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August 25, 2016

VIA ELECTRONIC FILING

Chief Clerk
North Carolina Utilities Commission
Dobbs Building
430 North Salisbury Street
Raleigh, North Carolina 27603

Re: Docket No. G-5, Sub 565

Dear Chief Clerk:

Enclosed on behalf of Public Service Company of North Carolina, Inc. are its *Supplemental Testimony of Candace A. Paton, Rebuttal Testimony of Jimmy E. Addison, and Rebuttal Testimony of Candace A. Paton* for filing in the above-referenced proceeding.

If you have any questions regarding this filing, please do not hesitate to call me. Thank you for your assistance with this matter.

Very truly yours,

/s/Mary Lynne Grigg

MLG:kjg

Enclosures

BEFORE THE

NORTH CAROLINA UTILITIES COMMISSION

PUBLIC SERVICE COMPANY OF NORTH CAROLINA, INC.

DOCKET NO. G-5, SUB 565

SUPPLEMENTAL TESTIMONY

OF

CANDACE A. PATON

AUGUST 25, 2016

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND CURRENT POSITION WITH PUBLIC SERVICE COMPANY OF NORTH CAROLINA, INC.

A. My name is Candace A. Paton. I am employed by SCANA Services, Inc. as Rates & Regulatory Manager for Public Service Company of North Carolina, Inc., d/b/a PSNC Energy ("PSNC" or "the Company"). My business address is 800 Gaston Road, Gastonia, North Carolina 28056.

Q. HAVE YOU PREVIOUSLY FILED TESTIMONY IN THIS PROCEEDING?

A. Yes. I pre-filed direct testimony in this proceeding on March 31, 2016.

Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL TESTIMONY?

A. The purpose of my supplemental testimony is to support the Partial Stipulation filed in this proceeding on August 18, 2016, and the Amended Partial Stipulation to be filed today.

Q. PLEASE DESCRIBE THE EVENTS WHICH LEAD TO THE FILING OF A PARTIAL STIPULATION IN THIS PROCEEDING.

A. Subsequent to the filing of the Company's Application in this docket, PSNC, the Public Staff, Carolina Utility Customers Association, Inc., and Blue Ridge Paper Products Inc. d/b/a Evergreen Packaging (collectively, "the Stipulating Parties") engaged in substantial discovery regarding the matters contained therein. Additionally, the Public Staff spent several days in both Gastonia and SCANA's corporate office in Cayce, South Carolina, performing on-site audits and interviewing various Company personnel. After lengthy negotiations in multiple meetings and conference calls, the Stipulating Parties were ultimately able to arrive at a partial settlement of numerous issues in the case.

Q. WHAT WAS THE OUTCOME OF THE NEGOTIATIONS AMONG THE STIPULATING PARTIES?

A. The agreement reflected in the Partial Stipulation was the result of the give-and-take negotiations in which each party made substantial compromises on individual issues in order to obtain a compromise from the other parties on other issues. In the end, each party believes that the results reached, in the aggregate, are fair to the Company and its ratepayers.

Q. PLEASE SUMMARIZE THE EFFECT OF THE PARTIAL STIPULATION ON PSNC’S REQUESTED REVENUE INCREASE.

A. As indicated in the Partial Stipulation, the parties reached agreement on all but one issue. My rebuttal testimony will address that issue and Paton Rebuttal Exhibit 1 reflects the net effect of the agreed to adjustments along with PSNC’s position on the appropriate treatment of deferred Manufactured Gas Plant (“MGP) costs and deferred Pipeline Integrity Management (“PIM”) costs.

Q. ARE THERE ITEMS IN THE PARTIAL STIPULATION THAT REQUIRE FURTHER ACTION?

A. Yes. Paragraph 10 of the Partial Stipulation addresses the adoption of an Integrity Management Tracker (“IMT”). That paragraph provides for the Company and the Public Staff to work together to determine the appropriate level of costs associated with the planned Highway 751 transmission integrity management project as well as other projects which may have significant nonintegrity management components. Working together to resolve such issues before the fact will improve the accounting, reporting, and auditing process of the IMT for all parties.

As discussed in paragraph 8 of the Partial Stipulation, the Company and the Public Staff have agreed to work together to determine the appropriate rate adjustment needed to reflect the decrease in the state income tax rate from 4% to 3% effective January 1, 2017. Additionally, as discussed in the testimony of Public Staff witness Boswell the Company and the Public Staff have agreed to determine the appropriate amount of excess accumulated deferred income taxes to be refunded resulting from the decrease in the state income tax rate from 4% to 3%.

Q. HAVE THE STIPULATING PARTIES WORKED IN GOOD FAITH TO EXPLORE THE DEVELOPMENT OF AN ADDITIONAL USAGE TIER FOR RATE 175 AS INDICATED IN THE PARTIAL STIPULATION FILED ON AUGUST 18, 2016?

A. Yes. The Stipulating Parties were able to reach an agreement and an Amended Partial Stipulation is being filed today.

Q. IN YOUR OPINION DOES THE PARTIAL STIPULATION, AS AMENDED, REFLECT A FAIR, JUST, AND REASONABLE RESOLUTION OF THE ISSUES IT COVERS?

