OFFICIAL COPY
Oct 01 2018

NORTH CAROLINA
PUBLIC STAFF
UTILITIES COMMISSION

October 1, 2018

Ms. M. Lynn Jarvis, Chief Clerk
North Carolina Utilities Commission
4325 Mail Service Center
Raleigh, North Carolina 27699-4300

Re: Docket No. G-9, Sub 727

Dear Ms. Jarvis:

In connection with the above-captioned docket, I transmit herewith for filing on behalf of the Public Staff the Revised Joint Testimony of Poornima Jayasheela, Staff Accountant, Accounting Division; Zarka H. Naba, Public Utilities Engineer, Natural Gas Division; and Michael C. Maness, Director, Accounting Division. Track changed revisions have been made to pages 11, 14, and 23.

By copy of this letter, I am forwarding a copy of the above to all parties of record.

Sincerely,

Electronically submitted
/s/ Elizabeth D. Culpepper
Staff Attorney
elizabeth.culpepper@psncuc.nc.gov

c: Parties of Record

OFFICIAL COPY

Oct 01 2018

PIEDMONT NATURAL GAS COMPANY, INC.

DOCKET NO. G-9, SUB 727

JOINT TESTIMONY OF

POORNIMA JAYASHEELA, ZARKA H. NABA,

AND MICHAEL C. MANESS

ON BEHALF OF

THE PUBLIC STAFF – NORTH CAROLINA UTILITIES COMMISSION

SEPTEMBER 17, 2018

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

A. My name is Poornima Jayasheela, and my business address is 430 North Salisbury Street, Raleigh, North Carolina. I am a Staff Accountant in the Accounting Division of the Public Staff. My qualifications and experience are provided in Appendix A.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. The purpose of my testimony is (1) to present the results of my review of the gas cost information filed by Piedmont Natural Gas Company, Inc. (Piedmont or Company), in accordance with N.C. Gen. Stat. § 62-133.4(c) and Commission Rule R1-17(k)(6), (2) to provide my conclusions regarding whether the gas costs incurred by Piedmont during the 12-month review period ended May 31,

OFFICIAL COPY

Oct 01 2018

2018, were properly accounted for, and (3) to report on any changes in the deferred gas cost reporting during the review period.

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

A. My name is Zarka H. Naba, and my business address is 430 North Salisbury Street, Raleigh, North Carolina. I am a Public Utilities Engineer in the Public Staff's Natural Gas Division. My qualifications and experience are provided in Appendix B.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. The purpose of my testimony is to present my conclusions regarding whether the natural gas purchases made by Piedmont during the review period were prudently incurred. My testimony also presents the results of my review of the gas cost information filed by Piedmont in accordance with N.C. Gen. Stat. § 62-133.4(c) and Commission Rule R1-17(k)(6), and provides my recommendation regarding temporary rate increments or decrements.

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

A. My name is Michael C. Maness, and my business address is 430 North Salisbury Street, Raleigh, North Carolina. I am the Director

OFFICIAL COPY
Oct 01 2018

of the Accounting Division of the Public Staff. My qualifications and experience are provided in Appendix C.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. The purpose of my testimony is to discuss the Public Staff's investigation and conclusions regarding the prudence of Piedmont's hedging activities during the review period.

Q. PLEASE EXPLAIN HOW THE PUBLIC STAFF CONDUCTED ITS REVIEW.

A. We reviewed the testimony and exhibits of the Company's witnesses, the Company's monthly Deferred Gas Cost Account reports, monthly financial and operating reports, the gas supply, pipeline transportation, and storage contracts, the reports filed with the Commission in Docket No. G-100, Sub 24A, and the Company's responses to Public Staff data requests. The responses to the Public Staff data requests contained information related to Piedmont's gas purchasing philosophies, customer requirements, and gas portfolio mixes.

Q. MS. NABA, WHAT IS THE RESULT OF YOUR EVALUATION OF PIEDMONT'S GAS COSTS?

A. Based on my investigation and review of the data in this docket, I believe that Piedmont's gas costs were prudently incurred.

