PLACE: Dobbs Building, Raleigh, North Carolina

DATE: Tuesday, October 1, 2019

TIME: 10:00 a.m. - 10:44 a.m.

DOCKET NO: G-9, Sub 752

BEFORE: Commissioner ToNola D. Brown-Bland, Presiding
Chairman Charlotte A. Mitchell
Commissioner Lyons Gray

IN THE MATTER OF:

Piedmont Natural Gas Company, Inc.

Application for Annual Review of Gas Costs Pursuant to N.C.G.S. § 62-133.4(c) and Commission Rule R1-17(k)(6)

A P P E A R A N C E S:

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T A B L E O F C O N T E N T S

E X A M I N A T I O N S:

E X H I B I T S

IDENTIFIED / ADMITTED

P R O C E E D I N G S

COMMISSIONER BROWN-BLAND: Good morning. Let's come to order and go on the record. I'm Commissioner ToNola D. Brown-Bland with the North Carolina Utilities Commission, the Presiding Commissioner for this hearing. With me this morning are Chair Charlotte A. Mitchell and Commissioner Gray.

I now call for hearing Docket Number G-9, Sub 752, In the Matter of an Application of Piedmont Natural Gas Company, Inc., for Annual Review of Gas Costs Pursuant to G.S. § 62-133 and Commission Rule R1-17. G.S. § 62-133.4 authorizes gas cost adjustment proceeding for natural gas local distribution companies and provides that the Commission shall conduct annual review proceedings to compare each natural gas company's prudently incurred costs with costs recovered from all of the utility's customers served during the test period. Commission Rule R1-17 prescribes the procedures for such annual reviews.

On August 1st, 2019, Piedmont Natural Gas Company, Inc., hereafter Piedmont or Company, filed the direct testimony and exhibits of MaryBeth Tomlinson, Gennifer Raney and Sarah E. Stabley relating to this annual review proceeding.

On August 2nd, 2019, the Commission issued an Order Scheduling Hearing, Requiring Filing of Testimony, Establishing Discovery Guidelines and Requiring Public Notice which -- and the Order scheduled the hearing for today, Tuesday, October 1st, 2019.

On August 14, 2019, Carolina Utility Customers Association, Inc., filed a Petition to Intervene which was granted by Order by the Commission issued August 15, 2019.

On August 16, 2019, Piedmont filed the supplemental testimony and exhibit of MaryBeth Tomlinson.

On September 16th, 2019, the Public Staff filed the joint direct testimony and appendices of witnesses Poornima Jayasheela, Zarka H. Naba and Julie G. Perry.

Also, on September 16th, 2019, Piedmont filed Affidavits of Publication of the public notice required by the Commission.

On September 24th, the Public Staff filed a Motion to Excuse the Public Staff's witnesses which was granted by Commission Order issued on September 26th, 2019.

Also, on September 26th, 2019, Piedmont filed the rebuttal testimony and revised exhibit of Witness Tomlinson. The Public Staff filed the revised Page 10 of its prefiled direct testimony. And the Commission issued an Order providing the parties with notice of questions to be answered at today's hearing.

On September 27, 2019, the Company filed a Motion to Excuse Witnesses Stabley and Tomlinson from appearing for this hearing. The Motion was granted by Order dated September 30th, 2019.

In compliance with the requirements of the State Government Ethics Act, I remind all members of the Commission of our duty to avoid conflicts of interest and inquire whether any member has a known conflict of interest with respect to this matter now before us?

(No response)

The record will reflect that no conflicts were identified.

I now call for appearances, beginning with Piedmont.

MS. McGRATH: Good morning, Commissioners. My name is Mindy McGrath. I'm with the Law Firm of McGuireWoods. I'm here representing Piedmont Natural

Gas Company. And with me is Brian Heslin who is the Deputy General Counsel at Duke Energy.

COMMISSIONER BROWN-BLAND: Good morning. Good to have you here.

MS. McGRATH: Thank you.

MR. PAGE: May it please the Commission, I am Robert Page representing Carolina Utility Customers Association.

COMMISSIONER BROWN-BLAND: It does please the Commission.

(Laughter)

MS. CULPEPPER: Good morning. Elizabeth Culpepper with the Public Staff appearing on the behalf of The Using and Consuming Public?

COMMISSIONER BROWN-BLAND: Good morning. Ms. Culpepper, have you identified any public witnesses who wish to provide testimony this morning.

MS. CULPEPPER: I'm not aware of any.

COMMISSIONER BROWN-BLAND: Out of caution, are there -- is there anyone in the audience with us today who wishes to provide testimony?

(No response)

Let the record reflect that no one came forward. With that said, are there any preliminary matters that the Commission doesn't know about or needs to know about?

MS. CULPEPPER: Not that I'm aware of.

COMMISSIONER BROWN-BLAND: All right. Then the case is with the Applicant. Ms. McGrath?

MS. McGRATH: One preliminary matter. Piedmont would move, formally move the prefiled testimony of Witnesses Sarah Stabley and MaryBeth Tomlinson. We'd like to move them into the record and into evidence as with their exhibits.

COMMISSIONER BROWN-BLAND: All right. That motion will be allowed. And that will be MaryBeth Tomlinson's direct testimony filed August the 1st, her supplemental, August the 16th, and rebuttal filed on August the 26th; is that correct?

MS. McGRATH: Correct. Along with her exhibits that were filed with her prefiled direct testimony on August 1st. She had one exhibit submitted with her supplemental testimony as well as one exhibit with her rebuttal testimony.

COMMISSIONER BROWN-BLAND: All right. All of that testimony will be received into the record and treated as if given orally from the witness stand. And the exhibits that were filed with them will be identified as they were when prefiled and received into evidence. Also, the direct testimony of Witness Sarah E. Stabley will also be received into evidence and given the -- treated as if given orally from the witness stand.

MS. McGRATH: Thank you.

(WHEREUPON, Exhibit MBT-1 through MBT-4, MBT Supplemental Exhibit A, and Exhibit MBT-1, Schedule 9, REVISED are marked for identification as prefiled and received into evidence.)

(WHEREUPON, the prefiled direct, supplemental and rebuttal testimony of MARYBETH TOMLINSON is copied into the record as if given orally from the stand.)

Before the
North Carolina Utilities Commission

Docket No. G-9, Sub 752

**Annual Review of Gas Costs Pursuant to G.S. 62-133.4(c)
and Commission Rule R1-17(k)(6)**

Testimony and Exhibits
of
MaryBeth Tomlinson

On Behalf Of
Piedmont Natural Gas Company, Inc.

Piedmont Natural Gas

August 1, 2019

Q. Please state your name and your business address.

A. My name is MaryBeth Tomlinson. My business address is 4720 Piedmont Row Drive, Charlotte, North Carolina, 28210.

Q. What is your position and what are your responsibilities with Piedmont Natural Gas Company ("Piedmont")?

A. I am employed as the Manager of Gas Accounting.

Q. Please describe your educational and professional background.

A. I received a B.A. degree in Accounting from Belmont Abbey College in Belmont, NC in 1985. In 1985, I was employed by Hobbs, Crossley and Blacka P.A. as a staff accountant. In 1987, I was employed by ALLTEL Corporation as Manager of General Accounting. In 1995, I was employed by SeaLand Service Corporation as Manager of Vessel Accounting. In 1999, I was employed by United States Ship Management, LLC (USSM) as Manager of General Accounting. In 2005, I was employed by HSBC Mortgage Corp. as Manager of Accounting. In 2007, I was employed by Piedmont as Manager of Special Projects. In February 2008, I became the Manager of Corporate Accounting. In August 2012, this department was divided between two managers and I became the Manager of Plant Accounting and Accounts Payable. I accepted the position as the Manager of Gas Accounting in January 2015.

Q. Have you previously testified before this Commission or any other regulatory authority?

A. Yes. I have previously testified before this Commission as well as the Public Service Commission of South Carolina.

Q. What is the purpose of your testimony in this proceeding?

A. The purpose of my testimony in this docket is to provide the information required by Commission Rule R1-17(k)(6)(c) for the period June 1, 2018 through May 31, 2019. This information is reflected in the following schedules attached to my testimony, which are collectively designated as Exhibit_(MBT-1):

(1) Summary of cost of gas expense.

(2) Summary of demand and storage gas costs.

(3) Summary of commodity gas costs ($).

(4) Summary of other cost of gas charges/(credits).

(5) Summary of demand and storage rate changes.

(6) Summary of demand and storage capacity level changes.

(7) Summary of demand and storage costs incurred versus collected.

(8) Summary of deferred account activity - sales.

(9) Summary of deferred account activity – all customers.

(10) Summary of gas supply (Dts).

All of these schedules were prepared by me or under my supervision.

Q. Has Piedmont accounted for its cost of gas in compliance with Rule R1-17(k) and the Commission's prior order in Docket G-100, Sub 67?

A. Yes. Piedmont has complied with the Rule and has filed with the Commission (with a copy to the Public Staff) a complete monthly accounting of its computations under the approved procedures. As ordered by the Commission in Docket G-100, Sub 67, Piedmont has recorded the net compensation from secondary market transactions in the All Customers' Deferred Account.

Q. Has Piedmont accounted for its secondary market sales and capacity release transactions to Duke Energy Carolinas, LLC (DEC) and Duke Energy Progress, LLC (DEP) in compliance with the North Carolina Utilities Commission's September 29, 2016 *Order Approving Merger Subject to Regulatory Conditions and Code of Conduct* regarding the Duke Energy – Piedmont merger ?

A. Yes. Piedmont has recorded in Piedmont's Deferred Gas Cost accounts all of the margins (also referred to as net compensation) received by Piedmont on secondary market sales and capacity release transactions with DEC and DEP for the benefit of the rate payers without any benefit to or sharing by Piedmont.

Q. How do the gas costs incurred by Piedmont during the period June 1, 2018 through May 31, 2019 compare with the gas costs recovered from Piedmont's customers during the same period?

A. During the period June 1, 2018 through May 31, 2019, Piedmont incurred gas costs of $366,642,230, received $352,122,738 through rates and allocated the difference of $(14,519,492) to Piedmont's gas cost deferred accounts. At May 31, 2019, Piedmont had the following deferred account balances:

All Customers Account	$	(17,913,017)
Sales Customers Account	$	1,093,864
Total	$	(16,819,153)

Piedmont also has a debit balance in its Hedging Program Deferred Accounts of $1,177,357 at May 31, 2019, which is included in the Sales Customers Account balance above.

Q. Has the Commission been kept advised of changes in Piedmont's deferred accounts during the test period?

A. Yes, Piedmont has filed information with the Commission on a monthly basis regarding the status of its deferred accounts and has provided copies of this information to the Public Staff.

Q. How does Piedmont propose to address recovery of the Hedging Account Balances?

A. Piedmont proposes to combine the Hedging Deferred Accounts and the Sales Customer Only Deferred Account balances to determine the net increment/decrement for sales customers resulting from this proceeding.

Q. What are the results of Piedmont's Hedging Program for the review period?

A. As indicated above, the balance in the Hedging Program Deferred Accounts at May 31, 2019 was $1,177,357. I have attached an analysis of the Hedging Program Deferred Account for the review period as Exhibit_(MBT-2).

Q. Are you proposing that any rate increments or decrements be implemented in this proceeding on the basis of the balances in the deferred accounts?

A. Yes. Based on the end-of-period balances in the Company's deferred accounts, I recommend that the increments/decrements to Piedmont's rates reflected on Exhibit_(MBT-3) and Exhibit_(MBT-4), attached hereto, be placed into effect for a period of twelve months after the effective date of the final order in this proceeding.

Q. Does this conclude your testimony?

A. Yes.

Before the
North Carolina Utilities Commission

Docket No. G-9, Sub 752

Annual Review of Gas Costs Pursuant to G.S. 62-133.4(c)
and Commission Rule R1-17(k)(6)

Supplemental Testimony And Exhibit
of
MaryBeth Tomlinson

On Behalf Of
Piedmont Natural Gas Company, Inc.

Piedmont Natural Gas

August 16, 2019

Q. Please state your name and your business address.

A. My name is MaryBeth Tomlinson. My business address is 4720 Piedmont Row Drive, Charlotte, North Carolina.

Q. What is your position with Piedmont Natural Gas Company ("Piedmont")?

A. I am employed as the Manager of Gas Accounting.

Q. Have you previously filed testimony in this proceeding?

A. Yes. I prefiled Direct Testimony in this proceeding on August 1, 2019.

Q. What is the purpose of your Supplemental Testimony?

A. The purpose of my Supplemental Testimony is to explain the interest rates applied to the Company's Cost of Gas ("COG") deferred accounts, which are the Sales Customers Only Deferred Account, the All Customers Deferred Account, the Hedging Deferred Account, and the NCUC Legal Fund Account. I will also explain the interest rates applied to the deferred accounts for the Margin Decoupling Tracker ("MDT") mechanism, the Integrity Management Rider ("IMR") mechanism, and the regulatory liability account holding the over-collected tax revenues associated with the federal tax reform changes effective January 1, 2018.

Q. What are the current requirements for the interest rates applied to these account balances?

A. The current requirements are set forth in various commission orders and in the Company's commission-approved North Carolina Service Regulations. For the COG deferred accounts, the current requirement regarding the applicable interest rate was established pursuant to the Commission's September 29, 2016 Order ("2016 Merger Order") in Docket No. G-9, Sub 682. Specifically, ordering Paragraph 9 in the 2016 Merger Order states that "Piedmont shall use the net-of-tax overall rate of return from its last general rate case as the applicable interest rate on all amounts over-collected or under-collected from customers reflected in its Sales Customers Only, All Customers, and Hedging Deferred Gas Cost Accounts."

