

**STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH**

DOCKET NO. G-5, SUB 632
DOCKET NO. G-5, SUB 634

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. G-5, SUB 632)	
)	
In the Matter of)	
Application of Public Service Company of)	
North Carolina, Inc. for a General Rate)	ORDER APPROVING
Increase)	STIPULATION, GRANTING
)	RATE INCREASE, AND
DOCKET NO. G-5, SUB 634)	REQUIRING CUSTOMER
)	NOTICE
In the Matter of)	
Application for Approval to Modify Existing)	
Conservation Programs and Implement)	
New Conservation Programs)	

HEARD: Wednesday, October 20, 2021, at 9:30 a.m., held via video conference

BEFORE: Commissioner ToNola D. Brown-Bland, Presiding; Chair Charlotte A. Mitchell; and Commissioners Lyons Gray, Daniel G. Clodfelter, Kimberly W. Duffley, Jeffrey A. Hughes, and Floyd B. McKissick, Jr.

APPEARANCES:

 For Public Service Company of North Carolina, Inc.:

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 For Carolina Utility Customers Association, Inc.:

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For Evergreen Packaging, LLC:

Christina D. Cress, Bailey & Dixon, LLP, 434 Fayetteville Street, Suite 2500,
Raleigh, North Carolina 27601

For the Using and Consuming Public:

Gina C. Holt, John D. Little, and Lucy E. Edmondson, Staff Attorneys, Public
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Teresa L. Townsend, Special Deputy Attorney General, and Margaret A.
Force, Assistant Attorney General, North Carolina Department of Justice,
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BY THE COMMISSION: On March 1, 2021, pursuant to Commission Rule R1-17(a),
Public Service Company of North Carolina, Inc. (PSNC or the Company) filed notice of its
intent to file a general rate case application.

On April 1, 2021, PSNC filed an application for a general increase in its rates and
charges (Application), along with the required Rate Case Information Report, Form G-1,
and the direct testimony and exhibits of witnesses D. Russell Harris, M. Shaun Randall,
Michael B. Phibbs, Jennifer E. Nelson, John D. Taylor, John J. Spanos, James Herndon,
Byron W. Hinson, and James A. Spaulding.

Carolina Utility Customers Association, Inc. (CUCA) and Evergreen Packaging, LLC
(Evergreen) filed petitions to intervene which were granted by respective orders of the
Commission on April 15, 2021, and July 14, 2021. On September 17, 2021, the Attorney
General's Office filed a Notice of Intervention pursuant to N.C. Gen. Stat. § 62-20. The
intervention and participation of the Public Staff is recognized pursuant to N.C.G.S.
§ 62-15(d) and Commission Rule R1-19(e).

On April 27, 2021, the Commission issued an Order Establishing General Rate
Case and Suspending Rates.

On May 4, 2021, the Public Staff filed a motion to consolidate Docket No. G-5,
Sub 634, regarding Application to Approve Conservation Programs, with Docket No. G-5,
Sub 632, the Application for General Increase in Rates and Charges. On May 18, 2021, the
Commission issued an order granting the motion to consolidate the dockets.

On June 11, 2021, the Commission issued an Order Scheduling Investigation and
Hearings, Establishing Intervention and Testimony Due Dates and Discovery Guidelines,
and Requiring Public Notice. The Order scheduled a public hearing to be held remotely
via WebEx in two sessions at 1:30 p.m. and 6:30 p.m. on Monday, August 16, 2021, and
scheduled the expert witness evidentiary hearing to begin on Monday, October 18, 2021,
at 2:00 p.m. in Raleigh in the Commission Hearing Room.

On July 15, 2021, PSNC filed Affidavits of Publication of Public Notice.

On August 10, 2021, PSNC filed the supplemental testimony and exhibits of witnesses Spaulding, Hinson, and Taylor.

On August 12, 2021, PSNC filed a motion to cancel the public hearing previously scheduled by the Commission, explaining that no witnesses registered with the Public Staff to testify by the deadline noted in the customer notice. The motion was granted by the Commission on August 13, 2021.

On September 15, 2021, the Public Staff filed its motion for extension of time to file direct testimony and exhibits of intervenors and the Public Staff to September 23, 2021, and the rebuttal testimony and exhibits of PSNC, if any, to October 7, 2021, which was granted by Commission Order issued September 16, 2021.

On September 17, 2021, PSNC filed a Motion to Conduct Evidentiary Hearing by Remote Means due to public health concerns related to the coronavirus pandemic. The motion noted that no parties objected to the motion.

On September 23, 2021, the Public Staff filed the direct testimony and exhibits of Mary A. Coleman, Lynn Feasel, Roxie McCullar, Jack L. Floyd, John R. Hinton, Neha Patel, Julie G. Perry, and Sonja R. Johnson, and the joint testimony of James M. Singer and David M. Williamson. On that same day, the Public Staff filed the revised testimony and exhibits of witnesses Hinton, Patel, and Johnson.

Also on September 23, 2021, Evergreen filed the testimony and exhibits of Brian C. Collins, and CUCA filed the testimony and exhibits of Kevin O'Donnell.

On September 24, 2021, the Commission granted PSNC's Motion to Conduct Evidentiary Hearing by Remote Means in its Order Establishing Remote Procedures for Expert Witness Hearing. All parties subsequently filed written consents to remote hearing.

On October 5, 2021, the Public Staff filed Revised Johnson Exhibit 1.

On October 7, 2021, PSNC filed the rebuttal testimony and exhibits of witnesses Phibbs, Nelson, Spanos, Taylor, Hinson, Spaulding, and Regina J. Elbert.

On October 13, 2021, PSNC filed a Motion for Expedited Approval of Notice and Undertaking Required by N.C.G.S. § 62-135(c) to Implement Temporary Rates, Subject to Refund. On October 14, 2021, PSNC filed a Revised Public Notice of Temporary Rates and a Motion to Delay Evidentiary Hearing to allow PSNC, the Public Staff, CUCA, and Evergreen to finalize and file a stipulation of settlement and supporting testimony and exhibits.

On October 15, 2021, the Commission issued an Order Approving Public Notice of Temporary Rates Subject to Refund and Financial Undertaking and issued an Order Rescheduling Expert Witness Hearing to Wednesday, October 20, 2021, at 9:30 a.m.

Also on October 15, 2021, PSNC, the Public Staff, CUCA, and Evergreen filed a Stipulation of Settlement (Stipulation) and a Joint Motion to Excuse Witnesses (Joint Motion). On the same day, PSNC filed the testimony and exhibits of witnesses Hinson, Spaulding, and Nelson, and the Public Staff filed the testimony and exhibit of witness Johnson and the testimony of witness Perry in support of the Stipulation.

On October 19, 2021, the Commission issued an Order granting the Stipulating Parties' Joint Motion, which excused specified witnesses from attending the expert witness hearing.

On October 20, 2021, the expert witness hearing was held before the Commission. PSNC presented the testimony of witnesses Harris, Randall, Phibbs, Nelson, Taylor, Spanos, Herndon, Hinson, Spaulding, and Elbert. The Public Staff presented the testimony of witnesses Coleman, Feasel, McCullar, Floyd, Hinton, Patel, Perry, Johnson, and the joint testimony of witnesses Singer and Williamson. Evergreen presented the testimony of witness Collins, and CUCA presented the testimony of witness O'Donnell. The prefiled testimony of these witnesses was copied into the record as if given orally from the stand and their exhibits were entered into evidence. In addition, PSNC witnesses Nelson, Hinson, and Spaulding, and Public Staff witnesses Perry and Johnson appeared before the Commission. PSNC witnesses Nelson and Hinson were cross-examined by the Attorney General.

On October 29, 2021, PSNC filed a summary of temporary rates and charges effective November 1, 2021, and subject to refund.

On November 2, 2021, PSNC made an informational filing setting forth the temporary rates for service on and after November 1, 2021, subject to refund.

On November 9, 2021, PSNC and the Public Staff jointly filed late-filed exhibits.

On December 2, 2021, PSNC and the Public Staff jointly filed Corrected Exhibit to Stipulation of Settlement, Revised Exhibits to Testimony, and Revised Joint Late-Filed Exhibit 2.

On December 6, 2021, the parties filed briefs and/or proposed orders. On this date, PSNC and the Public Staff also filed an energy efficiency mechanism (EE Mechanism) as contemplated in Paragraph 27 of the Stipulation.

On December 15, 2021, the Commission issued an Order Requiring Filing of Joint Late-Filed Exhibits. The Order requested PSNC and the Public Staff to provide clarifying information through joint late-filed exhibits supporting the allowance for funds used during

construction (AFUDC), and the Customer Usage Tracker (CUT) and Integrity Management Tracker (IMT) adjustments agreed upon by the parties in the Stipulation.

On December 30, 2021, PSNC and the Public Staff filed Joint Responses to Commission Questions and Late-Filed Exhibits in response to the Commission's Order. Based upon the verified Application, the testimony and exhibits received into evidence at the hearing, the Stipulation and revised Settlement exhibits, and the record as a whole, the Commission makes the following:

FINDINGS OF FACT

Jurisdiction

1. PSNC is a corporation organized and existing under the laws of the state of South Carolina, duly authorized to do business in and engaged in the business of transporting, distributing, and selling natural gas within North Carolina.

2. PSNC is a public utility within the meaning of N.C.G.S. § 62-3(23).

3. The Commission has jurisdiction over, among other things, the rates and charges, services rendered, rate schedules, classifications, and practices of PSNC in its capacity as a North Carolina public utility.

4. PSNC is properly before the Commission with respect to the relief sought in its Application pursuant to the provisions of Chapter 62 of the General Statutes and Commission Rule R1-17 and in its Application for Approval to Modify Existing Conservation Programs and Implement New Conservation Programs pursuant to the provisions of Commission Rule R6-95.

PSNC's Application

5. In the Application, PSNC requested the following: (1) a general increase in its rates and charges; (2) an extension of its IMT mechanism contained in Rider E to its approved tariff; (3) continued deferral of Operations and Maintenance (O&M) expenses associated with its Transmission Integrity Management Program (TIMP) and Distribution Integrity Management Program (DIMP) and amortization of certain deferred TIMP and DIMP O&M expenses; (4) implementation of new depreciation rates recommended in a depreciation study conducted by Gannett Fleming Valuation and Rate Consultants, LLC; (5) authority to implement three riders to address certain liabilities arising from excess deferred income taxes (EDIT) associated with federal and state income tax reductions; (6) adoption of a rider (Rider F) mechanism to allow PSNC to recover the associated costs of its conservation programs; (7) authority to implement a voluntary renewable energy (GreenTherm™) Program and approval of deferred accounting treatment and a rider (Rider G) mechanism to ensure that program costs are properly assigned to participating customers; (8) approval to fund a research and development initiative to promote environmental sustainability through an adjustment to O&M expenses and rate

base treatment for this initiative; and (9) approval to update and revise certain tariff provisions.

6. The Application and subsequent updates thereto included information and data required by NCUC Form G-1 and was supported by the prefiled testimonies and exhibits of PSNC witnesses.

Test Period

7. The parties submitting evidence in this case with respect to revenue, expenses, and rate base levels used a test period of the twelve months ended December 31, 2020, adjusted for certain known and measurable changes through June 30, 2021, and the Stipulation is based upon the same test period.

8. The appropriate test period for use in this proceeding is the twelve-month period ended December 31, 2020, updated for certain known and measurable changes through June 30, 2021.

Stipulation

9. The Stipulation executed by PSNC, the Public Staff, CUCA, and Evergreen is actively supported by all parties to this proceeding except for the Attorney General.

10. The Stipulation settles all matters in this proceeding as to PSNC, the Public Staff, CUCU, and Evergreen and is unopposed by the Attorney General.

Revenue Increase

11. The Application sought an increase in annual margin revenues for the Company of \$53,145,476. Pursuant to PSNC's June update filing, the margin revenue request decreased to \$49,664,720. The Stipulation provides for a total increase in annual margin revenues for PSNC of \$29,464,353 as set forth in Section 6.H. and Exhibit A. This increase in annual revenues and other provisions of the Stipulation are just, reasonable, and appropriate for use in this proceeding.

Rate Base

12. The Stipulating Parties agreed that the original cost of PSNC's used and useful property, or to be used and useful within a reasonable time after the test period, in providing natural gas utility service to the public, is \$1,702,058,612, consisting of gas plant in service of \$2,978,034,116 and working capital – lead lag of \$13,657,011, reduced by accumulated depreciation of \$912,701,283, working capital – other of \$19,941,231, and accumulated deferred income taxes of \$356,990,001 as set forth in Section 5 and Exhibit A of the Stipulation. These provisions of the Stipulation are reasonable and appropriate for use in this proceeding.

Allowance for Funds Used During Construction (AFUDC)

13. The Stipulating Parties agreed that effective beginning with calendar year 2021, the amount of equity AFUDC added to construction work in progress (and ultimately transferred to plant in service) shall be calculated using the weighted equity component of the overall rate of return, not grossed up for income taxes, as set forth in Section 6.G. of the Stipulation. The Stipulating Parties also agreed that the difference between that amount and the equity AFUDC amount grossed up for income taxes (in effect, that non-grossed-up amount divided by $(1 - \text{the combined income tax rate})$) shall be recorded as an equity AFUDC regulatory asset, and also agreed that the equity AFUDC regulatory asset and its equal and offsetting accumulated deferred income tax (ADIT) liability shall both be included in rate base. No other party submitted evidence of this issue or opposed the stipulated AFUDC accounting treatment. These provisions of the Stipulation are reasonable and appropriate.

Revenues and Operating Expenses

14. The Stipulating Parties agreed that PSNC's pro forma annual operating revenues under the agreed-upon rates for use in this proceeding are \$575,094,444, which is comprised of \$539,392,662 of gas sales and transportation revenues, \$34,239,341 of special contract revenues, and \$1,462,442 of other operating revenues, as set forth in Section 6.A. and Exhibit A of the Stipulation. These provisions of the Stipulation are reasonable and appropriate for use in this proceeding.

15. The Stipulating Parties agreed that PSNC's operating expenses are \$258,788,436, including actual investment currently consumed through reasonable actual depreciation, as set forth in Section 6.C. and Exhibit A of the Stipulation. The stipulated operating expenses are reasonable and appropriate for use in this proceeding.

16. The various adjustments to annual operating expenses reflected in the Stipulation in Sections 12 through 18, encompassing non-utility adjustment, Board of Directors expenses, compensation adjustments, miscellaneous expense adjustments, uncollectibles adjustment, regulatory fee adjustments, and rate case expense, are reasonable and appropriate for use in this proceeding.

Capital Structure, ROE, and Overall Rate of Return

17. The capital structure set forth in Section 6.D. and Exhibit B of the Stipulation and supported by expert witness evidence, consisting of 51.60% common equity, 47.06% long-term debt at a cost of 4.48%, and 1.34% short-term debt at a cost of 0.25%, is reasonable and appropriate for use in this proceeding.

18. For the purpose of this general rate case, it is just and reasonable that PSNC should be allowed the opportunity to earn a rate of return on common equity (ROE) of 9.60%, as set forth in Section 6.E. and Exhibit B of the Stipulation.

19. Based on the expert witness evidence and the Stipulation, the overall rate of return that PSNC should be allowed the opportunity to earn on the cost of PSNC's used and useful property is 7.07%, as set forth in Section 6.F. and Exhibit B of the Stipulation, and such overall rate of return is reasonable and appropriate for use in this proceeding. This is also the rate to be used by PSNC as its AFUDC rate effective upon approval by the Commission.

20. The authorized levels of overall return and ROE set forth above are supported by competent, material, and substantial record evidence; are consistent with the requirements of N.C.G.S. § 62-133 in light of changing economic conditions; and appropriately balance PSNC's obligation to maintain the safety, adequacy, and reliability of its service with the benefits received by PSNC's customers from safe, adequate, and reliable natural gas service.

