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October 17, 2019

VIA ELECTRONIC FILING

Ms. Kimberley A. Campbell, Chief Clerk
North Carolina Utilities Commission
Dobb Building
430 North Salisbury Street
Raleigh, North Carolina 27603

Re: *Docket No. G-5, Sub 608*
Joint Proposed Order on Annual Review of Gas Costs

Dear Ms. Campbell:

In connection with the above-captioned docket, I transmit herewith for filing on behalf of Public Service Company of North Carolina, Inc. ("PSNC") and the North Carolina Utilities Commission—Public Staff ("Public Staff") their *Joint Proposed Order on Annual Review of Gas Costs*. Please note that PSNC and the Public Staff differ on the interest rate to be applied to the deferred accounts in this matter and have delineated, for the Commission's consideration, alternative language for Finding of Fact No. 18 and the corresponding Evidence and Conclusion for Finding of Fact No. 18.

Thank you for your assistance with this matter. Please do not hesitate to contact me with any questions.

Sincerely,

/s/Mary Lynne Grigg

MLG:kjg

Enclosure

STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH

DOCKET NO. G-5, SUB 608

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)	))))	JOINT PROPOSED ORDER ON ANNUAL REVIEW OF GAS COSTS

HEARD: Tuesday, August 13, 2019, at 10:00 a.m., in Commission Hearing Room 2115, Dobbs Building, 430 North Salisbury Street, Raleigh, North Carolina

BEFORE: Commissioner ToNola D. Brown-Bland, Presiding; Commissioners Lyons Gray and Daniel G. Clodfelter

APPEARANCES:

For Public Service Company of North Carolina, Inc.:

Mary Lynne Grigg, McGuireWoods, LLP, 434 Fayetteville Street, Suite 2600, 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 Carolina Utility Customers Association, Inc.:

Robert F. Page, Crisp & Page, PLLC, 4010 Barrett Drive, Suite 205, Raleigh, North Carolina 27609

BY THE COMMISSION: On May 31, 2019, pursuant to N.C. Gen. Stat. § 62-133.4(c) and Commission Rule R1-17(k)(6), Public Service Company of North Carolina, Inc. ("PSNC" or "Company"), filed the direct testimonies and exhibits of

Candace A. Paton, Rates & Regulatory Manager for PSNC, and Rose M. Jackson, General Manager – Supply & Asset Management for Dominion Energy Southeast Services, Inc., in connection with the annual review of PSNC's gas costs for the 12-month period ended March 31, 2019.

On June 5, 2019, the Commission issued its Order Scheduling Hearing, Requiring Filing of Testimony, Establishing Discovery Guidelines, and Requiring Public Notice. This Order established a hearing date of Tuesday, August 13, 2019, set prefiled testimony dates, and required the Company to give notice to its customers of the hearing on this matter.

On July 22, 2019, Carolina Utility Customers Association, Inc. ("CUCA") filed a Petition to Intervene. On July 24, 2019, the Commission granted CUCA's Petition to Intervene.

On July 29, 2019, PSNC filed supplemental testimony of Candace A. Paton.

On July 29, 2019, the Public Staff filed the joint testimony of Sonja M. Johnson, Staff Accountant, Accounting Division; Geoffrey M. Gilbert, Public Staff Utilities Engineer, Natural Gas Division; and Julie G. Perry, Accounting Manager of the Natural Gas & Transportation Section, Accounting Division; (Public Staff Panel or Panel).

On July 30, 2019, the Commission issued an Order Denying in Part and Granting in Part Tariff Amendments, Requiring Reversal of Interest Charges, Requiring Annual Review of Interest Rate, and Requiring Filing of Testimony.

On July 31, 2019, the Company filed its affidavits of publication.

On August 6, 2019, PSNC filed additional supplemental testimony and exhibits of Candace A. Paton.

On August 7, 2019, the Commission issued an Order Providing Notice of Commission Questions.

On August 8, 2019, the Public Staff filed a Motion to Excuse Appearances of Public Staff Witnesses and Accept Testimony. On August 13, 2019, the Commission granted the Motion.

On August 13, 2019, the matter came on for hearing as scheduled, and all prefiled testimony and exhibits were admitted into evidence. No public witnesses appeared at the hearing.

