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SANDRIDGE
& RICE

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October 6, 2008

FILED

OCT 06 2008

VIA HAND DELIVERY

Ms. Renne Vance, Chief Clerk
North Carolina Utilities Commission
430 North Salisbury Street
Raleigh, North Carolina 27603-5918

Clerk's Office
N.C. Utilities Commission

Re: Docket No. G-5, Sub 495

Dear Ms. Vance:

Enclosed please find an original and thirty-two (31) copies of the Joint Proposed Order in the above-captioned proceeding filed on behalf of Public Service Company of North Carolina, Inc., and the Public Staff-North Carolina Utilities Commission. Also enclosed is an electronic copy on diskette. Please accept the original and thirty-one (31) copies for filing and return one file-stamped copy to me via our courier.

Should you have any questions, please do not hesitate to contact me. Thank you for your assistance in this matter.

Very truly yours,

WOMBLE CARLYLE SANDRIDGE & RICE
A Professional Limited Liability Company

Mary L. Grigg
Mary Lynne Grigg

MLG:ajt

Enclosures

*diskette to
Harrison*

*Clerk's
AG
7/Comm
Bernick
Sessions
b/more
Boring
EXD1/
3/ASLCSA/
3/ASAcctg
2/SEU/Res
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*✓ Kinky
✓ Hooper
✓ Kite
✓ Hilborn*

**STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH**

FILED

OCT 06 2008

DOCKET NO. G-5, SUB 495

Clerk's Office
N.C. Utilities Commission

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of
Application of Public Service Company) **JOINT PROPOSED ORDER**
of North Carolina, Inc. for a General) **OF PSNC AND THE PUBLIC STAFF**
Increase in its Rates and Charges)

HEARD IN: Iredell County Hall of Justice, Statesville, North Carolina on July 8, 2008; Public Works Building, Asheville, North Carolina on July 8, 2008; Gastonia County Courthouse, Gastonia, North Carolina on July 9, 2008; Durham Chamber of Commerce, Durham, North Carolina on July 10, 2008; and the Commission Hearing Room, Dobbs Building, Raleigh, North Carolina on July 14, 2008 and August 26, 2008

BEFORE: Commissioner Lorinzo L. Joyner, Presiding, and Chairman Edward S. Finley, Jr., Commissioners Robert V. Owens, Jr., Sam J. Ervin, IV, Howard N. Lee, and William T. Culpepper, III

APPEARANCES:

For Public Service Company of North Carolina, Inc.:

B. Craig Collins, SCANA Corporation, 1426 Main Street, Columbia, South Carolina 29218

Mary Lynne Grigg, Womble Carlyle Sandridge & Rice, PLLC, Post Office Box 831, Raleigh, North Carolina 27602

William R. Pittman, The Pittman Law Firm, PLLC, 1312 Annapolis Drive, Suite 200, Raleigh, North Carolina 27608

For the Using and Consuming Public:

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

Margaret A. Force, Assistant Attorney General, North Carolina Department of Justice, Post Office Box 629, Raleigh, North Carolina 27602

For Carolina Utility Customers Association, Inc.:

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

BY THE COMMISSION: On February 27, 2008, Public Service Company of North Carolina, Inc. (PSNC or Company), gave notice pursuant to Commission Rule R1-17(a) of its intent to file a general rate case.

On March 10, 2008, Carolina Utility Customers Association, Inc. (CUCA) filed a Petition to Intervene, which the Commission granted on March 11, 2008.

On March 12, 2008, the Attorney General of North Carolina (Attorney General) filed his notice of intervention.

On March 31, 2008, PSNC filed its verified application for a general rate increase (Application). Included with the Application were the data required by NCUC Form G-1, and the direct testimony and exhibits of D. Russell Harris, Jimmy E. Addison, Dr. Donald R. Murry, Dr. Julius A. Wright, Sharon D. Boone, and Candace A. Paton.

By Order issued April 30, 2008, the Commission declared the Company's Application to be a general rate case pursuant to G.S. § 62-137 and suspended the proposed rates for a period of 270 days from and after May 1, 2008. In that Order, the Commission also set the matter for hearing, required the Company to give notice of hearing, established discovery guidelines, and established dates for interventions and for the prefiling of direct testimony by intervenors and rebuttal testimony by the Company.

On May 30, 2008, PSNC filed an amendment to its Application providing supplemental NCUC Form G-1 data.

On June 25, 2008, PSNC filed its affidavits of publication of public notice.

On June 30, 2008, PSNC filed a Motion for Admission to Practice and Statements of PSNC and B. Craig Collins pursuant to G.S. § 84-4.1 seeking an order from the Commission allowing Mr. Collins to appear before the Commission in this proceeding. On July 8, 2008, the Commission issued an order granting PSNC's motion. On July 22, 2008, the Company filed a Pro Hac Vice registration statement as it had been provided to the Office of the Courts.

On July 8, 2008, PSNC filed a revised Item 3 of its NCUC Form G-1 and revised Exhibits 5, 6, and 7 to Ms. Paton's testimony.

On July 8, 2008, a hearing on the Application was held in Statesville as scheduled. At the hearing in Statesville, David Pressly, Jeff Lineberry, Lonnie Troutman, and Doug Safriet testified as public witnesses. On July 8, 2008, a hearing was held in Asheville as scheduled. At the hearing in Asheville, Keith Levi testified as a public witness. On July 9, 2008, a hearing was held in Gastonia as scheduled. At the

hearing in Gastonia, Janet Puett testified as a public witness. On July 10, 2008, a hearing was held in Durham as scheduled. At the hearing in Durham, Richard Leber testified as a public witness. On July 14, 2008, a hearing was held in Raleigh as scheduled. At the hearing in Raleigh, no public witnesses testified.