21. The capital structure, ROE, and overall rate of return set by this Order will result in just and reasonable rates.

Throughput

22. For the purpose of this proceeding, the appropriate level of adjusted gas sales and transportation quantities of 905,384,906 therms for use herein, as reflected on Exhibit C to the Stipulation, is comprised of 559,414,506 therms of sales quantities and 345,970,400 therms of transportation quantities. The total gas throughput, which reflects the total gas sales and transportation quantities including other special contract quantities of 413,480,000 therms, is 1,318,864,906 therms. The appropriate level for company use and lost and unaccounted for (CU&LAUF) gas is 8,836,557 therms.

Cost of Gas

23. The total cost of gas reasonable and appropriate for use in this proceeding is \$218,682,115, as described in Section 4 of the Stipulation and consisting of \$142,062,766¹ in commodity costs and \$76,619,349 in fixed gas costs.

24. The benchmark commodity cost of gas reasonable and appropriate for use in this proceeding is \$2.50 per dekatherm, as reflected in Section 4 of the Stipulation, subject to any filed changes in such rate prior to implementation of effective rates in this docket.

25. The fixed gas costs embedded in the proposed rates and used in true-ups of fixed gas costs for periods subsequent to the effective date of rates in this docket, in proceedings under Commission Rule R1-17(k), subject to any filed changes in such costs prior to the effective date of rates in this proceeding, are those derived from the fixed gas

¹ Of this total amount of commodity cost of gas, \$2,209,139 is the commodity cost of gas associated with CU&LAUF for gas quantities.

cost allocation percentages discussed in Section 8 and set forth in Exhibit D to the Stipulation.

Rate Design

26. The rate schedules reflecting new volumetric rates, monthly charges, and demand charges, as discussed in Section 7 of the Stipulation and shown on Exhibit C of the Stipulation, are just and reasonable and appropriate for use in this proceeding. Furthermore, it is appropriate to adjust rates to reflect any Commission-approved: (a) changes in PSNC's benchmark commodity gas cost on or before the date that the rates approved in this proceeding become effective; and (b) changes in the gas demand and storage charges (components of the fixed cost of gas shown in Exhibit H to the Stipulation that occur between the date of the Stipulation and the date that the rates approved in this proceeding become effective). The relative impacts of the stipulated rates on each PSNC customer class are shown on Exhibit I to the Stipulation and are just and reasonable.

Continuation of Integrity Management Tracker

27. Continuation of PSNC's IMT mechanism in the current form attached as Rider E to PSNC's current tariff, subject to possible future modification as a result of discussions between the Public Staff and PSNC, is reasonable, appropriate, and consistent with N.C.G.S. § 62-133.7A and should be implemented as provided in Section 9 of the Stipulation.

Customer Usage Tracker Factors

28. The "R" values, heat load factors, and baseload factors to be used in PSNC's approved CUT mechanism on and after the effective date of rates and as set forth in Exhibit E and provided for in Section 10 of the Stipulation are reasonable and appropriate.

Amortization and Reporting on Deferred Regulatory Assets

29. The proposed amortization of deferred TIMP O&M costs, as set forth and described in Section 11.A. of the Stipulation, is reasonable and appropriate.

30. The proposed amortization of deferred DIMP O&M costs, as set forth and described in Section 11.B. of the Stipulation, is reasonable and appropriate.

31. The proposed deferral of legal fees associated with the 2019 Durham Incident, as set forth and described in Section 11.C. of the Stipulation, is reasonable and appropriate.

32. The Stipulating Parties' agreement that PSNC shall provide an annual report to the Public Staff providing transactional details showing allocated or directly assigned amounts, a description of the nature of the expense, and supporting

documentation (i.e., invoices) for the O&M expenses incurred and deferred in relation to TIMP and DIMP requirements and certain 2019 Durham incident costs, net of insurance proceeds, and treated by PSNC as regulatory assets, as set forth in Section 31 of the Stipulation, is reasonable and appropriate.

Interest Rate for Deferred Accounts

33. The Stipulating Parties agreement that, beginning in the month in which this Order is issued, PSNC will use a net of tax rate of 6.57% for all deferred accounts, adjusted as appropriate for income taxes, as set forth in Section 24 of the Stipulation, is reasonable and appropriate.

Amortization of Federal Protected EDIT

34. The Stipulating Parties' agreement that federal protected EDIT should be amortized and returned to customers through base rates over the remaining lives of the property giving rise to the EDIT obligation utilizing the Internal Revenue Service's (IRS) Average Rate Assumption Method (ARAM) beginning on the effective date of rates in this proceeding, and as set forth in Section 19 of the Stipulation, is reasonable and appropriate.

EDIT Riders

35. The Stipulating Parties' agreement that federal unprotected EDIT amounts, as revised on December 2, 2021, should be amortized and returned to customers on a levelized basis through a rider mechanism over a five-year period beginning with the effective date of rates in this proceeding, as set forth in Section 20 of the Stipulation, is reasonable and appropriate. The Stipulating Parties' agreement that the state EDIT amounts, including the correction of a previous state income tax refund calculation, as revised on December 2, 2021, should be amortized and returned to customers on a levelized basis through a rider mechanism over a two-year period beginning with the effective date of rates in this proceeding, as set forth in Section 20 to the Stipulation, is reasonable and appropriate. The Stipulating Parties' agreement that the overcollection of federal taxes from January 1, 2018, through January 31, 2019, should be amortized and returned to customers on a levelized basis through a rider mechanism over a one-year period beginning with the effective date of rates in this proceeding, as set forth in Section 20 of the Stipulation, is reasonable and appropriate.

36. The federal unprotected EDIT, state EDIT, and overcollection of federal taxes rider rates, as reflected in Revised Settlement Exhibit K to the Stipulation, are reasonable and appropriate.

Depreciation Rates

37. The Stipulating Parties' agreement to implementation of the depreciation rates proposed by PSNC, as set forth in Section 21 of the Stipulation, is reasonable and appropriate.

Tariffs and Service Regulations

38. The tariff and service regulations attached as Exhibits F and G to the Stipulation are reasonable and appropriate.

Gas Extension Feasibility Model

39. Revisions to PSNC's model used to calculate the feasibility of extending natural gas service to its residential and commercial customers to reflect: (i) use of an investment horizon of 40 years or an appropriate length of time that matches the book lives of the gas plants; (ii) use of PSNC's approved net of tax overall rate of return as the discount rate employed for the net present value analysis approved in PSNC's most recent rate case; and (iii) an adjustment of all future cash inflows by a long-term inflation rate of 2% as set forth in Section 25 of the Stipulation, are reasonable and appropriate.

Affordability

40. The participation of PSNC in the affordability stakeholder collaborative currently being conducted pursuant to the Commission's Order Accepting Stipulations, Granting Partial Rate Increase, and Requiring Customer Notice issued March 31, 2021, in Docket No. E-7, Subs 1213, 1214, and 1187; and Order Accepting Stipulations, Granting Partial Rate Increase, and Requiring Customer Notice issued April 16, 2021, in Docket No. E-2, Subs 1219, and 1193, as set forth in Section 26 of the Stipulation, is reasonable and appropriate.

Energy Efficiency (EE) Programs and Rider F

41. Authorization of PSNC's entire EE portfolio, whether existing, modified, or new as proposed in the application in Docket No. G-5, Sub 634, and consisting of the Energy Efficiency Rebate Program (to be separated into Residential and Commercial programs for cost allocation purposes), Conservation Education Program, Residential New Construction Program, Residential Home Energy Report Program, and Residential Low Income Program, as a three-year pilot program to collect operational data, perform evaluation, measurement, and verification (EM&V), and assess cost-effectiveness, as set forth in Section 27 of the Stipulation and the EE Mechanism filed with the Commission on December 6, 2021, is reasonable and appropriate. It is also reasonable and appropriate for the three-year pilot program to commence as of November 1, 2021, as set forth in the EE Mechanism.

42. It is reasonable and appropriate for PSNC to be allowed to recover costs of EE programs through a Rider F recovery mechanism as set forth in Section 27 of the Stipulation and the EE Mechanism.

High Efficiency Discount Rate Program

43. It is reasonable and appropriate to approve the modifications to the High Efficiency Discount Rate Program as proposed in PSNC's application in Docket No. G-5, Sub 634 and for the costs of such program to be recovered through base rates as agreed upon by the Stipulating Parties in Section 28 of the Stipulation.

GreenTherm™ Program and Rider G

44. Provisional approval of PSNC's proposed GreenTherm™ Program, subject to review and approval of the estimated program costs and revenues, sources of green attributes and carbon offsets, certification of the program, cost of a block of green attributes, and other specifications of the program prior to final approval of the program, as set forth in Section 29 of the Stipulation, is reasonable and appropriate.

45. It is reasonable and appropriate for PSNC to recover reasonable and prudently incurred costs of the GreenTherm™ Program from participating customers through a Rider G recovery mechanism once the program has received final Commission approval, as set forth in Section 29 of the Stipulation. Further, it is reasonable and appropriate for PSNC to work with the Public Staff to finalize the Rider G recovery mechanism and file such mechanism with the Commission for approval as set forth in Section 29 of the Stipulation.

Hydrogen Research

46. The Stipulating Parties' agreement that PSNC engage a consultant to advise the Company in the further development of hydrogen research, the costs of which will be reevaluated in the next general rate case, is reasonable and appropriate. Additionally, the Stipulating Parties' agreement that PSNC provide a detailed annual report to the Public Staff on May 31 of each year, as set forth in Section 30 of the Stipulation, is reasonable and appropriate.

Accounting for Deferred Costs

47. PSNC is authorized to receive a specific amount of revenue for each of the deferred costs approved by this Order. If PSNC receives revenue for any deferred cost for a longer period of time than the amortization period approved by the Commission for that deferred cost, PSNC shall continue to record all revenue received for that deferred

cost in the specific regulatory asset account established for that deferred cost until the Company's next general rate case.

Stipulation as a Whole

48. The Stipulation is just and reasonable to all parties to this proceeding and serves the public interest.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 1 – 6

The evidence supporting these findings of fact is contained in PSNC's verified Application, the testimony and exhibits of PSNC's witnesses, Form G-1 that was filed with the Application and subsequently updated, PSNC's Application for Approval to Modify Existing Conservation Programs and Implement New Conservation Programs, and the entire record in this proceeding. These facts found are informational, jurisdictional, and procedural in nature and are not contested by any party.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 7 – 8

The evidence supporting these findings of fact is contained in the Application, the direct testimony of PSNC witness Hinson, the Stipulation, and the entire record in this proceeding.

PSNC filed its Application and exhibits using a test period of the twelve months ended December 31, 2020, for the requested rate increase. The test period was confirmed in the direct testimony of PSNC witness Hinson who indicated that PSNC based its Application on the twelve-month period ended December 31, 2020. In its Order Establishing General Rate Case and Suspending Rates, the Commission ordered the parties to use a test period consisting of the twelve months ended December 31, 2020, with appropriate adjustments.

The Stipulation reflects that the test period for this rate case is the twelve months ending December 31, 2020, adjusted for certain changes in plant, throughput, and costs that were not known at the time the case was filed but are based upon circumstances occurring or becoming known through June 30, 2021. This test period is not contested by any party.

Based upon the unopposed evidence, the Commission concludes that the twelve months ended December 31, 2020, adjusted for certain changes in plant, throughput, and costs that were not known at the time the case was filed but are based upon circumstances occurring or becoming known through June 30, 2021, is the appropriate test period for use in this proceeding.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 9 – 10

These findings of fact are supported by the Stipulation, the settlement testimony of PSNC witnesses Hinson, Nelson, and Spaulding, and the settlement testimony of Public Staff witnesses Johnson and Perry. The Stipulation was filed on behalf of PSNC, the Public Staff, CUCA, and Evergreen. The Stipulation provides that it represents a complete settlement of all matters at issue between the Stipulating Parties.

The Commission concludes, based upon all the evidence presented, that the Stipulation entered into by the Stipulating Parties after full discovery and extensive negotiations represents a proposed negotiated resolution of the matters in dispute in this proceeding that is supported by all parties except the Attorney General.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 11

This finding of fact is supported by the Application, the direct testimony and exhibits, supplemental testimony and settlement testimony of PSNC witness Hinson, the settlement testimony and exhibit of Public Staff witness Johnson, and the Stipulation.

Hinson Direct Exhibit 1 indicates that PSNC filed for a total revenue increase in this proceeding of \$53,145,476. Pursuant to PSNC's June update filing, the margin revenue request decreased to \$49,664,720. The Stipulation, in Exhibit A, indicates that pursuant to the agreement of the Stipulating Parties PSNC should be allowed to increase annual revenues by \$29,464,353. This increase in revenues is further reflected in the settlement testimony and exhibits of PSNC witness Hinson and the settlement testimony of Public Staff witness Johnson and her Settlement Exhibit 1. These facts found are not contested by any party.

Based upon the evidence recited above and the cumulative testimony and evidence supporting the individual components of the stipulated revenue increase discussed throughout this Order, including the discussion and analysis related to the proper rate of overall return and return on common equity for use in this proceeding, the Commission finds, in the exercise of its independent judgment, that the stipulated revenue increase in this case is just, reasonable, and appropriate for use in this proceeding.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 12

The reasonable original cost of PSNC's used and useful property, or to be used and useful within a reasonable time after the test period, in providing natural gas utility service to the public, less that portion of the cost that has been consumed by depreciation expense, is described and set forth in Section 5 and Exhibit A to the Stipulation. The amounts shown on Exhibit A to the Stipulation are the result of negotiations among the Stipulating Parties in this proceeding, as described in the Stipulation, the settlement testimony of PSNC witness Hinson, and the settlement testimony of Public Staff witness Johnson. The stipulated reasonable original cost of PSNC's used and useful property, or

to be used and useful within a reasonable time after the test period, in providing natural gas service to the public, less depreciation expense, is not contested by any party.

No other party presented evidence on these matters or otherwise challenged the stipulated rate base.

The Commission has reviewed these amounts, as well as all record evidence relating to PSNC's rate base, which collectively constitute the only evidence in this proceeding regarding the Company's rate base, and concludes that the stipulated amounts are appropriate for use in this proceeding.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 13

The evidence supporting this finding of fact is set forth in the direct testimony of PSNC witness Spaulding, the direct testimony of Public Staff witness Perry, the Stipulation, Public Staff witness Perry's testimony in response to Commission questions at the evidentiary hearing, Joint Late-Filed Exhibit No. 1, and Joint Responses to Commission Questions filed December 30, 2021.

In his direct testimony, PSNC witness Spaulding testified that the Company is requesting recovery of a regulatory asset of approximately \$13.3 million, which represents the under-recovered equity AFUDC regulatory asset balance recorded on PSNC's books as of December 31, 2020, and reflected in rate base in the current filing. Witness Spaulding clarified that PSNC is not requesting a retroactive recovery of all previously accrued equity AFUDC. Instead, the balance in this account represents the cumulative revenue shortfall related to equity AFUDC. This balance includes accruals of equity AFUDC and depreciation of that equity AFUDC, such that this is a net under-recovered balance as of December 31, 2020.

Pursuant to Section 6.G. of the Stipulation, the Stipulating Parties agreed that effective beginning with calendar year 2021, the amount of equity AFUDC added to construction work in progress (and ultimately transferred to plant in service) shall be calculated using the weighted equity component of the overall rate of return, not grossed up for income taxes. The difference between that amount and the equity AFUDC amount grossed up for income taxes (in effect, that non-grossed-up amount divided by $(1 - \text{the combined income tax rate})$) shall be recorded as an equity AFUDC regulatory asset. The equity AFUDC regulatory asset and its equal and offsetting ADIT liability shall both be included in rate base.

At the hearing, the Commission asked PSNC witness Spaulding a series of questions regarding equity AFUDC and Section 6.G. of the Stipulation. PSNC witness Spaulding stated that there was an under-recovery of equity AFUDC because PSNC was not grossing up the amounts for income tax. He also responded that the equity AFUDC regulatory asset would be included in rate base and offset by an equal accumulated deferred income tax liability. PSNC witness Spaulding offered to file a late-filed exhibit to further address the Commission's questions regarding AFUDC.