For the MDT deferred account, the current requirement regarding the applicable interest rate was established pursuant to the Commission's October 24, 2008 Order ("2008 Rate Case Order") in Docket No. G-9, Sub 550. The 2008 Rate Case Order approved the MDT mechanism as Appendix C of the Company's North Carolina Service Regulations. Specifically, Section 6 of Appendix C states "[i]nterest will be applied to the Margin Decoupling Deferred Account at the Company's authorized overall rate of return."[1]

For the IMR deferred account, the current requirement regarding the applicable interest rate was established pursuant to the Commission's December 17, 2013 Order ("2013 Rate Case Order") in Docket No. G-9, Sub 631. The 2013 Rate Case Order approved the IMR mechanism as Appendix

[1] The predecessor mechanism to the MDT was Piedmont's Customer Utilization Tracker ("CUT") mechanism. The CUT was established in 2005 pursuant to the Commission's orders in Docket No. G-9, Sub 499. The requirements for the interest rate for the CUT deferred account were identical to the interest rate requirements for the MDT deferred account.

E of the Company's North Carolina Service Regulations. Specifically, Section 6 of Appendix E states "[i]nterest will be applied to the Integrity Management Deferred Account at the Company's authorized net-of-tax overall rate of return."

For the regulatory liability account holding the over-collected tax revenues associated with the federal tax reform changes effective January 1, 2018, the current requirement regarding the applicable interest rate was established pursuant to the Commission's October 5, 2018 Order ("2018 Tax Reform Order") in Docket No. M-100, Sub 148. Regarding the amounts in this regulatory liability account, the 2018 Tax Reform Order stated in ordering paragraph 5 that "[t]hese amounts will ultimately be returned to customers with interest reflected at the overall weighted cost of capital approved in each Company's last general rate case proceeding."

Q. So, is it appropriate to conclude that Piedmont is currently required to use its overall allowed rate of return on a net-of-tax basis as the interest rate for each of its deferred accounts?

A. Yes, that is Piedmont's understanding of the Commission's current interest rate requirements for these deferred accounts, and the Company has followed these requirements.

Q. Presently, what is the Company's overall authorized rate of return on a net-of-tax basis?

A. That rate is presently 6.95%, which is based on the weighted cost of capital approved by the Commission in Piedmont's last general rate case (i.e. its 2013 general rate case), expressed on a net-of-tax basis under currently applicable federal and state corporate income tax rates. Those current federal and state corporate income tax rates are 21% and 2.5%, respectively. At the time of the 2013 Rate Case Order, the applicable federal and state corporate income tax rates were 35% and 6.9%, respectively. Supplemental Exhibit A herein shows the computation of Piedmont's present 6.95% overall authorized rate of return on a net-of-tax basis; much of the information in this schedule was previously filed with the Commission, labeled as "Schedule D" in Piedmont's April 4, 2019 compliance filing in Docket No. M-100, Sub 148.

Q. Was 6.95% the Company's overall authorized rate of return on a net-of-tax basis throughout the entire 12-month review period of this proceeding?

A. No. The review period for this proceeding is June 1, 2018 through May 31, 2019. The Company's overall authorized rate of return on a net-of-tax basis was 6.94% for the first seven months of the review period. The 6.94% rate is based on the weighted cost of capital approved by the Commission in Piedmont's 2013 general rate case, expressed on a net-of-tax basis per the 21% federal corporate income tax rate and 3.0% state corporate income tax rate in effect for these first seven months of the review period. Starting January 1, 2019, the applicable state corporate income tax rate for Piedmont became 2.5%; accordingly, the Company's net-of-tax overall authorized rate of return became 6.95% effective January 1, 2019.

Q. What specific interest rates did the Company use for the deferred accounts during the review period of this proceeding?

A. For the first seven months of the review period, the Company used the 6.94% interest rate on its deferred accounts. For the latter five months of the review period, the Company used the 6.95% interest rate on its deferred accounts.

Q. Do you believe a change to the interest rate applicable to the Company's deferred accounts is warranted at this time?

A. No, I do not. The Company is currently using the Commission-authorized interest rate for these deferred accounts. The Company will continue to apply the Commission-authorized interest rate to these deferred account balances until otherwise ordered by this Commission. I will note, however, that there is a Piedmont general rate case application presently pending before this Commission in Docket No. G-9, Sub 743. The outcome of that general rate case proceeding will ultimately establish a new overall authorized rate of return for Piedmont. Upon the effective date of rates established by this Commission in Docket No. G-9, Sub 743, the Company shall apply the new overall authorized rate of return on a net-of-tax basis to these deferred accounts.

Q. Does this conclude your Supplemental Testimony?

A. Yes.

Before the
North Carolina Utilities Commission

Docket No. G-9, Sub 752

Annual Review of Gas Costs Pursuant to G.S. 62-133.4(c)
and Commission Rule R1-17(k)(6)

Rebuttal
Testimony and Exhibit
of
MaryBeth Tomlinson

On Behalf Of
Piedmont Natural Gas Company, Inc.

Piedmont Natural Gas

September 26, 2019

Q. Please state your name and your business address.

A. My name is MaryBeth Tomlinson. My business address is 4720 Piedmont Row Drive, Charlotte, North Carolina.

Q. What is your position with Piedmont Natural Gas Company ("Piedmont" or the "Company")?

A. I am the Manager of Gas Accounting Services in the Natural Gas Business Unit of Duke Energy Corporation ("Duke Energy"), of which Piedmont is a wholly-owned subsidiary.

Q. Have you previously filed testimony in this proceeding?

A. Yes. I prefiled Direct Testimony in this proceeding on August 1, 2019 and supplemental testimony on August 16, 2019.

Q. What is the purpose of your Rebuttal Testimony?

A. The purpose of my rebuttal testimony is to respond to recommendations made in the direct testimonies of Public Staff witnesses Zarka H. Naba and Poornima Jayasheela as well as to provide and explain minor corrections to Schedule 9 in Exhibit_(MBT – 1).

Q. **What is your conclusion regarding Ms. Naba's recommendations set forth in the Annual Review of Gas Costs Testimony filed on September 16, 2019 regarding any proposed increments/decrements?**

A. The Company agrees with Ms. Naba's recommendations that the Company remove the existing temporary decrements and increment approved in the Company's prior annual review of gas costs proceeding (Docket No. G-9, Sub 727) and implement the temporaries as calculated in Tomlinson

Exhibit_(MBT-3). Due to the circumstances regarding the projected balance of the Sales Customers' Only Deferred Account as outlined in Ms. Naba's testimony, the Company has no concerns about not implementing the increment as originally proposed and included in Exhibit_(MBT-4).

Q. **What is your conclusion regarding Ms. Jayasheela's recommendation regarding additional monthly Secondary Marketing reporting?**

A. The Company is agreeable to the additional Secondary Marketing information requested. Public Staff and the Company are working out the details of the reporting.

Q. What minor corrections are you making to Exhibit_(MBT-1), Schedule 9?

A. In our original filing, the "other adjustments" footnotes had incorrect account names assigned to the journal entries as well as an incorrect month noted for the interest rate change. We are correcting these mistakes in the revised Schedule 9 of Exhibit MBT-1 attached hereto. Specifically, we are making the following changes:

1) Journal ID NCDFINTCOR "Account" changed to Regulatory Interest Expense, "(Account)" changed to All Customers Deferred Account, "Description" – the month referred to in the description column was changed from March 2019 to April 2019.

2) Journal ID PNGINTEXPA "Account" changed to Current Deferred Income Taxes, " (Account)" changed to All Customers Deferred Account. All data associated with these journal entries was properly recorded in the general ledger and presented in the schedule.

Q. Does this conclude your Rebuttal Testimony?

A. Yes.

(WHEREUPON, the prefiled direct testimony of SARAH E. STABLEY is copied into the record as if given orally from the stand.)

Before the
North Carolina Utilities Commission

Docket No. G-9, Sub 752

Annual Review of Gas Costs Pursuant to G.S. 62-133.4(c)
and Commission Rule R1-17(k)(6)

Testimony and Exhibits
of
Sarah E. Stabley

On Behalf Of
Piedmont Natural Gas Company, Inc.

Piedmont Natural Gas

August 1, 2019

Q. Please state your name and your business address.

A. My name is Sarah E. Stabley. My business address is 4720 Piedmont Row Drive, Charlotte, North Carolina.

Q. What is your position with Piedmont Natural Gas Company ("Piedmont" or the "Company")?

A. I am Managing Director of Gas Supply Optimization & Pipeline Services in the Natural Gas Business Unit of Duke Energy Corporation ("Duke Energy"), of which Piedmont is a wholly owned subsidiary.

Q. Please describe your educational and professional background.

A. I graduated from Queens University of Charlotte in May of 2004 with a Bachelor of Arts Degree in Business Administration. I joined the Company as a Collector/Meter Reader in our field operations in December of 1998. In March 2001 I took a position in Gas Control as a Schedule Confirmation Analyst. In November 2004, I was hired as a Gas Supply Representative in the Gas Supply department. In 2008, I was promoted to Manager of Gas Supply & Wholesale Marketing. In 2013, I was promoted to Director of Gas Supply, Scheduling & Optimization. In 2018, I was promoted to my current position as Managing Director of Gas Supply Optimization & Pipeline Services.

Q. Please describe the scope of your present responsibilities.

A. My current major responsibilities for Piedmont include supervision of the procurement and optimization of pipeline transportation, storage, and supply assets, system demand forecasting, administration of the Company's Hedging Plans, and management of broker activity for transportation.

Q. Have you previously testified before this Commission or any other regulatory authority?

A. Yes. I have previously testified in this Commission's Annual Review of Gas Costs for Piedmont (Docket Nos. G-9 Sub 633, G-9 Sub 653, G-9 Sub 673, G-9 Sub 690, G-9 Sub 710, and G-9 Sub 727). I have also testified in the Annual Review of Purchased Gas Adjustment and Gas Purchasing Policies for Piedmont by the Public Service Commission of South Carolina (Docket Nos. 2012-4-G, 2013-4-G, 2014-4-G, 2015-4-G, 2016-4-G, 2017-4-G, 2018-4-G, and 2019-4-G).

Q. What is the purpose of your testimony in this proceeding?

A. This testimony is in response to Commission Rule R1-17(k)(6), which provides for an annual review of the Company's gas costs recovered from all its customers that it served during the review period. I will also discuss the Company's hedging activity during the review period.

Q. What is the period of review in this docket?

A. The review period is June 1, 2018 through May 31, 2019.

Q. Please explain the Company's gas purchasing policies.

A. The Company has previously utilized and continues to maintain a "best cost" gas purchasing policy. This policy consists of five main components: 1) the price of the gas, 2) the security of the gas supply, 3) the flexibility of the gas supply, 4) gas deliverability, and 5) supplier relations. As all of these components are interrelated, we continue to weigh the relative importance of each of these factors when developing the overall gas supply portfolio to meet the needs of our customers.

Q. Please describe each of the five components.

A. 1) The "price of the gas" refers to the final cost of gas delivered to the Company's city gates. The majority of the Company's supply purchases take place at "pooling points" or at interconnects into the pipeline on which the Company holds firm transportation capacity rights. In the case of "bundled" city gate supply purchases, the Company may pay the gas supplier an all-inclusive price that covers the cost of gas, fuel and transportation charges. The use of storage services may add additional injection, withdrawal, and related fuel charges to the city gate cost of gas. In order to accurately assess prices at a comparable transaction point, the Company evaluates purchase prices at the receipt point and adds the applicable fuel and transportation costs associated with delivery to our pipeline city gate points.

2) "Security of gas supply" refers to the assurances that the supply of gas will be available when required. It is imperative to maintain a high level of supply security for the Company's firm customers. Security of gas supply is less important for our interruptible customers whose service is subject to interruption in order to provide service to the Company's firm customers. Fixed supply reservation fees are generally required, in addition to the

commodity cost of gas, in order to contract for and reserve firm gas supplies. In addition, the geographic source of supply, the nature of the supplier's portfolio of gas supplies, and negotiated contract terms must be considered when evaluating the level of supply security. Thus, the security of gas supply is interrelated with the price of gas as well as other components of the Company's "best cost" purchasing policy.

3) "Flexibility of gas supply" refers to our ability to adjust the volume of a particular supply contract as operating and market conditions change. For example, the demand of firm heat-sensitive customers will vary depending on the weather conditions. Interruptible customers will vary their level of purchases depending on the price of alternate fuels and the demand for product in their own industry. Thus, the Company must arrange a portfolio of gas supplies and storage services flexible enough to meet the daily and monthly "swings" in demand. Contractual "swing rights" are implemented through monthly and daily elections with gas suppliers and through injections into and withdrawals out of storage.

4) "Gas deliverability" refers to the ability to deliver the Company's gas supplies at the city gate through reliable transportation and storage capacity arrangements. The interstate pipeline industry has created a complex system of multiple pipeline and storage service combinations. Transportation arrangements can involve *intra*state pipeline transportation, interstate pipeline transportation, interstate pipeline storage arrangements, interstate

pipeline lateral lines, interstate pipeline pooling services, and interstate pipeline balancing and peaking services. The marketplace for pipeline capacity service is limited, with little to no unused capacity available during periods of high demand conditions such as extreme cold or hot weather conditions. Consequently, it is important that we secure and maintain firm transportation and storage capacity rights to ensure the deliverability of our gas supplies to meet the design day, seasonal, and annual needs of our customers. Pipeline transportation and storage capacity contracts require the payment of fixed demand charges to reserve firm transportation and/or storage entitlements. The Company is active in proceedings at the Federal Energy Regulatory Commission ("FERC") not only with respect to the level of pipeline charges under these contracts, but also the tariff terms and conditions that apply to these pipeline services.

5) "Supplier relations" refers to the dependability, integrity and flexibility of a particular gas supplier. We contract with gas suppliers who have a reputation of honoring their contractual commitments and have proven themselves as reliable suppliers. Conversely, we avoid suppliers which have a reputation of defaulting on contract obligations or who unilaterally interpret contracts to their advantage. We prefer to deal with suppliers who are constantly looking for ways to improve service and offer "win-win" solutions for meeting customer needs.

