STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH

DOCKET NO. G-5, SUB 591

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.G.S. § 62-133.4(c) and Commission Rule R1-17(k)(6)	))))	ORDER ON ANNUAL REVIEW OF GAS COSTS

HEARD: Tuesday, August 14, 2018, 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, Commissioner Jerry C. Dockham, and Commissioner Charlotte A. Mitchell

APPEARANCES:

For Public Service Company of North Carolina, Inc.:

Andrea R. Kells, 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

BY THE COMMISSION: On June 1, 2018, 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 testimony and exhibits of Candace A. Paton, Rates & Regulatory Manager for PSNC, and Rose M. Jackson, General Manager – Supply & Asset Management for SCANA Services, Inc., in connection with the annual review of PSNC's gas costs for the 12-month period ended March 31, 2018.

On June 7, 2018, 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 14, 2018, set prefiled testimony dates, and required the Company to give notice to its customers of the hearing on this matter.

On July 19, 2018, the Company filed Revised Jackson Exhibit 1.

On July 30, 2018, the Public Staff filed the joint testimony of Geoffrey M. Gilbert, Utilities Engineer, Natural Gas Division; Julie G. Perry, Manager of the Natural Gas Section, Accounting Division; and Sonja M. Johnson, Staff Accountant, Accounting Division.

On August 3, 2018, the Company filed its Affidavits of Publication.

On August 8, 2018, the Commission issued an Order Providing Notice of Commission Questions.

On August 14, 2018, 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 September 6, 2018, the Company filed Paton Late-filed Exhibits 2 and 3 in response to the Commission's request at the hearing.

On September 24, 2018, the Joint Proposed Order of PSNC and the Public Staff was filed.

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 approximately 563,000 customers in the State of North Carolina.

2. PSNC is engaged in providing natural gas service to the public, is a public utility as defined in N.C. Gen. Stat. § 62-3(23), and is 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, 2018.

5. During the review period, PSNC incurred total gas costs of $235,756,953, comprised of demand and storage charges of $91,043,579, commodity gas costs of $145,801,389, and other gas costs of ($1,088,016).

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 $34,269,198, to its All Customers Deferred Account.

7. As of March 31, 2018, the Company had a debit balance (owed from the customers to the Company) of $1,443,014 in its Sales Customers Only Deferred Account and a credit balance of $13,770,526 (owed from the Company to the customers) 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, 2018, the Company had a debit balance of $2,376,550 in its Hedging Deferred Account.

11. It is appropriate for the Company to transfer the $2,376,550 debit 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 debit balance of $3,819,564, owed by 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 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. As proposed by PSNC witness Paton and agreed to by the Public Staff, the Company should not implement any new temporary rate changes in the instant docket at this time.

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 Public Staff witnesses Gilbert and Johnson. These findings are based on N.C.G.S. § 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 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 data, sales volume data, work papers, and direct testimony and exhibits supporting the information.

Witness Paton testified that Rule R1-17(k)(6) requires PSNC to submit to the Commission on or before June 1 of each year certain information with supporting work papers based on the 12-month period ending March 31. Witness Paton indicated that the Company had filed the required information. 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). Witnesses Gilbert and Johnson presented the results of their review of the gas cost information filed by PSNC in accordance with N.C.G.S. § 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.G.S. § 62-133.4(c) and Commission Rule R1-17(k) for the 12-month review period ended March 31, 2018.

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 Public Staff witnesses Gilbert and Johnson.

PSNC witness Paton's exhibits show that the Company incurred total gas costs of $235,756,953 during the review period, which was comprised of demand and storage costs of $91,043,579, commodity gas costs of $145,801,389, and other gas costs of ($1,088,016). Public Staff witness Johnson confirmed that total gas costs for the review period ended March 31, 2018, were $235,756,953.