Also at the hearing, the Commission asked Public Staff witness Perry questions regarding equity AFUDC and Section 6.G. of the Stipulation. Public Staff witness Perry provided an explanation of equity AFUDC and an overview of the issues agreed-upon in the Stipulation regarding AFUDC. Witness Perry testified that PSNC is allowed to recover 100% of AFUDC and concluded that the provisions of the Stipulation make PSNC whole in terms of AFUDC recovery. The Commission then requested that the Public Staff work with PSNC to provide the Commission a joint late-filed exhibit explaining the AFUDC issues agreed-upon in the Stipulation as well as the journal entries related to equity AFUDC.

In Joint Late-Filed Exhibit No. 1, the Public Staff and PSNC provided a description of the equity AFUDC regulatory asset that PSNC requested be included in rate base. The Public Staff and PSNC also provided the time horizon associated with the accumulation of the equity AFUDC-related regulatory asset and confirmed that the \$13.3 million regulatory asset that the Company requested was included in rate base and is equal to and offset by the \$13.3 million deferred tax liability on equity AFUDC and was reflected in the per books test period amounts.

Based on the Stipulation, Joint Responses to Commission Questions, and the absence of any evidence to the contrary, the Commission finds the AFUDC accounting agreed to by the Stipulating Parties reasonable and appropriate for adoption in this proceeding.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 14 – 16

The evidence supporting these findings of fact is set forth in the Stipulation, the settlement testimonies of PSNC witnesses Hinson and Spaulding, and the settlement testimony of Public Staff witness Johnson.

The end of test period pro forma revenues under PSNC's present and stipulated proposed rates are set forth in Section 6.A. and Exhibit A to the Stipulation. The amounts shown on Exhibit A to the Stipulation are the result of negotiations among the Stipulating Parties in this proceeding following an extensive audit of PSNC's filed case by the Public Staff and are described in the Stipulation. No party other than the Public Staff submitted evidence on PSNC's pro forma revenues, and the stipulated pro forma revenues are not challenged by any party.

PSNC's annual operating expenses after the settlement adjustments are \$258,788,436 as set forth in Section 6.C. and Exhibit A of the Stipulation. This amount includes, among others, the individual adjustments described in Sections 13 – 18 of the Stipulation and in the settlement testimonies of PSNC witness Spaulding and Public Staff witness Johnson, as well as Johnson Settlement Exhibit 1. These adjustments, as shown on Johnson Settlement Exhibit 1 are as follows: (a) an adjustment of (\$106,278) for non-utility operations; (b) an adjustment of (\$94,671) to Board of Directors expense; (c) adjustments to compensation related expenses of (\$491,312) for payroll, (\$1,055,624) for pension and other benefits, (\$66,473) for employee benefits, (\$437,871) for executive compensation, and (\$1,653,408) for incentives; (d) adjustments for miscellaneous

expenses such as (\$385,799) for advertising expense, (\$20,691) for sponsorship & dues, (\$43,377) for customer accounts expense, (\$119,774) for transmission O&M expenses, (\$1,116,309) for service company charges, \$147,390 for an inflation adjustment, and \$30,657 for interest on customer deposits; (e) an adjustment of (\$126,397) for uncollectibles expense; (f) an adjustment to bring the regulatory fee expense to a level based on the current effective rate of 0.13%; and (g) an adjustment to rate case expense of \$11,959. The amounts shown on Exhibit A of the Stipulation and reflected in Johnson Settlement Exhibit 1 are the result of negotiations between the Stipulating Parties in this proceeding as described in the settlement testimony of PSNC witness Hinson.

No other party submitted evidence as to PSNC's operating expenses, and the stipulated operating expenses of PSNC are not contested by any party.

The Commission has reviewed the pro forma margin revenues and operating expenses set forth in the Stipulation, as well as all record evidence relating to pro forma revenues and operating expenses, and concludes based on its own independent judgment that the stipulated pro forma margin annual revenues and operating expenses are reasonable and appropriate for use in this proceeding.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 17 – 21

The evidence supporting these findings of fact is contained in the verified Application and Form G-1, the direct and rebuttal testimonies of PSNC witness Phibbs, the direct, supplemental, rebuttal, and settlement testimonies of PSNC witness Spaulding, the direct, rebuttal and settlement testimonies of PSNC witness Nelson, the direct testimony and exhibits of Public Staff witness Hinton, the direct testimony and exhibits of CUCA witness O'Donnell, the direct testimony and exhibits of Evergreen witness Collins, and the Stipulation.

Capital Structure and Cost of Debt

Summary of the Evidence

In the Application, and as explained by PSNC witness Phibbs in his direct testimony, PSNC proposed a capital structure reflecting long-term debt of 43.79%, short-term debt of 1.33% and equity of 54.88%. The short-term debt reflected the estimated average of gas inventory for the 13 months ending June 30, 2021, consistent with Commission practice. The long-term debt cost rate is based upon debt issued and outstanding at December 31, 2020, as adjusted to reflect subsequent maturities and issuances through June 30, 2021. Tr. 378.

In her direct testimony, PSNC witness Nelson concluded PSNC's requested capital structure consisting of 54.88% common equity, 1.33% short-term debt, and 43.79% long-term debt is consistent with her proxy group analyses and, therefore, reasonable and should be approved. Tr. 105.

PSNC witness Spaulding's supplemental testimony updated PSNC's requested overall cost of capital or rate of return to 7.59%. This rate of return is based on a capital structure consisting of 43.80% long-term debt at a cost rate of 4.48%, 1.34% short-term debt at a cost rate of 0.25%, and 54.86% common equity at a cost rate of 10.25% as noted in the direct testimony of PSNC witness Nelson. Tr. 109-10.

In his direct testimony, Public Staff witness Hinton recommended an overall rate of return of 6.95% based on a capital structure consisting of 47.71% long-term debt at a cost rate of 4.45%, 1.39% short-term debt at a cost rate of 0.25%, and 50.90% common equity at a cost rate of 9.48%. Tr. 780. Witness Hinton testified that he typically bases his proposed capital structure on a 13-month average of a company's capital structure. His recommended hypothetical capital structure including a 50.90% equity ratio was based on the average commission-approved common equity ratio for 54 LDC general rate cases in 2020 and 2021. Tr. 798. In formulating his recommended cost of long-term debt, witness Hinton took into account the impact of Moody's Investment Services (Moody's) downgrade of PSNC's long-term debt based in part on the impact of the rate freeze that was a condition of this Commission's approval of the merger of PSNC's parent company, SCANA, with Dominion Energy, Inc., and reduced the cost rate of each of the two debt issuances made after the merger by ten basis points. Tr. 799-802. In making his recommendation on the overall cost of capital, witness Hinton considered the pre-tax interest coverage ratio of approximately 3.9, which he found would provide PSNC an adequate opportunity to continue to qualify for a "Baa1" bond rating, as well as the IMT's role in reducing regulatory lag. Tr. 814.

Witness Hinton did not support PSNC's use of an average common equity ratio based on data reported to the Securities and Exchange Commission (SEC), given that it included PSNC's non-regulated operations and other items that could be misleading and not necessarily appropriate for regulated utilities. He testified that the Company's requested equity ratio would lead to a higher cost of capital than is necessary for PSNC to maintain its credit rating and attract capital. Tr. 798.

In his direct testimony, CUCA witness O'Donnell recommended a 50% hypothetical common equity ratio. He noted that PSNC is a wholly owned subsidiary of Dominion Resources, Inc. (Dominion) and Dominion has the ability to infuse its capital generated by debt at an interest rate of approximately 3.5% and invest those funds into PSNC's balance of common equity to produce a rate of return of over 9%. Witness O'Donnell referred to this as double leverage. He cited his concerns about Dominion's capital structure that has contained 39.00% to 45.00% equity in the recent past and with a projected 41.00% equity ratio, as well as the 52.34% average Commission-approved equity ratio for 2020 as support for his recommended capital structure. Tr. 585-86. Witness O'Donnell also testified in favor of a cost of long-term debt of 4.43%, driven by PSNC's January 2020 downgrade to Baa1 at Moody's. Witness O'Donnell presented an analysis that PSNC's March 2020 debt offering could have been issued at a yield 17 basis points lower had the downgrade not occurred. Tr. 591-92.

On rebuttal, PSNC witness Phibbs disagreed with witness Hinton's argument that PSNC does not require a common equity ratio of 54.88% in order to maintain its current credit ratings, based on what he considered to be witness Hinton's selective review of, and reliance on, financial metric data from Moody's. PSNC witness Phibbs testified that in order to maintain current credit ratings at Moody's, PSNC needs to demonstrate the ability to maintain at least a 15% Cash Flow Operations (pre-working capital)/Debt ratio. He further stated that PSNC has not met this metric level at year end in the past three years. With supportive actions that Moody's has noted, as well as the expectation of supportive regulatory treatment, witness Phibbs noted that PSNC believes it is now on track to do so. Tr. 465-66. PSNC witness Phibbs testified that those supportive Company actions, namely infusing equity to balance the capital structure and forgoing dividends through the end of 2020, have resulted in an actual filed capital structure of 54.86%, which PSNC believes is necessary and prudent to maintain adequate access to capital, support current credit ratings, and provide a balanced approach to funding the necessary infrastructure to meet its service obligations. Tr. 467. Witness Phibbs concluded that imputation of either capital structure recommended by Public Staff witness Hinton or CUCA witness O'Donnell would be arbitrary and present significant financial harm to PSNC. Tr. 469.

Following settlement negotiations between PSNC, the Public Staff, CUCA, and Evergreen, as reflected in Section 6.D. of the Stipulation, the Stipulating Parties propose a capital structure of 51.60% common equity, 47.06% long-term debt at a cost of 4.48%, and 1.34% short-term debt at a cost of .25%.

PSNC witness Nelson's settlement testimony provided general support for the stipulated capital structure, stating that it provided a reasonable resolution to an otherwise contentious issue. She noted that the stipulated capital structure falls between the average and median authorized equity ratios for natural gas distribution utilities in jurisdictions ranked "Above Average/3" and higher, and those authorized in jurisdictions ranked "Average/1" and lower. Tr. 188-91.

At the hearing, counsel for the AGO questioned PSNC witness Nelson regarding the rate for the cost of debt in the past decade but did not provide any affirmative evidence that would support a capital structure, other than that proposed in the Stipulation.

No other party submitted testimony on the issue of the appropriate capital structure for PSNC or opposed the stipulated capital structure.

Discussion and Conclusions

Based upon its own review and independent analysis of the evidence, the Commission concludes that a capital structure of 51.60% common equity, 47.06% long-term debt at a cost of 4.48%, and 1.34% short-term debt at a cost of 0.25%, as is reflected in the Stipulation, is just and reasonable and appropriate for use in this proceeding on several grounds.

First, the stipulated percentage of common equity appropriately falls between Public Staff witness Hinton's recommended 50.90% based on a 13-month average and PSNC witness Spaulding's recommended 54.86% in supplemental testimony based on PSNC's capital structure as of June 30, 2021, reflecting the historic capital structure, but giving more weight to the most current. Second, as testified to by PSNC witness Nelson in her settlement testimony, this capital structure falls between the average and median authorized equity ratios for natural gas distribution utilities in jurisdictions ranked "Above Average/3" and higher, and those authorized in jurisdictions ranked "Average/1" and lower. Tr. 194. Third, the cost of debt underlying this capital structure was recommended by PSNC witness Phibbs in his direct testimony. Accordingly, based on the matters set forth above, and in the exercise of its independent judgment, the Commission finds that the weight of the evidence in this proceeding favors using the stipulated capital structure and that such capital structure is just, reasonable, and appropriate for use in setting rates in this docket.

The Commission also finds the 4.48% stipulated cost of long-term debt and 0.25% cost of short-term debt are just and reasonable. These debt costs are supported by the direct testimony of PSNC witness Spaulding. The Commission therefore finds and concludes that the use of a long-term debt cost of 4.48% and a short-term debt cost of 0.25 per the terms of Section 6.D. of the Stipulation is supported by the greater weight of the substantial evidence and is just and reasonable to all parties in light of all the evidence presented.

Rate of Return on Equity Capital

Summary of the Evidence

In her direct testimony, PSNC witness Nelson testified that she relied on three widely accepted approaches to develop a recommended ROE range and estimate, those being: (1) the constant growth and quarterly forms of the Discounted Cash Flow (DCF) model; (2) the traditional and empirical forms of the Capital Asset Pricing Model (CAPM); and (3) the Bond Yield Plus Risk Premium approach. PSNC witness Nelson testified that her analyses indicate that an ROE in the range of 9.60% to 10.75% represents the range of equity investors' required return for investment in a natural gas utility such as PSNC in today's volatile capital market environment. To develop her recommended range, she explained that she considered the quantitative and qualitative analyses discussed throughout her testimony, the current capital market environment, PSNC's relatively small size, and the Commission's ROE decisions in recent proceedings. Additionally, witness Nelson considered the current economic conditions in North Carolina. Based on those factors, she concluded that 10.25% is a reasonable and appropriate estimate of PSNC's cost of equity. Tr. 29-30.

In assessing the reasonableness of her recommended return, witness Nelson testified that she also considered the economic conditions in North Carolina. Specifically, witness Nelson testified that she considered: (1) the economic conditions in North Carolina in light of the COVID-19 pandemic; (2) unemployment at both the state and

county levels as compared to national rates of unemployment; (3) real Gross Domestic Product in North Carolina; and (4) the median household income in North Carolina as it corresponds to national levels. She concluded that the economic conditions in North Carolina are highly correlated to those of the United States as a whole, and as such, are reflected in the analyses used to determine the cost of common equity. Tr. 79-80.

In his direct testimony, Public Staff witness Hinton testified about the fair rate of return to be used in establishing PSNC's rates. To determine the cost of common equity for PSNC, witness Hinton used a DCF model and a Regression Analysis of Approved Returns for local distribution companies (LDC) to determine the cost of equity. He also used a Comparable Earnings Analysis as a check method. Tr. 803. Public Staff witness Hinton disagreed with PSNC witness Nelson's exclusive use of forecasted earnings per share in the DCF model, her estimate of the expected market return, and the market premium used in her CAPM. Tr. 820. According to witness Hinton, the results of his DCF analysis indicated a cost of equity ranging from 9.20% using historical growth rates, to 9.84% using predicted growth rates, and 9.44% based on an average of historical and projected growth rates. Witness Hinton combined these results with a Regression Analysis result that indicates a cost of equity of 9.49%. The average of the four estimates produces an average cost of equity of 9.48%, which was his recommended cost of equity for PSNC. Tr. 813.

In his direct testimony, CUCA witness O'Donnell recommended that PSNC be given the opportunity to earn a 9.0% rate of return on equity, which is based on the upper end of the DCF results for the proxy group (7.50%-9.50%), well above the CAPM results (6.0%-8.0%), and at the low end of his Comparable Earnings results (9.0%-10.0%). Tr. 626-27. Witness O'Donnell contended that PSNC's requested rate of return on equity is excessive, unnecessary, and burdensome on North Carolina ratepayers, especially in light of the current economic conditions brought on by the COVID-19 pandemic. He alleged that the models and inputs used by PSNC witness Nelson to determine PSNC's cost of equity are flawed and do not reflect market conditions. Witness O'Donnell also testified that PSNC's return on equity request (10.25%) was inappropriate in light of the current state of the financial markets. Even though all markets were impacted by the COVID-19 pandemic, witness O'Donnell testified that utilities such as PSNC have not had an issue accessing the capital markets. In light of this, witness O'Donnell stated that PSNC does not need a 10.25% return on equity to attract and compete for capital in the current economic environment.

Evergreen witness Collins also submitted direct testimony regarding PSNC's requested ROE. However, Evergreen witness Collins did not provide an independent analysis regarding the Company's cost of equity; instead, he recommended the Commission authorize an ROE no higher than the average authorized ROE for natural gas utilities over the twelve months ended June 30, 2021 (i.e., 9.55%).