Q. Please describe the arrangements under which the Company purchases gas.

A. The Company purchases gas supplies under a diverse portfolio of contractual arrangements with a number of gas producers and marketers. In general, under the Company's firm gas supply contracts, the Company may pay negotiated reservation fees for the right to reserve and call upon firm supply service up to the maximum daily contract quantity (elected either on a monthly or daily basis), with market-based commodity prices. These market-based commodity prices, to which the Company's gas supply contracts refer, are published daily and monthly in industry trade publications. These firm contracts typically range in term from one month to four years. Some of these contracts are for winter only (peaking or seasonal) service, summer only (peaking or seasonal) service, or 365-day (annual) service. Firm gas supplies are purchased for reliability and security of service. The reservation fees associated with firm gas supplies may vary according to the amount of flexibility built into the contract, with daily swing service usually being more expensive than monthly baseload service. Generally, prior to or when existing supply contracts expire, requests for proposal ("RFPs") may be sent to potential suppliers, their responses evaluated, and firm gas supplies are then contracted with suppliers whose proposals best fulfill the Company's "best cost" purchasing policy.

The Company also purchases gas supplies in the spot market under contract terms of one month or less. These contracts provide less supply security and, as a result, the Company relies on these contracts primarily for interruptible or spot markets during off-peak periods when secondary supplies are more abundant and for supplemental system balancing requirements. Because of the nature of spot contracts, these supplies do not command reservation fees and are priced at a market rate, generally by reference to an industry index or at negotiated fixed prices.

Q. How does the combination of the five factors described above determine the nature of the supply and capacity contracts under your "best cost" policy?

A. Under our "best cost" policy, we secure and maintain a supply portfolio that is in balance with the requirements of our sales customers. Because our firm sales customers must have secure and reliable gas supply, we meet the need of our firm sales customers' demand primarily with long-term firm supply, transportation, storage, and peaking service contracts. The temperature sensitivity of our firm customers necessitates that flexibility of supply and storage also be provided. As mentioned earlier, firm gas supply contracts demand a premium, typically in the form of fixed reservation fees. Firm supply contracts with flexible swing service entitlements will command a higher reservation fee than baseload arrangements. Because our interruptible customers are more price sensitive and require less supply security, we supply these customers with off-peak firm gas supply and transportation services when the firm customers' demand declines and through the purchase of gas supplies in the spot market.

In short, before entering into any agreement to purchase gas supply, pipeline transportation capacity, or storage capacity, we carefully consider the requirement for the supply and weigh the five "best cost" factors (price, security, deliverability, flexibility, and supplier relations). A great deal of judgment is required when weighing these factors. We keep informed about all aspects of the natural gas industry in order to exercise this judgement. We intervene in all major FERC proceedings involving our pipeline transporters, stay in constant contact with our existing and potential suppliers, monitor gas prices on a real-time basis, subscribe to industry literature, follow supply and demand developments, and attend industry seminars.

Q. What is your greatest challenge in applying your "best cost" gas purchasing policy?

A. Since most major gas supply decisions require a considerable degree of planning and must be made a year or more in advance of service, our greatest challenge is dealing with future uncertainties in a dynamic global, national, and regional energy market. Future demand for gas is affected by economic conditions, customer conservation efforts, weather patterns, and regulatory policies. In addition, the future availability and pricing of gas supplies will be affected by overall end-user demand, oil and gas exploration and development, pipeline expansion and storage projects, and regulatory policies and approvals.

Q. Please explain the Company's position regarding the current U.S. supply situation.

A. For much of the first decade of this century, futures pricing of natural gas reflected by the NYMEX was extremely volatile. Peak pricing for futures contracts occurred in July 2008 when contracts for gas to be delivered during January 2009 sold for $14.516 per dekatherm. Due to the significant quantities of shale gas that have become available to the market, the cost of gas in the production areas has declined dramatically. It is the Company's expectation that some volatility will remain in the physical markets, particularly related to force majeure type events, interstate pipeline capacity markets, and/or significant changes in supply and/or demand, but that the dramatic swings previously seen in the futures market are not likely to recur with the same regularity or intensity so long as shale gas supplies remain abundant and regulatory policies remain favorable for gas and oil exploration. Other factors to consider in the U.S. natural gas supply – demand situation are the exportation of liquefied natural gas ("LNG"), exportation of gas to Mexico, and increased industrial demand for gas along the Gulf Coast. Nevertheless, market experts believe that future LNG exports, exports to Mexico, and higher Gulf Coast demand will be adequately served by shale supplies and that while there is a reasonable expectation of an increase in gas costs, the anticipated effect is marginal.

Q. Please explain the factors that the Company evaluates in determining the pricing basis for its gas supply contracts. Please discuss the various pricing alternatives available, such as fixed prices, monthly market indexing and daily spot market pricing and describe how supplier reservation charges and discounts or premiums from market prices enter into the evaluation.

A. The Company has various pricing options available to it when developing its gas supply portfolio. These options include monthly market indexing, daily spot pricing, and fixed pricing. Prices for gas contracted for a term of one month or longer typically refer to a monthly or daily index as published by industry trade publications. Prices for daily spot deals may refer to a daily index or a negotiated fixed price.

The reservation fee the Company pays for each contract in its firm supply portfolio is dependent upon the pricing options chosen and the supply flexibility requirements associated with each contract. Reservation fees are generally lower for baseload supplies (purchased at a constant volume for the entire month, season or year) and higher if swing service is required. Reservation fees also vary depending on the type of swing service being provided. Examples of factors which affect the cost of swing service are: 1) the number of days of swing required; 2) the volume of swing allowed; 3) commodity pricing at first of the month indices versus daily spot pricing; 4) next day versus intraday swing capabilities; and 5) location of the supply being purchased.

The Company considers its anticipated load and swing requirements under various demand scenarios, contemplates the factors listed above and makes a “best cost” purchasing decision.

Q. Please describe how the Company determines the daily contract quantity of gas supplies that should be acquired through long-term contracts for the whole year, the full winter season and periods less than a full winter season.

A. The Company purchases gas supplies on a year-round basis to fulfill its firm requirements including storage injections and to minimize supply costs utilized to serve firm customers. Some of these contracts will escalate in volume during shoulder months (April and October) and the winter period (November through March) as the Company’s firm requirements increase due to higher demand, thus sculpting year-round contracts to fit seasonal needs. The Company also purchases volumes for the winter period to meet its forecasted customer demand within the limits of the Company’s firm transportation capacity entitlements, which increase during the winter period. In addition, the Company reviews low demand scenarios to measure its ability to fulfill its contractual purchase commitments with suppliers. Lastly, the Company may purchase short-term city gate peaking supply to fulfill additional firm obligations that exceed the Company's firm transportation capacity entitlements.

Q. What process does the Company employ in selecting its firm gas suppliers?

A. The Company identifies the volume and type of supply that it needs to fulfill its customer demand requirements, and in general, solicits RFPs from a list of suppliers that the Company continuously updates as potential suppliers enter and leave the market place. The RFPs may be for firm baseload or swing supply. RFPs for swing supply may be further categorized into pricing based on first of the month indices, or daily market indices. Swing supplies priced at first of the month indices command the highest reservation fees because the supplier assumes the risk associated with market volatility during the delivery period. Lower reservation fees are associated with swing contracts referencing a daily market index because both buyer and seller assume the risk of daily market volatility. After forecasting the ultimate cost delivered to the city gate for each point of supply (incorporating the forecasted cost at the supply point plus pipeline fuel plus pipeline transportation fees), and evaluating the cost of reservation fees associated with each type of supply and its corresponding bid, the Company makes a "best cost" decision on which type of supply and supplier is best suited to fulfill its needs.

Q. Did the Company enter into any new supply arrangements during the review period?

A. Yes, during the review period the Company added new supply arrangements. This was done as a result of customer growth and under our "best cost" policy.

Q. Please describe the process that the Company utilized and the market intelligence evaluated during the review period to determine the prices charged for secondary market sales.

A. The process and information used by the Company in pricing secondary market sales depends upon the location of the sale, term of the sale, the type of sale, and prevailing market conditions at the time of the sale. For long-term delivered sales (longer than one month), in general, the Company solicits bids from potential buyers, and if acceptable, evaluates and awards available volumes. For short-term transactions (daily or monthly), the Company 1) monitors prices and volumes on the Intercontinental Exchange (Intercontinental Exchange or "ICE" is an electronic trading platform where potential buyers post bids and potential sellers post offers at various locations/areas along the interstate pipelines), 2) talks to various market participants, and 3) for less liquid trading points, estimates prices based on price relationships with more liquid points. The Company will also evaluate the amount of supply available for sale and weigh that against current market conditions in formulating its sales strategy (i.e., if the Company has a large amount of supply to sell on a particular day and determines that market demand is low, the Company will be more aggressive in its sales strategy).

The Company incorporates all these factors and then initiates its sales strategy.

Q. Did the Company make any changes in its gas purchasing policies or practices during the review period?

A. The Company did not implement any changes in its "best cost" gas purchasing policies or practices during the review period.

Q. Did the Company take any other action to reduce price volatility for its customers?

A. The Company continues to utilize the Company's Hedging Plan as well as storage which acts as a physical hedge to stabilize cost. The Company's Equal Payment Plan, in addition to the adjustment of the PGA benchmark price and deferred gas cost accounting, also provide a smoothing effect on gas prices charged to customers.

Q. What were the net economic results of the Hedging Plan during the review period?

A. The Company's North Carolina sales customers incurred a net economic cost of $1,177,357 (see **Exhibit_(MBT-2)**) as a result of the Company's Hedging Plan during the review period which was an increase compared to last year. This net economic impact includes the cost of commissions and amounts to an average cost per sales customer of roughly $0.13 per month.

Q. Did the Company's Hedging Plan work properly during the review period?

A. Yes. The Hedging Plan accomplished its goal of providing an insurance policy to reduce gas cost volatility for customers in the event of a gas price fly up.

Q. Has the Company made any changes to its Hedging Plan during the review period?

A. There were no changes made to the Hedging Plan during the review period. The Company has and will continue to closely monitor the gas supply – demand picture and make changes it deems necessary to its Hedging Plan.

Q. Please describe how compliance with the Hedging Plan is monitored.

A. Currently, the Gas Accounting, Finance, Risk, and Corporate Compliance areas perform ongoing activities to monitor compliance with the Hedging Plan. In addition, the Company's Gas Market Risk Committee monitors compliance with the Hedging Plan, as well as providing input on any changes contemplated to the Hedging Plan. Periodic internal audits have and will be performed to ensure that controls continue to be adequate and function as management intends.

Q. Have there been any deviations from the Hedging Plan during the review period?

A. There were no deviations from the Hedging Plan during the review period.

Q. Given the current low price forecast and low gas cost volatility environment, do you think continuing to hedge under the current Hedging Plan is prudent?

A. Yes, because the goal of the Hedging Plan is to provide insurance against gas cost volatility if prices fly up, the Company feels it is prudent to incur what it deems to be a low-cost insurance policy and continue with the current Hedging Plan. As stated previously, the cost per sales customer during the review period was approximately $0.13 per month. Because the current Hedging Plan only contemplates the purchase of options, the cost of the Hedging Plan is relatively low. As stated above, the Company has and will continue to closely monitor the gas supply – demand picture and make changes it deems necessary to its Hedging Plan.

Q. What are some of the other steps the Company has taken to manage its gas costs consistent with its "best cost" policy during the review period?

A. During the past year, the Company has taken the following additional steps to manage its gas costs, consistent with its "best cost" policy:

(1) The Company has, as more fully described in Ms. Raney's testimony, actively participated in proceedings before the FERC and other regulatory agencies that could reasonably be expected to affect the Company's rates and services;

(2) The Company has utilized the flexibility available within its supply, transportation, and storage contracts to purchase and dispatch gas, release transportation and storage capacity, and initiate secondary marketing sales in a cost-effective manner, resulting in secondary market credits to

customers of $24,057,394.48, compared to last year's secondary market credits of $32,829,312.51;

(3) The Company has actively promoted more efficient peak day use of natural gas and load growth from "year-round" markets to improve the Company's load factor, which in turn, reduces the average cost charged per dekatherm when the total cost of pipeline and storage capacity is spread over higher non-peak usage.

Q. Please summarize your testimony.

A. The Company's "best cost" purchasing policy provides customers with secure and reasonably priced gas supplies. This policy and the Company's practice under this policy have been reviewed and found prudent on all occasions in North Carolina and in the other state jurisdictions in which we operate. Although we believe our policies and procedures are reasonable, we are cognizant of the fact that the natural gas industry is rapidly changing, and we are continuously monitoring our policies and procedures to keep up with, and anticipate, these changing conditions. We have and will continue to work to review current regulations and tariffs and explore possible changes that will better serve our natural gas customers in the future. We are satisfied that our existing policies and procedures are prudent and that they have produced and will continue to produce adequate amounts of secure and reasonably priced gas for our customers.

Q. Does this conclude your testimony?

A. Yes.

MS. McGRATH: And at this time Piedmont would like to call Ms. Gennifer Raney to the stand.

GENNIFER J. RANEY;

having been duly sworn,

testified as follows:

COMMISSIONER BROWN-BLAND: Your witness.

DIRECT EXAMINATION BY MS. McGRATH:

Q Good morning, Ms. Raney.

A Good morning.

Q Can you please state your full name and your business address for the record, please?

A My name is Gennifer Raney. My business address is 4720 Piedmont Road Drive, Charlotte, North Carolina 28210.

Q And you currently work for Piedmont Natural Gas Company?

A Yes, that's correct.

Q And can you provide the Commission with a description of your job title and your job responsibilities?

A I'm the Director of Pipeline Services and I'm responsible for overseeing all of the planning of our interstate and intrastate pipeline capacity and storage capacity. I also direct activities for forecasting our design day needs and for our daily and monthly needs. In addition, I oversee activities related to FERC for the pipelines that we do business with, as well as activities related to third-party transporters on Piedmont's system.

Q   And are you the same Gennifer Raney that prefiled testimony in this proceeding on August 1st, 2019, consisting of 13 pages and Exhibits GJR-1A through GJR-7?

A   Yes, I am.

Q   And was this testimony and these exhibits prepared by you or at your direction?

A   Yes, they were.

Q   And do you have any corrections or changes that you would like to make to your testimony or exhibits?

A   I do not at this time.

Q   And if I asked you the same questions that are set forth in your prefiled testimony while you are on the stand today, would your answers be the same as those reflected in your prefiled testimony?

