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PLACE: Dobbs Building
Raleigh, North Carolina
DATE: Tuesday, October 2, 2018
TIME: 10:00 a.m. - 11:46 a.m.
DOCKET NO: G-9, Sub 727
BEFORE: Commissioner ToNola D. Brown-Bland, Presiding
Commissioner Lyons Gray
Commissioner Charlotte A. Mitchell

IN THE MATTER OF:

Application of
Piedmont Natural Gas Company, Inc.,
for Annual Review of Gas Costs Pursuant to
G.S. 62-133.4(c) and Commission Rule R1-17(k)(6)

A P P E A R A N C E S

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TABLE OF CONTENTS

EXAMINATIONS

E X A M I N A T I O N S Cont'd:

E X H I B I T S

P R O C E E D I N G S

COMMISSIONER BROWN-BLAND: Good morning. Let us come to order and go on the record. I am Commissioner ToNola D. Brown-Bland, Presiding Commissioner for this hearing. And with me this morning are Commissioners Lyons Gray and Charlotte A. Mitchell.

I now call for hearing Docket Number G-9, Sub 727, In the Matter of an Application of Piedmont Natural Gas Company, Inc., for Annual Review of Gas Costs Pursuant to G.S. 62-133.4(c) and Commission Rule R1-17(k)(6).

G.S. 62-133.4 authorizes gas cost adjustment proceedings for natural gas local distribution companies. G.S. 62-133.4(c) provides that the Utilities Commission shall conduct annual review proceedings to compare each natural gas utility's prudently incurred costs with costs recovered from all of the utility's customers served during the test period.

Commission Rule R1-17(k)(6) prescribes the procedures for such annual reviews of natural gas costs.

On August 1, 2018, Piedmont Natural Gas

Company, Inc., hereafter Piedmont, filed the testimony and exhibits of Gennifer Raney, Sarah E. Stabley, and MaryBeth Tomlinson relating to an annual review proceeding.

On August 7, 2018, the Commission issued an Order Scheduling Hearing, Requiring Filing of Testimony, Establishing Discovery Guidelines and Requiring Public Notice, which scheduled a hearing for today, Tuesday, October 2, 2018.

On August 23, 2018, Carolina Utility Customers Association, Inc., filed a Petition to Intervene which was granted by the Commission on August 24, 2018.

On September 17, 2018, the Public Staff filed the joint testimony of Poornima Jayasheela, Zarka H. Naba, and Michael C. Maness.

On September 24, 2018, the Commission issued an Order Providing Notice of Commission Questions.

Numerous Consumer Statements of Position were filed with the Commission on September 27th, 28th and October 1, 2018.

On September 28, 2018 and October 1, 2018, Piedmont filed Written Response to Commission Questions, and filed the required Affidavits of

Publication on October 1, 2018, as well.

Also on October 1st, the Public Staff filed the Revised Joint Testimony of three of its witnesses -- of its three witnesses.

In compliance with the requirements of Chapter 138A of the State Government Ethics Act, I remind all members of the Commission of our responsibility to avoid conflicts of interest, and I inquire whether any member of the Commission has a conflict of interest with respect to this matter before us this morning?

(No response)

The record will reflect that no conflicts were identified.

I'll now call for appearances, beginning with Piedmont.

MR. JEFFRIES: Thank you. Madam Chairman, Commissioner Gray, and Commissioner Mitchell, I'm Jim Jeffries with the Law Firm of McGuireWoods here on behalf of Piedmont Natural Gas Company. With me today is Mr. Brian Heslin, Deputy General Counsel of Duke Energy.

COMMISSIONER BROWN-BLAND: Good morning, glad to have you with us.

MR. PAGE: Good morning, Commissioners. I am Robert F. Page representing the Intervenor, Carolina Utility Customers Association.

COMMISSIONER BROWN-BLAND: Good morning, Mr. Page.

MS. CULPEPPER: Good morning. Elizabeth Culpepper with the Public Staff appearing on behalf of the Using and Consuming Public.

COMMISSIONER BROWN-BLAND: Ms. Culpepper, have you identified any public witnesses who wish to testify this morning?

MS. CULPEPPER: Yes, ma'am.

COMMISSIONER BROWN-BLAND: Are you prepared to call them at this time?

MS. CULPEPPER: Yes. Cathy Buckley.

MS. BUCKLEY: I've never done this before. I sit right here --

COMMISSIONER BROWN-BLAND: Ms. Buckley, will you come down here, around to the table. She's -- everything has been set up there.

Is that good with you, Madam Court Reporter, that location?

COURT REPORTER: Yes, ma'am.

CATHY ANN BUCKLEY;

having been duly sworn,

testified as follows:

COMMISSIONER BROWN-BLAND: Please be seated.

DIRECT EXAMINATION BY MS. CULPEPPER:

Q I have a few questions for you, Ms. Buckley.

A Sure.

Q Please state your full name and address for the record.

A I am not speaking as an individual, but you still want my personal address?

Q Yes, ma'am.

A My name is Cathy with a C, Ann, A-N-N, Buckley, B-U-C-K-L-E-Y. I live at 710 Independence Place, Raleigh, North Carolina.

Q And who are you testifying on behalf of?

A I am testifying on behalf of the Sierra Club's National Dirty Fuels Team.

Q And are you a customer of Piedmont?

A I am not.

Q Do you have a statement you'd like to make?

A I do.

Q Please do so.

A Thank you.

Commissioners, interested parties, general public, my name is Cathy Buckley. I reside in North Carolina. And I'm a volunteer member of the National Sierra Club's Dirty Fuels Team on whose behalf I deliver this statement.

The National Sierra Club has three million members with 30,000 -- I'm sorry, with 90,000 residing in North Carolina.

In its recent filing to the North Carolina Utilities Commission, Piedmont Natural Gas Company fails to show that its gas costs were prudently incurred.

We urge the Commission to take a real hard look at Piedmont's gas purchasing practices to ensure that it is providing the lowest cost possible for its customers.

Piedmont and its parent company Duke Energy are a primary owner of the proposed six billion and counting Atlantic Coast Pipeline. The Commission should be concerned that Duke and Piedmont are engaging in self-dealing and passing unreasonable costs on to captive ratepayers to make a lucrative profit for Duke shareholders.

Piedmont claims its incurred gas

costs are prudent, yet neither the Atlantic Coast Pipeline nor the proposed Piedmont pipeline are needed to meet gas demand in North Carolina. There is enough capacity on the existing Transco pipeline. Transco recently stated, stated this in a filing with the South Carolina Public Service Commission, "Transco has the infrastructure and the pipeline in place to serve the northeast for many years".

Simultaneously, Piedmont fails to offer comprehensive energy efficiency programs for its customers. The Commission could and should require programs to reduce Piedmont's cost and help customers save money on their bills.

Why would the Commission allow Piedmont to charge customers for building unnecessary and hugely expensive infrastructure, like the Atlantic Coast Pipeline, when its sole purpose is not to meet demand or provide lowest cost resources for customers but to increase profits for Piedmont and Duke Energy shareholders.

The mission of this -- yes, the mission of Duke, excuse me -- yes, the mission of

Energy and Piedmont is to take care of shareholders.

The mission of this Commission is take care of North Carolina ratepayers, many of whom are vulnerable, vulnerable to rate increases and to increasingly furious storms. The Commission must apply serious scrutiny to rate hikes related to new pipeline transportation costs. Are they truly just and reasonable, especially in light of affiliate self-dealing?

Piedmont claims that the need for the new liquified natural gas facility proposed in Robeson County "is independent from the Atlantic Coast Pipeline supply".

We request an independent, objective study to ascertain whether this major infrastructure project is necessary and worth the cost of about a quarter of a billion dollars to ratepayers. And think about how many solar panels we could put up with that money instead and how many storms we might avert.

The Commission should also assert its authority to review the contracts between Duke and Piedmont regarding this facility and the relationship with the proposed Atlantic Coast Pipeline.

I also request that the Commission act in the best interest of North Carolina customers by asserting its authority to review contracts between the utilities they regulate and the proposed gas pipelines in which affiliates of these same companies are investing.

The Commission should also file protests in relevant FERC, Federal Energy Regulatory Commission, pipeline dockets immediately demanding that FERC fully evaluate the market need for any new pipeline that would impact their state's ratepayers.

Thanks for your attention.

Q Does that conclude your statement?

A It does.

MS. CULPEPPER: No questions.

COMMISSIONER BROWN-BLAND: Are there questions from --

MR. JEFFRIES: No questions from Piedmont.

COMMISSIONER BROWN-BLAND: Questions from the Commissioners?

EXAMINATION BY COMMISSIONER BROWN-BLAND:

Q Ms. Buckley, with regard -- you had several comments there about affiliate transactions and self-dealing. You are aware that the Commission has imposed conditions on the Merger, and that affiliate transactions of the nature that you've described are something that the Public Staff looks into and guards against. Are you aware of that?

A I'm aware that that is the -- that that is the job of the Staff, yes.

Q And that this Commission impose those conditions that there not be such self-dealing?

A Well, my concern as a parent and as an inhabitant here on the planet is that the fossil fuel industry in general - and the utilities and the pipeline companies - are incredibly well-staffed. And every time they hire somebody, of course, we pay for it, and they also make a profit on those. And we have very few resources compared to that. So I appreciate that you're getting a tremendous amount of information. That's hard to wade through. And I would just urge you to think about what we're doing today and what that's going to result in 20 years from now. How many Florence's, Matthew's and so forth are we going to be able to endure. And my -- I think the major concern is that we could reach a point where we can't do anything about it. The permafrost up in the Arctic, there's more carbon up there than we've already put out and, if that starts melting, if that permafrost starts thawing fast enough, it will be a run away train. So there are very few safeguards for us and I really urge you to have a second look at all the information that's been provided to you.

COMMISSIONER BROWN-BLAND: I appreciate your testimony. Are there questions on Commission's questions?

MS. CULPEPPER: No questions.

MR. JEFFRIES: No questions.

COMMISSIONER BROWN-BLAND: Ms. Buckley, thank you for coming this morning, taking the time to come and share your concerns with us. We appreciate that.

THE WITNESS: Thanks for listening.

COMMISSIONER BROWN-BLAND: That's what makes the process work. So you're excused.

(The witness is excused)

MS. CULPEPPER: I'm unaware of any additional public witnesses.

COMMISSIONER BROWN-BLAND: Out of an abundance of caution, is there any other member of the public which -- who wishes to come forward and give testimony this morning?

(No response)

COMMISSIONER BROWN-BLAND: The record will reflect no one came forward.

Mr. Jeffries -- well, Mr. Jeffries and Ms. Culpepper, any preliminary matters before we begin?

MR. JEFFRIES: Not that I'm aware of, Madam Chairman.

MS. CULPEPPER: (Shakes head no)

COMMISSIONER BROWN-BLAND: We'll begin with you, Mr. Jeffries.

MR. JEFFRIES: Thank you. Piedmont Natural Gas would call to the stand as a panel Ms. MaryBeth Tomlinson, Ms. Gennifer Raney, and Ms. Sarah Stabley.

MARYBETH TOMLINSON, GENNIFER RANEY and SARAH STABLEY;

having been duly sworn,

testified as follows:

COMMISSIONER BROWN-BLAND: You may be seated. Mr. Jeffries.

MR. JEFFRIES: Thank you, Madam Chairman.

DIRECT EXAMINATION BY MR. JEFFRIES:

Q Ms. Tomlinson, I think we'll start with you, if that's all right. Could you state your full name and business address for the record, please?

A (Ms. Tomlinson) My name is MaryBeth Tomlinson. My business address is 4720 Piedmont Row Drive, Charlotte North Carolina 28210.

Q And do you work for Piedmont Natural Gas?

A Yes.

Q Could you provide the Commission with a description of your title and your responsibilities?

A I'm the Manager of Gas Accounting. My responsibilities include reporting the cost of gas on Piedmont's books, maintaining a proper match of revenues and cost of gas on Piedmont's income statements, verifying volumes and prices on all invoices related to the purchase and transportation of natural gas, and reporting gas inventory accounts and deferred accounts.

Q And are you the same MaryBeth Tomlinson that prefiled testimony in this proceeding on August 2, 2018, consisting of five pages and Exhibits MBT-1 through MBT-4?

A Yes, I am.

Q And was that testimony and were those exhibits prepared by you or under your direction?

A Yes, they were.

Q Do you have any changes or corrections to your prefiled testimony or exhibits?

A No, I do not.

Q Ms. Tomlinson, if I asked you the same questions that are set forth in your prefiled testimony while you are on the stand today, would your answers be the same as those reflected in your prefiled testimony?

A Yes, they would be.

MR. JEFFRIES: Madam Chair, Piedmont would move the entry of the prefiled testimony of Ms. Tomlinson into the record as if given orally from the stand.

COMMISSIONER BROWN-BLAND: That motion will be allowed. And, just for clarification of the record, we have a filing date as August 1, 2018.

MR. JEFFRIES: I'm sorry. Did I misspeak?

I thought I said August -- I thought I -- that is correct. That's what I intended to say. If I didn't say that, I apologize.

COMMISSIONER BROWN-BLAND: All right. The prefiled testimony of MaryBeth Tomlinson will be received into the record as if given orally from the witness stand. And her exhibits along -- and particularly her Exhibit 1 with 10 schedules, all of those will be identified as they were marked when prefiled.

MR. JEFFRIES: All right. And we would ask that they be admitted into evidence, please.

COMMISSIONER BROWN-BLAND: Without objection, those exhibits will be received into evidence at this time.

MR. JEFFRIES: Thank you, Madam Chairman.

(WHEREUPON, Exhibits MBT-1 through MBT-4 are marked for identification and received into evidence as prefiled.)

(WHEREUPON, the prefiled direct testimony of MARYBETH TOMLINSON is copied into the record as if given orally from the stand.)

Q. Please state your name and your business address.

A. My name is MaryBeth Tomlinson. My business address is 4720 Piedmont Row Drive, Charlotte, North Carolina.

Q. What is your position and what are your responsibilities with Piedmont Natural Gas Company ("Piedmont" or the "Company")?

A. I am employed as the Manager of Gas Accounting. Piedmont is a wholly owned subsidiary of Duke Energy Corporation ("Duke Energy").