On rebuttal, PSNC witness Nelson explained that she had updated her cost of equity analyses based on PSNC's August 10, 2021, supplemental filing. She explained that her recommended ROE and conclusions regarding the reasonableness of PSNC's

proposed capital structure continued to hold based on her updated modeling results applying data as of August 31, 2021, and additional analyses provided in response to the Public Staff and CUCA. She therefore continued to recommend an ROE in the range of 9.60% to 10.75%, with a specific recommendation of 10.25%. Tr. 109-11.

PSNC witness Nelson's rebuttal testimony also disagreed with Public Staff witness Hinton's and CUCA witness O'Donnell's analytical results and recommendations, stating that such were below any reasonable measure of PSNC's cost of equity. She further testified that adoption of Public Staff witness Hinton's, CUCA witness O'Donnell's, or Evergreen witness Collins' recommended cost of equity would likely be insufficient to maintain PSNC's credit rating. PSNC witness Nelson further testified that acceptance of the Public Staff's, CUCA's, or Evergreen's cost of equity recommendations would increase PSNC's regulatory and financial risk, diminish its ability to compete for capital, and have the counter-productive effect of increasing its overall cost of capital, ultimately to the detriment of customers. Tr. 110.

Following settlement negotiations between PSNC, the Public Staff, CUCA, and Evergreen, and as reflected in Section 6.E. of the Stipulation, the Stipulating Parties agree that an ROE of 9.60% is acceptable for use in this proceeding. Pursuant to Section 6.F. of the Stipulation, the Stipulating Parties also agree that the weighted overall rate of return that PSNC should be allowed an opportunity to earn on its rate base is 7.07%, as shown on Stipulation Exhibit A.

PSNC witness Nelson's settlement testimony provided general support for the stipulated ROE and overall rate of return, stating that they provide a reasonable resolution to otherwise contentious issues.

No other party submitted evidence on the stipulated ROE or overall rate of return for PSNC.

Law Governing the Commission's Decision on ROE

The issue of the authorized rate of return on equity is often one of the most contentious issues to be addressed in a rate case. In the absence of a settlement agreed to by all the parties, the law of North Carolina requires the Commission to exercise its independent judgment and arrive at its own independent conclusion as to the proper rate of return on common equity. See, e.g., *State ex rel. Utils. Comm'n v. Carolina Util. Customers Ass'n*, 348 N.C. 452, 466, 500 S.E.2d 693, 707 (1998) (*CUCA I*).² In order to reach an appropriate independent conclusion regarding the rate of return on equity, the Commission must evaluate the available evidence, particularly that presented by conflicting

² The Commission notes that even though the Stipulation is not unanimous among all parties to this proceeding, no parties indicated opposition to the settlement reflected in the Stipulation and it is, therefore, technically uncontested. Notwithstanding this fact, the Commission will treat the Stipulation in this docket as among less than all parties.

expert witnesses. *State ex rel. Utils. Comm'n v. Cooper*, 366 N.C. 484, 491-93, 739 S.E.2d 541, 546-47 (2013) (*Cooper I*).

The baseline for establishment of an appropriate rate of return on common equity is the constitutional constraints established by the decisions of the United States Supreme Court in *Bluefield Water Works & Improvement Co., v. Pub. Serv. Comm'n of W. Va.*, 262 U.S. 679 (1923) (*Bluefield*), and *Fed. Power Comm'n v. Hope Natural Gas Co.*, 320 U.S. 591 (1944) (*Hope*) which establish that:

To fix rates that do not allow a utility to recover its costs, including the cost of equity capital, would be an unconstitutional taking. In assessing the impact of changing economic conditions on customers in setting an ROE [rate of return on equity], the Commission must still provide the public utility with the opportunity, by sound management, to (1) produce a fair profit for its shareholders, in view of current economic conditions, (2) maintain its facilities and service, and (3) compete in the marketplace for capital.

Order Accepting Stipulation, Deciding Contested Issues, and Requiring Revenue Reduction, Docket No. E-7, Sub 1146, at 50 (N.C.U.C. June 22, 2018). See also *State ex rel. Utils. Comm'n v. General Tel. Co. of the Southeast*, 281 N.C. 318, 370, 189 S.E.2d 705, 738 (1972) (*General Telephone*). As the North Carolina Supreme Court held in *General Telephone*, these factors constitute “the test of a fair rate of return declared” in *Bluefield* and *Hope. Id.*

The rate of return on equity is, in fact, a cost. The return that equity investors require represents the cost to the utility of equity capital: “[T]he cost of capital to the utility is synonymous with the investor’s return, and the cost of capital is the earnings which must be generated by the investment of that capital in order to pay its price, that is, in order to meet the investor’s required rate of return.” Roger A. Morin, *Utilities’ Cost of Capital*, 19-21 (Public Utilities Reports, Inc. 1984). “The term ‘cost of capital’ may [also] be defined as the annual percentage that a utility must receive to maintain its credit, to pay a return to the owners of the enterprise, and to ensure the attraction of capital in amounts adequate to meet future needs.” Charles F. Phillips, Jr., *The Regulation of Public Utilities*, 388 (Public Utilities Reports, Inc., 3d ed. 1993).

Long-standing decisions of the North Carolina Supreme Court have recognized that the Commission’s subjective judgment is a necessary part of determining the authorized rate of return on equity. *State ex rel. Utils Comm’n v. Public Staff-N.C. Utils. Comm’n*, 323 N.C. 481, 490, 374 S.E.2d 361, 369 (1988) (*Public Staff*). Likewise, the Commission has observed as much in exercising its duty to determine the ROE, noting that such determination is not made by application of any one simple mathematical formula:

Throughout all of its decisions, the [United States] Supreme Court has formulated no specific rules for determining a fair rate of return, but it has enumerated a number of guidelines. The Court has made it clear that

confiscation of property must be avoided, that no one rate can be considered fair at all times and that regulation does not guarantee a fair return. The Court also has consistently stated that a necessary prerequisite for profitable operations is efficient and economical management. Beyond this is a list of several factors the commissions are supposed to consider in making their decisions, but no weights have been assigned.

The relevant economic criteria enunciated by the Court are three: financial integrity, capital attraction and comparable earnings. Stated another way, the rate of return allowed a public utility should be high enough: (1) to maintain the financial integrity of the enterprise, (2) to enable the utility to attract the new capital it needs to serve the public, and (3) to provide a return on common equity that is commensurate with returns on investments in other enterprises of corresponding risk. These three economic criteria are interrelated and have been used widely for many years by regulatory commissions throughout the country in determining the rate of return allowed public utilities.

In reality, the concept of a fair rate of return represents a “zone of reasonableness.” As explained by the Pennsylvania commission:

There is a range of reasonableness within which earnings may properly fluctuate and still be deemed just and reasonable and not excessive or extortionate. It is bounded at one level by investor interest against confiscation and the need for averting any threat to the security for the capital embarked upon the enterprise. At the other level it is bounded by consumer interest against excessive and unreasonable charges for service.

As long as the allowed return falls within this zone, therefore, it is just and reasonable It is the task of the commissions to translate these generalizations into quantitative terms.

Order Granting General Rate Increase, Application of Carolina Power & Light Co., d/b/a Progress Energy Carolinas, Inc., for Adjustment of Rates and Charges Applicable to Electric Utility Service in North Carolina, Docket No. E-2, Sub 1023, at 35-36 (N.C.U.C. May 30, 2013) (2013 DEP Rate Order), citing Charles F. Phillips, Jr., *The Regulation of Public Utilities*, 382 (Public Utilities Reports, Inc., 3d ed. 1993).

Moreover, in setting rates the Commission must not only adhere to the dictates of both the United States and North Carolina Constitutions, but as has been held by the North Carolina Supreme Court, it must set rates as low as possible consistent with constitutional law. *Public Staff*, 323 N.C. at 490. Further, the North Carolina General Assembly has provided that the Commission must also set rates employing a multi-element formula set forth in N.C.G.S. § 62-133. The formula requires consideration

of elements beyond just the ROE element, and it inherently necessitates that the Commission make many subjective determinations, in addition to the subjectivity required to determine the ROE. The subjective decisions the Commission must make as to each of the elements of the formula can and often do have multiple and varied impacts on all of the other elements of the formula. In other words, the formula elements are intertwined and often interdependent in their impact to the setting of just and reasonable rates.

The fixing of a rate of return on the cost of property used and useful to the provision of service (as determined through the end of the historic 12-month test period prior to the proposed effective date of a requested change in rates and adjusted for proven changes occurring up to the close of the expert witness hearing) is but one of several interdependent elements of the statutory formula to be used in setting just and reasonable rates. See N.C.G.S. § 62-133. Section 62-133(b)(4) provides, in pertinent part, that the Commission shall:

Fix such rate of return on the cost of the property . . . as will enable the public utility by sound management [1] to produce a fair return for its *shareholders, considering changing economic conditions and other factors* . . . [2] to maintain its facilities and services in accordance with the reasonable requirements of its customers in the territory covered by its franchise, and [3] to compete in the market for capital funds on terms that are reasonable and that are fair to its customers and to its existing investors.

(Emphasis added.) The North Carolina Supreme Court has interpreted the above-emphasized language as requiring the Commission to make findings regarding the impact of changing economic conditions on customers when determining the proper ROE for a public utility. *Cooper I*, 366 N.C. at 495. The Commission must exercise its subjective judgment so as to balance two competing ROE-related factors — the economic conditions facing PSNC’s customers and PSNC’s need to attract equity financing on reasonable terms in order to continue providing safe and reliable service. 2013 DEP Rate Order at 35-36. The Commission’s determination in setting rates pursuant to N.C.G.S. § 62-133, which includes the fixing of the ROE, always takes into account affordability of public utility service to the using and consuming public. The impact of changing economic conditions on customers is embedded in the analyses conducted by the expert witnesses on ROE, as the various economic models widely used and accepted in utility regulatory rate-setting proceedings take into account such economic conditions. 2013 DEP Rate Order at 38. Further,

[t]he Commission always places primary emphasis on consumers’ ability to pay where economic conditions are difficult. By the same token, it places the same emphasis on consumers’ ability to pay when economic conditions are favorable as when the unemployment rate is low. Always there are customers facing difficulty in paying utility bills. The Commission does not grant higher rates of return on common equity when the general body of ratepayers is in a better position to pay than at other times

Id. at 37. Economic conditions existing during the modified test year, at the time of the public hearings, and at the date of the issuance of the Commission's order setting rates will affect not only the ability of the utility's customers to pay rates but also the ability of the utility to earn the authorized rate of return during the period the new rates will be in effect. However, in setting the ROE, just as the Commission must assess the impact of economic conditions on customers' ability to pay for service, it likewise must assess the effect of regulatory lag on PSNC's ability to access capital on reasonable terms. The Commission sets the ROE considering both of these impacts taken together in its ultimate decision fixing a utility's rates.

Thus, in summary and in accordance with the applicable law, the Commission's duty under N.C.G.S. § 62-133 is to set rates as low as reasonably possible to the benefit of the customers without impairing PSNC's ability to attract the capital needed to provide safe and reliable natural gas service and recover its cost of providing service.

Discussion and Application of Law to the Facts

The Commission has examined PSNC's Application and supporting testimony and exhibits and Form G-1 filings seeking to justify its requested increase. PSNC's updated request prior to entering into the Stipulation was a retail revenue increase of \$49,664,720 in annual revenues. The Public Staff, who represents all users and consumers of PSNC's natural gas service, PSNC, CUCA, and Evergreen entered into a Stipulation that results in reducing the retail revenue increase sought by PSNC. As with all settlement agreements, each party to the Stipulation gained some benefits that it deemed important and gave some concessions for those benefits. Based on PSNC's Application, it is apparent that the Stipulation ties the 9.60% rate of return on equity to substantial agreed upon concessions made by PSNC. As noted above, since the AGO did not participate in the Stipulation, the Commission is required to examine the Stipulation and exercise its independent judgment to arrive at its own independent conclusion as to the proper rate of return on common equity.

The starting point for an examination of what constitutes a reasonable rate of return on equity begins with the various economic and financial analyses provided by the parties' expert witnesses. In this proceeding, those analyses were provided in the testimonies of four different witnesses: witness Nelson for PSNC; witness Hinton for the Public Staff; witness O'Donnell for CUCA; and witness Collins for Evergreen. These testimonies, as summarized above, provide a relatively broad range of methods, inputs, and recommendations regarding the proper rate of return on equity determination for PSNC. For example, witness Nelson relied in her direct testimony on three different analyses to arrive at her rate of return on equity recommendation. These analyses were a DCF analysis, an RPM analysis, and a CAPM analysis. By way of comparison, witness Hinton used a DCF analysis and a regression analysis of allowed returns for natural gas LDCs to reach his conclusions and Comparable Earnings analysis to check those results. Witness O'Donnell performed a DCF analysis, a Comparable Earnings analysis, and a CAPM analysis. Witness Collins provided a brief opinion regarding PSNC's requested ROE.

These varying analyses, as is typical, produce varying results. Witness Nelson's analyses presented in her direct testimony prompted her to propose a rate of return on equity range of 9.60% to 10.75% with a specific rate of return on equity recommendation of 10.25%. Witness Hinton indicated that his DCF analysis yielded a rate of return on equity range of 9.15% to 9.84%, his regression analysis supported a 9.49% rate of return on equity, and his ultimate recommended rate of return on equity was 9.48%. Witness O'Donnell's analyses produced a rate of return on equity ranges of 7.50% to 9.50% under his DCF analysis, 9.00% to 10.00% under his Comparable Earnings analysis, and 6.0% to 8.0% under his CAPM analysis, with an ultimate recommendation of 9.0%. Finally, witness Collins recommended a cap on rate of return on equity of 9.55%.

The Commission finds the cost of equity analyses helpful in reaching its conclusion on an appropriate rate of return on equity for PSNC but notes that the ranges of the various analyses span a range from 6.0% to 14.26% and the specific rate of return on equity recommendations of the witnesses span a range from 9.0% on the low end to 10.25% on the high end.

Public Staff witness Hinton's DCF results ranged from 9.15% to 9.84%. He conducted an equity risk premium regression analysis analyzing the relationship between approved returns on equity for natural gas utilities and Moody's Bond Yields for A rated utility bonds. He testified that the differential between the two rates of return is indicative of the return investors require in order to compensate for the additional risk. The results of this regression analysis are shown on Hinton Exhibit 8 and produce a cost of equity of 9.49%. Witness Hinton's Comparable Earnings analysis used as a check on his overall rate of return on equity recommendation reviewed the earned returns on equity for his proxy group of comparable natural gas utilities and produced an average historical earned return of 10.0% and a median earned return of 9.5%. The Commission finds that witness Hinton's DCF and risk premium regression analysis are credible, probative, and entitled to substantial weight.

PSNC witness Nelson in her rebuttal testimony updated her DCF, CAPM, and RPM analyses. Her updated DCF and RPM model results continued to support her recommended range of 9.60% to 10.75%. However, her updated CAPM results ranging from 13.08%-14.26% are significantly above all the other analyses presented, and well outside the norm of recently approved rates of return on equity for LDCs. The Commission finds witness Nelson's DCF and RPM analyses and range of return on common equity results credible, probative, and entitled to substantial weight. With regard to the results of witness Nelson's CAPM analysis, the Commission concludes that the results are unreasonably high, and therefore places no weight on them.

The Commission has evaluated the DCF analyses of witnesses Hinton and O'Donnell. Public Staff witness Hinton's DCF results ranged from 9.15% to 9.84%. CUCA witness O'Donnell's DCF range was 7.50% to 9.50%. The proposed 9.60% ROE is within witness Hinton's DCF range and only slightly higher than witness O'Donnell's.

The Commission also concludes that the Comparable Earnings analysis by CUCA witness O'Donnell is credible, probative, and entitled to substantial weight. Witness O'Donnell testified that the comparable earnings for his proxy group of natural gas utilities produced earned returns of 9.00% to 10.00% over the period 2019 through 2026 balancing historical and forecasted returns. The stipulated 9.60% rate of return on equity is well within that range.

