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

IN THE MATTER OF:

VOLUME II

Public Service Company of North Carolina, Inc.:
Application for a General Increase in Its Rates and Charges

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P R O C E E D I N G S

COMMISSIONER JOYNER: We're going to come on the record. Ms. Force, you may continue with your questioning, given the admonition of just prior to the break.

MS. FORCE: I understand.

CONTINUED CROSS-EXAMINATION BY MS. FORCE:

Q. I do have one follow-up question, Dr. Wright. You made some points at the end of our discussion relating to the Commission's surveillance report or the quarterly review.

Would you -- I think your point is that there wasn't over-earning in each of the quarters. And I'll agree with you that you've identified some quarters over-earning -- that when Piedmont -- the record didn't show that Piedmont was -- had a return in excess of the authorized rate of return.

But if you look at the reports, would you agree, subject to check, that there were cases when those surveillance reports showed that Piedmont's rate of return, as reported in their report, was greater than what the Commission had authorized in the last rate case?

A. (By Dr. Wright) Yes, there are some of those cases.

Q. Okay. I'm going to move on now. There's another component that the Commission looked at, and the experiment in that was the environmental programs. And is it -- isn't it true that you've proposed some programs that are actually different than what was proposed in the Piedmont case? Perhaps you don't even know what --

A. Environmental or demand-side --

Q. I'm sorry --

A. -- conservation programs?

Q. -- I said environmental. Energy conservation programs, I apologize. I've made that same mistake before.

COMMISSIONER JOYNER: Ms. Force, perhaps it would be better if you were to ask him about the programs that are being proposed here because, as you say, the witness's knowledge of the details of the Piedmont proposals.

MS. FORCE: That's fine.

Q. You've identified four reports -- four programs roughly, isn't that right, for -- that Public Service would carry out?

A. (By Dr. Wright) Yes.

Q. And when you made that proposal or suggestion in your testimony, at the time there were no programs already in existence, isn't that right, that were energy conversation type programs?

A. (By Dr. Wright) No. At the time the Company did have some energy conservation programs. The ones that I recall, without looking through all my notes, primarily dealt with customer education. And they had some low income weatherization and they may have had a loan program for some high-efficiency HVAC.

Q. Okay. Let me take it and -- apart. Are you saying that there were some programs in the last five years that were offered that were energy conservation programs?

A. (By Dr. Wright) They were not as specific or targeted as what we are proposing now, but yes, they do -- they do tend to support conservation and the wise use of gas energy.

Q. And would one of those programs be the -- for the installation of appliances or, like you said, HVI -- AC and that would be --

A. (By Dr. Wright) I believe -- I'm sorry. I believe they did have a -- some type of a loan program. It may have been targeted at low income, I'm not sure. I don't remember everything that they had. Maybe Ms. Paton might know.

A. (By Ms. Paton) Just to clarify, the existing program that we have is a -- purely a financing program. One of the components of that program is to finance weatherization and other efficiency measures.

Q. So one of the options for the consumer is to fund -- to seek financing, say, for -- what kind of water heater is it, the --

A. (By Ms. Paton) Tankless water heater.

Q. -- tankless water heater? But the same customer could also install a water heater that's not tankless or -- there's not a requirement that there be some energy conservation component, is there?

A. (By Ms. Paton) That -- no, that's correct. It's purely just financing.

Q. But you don't -- you didn't refuse to finance those sorts of expenditures by the customers under the program as one of the options? Those sorts being energy conserving type appliances, weatherization.

A. (By Ms. Paton) No. Like I said, that is one component of the financing program.

Q. And initially there was a funding amount suggested that was up to 3.1 million; is that right? Do I have the numbers right or --

A. (By Ms. Paton) 1.3.

Q. 1.3. Sorry. Dyslexic. The funding at this point is reduced to 750,000; is that right?
A. (By Mr. Addison) Yes.
Q. And that would be recovered as an expense in rates?
A. (By Mr. Addison) Correct.
Q. And have you taken a look at the programs that were implemented as part of the Piedmont experiment?
A. (By Ms. Paton) No. I don't -- we, in general, looked at the types of programs, but when we were planning to file our rate case, we decided that, partially based on some of the results that we saw, that we wanted to try to take a slightly different tact.

The one -- our one program, which I think is probably -- can be easily distinguished from what Piedmont has been doing, is to perform in-home energy audits where it is PSNC that would be doing the work, having the customer contact. And what we envision is being able to on the spot provide some remediation for the customer so that we will know that we have results.
Q. And so is one of the goals there, then, to be able to measure the savings that are achieved in the program?
A. (By Ms. Paton) Well, certainly we would be filing that type of information when we file for the programs for

approval, which is to be done within 30 days of receiving the Order. And that's one of the components that we still have yet to work out.

Q. And did -- were you aware that in the case of Piedmont the funding was considerably more than what you're talking about per year, more on the order of 1.25 million per year that was spent by Order or by agreement, and it was paid for by shareholders, not by the customers?

A. (By Ms. Paton) That's my understanding of reading the Piedmont Order, yes.

Q. Dr. Wright, in your -- on Page 5 of your testimony you said "The second reason to adopt revenue decoupling for a natural gas distribution utility is it more effectively supports the State's and utilities' efforts to promote energy conservation by removing the recovery of revenues from being dependent on sales volumes;" isn't that -- does that sound --

A. (By Dr. Wright) That sounds familiar. I'm trying to find the lines, but --

Q. Well --

A. (By Dr. Wright) Okay. I see it.

Q. Okay. Would it surprise you to know that Piedmont also based its proposal for a decoupling mechanism on a similar --

MS. GRIGG: Madam Chair, I'm just going to renew my objection on the relevance of the Piedmont case. This line of questioning -- again, this is our programs, our case, our witnesses were not involved in that proceeding.

COMMISSIONER JOYNER: I'm going to overrule the objection, but it is beginning to resinate with me, Ms. Force.

MS. FORCE: I understand. I don't have many more questions on this topic, but I do have a couple more. Well, actually, I would ask that the Commission take judicial notice of the report that Piedmont filed March 31, 2008, that's called "The Conservation Effectiveness Report of Piedmont Natural Gas Company" --

MS. GRIGG: I'm not --

MS. FORCE: -- by reference.

MS. GRIGG: Typically judicial notice is taken of court decisions, Commission orders, not necessarily a company filing. And it's -- and also renewing relevance.

And further on my objection, Commissioner Joyner, their programs are different programs. This is not Piedmont's case; this is not Piedmont's conservation programs and to argue what they've done or plan to do is irrelevant to our case.

MS. FORCE: Could I respond to that?

COMMISSIONER JOYNER: Yes, you may, while I read the statute.

MS. FORCE: Actually what I would ask is that the document be incorporated by reference as opposed to bringing in and providing copies. And it's actually for -- it's quite a long document, but it does contain some information that reflects what has occurred in that program, and I just have a couple of questions about that.

COMMISSIONER JOYNER: With respect to your request that the Commission take judicial notice, Ms. Force, are you withdrawing that request?

MS. FORCE: Well, actually, I meant to ask it as an either/or, either take judicial notice of it or incorporate it by reference.