A   Yes, they would.

MS. McGRATH: Chairman Brown-Bland, Piedmont would at this time move to enter the prefiled testimony of Ms. Raney into the record as if given orally from the stand.

COMMISSIONER BROWN-BLAND: Without objection, that motion will be allowed and her testimony will be received as if given orally.

MS. McGRATH: And that her Exhibits GJR-1A through GJR-7 also be admitted into evidence.

COMMISSIONER BROWN-BLAND: Is there any objection?

MS. CULPEPPER: No objection.

MR. PAGE: No objection.

COMMISSIONER BROWN-BLAND: All right. Without objection, we will go ahead and receive those into evidence at this time. They will be identified as they were when prefiled. I won't attempt to call out the name because she has a tongue twister of initials.

(WHEREUPON, Exhibits GJR-1A, GJR-1B, GJR-2, GJR-3, GJR-4A, GJR-4B, GJR-4C, GJR-5A, GJR-5B, GJR-5C, GJR-6 and GJR-7 are marked for identification as prefiled and received into evidence.)

(WHEREUPON, the prefiled direct testimony of GENNIFER J. RANEY is copied into the record as if given orally from the stand.)

Before the
North Carolina Utilities Commission

Docket No. G-9, Sub 752

Annual Review of Gas Costs Pursuant to G.S. 62-133.4(c)
and Commission Rule R1-17(k)(6)

Testimony and Exhibits
of
Gennifer J. Raney

On Behalf Of
Piedmont Natural Gas Company, Inc.

Piedmont Natural Gas

August 1, 2019

Q. Please state your name and your business address.

A. My name is Gennifer Raney. My business address is 4720 Piedmont Row Drive, Charlotte, North Carolina.

Q. What is your position with Piedmont Natural Gas Company ("Piedmont" or the "Company")?

A. I am employed as Director, Pipeline Services.

Q. Please describe your educational and professional background.

A. I graduated from Louisiana State University in Baton Rouge, LA in 1992 with a Bachelor of Science degree in Finance, and I graduated from the University of St. Thomas in Houston, TX in 1998 with a Masters of Business Administration, Finance concentration. In 1992, I was employed by Shell Oil Company as a Product Accountant for Gas Exploration and Production. In 1995, I was employed by Vastar Resources, Inc. as a Treasury Analyst. In 1997, I accepted a position in Vastar Gas Marketing, Inc. (which later became Southern Company Energy Marketing, Inc.) as a Transportation and Exchange Representative. In 1999, I was promoted to the position of Associate, Producer Services. In 2000, I was employed by Deloitte & Touche, LLC as a Consulting Manager. In 2002, I was employed by Duke Energy and have held positions in Risk Management, Trading Operations, Power Business Development, Commercial Analytics, Wholesale Power Sales, and Renewable Energy Business Development. Beginning in 2014, I became Natural Gas Business Development Director. This group became part of the Natural Gas Business Unit after the integration of Duke Energy and Piedmont. In November 2017, I accepted my current position as Director, Pipeline Services.

Q. Please describe the scope of your present responsibilities for Piedmont.

A. My current major responsibilities for Piedmont include managing pipeline capacity planning and relations, annual design day, monthly, and daily forecasting, and management of third party shipper business on Piedmont's system. In addition, I am responsible for oversight of Piedmont's activities at the Federal Energy Regulatory Commission ("FERC") regarding interstate pipelines that the Company utilizes for transportation and storage services.

Q. Have you previously testified before this Commission or any other regulatory authority?

A. Yes. I testified before the Public Service Commission of South Carolina in Docket Numbers 2018-4-G and 2019-4-G. I also testified before this Commission in last year's Annual Review of Gas Cost proceeding (Docket Number G-9, Sub 727).

Q. What is the purpose of your testimony in this proceeding?

A. My testimony is filed in response to the requirements of Commission Rule R1-17(k)(6), which provides for an annual review of Piedmont's gas costs. In my testimony, I discuss the market requirements of Piedmont's North Carolina customers, including the projected growth in those markets, the capacity acquisition policies and practices we employ to serve those markets, the calculation of our design day requirements, and the efforts undertaken by Piedmont at the FERC on behalf of its customers to ensure that interstate transportation and storage services are reasonably priced.

Q. What is the period of review in this docket?

A. The review period is June 1, 2018 through May 31, 2019.

Q. Please give a general description of Piedmont and its market in North Carolina.

A. Piedmont is a local distribution company principally engaged in the purchase, distribution and sale of natural gas to more than 1 million customers in North Carolina, South Carolina, and the metropolitan area of Nashville, Tennessee. Piedmont currently serves approximately 750,000 customers in the State of North Carolina. During the twelve-month period ending May 31, 2019, Piedmont delivered approximately 450 million dekatherms ("dts") of natural gas to its North Carolina customers.

Piedmont provides service to two distinct markets – the firm market (principally those that have no alternate source of fuel) and the interruptible market (principally those that either have access to an alternate fuel or who are prepared to cease operating in the event of interruption until service can be resumed). Although Piedmont competes with electricity for the attachment of firm customers, once attached these customers generally have no readily available alternative source of energy and depend on natural gas for their basic space heating or utility needs. During the twelve month period ending May 31, 2019, approximately 93%, of Piedmont's North Carolina deliveries were to the firm market.

In the interruptible market, Piedmont competes on a month-to-month and day-to-day basis with alternative sources of energy, primarily fuel oil or propane and, to a lesser extent, coal or wood. These larger commercial and industrial customers may buy alternate fuels when they are less expensive than gas or when their service is interrupted by Piedmont. During the twelve-month period ending May 31, 2019, approximately 7% of Piedmont's North Carolina deliveries were to the interruptible market.

Q. How does Piedmont calculate its customer growth?

A. Piedmont reviews historical customer additions, holds discussions with various business leaders/trade allies and field sales employees, and considers forecasts of local, regional and national business drivers (e.g., economic conditions, demographics, etc.) to derive its customer growth projections.

Q. Are there any changes in the Company's customer mix or customer market profiles that it forecasts for the next ten years?

A. For the next ten years, the Company expects the economy to continue to grow resulting in increasing residential and commercial demand as detailed in the "Winter 2019 - 2020 Design Day Demand & Supply Schedule", **Exhibit_ (GJR-5C)**. The Company also expects industrial activity to grow modestly.

Q. How will these changes impact the Company's gas supply, transportation, and storage requirements?

A. The residential and commercial growth changes will result in greater firm temperature-sensitive requirements that will require firm sales service from the Company.

Q. Please identify the rate schedules and special contracts that the Company uses to determine its design day demand requirements for planning purposes and explain the rationale and basis for each rate schedule or special contract included in the determination of design day demand requirements.

A. The Company uses the following rate schedules, each of which is for firm sales service, to determine its design day demand requirements:

- 101 – Residential Service;
- 102 – Small General Service;
- 152 – Medium General Service;
- 143 – Experimental Motor Vehicle Fuel Service;
- 103 – Large General Sales Service;
- 12 – Service to Military Installations in Onslow County (Camp Lejeune).

Piedmont also includes any special contracts for which Piedmont is providing firm sales service in the determination of its design day requirements.

Q. How did the Company calculate its design day requirements for Winter 2018-2019?

A. Piedmont's design day calculations for Winter 2018-2019 were performed in the same manner used for the Winter 2017-2018 design day calculations, as described in last year's Annual Review. Specifically, all usage data was refreshed utilizing the actual firm customer sendout data from November 2011 through March 2018, which included the most current winter weather experience for all firm customer classes. Next, a linear regression analysis was conducted to determine the base load and the usage per heating degree day based on all of the newly refreshed data. Finally, the historical weather data, which included the winter of 2017-2018, was reviewed to determine that the design day temperature should be slightly adjusted from 8.67 to 8.68 degrees Fahrenheit. The Company also constructed a load duration curve to forecast the Company's firm sales market requirements for design winter weather conditions. The supply requirements were plotted in descending order of magnitude, with existing pipeline capacity and storage resources overlaid to expose any supply shortfalls. The load duration curves for the 2018 – 2019 **forecasted** design winter, as well as the **actual** 2018 – 2019 winter season are shown in **Exhibits (GJR-1A)** and **(GJR-1B)**. The load duration curve for the 2019 – 2020 forecasted design winter season is shown in **Exhibit_ (GJR-2)**.

Q. Please provide a walkthrough of the Winter 2018-2019 design day demand calculation.

A. Referencing the "Winter 2018 - 2019 Design Day Demand and Supply Schedule" **Exhibit_ (GJR-4C)**: the "System Design Day Firm Sendout" (line 1) is calculated as follows:

1) The number of heating degree days ("HDD") in the design day is multiplied by the usage per HDD as calculated in the regression analysis. This result is then added to the base load number derived from the regression.[1]

2) Any mid-year special firm sales pick up are added (line 2) and any mid-year movements from firm sales to firm transportation are subtracted (line 3), which results in a subtotal for firm sendout that includes the net mid-year changes (line 4).

3) Any special contract firm sales commitments (line 5) are added resulting in the "Total Firm Design Day Demand" (line 6).

4) A five (5) percent reserve margin is then calculated (line 7) and is added to the "Total Firm Design Day Demand" (line 6) resulting in the "Subtotal Demand" (line 8).

5) The "Firm Transportation without Standby" (line 10) is represented as the total dekatherms consumed by all industrial firm transportation customers on the highest winter day usage for that customer class for the prior winter. This number is then subtracted from the "Subtotal Demand" resulting in the "Total Firm Sales Demand" (line 11) for that year.

[1] Formula: (Design Day HDDs x Usage per HDD)+Base Load = System Design Day Firm Sendout

6) Each subsequent yearly Design Day forecast is derived by multiplying the previous year's projected firm usage by each succeeding year's forecasted growth percentage.

7) The Company then constructs the load duration curve previously described in this testimony.

Q. Has the Company made any methodology changes to its calculation of Design Day requirements for the future?

A. No.

Q. Has Piedmont made any changes to the design day temperature?

A. The Company continues to calculate the design day temperature using the daily weighted average[2] forty-year low temperature, as explained in last year's Annual Review. This year's computation of the forty-year average yielded a design day temperature of 8.68 degrees Fahrenheit. See **Exhibit_ (GJR-7)**.

Q. Did the Company consider efficiency gains and customer conservation in its design day methodology?

A. Because the design day methodology is based on refreshed data which represents the customer consumption over a recent period of time and eliminates old customer consumption data, the customer efficiency gains and conservation efforts are taken into consideration.

Q. Does Piedmont believe that conservation measures utilized by customers are applicable when formulating design day calculations?

[2] A current weighted average of firm sales customers relative to the nine weather stations in the Carolinas.

A. No. Piedmont and the natural gas industry have not seen evidence that conservation/reduced usage occurs during design day conditions. The winter cold snap which occurred from December 30, 2017 through January 8, 2018 gave Piedmont an opportunity to refresh data and analyze our customer's behavior during extremely cold weather. We continued to observe that customers tend to conserve for the first few days of colder temperatures before turning up the thermostat. However, once adjusted to a warmer setting, customers appear to become less focused on conservation and more focused on comfort and leave the thermostat at the warmer level for a few days even as temperatures start to moderate. This pattern is illustrated in **Exhibit_ (GJR-3)**. Given what we experienced during this recent cold weather event as a customer response to colder temperatures in this pattern, the Company is confident this conservative approach to design day forecasting is the most prudent approach. Our focus has been, and continues to be, to reliably serve our firm customers on a design day.

Q. What process does Piedmont undertake to acquire firm capacity to meet its growing sales market requirements?

A. Piedmont secures incremental capacity to meet the growth requirements of its firm sales customers consistent with its "best cost" policy, as described by Ms. Stabley in her testimony. To implement this policy, Piedmont attempts to contract for timely and cost-effective capacity that is tailored to the demand characteristics of its market. Piedmont evaluates interstate pipeline capacity and storage offerings expected to be available at the time that it is determined that additional future firm delivery service is required or existing firm delivery service contracts are expiring. The Company attempts to match the days of service of new incremental transportation capacity to the duration of its incremental demand on the most economical basis possible. Piedmont attempts to acquire peaking services to meet projected peak day demand, storage services to meet projected seasonal demand, and year-round firm transportation services to meet base load demand and provide capacity to be available for storage inventory replenishment. However, service choices are limited to those offered during the period being evaluated.

Q. What were the design day demand requirements used by the Company for planning purposes for the review period, the baseload, the amount of heating degree days, dekatherms per heating degree day, customer growth rates and supporting calculations used to determine the design day requirement amounts?

A. Please see **Exhibits (GJR-4A)**, **(GJR-4B)** and **(GJR-4C)**.

Q. What are the design day demand requirements used by the Company for planning purposes for the for the next five winter seasons, the baseload, the amount of heating degree days, dekatherms per heating degree day, customer growth rates and supporting calculations used to determine the design day requirement amounts?

A. Please see **Exhibits (GJR-5A), (GJR-5B)** and **(GJR-5C)**.

Q. Please describe how the Company plans to supply its estimated future growth requirements during the next five-year period beginning with the 2019-2020 winter season.

A. Based on current forecasted projections, Piedmont believes that it has sufficient supply and capacity rights to meet its near-term customer needs until the Atlantic Coast Pipeline ("ACP") comes on-line in 2021. The most recent projects of Transco's Leidy Southeast expansion for 100,000 dts per day of year-round capacity and Transco's Virginia Southside expansion for 20,000 dts per day of year-round capacity went into service in late 2015 and 2016. In 2014, the Company entered into a precedent agreement with ACP to add 160,000 dts of additional capacity utilizing its "best cost" purchasing philosophy. The ACP capacity is scheduled to go in service in late 2021. Current growth projections begin to show a capacity deficit in the 2020-2021 timeframe. This deficit will increase for future periods if the ACP capacity does not go into service as can be seen on **Exhibit_ (GJR-5C)**. Last year, Piedmont announced that it intends to construct a liquefied natural gas facility in Robeson County, N.C. ("Robeson LNG"). This facility will provide peaking supply of natural gas during peak usage days. The facility is anticipated to be completed in the summer of 2021, and therefore forecasted to provide peaking support starting winter 2021-2022. The capacity portfolio will be restructured to include Robeson LNG using the "best cost" gas purchasing policy while taking into account the customer load profile. Piedmont will continue to review short term interstate pipeline and storage capacity offerings and bridging services to cover any potential capacity shortfall.

