STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH

DOCKET NO. G-9, SUB 743

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of		
Application of Piedmont Natural Gas	)	
Company, Inc., for an Adjustment of	)	
Rates, Charges, and Tariffs	)	JOINT PROPOSED ORDER OF
Applicable to Service in North	)	THE STIPULATING PARTIES
Carolina, Continuation of its IMR	)	
Mechanism, Adoption of an EDIT	)	
Rider, and Other Relief	)	

HEARD: Tuesday, July 9, 2019, at 7:00 p.m., High Point Courthouse, Courtroom 434, 505 East Green Drive, High Point, North Carolina

Wednesday, July 10, 2019, at 7:00 p.m., Mecklenburg County Courthouse, Courtroom 5350, 832 East 4th Street, Charlotte, North Carolina

Wednesday, July 17, 2019, at 7:00 p.m., New Hanover County Courthouse, Courtroom 317, 316 Princess Street, Wilmington, North Carolina

Monday, August 19, 2019, at 2:00 p.m., Commission Hearing Room No. 2115, Dobbs Building, 430 North Salisbury Street, Raleigh, North Carolina

BEFORE: Commissioner ToNola D. Brown-Bland, Presiding; Chair Charlotte A. Mitchell, and Commissioners Lyons Gray and Daniel G. Clodfelter

APPEARANCES:

For Piedmont Natural Gas Company, Inc.:

James H. Jeffries IV, McGuireWoods LLP, 201 N. Tryon Street, Suite 3000, Charlotte, North Carolina 28202, and Brian S. Heslin, Duke Energy Corporation, 550 South Tryon Street, Charlotte, North Carolina 28202

For Carolina Industrial Group for Fair Utility Rates IV:

Warren K. Hicks, Bailey & Dixon, LLP, Post Office Box 1351, Raleigh, North Carolina 27602

For Carolina Utility Customers Association, Inc.:

Robert F. Page, Crisp & Page, PLLC, 4010 Barrett Drive, Suite 205, Raleigh, North Carolina 27609

For Fayetteville Public Works Commission:

James P. West, Chief Legal Officer, Post Office Box 1089, Fayetteville, North Carolina 28302-1089

For Nucor Steel-Hertford:

Joseph W. Eason, Nelson, Mullins, Riley & Scarborough, LLP, GlenLake One, Suite 200, 4140 Parklake Avenue, Raleigh, North Carolina 27612

For the Using and Consuming Public:

Elizabeth Culpepper, Staff Attorney
Megan Jost, Staff Attorney
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Margaret A. Force, Assistant Attorney General
Jennifer T. Harrod, Special Deputy Attorney General
Teresa L. Townsend, Special Deputy Attorney General
North Carolina Department of Justice, 114 West Edenton Street, Raleigh, North Carolina 27603

BY THE COMMISSION: On February 27, 2019, Piedmont Natural Gas Company, Inc. (“Piedmont” or the “Company”), gave notice pursuant to Commission Rule R1-17(a) of its intent to file a general rate case.

On March 6, 2019, Carolina Utility Customers Association, Inc. ("CUCA"), filed a Petition to Intervene and its Petition to Intervene was subsequently allowed by Commission order issued March 20, 2019.

On March 12, 2019, Fayetteville Public Works Commission ("FPWC") filed a Petition to Intervene and its Petition to Intervene was subsequently allowed by Commission order issued on March 20, 2019.

On April 1, 2019, Piedmont filed a petition ("Petition") seeking (1) a general increase in and revisions to the rates and charges for customers served by the Company; (2) continuation of Piedmont's Integrity Management Rider ("IMR") mechanism contained in Appendix E to its approved service regulations; (3) regulatory asset treatment for certain incremental Distribution Integrity Management Program ("DIMP") Operations and Maintenance ("O&M") expenses; (4) adoption of revised and updated depreciation rates for the Company's North Carolina and joint property assets; (5) updates and revisions to Piedmont's rate schedules and service regulations; (6) revised and updated amortizations and recovery of certain regulatory assets accrued since Piedmont's last general rate case proceeding; (7) approval of expanded energy efficiency and conservation program spending; and (8) adoption of an Excess Deferred Income Taxes ("EDIT") Rider mechanism to manage the flow back to customers of deferrals and excess deferred income taxes created by changes to state and federal income tax rates. With its Petition, the Company also filed: (1) the direct testimony and exhibits of Frank Yoho, Executive Vice President and President, Natural Gas Business of Duke

Energy Corporation ("Duke Energy"); Victor M. Gaglio, Senior Vice President and Chief Utility Operations Officer, Natural Gas Business for Duke Energy; Jack L. Sullivan, III, Director, Corporate Finance and Assistant Treasurer of Duke Energy Business Services, LLC ("DEBS") and Assistant Treasurer for Piedmont; Bruce P. Barkley, Vice President – Regulatory and Community Relations for Piedmont; Pia K. Powers, Director – Gas Rates & Regulatory Affairs for Piedmont; Kally A. Couzens, Rates & Regulatory Strategy Manager for Piedmont; Robert B. Hevert, Chartered Financial Analyst and Partner of ScottMadden, Inc.; Daniel P. Yardley, Principal, Yardley Associates; Dane A. Watson, Partner of Alliance Consulting Group; and Paul M. Normand, President and Management Consultant, Management Applications Consulting, Inc., and (2) the NCUC Form G-1 information required by Commission Rule R1-17(b)(12) ("Form G-1").

By Order Establishing General Rate Case and Suspending Rates issued April 22, 2019 ("Suspension Order"), the Commission declared the Company's application to be a general rate case pursuant to N.C. Gen. Stat. § 62-133 and Commission Rule R1-17 and suspended the proposed rates for a period of up to 270 days from and after May 1, 2019.

On April 22, 2019, and in response to a letter dated April 15, 2019, in which the Public Staff notified the Company that it had identified two G-1 items that, in the opinion of the Public Staff, required supplementation, Piedmont filed information supplementing its G-1 filing for Items 4 and 19. In addition, Piedmont also provided supplemental information for Item 4.a (p.103A) and revisions to Items 4.a (p.127) and 28 (page 1 of 19) of its Form G-1.

On April 23, 2019, Nucor Steele-Hertford ("Nucor") filed a Petition to Intervene and its Petition to Intervene was subsequently allowed by Commission order issued May 7, 2019.

On May 16, 2019 the Commission issued its Order Scheduling Investigation and Hearings, Establishing Interventions and Testimony Due Dates and Discovery Guidelines and Requiring Public Notice.

On June 10, 2019, Carolina Industrial Group for Fair Utility Rates IV ("CIGFUR IV") filed a Petition to Intervene and its Petition to Intervene was subsequently allowed by Commission order issued June 20, 2019.

On June 10, 2019, the North Carolina Attorney General's Office ("AGO") filed a Notice of Intervention.

The three public hearings were held as scheduled. The following public witnesses appeared and testified:

High Point: William Gay, Jamique Chestnut, George Dimock, John Wigodsky, Gayle Tuch, Gus Preschle, Virginia Dancy, Kay Stuart, Sam Astuto, and Henry Ripp

Charlotte: Steve Copulsky, Nancy Carter, Margaret Peeples, Ridge Graham, Luis Rodriguez, Rev. Dr. Rodney Sadler, Sally Kneidel, Fontini Katsanos, Leo Amon, Rev. Mac Legerton, Michael Merinstein, David Rosen, Kendall

Hale, Dr. Steven Norris, Constance Williams, Steve Rundle and Jerome Wagner

Wilmington: Lynn McIntyre, Donna Chavis, Nita Dukes, Amanda Robertson, and Andy McGlinn

On July 19, 2019, the Public Staff filed the direct testimony and exhibits of R. Tyler Allison, Mary A. Coleman, Lynn Feasel, Geoffrey M. Gilbert, John R. Hinton, Poornima Jayasheela, Jan A. Larsen, Zarka H. Naba, Neha Patel, and Julie G. Perry. The testimony and exhibits of Public Staff witness Allison were subsequently withdrawn and public and confidential versions were filed on July 29, 2019.

Also on July 19, 2019, CIGFUR IV filed the direct testimony and exhibits of Nicholas Phillips, Jr., the Attorney General's Office filed the direct testimony and exhibits of Randall J. Woolridge, and CUCA filed the direct testimony and exhibits of Kevin W. O'Donnell.

On July 26, 2019, the Public Staff filed the revised exhibits of its witnesses Feasel, Jayasheela, and Perry.

On July 29, 2019, pursuant to its reservation of its right to do so in its Petition as permitted by N.C. Gen. Stat. § 62-133(c), Piedmont filed updated versions of its schedules reflecting updates to its rates, revenues, plant, depreciation expense, accumulated depreciation, and expenses as of June 30, 2019 ("June Updates"). Piedmont also filed the supporting supplemental testimony and exhibits of its witnesses Couzens and Powers.

On August 9, 2019, Piedmont filed the rebuttal testimony and exhibits of its witnesses Hevert and Barkley.

On August 12, 2019, Piedmont supplemented its filing of witness Hevert's rebuttal testimony to include exhibits inadvertently omitted from the original filing, and the Public Staff filed the settlement testimony of its witness Hinton.

On August 13, 2019, Piedmont, the Public Staff, CUCA, and CIGFUR IV ("Stipulating Parties") filed a Stipulation along with the supporting testimony and exhibits of witnesses Hevert and Powers.

On August 14, 2019, Piedmont filed a Motion to Excuse Witnesses Yardley, Norman, Watson, and Phillips from the hearing, and that motion was allowed by order of the Commission issued August 16, 2019.

Also on August 14, 2019, the Attorney General served and filed a second data request to Piedmont regarding settlement regarding which Piedmont filed objections with the Commission on August 15, 2019.

On July 30, August 2, and August 15, 2019, Piedmont filed affidavits attesting to the required publication of notice of this matter.

On August 16, 2019, the Commission issued an Order Providing Notice of Commission Questions. On the same day, Piedmont filed verification of the mailing of Notice of Hearings to its customers, and the Public Staff filed a signature page, which replaced the Public Staff's original signature page to the Stipulation.

Prior to the expert witness hearing, between April 3, 2019, and August 19, 2019, the Commission received approximately 981 consumer statements of position regarding and generally opposing Piedmont's rate increase proposal.

The matter came on for the expert witness hearing on August 19, 2019. Piedmont presented the testimony of witnesses Yoho, Gaglio, Sullivan, Couzens, Hevert, Barkley, and Powers. The AGO presented the testimony of witness Woolridge. The Public Staff presented the testimony of witnesses Hinton, Perry, Allison, Jayasheela, and Patel. At the evidentiary hearing, the parties waived cross-examination of CUCA witness O'Donnell and Public Staff witnesses Coleman, Feasel, Larsen, Gilbert, and Naba. The parties previously waived cross-examination of Company witnesses Yardley, Norman, and Watson, and CIGFUR IV witness Phillips, and, by Commission order, their appearance at the evidentiary hearing was excused. The pre-filed testimony of each of these witnesses was copied into the record as if given orally from the stand and their exhibits were entered into evidence.

On September 11, 2019, the Public Staff filed a Motion to Supplement the Record to correct errors it identified in Attorney General's Office Powers Cross Exhibit 5. By order issued September 23, 2019, the Commission identified and received into evidence the corrected Attorney General's Office Powers Cross Exhibit 5 as Public Staff Revised AGO Powers Late-Filed Exhibit 1.

On September 19, 2019, Piedmont filed a motion requesting a two-day extension of time, to and including September 25, 2019, for all parties to file briefs or proposed orders in this proceeding. That motion was granted by order of the Commission issued on September 23, 2019.

On September 23, 2019, the Public Staff filed Public Staff Late-Filed Exhibit 2 in response to the Commission's request made at the expert witness hearing.

The parties filed briefs and/or proposed orders on September 25, 2019.

Based upon the verified Petition, the testimony and exhibits received into evidence at the hearings, the Stipulation, and the record as a whole, the Commission makes the following:

FINDINGS OF FACT

Jurisdiction

1. Piedmont is a wholly-owned subsidiary of Duke Energy, duly authorized to do business in and engaged in the business of transporting, distributing, and selling natural gas within the states of North Carolina, South Carolina, and Tennessee. Piedmont's principal place of business is located in Charlotte, North Carolina.

2. Piedmont is a public utility within the meaning of N.C. Gen. Stat. § 62-3(23).

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

4. Piedmont is lawfully before the Commission pursuant to N.C. Gen. Stat. § 62-133 and Commission Rule R1-17 for a determination on its Petition in this proceeding.

<u>Piedmont's Petition</u>

5. Piedmont's Petition sought approval of a general increase in and revisions to the rates and charges for customers served by the Company; continuation of the Company's IMR mechanism; regulatory asset treatment for certain incremental DIMP O&M expenses; adoption of revised and updated depreciation rates for the Company's North Carolina and joint property assets; updates and revisions to Piedmont's rate schedules and service regulations; revised and updated amortizations and recovery of certain regulatory assets accrued since Piedmont's last general rate case proceeding; approval of expanded energy efficiency and conservation program spending; and adoption of an EDIT Rider mechanism to manage the flow back to customers of deferrals and excess deferred income taxes created by changes to state and federal corporate income tax rates.

6. The Petition included information and data required by NCUC Form G-1, and was supported by the direct prefiled testimonies and exhibits of Company witnesses.

Test Period

7. The only parties submitting evidence in this case with respect to revenue, expenses, and rate base levels used a test period of the twelve months ended December 31, 2018, adjusted for certain known and measurable changes through June 30, 2019, and the Stipulation is based upon the same test period.

8. The appropriate test period for use in this proceeding is the twelve months ended December 31, 2018, updated for certain known and measurable changes through June 30, 2019.

Stipulation

9. The Stipulation executed by Piedmont, the Public Staff, CUCA and CIGFUR IV is supported by those parties and is not opposed by Nucor.

10. The Stipulation is comprehensive in nature and settles all matters in this docket as between the Stipulating Parties.

11. The revenue impact of the Stipulation is reflected in the provisions of the Stipulation and in Exhibit A thereto.

12. The Stipulation is the product of give-and-take settlement negotiations between the Stipulating Parties, is material evidence as to the appropriate outcome of this proceeding, and is entitled to be given appropriate weight in this proceeding along with the other evidence provided by the Company, the Public Staff, the AGO, intervenor parties, and the public.

13. The only parties opposing portions of the Stipulation in this proceeding are the AGO and FPWC.

Revenue Increase

14. The Petition sought an increase in annual margin revenues for the Company of $118,116,597.

15. Pursuant to Piedmont's June Updates this margin revenue request increased to $143,635,886.

16. The Stipulation provides for an increase in annual margin revenues of $108,796,788.

17. Due to the amortizations of regulatory liabilities associated with the EDIT Riders and the deferral of revenues associated with the change in the federal corporate income tax rates provided for by the Stipulation, the effective net revenue requirement increases applicable to Piedmont's customers resulting from the Stipulation and reflected in Schedule 2 hereto are as follows:

Year 1	$28,058,125
Years 2-3	$64,757,365
Years 4+	$82,820,089[1]

18. Through the rates and charges approved in this case, the Company should be authorized to increase its annual level of operating revenues (in each instance compared to the current level of such revenues), by the amounts identified above as provided by the Stipulation.

19. The stipulated annual revenue increases shown above are just, reasonable, and appropriate for use in this proceeding.

[1] The Stipulation caps the aggregate rate increases provided for in years beyond Year 3 at $82,820,089 in order to be consistent with the notice of rate increase provided to the public in this docket.