COMMISSIONER JOYNER: I'm having a difficult time understanding the relevance with respect to your cross-examination of that lengthy report, particularly with respect to these witnesses who cannot rightfully be charged with having the knowledge of those filings.

MS. FORCE: The -- I guess the point that I think -- and you can judge -- that the point that I would like to address is the level of savings in Piedmont's case relative -- as a measure of the margin that they lost because of entering into energy conservation programs.

And there are a couple of questions that relate --

COMMISSIONER JOYNER: Why don't you ask the witnesses those questions and see if they can respond. And --

MS. FORCE: Okay.

Q. A couple of questions. And one is that you haven't begun the programs that you're proposing and don't plan on filing those until after issuance of the Order; is that correct?

A. (By Ms. Paton) That is correct.

Q. And so there is going to be a time lag between the time of the Commission's Order and the time when those programs would be up and running and causing energy efficiency gains to be achieved, isn't that so?

A. (Ms. Paton) That's correct. It would take us a month or two to get the programs up -- or certain of them to get up and running.

Q. And would it surprise you to learn that it's taken quite a long time for Piedmont to get the programs up and running in its case?

A. (By Ms. Paton) Again, I really am not terribly familiar with their programs. As I said, the -- with our energy audit program, that is something that we feel like we have at least a little bit more control on because we will have the staff. We can't control how customers respond to the availability of these.

Q. In the Piedmont case, would it surprise you to learn that the amount of margin that was lost as a result of one year program that -- amounted to less than $5,000?

A. (By Ms. Paton) I really do not know. I have no idea what their anticipation was from the programs. And I'm not aware that there was necessarily a correlation between what might be achieved or expected to be achieved from the programs with the implementation of the CUT. I mean, we -- our position is not that there's necessarily a one-for-one correlation at all, but that this is one means to remove a disincentive, to encourage conversation.

Q. Okay. Thanks.

MS. FORCE: I'll move on.

COMMISSIONER JOYNER: Thank you.

MS. FORCE: I apologize. I do have one more set of questions that concerns Piedmont's operation. Never mind. I'll pass on that. I'll move on.

Q. I have some questions that relate to the stipulation concerning the rate of return on equity that was stipulated. That could involve a couple of you, I guess.

Isn't -- is it true that the stipulated rate of

return on equity is 10.6 under the stipulation?
A. (By Mr. Addison) Yes.
Q. And the overall rate of return is 8.54 percent?
A. (By Mr. Addison) I'll accept that subject to check. I don't have that right in front of me.
Q. The stipulation indicates that the stipulated return on common equity is lower than what the Company would otherwise have agreed to had the stipulating parties not agreed, among other considerations, to the implementation of the customer usage tracker mechanism. Is that true?
A. (By Mr. Addison) Yes.
Q. However, the stipulation does not indicate how much, if any, the rate of return on equity was affected by the CUT, does it?
A. (By Mr. Addison) No.
Q. I'd call your attention, Mr. Addison, to the statement in your testimony on Pages 6 and 7 indicating that the CUT does not affect the needed rate of return on equity. And I'm looking at testimony that "In investors' view, the filing of the CUT does not significantly differentiate PSNC Energy from other companies in which they may invest." Is that a correct --
A. (By Mr. Addison) I think you just made two

different statements. Could you repeat the first one?

Q. Sure. Well, here's the statement: "In investors' view, the filing of the CUT does not significantly differentiate PSNC Energy from other companies in which they may invest."

Is it safe from that statement to say that the CUT does not affect the needed return on equity?

A. (By Mr. Addison) No, it's not safe to say that. The first line that you read from my testimony is about investors choosing whether to invest into PSNC or whether to invest into Piedmont or whether to invest into a lot of other companies.

I don't see it, in my experience, as being a significant differentiator as to whether they invest in company A or company B, whether you have a usage tracker or whether you have a weather normalization adjustment, et cetera.

Now, internal to us and among the parties that reached agreement in the stipulation, was it a factor that we all considered? Well, I can only testify to our case, our side, but I certainly know that it was something that we considered, so it was a factor there. But it's just not an issue that rises to be a big enough deal to an investor typically to decide whether or not to invest in one.

Now, it may be a factor that's considered overall around generally balanced regulation. That is considered by investors, but not in and of itself.

Q. Okay.

COMMISSIONER JOYNER: How would you like this identified, Ms. Force?

MS. FORCE: I'm sorry. I can't remember. We didn't pre-mark it. This would be -- could we mark it as Attorney General Cross --

COMMISSIONER JOYNER: Would this be eight? My notes reflect that you have had seven exhibits previously identified, so this would be identified as AG Cross-Exam --

MS. FORCE: That will be fine.

COMMISSIONER JOYNER: -- Exhibit 8.

(Whereupon, AG Cross-Examination Exhibit No. 8 was marked for identification.)

MS. FORCE: And just for your information, I had marked in my notes number ten associated with this, so if I say that at some point, it's a mis -- excuse me.

Q. I'll submit to you that this is a page that is taken from the Commission's quarterly review from -- the most recent quarterly review and identifies the page on which the Commission states the authorized returns on common equity and overall rates of return for various utilities that are published decisions in recent cases.

Are you familiar with the Commission's report?

A. (By Mr. Addison) I'm not.

Q. Okay. And I think we said -- we talked before, Ms. Paton, you've looked at the Commission -- you're familiar with the Commission's report?

A. (By Ms. Paton) Honestly, I did not realize that they reported other companies. I did not look through the whole report, I apologize --

Q. Well, I'll submit to you that this is --

A. -- for that.

Q. This is Page 11 of that report. And I'd also submit that the Commission's report itself says this isn't taken to be the whole factor that would be used to determine the appropriate level of rates of return, but it may be used as one factor for the Commission to consider when it's looking at its companies.

And I'd ask you to take a look at the authorized rates of return that are listed from those published decisions in the Commission's report. And isn't it so that the 10.6 percent rate of return on equity is not too different from what you see listed there?

A. (By Mr. Addison) I'm on the LDC companies?
Q. That's right. Yeah, I didn't mean to include the water companies in that.
A. (By Mr. Addison) I mean, it's certainly within this range, sure.
Q. It's not that different from what the electric companies are getting either in this report, is it?
A. (By Mr. Addison) It may not be, but that's probably more coincidental. I mean, that's a very different business.
Q. Okay. One of the factors that you mentioned, Mr. Addison, and that came up in Dr. Murry's testimony about the need for a high rate of return on equity was market instability; isn't that so?
A. (By Mr. Addison) Yes.
Q. And I think you also said that Public Service is a growing community so that it needs to go and seek capital even at times when the markets are unstable.
A. (By Mr. Addison) That's correct.
Q. And you mentioned the sub-prime lending industry and the threat of deflation and housing markets, the downgrading of ratings for bond insurance; isn't that right?
A. (By Mr. Addison) Yes.

Q. Now, from an investor's perspective, I don't -- wouldn't some folks who are retiring look at some of the other factors that are going on in the marketplace that make it unstable and look at a monopoly public utility as a pretty good bet at this point?

A. (By Mr. Addison) Well, it depends. I mean, that can be a factor that interests them, but it really depends on a much broader set of constructs. Principally, as I mentioned a few minutes ago, what the regulatory construct's like. What is the long-term view of how business is dealt with in that regulatory jurisdictions; are prudent decisions normally rewarded with pass-through on gas costs, are reasonable returns allowed, that kind of thing.