The Public Staff's testimony included a thorough analysis of PSNC's gas costs. That testimony showed that the level of demand and storage charges were down 2.4% from the level in last year's annual review in Docket No. G-5, Sub 578. The bulk of the reduction was attributed to changes in the cost of three sources of capacity. The most significant reduction was a $1,294,395 reduction in the rates paid to Cardinal Pipeline Company LLC as a result of a general rate case in Docket No. G-39, Sub 38. The costs of PSNC's capacity from Pine Needle LNG, which is regulated by the Federal Energy Regulatory Commission (FERC), decreased $780,633 as a result of a change in Pine Needle LNG's Electric Power and Fuel Tracker in FERC Docket No. RP17-576. PSNC leases 17,250 dekatherms per day (dts/day) of intrastate capacity from the City of Monroe. The contract between PSNC and Monroe called for payments to be made for a set term. The end of payments resulted in a $546,188 reduction in costs compared to the previous review period.

The Commission notes that the demand and storage costs paid by PSNC have increased in recent years as additional capacity was added to accommodate growth. In PSNC's Docket No. G-5 Sub 568, which covered a 12-month review period ending March 31, 2016, demand and storage costs rose sharply to approximately $89.3 million from $75.2 million during the previous review period. This increase was mostly attributed to the cost of adding 100,000 dts/day on Transcontinental Gas Pipe Line Company, LLC's (Transco's) Leidy Southeast project.

Public Staff witness Johnson stated that the Company recorded $45,692,268 of margin on secondary market transactions (SMT), including capacity release transactions and storage management arrangements, during the review period. Of this amount, $34,269,198 was credited to the All Customers Deferred Account for the benefit of ratepayers. She further testified that the bulk of the SMT margins, totaling $39,551,582, were produced by Asset Management Agreements.

PSNC witness Paton's prefiled testimony and exhibits reflected a Sales Customers Only Deferred Account debit balance of $1,443,014 (owed to the Company by customers) and a credit balance of $13,770,526 (owed to customers by the Company) in its All Customers Deferred Account as of March 31, 2018. Public Staff witness Johnson 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 $235,756,953. The Commission further concludes that the appropriate balances as of March 31, 2018, are a debit balance of $1,443,014, owed to the Company, in its Sales Customers Only Deferred Account and a credit balance of $13,770,526, owed to 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 Paton and Jackson and the testimony of Public Staff witnesses Perry and Johnson.

PSNC witness Paton testified that the Company's Hedging Deferred Account balance for the 12-month review period ended March 31, 2018, was $2,376,550, a net debit balance, due from customers. Public Staff witness Perry testified that this balance was composed of: Economic Gains – Closed Positions of ($271,330); Premiums Paid of $2,591,190; Brokerage Fees and Commissions of $14,375; and Interest on the Hedging Deferred Account of $42,316. Public Staff witness Perry further stated that the hedging charges resulted in an annual charge of $3.15 for the average residential customer which equates to approximately $0.26 per month. Witness Perry 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.

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.

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.

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 her 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, the Public Staff reviews monthly Hedging Program Status Reports, monthly reports reconciling the Hedging Program Status Report and the hedging deferred account report, minutes from the meetings of SCANA's Risk Management Committee (RMC), and minutes from the meetings of the Board of Directors and its committees that pertain to hedging activities. Further, the review includes reports and correspondence from the Company's internal and external auditors, hedging plan documents, communications with Company personnel regarding key hedging events and plan modifications under consideration by SCANA's RMC, and the testimony and exhibits of the Company's witnesses in the annual review proceeding. Witness Perry testified that based on her 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, she concluded that the Company's hedging decisions were prudent.

Witness Perry further testified that the $2,376,550 debit 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, Public Staff witness Johnson stated that the appropriate balance in the Sales Customers Only Deferred Account as of March 31, 2018, after the hedging balance transfer, should be a net debit balance of $3,819,564, owed by the customers to the Company.

Based on 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 $2,376,550 debit 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 $3,819,564.

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 Public Staff witness Gilbert.

Gas Supply

PSNC witness Jackson testified that the most appropriate description of PSNC's gas supply procurement 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 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.

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 on firm sales gas usage. She noted that PSNC's gas supply portfolio 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.