On October 17, 2019, the Public Staff and PSNC filed their Joint Proposed Order as well as their individual proposals regarding one issue.

Based on the testimony and exhibits received into evidence and the record as a whole, 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 approximately 580,000 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. Gen. Stat. § 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, 2019.

5. During the review period, PSNC incurred total gas costs of $229,186,277, comprised of demand and storage charges of $91,410,716, commodity gas costs of $172,769,819, and other gas costs of ($34,994,258).

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 $27,353,971, to its All Customers' Deferred Account.

7. As of March 31, 2019, the Company had a credit balance, owed to customers by the Company, of ($699,747) in its Sales Customers' Only Deferred Account and a credit balance of ($3,040,186), owed to customers by 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, 2019, the Company had a credit balance of ($832,249) in its Hedging Deferred Account.

11. It is appropriate for the Company to transfer the ($832,249) 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 credit balance of ($1,531,996), owed to customers by 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 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 should not implement any new temporary rate changes in the instant docket at this time as proposed by PSNC witness Paton and agreed to by the Public Staff.

16. It is appropriate for PSNC to record an adjustment to its Sales Customers Only, All Customers, Hedging Deferred Gas Cost Accounts, Rider C, and Rider E to reflect the use of a 6.6% interest rate for the period of January 1, 2018, through June 30, 2019.

17. It is appropriate in years when there is not a general rate case, that in the annual review of PSNC's gas costs, PSNC should be required to file testimony and supporting schedules that enable the Public Staff and Commission to review the interest rate and determine whether a change in the interest rate is warranted.

18. **[COMPANY PROPOSED]** It is appropriate for the Company to apply a 6.6% interest rate to the Deferred Revenue Account established pursuant to Docket No. M-100, Sub 148 from January 1, 2018 through June 30, 2019. **[PUBLIC STAFF PROPOSED]** It is appropriate for PSNC to apply an interest rate of 6.9% for the period of January 1, 2018, through December 31, 2018, and an interest rate of 6.96% for the period January 1, 2019 through June 30, 2019, which is the net-of-tax interest rate, adjusted for current changes in the federal and state corporate tax rates, consistent with all other utilities in the State, to PSNC's deferred revenue account that reflects the reduction in the federal corporate tax rate from 35% to 21%, effective January 1, 2018, as well as the corporate state income tax rate margin correction from 4% to 3%.

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

These findings are essentially informational, procedural, or jurisdictional in nature and were 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 Paton, and the testimony of the Public Staff Panel. These findings are based on N.C. Gen. Stat. § 62-133.4(c) and Commission Rule R1-17(k)(6).

N.C. Gen. Stat. § 62-133.4 requires that PSNC submit to the Commission information and data for an 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 Paton testified that the Company had filed the information required by Rule R1-17(k)(6) for the 12-month review period ended March 31, 2019. Witness Paton 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). The Public Staff Panel stated they 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, 2019.

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 Paton and the testimony of the Public Staff Panel.

PSNC witness Paton's exhibits show that the Company incurred total gas costs of $229,186,277 during the review period, which was comprised of demand and storage costs of $91,410,716, commodity gas costs of $172,769,819, and other gas costs of ($34,994,258).

The Public Staff Panel stated that the Company recorded $36,471,965 of margin on secondary market transactions, including capacity release transactions and storage management arrangements, during the review period. Of this amount, $27,353,974[1] was credited to the All Customers' Deferred Account for the benefit of ratepayers.

PSNC witness Paton's prefiled testimony and exhibits reflected a Sales Customers' Only Deferred Account credit balance of ($699,747), owed to customers by the Company, and a credit balance of ($3,040,186), owed to customers by the Company, in its All Customers' Deferred Account as of March 31, 2019. The Public Staff Panel 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 $229,186,277. The Commission further

[1] Immaterial difference of $3 between this total and the individual components listed below is due to rounding as compared to Paton Exhibit 1, Schedule 9.

concludes that the appropriate balances as of March 31, 2019, are a credit balance of ($699,747), owed to customers by the Company, in its Sales Customers' Only Deferred Account and a credit balance of ($3,040,186), owed to customers by the Company, 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 Paton and Jackson and the testimony of the Public Staff Panel.