A. Yes. The Partial Stipulation is the result of negotiations between the Stipulating Parties who, collectively, represent all segments of PSNC's customer base impacted by this rate case. It resolves all but one of the issues in the case without the necessity of contentious litigation. In summary, I respectfully request that the Commission approve the Partial Stipulation in its entirety.

Q. DOES THIS COMPLETE YOUR SUPPLEMENTAL TESTIMONY?

A. Yes, it does.

BEFORE THE

NORTH CAROLINA UTILITIES COMMISSION

PUBLIC SERVICE COMPANY OF NORTH CAROLINA, INC.

DOCKET NO. G-5, SUB 565

REBUTTAL TESTIMONY

OF

JIMMY E. ADDISON

AUGUST 25, 2016

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

A. My name is Jimmy E. Addison and my business address is 220 Operation Way, Cayce, South Carolina. I am the Executive Vice President and Chief Financial Officer of Public Service Company of North Carolina, Inc. ("PSNC" or the "Company"), SCANA Corporation ("SCANA"), and the other subsidiaries of SCANA.

Q. HAVE YOU PREVIOUSLY FILED TESTIMONY IN THIS PROCEEDING?

A. Yes. I pre-filed direct testimony in this proceeding on March 31, 2016.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. The purpose of my rebuttal testimony is to explain why the Public Staff's proposed adjustments to PSNC's deferred and amortized manufactured gas plant ("MGP") cleanup costs and pipeline integrity management ("PIM") costs, as discussed in the testimony of Public Staff witness James G. Hoard, are inappropriate and should not be accepted.

Q. WHAT ARE MGP AND PIM COSTS?

A. As discussed in the direct testimony of Company witness D. Russell Harris, PSNC began the environmental remediation of the MGP sites in the early 1990s. The last remaining site was fully remediated in May of this year.

PSNC's PIM costs, as discussed in the direct testimony of Company witness George B. Ratchford, are associated with the significant efforts undertaken by the Company in compliance with federal and state pipeline safety regulations. These costs are expected to continue as the Pipeline and

Hazardous Materials Safety Administration issues revised regulations on this topic.

Q. HOW HAVE PSNC's MGP AND PIM COSTS HISTORICALLY BEEN TREATED FOR ACCOUNTING PURPOSES?

A. This is discussed in the rebuttal testimony of Company witness Candace A. Paton, but in summary, the Company has consistently accounted for these costs and has followed the Commission's orders.

Q. PLEASE DESCRIBE THE ADJUSTMENT THAT THE PUBLIC STAFF IS RECOMMENDING WITH REGARD TO MGP AND PIM COSTS.

A. The Public Staff recommends that PSNC write-off a total of $9.6 million in combined MGP and PIM regulatory assets, through its proposed adjustment to MGP costs of $5,824,270 and proposed adjustment to PIM costs of $3,811,730. The Public Staff's justification for this recommendation is that PSNC's 2008 rate case order authorized a three-year amortization of these costs, but eight years passed between that case and the current proceeding. The Public Staff considers PSNC to have "over-collected" five years' worth of these amortized costs, and proposes that PSNC offset its requested MGP and PIM costs by the amounts the Public Staff contends that PSNC should have amortized in those five years.

Q. DOES PSNC AGREE WITH THESE PROPOSED ADJUSTMENTS?

A. No. These proposed adjustments are not appropriate, for several reasons: (1) the proposed adjustments are contrary to the treatment the Public Staff has recommended and the Commission has adopted in prior cases; (2) PSNC's treatment of these expenses has been consistent with prior Commission orders; (3) the adjustments would require PSNC to incur substantial write-offs that would harm the Company financially and could create concern among financial analysts and the investment community; (4) the proposed adjustments amount to impermissible retroactive ratemaking, as the adjustments would require the Company to reduce future revenues to offset amounts collected pursuant to lawfully established rates that were previously approved by this Commission in PSNC's last rate case; and (5) the proposed adjustment ignores the treatment of amortization credits that have been reflected in rates since the Company's 2008 rate case. I discuss each of these issues in more detail below.

Q. HOW ARE THE PROPOSED ADJUSTMENTS CONTRARY TO THE COMMISSION'S PRIOR TREATMENT OF PSNC'S DEFERRED AND AMORTIZED MGP AND PIM COSTS?

A. PSNC has consistently received regulatory authority from the Commission to defer MGP and PIM costs as regulatory assets and to amortize those costs over specific amortization periods, and PSNC has implemented that authority appropriately. The Public Staff's proposed disallowance of these regulatory assets is inconsistent with the explicit language of the relevant Commission orders and with traditional treatment of these and other items such as refunds related to excess deferred income taxes ("EDIT") and investment tax credits ("ITC"), as discussed below and in the rebuttal testimony of Company witness Candace A. Paton.

Like other utilities and consistent with fundamental practices of utility ratemaking, PSNC's rates are set through general rate cases and are based on the Company's cost of service. Once those rates are set by the Commission in a general rate case, they remain in place until the Company's next general rate case. The utility's actual costs never perfectly align with its new rates, but with each case rates are set prospectively using an adjusted historical test year as a proxy for the future. Once rates are set they typically are not adjusted prospectively to reflect any perceived under- or over-collection of one or more specific costs that are included in those rates. That is how utility ratemaking works, and to attempt to use adjustments to cherry-pick under- or over-collections on a backward looking basis amounts to retroactive ratemaking.