In regard to 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 further 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. She 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.

Witness Jackson also testified that the majority of PSNC's interstate pipeline capacity is obtained from 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, LLC; and Pine Needle LNG Company, LLC.

Witness Jackson further testified that PSNC engages 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 monitors and intervenes in matters before the FERC whose actions could impact PSNC's rates and services to its customers;

3. PSNC continues 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 frequently has 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.

Pipeline Capacity and Storage

PSNC Witness Jackson testified that in the summer of 2017 PSNC submitted a binding request for capacity on 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. In November 2017, PSNC and Transco executed a precedent agreement for this transportation service. Witness Jackson testified that the project has a target in-service date of late 2020.

Witness Jackson further noted that in previous gas cost reviews she had testified that PSNC entered into a precedent agreement with Atlantic Coast Pipeline, LLC (ACP) to acquire capacity on ACP's 550-mile pipeline project that will run from Harrison County, West Virginia, to Robeson County, North Carolina. She provided the Commission with an update on developments concerning the status of the project and PSNC's contracting for service with ACP.

Witness Jackson also presented testimony regarding PSNC's precedent agreements with Mountain Valley Pipeline, LLC (MVP) to obtain capacity on its mainline pipeline project running from northwestern West Virginia to Pittsylvania County, Virginia, as well as on an approximately 70-mile lateral running from the termination of the mainline to delivery points at PSNC's Dan River and Haw River interconnects in Rockingham and Alamance Counties, North Carolina, respectively. The lateral project is the Mountain Valley Southgate project (MVP Southgate). Specifically, PSNC contracted for 250,000 dts/day of capacity on MVP and 300,000 dts/day on MVP Southgate. The additional 50,000 dts/day of capacity on the lateral will be used by PSNC to receive primary firm, forward-haul deliveries directly from East Tennessee through a new interconnection with MVP. Witness Jackson testified that MVP was expected be placed into service in the first quarter of 2019 and MVP Southgate would come on line in late 2020.

Witness Jackson provided testimony on the profound change that has taken place in the interstate pipeline and storage market as a result of shale gas production in the Northeast. She indicated this change has impacted the Company's gas supply security planning, requiring that additional capacity be secured to meet customer needs, particularly during periods of cold weather. She testified that:

> The Company has been able to use segmentation of the Transco firm transportation capacity and schedule backhaul deliveries of gas from Columbia Gas, Cove Point, DETI, East Tennessee/Saltville, Pine Needle, and Texas Gas - natural gas storage facilities and connecting pipelines located downstream of the PSNC system.

She distinguished “forward haul” and “backhaul”:

> Forward haul involves the transportation of gas in the same direction as the physical flow of gas in the pipeline and is typically achieved when the pipeline transports gas to a delivery point downstream from the point where the gas was received by the pipeline. Backhaul involves the contractual delivery of natural gas in a direction opposite of the physical flow of gas in the pipeline; the receipt point is downstream from the point of delivery.

Witness Jackson testified that:

> PSNC's use of segmentation for backhaul deliveries on Transco can be limited because it is considered secondary firm in scheduling priority. This did not present any problems in the past, but now that gas flow on the Transco system is bidirectional in nature due to the new connected shale gas supply areas of the Northeast, PSNC has on occasion been unable to use segmentation to schedule backhaul deliveries to its city gate.

Jackson Direct Testimony, pp. 8-9.

In response to a Commission question on the reliability of backhaul to meet gas supply, witness Jackson testified that while backhaul had once been considered highly reliable and was available without any additional reservation or demand charge, PSNC has experienced supply cuts from its downstream storage facilities since Transco’s Leidy Southeast and Atlantic Sunrise projects came on line with a reversal of the flow of gas on Transco’s system on a primary firm basis from north to south. Witness Jackson noted these supply cuts are concerning, stating, “…we're concerned long term what type of restrictions we may see and, therefore, we have contracted for a portion of our storage withdrawal capability on the Southeastern Trail Project on Transco's system.” Transcript p. 50. When asked about other efforts to mitigate the loss of backhaul as a reliable option for transporting downstream capacity, witness Jackson referenced PSNC’s efforts to contract for capacity on both ACP and MVP.