But, you know, frankly, most of our incremental investment doesn't come from retirees. The vast majority of our incremental investment comes from institutions, large insurance companies, major institutional holders, Fidelity, Vanguards, companies like that. While about half of our existing investment is held by individuals like you and I, possibly, not a lot of our incremental investment comes from that to expanding new customers because most individuals now vest through funds.

Q. And when you say our -- "most of our investors," are you talking about SCANA, the shareholder -- the parent corporation?

A. (By Mr. Addison) Well, either.

Q. Okay.

A. (By Mr. Addison) Either.

Q. But now isn't it true that Public Service is wholly owned by SCANA?

A. (By Mr. Addison) Yes.

Q. Okay. And I think you test -- maybe you testified that when investors look, they're looking at all of the different components of SCANA, so --

A. (By Mr. Addison) Well, they are, but Public Service also has its own separate debt --

Q. Ah, okay.

A. -- that institutions can buy into, so that's why I was offering both.

Q. Okay. And some of you may have attended public hearings. They were quite a few public witnesses who talked about the proposed rate increase and weren't very sympathetic about complaints about the rate of return on equity that Public Service is earning at this point --

MS. GRIGG: Madam Chair, is there a question or -- I'm hearing lots of statements and not hearing a question.

COMMISSIONER JOYNER: Well, let's let her finish, and if there isn't a question, your objection would be timely.

Q. I guess -- my question is would you have a response? Did -- I don't know whether you attended the hearings, but there were quite a few public witnesses who weren't very sympathetic about the request for a rate increase based on what y'all currently have, and would you have a response for them?

A. (By Mr. Addison) Well, I'm not surprised at that and I expect no one that's in this process is surprised at that. But the job of this Commission and what we attempted to reach through all the parties in this stipulation is something about a long-term view. And typically what you're going to hear from a customer in that arrangement is a short-term view, "I don't want my bill to go up next month."

However, if their bill doesn't go up next month when it's warranted in the eyes of investors, over the longer term it's going to cost them substantially more for that same safe, reliable service than it would have had it gone up at reasonable intervals where the investor can have confidence in the process. So it's a pay-me-now or pay-me-a-lot-more-later scenario.

I mean, it's cheaper for you not to change the oil in your car in the short term, but do it for 20,000 miles and it's going to cost you substantially more. And that's kind of the scenario that investors look at. If you don't get increases over a period of time, sure, the customer may have been better off in the short run, but they're not going to invest the capital to grow that business to reach new customers and to maintain the service to the existing customers.

Q. My question was really a little bit different than that. I think that there was some frustration expressed by customers that as investors themselves they weren't getting anywhere near that rate of return. And so that was more what I was asking you is if you have a response to that? There were several, I -- four or more.

COMMISSIONER JOYNER: Let's let him answer that.

A. (By Mr. Addison) Sure. I'm not surprised at that either. If they are investors, that they're disappointed with that. I mean, that's part of the regulatory lag that this mechanism we're attempting to minimize, as I said earlier this morning, to kind of create a bridge that helps minimize that attrition over time and potentially expand the period between rate cases.

Q. Okay. The stipulation set the capital structure

at 54 percent common equity; isn't that right?
A. (By Mr. Addison) That's correct.
Q. Now, that's higher than was proposed in the application, isn't it?
A. (By Mr. Addison) I believe it is slightly higher.
Q. Yeah. It was 54.75 percent.

MS. FORCE: I'm going to ask that this be marked Attorney General Cross-Examination Exhibit No. 9.

COMMISSIONER JOYNER: It will be identified as AG Cross Exhibit No. 9.

MS. FORCE: Thank you.

(Whereupon, AG Cross-Examination Exhibit No. 9 was marked for identification.)

Q. Does everybody have copies? I'll submit to you that this is a page from the most recent quarterly report, again, that shows Public Service's selected financial and operational data for the 12 months ending September 2007.

And if you look at Line 35 of the report, that indicates the percentage of equity for September 2007 and then 2006, 2005, 2004. And it looks to me from that information that the percentage of equity has been lower than 50 percent for most of the past years.

Is that a different calculation than what you're using when you go -- well, I guess I should first ask you is the 54 percent common equity, is that based on the actual percentage?

A. (By Mr. Addison) Well, the 54 percent was an agreement that was reached among the parties in the stipulation. It's an agreement based on all the factors considered in the discussion, just like all the other items were. Just like the return on equity, it's part of reaching consensus on the overall agreement.

Q. So is it -- I guess my question would be then that you're not -- you're not saying that the basis for the 54 percent is what the actual percentage is, it's what was agreed to?

A. (By Mr. Addison) It was what was agreed to, but it's not an unreasonable percentage. And you -- you know, you have these points in time that it was lower. Part of the reason it was lower was because of all the capital we've had to put into the business, that we funded out of the business to expand the system.

And I believe subsequent to the last date you have here, that I authorized in another injection of, I believe, subject to check, about $40 million subsequent to this just to get the ratios in reasonable balance to support the bond ratings of PSNC. And that was an injection of capital from the holding company down to

PSNC.

So it fluctuates over time, but I think you'll find that the 54 percent is reasonable based upon what's been ordered in this jurisdiction in the past.

Q. Okay. And -- again, going back to the point that the stipulation says that its approval -- the approval of the CUT is said to have influenced the agreement to the 10.6 percent return on equity.

Notwithstanding that, isn't it true that the impact of the CUT -- well, I guess -- I'm sorry. Take one step at a time.

Isn't it true that the impact of the CUT falls on residential and commercial customers?

A. (By Mr. Addison) The impact or benefit, yes.

Q. Okay. The impact or benefit. And the reduction in the rate of return on equity that appears in the stipulation was a significant part of the reduction in the overall revenue requirement; isn't that right?

A. (By Mr. Addison) Yes. If you isolate that one factor, the difference between what we requested in our application, it is a significant piece of the difference, probably the most significant piece.

Q. But if we look at Ms. Paton's supplemental testimony, Exhibit 3, that shows the percentage change that this rate case will prompt. And if you look back at her Exhibit 3 that was filed in the initial testimony, I'd submit that the percentage change from -- for residential customers goes from 3.29 percent -- initially would have been their increase -- to .32 percent; and similarly, the commercial goes from 2.1 percent initially to .32 percent increase.

But if you look at the percentage change for firm transportation customers, theirs initially would have had a 2.3 percent increase in rates, and it went down to a -4.12 percent. So in other words, their rates are going down.

MS. GRIGG: Madam Chair, is there a question?

COMMISSIONER JOYNER: I was about to ask that question, Ms. Grigg.

MS. FORCE: Okay. Yes.

COMMISSIONER JOYNER: It is?

MS. FORCE: There is a question.

Q. Isn't it -- wouldn't you think that from -- if the CUT had an impact on the determination of where the return on equity was ultimately -- where it ultimately went, that more of the decrease would have been allocated to residential and commercial customers in the stipulation?