Rate Base

20. The Company's rate base as of June 30, 2019 of $3,450,610,950, which includes the original cost of the Company's property used and useful, or to be used and useful within a reasonable time after the test period, in providing natural gas utility service to the Company's customers within North Carolina, including gas plant in service of $5,516,373,281, cash working capital of $52,447,941, and deferred regulatory assets of $135,551,187, reduced by accumulated depreciation of $1,520,637,505, other working capital of $6,264,000, and accumulated deferred income taxes of $726,859,954, all as described and set forth in Paragraph 5 and Exhibit A of the Stipulation and reflected in Schedule 1 hereto, is reasonable and appropriate for use in this docket.

Revenues and Operating Expenses

21. The Company's end-of-period pro forma revenues under present rates of $902,043,536, as set forth in Paragraph 6 and Exhibit A of the Stipulation and reflected in Schedule 1 hereto, are reasonable and appropriate for use in this docket.

22. The Company's operating expenses of $403,279,191 under present rates, plus interest on customers' deposits of $796,448 that is subtracted from margin revenues to arrive at net operating income for return under present rates, as set forth in Paragraph 6 and Exhibit A of the Stipulation and reflected in Schedule 1 hereto, and including the adjustments

reflected in the Stipulation, are reasonable and appropriate for use in this docket.

23. The various adjustments to operating expenses reflected in the Stipulation in Paragraphs 12 through 15 and 18 through 20, encompassing non-utility adjustments, Board of Director expense, compensation adjustments, miscellaneous expense adjustments, uncollectibles expense, regulatory fee adjustments, and rate case expense, are reasonable and appropriate for use in this docket.

Capital Structure

24. The capital structure set forth in Paragraph 6 and Exhibit B of the Stipulation, consisting of 52.00% common equity, 47.15% long-term debt at a cost of 4.41%, and 0.85% short-term debt at a cost of 2.72%, is reasonable and appropriate for use in this docket.

Return

25. The overall rate of return that the Company should be allowed the opportunity to earn on the cost of the Company's used and useful property is 7.14%, as set forth in Paragraph 6 and Exhibit A of the Stipulation and reflected in Schedule 1 hereto, and is reasonable and appropriate for use in this docket. This also is the rate to be used by the Company as its Allowance for Funds Used During Construction ("AFUDC") rate effective November 1, 2019.

26. The rate of return on common equity ("ROE") that the Company should be allowed the opportunity to earn in this docket is 9.70%, as set forth

in Paragraph 6 and Exhibit B of the Stipulation, and is reasonable and appropriate for use in this docket.

27. The authorized levels of overall return and ROE set forth above are supported by competent, material, and substantial record evidence, are consistent with the requirements of N.C. Gen. Stat. § 62-133 in light of changing economic conditions, and will allow the Company to maintain its facilities and services in accordance with the reasonable requirements of the Company's customers.

28. With respect to the foregoing ultimate findings on the appropriate overall rate of return on rate base and allowed ROE for use in this proceeding, the Commission relies on the following more specific findings of fact:

a. The overall rate of return on rate base and allowed ROE underlying Piedmont's current base rates are 7.51% and 10.0%, respectively.

b. Piedmont's current base rates became effective for service rendered on and after January 1, 2014, and have been in effect since that date.

c. In its Petition, Piedmont sought approval for rates which were based on an overall rate of return on rate base of 7.68% and an allowed ROE of 10.60%.

d. In the Stipulation, the Stipulating Parties seek approval of an overall rate of return on rate base of 7.14% and an allowed ROE of 9.70%.

e. The reduction in overall return and ROE from both Piedmont's existing base rates and its Petition, as reflected in the Stipulation, is a substantial economic benefit to Piedmont's customers.

f. As reported by S&P Global Market Intelligence, the average litigated ROE for US natural gas distribution companies during the first half of 2019 was 9.7% (compared to 9.57% in 2018) and the average allowed ROE in all natural gas distribution rate cases was 9.63% (compared to 9.59% in 2018). Also as reported by S&P Global Market Intelligence, the median authorized ROE for US natural gas companies during the first half of 2019 was 9.70% (compared to 9.60% in 2018).

g. The stipulated ROE of 9.70% is equal to the lowest ROE granted by the Commission for a major natural gas or electric utility in the last ten years.

h. The currently authorized allowed ROE underlying the base rates of Public Service Company of North Carolina, Inc.'s ("PSNC") is 9.70%.[2]

i. The currently authorized allowed rate of return on common equity for Duke Energy Progress, LLC ("DEP"), Duke Energy Carolinas, LLC ("DEC"), and Dominion Energy North Carolina is 9.90%.[3]

[2] Order Approving Rate Increase and Integrity Management Tracker, Docket No. G-5, Sub 565 (October 28, 2016).

[3] Order Accepting Stipulation, Deciding Contested Issues, and Requiring Revenue Reduction, Docket No. E-7, Sub 1146 (June 22, 2018); Order Accepting Stipulations, Deciding Contested Issues and Granting Partial Rate Increase, Docket No. E-2, Sub 1142 (Feb. 23, 2018); and Order Approving Rate Increase and Cost Deferrals and Revising PJM Regulatory Conditions, Docket No. E-22, Sub 532 (Dec. 22, 2016).

j. The stipulated allowed ROE of 9.70% is consistent with the allowed ROEs identified above.

k. The stipulated overall rate of return on rate base of 7.14% and allowed ROE of 9.70% are supported by competent, material, and substantial evidence and, based on the facts and circumstances of this particular case, are more appropriate than the recommendations of AGO witness Woolridge, the only witness for a party contesting the Stipulation in this regard.

l. The relative impact of the stipulated Year 1 rates on each Piedmont customer class is reflected in Exhibit J of the Stipulation.

m. The stipulated billing rates will produce average annual residential winter heating bills of $508 for Piedmont's customers in Year 1 as compared to $532 experienced in the winter of 2018/2019.

n. Unchallenged evidence presented at the hearing of this matter indicates that the overall economic climate in North Carolina (and nationally) remains strong, including data and projections from reliable sources that demonstrate: (i) job growth in North Carolina as reported by the North Carolina Department of Commerce has risen for 11 straight months; (ii) job growth in North Carolina has outpaced national job growth according to a July 2019 US Bureau of Labor Statistics report; (iii) job postings in North Carolina have increased by 10.40% year over year; (iv) gross domestic product ("GDP") is increasing in all 50 states; (v) according to the Bureau of Economic Analysis individual real disposable income is increasing as are personal consumption expenditures; (vi) according to the same source wages, salaries, and personal savings are all increasing; (vii) exports, housing starts, and new orders for manufactured goods are all increasing; (viii) major metropolitan areas in North Carolina continue to be ranked among the highest in the nation in terms of being best for business and careers; and (ix) new business project announcements indicate that several new major employers are relocating to North Carolina.

o. Irrespective of the economic conditions being experienced in North Carolina at this time, which are uniformly positive, some customers of Piedmont will struggle to pay their utility bills under the rate increases authorized herein.

29. The capital structure and rates of return on rate base and common equity set forth in the Stipulation and approved by the Commission herein result in a cost of capital which appropriately balances Piedmont's needs to maintain its credit ratings and obtain equity financing on reasonable terms and its customers' needs to pay the lowest possible rates for natural gas service.

Throughput

30. For the purpose of this proceeding, as set forth in Paragraph 3 of the Stipulation, the appropriate level of adjusted sales and transportation volumes is 136,415,626 dekatherms ("dts"), which is comprised of 74,815,358 dts of sales quantities and 61,600,268 dts of transportation quantities. The total throughput, which reflects the total gas sales and transportation

quantities plus electric generation and other special contract quantities, is 483,305,524 dts. The appropriate level for company use and lost and unaccounted for gas is 2,594,219 dts.

Cost of Gas

31. The total cost of gas reasonable and appropriate for use in this proceeding is $334,653,470, as described in Paragraph 4 and on Exhibit I to the Stipulation and consisting of $215,392,832 in commodity costs[4] and $119,260,638 in fixed gas costs.

32. The Benchmark Cost of Gas ("Benchmark") reasonable and appropriate for use in this proceeding is $2.75 per dt.

33. The fixed gas costs that should be embedded in the proposed rates and used in future true-ups of fixed gas costs for periods subsequent to November 1, 2019, in proceedings under Commission Rule R1-17(k), subject to any filed changes in such costs prior to November 1, 2019, are those derived from the fixed gas cost apportionment percentages discussed in Paragraph 8 and set forth in Exhibit D to the Stipulation until the resolution of Piedmont's next general rate case proceeding.

Rate Design

34. The rate schedules reflecting new volumetric rates, monthly charges, and demand charges, as discussed in Paragraph 7 of the Stipulation and reflected in Exhibit C of the Stipulation, as well as the rate elements comprising such rates, as discussed in Paragraph 24 and reflected in Exhibits

[4] Of this total amount of commodity cost of gas, $7,134,102 is the commodity cost of gas for company use and lost and unaccounted for gas quantities.

K and L of the Stipulation, are just and reasonable and appropriate for use in this docket. Furthermore, it is appropriate to adjust rates to reflect any Commission-approved: (1) changes in the Company's Benchmark on or before the date that the rates approved in this docket become effective; and (2) changes in the gas demand and storage charges (components of the fixed cost of gas shown in Exhibit I to the Stipulation) that occur between the date of this Stipulation and the date that the rates approved in this docket become effective. The percentage increases by customer class that result from the aforementioned rate design as shown on Exhibit J are just and reasonable.

Integrity Management Rider

35. Continuation of the IMR in the form set forth in Appendix E to Piedmont's current North Carolina Service Regulations, subject to the clarifications set forth in Paragraph 9 of the Stipulation, is reasonable and appropriate and consistent with N.C. Gen. Stat. § 62-133.7A, and should be approved and implemented as provided in Paragraph 9 of the Stipulation.

Margin Decoupling Factors

36. The "R" values and heat factors set forth on Exhibit E to the Stipulation and reflected in Paragraph 10 of the Stipulation are reasonable and appropriate for use with the Company's Margin Decoupling Tracker ("MDT") mechanism and should be approved.

Amortization of Certain Regulatory Deferred Assets/Liabilities

37. The quantification and amortization of certain regulatory deferred assets/liabilities, including Transmission Integrity Management

Program ("TIMP") operating and maintenance ("O&M") costs, EasternNC O&M costs, environmental compliance assessment and clean-up O&M costs, and under-collected regulatory fee payments, all as set forth and described in Paragraph 11 of the Stipulation, are reasonable and appropriate and should be approved.

Implementation of Federal Tax Cuts and Jobs Act of 2017 ("TCJA") and State Excess Deferred Income Tax Amortization

38. The proposed process for amortizing and refunding to customers the regulatory liabilities resulting from the change in corporate tax rates established by the TCJA, as well as the treatment of EDIT owed by the Company to customers, as set forth in Paragraph 16 of the Stipulation, is reasonable and appropriate and should be approved.

Depreciation Rates

39. The change in depreciation rates for the Company reflected in the depreciation study attached to the prefiled direct testimony of Piedmont witness Watson and agreed to in Paragraph 21 of the Stipulation is reasonable and appropriate and should be approved effective November 1, 2019. The depreciation study satisfies the requirement of Commission Rule R6-80 that utilities file depreciation studies at least once every five years, is reasonable and appropriate, and should be approved. It is also appropriate to reduce depreciation expense to reflect the impacts of the reallocation of the reserve accounts related to the NC direct and corporate allocated general plant accounts.

Changes to Tariffs and Service Regulations

40. The changes to the Company's Tariffs and Service Regulations as specified in Paragraph 22 of the Stipulation and set forth in Exhibits G and H to the Stipulation, respectively, are reasonable and appropriate and should be approved.

Gas Technology Institute ("GTI") Funding

41. The proposed funding for the Operations Technology Development ("OTD") Program operated by GTI, in the amount of $375,000, which is included in Piedmont's annual revenue requirement, as discussed in Paragraph 23 of the Stipulation, is reasonable and appropriate and should be approved.

Creation of Line 434 Revenue Rider

42. The creation of a Line 434 Revenue Rider, and the associated filing and consultation requirements, as discussed in Paragraph 31 of the Stipulation, is reasonable and appropriate and should be approved.

Miscellaneous Matters

43. The various agreements between the Company, the Public Staff, CUCA, and CIGFUR IV reflected in Paragraphs 25 through 30 and 32 of the Stipulation as to accounting conventions and practices relative to the following matters are each reasonable and appropriate and should be approved: (1) the treatment for O&M expenses arising out of activities required to comply with federal DIMP requirements; (2) reporting practices related to O&M expenses incurred and deferred in relation to federal TIMP

and DIMP requirements; (3) the consolidation of common gas areas ("CGAs") for purposes of measuring heat content; (4) methods to improve transparency for cost allocations among Piedmont and Duke Energy subsidiaries; (5) the amount of conservation program spending and line locate expense amounts included in the annual revenue requirement; and (6) implementation of a system support volumetric rate component in all special and electric generation contract sales or transportation service arrangements.

Stipulation as a Whole

44. All of the provisions of the Stipulation are just and reasonable to all parties to this proceeding, serve the public interest, and should be approved.

Infrastructure, Environmental, and Global Warming Concerns

45. Issues regarding the need for natural gas infrastructure, environmental concerns with the utilization of natural gas as an energy source, and global warming are neither relevant to nor properly before the Commission in this proceeding.

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

The evidence supporting these findings of fact and conclusions is contained in the Company's verified Petition, the testimony and exhibits of the Company's witnesses, the Form G-1 that was filed with the Petition, the provisions of Chapter 62 of the General Statutes, and the entire record in this proceeding as a whole. These findings are jurisdictional and procedural in nature and are not contested by any party.

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

The evidence supporting these findings of fact and conclusions is contained in the Petition, the direct testimony of Piedmont witness Powers, the direct testimony and exhibits of the witnesses, the Suspension Order, the Stipulation, and the entire record in this proceeding.

In its Petition, the Company utilized a test period of the twelve months ended December 31, 2018 in presenting its Petition and exhibits for the requested rate increase. This test period was confirmed in the direct testimony of Piedmont witness Powers who indicated that the Company had based its Petition on the twelve-month period ended December 31, 2018. In its Suspension Order, the Commission ordered the parties to use a test period consisting of the twelve months ended December 31, 2018, with appropriate adjustments.

The Stipulation reflects that the test period for this rate case is the twelve months ending December 31, 2018, adjusted for certain changes in plant, throughput, and costs that were not known at the time the case was filed but are based upon circumstances occurring or becoming known through June 30, 2019. This test period was not contested by any party.

Based upon the unopposed evidence, the Commission concludes that the twelve months ended December 31, 2018, adjusted for certain changes in plant, throughput, and costs that were not known at the time the case was filed but are based upon circumstances occurring or becoming known through June 30, 2019, is the appropriate test period for use in this proceeding.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 9-13

The evidence for these findings of fact and conclusions is contained in the Stipulation, the Petition, the direct testimony and exhibits of the witnesses, the settlement testimony of Piedmont witnesses Powers and Hevert, the settlement testimony of Public Staff witness Hinton, and the entire record in this proceeding.

In her settlement testimony, Piedmont witness Powers describes an extensive audit and negotiation process between the Company and the Public Staff, in which the Company responded to more than 600 discrete questions (not including parts and subparts) of 95 sets of discovery requests, participated in two on-site audits by the Public Staff totaling five days, and then engaged in multiple days of meetings with the Stipulating Parties in an effort to reach an agreed resolution of this proceeding. According to Ms. Powers, as supported by the record in this proceeding, those efforts were fruitful and the Stipulating Parties were able to reach a comprehensive agreement pursuant to which all issues in this case, as between the Stipulating Parties, were resolved. That agreement is reflected in the Stipulation filed in this matter. The Stipulation is binding as between Piedmont, the Public Staff, CUCA, and CIGFUR IV and conditionally resolves all matters in this case as between those parties.

Piedmont witness Hevert and Public Staff witness Hinton also filed testimony supporting the stipulated capital structure and return agreed to in the Stipulation.

