STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH

DOCKET NO. G-9, SUB 791

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of Application of Piedmont Natural Gas Company, Inc. for Annual Review of Gas Costs Pursuant to N.C. Gen. Stat.§ 62-133.4(c) and Commission Rule R1-17(k)(6)	))))	ORDER ON ANNUAL REVIEW OF GAS COSTS

HEARD: Monday, October 11, 2021, at 2:00 p.m., Commission Hearing Room 2115, Dobbs Building, 430 North Salisbury Street, Raleigh, North Carolina (Public Witness Hearing, Hearing Examiner Heather Fennell, Presiding)

BEFORE: Commissioner ToNola D. Brown-Bland, Presiding; Commissioner Jeffrey A. Hughes, and Commissioner Floyd B. McKissick, Jr.

APPEARANCES:

For Piedmont Natural Gas Company, Inc.:

James H. Jeffries, IV, McGuireWoods LLP, 201 N. Tryon Street, Suite 3000, Charlotte, North Carolina 28202

For the Using and Consuming Public:

Elizabeth D. Culpepper, Staff Attorney, Public Staff – North Carolina Utilities Commission, 4326 Mail Service Center, Raleigh, North Carolina 27699

BY THE COMMISSION: On August 2, 2021, pursuant to N.C. Gen. Stat. § 62-133.4(c) and Commission Rule R1-17(k)(6), Piedmont Natural Gas Company, Inc. (Piedmont or Company), filed the direct testimonies and exhibits of MaryBeth Tomlinson, Manager of Gas Accounting; Todd Breece, Manager of Natural Gas Trading & Optimization; and Jeffrey Patton, Manager of Pipeline Services. Piedmont's witnesses attested to the prudence of the Company's gas purchasing practices and the accuracy of the Company's gas cost accounting for the 12-month period ended May 31, 2021.

On August 9, 2021, Piedmont filed Exhibit_(MBT-5) to MaryBeth Tomlinson's testimony which was inadvertently omitted from the Company's August 2, 2021 filing.

On August 11, 2021, the Commission issued its Order Scheduling Hearing, Requiring Filing of Testimony, Establishing Discovery Guidelines and Requiring Public

Notice (Scheduling Order). The Scheduling Order established a hearing date of October 11, 2021, set prefiled testimony dates, and required the Company to give notice to its customers of the hearing on this matter.

On September 24, 2021, the Public Staff – North Carolina Utilities Commission (Public Staff) filed a motion for a four-day extension of time, until October 1, 2021, for the Public Staff and other intervenors to file testimony and exhibits. This motion was granted by Commission Order issued on September 27, 2021.

On September 30, 2021, the Commission issued its Order Changing Expert Witness Hearing to be Remotely Held and Setting Procedures (Remote Hearing Order). In its Remote Hearing Order, the Commission determined that good cause existed to change the expert witness hearing from an in-person hearing to a remote hearing. However, the Remote Hearing Order held that the public witness hearing would remain as an in-person hearing. The Public Staff and Piedmont consented to the remote hearing by notices filed on October 1, 2021, and October 4, 2021, respectively.

On October 1, 2021, the Public Staff prefiled the joint testimony of James M. Singer, Utilities Engineer, Energy Division; Dustin M. Metz, Utilities Engineer, Energy Division; and Sonja R. Johnson, Staff Accountant, Accounting Division (Public Staff Panel or Panel). The Public Staff filed corrected testimony to revise pages to the Panel's testimony on October 5, 2021.

On October 5, 2021, and October 8, 2021, the Public Staff and the Company respectively filed motions to excuse all witnesses from testifying at the remote expert witness hearing scheduled for October 11, 2021, and to accept the prefiled testimony and exhibits of all witnesses into the record at such hearing. The Company and the Public Staff stated that they had consulted with each other and, because there were no issues in dispute between them and no intervenors, they agreed to waive cross-examination of all expert witnesses, and did not object to the witnesses' prefiled testimony and exhibits being received into evidence.

On October 11, 2021, the Commission issued its Order Excusing Witnesses, Accepting Testimony, Canceling Expert Witness Hearing, Requiring Proposed Orders and Requiring Responses to Commission Questions (October 11 Order). In its October 11 Order, the Commission found good cause to grant the Public Staff's October 5, 2021 motion and the Company's October 8, 2021 motion. The Commission therefore accepted the witnesses' prefiled testimony and exhibits into evidence. Further, the Commission cancelled the expert witness hearing scheduled for October 11, 2021, ordered the parties to file proposed orders, or a joint proposed order, on or before November 12, 2021, and ordered Piedmont and the Public Staff to file verified written responses to the Commission questions attached to the October 11 Order as Attachment A by October 21, 2021.