Moreover, none of the orders in PSNC's previous rate cases involving such costs has suggested that PSNC's method for implementing this deferral and amortization authority was inappropriate. Notably, and as the Public Staff acknowledges, this is true for the 2006 rate case, which like the current proceeding involved a period of time in between rate cases that exceeded the originally specified amortization period. Mr. Hoard characterizes the Public Staff's failure to propose an amortization adjustment in the 2006 rate case as an oversight. Regardless of whether the Public Staff thinks it was mistaken, the amortization received in the 2006 rate case was consistent with the treatment PSNC had previously received, reasonably believed it was going to receive, and was, in my opinion, an appropriate treatment of these costs.

The amortization period for the deferred costs in the 2008 rate case was specified and, when those costs were fully amortized, amortization ceased. Pursuant to Commission order, the costs that were incurred in the subsequent period until this rate case were held in deferral awaiting their approval and the assignment of an amortization period. Accordingly, the treatment followed by PSNC was appropriate and consistent with the language in the relevant orders.

Q. WHAT IS THE FINANCIAL IMPACT TO THE COMPANY OF THE PUBLIC STAFF'S PROPOSED ADJUSTMENTS?

A. As I previously stated, the Public Staff's proposal would require the Company to write-off $9.6 million, which is more than fifty percent of the overall increase recommended by the Public Staff in this proceeding. This write-off would decrease PSNC's 2016 income by approximately $6 million, net of tax. This was totally unanticipated by the Company, and, obviously, would have a very significant impact on PSNC.

Q. HOW WOULD THESE ADJUSTMENTS, IF ACCEPTED, IMPACT PSNC'S STANDING IN THE INVESTOR COMMUNITY?

A. Continued investor confidence is essential for PSNC to access capital at reasonable rates and on reasonable terms. As I discussed in my direct testimony, PSNC has made substantial investments to serve its customers safely and reliably, thus providing substantial benefits to the people of North Carolina. The Company anticipates continued demand growth as North Carolina's economy continues to expand, which will place growing pressure on its capital needs in order to meet that demand. Increases in capital expenditures associated with its integrity management programs are also anticipated, which will, again, place growing pressure on the Company's capital needs.

In my direct testimony, I explained how the return on equity ("ROE") is a key consideration for investors when assessing whether to invest in a company like PSNC, since setting the proper ROE is important in order to give investor confidence that PSNC will continue to be able to raise capital in national markets on reasonable terms. The consistent and proper treatment of deferrals and amortizations is also very important to ensure investor confidence in PSNC. It is my opinion that the treatment of these costs that PSNC has received in previous cases strikes a fair balance between customers' financial interests and the service benefits from PSNC's capital investments and PSNC's interest in maintaining its ability to operate in the capital markets.

If the Public Staff's recommendation is approved, PSNC's ability to raise capital at reasonable interest rates could be impacted as financial markets could view the regulatory environment in North Carolina as less favorable than it has historically. In addition, and perhaps more significantly, a write-off in this case would suggest to investors the potential for other write-offs in the future. I can imagine analysts asking if there are other potential write-offs that we are currently unaware of. As to the issue at hand, investors will take note if PSNC is required to write off $9.6 million that was collected in compliance with the Commission's order in the Company's previous rate case.

Q. YOU MENTIONED IMPERMISSIBLE RETROACTIVE RATEMAKING EARLIER. WHAT IS RETROACTIVE RATEMAKING AND WHY IS IT NOT PERMITTED?

A. While retroactive ratemaking is a legal principle and I am not an attorney, I am an accountant with over twenty-five years of experience with regulatory accounting in the electric and gas utility industries, and I have experience with the concept of retroactive ratemaking. The prohibition of retroactive ratemaking is intended to protect both the utility and its customers. Retroactive ratemaking occurs when a utility levies an additional charge for past use of its service, or when the utility is required to reduce revenues collected, pursuant to then lawfully established rates, for such past use. Another way to think of retroactive ratemaking is that it constitutes adjustments to future rates to rectify undue past profits or losses.

Q. DO YOU HAVE ANY THOUGHTS ON THE RETROACTIVE RATEMAKING NATURE OF THE PUBLIC STAFF'S ADJUSTMENT?

A. Yes. As Mr. Hoard notes in his testimony, in the 1994 case in which the Commission approved the deferral and amortization treatment for MGP costs, the Commission explained that this approach was appropriate because it allowed such costs and their prudence to be evaluated in the context of general rate cases. PSNC's consistent application of the approach approved in 1994 has borne this rationale out, since it has permitted the evaluation of these costs in the context of each of the Company's subsequent rate cases. If the Commission were to accept the Public Staff's proposed adjustments, the benefit of prudence review during general rate cases would be nullified.

Q. WHAT IS YOUR RESPONSE TO MR. HOARD'S POINT THAT COST DEFERRALS AND RECOVERIES FOR MGP AND PIM COSTS HAVE OCCURRED OVER THE COURSE OF MULTIPLE YEARS AS COMPARED TO DEFERRALS RELATED TO STORM DAMAGE AND OTHER COSTS THAT INVOLVE SHORTER TIME PERIODS?