According to Ms. Powers, the AGO was represented at the settlement negotiations with the Public Staff, but did not join in the Stipulation. And while no party filed comments or testimony expressly opposing the Stipulation, the Commission interprets the AGO's decision not to join the Stipulation and its position at the hearing of this matter to indicate its opposition to the Stipulation, at least with respect to the issues of capital structure and rate of return on equity on which its witness Dr. Woolridge provided testimony and on the appropriate amortization period for unprotected EDIT. The Commission similarly interprets FPWC's questioning of Public Staff witness Perry on Paragraph 32 of the Stipulation as an indication of its opposition to that provision.

Nucor did not join in the Stipulation nor did it oppose the Stipulation in any filing or at the hearing of this matter. The Commission interprets these actions to indicate that Nucor neither supports nor opposes the Stipulation.

Under North Carolina law, a stipulation entered into by less than all parties in a contested case proceeding under Chapter 62 "should be accorded full consideration and weighed by the Commission with all other evidence presented by any of the parties in the proceeding." State ex rel. Utilities Commission v. Carolina Utility Customers Association, Inc., 348 N.C. 452, 466, 500 S.E.2d 693, 703 (1998). Further, "[t]he Commission may even adopt the recommendations or provisions of the nonunanimous stipulation as long as the Commission sets forth its reasoning and makes 'its own independent conclusion' supported by substantial evidence on the record that the proposal is just and reasonable to all parties in light of all the evidence presented." Id.

The Commission concludes based upon all of the evidence presented that the Stipulation was entered into by the Stipulating Parties after full discovery and extensive negotiations and represents a negotiated resolution of the matters in dispute in this docket that is supported, or not opposed, by all parties except the AGO and FPWC. Accordingly, the Stipulation constitutes material evidence of the appropriate resolution of this proceeding and will be treated as such by the Commission.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 14-19

The evidence for these findings of fact and conclusions is set forth in the Petition, the June Updates, the Stipulation, the prefiled direct and settlement testimony of Piedmont witness Powers, the prefiled testimony and revised exhibit of Public Staff witness Jayasheela and Public Staff Late-Filed Exhibit 2.

In the Petition, as supported by the prefiled direct testimony and exhibits of Piedmont witness Powers, Piedmont sought a margin revenue increase in this case of $118,116,597. As reflected in the prefiled testimony and exhibits of Public Staff witness Jayasheela, the Public Staff's initial recommendation was for a margin revenue increase of $63,877,506.

In the June Updates, as supported by the supplemental testimony of Piedmont witness Powers, the proposed margin revenue increased to $143,635,886. According to Ms. Powers, this increase from Piedmont's original request was due principally to significant amounts of new capital investment closed to plant between the filing of the rate case Petition and June 30, 2019 (the end of the update period).

In the Stipulation, and as reflected on Schedule 2 hereto, the Stipulating Parties agreed to a margin revenue increase of $108,796,788 – a $34.8 million reduction from Piedmont's updated margin revenue request. This level of margin revenue increase incorporates both increased capital investment reflected in the June Updates and offsetting reductions in costs agreed to in the Stipulation.

Because of the structure of the Stipulation, and in particular the impact of negotiated amortizations of regulatory liabilities arising principally from the TCJA, the actual rate impact on customers of the stipulated margin revenue increase is much reduced and spread out over time. As is illustrated in Public Staff Late-Filed Exhibit 2, the Year 1 impact of the agreed margin revenue increase on customers (exclusive of electric generation and other special contracts) is $28,059,329 (approximately a 3.5% increase from existing rates). The aggregate rate increase to customers in Years 2 and 3 is $64,758,145 (approximately an 8.2% increase from existing rates), and the aggregate rate increase for Year 4 and beyond is capped at $82,820,702 (approximately a 10.4% increase from existing rates).

In her settlement testimony, Piedmont witness Powers states that the Stipulation provides for a more accelerated refund to customers of the tax savings associated with recent federal and state tax reform as compared to that proposed by the Company in its Petition and the June Updates. Piedmont witness Powers further states that Piedmont's customers would receive only a $28.1 million increase in revenues in Year 1, which is a substantial benefit to customers. She also states that in Years 2 and 3 customers would be exposed to only a $64.8 million increase in revenues and that in Year 4 (when two of the three tax riders have been fully amortized), the impact of the settled increase in the margin revenues net of the tax rider adjustments would be a total revenue requirement increase of approximately $85.5 million. She states that starting in Year 6 (when all three riders have been fully amortized), the net impact of the full settled increase in the margin revenues net of the tax rider adjustments would be a total revenue requirement increase of approximately $108.8 million.

Ms. Powers further explains that the Stipulation articulates that the rates and charges approved in this case yield a revenue increase not to exceed $82,820,089, which is the exact amount of the revenue increase requested in the Company's Petition and cited in the Notice of Hearings in this case. She states that starting in Year 4 (when two of the three tax riders have been fully amortized), the impact of the settled rate increase in the Company's margin revenues net of the tax rider adjustments will be a total revenue requirement increase of $82.8 million (not $85.5 million) due to the revenue cap, which is a benefit to ratepayers. And starting in Year 6 (when all three riders have been fully amortized), the impact of the settled increase in margin revenue net of the tax rider adjustments will remain at $82.2 million (not $108.8 million) due to the revenue cap, which is also a substantial benefit to ratepayers.

No other party filed testimony as to the appropriate level of revenues for this proceeding.

Based on the Stipulation and related evidence recited above and the cumulative testimony and exhibits supporting individual components of the stipulated revenue requirement increase discussed throughout this Order and reflected on Schedule 2 hereto, including the discussion and analysis related to the proper rate of overall return and return on equity for use in this proceeding, the Commission finds, in the exercise of its independent judgment, that the stipulated revenue requirement increase in this case is just, reasonable, and fair to all parties.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 20

The evidence for this finding of fact and conclusions is contained in the Petition, the June Updates, and the prefiled testimony and exhibits of Piedmont witness Powers, the prefiled testimony and revised exhibits of Public Staff witnesses Jayasheela and Feasel, and the Stipulation.

In the Petition, Piedmont sought a net revenue increase of approximately $82.8 million based, in part, on increases in rate base since its last general rate proceeding. In the Petition, the Company also reserved its rights pursuant to N.C. Gen. Stat. § 62-113(c) to update its projected plant up to and including the date of hearing in this matter.

In her prefiled direct testimony, at Exhibit (PKP-1), Piedmont witness Powers indicates that the end of test period rate base for Piedmont - consisting of plant in service plus an allowance for working capital less accumulated depreciation and accumulated deferred income taxes - was $3,108,633,631. In that same testimony, Ms. Powers projected rate base as of June 30, 2019 at $3,299,177,177.

In Revised Jayasheela Exhibit I, Schedule 2, and based in part on the testimony of Public Staff witness Feasel and Revised Feasel Exhibit I, Public Staff witness Jayasheela indicates that the Public Staff's projected rate base as of May 31, 2019, was $3,319,953,794.

On July 29, 2019, and consistent with the reservation reflected in its Petition, Piedmont filed its June Updates. These June Updates were supported by concurrently filed supplemental testimony of Piedmont witnesses Powers and Couzens. In the supplemental testimony of Ms. Powers on Exhibit__(PKP-1 Updated), she testifies that Piedmont's actual rate base at June 30, 2019 was $3,364,074,164, consisting of plant in service of $5,524,939,964, plus an allowance for working capital of 197,312,173, less accumulated depreciation of ($1,508,506,101) and accumulated deferred income taxes of ($849,671,872).

In the Stipulation, as reflected on Exhibit A and in Paragraph 5 thereof, the Stipulating Parties agreed that the Company's rate base for purposes of this proceeding should be $3,450,610,950, consisting of plant in service of $5,516,373,281, plus an allowance for working capital of $52,477,941 and deferred regulatory assets of $135,551,187, less accumulated depreciation of ($1,520,637,505), other working capital of ($6,264,000), and accumulated deferred income taxes of ($726,859,954).

In her settlement testimony, Ms. Powers testified that the primary adjustments impacting rate base reflected in the Stipulation are an increase to accumulated depreciation that aligns with the stipulated going-level of depreciation expense associated with plant in service as of June 30, 2019, adjustments to working capital to align with the stipulated treatment of regulatory assets and liabilities, and adjustments to accumulated deferred income taxes to align with the stipulated flow back of EDIT - which impacts both rate base and EDIT as a regulatory liability. Ms. Powers also indicates that the stipulated rate base was adjusted to address the updated depreciation expense and to adopt the revised depreciation rates and reallocations of book reserves reflected in the depreciation study while also reflecting the cost of service impacts of the reallocation of the reserve accounts related to the NC direct and corporate allocated general plant accounts.

No other party presented evidence on Piedmont's rate base.

The amounts shown on Schedule I hereto are the result of negotiated adjustments to the Company's June Updates position and were agreed to by the Stipulating Parties in this docket, as described in the Stipulation and the supplemental testimony of Company witness Powers. The primary difference between Piedmont's June Updates rate base numbers and the Stipulation relate to the treatment of regulatory assets and liabilities, including liabilities arising out of the TCJA, and changes to state corporate income tax rates. Under the Stipulation, the Stipulating Parties agreed to a substantially accelerated flow back of amounts owed to customers under the TCJA and state EDIT and a slower recovery of regulatory assets as compared to what was originally proposed by the Company. These are both tangible benefits to Piedmont's customers but also have the incidental effect of increasing Piedmont's rate base.

The Commission has carefully reviewed these amounts, all record evidence relating to the Company's rate base, and has considered the benefits of the Stipulation as a whole to customers in its treatment of rate base, deferred regulatory assets, and regulatory liabilities, and in light of the support for the Stipulation by the majority of parties to this proceeding, and the absence of any evidence challenging the stipulated rate base or any of the respective components thereof, the Commission concludes that the stipulated rate base and components thereof are just and reasonable and appropriate for use in this proceeding.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 21-23

The evidence supporting these findings of fact and conclusions is set forth in the Stipulation, the Company's Petition, the testimony and exhibits of the witnesses, and the entire record in this proceeding, as well as the settlement testimony of Piedmont witness Powers.

The end of test period margin revenues under the Company's present and stipulated proposed rates are set forth in paragraph 6 and Exhibit A to the Stipulation. The amounts shown on Exhibit A to the Stipulation are the result of negotiations among the Stipulating Parties in this docket following an extensive audit of the Company's filed case by the Public Staff and are described in the Stipulation and the settlement testimony of Piedmont witness Powers. The stipulated margin revenues represent a reduction of approximately $34.8 million from the margin revenues contained in Piedmont's June Updates filing. Except for the positions taken by other parties on the stipulated capital structure, rate of return on equity, and the EDIT rider amortization periods that may challenge the stipulated margin revenue increase, no other party submitted evidence on the Company's revenues, and the stipulated revenues.

The Company's reasonable operating expenses, of $403,279,191 under present rates, including actual investment currently consumed through reasonable actual depreciation, as well as interest on customers' deposits of $796,448 that is subtracted from margin revenues to arrive at net operating income for return under present rates, is set forth in Paragraph 6 and Exhibit A to the Stipulation and reflected on Schedule 1 hereto. This amount includes, among others, the individual adjustments described in Paragraphs 12-15 and 18-20 of the Stipulation and in the settlement testimony of Piedmont witness Powers. These adjustments as described by Ms. Powers, include: (a) an adjustment of ($1,364,212) for non-utility operations; (b) an adjustment of ($422,000) to Board of Directors expense; (c) adjustments to compensation related expenses of ($169,581) for payroll, ($844,683) for pension and other benefits, ($836,922) for employee benefits, ($1,484,492) for executive compensation, and ($1,185,815) for incentives; (d) adjustments for miscellaneous expenses such as ($297,937) for advertising, ($485,760) for aviation expense, ($156,536) for lobbying, ($497,525) for rents, ($119,152) for sponsorships and donations, ($635,832) for inflation, and ($358,102) for miscellaneous general expenses; (e) an adjustment of ($45,294) for uncollectibles expense; (f) an adjustment to bring the regulatory fee expense to a level based on the current effective rate of 0.13%; and (g) an adjustment to rate case expense of ($432,430).

The amounts shown on Exhibit A to the Stipulation and the adjustments reflected in Settlement Exhibit__(PKP-1), are the result of negotiations between the Stipulating Parties in this docket as described in the settlement testimony of Ms. Powers.

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

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

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 24

The evidence for this finding of fact and conclusions is contained in the prefiled testimonies of Piedmont witness Sullivan, Public Staff witness Hinton, AGO witness Woolridge, CUCA witness O'Donnell, and the Stipulation, as well as testimony and exhibits provided at the hearing of this matter.

In his prefiled direct testimony, Piedmont witness Sullivan proposed a capital structure consisting of 52% common equity, 47.18% long-term debt at a cost of 4.55%, and 0.82% short-term debt at a cost of 2.82%. As has been consistently the case in prior Piedmont rate cases, the short-term debt figure was calculated based upon Piedmont's gas in storage costs.

Mr. Sullivan indicated in his direct testimony that Piedmont's capital structure changes over time based on a variety of factors, including issuances of debt and equity and the accumulation of retained earnings, but that the Company would manage its operations within a reasonable range of the proposed capital structure. Mr. Sullivan also indicated that the proposed capital structure was reasonable because it balanced risk with cost to customers, would provide Piedmont with an opportunity to compete for capital at reasonable rates, and was generally supportive of Piedmont's ability to reasonably manage its costs of capital.

Finally, Mr. Sullivan provided examples of Piedmont's anticipated actual capital structure[5] at four points in time differentiated by projected changes in that capital structure resulting from debt and equity transactions of the Company and the accumulated impacts of retained earnings over time. The four dates used by Mr. Sullivan for this purpose were December 31, 2018, December 31, 2019, June 30, 2020, and December 31, 2020. At the first of these dates, December 31, 2018, which was the end of the Test Period in this proceeding, Piedmont's actual capital structure was 53.43% equity, 45.56% long-term debt, and 1.01% short-term debt. At December 31, 2019, Mr. Sullivan projected a capital structure of 50.09% equity, 49.09% long-term debt, and 0.82% short-term debt. At June 30, 2020, Mr. Sullivan projected a capital structure of 53.31% equity, 45.87% long-term debt, and 0.82% short-term debt. And finally, at December 31, 2020, Mr. Sullivan projected that Piedmont's capital structure would be 51.25% equity, 47.99% long-term debt, and 0.76% short-term debt. These projections as to Piedmont's anticipated actual capital structure at these dates are set forth on Exhibit__(JLS-1).

At the hearing of this matter, witness Sullivan provided additional testimony concerning the reasons causing Piedmont's actual capital structure to vary over time, specifically identifying equity injections, seasonality of earnings, debt issuances, and inventories.

In his direct testimony, Public Staff witness Hinton recommended a capital structure for Piedmont consisting of 49.21% equity, 49.94% long-term

[5] Including a proxy for short-term debt as proposed by Piedmont witness Sullivan and Public Staff witness Hinton.

debt at a cost of 4.41%, and 0.85% short-term debt at a cost of 2.72%. Mr. Hinton's analysis of Piedmont's capital structure was based upon his calculation of a 13 month average of equity, long-term debt, and gas inventory costs from May, 2018 through May, 2019. His projected costs of debt were based upon his calculation of Piedmont's actual long-term debt costs at May 31, 2019, and a 13 month average of Piedmont's short-term debt costs at May 31, 2019.

In his direct testimony, AGO witness Woolridge recommended a capital structure consisting of 50% equity, 49.15% long-term debt at a cost of 4.55%, and 0.85% short-term debt at a cost of 2.82%. Witness Woolridge relied on various inputs to calculate this capital structure, including average capital structures of comparable companies but adopted the Company's proposed debt cost rates for purposes of his testimony. In his direct testimony Dr. Woolridge also proposed an alternative capital structure of 52% equity, 47.18% long-term debt at a cost of 4.55%, and 0.82% short-term debt at a cost of 2.82%, but recommended a lower proposed return on common equity for that structure. Dr. Woolridge's proposal in this regard will be discussed later as part of our consideration of the proper rate of return on equity for Piedmont in this proceeding.