On October 11, 2021, this matter came on for hearing as scheduled before Hearing Examiner Heather Fennell for the purpose of receiving public witness testimony. No public witnesses appeared at the hearing.

On October 11, 2021, the Company filed its affidavits of publication.

On October 20, 2021, pursuant to the October 11 Order, the Public Staff provided responses to the Commission's questions contained in Attachment A of the October 11 Order. On October 21, 2021, Piedmont provided responses to the Commission's questions contained in Attachment A of the October 11 Order.

On November 12, 2021, the Joint Proposed Order of Piedmont and the Public Staff was filed.

Based on the testimony and exhibits received into evidence and the entire record in this proceeding, the Commission makes the following:

FINDINGS OF FACT

1. Piedmont is a public utility as defined in Chapter 62 of the North Carolina General Statutes and is subject to the jurisdiction and regulation of the Commission.

2. Piedmont is engaged primarily in the business of transporting, distributing, and selling natural gas to customers in North Carolina, South Carolina, and Tennessee.

3. Piedmont has filed with the Commission and submitted to the Public Staff all of the information required by N.C. Gen. Stat. § 62-133.4(c) and Commission Rule R1-17(k).

4. The review period in this proceeding is the 12 months ended May 31, 2021.

5. The Company properly accounted for its gas costs incurred during the review period.

6. During the review period, the Company incurred total North Carolina gas costs of $296,068,509, which was comprised of demand and storage charges of $140,936,239, commodity gas costs of $189,219,220, and other gas costs of ($34,086,950).

7. On May 31, 2021, the Company had a credit balance of $2,517,923, owed from the Company to the customers, in its Sales Customers Only Deferred Account and a debit balance of $2,102,343, owed from the customers to the Company, in its All Customers Deferred Account.

8. During the review period, Piedmont actively participated in secondary market transactions and credited the All Customers Deferred Account in the amount of $33,083,898 for the benefit of North Carolina ratepayers.

9. Piedmont operated a gas cost hedging program on behalf of customers during the review period. Piedmont's hedging activities during the review period were reasonable and prudent.

10. As of May 31, 2021, the balance in the Company's Hedging Deferred Account was a debit balance of $927,346.

11. It is appropriate for the Company to transfer the $927,346 debit balance in its Hedging Deferred Account to its Sales Customers Only Deferred Account. The combined balance for the Hedging and Sales Customers Only Deferred Accounts is a net credit balance of $1,590,577.

12. The Company has transportation and storage contracts with interstate and intrastate pipelines which provide for the transportation of gas to the Company's system, and long-term supply contracts with producers, marketers, and other suppliers.

13. The Company utilized a "best cost" gas purchasing policy during the applicable review period consisting of five main components: price of gas, security of the gas supply, flexibility of the gas supply, gas deliverability, and supplier relations.

14. The Company's gas purchasing policy and practices during the review period were prudent.

15. The Company's capacity acquisition planning and arrangements are reasonable and prudent.

16. The Company's gas costs during the review period were prudently incurred, and the Company should be permitted to recover 100% of such prudently incurred gas costs.

17. The Company should remove the existing temporaries that were approved in the Company's prior annual review of gas costs proceeding (Docket No. G-9, Sub 771) and should implement the temporary rate decrement and increments proposed by Company witness Tomlinson and agreed to by the Public Staff Panel.

18. The appropriate interest rate to apply to Piedmont's Deferred Gas Cost Accounts during the review period is 6.66%.

19. It is appropriate for Piedmont to continue calculating interest using its overall allowed rate of return on a net-of-tax basis in its Deferred Gas Cost Accounts, adjusted for known tax changes.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 1-2

The evidence supporting these findings of fact is contained in the official files and records of the Commission and the testimony of Company witnesses Tomlinson, Breece, and Patton. These findings are essentially informational, procedural, or jurisdictional in nature and are not contested by any party.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 3-4

The evidence supporting these findings of fact is contained in the testimony of Company witnesses Tomlinson, Breece, and Patton, the testimony of the Public Staff Panel, and the provisions of N.C. Gen. Stat. § 62-133.4(c) and Commission Rule R1-17(k)(6).

