



**NORTH CAROLINA
PUBLIC STAFF
UTILITIES COMMISSION**

October 25, 2021

Ms. A. Shonta Dunston, Chief Clerk
North Carolina Utilities Commission
4325 Mail Service Center
Raleigh, North Carolina 27699-4300

Re: Docket No. G-9, Sub 722 – Petition for Consolidated Construction/Redelivery Agreement; G-9, Sub 781 – Application for General Rate Increase; and G-9, Sub 786 – Application of Piedmont Natural Gas Company, Inc., for Modifications to Existing Energy Efficiency Program and Approval of New Energy Efficiency Programs

Dear Ms. Dunston:

Attached for filing in the above-referenced dockets are the public and confidential versions of the Public Staff's Proposed Additional Findings, Evidence, and Conclusions (Docket No. G-9, Sub 722 Issues).

By copy of this letter, the Public Staff is forwarding a redacted confidential version to Piedmont Natural Gas Company, Inc. (Piedmont or the Company), and the North Carolina Attorney General's Office. Piedmont indicated that Fayetteville Public Works Commission, Nucor Steel-Hertford, and Duke Energy Carolinas, LLC, have not entered into confidentiality agreements with the Company and should not be served with the redacted confidential version. Because the redacted confidential version discloses the details of various commercial arrangements under existing special contracts, Piedmont indicated to the Public Staff that its preference is that the redacted confidential version not be disclosed to Carolina Utility Customers Association, Inc. (CUCA), or Carolina Industrial Group for Fair Utility Rates IV (CIGFUR IV) because of potential commercial harm. Piedmont indicated that it is willing to discuss disclosure of the redacted confidential version with counsel for CUCA and CIGFUR on a case-by-case basis if they believe that they have a need for the information in order to protect their clients' interests.

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October 25, 2021
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Please do not hesitate to contact us if there are any questions.

Sincerely,

Electronically submitted
s/ Elizabeth D. Culpepper
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s/ Megan Jost
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Attachments

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. G-9, SUB 722
DOCKET NO. G-9, SUB 781
DOCKET NO. G-9, SUB 786

DOCKET NO. G-9, SUB 722)

In the Matter of)
Consolidated Natural Gas Construction)
and Redelivery Services Agreement)
Between Piedmont Natural Gas Company,)
Inc., and Duke Energy Carolinas, LLC)

DOCKET NO. G-9, SUB 781)

In the Matter of)
Application of Piedmont Natural Gas)
Company, Inc., for an Adjustment of Rates,)
Charges, and Tariffs Applicable to Service)
in North Carolina)

DOCKET NO. G-9, SUB 786)

In the Matter of)
Application of Piedmont Natural Gas)
Company, Inc., for Modification to Existing)
Energy Efficiency Program and Approval of)
New Energy Efficiency Programs)

) PUBLIC STAFF'S
) PROPOSED ADDITIONAL
) FINDINGS, EVIDENCE, AND
) CONCLUSIONS
) (DOCKET NO. G-9, SUB 722)

ADDITIONAL FINDINGS OF FACT

49. The purpose of the volumetric rate component included in special and electric generation contracts is to provide recovery of costs related to existing LDC infrastructure and operations and to prevent subsidization of the contract customer by the LDC's other customers.

50. Special and electric generation contracts are typically negotiated, and may be structured with (a) a demand charge that recovers the plant investment required to serve the customer, (b) margin and fixed gas cost components, (c) other negotiated volumetric components that provide system contributions, or (d) other contributions resulting from the contract terms that result in a benefit to the system.

51. The volumetric rate component should be commensurate with the type of volumetric contribution paid by both interruptible¹ and firm² tariffed transportation customers on the LDC's system.

52. The infrastructure costs to serve the existing facilities at the Lincoln Plant (Existing Facilities) have been fully recovered through a demand charge imposed under the Natural Gas Sales and Purchase Agreement (1994 Original Agreement) that was approved in Docket No. G-9, Sub 352. The monthly facilities

¹ "Service on an interruptible basis means that the capacity used to provide the service is subject to a prior claim by another customer or another class of service and receives a lower priority than such other classes of service." 18 C.F.R. § 284.9(a)(3) (2020).

² "Service on a firm basis means that the service is not subject to a prior claim by another customer or another class of service and receives the same priority as any other class of firm service." 18 C.F.R. § 284.7(a)(3) (2020).

charge and the volumetric component related to the Existing Facilities was approved in Docket No. G-9, Sub 491 (2004 Agreement).

53. The Public Staff's proposed volumetric rate component is not an arbitrary rate, but is in fact a proxy for the Company's costs assigned to other firm transportation customers.

54. The returns calculated on the Second Revised Agreement by the Company witnesses using the Public Staff's recommended volumetric rate are overstated since the Company has not assigned the appropriate amount of system costs to serve these customers.

55. The allocation of costs assigned to Piedmont's rate classes needs to be studied or otherwise reviewed, as the Stipulating Parties agreed to in the Stipulation, prior to the earlier of the Company's next general rate case or its 2023 annual review of gas costs proceeding.