In his direct testimony, CUCA witness O'Donnell accepted Piedmont's proposed capital structure of 52% equity, 47.18% long-term debt, and 0.82% short-term debt.

In the Stipulation, Piedmont, the Public Staff, CUCA, and CIGFUR IV agreed that the capital structure appropriate for use in this proceeding is 52% equity, 47.15% long-term debt at a cost of 4.41%, and 0.85% short-term debt at a cost of 2.72%.[6]

In his settlement testimony, filed in support of the Stipulation, Public Staff witness Hinton explained some of the factors underlying the difference between his original proposed capital structure and the capital structure reflected in the Stipulation. He also indicated that in the context of settlements, parties sometimes agree to individual adjustments, structures, or costs as part of a whole agreement, when those adjustments, structures, or costs might not be acceptable to them in isolation. Mr. Hinton also testified that it was his view that given the benefits of the settlement as a whole, he believed the cost of capital components of the settlement were a reasonable resolution of otherwise contentious issues. Mr. Hinton also testified that the stipulated capital structure was supported by the fact that the average equity ratio approved for natural gas utilities over the period January 1, 2016 through June 30, 2019, was 51.47% nationally and that the Commission's recent rate case orders for natural gas and electric utilities were consistent with a 52% equity ratio for Piedmont in this rate case.

At the hearing of this matter, Dr. Woolridge clarified that his capital structure recommendation was based largely on the published average structures of his comparable companies and was not an attempt to calculate

[6] The debt costs reflected in the Stipulation were those recommended by Public Staff witness Hinton in his direct testimony.

an actual capital structure for Piedmont. Dr. Woolridge also acknowledged that he had no basis upon which to challenge Mr. Sullivan's representations regarding the planned issuances of debt and equity by the company or their effect on its capital structure. Evidence presented on cross-examination by Piedmont also tended to show that the average equity ratio approved by this Commission during the last ten years for natural gas and electric companies was slightly above 52% and that the most recent equity ratios approved by this Commission in 2018 for Piedmont's sister utilities – DEC and DEP – were also 52%. Dr. Woolridge also acknowledged that the stipulated equity ratio of 52% was consistent with prior decisions of this Commission as reflected on Exhibit JLS-4. On cross-examination, Dr. Woolridge acknowledged that capital structure trends for natural gas utilities as reported by Regulatory Research Associates ("RRA") for the first six months of 2019 showed increasing equity levels and that the average allowed equity structure in the first six months of 2019 was 54.60%.

Capital structure is one of only four contested issues in this docket and the disagreement on capital structure, which persists only with the AGO, relates solely to the appropriate equity band for use in setting rates hereunder. In evaluating the evidence on capital structure in this proceeding, the Commission would first note that the ranges of proposed equity and debt ratios and debt costs are fairly narrow. Moreover, the equity/debt ratios reflected in the Stipulation of 52% equity and 47.15% long-term debt are consistent with and well within the prior experience of the Commission.

These are not determinative factors from the Commission's perspective but they do provide some context supporting the reasonableness of the stipulated capital structure.

Based upon its own review and independent analysis of the evidence, the Commission concludes that a capital structure of 52% equity, 47.15% long-term debt at a cost of 4.41%, and 0.85% short-term debt at a cost of 2.72%, as is reflected in the Stipulation, is just and reasonable and appropriate for use in this proceeding on several grounds.

First, this capital structure is very close to the capital structure initially proposed by the Company in this proceeding. Second, as testified to by Piedmont witness Sullivan, it is reflective of the actual experience and planned capitalization of the Company from December 31, 2018 through December 31, 2020. Third, this capital structure was accepted by CUCA witness O'Donnell in his direct testimony. Fourth, while the Commission recognizes that Public Staff witness Hinton recommended a lower equity component in his original testimony, his settlement testimony makes clear that the primary differences between his calculation of an equity band and the Company's calculation are differences in methodology. Furthermore, his settlement testimony is unequivocal in its opinion that the stipulated capital structure is reasonable for use in this proceeding. Fifth, the Commission does not find witness Woolridge's testimony on capital structure compelling primarily because it proposes what is essentially a proxy capital structure for Piedmont based upon his list of comparable companies. The Commission sees no compelling reason to rely on a complete proxy capital structure in this case. Instead, the Commission believes that it is appropriate in these circumstances to rely on the evidence attesting to Piedmont's capital structure provided by witness Sullivan and the Stipulation. Accordingly, based on the matters set forth above, and in the exercise of its independent judgment, the Commission finds that the weight of the evidence in this proceeding favors using the stipulated capital structure and that such capital structure is just, reasonable, and appropriate for use in setting rates in this docket.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 25-29

The evidence for these findings is contained in the Petition, the direct testimony of witnesses Hevert, Hinton, Woolridge, O'Donnell, Phillips, and Barkley, the Stipulation, the testimony of Public witnesses, and the settlement and/or rebuttal testimony of witnesses Hevert, Hinton, and Barkley, and finally in the hearing testimony of witnesses Powers, Hevert, and Woolridge.

ROE is the second of four contested issues in this proceeding (the other three being capital structure, amortization of TCJA related regulatory liabilities, and the development of a volumetric based usage rate in special contracts to provide for system support). The Stipulating Parties all agree that an allowed ROE of 9.7% is reasonable for use in this proceeding. The AGO, which is the only party advocating for a different ROE, proposes two options for the Commission to consider: (1) an 8.7% ROE if the equity component of the capital structure is 52%, or (2) a 9.0% ROE if the equity component of the capital structure is 50%. The Commission's consideration of the evidence and decision on this issue is set out below and is organized into three sections. The first is a summary of the record evidence on ROE. The second is a summary of the law applicable to the Commission's decision on ROE. The third, is an application of the law to the evidence and a discussion and explanation of the Commission's ultimate decision on ROE.

I. Summary of Record Evidence on Return on Equity

In its Petition, the Company requested approval for its rates to be set using an overall rate of return of 7.68% and a rate of return on equity of 10.6%. This request was based upon and supported by the direct testimony of Piedmont witness Hevert. These rates of return compare to an overall return of 7.51% and rate of return on equity of 10.0% underlying Piedmont's current rates.[7] Other witnesses for the Public Staff, the AGO, CUCA, and CIGFUR IV also filed direct testimony on the appropriate rate of return on equity. This evidence was followed by the Stipulation and by rebuttal testimony filed by Mr. Hevert, and also settlement testimony filed by Mr. Hevert and Public Staff witness Hinton, and finally by testimony at the hearing of this matter. In addition to this expert testimony, the Commission received the testimony of a number of public witnesses on Piedmont's proposed rate increase as well as numerous statements of consumer position in response to which Piedmont witness Barkley provided rebuttal testimony. All of this evidence is summarized below.

[7] Order Approving Partial Rate Increase and Allowing Integrity Management Rider, Docket No. G-9, Sub 631 (December 17, 2013) (rates effective January 1, 2014).

Direct Testimony of Robert B. Hevert (Piedmont)

Company witness Hevert's direct testimony recommends an ROE within the range of 10.0% to 11.0%. In his direct testimony he indicates that because all models are subject to various assumptions and constraints, equity analysts and investors tend to use multiple methods to develop their return requirements. For this reason, he applied the following four accepted approaches to develop his ROE recommendation: (1) the Constant Growth form of the DCF model; (2) the Capital Asset Pricing Model ("CAPM") model; (3) the Bond Yield Plus Risk Premium approach; and (4) the Expected Earnings analysis. According to witness Hevert, those analyses indicate that the Company's cost of equity is in the range of 10.0% to 11.0%.

Witness Hevert also testified that he considered factors including Piedmont's capital spending plan and regulatory recovery mechanisms; evolving capital market and business conditions, including changes in federal monetary policy, increases in current and projected government bond yields on the utility industry, and the calculated cost of issuing additional shares of common stock. Although Mr. Hevert did not make explicit adjustments to his ROE estimates, he considered these factors in determining where the Company's cost of equity falls within his range of analytical results.

In his testimony, Mr. Hevert emphasized that his analyses recognize that estimating the cost of equity is an empirical, but not an entirely mathematical exercise; it relies on both quantitative and qualitative data and analyses, all of which are used to inform the judgment that inevitably must be applied. Thus, witness Hevert considered his analytical results in the context of Company-specific and general capital market factors as those noted above. Based on his quantitative and qualitative analyses, he concluded that 10.60% was a reasonable and appropriate estimate of the Company's cost of equity in this proceeding.

Direct Testimony of John R. Hinton (Public Staff)

In his direct testimony, Public Staff witness Hinton testified as to the fair rate of return to be used in establishing Piedmont's rates. To determine the cost of common equity for Piedmont, witness Hinton used a discounted cash flow ("DCF") model and a regression analysis of approved returns for LDCs to determine the cost of equity. He also used a Comparable Earnings Analysis and a CAPM as a check on the results of his DCF analysis and his Regression Analysis of Approved Equity Returns. Public Staff witness Hinton disagreed with witness Hevert's exclusive use of forecasted earnings per share in the DCF model, and his estimate of the expected market return and the market premium used in his CAPM. According to witness Hinton, the results of his DCF analysis indicated a cost of equity ranging from 9.25% using historical growth rates, to 8.63% using predicted growth rates, to 9.00% based on an average of all of the growth rates. Hinton combined these results with a Regression Analysis result that indicates a cost of equity of 9.64%. The average of the four estimates produces an average cost of equity of 9.13%, which is central to a range of cost of equity estimates ranging from 8.63% to 9.64%. He concludes that 9.13% is his "single best estimate of the

Company's cost of common equity." (p. 38).

In assessing the reasonableness of his recommended return, Public Staff witness Hinton also considered: 1) Piedmont's credit quality; 2) the continued role of the Company's IMR mechanism in reducing regulatory lag; 3) the role the Company's MDT has played in stabilizing the residential and small commercial customers revenue and on the Company's earnings; and 4) the impact of changing economic circumstances.

Direct Testimony of J. Randall Woolridge (AGO)

In his direct testimony, AGO witness Woolridge recommends authorizing a 9.0% ROE even though his analyses indicates that an ROE of between 7.60% and 8.70% is appropriate. According to Dr. Woolridge, his recommendation is 30 basis points higher than his range to reflect a small increase in risk associated with his adjustment of the proposed equity capital structure. His recommendations produce an overall rate of return for debt and equity capital of 6.76%. AGO witness Woolridge also provides an alternative recommendation that would apply if Piedmont's proposed 52% common equity capital structure were allowed. In that case, Woolridge recommends that the ROE be fixed at 8.70%, resulting in an overall rate of return of 6.69%.

In reaching these recommendations, Dr. Woolridge performed two studies using the same proxy group of natural gas utilities that Piedmont's witness Hevert used. He used a traditional constant-growth discounted cash flow model, which estimates the cost of equity by assuming the stock's dividend yield and investors' expected long-run growth rate for dividends per share and a Capital Asset Pricing Model, which requires an estimate of the risk-free interest rate, the “beta” (reflecting the risk particular to the particular companies used as comparable investments), and the market or equity risk premium (market risk premium).

Dr. Woolridge testified that the reasonableness of his recommendation is supported by historically low interest rates and costs of capital, and by declining authorized rates of return on common equity for natural gas utilities. Woolridge testified that Piedmont witness Hevert recommends a much higher rate of return on common equity due to multiple errors that skew his analyses. Specifically, Dr. Woolridge offers the opinion that witness Hevert assumes, without support, that interest rates and the cost of capital will increase. Dr. Woolridge also criticizes the fact that witness Hevert’s DCF analysis relies exclusively on overly optimistic and upwardly biased earnings per share growth rate forecasts, without consideration of other measures of growth. Finally, Dr. Woolridge testified that Hevert’s Capital Asset Pricing Model uses an excessive risk-free interest rate and a range of market risk premiums of 10.65% to 13.77% that reflect unrealistic assumptions about future long-term economic earnings growth and stock returns.

With respect to economic conditions in North Carolina and in Piedmont’s service territory, Dr. Woolridge concluded that the higher level of natural gas residential rates in North Carolina, coupled with a lower level of household income in the state and a higher level of unemployment in Piedmont’s service territory suggest that affordability can be an issue for an essential utility service such as natural gas.

Direct Testimony of Kevin W. O'Donnell (CUCA)

In his direct testimony, CUCA witness O'Donnell recommends that Piedmont be awarded a 9.0% ROE, which is slightly above the midpoint of the DCF results for the proxy group (7.6%-9.6%), well above the CAPM results (5.5%-7.5%), and at the low end of his Comparable Earnings results (9.0%-10.0%). O'Donnell contends that Piedmont's requested ROE is excessive and unwarranted given the current financial market conditions, and that it does not comport with the current economic reality facing investor-owned utilities. He alleges that the models and inputs used by Company witness Hevert to determine Piedmont's cost of equity are biased to artificially inflate his ROE results.

Witness O'Donnell also testified that Piedmont's ROE request (10.6%) was inappropriate in light of the change in the cost of capital since the Company's last rate case. Even though the cost of debt financing has fallen over 130 basis points and the Dow has nearly doubled since the Company's last rate case, Piedmont's requested 10.6% ROE does not take into account the lower expected return on utility investments.

Direct Testimony of Nicholas Phillips, Jr. (CIGFUR IV)

In his direct testimony, Mr. Phillips offered the opinion that Piedmont's proposed return on equity of 10.6% was excessive and that its allowed return on equity in this proceeding should be capped at 9.55% because that was the average rate of return on equity approved for natural gas LDCs in the first quarter of 2019 as reported by RRA. Witness Phillips did not support this opinion with an economic and financial analysis. Mr. Phillips further opined that the Commission also should consider the IMR, and any other mechanisms, which provide Piedmont with additional cost recovery outside of a base rate case in setting a reasonable ROE.

Rebuttal Testimony of Robert B. Hevert (Piedmont)

In his rebuttal testimony, Company witness Hevert responded to the direct testimony of Dr. Woolridge. His testimony also updates many of the analyses contained in his direct testimony, and provides several additional analyses developed in response to Dr. Woolridge. The areas in which witness Hevert disagrees with Dr. Woolridge include: (1) the overall reasonableness of Dr. Woolridge's ROE recommendation; (2) Dr. Woolridge's application of the Constant Growth DCF model; (3) Dr. Woolridge's application of the CAPM; (4) the reasonableness of the Bond Yield Plus Risk Premium analysis; (5) Dr. Woolridge's position that the Expected Earnings approach is not an accurate measure of investor expectations; (6) the relevance of Market-to-Book ("M/B") ratios in determining ROE; (7) Dr. Woolridge's position that the Company is less risky than its peers; (8) the application of a flotation cost adjustment; and (9) the risks associated with the Company's projected capital expenditures.

Witness Hevert's rebuttal testimony also explains why, in his view, Dr. Woolridge's 9.0%/8.7% ROE recommendations are not consistent with returns recently authorized in North Carolina. In this regard, witness Hevert notes that the lowest authorized return for a natural gas utility in a base rate case by this Commission was 9.70%. He notes that Dr. Woolridge's recommendation is 100 basis points below 9.7% and that the low end of Dr. Woolridge's range is 210 basis points below that level. Mr. Hevert contends that Dr. Woolridge has provided no evidence to support the conclusion that the Company is so less risky than its peers that investors would accept a return 70 to 210 basis points below those authorized by the Commission.

Mr. Hevert also noted that although he and Dr. Woolridge review similar data and come to similar conclusions regarding economic conditions in North Carolina, Hevert has some concerns with Dr. Woolridge's assessment of the effect of his ROE recommendation on the Company's revenue requirement.