OFFICIAL COPY

Oct 01 2018

Q. WHAT OTHER ITEMS DID THE NATURAL GAS DIVISION REVIEW?

A. Even though the scope of Commission Rule R1-17(k) is limited to a historical review period, the Public Staff's Natural Gas Division also considers other information received pursuant to the data requests in order to anticipate the Company's requirements for future needs, including design day estimates, forecasted gas supply needs, projection of capacity additions and supply changes, and customer load profile changes.

ACCOUNTING FOR AND ANALYSIS OF GAS COSTS

Q. MS. JAYASHEELA, HAS THE COMPANY PROPERLY ACCOUNTED FOR ITS GAS COSTS DURING THE REVIEW PERIOD?

A. Yes.

Q. HOW DOES THE ACCOUNTING DIVISION GO ABOUT CONDUCTING ITS REVIEW OF THE COMPANY'S ACCOUNTING FOR GAS COSTS?

A. 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 several audit procedures on the calculations, including the following:

OFFICIAL COPY Oct 01 2018

(1) Commodity Gas Cost True-Up – The actual commodity gas costs incurred are verified, the calculations and data supporting the commodity gas costs collected from customers are checked, and the overall calculation is reviewed for mathematical accuracy.

(2) Fixed Gas Cost True-Up – The actual fixed gas costs incurred are compared with pipeline tariffs and gas contracts, the rates and volumes supporting the calculation of collections from customers are verified, and the overall calculation is reviewed for mathematical accuracy.

(3) Negotiated Losses – Negotiated prices for each customer are reviewed to ensure that the Company does not sell gas to the customer below the cost of gas to the Company or below the price of the customer's alternative fuel.

(4) Temporary Increments and/or Decrements – Calculations and supporting data are verified regarding the collections from and/or refunds to customers that have occurred through the Deferred Gas Cost Accounts.

(5) Interest Accrual – Calculations of the interest accrued on the various deferred account balances during the month are verified in accordance with N.C. Gen. Stat. § 62-130(e) and the Commission’s Order Approving Merger Subject to Regulatory Conditions and

OFFICIAL COPY

Oct 01 2018

Code of Conduct issued September 29, 2016, in Docket Nos. G-9, Sub 682, E-2, Sub 1095, and E-7, Sub 1100 (Merger Order).

(6) Secondary Market Transactions – The secondary market transactions conducted by the Company are reviewed and verified to the financial books and records, asset management arrangements, and other deferred account journal entries.

(7) Uncollectibles – The Company records a journal entry each month in the Sales Customers' Only Deferred Account for the gas cost portion of its uncollectibles write-offs. The calculations supporting those journal entries are reviewed to ensure that the proper amounts are recorded.

(8) Supplier Refunds – Unless ordered otherwise, supplier refunds received by Piedmont should be flowed through to ratepayers in the All Customers' Deferred Account or in certain circumstances applied to the NCUC Legal Fund Reserve Account. Documentation is reviewed to ensure that the proper amount is credited to the correct account in a timely fashion.

Q. HOW DO THE COMPANY'S FILED GAS COSTS FOR THE CURRENT REVIEW PERIOD COMPARE WITH THOSE FOR THE PRIOR REVIEW PERIOD?

A. The Company filed total gas costs of $343,478,124 per Tomlinson Exhibit_(MBT-1), Schedule 1, for the current period as compared

OFFICIAL COPY

Oct 01 2018

with $284,034,828 for the prior twelve-month period. The components of the filed gas costs for the two periods are as follows:

	12 Months Ended			
	May 31, 2018	May 31, 2017	Increase (Decrease)	% Change
Demand & Storage	$129,398,029	$132,821,781	($3,423,752)	(2.6%)
Commodity	220,382,071	173,683,773	46,698,298	26.9%
Other Costs	(6,301,977)	(22,470,726)	16,168,749	(72.0%)
Total	$343,478,124	$284,034,828	$59,443,295	20.9%