As detailed in PSNC witness Nelson's testimony, from 2016 through 2021, the average and median authorized ROE in jurisdictions ranked in the top third (i.e., Average/1 and higher) was 9.94% and 9.95%, respectively. In jurisdictions ranked Average/2 and lower, the average and median authorized ROE was 9.52% and 9.50%, respectively.

In summary, the Commission finds the stipulated ROE to be reasonable and appropriate, as well as supported by the substantial weight of the evidence presented.

The Commission, of course, does not blindly follow ROE results allowed by other commissions. The Commission determines the appropriate ROE based upon the evidence and particular circumstances of each case. However, the Commission believes that the ROE trends and decisions by other regulatory authorities deserve some consideration, as (1) they provide a check or additional perspective on the case-specific circumstances and (2) PSNC must compete with other regulated utilities in the capital markets, meaning that an ROE significantly lower than that approved for other utilities of comparable risk would undermine PSNC's ability to raise necessary capital, while an ROE significantly higher than other utilities of comparable risk would result in customers paying more than necessary. Both of those outcomes are undesirable and would result in unjust and unreasonable rates. The fact that the approved ROE falls within the range of recently approved ROEs for other natural gas distribution utilities lends additional support to the Commission's approval.

The record contains substantial evidence supporting the reasonableness of a rate of return on equity of 9.60%. The overall rate of return and allowed ROE underlying PSNC's current rates are 7.53% and 9.70% respectively, which is higher than the stipulated overall rate of return and ROE of 7.07% and 9.60%. Further, the stipulated rates of return on rate base are well below PSNC's originally proposed rates of 7.64% and 10.25% respectively. Additionally, the stipulated ROE is equal to the lowest allowed ROE granted by the Commission to a major natural gas or electric utility in at least the last decade and is equal to or lower than any current allowed ROE in effect for such utilities in North Carolina. As such, the Commission concludes that 9.60% is within the "zone of reasonableness" that leading commentators and the North Carolina Supreme Court have indicated is presumptively just and reasonable. See *State ex rel. Utils. Comm'n v. General Tel. Co. of the Southeast*, 285 N.C. 671, 681, 208 S.E.2d 681, 687 (1974) (a "zone of reasonableness extending over a few hundredths of one percent" exists within which the Commission may appropriately exercise its discretion in choosing a proper ROE).

As the Supreme Court made clear in *CUCA I* and *CUCA II*, the Commission should give full consideration to a nonunanimous stipulation itself, along with all evidence presented by other parties, in determining whether the stipulation's provisions should be accepted. In this case, insofar as expert ROE testimony is concerned, both witness Nelson and witness Hinton support an ROE at 9.60% based on a DCF analysis. Further, the two other parties that provided testimony on ROE support the stipulated ROE of 9.6%. Thus, the Commission finds and concludes that the Stipulation, along with the expert testimony of witnesses Nelson, Hinton, O'Donnell, and Collins is credible evidence of the appropriate ROE and is entitled to substantial weight in the Commission's ultimate determination of this issue.

In summary, the Commission concludes there is substantial evidence supporting the reasonableness of an ROE of 9.60%.

However, to meet its obligation in accord with the holding in *Cooper I*, the Commission will next address the impact of changing economic conditions on customers. In this case, all parties had the opportunity to present the Commission with evidence concerning changing economic conditions as they affect customers.

The testimony of PSNC witnesses Nelson and Phibbs, which the Commission finds entitled to substantial weight, addresses changing economic conditions at some length. Witness Nelson provided detailed data concerning changing economic conditions in North Carolina, as well as nationally, and concluded that the North Carolina-specific conditions are "highly correlated" with conditions in the broader nationwide economy. As such, witness Nelson testified that changing economic conditions, both nationally and specific to North Carolina, are reflected in her rate of return on equity estimates, which are fair and reasonable to PSNC, its shareholders, and its customers in light of changing economic conditions.

Based upon the general state of the economy, and after weighing and balancing factors affected by the changing economic conditions in making the subjective decisions required, the Commission concludes that the stipulated rate of return on equity of 9.60% will not cause undue hardship to customers even though some will struggle to pay the increased rates resulting from the Stipulation.

The many Commission-approved adjustments reduced the revenues to be recovered from customers and reduced the authorized rate of return on investment financed by equity investors. These adjustments have the effect of reducing rates and providing rate stability to consumers (and return to equity investors) in recognition of the difficulty some consumers will have paying increased rates in the current economic environment. While the equity investor's cost was calculated by using a rate of return on equity of 9.60% instead of 10.25%, this is only one approved adjustment that reduced ratepayer responsibility and equity investor return. Many other adjustments reduced the dollars that equity investors actually have the opportunity to receive. Therefore, nearly all of the adjustments reduce ratepayer responsibility and equity investor returns in compliance with the Commission's responsibility to establish rates as low as reasonably

permissible without transgressing constitutional constraints, and thus, inure to the benefit of consumers' ability to pay their bills in this economic environment.

For example, to the extent the Commission made downward adjustments to rate base, disallowed test year expenses, increased test year revenues, or reduced the equity capital structure component, the Commission reduced the rates consumers will pay during the future period when rates will be in effect. Because the compensation owed to investors for investing in PSNC's provision of service to consumers takes the form of return on investment, downward adjustments to rate base, disallowances of test year expenses or increases to test year revenues, or reduction in the equity capital structure component, will reduce investors' return on investment irrespective of the determination of rate of return on equity.

Considering the changing economic conditions and their effects on PSNC's customers, the Commission recognizes the financial difficulty that an increase in PSNC's rates may create for some of PSNC's customers, especially low-income customers. As shown by the evidence, relatively small changes in the rate of return on equity have a substantial impact on a utility's base rates. Therefore, the Commission has considered changing economic conditions and their effects on PSNC's customers in reaching its decision regarding PSNC's approved rate of return on equity.

The Commission also recognizes that PSNC is in a significant construction mode and much of the associated investment is responsive to safety related regulatory requirements. The need to invest significant sums in safety improvements to serve its customers requires PSNC to maintain its creditworthiness in order to compete for large sums of capital on reasonable terms. The Commission must weigh the impact of changing economic conditions on PSNC's customers against the benefits that those customers derive from the Company's ability to provide safe, adequate, and reliable natural gas service. Safe, adequate, and reliable natural gas service is important to the well-being of the people, businesses, institutions, and economy of North Carolina. Thus, the Commission finds and concludes that such capital investments by PSNC provide significant benefits to all PSNC customers.

The Commission concludes in the exercise of its independent judgment and discretion that a 9.60% rate of return on equity is supported by the evidence and should be adopted. The hereby approved rate of return on equity appropriately balances the benefits received by PSNC's customers from PSNC's provision of safe, adequate, and reliable natural gas service in support of the well-being of the people, businesses, institutions, and economy of North Carolina with the difficulties that some of PSNC's customers will have in paying PSNC's adjusted rates. The Commission further concludes that a 9.60% rate of return on equity will allow PSNC to compete in the market for equity capital, providing a fair return on investment to its investor-owners. In addition, lowering the rate from the requested 10.25% to 9.60% has the effect of reducing the cost of service which forms the basis of the rates paid by ratepayers. Accordingly, the Commission concludes, taking into account changing economic conditions and their impact on

customers, that the approved rate of return on equity will result in the lowest rates constitutionally permissible in this proceeding.

Finally, in approving the 9.60% rate of return on equity, the Commission gives significant weight to the Stipulation and the benefits that it provides to PSNC's customers, which the Commission is obliged to consider as an independent piece of evidence under the Supreme Court's holding in *CUCA I*.

As a result, the Commission concludes that the 9.60% stipulated ROE is reasonable, appropriate, and supported by the greater weight of the substantial evidence in the record.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 22

The evidence supporting this finding of fact is contained in the Application, the direct testimony and exhibits of PSNC witness Hinson, and the Stipulation.

The level of adjusted sales and transportation volumes used in the Stipulation is 1,318,864,906 therms. The sales and transportation throughput volume level is derived as follows:

Sales	559,414,506
Transportation	345,970,400
Special Contract	413,480,000
Total Throughput	1,318,864,906

The throughput levels are the result of negotiations among the Stipulating Parties, as described in the Stipulation, and are not opposed by any party. No other party submitted evidence on PSNC's throughput.

The Commission has reviewed the evidence regarding the appropriate throughput level in this proceeding and concludes that the stipulated throughput levels are fair and reasonable.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 23 – 25

The evidence for these findings of fact is contained in the Application, the direct testimonies of PSNC witnesses Hinson and Spaulding, and the Stipulation.

The appropriate end of period level of total cost of gas for use in this proceeding is \$218,682,115, as determined and reflected in Section 4 and on Exhibit H to the Stipulation. The Stipulation is the result of negotiations among the Stipulating Parties in

this proceeding and reflects the encompassing commodity gas costs and fixed gas costs as follows:

Commodity Costs	\$ 142,062,766 ³
Fixed Costs	<u>\$ 76,619,349</u>
Total Cost of Gas	\$ 218,682,115

The stipulated cost of gas is not contested by any party to this proceeding.

At the hearing, counsel for the AGO asked PSNC witness Hinson questions regarding the price of gas and introduced an article about rising gas prices. AGO Hinson Cross-Examination Exhibit 1. PSNC witness Hinson agreed that gas prices had risen, but also testified that gas prices had recently fallen. Tr. 323. He further testified in response to questions from the AGO that PSNC did not change the benchmark commodity cost of gas as part of PSNC's general rate case Application but had previously changed the benchmark commodity cost of gas through Rider D in a different proceeding and could file for further changes in the future.

The Commission has reviewed the above amounts, as well as all record evidence relating to the total cost of gas and concludes that the stipulated cost of gas is reasonable and appropriate for use in this proceeding.

Under the Commission's procedures for truing-up fixed gas costs in proceedings under Commission Rule R1-17(k), it is necessary and appropriate to determine the amount of fixed gas costs that are embedded in the rates approved herein. In the Stipulation, the Stipulating Parties agree that for the purpose of this proceeding and future proceedings under Rule R1-17(k) during the effective period of rates approved in this proceeding, the appropriate amount of fixed gas costs to be allocated to each rate schedule is as set forth in Exhibit D to the Stipulation. No party contests this allocation and no other party submitted evidence supporting a different allocation.

The Commission has examined these amounts, as well as all record evidence on fixed gas cost allocations, and concludes that the stipulated allocations of fixed gas costs are fair and reasonable.

Under the Commission's procedures for establishing rates and truing-up commodity gas costs, it is necessary to establish a benchmark embedded in sales customer rates. Section 4 of the Stipulation provides that in establishing rates for this proceeding, the parties have agreed to use PSNC's current benchmark of \$2.50 per dekatherm subject to any filed changes in such rate prior to implementation of revised rates in accordance with the order in this docket. No party contested the use of a \$2.50 per dekatherm benchmark in establishing rates for this proceeding and no other party

³ Of this total amount of commodity cost of gas, \$2,209,139 is the commodity cost of gas associated with CU&LAUF for gas quantities.

submitted evidence on this issue. The Commission has examined this proposal and concludes that the use of a \$2.50 per dekatherm benchmark for purposes of establishing rates in this proceeding is fair and reasonable.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 26

The evidence for this finding of fact is set forth in the direct and rebuttal testimonies and exhibits of PSNC witness Taylor, the direct testimony of Public Staff witness Floyd, the direct testimony of CUCA witness O'Donnell, the direct testimony of Evergreen witness Collins, and the Stipulation.

PSNC witness Taylor's direct testimony supported PSNC's cost of service study (COSS) which allocated PSNC's gas distribution costs to its rate classes, class revenue increase apportionment, and proposed rate design. He discussed principles of rate design and presented PSNC's proposed rate design for purposes of this proceeding. Witness Taylor also explained that PSNC proposed no increases to the basic facilities charge or other miscellaneous fees, and that the proposed revenue increases would be fully recovered through the volumetric charges.

In his direct testimony, Public Staff witness Floyd testified that due to constraints on time and resources, he was unable to complete a thorough review of PSNC's rate design. Witness Floyd testified that he believed it was appropriate to conduct a deeper investigation into PSNC's revenue apportionment and rate design given the disparities in class rates of return, the need to more fully understand PSNC's calculations and applications of some of the allocation factors, and the degree to which interruptible customers and contract-related customers share in the recovery of fixed costs. Witness Floyd explained that the Public Staff intended to work with PSNC to gain a better understanding of the cost of service and revenue apportionment prior to PSNC's next general rate case filing.

Both Evergreen witness Collins's and CUCA witness O'Donnell's direct testimonies criticized PSNC's COSS model for utilizing the Peak and Average allocation method for distribution mains. Based on this criticism, CUCA witness O'Donnell proposed an updated rate design for PSNC as follows: a 6.83% increase for the residential class; a 6.24% increase for the small general service class; a 3.00% increase for the medium general service class; a 7.85% for the large general service class; and a 7.62% increase for the large interruptible class.

Evergreen witness Collins was the sole witness to file testimony regarding the volumetric block rates for Rate 175 and proposed an across-the-board increase to each block rate of approximately 9.9%, which resulted in a total class increase of 9.3%.

On rebuttal, PSNC witness Taylor continued to support PSNC's original rate design and dismissed criticisms raised by other parties. He explained that Evergreen witness Collins's proposal was inconsistent with North Carolina precedent but accepted witness Collins's recommendation of the application of the same percentage increase to

each block rate. PSNC witness Taylor caveated that such acceptance was not support for Evergreen witness Collins's targeted revenue increase by class.

In the Stipulation, the Stipulating Parties agreed to the rate schedules reflecting volumetric rates and monthly charges as described in Section 7 and shown on Exhibit C to the Stipulation. In Section 7, the Stipulating Parties further agreed that the Commission should determine that these rates include: (a) changes in PSNC's benchmark commodity gas cost on or before the date that the rates approved in this docket become effective; and (b) changes in the gas demand and storage charges components of the fixed cost of gas shown in Exhibit H to the Stipulation that occur between the date of this Stipulation and the date that the rates approved in this docket become effective. The relative impacts of the stipulated rates on each PSNC customer class were agreed upon and reflected on Exhibit I to the Stipulation. Additionally, in Section 23 of the Stipulation, the Stipulating Parties agreed that the rates reflected on Exhibit C of the Stipulation are comprised of the billing rates reflected on Exhibit J of the Stipulation.

No party contested the rates, cost allocations, or rate design elements reflected in the Stipulation and no other party has submitted evidence in this proceeding regarding rate design and cost allocations except the evidence discussed above.

The stipulated rate design and rates necessary and appropriate to provide PSNC a reasonable opportunity to recover the stipulated revenue requirement in this proceeding are reflected in Exhibit C to the Stipulation. These computations show that the proposed rates, which include the benchmark commodity cost of gas used in this proceeding, will produce the revenues calculated under the rate design. The Commission has reviewed the stipulated rate design and rates, as well as all evidence relating to the proper rates to be implemented in this proceeding and concludes that the stipulated rate design and rates are just and reasonable and appropriate for use in this proceeding.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 27

The evidence for this finding of fact is contained in the Application, the direct testimony of PSNC witness Randall, the direct and rebuttal testimonies of PSNC witness Hinson, the direct testimony of Public Staff witness Patel, the Stipulation, Rider E of PSNC's tariffs, and Joint Late-Filed Exhibits Nos. 6 and 7.

In its Application and the direct testimony of PSNC witness Randall, PSNC indicated that it was incurring substantial and ongoing capital investments associated with efforts to comply with federal pipeline safety and integrity management requirements. PSNC witness Randall provided an overview of the Pipeline and Hazardous Materials Safety Administration (PHMSA) federal pipeline safety and integrity regulations governing TIMP and DIMP. He also provided an overview of PSNC's TIMP and DIMP compliance activities and explained that the IMT is a cost recovery mechanism that allows PSNC to recover the capital costs of TIMP and DIMP capital projects. In order to facilitate PSNC's continued compliance with the TIMP and DIMP regulations, and as authorized by N.C.G.S. § 62-133.7A, PSNC proposed to continue PSNC's IMT mechanism. According

to PSNC, the IMT mechanism is effective in facilitating the Company's TIMP and DIMP compliance and the same reasons that originally led to the Commission's approval of the IMT mechanism continue to be relevant today. PSNC witness Randall also stated that the IMT mechanism is necessary because it ensures PSNC's ability to timely invest in and earn on the significant expenditures, which avoids the need for multiple general rate cases to recover these costs.