In sum, witness Hevert disagrees with Dr. Woolridge's reliance on the Constant Growth Discounted Cash Flow method which results in ROEs that fall well below returns recently authorized for other natural gas utilities. His rebuttal testimony explains that a more robust approach is to consider multiple methods, such as the Constant Growth Discounted Cash Flow, Capital Asset Pricing Model, Risk Premium, and Expected Earnings methods. Witness Hevert's view is that the Commission's practice is to consider multiple methods, and to give less weight to models that produce unduly low (or high) results. He contends this practice should be maintained in this proceeding.

Stipulation

In the Stipulation, Piedmont, the Public Staff, CUCA, and CIGFUR IV all agreed that the appropriate overall rate of return and rate of return on equity for use in this proceeding were 7.14% and 9.7% respectively. This agreement represents substantial movement by the various parties from the positions on overall return ROE articulated in testimony. This stipulated overall return of 7.14% and ROE of 9.7% was supported by settlement testimony filed by Public Staff witness Hinton and Company witness Hevert. The overall reasonableness of the stipulated rates of return is also addressed by Piedmont witness Powers in her settlement testimony.

Settlement Testimony of John R. Hinton (Public Staff)

In his settlement testimony, Public Staff witness Hinton testified that, pursuant to the Stipulation the Stipulating Parties had agreed to an overall rate of return on investment of 7.14%, which included a return on equity of 9.7% and the long and short-term debt rates recommended in his direct testimony. After noting that settlements often contain compromises from the various parties' litigation positions, and that this settlement was the same, Mr. Hinton indicated his belief that the stipulated ROE of 9.7% was reasonable. In this regard, he noted that the stipulated ROE was only slightly above the top end of his range of 8.63% to 9.64% and also noted that the gap between 9.64% and 9.7% came at a cost of only $1.4 million whereas the move from the bottom end of Company witness Hevert's range (10.0%) to the stipulated ROE of 9.7% equated to a $7.1 million savings to customers. Witness Hinton also testified that the stipulated ROE was consistent with the average rate of return on equity granted by State Public Service Commissions during the first half of 2019 as reported by RRA and was also consistent with existing allowed rates of return approved by the Commission for other North Carolina gas (9.7%) and electric utilities (9.9%)(including a premium on electric utility rates of return). Finally, Mr. Hinton testified that the stipulated ROE, and the entire stipulated capital structure, represented a reasonable compromise of the respective parties' positions on return and capital structure.

Settlement Testimony of Robert B. Hevert (Piedmont)

In his settlement testimony, Company witness Hevert testified in support of the stipulated ROE of 9.7%. He indicates that although the stipulated 9.7% ROE is somewhat below the lower bound of his recommended range, he understands that the Stipulation reflects negotiations among the Stipulating Parties regarding multiple issues and notes that the stipulated ROE generally is within the ranges of analytical results presented in his direct and rebuttal testimonies.

Mr. Hevert also testified that it remains his position that in a fully litigated proceeding, 10.0% to 11.0% represents an appropriate and defensible range of the Company's Cost of Equity. Nonetheless, he recognizes the benefits associated with the Company's decision to enter into the Stipulation. On balance, Mr. Hevert believes that the stipulated ROE is a reasonable resolution of a complex, and frequently contentious issue.

Settlement Testimony of Pia K. Powers (Piedmont)

In her settlement testimony, Piedmont witness Powers supports the reasonableness of the stipulated ROE by comparing it to Piedmont's requested ROE of 10.6% and its current allowed ROE of 10.0%, and to PSNC's current allowed ROE of 9.7%, and finally to the most recently litigated ROE in North Carolina granted to Carolina Water Service, Inc. of 9.75%.[8]

Hearing Testimony of Randall J. Woolridge (AGO)

At the hearing of this matter, Dr. Woolridge responded to a number of questions on cross-examination that provided more context to his recommendations and the reasonableness of the stipulated ROE. Dr. Woolridge initially testified that his work experience had been focused on his employment as a Professor at Penn State and as a consultant providing economic analysis, often in the context of utility rate cases and often with respect to the question of what is an appropriate rate of return on equity for regulated utilities. Dr. Woolridge testified that his work as a consultant often involves the preparation of economic and financial models such as Discounted Cash Flow, CAPM, and Comparable Earnings analyses and that it isn't unusual for other consulting experts to submit similar analyses in the cases in which he is involved. Dr. Woolridge also indicated that it is frequently the case that the various economic and financial models presented by consulting experts often disagree with one another and that those disagreements often involve application of varying versions of the standard

[8] Order Approving Joint Partial Settlement Agreement and Stipulation, Granting Partial Rate Increase, and Requiring Customer Notice, Docket No. W-354, Sub 360 (February 2, 2019).

economic and financial models used to analyze cost of capital, or variations in the inputs selected for those models. As Dr. Wooldridge put it "there's judgment in everything we do. Which models we use, what inputs we use, what are reasonable inputs."

Dr. Woolridge also recognized that, while the economic and financial models presented to the Commission by the various consulting experts in this case are important evidence of the appropriate cost of capital for Piedmont, the matter of selecting the appropriate return on equity was a matter within the Commission's discretion and that the Commission could rely on factors beyond the economic and financial models, including the Stipulation in this case, in making such selection.

At the hearing, Dr. Woolridge also clarified that based upon a stipulated equity ratio of 52%, his ROE recommendation to the Commission in this case was 8.7%. He also acknowledged that the four factors he stated supported his ROE recommendation in his direct testimony - consisting of historically low interest rates, low risk of the natural gas industry, consistency between Piedmont's risk profile and the risk profile of his comparable group, and declining rates of allowed ROEs – were also applicable to his comparables group, and that the actual rate of return on ROE for the comparables group was 9.7%.

Dr. Woolridge then reviewed a summary of major natural gas and electric rate decisions by this Commission over the last ten years. That summary, reflected in Exhibit JLS-4, revealed that an ROE of 9.7%, as agreed to in the Stipulation, was equal to the current ROE for PSNC, was the lowest ROE that had been allowed for a major North Carolina utility in the last decade, and was 30 basis points below Piedmont's current allowed ROE of 10.0%. Dr. Woolridge also acknowledged that Exhibit JLS-4 indicated that the largest single differential in ROEs in sequential rate cases reflected on the Exhibit was 30 basis points but that his recommended ROE of 8.7% would represent a differential of 130 basis points from Piedmont's current authorized ROE – which would exceed by 30 basis points the entire 100 basis point differential in returns ordered by this Commission since 2008. Upon questions from Piedmont's counsel, Dr. Woolridge couldn't recall whether he had ever observed a State or federal regulatory commission reduce a utility's allowed return by 130 points in a single case. Significantly, Dr. Woolridge did not know if such a reduction would result in a change in credit rating for Piedmont but believed that Piedmont would be in a position to compete for capital with his group of comparable companies (whose average earned ROE was 9.7%) with an 8.7% allowed return from this Commission.

In reviewing Piedmont Woolridge Cross-Examination Exhibit 2, Dr. Woolridge indicated that, as reported by S&P Global Market Intelligence, the average reported allowed ROE for gas distribution companies in the first quarter of 2019 was 9.55% and that the same statistic for the second quarter of 2019 was 9.73%. Dr. Woolridge also observed that none of the companies in his comparables group were represented in the first quarter results but that

Atmos Energy – a member of his comparables group – was represented in second quarter results for its primary jurisdiction in Texas.

On cross-examination, Dr. Woolridge also acknowledged familiarity with Piedmont Woolridge Cross-Examination Exhibit 3, which was an S&P Global Market Intelligence (RRA) summary of major rate case decisions for the period January through June 2019. That report indicated that "[f]or gas utilities, the median authorized ROE in the first six months of 2019 was 9.70% versus 9.60% in 2018." This exhibit also indicated that the average natural gas ROE in litigated cases for the first six months of 2019 was 9.73% and that the average for all gas rate cases was 9.63%. Finally, Dr. Woolridge testified on cross-examination that the allowed ROEs reflected in Piedmont Woolridge Cross-Examination Exhibits 1-3 and Exhibit JLS-4, were more consistent with the stipulated ROE of 9.7% than they were with his recommendation of 8.7%.

Hearing Testimony of Pia K. Powers (Piedmont)

At the hearing of this matter, Piedmont witness Powers testified that at Year 1 stipulated rates Piedmont projects lower residential gas bills for the winter of 2019/2020 ($508) than were experienced in the winter of 2018/2019 ($532). Ms. Powers also testified that in Year 6, after all of the tax regulatory liabilities are fully amortized and assuming Piedmont has not been through another rate case by then, the average winter heating bills for residential customers would be $553.

Public Witness Testimony/Statements of Consumer Position

In addition to the direct prefiled testimony of the expert witnesses for the parties, a number of public witnesses also gave testimony suggesting that Piedmont customers would experience difficulty paying the increased rates requested in the Petition and opposing the rate increases proposed by Piedmont. The Commission also received numerous statements of consumer position in regards to this docket, many of which expressed concern about Piedmont's proposed rate increase.

Rebuttal Testimony of Bruce P. Barkley (Piedmont)

In his rebuttal testimony, Mr. Barkley addressed the testimony of public witnesses to the effect that Piedmont's customers could not afford Piedmont's proposed rate increase or that the proposed rate increase was unjustified. In that testimony, Mr. Barkley acknowledged that some percentage of Piedmont customers would undoubtedly have trouble paying the increased rates Piedmont sought in its Petition. Having said that, Mr. Barkley went on to identify measures undertaken by Piedmont to assist customers having problems in this regard and also noted that Piedmont's annual average residential customer bill has been very stable for the last decade allowing customers to enjoy natural gas service at costs that have not risen materially in that time frame. Mr. Barkley also noted that some public witnesses did not seem to understand the complexities of utility ratemaking, which he characterized as understandable but pointed out that a number of sophisticated parties, including the Public Staff, had concluded that the rate increases reflected in the Stipulation were just, reasonable, and appropriate.

Mr. Barkley also presented substantial evidence regarding the state of the North Carolina economy, which is strong. This evidence, gathered from a large number of sources tended to show that: (a) North Carolina is experiencing steady job growth as measured by both State and Federal authorities; (b) job postings have grown by a factor of more than 10% in the last year; (c) GDP increased by more than 2.0% between the first and second quarter of 2019; (d) in June of 2019, individual disposable income and personal consumption expenditures increased as reported by the Federal Bureau of Economic Analysis; (e) as reported by the same source, wages and salaries increased nationally in both May and June of 2019; (f) personal savings as a percentage of disposable income increased in both the first and second quarters of 2019 at levels above all four quarters in 2018; (g) national housing starts were 6.2% higher in June 2019 compared to June 2018; (h) business investment increased significantly in 2019 over 2018; (i) national magazines continue to rank major metropolitan areas in North Carolina on lists of the best places for business and careers and Forbes recently ranked North Carolina as having the best business climate in the United States citing its low energy, labor and tax costs; (j) a significant number of corporate projects have been announced for North Carolina in 2019; and (k) North Carolina is enjoying record low unemployment. Mr. Barkley also cited to a report published by John Connaughton on May 30, 2019. Mr. Connaughton is an economist and professor at the University of North Carolina – Charlotte and his report indicates that for 2018 and for the next 18 months, he anticipates a strong and growing economy in North Carolina.

In his rebuttal testimony, Mr. Barkley also responded to several of Dr. Woolridge's comments on the affordability of natural gas service in North Carolina and in Piedmont's service territory in particular. Mr. Barkley basically indicated that the information provided by Dr. Woolridge was not sufficient to undertake an evaluation as to whether Piedmont's rates were somehow unaffordable to the average customer because Dr. Woolridge's testimony did not undertake a comprehensive review of economic conditions facing Piedmont customers but instead focused on only 2 or 3 data points.

Hearing Testimony of Bruce P. Barkley (Piedmont)

At the hearing of this matter, Mr. Barkley responded to several Commission questions that are relevant to the public witness testimony and the consideration of how the stipulated rate increase would impact Piedmont's customers in light of changing economic conditions. That testimony indicated that during the last ten years Piedmont has experienced a significant decline in customer disconnections for non-payment.

II. Law Governing the Commission's Decision on Return on Equity

Rates of return on equity are often one of the most contentious issues to be addressed in a rate case, even in a case such as this one in which a Stipulation between Piedmont, the Public Staff, CUCA, and CIGFUR IV has been reached. In the absence of a settlement agreed to by all the parties, the law of North Carolina requires the Commission to exercise its independent judgment and arrive at its own independent conclusion as to the proper rate of return on common equity. See, e.g., State ex rel. Utils. Comm'n v. Carolina Util. Customers Ass'n, 348 N.C. 452, 466, 500 S.E.2d 693, 707 (1998) ("CUCA I"). In order to reach an appropriate independent conclusion regarding the rate of return on equity, the Commission must evaluate the available evidence, particularly that presented by conflicting expert witnesses. State ex rel. Utils. Comm'n v. Cooper, 366 N.C. 484, 491-93, 739 S.E.2d 541, 546-47 (2013) (Cooper I). In this case, the expert witness evidence relating to the Company's cost of equity capital was presented by Company witness Hevert, Public Staff witness Hinton, AGO witness Woolridge, CUCA witness O'Donnell, and to a more limited degree, CIGFUR IV witness Phillips. No return on equity evidence was presented by any other party.

In addition to its evaluation of the evidence, the Commission must also make findings regarding the impact of changing economic conditions on customers when determining the proper rate of return on equity for a public utility. Id. at 495, 739 S.E.2d at 548.

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

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

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

It is also important for the Commission to keep in mind that the rate of return on equity is, in fact, a cost. The return that equity investors require represents the cost to the utility of equity capital. In his dissenting opinion in Missouri ex rel. Southwestern Bell Tel. Co. v. Missouri Pub. Serv. Comm'n, 262 U.S. 276 (1923), Justice Brandeis remarked upon the lack of any functional distinction between the rate of return on equity (which he referred to as a "capital charge") and other items ordinarily viewed as business costs, including operating expenses, depreciation, and taxes:

> Each is a part of the current cost of supplying the service; and each should be met from current income. When the capital charges are for interest on the floating debt paid at the current rate, this is readily seen. But it is no less true of a legal obligation to pay interest on long-term bonds. . . and it is true also of the economic obligation to pay dividends on stock, preferred or common.

Id. at 306. (Brandeis, J. dissenting) (emphasis added). Similarly, the United States Supreme Court observed in Hope, “From the investor or company point of view it is important that there be enough revenue not only for operating expenses but also for the capital costs of the business . . . [which] include service on the debt and dividends on the stock.” Hope, 320 U.S. at 591, 603.

Leading academic commentators also define rate of return on equity as the cost of equity capital. Professor Charles Phillips, for example, states that “the term ‘cost of capital’ may be defined as the annual percentage that a utility must receive to maintain its credit, to pay a return to the owners of the enterprise, and to ensure the attraction of capital in amounts adequate to meet future needs.” Phillips, Charles F., Jr., The Regulation of Public Utilities (Public Utilities Reports, Inc. 1993), at 388. Professor Roger Morin approaches the matter from the economist’s viewpoint:

> While utilities enjoy varying degrees of monopoly in the sale of public utility services, they must compete with everyone else in the free open market for the input factors of production, whether it be labor, materials, machines, or capital. The prices of these inputs are set in the competitive marketplace by supply and demand, and it is these input prices which are incorporated in the cost of service computation. This is just as true for capital as for any other factor of production. Since utilities must go to the open capital market and sell their securities in competition with every other issuer, there is obviously a market price to pay for the capital they require, for example, the interest on capital debt, or the expected return on equity.
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> *   *   *
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> [T]he cost of capital to the utility is synonymous with the investor’s return, and the cost of capital is the earnings which must be generated by the investment of that capital in order to pay its price, that is, in order to meet the investor’s required rate of return.