A. In my opinion, the distinction Mr. Hoard is making here is not relevant. The time frame over which costs are incurred or amortized does not make a difference. Certainly, for PSNC it has consistently been the case that the Commission has authorized deferral accounting over a set timeframe (between rate cases) and has then set an amortization period for those deferred costs regardless of whether the expenses were incurred over a short or long timeframe.

Q. ARE THERE ANY FINAL POINTS YOU WOULD LIKE TO MAKE ABOUT THE PUBLIC STAFF'S PROPOSED ADJUSTMENT?

A. Yes. First, the Public Staff's proposed adjustments ignore the amortization credits that have been reflected in rates since the Company's 2008 rate case.

The 2008 rate case order required PSNC to amortize and flow through to customers EDIT and ITC over a certain time period. Consistent with the Company's treatment of MGP and PIM costs, PSNC ceased amortization of these credits to its income statement when such credits were exhausted at the conclusion of the applicable amortization period. Rates were not adjusted upward when the tax credits ran out. Due to this treatment, PSNC's customers have continued to receive a credit for EDIT and ITC over the eight years since the 2008 rate case.

Additionally, as far as I know, PSNC has never included unamortized deferred costs, including MGP and PIM costs, in rate base. As such, PSNC's revenue requirement was not increased and PSNC did not receive a return on these costs. Recognition of this foregone return and the credits from the EDIT and ITC would significantly offset the five years of amortized MGP and PIM costs that the Public Staff is concerned about.

Therefore, if the Commission accepts the Public Staff's proposed adjustments, despite all the reasons that I have discussed, the same approach must be applied to EDIT and ITC, and the foregone return. Otherwise, the disallowance of more than $9 million of MGP and PIM costs would amount to cherry-picking the treatment of amortizations.

PSNC believes the treatment it proposes is appropriate. However, going forward, PSNC is willing to treat MGP and PIM costs consistent with the Public Staff's suggested treatment. PSNC would then have the certainty of knowing the effect of the treatment of deferrals and amortizations to the rates set in general rate cases, and PSNC could act accordingly to avoid the negative impact to the Company's financial position and perception within the financial community. It would also avoid the retroactive ratemaking that would result from applying the Public Staff's proposed adjustments in this case.

I will conclude by stating that PSNC has not requested increased rates for a period of eight years, which is a fairly long time in an inflationary period. I believe we have an excellent working relationship with the Public Staff and our customers built on a long history of mutual trust. We are simply asking that the rules not be changed on us in the middle of the game.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

BEFORE THE

NORTH CAROLINA UTILITIES COMMISSION

PUBLIC SERVICE COMPANY OF NORTH CAROLINA, INC.

DOCKET NO. G-5, SUB 565

REBUTTAL TESTIMONY

OF

CANDACE A. PATON

AUGUST 25, 2016

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND CURRENT POSITION WITH PUBLIC SERVICE COMPANY OF NORTH CAROLINA, INC.

A. My name is Candace A. Paton. I am employed by SCANA Services, Inc. as Rates & Regulatory Manager for Public Service Company of North Carolina, Inc., d/b/a PSNC Energy ("PSNC" or "the Company"). My business address is 800 Gaston Road, Gastonia, North Carolina 28056.

Q. HAVE YOU PREVIOUSLY FILED TESTIMONY IN THIS PROCEEDING?

A. Yes. I pre-filed direct testimony in this proceeding on March 31, 2016.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. The purpose of my rebuttal testimony is to address the treatment of PSNC's proposed amortizations of deferred manufactured gas plant ("MGP") and pipeline integrity management ("PIM") costs as set forth in the testimony of Public Staff witness Hoard. Specifically, I will address the historical and accounting issues relevant to the Public Staff's proposal. My testimony also addresses the deferral of distribution integrity management program ("DIMP") expenses as discussed in the Partial Stipulation.

<u>MGP AND PIM AMORTIZATIONS</u>

Q. PLEASE SUMMARIZE THE COMPANY'S POSITION.

A. PSNC agrees with the Public Staff that the estimated balances at June 30, 2016, should be updated to reflect actual balances and also agrees to use a 5-

year rather than a 3-year amortization period. However, PSNC does not agree with the Public Staff's recommendation to reduce the MGP and PIM balances to be amortized by $5,824,272 and $3,811,728, respectively.

Q. PLEASE DISCUSS THE PUBLIC STAFF'S PROPOSED ADJUSTMENTS.

A. The Public Staff has proposed to reduce the deferred account balances for MGP and PIM costs to be amortized in order to "reflect five years of … cost recovery … beyond the three-year amortization period used in establishing rates in the Company's last rate case." Hoard Direct Testimony at 2, lines 19-22.

Q. PLEASE DISCUSS HOW PSNC HAS HISTORICALLY ACCOUNTED FOR MGP COSTS.

A. The appropriate accounting and ratemaking treatment of MGP costs goes back twenty-three years. As indicated in the Public Staff's testimony, PSNC began deferring MGP clean-up costs in 1993. Since that time PSNC has been consistent in its accounting for such costs. Such accounting has also consistently been approved in each rate case since that time.

In Docket No. G-5, Sub 317, PSNC requested authority to defer "all costs associated with the investigation and remediation of MGP sites pending Commission determination of the appropriate disposition of these costs." PSNC Letter, filed April 29, 1993. The Commission approved the request in its Order Granting Request, dated May 11, 1993.

