STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH

DOCKET NO. G-5, SUB 622

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of		
Application of Public Service Company of North Carolina, Inc. for Annual Review of Gas Costs Pursuant to N.C. Gen. Stat. § 62-133.4(c) and Commission Rule R1-17(k)(6)	)	ORDER ON ANNUAL REVIEW OF GAS COSTS

HEARD: Tuesday, August 18, 2020, at 10:00 a.m., in Commission Hearing Room 2115, Dobbs Building, 430 North Salisbury Street, Raleigh, North Carolina (Public Witness Hearing, Hearing Examiner Heather Fennell, Presiding)

BEFORE: Commissioner Floyd B. McKissick, Jr., Presiding; Commissioners ToNola D. Brown-Bland and Jeffrey A. Hughes

APPEARANCES:

For Public Service Company of North Carolina, Inc.:

Mary Lynne Grigg, McGuireWoods, LLP, 2600 Two Hanover Square, Raleigh, North Carolina 27601

For Carolina Utility Customers Association, Inc.:

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

For the Using and Consuming Public:

Gina C. Holt, Staff Attorney, Public Staff – North Carolina Utilities Commission, 4326 Mail Service Center, Raleigh, North Carolina 27699

BY THE COMMISSION: On June 1, 2020, pursuant to N.C. Gen. Stat. § 62-133.4(c) and Commission Rule R1-17(k)(6), Public Service Company of North Carolina, Inc. (PSNC or Company), filed the direct testimonies and exhibits of Byron W. Hinson, Director of Rates & Regulatory Manager for PSNC, and Rose M. Jackson, General Manager – Supply & Asset Management for Dominion Energy Southeast Services, Inc., in connection with the annual review of PSNC's gas costs for the 12-month period ended March 31, 2020.

On June 3, 2020, the Commission issued its Order Scheduling Hearing, Requiring Filing of Testimony, Establishing Discovery Guidelines, and Requiring Public Notice. This Order established a hearing date of Tuesday, August 18, 2020, at 10:00 a.m., set prefiled testimony dates, and required the Company to give notice to its customers of the hearing on this matter.

On June 17, 2020, Carolina Utility Customers Association, Inc. (CUCA) filed a Petition to Intervene. On June 19, 2020, the Commission granted CUCA's Petition to Intervene.

On July 10, 2020, PSNC filed supplemental testimony of Rose M. Jackson.

On July 31, 2020, the Company filed its affidavits of publication.

On July 31, 2020, the Public Staff filed the joint testimony of Sonja R. Johnson, Staff Accountant, Accounting Division; and Neha R. Patel, Public Staff Utilities Engineer, Energy Division (Public Staff Panel or Panel).

On August 4, 2020, the Commission issued its Order Scheduling Remote Expert Witness Hearing, Requiring Filing of Cross-Exam and Redirect Exhibits, and Addressing Other Matters. The Order, among other things, scheduled the expert witness hearing to be held remotely via Webex at 11:00 a.m. on Tuesday, August 18, 2020, after the public witness hearing to be held in person at 10:00 a.m. on that same date.

On August 6, 2020, the Public Staff filed its letter consenting to holding the expert witness hearing by remote means.

On August 10, 2020, CUCA filed its statement consenting to holding the expert witness hearing by remote means, informing the Commission that it was not sponsoring a witness, and informing the Commission that it had no exhibits to prefile.

On August 10, 2020, PSNC filed its consent to holding the expert witness hearing by remote means.

On August 11, 2020, PSNC filed a motion requesting that the Commission excuse all witnesses from attending the expert witness hearing and receive the witnesses' prefiled testimony and exhibits into the record. PSNC stated that all parties had waived cross-examination of all the witnesses, and that the parties had no objection to the witnesses' prefiled testimony and exhibits being received into evidence.

On August 14, 2020, the Commission issued an Order Cancelling Expert Witness Hearing, Accepting Testimony and Exhibits, and Requiring Responses to Commission Questions.

On August 18, 2020, the public witness hearing was held as scheduled. No public witnesses appeared at the public witness hearing.