ADDITIONAL EVIDENCE AND CONCLUSIONS

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 49-55

The evidence supporting these findings of fact and conclusions is contained in the testimony and exhibits of Piedmont witnesses Bruce P. Barkley and Kenneth A. Sosnick, DEC witness H. Lee Mitchell, IV, and Public Staff witness Julie G. Perry, and the entire record in this proceeding.

Summary of the Evidence

PIEDMONT TESTIMONY

Piedmont witness Barkley testified that the Revised Agreement between Piedmont and DEC served two purposes: (1) it updated the form of a long-standing service agreement between Piedmont and DEC for service at Duke's Lincoln County turbine facility to Piedmont's current form of agreement (while preserving the rates underlying the service provided under the 2004 Agreement, a long-standing agreement approved by the Commission in Docket No. G-9, Sub 491); and (2) provided for an additional level of volumes to the Lincoln County plant requested by DEC as a fuel source for additional gas-fired turbine generation equipment being installed at the Lincoln County facility. Piedmont witness Barkley testified that the Company estimated that the new incremental facilities it would need to construct to serve the additional load at the Lincoln County plant would cost approximately [BEGIN CONFIDENTIAL] [REDACTED] [END CONFIDENTIAL] million to construct and would consist of a 1,000-foot of new transmission main running from the existing Piedmont transmission main to the new Lincoln County facilities, as well as measuring and regulating station equipment, and that no other party was intended to be served through these facilities. The Revised Agreement reflected these terms and, in addition to the charges provided for under the pre-existing service arrangement with DEC, also provided for [BEGIN CONFIDENTIAL] [REDACTED] [END CONFIDENTIAL] to recover the costs of the incremental facilities over the [BEGIN

CONFIDENTIAL [REDACTED] **[END CONFIDENTIAL]** term of the Revised Agreement. (Tr. vol. 3, 557-59.)

Piedmont witness Barkley testified that in order to calculate the new incremental facilities demand charge the Company used its standard cost of service model. Mr. Barkley testified that the model is used in every case where the Company is evaluating the economic feasibility of a system expansion to serve a new large volume customer. This model incorporates standard cost inputs, including capital expenditures, operating and maintenance expenses (O&M), property taxes, payroll taxes, income taxes, and interest to arrive at a net present value determination as to whether the expansion of service to a proposed project under our tariff rates is economically feasible. Mr. Barkley testified that if a project is not economically feasible under the revenues that would be produced under Piedmont's tariff rates, i.e., it does not produce a reasonable return on investment, then Piedmont **[BEGIN CONFIDENTIAL]** [REDACTED]

[REDACTED] **[END CONFIDENTIAL]** and calculates demand rates necessary to produce those revenues. He further testified that occasionally, on the opposite end of the spectrum, Piedmont's tariff rates generate revenues and returns that are unacceptably high to customers that have the option to locate elsewhere or to use an alternative fuel. Piedmont then **[BEGIN CONFIDENTIAL]** [REDACTED]

[REDACTED]
[REDACTED]
[REDACTED]

[REDACTED] [END CONFIDENTIAL] Piedmont uses this approach consistently with every new proposed large volume customer and does not vary the model or the application of the model for affiliates or any other party. The end result of this process is typically a proposed service agreement filed with the Commission for approval as a special contract if standard tariff rates are either insufficient or excessive. The Company does not bill amounts that vary from its approved tariffs until it receives authorization in the form of an order from the Commission. (Tr. vol. 3, 559-60.)

Piedmont witness Barkley testified that Piedmont utilized this approach in arriving at the terms of the Revised Agreement and that the model was inclusive of all costs Piedmont anticipated incurring in order to serve DEC. (Tr. vol. 3, 560-61.)

Mr. Barkley testified that based on Piedmont's conversations with the Public Staff, the Company advised DEC that the Public Staff appeared to be unwilling to support approval of the Revised Agreement [BEGIN CONFIDENTIAL] [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED] [END

CONFIDENTIAL]. Mr. Barkley testified that no specific ratemaking method underlies the [BEGIN CONFIDENTIAL] [REDACTED] [END CONFIDENTIAL]

approach. There is no standard approach that the Commission has directed Piedmont to use for this purpose nor did the Public Staff offer any input as to how the rate should be set. Instead, the [BEGIN CONFIDENTIAL] [REDACTED]

[END CONFIDENTIAL] is the result of Piedmont's determination of a commercially viable solution that was scalable (and repeatable) that would result in a meaningful contribution above Piedmont's incremental costs, ultimately benefitting Piedmont's other customers. Mr. Barkley testified that DEC reluctantly agreed to the **[BEGIN CONFIDENTIAL]** [REDACTED] **[END CONFIDENTIAL]** and the Second Revised Agreement was filed with the Commission. (Tr. vol. 3, 561-62.)

