F to the Stipulation is consistent with N.C.G.S. § 62-133.7A, which authorizes the Commission to adopt "a rate adjustment mechanism to enable the company to recover the prudently incurred capital investment and associated costs of complying with federal gas pipeline safety requirements, including a return based on the company's then authorized return." In this case, the proposed form of IMR attached to the Stipulation provides for the recovery of return, taxes, and depreciation on capital investment associated with federal gas pipeline safety requirements in a manner consistent with the statute and in the same fundamental manner that Piedmont is permitted to recover those items of its cost of service in a general rate case proceeding. This approach to IMR cost recovery is reasonable and consistent with statutory requirements and normal regulatory practices.

Second, the Commission concludes that continuation of the IMR mechanism is favorable to customers because it provides for biannual adjustments to rates rather than subjecting customers to frequent rate cases

associated with the Company's recovery of the costs of investment to be in compliance with federal safety and integrity requirements. Further, according to Exhibit F of the Stipulation, Appendix E – Integrity Management Rider, the IMR mechanism expressly provides for Commission review of the mechanism at the earlier of Piedmont's next general rate case proceeding or four years from the effectiveness of the mechanism and also specifically grants any party the right to petition the Commission to terminate or modify the mechanism at any time on the grounds that the rider mechanism, as approved by the Commission, is no longer in the public interest.

Third, consistent with the requirements of N.C.G.S. § 62-133.7A, the Commission finds the uncontested evidence of Piedmont's required capital expenditures on PHMSA compliance convincing. It is equally persuaded that regular and repeated general rate case proceedings, otherwise necessary to roll such investments into Piedmont's rate base, would be a detriment to Piedmont, its customers, and the Public Staff and would serve no purpose other than to increase regulatory costs paid by ratepayers and the regulatory burden on all parties who participate in Piedmont's general rate proceedings, including the Commission. The Commission is satisfied that the public interest is protected from any potentially adverse impacts through a variety of means, including the limited nature of the costs recoverable through the IMR mechanism, the special contract crediting provision contained therein, the mandatory and permissive review provisions contained in the rider, and the Commission's general and continuing oversight of the Company's earnings.

The Commission concludes that continuation of the stipulated IMR mechanism will promote public safety by supporting the timely recovery of costs associated with pipeline safety and integrity expenditures by the Company. The safety and reliability of utility infrastructure is of critical importance to the State and this Commission, and this mechanism facilitates the accomplishment of that goal.

Based on the foregoing, and in the absence of any evidence to the contrary, the Commission finds the IMR mechanism attached as Exhibit F to the Stipulation to be fair, reasonable, in the public interest, and appropriate for adoption in this proceeding.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 37

The evidence for this finding of fact and conclusions is contained in the Company's Petition, the direct and supplemental testimony and exhibits of Piedmont witness Couzens, the direct testimony and exhibits of Public Staff witness Patel, and the Stipulation.

Under Piedmont's MDT mechanism, certain base and heat factors, as well as "R" values, are needed in order to make the calculations periodically required under that mechanism. These values are established and updated in general rate proceedings. The Stipulating Parties have provided updated factors in this proceeding as reflected in Section III.I and Exhibit E3 of the Stipulation. These values are not contested and no other party has offered

evidence supporting other factors. Based on the Stipulation, and the other record evidence in this proceeding, the Commission concludes that the updated MDT factors identified in Exhibit E3 to the Stipulation are reasonable and appropriate and should be approved.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 38

The evidence for this finding of fact and conclusion is contained in the Company's Petition, the direct, supplemental, and rebuttal testimony and exhibits of Company witness Bowman, the direct testimony and exhibits of Public Staff witness Feasel, the Stipulation, the settlement testimony of Company witness Powers, and the settlement testimony of Public Staff witness Perry.

In Piedmont's Petition, supported by the direct testimony and exhibits of Company witness Bowman, the Company proposed to amortize and recover a number of previously deferred regulatory assets including certain PIM-D and PIM-T costs and certain environmental compliance costs. Witness Bowman testified that Piedmont proposed amortization periods of four-years for recovery of these deferred costs. In her supplemental testimony, witness Bowman updated the Company's requested deferral amounts through June 30, 2021.