On July 10, 2008, Texican Horizon Energy Marketing, LLC (Texican) filed a Petition to Intervene which was granted by this Commission on July 18, 2008.

On July 30, 2008, the Public Staff filed its Motion for Extension of Time to File Intervenor and Rebuttal Testimony. By Order, the Commission granted the motion on August 4, 2008.

On August 8, 2008, the Public Staff filed its Motion for Extension of Time to File Intervenor Testimony. On August 7, 2008, the Attorney General filed a Response to the Motion for Extension of Time to File Testimony. On August 8, 2008, the Commission issued an Order granting the Motion.

On August 13, 2008, the Attorney General filed the direct testimony and exhibits of Roger D. Colton.

On August 13, 2008, the Company, the Public Staff, and CUCA (Stipulating Parties) filed a joint stipulation and exhibits (Stipulation) resolving all issues in this proceeding as among the Stipulating Parties. Counsel for the Company reported that she was authorized to state that Texican did not oppose the Stipulation.

On August 15, 2008, the Company filed the supplemental testimony of Candace A. Paton in support of the Stipulation.

On August 15, 2008, the Attorney General filed a schedule that had been omitted from the direct testimony and exhibits of Roger D. Colton.

On August 20, 2008, the Attorney General filed a letter requesting that the Commission allow admission into evidence the testimony of Roger D. Colton without the need for him to appear at hearing.

On August 20, 2008, PSNC filed its Witness List and Cross-Examination Estimate in Response to the Order of April 30, 2008. PSNC requested that the testimony and exhibits of its witnesses D. Russell Harris, Sharon D. Boone, and Dr. Donald R. Murry be entered into evidence without the need for them to appear at the hearing.

On August 22, 2008, PSNC filed the Stipulating Parties' revised exhibits.

On August 22, 2008, the Commission issued an order granting the motions to excuse PSNC witnesses D. Russell Harris, Sharon D. Boone, and Dr. Donald R. Murry and the Attorney General witness Roger D. Colton from attending the hearing and to allow their prefiled testimony to be copied into the record by stipulation of the parties.

On August 26, 2008, the hearing in Raleigh was continued as scheduled and no person testified as a public witness. At the hearing, the various prefiled direct and supplemental testimony and exhibits of the following Company witnesses were offered and accepted into evidence: D. Russell Harris; Jimmy E. Addison; Dr. Donald R. Murry; Dr. Julius A. Wright; Sharon D. Boone; and Candace A. Paton. The prefiled direct testimony of Attorney General witness Roger D. Colton also was offered and accepted into evidence. Company witnesses Addison, Wright, and Paton testified at the hearing as a panel and answered questions of the Attorney General and the Commission.

On September 19, 2008, the Attorney General filed a Motion of Admission of Late-Filed Exhibits concerning evidence introduced at the August 26, 2008 hearing. In its Motion, the Attorney General requested that the updated information contained in Commission reports relating to the earnings of Piedmont Natural Gas Company, Inc. (Piedmont), which was offered into evidence at Piedmont's general rate case hearing on September 5, 2008, under Docket No. G-9, Sub 550, be provided to the record in the instant docket. The Attorney General also requested that Late-Filed Exhibit 2 be admitted as that shows the revised earnings information in summary form.

On September 23, 2008, PSNC filed an Objection and Motion to Strike the Attorney General's September 19, 2008, late-filed exhibits and testimony related to Piedmont's earnings. In its objection, PSNC stated that the Attorney General offered into evidence at its August 26, 2008, hearing, evidence that the Attorney General knew was inaccurate. PSNC further stated that the Attorney General should not be permitted to use either the original evidence presented at the hearing or the new evidence contained in the late-filed exhibits.

On September 24, 2008, PSNC filed a Supplement to its September 23, 2008, Objection and Motion to Strike. In this Supplement, PSNC identified the particular exhibits and testimony that PSNC moved to strike from the record.

On September 25, 2008, the Attorney General filed a Reply Concerning Late-Filed Exhibits. In this Reply, the Attorney General claimed that he did not learn of the impact of Piedmont's amendments to its earnings reports until September 5, 2008, which was after PSNC's hearing in the instant docket. The Attorney General also claimed that the significance of Piedmont's erroneous report was unknown and that the amended information did not appear to be pertinent.

On September 26, 2008, the Commission issued an Order on Motion for Admission of Late-Filed Exhibits. In its Order, the Commission allowed the Attorney General's proposed late-filed exhibits and denied PSNC's Motion to Strike.

Based on the verified Application, the testimony, and exhibits received into evidence at the hearings, the Stipulation 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 within a franchised area consisting of all or parts of twenty-eight (28) counties in central and western North Carolina.

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

3. The Commission has jurisdiction over the rates and charges, rate schedules, rate classifications, and practices of public utilities, including the Company.

4. In the Application in this docket, the Company sought: (i) an increase of \$20,441,501 in revenue; (ii) certain changes to the cost allocations and rate designs underlying existing rates for the Company; (iii) certain revisions to the current tariff language (iv) amortization of certain deferred account balances; (v) the implementation of a customer usage tracker (CUT); and (vi) the implementation of a cost recovery mechanism for customer conservation programs.

5. *The Company is properly before the Commission with respect to the relief sought in the Application pursuant to the provisions of Chapter 62 of the General Statutes.*

6. The appropriate test period for use in this proceeding is the twelve-month period ended December 31, 2007, updated for certain known and measurable changes through June 30, 2008.