On September 15, 2020, PSNC filed responses to the Commission questions as required by the August 14, 2020 Order of the Commission.

On September 18, 2020, the Public Staff and PSNC filed their Joint Proposed Order.

Based on the testimony and exhibits received into evidence and the entire record in this proceeding, the Commission makes the following:

FINDINGS OF FACT

1. PSNC is a corporation duly organized and existing under the laws of the State of South Carolina, having its principal office and place of business in Gastonia, North Carolina. PSNC operates a natural gas pipeline system for the transportation, distribution, and sale of natural gas to approximately 600,000 customers in the State of North Carolina.

2. PSNC is engaged in providing natural gas service to the public, is a public utility as defined in N.C.G.S. § 62-3(23), and is subject to the jurisdiction of this Commission.

3. PSNC has filed with the Commission and submitted to the Public Staff all of the information required by N.C.G.S. § 62-133.4(c) and Commission Rule R1-17(k) and has complied with the procedural requirements of such statute and rule.

4. The review period in this proceeding is the 12 months ended March 31, 2020.

5. During the review period, PSNC incurred total gas costs of $171,361,359, comprised of demand and storage charges of $108,719,294, commodity gas costs of $120,268,623, and other gas costs of ($57,626,558).

6. In compliance with the Commission's order in Docket No. G-100, Sub 67, the Company credited 75% of the net compensation from secondary market transactions, which amounted to $20,356,592, to its All Customers Deferred Account.

7. As of March 31, 2020, the Company had a credit balance (owed to the customers by the Company) of $4,785,803 in its Sales Customers Only Deferred Account and a debit balance of $8,101,647 (owed by the customers to the Company) in its All Customers Deferred Account.

8. The Company properly accounted for its gas costs incurred during the review period.

9. PSNC's hedging activities during the review period were reasonable and prudent.

10. As of March 31, 2020, the Company had a debit balance of $2,959,771 in its Hedging Deferred Account.

11. It is appropriate for the Company to transfer the $2,959,771 debit balance in the Hedging Deferred Account to its Sales Customers Only Deferred Account. The combined balance for the Hedging and Sales Customers Only Deferred Accounts is a net credit balance of $1,826,032, owed to the customers by the Company.

12. PSNC has adopted a gas supply policy that it refers to as a best-cost supply strategy. This gas supply acquisition policy is based upon three primary criteria: supply security, operational flexibility, and the cost of gas.

13. PSNC has firm transportation and storage contracts with interstate pipelines, which provide for the transportation of gas to the Company's system, and both long-term and supplemental short-term supply contracts with producers, marketers, and other suppliers.

14. The gas costs incurred by PSNC during the review period were prudently incurred, and the Company should be permitted to recover 100% of such prudently incurred gas costs.

15. As proposed by PSNC witness Hinson and agreed to by the Public Staff, the Company should not implement any new temporary rate changes in the instant docket at this time.

16. For the current review period, it is appropriate for PSNC to use 6.96% as the applicable interest rate in its deferred accounts and to continue to review the interest rate and file for approval of any necessary adjustments.

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

These findings are essentially informational, procedural, or jurisdictional in nature and were not contested by any party. They are supported by information in the Commission's public files and records and the testimony and exhibits filed by the witnesses for PSNC and the Public Staff.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 3-4

The evidence supporting these findings of fact is contained in the testimony of PSNC witnesses Jackson and Hinson, and the testimony of the Public Staff Panel. These findings are based on N.C.G.S. § 62-133.4(c) and Commission Rule R1-17(k)(6).

Pursuant to N.C.G.S. § 62-133.4, PSNC is required to submit to the Commission information and data for an historical 12-month review period, including PSNC's actual cost of gas, volumes of purchased gas, sales volumes, negotiated sales volumes, and transportation volumes. Commission Rule R1-17(k)(6)(c) requires that PSNC file weather normalization, sales volume data, work papers, and direct testimony and exhibits supporting the information.

