STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH

DOCKET NO. G-5, SUB 635

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of		
Application of Public Service Company of North Carolina, Inc. for Annual Review of Gas Costs Pursuant to N.C. Gen. Stat. § 62-133.4(c) and Commission Rule R1-17(k)(6)	)	ORDER ON ANNUAL REVIEW OF GAS COSTS

HEARD: Tuesday, August 10, 2021, at 10:00 a.m., held via Webex.

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

APPEARANCES:

For Public Service Company of North Carolina, Inc.:

Mary Lynne Grigg, McGuireWoods, LLP, 501 Fayetteville Street, Suite 500 Raleigh, North Carolina 27601

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

For the Using and Consuming Public:

Gina C. Holt, Staff Attorney, Public Staff – North Carolina Utilities Commission, 4326 Mail Service Center, Raleigh, North Carolina 27699-4326

For Haw River Assembly:

David Neal, Southern Environmental Law Center, 601 West Rosemary Street, Suite 220 Chapel Hill, NC 27516

BY THE COMMISSION: On June 1, 2021, pursuant to N.C. Gen. Stat. § 62-133.4(c) and Commission Rule R1-17(k)(6), Public Service Company of North Carolina, Inc., d/b/a Dominion Energy North Carolina (PSNC or Company) filed the direct testimonies and exhibits of Rose M. Jackson, Director – Gas Supply Services for Dominion Energy Services, Inc., and Glory J. Creel, Rates and Regulatory Affairs Analyst III for PSNC, in connection with the annual review of PSNC's gas costs for the 12-month period ended March 31, 2021.

On June 7, 2021, the Commission issued Order Scheduling Hearing, Requiring Filing of Testimony, Establishing Discovery Guidelines, and Requiring Public Notice. The Order established a hearing date of Tuesday, August 10, 2021, set prefiled testimony dates, and required the Company to give notice to its customers of the hearing on this matter.

On July 9, 2021, Haw River Assembly filed a Petition to Intervene. On July 19, 2021, the Commission granted Haw River Assembly's Petition to Intervene.

On July 26, 2021, the Public Staff filed the direct testimonies of Neha R. Patel, Manager of the Natural Gas Section of the Energy Division; Julie G. Perry, Accounting Manager of the Natural Gas & Transportation Section in the Accounting Division; and Shawn L. Dorgan, Accountant with the Accounting Division. Haw River Assembly filed the direct testimony of Gregory M. Lander, President of Skipping Stone, LLC.

On July 26, 2021, the Public Staff and PSNC filed letters indicating their consent to holding the expert witness hearings by remote means. On July 27, 2021, Haw River Assembly filed a letter also consenting to holding the expert witness hearings by remote means.

On July 29, 2021, PSNC filed a Motion to Strike the Direct Testimony and Exhibits of Gregory M. Lander and Request for Expedited Treatment.

On July 30, 2021, the Company filed affidavits of publication of public notice of hearing.

On August 2, 2021, Haw River Assembly filed a Response in Opposition to PSNC's Motion to Strike and filed a list of potential cross exam exhibits.

On August 3, 2021, the Commission issued an Order Denying Motion to Strike Testimony of Haw River Assembly.

On August 3, 2021, PSNC and the Public Staff filed a joint motion requesting that the Commission excuse all Public Staff witnesses and PSNC witness Creel from attending the expert witness hearing and receive those witnesses' testimony, exhibits and appendices into the record as evidence without the witnesses appearing at the hearing.

On August 5, 2021, PSNC filed the rebuttal testimony of Rose M. Jackson.

On August 6, 2021, the Commission issued Order Granting Motion to Excuse Several Witnesses from Appearing and Testifying. The Order provided that the testimony and exhibits of the excused witnesses would be received into evidence at the hearing.

On August 10, 2021, the matter came on for hearing by remote means as scheduled. No public witnesses appeared at the hearing. PSNC witness Jackson and Haw River Assembly witness Lander testified during the hearing.

On August 11, 2021, Haw River Assembly filed the cross-examination exhibits used in the August 10, 2021, hearing.

On September 30, 2021, Haw River Assembly filed a Motion to Correct the Record to correct errors in the testimony of Haw River witness Lander. On October 6, 2021, the Commission issued an Order Granting Motion to Allow Witness Lander to Correct Calculations Included in His Testimony.

On October 1, 2021, PSNC and the Public Staff filed a Joint Motion for Extension of Time to file proposed orders or briefs, which was granted by Commission order on October 4, 2021.

On October 11, 2021, the Public Staff and PSNC filed a Joint Proposed Order, and Haw River Assembly filed a Post-Hearing Brief.