7. The Stipulation executed by PSNC, the Public Staff, and CUCA settles all matters in this docket with respect to the Stipulating Parties and is not opposed by Texican.

8. The Attorney General, the only other party to the proceeding, had no objection to the Stipulation except for the proposed CUT.

9. The Stipulation provides for an increase in annual revenues for the Company of \$9,104,984 offset by \$8,376,707 of reductions in fixed gas costs, for a net increase in rates and charges of \$728,277.

10. The original cost of the Company's property used and useful, or to be used and useful within a reasonable time after the test period, in providing natural gas utility service to the public within North Carolina, less that portion of the cost which has been consumed by depreciation expense, all as described and set forth in Paragraph 4 and Exhibit A of the Stipulation and reflected on Schedule 1 hereto, is appropriate for use in this docket.

11. The Company's end-of-period pro forma revenues under the present and proposed rates, as set forth in Paragraph 5.A and Exhibit A of the Stipulation and reflected on Schedule 1 hereto, are reasonable for use in this docket.

12. The Company's operating expenses, including actual investment currently consumed through reasonable actual depreciation, as set forth in Paragraph 5.A and Exhibit A of the Stipulation and reflected on Schedule 1 hereto, are reasonable for use in this docket.

13. The overall rate of return that the Company should be allowed the opportunity to earn on the cost of the Company's used and useful property, as ascertained pursuant to Paragraph 10 above, is 8.54% as set forth in Paragraph 5.D and Exhibit A of the Stipulation and reflected on Schedule 1 hereto. The return on common equity that the Company should be allowed the opportunity to earn is 10.60% as set forth in Paragraph 5.C of the Stipulation.

14. For the purpose of this proceeding, the appropriate level of adjusted sales and transportation volumes is 748,884,204 therms, which is comprised of 465,456,764 therms of sales quantities and 250,486,091 therms of transportation quantities. The appropriate level of company use gas is 726,910 therms and of lost and unaccounted for gas is 5,691,520 therms, and the appropriate level of purchased gas supply is 471,875,194 therms, consisting of sales volumes, company use gas, and lost and unaccounted for gas.

15. The fixed gas costs that should be embedded in the proposed rates and used in true-ups of fixed gas costs in proceedings under Rule R1-17(k) until the resolution of PSNC's next general rate case are those derived from the fixed gas cost allocation percentages set forth in Exhibit C to the Stipulation.

16. The rate design and rates, including volumetric rates, fixed monthly charges, and other charges, as described in Paragraph 6 of the Stipulation and reflected in Exhibits B and E of the Stipulation (as the same may be adjusted for any changes in the Company's benchmark cost of gas or changes in demand and storage charges prior to the effective date of the revised rates), are just and reasonable and should be approved.

17. The proposal to establish an increment of \$0.00136 per therm, applicable to Rate 101, based on the October 31, 2008 rate deferral balance of \$381,330 as shown on Paton Exhibit 14 is just and reasonable and should be approved.

18. The reasonable adjusted level for the total cost of gas in this proceeding is \$468,578,855, as described in Paragraph 11.B and Exhibit G to the Stipulation, and reflected on Schedule 1 hereto.

19. The current temporary rate decrements applicable to the All Customers Deferred Account will remain in effect until addressed by the Commission in the Company's annual review of gas costs proceeding in Docket No. G-5, Sub 497.

20. The proposal to charge a portion of compensation charged to PSNC for SCANA executives listed in its 2008 proxy statement to non-utility operations is fair and reasonable and should be allowed.

21. The appropriate Allowance for Funds Used During Construction (AFUDC) rate for the Company should be the overall rate of return, adjusted for income taxes.

22. The proposed amortization of certain deferred costs, as set forth in and described in Paragraph 12 of the Stipulation, is fair and reasonable and should be approved.

23. The proposal to require the Company to file its programs for conservation communications, in-home energy audits, energy efficiency equipment rebates, and high-efficiency discount rates for approval within 30 days of this order is fair and reasonable and should be approved. The proposal that PSNC be allowed to recover \$750,000 of conservation program expenditures through cost of service is fair and reasonable and should be approved.

24. The proposed CUT, as described in Paragraph 9 and set forth in Exhibit E to the Stipulation, and the proposed "R" values, base load, and heat sensitive factors, as set forth in Exhibit D to the Stipulation, are appropriate to track and true-up variations in average per customer usage by rate schedule from levels adopted in this general rate case proceeding and the mechanism is in the public interest and should be approved. As a consequence, the corresponding termination of the Weather Normalization Adjustment (WNA) mechanism in the Company's tariffs is fair and reasonable and should be approved.

25. The tariffs attached to the Stipulation as Exhibit E are fair and reasonable and should be approved.

26. The proposed changes to the service regulations reflected in Exhibit F to the Stipulation are fair and reasonable and should be approved.

27. All of the provisions of the Stipulation are fair and reasonable and should be approved.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 1-5

The evidence supporting these findings of fact is contained in the Company's verified Application, the testimony and exhibits of the various witnesses, the NCUC Form G-1 that was filed with the Application, and portions later revised, the provisions of Chapter 62 of the General Statutes, and the Commission's records as a whole. These findings are primarily jurisdictional and are not contested by any party.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 6

The Company filed its Application and exhibits using a test period consisting of the twelve-months ended December 31, 2007. In its Order of April 30, 2008, the

Commission ordered the parties to use a test period consisting of the twelve-months ended December 31, 2007, with appropriate adjustments. The Stipulation is based upon the test period ordered by the Commission, and this test period was not contested by any party. In the Stipulation, the Stipulating Parties agreed to make appropriate adjustments to the test period data for circumstances occurring or becoming known through June 30, 2008. These adjustments were not contested by any party.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 7

This finding is supported by the Stipulation and the supplemental testimony of Company witness Paton.