Witness Hinson testified that Commission Rule R1-17(k)(6)(c) requires PSNC to file, on or before June 1 of each year, certain information for the 12-month review period ended March 31. Witness Hinson testified that the Company had filed the information required by Rule R1-17(k)(6) for the 12-month review period ended March 31, 2020. Witness Hinson also stated that the Company had provided to the Commission and the Public Staff on a monthly basis the gas cost and deferred gas cost account information required by Commission Rule R1-17(k)(5)(c). The Public Staff Panel presented the results of their review of the gas cost information filed by PSNC in accordance with N.C.G.S. § 62-133.4(c) and Commission Rule R1-17(k)(6).

Based on the foregoing, the Commission concludes that PSNC has complied with the procedural requirements of N.C.G.S. § 62-133.4(c) and Commission Rule R1-17(k) for the 12-month review period ended March 31, 2020.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 5-8

The evidence supporting these findings of fact is found in the testimony and exhibits of PSNC witness Hinson and the testimony of the Public Staff Panel.

PSNC witness Hinson’s exhibits show that the Company incurred total gas costs of $171,361,359 during the review period, which was comprised of demand and storage costs of $108,719,294, commodity gas costs of $120,268,623, and other gas costs of ($57,626,558). The Public Staff Panel confirmed that total gas costs for the review period ended March 31, 2020, were $179,361,359.

The Public Staff Panel stated that the Company recorded $27,142,122 of margin on secondary market transactions, including capacity release transactions, asset management arrangements, and other storage market transactions during the review period. Of this amount, $20,356,592 was credited to the All Customers Deferred Account for the benefit of ratepayers.

The Public Staff Panel noted that PSNC received a $13,112,646 refund from Transco on July 1, 2020, pursuant to Article IV of the Stipulation and Agreement filed on December 31, 2019, in FERC Docket No. RP18-1126 (July Transco Refund). The Public Staff Panel added that, as indicated in a letter filed with the Commission on July 10, 2020, in Docket No. G-100, Sub 57, PSNC stated it intends to record $13,097,646 in the All Customers Deferred Account and the remaining $15,000 will be recorded in its Account 254.0002, NCUC Restricted Account.

PSNC witness Hinson’s prefiled testimony and exhibits reflected a Sales Customers Only Deferred Account credit balance of $4,785,803 (owed to the customers by the Company) and a debit balance of $8,101,647 (owed by the customers to the Company) in its All Customers Deferred Account as of March 31, 2020. The Public Staff Panel agreed with these balances and testified that PSNC properly accounted for its gas costs during the review period.

Based upon the foregoing, the Commission concludes that the Company properly accounted for its gas costs incurred during the review period. The Commission also concludes that the appropriate level of total gas costs incurred by PSNC for this proceeding is $171,361,359. The Commission further concludes that the appropriate balances as of March 31, 2020, are a credit balance of $4,785,803, owed to the customers by the Company, in its Sales Customers Only Deferred Account and a debit balance of $8,101,647, owed to the Company by the customers, in its All Customers Deferred Account.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 9-11

The evidence for these findings of fact is contained in the testimony of PSNC witnesses Hinson and Jackson and the testimony of the Public Staff Panel.

PSNC witness Hinson testified that the Company's Hedging Deferred Account balance for the 12-month review period ended March 31, 2020, was a debit balance, due from sales customers, of $2,959,771. The Public Staff Panel testified that this balance was composed of: Economic Gains – Closed Positions of ($43,048); Premiums Paid of $2,945,230; Brokerage Fees and Commissions of $18,738; and Interest on the Hedging Deferred Account of $38,816. The Public Staff Panel further stated that the hedging charges resulted in an annual charge of $3.88 for the average residential customer which equates to approximately $0.32 per month. The Public Staff Panel also testified that PSNC's weighted average hedged cost of gas for the review period was $3.08 per dekatherm.

PSNC witness Jackson testified that the primary objective of PSNC's hedging program has always been to help mitigate the price volatility of natural gas for PSNC's firm sales customers at a reasonable cost. She further testified that PSNC's hedging program meets this objective by having financial instruments such as call options or futures in place to mitigate, in a cost-effective manner, the impact of unexpected or adverse price fluctuations to its customers.