A. (By Mr. Addison) Well, I understand your question, but I think it's oversimplifying the change that took place. You can't assume that the change from the 12 percent we requested to the 10.6 percent in the stipulation is attributable to the CUT.

Now, I can't tell you an objective number that the CUT is worth in return, but I can tell you it's a long ways from 140 basis points. It's not that change. And I think, if I followed your logic, you're attributing most of it to that.

Now, as to why some classes were slightly different than others, that's a rate design issue that I assume would -- it's not my expertise, but I would assume that's represented by all the parties at the table that have represented the different customer classes in coming to this comprehensive agreement.

Now, I generally know that the expansion of our system has been more costly for the residential and commercial classes than it is for the industrial classes since the last rate proceeding. So that may have been part of their methodology, but I don't know. That's the agreement that the various parties came to.

Q. But it is true that the firm transportation customers, anyway, are getting a rate decrease, although there was initially a proposal for a 2.3 percent increase, and the change for residential and commercial customers was not as great as that percentage-wise?

MS. GRIGG: Question? Is there a question?

MS. FORCE: I asked is it true at the beginning of --

COMMISSIONER JOYNER: She did.

MS. GRIGG: I'm sorry.

A. (By Mr. Addison) I'll accept that subject to check.

Q. Okay. This is the last few questions that I have. Are there -- there are alternatives to a CUT mechanism as has been proposed by the Company that would not provide full decoupling, are there not?

A. (By Mr. Addison) I'm --

Q. That's pretty open-ended, isn't it?

A. -- sure there are. I'm sure there are.

Q. For instance, you had a weather normalization adjustment and that made an adjustment for consumption based on weather?

A. (By Mr. Addison) Right.

Q. There are some utilities in this state, aren't there, that operate without a usage adjustment mechanism?

A. (By Mr. Addison) I do not know.

Q. Does Frontier have -- do you know --

A. (By Mr. Addison) I don't know.

Q. -- Ms. Paton, if Frontier has an adjustment --

A. (By Ms. Paton) It's my understanding that they do not. I would say that the little I do know about Frontier is they are a fairly different animal from either PSNC or Piedmont.

Q. Pretty -- a lot smaller. Similarly, there's -- I'm blanking out on the name of the utility that's served by Georgia. They don't have a weather adjustment mechanism either, do they, do you know?

A. (By Mr. Addison) The utility that's served by Georgia. What -- I don't understand the question.

Q. There's a utility in the western part of North Carolina that's served by the Georgia Municipal Authority through the --

COMMISSIONER JOYNER: Ms. Force, would that be Toccoa?

MS. FORCE: Toccoa, thank you.

A. (By Mr. Addison) I'm not familiar with them either.

Q. If you don't know, that's --

A. (By Ms. Paton) I don't know their particulars.

Q. In this case you're proposing 100 percent recovery of changes to volumes; isn't that right?

A. (By Mr. Addison) Yes.
Q. And, Dr. Wright, in your review of other states did you find some that had adopted partial mechanisms rather than full?
A. (By Dr. Wright) There are other mechanisms, yes.
Q. Looking at Public Service Company, PSNC, part of the rate already -- for example, for -- residential customers is recovered through the facilities charge, isn't that right, $10 per month; part of the margin?
A. (By Ms. Paton) That's correct.
Q. So if you go back to that first exhibit we had that says what the customer charge is, isn't it about $20 a month that's in the volumetric charge on average over the course of the year? Obviously not in January, but --
A. (By Ms. Paton) That is what is on your exhibit, yes.
Q. So if there were, for instance, a -- the same deferral, but a percentage of that deferred amount were recoverable through a true-up mechanism to assure, say, $5 through the true-up mechanism, that would bring the Company to an assured recovery of $15 per month on average over the course of the year? Do you follow me, as a cap or as a --
A. (By Ms. Paton) Actually, I --

Q. -- as an assurance?
A. -- do not follow you, I'm sorry.
Q. Okay. That's all right. You know -- let me put it this way. If there were some other sharing other than 100 percent true-up, maybe a 50 percent true-up or some other mechanism, that would also be an adjustment that would provide some additional assurance comparable to the weather normalization adjustment, but do it on a percentage basis rather than a hundred percent recovery, and that would be another option that would be available; isn't --
A. (By Ms. Paton) I -- we could probably come up with any number of variations and a theme here.
Q. And, in fact, in different states there have been different -- a number of different approaches, haven't there?
A. (By Ms. Paton) I am not -- the only other state with which I'm at all familiar is the mechanism that South Carolina has in place, which is called the Rate Stabilization Act. And it looks at all costs, everything.
It is more like a -- looking at a rate case. And they have a band. If they are 50 basis points either way from their authorized return, they will adjust rates either up or down. And that type of mechanism is

comprehensive. It is not looking just at sales volumes. It is looking at increased or decreased expenses, increased rate base as well.
Q. So it's not a usage adjustment or consumption --
A. (By Ms. Paton) That is one piece of what ends up being adjusted.
A. (By Mr. Addison) And I would just offer, if you attempted to make this a 75 percent or 50 percent mechanism, I would be hesitant to include the weather component in there. I mean, to say to a customer you're going to adjust their bill for half of the impact of weather, I don't -- we can get it right, but we're going to get it half right, I don't quite understand how we would communicate that to customers. That doesn't make sense to me.
Now, if you were just trying to adjust non-weather -- non-weather data, just dealing with the efficiency, maybe I understand where you're headed theoretically, but I think that would be dangerous from a customer's perspective to try to adjust a portion of the weather impact.
Q. In any event, to the extent that the Commission finds that there's too much risk for the Company by leaving rates without any recovery mechanism, just at $10

a month for the residential, plus the volumetric charge, it could adopt a mechanism that allows recovery of part, but not all, to provide some assurance of recovery to the Company; isn't that so?

A. (By Ms. Paton) I may have to defer to legal counsel on this one, but our position certainly in the stipulation is that this is -- this is a negotiated settlement that all the parties agreed to. And certainly, as Mr. Addison said, absent some of the other considerations, that the 10.6 ROE would not have been something the Company would have necessarily agreed to.

I don't know that -- we certainly didn't look at other variations, quite frankly. Piedmont had had the CUT a year before us. It was a mechanism that was straightforward and we did look at that. We also looked at the Rate Stabilization Act in South Carolina and we realized that that was perhaps not the better way to go in North Carolina. And the legislation was passed that enabled the CUT mechanism.

And I would say that there's not really evidence in the record that would support some variation on the CUT. I mean, the point that Mr. Addison made is dead on, that the weather is such a big impact, that unless there is some effective way to strip out weather from the rest of your usage, is that -- that just would not work.

Now, certainly, you know, the Commission is -- anything they decide, we will accept that Order or --

COMMISSIONER JOYNER: Not.

A. -- or not. But I would just say that given the circumstances we have here, this is what the majority of the parties have agreed to based on the evidence, based on the study and analysis that the various parties have done.

You know, I'm not aware of any other mechanism that has been put forward by any party in this proceeding that would be something that the Commission might have enough information on to necessarily make a decision.

Q. Okay. I have one final question. If it were to turn out in further examination of how the mechanism works after you've had some experience with it, that it turned out that a lot of the deferrals occurred in the winter months and that the rate increment associated with the CUT is high in the summer months relative to the increment in the winter months, that would indicate, would you agree, that costs from the rates during winter are being shifted to users in the summer?