Piedmont witness Barkley testified that subsequent to the filing of the Second Revised Agreement, the Public Staff, for the most part, continued to object to approval of the Second Revised Agreement because, in the Public Staff's view, **[BEGIN CONFIDENTIAL]** [REDACTED] **[END CONFIDENTIAL]** He further testified that, when Piedmont asked how the Public Staff would **[BEGIN CONFIDENTIAL]** [REDACTED] **[END CONFIDENTIAL]** that would provide adequate system support in their view, the Public Staff offered no suggestions. Mr. Barkley testified that the Public Staff also had no explanation as to why a contract for incremental service to the new turbine generation equipment at Lincoln, which did not rely on Piedmont's other system assets in any way, should be assessed **[BEGIN CONFIDENTIAL]** [REDACTED] **[END CONFIDENTIAL]** (Tr. vol. 3, 563.)

Piedmont witness Barkley testified that based on the Public Staff's conclusion that the Second Revised Agreement was not in compliance with the requirements of N.C.G.S §§ 62-140, -153, the Public Staff recommended that

Piedmont be ordered to [BEGIN CONFIDENTIAL] [REDACTED]
[REDACTED]
[REDACTED] [END
CONFIDENTIAL] (Tr. vol. 3, 564.)

Piedmont witness Barkley testified that Piedmont explained its opposition to the Public Staff's position in some detail in comments filed in this docket on June 26, 2020, which Mr. Barkley adopted as his testimony in this proceeding. He stated, in short, that the Company disagrees with the Public Staff's proposal on multiple grounds, but primarily because it is not based on cost or on any other discernible formula or analysis and because the application of [BEGIN CONFIDENTIAL] [REDACTED]

[REDACTED] [END CONFIDENTIAL] He testified that Piedmont objects to both [BEGIN CONFIDENTIAL] [REDACTED]

[REDACTED] [END CONFIDENTIAL] He further testified that Piedmont does not oppose the idea of a system support surcharge associated with special contract arrangements that actually utilize portions of Piedmont's preexisting system to effectuate deliveries to a special contract customer. Mr. Barkley testified that one very significant aspect of the Lincoln County service arrangement is that the facilities used to provide that service are 100% dedicated to serving the DEC Lincoln plant and do not serve any other customer, and that Piedmont does not rely on any other part of its transmission or distribution system to serve DEC at the Lincoln facilities. (Tr. vol. 3, 565.)

Piedmont witness Barkley concurred with Piedmont witness Sosnick that the [BEGIN CONFIDENTIAL] [REDACTED] [END CONFIDENTIAL] of the Public Staff's recommendation is not appropriate in this circumstance. Piedmont witness Barkley stated that [BEGIN CONFIDENTIAL] [REDACTED] [END CONFIDENTIAL] are appropriate because Piedmont's costs for the New Facilities are substantively fixed. He stated that the [BEGIN CONFIDENTIAL] [REDACTED] [REDACTED] [END CONFIDENTIAL] remains acceptable to Piedmont in this proceeding as it was offered in the spirit of compromise, was accepted by the customer, and [BEGIN CONFIDENTIAL] [REDACTED] [REDACTED] [REDACTED] [REDACTED] [REDACTED] [REDACTED] [REDACTED] [REDACTED] [END CONFIDENTIAL] for the incremental facilities are based on the Public Staff's conclusions that other electric generation contracts with North Carolina local distribution companies (and other special contract arrangements in some circumstances) "usually" contain a volumetric charge and that customers under these contracts should provide support to the larger LDC system. Mr. Barkley testified that, because most of the contracts discussed are with other LDCs, the Public Staff has redacted commercial details, which renders Piedmont unable to determine the merits of those contracts. He stated that Piedmont also cannot determine the underlying rate design philosophy upon which those contracts were based – which means the Company cannot know if variable

charges were appropriate or to what degree, if any, the variable charges under those agreements provide system support.

Piedmont witness Barkley testified that the Company's primary concern

[BEGIN CONFIDENTIAL] [REDACTED]

[REDACTED]

[REDACTED] [END CONFIDENTIAL]

DEC would have decided not to construct this facility, to locate it elsewhere, or to bring a complaint against Piedmont before the Commission. Mr. Barkley stated that, if the project was not completed within Piedmont's service territory, its customers would have been denied the benefits associated with the project. (Tr. vol. 3, 568.)

Piedmont witness Barkley testified he quantified these benefits based on the traditional inputs into the ratemaking process as summarized in the proceeding on Piedmont witness Bowman's Exhibit_(QPB-7). He stated that his Exhibit_(BPB-2) demonstrates a ROE that [BEGIN CONFIDENTIAL] [REDACTED]

[REDACTED] [END

CONFIDENTIAL] Mr. Barkley testified that these returns benefit all other Piedmont customers in general rate case proceedings over the life of the contract. He stated that the base case is shown on Page 1 of this exhibit and includes revenues without

the [BEGIN CONFIDENTIAL] [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

█ **[END CONFIDENTIAL]** Piedmont does not believe the returns shown on Page 3 to be commercially viable. (Tr. vol. 3, 569-70.)