Q. Has the Company made any changes to capacity rights during the review period?

A. The Company did not make any changes to its capacity rights during the review period.

Q. Does the Company plan for a reserve margin to accommodate statistical anomalies, unanticipated supply or capacity interruptions, force majeure, emergency gas usage or colder-than-design weather?

A. Yes, the Company computes a five percent reserve margin and arranges for supply and capacity to provide delivery of the reserve margin for events such as those listed above. This reserve margin is reflected in **Exhibits (GJR-4C)** and **(GJR-5C)**.

Q. Is it possible to maintain capacity rights that exactly match Piedmont's calculated design day demand plus reserve margin at all times?

A. No. Capacity additions are acquired in "blocks" of additional transportation, storage, or LNG capacity, as current and future needs are identified, to ensure Piedmont's ability to serve its customers based on the options available at that time. As a practical matter, this means that at any given moment in time, Piedmont's actual capacity assets will vary somewhat from its forecasted demand capacity requirements. This aspect of capacity planning is unavoidable but Piedmont attempts to mitigate the impact of any mismatch through bridging services, capacity release and off-system sales activities.

Q. Please describe the Company's interest and position on any issues before the FERC that may have a significant impact on the Company's operations and a description of the status of each proceeding described.

A. The Company routinely intervenes and participates in interstate natural gas pipeline proceedings before the FERC. A current summary of such proceedings in which Piedmont is a party is attached hereto as **Exhibit_ (GJR-6)**.

Q. Does this conclude your testimony?

A. Yes it does.

BY MS. McGRATH:

Q Ms. Raney, do you have a summary of your testimony?

A Yes, I do.

MS. McGRATH: We're going to hand out copies of that and once everyone has a copy I'll ask that you please read it.

(WHEREUPON, the summary of GENNIFER J. RANEY is copied into the record as read from the witness stand.)

SUMMARY OF DIRECT TESTIMONY OF
Gennifer Raney
Docket No. G-9, Sub 752

My name is Gennifer Raney and I am the Director of Pipeline Services for Piedmont Natural Gas Company. On August 1, 2019, I prefiled Direct testimony in this proceeding in support of the Company's gas purchasing policies for the applicable review period, which is June 1, 2018 through May 31, 2019.

My testimony is filed in response to the requirements of Commission Rule 1-17, which provides for an annual review of Piedmont's gas costs. My testimony discusses the market requirements of Piedmont's North Carolina customers, including the projected growth in those markets, the capacity acquisition policies and practices we employ to serve those markets, and the calculation of our design day requirements. I also discuss how the Company routinely intervenes and participates in interstate natural gas pipeline proceedings before the Federal Energy Regulatory Commission, or "FERC", on behalf of the Company's customers to ensure that interstate transportation and storage services are reasonably priced.

I filed twelve exhibits with my Direct Testimony. My exhibits consist of the following documents:

1. Winter 2018 - 2019 Forecast Load Duration Curve
2. Winter 2018 - 2019 Actual Load Duration Curve
3. Winter 2019-2020 Forecast Load Duration Curve
4. 2017-2018 Weather Event
5. Winter 2018 - 2019 Design Day Start Point
6. Customer Growth - Actual and Projection for 2018-2019 planning
7. Winter 2018 - 2019 Design Day Demand & Supply Schedule
8. Winter 2019-2020 Design Day Start Point
9. Customer Growth - Actual and Projection for 2019-2020 planning
10. Winter 2019-2020 Design Day Demand & Supply Schedule
11. FERC Filings for the period June 2018 to May 2019
12. Design Day Temperature

Taken as a whole, my testimony demonstrates the prudence of Piedmont's gas purchasing practices for the twelve month period ended May 31, 2019.

Q Thank you.

MS. McGRATH: Ms. Raney is available for questions at this time.

MR. PAGE: No questions.

MS. CULPEPPER: None from the Public Staff.

COMMISSIONER BROWN-BLAND: Before we begin with our questions I want to clear up the exhibits. Her summary indicates there's 12 exhibits. We have seven marked exhibits.

MS. McGRATH: Some of the exhibits are numbered 1A, 1B, et cetera, but individually when you count them up there are 12.

COMMISSIONER BROWN-BLAND: All right. And this was the witness that there was an indication that the confidential markings were not confidential, correct?

MS. McGRATH: That was Ms. Raney, yes.

THE WITNESS: That's correct.

COMMISSIONER BROWN-BLAND: Thank you.

EXAMINATION BY COMMISSIONER BROWN-BLAND:

Q Ms. Raney, the Commission issued an Order, as I said in the preliminary opening, with some questions that we would just like to pose to you or have posed to you. Did you bring the copy of

those questions with you?
A Yes, I did. I appreciate that.
Q Rather than me just repeat and read off the questions, if you would like to take them one-by-one we can do it that way or I can read them to you.
A At your pleasure, I'm happy to do it either way.

COMMISSIONER BROWN-BLAND: All right. I'll let you do it. But hold on just a second. Our court reporter needs something.

(Court Reporter adjusted the microphones)

BY COMMISSIONER BROWN-BLAND:
Q All right. So you can proceed starting with Question 1.
A So Question 1 posed by the Commission was - in your direct testimony, on Page 11, lines 7 through 10, you discuss recent interstate pipeline projects, including Transco's Leidy Southeast expansion and Transco's Virginia Southside expansion. As Transco continues to reverse flow offering additional firm capacity, how will that impact the dependability of secondary firm market segmentation?

So the reverse flow on Transco and

the location of the null point near or south of our city gates has impacted Piedmont's ability to rely on what had traditionally been referred to as backhaul deliveries on our system. Those deliveries were previously reliable to our city gate. But we expect the current unreliability of those secondary firm north to south deliveries to continue to be an issue for customers on Transco's system into the future. And we would expect those would not get any better and could get worse as any new expansions go into service.

Q And I'm -- let me interrupt you on that. So how -- how have you -- taking that in the general way, how have you taken that into account in your planning?

A So we do currently rely upon a -- and this somewhat goes into where the next question led, but we do currently rely on a combination of primary firm transportation and what can be considered secondary firm transportation to make deliveries of natural gas to our system as well as our own system storage gas such as LNG for providing/meeting design day and peak winter needs.

So the reason Piedmont is currently able to rely on this secondary firm transportation on Transco for our design-day needs is because Piedmont has ensured this firm delivery of this capacity by entering into asset management arrangements which requires the asset manager to provide firm delivery. So they have a firm delivery obligation to our city gate associated with that arrangement.

Q All right. Continue going down the list.

A Okay. So Question 2 was does Piedmont rely on secondary firm transportation to get capacity to its city gate? If so, does Piedmont count that capacity as available to meet design-day needs?

So as I explained just previously, we do rely on that in combination with our firm capacity and our own system capacity. And I will also add that although Piedmont has been able to rely on these arrangements for the past few years in order to firm up our backhaul on Transco, it's not a satisfactory long-term solution. And there are two primary reasons for that.

So first we believe this secondary firm transportation on Transco will become increasingly less reliable in the future. Therefore, firming up this capacity as we have done in the short run becomes riskier over time, from a cost and availability perspective.

So the -- secondly, our operational needs of our system require increased support on the eastern side of our system. So we've been able to provide firm service to our customers with our current supply sources, but these short-term solutions will not meet the long-term growing demand and operational requirements on our system.

Q So why do -- a little bit about why it's not satisfactory and then how do you meet -- how are you planning to meet this challenge?

A As a long-term solution we are continually looking at capacity offerings and other opportunities for capacity and delivered supply to our system, and we are evaluating these opportunities using our best cost methodology, and we're active in the marketplace and in communicating with pipelines to discuss these opportunities. We're also routinely and continually evaluating our own system to ensure this safe and reliable firm delivery to our customers.

So along with the upstream capacity, we look at system strengthening needs. So projects like Robeson LNG and the Atlantic Coast Pipeline will provide the high pressure natural gas to the parts of our system that will allow for the system strengthening to provide this safe, reliable firm service to our customers into the future.

Q So this is a transportation and pipeline issue, correct, rather than a supply issue or supply concern?

A That's correct.

Q All right. Continue. You're doing a good job.

A Thank you. So Question 3 - on Page 11, lines 12 through 15, you state that the ACP, Atlantic Coast Pipeline, capacity is scheduled to go into service in late 2021, that Piedmont will have a capacity deficit in the 2020-2021 timeframe and that the deficit will increase if ACP capacity does not go into service. Witness Naba in the Public Staff's testimony on pages 20-21, beginning on line 20, stated that *Piedmont's* *capacity deficit will continue to increase for all future periods. I recommend that the Company continue to carefully review its demand projections as it considers acquisition of future capacity.*

So there are sub-questions, so sub-question A - please explain why the ACP project is important for Piedmont's capacity needs?

So ACP will provide access to new year-round supply of natural gas to meet Piedmont's growing capacity needs. In addition to providing capacity to the growing demand of our customers, ACP will provide critical system support by delivering high pressure natural gas to the eastern side of Piedmont's system. So ACP remains the best cost alternative versus other system infrastructure that would be required to continue to provide that firm service to our customers. Moreover, ACP will provide the diversification of natural gas supply and relief from the current constraints and unreliable secondary firm delivery Piedmont continues to experience on Transco.

Q All right. Continue.

A So sub-question B - how much greater will the capacity deficit be in the 2020-2021 timeframe without ACP? How much greater will the capacity deficit be without ACP beyond the 2020-2021 timeframe?

So in my Exhibit GJR-5C, which is the design day for the upcoming winter, the design day -- I don't know if you want to get to that. It doesn't matter. But the design day capacity deficit for winter 2020 and 2021 is projected to be approximately 25,000 dekatherms per day. ACP is not included in Piedmont's capacity portfolio for that winter. But if ACP were to be removed from the next winter, the 2021-2022, Piedmont projects a design-day capacity deficit of approximately 52,000 dekatherms per day. So that deficit is projected to increase each year to approximately 79,000 dekatherms per day for winter '22 -- 2022 to 2023, and approximately 107,000 dekatherms per day for winter 2023 to 2024, if the ACP capacity were removed from those years.

Q All right. Subpart C.

A Okay. So how much will the Robeson LNG facility help with the deficit after it goes online in the summer of 2021?

So Robeson LNG is not intended to provide incremental capacity for the projected deficits, instead it is intended to replace peaking capacity in our current portfolio that can no longer be relied upon on a firm basis due to the change in flows on Transco's system. The location of this facility will provide this peaking capacity to ensure firm supply of our customers as well as system support on the eastern side of Piedmont's system. So yep.

Q Continue.

A Sub-question D - what other short-term interstate pipeline and storage capacity offerings is Piedmont reviewing to cover the potential capacity shortfall, and how much of the deficit will they cover?

So Piedmont enters into the asset management deals and short-term bridging supply deals to address short-term capacity needs. It also evaluates short-term capacity versus delivered supply alternatives and we employ the best cost methodology in determining the best alternative for our customers. For winter 2019-2020, we do not have a deficit. But we do expect the bridging supply alternatives we have recently employed will be available for the following winter of 2020 to 2021 where we do show a deficit in our current demand forecast.

Q And what are those or are those confidential?

A For that time period?

Q Right.

A I am not familiar with the specifics of that bridging supply and I'm not sure that those have actually been entered into. I'm not sure of the term of the asset management deals that have most recently been entered into and whether it covers that winter. That would be handled in a different part of the organization. But I'm certain we can get that information for you.

Q So are there specific short-term pipeline and storage capacity offers -- offerings?

A What we generally would do is, and I'm not the expert on this area but I am aware, we would go out for bid for asset management deals, and third parties would evaluate different ways that they can provide that firm service to us, to our city gates which could be a combination of various things. A lot of times it'd say peaking call or some other sort of mechanism to ensure that firm delivery to our city gate. And those deals do typically involve release of our -- some of our capacity that -- as part of that arrangement.

Q Go ahead.

A And those deals can be one year or two year or three year. And what I'm not 100 percent certain of is whether the most recent deals that we've entered into to firm up that capacity cover that upcoming winter or not.

Q All right. So to a degree you were speaking in the future tense but this is something that's an ongoing effort?

A It's ongoing, yes.

Q Okay. Anything else Piedmont is doing to ensure there's not a deficit?

A Yes. So again, we are currently evaluating capacity offerings and all other opportunities for capacity and delivered supply to our system. So we evaluate them using the best cost methodology. We're active in the marketplace and in communicating with pipelines to discuss any opportunities that have been posted or future opportunities. We routinely refresh our analysis. We also continually evaluate our own system to ensure safe and reliable firm delivery to our customers.

So along with evaluating these upstream capacity offerings, we look at our system strengthening needs so that -- that's where the Robeson LNG and the ACP can provide that benefit for the future. And those we still believe are the best cost alternatives for our customers. But we also routinely look and evaluate any infrastructure options for our system for the future with all of the different contingencies that we may experience during that timeframe.

Q And in your opinion what's the overall effect if ACP doesn't come -- doesn't come online? How does that affect your customers?

A So if there is a delay to ACP then we would continue to look at the system strengthening alternatives that we evaluate. We will continue to use those in combination with these delivered supply alternatives. But we would have to look at long-term solutions for infrastructure to meet the needs of our customers and that would include our own system infrastructure and potential third party infrastructure.

Q But so long as Transco is the only pipeline across North Carolina, what do you -- what are the alternatives that you see that would be helpful?

A Well, there would need to be significant system infrastructure on Piedmont's system to ensure that we are able to serve safely and firm service to our customers all throughout our entire system. So we would look at those and we would also continue to speak with pipelines about different options that may be employed for additional infrastructure from them.

Q Would you know or do you have enough information to have an opinion as to the -- would those options taken together be more costly to the customers than trying to obtain rights on another new pipeline?