The Stipulation recites that it was filed on behalf of PSNC, the Public Staff, and CUCA. The Stipulation provides that it represents a settlement of all the Stipulating Parties' issues in the proceeding. Counsel for the Company stated that she was authorized by Texican's counsel to represent that Texican takes no position regarding the Stipulation and does not oppose it.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 8

This finding is supported by the statements of counsel for the Attorney General.

Assistant Attorney General Force stated at hearing of this matter that the Attorney General opposes the CUT mechanism, but in other respects does not object to the Stipulation.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 9

This finding is supported by the Application, the direct testimony of Company witness Boone, supplemental testimony of Company witness Paton, the Stipulation, and the testimony of Company witness Paton at the hearing.

Boone Exhibit 6 indicates that the Company filed for a net revenue increase of \$20,441,501. The Stipulation in Paragraph 5.E indicates that the Company should be allowed to increase its annual level of margin through the rates and charges approved in this case by \$9,104,984, offset by \$8,376,707 of reductions in fixed gas costs, for a net annual increase in rates and charges of \$728,277. These findings are not contested by any party.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 10

The reasonable original cost of the Company's property used and useful, or to be used and useful within a reasonable time after the test period, in providing natural gas utility service to the public within its service territory, less that portion of the cost that has been consumed by depreciation expense, is described and set forth in Paragraph 4 and Exhibit A to the Stipulation and reflected in Schedule 1 hereto.

The amounts shown on Exhibit A to the Stipulation are the result of negotiations among the Stipulating Parties in this docket, as described in the Stipulation and the supplemental testimony of Company witness Paton, and are not opposed by any party. The stipulated reasonable original cost of the Company's property used and useful or to be used and useful within a reasonable time after the test period, in providing natural gas service to the public, less depreciation expense, is not contested by any party. The Commission has carefully reviewed these amounts, as well as all the record evidence relating to the Company's rate base, and concludes that the stipulated amounts are appropriate for use in this docket.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 11

The end of test period pro forma revenues under the Company's present and stipulated proposed rates are set forth in Paragraph 5.A and Exhibit A to the Stipulation and reflected on Schedule 1 hereto.

The amounts on Exhibit A to the Stipulation are the result of negotiations among the Stipulating Parties in this docket, as described in the Stipulation and the supplemental testimony of Company witness Paton, and are not contested by any party. The Commission has carefully reviewed these amounts, as well as all record evidence relating to the Company's pro forma revenues, and concludes that the stipulated pro forma revenues are reasonable and appropriate for use in this docket.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 12

The Company's reasonable operating expenses, including actual investment currently consumed through reasonable actual depreciation, are set forth in Paragraph 5.A and Exhibit A to the Stipulation and reflected on Schedule 1 hereto.

The amounts on Exhibit A to the Stipulation are the result of negotiations among the Stipulating Parties in this docket, as described in the Stipulation and the supplemental testimony of Company witness Paton, and are not contested by any party. The Commission has carefully reviewed these amounts, as well as all record evidence relating to the Company's reasonable operating expenses, and concludes that the stipulated reasonable operating expenses, including actual investment currently consumed through reasonable actual depreciation, are reasonable and appropriate for use in this docket.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 13

The overall rate of return on the cost of the Company's used and useful property is set forth in Paragraph 5.D and Exhibit A to the Stipulation and reflected on Schedule 1 hereto. The overall rate of return and return on common equity are the result of negotiations among the Stipulating Parties, as described in the Stipulation and the supplemental testimony of Company witness Paton, and they are not contested by any party. The Stipulation stated and Company witness Addison testified at hearing that the stipulated return on common equity is lower than what the Company would otherwise have agreed to if the Stipulating Parties had not agreed, among other considerations, to

the implementation of the CUT. The Commission has carefully reviewed the stipulated overall rate of return and the return on common equity and the evidence of record relating to rate of return and concludes that the stipulated overall rate of return and return on common equity are fair and reasonable.

The Commission also concludes that the stipulated overall rate of return and return on common equity will allow the Company, by sound management, the opportunity to produce a fair return for its shareholders, considering changing economic conditions and other factors, as they now exist, to maintain its facilities and services in accordance with the reasonable requirements of its customers in the territory covered by its franchise and to compete in the market for capital funds on terms which are reasonable and which are fair to its customers and to its existing investors.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 14

The level of adjusted sales and transportation volumes used in the Stipulation is 748,884,204 therms and the level of purchased gas supply as shown on Exhibit G to the Stipulation is 471,875,194 therms. The throughput volume level is derived as follows:

Sales	465,456,764
Transportation	250,486,091
Special Contracts	<u>32,941,349</u>
Total Throughput	748,884,204

The level of purchased gas supply is 471,875,194 therms, derived as follows:

Sales	465,456,764
Company Use	726,910
Lost & Unaccounted for	<u>5,691,520</u>
Total Gas Supply	471,875,194

The throughput level and level of purchased gas supply are the result of negotiations among the Stipulating Parties, as described in Paragraph 3 of the Stipulation, and are not opposed by any party. The Commission has carefully reviewed this throughput level and concludes that it is a fair and reasonable approximation of the Company's pro forma adjusted sales and transportation volumes. The Commission has also carefully reviewed the purchased gas supply level and concludes that it is a fair and reasonable approximation of the Company's pro forma purchased gas supply level.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 15