In Docket No. G-5, Sub 327, the Company did propose an alternative accounting for MGP costs when it requested authority to establish a Manufactured Gas Plant Tracker. Specifically, the proposed tracker provided that "the Company establish an MGP Deferred Account for accumulating MGP clean-up costs incurred, recoveries from third parties, and amounts collected from and refunded to ratepayers." Finally, the proposed tracker would have allowed PSNC "to adjust its rates periodically to refund or collect balances in the MGP Deferred Account" through increments or decrements to current rates. Order Granting Partial Rate Increase, dated October 7, 1994, at 20-21.

As indicated in Mr. Hoard's testimony in this proceeding, the Public Staff opposed the Company's proposed tracker in Docket No. G-5, Sub 327, and recommended that the Company record its actual incurred MGP costs in a miscellaneous deferred debit account. The Public Staff further stated, "The additional MGP costs will be eligible for recovery through rates in the Company's next rate case. Of course, these additional costs will be subject to investigation and review in the next rate case by the Public Staff and the Commission before they can be recovered through rates. The appropriate amortization applicable to those costs should be addressed during the next proceeding. The MGP costs that are approved for recovery in this proceeding should be transferred to a separate account and the Company should credit the account each month to reflect the monthly amortization of the costs to expenses." *Id*. at 23. The Commission concluded in that case that PSNC should account for MGP costs in the manner described in Public Staff testimony. In Findings of Fact Nos. 27, 28, and 29 of the Commission's Order dated October 7, 1994, the Commission indicated that the proposed tracker "would provide a limited opportunity for prudency review of clean-up costs…", that "a general rate case is the appropriate forum for reviewing the MGP clean-up costs" and that "the unamortized balance of MGP costs should not be included in rate base." *Id*. at 6. Based on the Commission's Order in Docket No. G-5, Sub 327, which supported the Public Staff's proposed accounting, PSNC has consistently recorded MGP costs as deferred amounts on its balance sheet pending review and approval by the Commission in a subsequent rate case when an appropriate amortization period would be determined.

Q. PLEASE DISCUSS HOW PSNC HAS HISTORICALLY ACCOUNTED FOR PIM COSTS.

A. PSNC's PIM costs received similar deferral and amortization accounting treatment. In Docket No. G-5, Sub 459, the Commission approved deferred accounting treatment for PIM costs through the earlier of December 31, 2006, or the effective date of a rate case order.

In the Company's 2006 rate case (Docket No. G-5, Sub 481), the Commission approved a stipulation providing, "The Stipulating Parties agree that it is appropriate to amortize and allow recovery of the balance of this deferred asset as of June 30, 2006 over a three-year period and that the Company continue to defer these costs through November 1, 2006, the expected effective date of rates in this case, which is consistent with the Commission's order on deferred PIM costs rendered in Docket No. G-5, Sub 459. The Stipulating Parties further agree that it is appropriate to continue until the resolution of PSNC's next general rate proceeding regulatory asset treatment for costs … pending the establishment of an appropriate recovery mechanism in a future proceeding." Stipulation, dated August 16, 2006, at 9.

Based on the Commission's Order in Docket No. G-5, Sub 481, PSNC has consistently recorded PIM costs as deferred amounts on its balance sheet pending review and approval by the Commission in a subsequent rate case when an appropriate amortization period would be determined.

Q. HOW IS THE PUBLIC STAFF'S PROPOSED TREATMENT IN THIS PROCEEDING CONTRARY TO THE ACCOUNTING TREATMENT DISCUSSED ABOVE?

A. There are several inconsistencies. One such inconsistency is the current Public Staff position to include the unamortized deferred account balance in rate base. The exclusion of unamortized balances from rate base is a long-standing Public Staff and Commission practice that pre-dates PSNC's 1994 rate case. PSNC has consistently followed the policy to not include unamortized deferred account balances in rate base. PSNC is not opposed to including these balances in rate base but is surprised at this apparent reversal of opinion on the part of the Public Staff.

Q. HOW ELSE DOES THE PUBLIC STAFF'S PROPOSED ACCOUNTING DIFFER FROM PAST TREATMENT?

A. As noted above, the approval of deferred accounting has consistently provided for those deferred costs to be subject to review in a future general rate case in which the Commission would rule on their prudence and determine an appropriate amortization period. For example, when the Company defers MGP costs they are recorded in account 182.3401. Once those costs have been reviewed in a general rate case and approved for amortization they are transferred to account 182.3408 and amortized over the appropriate period. New costs incurred are again recorded in account 182.3401 until they are reviewed in a general rate case.

The Public Staff's current position on deferred MGP accounting is that subsequent to its last general rate case, PSNC should have recorded new MGP expenses in account 182.3408 and continued to record an annual amortization of $1,164,854 even though the new deferred costs were never subject to Commission review and approval. It has long-been PSNC's understanding and practice that, when deferral accounting treatment is authorized, the ultimate prudence and recovery of those deferred costs will be addressed in a future rate case. The Public Staff's current position is contrary to this understanding as well as their previous position that "the appropriate forum for reviewing and analyzing and investigating MGP costs is a rate case…." Docket No. G-5, Sub 327, Order Granting Partial Rate Increase, dated October 7, 1994, at 21.