In response to additional questions from the Commission, witness Jackson testified that the time horizon for getting pipeline projects on line is getting longer. She stated that if there are further delays to the pipelines’ in-service dates, the Company will go to the market for “short-term capacity options.” She explained that PSNC would stay in constant communication with suppliers about available capacity, either on a forward-haul or backhaul basis, and issue requests for proposal on an annual and seasonal basis. She further testified that PSNC would seek opportunities to secure bundled services for supply and transportation services delivered to PSNC’s system. Additionally, witness Jackson testified that the Company looks at interstate pipelines’ electronic bulletin boards and would take advantage of any opportunities to acquire existing capacity on Transco’s system that might become available at a lower cost.

Part of adhering to its best cost supply strategy means PSNC must plan to have sufficient supply to serve customers’ future capacity requirements on PSNC’s design day, *i.e.*, the day the Company uses for planning purposes to determine the highest volume of gas it will need to meet firm customers' demand on the accepted peak coldest day that would be anticipated to be experienced in PSNC's territory. Because the Company reasonably anticipates that new customers will be added to the PSNC system going forward,[1] its design-day forecast projects customer load growth which must be accounted for in supply planning. This means adding firm pipeline and storage capacity to serve the growth in design-day needs of PSNC firm customers and to avoid a shortfall in gas supply.

Witness Jackson testified that the projected future design-day demand of PSNC's firm customers is calculated using a statistical modeling program prepared by SCANA Services Resource Planning personnel. She 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.

Witness Gilbert testified that the Public Staff conducted "…an independent analysis using similar calculations to determine peak day demand levels and compare[d] that to the assets the Company ha[d] available (or [was] planning to have available when needed in the future) to meet that demand." Public Staff Direct Testimony at p. 18. The Public Staff used the review period data of customer usage and HDDs, which were calculated by taking the average of the minimum and maximum daily temperature and subtracting that quotient from 65 degrees. (For example, a low of 10 degrees and a high of 30 degrees would yield 45 HDDs.) Base load (usage that does not fluctuate with weather) plus a usage per HDD factor was developed, and the projected peak day demand was calculated. The assumption in developing a peak design-day demand was 55 HDDs (as compared to the 50 HDD on a 60 degree base used by the Company), which is the accepted peak coldest day that would be anticipated to be experienced in PSNC's territory.

Witness Gilbert testified that the results of the Public Staff's analysis were similar to the levels presented by PSNC in Revised Jackson Exhibit 1. Both witness Jackson and witness Gilbert acknowledged that their use of different HDD assumptions had not yielded a significantly different outcome for planning purposes. Witness Gilbert observed that PSNC's design-day demand models showed a shortfall of capacity beginning in the 2019 – 2020 winter season. He cited witness Jackson's testimony that in order to overcome this anticipated shortfall, PSNC has contracted for necessary capacity on ACP, which is expected to come into service by late 2019, and MVP, which is expected to have lateral facilities capable of delivering capacity to PSNC completed by late 2020.

[1] PSNC is in growth mode. The Company reports an estimate of its number of customers in its annual reviews. Over the past decade, growth has averaged 10,200 customers per year. In this docket, the Company reported approximately 563,000 customers, up 13,000 from the 550,000 reported in last year's annual review.

At the hearing, with an eye toward assuring that design-day demand is not over-estimated, the Commission probed whether a reduction in demand resulting from increased efficiency should also result in a reduction in the amount of pipeline and storage capacity required on a design day. At the time the Commission approved PSNC's Customer Usage Tracker (CUT) in general rate case Docket No. G-5, Sub 495, various PSNC witnesses had testified that the CUT would more effectively support the Company's efforts to support conservation and efficiency. Among other efforts, PSNC's proposed residential and commercial high-efficiency rates were mentioned as offering a discount to customers whose dwellings and buildings comply with certain efficiency standards.