A So currently there are -- the only alternatives that we are aware of that would actually meet the needs that would deliver the high pressure gas that we need to the part of the system that would provide that system some support at the best cost is the Atlantic Coast Pipeline. So I am not aware of any other proposed projects that would provide that same benefit. So at that time we are constantly evaluating our own system and we would -- the alternatives available to us would be more costly than the Atlantic Coast Pipeline.

Q Now earlier we were talking about secondary --

A Yes.

CHAIR MITCHELL: Firm.

Q -- secondary firm. Just to be clear in the record and to be sure we all are talking about the same thing, can you define what that term means?

A So secondary firm is not an actual term that Transco uses for this capacity. It's a general industry term that you -- that is used to describe capacity where you are delivering gas outside of the primary receipt and delivery path that is in your contract. So pipelines treat that -- while you're still delivering gas on a firm contract, the pipeline treats that as a secondary firm. So when there is a constraint on the pipeline, the pipeline will ensure firm delivery from the primary receipt and delivery points and, if there are any constraints, anything else will be cut based on priority. So this would be a lower priority delivery versus a primary firm path.

Q Thank you. And the last question.

A So the last question - how is Piedmont addressing the Public Staff's concern of continuing to carefully review your demand projections as you consider the acquisition of future capacity?

So each year when Piedmont begins the process -- when we begin the process of preparing the demand projections, the data, the inputs that impact the calculations are questioned and scrubbed. The methodology and the reasonableness of the inputs are reviewed and discussed, and we take a critical look each time the design-day forecast is prepared. Any available capacity alternatives are also evaluated at that time and actually any time new opportunities arise as we determine any future needs and how these alternatives may be able to meet that need.

Q Another -- so, do you know whether the Company has taken into account should a new pipeline come on board but then say somewhere out - because of policy concerns or issues - somewhere out in the future maybe 15 years down the road that pipeline somehow becomes unnecessary because we've either moved away from gas as a source or we've lessened it quite a bit? When you consider cost and impacts to customers, have we looked at a scenario like that and what the impact would be?

A So I have not looked specifically out say 15 years into the future at our current portfolio and what that particular demand need may be. We forecast five even a bit further into the future. And what I -- the way we would handle that is Piedmont contracts for capacity for defined terms and many of those terms we'll enter into a time period where you can elect to roll for a year or two or you can elect to, if you feel like it's in the best interest of your customer -- of the customers, and based on the best cost methodology that you -- we may elect to extend those contracts for a period of time. Those typically tend to be less than the 15-year time period.

For new infrastructure, those contracts to support that infrastructure must be longer. But because we have a variety of supply contracts -- capacity contracts in our portfolio with a variety of end dates we can, if that demand did go down in the future, we would have the ability to simply not renew some of those contracts.

Q All right. Thank you for that. And Commissioner -- Chair Mitchell has a question for you.

CHAIR MITCHELL: Just two quick questions for you.

THE WITNESS: Okay.

EXAMINATION BY CHAIR MITCHELL:

Q You've provided some testimony today about I guess alternatives to Atlantic Coast Pipeline capacity if there is a delay or if ultimately the pipeline isn't placed into service. And I think I heard you say additional infrastructure would be necessary if the pipeline ultimately were not placed into service. Can you help us understand what that looks like to the extent that you have a sense? Is it compressor, additional compressors, or what do you mean by additional infrastructure?

A I think depending on the time period -- so I, again I'm not in the engineering department --

Q Understood. Understood.

A -- but I am certainly in close contact with them and speak with our system planning organization.

It would be a variety of different options. So Robeson LNG is one good example where that will provide peaking system support. But for the year-round support that we would need for our residential, commercial, industrial customer growth into the future there would be, my understanding, a combination of different options that our system planning organization would evaluate. But it would be actual infrastructure additions on our own system to ensure that system strengthening that we would need.

Q Okay. Thank you. One last question for you. You've indicated that the Company from time to time will participate in proceedings at the FERC as it pertains to the Company's operations and you've provided us with a list of those proceedings that y'all are currently in at -- that the Company is currently participating in at this time. And you're aware that this Commission has also participated and is participating in several proceedings at the FERC as well?

A Yes, I am. We appreciate their support.

CHAIR MITCHELL: Okay. Thank you. I have nothing further.

COMMISSIONER BROWN-BLAND: Questions on the Commission's questions.

MR. PAGE: Can I ask one?

CROSS EXAMINATION BY MR. PAGE:

Q I'm still -- I want to follow up on Commissioner Mitchell's questions about the additional infrastructure and, you know, where that kind of left me was it could include some more LNG plants and then a variety of things that would amount to system strengthening. I'm not an engineer either so tell me what you mean by "system strengthening". Are you talking about building up the strength of your pipeline so that you can add compressor stations and increase the amount of pressure and thereby increase the amount of volumes of gas you contain within your pipeline structure or is it something else?

A It would be solutions for pressure support on our system. Particularly on the eastern side of our system. And the -- I bring up the Robeson LNG because that is one project that over time that peaking demand on that side of the system is needed. That was a best cost solution to provide some of that system strength for system needs. So as growth increases on the western side, say in the Charlotte area and surrounding areas, there is an increasing need for pressure support on the eastern side of our system.

Q All right. So is there anything other than LNG and line packing that constitutes system strengthening?

A My understanding -- so I, again, I'm not the engineer but I believe there could be a combination of various pipeline and compressor-type solutions. But I'm not -- I know those are continually being evaluated and depending on if ACP, for example, comes into play will provide a lot of the support that would otherwise, not all -- we're constantly looking at our system strengthening needs and into the future. But that certainly would be a -- provide a lot of that system support that we need in the future on the eastern side of our system.

Q So if the Commission wants more information on system strengthening they're probably going to have to pose the questions to one of your engineers rather than you?

A Sure. I can speak in general terms that I know that they're always looking for the best way to provide reliable, safe service to our customers, and looking at the various ways to do that.

Q Thank you.

MR. PAGE: That's all I have.

MS. CULPEPPER: No questions.

COMMISSIONER BROWN-BLAND: Any questions from the Company?

MR. HESLIN: Just a couple of questions just to follow up on Chair Mitchell's questions and then the following questions.

EXAMINATION BY MR. HESLIN:

Q You mentioned, and I'll frame it in a scenario where ACP doesn't come in and we're looking long-term. You mentioned certain system strengthening, infrastructure builds, and other facilities. In that scenario, would Piedmont also need access to additional supply or incremental capacity in order to meet the needs in addition to the infrastructure builds?

A Yes, Piedmont would. As you can see in my design-day forecast as time goes on, we would show a deficit without ACP in the portfolio.

Q And so Piedmont would have to look to other potentially third-party interstate providers to access that infrastructure?

A That's correct.

Q And then --

MR. HESLIN: I don't have anything further. That's it. I think that's good.

COMMISSIONER BROWN-BLAND: All right. Thank you. And your exhibits have already been received into evidence so you may be excused.

A Thank you.

(The witness is excused)

COMMISSIONER BROWN-BLAND: Thank you. Does that conclude the Company's case?

MS. McGRATH: It does.

COMMISSIONER BROWN-BLAND: Ms. Culpepper.

MS. CULPEPPER: I move that the prefiled joint testimony of Poornima Jayasheela, Zarka H. Naba, and Julie G. Perry filed on September 16, 2019, consisting of 29 pages, including three appendices and revised Page 10 of the joint testimony filed on September 26th, 2019, be copied into the record as if given orally from the stand.

COMMISSIONER BROWN-BLAND: Without objection, that motion will be allowed and the testimony will be received as if given orally from the witnesses stand.

(WHEREUPON, the prefiled joint testimony and Appendices of POORNIMA JAYASHEELA, ZARKA H. NABA, and JULIE G. PERRY is copied into the record as if given orally from the stand.)

PIEDMONT NATURAL GAS COMPANY, INC.

DOCKET NO. G-9, SUB 752

JOINT TESTIMONY OF

POORNIMA JAYASHEELA, ZARKA H. NABA,

AND JULIE G. PERRY

ON BEHALF OF

THE PUBLIC STAFF – NORTH CAROLINA UTILITIES COMMISSION

SEPTEMBER 16, 2019

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND PRESENT POSITION.

A. My name is Poornima Jayasheela, and my business address is 430 North Salisbury Street, Raleigh, North Carolina. I am a Staff Accountant in the Accounting Division of the Public Staff. My qualifications and experience are provided in Appendix A.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. The purpose of my testimony is (1) to present the results of my review of the gas cost information filed by Piedmont Natural Gas Company, Inc. (Piedmont or Company), in accordance with N.C. Gen. Stat. § 62-133.4(c) and Commission Rule R1-17(k)(6), (2) to provide my conclusions regarding whether the gas costs incurred by Piedmont during the 12-month review period ended May 31, 2019, were properly accounted for, and (3) to report on any changes in the deferred gas cost reporting during the review period.

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND PRESENT POSITION.

A. My name is Zarka H. Naba, and my business address is 430 North Salisbury Street, Raleigh, North Carolina. I am a Public Utilities Engineer in the Public Staff's Natural Gas Division. My qualifications and experience are provided in Appendix B.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. The purpose of my testimony is to present my conclusions regarding whether the natural gas purchases made by Piedmont during the review period were prudently incurred. My testimony also presents the results of my review of the gas cost information filed by Piedmont in accordance with N.C. Gen. Stat. § 62-133.4(c) and Commission Rule R1-17(k)(6), and provides my recommendation regarding temporary rate increments or decrements.

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND PRESENT POSITION.

A. My name is Julie G. Perry, and my business address is 430 North Salisbury Street, Raleigh, North Carolina. I am the Accounting Manager for Natural Gas and Transportation with the Accounting

Division of the Public Staff. My qualifications and experience are provided in Appendix C.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. The purpose of my testimony is to discuss the Public Staff's investigation and conclusions regarding the prudence of Piedmont's hedging activities during the review period.

Q. PLEASE EXPLAIN HOW THE PUBLIC STAFF CONDUCTED ITS REVIEW.

A. We reviewed the testimony and exhibits of the Company's witnesses, the Company's monthly Deferred Gas Cost Account reports, monthly financial and operating reports, the gas supply, pipeline transportation, and storage contracts, the reports filed with the Commission in Docket No. G-100, Sub 24A, and the Company's responses to Public Staff data requests. The responses to the Public Staff data requests contained information related to Piedmont's gas purchasing philosophies, customer requirements, and gas portfolio mixes.

Q. MS. NABA, WHAT IS THE RESULT OF YOUR EVALUATION OF PIEDMONT'S GAS COSTS?

A. Based on my investigation and review of the data in this docket, I believe that Piedmont's gas costs were prudently incurred.

Q. WHAT OTHER ITEMS DID THE NATURAL GAS DIVISION REVIEW?

A. Even though the scope of Commission Rule R1-17(k) is limited to a historical review period, the Public Staff's Natural Gas Division also considers other information received pursuant to the data requests in order to anticipate the Company's requirements for future needs, including design day estimates, forecasted gas supply needs, projection of capacity additions and supply changes, and customer load profile changes.

ACCOUNTING FOR AND ANALYSIS OF GAS COSTS

Q. MS. JAYASHEELA, HAS THE COMPANY PROPERLY ACCOUNTED FOR ITS GAS COSTS DURING THE REVIEW PERIOD?

A. Yes.

Q. HOW DOES THE ACCOUNTING DIVISION GO ABOUT CONDUCTING ITS REVIEW OF THE COMPANY'S ACCOUNTING FOR GAS COSTS?

A. Each month the Public Staff's Accounting Division reviews the Deferred Gas Cost Account reports filed by the Company for accuracy and reasonableness, and performs several audit procedures on the calculations, including the following:

(1) Commodity Gas Cost True-Up – The actual commodity gas costs incurred are verified, the calculations and data supporting the commodity gas costs collected from customers are checked, and the overall calculation is reviewed for mathematical accuracy.

(2) Fixed Gas Cost True-Up – The actual fixed gas costs incurred are compared with pipeline tariffs and gas contracts, the rates and volumes supporting the calculation of collections from customers are verified, and the overall calculation is reviewed for mathematical accuracy.

(3) Negotiated Losses – Negotiated prices for each customer are reviewed to ensure that the Company does not sell gas to the customer below the cost of gas to the Company or below the price of the customer's alternative fuel.

(4) Temporary Increments and/or Decrements – Calculations and supporting data are verified regarding the collections from and/or refunds to customers that have occurred through the Deferred Gas Cost Accounts.

(5) Interest Accrual – Calculations of the interest accrued on the various deferred account balances during the month are verified in accordance with N.C. Gen. Stat. § 62-130(e) and the Commission's Order Approving Merger Subject to Regulatory Conditions and Code of Conduct issued September 29, 2016, in Docket Nos. G-9, Sub 682, E-2, Sub 1095, and E-7, Sub 1100 (Merger Order).

(6) Secondary Market Transactions – The secondary market transactions conducted by the Company are reviewed and verified to the financial books and records, asset management arrangements, and other deferred account journal entries.

(7) Uncollectibles – The Company records a journal entry each month in the Sales Customers' Only Deferred Account for the gas cost portion of its uncollectibles write-offs. The calculations supporting those journal entries are reviewed to ensure that the proper amounts are recorded.

(8) Supplier Refunds – Unless ordered otherwise, supplier refunds received by Piedmont should be flowed through to ratepayers in the All Customers' Deferred Account or in certain circumstances applied to the NCUC Legal Fund Reserve Account. Documentation is reviewed to ensure that the proper amount is credited to the correct account in a timely fashion.

