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STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH

NEWS RELEASE

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NORTH CAROLINA UTILITIES COMMISSION APPROVES APPLICATION BY PSNC ENERGY FOR REVISED RESIDENTIAL RATES

The North Carolina Utilities Commission has approved a revised rate structure for residential natural gas customers of PSNC Energy. The new rate structure eliminates a rate structure that required customers to use a minimum amount of natural gas during the summer months to qualify for a cheaper rate. Earlier, the Commission had suspended the use of the rate requiring minimum usage. The new rate structure eliminates PSNC's two categories of residential rates, "Value" and "Standard," and replaces them with a single rate schedule for all residential consumers.

As a result of this change, which will be effective Nov. 1, 2007, those customers formerly in the "Value" category will see an average \$4.11 per month increase in their winter (November through April) bills and an average 45-cents per month decrease in the summer bills (May through October). Customers formerly on the "Standard" rate will see an average \$5.48 per month decrease in the winter rates and an average \$1.05 per month decrease for the summer months.

PSNC serves 402,000 residential customers in North Carolina. Approximately two-thirds were charged on the "Value" rate while one-third were on "Standard." The *Value/Standard* rate structure was criticized as an incentive to waste natural gas during the summer period in order to qualify for the less-expensive "Value" rate.

The Utilities Commission approved a revised residential rate design proposed by PSNC Energy (PSNC) and supported by the Public Staff, which represents the public before the Commission. The new rate design establishes a single rate schedule for all residential ratepayers, with different per therm rates in the summer and winter. Winter rates will be six cents per therm higher than summer rates in order to reflect the higher cost of serving customers during the winter.

The "Value/Standard" rate structure was established by a Commission order issued on October 23, 2006 in PSNC's last general rate case in Docket No. G-5, Sub 481. In that proceeding, PSNC, the Public Staff, and the Carolina Utility Customers Association entered into negotiations, reached a settlement, and filed a Stipulation which included the proposed "Value/Standard" residential rate structure. The Attorney

General did not oppose approval of the Stipulation. With no party to the docket opposed to the Stipulation, and based on the record before it, the Commission approved the proposed residential rates.

To prevent the wasting of gas this past summer, PSNC filed a petition on April 18, 2007, asking the Commission for authorization to move all "Standard" customers onto the cheaper "Value" rate schedule. This was a temporary measure, which PSNC proposed to leave in effect until the PSNC filed a new residential rate design in its next general rate case. However, allowing "Standard" customers to pay the cheaper "Value" rate would result in PSNC not collecting the amount of revenue required to allow it earn a fair return on its investment as determined in the Company's last general rate case. PSNC asked that it be allowed to keep track of the revenue lost by putting "Standard" customers on the "Value" rate in a special deferred account so that it could petition to recover the lost revenue from residential customers in its next general rate case.

In an order issued May 21, 2007, the Commission approved PSNC's request to temporarily shift "Standard" customers to the cheaper "Value" rate, but required that deferrals of lost revenue end by November 1, 2007. In addition, the Commission directed PSNC to propose revised residential rates in time for new rates to take effect on November 1, 2007. The Commission's order provided that the revised residential rates should allow PSNC an opportunity to collect the same residential class revenue requirement approved in the Commission's October 23, 2006 order.

PSNC, after negotiating with the Public Staff and Attorney General, proposed a single residential rate with a six cents per therm winter/summer differential. A public hearing was held in Raleigh on September 11, 2007, to consider the proposed new residential rate. Based on the record before it, the Commission approved the revised residential rate proposed by PSNC by an order issued on October 19, 2007.

Because the revised rate is designed to recover the same residential class revenue requirement that was approved by the Commission in its October 23, 2006 order, there will be no net change in revenue collected by PSNC from residential customers as a group. However, in order to move all residential customers onto a single rate schedule, there will inevitably be some shifting of costs among customers served under the old "Value/Standard" rate schedules.

Under the new rates, the average ratepayer previously served under the "Value" rate will see an increase in total annual costs of just under 2%. On the other hand, the average ratepayer previously on the "Standard" rate will see a decrease in total annual costs of approximately 5%. The new rates take effect as of November 1, 2007.