That had several steps. Do you want me to go through it again?

A. (By Mr. Addison) Well, that -- if I understood your question, that would presume that the rates initially were designed so that there was complete balance between the theory and the practice of how the costs were incurred. And I'm not sure that's necessarily the intention of the parties with the base rates.

For example, I believe that the actual fixed costs associated with serving a customer are substantially higher than $10, but we don't set basic facility charge at a rate higher than that at this point. So I think it's a little bit dangerous to pick one item and assume it needs to be tweaked just because it causes a change like that because the base you're starting from may not be perfect either.

Q. If it turns out over time that the increment that applies during the summer rate -- for rates during the summer is significantly higher than the CUT rate that applies during the winter months, would that be something that would cause you any concern in terms of how appropriate the true-up mechanism is?

A. (By Mr. Addison) What interest me out of this from my role with the Company is more stability, less volatility and therefore a lower cost in the long term to our customers while maintaining a reasonable profitability.

If there's something that comes out of this -- we've already had a pilot that's somewhat applicable, I guess. If there's something that comes out of this that has unintended consequences for the long-term health of our customers, then we're going to be open to changing that. We don't see what that is at this point.

Q. Okay.

MS. FORCE: I don't have any further questions.

COMMISSIONER JOYNER: Redirect, Ms. Grigg?

MS. GRIGG: Three very brief questions.

COMMISSIONER JOYNER: I won't hold you to that.

MS. GRIGG: You may.

MS. PATON: I will.

MS. GRIGG: She will if you don't.

REDIRECT EXAMINATION BY MS. GRIGG:

Q. Ms. Paton, per the stipulation, will residential customers see an increase in the basic facilities charge?

A. (By Ms. Paton) No. The parties agreed to leave it at the existing $10.

Q. And what is the overall rate increase agreed upon in the stipulation?

A. (By Ms. Paton) The -- well, the dollar amount is approximately 726,000 -- that may be an 8 -- 728,000 --

Q. Close enough.

A. -- or .11 percent increase.
Q. And how much does that increase translate into for the average residential customer?
A. (By Ms. Paton) For an average residential customer, it is approximately $0.28 a month, approximately $3.30 a year.
MS. GRIGG: Thank you. Nothing further.
COMMISSIONER JOYNER: Questions from the Commission? Where are we going to start? We're going to defer to the Chair to start.

EXAMINATION OF MS. PATON BY CHAIRMAN FINLEY:

Q. Ms. Paton, I want to ask you some questions about the offset to fixed gas cost on 70 percent percentage of credits for the secondary market transactions.
A. Yes, sir.
Q. I want to ask you first about three numbers to see if those three numbers sort of represent the same thing. And they seem to be a bit different, if you can straighten us out on that, please.
I'm looking first at your supplemental testimony, Page 206, Line 10.
A. Yes, sir.
Q. The 8,376,707.
A. Yes, sir.

Q. And if you would look at the Stipulation Exhibit A, Line 6, Column B, the 8 million 303 [sic].
A. Which line?
Q. It looks like it's --
A. The 8 million 301?
Q. Yes. And then one more, Stipulation Exhibit G down there at the bottom, "Authorized [sic] Secondary Market Credits," 8 million 028.
Are those meant to be the same general number and how are they different --
A. The --
Q. -- if they're not?
A. You've truly stumped me on the difference between Exhibit A and the stipulation amount.
On Exhibit G, I think the main difference is that on Exhibit G that is a cost amount. And when you're doing your revenue requirement calculation everything is going to get grossed up for the reg fee and I think an uncollectibles component, too. It's a gross-up factor.
Q. Okay.
A. You've -- like I say, the difference between the 8 million 3 numbers, the -- if -- the column on Exhibit A, the Column D, the 8 million 3 that is referenced in my testimony is a piece of that. What's happened in the

Column B is just to get everything on an equal footing end-of-period basis. So those are two slightly different numbers.

Q. Okay. Now, the rates that Public Service is presently charging that were established in the last general rate case, were they established where the fixed gas costs were offset with this credit for secondary market transactions?

A. No, sir, we did not do that in our last proceeding. We have consistently, for the last several years anyway, in our prudence reviews, we have ended up with an over-collection on the all customers deferred account, which is in large part due to those secondary market credits.

And what we decided to do this proceeding is let's go ahead an impute those credits in at the beginning of the period so that the rates that customers pay during the year are lower in recognition of the fact that we do expect a level of secondary market credits.

Q. Okay. And the level of secondary market credits that you expect, is that based on an adjusted test year number?

A. This was our actual -- the 8 million was actual what we had in the test year 2007. I believe six months, end of July, was probably the last number I looked at and we were on target to be at approximately that same level, perhaps a little higher.

Q. So you feel pretty confident that you will experience that into the years ahead?

A. We would be hopeful of that, yes. And just again, these are -- because these -- this is the fixed gas costs that does get trued up, to the extent that we earn -- that we do earn more on secondary market credits or don't achieve quite as much, that is trued up through the -- to the all customers deferred account.

Q. Okay. So you're not concerned that if you don't get this money that you're going to cut yourself short for your revenue requirement in the future?

A. No. The cost of gas is a pass-through completely. It's -- the margin increase is separate and apart from that.

Q. Your percentage of the secondary market transactions that we're talking about here is the 75 percent?

A. This is the 75 percent, yes.

Q. And of course you understand that that's a ratio that the Commission has established, correct?

A. Yes, sir.

Q. And it has been different than that in the past?
A. Yes, sir.
Q. And it could be, based on the Commission's orders, changed in the future?
A. Yes, sir.
Q. All right.

CHAIRMAN FINLEY: That's all I have. Thanks.

COMMISSIONER JOYNER: Commissioner Culpepper.

EXAMINATION OF MS. PATON BY COMMISSIONER CULPEPPER:

Q. I want to ask you about this temporary rate increment of -- I guess it's .136 cents per therm that comes out of that adjustment that we did to the standard value rate some time ago.
A. Yes, sir.
Q. You say it's temporary. How long is it going to be in --
A. It is --
Q. -- effect?
A. The calculation is based on it being in place for a year. And what we will do is each month track what we have recovered and, you know, compare it against the balance that's in the account now.

It may be 10 months, it may be 13 months, but what we would do is just monitor the collections and at the end

of probably a 12-month period if there is a -- if we've over-collected or even under-collected, that would be flowed through the, I believe, probably the sales customers deferred account. But we do intend to monitor it to try to sync it up to the exact dollar amount there.
Q. Okay. I couldn't -- all of what you just said there, I couldn't find that in the tariff sheets or anything like that.
A. You're correct. We did not spell that out. That was something that the staff and I had some discussions afterwards, that we realized we had not really addressed that in the settlement itself.
Q. You're going to be filing --
A. That is the intent.
Q. Excuse me, I'm sorry to interrupt you.
A. Yes.
Q. Is it the intent of the Company to file monthly reports about this matter so the Commission will know where we are?
A. Yes, sir. That would probably be part of the -- just the normal monthly deferred account filing.
Q. Well, since you mentioned deferred accounts, how are they handled with respect to the stipulation? I am under the impression that they are not dealt with -- the

deferred account balances are not dealt with.