Based on the testimony and exhibits received into evidence and the entire record in this proceeding, the Commission makes the following:

FINDINGS OF FACT

1. PSNC is a corporation duly organized and existing under the laws of the State of South Carolina, having its principal office and place of business in Gastonia, North Carolina. PSNC operates a natural gas pipeline system for the transportation, distribution, and sale of natural gas to more than 600,000 customers in the State of North Carolina.

2. PSNC is engaged in providing natural gas service to the public and is a public utility as defined in N.C. Gen. Stat. § 62-3(23), subject to the jurisdiction of this Commission.

3. PSNC has filed with the Commission and submitted to the Public Staff all of the information required by N.C. G. S. § 62-133.4(c) and Commission Rule R1-17(k) and has complied with the procedural requirements of such statute and rule.

4. The review period in this proceeding is the 12 months ended March 31, 2021.

5. During the review period, PSNC incurred total gas costs of $220,684,629, comprised of demand and storage charges of $105,081,205, commodity gas costs of $128,838,351, and other gas costs of ($13,234,928).

6. In compliance with the Commission's order in Docket No. G-100, Sub 67, the Company credited 75% of the net compensation from secondary market transactions, which amounted to $19,253,677, to its All Customers Deferred Account.

7. As of March 31, 2021, the Company had a debit balance (owed by customers to the Company) of $4,501,726 in its Sales Customers Only Deferred Account and a debit balance of $8,065,604 (owed by the customers to the Company) in its All Customers Deferred Account.

8. The Company properly accounted for its gas costs incurred during the review period.

9. PSNC's hedging activities during the review period were reasonable and prudent.

10. As of March 31, 2021, the Company had a credit balance of $436,502 in its Hedging Deferred Account.

11. It is appropriate for the Company to transfer the $436,502 credit balance in the Hedging Deferred Account to its Sales Customers Only Deferred Account. The combined balance for the Hedging and Sales Customers Only Deferred Accounts is a net debit balance of $4,065,224 owed by the customers to the Company.

12. PSNC has adopted a gas supply policy that it refers to as a "best cost" supply strategy. This gas supply acquisition policy is based upon three primary criteria: supply security, operational flexibility, and the cost of gas.

13. PSNC has adequate and reliable firm transportation and storage contracts with interstate pipelines, which provide for the transportation of gas to the Company's system, and both long-term and supplemental short-term supply contracts with producers, marketers, and other suppliers.

14. The gas costs incurred by PSNC during the review period were prudently incurred, and the Company should be permitted to recover 100% of such prudently incurred gas costs.

15. The Company's approach to gas supply and capacity planning, procurement, and arrangements is reasonable and prudent.

16. As proposed by PSNC witness Creel and agreed with by Public Staff witness Patel, the Company should not implement any new temporary rate changes in the instant docket at this time.

17. For the current review period, it is appropriate for PSNC to use 6.96% as the applicable interest rate in its deferred accounts and to continue to review the interest rate and file for approval of any necessary adjustments.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 1-2

These findings are essentially informational, procedural, or jurisdictional in nature and are not contested by any party. They are supported by information in the Commission's public files and records and the testimony and exhibits filed by the witnesses for PSNC and the Public Staff.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 3-4

The evidence supporting these findings of fact is contained in the testimony of PSNC witnesses Jackson and Creel, and the testimony of Public Staff witness Dorgan. These findings are based on N.C. Gen. Stat. § 62-133.4(c) and Commission Rule R1-17(k)(6).

Pursuant to N.C. Gen. Stat. § 62-133.4, PSNC is required to submit to the Commission information and data for a historical 12-month review period, including PSNC's actual cost of gas, volumes of purchased gas, sales volumes, negotiated sales volumes, and transportation volumes. Commission Rule R1-17(k)(6)(c) requires that PSNC file weather normalization, sales volume data, work papers, and direct testimony and exhibits supporting the information.

Witness Creel testified that Commission Rule R1-17(k)(6)(c) requires PSNC to file, on or before June 1 of each year, certain information for the 12-month review period ended March 31. Witness Creel testified that the Company had filed the information required by Rule R1-17(k)(6) for the 12-month review period ended March 31, 2021. Witness Creel also stated that the Company had provided to the Commission and the Public Staff on a monthly basis the gas cost and deferred gas cost account information required by Commission Rule R1-17(k)(5)(c). Public Staff witness Dorgan stated the Public Staff had presented the results of their review of the gas cost information filed by PSNC in accordance with N.C. Gen. Stat. § 62-133.4(c) and Commission Rule R1-17(k)(6).