In this docket, in response to the Commission's inquiry as to whether the implementation of the CUT had impacted PSNC's design-day requirement or demand calculations, witness Jackson responded that the CUT Mechanism is not factored at all into PSNC's design-day forecast because PSNC is looking at actual throughput on the system. She reiterated that PSNC's projected design-day demand of PSNC's firm customers is calculated using a statistical modeling program prepared by SCANA Services Resource Planning personnel. Presumably, the statistical modeling program picks up efficiency improvements so that their impacts facilitated by the CUT are accounted for in PSNC's calculation of design-day demand, but are not explicitly or separately calculated.

Finally, Witness Gilbert testified regarding the prudence of PSNC's total gas costs. He testified that he had reviewed the testimony and exhibits of the Company's witnesses; monthly operating reports; gas supply and pipeline transportation and storage contracts; and the Company's responses to the Public Staff's data requests. He concluded that, in his opinion, PSNC's gas costs were prudently incurred for the 12-month review period ending March 31, 2018.

DISCUSSION AND CONCLUSIONS

Pursuant to N.C. Gen. Stat. § 62-133.4(e), the Commission is authorized to include all costs related to the purchase and transportation of natural gas to the natural gas local distribution company's system. Pursuant to that statute, in Docket No. G-100, Sub 58, the Commission adopted Rule R1-17(k), which includes "charges in connection with the purchase, storage or transportation of gas for the LDC's system supply" in the definition of gas costs.

Further, N.C. Gen. Stat. § 62-36.01 addresses the need to have natural gas local distribution companies enter into service agreements with interstate or intrastate pipelines to provide increased competition in North Carolina's natural gas industry. It authorizes the Commission, under certain circumstances, to order natural gas local distribution companies to enter into such agreements. In Docket No. G-100, Sub 91, the Commission issued Order Requiring Reporting, which required local distribution companies to include information in their annual reviews concerning their future capacity needs in order to assist the Commission in carrying out its responsibilities under that statute. Although the Commission is not exercising its authority under N.C.G.S. § 62-36.01 in this docket, it recognizes that PSNC's efforts to enter into service agreements with ACP and MVP have the desired effect of increasing competition while reducing the risk of service interruptions. As witness Jackson testified, “instead of relying on one pipeline provider, Transco, we will…in the very near future, have three pipeline providers.”

PSNC witness Jackson testified that, because of the reversal of flow on Transco’s system, traditional backhaul arrangements that were relied upon to get downstream pipeline and storage capacity to PSNC’s system are now classified as “secondary firm” and can no longer be considered reliable. Revised Jackson Exhibit 1 shows both the forecasted firm peak-day demand requirements for the review period as well as for the next five winter seasons, and the assets available to meet those firm peak-day requirements. The Commission notes that a significant amount of capacity shown on Revised Jackson Exhibit 1 as being available to meet design-day needs, particularly seasonal and peaking storage capacity, is downstream of PSNC’s system and has traditionally depended on backhaul. When PSNC first announced that it would acquire capacity on ACP, that project was scheduled to come on line in November 2018 and would have been available to firm up the delivery of that downstream capacity. Witness Jackson spoke to the actions that PSNC would now take to ensure that such downstream capacity would be available to its system on a firm basis in the near term. She also pointed to PSNC’s efforts to secure more permanent, long-term capacity on Transco’s Southeastern Trail, ACP and MVP/MVP Southgate.

The delays being experienced by ACP and MVP are a matter of serious concern. As mentioned above, ACP was scheduled to come on line in November 2018. In this docket, testimony was submitted that it is not going to be available until late 2019. MVP Southgate, which will both deliver gas from MVP to PSNC’s system, and provide a firm path for gas from East Tennessee/Saltville, is not expected to come on line until late 2020, which is also the in-service date for Transco’s Southeastern Trail project. As discussed above, witness Jackson testified as to the steps that PSNC would take to get gas to its system on a firm basis when its customers need it. However, Revised Jackson Exhibit 1 makes clear that, if the new interstate projects are delayed, PSNC may have to go to the short-term market for considerable volumes for the next several winters. A reliance on short-term solutions raises serious questions about both their cost and their availability.