Morin, Roger A., Utilities' Cost of Capital (Public Utilities Reports, Inc. 1984), at 19-21 (emphasis added). Professor Morin adds:

> The important point is that the prices of debt capital and equity capital are set by supply and demand, and both are influenced by the relationship between the risk and return expected for those securities and the risks expected from the overall menu of available securities.

Id. at 20.

In addition, the Commission is and must always be mindful of the North Carolina Supreme Court's command that the Commission's task in establishing rates for a public utility subject to its jurisdiction is to set rates as low as possible consistent with the dictates of the United States and North Carolina Constitutions. State ex rel. Utils. Comm'n v. Pub. Staff-N. Carolina Utils. Comm'n, 323 N.C. 481, 490, 374 S.E.2d 361, 370 (1988) ("Public Staff").

Finally, under long-standing decisions of the North Carolina Supreme Court, the Commission's subjective judgment is a necessary part of determining the authorized rate of return on equity. Public Staff, 323 NC at 490, 374 S.E.2d at 369. As the Commission has previously noted:

> Indeed, of all the components of a utility's cost of service that must be determined in the ratemaking process, the appropriate ROE [rate of return on equity] the one requiring the greatest degree of subjective judgment by the Commission. Setting an ROE [rate of return on equity] for regulatory purposes is not simply a mathematical exercise, despite the quantitative models used by the expert witnesses. As explained in one prominent treatise,
>
> Throughout all of its decisions, the [United States] Supreme Court has formulated no specific rules for determining a fair rate of return, but it has enumerated a number of guidelines. The

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

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

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

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

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

Charles F. Phillips, Jr., The Regulation of Public Utilities, 3d ed. 1993, pp. 382. (notes omitted).

Order Granting General Rate Increase, Docket No. E-2, Sub 1023 (May 30, 2013) at pp. 35-36.

III. Application of Law to the Facts and the Commission's Decision on Return on Equity in This Case

As noted above, the Commission's duty under N.C. Gen. Stat. § 62-133 is to set rates as low as reasonably possible without impairing the Company's ability to raise the capital needed to provide reliable natural gas service and recover its cost of providing service.

Chapter 62 in general, and N.C. Gen. Stat. § 62-133 in particular, set forth an elaborate formula the Commission must employ in establishing rates. The rate of return on cost of property element of the formula in N.C. Gen. Stat. § 62-133(b)(4) is a significant, but not independent one. Each element of the formula must be analyzed to determine the utility's cost of service and revenue requirement. The Commission must make many subjective decisions with respect to each element in the formula in establishing the rates it approves in a general rate case. The Commission must approve accounting and pro forma adjustments to comply with N.C. Gen. Stat. § 62-133(b)(3). The Commission must approve depreciation rates pursuant to N.C. Gen. Stat. § 62-133(b)(1). The decisions the Commission makes in each of these subjective areas have multiple and varied impacts on the decisions it makes elsewhere in establishing rates, such as its decision on rate of return on equity.

Economic conditions existing during the test year, at the time of the public hearings, and at the date of this Order affect not only the ability of Piedmont's customers to pay natural gas rates, but also the ability of Piedmont to earn the authorized rate of return during the period rates will be in effect. Pursuant to N.C. Gen. Stat. § 62-133, rates in North Carolina are set based on a modified historic test period.[9] A component of cost of service as important as return on investment is test year revenues.[10] The higher the level of test year revenues the lower the need for a rate increase, all else remaining equal. Historically, and in this case, test year revenues are established through resort to regression analysis, using historic rates of revenue growth or decline to determine end of test year revenues.

Piedmont is in a significant construction mode, and much of the associated investment is responsive to safety related regulatory requirements.

When costs and expenses grow at a faster pace than revenues during the period when rates will be in effect, the utility will experience a decline in its realized rate of return on investment to a level below its authorized rate of return. Differences exist between the authorized return and the earned, or realized, return. Components of the cost of service must be paid from the rates the utility charges before the equity investors are paid their return on equity. Operating and administrative expenses must be paid, depreciation must be funded, taxes must be paid, and the utility must pay interest on the debt it incurs. To the extent revenues are insufficient to cover the entire cost of service, the shortfall reduces the return to the equity investor, last in line to be paid. When this occurs, the utility's realized, or earned, return is less than the authorized return.

[9] N.C. Gen. Stat. § 62-133(c).
[10] N.C. Gen. Stat. § 62-133(b)(3).

This phenomenon, caused by incurrence of higher costs prior to the implementation of new rates to recover those higher costs, is commonly referred to as regulatory lag. Just as the Commission confronts constitutional and statutory restrictions in making discrete decrements to rate of return on equity to mitigate the impact of rates on consumers, it also confronts statutory constraints on its ability to adjust test year revenues to mitigate for regulatory lag. The Commission, in its expert experience and judgment and based on evidence in the record, is aware of the effects of regulatory lag in the existing economic environment. However, just as the Commission is constrained to address difficult economic times on customers' ability to pay for service by establishing a lower rate of return on equity in isolation from the many subjective determinations that must be made in a general rate case, it likewise does not address the effect of regulatory lag on the Company by establishing a higher rate of return on equity. Instead, in setting the rate of return, the Commission considers both of these negative impacts in its ultimate decision fixing Piedmont's rates. The Commission keeps all factors affected by current economic conditions in mind in the many subjective decisions it makes in establishing rates. In doing so in the case at hand, the Commission has accepted the stipulated 9.70% rate of return on equity in the context of weighing and balancing numerous factors and making many subjective decisions. When these decisions are viewed as a whole, including the decision to establish the rate of return on equity at 9.70%, the

Commission's overall decision fixing rates in this general rate case results in lower rates to consumers in the existing economic environment.

Consumers pay rates, a charge in cents per dt for the natural gas they consume. Investors are compensated by earning a return on the capital they invest in the business. Consumers do not pay a rate of return on equity. Investors are paid in dollars.

All of the scores of adjustments the Commission approves reduce the revenues to be recovered from ratepayers and the return to be paid to equity investors. Some adjustments reduce the authorized rate of return on investment financed by equity investors. The noted adjustments are made solely to reduce rates and provide rate stability to consumers (and return to equity investors) to recognize the difficulty for consumers to pay in the current economic environment. While the equity investor's cost was calculated by resort to a rate of return on equity of 9.70% instead of 10.60%, this is only one approved adjustment that reduced ratepayer responsibility and equity investor reward. Many other adjustments reduced the dollars the investors actually have the opportunity to receive. Therefore, nearly all of these other adjustments reduce ratepayer responsibility and equity investor returns in compliance with the Commission's responsibility to establish rates as low as reasonably permissible without transgressing constitutional constraints.

For example, to the extent the Commission makes downward adjustments to rate base, or disallows test year expenses, or increases test year revenues, or reduces the equity capital structure component, the

Commission reduces the rates consumers pay during the future period when rates will be in effect. Because the utility's investors' compensation for the provision of service to consumers takes the form of return on investment, downward adjustments to rate base or disallowances of test year expenses or increases to test year revenues, or reduction in the equity capital structure component, reduce investors' return on investment irrespective of its determination of rate of return on equity.

The rate base, expenses, and revenue examples listed above are instances where the Commission makes decisions in each general rate case, including the present case, that influence the Commission's determination on rate of return on equity and cost of service and the revenue requirement. The Commission always endeavors to comply with the North Carolina Supreme Court's requirements that it "fix rates as low as may be reasonably consistent" with U.S. Constitutional requirements irrespective of economic conditions in which ratepayers find themselves. While compliance with these requirements may have been implicit and, the Commission reasonably assumed, self-evident as shown above, the Commission makes them explicit in this case to comply with the Supreme Court requirements of Cooper I.

Based on the changing economic conditions and their effects on Piedmont's customers, the Commission recognizes the financial difficulty that adjustments in Piedmont's rates may create for some of Piedmont's customers, especially low-income customers. As shown by the evidence, relatively small changes in the rate of return on equity have a substantial impact on a utility's base rates. Therefore, the Commission has carefully considered the changing economic conditions and their effects on Piedmont's customers in reaching its decision regarding Piedmont's approved rate of return on equity. The Commission also recognizes that the Company is investing significant sums in safety improvements to serve its customers, thus requiring the Company to maintain its creditworthiness in order to compete for large sums of capital on reasonable terms. The Commission must weigh the impact of changing economic conditions on Piedmont's customers against the benefits that those customers derive from the Company's ability to provide safe, adequate, and reliable natural gas service. Safe, adequate, and reliable natural gas service is essential to the well-being of the people, businesses, institutions, and economy of North Carolina.

The Commission finds and concludes that these investments by the Company provide significant benefits to all of Piedmont's customers. The Commission concludes that the rate of return on equity approved by the Commission in this proceeding appropriately balances the benefits received by Piedmont's customers from Piedmont's provision of safe, adequate, and reliable natural gas service in support of the well-being of the people, businesses, institutions, and economy of North Carolina with the difficulties that some of Piedmont's customers will experience in paying Piedmont's adjusted rates.

Finally, the Commission gives significant weight to the Stipulation and the benefits that it provides to Piedmont's customers, which the Commission is obliged to consider as an independent piece of evidence under the Supreme Court's holding in CUCA I.

The Commission in every case seeks to comply with the N.C. Supreme Court mandate that the Commission establish rates as low as possible within Constitutional limits. The scores of adjustments the Commission approves in this case comply with that mandate. Nearly all of them reduced the requested return on equity and benefit consumers' ability to pay their bills in this economic environment.

In this case, Piedmont's updated request is a retail revenue increase of $143.6 million, or a 13.7% increase in annual revenues, excluding electric generation and special contract revenues and the tax rider impact. The Commission has examined the Company's Application and supporting testimony and exhibits and Form G-1 filings seeking to justify this increase. The Public Staff Piedmont, CUCA, and CIGFUR IV reached a Stipulation that resulted in reducing the retail revenue increase sought by the Company. The Public Staff represents the using and consuming public, including those having difficulty paying their bills. The Public Staff representatives attended all of the hearings held across the State to receive customers' testimony. The Public Staff has a staff of expert engineers, economists, and accountants who investigate and audit the Company's filings. The Public Staff must recommend rates consumers should pay and the return on investment equity investors should receive. The Public Staff considers all factors included in cost of service. In recent years, the Public Staff and the utilities have entered into settlements resolving the issues so as to avoid at least part of the substantial rate case expense customers otherwise would pay. This process is favored by financial analysts and rating agencies because it reduces delay and enhances predictability, thereby creating a constructive, credit supportive, regulatory environment ultimately reflected favorably in investors' required cost of capital.

As with all settlement agreements, each party to the Stipulation gained some benefits that it deemed important and gave some concessions for those benefits. Based on Piedmont's Application, it is apparent that the Stipulation ties the 9.70% rate of return on equity to substantial concessions Piedmont made.

As noted above, utility rates must be set within the constitutional constraints established by the United States Supreme Court in Bluefield and Hope. To fix rates that do not allow a utility to recover its costs, including the cost of equity capital, would be an unconstitutional taking. In assessing the impact of changing economic conditions on customers in setting a return on equity, the Commission must nonetheless provide the public utility with the opportunity, by sound management, to (1) produce a fair profit for its shareholders, in view of current economic conditions, (2) maintain its facilities and service, and (3) compete in the marketplace for capital. State ex rel. Utils. Comm'n v. General Telephone Co. of the Southeast, 281 N.C. 318, 370, 189 S.E.2d 705 (1972). As the Supreme Court held in that case, these factors constitute "the test of a fair rate of return declared" in Bluefield and Hope. Id.

In complying with this constitutional requirement, however, the Commission must still be mindful of its obligation to set rates as low as reasonably possible without impairing the Company's ability to raise the capital needed to provide reliable natural gas service and recover its cost of providing service. There is no conflict in these somewhat competing parameters, they simply require the Commission to carefully weigh, in the exercise of its discretion, each of the identified parameters in establishing an allowed ROE for Piedmont in this case.

The Commission determines the appropriate rate of return on equity based upon the evidence and particular circumstances of each case. However, the Commission believes that the rate of return on equity trends and decisions by other regulatory authorities deserve some weight, as (1) they provide a check or additional perspective on the case-specific circumstances, and (2) the Company must compete with other regulated utilities in the capital markets, meaning that a rate of return on equity significantly lower than that approved for other utilities of comparable risk would undermine the Company's ability to raise necessary capital, while a rate of return on equity significantly higher than other utilities of comparable risk would result in customers paying more than necessary.

The starting point for an examination of what constitutes a reasonable rate of return on equity begins with the various economic and financial analyses provided by the parties' expert witnesses. In this proceeding, those analyses were provided in the testimonies of five different witnesses: Mr.

Hevert for Piedmont; Mr. Hinton for the Public Staff, Dr. Woolridge for the AGO; Mr. O'Donnell for CUCA; and Mr. Phillips for CIGFUR IV. These testimonies, as is summarized above, provide a relatively broad range of methods, inputs, and recommendations regarding the proper ROE determination for Piedmont. For example, Mr. Hevert relied in his direct testimony on four different analyses to arrive at his ROE recommendation. These analyses were a Constant Growth DCF Analysis, a Capital Asset Pricing Model analysis, a Bond Yield plus Risk Premium analysis, and an Expected Earnings analysis. By way of comparison, AGO witness Dr. Woolridge relied upon a DCF analysis and a Capital Asset Pricing Model analysis in reaching his conclusions; however, the inputs utilized by Dr. Woolridge in his analyses are different from those utilized by Mr. Hevert. Mr. Hinton, in turn, used a DCF analysis and a regression analysis of allowed LDC returns to reach his conclusions and Comparable Earnings and CAPM analyses to check those results. Mr. O'Donnell performed a DCF analysis, a Comparable Earnings analysis, and a CAPM analysis. Mr. Phillips looked at the average allowed ROEs for natural gas distribution companies for the first quarter of 2019 of 9.55% and recommended that as a cap to the allowed ROE.

These varying analyses, unsurprisingly, produced varying results. Mr. Hevert's analyses prompted him to propose an equity range of 10% to 11% with a specific ROE recommendation of 10.6%. Dr. Woolridge's analyses resulted in a recommended equity range of 7.6% to 8.7% with a primary recommendation of 9.0% ROE with a 50% common equity capital structure and a secondary recommendation of 8.7% if Piedmont's proposed equity band of 52% was approved. Mr. Hinton indicated that his DCF analysis yielded an equity range of 8.1% to 9.1% but that his regression analysis supported a 9.64% ROE and that his ultimate recommended ROE was 9.13%. Mr. O'Donnell reported equity ranges of 7.6% to 9.6% under his DCF analysis, 9.0% to 10.0% under his Comparable Earnings analysis, and 5.5% to 6.5% under his CAPM analysis, with an ultimate recommendation of 9.0%. Finally, Mr. Phillips recommended a cap on ROE of 9.55%.

The Commission finds the cost of equity analyses helpful in reaching its conclusion on an appropriate ROE for Piedmont but would note that the ranges of the various analyses cover from 5.5% to 11.00% and the specific ROE recommendations of the witnesses span a range from 8.7% on the low end to 10.6% on the high end.

The Commission finds the risk premium regression analysis and comparable earnings analysis of Public Staff witness Hinton, the discounted cash flow, two of the CAPM analyses, and the bond yield plus risk premium analyses of Piedmont witness Hevert, the comparable earnings analysis of CUCA witness O'Donnell, and the Stipulation are credible, probative, and entitled to substantial weight.

Public Staff witness Hinton conducted an equity risk premium regression analysis analyzing the relationship between approved returns on equity for natural gas utilities and Moody's Bond Yields for A rated utility bonds. He testified that the differential between the two rates of return is indicative of the return investors require in order to compensate for the additional risk. The results of this regression analysis are shown on Hinton Exhibit JRH-5, stating a cost of equity of 9.64%, only six basis points below the Commission's approved 9.70% ROE. Mr. Hinton's comparable earnings analysis used as a check on his overall ROE recommendation reviewed the earned returns on equity for his proxy group of comparable natural gas utilities, and produced a range of 9.00% to 10.00%. The Commission finds that Mr. Hinton's risk premium regression analysis and his comparable earning analysis are credible, probative, and entitled to substantial weight.