Based on the foregoing, the Commission concludes that PSNC has complied with the procedural requirements of N.C. Gen. Stat. § 62-133.4(c) and Commission Rule R1-17(k) for the 12-month review period ended March 31, 2021.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 5-8

The evidence supporting these findings of fact is found in the testimony and exhibits of PSNC witness Creel and the testimony of Public Staff witnesses Patel and Dorgan.

PSNC witness Creel's exhibits show that the Company incurred total gas costs of $220,684,629 during the review period, which was comprised of demand and storage costs of $105,081,205, commodity gas costs of $128,838,351, and other gas costs of ($13,234,928). Public Staff witness Dorgan confirmed that total gas costs for the review period ended March 31, 2020, were $220,684,629.

Public Staff witness Dorgan stated that the Company recorded $25,671,569 of margin on secondary market transactions, including capacity release transactions and asset management arrangements, during the review period. Of this amount, $19,253,677 was credited to the All Customers Deferred Account for the benefit of ratepayers.

PSNC witness Creel's prefiled testimony and exhibits reflected a Sales Customers Only Deferred Account debit balance of $4,501,726 (owed by the customers to the Company) and a debit balance of $8,065,604 (owed by the customers to the Company) in its All Customers Deferred Account as of March 31, 2021. The Public Staff witnesses agreed with these balances and testified that PSNC properly accounted for its gas costs during the review period.

Based upon the foregoing, the Commission concludes that the Company properly accounted for its gas costs incurred during the review period. The Commission also concludes that the appropriate level of total gas costs incurred by PSNC for this proceeding is $220,684,629. The Commission further concludes that the appropriate balances as of March 31, 2021, are a debit balance of $4,501,726, owed to the Company by its customers, in its Sales Customers Only Deferred Account and a debit balance of $8,065,604, owed to the Company by the customers, in its All Customers Deferred Account.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 9-11

The evidence for these findings of fact is contained in the testimony of PSNC witnesses Jackson and Creel and the testimony of the Public Staff witnesses Patel, Perry, and Dorgan.

PSNC witness Creel testified that the Company's Hedging Deferred Account balance for the 12-month review period ended March 31, 2021, was a credit balance, due to sales customers, of $436,502. Public Staff witness Perry testified that this balance was comprised of: Economic Gains – Closed Positions of ($1,282,338); Premiums Paid of $670,730; Brokerage Fees and Commissions of $23,120; and Interest on the Hedging Deferred Account of $151,986. Witness Perry further stated that the hedging charges resulted in an annual credit of $0.54 for the average residential customer which equates to approximately $0.04 per month. Witness Perry also testified that PSNC's weighted average hedged cost of gas for the review period was $3.01 per dekatherm.

PSNC witness Jackson testified that the primary objective of PSNC's hedging program has always been to help mitigate the price volatility of natural gas for PSNC's firm sales customers at a reasonable cost. She further testified that PSNC's hedging program meets this objective by having financial instruments such as call options or futures in place to mitigate, in a cost-effective manner, the impact of unexpected or adverse price fluctuations to its customers.

PSNC witness Jackson testified that the hedging program provides protection from higher prices through the purchase of call options for up to 25% of PSNC's estimated sales volume. Witness Jackson further stated that to help control costs the call options are purchased at a price no higher than 10% of the underlying commodity price. She also stated that PSNC limits its hedging to a 12-month future time period, which allows PSNC to obtain more favorable option pricing terms and better react to changing market conditions.

PSNC witness Jackson explained that PSNC's hedging program continues to utilize two proprietary models developed by Kase and Company that assist in determining the appropriate timing and volume of hedging transactions. She stated that the total amount available to hedge is divided equally between the two models.

PSNC witness Jackson further testified that no changes were made to PSNC's hedging program during this review period. Witness Jackson stated that PSNC will continue to analyze and evaluate its hedging program and implement changes as warranted.

Public Staff witness Perry stated that the Public Staff's review of the Company's hedging activities involves an ongoing analysis and evaluation of the Company's monthly hedging deferred account reports, detailed source documentation, work papers supporting the derivation of the maximum targeted hedge volumes for each month, periodic reports on the status of hedge coverage for each month, and periodic reports on the market values of the various financial instruments used by the Company to hedge. In addition, she stated that the Public Staff reviews monthly Hedging Program Status Reports, monthly reports reconciling the Hedging Program Status Report and the hedging deferred account report, and minutes from the meetings of Service Company risk management personnel and its committees that pertain to hedging activities. Further, she stated that the review includes reports and correspondence from the Company's internal and external auditors; hedging plan documents that set forth the Company's gas price risk management policy, hedge strategy, and gas price risk management operations; communications with Company personnel regarding key hedging events and plan modifications under consideration by Service Company risk management personnel; and the testimony and exhibits of the Company's witnesses in the annual review proceeding. Witness Perry testified that based on the Public Staff's analysis of what was reasonably known or should have been known at the time the Company made its hedging decisions affecting the review period, as opposed to the outcome of those decisions, the Company's hedging decisions were prudent.