Q. PLEASE EXPLAIN ANY SIGNIFICANT INCREASES OR DECREASES IN DEMAND AND STORAGE CHARGES.

A. The Demand and Storage Charges for the current review period and the prior twelve-month review period are as follows:

OFFICIAL COPY

Oct 01 2018

		Actual Amounts for the 12 Month Periods Ended			
		April 30, 2018	April 30, 2017	Increase (Decrease)	% Change
Transco	FT	$93,988,018	$94,479,301	($491,283)	-0.5%
Transco	GSS	3,679,481	3,679,747	(266)	0.0%
Transco	ESS	2,318,429	2,318,429	0	0.0%
Transco	WSS	1,796,037	1,796,037	0	0.0%
Transco	LNG Service	219,197	219,197	0	0.0%
Columbia	FSS	3,331,131	3,331,131	0	0.0%
Columbia	SST	4,800,194	4,718,079	82,115	1.7%
Columbia	FTS	2,506,655	2,455,311	51,344	2.1%
Columbia	No Notice FT	941,770	929,740	12,030	1.3%
Col Gulf	FTS	255,154	726,150	(470,996)	-64.9%
Dominion	GSS	575,112	574,680	432	0.1%
Dominion	FT - GSS	965,167	972,850	(7,683)	-0.8%
ETN	FT	3,631,601	3,631,614	(13)	0.0%
Midwestern	FT	2,710,800	2,710,800	0	0.0%
Hardy Storage		14,550,258	14,442,394	107,864	0.7%
Pine Needle LNG		7,922,018	9,373,299	(1,451,281)	-15.5%
Cardinal	FT Demand	6,917,009	8,706,922	(1,789,913)	-20.6%
LNG Processing		1,102,267	921,994	180,273	19.6%
Property Taxes		96,225	126,312	(30,087)	-23.8%
Other		(216,691)	-	(216,691)	-
NC/SC Costs Expensed		152,089,832	156,113,988	(4,024,156)	-2.6%
NC Demand Allocator		85.08%	85.08%		
NC Costs Expensed		$129,398,029	$132,821,781	($3,423,752)	-2.6%

Note: Actual amounts lag one-month behind the accounting period. The May 31 review periods reflect actual amounts for the 12-month periods ended April 30.

The decrease in the Transcontinental Gas Pipe Line Company, LLC (**Transco**) **Firm Transportation (FT)** charges are due to a decrease in the electric power component of the reservation charge, pursuant to FERC Docket No. RP18-541-000, effective April 1, 2018.

The decrease in Columbia Gulf Transmission, LLC (**Columbia**) **Firm Transportation Service (FTS)** charges is due to the termination of the Columbia Gulf contract, effective October 31, 2017.

OFFICIAL COPY

Oct 01 2018

The reduction in the **Pine Needle LNG Company, LLC** charges is due to a decrease in its rates pursuant to FERC Docket No. RP17-204-000, effective January 1, 2017, and RP17-576-000, effective May 1, 2017.

The decrease in Cardinal Pipeline Company, LLC (**Cardinal) Firm Transportation** charges is due to the North Carolina Utilities Commission Order decreasing reservation charges in Docket No. G-39, Sub 38, effective August 1, 2017.

The **LNG Processing** charges are the electric bills associated with the liquefaction expense for Piedmont's two on-system LNG facilities. These charges increased due to a higher level of LNG injection volumes and LNG withdrawal volumes when compared to the injection and withdrawal volumes from the 2017 Annual Review of Gas Costs.

The **Other** amount of ($216,691) is a one-time Transco interconnect refund which was recorded in April 2018.

Q. PLEASE EXPLAIN THE CHANGE IN COMMODITY GAS COSTS.

A. Commodity gas costs for the current review period and the prior twelve-month period are as follows:

OFFICIAL COPY

Oct 01 2018

	Actual Amounts for the 12 Month Periods Ended			
	April 30, 2018	April 30, 2017	Increase (Decrease)	% Change
Gas Supply Purchases	$260,145,619	$198,124,517	$62,021,102	31.3%
Reservation Charges	3,512,866	2,108,516	1,404,350	66.6%
Storage Injections	(55,350,193)	(41,629,300)	(13,720,893)	33.0%
Storage Withdrawals	55,662,061	48,397,674	7,264,387	15.0%
Electric Compressor Costs	1,970,456	812,550	1,157,905	142.5%
Banked Gas Usage	(2,424)	13,304	(15,728)	(118.2%)
Cash Out Brokers (Long)	1,835,287	1,860,501	(25,214)	(1.4%)
Sales to Transport Customers/Cash Out Shorts	0	(513,518)	513,518	(100.0%)
NC/SC Commodity Costs	$267,773,671	$209,174,244	$58,599,427	28.0%
NC Commodity Costs	$220,382,071	$173,683,773	$46,698,298	26.9%
NC Dekatherms Delivered	74,847,698	61,255,701	13,591,997	22.2%
NC Cost per Dekatherm	$2.9444	$2.8354	$0.1090	3.8%

Note: Actual amounts lag one-month behind the accounting period. The May 31 review periods reflect actual amounts for the 12-months ended April 30.