In his direct testimony, PSNC witness Hinson testified that pursuant to Rider E, PSNC included in base rates the revenue requirement associated with integrity management capital investment as of December 31, 2020.

In her direct testimony, Public Staff witness Patel recommended that PSNC's IMT mechanism remain in place given the importance of pipeline safety in complying with federal safety guidelines to protect PSNC's customers, employees, contractors, and the general public.

As discussed in Section 9 of the Stipulation, and as authorized by N.C.G.S. § 62-133.7A, the Stipulating Parties agreed that it is appropriate to continue PSNC's IMT mechanism attached as Rider E to PSNC's current tariff.

In response to the Commission's Order Requesting Late-Filed Exhibits, PSNC and the Public Staff provided Late-Filed Exhibits Nos. 6 and 7. Joint Late-Filed Exhibit No. 6 supports the calculation of the \$33,520,862 Integrity Management (IM) Revenue Requirement for vintages 1 through 10 agreed upon by the Stipulating Parties to be included in PSNC's rate base. This schedule was originally filed in Docket No. G-5, Sub 565C as Schedule 1, Column (I) of PSNC's IMT Bi-Annual Report. Joint Late-Filed Exhibit No. 7 sets forth the allocation of the \$33,520,862 IM Revenue Requirement to the various customer classes and the computation of the proposed increments applicable to each class. This schedule was originally filed on August 13, 2021, in Docket No. G-5, Sub 636 as Schedule A to PSNC's Application for Bi-Annual Adjustment of Rates Under Rider E to its Tariff. No other party submitted evidence on the issue of the continuation of the IMT mechanism.

No other party submitted evidence on the issue of the continuation of the IMT mechanism.

The Commission has considered the evidence in this proceeding related to the proposed IMT mechanism and has reached the following conclusions. First, the Commission concludes that the form of IMT mechanism included as Rider E to PSNC's current tariff is within the scope of N.C.G.S. § 62-133.7A. That statute authorizes the Commission to adopt "a rate adjustment mechanism to enable the company to recover the prudently incurred capital investment and associated costs of complying with federal gas pipeline safety requirements, including a return based on the company's then authorized return." In this case, the proposed form of IMT included as Rider E to PSNC's current tariff provides for the recovery of return, taxes, and depreciation on capital investment associated with federal gas pipeline safety requirements in a manner

consistent with the statute and in the same fundamental manner that PSNC is permitted to recover those items of its cost of service in a general rate case proceeding. This approach to IMT cost recovery is reasonable and consistent with statutory requirements and normal regulatory practices.

Second, the Commission concludes that continuation of the IMT mechanism is favorable to customers because it provides for biannual adjustments to rates rather than subjecting customers to frequent rate cases associated with PSNC's recovery of the costs of investment necessary to comply with federal safety and integrity requirements. Further, Rider E expressly provides for Commission review of the mechanism as part of a general rate case proceeding and also specifically grants any party the right to apply to the Commission to terminate or modify the mechanism at any time on the grounds that the rider mechanism, as approved by the Commission, is no longer in the public interest.

Third, consistent with the requirements of N.C.G.S. § 62-133.7A, the Commission concludes that continuation of the IMT mechanism as reflected in Rider E of PSNC's tariffs is in the public interest. The Commission finds the uncontested evidence of PSNC's required capital expenditures on TIMP and DIMP compliance convincing. The Commission is equally persuaded that it is in the interest of PSNC customers to avoid frequent and repeated general rate case proceedings, which would otherwise be necessary to reflect these investments in PSNC's rate base, and which would result in additional regulatory and rate case costs paid by ratepayers. The Commission is satisfied that the public interest is protected from any potentially adverse impacts through a variety of means, including the limited nature of the costs recoverable through the IMT mechanism, the special contract crediting provision contained therein, the mandatory and permissive review provisions contained in the rider, and the Commission's general and continuing oversight of PSNC's earnings.

Finally, the Commission believes that continuation of the stipulated IMT mechanism will promote public safety by supporting the timely recovery of costs associated with pipeline safety and integrity expenditures by PSNC. Safety and reliability of utility infrastructure is of critical importance to the State and this Commission, and this mechanism facilitates the accomplishment of that goal.

Based on the foregoing, and in the absence of any evidence to the contrary, the Commission finds the IMT mechanism as reflected in Rider E of PSNC's tariffs and described in Section 9 of the Stipulation to be fair, reasonable, in the public interest, and appropriate for adoption in this proceeding.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 28

The evidence for this finding of fact is contained in the Application, the direct testimony and exhibits and the supplemental testimony and exhibits of PSNC witness Hinson, the direct testimony of Public Staff witness Patel, and the Stipulation.

Under PSNC's CUT mechanism, certain baseload and heat factors, as well as "R" values, are needed in order to make the calculations periodically required under that mechanism. The Stipulating Parties have provided updated factors in this proceeding as reflected in Section 10 and on Exhibit E of the Stipulation. These values are uncontested, and no other party has offered evidence supporting other factors. Joint Late-Filed Exhibit No. 8 shows the detailed calculations supporting the CUT annualized margin adjustment of \$5,092,150 agreed upon by the Stipulating Parties.

Based on the Stipulation, and the other record evidence in this proceeding, the Commission concludes that the updated CUT factors identified on Exhibit E to the Stipulation are reasonable and appropriate and should be approved.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 29 – 32

The evidence for these findings of fact is contained in the Application, the direct testimony of PSNC witness Randall, the direct testimony of Public Staff witness Patel, the direct testimony of Public Staff witness Feasel, the direct testimony of Public Staff witness Perry, the rebuttal testimony of PSNC witness Spaulding, and the Stipulation.

In PSNC's Application, supported by the direct testimony of PSNC witness Randall, PSNC proposed to continue deferral of TIMP and DIMP O&M costs associated with the PHMSA pipeline safety regulations. PSNC also included legal expenses in base rates related to the 2019 Durham incident, an incident involving a natural gas explosion in the city of Durham, North Carolina.

In her direct testimony, Public Staff witness Patel recommended that PSNC be allowed to continue its deferral treatment for TIMP and DIMP O&M costs until the resolution of PSNC's next general rate case. Public Staff witness Patel also raised concerns related to PSNC's tracking of TIMP and DIMP expenses.

Public Staff witness Feasel in her direct testimony discussed her review of the deferred TIMP & DIMP O&M program costs between July 1, 2016, and December 31, 2020, as updated through June 30, 2021, in PSNC's filed June update. Witness Feasel recommended adjustments to deferred TIMP and DIMP O&M expenses without invoice support and other non-eligible expenses. She also reflected the existing amortization from the Sub 565 rate case through December 31, 2021, the estimated effective date of rates in the current rate case. Witness Feasel further recommended that the balance of the deferred TIMP and DIMP O&M costs, net of prior amortizations, be amortized over a five-year period consistent with PSNC's proposed amortization period in PSNC's original filing.

Public Staff witness Perry in her direct testimony stated that she considers the 2019 Durham incident to be an extraordinary, non-recurring event and proposed to remove the legal fees incurred in 2020 from PSNC's cost of service.

In his rebuttal testimony, PSNC witness Spaulding disagreed with Public Staff witness Perry's characterization of the 2019 Durham incident legal fees, stating that

PSNC will likely incur these costs for many years and that reimbursement of costs through litigation was speculative and many years away. As an alternative to including the 2019 Durham incident legal fees in base rates, PSNC witness Spaulding proposed deferred accounting treatment for all legal fees related to the 2019 Durham incident.

In Section 11.A. of the Stipulation, the Stipulating Parties agreed that it is appropriate for PSNC to amortize and recover \$67,903,061 in deferred TIMP O&M costs, which reflects actual deferred expenses through June 30, 2021, net of regulatory amortizations through October 31, 2021, over a four-year period beginning with the effective date of rates in this proceeding. The Stipulating Parties further agree that it is appropriate to continue regulatory asset treatment for these costs and to defer and treat such costs as a regulatory asset until the resolution of PSNC's next general rate proceeding. PSNC in this section of the Stipulation also agreed to work with the Public Staff to address concerns related to tracking and reporting TIMP costs for review by the Public Staff.

No party has opposed the proposals contained in Section 11.A. of the Stipulation and no other evidence has been submitted regarding PSNC's TIMP O&M cost deferral.

In Section 11.B. of the Stipulation, the Stipulating Parties agreed that it is appropriate for PSNC to amortize and recover \$38,116,252, which reflects actual deferred expenses through June 30, 2021, net of regulatory amortizations through October 31, 2021, of DIMP O&M costs over a four-year period beginning with the effective date of rates in this proceeding. The Stipulating Parties further agreed that it is appropriate to continue regulatory asset treatment for these costs and to defer and treat such costs as a regulatory asset until the resolution of PSNC's next general rate case proceeding. PSNC also agreed in this section of the Stipulation to work with the Public Staff to address concerns related to tracking and reporting DIMP costs for review by the Public Staff.

No party has opposed the proposals contained in Section 11.B. of the Stipulation and no other evidence has been submitted regarding PSNC's DIMP O&M cost deferral.

In Section 11.C. of the Stipulation, the Stipulating Parties agreed that reasonable and prudent legal fees incurred on or after January 1, 2020, due to the 2019 Durham incident may be deferred for recovery in PSNC's next general rate case proceeding, offset by any insurance proceeds received related to the incident. The parties agreed not to include the balance in rate base in this general rate case proceeding. The amounts for future recovery will be reflected in FERC Account 182.3, in accordance with Section 11.C. of the Stipulation.

No party has opposed the proposals contained in Section 11.C. of the Stipulation and no other evidence has been submitted regarding PSNC's deferred legal fees incurred as a result of the 2019 Durham incident.

Pursuant to Section 31 of the Stipulation, PSNC agreed to provide an annual report to the Public Staff providing transactional details showing allocated or directly assigned

amounts, a description of the nature of the expense, and supporting documentation (i.e., invoices) for the O&M expenses incurred and deferred in relation to TIMP and DIMP requirements and certain Durham incident costs, net of insurance proceeds, and treated by PSNC as regulatory assets. The Stipulating Parties further agreed that this report shall be filed annually, beginning on April 30, 2022, for the 12-month period ending on December 31st of each year. No party contested or submitted evidence on this stipulated reporting requirement.

The Commission has considered the proposed amortization periods and related matters set forth in Section 11 of the Stipulation, as well as all record evidence on the amortization of these regulatory assets and concludes that the stipulated amortization treatment and specified amortization periods are consistent with the Commission's prior treatment of similar costs and are otherwise fair and reasonable and should be approved. The Commission further concludes that the proposed continuation of the existing regulatory asset treatment for ongoing TIMP and DIMP O&M costs is fair and reasonable and should be approved, and that regulatory asset treatment for legal costs related to the 2019 Durham incident is also fair and reasonable and should be approved.

The Commission also concludes that the uncontested reporting requirement proposed by the Public Staff and agreed by the Stipulating Parties as articulated in Section 31 of the Stipulation is reasonable and should be approved.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 33

The evidence for this finding of fact is contained in the Stipulation.

Pursuant to Section 24 of the Stipulation, the Stipulating Parties agreed that, beginning in the month in which this Order is issued, PSNC will use a net of tax rate of 6.57% for all deferred accounts, and that such shall be adjusted as appropriate for income taxes. No party opposed this stipulated net of tax rate for deferred accounts or submitted evidence on the issue.

The Commission concludes that it is appropriate for PSNC to use the uncontested and stipulated net of tax rate of 6.57% for all deferred accounts, to be adjusted as appropriate for income taxes, as set forth in Section 24 of the Stipulation.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 34

The evidence for this finding of fact is contained in the Application, the direct testimony and exhibits of PSNC witness Hinson, the direct testimony and exhibits of PSNC witness Spaulding, the direct testimony of Public Staff witness Perry, the Stipulation, and the revised Settlement Exhibits.

In PSNC's Application supported by the testimonies of PSNC witnesses Hinson and Spaulding, PSNC proposed three riders to address certain impacts of the Tax Cuts and Jobs Act and state income tax reductions. PSNC witness Spaulding explained that

the EDIT Rider would return to customers the benefits of unprotected EDIT balances, including amortized and re-deferred protected EDIT, for the period January 1, 2018, through December 31, 2020, that have not yet been flowed through to customers. He further explained that the primary component of the EDIT Rider balance is protected EDIT that is being amortized under the ARAM and re-deferred as a separate regulatory liability.

In her direct testimony, Public Staff witness Perry stated that the Public Staff agreed with PSNC's adjustment to reflect the federal protected EDIT amortization in base rates, as well as PSNC's removal of the accumulated deferred income taxes related to the three EDIT riders proposed from rate base in this case. Witness Perry also stated that PSNC had calculated the known and measurable protected EDIT based on IRS normalization rules, as required by the Tax Cuts and Jobs Act, and reflected the amortization of the refund of its protected EDIT balance in base rates using the ARAM method. She testified that the Public Staff agreed with PSNC's approach.

In Section 19 of the Stipulation, the Stipulating Parties agreed that federal protected EDIT should be amortized and returned to customers through base rates over the remaining lives of the property giving rise to the EDIT obligation utilizing ARAM beginning on the effective date of rates in this proceeding.

No other party filed testimony on the amortization of protected EDIT.

The Commission has reviewed the evidence on this issue and believes that the amortization of protected EDIT, as reflected in Section 19 of the Stipulation, appropriately balances the interests of customers and PSNC. As such, the Commission finds that the stipulated amortization of protected EDIT is just, reasonable, and appropriate for use in this proceeding.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 35 – 36

The evidence for these findings of fact is contained in the Application, the direct testimony of PSNC witness Hinson, the direct testimony of PSNC witness Spaulding, the direct testimony of Public Staff witness Perry, and the Stipulation.

In PSNC's Application supported by the testimonies of PSNC witnesses Hinson and Spaulding, PSNC proposed three riders to address certain impacts of the Tax Cuts and Jobs Act and state income tax reductions. These riders were as follows:

Rider EDIT-1 Amortization of Federal Excess Deferred Income Taxes Rider

Rider EDIT-2 Federal Tax Act Revenue Deferred From Overcollections Rider

Rider EDIT-3 State Excess Deferred Income Taxes Rider

PSNC witness Spaulding elaborated on each EDIT rider. He first explained that under Rider EDIT-1, PSNC proposed to flow through to customers the benefit of

unprotected EDIT balances over a seven-year period. Under Rider EDIT-2, PSNC proposed to refund to customers the overcollection balance over a two-year period and under Rider EDIT-3, PSNC proposed to flow through to customers over a five-year period the state corporate income tax reductions.

In her direct testimony, Public Staff witness Perry agreed with the removal of unprotected federal EDIT from rate base and recommended amortizing the unprotected EDIT regulatory liability in a rider to be refunded to ratepayers over five years on a levelized basis, with carrying costs. She stated that a five-year period would increase rate stability for ratepayers during the flow back period. As to state EDIT, Public Staff witness Perry recommended the amount be refunded to ratepayers over a two-year period on a levelized basis, with carrying costs, stating a two-year period was consistent with Commission precedent. As to the Revenue Deferral From Overcollections of Federal Taxes, Public Staff witness Perry recommended the amount be refunded to ratepayers over a one-year period which represents a reasonable and consistent methodology with prior Commission orders.

In Section 20 of the Stipulation, the Stipulating Parties agreed that: (1) federal unprotected EDIT should be amortized and returned to customers on a levelized basis through a rider mechanism over a five-year period beginning with the effective date of rates in this proceeding; (2) state EDIT, including the correction of a previous state income tax refund calculation, should be amortized and returned to customers on a levelized basis through a rider mechanism over a two-year period beginning with the effective date of rates in this proceeding; (3) overcollection of federal taxes from January 1, 2018, through January 31, 2019, should be amortized and returned to customers on a levelized basis through a rider mechanism over a one-year period beginning with the effective date of rates in this proceeding; and (4) that federal unprotected EDIT, state EDIT, and overcollection of federal taxes rider rates are reflected in Settlement Exhibit K to the Stipulation.