Public Staff witness Perry recommended that the $436,502 credit balance in the Hedging Deferred Account as of the end of the review period be transferred to the Sales Customers Only Deferred Account. Based on this recommendation, Public Staff witness Dorgan stated that the appropriate balance in the Sales Customers Only Deferred Account as of March 31, 2021, after the hedging balance transfer, is a net debit balance of $4,065,224, owed by the customers to the Company.

Based on the evidence found in the testimony and exhibits provided by PSNC and the Public Staff, the Commission finds that PSNC's hedging program met the objective of contributing to the mitigation of gas price volatility and avoiding rate shock to customers. The Commission concludes that PSNC's hedging activities during the review period were reasonable and prudent and that the $436,502 credit balance in the Hedging Deferred Account as of the end of the review period should be transferred to the Company's Sales Customers Only Deferred Account. The Commission finds that the appropriate combined balance for the Hedging and Sales Customers Only Deferred Accounts is a debit balance of $4,065,224.

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

The evidence for these findings of fact is found in the testimony of PSNC witness Jackson, the testimony of Public Staff witness Patel, and the testimony of Haw River Assembly witness Lander.

PSNC witness Jackson testified that the most appropriate description of PSNC's gas supply acquisition policy would be a "best cost" supply strategy, which is based on three primary criteria: supply security, operational flexibility, and cost of gas. PSNC witness Jackson stated that security of supply is the first and foremost criterion, which refers to the assurance that the supply of gas will be available when needed. Witness Jackson also testified that supply security is especially important for PSNC's firm sales customers, who have no alternate fuel source. Witness Jackson went on to state that supply security is obtained through PSNC's diverse portfolio of suppliers, receipt points, purchase quantity commitments, and terms. She also testified that potential suppliers are evaluated on a variety of factors, including past performance, creditworthiness, available terms, gas deliverability options, and supply location.

PSNC witness Jackson testified that the second criterion is maintaining the necessary operational flexibility in the gas supply portfolio that will enable PSNC to react to unpredictable weather and work with industrial customers to facilitate transportation of customer-acquired natural gas. She noted that PSNC's gas supply portfolio as a whole must be capable of handling the monthly, daily, and hourly changes in customer demand needs. Witness Jackson also testified that operational flexibility largely results from PSNC's gas supply agreements having different purchase commitments and swing capabilities (for example, the ability to adjust purchased gas within the contract volume on either a monthly or daily basis) and from PSNC's injections into and withdrawals out of storage.

Regarding the third criterion, cost of gas, PSNC witness Jackson stated that in evaluating costs it is important to consider not only the actual commodity cost, but also any transportation-related charges such as reservation, usage, and fuel charges. She further stated that PSNC routinely requests gas supply bids from suppliers to help ensure the most cost-effective proposals. In furtherance of the Company's natural gas sustainability initiative, witness Jackson testified the Company recently began asking that bids include suppliers' net zero goals or strategies. She also stated that the Company will evaluate these strategies and may consider incorporating them into the Company's best-cost supply strategy in the future. At the evidentiary hearing, Commissioner Brown-Bland inquired about the Company's sustainability initiative. PSNC witness Jackson explained that the natural gas industry is looking at the opportunity to reduce methane emissions and move towards a net zero carbon goal. She further stated that the Company is similarly situated, if not ahead, of other local gas distribution companies in pursuing sustainability initiatives and indicated PSNC's efforts would be reported in next year's annual review proceeding.

Witness Jackson also testified that in securing natural gas supply for its customers PSNC is committed to acquiring the most cost-effective supplies while maintaining the necessary security and operational flexibility to serve the needs of its customers. She further testified that PSNC has developed a gas supply portfolio made up of long-term agreements and supplemental short-term agreements with a variety of suppliers, including both producers and independent marketers.