In explaining how Piedmont’s NPV based cost of service study for DEC Lincoln yielded the results presented on page 1 of Exhibit_(BPB-2), Piedmont witness Barkley testified that when Piedmont reviews a potential expansion project under its cost model, it **[BEGIN CONFIDENTIAL]** █

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█ **[END CONFIDENTIAL]** from the project which reduces the revenue requirement for Piedmont’s other customers in its next rate case (when the **[BEGIN CONFIDENTIAL]** █

█ **[END CONFIDENTIAL]**. (Tr. vol. 3, 570-71.)

Piedmont witness Barkley testified regarding the Public Staff’s response to Commission Question 1.b.: “In the absence of a volumetric rate, provide the calculations and the assumptions used to calculate the subsidy that DEC’s New Facilities would receive.” According to Mr. Barkley, the Public Staff’s response frames various subsidy scenarios in terms of how the results differ from amounts calculated under Piedmont’s Rate Schedule 113, Large General Transportation Service. Mr. Barkley testified that he did not believe the Public Staff’s response to

the Commission's question reflects a subsidy received by DEC because the results are divorced from the realities of providing natural gas transportation service to a special contract customer. Under Rate Schedule 113, Piedmont's investment in the incremental facilities would be repaid threefold every year during the life of the contract, indicating a huge subsidy being paid by DEC, not to DEC. Further, according to Mr. Barkley, DEC would not have agreed to such a pricing option and would have located this incremental investment elsewhere. He testified that Piedmont's 2004 Agreement with DEC included rates that recovered all incremental costs; therefore, no subsidy existed. Mr. Barkley asserted that, due to the absence of any subsidy, none could be provided to the Commission and the Public Staff simply subtracted three different data points from the amount that would have billed under Rate 113 in response to Question 1.b. (Tr. vol. 3, 576.)

Piedmont witness Barkley testified that although there was no subsidy in the Revised Agreement, Piedmont and DEC subsequently executed the Second Revised Agreement with a volumetric adder, seeking to compromise with the Public Staff to avoid protracted litigation and allowing the approval process by the Commission to move forward in an efficient manner. (Tr. vol. 3, 577.)

Piedmont witness Sosnick testified that he reviewed the Second Revised Agreement and the Company's cost of service model, and concluded that the costs to own and operate incremental facilities were nearly all fixed, aside from a small O&M expense that was projected to rise steadily at two percent per year. He stated that the fixed fee in the Second Revised Agreement essentially recovers a set sum through a set charge and that the Public Staff's recommendation of adding a

volumetric charge to this fixed charge would instead recover a set sum through a variable fee. He testified that he concluded that the Second Revised Agreement, as filed, comports with industry best practices in regard to rate design, cost causation, and recovery. He argued that although the proposed volumetric fee introduced to prevent cross subsidization between customers is not needed because the incremental facilities are not interconnected to the overall Piedmont system, and, therefore, do not cause wear and tear to this system, the Second Revised Agreement, as filed with its volumetric rate being lower than the Public Staff's, still meets the Public Staff's wishes, does not inflate DEC's rates invidiously, and provides benefits to Piedmont's overall customer base through lower rates. He recommended that the Commission accept the Second Revised Agreement without modification. (Tr. vol. 3, 547-48.)

INTERVENOR TESTIMONY

DEC

DEC witness Mitchell provided a brief history of the Second Revised Agreement. He stated that DEC and Piedmont negotiated an arms-length Revised Agreement related to the construction of new incremental natural gas facilities and the provision of redelivery service by Piedmont to DEC through these facilities at DEC's Lincoln Combustion Turbine (CT) Plant. These incremental facilities serve the new Lincoln CT Plant Unit 17, for which the Commission issued a Certificate of Public Convenience and Necessity on December 7, 2017, in Docket No. E-7, Sub 1134. Piedmont filed the Revised Agreement to supersede, replace, and expand upon a previous agreement which had been filed in Docket No. G-9,

Sub 491. To address concerns of the Public Staff, Piedmont recommended to DEC the inclusion of additional volumetric charges for gas flows on the incremental facilities. Therefore, a volumetric charge was negotiated and then filed in a Second Revised Agreement that also included an updated construction schedule and cost projections for the incremental facilities involved in the project. In this Revised Second Agreement, DEC agreed to carry forward the Existing Facilities Demand Charge per month and the Existing Facilities Volumetric Rate per dt for CT Units 1-16 and to add an Incremental Facilities Volumetric Rate for Lincoln CT Unit 17 in addition to the Fixed Demand Charge for these Incremental Facilities. To protect DEC's customers from Piedmont further overearning on the Incremental Facilities, DEC and Piedmont agreed that the annual charge of this Volumetric Rate **[BEGIN CONFIDENTIAL]** [REDACTED] **[END CONFIDENTIAL]**. (Tr. vol. 4, 15-16.)

DEC witness Mitchell testified that most of the Commission-approved LDC redelivery agreements contracted by DEC and Duke Energy Progress, LLC (DEP), since the 2004 Agreement included fixed demand rates in lieu of variable (or volumetric) charges. (Tr. vol. 4, 16-17.)