Pursuant to N.C. Gen. Stat. § 62-133.4, Piedmont is required to submit to the Commission information and data for an historical 12-month review period concerning its actual cost of gas, volumes of purchased gas, sales volumes, negotiated sales volumes, and transportation volumes. Commission Rule R1-17(k)(6)(a) establishes May 31, 2021, as the end date of the annual review period for the Company in this proceeding. Commission Rule R1-17(k)(6)(c) requires that Piedmont file weather-normalized data, sales volumes, workpapers, and direct testimony and exhibits supporting the information.

Company witness Tomlinson testified that the Company filed with the Commission and submitted to the Public Staff throughout the review period complete monthly accounting of the computations required by Commission Rule R1-17(k)(6)(c). Witness Tomlinson included the annual data required by Commission Rule R1-17(k)(6)(c) as Exhibit_(MBT-1) to her direct testimony. The Public Staff Panel stated that they had presented the results of their review of the gas cost information filed by Piedmont in accordance with N.C.G.S. § 62-133.4(c) and Commission Rule R1-17(k)(6).

Based upon the foregoing, the Commission concludes that Piedmont has complied with the procedural requirements of N.C. Gen. Stat. § 62-133.4(c) and Commission Rule R1-7(k) for the 12-month review period ended May 31, 2021.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 5-7

The evidence supporting these findings of fact is contained in the testimony of Company witness Tomlinson, the Company's responses to Commission questions in the October 11 Order, and the Public Staff Panel testimony.

Company witness Tomlinson testified that Piedmont incurred total North Carolina gas costs of $296,068,509 during the review period, which was comprised of demand and storage charges of $140,936,239, commodity gas costs of $189,219,220, and other gas costs of ($34,086,950).

The Public Staff Panel testimony explained the significant increases or decreases in demand and storage charges. The Public Staff Panel testified that the decreases in the Transcontinental Gas Pipe Line Company, LLC (Transco) Firm Transportation (FT), the Transco General Storage Service (GSS), the Transco Eminence Storage Service (ESS), and the Transco Washington Storage Service (WSS) charges are due to decreases related to Transco's general rate case and fuel tracker filings, pursuant to Federal Energy Regulatory Commission (FERC) Docket Nos. RP19-1638-000, RP20-575-000 and RP21-579-000, effective November 1, 2019, and April 1, 2020, and April 1, 2021, respectively. The Public Staff Panel further testified that the increase in Columbia Storage

Service Transportation (SST), Firm Transportation Service (FTS), and No Notice Transportation Service (NTS) charges are primarily due to a general rate case filing in FERC Docket No. RP20-1060-000 and a Capital Cost Recovery Mechanism compliance filing for recovery of specified capital investments under Columbia's Modernization Program in FERC Docket No. RP20-382-000, both effective February 1, 2020. The Public Staff Panel stated that the East Tennessee Natural Gas (ETN) charges increased due to various FERC amendments involving filings with ETN and Texas Eastern Transmission, LP (TETCO), including rate increases from a TETCO general rate case proceeding in FERC Docket No. RP19-343-000, effective November 1, 2019. The Public Staff Panel also stated that the Liquefied Natural Gas (LNG) Processing charges increased due to a higher level of LNG withdrawal volumes when compared to the withdrawal volumes from the prior review period. Finally, the Public Staff Panel stated that Property Taxes decreased due to an incorrectly coded property tax bill in January 2021 that has been reclassified into the next annual review period along with the associated interest. The Summary of Demand and Storage Rate Changes as a result of various FERC rulings in its dockets during the review period can be found in Company witness Tomlinson's Exhibit_(MBT-1), Schedule 5.

The Company's responses to the Commission questions in the October 11 Order explained the significant increase in the Transco LNG Service charge. The Company explained that the increase in the Transco LNG Service charge since the last annual review was driven by rate increases related to a Transco rate case (FERC Docket No. DRP18-1126) and Transco's Limited Section 4 Filing for Station 240 LNG (FERC Docket No. RP20-948). The latter filing resulted in higher demand and capacity rates effective May 1, 2020, based on cost recovery for Transco's modernization of its Station 240 LNG facility in Carlstadt, New Jersey to improve safety and reliability and to remain in compliance with environmental regulations.