A. No, sir, they were not. You may recall that our prudence hearing has been delayed. It normally would have been earlier this month and has been delayed until October.

We would -- had hoped that the two orders could be coming out around the same time, but that just didn't happen. The intent, I believe, in the prudence hearing would be that whatever balance is determined in that hearing, we would use the fixed gas allocations from this proceeding to determine any necessary -- I believe it would be a decrement for the all customers deferred account in the prudence case.

And in the meantime, we do have a -- we have temporary decrements in place right now that would just remain in place until they were -- until new ones were set in the prudence.

Q. Okay. So we're going to address that later on, all of that --

A. Yes.

Q. -- in the prudence proceeding?

A. Yes, sir.

Q. Okay.

COMMISSIONER CULPEPPER: Thank you.

COMMISSIONER JOYNER: Commissioner Owens.

COMMISSIONER OWENS: Yes, Madam Chairman. First thing I would like to do is compliment the parties on stipulating.

I would like to say that I'm most impressed with the first point on your customer education point as to your energy conservation. I think it's a first good step.

I think there's a mass lack of knowledge and interest in the energy conversation points we're using today. I hope you're not just going to send out a letter and say we're going to -- this is what we would like for you to do and let it drop at that because I think you have a golden opportunity to move forward as to educating your customers as to energy conservation.

I think really the weakest link we have in our energy problems today is lack of knowledge, lack of interest, lack of education. We can sit here and talk facts and figures, statistics all day long, but until we get the people attuned to energy conservation, then we're going to be right back here just about every year or three years. But I do appreciate you stipulating.

MS. PATON: Thank you.

DR. WRIGHT: Commissioner Owens, if I might address that, and Ms. Paton can add to this. I've been involved on demand-side issues for a number of years, and when I started working with the Company on theirs, I was very impressed with the fact that they had actually gone out and done surveys of other companies and tried to over a period of time gather the best programs.

And you hear about these customer education programs, and I thought -- similar to what you were just saying, at first I thought that, well, they're going to send out fliers and maybe put ads in the newspapers, but they came up with something very innovative, which was their -- their approach to going to the schools.

And something that I have found out from a survey that energy corporation had done was that most people get their information -- most parents, rather, get their information about energy efficiency from either the news media or their kids. And so this program sort of dovetailed in with that and they're actually going to promote an in-school education program carried on by a national company that does this, and they're number one in the country for doing these types of programs.

And it's a -- I think it's a really good way because I know when I was a parent I got a lot of my education from my kids on stuff like this. So Ms. Paton may have something to add on that, but I thought it was very innovative.

MS. PATON: I would agree. We saw a video of this company, and that is what they do. They go across the country and they will personalize, if you will, their program depending on whether it's a, you know, gas utility, a electric utility, water, that kind of thing. I was very impressed with it.

CHAIRMAN FINLEY: Now, Mr. Wright, you said when you were a parent. How do you keep from becoming a parent? I'd like some lessons on that.

COMMISSIONER ERVIN: Or maybe the better question would be how do you stop being one short of the death of your children?

DR. WRIGHT: Well, I am still a parent. And I had hoped when my senior graduated from college that she would be off the payroll. That has not happened yet in the last two years, so I am still a parent and she's still on the payroll.

CHAIRMAN FINLEY: That's what I was afraid you we're going to say.

COMMISSIONER OWENS: Maybe I would like to follow up on that. I think this is an excellent idea and I've seen a couple of little issues with our governor talking to kids about water conservation and the drought.

But this education thing in the school you're talking about is very interesting and it's innovative and I think this is a good way to go, and I certainly commend you as one Commissioner.

COMMISSIONER JOYNER: Thank you. Commissioner Ervin.

EXAMINATION OF MS. PATON BY COMMISSIONER ERVIN:

Q. All right. Ms. Paton, let me follow up first on some of the questions that Chairman Finley asked you with respect to the secondary market transaction impact on the stipulation that you've got before us.

I think you told him that what you had essentially done was take an estimate of what you anticipated would be the customer's share of secondary market transaction revenues and move it into fixed gas costs?

A. We use the actual secondary market quotas from 2007 as basically a proxy for an annual level going forward.

Q. Now, under the prior orders of the Commission and the practices that have been followed since the adoption of the 75/25 split, there has generally been a temporary rate decrement in effect resulting from the Company's involvement in secondary market transactions, right?

A. That's correct.

Q. Now, what happens to that decrement if we approve the stipulation and you have this actual amount incorporated in the calculation of fixed gas costs for base rate purposes?
A. The --
Q. I'm just wondering whether we're sort of moving, you know -- I'm wondering whether there's any actual effect as compared to just transferring a rate reduction from a decrement to a reduction in the amount of costs --
A. Well --
Q. -- or level of costs used to calculate base rates.
A. The -- by going ahead and imputing upfront, if you will, the secondary market credits, the customer should get the benefit realtime at -- you know, during a 12-month period of those credits rather than waiting for the prudence review when you've got an over-collection in that all customers deferred account and then putting the decrement in.
Q. But subject to that timing difference, it doesn't seem to me that you're going to wind up with, you know, in terms of absolute amounts paid by customers, a big difference because, you know, what you've done is you've taken -- you won't see as big a decrement in the future as you have in the past, but you'll see a lower level of cost

used to calculate base rates, right?
A. That's correct. It's the same end place, if you will, but it's just more timely recovery of those credits.
Q. All right. Let's look, if we could -- maybe the best way to do this is to look at the Exhibit E to the stipulation. And I'm looking at Page 1 of 25, which is the summary of rates and charges.
A. Okay.
Q. And in no -- we've got several questions about this and in no particular order. Let's look at the proposed rate changes for Rate Schedule 101.
Looks to me like we've gone from about a four, four and a half cent summer/winter differential to a six.
A. Yes, sir. This is -- hindsight is 20/20. We probably could have presented these a little better. The --
Q. Well, I mean, I'm not --
A. No, no.
Q. -- really concerned --
A. But no, I was --
Q. -- about the presentation. I guess my ultimate question is what's the theory behind the change?
A. The rates that are stricken through are the rates that were --

Q. That the existing base rate -- the existing --
A. Existing -- existing --
Q. -- clean rates --
A. No, no, no, no. They are the existing billed rates.
Q. Billed rates, okay.
A. They are the billed rates. So the reason that you have something other than the six cent difference between summer and winter is because of the decrements that are in those rates. Trust me, in the future we will compare clean rates to clean rates.
Q. All right. So there is not a change for clean rate purposes in the summer/winter differential between this case and the Order on reconsideration?
A. It will still be the six cent differential --
Q. Okay.
A. -- but it will be summer and winter, yes, sir.
Q. All right. So there is no change?
A. That's correct.
Q. All right. If you look at Rate Schedule 125 -- and again, this may be --
A. The schedule itself or the --
Q. No, I'm sorry, the rate.
A. The rate, yes, sir.

Q. Let's stick with the rates. I'm not going to try to parse the schedules. I've done that in the past and I've never found that to be a particularly profitable undertaking.