Q. Please describe your educational and professional background.

A. I received a B.A. degree in Accounting from Belmont Abbey College in Belmont, NC in 1985. In 1985, I was employed by Hobbs, Crossley and Blacka P.A. as a staff accountant. In 1987, I was employed by ALLTEL Corporation as Manager of General Accounting. In 1995, I was employed by SeaLand Service Corporation as Manager of Vessel Accounting. In 1999, I was employed by United States Ship Management, LLC ("USSM") as Manager of General Accounting. In 2005, I was employed by HSBC Mortgage Corp. as Manager of Accounting. In 2007, I was employed by Piedmont as Manager of Special Projects. In February 2008, I became the Manager of Corporate Accounting. In August 2012, this department was divided between two managers and I became the Manager of Plant Accounting and Accounts Payable. I accepted the position as the Manager of Gas Accounting in January 2015.

Q. Have you previously testified before this Commission or any other regulatory authority?

A. Yes. I have previously testified before this Commission and the Public Service Commission of South Carolina.

Q. What is the purpose of your testimony in this proceeding?

A. The purpose of my testimony in this docket is to provide the information required by Commission Rule R1-17(k)(6)(c) for the period June 1, 2017 through May 31, 2018. This information is reflected in the following schedules attached to my testimony, which are collectively designated as Exhibit_(MBT-1):

(1) Summary of cost of gas expense.
(2) Summary of demand and storage gas costs.
(3) Summary of commodity gas costs ($).
(4) Summary of other cost of gas charges/(credits).
(5) Summary of demand and storage rate changes.
(6) Summary of demand and storage capacity level changes.
(7) Summary of demand and storage costs incurred versus collected.
(8) Summary of deferred account activity - sales.
(9) Summary of deferred account activity – all customers.
(10) Summary of gas supply (Dts).

These schedules were prepared by me or under my supervision.

Q. Has Piedmont accounted for its cost of gas in compliance with Rule R1-17(k) and the Commission's prior order in Docket G-100, Sub 67?

A. Yes. Piedmont has complied with the Rule and has filed with the Commission (with a copy to the Public Staff) a complete monthly accounting of its computations under the approved procedures. As ordered by the Commission in Docket G-100, Sub 67, Piedmont has recorded the net compensation from secondary market transactions in the All Customers' Deferred Account.

Q. Has Piedmont accounted for its secondary market sales and capacity release to Duke Energy Carolinas, LLC ("DEC") and Duke Energy Progress, LLC ("DEP") in compliance with the North Carolina Utilities Commission's September 29, 2016 *Order Approving Merger Subject to Regulatory Conditions and Code of Conduct* in Docket Nos. G-9, Sub 682, E-2, Sub 1095, and E-7, Sub 1100?

A. Yes. As of October 2016, the month in which the merger was consummated, Piedmont has recorded in Piedmont's Deferred Gas Cost accounts all of the margins (also referred to as net compensation) received by Piedmont on secondary market sales and capacity release to DEC and DEP for the benefit of customers without any benefit to or sharing by Piedmont.

Q. How do the gas costs incurred by Piedmont during the period June 1, 2017 through May 31, 2018 compare with the gas costs recovered from Piedmont's customers during the same period?

A. During the period June 1, 2017 through May 31, 2018, Piedmont incurred gas costs of $349,780,100, received $343,478,124 through rates and allocated the difference of ($6,301,976) to Piedmont's gas cost deferred accounts. At May 31, 2018, Piedmont had the following deferred account balances:

All Customers Account	$ (17,078,428)
Sales Customers Account	$ 5,191,871
Total	$ (11,886,557)

The Sales Customers Account balance owed to Piedmont as shown above includes $5,207,171 related to its hedging program and ($15,300) of other activity.

Q. Has the Commission been kept advised of changes in Piedmont's deferred account during the test period?

A. Yes, Piedmont has filed information with the Commission on a monthly basis regarding the status of its deferred accounts and has provided copies of this information to the Public Staff.

Q. How does Piedmont propose to address recovery of the Hedging Account Balances?

A. Piedmont proposes to combine the Hedging Deferred Accounts and the Sales Customer Only Deferred Account balances to determine the net increment/decrement for sales customers resulting from this proceeding.

Q. What are the results of Piedmont's Hedging Program for the review period?

A. As indicated above, the balance in the Hedging Program Deferred Accounts at May 31, 2018 was $5,207,171. I have attached an analysis of the Hedging Program Deferred Account for the review period as Exhibit_(MBT-2).

Q. Are you proposing that any rate increments or decrements be implemented in this proceeding on the basis of the balances in the deferred accounts?

A. Yes. Based on the end-of-period balances in the Company's deferred accounts, I recommend that the increments/decrements to Piedmont's rates reflected on Exhibit_(MBT-3) and Exhibit_(MBT-4), attached hereto, be placed into effect for a period of twelve months after the effective date of the final order in this proceeding.

Q. Does this conclude your testimony?

A. Yes.

BY MR. JEFFRIES:

Q Ms. Tomlinson, have you prepared a summary of your prefiled testimony?

A Yes, I have.

Q Could you please provide that to the Commission?

A Yes.

(WHEREUPON, the summary of MARYBETH TOMLINSON is copied into the record.)

SUMMARY OF PREFILED DIRECT OF MARYBETH TOMLINSON Docket No. G-9, Sub 727

My name is MaryBeth Tomlinson and I am the Manager of Gas Accounting for Piedmont Natural Gas Company, Inc. The purpose of my direct testimony is to provide the Commission with Piedmont's gas cost and Hedging Program accounting data and end-of-period balances for the review period in this proceeding as required by Commission Rule R1-17(k)(6)(c). The accounting data required by Commission Rule is attached to my testimony as Exhibit __ (MBT-1).

Piedmont has complied with the requirements of Commission Rule R1-17(k) during the review period by filing monthly accountings of its gas costs as well as its deferred account balances. The Company has also recorded the net compensation from secondary market transactions in its All Customers' Deferred Account as required by the Commission in Docket No. G-100, Sub 67. Consistent with the Commission's *Order Approving Merger Subject to Regulatory Conditions and Code of Conduct* in Docket Nos. E-7, Sub 1100, E-2, Sub 1095, and G-9, Sub 682, the Company has also recorded 100% of the margins generated by secondary market transactions between Piedmont and its corporate affiliates DEC and DEP into that deferred account.

During the review period for this docket, Piedmont incurred gas costs of $349,780,100 and recovered gas costs from its customers in the amount of $343,478,124, with the difference allocated to Piedmont's gas cost deferred accounts. The end-of-period balances in Piedmont's gas cost deferred accounts are an over-collection in Piedmont's All Customers Deferred Account of ($17,078,428) and an under-collection in its Sales Customer

Deferred Account of $5,191,871, which includes $5,207,171 related to its hedging program and is offset by $15,300 of other activity.

During the review period, Piedmont's Hedging Program produced a net cost to customers of $5,207,171. The review period activity in Piedmont's Hedging Program deferred account is summarized on Exhibit __ (MBT-~~2~~).1 km

Coming out of this proceeding, Piedmont proposes to implement temporary rate decrements to all customers as reflected on Exhibit __ (MBT-3) and a temporary rate increment to sales customers only as set forth on Exhibit __ (MBT-~~4~~) 1. km

MR. JEFFRIES: Thank you, Ms. Tomlinson.

BY MR. JEFFRIES:

Q Ms. Raney, could you please state your full name and business address for the record?

A (Ms. Raney) My name is Gennifer Raney and my business address is 4720 Piedmont Row Drive, Charlotte, North Carolina 28210.

Q And you also are employed by Piedmont Natural Gas?

A Yes, I am.

Q Ms. Raney, what's your --

COMMISSIONER BROWN-BLAND: Ms. Raney, you can maybe even move that mic over to your side so you can get it closer to you.

THE WITNESS: (Ms. Raney) Okay. Can you hear me well enough?

COMMISSIONER BROWN-BLAND: I can hear you but someone might have an issue.

THE WITNESS: (Ms. Raney) Okay. I'll do that. That's okay.

BY MR. JEFFRIES:

Q So could you provide the Commission, please, with a statement of what your title and responsibilities are at Piedmont?

A I'm the Director of Pipeline Services and I'm responsible for overseeing all of the planning of our interstate and intrastate pipeline capacity and storage capacity. I also direct activities for forecasting our design-day needs and for our daily and monthly needs. In addition, I oversee activities related to FERC for the pipelines that we do business with as well as activities related to third-party transporters on Piedmont's system.
Q And you're the same Gennifer Raney that prefiled testimony in this proceeding on August 1, 2018, consisting of 13 pages and exhibits marked GJR-1 through GJR-7?
A Yes, I am.
Q Thank you. And was that testimony and were those exhibits prepared by you or under your direction?
A Yes, they were.
Q And do you have changes or corrections?
A I do not.
Q Ms. Raney, if I asked you the same questions that are set forth in your prefiled testimony while you're on the stand today, would your answers be the same?
A Yes, they would.

MR. JEFFRIES: Madam Chairman, we would move that Ms. Raney's prefiled testimony be entered into the record as if given orally from the stand.

COMMISSIONER BROWN-BLAND: Without objection, that motion will be allowed. And Gennifer Raney's prefiled testimony will be received into evidence and treated as if given orally from the witness stand.

MR. JEFFRIES: Thank you.

(WHEREUPON, the prefiled direct testimony of GENNIFER RANEY is copied into the record as if given orally from the stand.)

Q. Please state your name and your business address.

A. My name is Gennifer Raney. My business address is 4720 Piedmont Row Drive, Charlotte, North Carolina.

Q. What is your position with Piedmont Natural Gas Company ("Piedmont" or the "Company")?

A. I am the Director of Pipeline Services in the Natural Gas Business Unit of Duke Energy Corporation ("Duke Energy"), of which Piedmont is a wholly owned subsidiary.

Q. Please describe your educational and professional background.

A. I graduated from Louisiana State University in Baton Rouge, LA in 1992 with a Bachelor of Science degree in Finance, and I graduated from the University of St. Thomas in Houston, TX in 1998 with a Masters of Business Administration, Finance concentration. In 1992 I was employed by Shell Oil Company as a Product Accountant for Gas Exploration and Production. In 1995 I was employed by Vastar Resources, Inc. as a Treasury Analyst. In 1997 I accepted a position in Vastar Gas Marketing, Inc. (which later became Southern Company Energy Marketing, Inc.) as a Transportation and Exchange Representative. In 1999 I was promoted to the position of Associate, Producer Services. In 2000, I was employed by Deloitte & Touche, LLC as a Consulting Manager. In 2002, I was employed by Duke Energy and have held positions in Risk Management, Trading Operations, Power Business Development, Commercial Analytics, Wholesale Power Sales, and Renewable Energy Business Development.

Beginning in 2014, I became Natural Gas Business Development Director. This group became part of the Natural Gas Business Unit after the integration of Duke Energy and Piedmont. In November 2017, I accepted my current position as Director of Pipeline Services.

Q. Please describe the scope of your present responsibilities for Piedmont.

A. My current major responsibilities for Piedmont include managing pipeline capacity planning and relations, annual design day, monthly, and daily forecasting, and management of third party shipper business on Piedmont's system. In addition, I am responsible for oversight of Piedmont's activities at the Federal Energy Regulatory Commission ("FERC") regarding interstate pipelines that the Company utilizes for transportation and storage services.

Q. Have you previously testified before this Commission or any other regulatory authority?

A. Yes. I presented pre-filed testimony before the Public Service Commission of South Carolina earlier this year in Docket No. 2018-4-G.

Q. What is the purpose of your testimony in this proceeding?

A. My testimony is filed in response to the requirements of Commission Rule R1-17(k)(6), which provides for an annual review of Piedmont's gas costs. In my testimony, I discuss the market requirements of Piedmont's North Carolina customers, including the projected growth in those markets, the capacity acquisition policies and practices we employ to serve those markets, the calculation of our design day requirements, and the efforts undertaken by Piedmont at the FERC on behalf of its customers to ensure that interstate transportation and storage services are reasonably priced.

Q. What is the period of review in this docket?

A. The review period is June 1, 2017 through May 31, 2018.

Q. Please give a general description of Piedmont and its market in North Carolina.

A. Piedmont is a local distribution company principally engaged in the purchase, distribution and sale of natural gas to more than 1 million customers in North Carolina, South Carolina, and the metropolitan area of Nashville, Tennessee. Piedmont currently serves approximately 745,000 customers in the State of North Carolina. During the twelve month period ending May 31, 2018, Piedmont delivered approximately 438 million dekatherms ("dts") of natural gas to its North Carolina customers.

Piedmont provides service to two distinct markets – the firm market (principally those that have no alternate source of fuel) and the interruptible market (principally those that either have access to an alternate fuel or who are prepared to cease operating in the event of interruption until service can be resumed). Although Piedmont competes with electricity for the attachment of firm customers, once attached these customers generally have no readily available alternative source of energy and depend on natural gas for their basic space heating or utility needs. During the twelve month period ending May 31, 2018, approximately 93%, of Piedmont's North Carolina deliveries were to the firm market.

In the interruptible market, Piedmont competes on a month-to-month and day-to-day basis with alternative sources of energy, primarily fuel oil or propane and, to a lesser extent, coal or wood. These larger commercial and industrial customers may buy alternate fuels when they are less expensive than gas or when their service is interrupted by Piedmont. During the twelve month period ending May 31, 2018, approximately 7% of Piedmont's North Carolina deliveries were to the interruptible market.

Q. How does Piedmont calculate its customer growth?

A. Piedmont reviews historical customer additions, holds discussions with various business leaders/trade allies and field sales employees, and considers forecasts of local, regional and national business drivers (i.e., economic conditions, demographics, etc.) to derive its customer growth projections.

Q. Are there any changes in the Company's customer mix or customer market profiles that it forecasts for the next ten years?

A. For the next ten years, the Company expects the economy to continue to grow resulting in increasing residential and commercial demand as detailed in the "Winter 2018 - 2019 Design Day Demand & Supply Schedule", **Exhibit_ (GJR-5C)**. The Company also expects industrial activity to grow modestly.

Q. How will these changes impact the Company's gas supply, transportation, and storage requirements?

A. The residential and commercial growth changes will result in greater firm temperature-sensitive requirements that will require firm sales service from the Company.

Q. Please identify the rate schedules and special contracts that the Company uses to determine its design day demand requirements for planning purposes and explain the rationale and basis for each rate schedule or special contract included in the determination of design day demand requirements.

A. The Company uses the following rate schedules, each of which is for firm sales service, to determine its design day demand requirements:

- 101 – Residential Service;
- 102– Small General Service;
- 152 – Medium General Service;
- 143 – Experimental Motor Vehicle Fuel Service;
- 103 – Large General Sales Service;
- 12 – Service to Military Installations in Onslow County (Camp Lejeune).

Piedmont also includes any special contracts for which Piedmont is providing firm sales service in the determination of its design day requirements.