Under the Commission's procedures for true-up fixed gas costs in proceedings under Rule R1-17(k), it is necessary and appropriate to determine the amount of fixed gas costs that are embedded in the rates approved herein. In Paragraph 8 of the Stipulation, the Stipulating Parties agreed that for the purpose of this proceeding and future proceedings under R1-17(k), the appropriate amount of fixed gas costs allocated to each rate schedule is set forth below, as well as in Exhibit C to the Stipulation:

<u>Rate Schedule</u>	<u>Description</u>	<u>Fixed Gas Cost Unit Rate (\$/therm)</u>	<u>Fixed Gas Cost Apportionment %</u>
101 - Summer	Residential	\$0.07790	5.7000%
101- Winter	Residential	\$0.13790	59.178%
125 – Step 1	Small General Service	\$0.13532	17.026%
125 – Step 2	Small General Service	\$0.08176	9.019%
125 – Step 3 & Rate 126	Small General Service	\$0.04272	0.280%
145	LGS Firm Sales	\$0.05436	2.092%
150	LGS Interruptible Sales	\$0.03392	1.775%
175	Firm Transportation	\$0.01114	1.442%
180	Interruptible Transportation	\$0.01089	3.489%

No party has contested this proposal. The Commission has carefully examined these amounts, as well as all record evidence on fixed gas cost allocations, and concludes that the stipulated allocations of fixed gas costs are fair and reasonable.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 16

The evidence for this finding is contained in the Application, Paragraph 6 of the Stipulation and Exhibits B and E thereto, and in the direct and supplemental testimony of Company witness Paton.

The computation of revenues under the proposed rates (based on a Benchmark Commodity Cost of Gas of \$0.875 per therm) is set forth on Exhibit B to the Stipulation. These computations show that the proposed rates will produce the revenues calculated under the rate design approved for use in this proceeding.

In its Application, the Company proposed to increase monthly facilities charges for residential customers on Rate Schedule 101 from \$10.00 to \$12.00 and for commercial customers on Rate Schedule 125 from \$17.50 to \$20.00. In the Stipulation and as reflected in the supplemental testimony of Company witness Paton, the Stipulating Parties agreed to retain the \$10.00 monthly facilities charge for residential customers and the \$17.50 monthly facilities charge for commercial customers, which is not opposed by any party. The Commission concludes that the monthly facilities charges reflected in the Stipulation are appropriate and should be approved.

With respect to the issue of the appropriate rates and rate design for use in this proceeding, Company witness Paton testified in her supplemental testimony that the proposed rates and underlying rate design reflected in Exhibit B to the Stipulation are just and reasonable and fair to consumers and the Company in the context of the Stipulation as a whole. The Stipulating Parties agreed that these rates are proper, just and reasonable. Witness Paton's conclusions and the conclusions set forth in the Stipulation are uncontested.

The Commission has carefully reviewed these rates, as well as all record evidence relating to the proper rates to be implemented in this proceeding, and concludes that the stipulated rates are just and reasonable.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 17

The evidence for this finding is contained in Paragraph 7 of the Stipulation and the testimony of Company witness Paton.

In PSNC's prior rate case in Docket No. G-5, Sub 481, the Commission ordered PSNC to defer the rate differential between Rate 105 and Rate 110 beginning June 1, 2007, for a period no longer than November 1, 2007, and to accrue interest at the Company's net-of-tax overall rate of return. The Stipulating Parties agreed to establish an increment of \$0.00136 per therm, applicable to Rate 101, based on the October 31, 2008 rate deferral balance of \$381,330 shown on Paton Exhibit 14. Company witness Paton testified at hearing that the Company will file monthly updates in deferred account reports tracking recovery of the balance.

This proposal is supported by the Stipulating Parties and is not contested by any party. The Commission has fully considered this proposal and concludes that it is fair and reasonable and should be approved.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 18

The evidence for this finding is contained in Paragraph 11.B of the Stipulation and the supplemental testimony of Company witness Paton.

The Stipulating Parties support the adjusted level of total cost of gas after the rate increase as described in Paragraph 11.B of the Stipulation. No party has contested this level. The Commission has carefully examined the amounts set forth in Paragraph 11.B of the Stipulation and finds them to be fair and reasonable and concludes they should be approved.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 19

The evidence for this finding is contained in testimony at hearing of Company witness Paton.

At the hearing, Ms. Paton testified that existing decrements will remain in place until the Commission's order in the Company's annual review of gas costs proceeding, Docket No. G-5, Sub 497, at which time new temporaries will be determined.

The Commission has carefully reviewed the proposed treatment of the temporary rate decrements and concludes that it is just and reasonable.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 20

The evidence for this finding is found in the Stipulation and the supplemental testimony of Company witness Paton.

The Stipulating Parties agreed to the proposal to charge a portion of compensation charged to PSNC for SCANA executives listed in its 2008 proxy statement to non-utility operations as described in Paragraph 13 of the Stipulation. No party opposed this proposal.

The Commission has carefully reviewed this proposal and concludes that the proposal is fair and reasonable and should be approved.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 21

The evidence for this finding is contained in Paragraph 15 of the Stipulation and the supplemental testimony of Company witness Paton.

The Stipulating Parties agreed that the appropriate AFUDC rate for the Company, effective November 1, 2008, should be the agreed upon overall rate of return, adjusted for income taxes. No party objected to this proposal. Company witness Paton testified in response to a question from Commissioner Ervin that the AFUDC rate would remain in effect until the Company's next general rate case proceeding.

The Commission has carefully reviewed this proposal and concludes that the agreed upon AFUDC rate is fair and reasonable and should be adopted and should remain in effect until PSNC's next general rate case proceeding.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 22

The evidence for this finding is contained in the Company's Application and the direct testimony of Company witnesses Boone and Paton, the Stipulation, and the supplemental testimony of Company witness Paton.