PSNC witness Paton testified that the Company's Hedging Deferred Account balance for the 12-month review period ended March 31, 2019, was a credit balance, due to sales customers, of ($832,249). The Public Staff Panel testified that this balance was composed of: Economic Gains – Closed Positions of ($2,783,925); Premiums Paid of $1,824,850; Brokerage Fees and Commissions of $28,837; and Interest on the Hedging Deferred Account of $97,988. The Public Staff Panel further stated that the hedging charges resulted in an annual credit of ($1.03) for the average residential customer which equates to approximately ($0.09) per month. The Public Staff Panel also testified that PSNC's weighted average hedged cost of gas for the review period was $3.81 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 in order 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.

The Public Staff Panel stated that their 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. The Panel testified that based on their 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, they concluded that the Company's hedging decisions were prudent.

The Public Staff Panel further testified that the ($832,249) credit balance in the Hedging Deferred Account as of the end of the review period should be transferred to the Sales Customers' Only Deferred Account. Based on this recommendation, The Public Staff Panel stated that the appropriate balance in the Sales Customers' Only Deferred Account as of March 31, 2019, after the hedging balance transfer, should be a credit balance of ($1,531,996), owed by the Company to customers.

Based on the evidence in the testimony and exhibits provided by PSNC and the Public Staff, the Commission finds that PSNC's hedging program has 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 ($832,249) 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 credit balance of ($1,531,996).

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 12-14

The evidence for these findings of fact is found in the testimony of PSNC witness Jackson and the testimony of the Public Staff Panel.

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 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 the changing requirements of industrial customers coupled with their ability to burn other fuels. 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. 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 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. The Company also has a backhaul transportation arrangement with Transco to schedule deliveries of gas from pipelines and storage facilities downstream of PSNC's system, as well as transportation and/or storage service agreements with Dominion Energy Transmission, Inc., Columbia Gas Transmission, LLC, Texas Gas Transmission, LLC, East Tennessee Natural Gas LLC, Dominion

Energy Cove Point LNG, LP, Saltville Gas Storage Company, L.L.C., and Pine Needle LNG Company, LLC.

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. PSNC continues to optimize the flexibility available within its supply and capacity contracts to realize their value;
2. PSNC monitored and intervened in matters before the Federal Energy Regulatory Commission whose actions could impact PSNC's rates and services to its customers;
3. PSNC has continued to work with its industrial customers to transport customer-acquired gas;
4. PSNC routinely communicates directly with customers, suppliers, and other industry participants, and actively monitors developments in the industry;
5. PSNC has frequent internal discussions concerning gas supply policy and major purchasing decisions;
6. PSNC utilizes deferred gas cost accounting to calculate the Company's benchmark cost of gas to provide a smoothing effect on gas price volatility; and,
7. PSNC conducts a hedging program to help mitigate price volatility.

Ms. Jackson testified that, in last year's gas cost review, she had updated the Commission with details concerning the Company's plans and the benefits associated with acquiring capacity on the following interstate pipeline projects: Transco's Southeastern Trail Expansion project, which will provide additional firm transportation service with a receipt point at the existing Pleasant Valley Transco-Cove Point interconnection in Fairfax County, Virginia, and a delivery point at the existing Transco Station 65 pooling point in St. Helena Parish, Louisiana; the Atlantic Coast Pipeline ("ACP"), a 550-mile pipeline project that will run from Harrison County, West Virginia, to Robeson County; and the Mountain Valley Pipeline, LLC ("MVP"), which will run from northwestern West Virginia to a point in Pittsylvania County, Virginia, and MVP's Southgate project, an approximately 70-mile lateral to the Company's Dan River and Haw River interconnects in Rockingham and Alamance Counties, respectively.

In the current proceeding Ms. Jackson provided an update on the projected in-service dates of these projects. She stated that the Southeastern Trail Expansion is expected to be in service by late 2020, as is MVP Southgate. She stated that ACP's expected in-service date currently is early 2021.

Ms. Jackson testified that in order to meet the projected capacity shortfall shown on Jackson Exhibit 1, the Company will issue a request for proposals of firm delivered supply to the city gate for the 2019-20 winter season. MVP Southgate is expected to be placed into service during the 2020-21 winter season. In the event the in-service date for that project were to be delayed, the Company would need to seek an arrangement similar to the one for the 2019-20 winter season to cover the shortfall.