Gas Supply Purchases increased by $62,021,102 primarily due to a greater level of wellhead gas prices and an increase in purchased volumes in the current review period compared with the prior twelve-month review period.

Reservation Charges are fixed or minimum monthly charges a local distribution company (LDC) may pay a supplier in connection with the supplier providing the LDC an agreed-upon quantity of gas, regardless of whether the LDC takes it or not. The increase in reservation charges reflects the market-driven increase in prices in the current review period as compared to the prior review period.

The increase in **Storage Injections** was due to both higher cost of gas supply injected into storage and increased volumes injected into storage. The average cost of gas into storage during the current review period was $~~2.8468~~ 2.8309 per dekatherm (dt) as compared with $2.5405 per dt for the prior period. Piedmont injected 19,552,162 dts into storage in the current review period as compared to 16,386,099 dts for the prior period.

The increase in **Storage Withdrawal charges** was due to a higher average cost of supply withdrawn from storage and higher volumes withdrawn from storage. Piedmont's average cost of gas withdrawn was $2.9723 per dt this review period as compared to $2.7522 per dt in the prior period. Piedmont withdrew 18,726,868 dts from storage in the current review period as compared to 17,584,794 dts for the prior period.

The **Electric Compressor Costs** are associated with electric compressors related to power generation contracts. There is no impact on the deferred account since these costs are recovered through the contract payments.

Banked Gas is the cost of gas associated with the month-end volume imbalances that are not cashed out with customers. Piedmont currently has four banked gas customers, all former NCNG customers, who may exercise the right per contract to carry forward their monthly volume imbalances instead of cashing out monthly. The change in the banked gas represents the difference

OFFICIAL COPY

Oct 01 2018

in the cost of gas supply of the volume imbalances carried forward from month to month.

Cash Out Brokers (Long) represents the purchases made by Piedmont from brokers that brought too much gas to the city gate. The modest reduction in Cash Out Longs was due to the decrease in dollars per dt during the current review period as compared to the prior review period. During the current period, the average price per dt for Cash Out Longs was $1.0140 while the previous period's average price per dt was $1.1063.

Sales to Transport Customers/Cash Out Shorts represents the purchases made by transport customers when they are short of gas from Piedmont. In prior annual review of gas costs proceedings, Piedmont applied the North Carolina allocation percentage to Cash Out Shorts. From the current annual review of gas costs proceeding forward, Piedmont is able to directly allocate the Cash Out Shorts to North Carolina.

Q. PLEASE EXPLAIN THE CHANGE IN OTHER GAS COSTS.

A. Other gas costs for the current review period and the prior twelve-month period are as follows:

OFFICIAL COPY

Oct 01 2018

	Actual Amounts for the 12 Month Periods Ended		
			Increase
	April 30, 2018	April 30, 2017	(Decrease)
Total Deferred Acct Activity COG Items	$13,026,040	($49,941)	$13,075,981
Actual vs. Estimate Reporting Month Adj.	(1,584,982)	3,636,860	(5,221,842)
Total Other Costs	(17,743,034)	(26,057,644)	8,314,610
Total NC Other Cost of Gas Expense	($6,301,976)	($22,470,726)	$16,168,749

The **Total Deferred Acct Activity COG Items** reflect offsetting journal entries for the cost of gas recorded in the Company's Deferred Gas Cost Accounts during the review periods. This amount includes offsetting journal entries for the commodity true-up, fixed gas cost true-up, negotiated losses, and increments/decrements.

The **Actual vs. Estimate Reporting Month Adj.** amounts result from the Company's monthly accounting closing process. Each month, the Company estimates its current month's gas costs for financial reporting purposes and adjusts the prior month's estimate to reflect the actual cost incurred for that month.

Total Other Costs are primarily the North Carolina ratepayers' portion of capacity release margins and the allocation factor differential for bundled sales. The allocation factor differential is due to the utilization of the NC/SC sales allocation factor in the commodity gas cost calculation and the demand allocation factor utilized in the secondary market calculation.