PSNC witness Jackson testified that PSNC has engaged in the following activities to lower gas costs while maintaining security of supply and delivery flexibility:

1. Optimizing the flexibility available within its supply and capacity contracts to realize their value;

2. Monitoring and intervening in Federal Energy Regulatory Commission matters where decisions and outcomes could impact PSNC's rates and services to its customers;

3. Working with its industrial customers to transport customer-acquired gas;

4. Communicating directly with customers, suppliers, and other industry participants, and actively monitoring developments in the industry;

5. Engaging frequently in internal discussions concerning gas supply policy and major purchasing decisions;

6. Utilizing deferred gas cost accounting to calculate the Company's benchmark cost of gas to provide a smoothing effect on gas price volatility; and

7. Conducting a hedging program to help mitigate price volatility.

PSNC witness Jackson also testified that the projected design-day demand of PSNC's firm customers is calculated using a statistical modeling program. She further explained that the model assumes a 50 heating degree-day (HDD) on a 60 degree Fahrenheit base and uses historical weather to estimate peak-day demand. Witness Jackson testified that Jackson Direct Exhibit 1 shows PSNC's forecasted firm peak-day demand requirements for the review period and for the next five winter seasons and the assets available to meet those requirements. She stated that these assets include year-round, seasonal, and peaking capabilities and consist of firm transportation and storage capacity on interstate pipelines as well as the peaking capability of PSNC's on-system liquefied natural gas facility.

PSNC witness Jackson testified that the majority of PSNC's interstate pipeline capacity is obtained from Transcontinental Gas Pipeline Company, LLC (Transco), the only interstate pipeline with which PSNC has a direct connection. She stated that the Company also has used segmentation of its Transco capacity to receive natural gas from other interstate transportation and storage providers. She described "segmentation of Transco capacity" as PSNC's ability to double-schedule capacity on Transco where one segment of capacity is available for the forward haul of gas and the other segment of capacity is available for the backhaul of gas. She further explained that when one segment is not needed to serve PSNC's customers, PSNC can release it to other shippers, which generates revenue that mitigates the Company's capacity costs. According to witness Jackson there are, however, limitations on the use of segmentation. She described the limitations in terms of "primary firm" nominations versus "secondary firm" nominations:

> A "primary firm" nomination is one within the shipper's primary transportation path, which is established by the receipt and delivery points specified in the shipper's service agreement with Transco. A "secondary firm" nomination uses a transportation path in the opposite direction of the shipper's primary path. Primary firm nominations have the highest scheduling priority, while secondary firm nominations are lower in priority. Because of this lower priority, PSNC sometimes cannot schedule reverse path nominations using segmentation of its Transco capacity. As I have testified in previous gas cost reviews, the Company increasingly has been unable to use segmentation due to bi-directional gas flows on the Transco system. In addition, Transco implemented tariff changes in July 2019 that further restricted the Company's ability to use segmentation.

T, 28-29.

Witness Jackson testified that on November 1, 2020, PSNC began receiving partial service on Transco's Southeastern Trail project in the amount of 55,400 dts/day and, effective January 1, 2021, commenced service for the full contract amount of 60,000 dts/day. She explained that the purpose of this capacity is to address limitations the Company has experienced in using segmentation of existing Transco capacity due to its lower scheduling priority. She stated that the Southeastern Trail capacity provides the Company additional firm transportation service that allows PSNC to schedule the transportation of natural gas from storage facilities and pipelines north of the Company's city gate in a southerly direction on a primary firm forward-haul basis, rather than lower secondary firm scheduling associated with segmentation.

Witness Jackson further testified regarding the winter peaking services the Company acquired to meet expected peak-day requirements during the review period. She explained that, to meet an expected capacity shortfall during the 2020-21 winter season, PSNC contracted for a total of 40,000 dts/day of firm peaking services from three different suppliers. She explained that these contracts allowed the Company to call on delivered gas supply of up to 20,000 dts/day for a specified number of days during the winter.

Witness Jackson testified that for the past two winter seasons PSNC needed short-term peaking assets because its plans to acquire capacity on the Atlantic Coast Pipeline (ACP) interstate pipeline were not realized as the project was delayed and, ultimately, cancelled. She also discussed the Company's alternative plans to acquire capacity from Mountain Valley Pipeline (MVP). Witness Jackson stated that MVP's mainline project will consist of approximately 303 miles of transmission pipeline, with compression facilities, extending from northwestern West Virginia to southern Virginia. She stated that MVP's 75-mile Southgate lateral project, also with compression facilities, will connect the mainline with the Company's system at delivery points in Rockingham and Alamance Counties, North Carolina. Witness Jackson explained that PSNC has entered into precedent agreements for 250,000 dts/day of mainline capacity and 300,000 dts/day of Southgate lateral capacity to serve the growing natural gas demands of the Company. She stated that this capacity will provide the Company a second direct interstate pipeline interconnection, with access to natural gas produced in the Marcellus and Utica shale regions of West Virginia, Pennsylvania, and Ohio. In addition, she stated that MVP Southgate will connect directly with East Tennessee's pipeline, enabling PSNC to make forward-haul deliveries from Saltville storage to the Company's system and replace less reliable secondary firm backhaul deliveries using Transco segmented capacity, which is the reason PSNC contracted for 50,000 dts/day more capacity on Southgate than the MVP mainline. Witness Jackson stated that the mainline project was currently more than 92% complete and that the most recent estimated in-service date for the project is the summer of 2022. She stated that the Southgate project currently is expected to be placed into service by the spring of 2023. Witness Jackson noted that, until the MVP mainline and Southgate projects are both placed into service, the Company will closely monitor the situation and address any developments at the appropriate time using the Company's best-cost strategy.