In Paragraph 12 of the Stipulation, the Stipulating Parties proposed certain agreed upon amortization periods for the treatment of deferred manufactured gas plant costs and deferred pipeline integrity management costs as of June 30, 2008. The Stipulating Parties further agreed that it is appropriate to continue until the resolution of PSNC's next general rate case proceeding the regulatory asset treatment for costs paid to outside contractors and outside consultants incurred as a result of the Pipeline Safety Improvement Act of 2002, pending the establishment of an appropriate recovery mechanism in a future proceeding.

No party opposed the proposals contained in Paragraph 12 of the Stipulation. The Commission has carefully considered the proposed amortization periods and related matters set forth in Paragraph 12 of the Stipulation, as well as all record evidence on the amortization of these deferred costs, and concludes that the stipulated

amortization periods are fair and reasonable and should be approved. The Commission further concludes that the proposed continuation of regulatory asset treatment for pipeline integrity management costs is fair and reasonable and should be approved.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 23 AND 24

The evidence for these findings is found in the Application, the Company witnesses' direct testimony, the Stipulation, the supplemental testimony of Company witness Paton, and testimony at hearing.

Subject to the Commission's authorization of the CUT, the Company proposed in its Application to file specified conservation programs and to discontinue its WNA mechanism. The Company witnesses testified that the current volumetric rate structure causes a disincentive for the Company to promote energy efficiency and conservation measures for its customers. In its Application, the Company proposed to implement a CUT to address the prevailing trend of declining natural gas usage per customer. In support of the proposed CUT, Company witnesses testified that such a decoupling mechanism would allow the Company to promote energy efficiency and conservation initiatives, which is a strongly supported public policy of this Commission, the state, and the nation.

The Company proposed four conservation initiatives as discussed in the testimony of Company witnesses Harris, Wright, and Paton. Specifically, witness Wright described the Company's proposed conservation initiatives. The first is a communications program that will educate customers and encourage conservation. The second initiative is an in-home energy audit program that will provide for weatherization and conservation measures to be installed at the time of the visit. The third initiative is an energy efficiency rebate program. The fourth initiative is discount rates for high-efficiency residential homes and commercial buildings that meet certain energy efficiency standards.

While conservation benefits customers and the general public, the practical reality is that it has the potential to do financial harm to the utility and its shareholders. The decoupling of margin from usage will better align the interests of the Company and its customers with respect to conservation, which is particularly important in today's environment. Company witnesses Wright and Addison testified that, to the extent conservation efforts are adopted by customers, not only does it reduce gas consumption but it allows customers to realize savings in their total gas bill associated with lower gas consumption.

Company witnesses Paton and Addison testified at hearing that the programs were not filed prior to or as part of the case since the programs were dependent on receiving the CUT and were still being developed. The Stipulating Parties agreed that the Company's conservation programs will be filed for approval within 30 days of this Order and an annual report of expenditures detailing the funds spent on these programs should be filed by February 15th following each calendar year. The Stipulating Parties further agreed that the Company should be allowed to recover \$750,000 of conservation

program expenditures through cost of service. No party opposed the proposed programs or the inclusion of \$750,000 of program expenditures in cost of service. The Commission finds that the Company's commitment to file the programs as described in this case for approval within 30 days and the strong public policy in support of promoting conservation warrants allowing the \$750,000 expenditures for conservation initiatives to be included in cost of service. Company witness Wright testified on the programs and funding with sufficient detail for the Commission to find the proposal fair and reasonable.

Company witness Paton testified at hearing that it will take a month or two after Commission approval to get the programs up and running. Therefore, the Commission finds that if the Company does not incur \$750,000 of expenditures for its conservation initiatives in the first year, it will spend that balance in the following year in addition to the \$750,000 for that year.

In addition to removing the disincentive for implementing energy efficiency and conservation initiatives, the proposed CUT addresses the more fundamental issue of declining per customer usage of natural gas. While the number of customers continues to grow, the weather-normalized usage per residential customer continues to decrease due to more efficient appliances, better insulated homes and office buildings, and volatile natural gas prices also have caused customers to conserve. Company witnesses Wright and Harris testified that the Company has experienced a decline in usage per residential customer of approximately 2% per year over the last five years.

Under the Company's volumetric rate structure, customer usage is the determining factor in whether the Company is able to fully recover its costs and have an opportunity to earn a fair, allowed rate of return. The result of declining usage is a reduction in margins that were designed to be recovered in the volumetric rates. Company witness Wright testified that when PSNC has a rate case under the current regulatory model, from the first day rates go into effect, with the declining use per customer trend, the Company will not collect the revenue necessary to recover its fixed costs nor have an opportunity to earn its allowed return. The CUT decoupling mechanism will adjust revenues to correspond to the volumes determined in this general rate case proceeding and will simply permit the Company a reasonable opportunity to earn its allowed return and recover its fixed costs.

Company witness Paton testified that because the proposed CUT mechanism will account for all variances in consumption, including those related to weather, the Company will no longer need the WNA. Additionally, Company witnesses Addison and Wright testified at hearing to the ineffectiveness and disadvantages of the WNA. The Commission finds that the CUT is preferable to the WNA, which entails more frequent adjustments to customers' bills, while the CUT addresses all variances in consumption, not just those related to weather.

At hearing, the Company witnesses explained that, while the Company has added new customers, the growth in plant necessary to serve them has far exceeded the revenues derived from those customers. Therefore, any decline in per-customer

usage will not be offset by growth in the number of customers served.