If you look at the proposed rates as compared to the existing rates, it looks like the differences in the blocks are lower in the stipulated rates than they are in the current rates. Is that also due to the -- the word on the tip of my tongue was discrepancy. I don't think that's the right and the correct word, but is that due to the clean rate/billed rate difference that you -- and you talked about some --

A. That is part of it. And I would have to probably refer back to the file in which the rates were actually designed. Part of it is just --

Q. I mean, are we attempting -- are we attempting to flatten the blocks or --

A. Well, you're -- the attempt was basically to still have three steps given a certain dollar amount you were trying to get out of those volumes.

This is -- it's about a nickel -- I think we were still trying to keep close to a nickel, but it just -- it -- couldn't get exactly there trying to spread the set amount of dollars over those volumes.

Q. So, again, there's no real attempt to change the design --
A. No, sir.
Q. -- of the rates?
A. No, sir.
Q. It may be a rounding issue or a rev -- a marginal revenue issue?
A. Yes, sir.
Q. With respect to the -- and you've had this discussion a little bit with Commissioner Owens and with some others. With respect to these conservation programs, why were they not filed as part of the Company's original case?
I mean, and I ask that because it frankly would be easier to evaluate the thing in a whole --
A. It would.
Q. -- if we could see the programs.
A. Part of it was because with the uncertainty, I guess, if you will, of whether or not the CUT mechanism would be approved. We may have wanted to change some of those programs, go off in different directions or scale back on the magnitude of them.
A. (By Mr. Addison) And Commissioner, if I could just talk for a little additional. I think part of it,

too, was some of the research was still ongoing and we certainly sought from the beginning to reach a stipulation, an agreement among the parties and were looking for input from the other parties as well during the process.

But we have committed, as you can see, to a real timely turnaround of filing of these --

Q. But in all honesty, the position I'm in is kind of approving something without knowing what I'm approving. And I have a little bit of a problem with that --

A. (By Mr. Addison) Appreciate that.

Q. -- just to get my concern out on the table.

A. (By Mr. Addison) I understand.

<u>CONTINUED EXAMINATION OF MS. PATON</u>:

Q. With respect to the funding for these programs, that would be an amount of money that's include -- the $750,000, that is included in calculating base rates, right?

A. Yes, sir.

Q. And it's not going to be tracked, it's not going to be trued up, it's just an amount that's included in the cost of service for purposes of establishing the Company's revenue requirement?

A. That's correct.

Q. In the original case that was filed, I believe this was in your Exhibit 4, Ms. Paton, there were some proposed -- high -- there's a proposed Rate Schedule 102 --
A. Yes, sir.
Q. -- which was a high-efficiency residential customer rate and a similar rate that was denominated 127 for commercial customers.
A. Yes, sir.
Q. What happened to those?
A. That was, again, part of the negotiated settlement.
Q. Well, are we going to see those again?
A. Yes. They will be filed within the 30 days. The main, I guess, difference of opinion, if you will, was the recovery mechanism for those. They -- the discount that will be given is part of the 750,000 included in the cost of service.
Q. If you look at Section 15 of the stipulation, which deals with AFUDC calculation --
A. Yes, sir.
Q. -- do you see that? The paragraph or the section that I've drawn your attention to describes, at least in part, how AFUDC would be calculated for and after

November 1st.

Would there be -- would that number, once it was determined as of November 1st, remain constant until the next rate case or would it change?

A. I have to confess, I do believe that it remains constant until the next rate case. I'd --

Q. If you find out that that is different --

A. I would have to check --

Q. -- would you --

A. Yes.

Q. -- let us know?

A. Yes.

Q. On Page 6 of the stipulation in paragraph B, with it being part of Item 12 dealing with matters that -- amortization issues.

The stipulation provides that there would be an amortization over a three-year period of $2,287,037 in pipeline integrity management costs.

A. Yes, sir.

Q. Similarly, in paragraph A you've got an amount of $3,494,563 in manufactured gas plant costs, which I assume are also, in whole or in part, amortized and that that amortization is reflected in the rates that have been proposed here?

A. Yes, sir.

Q. The stipulation does not address whether the existing manufactured gas plant mechanism that's been approved in the past would continue. Would it?

A. I believe that is the intent of continuing this treatment, that those costs are -- we do defer those. And in our last rate case proceeding we proposed to defer the -- excuse me, to amortize over a three-year period the then existing balance and are again proposing to do that here.

And you're right, it was not spelled out that that accounting would --

Q. We're not to infer from this that you have completely remediated all manufactured gas --

A. Oh, no, sir.

Q. -- sites?

A. No, sir.

Q. So that we can assume in future rate cases we might see something with the same label in the future?

A. Most likely.

Q. Similarly, the stipulation, I think, does say with respect to pipeline integrity management costs that the process that's been previously approved will continue in effect. Am I reading that correctly?

A. Yes. Until the resolution of PSNC's next general rate proceeding. I believe it was everyone's intent in our last case to at some point reach what we felt like was a reasonable ongoing level of costs to include so we didn't have the deferral and the amortization.
Q. But we're not through with pipeline --
A. We're not there yet.
Q. -- integrity management either, right?
A. No.
Q. Okay. If you look at Page 3 of the stipulation, in paragraph A at the top of the page, which I think is the first part of paragraph three, but it's -- we begin to see a calculation for throughput for purposes of setting rates in this case; is that right?
A. Yes.
Q. How do those numbers compare to the numbers from the last rate case, do you know?
A. Subject to check, I think the 748,000 number there was approximately 723, but --
Q. So the --
A. -- subject to check.
Q. Well, I mean, I guess -- I mean, I'm hearing you say then that you actually had a slightly lower figure for adjusted end of period sales and transportation volumes in

the last rate case?
A. In the last rate case, yes.
Q. All right. And you don't have any recollection of what the breakdown between sales, transportation and special contracts would have been?
A. I do not. Yes, I do not, sir.
Q. Okay. In your prefiled -- in exhibits attached to your prefiled testimony, you contain -- you had a number of exhibits that reflected the results of the Company's cost of service analysis --
A. Yes, sir.
Q. -- which I think were five and six --
A. Five, six and seven.
Q. -- and maybe seven. I did not see any equivalent exhibits for the stipulated rates. Am I missing something?
A. You are not missing anything. We did not file --
Q. Well, I've missed plenty of things, but if that information is in --
A. You did not miss that.
Q. -- the record, I just didn't see it.
A. We did not file revised cost of service studies. You may recall some of my conversation with Ms. Force was that in the negotiation we did not all end up agreeing to

a particular cost of service methodology --
Q. I've been --
A. -- through allocation --
Q. -- trying gas rate cases and so forth or another since '91 and I've never seen anybody agree on how to --
A. Yeah.
Q. -- do one yet, so I would be very surprised to hear that there had been unanimity on that subject.
A. So, no, we do not have sort of after the increase agreed to cost of service allocation.
Q. I mean, recognizing that the Public Staff and probably CUCA would not -- or the Attorney General would not do cost of service analysis the way that it was done in your original exhibits -- and to be honest with you, I haven't -- I'm not sure I know fully how you would resolve all the issues that were typically disputed in that type of analysis.