Company witness Tomlinson's prefiled testimony and exhibits reflected a credit balance of $2,517,923 in the Company's Sales Customers Only Deferred Account (which includes an ending credit balance of $1,590,577 and a hedging deferred account balance of $927,346), and a debit balance of $2,102,343 in its All Customers Deferred Account as of May 31, 2021. The Public Staff Panel agreed with these balances and testified that the Company properly accounted for its gas costs incurred during the review period.

Based upon the foregoing, the Commission concludes that the Company properly accounted for its gas costs incurred during the review period. The Commission also concludes that the appropriate level of total North Carolina gas costs incurred for this proceeding is $296,068,509. The Commission further concludes that the appropriate deferred account balances as of May 31, 2021, are a credit balance of $2,517,923, owed from the Company to the customers, in its Sales Customers Only Deferred Account, and a debit balance of $2,102,343, owed from the customers to the Company, in its All Customers Deferred Account.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 8

The evidence supporting this finding of fact is contained in the testimony of Company witness Breece and the Public Staff Panel.

Company witness Breece provided testimony on the process that Piedmont utilized and the market intelligence that was evaluated during the review period to determine the prices charged for secondary market sales. Witness Breece explained that the process and information used by Piedmont in pricing secondary market sales depends upon the location of the sale, term and type of the sale, and prevailing market conditions at the time of the sale. Witness Breece stated that for long-term delivered sales (longer than one month), Piedmont generally solicits bids from potential buyers and, if acceptable, awards volumes based on bids received and its evaluation. Witness Breece further stated that, for short-term transactions (daily or monthly), Piedmont monitors prices and volumes on the Intercontinental Exchange, talks to various market participants, and for less liquid trading points, estimates prices based on price relationships with more liquid points. Witness Breece stated that the Company also evaluates the amount of supply available for sale and weighs that against current market conditions in formulating its sales strategy.

The Public Staff Panel testified that the Company earned actual margins of $44,111,864 on secondary market transactions and credited the All Customers Deferred Account in the amount of $33,083,898 for the benefit of North Carolina ratepayers (($44,111,864 – 100% Duke secondary market sales) x NC demand allocator x 75% ratepayer sharing percentage) + (100% Duke secondary market sales x NC demand allocator))The margins earned were a result of Piedmont's participation in asset management arrangements, capacity releases, and off system sales.

Based on the foregoing, the Commission concludes that Piedmont actively participated in secondary market transactions, resulting in $33,083,898 net margin for the benefit of North Carolina ratepayers during the review period.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 9-11

The evidence supporting these findings of fact is contained in the testimony of Company witnesses Tomlinson and Breece and the Public Staff Panel testimony.

Company witness Tomlinson stated in her testimony that the Company had a debit balance of $927,346 in its Hedging Deferred Account at May 31, 2021. The Public Staff Panel testified that the net hedging costs were composed of Economic Gains on Closed Positions of ($1,077,640), Premiums Paid of $1,777,740, Brokerage Fees and Commissions of $39,586, and Interest on the Hedging Deferred Account of $187,660.

Company witness Breece testified that Piedmont's Hedging Plan accomplished its goal of providing an insurance policy to reduce gas cost volatility for customers in the event of sharp increases in gas prices. Witness Breece testified that the Company did not make any changes to its Hedging Plan during the review period. Witness Breece further testified that the Company continues to utilize storage as a physical hedge to stabilize cost, and that the Company's Equal Payment Plan, the use of the Purchased Gas Adjustment benchmark price, and deferred gas cost accounting also provide a smoothing effect on gas prices charged to customers.

The Public Staff Panel testified that its review of the Company's hedging activities is performed on an ongoing basis and includes analysis and evaluation of information contained in several documents and other data, including the Company's monthly hedging deferred account reports, detailed source documentation, workpapers supporting the derivation of the maximum targeted hedge volumes for each month, periodic reports on the status of hedge coverage for each month, and periodic reports on the market values of the various financial instruments used by the Company to hedge. In addition, the Public Staff reviews monthly Hedging Program Status Reports, monthly reports reconciling the Hedging Program Status Report and the hedging deferred account report, minutes from the meetings of Piedmont's Gas Market Risk Committee (GMRC), and minutes from the meetings of the Board of Directors and its committees that pertain to hedging activities. Further, the Public Staff's review includes reports and correspondence from the Company's internal and external auditors, hedging plan documents, communications with Company personnel regarding key hedging events and plan modifications under consideration by the GMRC, and the testimony and exhibits of the Company's witnesses in the annual review proceeding.