On December 2, 2021, the Stipulating Parties filed a Revised Settlement Exhibit K to the Stipulation to address a correction of the balance used to calculate the EDIT flowback for the federal unprotected and State EDIT amounts. Subsequent to filing the Stipulation of Settlement and Settlement Testimony on October 15, 2021, and the Joint Late-Filed Exhibits on November 9, 2021, PSNC discovered errors in the proposed levelized flowback of the federal unprotected and State EDIT. When PSNC initially provided the per books federal and state EDIT balances to the Public Staff to be levelized in the proposed EDIT riders, the per books amounts provided were already grossed up for taxes. When the Public Staff computed the levelized flowback of the federal unprotected and state EDIT balances in the proposed EDIT Riders, the EDIT amounts were inadvertently grossed up again. The Public Staff and PSNC have corrected the errors and filed revised exhibits: 1) Revised Settlement Exhibit 1 to the Settlement Testimony of Sonja R. Johnson 2) Revised Perry Exhibit I, Schedules 1 and 1(a) and Schedules 2 and 2(a) to the Testimony of Julie G. Perry 3) Revised Settlement Exhibit K to the Stipulation of Settlement 4) Revised Joint Late-Filed Exhibit 2. Both counsel for Evergreen Packaging, LLC and Carolina Utilities Customers Association, Inc. consented to the revised exhibits.

The Commission has reviewed the evidence on these issues and believes that the EDIT Riders and rates, as revised, appropriately balance the interests of customers and PSNC with respect to the flow back of the EDIT amounts. The Commission finds that the EDIT Riders and rates, as reflected in Revised Settlement Exhibit K to the Stipulation, are just, reasonable, and appropriate for use in this proceeding.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 37

The evidence for this finding of fact is contained in the Application, the direct and rebuttal testimonies of PSNC witness Spanos, the direct testimony of Public Staff witness McCullar, and the Stipulation.

In the Application, PSNC requested approval of the depreciation study performed by Gannet Fleming Valuation and Rate Consultants, LLC, and authority to implement the new depreciation rates resulting from such study. PSNC witness Spanos of Gannet Fleming Valuation and Rate Consultants, LLC through his direct testimony provided support for, and an explanation of, PSNC's updated depreciation study.

In her direct testimony, Public Staff witness McCullar disagreed with PSNC witness Spanos' estimated future net salvage percent for Distribution Mains in the depreciation study.

In his rebuttal testimony, PSNC witness Spanos disagreed with Public Staff witness McCullar's depreciation rate proposal, explaining that her method of net salvage estimation and resultant net salvage estimates were inappropriate and based on a non-industry standard previously rejected by this Commission.

In Section 21 of the Stipulation, the Stipulating Parties agreed that effective November 1, 2021, PSNC would adopt the revised depreciation rates reflected in the depreciation study filed with and supported by the testimony of PSNC witness Spanos.

No party opposed the stipulated depreciation rates and no other party submitted evidence on this issue.

Based on the testimony of PSNC witness Spanos and the Stipulation, the Commission concludes that implementation of the updated depreciation rates effective November 1, 2021, as proposed in the Stipulation, is just and reasonable and should be approved.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 38

The evidence for this finding of fact is contained in the Application, the direct testimony and exhibits of PSNC witness Hinson, settlement testimony of PSNC witness Hinson, the direct testimony of Public Staff witness Patel, and the Stipulation.

PSNC witness Hinson testified to proposed changes in PSNC's tariffs and service regulations and the reasons underlying those changes. The Stipulating Parties agreed in Section 22 of the Stipulation that PSNC's tariff and rules and regulations included in PSNC's Application, with the exception of proposed new Riders F and G (addressed elsewhere in the Stipulation), should be approved. The changes to the Company's tariff and rules and regulations that were agreed to among the Stipulating Parties are reflected in Exhibit F to the Stipulation. No party objected to these changes.

The Commission has reviewed these changes to PSNC's service regulations and tariffs and concludes that they are fair and reasonable and should be approved.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 39

The evidence for this finding of fact is contained in the direct testimony of Public Staff witness Hinton, the rebuttal testimony of PSNC witness Hinson, and the Stipulation.

In his direct testimony, Public Staff witness Hinton recommended three revisions to PSNC's gas extension feasibility model used to calculate the feasibility of extending natural gas service to PSNC's residential and commercial customers. First, witness Hinton testified that the Company's feasibility model should utilize an investment horizon of 40 years or an appropriate length of time that matches the book lives of the gas plant. Second, witness Hinton testified that PSNC's feasibility model should use PSNC's approved net of tax discounted rate. Third, witness Hinton testified that all future cash flows should be adjusted by a long-term inflation rate of 2%. In addition, he argued that PSNC should file for an exception to Commission Rule R7-16(b)(1) when extending gas service to new customers in new subdivisions where costs are substantial because there is no justification for discriminating between existing and new housing structures. Although the Public Staff shares PSNC's concerns with costs, witness Hinton stated that in cases that involve substantial additional capital, PSNC could file for an exception to the Rule as opposed to having a Company-wide policy that presumes that all new customers in new subdivisions generate unreasonable costs to connect even when located within the 100 feet allowances.

In his rebuttal testimony, PSNC witness Hinson testified that PSNC supported Public Staff witness Hinton's proposed changes to the gas extensions feasibility model. Regarding the recommendation for PSNC to file for an exception to Commission Rule R7-16(b)(1) when extending gas service to new customers in new subdivisions where costs are substantial, PSNC witness Hinson disagreed because Rule R7-16(b)(1) is applicable to the extension of water mains, not gas lines, which are governed by Rule R6-11. Tr. 308. PSNC witness Hinson testified that Section 23(d) of PSNC's rules and regulations provides an allowance for mains and service lines for distances totaling up to 200 feet, which considers only existing structures for extensions to new subdivisions, and that filing for an exception as proposed by witness Hinton would be unreasonable.

Section 25 of the Stipulation adopts witness Hinton's uncontested revisions to PSNC's model used to calculate the feasibility of extending natural gas service to its

residential and commercial customers, which are: (i) use of an investment horizon of 40 years or an appropriate length of time that matches the book lives of the gas plants; (ii) use of PSNC's approved net of tax overall rate of return as the discount rate employed for the net present value analysis approved in the Company's most recent rate case; and (iii) adjustment of all future cash inflows by a long-term inflation rate of 2%. In addition, the Stipulating Parties agreed in Section 25 of the Stipulation that PSNC will work with the Public Staff to consider possible modifications to the model and its service regulations regarding the 200-foot allowance for line extensions to new subdivisions to be sure that new and existing customers receive an appropriate allowance in the feasibility model.

Based upon the testimonies of Public Staff witness Hinton and PSNC witness Hinson, as well as the Stipulation, the Commission finds that the revisions to the gas extension feasibility model, as reflected in Section 25 of the Stipulation, are just and reasonable and should be approved.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 40

The evidence for this finding of fact is contained in the direct testimony of Public Staff witness Floyd, the rebuttal and settlement testimonies of PSNC witness Hinson, and the Stipulation.

In his direct testimony, Public Staff witness Floyd testified that the issue of affordability, as addressed by the Commission and other parties in electric proceedings in Docket Nos. E-7, Subs 1213, 1214, and 1187 and E-2, Subs 1219 and 1193 for various Duke electric utilities (Affordability Dockets), also applied to natural gas utility service. Therefore, witness Floyd testified that either a similar stakeholder process be convened for natural gas utilities or PSNC be allowed to join the Duke electric utilities' Affordability Dockets.

In his rebuttal testimony, PSNC witness Hinson stated that PSNC supported Public Staff witness Floyd's recommendation regarding affordability and supported a coordinated approach among the utilities to hold stakeholder meetings to discuss affordability.

In Section 26 of the Stipulation, the Stipulating Parties agreed that PSNC should join and participate in the affordability stakeholder collaborative currently being conducted in the Affordability Dockets.

No other party submitted evidence on this issue.

Based upon the testimony of Public Staff witness Floyd, the rebuttal testimony of witness Hinson, and the Stipulation, the Commission finds that PSNC's participation in the Affordability Dockets, as reflected in Section 26 of the Stipulation, is just and reasonable and should be approved.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 41 – 42

The evidence for these findings of fact is contained in the Application, PSNC's Application for Approval of Conservation Programs, the direct testimonies of PSNC witnesses Herndon and Hinson, the joint direct testimony of Public Staff witnesses Singer and Williamson, the Stipulation, and the EE Mechanism.

PSNC currently operates the following three EE programs: the Energy Efficient Equipment Rebate program, the High Efficiency Discount Rate program, and the Conservation Education program, which were approved in Docket No. G-5, Sub 495. According to Public Staff witnesses Singer and Williamson, the costs associated with the operation of PSNC's EE programs for its customers have been recovered through its base rates.

In Docket No. G-5, Sub 634, PSNC filed an application requesting approval to expand its existing programs and to add new programs to reflect an increased commitment to sustainability, provide customers a broader range of options, and better serve underserved communities. The Application, as supported by the testimony of PSNC witnesses Herndon and Hinson, requested approval in Docket No. G-5, Sub 632 to recover program costs through deferred accounting treatment and a rider, Rider F. PSNC witness Hinson testified that Rider F would allow PSNC to adjust its rates annually to recover costs associated with implementing the conservation programs.

In their joint testimony, Public Staff witnesses Singer and Williamson recommended that the Commission: (1) approve PSNC's proposed modifications to its Energy Efficiency Equipment Rebate Program and High Efficiency Discount Rate Program; (2) approve the proposed Residential New Construction Program, Home Energy Report Program, and Residential Low-Income Program; (3) reject PSNC's request to remove the costs of the High Efficiency Rate Discount Program from base rates; (4) approve PSNC's proposal to remove the remaining costs of all of its other EE programs from base rates and allow PSNC to recover those costs through an annual rider; (5) require PSNC to split the Energy Efficient Equipment Rebate Program into separate Residential and Commercial programs for cost allocation purposes; (6) approve PSNC's portfolio of natural gas EE programs, including the currently existing Conservation Education Program, as pilot programs to collect operational data, perform EM&V, and assess cost-effectiveness; (7) require PSNC to conduct more rigorous EM&V during the pilot period, including both process and impact evaluations, and to determine and include appropriate Net-to-Gross (NTG) assumptions for each program and inputs associated with avoided cost; and (8) approve the pilot programs for a period of three years, to commence within six months of the Commission's final order in this proceeding, and, at the end of the pilot period or sooner, if program performance dictates, PSNC should for each program seek either approval as a full program (with appropriate modifications) or termination. Public Staff witnesses Williamson and Singer further recommended that any petition for full approval or termination include supporting testimony on the updated inputs for participation, savings, NTG ratio, avoided costs, program costs, and cost-effectiveness test results.

The Stipulating Parties agreed in Section 27 of the Stipulation that PSNC's entire EE portfolio, whether existing, modified, or new as proposed in the application in Docket No. G-5, Sub 634, and consisting of the Energy Efficiency Rebate Program (to be separated into Residential and Commercial programs for cost allocation purposes), Conservation Education Program, Residential New Construction Program, Residential Home Energy Report Program, and Residential Low Income Program, should be authorized for a three-year pilot program in order to collect operational data, perform EM&V and assess cost-effectiveness. The Stipulating Parties further agreed that the three-year pilot program should commence within six (6) months of the Commission's final order in this docket, and to other provisions regarding the pilot programs outlined in Section 27.A. of the Stipulation.

In addition, the Stipulating Parties agreed pursuant to Section 27.B. of the Stipulation that PSNC shall be allowed to recover costs of EE programs through a Rider F, subject to certain provisions.

Following the filing of the Stipulation, PSNC and the Public Staff filed an EE Mechanism in accordance with the Stipulation on December 6, 2021. The EE Mechanism set forth detailed definitions, requirements, and guidelines in the areas of the pilot, the term of the mechanism, program approval applications, program management, program modifications, EM&V, the general structure of Rider F, cost recovery, and future review of the EE Mechanism. The EE Mechanism also provided that the pilot would run from November 1, 2021, until June 30, 2025.

No parties contested these provisions of the Stipulation or submitted additional evidence on the issues.

Within the context of a general rate case pursuant to N.C.G.S. § 62-133, established precedent indicates that the Commission has the authority to establish a cost-tracking rider if compelling circumstances exist to justify such action. Indeed, even in the absence of an express enabling statute,⁴ the Commission has exercised this ratemaking tool and the Supreme Court of North Carolina has upheld the Commission's authority to establish a cost-tracking rider when exceptional circumstances warrant such action. See, e.g., *State ex rel. Utils. Comm'n v. Edmisten*, 291 N.C. 327, 230 S.E.2d 651 (1976) (*Edmisten I*); *State ex rel. Utils. Comm'n v. Edmisten*, 291 N.C. 451, 232 S.E.2d 184 (1977) (*Edmisten II*).

In light of the Commission's policy to promote EE and to address concerns about affordability, the Commission finds it appropriate to allow a rider to be created for these

⁴ See, e.g., Order Approving Partial Rate Increase and Allowing Integrity Management Rider, Docket No. G-9, Sub 631, at p. 39 (N.C.U.C. Dec. 17, 2013) (approving an Integrity Management Rider as part of a general rate case decision); Order Approving Partial Rate Increase and Requiring Conservation Initiative, Docket No. G-9, Sub 499 (N.C.U.C. Nov. 3, 2005) (approving a Customer Utilization Tracker as part of a general rate case decision); Order Granting General Rate Increase and Approving Amended Stipulation, Docket No. E-7, Sub 909 (N.C.U.C. Dec. 7, 2009) (approving a Coal Inventory Rider as part of a general rate case decision).

pilot programs. Under the EE Mechanism, the rider and the pilot programs will be reviewed after three years.

No party contests the stipulated EE programs, or the proposed Rider F discussed above.

Based on the evidence in this proceeding, the Commission concludes upon its own independent judgment that the EE program changes, the EE Mechanism reflected in Section 27 of the Stipulation, and subsequent filings in this proceeding are just, reasonable, and appropriate for use in this proceeding.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 43

The evidence for this finding of fact is contained in the Application, PSNC's Application for Approval of Conservation Programs, the direct testimonies and exhibits of PSNC witnesses Herndon and Hinson, the joint direct testimony of Public Staff witnesses Singer and Williamson, and the Stipulation.

PSNC's Application, as supported by the testimony of PSNC witnesses Herndon and Hinson, requested approval in Docket No. G-5, Sub 632 to recover High Efficiency Discount Rate Program costs through deferred accounting treatment and a rider, Rider F.

In their joint testimony, Public Staff witnesses Singer and Williamson recommended the Commission approve PSNC's proposed modifications to the High Efficiency Discount Rate Program but reject PSNC's request to remove the costs of the High Efficiency Discount Rate Program from base rates. Witnesses Singer and Williamson stated that it may be difficult for the High Efficiency Discount Rate Program to generate savings apart from savings resulting from the Residential New Construction Program or other EE programs and, therefore, recommended that this program remain in PSNC's base rates, rather than including it in the Company's EE portfolio as an EE program. Tr. 912.

On rebuttal, PSNC witness Hinson disagreed with the Public Staff's recommendation to keep the High Efficiency Discount Rate Program costs in base rates as opposed to Rider F.

In Section 28 of the Stipulation, the Stipulating Parties agreed to Public Staff witnesses Singer and Williamson's proposed modifications to the High Efficiency Discount Rate Program and agreed that such program costs should be recovered through base rates.

Based on the evidence in this proceeding, including the testimonies of PSNC witness Herndon and Public Staff witnesses Singer and Williamson, the Commission concludes upon its own independent judgment that it is just, reasonable, and appropriate for PSNC to recover the costs of the modified High Efficiency Discount Rate Program through base rates as set forth in Section 28 of the Stipulation.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 44-45

The evidence supporting these findings of fact is contained in the direct and rebuttal testimonies of PSNC witnesses Herndon and Hinson, the direct testimony of Public Staff witness Patel, and the Stipulation.