PSNC witness Jackson testified that the hedging program provides protection from higher prices through the purchase of call options for up to 25% of PSNC's estimated firm sales volume. Witness Jackson further stated that in order to help control costs, the call options are purchased at a price no higher than 10% of the underlying commodity price. She also stated that PSNC limits its hedging to a 12-month future time period, which allows PSNC to obtain more favorable option pricing terms and better react to changing market conditions.

PSNC witness Jackson explained that PSNC's hedging program continues to utilize two proprietary models developed by Kase and Company that assist in determining the appropriate timing and volume of hedging transactions. She stated that the total amount available to hedge is divided equally between the two models.

PSNC witness Jackson further testified that no changes were made to PSNC's hedging program during this review period. Witness Jackson stated that PSNC will continue to analyze and evaluate its hedging program and implement changes as warranted.

The Public Staff Panel stated that their review of the Company's hedging activities involves an ongoing analysis and evaluation of the Company's monthly hedging deferred account reports, detailed source documentation, work papers supporting the derivation of the maximum targeted hedge volumes for each month, periodic reports on the status of hedge coverage for each month, and periodic reports on the market values of the various financial instruments used by the Company to hedge. In addition, the Public Staff reviews monthly Hedging Program Status Reports, monthly reports reconciling the Hedging Program Status Report and the hedging deferred account report, minutes from the meetings of Service Company risk management personnel, and minutes from the meetings of Service Company risk management personnel and its committees that pertain to hedging activities. Further, the review includes reports and correspondence from the Company's internal and external auditors; hedging plan documents that set forth the Company's gas price risk management policy, hedge strategy, and gas price risk management operations; communications with Company personnel regarding key hedging events and plan modifications under consideration by Service Company risk management personnel; and the testimony and exhibits of the Company's witnesses in the annual review proceeding. The Panel testified that based on their analysis of what was reasonably known or should have been known at the time the Company made its hedging decisions affecting the review period, as opposed to the outcome of those decisions, they concluded that the Company's hedging decisions were prudent.

The Public Staff Panel further testified that the $2,959,771 debit balance in the Hedging Deferred Account as of the end of the review period should be transferred to the Sales Customers Only Deferred Account. Based on this recommendation, the Public Staff Panel stated that the appropriate balance in the Sales Customers Only Deferred Account as of March 31, 2020, after the hedging balance transfer, should be a credit balance of $1,826,032, owed by the Company to the customers.

Based on the testimony and exhibits provided by PSNC and the Public Staff, the Commission finds that PSNC's hedging program has met the objective of contributing to the mitigation of gas price volatility and avoiding rate shock to customers. The Commission concludes that PSNC's hedging activities during the review period were reasonable and prudent and that the $2,959,771 debit balance in the Hedging Deferred Account as of the end of the review period should be transferred to the Company's Sales Customers Only Deferred Account. The Commission finds that the appropriate combined balance for the Hedging and Sales Customers Only Deferred Accounts is a credit balance of $1,826,032.

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

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

PSNC witness Jackson testified that the most appropriate description of PSNC's gas supply acquisition policy would be a best-cost supply strategy, which is based on three primary criteria: supply security, operational flexibility, and cost of gas. PSNC witness Jackson stated that security of supply is the first and foremost criterion, which refers to the assurance that the supply of gas will be available when needed for firm sales customers. Witness Jackson stated that supply security is obtained through PSNC's diverse portfolio of suppliers, receipt points, purchase quantity commitments, and terms. She also testified that potential suppliers are evaluated on a variety of factors, including past performance, creditworthiness, available terms, gas deliverability options, and supply location.