Public Staff witness Patel testified that the Public Staff performs an independent analysis using similar calculations to determine peak day (design-day) demand levels, which it compares to the assets the Company has available or is planning to have available when needed in the future to meet that peak day demand.

> The Energy Division also performs independent calculations to determine peak-day (design-day) demand levels as compared to the assets the Company has available or is planning to have available in the future to meet that demand. The Public Staff uses the review period data of customer usage and heating degree days (HDDs), which are calculated by taking the average of the minimum and maximum daily temperatures and subtracting that quotient from a 65 degrees base (for example, a low of 10 degrees and a high of 30 would yield 45 HDDs). Base load demand, which is usage that does not fluctuate with weather, plus a usage per HDD factor is developed, and the projected peak-day demand is calculated. The assumption in developing a peak design-day demand is 55 HDDs, which is the accepted peak coldest day that would be anticipated to be experienced in PSNC's service territory. The results of our analysis are slightly lower than the levels presented by PSNC in Jackson Exhibit 1.

T, 98-99.

Witness Patel stated that PSNC witness Jackson's testimony shows that PSNC has a need for additional capacity to meet projected design-day demand requirements beginning in the 2021-2022 winter period. Witness Patel explained that to meet the expected shortfall for the 2020-2021 winter season the Company contracted for a total of 40,0000 dts per day of firm peaking services from three additional suppliers. In addition, witness Patel noted that consistent with the past two winter seasons that PSNC has needed to acquire short-term peaking assets to meet its capacity shortfalls and that as stated in witness Jackson's testimony that, to overcome this anticipated shortfall PSNC has entered into a firm delivery short-term peaking supply contract for 24,000 dts/day and has plans to issue a Request for Proposal for 36,000 dts/day of similar supply. She also noted witness Jackson's testimony regarding the Company's plans to receive capacity from MVP. Witness Patel stated that the Public Staff agrees with PSNC witness Jackson's testimony that if the MVP mainline and the MVP Southgate projects are not placed into service as of the anticipated time period, PSNC will need to make arrangements to address the shortfall in available assets using its best-cost strategy to serve customers' forecasted firm peak-day demand.

Haw River Assembly witness Lander recognized that PSNC had not incurred any MVP capacity costs but nevertheless recommended that the Commission "put PSNC on notice in its final order in this case that the contracted capacity on the MVP and MVP Southgate pipelines is far in excess of PSNC's demonstrated need." Witness Lander based this conclusion on an "All-In Cost Analysis" to evaluate capacity alternatives, including non-pipeline alternatives. Witness Lander took issue with PSNC's "best-cost" strategy and stated that the primary problem with the "best cost" strategy is that there is no monetarily quantifiable measure for either of the first two "best cost" metrics, supply security and operational flexibility, and these best-cost" metrics are "entirely subjective." Witness Lander also stated that the "best-cost" strategy did not adequately consider lower cost options that could meet the Company's needs. Witness Lander explained that the question that should be asked is: "at what price is PSNC asking ratepayers to agree with PSNC that PSNC is in fact pursuing a 'best price/best-cost' approach?" Witness Lander stated that PSNC has asked ratepayers to bear and accept the costs for MVP Southgate capacity as the "best-cost" option but has not provided evidence that it compared the costs of this new pipeline capacity with other options. In witness Lander's opinion, applying his "All-In Cost Analysis" would lead to the lower cost alternatives of contracting directly with producers or marketers that own Transco capacity and trucking LNG to temporary satellite locations to meet peak demand.

In rebuttal, PSNC witness Jackson testified that the best-cost strategy, long used by natural gas utilities in North Carolina, is a strategy which requires thorough evaluation of security of supply, operational flexibility, and all cost options--not just the least-cost supply. Witness Jackson stated that the Commission had consistently determined that PSNC's gas costs incurred under the Company's best-cost strategy were reasonable and prudent, and that neither the Commission nor Public Staff had ever taken issue with the strategy. She further stated that, pursuant to the Commission's Order Approving Merger Subject to Regulatory Conditions and Code of Conduct in Docket No. G-5, Sub 585, the Commission had adopted Regulatory Condition 15.2 explicitly requiring PSNC to manage its contracts in conformance with the best-cost strategy.