The need to firm up interstate pipeline capacity to deliver market-area storage will add significantly to demand and storage costs. As shown on Revised Jackson Exhibit 1, PSNC has contracted for 178,313 dekatherms per day of seasonal capacity. In response to a Commission question, witness Jackson stated that all of those seasonal facilities except for Saltville were depleted oil and gas reservoirs. She added that there are no depleted oil and gas reservoirs available as capacity options in North Carolina. The Commission recognizes that, to access volumes of gas on a seasonal basis, it might be necessary both to maintain existing contracts to what had been market-area seasonal storage and to secure year-round pipeline capacity to move the stored gas to PSNC’s city gate. However, the Commission expects PSNC to consider all possibilities as part of its best cost approach to gas supply.

In witness Jackson’s description of the Company’s actions taken to accommodate its best-cost policy, she listed “Monitor and intervene in matters before the FERC whose actions could impact the rates that PSNC pays and the services it receives from interstate pipelines and storage facilities." Jackson Direct Testimony at p. 15. As required in the Docket No. G-100, Sub 91 Order Requiring Reporting, PSNC listed the FERC proceedings in which the Company participated. In sixteen of the seventeen proceedings listed in Jackson Exhibit 3, PSNC had done nothing more than file a petition to intervene. No position was taken. The Commission notes that during the time period over which PSNC took the reported actions at the FERC, the Commission itself took active positions in a number of FERC dockets.

For example, at the hearing in this docket, the Commission asked both the Public Staff and Company witnesses about Transco's Eminence Storage Field (Eminence). PSNC has not taken any position at the FERC regarding demand credits to customers where significant portions of the Eminence Storage Field are out of service. The Commission, on the other hand, has been active before the FERC on matters pertaining to Eminence.

To further explain, PSNC has contracted for capacity from Eminence under two contracts. Paton Exhibit 1, Schedule 2 shows that, during the review period, PSNC paid $938,594 for ESS Demand and Capacity and $954,471 for Eminence Demand and Capacity. Witness Jackson testified that a few years ago, PSNC contracted with Transco for additional withdrawal and injection capacity, which explains the two different contracts. She further testified that PSNC had "…not encountered any interruptions in our service so that's why we continue to contract for that storage service." Transcript, p. 76.

In Docket No. CP11-551, Transco requested that it be allowed to abandon four of seven salt dome caverns at Eminence. After granting Transco's request to abandon the caverns at Eminence, the FERC established new operating parameters for each of the remaining three caverns. However, filings at the FERC show that Transco has been taking the remaining storage caverns out of service for extended periods for testing and maintenance, thereby raising questions as to whether it can meet the certificate parameters. Despite taking significant portions of the Eminence Storage Field out of service, Transco has not been providing demand credits to customers like PSNC. PSNC has not pursued demand credits, which ultimately would benefit its own North Carolina customers.

In contrast, the Commission actively pursued the question of demand credits with the FERC and, as a result, Docket No. CP18-42 was opened. Transco asserted that it operates its system on an integrated basis and, as long as it meets its contractual obligations for capacity and deliverability, it does not matter what assets it actually uses to provide those services. PSNC filed an intervention in CP18-42, but took no position.

Following the Commission's pursuit of demand credits and the opening of the related FERC docket, Transco filed a request to reduce the certificated capacity of Eminence in Docket No. CP18-145, essentially, in the Commission's opinion, conceding that Eminence could not meet the operating parameters required by FERC in CP11-551. In effect, while Transco may have met its contractual obligations to PSNC using undefined system assets, the Commission does not believe it was, in fact, capable of meeting full contract demand for all customers at any single point in time from Eminence. PSNC paid for and should be assured of firm service from Transco at Eminence. The Commission has no way of knowing if Transco's undefined system assets would actually have been available on a firm basis if the system had experienced a design-day event. Accordingly, the Commission filed a protest intervention in CP18-145 based on the lack of support Transco provided for its requested certificate revisions. PSNC filed an intervention in CP18-145, but again, took no position.