DEC witness Mitchell testified that most historical variable (or volumetric) charges are designed to partially recover cost of service and a return to the LDC and are not exclusively for system contribution. Specifically, historical variable charges have been primarily designed to account for certain administrative and general expenses (A&G) and O&M for the facilities designated to provide the redelivery service of that agreement. For example, volumetric charges are often

used to offset variable O&M charges of compression facilities. However, the Piedmont facilities at the Lincoln site do not include any compression facilities. (Tr. vol. 4, 17-18.)

DEC witness Mitchell testified that historically speaking for the Lincoln site, volumetric charges were more logical in previous agreements with different ratemaking constructs or for facilities that have had their costs fully recovered by the LDC. For example, the 1994 Original Agreement was a bundled agreement with Piedmont that included both transportation services and the physical gas commodity, in which there was a volumetric charge within the commodity pricing. This agreement recovered the costs of the original Lincoln facilities over the initial ten-year period. In the subsequent amendment to the 1994 Original Agreement, the commodity portion of the agreement was removed given the dated structure of the previous agreement; however, although the costs of the facilities were fully recovered through the 2004 Agreement, in addition to a **[BEGIN CONFIDENTIAL]** **[END CONFIDENTIAL]**, a volumetric charge was retained which was likely intended to help cover system overhead and O&M. So to account for the capital required to expand the facilities for CT 17, a revised rate for incremental facilities was negotiated and capped while preserving the rate structure of the existing service to CT 1-16. While DEC does not believe there should be any surcharges above the cost of service, given that the historical service to CT 1-16 includes a volumetric charge, DEC agreed to a revised incremental facilities volumetric rate **[BEGIN CONFIDENTIAL]** **[END CONFIDENTIAL]** **[END CONFIDENTIAL]** Notwithstanding DEC's concerns with adding a

volumetric charge to the Second Revised Agreement, in the overall structure of the renegotiated agreement, DEC supports the volumetric rate negotiated by DEC and Piedmont in this instance and requests the Commission's approval. (Tr. vol. 4, 18-19.)

DEC witness Mitchell stated that the Public Staff expressed concern that the volumetric charge was insufficient to recover Piedmont's costs related to existing infrastructure and operations and to prevent subsidization of the contract customer, i.e., DEC, by Piedmont's other customers. (Tr. vol. 4, 19.) He further testified that DEC contends gas transportation rates, both fixed and volumetric, should combine to enable recovery of the LDC's cost of service, plus the LDC's regulated return, and should minimize system cross-subsidization. Incremental "system support surcharge" or "system contributions" should never lead to the LDC overearning and electric utility customers subsidizing natural gas utility customers. Stated another way, witness Mitchell testified, punitive charges to DEC customers would create overearnings from this Second Revised Agreement that would ultimately reduce rates for Piedmont's other customers at the expense of electric utility customers. The Second Revised Agreement's revised fixed rate **[BEGIN CONFIDENTIAL]** [REDACTED] **[END CONFIDENTIAL]** already includes an allocated share of the general system overhead costs per Piedmont's cost of service model.

PUBLIC STAFF

Public Staff witness Perry adopted the Public Staff Recommendations as her testimony in this proceeding. (Tr. vol. 4, 402.)

Pursuant to the Public Staff Recommendations, Public Staff witness Perry testified that the Public Staff has reviewed the Second Revised Agreement and other information provided by Piedmont in response to Public Staff data requests pursuant to the parameters set forth in N.C.G.S. §§ 62-140, -142, and -153(b). (Ex. vol. 4, Perry Exhibit V.)

Public Staff witness Perry testified that the Public Staff believes the purpose of the volumetric rate component included in special and electric generation contracts is to provide recovery of costs related to existing LDC infrastructure and operations and to prevent subsidization of the contract customer by the LDC's other customers. The special and electric generation contracts are typically negotiated, and may be structured with (a) a demand charge that recovers the plant investment required to serve the customer, (b) margin and fixed gas cost components, (c) other negotiated volumetric components that provide system contributions, or (d) other contributions resulting from the contract terms that result in a benefit to the system. The volumetric rate component should be comparable with the type of volumetric contribution paid by both interruptible³ and firm⁴ tariffed transportation customers on the LDC's system. (Ex. vol. 4, Perry Exhibit V.)

Public Staff witness Perry testified that in the current instance the infrastructure costs to serve the existing facilities at the Lincoln Plant (Existing

³ "Service on an interruptible basis means that the capacity used to provide the service is subject to a prior claim by another customer or another class of service and receives a lower priority than such other classes of service." 18 C.F.R. § 284.9(a)(3) (2020).

⁴ "Service on a firm basis means that the service is not subject to a prior claim by another customer or another class of service and receives the same priority as any other class of firm service." 18 C.F.R. § 284.7(a)(3) (2020).