In Public Staff witness Feasel's testimony, she addressed the level of costs to be recovered, the amortization period over which to allow recovery,

the determination of the whether or not the deferred balance should be allowed in rate base for each deferred regulatory assets proposed, as well as the continued regulatory asset treatment for PIM-D, PIM-T, and certain environmental compliance assessment and clean-up costs. Witness Feasel recommended that it is appropriate to continue regulatory asset treatment for PIM-D and PIMP-T costs and for environmental costs and to defer and treat such costs as a regulatory asset until the resolution of the Company's next general rate proceeding. However, witness Feasel's direct testimony included an adjustment to Piedmont's deferred expenses to reflect the Company's absorption of twelve months of carrying costs.

In her rebuttal testimony, witness Bowman addressed witness Feasel's proposed adjustments to the Company's deferred expenses. Witness Bowman testified that she disagreed with witness Feasel's proposed reduction to working capital because this proposal was unjustified and contrary to the regulatory asset treatment of these deferred costs.

In Section III.J of the Stipulation, the Stipulating Parties propose to address the Company's deferred regulatory assets, proposed amortizations and recovery for the following: (1) PIM-T O&M costs; (2) PIM-D O&M costs; (3) Eastern NCNG deferred O&M expenses; (4) environmental compliance assessment and clean-up O&M costs; and (5) under-collected regulatory fee payments.

Pursuant to the Stipulation, the PIM-T O&M costs subject to amortization over a four-year period, beginning November 1, 2021, are \$62,352,945 and represent the unrecovered costs accumulated by the Company through June 30, 2021, net of regulatory amortizations through October 31, 2021. The Stipulating Parties agree that it is also appropriate to continue regulatory asset treatment for PIM-T O&M costs and to defer and treat such costs as a regulatory asset until the resolution of the Company's next general rate proceeding. The PIM-D O&M costs subject to amortization over a four-year period, beginning November 1, 2021, are \$9,809,087 and represent actual expenses accumulated by the Company through June 30, 2021. The Stipulating Parties agree that it is also appropriate to continue regulatory asset treatment for PIM-D O&M costs and to defer and treat such costs as a regulatory asset until the resolution of the Company's next general rate proceeding. The Eastern NCNG deferred O&M expenses subject to amortization are the remaining balance of \$563,150 amortized over a four-year period, on a levelized basis that includes the accrual of interest at the stipulated net-of-tax overall rate of return, beginning on November 1, 2021. The Stipulating Parties also agreed that it is appropriate to amortize and allow recovery of \$1,061,400 in environmental compliance assessment and clean-up costs over a four-year period, beginning November 1, 2021, which reflects actual deferred expenses through June 30, 2021, net of regulatory amortizations through October 31, 2021. The Stipulating Parties agreed that it is also appropriate to continue regulatory asset treatment for these costs

and to defer and treat environmental compliance assessment and clean-up costs as a regulatory asset until the resolution of the Company's next general rate proceeding. Finally, the Stipulating Parties agreed that it is appropriate for Piedmont to amortize and collect over a four-year period, \$221,897 in under-collected regulatory fee payments made to the Commission as of June 30, 2021, beginning on November 1, 2021.

The Stipulating Parties support the amortization periods set forth in Section III.J of the Stipulation. No party has opposed the proposals contained in Section III.J of the Stipulation.

In her settlement testimony, witness Powers testified to the revenue impact of the stipulated adjustments related to the amortization and recovery of these previously deferred regulatory assets, which in conjunction with the stipulated adjustment to deferred rate case expense yielded a downward adjustment to Piedmont's margin revenue requirement of approximately (\$0.2 million).

The Commission has carefully considered the proposed amortization periods and related matters set forth in Section III.J of the Stipulation, as well as all record evidence on the amortization of these regulatory assets, and concludes that the stipulated amortization treatment and specified amortization periods are consistent with the Commission's prior treatment of similar costs and are otherwise fair and reasonable and should be approved. The Commission further finds that it is appropriate to continue regulatory

asset treatment for PIM-D and PIM-T O&M costs and the environmental compliance assessment and clean-up costs as a regulatory asset until the resolution of the Company's next general rate proceeding.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 39

The evidence for this finding of fact and conclusions is set forth in the direct testimony and exhibits of Public Staff witness Perry, the rebuttal testimony and exhibits of Piedmont witness Bowman, and the Stipulation.