PSNC witness Jackson testified that the second criterion is maintaining the necessary operational flexibility in the gas supply portfolio that will enable PSNC to react to unpredictable weather on firm sales customer usage. She noted that PSNC's gas supply portfolio must be capable of handling the monthly, daily, and hourly changes in these customers' demand needs. Witness Jackson also testified that operational flexibility largely results from PSNC's gas supply agreements having different purchase commitments and swing capabilities (for example, the ability to adjust purchased gas within the contract volume on either a monthly or daily basis) and from PSNC's injections into and withdrawals out of storage.

Regarding the third criterion, cost of gas, PSNC witness Jackson stated that in evaluating gas costs it is important to consider not only the actual commodity cost, but also any transportation-related charges such as reservation, usage, and fuel charges. She further stated that PSNC routinely requests gas supply bids from suppliers to help ensure the most cost-effective proposals. Witness Jackson also testified that in securing natural gas supply for its customers, PSNC is committed to acquiring the most cost-effective supplies while maintaining the necessary supply security and operational flexibility to serve the needs of its customers. She further testified that PSNC has developed a gas supply portfolio made up of long-term agreements and supplemental short-term agreements with a variety of suppliers, including both producers and independent marketers.

PSNC witness Jackson testified that the majority of PSNC's interstate pipeline capacity is obtained from Transcontinental Gas Pipeline Company, LLC (Transco), and the only interstate pipeline with which PSNC has a direct connection. The Company also has a backhaul transportation arrangement with Transco to schedule deliveries of gas from pipelines and storage facilities downstream of PSNC's system, as well as transportation and/or storage service agreements with Dominion Energy Transmission, Inc., Columbia Gas Transmission, LLC, Texas Gas Transmission, LLC, East Tennessee

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

PSNC witness Jackson testified that PSNC has engaged in the following activities to lower gas costs while maintaining security of supply and delivery flexibility:

1. PSNC continues to optimize the flexibility available within its supply and capacity contracts to realize their value;

2. PSNC monitored and intervened in matters before the Federal Energy Regulatory Commission whose actions could impact the rates the Company pays and the services it receives from interstate pipelines and storage facilities.;

3. PSNC has continued to work with its industrial customers to transport customer-acquired natural gas;

4. PSNC routinely communicates directly with customers, suppliers, and other industry participants, and actively monitors developments in the industry;

5. PSNC has frequent internal discussions concerning gas supply policy and major purchasing decisions;

6. PSNC utilizes deferred gas cost accounting to calculate the Company's benchmark cost of gas to provide a smoothing effect on gas price volatility; and,

7. PSNC conducts a hedging program to help mitigate price volatility.

Witness Jackson provided details in her testimony concerning the Company's plans and the benefits associated with acquiring new capacity on Mountain Valley Pipeline (MVP) and Atlantic Coast Pipeline (ACP). Both these interstate pipeline projects were under construction. Transco's Southeastern Trail Expansion project will provide additional firm transportation service with a receipt point at the existing Pleasant Valley Transco-Cove Point interconnection in Fairfax County, Virginia, and a delivery point at the existing Transco Station 65 pooling point in St. Helena Parish, Louisiana. Witness Jackson stated that this project is expected to begin operating in the fourth quarter of 2020 and to be fully in service by the first quarter of 2021.

Witness Jackson's testimony also discussed the Company's capacity on Mountain Valley Pipeline, LLC (MVP), a 300-mile mainline project running from northwestern West Virginia to a point in Pittsylvania County, Virginia, and a 70-mile lateral project to the Company's Dan River and Haw River interconnects in Rockingham and Alamance Counties, respectively. Witness Jackson's supplemental testimony provided an update on the MVP mainline project being 92% complete and expected to be fully in service by early 2021. Witness Jackson stated that if the MVP mainline and lateral projects are both not in service prior to the 2021-2022 winter season, the Company would need to make arrangements to address the shortfall in available assets using its best-cost strategy.