Q. ARE THERE OTHER AMORTIZATION ISSUES THAT CONFLICT WITH THE PUBLIC STAFF'S CURRENT POSITION?

A. Yes. In addition to the MGP and PIM amortizations that were approved in PSNC's last general rate case, an amortization of excess deferred income taxes ("EDIT") was approved over a three-year period. Contrary to its position on MGP and PIM amortizations, the Public Staff has not adjusted the current balance of EDIT to reflect five years of refund beyond the three-year amortization period used in establishing rates in the Company's last rate case. Doing so would reduce the current balance of EDIT, as shown on Paton Exhibit 13 attached to my direct testimony, by $3,227,125. PSNC does not agree with the Public Staff's position that amortizations should continue beyond the periods authorized by the Commission, but if the Commission agrees with the Public Staff then all amortizations should be considered and treated accordingly.

Q. DO YOU HAVE ANY COMMENTS ON MR. HOARD'S DISCUSSION OF THE NORTH CAROLINA NATURAL GAS ("NCNG") AND PIEDMONT NATURAL GAS ("PIEDMONT") CASES?

A. Yes. The NCNG case (Docket No. G-21, Sub 442) and the Piedmont case (Docket No. G-9, Sub 631) that Mr. Hoard references were stipulated, and those results should therefore not be imposed on PSNC in a separate proceeding. Moreover, the NCNG case illustrates that utilities are bound by specific directives in Commission orders which contemplate the unique circumstances of each utility. For example, as Mr. Hoard notes in his testimony, the NCNG 1995 rate case order set forth an annual amortization amount, rather than a specific amortization period, as is established in the PSNC orders.

Q. CAN YOU CITE OTHER EXAMPLES OF UNIQUE, SPECIFIC TREATMENT?

A. Yes. In 1997 in Docket No. G-5, Sub 369, PSNC received Commission approval to defer and amortize certain costs associated with Year 2000 conversion. The Commission explicitly ordered PSNC to begin amortization in the year that such costs were incurred. The Company complied with the Commission order. In PSNC's 1998 rate case, the cost of service reflected a three-year amortization of the Year 2000 costs. PSNC's next general rate case was in 2006, and the Public Staff did not propose comparable treatment of the "over-recovered" amounts as they propose in this proceeding.

Q. PLEASE SUMMARIZE.

A. In the Stipulation in Docket No. G-5, Sub 495, the Stipulating Parties agreed that the deferred MGP costs "should be amortized over three years" and that the deferred PIM costs should be amortized "over a three-year period." That is precisely how PSNC accounted for those costs. For the Public Staff to now recommend a different accounting treatment is contrary to the provisions of the Stipulation in Docket No. G-5, Sub 495, and is tantamount to retroactive ratemaking.

DEFERRAL OF DIMP EXPENSES

Q. WHAT COMMENTS DO YOU HAVE REGARDING THE DEFERRAL OF DIMP EXPENSES AS DISCUSSED IN THE PARTIAL STIPULATION?

A. In the direct testimony of Company witness Spaulding, PSNC requested to include an annual level of $2 million of DIMP expenses in cost of service and to defer any amounts incurred above $2 million annually on a going-forward basis. As part of the Partial Stipulation in this proceeding, PSNC agreed not to include any DIMP expenses in cost of service in this proceeding, but to instead record amounts spent as of June 30, 2016, in a deferred account and to amortize that amount over five years. Additional DIMP expenses incurred after June 30, 2016, will also be deferred for future recovery. In calculating its adjustment to DIMP expenses, the Public Staff erroneously compared the proposed DIMP amortization of $300,219 to

PSNC's original adjustment of $1,519,116 rather than to the $2 million included in cost of service as a result of PSNC's proposed adjustment. As shown on Schedule 2 of Paton Rebuttal Exhibit 1, PSNC has corrected the Public Staff's adjustment.

Q. DO YOU HAVE AN EXHIBIT SHOWING PSNC'S PROPOSED MGP, PIM, AND DIMP AMORTIZATIONS AS WELL AS THE REVENUE REQUIREMENT IMPACT OF THOSE ADJUSTMENTS?

A. Yes. The proposed amortizations and resulting revenue requirement are shown on Paton Rebuttal Exhibit 1, Schedules 1 and 2. As shown on Line 1 of Schedule 1, the Company requested an overall increase in margin revenues of $41,583,020. The determination of this amount was presented on Boone Exhibit 6, filed in this docket on March 31, 2016. The adjustments presented on lines 2 through 39 and lines 43 and 44, with the exception of the adjustments shown on lines 28, 29, and 30, were discussed in the testimony of Public Staff witness Boswell. PSNC's proposed adjustments to MGP, PIM, and DIMP amortizations are set forth on Schedule 2 of Paton Rebuttal Exhibit 1.

Q. PLEASE DISCUSS THE PROPOSED ADJUSTMENTS.

A. Schedule 2 shows the balance of deferred MGP, PIM, and DIMP costs as of June 30, 2016. The revenue requirement effect of these adjustments is set forth on Schedule 1, where the revised Company requested revenue increase of $19,214,174 is shown.

Q. WHAT IS SHOWN ON PATON REBUTTAL EXHIBIT 1, SCHEDULES 3 AND 4?

A. Schedules 3 and 4 are comparable to Boswell Exhibit 1, Schedules 4 and 5. My Schedule 3 sets forth the calculation of the Company's revised net operating income. My Schedule 4 shows the increase in revenue necessary to achieve the revised net operating income.