Facilities) have been fully recovered through a demand charge imposed under the 2004 Agreement that was approved in Docket No. G-9, Sub 491. According to witness Perry, Piedmont stated that the 2004 Agreement would simultaneously help preserve the reliability and affordability of electric service provided by DEC to North Carolina consumers and ensure that Piedmont's natural gas customers receive the load-leveling and margin benefits of this significant natural gas customer. The 2004 Agreement also provided for a **[BEGIN CONFIDENTIAL]**

[REDACTED]

[REDACTED]

[REDACTED] **[END CONFIDENTIAL]** on the

Piedmont system. Contrastingly, the Revised Agreement addressed **[BEGIN CONFIDENTIAL]** [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED] **[END CONFIDENTIAL]** The new pipeline facilities are designed to take delivery of **[BEGIN CONFIDENTIAL]**

[REDACTED]

[REDACTED]

[REDACTED] [END

CONFIDENTIAL] The Revised Agreement also provided that [BEGIN

CONFIDENTIAL] [REDACTED]

[REDACTED]

[REDACTED] [END CONFIDENTIAL] Public Staff witness Perry testified that the

Public Staff had concerns and began discussions with the Company due to the

fact that the Revised Agreement [BEGIN CONFIDENTIAL] [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED] [END CONFIDENTIAL] According to Public Staff witness Perry, the

Public Staff and Piedmont agreed to continue to work together to determine the

appropriate usage-based system support surcharges for the special contract and

electric generation arrangements filed by Piedmont. (Ex. vol. 4, Confidential Perry

Exhibit VI.)

Public Staff witness Perry testified that the Second Revised Agreement filed by Piedmont added a usage-based system support surcharge that was negotiated with DEC in order to address Public Staff concerns related to system contributions by the New Facilities. She further testified that the Public Staff was not consulted

regarding the specific methodology used by Piedmont to determine the usage-based system support surcharge prior to the filing of the Second Revised Agreement. Once the Second Revised Agreement was filed, and throughout 2019, the Public Staff sent data requests and reviewed the responses related to the new volumetric system support charge while discussions continued, including during Piedmont's general rate case proceeding in Docket No. G-9, Sub 743 (2019 Rate Case). Witness Perry testified that, based upon its investigation, the Public Staff found that the system support charge in the Second Revised Agreement [BEGIN

CONFIDENTIAL] [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED] **[END**

CONFIDENTIAL] (Ex. vol. 4, Confidential Perry Exhibit VI.)

Public Staff witness Perry testified that the Public Staff has concerns regarding the methodology chosen by Piedmont due to the fact that Piedmont has

[BEGIN CONFIDENTIAL] [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED] [END CONFIDENTIAL] (Ex. vol. 4, Confidential Perry Exhibit VI.)

Public Staff witness Perry testified that the Public Staff has continued to research and perform analyses on the methodology needed to determine the appropriate volumetric rate components for the New Facilities based on the type of electric generator – combined cycle (CC) or CT, the amount of plant investment required, the volume levels, the nature of transportation service – firm or interruptible, the location of the electric generator, prior negotiated electric generation agreements, and prior bypass agreements that were approved by the Commission when there were issues of negotiated volumetric charges. Witness Perry testified that the Public Staff stated that it has come to the following conclusions:

- a. A volumetric rate component should generally apply to all volumes flowing through the system to the electric generator when delivering gas on a firm or interruptible transportation basis; otherwise, the volumetric charge has a greater risk of not providing adequate system support.

- b. The methodology for determining the volumetric system support charge for (i) electric generation customers and (ii) special contract customers, who tend to have contracts shorter in length and will be returning to tariff rates once the incremental plant investment is recovered, may need to be different. (Ex. vol. 4, Perry Exhibit V.)
- c. The volumetric system support component for a CT electric generator may be different from a CC electric generator, primarily due to the fact that CT electric generators are typically utilizing interruptible transportation. In its research, the Public Staff stated that it has found that negotiated CT electric generation agreements usually include **[BEGIN CONFIDENTIAL]** [REDACTED]
[REDACTED]
[REDACTED]
[END CONFIDENTIAL] The Public Staff stated that this is consistent with the **[BEGIN CONFIDENTIAL]** [REDACTED]
[REDACTED] **[END CONFIDENTIAL]** reflected in the 2004 Agreement, as well as the **[BEGIN CONFIDENTIAL]** [REDACTED]

⁵ Docket No. G-5, Sub 517, Natural Gas Redelivery Agreement between Public Service Company of North Carolina, Inc. and Southern Company Services, Inc., d/b/a Southern Power Company - North Carolina, Article VII, Section B. Order Allowing Agreement to Become Effective issued August 25, 2010.

Docket No. G-9, Sub 491, Gas Redelivery Agreement between Piedmont Natural Gas Company, Inc. and Duke Power, Article II, Section 2.01. Order Allowing Contract to Become Effective issued September 3, 2004.

Docket No. G-5, Sub 398, Transportation Service Agreement between Public Service Company of North Carolina, Inc. and Carolina Power & Light Company, Section IV(A)(ii). Order Allowing Contract to Become Effective and Approving Accounting Treatment issued May 23, 1999.

██████████ [END CONFIDENTIAL] reflected in the Second Revised Agreement for [BEGIN CONFIDENTIAL] ██████████ [END CONFIDENTIAL] to the Existing Facilities. (Ex. vol. 4, Confidential Perry Exhibit VI.)