Additionally, the implementation of the CUT will not remove the Company's incentive to operate efficiently. Since the CUT does not address the level of expenses incurred, the Company must continue to operate efficiently in order to maintain profitability. As noted by Company witnesses at hearing, if per-customer natural gas consumption increases, the CUT adjustment will prevent the Company from recovering more than the margin set in this rate case. If per-customer usage continues to decline, even with the CUT mechanism, customers using less gas will have lower bills because the largest component of their bills is the cost of gas.

The Attorney General asked a series of questions of the Company witnesses regarding possible alternatives to the CUT that would provide partial decoupling, instead of full decoupling as proposed by the Company. In response to these questions, the Company witnesses testified that the hypothetical alternatives would not work because of the significant impact that weather has on variations in customer usage.

There are other issues regarding the practicality and desirability of implementing partial decoupling. A major advantage of the CUT is that it neutralizes the Company's interest in maximizing customer usage and obviates its disincentive to promote conservation. If partial decoupling were implemented, the Company would continue to have an interest in promoting customer usage because profits would increase if customers used more gas. Company-sponsored conservation programs would therefore be incompatible with the interests of the Company's shareholders since the successful conservation programs would cause decreases in usage and Company profits.

In addition to the practical and policy reasons that partial decoupling should not be adopted as discussed above, the Attorney General did not introduce any viable alternative mechanisms into evidence. The Commission therefore finds that partial decoupling should not be adopted.

There is precedent for the CUT and the Commission has been granted authority by the General Assembly to adopt such a decoupling mechanism if the Commission finds it appropriate and in the public interest. On November 3, 2005, this Commission approved a revenue decoupling mechanism for Piedmont Natural Gas Company, Inc., in Docket No. G-9, Sub 499. Subsequently, the North Carolina General Assembly adopted House Bill 1086 which amended the North Carolina General Statutes Section § 62-133.7 to specifically give the Commission the authority to adopt a customer usage tracker mechanism.

Based on the evidence as a whole, the Commission finds that it is appropriate to adopt the proposed CUT mechanism and that to do so in this case is in the public interest for the foregoing reasons. The proposed factors set forth in Exhibit D to the Stipulation are appropriate and should be adopted.

The CUT mechanism as set forth in Exhibit E to the Stipulation requires monthly reports to be filed showing activity in the CUT deferred accounts and requires fourteen days notice to implement a rate adjustment under the CUT. The Commission finds that initial notice of the CUT mechanism explaining its purpose and workings shall be given to all affected customers following the issuance of this Order and to new customers and, thereafter, that notice of each increment or decrement approved as a result of the Company's semi-annual CUT rate adjustment filings shall be given with the first monthly bill reflecting the rate change.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 25 AND 26

The evidence supporting these findings is contained in the direct and supplemental testimony of Company witness Paton, the Stipulation, and Exhibits E and F thereto.

Company witness Paton testified to the proposed additional changes to the Company's tariffs and service regulations and the reasons underlying those changes. In general, she testified that the changes are necessary and appropriate to reflect changes in market, usage, and regulatory conditions and to improve service.

The changes to the Company's tariffs and service regulations, which were agreed to among the Stipulating Parties, are reflected in Exhibits E and F to the Stipulation. No party objected to these changes except for the Attorney General who objected to the implementation of the CUT as set forth in Rider C to the Company's tariff. The Commission has carefully reviewed these changes to the Company's tariffs, including Rider C as discussed in the Evidence and Conclusions for Findings of Fact Nos. 23 and 24, and to the Company's service regulations, and concludes that they are fair and reasonable and should be approved.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 27

For the reasons set forth in the foregoing paragraphs, the Commission concludes that the Stipulation in this proceeding provides a just and reasonable resolution of all the issues in this case, will allow the Company a reasonable opportunity to earn a fair return, and provides just and reasonable rates for all customer classes. The Commission finds and concludes that all of the provisions of the Stipulation, taken together, are fair and reasonable under the circumstances of this proceeding and should be approved.

IT IS, THEREFORE, ORDERED as follows:

1. That PSNC is hereby authorized to adjust its rates and charges in accordance with the Stipulation in this proceeding (as such rates may be adjusted for any changes in the Benchmark Cost of Gas and changes in Demand and Storage Charges prior to the effective date of the revised rates) effective for service rendered on and after November 1, 2008;
2. That PSNC is authorized to implement the tariffs attached to the Stipulation as Exhibit E effective November 1, 2008;
3. That PSNC is authorized to implement the changes to the service regulations attached as Exhibit F to the Stipulation effective November 1, 2008;
4. That PSNC shall file tariff and service regulations to comply with this Order within ten (10) days from the date of this Order;
5. That PSNC shall file for approval within 30 days of this Order its conservation initiatives pursuant to Rule R6-95;
6. That if PSNC does not incur \$750,000 of expenditures for its conservation initiatives in the first year that the new rates are in effect, it will spend that balance in the following year in addition to the \$750,000 for that year;
7. That PSNC is authorized to implement the other actions, practices, principles, and methods agreed upon in the Stipulation and not inconsistent with this Order; and
8. That PSNC shall send the notice attached hereto as Attachment A to its customers, beginning with the billing cycle that includes the rate changes approved herein.

ISSUED BY ORDER OF THE COMMISSION.

This the ____ day of October, 2008.