Q. WHAT IS SHOWN ON PATON REBUTTAL EXHIBIT 1, SCHEDULES 5 AND 6?

A. If the Commission determines that it is now appropriate to include unamortized deferred account balances in rate base, the necessary adjustments, and resulting revenue requirement are set forth on Schedules 5 and 6 of Paton Rebuttal Exhibit 1.

Q. DOES THIS COMPLETE YOUR REBUTTAL TESTIMONY?

A. Yes, it does.

Paton Rebuttal Exhibit 1
Schedule 1

Public Service Company of North Carolina
Docket No. G-5, Sub 565
RECONCILIATION OF ORIGINAL AND SUPPLEMENTAL GROSS REVENUE
INCREASE REQUESTED BY THE COMPANY
For The Test Year Ended December 31, 2015

Line No.	Item	Amount	
1	Increase in revenue requirement requested by the Company	$41,583,020	
	Revenue Requirement Effect of Adjustments		
2	Change in equity ratio from 53.50 % to 52.00%	(1,614,203)	
3	Change in cost of long-term debt from 5.66% to 5.52%	(593,475)	
4	Change in cost of short-term debt from 0.82% to 0.77%	(16,056)	
5	Change in return on equity from 10.60% to 9.70%	(7,125,357)	
6	Plant in service updates and related items at June 30, 2016	51,324	
7	Working capital updates at June 30, 2016	(158,131)	
8	Update gas in storage through June 2016	(563,311)	
9	Update materials and supplies through June 2016	91,901	
10	ADIT - update to June 30, 2016	174,724	
11	Adjust lead/lag working capital to reflect other adjustments	195,296	
12	Adjustment to end of period revenue - weather, growth, and commodity costs	(1,457,266)	
13	Adjustment to other operating revenues	(114,232)	
14	Special Contract - remove PIS associated with facilities	(517,243)	
15	Payroll and related expenses	(288,568)	
16	Update bonus accruals to actuals at 6/30/16	(1,183,067)	
17	Update payroll benefits percentage through June 30, 2016	(21,854)	
18	Modify the allocation of incentive pay for certain executives	(872,982)	
19	Executive compensation adjustment	(280,405)	
20	Exclude retired executive compensation	(139,795)	
21	Nonutility adjustment - O&M expense	(262,228)	
22	Nonutility adjustment - effect of change in plant additions	(24,508)	
23	Inflation adjustment - removed certain expenses and update rate to 2.2%	450,911	
24	Rate case expenses - updated through June 30, 2016 w/ 5 yr amortization	(77,327)	
25	Postage adjustment	(145,282)	
26	Uncollectibles - changes in revenue	(22,533)	
27	Regulatory Fee - change for 0.148% to 0.14%	(34,439)	
28	MGP costs - update actual expenses @ 6/30/16 & 5-year amortization	(887,970)	[1]
29	PIM costs - update actual expenses @ 6/30/16 & 5-year amortization	(1,651,192)	[1]
30	DIMP costs - deferral	(1,706,430)	[1]
31	SalesForce adjustment - ongoing level	(37,532)	
32	Advertising - remove promtional, image, competitive, & non-recurring	(518,919)	
33	Update interest on customer deposits through June 2016	(11,382)	
34	Service Company charges	(3,228,865)	
35	Update GTI to June 2016 actual meters	(6,394)	
36	Adjustment to test year fuel costs	(117,471)	
37	Adjustment to remove lobbying expenses	(168,417)	
38	Change in retention factor - regulatory fee changes	(3,332)	
39	Adjust cash working capital for revenue impact of other adjustments	(149,267)	
40	Rounding	44	
41	Revenue requirement effect of PSNC adjustments	($23,035,231)	
42	Recommended change in margin	$18,547,789	
43	Fixed gas cost adjustment	643,643	
44	LAUF rate change	22,742	
45	Revenue requirement increase	$19,214,174	

[1] Paton Rebuttal Exhibit 1, Schedule 2

Public Service Company of North Carolina, Inc.
Docket No. G-5, Sub 565
Revised MGP, PIM & DIMP Amortizations

		MGP		PIM		DIMP		Total	
1	Balance @ 6/30/16	$6,848,729	[1]	$20,309,785	[2]	$1,501,093	[3]	$28,659,607	
2	Years	5		5		5		5	
3	Annual amortization	1,369,746		4,061,957		300,219		5,731,921	
4	MGP as filed	2,254,255	[4]					2,254,255	
5	PIM as filed			5,706,715	[5]			5,706,715	
6	DIMP as filed					2,000,000	[6]	2,000,000	
7	Total	2,254,255		5,706,715		2,000,000		9,960,970	
8	Adjustment	($884,509)		($1,644,758)		($1,699,781)		($4,229,049)	
9	Revenue requirement	($887,970)		($1,651,192)		($1,706,430)		($4,245,592)	[7]