Q. How did the Company calculate its design day requirements for Winter 2017-2018?

A. Piedmont's design day calculations for Winter 2017-2018 were performed in the same manner used for the Winter 2016-2017 design day calculations, as described in Company witness Michelle Mendoza's testimony last year. Specifically, all of the usage data was refreshed utilizing the actual firm customer sendout data from November 2011 through March 2017, which included the most current winter weather experience for all firm customer classes. Next, a linear regression analysis was conducted to determine the base load and the usage per heating degree day based on all of the newly refreshed data. Finally, the historical weather data, which included the winter of 2016-2017, was reviewed to determine the design day temperature of 8.68 degrees Fahrenheit. The Company also constructed a load duration curve to forecast the Company's firm sales market requirements for design winter weather conditions. The supply requirements were plotted in descending order of magnitude, with existing pipeline capacity and storage resources overlaid to expose any supply shortfalls. The load duration curves for the 2017 – 2018 **forecasted** design winter, as well as the **actual** 2017 – 2018 winter season are shown in **Exhibits (GJR-1A)** and **(GJR-1B)**. The load duration curve for the 2018 – 2019 forecasted design winter season is shown in **Exhibit_ (GJR-2)**.

Q. Please provide a walkthrough of the Winter 2017-2018 design day demand calculation.

A. Referencing the "Winter 2017 - 2018 Design Day Demand and Supply Schedule" **Exhibit_ (GJR-4C)**: the "System Design Day Firm Sendout" (line 1) is calculated as follows:

1) The number of heating degree days ("HDD") in the design day is multiplied by the usage per HDD as calculated in the regression analysis. This result is then added to the base load number derived from the regression.[1]

2) Any mid-year special firm sales pick up are added (line 2) and any mid-year movements from firm sales to firm transportation are subtracted (line 3), which results in a subtotal for firm sendout that includes the net mid-year changes (line 4).

3) Any special contract firm sales commitment (line 5) is added resulting in the "Total Firm Design Day Demand" (line 6).

4) A five (5) percent reserve margin is then calculated (line 7) and is added to the "Total Firm Design Day Demand" (line 6) resulting in the "Subtotal Demand" (line 8).

5) The "Firm Transportation without Standby" (line 10) is represented as the total dekatherms consumed by all industrial firm transportation customers on the highest winter day usage for that customer class for the prior winter. This number is then subtracted from the "Subtotal Demand" resulting in the "Total Firm Sales Demand" (line 11) for that year.

[1] Formula: (Design Day HDDs x Usage per HDD)+Base Load = System Design Day Firm Sendout

6) Each subsequent yearly Design Day forecast is derived by multiplying the previous year's projected firm usage by each succeeding year's forecasted growth percentage.

7) The Company then constructs the load duration curve previously described in this testimony.

Q. Has the Company made any methodology changes to its calculation of Design Day requirements for the future?

A. No.

Q. Has Piedmont made any changes to the design day temperature?

A. The Company continues to calculate the design day temperature using the daily weighted average[2] forty year low temperature, as explained in witness Michelle Mendoza's testimony last year. This year's computation of the forty year average yielded a design day temperature of 8.68 degrees Fahrenheit, slightly changed from last year's computation of 8.67 degrees Fahrenheit. See **Exhibit_ (GJR-7).**

Q. Did the Company consider efficiency gains and customer conservation in its design day methodology?

A. Because the design day methodology is based on refreshed data which represents the customer consumption over a recent period of time and eliminates old customer consumption data, the customer efficiency gains and conservation efforts are taken into consideration.

[2] A current weighted average of firm sales customers relative to the nine weather stations in the Carolinas.

Q. Does Piedmont believe that conservation measures utilized by customers are applicable when formulating design day calculations?

A. No. Piedmont and the natural gas industry have not seen evidence that conservation/reduced usage occurs during design day conditions. This past winter's cold snap, which occurred from December 30, 2017 through January 8, 2018, gave Piedmont an opportunity to refresh data and analyze our customer's behavior during extremely cold weather. We continued to observe that customers tend to conserve for the first few days of colder temperatures before turning up the thermostat. However, once adjusted to a warmer setting, customers appear to become less focused on conservation and more focused on comfort and leave the thermostat at the warmer level for a few days even as temperatures start to moderate. This pattern is illustrated in **Exhibit_ (GJR-3)**. Given what we experienced during this recent cold weather event as a customer response to colder temperatures in this pattern, the Company is confident this conservative approach to design day forecasting is the most prudent approach. Our focus has been, and continues to be, to reliably serve our firm customers on a design day.

Q. What process does Piedmont undertake to acquire firm capacity to meet its growing sales market requirements?

A. Piedmont secures incremental capacity to meet the growth requirements of its firm sales customers consistent with its "best cost" policy, as described by Ms. Stabley in her testimony. To implement this policy, Piedmont attempts to contract for timely and cost-effective capacity that is tailored to the demand characteristics of its market. Piedmont evaluates interstate pipeline capacity and storage offerings expected to be available at the time that it is determined that additional future firm delivery service is required or existing firm delivery service contracts are expiring. The Company attempts to match the days of service of new incremental transportation capacity to the duration of its incremental demand on the most economical basis possible. Piedmont attempts to acquire peaking services to meet projected peak day demand, storage services to meet projected seasonal demand, and year round firm transportation services to meet base load demand and provide capacity to be available for storage inventory replenishment. However, service choices are limited to those offered during the period being evaluated.

Q. **What were the design day demand requirements used by the Company for planning purposes for the review period, the baseload, the amount of heating degree days, dekatherms per heating degree day, customer growth rates and supporting calculations used to determine the design day requirement amounts?**

A. Please see **Exhibits (GJR-4A)**, **(GJR-4B)** and **(GJR-4C)**.

Q. **What are the design day demand requirements used by the Company for planning purposes for the for the next five winter seasons, the baseload, the amount of heating degree days, dekatherms per heating degree day, customer growth rates and supporting calculations used to determine the design day requirement amounts?**

A. Please see **Exhibits (GJR-5A), (GJR-5B)** and **(GJR-5C).**

Q. Please describe how the Company plans to supply its estimated future growth requirements during the next five-year period beginning with the 2018-2019 winter season.

A. Based on current forecasted projections, Piedmont believes that it has sufficient supply and capacity rights to meet its near term customer needs until the Atlantic Coast Pipeline ("ACP") comes on-line in 2019. The most recent projects of Transco's Leidy Southeast expansion for 100,000 dts per day of year-round capacity and Transco's Virginia Southside expansion for 20,000 dts per day of year-round capacity went into service in late 2015 and 2016, with projections that it would became necessary to begin adding additional capacity beginning in 2018-2019. In 2014, the Company entered into a precedent agreement with ACP to add 160,000 dts of additional capacity utilizing its "best cost" purchasing philosophy. The ACP capacity is scheduled to go in service in November 2019. Current growth projections begin to show a capacity deficit in the 2019-2020 timeframe if the ACP capacity does not go into service as detailed in **Exhibit_ (GJR-5C).** Recently Piedmont announced that it intends to construct a liquefied natural gas facility in Robeson County, N.C. ("Robeson LNG"). This facility will provide peaking supply of natural gas during peak usage days. The facility is anticipated to be completed in the summer of 2021, and therefore forecasted to provide peaking support starting winter 2021-2022. The capacity portfolio will be restructured to include Robeson LNG using the "best cost" gas purchasing policy while taking into account the customer load profile. Piedmont will continue to review short term interstate pipeline and storage capacity offerings and bridging services to cover any potential capacity shortfall.

Q. Has the Company made any changes to capacity during the review period?

A. The Company did not make any changes to its capacity rights during the review period.

Q. Does the Company plan for a reserve margin to accommodate statistical anomalies, unanticipated supply or capacity interruptions, force majeure, emergency gas usage or colder-than-design weather?

A. Yes, the Company computes a five percent reserve margin and arranges for supply and capacity to provide delivery of the reserve margin for events such as those listed above. This reserve margin is reflected in **Exhibits (GJR-4C)** and **(GJR-5C)**.

Q. Is it possible to maintain capacity rights that exactly match Piedmont's calculated design day demand plus reserve margin at all times?

A. No, it is not. Capacity additions are acquired in "blocks" of additional transportation, storage, or LNG capacity, as current and future needs are identified, to ensure Piedmont's ability to serve its customers based on the options available at that time. As a practical matter, this means that at any given moment in time, Piedmont's actual capacity assets will vary somewhat from its forecasted demand capacity requirements. This aspect of capacity planning is unavoidable but Piedmont attempts to mitigate the impact of any mismatch through bridging services, capacity release and off-system sales activities.

Q. Please describe the Company's interest and position on any issues before the FERC that may have a significant impact on the Company's operations and a description of the status of each proceeding described.

A. The Company routinely intervenes and participates in interstate natural gas pipeline proceedings before the FERC. A current summary of such proceedings in which Piedmont is a party is attached hereto as **Exhibit_ (GJR-6)**.

Q. Does this conclude your testimony?

A. Yes it does.

BY MR. JEFFRIES:

Q Ms. Raney, have you prepared a summary of your prefiled testimony?

A Yes, I have.

Q Could you provide that for the Commission?

A Yes.

(WHEREUPON, the summary of GENNIFER RANEY is copied into the record.)

SUMMARY OF DIRECT TESTIMONY OF
Gennifer Raney
Docket No. G-9, Sub 727

My name is Gennifer Raney and I am the Director of Pipeline Services in the Natural Gas Business Unit of Duke Energy Corporation. The purpose of my direct testimony is to describe Piedmont's markets in North Carolina, the projected growth in those markets, the capacity acquisition policies and practices we use to serve those markets, the calculation of our design day requirements, and the efforts undertaken by Piedmont at the Federal Energy Regulatory Commission on behalf of our customers to ensure that interstate capacity and storage services are reasonably priced.

As of May 31, 2018, Piedmont served approximately 745,000 customers in North Carolina. During the review period in this proceeding Piedmont delivered 438 million dekatherms of natural gas to its North Carolina customers. Roughly 93% of those deliveries went to Piedmont's firm market, primarily consisting of residential, small commercial and small industrial customers. The remaining 7% of those deliveries were made to Piedmont's interruptible market primarily consisting of large commercial and large industrial customers.

Piedmont calculates the design day needs of its system based on a number of factors and inputs including historical weather, historical operating experience, forecasted customer additions, and projected demand. Much of the data underlying these factors is attached to my testimony in the form of exhibits. Piedmont adds a reserve margin to its design day calculations to ensure its ability to provide safe and reliable service to its firm customer base during design day conditions.

Piedmont's Design Day calculations for Winter 2018-19 were performed using the Company's standard methodology which was described in Ms. Mendoza's testimony in last year's Annual Gas Cost Review proceeding. This methodology resulted in a design day temperature this year of 8.68 degrees Fahrenheit.

Piedmont acquires incremental capacity to meet its projected load growth utilizing the "Best Cost" methodology described in Ms. Stabley's testimony. Piedmont generally seeks to match its capacity acquisitions with the needs of its firm customers by acquiring year-round capacity to serve its base-load requirements, storage capacity to serve its seasonal demand, and peaking services to serve its peak day needs.

Piedmont is also routinely involved in matters before the Federal Energy Regulatory Commission which could impact the upstream capacity costs paid by its customers. This involvement includes intervention and active participation, on behalf of its customers, in all matters that could have a material impact on the costs paid by Piedmont's North Carolina customers for upstream transportation and storage capacity.

MR. JEFFRIES: Thank you Ms. Raney.

Madam Chairman, I think I neglected to move Ms. Raney's exhibits into evidence and would so move at this time.

COMMISSIONER BROWN-BLAND: Without objection, the exhibits that were prefiled along with Ms. Raney's testimony will be identified as they were marked when prefiled and received into evidence at this time.

MR. JEFFRIES: Thank you, Madam Chairman.

(WHEREUPON, Exhibits GJR-1A, GJR-1B, GJR-2, GJR-3, GJR-4A, GJR-4B, GJR-4C, GJR-5A, GJR-5B, GJR-5C, GJR-6, and GJR-7 are marked for identification as prefiled and received into evidence.)

BY MR. JEFFRIES:

Q Finally, Ms. Stabley, could you state your name and business address for the record, please?

A (Ms. Stabley) Sarah Stabley -- is that better? Okay.

COMMISSIONER GRAY: Thank you.

A Sarah Stabley, business address is 4720 Piedmont

Row Drive, Charlotte, North Carolina 28210.

BY MR. JEFFRIES:

Q And you're also employed by Piedmont; is that correct?

A I am.

Q And could you tell the Commission your title and your -- the responsibilities that go along with that title?

A Uh-huh (yes). I am Managing Director of Gas Supply Optimization and Pipeline Services in the Natural Gas Business Unit for Duke Energy. My current major responsibilities for Piedmont include supervision of the procurement and optimization of pipeline transportation, storage and supply assets, system demand forecasting, administration of the Company's hedging plans and management of broker activity for transportation customers.

Q Thank you. And you're the same Ms. Sarah Stabley that prefiled testimony in this proceeding on August 1, 2018, consisting of 18 pages?

A I am.

Q And was that testimony prepared by you or under your direction?

A Yes, it was.
Q Do you have any changes or corrections to that testimony?
A No, I do not.
Q Ms. Stabley, if I asked you the same questions that are set forth in your prefiled testimony while you are on the stand today, would your answers be the same?
A They would.
Q Thank you.

MR. JEFFRIES: Madam Chairman, Piedmont would ask that Ms. Stabley's prefiled testimony be entered into the record as if given orally from the stand.

COMMISSIONER BROWN-BLAND: That motion will be allowed. And the prefiled direct testimony of Sarah E. Stabley that was filed on October 1st will be received into the record and treated as if given orally from the witness stand.

MR. JEFFRIES: Thank you, Madam Chairman.

(WHEREUPON, the prefiled direct testimony of SARAH E. STABLEY is copied into the record as if given orally from the stand.)

Q. Please state your name and your business address.

A. My name is Sarah E. Stabley. My business address is 4720 Piedmont Row Drive, Charlotte, North Carolina.

Q. What is your position with Piedmont Natural Gas Company ("Piedmont" or the "Company")?

A. I am Managing Director of Gas Supply Optimization & Pipeline Services in the Natural Gas Business Unit of Duke Energy Corporation ("Duke Energy"), of which Piedmont is a wholly owned subsidiary.

Q. Please describe your educational and professional background.

A. I graduated from Queens University of Charlotte in May of 2004 with a Bachelor of Arts Degree in Business Administration. I joined the Company as a Collector/Meter Reader in our field operations in December of 1998. In March 2001 I took a position in Gas Control as a Schedule Confirmation Analyst. In November 2004, I was hired as a Gas Supply Representative in the Gas Supply department. In 2008, I was promoted to Manager of Gas Supply & Wholesale Marketing. In 2013, I was promoted to Director of Gas Supply, Scheduling & Optimization. In 2018, I was promoted to my current position as Managing Director of Gas Supply Optimization & Pipeline Services.