- d. Based on its research, the Public Staff has determined that the volumetric system support charge for a CC electric generator agreement may be higher due to the fact that CC electric generators are typically requiring firm transportation service, as well as creating more risk on the system with the higher volumes being delivered. The Public Staff stated it has found that other CC electric generation agreements usually include a [BEGIN CONFIDENTIAL] ██████████ ██████████ ██████████ [END CONFIDENTIAL] In past dockets, CC electric generator agreements may also have produced enough system benefits to customers in a general rate case from other contract terms, such as tax rates and approved overall return components that were no longer in effect following the conclusion of a particular proceeding. (Ex. vol. 4, Confidential Perry Exhibit VI.)

⁶ Docket No. G-5, Sub 559, Natural Gas Pipeline Construction and Transportation Service Agreement between Public Service Company of North Carolina, Inc. and Duke Energy Progress, Inc., Order Allowing Agreement to become Effective issued October 6, 2015.

Docket No. G-5, Sub 569, Natural Gas Pipeline Construction and Transportation Service Agreement between Public Service Company of North Carolina, Inc. and Duke Energy Carolinas, LLC, Order Allowing Agreement to Become Effective issued December 20, 2016.

- e. The Commission in past cases has also had to make decisions based on bypass situations when a large transportation customer was in close proximity to the interstate pipeline. In a case involving Owens-Brockway Glass Container, Inc., and Piedmont (Docket No. G-9, Sub 395), the customer did not want to pay a tariff transportation rate to Piedmont to redeliver gas when it was so close in proximity to the interstate pipeline. In that case, the Commission found that the proposed bypass was probable and, therefore, ordered the parties to continue to negotiate until they came to an agreed upon rate. The final negotiated contract included a **[BEGIN CONFIDENTIAL]** [REDACTED] [REDACTED] [REDACTED] **[END CONFIDENTIAL]** (Ex. vol. 4, Confidential Perry Exhibit VI.)
- f. Using the filed per books Allocated Cost of Service Study and revenue data reflected in the 2019 Rate Case, as well as the contract terms of the Second Revised Agreement, the Public Staff determined the operating and maintenance expenses assigned to Rate Schedule 113 – Large General Transportation (Firm) Service customers and the assigned volumes by customer class updated for the contract O&M and volumes and calculated an O&M per dt rate for firm transportation service between \$0.09 per dt to \$0.05 per dt,

utilizing reasonably representative load factors for the New Facilities. (Ex. vol. 4, Perry Exhibit V.)

- g. The Public Staff noted that the Commission has approved two other negotiated electric generation agreements⁷ in recent years prior to Piedmont filing the Second Revised Agreement. These electric generation agreements for [BEGIN CONFIDENTIAL] [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[END CONFIDENTIAL] on the LDC's system. These [BEGIN CONFIDENTIAL] [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED] [END CONFIDENTIAL] the Public Staff stated that it believes that electric generators on the Piedmont system are getting a better arrangement than they are getting on other LDC systems in the state. (Ex. vol. 4, Confidential Perry Exhibit VI.)

Public Staff witness Perry testified that the Public Staff has had discussions with Piedmont involving all of the points discussed above. Witness Perry testified

⁷ See footnote 4.

that although Piedmont does not have access to the volumetric rates that electric generators are paying to other LDCs in North Carolina for firm and interruptible transportation volumes that are delivered to electric generation facilities, the Public Staff and the Commission both have access to the rates. Witness Perry testified that in discussions with Piedmont the Public Staff stated that it has attempted to explain to Piedmont how other types of electric generation agreements in North Carolina are structured without divulging the confidential nature of the terms in the other electric generation agreements. (Ex. vol. 4, Perry Exhibit V.)

Public Staff witness Perry testified that the Public Staff, in the Public Staff Recommendations, made the following recommendations to the Commission:

The Public Staff determined that the terms of the Second Revised Agreement are not in accordance with the requirements of N.C.G.S. § 62-140 and N.C.G.S. § 62-153. The Public Staff recommends that Piedmont renegotiate with DEC for a [BEGIN CONFIDENTIAL] [REDACTED] [END CONFIDENTIAL] as reflected in the Second Revised Agreement, for the following reasons:

- a. The New Facilities include a [BEGIN CONFIDENTIAL] [REDACTED] [END CONFIDENTIAL] electric generation plant that will be utilizing [BEGIN CONFIDENTIAL] [REDACTED] [END CONFIDENTIAL] transportation service on Piedmont's system.
- b. The [BEGIN CONFIDENTIAL] [REDACTED]

⁸ There have been two special contracts that the Public Staff recently recommended approval of and the Commission subsequently approved that [BEGIN CONFIDENTIAL] [REDACTED] [END CONFIDENTIAL] The Public Staff further concluded that these special contracts were estimated to provide benefits that will flow to other ratepayers as determined in a fair and reasonable manner in a general rate case proceeding.