Supplemental testimony of PSNC witness Jackson provided further updates to the Commission on the Atlantic Coast Pipeline (ACP), which announced its cancellation on July 5, 2020, “due to ongoing delays and increasing cost uncertainty which threaten the economic viability of the project.” Witness Jackson stated that the ACP project cancellation announcement cited recent court rulings that overturned federal permit authority for waterbody and wetland crossings, along with the risk of new litigation, as reasons for making the project “too uncertain to justify investing more shareholder capital.” Witness Jackson’s supplemental testimony indicated that her original Exhibit 1 noted that available assets to serve expected peak-day demand requirements for the current review period and the next five winter seasons did not reflect either the MVP or ACP capacity because the projects were still under construction at the time and capacity was not yet available. Her revised Jackson Exhibit 1 changed the note to refer only to the MVP capacity, which is still under construction. Witness Jackson’s supplemental testimony states that the revised exhibit clearly indicates the Company needs the MVP capacity to satisfy customers’ firm peak-day demand for the foreseeable future.

In response to the Commission’s questions, the Company stated that it anticipates based on the latest available information that the MVP mainline and Southgate projects will be in-service by the winter of 2021-2022, which will add an additional 250,000 dts/day of incremental deliverability. Therefore, according to PSNC it will not need additional short-term peaking for the 2021-2022 review period and for at least the next five annual review periods. However, PSNC stated that if it receives information that either of the MVP projects will be delayed, PSNC will solicit bids from suppliers for a winter only delivered supply service for the winter of 2021-2022, and PSNC is confident that a winter peaking service will be available if needed.

PSNC witness Jackson testified that the projected design-day demand of PSNC’s firm customers is calculated using a statistical modeling program. She further explained that the model assumes a 50 heating degree-day (HDD) on a 60 degree Fahrenheit base and uses historical weather to estimate peak-day demand. Witness Jackson also testified that PSNC presented its forecasted firm peak-day demand requirements for the review period and for the next five winter seasons. She further explained that the assets available to meet PSNC’s firm peak-day requirements include year-round, seasonal, and peaking capabilities and consist of firm transportation and storage capacity on interstate pipelines as well as the peaking capability of PSNC’s on-system liquefied natural gas facility.

The Public Staff Panel testified that the Public Staff conducts an independent analysis using similar calculations to determine peak day demand levels and compares that to the assets the Company has available (or is planning to have available when needed in the future) to meet that demand. The Public Staff Panel further stated that it uses the review period data of customer usage and HDDs, which are calculated by taking the average of the minimum and maximum daily temperature and subtracting that quotient from 65 degrees. Base load (usage that does not fluctuate with weather) plus a usage per HDD factor is developed, and the projected peak day demand is calculated. The assumption in developing a peak design day demand is 55 HDDs, which is the accepted peak coldest day that would be anticipated to be experienced in PSNC’s territory. The Panel testified that PSNC's design-day demand models show a shortfall of capacity beginning in the 2021-2022 winter season. The Panel stated that PSNC projects the Southeastern Trail project will be available in the fourth quarter of 2020 and will be fully in service by the first quarter of 2021. The Panel also testified that PSNC has also contracted for firm delivery of 60,000 dts per day of gas during the months of November 2019 through March 2020, notwithstanding any restrictions imposed by Transco on backhaul transportation. The Panel further testified that PSNC may need to enter into a similar arrangement for the upcoming winter period depending on the level of service available from the Southeastern Trail projects at that time. In addition, the Panel testified that PSNC has contracted for 20,000 dts per day of firm delivery supply from a downstream LNG facility for ten days during the winter season of the current review period and has extended this peaking service for nine days for the upcoming 2020-21 winter season. The Panel stated that PSNC has also issued a request for proposal to obtain an additional firm peaking service of an additional 20,000 dts a day for the 2020-21 winter period to cover the remaining projected shortfall. This addition was reflected in Revised Jackson Exhibit 1

Based upon the foregoing, the Commission concludes that the Company's gas costs incurred during the review period ended March 31, 2020, were reasonable and prudently incurred and that the Company should be permitted to recover 100% of its prudently incurred gas costs.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 15

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

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

The Public Staff Panel testified that the All Customers Deferred Account reflects a debit balance of $8,101,647, owed to the Company by the customers. The Panel noted that PSNC has proposed not to place a decrement in rates for this credit balance. The Panel also noted that, at the end of June 2020, the All Customers Deferred Account balance had increased to $19,452,736. The Panel stated that, with the July Transco Refund just received, requiring PSNC to implement additional temporary rate changes in this docket would not be productive. The Panel further stated that deferred account balances naturally vary between winter and summer months, since fixed gas costs are typically overcollected during the winter period when throughput is higher due to heating load and undercollected during the summer when throughput is lower.