Q. Please describe the scope of your present responsibilities.

A. My current major responsibilities for Piedmont include supervision of the procurement and optimization of pipeline transportation, storage, and supply assets, system demand forecasting, administration of the Company's Hedging Plans, and management of broker activity for transportation.

Q. Have you previously testified before this Commission or any other regulatory authority?

A. Yes. I have previously testified in this Commission's Annual Review of Gas Costs for Piedmont (Docket Nos. G-9 Sub 633, G-9 Sub 653, G-9 Sub 673, G-9 Sub 690, and G-9 Sub 710). I have also testified in the Annual Review of Purchased Gas Adjustment and Gas Purchasing Policies for Piedmont by the Public Service Commission of South Carolina (Docket Nos. 2012-4-G, 2013-4-G, 2014-4-G, 2015-4-G, 2016-4-G, 2017-4-G, and 2018-4-G).

Q. What is the purpose of your testimony in this proceeding?

A. This testimony is in response to Commission Rule R1-17(k)(6), which provides for an annual review of the Company's gas costs recovered from all its customers that it served during the review period. I will also discuss the Company's hedging activity during the review period.

Q. What is the period of review in this docket?

A. The review period is June 1, 2017 through May 31, 2018.

Q. Please explain the Company's gas purchasing policies.

A. The Company has previously utilized and continues to maintain a "best cost" gas purchasing policy. This policy consists of five main components: 1) the price of the gas, 2) the security of the gas supply, 3) the flexibility of the gas supply, 4) gas deliverability, and 5) supplier relations. As all of these components are interrelated, we continue to weigh the relative importance of each of these factors when developing the overall gas supply portfolio to meet the needs of our customers.

Q. Please describe each of the five components.

A. 1) The "price of the gas" refers to the final cost of gas delivered to the Company's city gates. The majority of the Company's supply purchases take place at "pooling points" or at interconnects into the pipeline on which the Company holds firm transportation capacity rights. In the case of "bundled" city gate supply purchases, the Company may pay the gas supplier an all-inclusive price that covers the cost of gas, fuel and transportation charges. The use of storage services may add additional injection, withdrawal, and related fuel charges to the city gate cost of gas. In order to accurately assess prices at a comparable transaction point, the Company evaluates purchase prices at the receipt point and adds the applicable fuel and transportation costs associated with delivery to our pipeline city gate points.

2) "Security of gas supply" refers to the assurances that the supply of gas will be available when required. It is imperative to maintain a high level of supply security for the Company's firm customers. Security of gas supply is less important for our interruptible customers whose service is subject to interruption in order to provide service to the Company's firm customers. Fixed supply reservation fees are generally required, in addition to the commodity cost of gas, in order to contract for and reserve firm gas supplies.

In addition, the geographic source of supply, the nature of the supplier's portfolio of gas supplies, and negotiated contract terms must be considered when evaluating the level of supply security. Thus, the security of gas supply is interrelated with the price of gas as well as other components of the Company's "best cost" purchasing policy.

3) "Flexibility of gas supply" refers to our ability to adjust the volume of a particular supply contract as operating and market conditions change. For example, the demand of firm heat-sensitive customers will vary depending on the weather conditions. Interruptible customers will vary their level of purchases depending on the price of alternate fuels and the demand for product in their own industry. Thus, the Company must arrange a portfolio of gas supplies and storage services flexible enough to meet the daily and monthly "swings" in demand. Contractual "swing rights" are implemented through monthly and daily elections with gas suppliers and through injections into and withdrawals out of storage.

4) "Gas deliverability" refers to the ability to deliver the Company's gas supplies at the city gate through reliable transportation and storage capacity arrangements. The interstate pipeline industry has created a complex system of multiple pipeline and storage service combinations. Transportation arrangements can involve *intra*state pipeline transportation, interstate pipeline transportation, interstate pipeline storage arrangements, interstate pipeline lateral lines, interstate pipeline pooling services, and interstate

pipeline balancing and peaking services. The marketplace for pipeline capacity service is limited, with little to no unused capacity available during periods of high demand conditions such as extreme cold or hot weather conditions. Consequently, it is important that we secure and maintain firm transportation and storage capacity rights to ensure the deliverability of our gas supplies to meet the design day, seasonal, and annual needs of our customers. Pipeline transportation and storage capacity contracts require the payment of fixed demand charges to reserve firm transportation and/or storage entitlements. The Company is active in proceedings at the Federal Energy Regulatory Commission ("FERC") not only with respect to the level of pipeline charges under these contracts, but also the tariff terms and conditions that apply to these pipeline services.

5) "Supplier relations" refers to the dependability, integrity and flexibility of a particular gas supplier. We contract with gas suppliers who have a reputation of honoring their contractual commitments and have proven themselves as reliable suppliers. Conversely, we avoid suppliers which have a reputation of defaulting on contract obligations or who unilaterally interpret contracts to their advantage. We prefer to deal with suppliers who are constantly looking for ways to improve service and offer "win-win" solutions for meeting customer needs.

Q. Please describe the arrangements under which the Company purchases gas.

A. The Company purchases gas supplies under a diverse portfolio of contractual arrangements with a number of gas producers and marketers. In general, under the Company's firm gas supply contracts, the Company may pay negotiated reservation fees for the right to reserve and call upon firm supply service up to the maximum daily contract quantity (elected either on a monthly or daily basis), with market-based commodity prices. These market-based commodity prices, to which the Company's gas supply contracts refer, are published daily and monthly in industry trade publications. These firm contracts typically range in term from one month to four years. Some of these contracts are for winter only (peaking or seasonal) service, summer only (peaking or seasonal) service, or 365-day (annual) service. Firm gas supplies are purchased for reliability and security of service. The reservation fees associated with firm gas supplies may vary according to the amount of flexibility built into the contract, with daily swing service usually being more expensive than monthly baseload service. Generally, prior to or when existing supply contracts expire, requests for proposal ("RFPs") may be sent to potential suppliers, their responses evaluated, and firm gas supplies are then contracted with suppliers whose proposals best fulfill the Company's "best cost" purchasing policy.

The Company also purchases gas supplies in the spot market under contract terms of one month or less. These contracts provide less supply security and, as a result, the Company relies on these contracts primarily for interruptible or spot markets during off-peak periods when secondary supplies are more abundant and for supplemental system balancing requirements. Because of the nature of spot contracts, these supplies do not command reservation fees and are priced at a market rate, generally by reference to an industry index or at negotiated fixed prices.

Q. How does the combination of the five factors described above determine the nature of the supply and capacity contracts under your "best cost" policy?

A. Under our "best cost" policy, we secure and maintain a supply portfolio that is in balance with the requirements of our sales customers. Because our firm sales customers must have secure and reliable gas supply, we meet the need of our firm sales customers' demand primarily with long-term firm supply, transportation, storage, and peaking service contracts. The temperature sensitivity of our firm customers necessitates that flexibility of supply and storage also be provided. As mentioned earlier, firm gas supply contracts demand a premium, typically in the form of fixed reservation fees. Firm supply contracts with flexible swing service entitlements will command a higher reservation fee than baseload arrangements. Because our interruptible customers are more price sensitive and require less supply security, we supply these customers with off-peak firm gas supply and transportation services when the firm customers' demand declines and through the purchase of gas supplies in the spot market.

In short, before entering into any agreement to purchase gas supply, pipeline transportation capacity, or storage capacity, we carefully consider the requirement for the supply and weigh the five "best cost" factors (price, security, deliverability, flexibility, and supplier relations). A great deal of judgment is required when weighing these factors. We keep informed about all aspects of the natural gas industry in order to exercise this judgement. We intervene in all major FERC proceedings involving our pipeline transporters, stay in constant contact with our existing and potential suppliers, monitor gas prices on a real-time basis, subscribe to industry literature, follow supply and demand developments, and attend industry seminars.

Q. What is your greatest challenge in applying your "best cost" gas purchasing policy?

A. Since most major gas supply decisions require a considerable degree of planning and must be made a year or more in advance of service, our greatest challenge is dealing with future uncertainties in a dynamic global, national, and regional energy market. Future demand for gas is affected by economic conditions, customer conservation efforts, weather patterns, and regulatory policies. In addition, the future availability and pricing of gas supplies will be affected by overall end-user demand, oil and gas exploration and development, pipeline expansion and storage projects, and regulatory policies and approvals.

Q. Please explain the Company's position regarding the current U.S. supply situation.

A. For much of the first decade of this century, futures pricing of natural gas reflected by the NYMEX was extremely volatile. Peak pricing for futures contracts occurred in July 2008 when contracts for gas to be delivered during January 2009 sold for $14.516 per dekatherm. Due to the significant quantities of shale gas that have become available to the market, the cost of gas in the production areas has declined dramatically. It is the Company's expectation that some volatility will remain in the physical markets, particularly related to force majeure type events, interstate pipeline capacity markets, and/or significant changes in supply and/or demand, but that the dramatic swings previously seen in the futures market are not likely to recur with the same regularity or intensity so long as shale gas supplies remain abundant and regulatory policies remain favorable for gas and oil exploration. Other factors to consider in the U.S. natural gas supply – demand situation are the exportation of liquefied natural gas ("LNG"), exportation of gas to Mexico, and increased industrial demand for gas along the Gulf Coast. Nevertheless, market experts believe that future LNG exports, exports to Mexico, and higher Gulf Coast demand will be adequately served by shale supplies and that while there is a reasonable expectation of an increase in gas costs, the anticipated effect is marginal.

Q. Please explain the factors that the Company evaluates in determining the pricing basis for its gas supply contracts. Please discuss the various pricing alternatives available, such as fixed prices, monthly market indexing and daily spot market pricing and describe how supplier reservation charges and discounts or premiums from market prices enter into the evaluation.

A. The Company has various pricing options available to it when developing its gas supply portfolio. These options include monthly market indexing, daily spot pricing, and fixed pricing. Prices for gas contracted for a term of one month or longer typically refer to a monthly or daily index as published by industry trade publications. Prices for daily spot deals may refer to a daily index or a negotiated fixed price.

The reservation fee the Company pays for each contract in its firm supply portfolio is dependent upon the pricing options chosen and the supply flexibility requirements associated with each contract. Reservation fees are generally lower for baseload supplies (purchased at a constant volume for the entire month, season or year) and higher if swing service is required. Reservation fees also vary depending on the type of swing service being provided. Examples of factors which affect the cost of swing service are: 1) the number of days of swing required; 2) the volume of swing allowed; 3) commodity pricing at first of the month indices versus daily spot pricing; 4) next day versus intraday swing capabilities; and 5) location of the supply being purchased.

The Company considers its anticipated load and swing requirements under various demand scenarios, contemplates the factors listed above and makes a "best cost" purchasing decision.

Q. Please describe how the Company determines the daily contract quantity of gas supplies that should be acquired through long-term contracts for the whole year, the full winter season and periods less than a full winter season.

A. The Company purchases gas supplies on a year-round basis to fulfill its firm requirements including storage injections and to minimize supply costs utilized to serve firm customers. Some of these contracts will escalate in volume during shoulder months (April and October) and the winter period (November through March) as the Company's firm requirements increase due to higher demand, thus sculpting year-round contracts to fit seasonal needs. The Company also purchases volumes for the winter period to meet its forecasted customer demand within the limits of the Company's firm transportation capacity entitlements, which increase during the winter period. In addition, the Company reviews low demand scenarios to measure its ability to fulfill its contractual purchase commitments with suppliers. Lastly, the Company may purchase short-term city gate peaking supply to fulfill additional firm obligations that exceed the Company's firm transportation capacity entitlements.

Q. What process does the Company employ in selecting its firm gas suppliers?

A. The Company identifies the volume and type of supply that it needs to fulfill its customer demand requirements, and in general, solicits RFPs from a list of suppliers that the Company continuously updates as potential suppliers enter and leave the market place. The RFPs may be for firm baseload or swing supply. RFPs for swing supply may be further categorized into pricing based on first of the month indices, or daily market indices. Swing supplies priced at first of the month indices command the highest reservation fees because the supplier assumes the risk associated with market volatility during the delivery period. Lower reservation fees are also associated with swing contracts referencing a daily market index because both buyer and seller assume the risk of daily market volatility. After forecasting the ultimate cost delivered to the city gate for each point of supply (incorporating the forecasted cost at the supply point plus pipeline fuel plus pipeline transportation fees), and evaluating the cost of reservation fees associated with each type of supply and its corresponding bid, the Company makes a "best cost" decision on which type of supply and supplier is best suited to fulfill its needs.

Q. Did the Company enter into any new supply arrangements during the review period?

A. Yes, during the review period the Company added new supply arrangements. This was done as a result of customer growth and under our "best cost" policy.

Q. Please describe the process that the Company utilized and the market intelligence evaluated during the review period to determine the prices charged for secondary market sales.

A. The process and information used by the Company in pricing secondary market sales depends upon the location of the sale, term of the sale, the type of sale, and prevailing market conditions at the time of the sale. For long-term delivered sales (longer than one month), in general, the Company solicits bids from potential buyers, and if acceptable, evaluates and awards available volumes. For short-term transactions (daily or monthly), the Company 1) monitors prices and volumes on the Intercontinental Exchange (Intercontinental Exchange or "ICE" is an electronic trading platform where potential buyers post bids and potential sellers post offers at various locations/areas along the interstate pipelines), 2) talks to various market participants, and 3) for less liquid trading points, estimates prices based on price relationships with more liquid points. The Company will also evaluate the amount of supply available for sale and weigh that against current market conditions in formulating its sales strategy (i.e., if the Company has a large amount of supply to sell on a particular day and determines that market demand is low, the Company will be more aggressive in its sales strategy).

The Company incorporates all these factors and then initiates its sales strategy.

Q. Did the Company make any changes in its gas purchasing policies or practices during the review period?

A. The Company did not implement any changes in its "best cost" gas purchasing policies or practices during the review period.

Q. Did the Company take any other action to reduce price volatility for its customers?

A. The Company continues to utilize the Company's Hedging Plan as well as storage which acts as a physical hedge to stabilize cost. The Company's Equal Payment Plan, in addition to the adjustment of the PGA benchmark price and deferred gas cost accounting, also provide a smoothing effect on gas prices charged to customers.