The Public Staff Panel concluded that Piedmont's hedging activities were reasonable and prudent and recommended that the $927,346 debit balance in the Hedging Deferred Account as of the end of the review period be transferred to the Sales Customers Only Deferred Account. Based on this recommendation, the Panel stated that the combined balance in the Sales Customers Only Deferred Account as of May 31, 2021, is a net credit balance of $1,590,577, owed by the Company to the customers.

As demonstrated by the testimony and exhibits provided by Piedmont and the Public Staff, the Commission finds that Piedmont's hedging program met the objective of contributing to the mitigation of gas price volatility and avoiding rate shock to customers. The Commission concludes that Piedmont's hedging activities were reasonable and prudent and the $927,346 debit balance in the Hedging Deferred Account as of the end of the review period should be transferred to the Sales Customers Only Deferred Account. The combined balance for the Hedging and Sales Customers Only Deferred Accounts is a net credit of balance of $1,590,577, owed by the Company to the customers.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 12-16

The evidence supporting these findings of fact is contained in the testimony of Company witnesses Breece and Patton and the Public Staff Panel.

Company witness Breece testified that the Company maintains a "best cost" gas purchasing policy. This policy consists of five main components: price of the gas; security of the gas supply; flexibility of the gas supply; gas deliverability; and supplier relations.

Witness Breece testified that all these components are interrelated and that the Company weighs the relative importance of each of these factors in developing its overall gas supply portfolio to meet the needs of its customers.

Witness Breece further testified that the Company purchases gas supplies under a diverse portfolio of contractual arrangements with several gas producers and marketers. In general, under the Company's firm gas supply contracts, Piedmont may pay negotiated reservation fees for the right to reserve and call on firm supply service up to a maximum daily contract quantity (nominated either on a monthly or daily basis), with market-based commodity prices tied to indices published in industry trade publications. Some of these firm contracts are for winter only (peaking or seasonal) service, and some provide for 365-day (annual) service. Firm gas supplies are purchased for reliability and security of service and are generally priced on a reservation fee basis according to the amount of nomination flexibility built into the contract with daily swing service generally being more expensive than monthly baseload service.

Witness Breece testified that the Company identifies the volume and type of supply that it needs to fulfill its customer demand requirements and generally solicits requests for proposals (RFPs) from a list of suppliers that the Company continuously updates as potential suppliers enter and leave the marketplace. The RFPs may be for firm baseload or swing supply. Witness Breece stated that swing supplies priced at first of month indices command the highest reservation fees because suppliers incur all the price risk associated with market volatility during the delivery period. Witness Breece testified that lower reservation fees are also associated with swing contracts referencing a daily market index because both buyer and seller assume the risk of daily market volatility. Witness Breece stated that after forecasting the ultimate cost delivered to the city gate for each point of supply and evaluating the cost of the 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 best fulfills its needs. Witness Breece also testified regarding the current U.S. supply situation and the various pricing alternatives available, such as fixed prices, monthly market indexing, and daily spot market pricing.

Witness Breece also described how the interrelationship of the five factors of its "best cost" policy affects the Company's construction of its gas supply and capacity portfolio under its best cost policy. The long-term contracts, supplemented by long-term peaking services and storage, generally are aligned with the firm market; the short-term spot gas generally serves the interruptible market. In order to weigh and consider the five factors, the Company stays abreast of current issues facing the natural gas industry by intervening in all major FERC proceedings involving its pipeline transporters, maintaining constant contact with existing and potential suppliers, monitoring gas prices on a real-time basis, subscribing to industry literature, following supply and demand developments, and attending industry seminars. Witness Breece further testified that the Company did not make any changes in its best cost gas purchasing policies or practices during the review period. Witnesses Patton and Breece also indicated that during the past year the Company has taken several additional steps to manage its costs, including, actively participating in proceedings at the FERC and other regulatory agencies that could reasonably be expected to affect the Company's rates and services, promoting more efficient peak day use of its system, and utilizing the flexibility within its existing supply and capacity contracts to purchase and dispatch gas, release capacity, and initiate secondary market sales in the most cost effective manner. Witness Patton included a current summary of the interstate natural gas pipeline proceedings in which Piedmont is a party before the FERC in Exhibit_(JCP-6) – Piedmont's FERC Filings June 2020-May 2021.

Company witness Patton testified about the market requirements of Piedmont's North Carolina customers and the acquisition of capacity to serve those markets. Witness Patton also testified that the Company expects the economy to continue growing and to result in increasing residential and commercial demand, and in turn, result in greater firm temperature sensitive requirements that will require firm sales service from the Company.