PSNC witness Jackson 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 also testified that PSNC presented its forecasted firm peak-day demand requirements for the review period and for the next five winter seasons. She further explained that the assets available to meet PSNC's firm peak-day requirements 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.

The Public Staff Panel testified that the Public Staff conducts an independent analysis using similar calculations to determine peak day demand levels and compares that to the assets the Company has available (or is planning to have available when needed in the future) to meet that demand. The Public Staff Panel further stated that it uses the review period data of customer usage and HDDs, which are calculated by taking the average of the minimum and maximum daily temperature and subtracting that quotient from 65 degrees. Base load (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 territory. The Panel testified that the results of their analysis are similar to the levels presented by PSNC in Jackson Exhibit 1 which shows a shortfall of capacity beginning in the 2019 – 2020 winter season. The Panel cited Ms. Jackson's testimony that in order to overcome this anticipated shortfall, PSNC will issue an RFP for firm capacity to the city gate similar to what it did in the current annual review period. PSNC has contracted for necessary capacity on Transco's Southeastern Trail Expansion project, MVP and ACP. The Panel also testified that if any of these projects are not placed in service as of the anticipated time period, the Company will issue an RFP for firm capacity or any anticipated shortfall, as addressed in Ms. Jackson's testimony.

Based upon the foregoing, the Commission concludes that the Company's gas costs incurred during the review period ended March 31, 2019, were reasonable and prudently incurred and that the Company should be permitted to recover 100% of its prudently incurred gas costs.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 15

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

PSNC witness Paton testified that the Company was not proposing new temporary rate increments or decrements at this time. Specifically, PSNC witness Paton testified that the Company proposes to leave the current temporary decrements applicable to the All Customers' Deferred Account in place and monitor the balance in the account to determine when or if changes are required. She stated that the Company proposes to continue its practice of taking into consideration the balance in the Sales Customers' Only Deferred Account when evaluating whether to file for a change in the benchmark cost of gas. She concluded that the Company believes that making periodic, and smaller adjustments in the benchmark cost of gas is preferable to making one adjustment annually based on the over- or under-collection in commodity cost of gas that may exist as of the end of the review period.

The Public Staff Panel testified that the All Customers' Deferred Account reflects a credit balance of ($3,040,186), owed by the Company to customers. The Panel noted that PSNC has proposed not to place a decrement in rates for this credit balance. The Panel also noted that, at the end of April, the over-collection had decreased to a credit balance of ($360,228), and further that it is not unusual to have a change in the balances, 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.

The Public Staff Panel further testified that the Sales Customers Only Deferred Account reflects a credit balance of ($699,747), owed from the Company to customers. The Panel noted that PSNC has proposed not to place a decrement in rates for the refund of this credit balance. The Public Staff Panel also testified that PSNC has proposed not to place a decrement in rates for the refund of the credit balance, but to manage it by using the Purchased Gas Adjustment ("PGA") mechanism, pursuant to N.C. Gen. Stat. § 62-133.4. During the review period, PSNC used the PGA mechanism to address deferred account balances that may need to be collected or refunded. The Panel testified that using the PGA allows for a quicker implementation of temporaries that can address balances that are more current. The Panel concluded that requiring

PSNC to implement temporary rate changes in the instant docket at this time would not be productive, and, therefore, they agreed with the Company's proposals.

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 decrements in the instant docket at this time. However, the Commission expects PSNC to continue to monitor market conditions and the Sales Customer Deferred Account balances and, if necessary, to file a PGA to make an appropriate adjustment to rates.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 16-17

The evidence for these findings of fact is found in the supplemental and additional supplemental testimony of PSNC witness Paton, the testimony of the Public Staff Panel, and the Commission's orders in Docket No. G-5, Subs 565, 607, and 608.

On May 3, 2019, PSNC filed a Petition to Amend Tariffs in Docket No. G-5, Sub 607, requesting to increase the interest rate on its Rider C, Customer Usage Tracker and Rider E, Integrity Management Tracker deferred accounts from 6.6% to 6.96%, effective January 1, 2019, due to a reduction in North Carolina's corporate income tax rate to 2.5%, effective January 1, 2019, that resulted in a recalculation of the applicable interest rate, from 6.9% to 6.96%.