In her direct testimony, Public Staff witness Perry proposed an adjustment to the Company's amortization of protected EDIT. Specifically, witness Perry testified that she recalculated federal protected and unprotected EDIT using revised balances estimated at December 1, 2021, the estimated effective date of rates in this proceeding, and the remaining amortization periods approved in Piedmont's last rate case in Docket No. G-9, Sub 743.

In her rebuttal testimony, Piedmont witness Bowman acknowledged that the Company had recently realized that its Petition inadvertently represented the amortization of protected EDIT in base rates in a way that did not conform with IRS tax normalization requirements. Witness Bowman testified that to comply with IRS tax normalization requirements, the Company's annual amortization expense of protected EDIT needs to be no greater than (\$2,795,775). Witness Bowman stated that because Public Staff

witness Perry's proposed amortization to protected EDIT is in excess of this amount, it should be rejected.

In the Stipulation, at Section III.T, the Stipulating Parties agreed that the amortization of protected EDIT in the cost of service for the Stipulation should be updated using the current ARAM rate. No other party filed testimony as to the amortization of protected EDIT.

The Commission has carefully reviewed the evidence on these issues and believes that the amortization of protected EDIT, as reflected in Section III.T of the Stipulation, appropriately balances the interests of customers and the Company. As such, the Commission finds that the stipulated amortization of protected EDIT is just, reasonable, and appropriate for use in this proceeding.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 40

The evidence for this finding of fact and conclusions is set forth in the direct testimony and exhibits of Piedmont witness Couzens, the direct testimony and exhibits of Public Staff witness Perry, the Stipulation, and the settlement testimony of Piedmont witness Powers.

In her direct testimony, Piedmont witness Couzens testified that the Company was not proposing any changes to its existing EDIT Rider rates. Witness Couzens testified that the Company's EDIT Rider mechanism was approved in Piedmont's last rate case in Docket No. G-9, Sub 743, to

administer the flowback to customers of deferrals and EDIT created by changes to the federal and state income tax rates. Witness Couzens stated that pursuant to the Commission's order in Docket No. G-9, Sub 776, Piedmont removed the EDIT Rider rates for the one-year giveback of deferred revenues on December 1, 2020, with the completion of those refunds. As previously authorized, witness Couzens testified that the EDIT Rider rates for the five-year giveback of federal unprotected EDIT and the rates for the three-year giveback of North Carolina state EDIT will continue refunding to customers as previously authorized until the end of the amortization periods. Witness Couzens testified that the refunds associated with the EDIT Rider mechanism have been excluded from this proceeding.

In her direct testimony, Public Staff witness Perry recommended decreases to the revenue requirement associated with the refund of the remaining EDIT Riders updated based upon the Public Staff's recommended overall rate of return. In the Stipulation, at Section III.U, the Stipulating Parties agreed that the federal unprotected EDIT and the state EDIT rider rates will be continued based on the remaining amortization periods approved in the Company's last rate case in Docket No. G-9, Sub 743, and updated based upon the overall rate of return provided in this Stipulation. Additionally, the Stipulating Parties agreed that for rate design purposes, the EDIT Rider credits will be distributed to all tariffed rate schedules as approved in the Company's last rate case.

In her settlement testimony, Piedmont witness Powers stated that the amortization periods for the federal unprotected EDIT Rider and state EDIT Rider have not yet concluded but are set to end on October 31, 2024, and October 31, 2022, respectively. Witness Powers explained that because Piedmont's approved overall rate of return was a component used in the calculation of the annual revenue requirement impact for each of these two EDIT Riders in the Company's last general rate case, and because the outcome of this rate case will modify Piedmont's approved overall rate of return, the Stipulation updates these two EDIT Riders over their remaining amortization periods for the effect of the stipulated overall rate of return. Witness Powers testified that the total annual refund to customers for unprotected federal EDIT was updated to (\$25,562,970), which is a difference of (\$2,258,701) from the approved amount in the Company's last rate case. Additionally, witness Powers testified that the total annual refund to customers for state EDIT was updated to (\$22,201,275), which is a difference of (\$1,466,121) from the approved amount in the Company's last rate case.

The Commission has carefully reviewed the evidence on these issues and believes that the EDIT Rider rates appropriately balance the interests of customers and the Company with respect to the flow back of these regulatory liabilities. The Commission finds that the EDIT Rider rates, as reflected in Exhibits L1 and L2 to the Stipulation, are just, reasonable, and appropriate for use in this proceeding.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 41

The evidence for this finding of fact and conclusion is set forth in the prefiled direct testimony of Piedmont witness Bowman, in the Company's previous rate case in Docket No. G-9, Sub 743, the direct testimony of Public Staff witness Perry, and in the Stipulation.