Piedmont's service territory, and (c) is generally a more reasonable and appropriate methodology [BEGIN CONFIDENTIAL] [REDACTED]

[END CONFIDENTIAL] The Public Staff believes its recommendation is reasonable given the [BEGIN CONFIDENTIAL] [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED] [END CONFIDENTIAL] Unless Piedmont renegotiates with DEC as set out above, the Public Staff recommends that the Commission impute [BEGIN CONFIDENTIAL] [REDACTED]

[REDACTED] [END CONFIDENTIAL] for the New Facilities in Piedmont's future general rate case proceedings when determining end of period and proposed revenues. In addition, the Public Staff recommends that Piedmont should be required to include the imputed revenues for the relevant period as a footnote in its GS-1 Reports. (Ex. vol. 4, Confidential Perry Exhibit VI.)

Public Staff witness Perry testified that the Public Staff recommends that the Commission issue the proposed order approving the Public Staff's recommendations, which is attached to the Public Staff Recommendations as Attachment A. (Ex. vol. 4, Perry Exhibit V.)

In response to cross-examination questions and Commission questions regarding whether the Public Staff's proposed volumetric rate is arbitrary, Public Staff witness Perry testified that her recommendation is not arbitrary because she is using the same methodology used by other utilities when calculating a similar contract rate that has been approved by this Commission. This methodology

utilizes the Company's filed cost of service studies inputs and historical volumetric charges reflected in all of the LDC's CT agreements approved by this Commission.

(Tr. vol. 4, 461.) On cross examination, Ms. Perry testified that **[BEGIN**

CONFIDENTIAL] [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED] **[END CONFIDENTIAL]** (Tr. vol. 4, 436.)

Ms. Perry further noted that **[BEGIN CONFIDENTIAL]** [REDACTED]

[REDACTED]

[REDACTED]

[END CONFIDENTIAL] (Tr. vol. 4, 435.) In addition, the question by the

Commission discussed an approach of using a fixed amount in the contract, like an inflated return. In the discussion, Ms. Perry testified that transparency was

important and she could not recommend approval of a contract with a high return like 18% in order to allow a fixed contract rate. In addition, Ms. Perry testified that

the volumetric approach made more sense due to the fluctuations in the volumes over 20 years with these generating plants, such that the customer is paying for

the use of the system and associated system costs as volumes ramp up or down over the contract term. (Tr. vol. 4, 459-60.)

Upon further questions by the Commission regarding how the Public Staff determined its volumetric charge, Public Staff witness Perry referenced a data

request response, which the Public Staff subsequently filed as its Confidential Late Filed Exhibit No. 2 on September 28, 2021. This data request response shows the

[REDACTED]

[REDACTED]

[REDACTED] [END CONFIDENTIAL]

(Tr. vol. 4, 437.) Witness Perry also stated that [BEGIN CONFIDENTIAL] [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED] [END CONFIDENTIAL] (Tr. vol. 4, 436.). Ms. Perry

further suggested that [BEGIN CONFIDENTIAL] [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[END CONFIDENTIAL] (Tr. vol. 4, 435.)

DISCUSSION AND CONCLUSION

The Commission finds and concludes, based upon all the evidence presented, that the Public Staff’s recommended volumetric rate is just and reasonable, appropriate and should be approved by the Commission. Accordingly,

⁹ Pursuant to the Stipulation, the Stipulating Parties agreed that, prior to the earlier of the Company’s next general rate case or its 2023 annual review of gas costs proceeding, the Company, the Public Staff, and any other interested parties, will undertake, report on the status of, and complete two studies. The subject of the first study is whether the Company’s current method of allocating its transmission plant assets to North Carolina and South Carolina is fair to each state’s customers in light of the fact that the Company plans for future supply and capacity resources based on a combination of both North Carolina and South Carolina demands. The subject of the second study is an updated regression analysis to determine a more accurate breakdown of system usage among customer classes and the North Carolina and South Carolina jurisdictions. In addition to the two aforementioned studies, the Stipulating Parties agreed that the settlement represented a good faith effort to attempt to implement the revenue apportionment principles discussed by Public Staff witness Jack Floyd in his testimony, but acknowledged that more analysis was required to gain a better understanding of the cost of service and the impacts the implementation of the Public Staff’s revenue apportionment principles would have on the changes in revenues and rates resulting from the current rate case.

the Commission concludes that Piedmont should renegotiate the Second Revised Agreement with DEC or agree to make the appropriate imputation in its future general rate case proceedings when determining end of period and proposed revenues. The Commission further concludes that, in the event Piedmont does not renegotiate the Second Revised Agreement, Piedmont shall be required to include the imputed revenues for the relevant period as a footnote in its GS-1 Reports.

ORDERING PARAGRAPHS

1. That Piedmont shall renegotiate the Second Revised Agreement with DEC or agree to make the appropriate imputation in its future general rate case proceedings when determining end of period and proposed revenues.

2. That, in the event Piedmont does not renegotiate the Second Revised Agreement, Piedmont shall be required to include the imputed revenues for the relevant period as a footnote in its GS-1 Reports.

3. That Piedmont is hereby authorized to continue to provide natural gas service to DEC on an interim basis pursuant to the Second Interim Order.

4. That, within 30 days from the date of this Order, Piedmont shall make a filing with the Commission advising whether it will renegotiate with DEC or will agree to make the appropriate imputation in its future general rate case proceedings when determining end of period and proposed revenues.