Piedmont witness Hevert in his rebuttal testimony updated his constant growth discounted cash flow analyses. His updated analyses ROE results are shown on Hevert Exhibit RBH-R-1, pages 1, 2, and 3: 30 day dividend yield mean 9.77%, median 9.68%; 90 day dividend yield mean 9.82%, median 9.75%; and 180 day dividend yield mean 9.90%, median 9.83%. Although the Commission, as stated in previous Commission general rate case orders, does not approve of Mr. Hevert's sole use of analysts' predicted earnings per share to determine the DCF growth factor, the Commission finds Mr. Hevert's constant growth DCF analyses mean and median ROE results credible, probative, and entitled to substantial weight.

Mr. Hevert's updated CAPM analysis for his Proxy Group Average Bloomberg Beta Coefficient, as shown on Hevert Rebuttal Exhibit RBH-R-5, page 1, includes updated current 30-year treasury rates to calculate the risk free rate of 2.63% producing what Mr. Hevert describes as a Bloomberg Market DCF Derived ROE of 9.68% and a Value Line Market DCF Derived of 9.62%. The Commission approves of the use of current risk free rates rather than predicted near term or long term rates. The Commission finds the above-described CAPM analyses credible, probative, and entitled to substantial weight.

In his rebuttal testimony, Piedmont witness Hevert updated his Bond Yield Plus Risk Premium, as shown on Exhibit RBH-R-12, using the current 30-year Treasury yield of 2.63% and applied it both to natural gas utilities approved ROEs in fully litigated cases resulting in an ROE of 9.99%, and to settled cases resulting in an ROE of 9.72%. As previously stated, the Commission approves the use of current interest rates, rather than projected near term or long term interest rates. The Commission finds Mr. Hevert's updated Bond Yield Plus Risk Premium analysis using the current 30-year Treasury yield to be credible, probative, and entitled to substantial weight.

The Commission also concludes that the comparable earnings analysis by CUCA witness O'Donnell is credible, probative, and entitled to substantial weight. Witness O'Donnell testified that the comparable earnings for his and witness Hevert's proxy group of natural gas utilities produced earned returns of 9.00% to 10.00% over the period 2017 through 2024 balancing historical and forecasted returns. The Commission-approved 9.70% rate of return on equity is well within that range.

The Commission has carefully evaluated the DCF analyses recommendations of witnesses Hinton, Woolridge, O'Donnell, and Hevert. As shown on Hevert settlement testimony Exhibit RBH-S-1, during 2017, 2018, and 2019, there were 69 natural gas utility decisions by public service commissions resulting in a mean approved 9.64% ROE. The mean year to date 2019 ROE is 9.63% and the median ROE is 9.70%.

As shown on Hevert Exhibit RBH-S-1, during this period there were only two public service commission decisions approving an ROE below 9.00% for a natural gas utility, both by the New York Public Service Commission (8.70% in April 2017 and 8.80% in June 2018). Public Staff witness Hinton's DCF results were 9.00%, 9.25%, and 8.63% with an average of 8.96%. AGO witness Woolridge's DCF analysis produced an ROE of 8.70%, adjusted upward for a specific ROE recommendation of 9.00% with a 50% common equity capital structure component. CUCA witness O'Donnell's DCF range was 7.60% to 9.60%. The Commission has historically evaluated DCF analyses in determining ROEs in general rate cases. However, the DCF analyses by the three witnesses described above are outliers and each is substantially below the mean ROE of 9.64% in 2017 through year to date 2019.

The Commission concludes that witness Hevert's DCF high ROE analyses are also outliers and entitled to no weight. As shown on Hevert Rebuttal Exhibit RBH-R-1, Mr. Hevert's high ROE mean range runs from 13.82% to 13.95%. The lowest of his three high ROE means is 13.82%. As shown on Hevert Exhibit RBH-S-1, the 13.82% is 418 basis points above the average of the 69 ROE decisions during this 2017 to 2019 period.

The Commission concludes that witness Hevert's remaining CAPM analyses are all outliers and the Commission gives them no weight. As shown on RBH-R-5, page 1, being the Proxy Group Average Bloomberg Beta Coefficient ECAPM results in a range of 10.98% to 12.05%. The Proxy Group Average Value Line Average Beta Coefficient CAPM results in a range of 10.90% to 11.97% and the ECAPM results in a range of 11.82% to 12.96%.

The Commission concludes Mr. Hevert's Expected Earnings analysis is entitled to no weight. This analysis summarized on Hevert Exhibit RBH-R-&, page 1, is based entirely on projected earnings of the Hevert eight proxy companies for the years 2022-2024. The Commission approved rates in this general rate case will become effective in late 2019. Piedmont may or may not file another general rate case prior to 2022. In addition, the Commission has already stated that the Commission does not favor future earnings projections based solely on analysts' predictions.

The Commission gives no weight to the CAPM analyses of AGO witness Woolridge, Public Staff witness Hinton, and CUCA witness O'Donnell as these analyses are outliers. AGO witness Woolridge's CAPM indicates a 7.60% ROE, which is at the low end of his ROE range of 7.60% to 8.70%. Public Staff witness Hinton's CAPM analysis, which he utilized only as a check on his overall recommended 9.13% ROE based upon his DCF and regression analysis, produced a 7.79% ROE based upon the geometric mean of returns. CUCA witness O'Donnell used his CAPM analysis only to supplement his DCF and comparable earnings analyses. His CAPM produced a range of 5.50% ROE to 7.50% ROE.

In summary, the Commission perceives substantial evidence supporting the reasonableness of a rate of return on equity of 9.7%. First, that rate of return, falls very close to the middle of the range of recommended returns by the economic experts in this docket of 8.7% to 10.6%. Second, it falls just above the 9.64% result produced by Public Staff witness Hinton's Regression Analysis. Third, it falls just above the Comparable Earnings analysis result of 9.6% produced by CUCA witness O'Donnell. Fourth, it falls within the range of CUCA witness O'Donnell's DCF analysis (9.0% to 10.0%). Fifth, it is slightly below the recommended range of Piedmont witness Hevert (10% to 11%). Sixth, it falls squarely within the range and very close to the average of recent natural gas distribution company allowed returns on equity nationally. Seventh, it is equal to the lowest rate of return on equity awarded by this Commission in general rate cases for gas and electric utilities in the last ten years. Eighth, it is equal to the allowed rate of return for North Carolina's next largest natural gas utility, PSNC. Ninth, it is 30 basis points lower than Piedmont's current allowed rate of return on equity. Tenth, it is supported as the appropriate rate of return on equity for Piedmont by four of the five parties filing rate of return testimony in this proceeding in lieu of the recommendations made by their respective witnesses on this subject and the stipulated return on equity of 9.7% was supported by filed settlement testimony by the cost of capital witnesses for two of these parties. Finally, and without expressly adopting his methodology, it is consistent with Mr. Phillips notion that Piedmont's return should be capped at the average rate of return on equity approved by other state commissions for the most recent quarter.[11]

These factors lead the Commission to conclude, in the exercise of its independent judgment and discretion, that a 9.7% rate of return on equity is supported by the evidence in this proceeding and should be adopted. The Commission concludes that this rate of return on equity will allow Piedmont to recover its reasonable operating expenses, compete in the market for equity capital, and provide a reasonable return on investment to its owner and that it is will result in the lowest rates constitutionally permissible in this proceeding.

The foregoing conclusions incorporate the Commission's analysis of the impact of this allowed return on equity on Piedmont's customers considering changing economic conditions, as discussed below.

In this case, all parties had the opportunity to present the Commission with evidence concerning changing economic conditions as they affect customers. The testimony of witnesses Hevert and Barkley, which the Commission finds entitled to substantial weight, address changing economic conditions at some length. Witness Hevert provided detailed data concerning changing economic conditions in North Carolina as well as nationally, and concluded that the North Carolina-specific conditions are "highly correlated"

[11] Mr. Phillips' proposal was a cap at 9.55% based on first quarter average rates of return reported by RRA. The evidence at hearing demonstrated that this average is now higher because of rising allowed rates of return on equity in the second quarter of 2019.

with conditions in the broader nationwide economy. As such, witness Hevert testified that changing economic conditions, both nationally and specific to North Carolina, are reflected in his rate of return on equity estimates. In his rebuttal testimony, Piedmont witness Barkley provided significant evidence of the overall state of the economy in North Carolina to include numerous statistics indicating, among other things, low unemployment, increasing wages, expanding business development in North Carolina, and job growth throughout the State. In general, Mr. Barkley's testimony indicated that the economy in North Carolina is strong, particularly by historical standards. Notwithstanding this evidence, Mr. Barkley conceded that no matter how strong the economy, some of Piedmont's customers would always struggle to pay their utility bills. Mr. Barkley also pointed out, however, that even with the rate increase proposed in the Stipulation, customer annual bills in the early years would compare favorably with annual bills from as much as a decade ago.

Late-filed evidence by the Public Staff also supports the conclusion that the proposed rate increase in this proceeding is reasonable and not unreasonably harmful to Piedmont's customers. This late-filed evidence is the Public Staff's Late-Filed Exhibit 2 which is basically an update of Patel Exhibit III. This exhibit shows that the overall increase in rates to Piedmont's customers (exclusive of electric generation contracts and other special contracts) in Year 1 is 3.5%; in Years 2-3 it is 8.2% and in Years 4 and after it is capped at 10.4%. In analyzing these figures, as testified to by Piedmont witness Powers at the hearing of this matter, it is important to keep in mind that in Year 4 and beyond, ten years will have passed since the rate case that established Piedmont's current rates.[12] This means that Piedmont's rates will have increased by roughly 1% a year in the intervening ten years which is likely to be well below the rate of inflation during that same period. Continuing low commodity gas prices also have preserved annual customer bills at historically reasonable prices and even in Year 4 and beyond, the annual bills will still be well below the annual bills paid by Piedmont's customers in 2008 as was illustrated on Piedmont Powers Redirect Exhibit 1. More currently, as testified to by witness Powers at the hearing of this matter, at Year 1 stipulated rates Piedmont projects lower residential gas bills for the winter of 2019/2020 ($508) than were experienced in the winter of 2018/2019 ($532). In Year 6, after all of the tax regulatory liabilities are fully amortized and assuming Piedmont has not been through another rate case by then, the average winter heating bills for residential customers would be $553. Customers' bills will still be well below the annual bills paid by Piedmont's customers in 2008.

Based upon the general state of the economy, the phased in nature of the margin rate increase provided for in the Stipulation and the continuing affordability of natural gas service, the Commission concludes that the stipulated ROE of 9.7% will not cause undue hardship to customers even

[12] Whether we will actually ever get to Year 4 is not a certainty as witness Powers testified that the Company expects to be back before the Commission with a new rate case upon the completion of the Robeson LNG project, which is now under construction.

though some will struggle to pay the increased rates resulting from the Stipulation.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 30

The evidence supporting this finding of fact and conclusions is contained in the Company's Petition, the direct testimony and exhibits of the witnesses, the Stipulation, the supplemental testimony of Company witness Couzens, and the entire record in this proceeding.

Paragraph 3 and Exhibit C to the Stipulation set forth the agreed throughput volumes established by the Stipulating Parties. The level of adjusted sales and transportation volumes used in the Stipulation is 136,415,626 dts. Total throughput, including electric generation and special contract quantities, is 483,305,524 dts. The sales and transportation throughput volume level is derived as follows:

Sales	74,815,358
Transportation	61,600,268
Total Sales and Transportation	136,415,626

These volume levels are the result of negotiations among the Stipulating Parties, as described in the Stipulation and the settlement testimony of Company witness Powers, and are not opposed by any party. No other party submitted evidence on the Company's throughput.

The Commission has carefully reviewed the evidence regarding the appropriate throughput level in this docket and concludes that the stipulated throughput levels, which include total gas sales and transportation quantities plus electric generation and other special contract quantities, are fair and reasonable and should be approved.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 31-33

The evidence for these findings of fact and conclusions is contained in the Company's Petition, the direct testimony of Company witness Couzens, and Public Staff witness Patel, supplemental testimony of Company witnesses Powers and Couzens, and the Stipulation.

The appropriate level for the total cost of gas for use in this proceeding is $334,653,470, as determined and reflected in Paragraph 4 and Exhibit I to the Stipulation. The Stipulation is the result of negotiations among the Stipulating Parties in this docket and reflects the encompassing commodity gas costs and fixed gas costs as follows:

Commodity Costs[13]	$215,392,832
Fixed Costs	$119,260,638
Total Cost of Gas	$334,653,470

The stipulated cost of gas is not contested by any party to this proceeding. The Commission has carefully reviewed these amounts, as well as all record evidence relating to the total cost of gas for use in this proceeding, and concludes that the stipulated cost of gas is reasonable and appropriate for use in this docket.

Under the Commission's procedures for truing-up fixed gas costs in proceedings under Commission Rule R1-17(k), it is necessary and

[13] Of this total amount of commodity cost of gas, $7,134,102 is the commodity cost of gas for company use and lost and unaccounted for gas quantities.

appropriate to determine the amount of fixed gas costs that are embedded in the rates approved herein. In Paragraph 8 to the Stipulation, the Stipulating Parties agree that for the purpose of this proceeding and future proceedings under Rule R1-17(k) during the effective period of rates approved in this proceeding, the appropriate amount of fixed gas costs to be allocated to each rate schedule is as set forth in Exhibit D to the Stipulation. No party contests this allocation and no other party submitted evidence supporting a different allocation.

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

Under the Commission's procedures for establishing rates and truing-up commodity gas costs, it is necessary to establish a Benchmark embedded in sales customer rates. Paragraph 4, Subparagraph B of the Stipulation provides that in establishing rates for this proceeding, the Stipulating Parties have agreed to use Piedmont's current Benchmark of $2.75 per dt. No party contests the use of a $2.75 per dt Benchmark in establishing rates for this proceeding and no other party submitted evidence on this issue. The Commission has carefully examined this proposal and concludes that the use of a $2.75 per dt Benchmark for purposes of establishing rates in this proceeding is fair and reasonable.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 34

The evidence for this finding of fact and conclusions is set forth in the direct testimony of Company witnesses Yoho, Yardley, and Couzens, the direct testimony of Public Staff witness Patel, the direct testimony of CUCA witness O'Donnell, the direct testimony of CIGFUR IV witness Phillips, the Stipulation, and the settlement testimony of Piedmont witness Powers.

In Mr. Yoho's direct testimony, he indicates that Piedmont is seeking a 9.0% rate increase in this proceeding. Company witnesses Yardley and Couzens, in their direct testimonies, indicate that the Company's initial proposal on cost allocation and rate design was to preserve the basic rate structure approved in Piedmont's last rate case but to spread any increase in costs across rate classes on a proportional basis and to include those additional costs in the revised volumetric rate component of Piedmont's rates. Mr. Yardley's direct testimony indicates that this approach would result in varying rates of return on rate base by Piedmont's various customer classes ranging from a high of 43.74% for large interruptible general service customers to a low of 2.3% for military customers.

In her direct testimony, Public Staff witness Patel recommended a different and much flatter allocation of proposed rate increases across Piedmont's customer classes. As is reflected in Patel Exhibit III, Ms. Patel's recommended rate structure also resulted in varying rates of return on investment for Piedmont's customers ranging from a high of 8.29% for

Medium General Sales Customers (Rate Schedule 102) to a low of 3.0% for Large General Interruptible Customers (Rate Schedule 114).