OFFICIAL COPY

Oct 01 2018

SECONDARY MARKET ACTIVITIES

Q. MS. JAYASHEELA, PLEASE SUMMARIZE THE COMPANY'S SECONDARY MARKET ACTIVITIES DURING THE REVIEW PERIOD.

A. During the review period, the Company earned actual margins of $51,420,263 on secondary market transactions, and credited the All Customers' Deferred Account in the amount of ~~$32,811,270 ($51,420,263 x NC demand allocator x 75% ratepayer sharing percent)~~ $32,831,848 (($51,420,263 – 100% Duke Off System Sales) X NC demand allocator X 75% ratepayer sharing percentage) + (100% Duke Off System Sales X NC demand allocator)) for the benefit of ratepayers, in accordance with the Commission's Order Approving Stipulation issued on December 22, 1995, in Docket No. G-100, Sub 67. This dollar amount is slightly different than the amount recorded on Tomlinson Exhibit_(MBT-1), Schedule 9, since the Company's deferred account includes estimates for the May 2018 secondary market transactions. Presented below is a chart that compares the actual Total Company margins earned by Piedmont on the various types of secondary market transactions in which it was engaged during the review period and the prior review period.

OFFICIAL COPY

Oct 01 2018

OFFICIAL COPY

Oct 01 2018

	Actual Amounts for the 12 Month Periods Ended			
			Increase	%
	April 30, 2018	April 30, 2017	(Decrease)	Change
Asset Management Arrangements	$10,885,208	$18,439,307	($7,554,099)	(41.0%)
Capacity Releases	20,465,242	24,078,870	(3,613,628)	(15.0%)
Off System Sales	20,069,813	7,013,731	13,056,082	186.2%
Total Company Margins on Secondary Market Transactions	$51,420,263	$49,531,908	$1,888,355	3.8%

Note: Actual amounts lag one-month behind the accounting period. The May 31 review periods reflect actual amounts for the 12-months ended April 30.

Asset Management Arrangements (AMAs), according to the FERC,

> are contractual relationships where a party agrees to manage gas supply and delivery arrangements, including transportation and storage capacity, for another party. Typically a shipper holding firm transportation and/or storage capacity on a pipeline or multiple pipelines temporarily releases all or a portion of that capacity along with associated gas production and gas purchase agreements to an asset manager. The asset manager uses that capacity to serve the gas supply requirements of the releasing shipper, and, when the capacity is not needed for that purpose, uses the capacity to make releases or bundled sales to third parties.

Promotion of a More Efficient Capacity Release Market, Order No. 712, 123 FERC ¶ 61,286, Paragraph 110 (June 19, 2008).

Piedmont had eight AMAs for the period ending April 30, 2017, and seven AMAs for the period ending April 30, 2018. Beginning in April 2017, two AMAs were combined with the purpose of firming up volumes being delivered from Boswells Tavern to Piedmont's city gate. The value of the combined AMA has decreased in order to firm up these deliveries to Piedmont's city gate.

Capacity Releases are the short-term posting of unutilized firm capacity on the electronic bulletin board that is released to third parties at a biddable price. The overall net compensation from capacity release transactions decreased due to a lower level of released volumes and the market value of capacity releases also decreased for the current review period as compared to the previous period.

Off System Sales on Piedmont's system are also referred to as bundled sales. Bundled sales are gas supplies delivered to a third party at a specified receipt point in the Transco market area. Because bundled sales move gas from the production area to the market area, these sales utilize pipeline capacity, and thus involve both gas supply and capacity. The net compensation from off system sales increased by approximately 186% as compared to the prior review period due to higher market prices that were paid by shippers during the current review period as compared to the prior review period.

Q. PLEASE PROVIDE A FURTHER DESCRIPTION OF PIEDMONT'S OFF SYSTEM SALES TRANSACTIONS.

A. During the current review period, Piedmont entered into multi-month, monthly, and daily off system sales transactions with approximately thirty-five shippers. 31% of these off system sales transaction volumes consisted of daily transactions, 1.5% were

OFFICIAL COPY

Oct 01 2018

monthly transactions and 67.5% were multi-month transactions. Of the two multi-month transactions, one spanned the three-month summer period and the other multi-month transaction spanned the whole current annual review period.