Q. What were the net economic results of the Hedging Plan during the review period?

A. The Company's North Carolina sales customers incurred a net economic cost of $5,207,171 (see **Exhibit_(MBT-2)**) as a result of the Company's Hedging Plan during the review period which was an increase compared to last year. This net economic impact includes the cost of commissions and amounts to an average cost per sales customer of roughly $0.58 per month.

Q. Did the Company's Hedging Plan work properly during the review period?

A. Yes. The Hedging Plan accomplished its goal of providing an insurance policy to reduce gas cost volatility for customers in the event of a gas price fly up.

Q. Has the Company made any changes to its Hedging Plan during the review period?

A. There were no changes made to the Hedging Plan during the review period. The Company has and will continue to closely monitor the gas supply – demand picture and make changes it deems necessary to its Hedging Plan.

Q. Please describe how compliance with the Hedging Plan is monitored.

A. Currently, the Gas Accounting, Finance, Risk, and Corporate Compliance areas perform ongoing activities to monitor compliance with the Hedging Plan. In addition, the Company's Gas Market Risk Committee monitors compliance with the Hedging Plan, as well as providing input on any changes contemplated to the Hedging Plan. Periodic internal audits have and will be performed to ensure that controls continue to be adequate and function as management intends.

Q. Have there been any deviations from the Hedging Plan during the review period?

A. There were no deviations from the Hedging Plan during the review period.

Q. Given the current low price forecast and low gas cost volatility environment, do you think continuing to hedge under the current Hedging Plan is prudent?

A. Yes, because the goal of the Hedging Plan is to provide insurance against gas cost volatility if prices fly up, the Company feels it is prudent to incur what it deems to be a low-cost insurance policy and continue with the current Hedging Plan. As stated previously, the cost per sales customer during the review period was approximately $0.58 per month. Because the current Hedging Plan only contemplates the purchase of options, the cost of the Hedging Plan is relatively low. As stated above, the Company has and will continue to closely monitor the gas supply – demand picture and make changes it deems necessary to its Hedging Plan.

Q. What are some of the other steps the Company has taken to manage its gas costs consistent with its "best cost" policy during the review period?

A. During the past year, the Company has taken the following additional steps to manage its gas costs, consistent with its "best cost" policy:

(1) The Company has, as more fully described in Ms. Raney's testimony, actively participated in proceedings before the FERC and other regulatory agencies that could reasonably be expected to affect the Company's rates and services;

(2) The Company has utilized the flexibility available within its supply, transportation, and storage contracts to purchase and dispatch gas, release transportation and storage capacity, and initiate secondary marketing sales in a cost-effective manner, resulting in secondary market credits to

customers of $32,829,312.51 an 8% increase, compared to last year's secondary market credits of $30,266,334.47;

(3) The Company has actively promoted more efficient peak day use of natural gas and load growth from "year-round" markets to improve the Company's load factor, which in turn, reduces the average cost charged per dekatherm when the total cost of pipeline and storage capacity is spread over higher non-peak usage.

Q. Please summarize your testimony.

A. The Company's "best cost" purchasing policy provides customers with secure and reasonably priced gas supplies. This policy and the Company's practice under this policy have been reviewed and found prudent on all occasions in North Carolina and in the other state jurisdictions in which we operate. Although we believe our policies and procedures are reasonable, we are cognizant of the fact that the natural gas industry is rapidly changing, and we are continuously monitoring our policies and procedures to keep up with, and anticipate, these changing conditions. We have and will continue to work to review current regulations and tariffs and explore possible changes that will better serve our natural gas customers in the future. We are satisfied that our existing policies and procedures are prudent and that they have produced and will continue to produce adequate amounts of secure and reasonably priced gas for our customers.

Q. Does this conclude your testimony?

A. Yes.

BY MR. JEFFRIES:

Q Ms. Stabley, do you have a summary of your testimony?

A (Ms. Stabley) I do.

Q Could you please provide that?

A Sure.

(WHEREUPON, the summary of MS. SARAH E. STABLEY is copied into the record.)

SUMMARY OF DIRECT TESTIMONY OF SARAH E. STABLEY Docket No. G-9, Sub 727

My name is Sarah Stabley and I am the Managing Director of Gas Supply Optimization & Pipeline Services in the Natural Gas Business Unit of Duke Energy Corporation. I am responsible for the supervision of the procurement and optimization of pipeline transportation, storage, and supply assets, system demand forecasting, administration of the Company's Hedging Plans, and management of broker activity for transportation. The purpose of my testimony is to describe Piedmont's gas purchasing policies during the review period in this proceeding, which is June 1, 2017 through May 31, 2018. My testimony also discusses the Company's review period hedging activity.

During the review period in this proceeding, Piedmont continued to utilize a "Best Cost" approach to purchasing gas. This approach involves five components: the price of gas, the security of gas supply, the flexibility of gas supply, gas deliverability, and supplier relationships. Each of these factors is discussed in detail in my testimony. Collectively, they establish a standard for purchasing gas which has been successfully used by Piedmont for many years and which has been found to be prudent by this Commission on many prior occasions.

Most of Piedmont's primary gas supplies are purchased under arrangements that are standard in the industry and which involve the payment of reservation fees for firm supplies priced at market-based indices. Piedmont also purchases short-term supplies on the spot market, again at market based prices, as necessary to meet its customers' needs during non-critical periods. Before purchasing these supplies, Piedmont engages in a substantial effort to determine the specific need for new supply in which it evaluates the needs of its customers, their usage characteristics, growth on its system and available supply options, among other things, as described by Ms. Raney in her testimony.

The Company has taken a number of steps to manage its gas costs consistent with its best cost policy including active participation at FERC, restructuring of supply and capacity contracts to adjust to market conditions, and the promotion of more efficient use of its system and of its capacity and commodity rights.

During the review period, Piedmont continued to utilize its hedging plan as an insurance policy to reduce gas cost volatility to its customers. Piedmont's hedging activities for the review period in this proceeding resulted in a net economic cost to customers of approximately 58 cents per month. Piedmont did not deviate from its approved plan during the review period.

The Company also uses a deliberative process to maximize the value of its capacity and supply assets when they are not needed to serve Piedmont's customers. This process includes the solicitation of bids for long-term delivered supply sales and extensive market research to establish daily or monthly sales prices. These practices resulted in $32,829,312.51 in secondary marketing credits this year.

Piedmont believes that its gas purchasing policies are prudent and that its review period gas costs were prudently incurred.

MR. JEFFRIES: Thank you, Ms. Stabley.

Piedmont's witnesses are available for cross examination commissions -- by the -- questions -- or by the Commission.

MS. CULPEPPER: No questions by the Public Staff.

COMMISSIONER BROWN-BLAND: Mr. Page.

MR. PAGE: I have just one for clarification, if I could, to Ms. Raney --

COMMISSIONER GRAY: Pull up that microphone.

MR. PAGE: -- to Ms. Raney and Ms. Stabley. Am I have on?

COMMISSIONER BROWN-BLAND: You're on.

MS. RANEY: Oops!

COMMISSIONER BROWN-BLAND: I've never heard anyone have trouble hearing you, Mr. Page.

(Laughter)

CROSS EXAMINATION BY MR. PAGE:

Q For the two of you in your verbal testimony you identified yourselves as employees of Piedmont Natural Gas. And yet I note in your printed summary it says you are -- you're employed by the pipeline natural, excuse me, by the Natural Gas Business Unit of Duke Energy Corporation. So do

you work for Piedmont or do you work for Duke or do you work for both? Who are you employed by?
A (Ms. Stabley) I will answer that. Duke Energy sends me my paycheck. So I do work for Duke Energy in the Natural Gas Business unit.
Q That was going to be my follow-up question.
A Yes.
Q Where does your paycheck come from?
A My paycheck comes from Duke.
Q Would that answer be the same for you?
A (Ms. Raney) Yes, it would be. And I believe Piedmont Natural Gas is a subsidiary -- a wholly-owned --
A (Ms. Stabley) A wholly-owned subsidiary --
A (Ms. Raney) -- subsidiary of Duke Energy and so in the Natural Gas Business Unit.
Q And I assume there would be some way in which Duke would bill your services back to Piedmont so there would be an offset there?
A (Ms. Stabley) Yes, there's a cost allocation.
MR. PAGE: Thank you. That's all.
COMMISSIONER BROWN-BLAND: Any redirect?
MR. JEFFRIES: (Shakes head no)
COMMISSIONER BROWN-BLAND: Questions by the

Commission?

EXAMINATION BY COMMISSIONER BROWN-BLAND:

Q First, and I think I approached this with counsel, but the -- Piedmont filed some responses to the Commission's questions that were posed on September 24th. Who prepared those answers; do you know? Did either of you prepare the answers that we received?

A (Ms. Raney) I would say we both did. Yes, we both worked on various ones depending on whose area of focus it was.

Q You say you prepared them or you had them prepared?

A Both.

A (Ms. Stabley) Both. It was a combination effort.

A (Ms. Raney) Yes.

Q Okay. I just wanted to clear that up for the record. So, let me start -- Ms. Raney, these questions are mostly directed to you but if anyone else wants to --

A Okay.

Q -- come in on them that's fine, too. Ms. Raney, could you go over for us the purpose of the design-day forecast that's on your Raney Exhibit

GJR-5C?

A So the purpose of our design-day forecast is to project the customer usage in the future and to project that usage on the coldest day that we might experience in that future, which we determine -- in the future at which we determine is the design-day temperature. And we use the past four years actual temperature experiences to determine what we believe that temperature could be.

Q And does that help you make a determination with regard to how much storage and capacity you need?

A Yes, it does.

Q And that -- is that primarily for your residential customers; the ones that I call the firm customers?

A So it would be all of our firm sales customers which include residential, commercial and industrial customers.

Q Now, this other question has to do with -- there was a Footnote 2 on your Exhibit 5C and it stated that Dominion's GSS storage was removed from the list of design-day supply capacity in 2015 because it depended on backhaul from Transco Zone

6. And -- but we noted that various other market area storage facilities were still shown as being available. In your response to our Question 2(b) included a statement that "such north to south deliveries on contracts whose primary path is south to north is generally no longer reliable for design-day planning." And you note that peak-day assets, certain peak-day assets including storage and off-system pipeline capacity are impacted by the loss of backhauling. You recall of all of that, right?

A I do, yes.

Q My question is has Piedmont contracted for sufficient north to south pipeline capacity to deliver the capacity from storage facilities as well as the off-system pipeline capacity?

A So Piedmont does have some north to south capacity in our portfolio, and we've contracted over that over the past several years in order to meet demands, and as that has become available, and relative to other options has fulfilled the best cost policy that we have. So I guess -- do you want to -- yeah, go ahead.

A (Ms. Stabley) May I tag on?

A (Ms. Raney) If that's okay.
Q Yes.
A (Ms. Stabley) So the Dominion gas that's referenced in the design day was backhauled on an IT contract, and it was a discounted IT contract at that so it would be the first thing that would be cut. And since there's a lot less security moving gas north to south on an IT contract, that's why it's no longer in design day. The other supplies that we do backhaul are on a firm contract using a -- on a secondary basis and we have contracted with other suppliers to help firm that up on a temporary basis.
Q All right. So is that north to south capacity that you mentioned you have acquired there, is that on Raney Exhibit 5C?
A (Ms. Raney) Yes, it is.
Q GJR-5C?
A So that would have been the Transco Leidy and the Virginia Southside capacity. Is that right?
Q So is that --
A (Ms. Stabley) What line?
A (Ms. Raney) I'm sorry. Line --
A (Ms. Stabley) Nineteen.

A (Ms. Raney) Eighteen and 19. Eighteen and 19.
Q So does having both that firm pipeline capacity and the formerly backhauled storage and pipeline capacity; is that double counting?
A It does not double count. So to the extent we have -- so we've removed the Dominion GSS so that's no longer there. And it does not double count the storage because what we'll do is we will either count or show the transportation or the storage, depending on what's most appropriate that is used in order to incrementally deliver to our city gates. So we ensure that we don't double count any of that.
Q Thank you. So if Piedmont contracts for the release capacity to deliver formerly backhauled capacity -- I guess, Ms. Tomlinson, this is really for you -- where does that cost show up on Piedmont's cost exhibits?
A (Ms. Tomlinson) It's on the demand schedule.
A (Ms. Stabley) Those contracts were under asset management.
A (Ms. Tomlinson) I'm sorry.
A (Ms. Stabley) I'm sorry. The contracts are under asset management, so it would be the asset

management fees.
A (Ms. Tomlinson) Which all role into the demand and storage costs on Exhibit 2 -- Schedule 2, Exhibit 1. Sorry.
Q That's your Exhibit, Tomlinson Exhibit 1?
A Correct, Schedule 2.
Q MBT I think it is, Schedule 2. Thank you.
Ms. Raney, is it possible that your Exhibit GJR-5C would overstate Piedmont's firm contractual capacity to meet design-day needs?
A (Ms. Raney) We take every effort to ensure that all of the capacity that we represent on our design-day schedule does not double count and does not show any more than our actual ability to meet design-day needs.
Q So your answer would be no it does not overstate?
A No, it does not overstate.
Q Now, in -- this is to any of you -- but do you agree that at the present time North Carolina has only one interstate pipeline that crosses its bound -- it's -- into its territory?
A It does. Columbia --
A (Ms. Stabley) Technically there's two. Yeah,

Columbia Gas transmission enters into the very north part of North Carolina just ever so slightly.

Q And before all this time, generally, Transco comes in along the I-85 corridor and then it has that spur that runs at the Virginia border?

A Yes, which is actually very close to where the Columbia Gas transmission lines come into North Carolina, pretty much right there at the same area.

Q And even so, despite the Columbia line that you refer to, isn't it true Transco for the most part has had a virtual monopoly across North Carolina?

A I would say it's absolutely true that the vast majority of our supply does come off of Transco.

Q And does that create a situation of vulnerability for North Carolina just having the one pipeline?

A (Ms. Raney) What I would say is that having one pipeline does not give us a diversity of supplier for the natural gas to Piedmont's system.

Q And, if the one pipeline had some serious issue, would that cause problems in your service delivery?

A If there were a major issue on the one pipeline

supplying our gas, yes, that would cause a serious issue for Piedmont.
Q Now, low cost backhaul is no longer available because Transco has reversed the flow on its system to move gas to the south; is that correct?
A That is correct.
Q And that allows Transco to offer capacity to new customers; isn't that correct?
A Transco has proposed and is, I believe, in the process of putting into service projects that would give new capacity from north to south on its system.
Q Do you know how Transco is pricing that new capacity?
A We have evaluated those projects as they have become -- have been proposed and so, yes, we've reviewed the price associated with that capacity.
Q And do they price it in such a way that the new customers pay only for the cost of the new facilities that's providing the incremental capacity, or do you know?
A So I would say that I don't know really the -- I don't have a good analysis, or a full analysis on what portion is for new versus existing

facilities.