Using the approach that was contained in your prefiled exhibits, where do we wind up? I mean, and I recognize other people may disagree with the approach, but it just would be helpful to me to know what the results were under the stipulation as you've presented it to us, which I guess would be something along the lines of the equivalent -- of an equivalent exhibit to No. 7.

A. No. 7.
Q. I know the overall rate of return --
A. Overall --
Q. -- would be lower --
A. -- would be lower --
Q. -- and, therefore, presumably all these others would be lower too, but --
A. They would all be lower. I believe if you looked at the -- the industrials were the -- some classes or some rates got no increase, some got a decrease.
The transportation -- you've got a little bit of a mismatch between -- we show industrial firm and industrial interruptible, so you have sales and transportation mixed, but the -- I would expect to see some downward pressure on the industrial returns because we did agree to hold certain rates constant and to lower some other rates.
Q. Have y'all actually done an analysis under the stipulated rates of the type that's shown on Exhibit 7?
A. I -- the Company has not. Now, whether any of the other parties have, I do not know.
Q. Well, can't ask you to -- can't ask you to tell me what somebody else did, just want to know what you did.
A. We've not done one.
Q. Again, for future reference in looking at

stipulations of this nature, it would be helpful to me to see that.

A. Okay.

COMMISSIONER ERVIN: All right. That's all, Madam Chairman. Thank you.

COMMISSIONER JOYNER: Other questions from -- Commissioner Culpepper.

FURTHER EXAMINATION OF MS. PATON BY COMMISSIONER CULPEPPER:

Q. I want to make sure I understand the best I can the handling of this secondary market credit in this case of which, for the purposes of you and I talking, I think the actual experience during the test year was approximately $8.3 million; is that right?

A. The actual secondary market credits that were recorded in the all customers deferred account for 2007 was the 8.1 million that shows on, I think it was --

Q. All right. I tell you what, let's just talk about $8 million.

A. Eight million.

Q. Let's you and me talk about --

A. There you go.

Q. -- $8 million, okay. Now, that was what actually took place during the test year?

A. Yes, sir.

Q. And it was -- it was accounted for, shall we say, in the all customers deferred account?

A. Yes, sir.

Q. Now, what the proposal is pursuant to the stipulation is that we're going to take that item and we're going to put it in the base rates?

A. Yes, sir.

Q. Okay. Now, suppose we do that and the first year after the rate -- the new rates are in effect, the rate case order is in effect, the actual experience of the Company is not $8 million, it's something like $7 million, who bears the risk of that, if there is any risk, and the million dollars being shorted, shall we say?

A. All other things being equal in that deferred account, there would be a slight increment to the fixed gas cost rate for that under-recovery, if you will, of our fixed gas costs.

Q. Okay. So the situation is, is that it's not totally going to be removed from the deferred accounting situation, it's just that there's a figure that's put in base rates and if there's an experience that's either under it or over that amount, then that's going to be trued up in the all customers account?

A. Yes, sir, that's correct. That's correct.

Q. Okay. All right.

COMMISSIONER CULPEPPER: Thank you.

COMMISSIONER JOYNER: Other questions from the Commission?

EXAMINATION OF MS. PATON BY COMMISSIONER JOYNER:

Q. There is one issue that I am interested in, Ms. Paton. I think I am directing this to you, but gentlemen have never been hesitant today to answer for you. They're bold.

In your discussions with Ms. Force, you -- and in your direct testimony, you indicated that the customers will see the CUT on their bills in April and October, on April 1 and October 1. And I think I heard you say otherwise they're going to find out about it when the Commission issues an Order, if the Commission approves implementation of a CUT. Did I misunderstand your testimony?

A. Commissioner Joyner, it is my understanding -- and I have not looked that closely at what Piedmont's practice has been, but it is my understanding --

Q. Now, I want to stay away --

A. Well, I know --

Q. -- I want us to stay away from them --

A. -- but just --

Q. -- for purposes of your discussion with me.

A. My understanding is that we file for an increment or decrement two weeks prior to the April 1st and October 1st like we do with a benchmark.

We, I do not believe, typically do any advance -- I mean, first of all, it's a short turnaround on whether you're going to be filing and what that number would be, that there would not be advanced notice to the customers, be a bill insert or anything else. That what we normally do is benchmark changes, and with any change from the CUT mechanism would be on that first bill cycle. When the change went into effect, there would be a bill message saying that rates have been adjusted by X amount pursuant to Commission Order and the appropriate docket.

Q. So as you sit here today, you don't contemplate a notice of the sort that would explain the CUT to customers?

A. I do believe that once we have an Order in this proceeding, we will have a rather lengthy bill insert that explains the findings of the Commission in this proceeding. And it would most likely -- I would expect to see a discussion of the CUT, but as far as the April and October changes, that would be a notification of the per therm rate impact approved.

Q. So as you envision this playing out today, if the Commission were to approve implementation of the CUT for your company, when you provided customers of the notice -- of the effect of our decision, it would be at that point that there would be a description of that mechanism?

A. I think that would be the best place to try and do it, yes. I think that's probably something that -- I can't remember if that's one of the items that gets filed beforehand with the Commission or if you all just issue that notice for us to publish. I don't remember the particulars on that.

Q. And I don't recall that either, but I'll figure out the answer to it sooner, I think, rather than later.

COMMISSIONER JOYNER: That's all I have. Questions on the Commission's questions? Attorney General?

MS. FORCE: No questions.

COMMISSIONER JOYNER: Public Staff?

MS. GRIGG: No, ma'am.

COMMISSIONER JOYNER: Ms. Grigg?

MS. GRIGG: Thank you.

COMMISSIONER JOYNER: Commissioner Ervin opines that the reason there is no follow up is that our questions were such good questions. That's Commissioner Ervin's view.

The matter of exhibits. Ms. Force, you have a number of exhibits.

MS. FORCE: Thank you for the reminder. I'd move the admission of the Attorney General exhibits -- I think we were at 1 through 9.

COMMISSIONER JOYNER: Actually, they started at 1.1 through Exhibit 9. Ms. Grigg, did you wish to be heard with respect to --

MS. GRIGG: No additional objection, other than those made in the proceeding today.

COMMISSIONER JOYNER: Okay. Those exhibits will be admitted.

(Whereupon, AG Cross-Examination Exhibit Nos. 1.1 through 9 were admitted into evidence.)

If there is nothing else of this panel, thank you, Ms. Paton, thank you, gentlemen, you are excused.

(Whereupon, the witnesses were dismissed.)

That brings us to the matter of post-hearing filings, proposed orders and briefs at your discretion. Our standard practice is 30 days after the mailing of the transcript. Unless I hear otherwise, that is going to be the directive from the Chair --

MS. GRIGG: That's fine with the Company.

COMMISSIONER JOYNER: -- from the bench, I'm sorry.

MS. GRIGG: That's fine with the Company. Thank you.

COMMISSIONER JOYNER: Okay. If there is -- is there anything else?

MS. GRIGG: No, ma'am.

COMMISSIONER JOYNER: Okay. If there's nothing else, we are adjourned.

Whereupon, the hearing was adjourned.

CERTIFICATE

The undersigned Court Reporter certifies that this is the transcription of notes taken by her during this proceeding and that the same is true, accurate and correct.

Candace Covington
Court Reporter II