In the Application, and as supported by PSNC witnesses Herndon and Hinson, PSNC requested authority to implement the GreenTherm™ Renewable Natural Gas Program, a voluntary renewable energy program offering a way for participating customers to purchase attributes of renewable natural gas. PSNC also proposed deferred accounting treatment and the implementation of a Rider G to ensure that program costs are properly assigned to participating customers.

PSNC witness Herndon provided additional details regarding the GreenTherm™ Program and renewable natural gas (RNG) programs generally. He explained that RNG captures methane that might otherwise escape into the atmosphere, increases fuel diversity, and provides local economic benefits in the construction of treatment and delivery infrastructure, among other benefits. He testified that the availability of RNG to customers increases renewable energy options, helps meet renewable portfolio standards or carbon reduction goals, facilitates the growth of RNG production capacity, and supports green attribute markets. Witness Herndon also testified that he was aware of at least nine other operating RNG programs, including a program operated by an affiliate, Dominion Energy Utah. He stated that PSNC's proposed GreenTherm™ Program is structured similarly to Dominion Energy Utah's program in that eligible customers would be able to purchase one or more half-dekatherm blocks of RNG attributes.

In her direct testimony, Public Staff witness Patel stated that the Public Staff supports the development of a voluntary GreenTherm™ Program and recommends that the Commission order PSNC to proceed with the development of the program. However, she also stated that the Public Staff does not believe that the program should receive final approval until PSNC has received the results of its request for proposals (RFP), determined the cost of a block of therms, and determined the sources for the renewable gas. The Public Staff also advocated for PSNC to consider carbon offsets and stated that once PSNC has fully developed the program, PSNC should update its proposal and file it with the Commission.

In his rebuttal testimony, PSNC witness Hinson requested the Commission approve the GreenTherm™ Program and Rider G in this proceeding, on the condition that PSNC promptly file the RNG attribute costs and other supporting information for Commission approval after responses to the Company's RFP are received. He testified that PSNC believes that this proposed conditional approval will yield more meaningful bids. He stated that PSNC agrees with the Public Staff's recommendation to price the GreenTherm™ per-therm block attributes before the Commission considers final approval of the program, and that PSNC will provide the details to the Public Staff for review before filing with the Commission. Public Staff witness Hinson additionally testified that PSNC

will evaluate the benefits of including carbon offsets in its RFP and provide the Public Staff an update in the first quarter of 2022.

In Section 29 of the Stipulation, the Stipulating Parties agreed to provisional approval of PSNC's proposed GreenTherm™ Program, subject to review and approval of the estimated program costs and revenues, sources of green attributes and carbon offsets, certification of the program, cost of a block of green attributes, and other specifications of the program. The Stipulating Parties further agreed that PSNC shall be allowed to recover reasonable and prudently incurred costs of the GreenTherm™ Program from participating customers through a Rider G recovery mechanism. Additionally, the Stipulating Parties agreed that PSNC would work with the Public Staff to finalize Rider G for purposes of cost recovery, and that PSNC would file such rider with the Commission for approval as also set forth in Section 29 of the Stipulation.

Moreover, pursuant to Sections 29.A. and 29.B. of the Stipulation, the Stipulating Parties agreed that within sixty (60) days of the filing of the Stipulation, PSNC would issue a request for proposals to determine pricing for blocks of renewable natural gas attributes and carbon offsets. During the time of provisional approval, Stipulating Parties also agreed that PSNC may defer eligible GreenTherm™ Program costs for later recovery, subject to such costs being found to be reasonable and prudently incurred.

No party contested these stipulated provisions regarding the GreenTherm™ Program or presented evidence contesting the GreenTherm™ Program.

Based on the evidence in this proceeding, the Commission concludes upon its own independent judgment that it is reasonable and appropriate to provisionally approve PSNC's GreenTherm™ Program, subject to review and approval of the estimated program costs and revenues, sources of green attributes and carbon offsets, certification of the program, cost of a block of green attributes, and other specifications of the program prior to final approval by this Commission. The Commission concludes that it is reasonable for PSNC to work with the Public Staff to finalize the Rider G and file such rider with the Commission for approval as agreed upon by the Stipulating Parties pursuant to Section 29 of the Stipulation. Further, the Commission concludes that it is reasonable and appropriate for PSNC to be allowed to recover reasonable and prudently incurred costs of the GreenTherm™ Program from participating customers through the Rider G, as ultimately agreed upon by PSNC and the Public Staff and approved by the Commission.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 46

The evidence supporting this finding of fact is contained in the direct testimony of PSNC witnesses Randall and Spaulding, the direct and rebuttal testimonies of PSNC witness Hinson, the direct testimony of Public Staff witness Patel, the Stipulation, and the settlement testimony of Public Staff witness Johnson.

In the Application, and as supported by PSNC witnesses Randall, Spaulding, and Hinson, PSNC requested approval to fund a research and development initiative to

promote environmental sustainability. PSNC also requested approval to make an adjustment to O&M expenses and rate base treatment for this initiative. As shown on Spaulding Direct Exhibit 6, Page 3 of 5, PSNC increased O&M expenses by \$285,000 for hydrogen research and development expenses.

In her direct testimony, Public Staff witness Patel disagreed with PSNC's hydrogen research proposal based on the argument that PSNC had not provided the Public Staff any costs specific to this program for North Carolina and further testified that the Public Staff should be given the opportunity to examine such new projects and make recommendations to the Commission before implementation. As shown on Public Staff Johnson Exhibit 1, Schedule 1, disallowance of this adjustment reduced PSNC's requested revenue increase by \$285,943.

On rebuttal, PSNC witness Hinson testified that PSNC recently provided the Public Staff a more detailed cost breakdown of PSNC's proposed hydrogen research and development initiative. He also testified that the Company believed that this provided the Public Staff with the information necessary to support PSNC's research and development initiative proposal.

In the Stipulation, the Stipulating Parties agreed that PSNC would engage a consultant to advise the Company on further development of hydrogen research and that the Company would provide a detailed annual report to the Public Staff on May 31 of each year. The settlement testimonies of PSNC witness Hinson and Public Staff witness Johnson indicated that the parties agreed on an amount of hydrogen research and development expenses in this proceeding. As shown on Johnson Settlement Exhibit 1, line 33, rather than the original revenue requirement reduction of \$285,943, the Stipulating Parties agreed to a revenue requirement reduction of \$159,281. Based on the expense gross-up factor set forth on Line 9 of Settlement Exhibit B, this equates to an expense amount of \$126,244 in this proceeding rather than PSNC's initial request of \$285,000.

Based on the evidence in this proceeding, the Commission concludes upon its own independent judgment that it is reasonable and appropriate for PSNC to engage a consultant to advise PSNC in the further development of hydrogen research, the costs of which will be reevaluated in the next general rate case. The Commission further concludes that it is reasonable and appropriate for PSNC to provide a detailed annual report regarding such hydrogen research to the Public Staff on May 31 of each year as set forth in Section 30 of the Stipulation.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 47

The evidence supporting this finding of fact is found in the verified Application and Form G-1, the testimony and exhibits of the witnesses, and the entire record in this proceeding.

In the present case, the Commission is approving PSNC's recovery through amortization of certain TIMP, DIMP, and Rate Case costs. A deferred cost is an exception

to the general principle that a regulated utility's current cost-of-service expenses should be recovered as part of its current revenues. As a result, a deferred cost is not the same as the other cost-of-service expenses to be recovered in the regulated utility's base rates and, therefore, should be subject to different accounting guidelines. When the Commission approves a typical cost of service, such as salaries and depreciation expense, there is a reasonable expectation that the expense will continue at essentially the same level until the regulated utility's next general rate case, at which time it will be reset. On the other hand, when the Commission approves a deferred cost, the Commission identifies a specific amount that has already been incurred by the regulated utility or is estimated to be incurred by the regulated utility. In addition, with respect to deferral of costs already incurred, the Commission sets the recovery of the amount of those costs over a specific period of time.

Therefore, the Commission finds it appropriate to direct PSNC to record the recovery of the specific amount in a regulatory asset account, rather than a general revenue account. If PSNC continues to recover a deferred cost for a longer period of time than the amortization period approved by the Commission that does not mean that PSNC is then entitled to convert those deferred costs into general revenue and record them in its general revenue accounts. Rather, PSNC should continue to record all amounts recovered as deferred costs in the specific regulatory asset account established for those deferred costs until its next general rate case.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 48

The evidence supporting this finding of fact is contained in the Stipulation, and the settlement testimonies of PSNC witnesses Hinson, Nelson, and Spaulding and Public Staff witnesses Perry and Johnson.

As is fully discussed above, the provisions of the Stipulation are the product of give-and-take settlement negotiations between PSNC, the Public Staff, CUCA, and Evergreen. As a consequence, the Stipulation reflects the fact that each of the Stipulating Parties agreed to certain provisions that advanced each such party's interests. The end result is that the Stipulation strikes a fair balance between the interests of each of the Stipulating Parties. As discussed above, the Commission has independently evaluated the provisions of the Stipulation and concludes in the exercise of its independent judgment that the provisions of the Stipulation are just and reasonable to all parties to this proceeding, in light of the evidence presented, and serve the public interest. Therefore, the Commission approves the Stipulation in its entirety.

IT IS, THEREFORE, ORDERED as follows:

1. That the Stipulation is hereby approved in its entirety;
2. That PSNC is hereby authorized to adjust its rates and charges in accordance with the Stipulation and this Order (as such rates may be adjusted for any changes in the benchmark commodity cost of gas, and changes in demand and storage

charges prior to the effective date of the revised rates) effective for service rendered on and after November 1, 2021;

3. That extension of PSNC's IMT mechanism as described in Section 9 of the Stipulation and Rider E to PSNC's tariff, is hereby approved;

4. That PSNC is authorized to implement the changes to its tariff and service regulations attached to the Stipulation as Exhibits F and G;

5. That PSNC shall file clean versions of the new and revised tariff and service regulations to comply with this Order within five (5) days from the date of this Order;

6. That PSNC is authorized to continue deferral accounting treatment for TIMP and DIMP O&M expenses and defer legal expenses associated with the 2019 Durham incident for recovery in PSNC's next general rate case;

7. That PSNC should implement the proposed depreciation rates reflected in the Company's depreciation study filed as a requirement of Commission Rule R6-80;

8. That PSNC is authorized to implement the amortizations, accounting practices, principles, methods, reporting requirements, and other actions agreed to in the Stipulation;

9. That PSNC's protected federal EDIT shall be flowed back to customers following the tax normalization rules utilizing the ARAM;

10. That all of PSNC's unprotected federal EDIT shall be returned to ratepayers through a levelized rider over a period of five years;

11. That PSNC shall refund to its ratepayers the overcollection of federal income taxes (the provisional revenues) related to the decrease in the federal corporate income tax rate for the period beginning January 1, 2018, and ending January 31, 2019, including corresponding interest, through a rider for a one-year period;

12. That PSNC's State EDIT recorded pursuant to the Commission's Order Addressing the Impacts of HB 998 on North Carolina Public Utilities issued May 13, 2014, in Docket No. M-100, Sub 138 shall be returned to ratepayers through a levelized rider for a two-year period;

13. That PSNC is authorized to implement a three-year pilot to manage, operate, evaluate, study, and recover the cost of its EE programs, and that such efforts shall be conducted pursuant to Rider F and the EE Mechanism filed by PSNC and the Public Staff, which is also hereby approved;

14. That if PSNC receives revenue for any deferred cost for a longer period of time than the amortization period approved by the Commission for that deferred cost,

PSNC shall continue to record all revenue received for that deferred cost in the specific regulatory asset/liability account established for that deferred cost until its next general rate case; and

15. That PSNC shall send the notice attached hereto as Appendix A to its customers beginning with the billing cycle that includes the rate changes approved herein.

ISSUED BY ORDER OF THE COMMISSION.

This the 21st day of January, 2022.

NORTH CAROLINA UTILITIES COMMISSION

A handwritten signature in cursive script, appearing to read "Joann R. Snyder".

Joann R. Snyder, Deputy Clerk

**STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH**

DOCKET NO. G-5, SUB 632
DOCKET NO. G-5, SUB 634

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. G-5, SUB 632)	
)	
In the Matter of)	
Application of Public Service Company of)	
North Carolina, Inc. for a General Rate)	
Increase)	
)	PUBLIC NOTICE
DOCKET NO. G-5, SUB 634)	
)	
In the Matter of)	
Application for Approval to Modify Existing)	
Conservation Programs and Implement)	
New Conservation Programs)	

On January 21, 2022, the North Carolina Utilities Commission (Commission) issued an Order allowing Public Service Company of North Carolina, Inc., d/b/a Dominion Energy North Carolina (PSNC or the Company) to increase its rates and charges by approximately \$29,464,353 million annually, or 5.12% overall, effective November 1, 2021.

On April 1, 2021, PSNC filed an application with the Commission in Docket No. G-5, Sub 632 requesting authority to adjust and increase its rates and charges for natural gas service in North Carolina. On April 27, 2021, the Commission issued an Order Establishing General Rate Case and Suspending Rates.

On May 4, 2021, the Public Staff filed a motion to consolidate Docket No. G-5, Sub 634, regarding PSNC's Application to Approve Conservation Programs, with Docket No. G-5, Sub 632, the Application for a General Increase in Rates and Charges. On May 18, 2021, the Commission issued an order which granted the Public Staff's motion and consolidated the above-referenced dockets (collectively, the Application).

In the Application, PSNC requested authority to increase its rates and charges to produce additional overall annual North Carolina retail revenues of approximately \$53,145,476 million, an increase of approximately 9.3% over current revenues. Further, PSNC sought approval of a rate of return on common equity of 10.25%.

PSNC also requested: (1) an extension of its Integrity Management Tracker (IMT) mechanism contained in Rider E to its approved tariff; (2) continued deferral of Operations and Maintenance (O&M) expenses associated with its Transmission Integrity Management Program (TIMP) and Distribution Integrity Management Program (DIMP) and amortization of certain TIMP and DIMP O&M expenses that have been deferred; (3) implementation of new depreciation rates recommended in a depreciation study conducted by Gannett Fleming Valuation and Rate Consultants, LLC; (4) authority to implement three riders to address certain liabilities arising from excess deferred income taxes (EDIT) associated with federal and state income tax reductions; (5) adoption of a rider (Rider F) mechanism to allow PSNC to recover the costs of its conservation programs; (6) authority to implement a voluntary renewable energy (GreenTherm™) program and approval of deferred accounting treatment and a rider (Rider G) mechanism to ensure that program costs are properly assigned to participating customers; (7) approval to fund a research and development initiative to promote environmental sustainability through an adjustment to O&M expenses and rate base treatment for this initiative; and (8) approval to update and revise certain tariff provisions.

The increase approved by the Commission was the result of a stipulation (Stipulation) entered into between PSNC and other parties to the proceeding, including the Public Staff. The Commission notes that the increase to specific classes of customers will vary in order that each customer class pays its fair share of the cost of providing natural gas service. For the typical residential customer, the approved rate increase effective November 1, 2021, will result in an annual increase to the customer's bill of approximately \$37.77, or \$3.14 per month, the annual increase in year one, net of the EDIT benefit to customers is \$8.02, or \$0.67 per month. These approved increases are associated with allowed expenses and return on investment and do not contemplate increases or decreases that may occur in association with gas cost adjustments to rates or other Commission approved riders as allowed by North Carolina law.

A list of approved rates can be obtained from PSNC's website, www.dominionenergy.com, or on the Commission's website at <https://www.ncuc.net> where the Commission's Order, the Stipulation, and other filings in this docket can be viewed/printed by using the Dockets drop down list and entering "G-5 Sub 632" in the Docket Search function.

ISSUED BY ORDER OF THE COMMISSION.

This the 21st day of January, 2022.

NORTH CAROLINA UTILITIES COMMISSION



Joann R. Snyder, Deputy Clerk