Witness Patton further testified that Piedmont and the natural gas industry have not seen evidence that conservation/reduced usage occurs during design day conditions. For that reason, witness Patton testified that Piedmont is confident the conservative approach to design day forecasting is the most prudent approach.

Witness Patton testified that the Company currently believes that it has sufficient supply and capacity rights to meet its customer needs for the upcoming 2021-2022 winter season. Specifically, witness Patton testified that the capacity portfolio for the 2021-2022 winter season and beyond will be restructured to include Piedmont's new Robeson LNG facility which will be able to provide 200,000 dekatherms (dts) per day of peaking supply of natural gas starting this upcoming winter season. Witness Patton stated that this forthcoming restructuring is anticipated to reduce the current capacity surplus shown on Line 47 of Exhibit_(JCP-5C), which illustrates the Company's plans to supply its estimated future growth requirements during the next five-year period beginning with this upcoming winter season. Additionally, witness Patton testified that in light of cancellation of the Atlantic Coast Pipeline Project (ACP) the Company has identified a preferred approach to replace the 160,000 dts per day of year-round ACP capacity that is targeted for the 2024–2026 timeframe to enhance upstream reliability, serve future firm demand, and meet system infrastructure requirements.

Witness Patton also testified that capacity additions are acquired in "blocks" of additional transportation, storage, or liquefied natural gas capacity, as they become needed, to ensure Piedmont's ability to serve its customers based on the options available at that time. Witness Patton explained that 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. Witness Patton also stated that this aspect of capacity planning is unavoidable but Piedmont attempts to mitigate the impact of any mismatch through its use of bridging services, capacity release, and off-system sales activities.

The Public Staff Panel testified that they had reviewed the testimony and exhibits of the Company's witnesses, the monthly Deferred Gas Cost Account and operating reports, the gas supply, pipeline transportation, and storage contracts, the reports filed with the Commission in Docket No. G-100, Sub 24A, as well as the Company's responses to the Public Staff's data requests. The Public Staff Panel further testified that, although the scope of Commission Rule R1-17(k) is limited to a historical review period, the Public Staff also considered other information 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.

The Panel further testified that it had discussions with Company personnel that dealt with how well the Company's projected firm demand requirements aligned with the available capacity over the next five years. The Panel stated that the Public Staff also performed independent calculations utilizing the Company's assumptions, and it appeared that the Company has adequate capacity to meet firm demand for the next five years. The calculations are based on the Company's assumptions of maintaining a design day temperature of 8.69° Fahrenheit, 65° Fahrenheit heating degree day (HDD) standard, incorporation of a five percent reserve margin, and other extraneous planning conditions listed in detail in Company witness Patton's direct testimony in this case.

Public Staff witness Metz stated that the Company had addressed the Public Staff's concerns related to the Company's design day demand requirements as raised by Public Staff witness Gilbert in Piedmont's previous annual review of gas costs proceeding, Docket No. G-9, Sub 771.

Public Staff witness Metz testified that the Public Staff is requesting further refinements to the Company's design day demand methodology at this time. Witness Metz stated that system planning is dynamic and that it is common to continuously review and modify system inputs for utility planning.

Public Staff witness Metz brought five items of note to the Commission's attention. He first discussed three items he considered of moderate importance:

> (1) Firm Sales (FS) customers are assigned total system Lost and Unaccounted For (LAUF) gas. From a modeling and regression analysis perspective, this methodology inappropriately overstates FS customer demand for planning purposes.
>
> (2) Minor inconsistencies are introduced by applying design day temperature averages to system-metered data on different time intervals. A component of the design day regression is to find the correlation between system usage and temperature; therefore, any temperature data should be from the same time series (9 a.m. to 9 a.m. Central Clock Time, per NAESB "Gas Day") as the metered usage data.
>
> (3) The Company uses five years of historical information (system usage and HDDs) to find a correlation between usage and weather. Over the last five years, Piedmont's total number of

> customers, as well as total demand, have increased. System usage should be appropriately adjusted to account for customer growth in order to correctly account for current system usage and forecast for future planning.