Q. HOW DO THE COMPANY'S FILED GAS COSTS FOR THE CURRENT REVIEW PERIOD COMPARE WITH THOSE FOR THE PRIOR REVIEW PERIOD?

A. The Company filed total gas costs of $352,122,738 per Tomlinson Exhibit_(MBT-1), Schedule 1, for the current period as compared with $343,478,124 for the prior twelve-month period. The components of the filed gas costs for the two periods are as follows:

	12 Months Ended			
	May 31, 2019	May 31, 2018	Increase (Decrease)	% Change
Demand & Storage	$133,470,011	$129,398,029	$4,071,982	3.1%
Commodity	233,172,219	220,382,071	$12,790,148	5.8%
Other Costs	($14,519,492)	($6,301,977)	($8,217,515)	130.4%
Total	$352,122,738	$343,478,124	$8,644,614	2.5%

Q. PLEASE EXPLAIN ANY SIGNIFICANT INCREASES OR DECREASES IN DEMAND AND STORAGE CHARGES.

A. The Demand and Storage Charges for the current review period and the prior twelve-month review period are as follows:

		Actual Amounts for the 12 Month Periods Ended			
		April 30, 2019	April 30, 2018	Increase (Decrease)	% Change
Transco	FT	$97,609,331	$93,988,018	$3,621,313	3.9%
Transco	GSS	3,878,202	3,679,481	198,721	5.4%
Transco	ESS	2,521,396	2,318,429	202,967	8.8%
Transco	WSS	1,884,058	1,796,037	88,021	4.9%
Transco	LNG Service	238,327	219,197	19,130	8.7%
Columbia	Firm Storage Service	3,331,131	3,331,131	0	0.0%
Columbia	SST	4,869,132	4,800,194	68,938	1.4%
Columbia	FTS	2,522,767	2,506,655	16,112	0.6%
Columbia	No Notice FT	939,390	941,770	(2,380)	-0.3%
Col Gulf	FTS	0	255,154	(255,154)	-100.0%
Dominion	GSS	575,032	575,112	(80)	0.0%
Dominion	FT - GSS	983,646	965,167	18,479	1.9%
ETN	FT	3,631,601	3,631,601	0	0.0%
Midwestern	FT	2,710,800	2,710,800	0	0.0%
Hardy Storage		14,342,063	14,550,258	(208,195)	-1.4%
Pine Needle LNG		8,850,739	7,922,018	928,721	11.7%
Cardinal	FT	6,520,529	6,917,009	(396,480)	-5.7%
LNG Processing		1,422,621	1,102,267	320,354	29.1%
Property Taxes		45,129	96,225	(51,096)	-53.1%
Other		0	(216,691)	216,691	-100.0%
NC/SC Costs Expensed		156,875,895	152,089,832	4,786,063	3.1%
NC Demand Allocator		85.08%	85.08%		
NC Costs Expensed		$133,470,012	$129,398,029	$4,071,982	3.1%

Note: Actual amounts lag one-month behind the accounting period. The May 31 review periods reflect actual amounts for the 12-month periods ended April 30.

The increases in the Transcontinental Gas Pipe Line Company, LLC (**Transco**) **Firm Transportation (FT), the Transco General Storage Service (GSS), the Transco Eminence Storage Service (ESS), the Transco Washington Storage Service (WSS), and the Transco LNG Service** charges are due to an increase in Transco's commodity, demand, capacity and fuel rates, pursuant to FERC Docket No. RP18-1126-000, RP19-798-000, effective March 1, 2019, and April 1, 2019, respectively.

The decrease in Columbia Gulf Transmission, LLC (**Columbia**) **Firm Transportation Service (FTS)** charges is due to the termination of the Columbia Gulf contract, effective October 31, 2017.

The decrease in **Hardy Storage** charges is due to a compliance filing for reservation and capacity in FERC Docket No. RP19-262-000, effective January 1, 2019 and the annual Retainage Adjustment Mechanism filing in FERC Docket No. RP19-1040-000, effective May 1, 2019.

The increase in **Pine Needle LNG** charges is primarily due to the Electric Power (EP) Unit Rate Change and a change in the Fuel Retention percentage pursuant to FERC Docket No. RP18-652-000, effective May 1, 2018.

The decrease in **Cardinal Firm Transportation (FT)** charges is due to the North Carolina Utilities Commission Order directing certain utilities, including Cardinal Pipeline Company, LLC, to adjust their rates to reflect the reduction in the federal corporate income tax rate from 35% to 21% in Docket No. G-39, Sub 42, effective January 1, 2019.

The **LNG Processing** charges are the electric bills associated with the liquefaction expense for Piedmont's two on-system LNG facilities. These charges increased due to a higher level of LNG withdrawal volumes when compared to the withdrawal volumes from the prior review period.

The decrease in property taxes for the current review period is due to the Company being billed on a smaller inventory balance by the asset managers in July 2018, as compared to July 2017.

The **Other** amount of ($216,691) in the prior review period was a one-time Transco interconnect refund, which was recorded in April 2018. There were no other charges during the current review period.

Q. PLEASE EXPLAIN THE CHANGE IN COMMODITY GAS COSTS.

A. Commodity gas costs for the current review period and the prior twelve-month period are as follows:

	Actual Amounts for the 12 Month Periods Ended			
	April 30, 2019	April 30, 2018	Increase (Decrease)	% Change
Gas Supply Purchases	$277,292,978	$260,145,619	$17,147,359	6.6%
Reservation Charges	3,482,171	3,512,866	(30,695)	(0.9%)
Storage Injections	(56,948,230)	(55,350,193)	(1,598,037)	2.9%
Storage Withdrawals	56,781,052	55,662,061	1,118,991	2.0%
Electric Compressor Costs	2,084,295	1,970,456	113,840	5.8%
Banked Gas Usage	444	(2,424)	2,868	(118.3%)
Cash Out Brokers (Long)	1,285,977	1,835,287	(549,310)	(29.9%)
NC/SC Commodity Costs	$283,978,687	$267,773,671	$16,205,016	6.1%
NC Commodity Costs	$233,172,219	$220,382,071	$12,790,148	5.8%
NC Dekatherms Delivered	72,259,869	74,847,698	(2,587,829)	(3.5%)
NC Cost per Dekatherm	$3.2269	$2.9444	$0.2824	9.6%

Note: Actual amounts lag one-month behind the accounting period. The May 31 review periods reflect actual amounts for the 12-months ended April 30.

Gas Supply Purchases increased by $17,147,359 primarily due to a greater level of wellhead gas prices in the current review period when compared to the prior twelve-month review period.

Reservation Charges are fixed or minimum monthly charges a local distribution company (LDC) may pay a supplier in connection with the supplier providing the LDC an agreed-upon quantity of gas, regardless of whether the LDC takes it or not. The decrease in reservation charges reflects the market-driven decrease in prices in the current review period as compared to the prior review period.

The increase in **Storage Injections** is due to ~~both higher cost of gas supply injected into storage and~~ increased volumes injected into storage. The average cost of gas injected into storage during the current review period was $2.8202 per dekatherm (dt) as compared with $2.8309 per dt for the prior period. Piedmont injected 20,193,266 dts into storage in the current review period as compared to 19,552,162 dts for the prior period.

The increase in **Storage Withdrawal charges** is due to a higher average cost of supply withdrawn from storage and higher volumes withdrawn from storage. Piedmont's average cost of gas withdrawn was $2.9865 per dt for this review period as compared to $2.9723 per dt in the prior period. Piedmont withdrew 19,012,399 dts from storage in the current review period as compared to 18,726,868 dts for the prior period.

The **Electric Compressor Costs** are associated with electric compressors related to power generation contracts. There is no impact on the deferred account since these costs are recovered through the contract payments.

Banked Gas is the cost of gas associated with the month-end volume imbalances that are not cashed out with customers. Piedmont currently has four banked gas customers, all former NCNG customers, who may exercise the right per contract to carry forward their monthly volume imbalances instead of cashing out monthly. The change in the banked gas represents the difference in the cost of gas supply of the volume imbalances carried forward from month to month.

Cash Out Brokers (Long) represents the purchases made by Piedmont from brokers that brought too much gas to the city gate. The reduction in Cash Out Brokers (Long) was due to the decrease in price per dt paid during the current review period as compared to the prior review period. During the current period, the average price per dt for Cash Out Brokers (Long) was $0.7715 while the previous period's average price per dt was $1.0140.

Q. PLEASE EXPLAIN THE CHANGE IN OTHER GAS COSTS.

A. Other gas costs for the current review period and the prior twelve-month period are as follows:

Other Gas Costs

	Actual Amounts for the 12 Mon h Periods Ended		
	April 30, 2019	April 30, 2018	Increase (Decrease)
Total Deferred Acct Activity COG Items	($2,000,065)	$13,026,040	($15,026,105)
Actual vs. Estimate Reporting Month Adj.	1,223,798	(1,584,982)	2,808,780
Total Other Costs	(13,743,225)	(17,743,034)	3,999,809
Total NC O her Cost of Gas Expense	($14,519,492)	($6,301,976)	($8,217,515)

The **Total Deferred Acct Activity COG Items** reflect offsetting journal entries for the cost of gas recorded in the Company's Deferred Gas Cost Accounts during the review periods. This amount includes offsetting journal entries for the commodity true-up, fixed gas cost true-up, negotiated losses, and increments/decrements.

The **Actual vs. Estimate Reporting Month Adj.** amounts result from the Company's monthly accounting closing process. Each month, the Company estimates its current month's gas costs for financial reporting purposes and adjusts the prior month's estimate to reflect the actual cost incurred for that month.

Total Other Costs are primarily the North Carolina ratepayers' portion of capacity release margins and the allocation factor differential for bundled sales. The allocation factor differential is due to the utilization of the NC/SC sales allocation factor in the commodity gas cost calculation and the demand allocation factor utilized in the secondary market calculation.

SECONDARY MARKET ACTIVITIES

Q. MS. JAYASHEELA, PLEASE SUMMARIZE THE COMPANY'S SECONDARY MARKET ACTIVITIES DURING THE REVIEW PERIOD.

A. During the review period, the Company earned actual margins of $36,913,765 on secondary market transactions, and credited the All Customers' Deferred Account in the amount of $23,603,588 (($36,913,765 – 100% Duke secondary market sales) x NC demand allocator x 75% ratepayer sharing percentage) + (100% Duke secondary market sales x NC demand allocator)) for the benefit of ratepayers, in accordance with the Commission's Order Approving Stipulation issued on December 22, 1995, in Docket No. G-100, Sub 67. This dollar amount is slightly different than the amount recorded on Tomlinson Exhibit_(MBT-1), Schedule 9, since the Company's deferred account includes estimates for the May 2019 secondary market transactions. Presented below is a chart that compares the actual Total Company margins earned by Piedmont on the various types of secondary market transactions in which it was engaged during the review period and the prior review period.

	Actual Amounts for he 12 Mon h Periods Ended			
	April 30, 2019	April 30, 2018	Increase (Decrease)	% Change
Asset Management Arrangements	$9,367,894	$10,885,208	($1,517,314)	(13.9%)
Capacity Releases	15,323,755	20,465,242	(5,141,487)	(25.1%)
Off System Sales	12,222,116	20,069,813	(7,847,697)	(39.1%)
Total Company Margins on Secondary Market Transactions	$36,913,765	$51,420,263	($14,506,498)	(28.2%)

Note: Actual amounts lag one-month behind the accounting period. The May 31 review periods reflect actual amounts for the 12-months ended April 30.

Asset Management Arrangements (AMAs), according to the FERC,

> are contractual relationships where a party agrees to manage gas supply and delivery arrangements, including transportation and storage capacity, for another party. Typically a shipper holding firm transportation and/or storage capacity on a pipeline or multiple pipelines temporarily releases all or a portion of that capacity along with associated gas production and gas purchase agreements to an asset manager. The asset manager uses that capacity to serve the gas supply requirements of the releasing shipper, and, when the capacity is not needed for that purpose, uses the capacity to make releases or bundled sales to third parties.

Promotion of a More Efficient Capacity Release Market, Order No. 712, 123 FERC ¶ 61,286, Paragraph 110 (June 19, 2008).

Piedmont had seven AMAs during the current review period and the prior review period. The 13.9% decrease in net compensation from AMAs is due to a decrease in the value of the interstate pipeline and storage capacity that Piedmont has subject to the AMAs.

Capacity Releases are the short-term posting of unutilized firm capacity on the electronic bulletin board that is released to third parties at a biddable price. The overall net compensation from capacity release transactions decreased due to a lower level of released volumes, as well as a decrease in the market value of capacity releases, for the current review period as compared to the previous period.

Off System Sales on Piedmont's system are also referred to as bundled sales. Bundled sales are gas supplies delivered to a third party at a specified receipt point in the Transco market area. Because bundled sales move gas from the production area to the market area, these sales utilize pipeline capacity, and thus involve both gas supply and capacity. During the current review period as compared to the prior review period, the net compensation from off system sales decreased by approximately 39.1% due to the lower market prices that were paid by shippers and a decrease in the value of the interstate pipeline capacity.

Q. PLEASE PROVIDE A FURTHER DESCRIPTION OF PIEDMONT'S OFF SYSTEM SALES TRANSACTIONS.

A. During the current review period, Piedmont entered into multi-month, monthly, and daily off system sales transactions with approximately thirty shippers. 32.7% of these off system sales transaction volumes consisted of daily transactions, 1.9% were monthly transactions and 65.3% were multi-month transactions.

HEDGING ACTIVITIES

Q. MS. PERRY, PLEASE EXPLAIN HOW THE PUBLIC STAFF CONDUCTED ITS REVIEW OF THE COMPANY'S HEDGING ACTIVITIES.

A. The Public Staff's review of the Company's hedging activities is performed on an ongoing basis, and includes the analysis and evaluation of the following information:

1. The Company's monthly hedging deferred account reports;
2. Detailed source documentation, such as broker statements, that provide support for the amounts spent and received by the Company for financial instruments;
3. Workpapers supporting the derivation of the maximum hedge volumes targeted for each month;
4. Periodic reports on the status of hedge coverage for each month (Hedging Position Report);

5. Periodic reports on the market values of the various financial instruments used by the Company to hedge (Mark-to-Market Report);
6. The monthly Hedging Program Status Report;
7. The monthly report reconciling the Hedging Program Status Report and the hedging deferred account report;
8. Minutes from meetings of Piedmont's Gas Market Risk Committee;
9. Minutes from the Board of Directors and its committees that pertain to hedging activities;
10. Reports and correspondence from the Company’s external and internal auditors that pertain to hedging activities;
11. Hedging plan documents that set forth the Company’s gas price risk management policy, hedge strategy, and gas price risk management operations;
12. Communications with Company personnel regarding key hedging events and plan modifications under consideration by Piedmont’s Gas Market Risk Committee; and
13. Testimony and exhibits of the Company’s witnesses in the annual review proceeding.