[1] Boswell Exhibit 1, Schedule 3-13, Line 2 plus Line 3
[2] Boswell Exhibit 1, Schedule 3-12, Line 2 plus Line 3
[3] Boswell Exhibit 1, Schedule 3-14, Line 3
[4] Docket No. G-5, Sub 565, N.C.U.C. Form G-1, Item 4, Workpaper 3-I, Line 7
[5] Docket No. G-5, Sub 565, N.C.U.C. Form G-1, Item 4, Workpaper 3-K, Line 7
[6] Docket No. G-5, Sub 565, N.C.U.C. Form G-1, Item 4, Workpaper 3-P
[7] Line 8 ÷ .9961035

Paton Rebuttal Exhibit 1
Schedule 3

Public Service Company of North Carolina
Docket No. G-5, Sub 565
RETURN ON EQUITY AND ORIGINAL COST RATE BASE
For The Test Year Ended December 31, 2015

				Before Recommended Increase			After Recommended Increase			
Line No.	Item	Capitalization Ratios	Rate Base	Embedded Cost/Return %	Weighted Cost/Return %	Net Operating Income	Rate Base	Embedded Cost/Return %	Weighted Cost/Return %	Net Operating Income
		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1	Long term debt	44.62%	$421,595,367	5.52%	2.46%	$23,272,064	$422,429,033	5.52%	2.46%	$23,318,083
2	Short term debt	3.38%	31,936,180	0.77%	0.03%	245,909	31,999,331	0.77%	0.03%	$246,395
3	Common equity	52.00%	491,325,842	7.29%	3.79%	35,838,939	492,297,394	9.70%	5.04%	$47,752,847
4	Totals	100.00%	$944,857,388		6.28%	$59,356,912	$946,725,758		7.53%	$71,317,325

Public Service Company of North Carolina
Docket No. G-5, Sub 565
CALCULATION OF REVENUE
REQUIREMENT INCREASE
For The Test Year Ended December 31, 2015

Line No.	Item	Long-term Debt (a)		Short-term Debt (b)		Equity (c)		Total (d)
1	Required net operating income	$23,318,083	[1]	$246,395	[1]	$47,752,847	[1]	$71,317,325
2	Net operating income before proposed increase	23,272,064	[2]	245,909	[2]	35,838,939	[2]	59,356,912
3	Additional net operating income requirement (L1 - L2)	46,019		486		11,913,908		11,960,413
4	Retention factor	0.9961035	[3]	0.9961035	[3]	0.6215686	[3]	
5	Additional gross revenue requirement (L3 / L4)	$46,199		$488		$19,167,487		$19,214,174

[1] Paton Rebuttal Exhibit I, Schedule 3, Column (h).
[2] Paton Rebuttal Exhibit I, Schedule 3, Column (e).
[3] Boswell Exhibit I, Schedule 5 (a), Column (c).

Paton Rebuttal Exhibit 1
Schedule 5

Public Service Company of North Carolina
Docket No. G-5, Sub 565
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26	Uncollectibles - changes in revenue	(22,533)	
27	Regulatory Fee - change for 0.148% to 0.14%	(34,439)	
28	MGP costs - update actual expenses @ 6/30/16 & 5-year amortization	(306,445)	[1]
29	PIM costs - update actual expenses @ 6/30/16 & 5-year amortization	73,310	[1]
30	DIMP costs - deferral	(1,578,972)	[1]
31	SalesForce adjustment - ongoing level	(37,532)	
32	Advertising - remove promtional, image, competitive, & non-recurring	(518,919)	
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44	LAUF rate change	22,742	
45	Revenue requirement increase	$21,653,454	

[1] Paton Rebuttal Exhibit 1, Schedule 6

Public Service Company of North Carolina, Inc.
Docket No. G-5, Sub 565
Revised MGP, PIM & DIMP Amortizations

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3	Annual amortization	1,369,746		4,061,957		300,219		5,731,921	
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7	Total	2,254,255		5,706,715		2,000,000		9,960,970	
8	Adjustment	($884,509)		($1,644,758)		($1,699,781)		($4,229,049)	
9	Revenue requirement	($887,970)		($1,651,192)		($1,706,430)		($4,245,592)	[7]
10	Rate base adjustment	$5,478,983		$16,247,828		$1,200,874		$22,927,686	[8]
11	Revenue requirement	$581,525		$1,724,502		$127,458		$2,433,485	[9]
12	Total revenue requirement	($306,445)		$73,310		($1,578,972)		($1,812,107)	[10]

[1] Boswell Exhibit 1, Schedule 3-13, Line 2 plus Line 3
[2] Boswell Exhibit 1, Schedule 3-12, Line 2 plus Line 3
[3] Boswell Exhibit 1, Schedule 3-14, Line 3
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[5] Docket No. G-5, Sub 565, N.C.U.C. Form G-1, Item 4, Workpaper 3-K, Line 7
[6] Docket No. G-5, Sub 565, N.C.U.C. Form G-1, Item 4, Workpaper 3-P
[7] Line 8 ÷ .9961035
[8] Line 1 minus Line 3
[9] Line 10 x .1061374
[10] Line 9 plus Line 11

CERTIFICATE OF SERVICE

I certify that a copy of the foregoing *Supplemental Testimony of Candace A. Paton, Rebuttal Testimony of Jimmy E. Addison, and Rebuttal Testimony of Candace A. Paton* have been served on all parties of record or their attorneys, or both, by United States mail, first class or better; by hand delivery; or by means of facsimile or electronic delivery upon agreement of the receiving party.

This the 25th day of August, 2016.

/s/Mary Lynne Grigg
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