The depreciation rates currently in effect for Piedmont are from a depreciation study filed in the Company's last general rate case in Docket No. G-9, Sub 743, the results of which are incorporated into the settlement in Docket No. G-9, Sub 743 and which underlie the Company's existing rates. Piedmont adopted these depreciation rates effective November 1, 2019, as approved by the Commission in Docket No. G-9, Sub 743.

In its Petition, the Company did not present the results of a new depreciation study. As explained by Piedmont witness Bowman in her direct testimony, the Company instead relied on depreciation rates provided by the depreciation study filed in its last general rate case in Docket No. G-9, Sub 743. Witness Bowman explained that because the depreciation study filed in Docket No. G-9, Sub 743 is relatively recent, and because the Company is not aware of any factors that would render the study stale, it has elected to rely upon them for purposes of this proceeding rather than burden customers with the costs of conducting new studies.

In her direct testimony, Public Staff witness Perry made the following adjustments to the Company's depreciation expense: (1) corrected the various depreciation rates that were approved in the depreciation study included in the Company's rate case in Docket No. G-9, Sub 743; and (2) applied the approved rates to present an annualized amount of depreciation expense based on the actual plant in service as of May 31, 2021.

In Section III.V of the Stipulation, the Stipulating Parties agreed that it is appropriate to continue to use the depreciation rates and reallocations of book reserves approved in Docket No. G-9, Sub 743 in this proceeding. The Stipulating Parties also agreed that it is appropriate to reduce depreciation expense to reflect the impacts of the reallocation of the reserve accounts related to the North Carolina direct and corporate allocated general plant accounts.

No party contested the implementation of Piedmont's revised depreciation rates as proposed in the Stipulation and no other party submitted evidence on this issue.

The Commission concludes that implementation of the depreciation rates and book reserve reallocation as approved in Docket No. G-9, Sub 743, is just and reasonable and should be approved. The Commission further concludes that the revised depreciation expense, as reflected in Section III.V of the Stipulation, is just and reasonable and should be approved.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 42

The evidence for this finding of fact and conclusion is contained in the Company's Energy Efficiency Application, the Company's Petition, the direct testimony of Company witness Powers, the direct testimonies of Public Staff witnesses Singer, Williamson, and Perry, the Stipulation, the settlement testimony of Piedmont witness Powers, the settlement testimony of Public Staff witness Perry, and the post-hearing filings of the parties.

Currently, the costs associated with the operation of Piedmont's EE programs for its North Carolina customers are recovered through its base rates. Piedmont currently operates the following three EE programs – the Residential Low-Income program, the Equipment Rebate program, and the School Conservation Education programs. In the Company's last rate case proceeding in Docket No. G-9, Sub 743, the Commission approved a cost of service for Piedmont that included \$1.275 million of expense for the operation of Piedmont's EE programs.

In its Energy Efficiency Application, Piedmont requested that the Commission: (1) modify its existing Equipment Rebate Program; and (2) approve the following three new EE programs: (a) Residential New Construction Program; (b) Commercial Food Services Program; and (c) Commercial HVAC & Water Heating Rebate Program. In its Petition, Piedmont also proposed to establish, as Appendix H to its North Carolina Service Regulations, a new rider mechanism to collect and recover the costs

of all approved EE programs, to become effective November 1, 2021. In her direct testimony, witness Powers explained that Piedmont proposed to recover the ongoing expenses for operation of its EE programs through a rider instead of through base rates to account for the likely variability in the expected total annual expense. Additionally, as explained in the direct testimony of witness Powers, in the absence of Commission approval of Piedmont's proposed Appendix H, the Company requested approval for regulatory asset treatment for its EE program expenses.

In their direct testimonies, Public Staff witnesses Singer and Williamson recommended that the Commission: (1) approve Piedmont's modifications to the Equipment Rebate Program, renamed as the Residential HVAC & Water Heating Rebate Program; (2) approve Piedmont's new Residential New Construction Program, Commercial Food Services Program, and Commercial HVAC & Water Heating Rebate Program; (3) approve Piedmont's request to recover EE program cost rates through an EE rider; (4) approve Piedmont's entire portfolio of EE programs as pilot programs; (5) require Piedmont to conduct more rigorous evaluation, measurement, and verification (EM&V) of its EE programs during the pilot period; and (6) approve the EE pilot programs for a period of three years. Public Staff witness Perry also testified that Public Staff did not oppose the implementation of Piedmont's proposed EE rider, but noted that the structure of the EE rider remained under discussion.