The Public Staff Panel further testified that the Sales Customers Only Deferred Account reflects a credit balance of $4,785,803, owed from the Company to customers. The Panel noted that PSNC has proposed not to place a decrement in rates for the refund of this credit balance. The Public Staff Panel also testified that PSNC has proposed not to place a decrement in rates for the refund of the credit balance, but to manage it by using the Purchased Gas Adjustment (PGA) mechanism, pursuant to N.C.G.S. § 62-133.4. The Panel testified that using the PGA allows for a quicker implementation of temporaries that can address balances that are more current. The Panel concluded that requiring PSNC to implement temporary rate changes in the instant docket at this time would not be productive, and, therefore, agreed with the Company's proposals.

Based on the testimony discussed above, the Commission notes that it is commonplace for the Company to overcollect its fixed gas costs during the winter months and undercollect during summer months. The Commission concludes that if the Commission were to require rate decrements in this docket, by the time the rate decrements went into effect the Company would likely be undercollected, and the decrements would exacerbate that position. Based on the facts in the present docket, and the record as a whole, the Commission finds and concludes that it is appropriate not to require PSNC to implement new temporary rate increments or decrements at this time. However, the Commission expects PSNC to continue to monitor market conditions and the Sales Customer Deferred Account balances and, if necessary, to file a petition for PGA to make an appropriate adjustment to rates.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 16

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

The Public Staff Panel testified that decretal paragraph numbers five and six of the Commission's Order in the Company's prior annual review proceeding in Docket No. G-5, Sub 608, provide in part that "PSNC shall continue to apply a 6.96% interest rate to its Sales Customers Only Account, All Customers Account, Hedging Deferred Gas Cost Account . . . until further order by the Commission; and that PSNC shall continue to review the interest rate calculation and file for approval of any necessary adjustments". PSNC witness Hinson testified that the Company applied the 6.96% interest rate per the Commission's order in Docket No. G-5, Sub 608, and had reviewed its interest rate calculations and determined there have been no changes that would necessitate an adjustment to the interest rate.

The Public Staff Panel stated that it had reviewed the Company's interest rate calculations and found that PSNC is continuing to use the 6.96% interest rate and had made the appropriate adjustments in the deferred accounts, consistent with the Commission's prior annual review order. The Public Staff further stated that it will continue to review the interest rate each month to determine if an adjustment is needed.

Based on the facts in the present docket, and the record as a whole, the Commission finds and concludes that the Company has used the appropriate interest rate of 6.96% on all amounts overcollected or undercollected from customers reflected in its Deferred Gas Cost Account and should continue to review the interest rate and file for approval of any necessary adjustments.

IT IS, THEREFORE, ORDERED as follows:

1. That PSNC's accounting for gas costs for the 12-month period ended March 31, 2020, is approved;

2. That the gas costs incurred by PSNC during the 12-month period ended March 31, 2020, including the Company's hedging costs, were reasonably and prudently incurred, and PSNC is hereby authorized to recover 100% of these gas costs as provided herein;

3. That, as proposed by PSNC and agreed to by the Public Staff, PSNC shall not implement any temporary rate changes in this docket;

4. That PSNC shall continue to use 6.96% as the applicable interest rate on all amounts overcollected or undercollected from customers reflected in its Deferred Gas Cost Account; and

5. That it is appropriate for PSNC to continue to review the interest rate calculation and file for approval of any necessary adjustments, in compliance with the Commission's prior orders.

ISSUED BY ORDER OF THE COMMISSION

This the 1st day of December, 2020.

NORTH CAROLINA UTILITIES COMMISSION

Janice H. Fulmore, Deputy Clerk