Public Staff witness Metz next discussed two items he considered to be of lesser importance that involve the evaluation of non-linear regression and accounting of weekend data. He explained that non-linear regression could help account for how different users of the system react differently to cold temperatures. He added that typically there are only a few "extreme" or colder than normal events in any five-year historic period, and non-linear regression would account for these infrequent, extreme, "tail-end" occurrences. In addition, he stated that based on his review, system demand for weekends is different from weekdays, so the inclusion of weekend data (low usage) during an extreme, cold weather event may understate system-planning demand.

Public Staff witness Metz testified that the refinements he recommends are not an indication that the Company has incorrectly performed future resource planning, but rather, they are an incremental step to fine tune the design day study and reduce embedded statistical error.

While not recommending specific changes at this time, the Public Staff Panel identified and recommended that the Company consider and possibly implement the following refinements to its design day demand methodology prior to its next annual review of gas costs proceeding: (1) FS customers should only be assigned their percentage of LAUF gas; (2) temperature data for system usage, weighted HDDs, and the design day temperature should be on or near the same time interval and weighted by the same methodologies; (3) historical system usage data should be normalized for each respective year's actual customer growth; (4) evaluation of linear versus non-linear regression; and (5) evaluation of weekend usage and a determination of whether it is appropriate to include typically low usage days for system planning purposes. The Public Staff Panel testified that it had discussed these topics with the Company and that the Company has agreed to work with the Public Staff prior to filing the next annual review to consider and possibly implement the refinements listed above.

The Public Staff Panel also provided comments on the Company's future available capacity resources. The Public Staff Panel stated that Company witness Patton's testimony acknowledged that the Company is addressing replacement capacity in the 2024-2026 time frame for the 160,000 dts per day of year-round capacity the Company had contracted for on the cancelled ACP. The Public Staff Panel also noted that Company witness Patton discussed Piedmont's additional peaking supply of 200,000 dts per day from the Robeson LNG facility for the upcoming winter season and for future planning. The Public Staff Panel testified that at the completion of the Robeson LNG facility, and if the Robeson LNG facility is filled as anticipated, the Company's plan has adequate capacity to cover its firm customers over its five-year planning cycle.

The Public Staff Panel recommended that the Company apply any updates to its design day calculation methodology to its Design Winter Load Duration Curve calculations. The Panel testified that the design day calculation discussed by Public Staff witness Metz creates the peak of the Design Winter Load Duration Curve and added that the Company calculates the remainder of the Design Winter Load Duration Curve using the same methodologies, with input weather data from the 1976-1977 Winter period in the Company's service territory (the highest total HDDs in the last 44 years). Therefore, the Public Staff believes that such changes to the design day and Design Winter Load Duration Curve calculation methodology may impact the Company's capacity requirements.

Based on this review, the Panel testified that the Company's gas costs were prudently incurred.

Based on the foregoing, the Commission concludes that the Company's gas costs incurred during the review period were reasonable and prudently incurred and that the Company should be permitted to recover 100% of its prudently incurred gas costs. The Commission also directs Piedmont to work with the Public Staff prior to filing its next annual review to consider, and possibly implement, the refinements to the Company's design day demand methodology, and to include in its direct testimony next year an update on its discussions with the Public Staff regarding the Company's design day demand estimation methodology and Design Winter Load Duration Curve calculations. The Commission further directs the Company to include a description of any changes Piedmont has made to its demand forecasting and capacity planning as a result. The Commission finds it would serve the interests of everyone to reach resolution on these topics, and the matter of continued evaluation is uncontested between the Public Staff and Piedmont.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 17

The evidence supporting this finding of fact is contained in the testimony of Company witness Tomlinson and the Public Staff Panel testimony.

Company witness Tomlinson testified that based on the Company's deferred accounts end-of-period balances, as reflected on Tomlinson Exhibit_(MBT-1), she recommended that the increments/decrements to Piedmont's rates be placed into effect for a period of twelve months after the effective date of the final order in this proceeding.

The Public Staff Panel testified that they had reviewed Company witness Tomlinson's proposed temporary rate decrement applicable to the Sales Customers Only Deferred Account balance in Tomlinson Exhibit_(MBT-3) and the proposed temporary rate increments applicable to the All Customers Deferred Account balance in Tomlinson Exhibit_(MBT-4) and agreed that the decrement and increments were properly and accurately calculated. The Public Staff also noted that deferred account balances naturally vary between winter and summer months since gas costs are typically over-collected during the winter period when throughput is higher due to heating load and under-collected during the summer when throughput is lower. The Panel recommended that the temporary decrement and increments applicable to the Sales Customers Only Deferred Account and the All Customers Deferred Account balances at May 31, 2021, as proposed by Company witness Tomlinson, are appropriate to implement at this time.