Q Is it the case --

A (Ms. Stabley) I'm sorry. I was just going to say it's my understanding that those projects would only include like the cost associated with those projects.

A (Ms. Raney) With the incremental, yeah.

COMMISSIONER BROWN-BLAND: Be careful not to talk over each other --

THE WITNESS: (Ms. Raney) I'm so sorry.

COMMISSIONER BROWN-BLAND: -- so the court reporter can get it.

BY COMMISSIONER BROWN-BLAND:

Q So is it the case that the customers outside of North Carolina are benefiting from the reversal of flow, from Transco's reversal of flow?

A (Ms. Stabley) That's a hard question to answer.

Q I guess I'm getting at is there lower cost capacity created when Transco reversed that flow?

A No, I do not think that's the lower cost capacity reversing the flow.

A (Ms. Raney) The rates on the new projects tend to be higher than the historic rates on Transco's system from what I've observed.

Q Are you aware that at least some customers, including a Duke affiliate they serve in Florida, is benefiting from the reversal?

A (Ms. Stabley) They might have subscribed to capacity flowing from north to south.

Q Do you have any knowledge -- are you aware or that's just --

A Only to the extent they're a customer on the public records.

Q Okay. So did Transco offer any compensation for our loss of, that being North Carolina's loss of the backhaul when it reversed the flow on its pipes to serve the customers outside of North Carolina?

A No. The rate that we pay on our north to south contracts are firm -- or, excuse me, from south to north contracts, are firm from south to north. They are secondary from north to south; therefore, we're not really paying for the service. For years, we were able to segment our capacity and avoid paying year-round demand charges which saved the customers quite a bit in demand charges. But when the flow reversal changed, those were secondary rates that we had not firm.

A (Ms. Raney) And Transco has not compensated us for the loss of the ability to segment that and deliver on a reliable basis during the coldest days from north to south. I think that was your question.

Q Yes. So -- I thank you for that. So are you aware that or generally aware that the legislature had some concerns about pipeline competition and that they authorized the Commission to order Piedmont or -- to enter into supply contracts to increase competition? Are you familiar with that Statute?

A (Ms. Stabley) No.

A (Ms. Raney) No, I don't think I'm familiar with that one.

Q If I represent to you that there was a Statute 62-36.01, you wouldn't have any reason to quarrel with it, if I told you that it says *whenever the Commission, after notice and hearing, finds that additional natural gas service agreements, including backhaul agreements, with interstate and intrastate pipelines will provide increased competition in North Carolina's natural gas* *industry and will result in lower costs to consumers without substantially increasing risks of service interruptions to customers, or will substantially reduce the risks of service interruptions without unduly increasing costs to customers -- to consumers, the Commission may enter and serve an order directing the franchised natural gas local distribution company to negotiate in good faith to enter into such service agreements within a reasonable time.*

Have you heard that before?

A (Ms. Raney) I have not. Perhaps Ms. --

Q If you would accept it subject to check.

A (Ms. Stabley) I will accept that.

A (Ms. Raney) I will accept that it is true; however, I have not heard that.

MR. JEFFRIES: Madam Chair, whether these witnesses are familiar with it, I can promise you that the Company is quite familiar with that Statute.

THE WITNESS: (Ms. Raney) Okay.

COMMISSIONER BROWN-BLAND: All right.

BY COMMISSIONER BROWN-BLAND:

Q Transco has filed a general rate case before the FERC. It's in Docket RP18-1126. But are you

aware of the return on equity that Transco proposed?
A (Ms. Raney) We are engaged in analyzing the filing that Transco has made. And I have been made aware of the return on equity that they have proposed.
Q Do you know what that is?
A It was --
Q Pretty high?
A It was sixteen point something percent. I can't remember the exact.
Q That sounds close enough to me. All right. Piedmont's response to our Question 2(b) on the storage seasonal and interstate peaking facilities did not include facilities in the traditional supply area in the Gulf Coast. Could you describe those facilities including their location and operational capacities?
A So you're talking about the storage facilities such as GSS? Is that what --
A (Ms. Stabley) Would you mind repeating the question?
Q The -- your answer to our 2(b), to our Question 2(b) on storage seasonal and interstate peaking

facilities did not include the facilities in the traditional supply area in the Gulf Coast, ones like Eminence Salt Dome and that --
A (Ms. Raney) Right.
Q Could you describe those facilities including their location and operational facilities like storage capacity and injection and withdrawal rates?
A Okay. So I believe on one of the attachments to the question we have all of those listed. So, let's see.
A (Ms. Stabley) Actually it's not on here.
A (Ms. Raney) It's not on here.
A (Ms. Stabley) Those two storages are not --
A (Ms. Raney) Oh, right!
A (Ms. Stabley) -- are not on there because they don't provide deliverability on design day. It's capacity that we use in the event of supply disruptions. So you're talking about WSS and ESS storages, I believe, so --
A (Ms. Raney) It's --
A (Ms. Stabley) -- those are another source of supply.
A (Ms. Raney) And we would move them on some of

our transport. And so this is kind of an example of why we are not double counting because if we had those listed along with the transport that moves those supplies then that would double count. So that's why they're not listed on the design-day schedule.
Q So can you --
A If that makes sense.
Q Can you address where they're located and their operational capacities?
A (Ms. Stabley) I believe ESS is in Mississippi and WSS, I believe, is in Louisiana.
A (Ms. Raney) Yes. And then -- sorry, I'd have to look that up. Okay. Let's see, so the WSS, we have an MDQ of 96,069 and a total storage contract quantity of six -- a bit over 6.6 BCF.
Let's see, ESS isn't on here. And I seem to have inadvertently left my ESS information -- oh, wait, Sarah found it. Oh, sorry. Okay, ESS, I have it. Our withdrawal quantity there, the daily withdrawal quantity would be 150,430 dekatherms per day. And then the storage contract quantity is almost 1.3 BCF total.

Q So I think you mentioned these are used when there's a -- in a disruption situation or high demand; is that right?
A (Ms. Stabley) Or it could be that the spot supply, the flowing supply from those general areas on Transco are priced higher than our storage WACOG. So we are able to pull from the storages, assuming that the inventory balance is at an optimal level, if the WACOG is lower than the flowing supply.
Q So it allows you some flexibility?
A Uh-huh (yes), it does. Flexibility as long -- as well as back-up on a design day should, for whatever reason the supply that we have contracted in those regions, not flow.
Q And do you consider that they serve to support the secondary market transactions?
A That is not why we subscribe to them. No.
Q Okay. So now that Transco has reversed the flow on its system, and the facilities that were market area facilities that function as a surrogate for Transco forward-haul capacity are now essentially supply area facilities, does Piedmont need the same level of seasonal and

peaking capacity to the north?

A (Ms. Stabley) We are evaluating that, the level of peaking, working to match our customer load profile.

Q What -- so what's the status of that evaluation? Is that going to be ongoing for a while, I mean, what do you expect?

A It is ongoing and, in fact, it's no different than our evaluation that we do kind of year-round every year. So basically looking at what's our forecast for the customer usage. What's the customer load profile. Obviously, we have periods of peak during the winter and then during the summer, low usage, and so trying to -- using our best cost policy subscribe to those either transportation or storage or a combination of assets that will provide us with firm deliverability to the customers that best matches their profile and overall cost.

Q And what are the benefits that Piedmont gets from having capacity in Eminence?

A The benefits?

Q Uh-huh (yes).

A Just what I described before, it serves as a backup. So generally the supply that we purchase around that ESS storage area comes from Station 65 on Transco so should there be an interruption in the Station 65 supply from our supply -- excuse me, 85 supply from our suppliers then we would at that point go ahead and pull from Eminence, if it were the best storage out of our portfolio to pull from.

Q So do you have an understanding of this Commission's actions before the FERC with regard to Eminence? Have you been following that?

A I have not followed it specifically but I am aware of the filings, some of the activity.

Q What is it that has led to the decision not to -- for Piedmont not to join the Commission's effort to get demand credits from Transco?

A (Ms. Raney) So I've looked into that a bit. I have not followed it maybe in as much detail as the Commission; however, I did look into what we received from Transco and what we're paying demand charges for. We have not experienced any interruption in service associated with those deliveries so we have not found grounds for any filing and having an issue with Transco regarding

those -- that service.
Q Is that because you use other assets other than what's at Eminence?
A Well, when we have used ESS and we have -- whatever we have nominated has been delivered so we have not experienced any interruption in service.
Q Have you made sure that the assets that Transco is using are firm?
A So when, I think several years ago, Transco reduced the deliverability from Eminence, the demand charges associated for -- associated with our contract so the actual quantities that we had subscribed to were reduced pro rata according to how much their stated deliverability was reduced. So our customers did -- do pay less than they did before that reduction in deliverability. So they -- we have -- they have saved according to what that reduction has been.
A (Ms. Stabley) So essentially everything that we subscribe to and pay for for the ESS storage is available for us to use, and Transco has not interrupted that.
Q Now, in response to one of the questions that we

asked you, you indicated that the Margin Decoupling Tracker Mechanism, that you hadn't observed that it impacted your design-day requirements; do you recall?

A (Ms. Raney) Margin decoupling is not my area of expertise.

A (Ms. Stabley) No.

A (Ms. Raney) Is that --

A (Ms. Stabley) Uh-uh (No). And it's not included in the prudence information, the margin decoupling.

Q Well do you know -- what I'm sort of driving at there is shouldn't the efficiency improvements that have been made over the years, like in equipment and furnaces and all that, when should we be able to see it have an impact on design-day demand?

A (Ms. Stabley) Oh, that would come from the design-day forecasting. That wouldn't have anything to do with the margin decoupling --

Q All right.

A -- components. Those would be completely separate. So any efficiencies that are seen would come through the demand forecasting for design day.

Q And we've not seen those efficiencies; is that what we're saying?

A I think any efficiencies we see are included in the number.

A (Ms. Raney) So, okay, I guess I'm not clear on which -- specifically which efficiencies we're talking about.

Q Well, we haven't seen --

A I'm sorry.

Q -- the design-day requirements change over time or change very much. And so I pursued with the Company in the past and we've been told about a hooking effect so that they didn't see demand change because, if we had very cold periods of time, the customer is eventually up their usage?

A (Ms. Raney) So, if you're talking about customers response and customers demand based on cold weather conditions and energy efficiency effects to that, that would be included in the actual data. So when we do our design-day analysis the actual usage from customers at various temperatures is what is included in the data in order to determine the total demand. So as we've experienced actual growth changes that would be reflective, and so any energy efficiencies would be included just as part of that customer usage. So the --

A (Ms. Stabley) I'm sorry. Go ahead.

A (Ms. Raney) So the hook effect that you're referring to has to do with customer behavior in extreme cold weather conditions. So what we have observed through various cold, extreme cold weather events is that on the actual coldest day there is high usage, but what we see is that the next day the usage can be even higher even as the temperatures have moderated. So on those extreme cold weather conditions it doesn't appear, based on that data, that customers are employing energy efficiency. They want warmth.

Q And so your planning is based on that coldest day?

A That's right.

Q And you're indicating that customers in that time period of that coldest time, coldest day, either that day of or a couple of days after, that little period of time customers use more. But I guess I'm asking, so we don't see an impact even in that period of time of these more efficient -- all these efficiencies that have been added and gained over years, I've got a more efficient gas hot water heater and --

A I would say what we see and what happens is in the actual data for customer usage and customer behavior, those efficiencies would be included. But then you also have growth and demand that we've seen as far as customer additions and new households, and those sort of things that could potentially offset so it's a --

Q So growth is another factor.

A That's correct.

Q But if you were just comparing say like an efficient gas furnace with the furnace of 15, 20 years ago, those improvements alone are not changing. It's fairly stable what we see when the data comes back --

A What I would say is --

Q -- in design-day planning?

A I'm sorry. What I would say is that I don't have the data that would go that specific. And what I just have is the actual usage data that would incorporate the usage of customers and whether they have more efficient appliances, then that would show up in the actual usage data that we use to determine our demand on the system. But I don't have it broken down to the specific level that you have. I'm not quite sure how we would do that.

A (Ms. Stabley) I would agree that the -- any sort of energy efficiency or conservation that we see from customers are in the numbers that we're using currently when we look at our most current customer usage so it would be included in that.

Q Can you imagine that we would ever see a gain in the design-day planning that we would see the forecast come down based on the new efficiencies and --

A (Ms. Raney) So it hasn't been our experience so far. To the extent it's impacted our growth rates, it would be included in that overall calculation. It's hard for me to predict that, but at the moment the information that we have where we gather the growth projections we have not seen a net decrease due to efficiency.

Q So, and was it never expected from the gas company's point of view, I mean, is that a surprise to you? Did you ever expect to see it -- to see the gain?

A (Ms. Stabley) I don't think that it's a surprise. No.

A (Ms. Raney) We -- it's --

Q So you never had that expectation? You never had the expectation that we would see a drop?

A Every year the models, and actually throughout the year, are trued up based on the most recent customer usage so they're already in the numbers. So there's really no efficiency factor that's being applied to certain customers. So it's all a part of the data - part of their usage characteristics, part of their load profile - that all go into calculating what we think they will use on design day.

Q All right. And then, Ms. Raney, on page 6 of your testimony, you talk about the use of a linear regression to determine design-day needs, and there you mention using the data from 2011 to 2017?

A Yes, that's correct.

Q Are you able to say whether that's a long enough period for your linear regression to be

meaningful?
A (Ms. Raney) We believe it is a long enough period. It's -- part of I think what has influenced our decision to go with this time period has to do with the quality of the data and the fact that -- and some of the effects that you mentioned about the change in customer behavior associated with things like more efficient appliances. So if you go back too far, then you would include some data that did not necessarily represent the more current type of behavior that we're -- that customers are employing.
Q Because --
A I think that's the right word.
Q -- if you went back for a longer period of time, the numbers would look different, right?
A They could. It's -- we're still looking at the usage by customer per heating degree day is. So any time you introduce more data it could influence your result up or down.
Q So given the reductions in design-day forecasts shown, are you confident that the analysis produces an adequate level of design-day demand?
A I'm sorry. The reduction -- could you --

Q It says given the reductions in design-day forecasts shown, is Piedmont confident that the analysis produces an adequate level of design-day demand?
A So the -- Piedmont is confident in the analysis. Yes. And I guess I'm trying to sort out which reduction. Is that on my page 6 that you're seeing?

MR. JEFFRIES: Madam Chairman, I think I understand the question.

A Okay.