Witness Jackson also addressed witness Lander's allegation that two of the three criteria under the best-cost supply strategy were "entirely subjective." She explained that supply security is evaluated based on several objective criteria: (1) the number of suppliers available to the Company; (2) the number of receipt points available to the Company; (3) the number of purchase quantity commitments; and (4) the existence (or not) of favorable contractual terms in gas supply agreements. She also reiterated that PSNC's operational flexibility results from gas supply agreements having different purchase commitments and swing capabilities, as well as from injections into and withdrawals out of storage, and she further explained that the inclusion of favorable terms in PSNC's gas supply agreements is not subjective.

Witness Jackson also took issue with witness Lander's assertion that the best-cost strategy does not consider least-cost and alternative options, testifying that PSNC's best-cost strategy does consider least-cost options as well as alternatives for meeting both current and future demand. She criticized witness Lander's analysis because it ignored supply security and operational flexibility. To illustrate the problems with using an All-In Cost analysis and focusing solely on cost of gas, witness Jackson mentioned the Polar Vortex events occurring in North Carolina in 2014 and Texas earlier this year. She explained that had PSNC made its supply decisions only on the basis of least-cost with no regard to supply security and operational flexibility, it is highly likely the Company would not have been able to serve its firm customers during the 2014 North Carolina Polar Vortex. She also mentioned that similarly, the Polar Vortex in Texas in 2021 exposed the risk associated with not planning for supply security and operational flexibility, as gas supply acquired without consideration of reliability is of no value if the gas is unavailable when needed.

Witness Jackson also opined that witness Lander's analysis was based on conjecture and ignored real world market conditions. She explained that his analysis failed to consider actual demand volumes and erroneously assumed that his preferred alternatives would be readily available on the coldest days of the year, and at a price that does not reflect a premium for periods of high demand. She stated that alternatives like those proposed by witness Lander have not been readily available in extreme cold weather, such as that experienced in the Polar Vortex events of the last decade, and not at prices assumed by witness Lander.

Finally, witness Jackson explained her concern with witness Lander's proposal to truck LNG to temporary, satellite locations to meet peak demand. Witness Jackson stated that the scenario that witness Lander presents is faulty on many accounts, one being that he assumes an incremental demand of 1,500 dts per hour or 15,000 dts per day, though PSNC faces an incremental demand of approximately 60,000 dts per day for the upcoming winter. Witness Jackson further rejected witness Lander's proposed LNG alternative because it would require the Company to obtain 45-71 truckloads of LNG on a design day, depending on the size of the trucks, and three truck deliveries every hour to various delivery points on days when LNG is in highest demand and lowest availability. She explained how such a hypothetical solution ignores the reality of icy and impassable road conditions in colder than normal weather scenarios, along with the limited availability of LNG tankers and LNG on the coldest days of the year.

The Commission concludes that the Company's gas costs incurred during the review period ended March 31, 2021, were reasonable and prudently incurred and that the Company should be permitted to recover 100% of its prudently incurred gas costs.

The Commission stated in its Order Denying Motion to Strike Testimony of Haw River Assembly, issued on August 3, 2021, that it would receive the testimony of witness Lander as relevant to the Commission's review in this proceeding of information required by the Order Requiring Reporting issued in Docket No. G-100, Sub 91, on June 28, 2013 (Sub 91 Order). The Sub 91 Order was based on N.C. G. S. § 62-36B (recodified in 2015 as § 62-36.01), which authorizes the Commission to order a franchised natural gas local distribution company to negotiate in good faith to enter into additional natural gas service agreements upon a finding that such agreements

> will provide increased competition in North Carolina's natural gas industry and (i) will likely result in lower costs to consumers without substantially increasing the risks of service interruptions to customers, or (ii) will substantially reduce the risks of service interruptions without unduly increasing costs to consumers.

The Commission has considered all evidence presented in this proceeding, including the information required by the Sub 91 Order. Based upon this review, the Commission is not persuaded that the scenarios and alternatives presented by witness Lander would provide the supply security required by PSNC's firm service customers. As a result, the Commission determines that no changes in PSNC's gas supply or capacity acquisition practices are warranted in response to witness Lander's testimony. The Commission has consistently accepted the Company's best-cost gas supply strategy as reasonable and prudent and continues to consider all criteria under this strategy appropriate in guiding PSNC in its gas supply and capacity acquisition decisions. Finally, consistent with the Commission's established practice, the Commission will review the prudence of any capacity acquired by the Company in its annual review of gas costs when costs for such capacity have been incurred.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 16

The evidence for this finding of fact is found in the testimony of PSNC witness Creel and the testimony of Public Staff witness Patel.