The Public Staff Panel further testified that Piedmont should continue to monitor the balances in both the All Customers and Sales Customers Only Deferred Accounts and, if needed, file an application for authority to change the benchmark commodity cost of gas or implement new temporary increments or decrements through the Purchased Gas Adjustment mechanism in order to keep the deferred account balances at reasonable levels.

Based on the foregoing, the Commission concludes that it is appropriate for the Company to remove the temporary rates that were implemented in Docket No. G-9, Sub 771, and to implement the Company's temporary decrement and increments as proposed in the instant docket.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NOS. 18-19

The evidence supporting these findings of fact is contained in the testimony and exhibits of Company witness Tomlinson and the testimony of the Public Staff Panel.

Company witness Tomlinson testified that it is appropriate for the Company to use its overall allowed rate of return on a net-of-tax basis of 6.66%, which was approved in the Company's last rate case in Docket No. G-9, Sub 743, as the interest rate for the Sales Customers Only Deferred Account, the All Customers Deferred Account, the Hedging Deferred Account, and the NCUC Legal Fund Account.

The Public Staff Panel stated that the requirement regarding the current interest rate to use in the Deferred Gas Cost Accounts was established in 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. The Panel explained that any change in the overall rate of return from a general rate case and in the federal and state tax rates should lead to changes in the interest rate. The Panel testified that during the review period, Piedmont utilized an interest rate of 6.66% consistent with changes to the net-of-tax overall rate of return from its general rate case in Docket No. G-9, Sub 743. The Public Staff Panel agreed that it is appropriate for the Company to continue to use the 6.66% interest rate in the Deferred Gas Cost Accounts.

Based on the foregoing, the Commission concludes that the appropriate interest rate to apply to Piedmont's Deferred Accounts for the review period is 6.66%. The Commission further concludes that it is appropriate for Piedmont to continue calculating interest using its overall Commission approved allowed rate of return on a net-of-tax basis in its Deferred Gas Cost Accounts, adjusted for known tax changes, and that the Company file such testimony and supporting schedules as part of its direct testimony in subsequent cost of gas proceedings.

IT IS, THEREFORE, ORDERED as follows:

1. That the Company's accounting for gas costs during the 12-month period ended May 31, 2021, is approved;

2. That the gas costs incurred by Piedmont during the 12-month period ended May 31, 2021, including the Company's hedging costs, were reasonably and prudently incurred, and Piedmont is hereby authorized to recover 100% of its gas costs incurred during the review period;

3. That the Company shall remove the existing temporaries that were implemented in Docket No. G-9, Sub 771, and implement the temporary rate decrement for the Sales Customers Only Deferred Account and the temporary rate increments for the All Customers Deferred Account, as found appropriate herein, effective for service rendered on and after the first day of the month following the date of this Order;

4. That it is appropriate to apply to Piedmont's Deferred Gas Cost Accounts an interest rate of 6.66% for the review period;

5. That it is appropriate for Piedmont to continue calculating interest using its Commission approved overall allowed rate of return on a net-of-tax basis in its Deferred Gas Cost Accounts, adjusted for known tax changes;

6. That in subsequent annual review proceedings, Piedmont shall continue to file in its direct testimony an explanation and supporting schedules that enable the Public Staff and Commission to review the interest rate being applied to Piedmont's deferred accounts, including deferred income tax accounts;

7. That Piedmont and the Public Staff shall work together to address, and to the extent practicable, resolve and incorporate within Piedmont's next annual review filing in 2022, the five refinements to the Company's design day demand methodology identified by Public Staff witness Metz in the Public Staff Panel testimony;

8. That Piedmont shall include an update on its discussions with the Public Staff regarding the Company's design day demand estimation methodology and Design Winter Load Duration Curve calculations, and include a description of any changes Piedmont has made to its demand forecasting and capacity planning as a result of these discussions in its direct testimony in its next annual review filing in 2022;

9. That Piedmont shall give notice to its customers of the rate changes allowed in this Order; and

10. That Piedmont shall file revised tariff sheets within five business days of the date of this Order implementing the rate changes approved in Ordering Paragraph No. 3 above.

ISSUED BY ORDER OF THE COMMISSION.

This the 22nd day of December, 2021.

NORTH CAROLINA UTILITIES COMMISSION

Joann R. Snyder

Joann R. Snyder, Deputy Clerk