On June 7, 2019, the Public Staff filed a letter stating that it reviewed PSNC's calculation of the proposed 6.96% interest rate and agreed that it accurately reflects PSNC's effective composite income tax rate. Further, the

Public Staff stated that it reviewed the proposed changes to Riders C and E and agreed with those changes. As a result, the Public Staff recommended that PSNC be authorized to amend its Riders C and E tariffs as proposed in PSNC's petition.

In her supplemental testimony, PSNC witness Paton clarified the interest rate applicable to PSNC's Sales Customers' Only and All Customers' and Hedging Deferred Gas Cost Accounts, as well as the Customer Usage Tracker and Integrity Management Tracker deferred accounts. She began by explaining how the Commission had ordered the Company to "use an interest rate of 6.6% per annum as the applicable interest rate on all amounts over-collected or under-collected from customers reflected in PSNC's Sales Customers' Only, All Customers', and Hedging Deferred Gas Accounts," in PSNC's last general rate case, Docket No. G-5, Sub 565 ("Rate Case Order"). Ms. Paton further stated that, although it was not specifically stated in the general rate case Stipulation or Rate Case Order, the 6.6% interest rate was based on the net-of-tax overall return approved in the Rate Case Order. Because there was one known upcoming change in the state income tax rate and the potential for additional changes, the Company and the Public Staff agreed that this net-of-tax overall return should be reviewed annually and adjusted if necessary. As further discussed in the Rate Case Order, the interest rate applicable to the Customer Usage Tracker (Rider C) and the Integrity Management Tracker (Rider E) was also 6.6%. Riders C and E each explicitly stated that the 6.6% interest rate would be reviewed annually. She stated that PSNC had indicated in testimony that the Rider D interest rate would also be reviewed annually.

PSNC Witness Paton next testified that PSNC had reviewed the deferred account interest rate and adjusted it as necessary. In support, she provided Paton Supplemental Exhibit 1, which at Schedule 1 sets forth the Company's 6.6% net-of-tax return as determined in the Company's last general rate case, as well as Schedules 2, 3, and 4 showing the impact of changes in federal and state income tax rates on the net-of-tax return. In conclusion, she testified that PSNC would continue to review the interest rate calculation at least annually and make any necessary adjustments.

The Public Staff Panel filed testimony on July 29, 2019, which stated each month the Public Staff's Accounting Division reviews the Deferred Gas Cost Account reports filed by the Company for accuracy and reasonableness, and performs many audit procedures on the calculations, including the calculations of the interest accrual. The Public Staff Panel further stated that each month the interest accrued on the deferred account balances during the month are verified in accordance with N. C. Gen. Stat. § 62-130 (e) and the Commission's Order in Docket No. G-5, Sub 565. The Panel testified that it had verified that PSNC had changed its interest rate for the current federal corporate income tax rate of 21% and the state corporate income tax rate of 2.5%. The Panel further testified that all other methods and procedures used by the Company for the accrual of interest on the Deferred Gas Cost Accounts remained unchanged.

On July 30, 2019, the Commission issued an Order Denying in Part and Granting in Part Tariff Amendments, Requiring Reversal of Interest Charges, Requiring Annual Review of Interest Rate, and Requiring Filing of Testimony ("Interest Rate Order") in this docket and Docket No. G-5, Subs 595 and 607. In its Interest Rate Order, the Commission (1) denied the Company's request to amend Riders C and E of its tariff to apply a 6.96% interest rate retroactive to January 1, 2019; (2) directed the Company to make appropriate adjustments to its Sales Customers' Only, All Customers', Hedging Deferred Gas Cost Accounts, Rider C, and Rider E accounts to reflect an interest rate of 6.6% from January 1, 2018, until the date of the Interest Rate Order; (3) directed the Company going forward to apply an interest rate of 6.96% to these accounts as well as the deferred accounts of federal provisionally collected revenues established by the Commission in Docket No. M-100, Sub 148; and (4) directed the Company to file in this docket testimony and supporting schedules that enable the Public Staff and Commission to review the interest rate and determine whether a change in the interest rate is warranted.