PSNC witness Creel testified that the Company does not currently have any temporary rate increments or decrements in rates related to its Sales Customers Only and All Customers Deferred Accounts, explaining that the temporary increments applicable to the All Customers Deferred Accounts were removed effective November 1, 2020. She also testified that the Company was not proposing new temporary rate increments or decrements at this time.

Public Staff witness Patel testified that the All Customers Deferred Account reflects a debit balance of $8,065,604, owed to the Company by the customers. She went on to state that deferred account balances naturally vary between winter and summer months, since fixed gas costs are typically over-collected during the winter period when throughput is higher due to heating load and under-collected during the summer when throughput is lower.

Public Staff witness Patel next testified regarding Article IV of the Stipulation and Agreement filed on December 31, 2019, in the Federal Energy Regulatory Commission Docket RP18-1126, explaining that the Company received a refund in the amount of $13,112,646 on July 1, 2020 (Transco Refund). She stated that on October 16, 2020, the Company filed with the Commission to remove temporary increments applicable to the All Customers Deferred Account in Docket No. G-5, Sub 626, effective November 1, 2020.

Due to the Transco Refund, the Company projected that the balance in the All Customers Deferred Account, without implementation of the removal of the increments, would be a significant over-collection through the end of March 2021.

Witness Patel further testified that the Sales Customers Only Deferred Account reflects a debit balance of $4,501,726, owed by the customers to the Company as of March 31, 2021, and she agreed with the Company's proposal not to implement any temporary rate increments and/or decrements in this proceeding.

Finally, witness Patel recommended PSNC continue to monitor the Sales Customers Only and All Customers Deferred Accounts, and, if needed, file an application for authority to change the benchmark commodity cost of gas or implement new temporary increments or decrements through the Purchased Gas Adjustment (PGA) mechanism, pursuant to N.C. Gen. Stat. § 62-133.4, in order to keep the deferred account balances at reasonable levels.

Based on the facts in the present docket, and the record as a whole, the Commission finds and concludes that it is appropriate not to require PSNC to implement new temporary rate increments or decrements in the instant docket at this time. However, the Commission expects PSNC to continue to monitor market conditions and the All Customers and Sales Customers Only Deferred Account balances and, if necessary, file a PGA to make appropriate adjustments to rates.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 17

The evidence for this finding of fact is found in the testimony of PSNC witness Creel and Public Staff witness Dorgan.

Public Staff witness Dorgan testified that decretal paragraph numbers four and five of the Commission's Order in the Company's prior annual review proceeding in Docket No. G-5, Sub 622, provide in part that

> PSNC shall continue to apply a 6.96% interest rate on all amounts over-collected or under-collected from customers reflected in its Deferred Gas Cost Accounts(s) … and that it is appropriate for PSNC to continue to review the interest rate calculation and file for approval of any necessary adjustments, in compliance with the Commission's prior orders.

Witness Dorgan also stated that the Public Staff had reviewed the Company's interest rate calculations and found that PSNC is continuing to use the 6.96% interest rate and had made the appropriate adjustments in the deferred accounts, consistent with the Commission's prior annual review order. The Public Staff further stated that it will continue to review the interest rate each month to determine if an adjustment is needed.

PSNC witness Creel testified that the Company had reviewed its interest rate calculations and does not recommend an adjustment to the interest rate at this time.

Based on the evidence in the present docket, and the record as a whole, the Commission finds and concludes that the Company has used the appropriate interest rate of 6.96% on all amounts over-collected or under-collected from customers reflected in its Deferred Gas Cost Account and should continue to review the interest rate and file for approval of any necessary adjustments.

IT IS, THEREFORE, ORDERED as follows:

1. That PSNC's accounting for gas costs for the 12-month period ended March 31, 2021, is approved;

2. That the gas costs incurred by PSNC during the 12-month period ended March 31, 2021, including the Company's hedging costs, were reasonably and prudently incurred, and PSNC is hereby authorized to recover 100% of these gas costs as provided herein;

3. That as proposed by PSNC and agreed to by the Public Staff, PSNC shall not implement any temporary rate changes in this docket;

4. That PSNC shall continue to use 6.96% as the applicable interest rate on all amounts over-collected or under-collected from customers reflected in its Deferred Gas Cost Accounts; and

5. That it is appropriate for PSNC to continue to review the interest rate and file for approval of any necessary adjustments.

ISSUED BY ORDER OF THE COMMISSION.

This the 4th day of February, 2022.

NORTH CAROLINA UTILITIES COMMISSION

Joann R. Snyder

Joann R. Snyder, Deputy Clerk