HEDGING ACTIVITIES

Q. MR. MANESS, PLEASE EXPLAIN HOW THE PUBLIC STAFF CONDUCTED ITS REVIEW OF THE COMPANY'S HEDGING ACTIVITIES.

A. The Public Staff's review of the Company's hedging activities is performed on an ongoing basis, and includes the analysis and evaluation of the following information:

1. The Company's monthly hedging deferred account reports;
2. Detailed source documentation, such as broker statements, that provide support for the amounts spent and received by the Company for financial instruments;
3. Workpapers supporting the derivation of the maximum hedge volumes targeted for each month;
4. Periodic reports on the status of hedge coverage for each month (Hedging Position Report);
5. Periodic reports on the market values of the various financial instruments used by the Company to hedge (Mark-to-Market Report);

OFFICIAL COPY

Oct 01 2018

6. The monthly Hedging Program Status Report;

7. The monthly report reconciling the Hedging Program Status Report and the hedging deferred account report;

8. Minutes from meetings of Piedmont's Energy Price Risk Management Committee (EPRMC);

9. Minutes from the Board of Directors and its committees that pertain to hedging activities;

10. Reports and correspondence from the Company’s external and internal auditors that pertain to hedging activities;

11. Hedging plan documents that set forth the Company’s gas price risk management policy, hedge strategy, and gas price risk management operations;

12. Communications with Company personnel regarding key hedging events and plan modifications under consideration by Piedmont’s EPRMC; and

13. Testimony and exhibits of the Company’s witnesses in the annual review proceeding.

Q. WHAT IS THE STANDARD SET FORTH BY THE COMMISSION FOR EVALUATING THE PRUDENCE OF A COMPANY’S HEDGING DECISIONS?

A. In its February 26, 2002, Order on Hedging in Docket No. G-100, Sub 84 (Hedging Order), the Commission stated that the standard for reviewing the prudence of hedging decisions is that the decision

OFFICIAL COPY

Oct 01 2018

OFFICIAL COPY

Oct 01 2018

"must have been made in a reasonable manner and at an appropriate time on the basis of what was reasonably known or should have been known at that time." Hedging Order, 92 NCUC 4, 11-12 (2002).

Q. PLEASE DESCRIBE THE ACTIVITY REPORTED IN THE COMPANY'S HEDGING DEFERRED ACCOUNT DURING THE REVIEW PERIOD.

A. The Company experienced net costs of $5,207,171 in its Hedging Deferred Account during the review period. This net cost amount in the account at May 31, 2018, is composed of the following items:

Economic (Gain)/Loss - Closed Positions	($114,950)
Premiums Paid	5,016,010
Brokerage Fees & Commissions	69,440
Interest on Hedging Deferred Account	236,671
Hedging Deferred Account Balance	$5,207,171

The Company proposed that the $5,207,171 debit balance in the Hedging Deferred Account at of the end of the review period be transferred to its Sales Customers' Only Deferred Account.

The first item shown in the chart above, Economic (Gain)/Loss - Closed Positions, is the gain on hedging positions that the Company realized during the review period. Premiums Paid is the amount spent by the Company on futures and options positions during the current review period for contract periods that closed during the review period or that will close after May 31, 2018. As of

OFFICIAL COPY Oct 01 2018

May 31, 2018, this amount includes call options purchased by Piedmont for the May 2018 contract period, a contract period that is 13 months beyond the end of the current review period and 12 months beyond the May 2017 prompt month. Brokerage Fees and Commissions are the amounts paid to brokers to complete the transactions. The Interest on Hedging Deferred Account is the amount accrued by the Company on its Hedging Deferred Account in accordance with N.C. Gen. Stat. § 62-130(e) and the Merger Order, effective October 1, 2017.

The hedging costs incurred by the Company during the review period represent approximately 1.52% of total gas costs or $0.07 per dt. The average monthly cost per residential customer for hedging is approximately $0.34. Piedmont’s weighted average hedged cost of gas for the review period was $3.51 per dt.