In her additional supplemental testimony, PSNC witness Paton provided information in response to the Interest Rate Order. She provided Schedule 1 of Paton Supplemental Exhibit 2 to show the deferred account balances adjusted to reflect the use of a 6.6% interest rate from January 1, 2018 through June 30, 2019. She also provided Schedule 2 to show the adjusted Sales Customers', All Customers', and Hedging Deferred account balances at March 31, 2019, the end of the review period, and Schedule 3 that sets forth the actual balances in the various deferred accounts for the 18-month period January 1, 2018, through June 30, 2019.

Pursuant to the Interest Rate Order, the Commission agrees that it is reasonable and appropriate for PSNC to record an adjustment to its Sales Customers Only, All Customers, Hedging Deferred Gas Cost Accounts, Rider C, and Rider E to reflect the use of a 6.6% interest rate for the period of January 1, 2018, through June 30, 2019. The Commission further concludes that it is appropriate in years when there is not a general rate case, that in the annual review of PSNC's gas costs, PSNC should file testimony and supporting schedules that enable the Public Staff and Commission to review the interest rate and determine whether a change in the interest rate is warranted.

EVIDENCE AND CONCLUSION FOR FINDING OF FACT NO. 18

The evidence for this finding of fact is found in the supplemental and additional supplemental testimony of PSNC witness Paton, the testimony of the Public Staff Panel, and the Commission’s orders in Docket No. G-5, Subs 565, 607, and 608.

Regarding the Interest Rate Order, PSNC witness Paton testified in her additional supplemental testimony that the Company agrees that all deferred accounts should accrue interest at the same rate but noted that the Interest Rate Order was silent as to the interest rate that has been applied to the deferred revenue account that reflects the provisionally collected revenues related to the federal tax rate changing from 35% to 21% established by Commission order in Docket No. M-100, Sub 148, dated January 3, 2018 (Sub 148 Order), and the

2017 error in determining the margin impact of the change in the state income tax from 4% to 3%, from January 1, 2018, through June 30, 2019.

Witness Paton testified that, beginning in 2017, PSNC accrued interest on this deferral to correct the margin impact of the change in the state income tax from 4% to 3% at a rate of 6.6%. She referenced PSNC's February 8, 2018, filing in Dockets No. M-100, Sub 138, and G-5, Sub 565, showing that during 2017, PSNC deferred revenue of $479,271.52 and accrued $17,694.32 of interest on that deferral. Beginning in January 2018, PSNC accrued interest at a rate of 6.9% and during 2019 has accrued interest at a rate of 6.96%. Ms. Paton stated the interest rates applied were calculated based on the net-of-tax overall return approved in the most recent general rate case, which was adjusted for the most recent tax changes.

Witness Paton testified that, pursuant to the Sub 148 Order, PSNC began deferring revenues in January 2018 to reflect the cost of service impact of the reduction in the federal income tax rate from 35% to 21%. During 2018 the Company accrued interest on this deferral at a rate of 6.9% and during 2019 has accrued interest at a rate of 6.96%.

On page 4 of the Interest Rate Order, the Commission summarized the Order Approving Proposal and Requiring Filing of Revised Tariffs in Docket No. G-5, Sub 595 ("Tax Order"), which addressed the change in the federal corporate income tax rate and the correction of the computational error previously made by PSNC in reflecting a reduction in the state corporate income tax rate from 4% to 3%. The Tax Order concluded that it was appropriate that both the 2018 deferred revenues associated with the federal tax rate change and the 2017 correction of the state income tax change be returned to customers with interest at the overall weighted cost of capital approved in the utilities' respective last general rate case proceedings.

Witness Paton stated that, as shown in the Company's July 30, 2019 filing in Docket No. G-5, Sub 595, the combined balance in the two tax-related deferred accounts as of June 30, 2019, was a credit balance of $16,447,853.35, including interest of $1,187,444.73. If these deferred accounts were adjusted to reflect the use of a 6.6% interest rate through June 30, 2019, the credit balance due to customers would decrease by $57,419.76. Ms. Paton testified at hearing that if the 6.6% interest rate is applied to any deferred accounts it should be applied to all deferred accounts in order to be consistent. TR at 70.