In Section III.AA of the Stipulation, the Stipulating Parties agreed to the authorization of the entire portfolio of Piedmont's new and modified EE programs for a three-year pilot program in order to collect operational data, perform EM&V, and assess cost-effectiveness. The Stipulating Parties agreed that the three-year pilot program would begin within six months of the Commission's final order in this proceeding. The Stipulating Parties also agreed that Piedmont should be allowed to recover the costs of the EE programs through an EE rider.

In her settlement testimony, witness Powers explained that while the Stipulating Parties agreed to remove the EE Program expenses from Piedmont's base revenue requirement and instead permit Piedmont to recover these costs through an EE rider mechanism, the Stipulating Parties had not reached agreement at that time on the details of how that cost recovery should precisely work.

Agreement on those details was subsequently reached by Piedmont and the Public Staff in the form of a filing made on September 27, 2021 setting forth those agreements. That filing was followed by a later joint filing of an agreed proposed EE Rider mechanism including proposed initial surcharge rates.

In the instant proceeding – a general rate case pursuant to N.C.G.S. § 62-133 – the Commission clearly possesses the authority to establish a cost-tracking rider if compelling circumstances exist to justify such action. Indeed,

myriad precedent exists in which the Commission has done just that, even in the absence of an express enabling statute,¹¹ and the Supreme Court of North Carolina has upheld the Commission's authority to establish a cost-tracking rider when exceptional circumstances, such as a national fuel crisis causing a utility's gas costs to fluctuate unpredictably, warrant such action. See, e.g., *State ex rel. Utils. Comm'n v. Edmisten*, 291 N.C. 327, 230 S.E.2d 651 (1976) (Edmisten I); *State ex rel. Utils. Comm'n v. Edmisten*, 291 N.C. 451, 232 S.E.2d 184 (1977) (Edmisten II).

In this case, a rider mechanism would allow the Commission to more closely track the Company's EE costs and the success of its programs, as well as provide incentive to the Company to promote EE and allow customers the opportunity to better manage their energy costs. In light of the Commission's policy to promote EE and to address concerns about affordability, the Commission finds it appropriate to allow a limited rider to be created for these pilot programs. Under the proposed Mechanism, the rider and the pilot programs will be reviewed after three years.

No party contests the EE program or EE rider changes discussed above and no other party has submitted evidence supporting a different disposition of these issues.

¹¹ See, e.g., Order Approving Partial Rate Increase and Allowing Integrity Management Rider, Docket No. G-9, Sub 631, at p. 39 (Dec. 17, 2013) (approving an Integrity Management Rider as part of a general rate case decision); Order Approving Partial Rate Increase and Requiring Conservation Initiative, Docket No. G-9, Sub 499 (Nov. 3, 2005) (approving a Customer Utilization Tracker as part of a general rate case decision); Order Granting General Rate Increase and Approving Amended Stipulation, Docket No. E-7, Sub 909 (Dec. 7, 2009) (approving a Coal Inventory Rider as part of a general rate case decision).

Based on the evidence in this proceeding, the Commission concludes upon its own independent judgment that the EE program changes and EE rider mechanism reflected in Section III.AA of the Stipulation and subsequent filings in this proceeding is just, reasonable, and appropriate for use in this proceeding.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 43

The evidence for this finding of fact and conclusion is contained in the direct testimony of Public Staff witness Metz, and the Stipulation.

In his direct testimony, Public Staff Metz recommended that the Commission order Piedmont, the Public Staff, and any other interested parties, prior to the earlier of Piedmont's next general rate case or its 2023 Annual Review, to undertake, report on the status of, and complete a study of whether the Company's current method of allocating its transmission plant assets to North Carolina and South Carolina is fair to each state's customers light of the fact that the Company plans for future supply and capacity resources based on a combination of both North Carolina and South Carolina demands. Witness Metz also recommended that the Commission order the Company, the Public Staff, and any other interested parties, prior to the earlier of the Company's next general rate case or its 2023 Annual Review, to initiate, report on the status of, and complete a study of an updated regression analysis to determine a more accurate breakdown of system

usage among customer classes and the North Carolina and South Carolina jurisdictions.