NORTH CAROLINA UTILITIES COMMISSION

Gail L. Mount, Deputy Clerk

Public Service Company of North Carolina
Docket No. G-5, Sub 495
STATEMENT OF NET OPERATING INCOME FOR RETURN, RATE BASE AND OVERALL RETURN
For The Test Year Ended December 31, 2007

Item	Per Company (a)	Adjustments (b)	After Adjustments (c)	Rate Increase (d)	After Rate Increase (e)
NET OPERATING INCOME FOR RETURN					
Operating Revenues:					
Sales and transportation of gas	\$683,356,654	\$39,506	\$683,396,160	\$728,277	\$684,124,437
Other operating revenues	3,345,175		3,345,175		3,345,175
Operating revenues, excl special contracts	686,701,829	39,506	686,741,335	728,277	687,469,612
Special Contract Revenues	618,496		618,496		618,496
Total operating revenues	687,320,325	39,506	687,359,831	728,277	688,088,108
Cost of gas	476,879,986	(8,301,131)	468,578,855		468,578,855
Margin	210,440,339	8,340,637	218,780,976	728,277	219,509,253
Operating Expenses:					
Operating and maintenance	86,959,335	(267,579)	86,691,756	4,346	\$86,696,101
Depreciation	37,555,784	(385,068)	37,170,716		37,170,716
General taxes	9,344,474	(21,427)	9,323,047		9,323,047
State income tax (6.9%)	3,798,385	688,643	4,487,028	49,951	4,536,979
Federal income tax (35%)	17,937,733	3,252,082	21,189,815	235,893	21,425,708
Amortization of investment tax credits	(185,253)		(185,253)		(185,253)
Amortization of EDIT	(645,425)		(645,425)		(645,425)
Total operating expenses	154,765,033	3,266,651	158,031,684	290,190	158,321,874
Interest on customer deposits	(609,946)		(609,946)		(609,946)
Net operating income for return	\$55,065,360	\$5,073,986	\$60,139,346	\$438,087	\$60,577,433
RATE BASE					
Plant in service	\$1,191,285,223	(\$12,647,033)	\$1,178,638,190		\$1,178,638,190
Accumulated depreciation	(427,817,811)	4,116,282	(423,701,529)		(423,701,529)
Net plant in service	763,467,412	(8,530,751)	754,936,661		754,936,661
Gas in Storage	76,622,602	(2,725,017)	73,897,585		73,897,585
Materials & Supplies	6,609,100	(16,269)	6,592,831		6,592,831
Other Working Capital	(20,192,106)	541,129	(19,650,977)		(19,650,977)
Deferred Income Taxes	(106,359,412)	249,175	(106,110,237)		(106,110,237)
Original cost rate base	\$720,147,596	(\$10,481,732)	\$709,665,864		\$709,665,864
Overall Rate of Return on Rate Base	7.65%		8.47%		8.54%

BEFORE THE NORTH CAROLINA
UTILITIES COMMISSION

DOCKET NO. G-5, SUB 495

In the Matter of
Application of Public Service)
Company of North Carolina,) PUBLIC
Inc., for a General Increase in) NOTICE
its Rates and Charges)

The North Carolina Utilities Commission has issued an Order allowing Public Service Company of North Carolina, Inc. (PSNC or Company), to increase its rates and charges by approximately \$9.1 million annually, offset by an \$8.4 million reduction in fixed gas costs, for a net increase of approximately \$700,000. The overall increase of 0.11% is effective November 1, 2008.

On March 31, 2008, PSNC filed an application seeking a general increase in its rates and charges, approval of changes to its tariff and rate schedules, approval of a customer usage tracker mechanism applicable to its residential and commercial rate schedules, and approval of a cost recovery mechanism for customer conservation programs.

In its application, the Company requested an increase of \$20,441,501 annually. The Company stated that the increase was needed to recover costs related to expanding and operating its pipeline system and the need to earn a fair and reasonable return on its investment. PSNC had added more than 929 miles of transmission and distribution mains, installed over 41,000 new service lines, and added more than 30,000 customers to its system.

The Commission has approved a customer usage tracker mechanism, which will allow the Company to recover its approved margin independent of customer usage patterns. It will protect customers from the potential over-recovery of margin by the Company and will protect the Company from potential under-recovery of margin. The customer usage tracker mechanism will track margin recovery on a monthly basis and make semi-annual adjustments to usage rates to refund or recover differences from the Commission-approved margin level.

The Commission has also approved the annual expenditure of \$750,000 on conservation programs and directed the Company to file its initial programs for approval by the Commission within 30 days from the date of the Commission's Order.

PSNC's new residential and commercial rates and charges, effective November 1, 2008, are set forth below. For more information on PSNC's rates and charges, please go to www.psnenergy.com.

101 Residential Service

Facilities Charge \$10.00 per month

Energy Charge

Winter \$X.XXXXX per therm

Summer \$X.XXXXX per therm

125 Small General Service (Commercial)

Facilities Charge \$17.50 per month

Energy Charge

First 500 \$X.XXXXX per therm

Next 4,500 \$X.XXXXX per therm

Over 5,000 \$X.XXXXX per therm

Certificate of Service

This is to certify that the foregoing Joint Proposed Order was duly served upon all parties of record by hand delivery or United States mail, first-class postage prepaid, or by facsimile, on the following:

Gina C. Holt, Esquire
NC Utilities Commission – Public Staff
4326 Mail Service Center
Raleigh NC 27699-4326
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Fax: (919) 733-9565

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Fax: (919) 791-0010

M. Gray Styers, Jr., Esquire
Blanchard, Jenkins, Miller, Lewis & Styers, P.A.
1117 Hillsborough Street
Raleigh, NC 27603
United States of America

This the 6th day of October, 2008.

WOMBLE CARLYLE SANDRIDGE & RICE, PLLC



Mary Lynne Grigg
Womble Carlyle Sandridge & Rice, PLLC
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