[COMPANY PROPOSED] The Commission agrees with PSNC witness Paton that, to treat the interest rate applied to all deferred account balances in a consistent manner, it is reasonable and appropriate to apply a 6.6% interest rate to the Deferred Revenue Account established in the Sub 148 Order. The Commission finds that adjusting the deferred accounts to reflect the use of a 6.6% interest rate through June 30, 2019, appropriately decreases the credit balance due to customers by $57,419.76. Therefore, the Commission finds and concludes that PSNC shall apply a 6.6% interest rate to the Deferred Revenue Account established pursuant to Docket No. M-100, Sub 148. The Commission further concludes that the Company should continue to review the interest rate calculation and file for approval of any necessary adjustments. **[PUBLIC STAFF**

PROPOSED] The Commission has carefully reviewed the evidence on the issues and believes that the interest rate to be used to flow back to customers deferred revenues associated with the provisionally collected revenues resulting from the federal tax rate changing from 35% to 21% established by the Commission in the Sub 148 Order, and the 2017 error in determining the margin impact of the change in the state income tax from 4% to 3% should be the net-of-tax overall return approved in PSNC's most recent general rate case, adjusted for the most recent tax changes. The Commission notes that language in the PSNC Tax Order states that "[s]uch amount will be returned to customers with interest reflected at the overall weighted cost of capital approved in PSNC's last general rate case proceeding docket". The Commission has reviewed the compliance filings associated with the Sub 148 Order and finds that all of the North Carolina utilities associated with the Sub 148 Tax Order are using the net-of-tax overall rate of return, adjusted for the most recent tax rate changes to flow back provisionally collected revenues resulting from the federal tax rate changing from 35% to 21% established by the Commission in Docket No. M-100, Sub 148. The Commission finds that the interest rate to be applied in the Sub 148 Order should be applied consistently. The language in the PSNC Tax Order does not specifically state a 6.6% rate, and, therefore, we should not assume that 6.6% is the interest rate to be applied to the Sub 148 Order deferrals being flowed back to ratepayers. The Commission concludes that it is just, reasonable, and appropriate to apply the net-of-tax overall rate of return, adjusted for current tax changes, to both the provisionally collected revenues resulting from the federal tax rate change and the 2017 error in determining the margin impact of the change in the state income tax from 4% to 3% for use in this proceeding.

IT IS, THEREFORE, ORDERED as follows:

1. That PSNC's accounting for gas costs for the 12-month period ended March 31, 2019, is approved.

2. That the gas costs incurred by PSNC during the 12-month period ended March 31, 2019, 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 record an adjustment to its Sales Customers Only, All Customers, Hedging Deferred Gas Cost Accounts, Rider C, and Rider E to reflect the use of a 6.6% interest rate for the period of January 1, 2018 through June 30, 2019.

5. That when there is not a general rate case, PSNC shall file testimony and supporting schedules that enable the Public Staff and Commission to review the interest rate and determine whether a change in the interest rate is warranted in the annual review of PSNC's gas costs.

6. **[DEPENDENT ON COMMISSION DETERMINATION REGARDING FINDING OF FACT 18] [COMPANY PROPOSED]** That PSNC shall adjust its Deferred Revenue Account to reflect the use of a 6.6% interest rate for the period of January 1, 2018 through June 30, 2019, and thereafter use

an interest rate of 6.96%. **[PUBLIC STAFF PROPOSED]** That PSNC shall apply an interest rate of 6.9% for the period of January 1, 2018 through December 31, 2018, and an interest rate of 6.96% for the period January 1, 2019 through June 30, 2019, to its deferred revenue account that reflects the Sub 148 Order deferrals being flowed back to ratepayers, and the 2017 error in determining the margin impact of the change in the state income tax from 4% to 3%.

ISSUED BY ORDER OF THE COMMISSION

This the _____ day of October, 2019.

NORTH CAROLINA UTILITIES COMMISSION

Kimberly A. Campbell, Chief Clerk

CERTIFICATE OF SERVICE

I certify that I have served a copy of the foregoing *Joint Proposed Order on Annual Review of Gas Costs* in accordance with Commission Rule R1-39, by United States mail, first class postage prepaid; by hand delivery; or by means of facsimile or electronic delivery upon agreement of the receiving party.

This the 17th day of October, 2019.

/s/Mary Lynne Grigg
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