In Section III.AB of the Stipulation, the Stipulating Parties adopted Public Staff witness Metz's recommendations to examine the Company's method for allocating transmission plant to ensure fairness to North Carolina and South Carolina customers before the earlier of Piedmont's next general rate case or 2023 Annual Review. The Stipulating Parties also agreed to Public Staff witness Metz's suggestions to perform an updated regression analysis to determine a more accurate breakdown of system usage among customer classes and the North Carolina and South Carolina jurisdictions before the earlier of Piedmont's next general rate case or 2023 Annual Review.

No party contests the proposed cost allocation study process discussed above and no other party has submitted evidence supporting a different disposition of these cost allocation issues.

Based upon the testimony of Public Staff witness Metz and the Stipulation, the Commission finds that the proposed study process reflected in Section III.AB of the Stipulation, is just and reasonable and should be approved.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 44

The evidence for this finding of fact and conclusion is contained in the Company's Petition, the direct testimony and exhibits of Company witness Powers, and the Stipulation.

In her direct testimony, Company witness Powers proposed various changes to Piedmont's rate schedules and Service Regulations. Specifically, witness Powers testified that in addition to the proposed Appendix H to incorporate the EE rider, as discussed previously in this Order, Piedmont was proposing to eliminate Rate Schedules 12 and T-12 and make several minor corrective adjustments to a number of other provisions of its Tariff.

With regard to Piedmont's proposal to eliminate Rate Schedules 12 and T-12, Company witness Powers testified that no customers were provided or billed for service under either of these rate schedules during the test period, in several years prior to the test period, or in the time since the test period. Since no customers will be impacted by eliminating the service provided under these rate schedules, Piedmont proposes to eliminate them.

In Section III.W of the Stipulation, and in Stipulation Exhibits G and H, the Stipulating Parties agreed to adopt the Company's proposed tariff changes as described by witness Powers in her direct testimony, including Appendix E.

No party contests the proposed tariff changes discussed above and no other party has submitted evidence supporting a different disposition of these proposed tariff changes.

Based upon the testimony of Company witness Powers and the Stipulation, the Commission finds that the proposed rate schedule and service regulation changes reflected in Exhibits G and H to the Stipulation, including Appendix E, are just and reasonable and should be approved.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 45

The evidence for this finding of fact and conclusions is contained in the direct testimony of Public Staff witness Hinton, rebuttal testimony of Piedmont witness Couzens, and the Stipulation.

In his direct testimony, Public Staff witness Hinton recommended three revisions to Piedmont's gas extension feasibility model used to calculate the feasibility of extending natural gas service to the Company's residential and commercial customers. First, witness Hinton testified that the Company's feasibility model should utilize an investment horizon of 40 years or an appropriate length of time that matches the book lives of the gas plant. Second, witness Hinton testified that the Company's feasibility model should use the Company's approved net of tax discounted rate. Third, witness Hinton testified that all future cash flows should be adjusted by a long-term inflation rate of 2%.

In her rebuttal testimony, witness Couzens testified that the Company supported Public Staff witness Hinton's proposed changes and supports the adjustments.

Accordingly, Section III.Y of the Stipulation adopted witness Hinton's recommendations concerning Piedmont's gas extension feasibility model. Specifically, the Stipulating Parties agreed to the following revisions to Piedmont's model used to calculate the feasibility of extending natural gas service to its residential and commercial customers: (1) use of an investment horizon of forty years or an appropriate length of time that matches the book lives of the gas plants; (2) use of the Company's approved net of tax overall rate of return as the discount rate employed for the net present value analysis approved in the Company's most recent rate case; and (3) adjustment of all future cash inflows by a long-term inflation rate of 2%.

No other party submitted evidence on this issue.

Based upon the testimony of Public Staff witness Hinton and the Stipulation, the Commission finds that the gas extension feasibility model, as reflected in Section III.Y to the Stipulation, is just and reasonable and should be approved.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 46

The evidence for this finding of fact and conclusions is contained in direct testimony of Public Staff witness Floyd, the Stipulation, and the settlement testimony of Piedmont witness Powers.