MR. JEFFRIES: I'm not sure Ms. Raney does. I believe you're referring to the reduction on, it's identified under Question 6 of the Commission's questions.

COMMISSIONER BROWN-BLAND: Right.

A (Ms. Raney) Yes. I apologize, I was looking at my testimony. I was like, gosh. Yes, we are confident in our projection. So, if I may, the reduction that you're referring to has to do with the various design-day demand calculations for the winter of 2018-'19 that would have been performed over successive years. And as -- yes --

Q So that picked up two warm things, the hurricane --
A That's right.
Q -- hurricanes and the warmer heating season.
A So those earlier fore -- oh, I apologize.
Q So those were like -- I guess I'm asking is that getting too much emphasis in a short period and affecting your numbers?
A Right. So during those windows forecasts were run. You know, the earlier ones would not have had those warm weather experiences within the data. And so in successive years, as you get closer to that 2018-'19 we add the data which, as you said, included two warm weather experiences. It also included the other data for the cold -- the normal or colder than normal winter so all of the data was included. But as we get closer to that year that we're planning for then we -- our analysis can -- we'll take into account the more recent data and that can influence the result, and that's what you see here. And so the growth rate went down after Hurricane Matthew and that influenced kind of the starting point for the next year, and both of those factors together

created this slight reduction.

Q But -- and so when you look at that over a shorter period of time, and these are sort of outliers, I think that's what I'm getting at --

A Right.

Q -- with these outliers and do you still have confidence in the numbers even though you saw some of these ups and downs --

A I understand.

Q -- and over a longer period it might be a little smoothed out?

A Sure. I understand what you're saying. And so that's why we keep in our analysis the older data as well as adding the newer data. But it -- at a certain point, we look at our analysis each year to ensure that it's reasonable and that if there are any modifications to the data set that we might need to do. Now, we didn't actually reduce the number of years in our analysis; we've added to it to get -- to include the more recent experiences. So we do feel confident in the analysis that we're performing.

Q Okay. Thank you.

And thank you, Mr. Jeffries, for

getting us straight.

A (Ms. Raney) I appreciate that.

Q What is the Company's equity position in the Atlantic Coast Pipeline project?

A So Piedmont is a customer on that and so we generally don't speak on behalf of the owner side.

A (Ms. Stabley) Correct.

MR. JEFFRIES: Madam Chairman, Piedmont maintains a wall between the folks like Ms. Raney and Ms. Stabley who operate on the customer side and so they would not be privy nor would I to the details of the equity ownership activities.

COMMISSIONER BROWN-BLAND: I appreciate that.

BY COMMISSIONER BROWN-BLAND:

Q So our Question 7 that we had asked you earlier dealt with whether a contract provision dealing with governmental changes, such as the reduced federal income tax, was included in negotiated contracts with interstate pipeline suppliers such as Atlantic Coast Pipeline. And you indicated that the negotiated contract did not include such a provision.

If governmental changes yield excessive returns, what actions would the Company take to protect the ratepayers?

A (Ms. Raney) So, Piedmont has entered into a long-term negotiated rate agreement with Atlantic Coast Pipeline, and so any change in the rate of return associated with the recourse rate wouldn't impact our customers due to our negotiated rate agreements so that would be outside of those. Yeah.

Q You're saying that the agreements then would protect the -- it's the agreements that would protect the ratepayers?

A The long-term negotiated rate agreements were executed through arms-length negotiations and were the best cost alternatives at the time of all the alternatives that we reviewed that were available. And so the change in tax rate would not impact those negotiated rates.

Q Okay.

COMMISSIONER BROWN-BLAND: Are there other questions from the Commission? Commissioner Gray.

EXAMINATION BY COMMISSIONER GRAY:

Q I'm going to change the direction a little bit.

So you get your gas from Transco. Every 85 miles or so Transco has a compression station to make sure the gas is flowing. Do you know whether or not Transco has back-up energy capacity if they lose electricity that allows the compression to take place?

A (Ms. Stabley) I'm not aware of Transco --

Q Yeah, well I have a generator in my back yard --

A Okay. (Laughing)

Q -- that runs on natural gas and I assume that everything --

A (Ms. Raney) Good for you. (Laughing)

Q -- and I assume that the natural gas will flow but if it doesn't it's because the compression is not there to allow the gas to flow?

A (Ms. Stabley) It's my understanding there could be electric compression or gas compression, and I'm not --

A (Ms. Raney) Right.

A (Ms. Stabley) -- privy to the information on exactly Transco's facilities.

Q You may want to ask Transco what's the back-up.

A Okay.

Q And if I might be even bold enough to suggest

that with the increase in the ability of battery storage, perhaps some solar at some of those compression sites might be an alternative to provide back-up power to allow the gas to flow?
A Could I say though, we do pay for firm service on Transco so should Transco not provide that firm service, regardless of whether a compressor went down or there were other issues --
Q And I've seen firm before, too, yes, ma'am.
A -- so we do pay for firm service.
Q And I hope you continue to get it.
A I do, too.
A (Ms. Raney) So do we.

COMMISSIONER GRAY: Thank you.

COMMISSIONER BROWN-BLAND: Commissioner Mitchell.

COMMISSIONER MITCHELL: I have just two quick questions that follow up on questions from Commissioner Brown-Bland.

EXAMINATION BY COMMISSIONER MITCHELL:

Q Ms. Stabley, I think this one will go to you. And I want to make sure I understood your testimony correctly when Commission Brown-Bland was discussing sort of the backhaul capacity, that is no longer available, or is I guess decreasingly available, to the Company, and you all have had to procure capacity elsewhere to replace that back -- the capacity that was formerly backhauled?

A (Ms. Stabley) It's not a replacement. We -- the gas supplies that we could not really rely on to move what used to be a backhaul, we put under firm asset management agreement contracts which provided for the delivery firm at our city gate.

Q So --

A So we did --

Q -- you firmed up what was formerly backhauled?

A Yes, for a short period of time. Those expire October 2019, so they're short term or as three-year asset management deals, various contracts.

Q And that was my next question. So the duration would have been three years from start to finish?

A Yes.

Q Okay. Got it. And then the last question is about the margin decoupler. So I think I understood your testimony to be that any efficiencies that the Company has -- or any efficiencies that customers have -- or that in customer usage may have been offset by growth in your customer base. So when you're calculating those design-day requirements, sort of the efficiencies are offset by growth; is that -- did I understand --

A (Ms. Raney) Yeah. Sorry. I guess what I would say is that we're using the actual observed customer usage data. So to the extent those customers have implemented any energy efficiency appliances, then that would be reflective in their actual usage and then we use that actual data to calculate the regression.

Q Okay. So we -- the Commission is concerned with the impact of that program on - I say concerned - I mean we're just interested in the impact of that program on customers and so, if we've noticed that the Company has expensed interest associated with that program over a number of years, and so in evaluating benefits to customers that may result from that program, is it -- does it enter into the Company's considerations when determining whether the need exists to file a general rate case? This is sort of a convoluted question and I'll restate it. But is it possible that the margin decoupler has allowed the Company to stay out longer -- stay out for -- you know, not file a general rate increase longer than it otherwise would have had that program not been in place?

A That type of -- that rate case question is definitely outside of the areas that I would -- that are my expertise so --

Q That's fair enough.

A -- I don't have an answer to that.

Q Okay. I have nothing further.

A Okay.

COMMISSIONER BROWN-BLAND: Are there follow up to Commission's questions?

MS. CULPEPPER: No questions.

MR. JEFFRIES: I have a few, Madam Chair.

COMMISSIONER BROWN-BLAND: Hold up just a minute.

MR. PAGE: Jim, I have a couple --

COMMISSIONER BROWN-BLAND: Mr. Page.

MR. JEFFRIES: Oh, I'm sorry, Bob.

COMMISSIONER BROWN-BLAND: I'll let you go, Mr. Page.

MR. JEFFRIES: You were hiding behind Sarah over there. I didn't see you.

MR. PAGE: I was trying to do you a favor by hiding.

EXAMINATION BY MR. PAGE:

Q I wanted to follow up on some of the questions that the Commissioners asked about the Statute and the effect of competition and the likelihood of the Atlantic Coast Pipeline coming online next year.

I understand that from what Mr. Jeffries offered that there's some sort of a wall that screens you guys from knowing exactly how much of the Atlantic Coast Pipeline Piedmont owns or Duke owns, but you're aware they own some piece of that, right?

A (Ms. Raney) Yes.

Q And particularly, Ms. Stabley, in your summary this morning you talked about five different factors that affect purchase of supply decisions.

A (Ms. Stabley) Correct.

Q The first one of which is cost?

A Yes.

Q Okay.

A Uh-huh (yes).

Q But there are four other conditions which say everything is not necessarily cost driven.

A Correct.

Q And when you function in the availability of purchasing supply through the Atlantic Coast Pipeline, which isn't there now but hopefully will be next year, then as the public witness previously testified, wouldn't there be a tendency in there, all other things being equal, for Piedmont to prefer a supply that could be delivered over the Atlantic Coast Pipeline rather than Transco?

A Assuming operationally, flexibility, security-wise, all things as being equal --

Q All of those five factors that are listed.

A -- if you're only comparing cost. If it were less expensive to deliver supply to our customers on ACP then, yes, we would look to do that.

Q I'll give you a disclosure here, my clients are very, very, very interested in cost. So we will be monitoring, and assume the Commission and Public Staff will be monitoring, to assure that when the Atlantic Coast Pipeline comes on that it's not given undue preferences that defeat the purpose of the Statute and increase cost rather than reduce it?

A Right. Right. No, we layer our supply on based on the customer need and then layering on economically, assuming all things being equal with supply and flexibility, or excuse me, deliverability and flexibility, then, yes, cost we layer in economically.

Q And generally, not in theory, you add a new source of supply it ought to drive rates down?

A Yes. So in the example where rates are less expensive coming in on Transco or Columbia Gas Transmission then, yes, we would take that supply over ACP as long as it's the same deliverability that meets the customer need and is the less expensive.

MR. PAGE: All right. Thank you.

COMMISSIONER BROWN-BLAND: Mr. Jeffries.

MR. JEFFRIES: Thank you, Madam Chairman.

I believe most of my questions are going to be either for Ms. Raney or Ms. Stabley so I'm just going to lob them in your direction and you guys figure out who the best person to answer is.

EXAMINATION BY MR. JEFFRIES:

Q Chairman Brown-Bland asked some questions about -- a number of questions regarding the north-south, south to north capabilities on Transco. As she noted, Transco is the primary pipeline providing service to Piedmont in North Carolina; correct?

A (Ms. Raney) Yes.

A (Ms. Stabley) Correct.

Q And ACP will run north to south, is that correct, if it's constructed?

A (Ms. Raney) Yes.

Q And that will provide access to a different supply sources than Transco currently does on a forward-haul basis; is that correct?

A That's correct.

Q And the capacity -- the supply sources for the capacity that Transco has historically moved from north to south that you are now having trouble meeting, those are some of the same supply sources that ACP will access; is that correct?

A (Ms. Stabley) No.

A (Ms. Raney) Some of them are.

Q Okay. So, but they're different supply sources than Transco mainline south to north capacity, correct?

A Yes.

Q Okay. Thank you. Could you explain if there is any relationship between Piedmont's efforts to firm up this supply that historically has come from the north using these secondary segmented backhaul transactions and Piedmont's proposed LNG project?

A (Ms. Raney) Are there any -- yes.

Q Is there a relationship between those two?

A The reduction and deliverability from peaking assets sourced from the north to the south certainly does have a relationship to the Robeson LNG.

Q And what is that relationship?

A Well, it spurred our desire to seek out the firming up of peaking supply that was no longer firm to our system, and the Robeson LNG facility provides that service -- will provide that service.

Q Thank you. Commissioner Brown-Bland also asked you a question about pipeline risk. Will having another major interstate pipeline providing

service into Piedmont's system reduce your Force Majeure risk from upstream suppliers?
A Having an additional pipeline, that should reduce our Force Majeure risk because you have another supply source that is on a completely different system.
Q You're not solely dependent on Transco?
A That's right.
Q Okay. Ms. Raney, are you aware of a recent filing by Transco at the FERC relating to priority of service?
A I'm -- yes, I am familiar with that filing.
Q And did Piedmont participate in that docket?
A We did participate. We participated in the technical conference held at FERC on that docket.
Q And were those changes by -- proposed changes by Transco, in your view would they reduce operational flexibility for customers in Zone 5 like Piedmont?
A Yes, they absolutely reduce operational flexibility in Zone 5.
Q And did Piedmont oppose those changes?
A We protested the changes, yes.
Q So I'd like to return briefly, just at the risk

of beating a dead horse, to the issue of design day?
A Okay.
Q So you look at usage as part of your design day -- actual customer usage, system usage as part of your design-day calculation --
A Yes.
Q -- is that correct?
A That's correct.
Q Has Piedmont historically been a system that has experienced growth over time?
A Yes, it has.
Q And is that still continuing?
A And that is continuing, yes.
Q So if you didn't look at anything else, you would expect from year-to-year to see an increase in demand --
A That is --
Q -- customer demand based on actual usage year over year, correct?
A That is correct.
Q Are you also aware that over, for some period of time, average-per-customer usage of natural gas has been in a slow decline?

A I'm not sure I've studied those metrics but that is not surprising --

Q Okay.

A -- per customer.

Q And could that be as a result of new construction that maybe is a little tighter, more efficient appliances, energy efficiency measures that customers take or that the Company promotes?

A Yes. That sounds like a reasonable explanation of how that could have occurred.

Q And so if Piedmont wasn't a growth system and it just had constant demand and you had those factors engaged, you would see demand decline over time, right?

A That -- yes. That would make sense, yes.

Q Okay. So -- while I'm asking you, I mean, you know --

A Yeah. No, it does, it does, it does.

Q So, but when you -- you don't try to break out that relative increase or that relative decrease - decrease due to efficiency, increase due to growth - you don't try to spike those out in your design day, correct?

A No, we don't. We take actual usage data.

Q So it's all baked in there together?
A It is all baked in there together.
Q Okay. Thank you. And you don't have any way, based on the way you calculate your design data, to figure out what -- I mean, to some extent on the savings it's trying to prove a negative, right?
A Right. Yes. We don't break that out in the analysis.
Q You have no way of knowing what an individual customer who is saving energy would have used if they hadn't saved it, right?
A I do not have a way to know that.
Q We had some discussion about your GSS and WSS storage capacity, and as I understood that there's no dedicated transport associated with those services, correct?
A (Ms. Stabley) Correct.
A (Ms. Raney) Correct. Yeah.
Q Okay. So, because of that, you have a whole menu of interstate pipeline capacity that you can use to transport the actual commodity gas on a design day, correct?
A (Ms. Stabley) Correct.