The Public Staff has recommended that the Commission find that PSNC's gas costs were prudently incurred. The Commission agrees with and will accept that recommendation. However, the Commission remains interested in PSNC's decisions with regard to participation in matters before the FERC. In future annual reviews, the Commission will continue to monitor and closely scrutinize the positions and actions taken by PSNC on FERC matters, including Eminence.

Based upon the foregoing, the Commission concludes that the Company's gas costs incurred during the review period ended March 31, 2018, 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 Public Staff witness Gilbert.

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.

Witness Gilbert testified that the All Customers Deferred Account reflects a credit balance of $13,770,526 owed by the Company to customers. He noted that PSNC has proposed not to place a decrement in rates for the adjustment of this credit balance. At the end of May, the over-collection had decreased to $9,145,536, and the Company estimates the balance will "flip" to an under-collection of approximately $8.4 million by the end of October 2018. The Sales Customers Only Deferred Account reflects an under-collection of $1,443,014, owed by customers to the Company. The current tariff rates, which were approved in the Company's Purchased Gas Adjustment (PGA) filing in

Docket No. G-5, Sub 583 and became effective January 1, 2018, are based on an over-collection of approximately $15.0 million in the All Customers Deferred Account. Witness Gilbert concluded that removing the decrements that are currently in place and implementing a new rate based on the $13,770,526 credit balance in the All Customers Deferred Account would not be beneficial to the rate payers. He noted 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. He agreed with the Company's proposal 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. He recommended that PSNC continue to monitor the balances in both the All Customers and the Sales Customers Only Deferred Accounts and file for a request to implement new temporary increments or decrements, as applicable, through the PGA mechanism to avoid significant over-collections of its fixed gas costs. He agreed with PSNC's proposal of not taking any action on the All Customers and the Sales Customers Only Deferred Accounts at this time.

In addition to not changing the temporary decrements that PSNC currently has in place, witness Gilbert also agreed with PSNC's proposal not to place a decrement in rates for the recovery of this credit balance, but to manage it by using the PGA mechanism, pursuant to N.C.G S. § 62-133.4, which PSNC has previously used for this purpose. He concluded that requiring PSNC to implement temporary rate changes in the instant docket at this time would not be productive, and, therefore, he agreed with the Company's proposals. The Commission notes that PSNC's Summary of Deferred Gas Cost Accounts for the month of August that was filed on October 15, 2018 in Docket No. G-5, Sub 586 reported a debit balance of $2,020,888 in the All Customers Deferred Account.

Based on the testimony discussed above, the Commission notes that it is commonplace for the Company to over-collect its fixed gas costs during the winter months and under-collect during summer months and recognizes that this is what occurred during the prior review period ended March 31, 2017, in Docket No. G-5, Sub 578. Had the Commission ordered a rate decrement in that proceeding, the effect would have been counterproductive, due to the fact that by the time temporary decrements would have gone into effect in November 2017, the Company's All Customer Deferred Account was under-collected, and it would have had to file a petition to remove the decrement and perhaps implement an increment.

The Commission concludes that the same would be true in this docket. If the Commission were to require decrements, by the time rates go into effect in November the Company would likely be under-collected and the decrements would exacerbate that position. 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 Only

Customer Deferred Account balances and, if necessary, to file a PGA to make an appropriate adjustment to rates.

IT IS, THEREFORE, ORDERED as follows:

1. That PSNC's accounting for gas costs for the 12-month period ended March 31, 2018, is approved;

2. That the gas costs incurred by PSNC during the 12-month period ended March 31, 2018, 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; and

3. That as proposed by PSNC and agreed to by the Public Staff in the instant docket, PSNC shall not implement any temporary rate changes effective for service rendered on and after December 1, 2018.

ISSUED BY ORDER OF THE COMMISSION

This the 6th day of December, 2018

NORTH CAROLINA UTILITIES COMMISSION

Janice H. Fulmore, Deputy Clerk