Q. DID THE COMPANY MODIFY ITS HEDGING PLAN DURING THE REVIEW PERIOD?

A. No. The Company did not modify its hedging plan during the current review period.

Q. MR MANESS, WHAT IS YOUR CONCLUSION REGARDING THE PRUDENCE OF THE COMPANY’S HEDGING ACTIVITIES?

A. Based on the Public Staff’s analysis and 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, I conclude that the Company's decisions were prudent. I recommend that the $5,207,171 debit balance in the Hedging Deferred Account as of the end of the review period be transferred to Piedmont's Sales Customers' Only Deferred Account.

DESIGN DAY REQUIREMENTS

Q. MS. NABA, HAVE YOU DRAWN ANY CONCLUSION FROM YOUR REVIEW AS TO THE COMPANY'S FUTURE CAPACITY REQUIREMENTS?

A. I reviewed the Company's testimony and information submitted by the Company in response to data requests that dealt with how well the projected firm demand requirements aligned with the available capacity in the future. I also performed independent calculations which projected demand versus capacity requirements.

From those calculations, it appears that the Company has adequate capacity to meet firm demand until the Atlantic Coast Pipeline (ACP) comes online in 2019. If ACP does not come online as scheduled, it is projected that Piedmont may have a capacity shortfall starting in the 2019-2020 winter period. I recommend that the Company continue to carefully review its demand projections as it considers capacity additions in the future.

OFFICIAL COPY

Oct 01 2018

OFFICIAL COPY

Oct 01 2018

DEFERRED ACCOUNT BALANCES

Q. MS. JAYASHEELA, BASED ON YOUR REVIEW OF GAS COSTS IN THIS PROCEEDING AND MS. NABA'S OPINION THAT THE COMPANY'S GAS COSTS WERE PRUDENTLY INCURRED, WHAT ARE THE APPROPRIATE DEFERRED ACCOUNT BALANCES AS OF MAY 31, 2018?

A. The appropriate All Customers' Deferred Account balance is a credit of $17,078,428, owed by the Company to its customers, as filed by the Company.

The Public Staff recommends transferring the debit balance of $5,207,171 in the Hedging Deferred Account as of the end of the review period to the Sales Customers' Only Deferred Account. The recommended balance for the Sales Customers' Only Deferred Account as of May 31, 2018, is a net debit balance, owed to the Company, of $5,191,871, determined as follows:

Balance per Exhibit MBT-1 Sch 8	($15,300)
Transfer of Hedging Balance	5,207,171
Balance per Public Staff	$5,191,871

Q. MS. NABA, WHAT IS YOUR RECOMMENDATION REGARDING ANY PROPOSED INCREMENTS/DECREMENTS?

A. I have determined that the temporary increments applicable to the All Customers' Deferred Account balance at May 31, 2018, as proposed by the Company in Tomlinson Exhibit_(MBT-3), are properly and accurately calculated.

I also agree with the temporary decrement as proposed by the Company in Tomlinson Exhibit_(MBT-4) for the Sales Customers' Only Deferred Account as of May 31, 2018.

I recommend that Piedmont monitor the balances in both the All Customers' and Sales Customers' Only Deferred Accounts and, if needed, file an application for authority to implement new temporary increments or decrements through the Purchased Gas Adjustment mechanism in order to keep the deferred account balances at reasonable levels.

I further recommend that Piedmont remove the existing temporary decrements and increment approved in the Company's prior annual review of gas costs proceeding (Docket No. G-9, Sub 710) and implement the temporaries in the instant docket.

Q. WHAT AFFECT DOES THIS CHANGE IN TEMPORARIES HAVE ON THE TYPICAL RESIDENTIAL BILL?

A. The typical residential customer will experience a decrease of ~~$1.79~~ ($13.27) per year.

OFFICIAL COPY
Oct 01 2018

Q. MS. JAYASHEELA, DID PIEDMONT HAVE ANY CHANGES TO ITS DEFERRED ACCOUNT REPORTING DURING THE REVIEW PERIOD?

A. No.

Q. DOES THIS CONCLUDE THE PUBLIC STAFF'S TESTIMONY?

A. Yes.

OFFICIAL COPY

Oct 01 2018

OFFICIAL COPY

Oct 01 2018

Appendix A

POORNIMA JAYASHEELA

Qualifications and Experience

I received a Bachelor of Science degree and a Master of Business Administration degree from Osmania University, Hyderabad, India. I was employed by the Michigan Public Service Commission (MPSC) from July 2004 to August 2015. During my employment with the MPSC, I participated in contested rate cases, Times Interest Earned Ratio (TIER) case audits for regulated co-operatives, Power Supply Cost Recovery reconciliation audits, reconciliations of uncollectible expense tracking mechanism and revenue decoupling mechanism, and any special audits required by the MPSC.