Q And then you've got these two storage fields, one that's in Louisiana, one that's in Alabama, but they don't have any baked in -- you don't have -- there's no service assigned to those storage facilities that gets that gas to North Carolina, right?
A (Ms. Raney) Those aren't bundled transport storage contracts. Correct.
Q So you have to use your menu and that's why you separated those when you were talking about design-day storage facilities, correct?
A Correct.
Q And I believe you, Ms. Stabley, also said that it gives you some optionality on sources of supply, if there's either curtailment or price differentials on a --
A (Ms. Stabley) Correct.
Q Okay. Thanks.
Ms. Raney, in your experience, is there more than one legitimate way to calculate design-day demand?
A (Ms. Raney) Yes, there are. Yes.
Q The way you do it, is that consistent with the way Piedmont -- now, you've only been employed at

Piedmont or with Piedmont for what, a year, a year and a half?

A I've been in this position with the Company for just under a year.

Q Okay. And did you look at the design-day calculation when you took this job?

A Yes, I did.

Q Did you do anything to validate it?

A I did, I looked at what was done in the previous few years, a lot -- for my own personal understanding because I was new to the position. I also spoke with individuals at -- it's at a university who provides us daily and monthly forecasting service for our system and they also provide design-day forecasting for utilities across the country, and asked them if this was a reasonable method to use, and they did validate that with me that it was a reasonable methodology for forecasting for design day.

Q I think you had a couple of questions -- thank you for that. I think you had a couple of questions from the Chairman about the relative adequacy or your relative comfort level with the adequacy of Piedmont's design-day calculation.

A Yes.

Q And I think she brought up a couple of issues that might cause you to question the way you do it and one was this pattern of excess usage where customers experience a cold day. And I think intuitively most of us would think that would be when they're going to use most of the gas, but instead it's two days later is what seems to happen. She also talked about the length of the look-back you do for your design-day calculation. Is there anything built into your calculation that helps mitigate risks from either of those two factors?

A So we, as a Company, have used a reserve margin to help with any of those unpredicted swings in customer usage and other weather impacts like wind, and cloud cover, and things of that sort, and also supply disruptions that could occur to our firm contracted supply. So we use that reserve margin for all of those things.

Q Okay. Thank you. You had a couple of questions about ACP, the rates and relationship to rate of return, and I think you indicated that it's really apples and oranges; negotiated rates are one thing and cost of service rates are another, correct?

A That's correct.

Q And Piedmont did an RFP process for the capacity that ultimately you subscribed to on ACP; is that correct?

A That's correct.

Q And so in doing that, did you get proposals from multiple upstream potential providers of natural gas?

A Yes, we did.

Q And was Transco one of those?

A Yes, they were.

Q Okay. And you did an analysis based on that, were the ACP rates proposed higher or lower than the Transco rates?

A I think they were lower, my understanding. Yes they were lower.

Q And the ACP rates have since been adjusted.

A That's correct.

Q Correct?

A Yes.

Q But if you took the adjusted rates and went back to that initial analysis, are the ACP rates still lower?

A Yes, they are still lower.

Q Okay. Thank you.

And this one actually might be for Ms. Tomlinson. Ms. Tomlinson, are there any demand charges or costs associated with the Atlantic Coast Pipeline project or the Piedmont LNG project in the review period, gas costs of this proceeding?

A (Ms. Tomlinson) No.

Q Thank you.

MR. JEFFRIES: I believe those are all the questions I have, Madam Chairman.

COMMISSIONER BROWN-BLAND: Ms. Tomlinson, we were working hard to be sure we had something for you.

(Laughter)

Well, your testimony has been received and your evidence has been received so, there being no further questions, you are excused, and thank you.

THE WITNESS: (Ms. Raney) Thank you.

THE WITNESS: (Ms. Stabley) Thank you.

THE WITNESS: (Ms. Tomlinson) Thank you.

(The witnesses are excused)

MS. CULPEPPER: The Public Staff calls

Poornima Jayasheela, Zarka H. Naba, and Michael C. Maness.

POORNIMA JAYASHEELA, ZARKA H. NABA, and
MICHAEL C. MANESS;
having been duly sworn,
testified as follows:

COMMISSIONER BROWN-BLAND: You may be seated.

DIRECT EXAMINATION BY MS. CULPEPPER:

Q Ms. Jayasheela, please state your name, business address and present position for the record.

A (Ms. Jayasheela) 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.

Q Ms. Naba, please state the same information.

A (Ms. Naba) My name is Zarka Naba and my business address is 40 -- 430 North Salisbury Street, Raleigh, North Carolina. I'm a Public Utilities Engineer in the Public Staff's Natural Gas Division.

Q Mr. Maness, please provide the same information.

A (Mr. Maness) My name is Michael C. Maness. I am

Director of the Accounting Division with the Public Staff, 430 North Salisbury Street, Raleigh, North Carolina.

Q Ms. Jayasheela, on September 17, 2018, did the panel prepare and cause to be filed in this docket joint testimony consisting of 24 pages and three appendices?

A (Ms. Jayasheela) Yes.

Q On October 1, 2018, did the panel prepare and cause to be filed in this docket revised joint testimony consisting of 24 pages and three appendices?

A Yes.

Q Do you have any additional corrections to your testimony?

A Yes. Mr. Maness has some revisions.

Q Mr. Maness, please give us those corrections.

A (Mr. Maness) All of these corrections are on page 20 and in one sentence near the top of the page. On line 2, where it states "May 2018 contract period", that should be "May 2019 contract period". On line 3, it should read "12 months" instead of "13" at the beginning of the line. And on line 4, where it says "May 2017 prompt month", it should say "May 2018 prompt month".

Q If the panel was asked those same questions today, would your answers as corrected be the same?

A (Ms. Jayasheela) Yes.

MS. CULPEPPER: I move that the revised joint testimony, as corrected, consisting of 24 pages and three appendices be copied into the record as if given orally from the stand.

COMMISSIONER BROWN-BLAND: That motion will be allowed, and the revised joint testimony of the three witnesses as it was filed on October 1 and revised here will be received into evidence and treated as if given orally from the witness stand, and that includes the three appendices.

MS. CULPEPPER: Thank you.

(WHEREUPON, the prefiled revised joint testimony of Poornima Jayasheela, Zarka H. Naba, and Michael C. Maness, as corrected, including Appendices A, B and C is copied into the record as if given orally from the stand.)

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, 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 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.

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:

(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

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 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		Increase	%
	May 31, 2018	May 31, 2017	(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:

	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.

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:

	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 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:

	Actual Amounts for the 12 Month Periods Ended		
	April 30, 2018	April 30, 2017	Increase (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.

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.

	Actual Amounts for the 12 Month Periods Ended			
	April 30, 2018	April 30, 2017	Increase (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 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);

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 "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

May 31, 2018, this amount includes call options purchased by Piedmont for the May ~~2018~~ 2019 contract period, a contract period that is ~~13~~ 12 months beyond the end of the current review period and 12 months beyond the May ~~2017~~ 2018 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.

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.

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.

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.

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.

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.

BY MS. CULPEPPER:

Q Does the panel have a summary of the testimony?

A (Ms. Jayasheela) Yes.

Q Would you please read it?

A Sure.

COMMISSIONER GRAY: Please pull that up.

(WHEREUPON, the summary of Poornima Jayasheela, Zarka H. Naba, and Michael C. Maness is copied into the record.)

PUBLIC STAFF – NORTH CAROLINA UTILITIES COMMISSION
SUMMARY OF TESTIMONY OF POORNIMA JAYASHEELA, ZARKA H. NABA, AND MICHAEL C. MANESS
BEFORE THE NORTH CAROLINA UTILITIES COMMISSION
DOCKET NO. G-9, SUB 727
October 2, 2018

The purpose of our testimony is to (1) present the results of our 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 evaluate the prudency of the natural gas purchases made by Piedmont, (3) to provide our conclusions regarding whether the gas costs incurred by Piedmont during the 12-month review period ended May 31, 2018, were properly accounted for, and (4) to discuss the prudence of Piedmont's hedging decisions.

Based on our investigation and review of the data in this docket, we believe that Piedmont's gas costs were properly accounted for and prudently incurred. Furthermore, based on what was reasonably known or should have been known at the time the Company made its hedging decisions affecting the review period, our conclusion is that that those decisions were prudent.

We 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. We further recommend that Piedmont remove the existing temporary decrement and increments approved in Piedmont's prior annual review of gas costs proceeding (Docket No. G-9, Sub 710) and implement the temporaries in the ~~instant~~ correct docket.

KHM

MS. CULPEPPER: The witnesses are available for cross examination.

MR. PAGE: No questions.

MR. JEFFRIES: No questions from Piedmont, Madam Chairman.

COMMISSIONER BROWN-BLAND: Are there questions from the Commission? Commissioner Mitchell.

COMMISSIONER MITCHELL: Good morning. I have two questions and I will just direct them to the panel and you all answer them as appropriate.

EXAMINATION BY COMMISSIONER MITCHELL:

Q I have a question about the reserve margins. We've heard testimony today about that 5 percent reserve margin --

A (Ms. Naba) Sure.

Q -- which has been in place for a number of years now as I understand it.

A Sure.

Q And at the time that Piedmont first proposed using the reserve margin, the Public Staff did not oppose it, didn't question -- let me put that a different way -- didn't question the reasonableness of Piedmont's use of the reserve margin because Piedmont's criterion for the design-day temperature was warmer than other utilities were using at that time.

A Sure.

Q And so -- but my understanding also is the Public Staff indicated that it would continue to review Piedmont's use of the reserve margin and evaluate it on a case-by-case basis or proceeding-by-proceeding basis going forward.

A Sure.

Q So we now know that Piedmont uses a considerably lower temperature, design-day temperature, than it did in the past. And so my question for you is whether the Public Staff has an opinion on the reasonableness of that reserve margin now given the change in that design-day criterion?

A Sure. The Public Staff has --

COMMISSIONER BROWN-BLAND: I'm sorry, Ms. Naba, yeah, pull that --

A Sorry.

COMMISSIONER GRAY: Thank you.

A (Ms. Naba) So the Public Staff has reviewed Piedmont's use of the 5 percent reserve margin. Historically, Public Staff has seen a growth in firm customer demand and so we believe that

Piedmont has a legal obligation to provide natural gas to its firm customers on the coldest day of the year. And in order to do that they have to plan for their customer demand under the design-day conditions; as well as they should have a capacity load under -- to provide against the possibility if there is any variation that can occur such as demand arising from unexpected customer usage; as well as impacts from weather conditions such as wind speed, cloud cover, or humidity, and other outside temperatures, conditions.

Also, if any of the upstream asset fails to deliver on a design day or a peak day, this 5 percent reserve margin that Piedmont has, it helps to act as a buffer to the firm customers that it has.

BY COMMISSIONER MITCHELL:

Q So I think I understand your testimony to be that the Public Staff continues to believe that the margin is reasonable given the factors that go into Piedmont's planning for its --

A (Ms. Naba) Sure, I would say that.

Q -- for meeting its customer demand.

A Sure, I would say that it's reasonable.

Q And I guess another question would be, would the Public Staff support a more rigorous design-day forecast without a reserve margin?

A We've always used, well, the Public Staff has always used a 56.4 heating degree day on a base of 65. We haven't really thought about that but we can look into that.

Q Okay.

A Sure.

Q My next question deals with the Margin Decoupling Tracking Mechanism. We've heard some testimony this morning about that. And we -- the Commission notes that Piedmont has reported just over $2,000 in pretax interest income in its Margin Decoupling Tracker deferred account over this review period, and that was done in Docket Number G-9, Sub 631B.

If the Margin Decoupling Tracker has increased cost to ratepayers by imposing an interest expense, but hasn't reduced the level of design-day demand or otherwise hasn't offset growth that Piedmont has experienced, does the Public Staff have an opinion on whether the mechanism, the tracker should be discontinued at this time?

A (Ms. Jayasheela) It is not part of the deferred accounts.

A (Ms. Naba) Do you want to speak to that?

A (Ms. Jayasheela) The Margin Decoupling Tracker is not part of the deferred accounts. So in accounting, from the accounting side, we do not look at that data in the annual review.

Q Okay. One last question and, Mr. Maness, I think this is for you. Can you tell me, I know that you reviewed the Company's hedging activities over the review period, can you tell me the time horizon that the Company uses in its hedging activities? And, if there are multiple time horizons, I'm interested in the longest time horizon.

A (Mr. Maness) I believe it's generally one year.

COMMISSIONER MITCHELL: Okay. Nothing further.

COMMISSIONER BROWN-BLAND: Are there questions on Commission's questions?

MR. JEFFRIES: I may have one question for Mr. Maness.

EXAMINATION BY MR. JEFFRIES:

Q Mr. Maness, is it your understanding that the interest calculation under the Margin Decoupling Tracker Mechanism is bidirectional? Does it work in both directions?

A (Mr. Maness) Yes.

Q Okay. Thank you.

MS. CULPEPPER: I had a question.

EXAMINATION BY MS. CULPEPPER:

Q Would the Public Staff be evaluating the MDT in the next Piedmont rate case?

A (Ms. Naba) Yes. I'm sorry. Yes.

MS. CULPEPPER: That's all I have.

COMMISSIONER BROWN-BLAND: Is there anything further?

(No response)

Then these witnesses -- then these witnesses are excused.

(The witnesses are excused)

COMMISSIONER BROWN-BLAND: And I believe we've received the testimony already.

Is there anything else from counsel that needs to come to the Commission's attention in this docket? Anything else?

MS. CULPEPPER: Not that I'm aware of.

MR. JEFFRIES: Not that I'm aware of Madam Chairman.

COMMISSIONER BROWN-BLAND: Generally, we require the proposed orders within 30 days after the transcript is available. Is that still acceptable to both? Do you need any additional time?

MR. JEFFRIES: That's acceptable to Piedmont.

MS. CULPEPPER: (Nods head affirmatively)

COMMISSIONER BROWN-BLAND: Then so ordered. The proposed orders shall be due 30 days from the availability of the transcript.

And, with that, we thank you. I excused the witnesses. So we stand adjourned.

(WHEREUPON, the proceedings were adjourned.)

CERTIFICATE

I, KIM T. MITCHELL, DO HEREBY CERTIFY that the Proceedings in the above-captioned matter were taken before me, that I did report in stenographic shorthand the Proceedings set forth herein, and the foregoing pages are a true and correct transcription to the best of my ability.

Kim T. Mitchell

Kim T. Mitchell
Court Reporter II

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