Q. WHAT IS THE STANDARD SET FORTH BY THE COMMISSION FOR EVALUATING THE PRUDENCE OF A COMPANY’S HEDGING DECISIONS?

A. In its February 26, 2002, Order on Hedging in Docket No. G-100, Sub 84 (Hedging Order), the Commission stated that the standard for reviewing the prudence of hedging decisions is that the decision "must have been made in a reasonable manner and at an appropriate time on the basis of what was reasonably known or should have been known at that time." Hedging Order, 92 NCUC 4, 11-12 (2002).

Q. PLEASE DESCRIBE THE ACTIVITY REPORTED IN THE COMPANY'S HEDGING DEFERRED ACCOUNT DURING THE REVIEW PERIOD.

A. The Company experienced net costs of $1,177,357 in its Hedging Deferred Account during the review period. This net cost amount in the account at May 31, 2019, is composed of the following items:

Economic (Gain)/Loss - Closed Positions	($2,884,060)
Premiums Paid	3,766,200
Brokerage Fees & Commissions	58,094
Interest on Hedging Deferred Account	237,123
Hedging Deferred Account Balance	$1,177,357

The Company proposed that the $1,177,357 debit balance in the Hedging Deferred Account at of the end of the review period be transferred to its Sales Customers' Only Deferred Account.

The first item shown in the chart above, Economic (Gain)/Loss - Closed Positions, is the gain on hedging positions that the Company realized during the review period. Premiums Paid is the amount spent by the Company on futures and options positions during the current review period for contract periods that closed during the review period or that will close after May 31, 2019. As of May 31, 2019, this amount includes call options purchased by Piedmont for the May 2020 contract period, a contract period that is 12 months beyond the end of the current review period and 12 months beyond the May 2019 prompt month. Brokerage Fees and Commissions are the amounts paid to brokers to complete the transactions. The Interest on Hedging Deferred Account is the amount accrued by the Company on its Hedging Deferred Account in accordance with N.C. Gen. Stat. § 62-130(e) and the Merger Order, effective October 1, 2017.

The hedging costs incurred by the Company during the review period represent approximately 0.33% of total gas costs or $0.02 per dt. The average monthly cost per residential customer for hedging is approximately $0.08 per dt.

Q. DID THE COMPANY MODIFY ITS HEDGING PLAN DURING THE REVIEW PERIOD?

A. No. The Company did not modify its hedging plan during the current review period.

Q. MS. PERRY, WHAT IS YOUR CONCLUSION REGARDING THE PRUDENCE OF THE COMPANY'S HEDGING ACTIVITIES?

A. Based on the Public Staff's analysis and what was reasonably known or should have been known at the time the Company made its hedging decisions affecting the review period, as opposed to the outcome of those decisions, I conclude that the Company's decisions were prudent. I recommend that the $1,177,357 debit balance in the Hedging Deferred Account as of the end of the review period be transferred to Piedmont's Sales Customers' Only Deferred Account.

<u>DESIGN DAY REQUIREMENTS</u>

Q. MS. NABA, HAVE YOU DRAWN ANY CONCLUSION FROM YOUR REVIEW AS TO THE COMPANY'S FUTURE CAPACITY REQUIREMENTS?

A. I reviewed the Company's testimony and information submitted by the Company in response to data requests that dealt with how well the projected firm demand requirements aligned with the available capacity in the future. I also performed independent calculations which projected demand versus capacity requirements.

Our calculations show a capacity deficit for the winter period of 2020-2021. Furthermore, unless the Atlantic Coast Pipeline project comes online by its scheduled in service date of 2021, Piedmont's capacity deficit will continue to increase for all future periods. I recommend that the Company continue to carefully review its demand projections as it considers acquisition of future capacity.

DEFERRED ACCOUNT BALANCES

Q. MS. JAYASHEELA, BASED ON YOUR REVIEW OF GAS COSTS IN THIS PROCEEDING AND MS. NABA'S OPINION THAT THE COMPANY'S GAS COSTS WERE PRUDENTLY INCURRED, WHAT ARE THE APPROPRIATE DEFERRED ACCOUNT BALANCES AS OF MAY 31, 2019?

A. The appropriate All Customers' Deferred Account balance is a credit of $17,913,017, owed by the Company to its customers, as filed by the Company.

The Public Staff recommends transferring the debit balance of $1,177,357 in the Hedging Deferred Account as of the end of the review period to the Sales Customers' Only Deferred Account. The recommended balance for the Sales Customers' Only Deferred Account as of May 31, 2019, is a net debit balance, owed to the Company, of $1,093,864, determined as follows:

Balance per Exhibit MBT-1 Sch 8	($83,493)
Transfer of Hedging Balance	1,177,357
Balance per Public Staff	$1,093,864

Q. MS. NABA, WHAT IS YOUR RECOMMENDATION REGARDING ANY PROPOSED INCREMENTS/DECREMENTS?

A. I have determined that the temporary increments applicable to the All Customers' Deferred Account balance at May 31, 2019, as proposed by the Company in Tomlinson Exhibit_(MBT-3), are properly and accurately calculated.

While I agree that the temporary increment calculations as shown in Tomlinson Exhibit_(MBT-4) for the Sales Customers' Only Deferred Account are accurately computed, I do not recommend that the Company implement the increment in this proceeding.

Q. WHY ARE YOU RECOMMENDING THAT THE COMPANY NOT IMPLEMENT AN INCREMENT REGARDING THE SALES CUSTOMERS' ONLY DEFERRED ACCOUNT?

A. Piedmont's Sales Customers' Only Deferred Account balance (including the Hedging Deferred Account balance) has "flipped" from a debit balance to a credit balance of ($4,895,050) as of June 30, 2019. Also, this trend is continuing as the estimated balance in this deferred account, including the Hedging Deferred Account balance, is projected to be ($8,630,224) as of August 31, 2019. Implementing an increment (which is an increase to customers) while there is a credit balance (a refund is due to customers) is counter-productive.

I also recommend that Piedmont remove the existing temporary decrements and increment approved in the Company's prior annual review of gas costs proceeding (Docket No. G-9, Sub 727) and implement the temporaries to the All Customers' Deferred Account as calculated in Tomlinson Exhibit_(MBT-3). I further recommend that no temporaries be implemented for the Sales Customers' Only Deferred Accounts at this time. I recommend that Piedmont monitor the balances in both, the All Customers' and Sales Customers' Only Deferred Accounts and, if needed, file an application for authority to implement new temporary increments or decrements through the Purchased Gas Adjustment mechanism in order to keep the deferred account balances at reasonable levels.

Q. WHAT AFFECT DOES THIS CHANGE IN TEMPORARIES HAVE ON THE TYPICAL RESIDENTIAL BILL?

A. Assuming the Commission approves the Public Staff's recommendation for the implementation of the temporary decrements as explained above, the typical residential customer will experience an annual decrease of $5.65.

Q. MS. JAYASHEELA, DID PIEDMONT HAVE ANY CHANGES TO ITS DEFERRED ACCOUNT REPORTING DURING THE REVIEW PERIOD?

A. No.

ADDITIONAL ISSUES

Q. MS. JAYASHEELA, DOES THE PUBLIC STAFF RECOMMEND ADDITIONAL MONTHLY SECONDARY MARKET REPORTING?

A. Yes. The Public Staff recommends that the Company provide more detailed information regarding its monthly capacity release and off system sales transactions beginning with the month of June 2019. The monthly information should include information regarding the accounting month, date of the transaction, third party shipper/customer, sales price charged, gas costs assigned to each transaction, volume, term of the transaction, basis of the sales price, and the basis for the gas costs assigned. The Company has indicated that it agrees with our recommendation and plans to work with the Public Staff on the format to provide the information.

Q. HAVE YOU READ THE COMPANY'S SUPPLEMENTAL TESTIMONY OF ITS WITNESS TOMLINSON?

A. Yes. I have.

Q. HAS THE COMPANY APPROPRIATELY CHANGED ITS INTEREST RATE IN THE DEFERRED ACCOUNTS BASED ON THE CHANGES IN TAX RATES?

A. Yes. The requirement regarding the current interest rate to use in the deferred gas cost accounts was established in the Merger Order. Ordering Paragraph 9 of the Merger Order states that "beginning with the month in which the merger closes, Piedmont shall use the net-of-tax overall rate of return from its last general rate case as the applicable interest rate on all amounts over-collected or under-collected from customers reflected in its Sales Customers Only, All Customers, and Hedging Deferred Gas Cost Accounts." The Public Staff believes that the Company has complied with Ordering Paragraph 9 of the Merger Order.

Q. WHAT IS THE PUBLIC STAFF'S POSITION REGARDING THE CHANGES IN THE INTEREST RATE APPLIED TO PIEDMONT'S DEFERRED ACCOUNTS?

A. The Public Staff believes that any change in federal and state tax rates should lead to changes in interest rate. As stated earlier in testimony, each month the Public Staff's Accounting Division reviews the Deferred Gas Cost Account reports filed by the Company for accuracy and reasonableness, and performs several audit procedures on the calculations, including, but not limited to, the interest calculations. During the first seven months of the current review period, Piedmont's interest rate of 6.94% reflected the state corporate income tax rate of 3%, as well as the 21% federal income tax rate in effect as of January 1, 2018. Because the state corporate income tax rate changed to 2.5% on January 1, 2019, the Company's net-of-tax overall rate of return during the remaining five months of the review period, January 1, 2019 through May 31, 2019, was 6.95%. The Public Staff agrees with these interest rates.

Q. DOES THIS CONCLUDE THE PUBLIC STAFF'S TESTIMONY?

A. Yes.

APPENDIX A

QUALIFICATIONS AND EXPERIENCE

POORNIMA JAYASHEELA

I received a Bachelor of Science degree and a Master of Business Administration degree from Osmania University, Hyderabad, India. I was employed by the Michigan Public Service Commission (MPSC) from July 2004 to August 2015. During my employment with the MPSC, I participated in contested rate cases, Times Interest Earned Ratio (TIER) case audits for regulated co-operatives, Power Supply Cost Recovery reconciliation audits, reconciliations of uncollectible expense tracking mechanism and revenue decoupling mechanism, and any special audits required by the MPSC.

I started employment with the Public Staff of North Carolina Utilities Commission in August 2015 as a staff accountant. I have presented testimony and exhibits or assisted with the following general rate case audits: Docket No. G-9, Sub 743, Piedmont Natural Gas Company, Inc.; Docket No. E-35, Sub 45, Western Carolina University; Docket No. W-1058, Sub 7, Elk River Utilities, Inc.; Docket No. E-34, Sub 46, New River Light and Power; and Docket No. W-567, Sub 8, Prior Construction Inc. I have also presented testimony and exhibits in Piedmont Natural Gas Company Inc.'s annual gas cost review cases in Docket No. G-9, Sub 690; Docket No. G-9, Sub 710; and Docket No. G-9, Sub 727.

APPENDIX B

QUALIFICATIONS AND EXPERIENCE

ZARKA H. NABA

I am a graduate of The City University of New York with a Bachelor of Science degree in Environmental Engineering.

I began working in the environmental field in June 2016 as an Environmental Engineering Intern. I've worked with the New York City Department of Sanitation's Vehicle Acquisition Warranty Division (DSNY) to assist in several fuel usage tracking projects installed in their fleet vehicles. While employed at DSNY, I was responsible for reporting installation projects, as well as researching environmental and safety impacts of various new technologies introduced.

I joined the Public Staff in September of 2017 as a Public Utilities Engineer with the Natural Gas Division. My work to date includes General Rate Case Proceedings, Purchased Gas Cost Adjustment Procedures, Tariff Amendments, Fuel Tracker & Power Cost Adjustments, Compressed Natural Gas Special Contracts, Annual Review of Gas Costs, Margin Decoupling Trackers, Gas Resellers, Weather Normalization, Peak Day Demand and Capacity Calculations, and Customer Complaint Resolutions.

APPENDIX C

QUALIFICATIONS AND EXPERIENCE

JULIE G. PERRY

I graduated from North Carolina State University in 1989 with a Bachelor of Arts degree in Accounting and I am a Certified Public Accountant.

Prior to joining the Public Staff, I was employed by the North Carolina State Auditor's Office. My duties there involved the performance of financial and operational audits of various state agencies, community colleges, and Clerks of Court.

I joined the Public Staff in September 1990, and was promoted to Supervisor of the Natural Gas Section in the Accounting Division in September 2000. I was promoted to Accounting Manager – Natural Gas & Transportation effective December 1, 2016. I have performed numerous audits and/or presented testimony and exhibits before the Commission addressing a wide range of natural gas topics.

Additionally, I have filed testimony and exhibits in numerous water rate cases and performed investigations and analyses addressing a wide range of topics and issues related to the water, electric, transportation, and telephone industries.

MS. CULPEPPER: And that concludes our case.

COMMISSIONER BROWN-BLAND: All right. Anything else we need to hear this morning?

MS. McGRATH: No.

MS. CULPEPPER: No, ma'am.

COMMISSIONER BROWN-BLAND: That being said, time for proposed orders, would 30 days from the notice of availability of the transcript work?

MS. CULPEPPER: That's fine.

MS. McGRATH: Yes.

COMMISSIONER BROWN-BLAND: All right. Then that shall be so ordered. And nothing further, we'll be adjourned. Thank you.

MS. CULPEPPER: Thank you.

MS. McGRATH: Thank you.

MR. HESLIN: Thank you.

(The proceedings were adjourned)

C E R T I F I C A T E

I, KIM T. MITCHELL, DO HEREBY CERTIFY that the Proceedings in the above-captioned matter were taken before me, that I did report in stenographic shorthand the Proceedings set forth herein, and the foregoing pages are a true and correct transcription to the best of my ability.

Kim T. Mitchell

Kim T. Mitchell
Court Reporter