I started employment with the Public Staff of North Carolina Utilities Commission in August 2015 as a staff accountant. I have presented testimony and exhibits or assisted with the following general rate case audits: Docket No. E-35, Sub 45, Western Carolina University; Docket No. W-1058, Sub 7, Elk River Utilities, Inc.; Docket No. E-34, Sub 46, New River Light and Power; and Docket No. W-567, Sub 8, Prior Construction Inc. I have also presented testimony and exhibits in Piedmont Natural Gas Company's annual gas cost review for 2016, Docket No. G-9, Sub 690, and 2017, Docket No. G-9, Sub 710.

OFFICIAL COPY

Oct 01 2018

APPENDIX B

ZARKA H. NABA

Qualifications and Experience

I am a graduate of The City College of New York with a Bachelor of Engineering Degree in Environmental Engineering.

I began working in the environmental field in June 2016 as an Environmental Engineering Intern. I've worked with the New York City Department of Sanitation's Vehicle Acquisition Warranty Division (DSNY) to assist in several fuel usage tracking projects installed in their fleet vehicles. While employed at DSNY, I was responsible for reporting installation projects, as well as researching environmental and safety impacts of various new technologies introduced.

I joined the Public Staff in September of 2017 as a member of the Natural Gas Division. My work to date includes Purchased Gas Cost Adjustment Procedures, Tariff Amendments, Fuel Tracker & Power Cost Adjustments, CNG Contracts, Peak Day Demand and Capacity Calculations, and Customer Complaint Resolutions.

OFFICIAL COPY

Oct 01 2018

Appendix C

MICHAEL C. MANESS

I am a graduate of the University of North Carolina at Chapel Hill with a Bachelor of Science degree in Business Administration with Accounting. I am a Certified Public Accountant and a member of both the North Carolina Association of Certified Public Accountants and the American Institute of Certified Public Accountants.

As Director of the Accounting Division of the Public Staff, I am responsible for the performance, supervision, and management of the following activities: (1) the examination and analysis of testimony, exhibits, books and records, and other data presented by utilities and other parties under the jurisdiction of the Commission or involved in Commission proceedings; and (2) the preparation and presentation to the Commission of testimony, exhibits, and other documents in those proceedings. I have been employed by the Public Staff since July 12, 1982.

Since joining the Public Staff, I have filed testimony or affidavits in several general, fuel, and demand-side management/energy efficiency rate cases of the utilities currently organized as Duke Energy Carolinas, LLC, Duke Energy Progress, LLC, and Virginia Electric and Power Company (Dominion Energy North Carolina) as well as in several water and sewer general rate cases. I have also filed testimony or affidavits in other proceedings, including applications for certificates of public convenience and necessity for the construction of generating facilities, applications for approval of self-generation deferral rates, applications for approval of cost and incentive recovery mechanisms for electric utility demand-side management and energy efficiency (DSM/EE) efforts, and applications for approval of cost and incentive recovery pursuant to those mechanisms.

I have also been involved in several other matters that have come before this Commission, including the investigation undertaken by the Public Staff into the operations of the Brunswick Nuclear Plant as part of the 1993 Carolina Power & Light Company fuel rate case (Docket No. E-2, Sub 644), the Public Staff's investigation of Duke Power's relationship with its affiliates (Docket No. E-7, Sub 557), and several applications for business combinations involving electric utilities regulated by this Commission. Additionally, I was responsible for performing an examination of Carolina Power & Light Company's accounting for the cost of Harris Unit 1 in conjunction with the prudence audit performed by the Public Staff and its consultants in 1986 and 1987.

I have had supervisory or management responsibility over the Electric Section of the Accounting Division since 1986, and also was assigned management duties over the Water Section of the Accounting Division during the 2009-2012 time frame. I was promoted to Director of the Accounting Division in late December 2016.

OFFICIAL COPY

Oct 01 2018