In his direct testimony, Public Staff witness Floyd testified that the issue of affordability, as addressed by the Commission and other parties in electric proceedings in Docket Nos. E-7, Subs 1213, 1214, and 1187 and E-2, Subs 1219 and 1193 for various Duke electric utilities (Affordability Dockets), also existed in natural gas utility service. Therefore, witness Floyd testified that either a similar stakeholder process be convened for natural gas utilities or the Company be allowed to join the Duke electric utilities' Affordability Dockets.

In Section III.Z of the Stipulation, the Stipulating Parties agreed that the Commission should allow Piedmont to join and participate in the affordability stakeholder collaborative currently being conducted in the Affordability Dockets.

No other party submitted evidence on this issue.

Based upon the testimony of Public Staff witness Floyd and the Stipulation, the Commission finds that Piedmont's participation in the Affordability Dockets, as reflected in Section III.Z to the Stipulation, is just and reasonable and should be approved.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 47

The evidence for this finding of fact and conclusions is contained in the direct testimony of Public Staff witness Powers and the Stipulation.

In her direct testimony, witness Powers explained that the Line 434 Revenue Rider, approved in the Company's last rate case in Docket No. G-9, Sub 743, is no longer needed due to the cancellation of the Atlantic Coast Pipeline. As such, witness Powers requested that the Commission eliminate the Line 434 Rider and the requirement to make a filing to amend the initial rate of the Line 434 Rider from its initial rate of \$0.0000.

In Section III.X of the Stipulation, Piedmont and the Stipulating Parties agreed to terminate the Line 434 Rider.

No other party submitted evidence on this issue.

The Commission has carefully reviewed the evidence on this issue and concludes that elimination of the Line 434 Rider is just, reasonable, and appropriate in this docket.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 48

The evidence for this finding of fact and conclusion is contained in the Stipulation, the settlement testimonies of Company witnesses Couzens, D'Ascendis, and Powers, the supplemental testimony of Company witness Long, the settlement testimonies of Public Staff witnesses Hinton and Perry, and in all of the testimony and exhibits in this proceeding.

As is fully discussed above, the provisions of the Stipulation are the product of give-and-take settlement negotiations between Piedmont, the Public Staff, CUCA, and CIGFUR IV. As a consequence, the Stipulation reflects the fact that each of the Stipulating Parties agreed to certain provisions that advanced each such party's interests. The end result is that the Stipulation strikes a fair balance between the interests of each of the Stipulating Parties. Therefore, the Commission approves the Stipulation in its entirety.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 49-__

[Proposed Evidence and Conclusions for Sub 722 Issues will be filed separately by the various parties taking a position on that issue.]

IT IS, THEREFORE, ORDERED as follows:

1. That the Stipulation is hereby approved in its entirety.
2. That the Company is hereby authorized to adjust its rates and charges in accordance with the Stipulation and this Order (as such rates may be further adjusted for any changes in the Benchmark or other rate component which may be adjusted pursuant to the procedures for rate adjustments under N.C. G.S. 62-33.4 prior to the effective date of the revised rates) effective for service rendered on and after November 1, 2021.
3. That an extension of the Company's IMR mechanism, in the proposed form of IMR reflected in Exhibits F and H to the Stipulation, is

hereby authorized from the date hereof for a period of four (4) years or until Piedmont makes its next general rate case filing, whichever is later, at which time the Company may seek further extension of the mechanism through a request to the Commission seeking such relief.

4. That the Company is authorized to implement the changes to its Rate Schedules and Service Regulations reflected in Exhibits G and H to the Stipulation.

5. That the Company shall file clean versions of the revised Rate Schedules and Service regulations to comply with this order within five (5) days from the date of this Order.

6. That the Company is authorized to continue to utilize the depreciation rates and book reserve reallocations as agreed to in the Sub 743 Stipulation and approved by the Commission.

7. That the Company is authorized to continue deferral accounting treatment for PIM-T, PIM-D, and environmental remediation O&M expenses as set forth in the Stipulation effective November 1, 2021.

8. That the Company is authorized to implement the amortizations, accounting practices, principles, methods, reporting requirements, and other actions agreed to in the Stipulation.

9. That the Company shall send the notice attached hereto as Attachment A to its customers beginning with the billing cycle that includes the rate changes approved herein.

ISSUED BY ORDER OF THE COMMISSION

This the ____ day of _____, 2021.

NORTH CAROLINA UTILITIES COMMISSION

A. Shonta Dunston, Chief Clerk