In his direct testimony, CIGFUR IV witness Phillips provided an extensive critique of Piedmont's proposed rate structure. This critique included pointing out a number of factors which Mr. Phillips testified indicated flaws in Piedmont's original proposed rate design. These factors included, among others: (a) the assertion that Piedmont's rates should be based on costs and that the proposed rate structure was not based on costs; (b) the observation that even according to Piedmont the disparity between the respective customer class rates of return produced by Piedmont's proportional rate increase proposal were large; (c) the assertion that rates for large interruptible customers should be decreased rather than increased; and (d) the assertion that a peak demand study and not the peak and average method should not be used to allocate costs among Piedmont's various customer classes.

In CUCA witness O'Donnell's direct testimony, he also took issue with Piedmont's proposed rate design. Mr. O'Donnell discussed the relative impacts of utilizing a peak and average cost allocation methodology versus a peak day allocation approach in conducting cost of service studies for Piedmont's proposed rate increase. Based on his analysis of the propriety of use and results of each of these two allocation methodologies, Mr. O'Donnell contended that a proportional allocation of the proposed rate increase would lead to unreasonable cost of service study rates of return for Interruptible

Sales Service (Rate Schedule 104) and Interruptible Transportation Service (Rate Schedule 114) customers.

In the Stipulation, in Paragraph 7, the Stipulating Parties agreed to rates and allocations of the stipulated revenue requirement to Piedmont's customer classes that were acceptable to all of the Stipulating Parties – which included all of the parties who filed rate design or cost allocation testimony in this docket. Those rates and allocated revenue responsibilities are reflected in Exhibit C to the Stipulation. Exhibit J to the Stipulation sets out the relative impact on Piedmont's various customer classes of the stipulated cost allocation and rate design. That exhibit shows slight decreases in the rates of Piedmont's Large General customers.

Ms. Powers, in her settlement testimony, explained that the stipulated rates and rate design were the result of give and take negotiations and that ultimately they were acceptable to each of the parties to the Stipulation. Ms. Powers further testified that the rates agreed to were highly beneficial to Piedmont's customers in comparison to the rates originally proposed in this proceeding.

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

Based on the totality of the evidence in this proceeding, including the substantial evidence supporting a reallocation of costs away from large general customers reflected in the testimony of Public Staff witness Patel, CUCA witness O'Donnell, and CIGFUR IV witness Phillips, as well as the Stipulation, and in the absence of other credible evidence on this issue, the Commission concludes based upon its own independent judgment that the stipulated rate design reflected in Exhibits C and J of the Stipulation is just, reasonable, and appropriate for use in this proceeding.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 35

The evidence supporting this finding of fact and conclusions is contained in the Petition, the direct testimony of Company witnesses Gaglio and Barkley, the direct testimony of Public Staff witness Perry, and the Stipulation.

In its Petition, Piedmont indicated that it was incurring substantial and ongoing capital investments associated with efforts to comply with federal pipeline safety and integrity management requirements. In order to facilitate Piedmont's continued compliance with transmission and distribution integrity regulations issued by federal authorities, and as authorized by N.C. Gen. Stat. § 62-133.7A, Piedmont proposed to continue the Company's Integrity Management Rider or IMR mechanism in its tariffs. According to Piedmont, this mechanism has been highly effective in facilitating compliance with federal pipeline safety and integrity regulations and avoiding regular and recurring rate cases that would have otherwise occurred on a 12-18 month basis since its last general rate case filing.

In his direct testimony, Piedmont's Senior Vice President and Chief Operations Officer, Victor Gaglio, who is responsible for the Company's efforts to comply with federal pipeline safety and integrity requirements, testified as to the requirements of federal pipeline safety and integrity regulations and the Company's incurred and projected costs of compliance with those regulations along with major system enhancements needed to provide reliable service to Piedmont's growing customer base.

In his direct testimony, Mr. Barkley testified about the public benefits inherent in the continued operation of the Company's IMR mechanism and discussed how the Company expects to continue to experience significant amounts of capital investment related to Pipeline and Hazardous Materials Safety Administration ("PHMSA") compliance. Mr. Barkley also testified as to Piedmont's proposal to modify Appendix E to the Company's Service Regulations to include updated percentages and throughput and eliminate the special contract credit provisions in the calculation of Piedmont's annual Integrity Management Revenue Requirement ("IMRR").

In her direct testimony, Public Staff witness Perry recommended that revisions be made to the IMR spreadsheet model so that it more closely mirrors the way plant, accumulated depreciation, and accumulated deferred income taxes ("ADIT") are handled in a general rate case, and is also consistent with the Integrity Management Tracker mechanism approved for PSNC in its last general rate case, Docket No. G-5, Sub 565. Ms. Perry also testified that she disagreed with Company witness Barkley's modifications to

Appendix E to the Service Regulations to eliminate the special contract credit provisions to the calculation of the annual IMRR.

As discussed in Paragraph 9 of the Stipulation, and as authorized by N.C. Gen. Stat. § 62-133.7A, the Stipulating Parties agreed that it is appropriate to continue the Company's IMR mechanism in the form attached as Appendix E to Piedmont's current North Carolina Service Regulations subject to the following clarifications: (a) In updating the rate base computation for the IMRR, Piedmont will use end of period numbers on a consistent basis; and (b) the IMRR shall be reduced by a Special Contract Credit to compute the net IMRR that forms the basis for determining the Integrity Management Adjustment (the Special Contract Credit represents the amount provided by the Special Contracts towards the Integrity Management Plant Investment). The Stipulating Parties support the continuation of Piedmont's IMR mechanism in the form attached as Exhibit F to the Stipulation along with the modifications to the calculations of the IMRR agreed to in the Stipulation.

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

The Commission has carefully considered the evidence in this proceeding related to the continuation of Piedmont's IMR mechanism and has reached the following conclusions. First, the Commission concludes that the form of IMR mechanism attached as Exhibit F to the Stipulation is consistent with N.C. Gen. Stat. § 62-133.7A, which authorizes the Commission to adopt "a rate adjustment mechanism to enable the company to recover the prudently incurred capital investment and associated costs of complying with federal gas pipeline safety requirements, including a return based on the company's then authorized return." In this case, the proposed form of IMR attached to the Stipulation, along with the modifications to the calculations to the IMRR agreed to in the Stipulation, provides for the recovery of return, taxes, and depreciation on capital investment associated with federal gas pipeline safety requirements in a manner consistent with the statute and in the same fundamental manner that Piedmont is permitted to recover those items of its cost of service in a general rate case proceeding. This approach to IMR cost recovery is reasonable and consistent with statutory requirements and normal regulatory practices.

Second, the Commission concludes that continuation of the IMR mechanism is favorable to customers because it provides for biannual adjustments to rates rather than subjecting customers to frequent rate cases associated with the Company's recovery of the costs of investment to be in compliance with federal safety and integrity requirements. Further, the IMR mechanism expressly provides for Commission review of the mechanism at the earlier of Piedmont's next general rate case proceeding or four years from the effectiveness of the mechanism and also specifically grants any party the right to petition the Commission to terminate or modify the mechanism at any time on the grounds that the rider mechanism, as approved by the Commission, is no longer in the public interest.

Third, consistent with the requirements of N.C. Gen. Stat. § 62-133.7A, the Commission finds the uncontested evidence of Piedmont's required capital expenditures on TIMP/DIMP compliance convincing. It is equally persuaded that regular and repeated general rate case proceedings, otherwise necessary to roll such investments into Piedmont's rate base, would be a detriment to Piedmont, its customers, and the Public Staff and would serve no purpose other than to increase regulatory costs paid by ratepayers and the regulatory burden on all parties who participate in Piedmont's general rate proceedings, including the Commission. The Commission is satisfied that the public interest is protected from any potentially adverse impacts through a variety of means, including the limited nature of the costs recoverable through the rider mechanism, the special contract crediting provision contained therein, the mandatory and permissive review provisions contained in the rider, and the Commission's general and continuing oversight of the Company's earnings.

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

Based on the foregoing, and in the absence of any evidence to the contrary, the Commission finds the Integrity Management Rider mechanism attached as Exhibit F to the Stipulation to be fair, reasonable, in the public interest, and appropriate for adoption in this proceeding.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 36

The evidence for this finding of fact and conclusions is contained in the Stipulation at Paragraph 10 and Exhibit E, the Company's Petition, the testimony and exhibits of the witnesses, and the entire record in this proceeding.

Under Piedmont's MDT mechanism, certain base and heat factors, as well as "R" values, are needed in order to make the calculations periodically required under that mechanism. These values are established and updated in general rate proceedings. The Stipulating Parties have provided updated factors in this proceeding as reflected in Paragraph 10 and Exhibit E of the Stipulation. These values are not contested and no other party has offered evidence supporting other factors. Based on the Stipulation, and the other record evidence in this proceeding, the Commission concludes that the updated MDT factors identified on Exhibit E to the Stipulation are reasonable and appropriate and should be approved.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 37

The evidence for this finding of fact and conclusions is contained in the Company's initial filing, the direct testimony of Company witness Powers, and Public Staff witness Jayasheela, the Stipulation and in the settlement testimony of Company witness Powers.

In Piedmont's Petition, supported by the direct testimony of Company witness Powers, the Company proposed to amortize and recover a number of previously deferred regulatory assets including environmental assessment and clean-up costs.

In Public Staff witness Jayasheela's testimony, she addressed the level of costs to be recovered, the amortization period over which to allow recovery, the determination of the whether or not the deferred balance should be allowed in rate base for each deferred regulatory assets proposed, as well as the continued regulatory asset treatment for transmission integrity management – O&M costs and certain environmental compliance assessment and clean-up costs. Ms. Jayasheela testified that she disagreed with the Company's proposal of deferred treatment for rate case expenses and removed the deferred rate case expense amount from rate base.

Specifically, in Paragraph 11 of the Stipulation, the Stipulating Parties propose to address the Company's deferred regulatory assets, proposed amortizations and recovery for the following: (a) TIMP O&M costs; (b) EasternNC deferred O&M expenses; (c) environmental compliance assessment and clean-up O&M costs; and (d) under-collected regulatory fee payments.

Pursuant to the Stipulation, the TIMP O&M costs subject to amortization over a four-year period, beginning November 1, 2019, are $54,449,944 and represent the unrecovered costs accumulated by the Company through June 30, 2019, net of regulatory amortizations through

October 31, 2019. The Stipulating Parties agree that it is also appropriate to continue regulatory asset treatment for TIMP O&M costs and to defer and treat such costs as a regulatory asset until the resolution of the Company's next general rate proceeding. The EasternNC deferred O&M expenses subject to amortization are the remaining balance of $1,191,036 amortized over a four-year period, on a levelized basis that includes the accrual of interest at the net-of-tax overall rate of return, beginning on November 1, 2019. The Stipulating Parties also agreed that it is appropriate to amortize and allow recovery of ($55,817) in environmental compliance assessment and clean-up costs over a four-year period, beginning November 1, 2019, which reflects actual deferred expenses through June 30, 2019, net of regulatory amortizations through October 31, 2019. The Stipulating Parties agreed that it is also appropriate to continue regulatory asset treatment for these costs and to defer and treat environmental compliance assessment and clean-up costs as a regulatory asset until the resolution of the Company's next general rate proceeding. The Stipulating Parties also agreed that it is appropriate for Piedmont to amortize and collect over a four-year period, $443,793 in under-collected regulatory fee payments made to the Commission as of June 30, 2019, beginning on November 1, 2019.

The Stipulating Parties support the amortization periods set forth in Paragraph 11 of the Stipulation. No party has opposed the proposals contained in Paragraph 11 of the Stipulation and no other evidence has been submitted regarding these issues.

The Commission has carefully considered the proposed amortization periods and related matters set forth in Paragraph 11 of the Stipulation, as well as all record evidence on the amortization of these regulatory assets, and concludes that the stipulated amortization treatment and specified amortization periods are consistent with the Commission's prior treatment of similar costs and are otherwise fair and reasonable and should be approved. The Commission further finds that it is appropriate to continue regulatory asset treatment for TIMP O&M costs and the environmental compliance assessment and clean-up costs as a regulatory asset until the resolution of the Company's next general rate proceeding.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 38

The evidence for this finding of fact and conclusions is set forth in the direct testimony of Piedmont witness Barkley and the direct testimony and revised exhibits of Public Staff witness Perry, the Stipulation, the settlement testimony of Piedmont witness Powers, and the hearing testimony of witnesses Barkley and Perry.

In the Petition, Piedmont indicated that as part of its rate case filing it was seeking Commission approval for the amortization and return to customers of certain regulatory liabilities associated with the TCJA and State income tax adjustments. In his direct testimony Mr. Barkley explained that the Company proposed to create a rider mechanism to handle the amortization and return of various regulatory liabilities created by the TCJA to customers. Specifically, the Company proposed: (1) to return approximately

$279 million in protected excess deferred income taxes to customers using the Average Rate Assumption Method ("ARAM"); (2) to amortize and return to customers approximately $74 million of plant related unprotected EDIT to customers over a period of 20 years; (3) to amortize and return to customers approximately $25 million of non-plant related unprotected EDIT over a period of 5 years; (4) to amortize and return to customers over a 3 year period the excess revenues collected by the Company and deferred pursuant to the Commission's January 3, 2018 Order Ruling that Certain Components of Certain Public Utility Rates are Provisional as of January 1, 2018, Initiating a Generic Proceeding, and Requesting Comments in Docket No. M-100, Sub 148; and (5) to amortize and return to customers over a 5 year period approximately $56 million in EDIT created by prior reductions in the North Carolina corporate income tax rate.

In her direct testimony, Public Staff witness Perry recommended that the amortization and return of various categories of tax-related regulatory liabilities identified by Piedmont be handled separately rather than through a consolidated rider mechanism. Ms. Perry also recommended different amortization periods for these regulatory liabilities to include: (1) a 52.91 year amortization of protected EDIT in accordance with ARAM; (2) a five year levelized amortization with carrying costs of all unprotected EDIT; (3) a one year amortization of over-collected tax revenues attributable to the federal corporate income tax rate decrease; and (4) a two year levelized amortization with carrying costs of North Carolina corporate income tax rate related EDIT.

In the Stipulation, at Paragraph 16, the Stipulating Parties agreed that "Protected EDIT" should be amortized and returned to customers, through base rates, over the remaining lives of the property giving rise to the EDIT obligation utilizing the Internal Revenue Service's ARAM Method beginning on the effective date of rates in this proceeding. For "Unprotected EDIT" which is not subject to the Internal Revenue Service's ARAM requirements, the Stipulating Parties agreed that such EDIT amounts, should be amortized and returned to customers, on a levelized basis through a rider mechanism, over a five-year period beginning with the effective date of rates in this proceeding. Finally, Piedmont has an existing regulatory liability on its books consisting of EDIT associated with the North Carolina state corporate income tax rate reductions since 2014. The Stipulating Parties agreed that this regulatory liability should be amortized and returned to customers, on a levelized basis through a rider mechanism, over a three-year period beginning with the effective date of rates in this proceeding. Consistent with the approach to amortize and return state and federal unprotected EDIT balances reflected above, the Stipulating Parties agreed to remove these regulatory liability balances from Piedmont's ADIT balance used to determine rate base in this proceeding. Finally, the Stipulating Parties agreed that the deferred over-collected tax revenues attributable to the federal corporate income tax rate decrease should be returned to customers through a rider mechanism over a period of one year beginning with the effective date of rates in this proceeding.

In her settlement testimony, Piedmont witness Powers discussed each of the amortizations related to regulatory liabilities associated with TCJA of 2017, and previous North Carolina legislation lowering the state corporate income tax rate for Piedmont. She further testified that the agreed to amortizations would provide for a more accelerated refund via rate rider to customers of the tax savings and will mitigate the impact of Piedmont's proposed margin revenue increase on customer rates while the amortizations are in place.

No other party filed testimony as to the amortization and flow back of regulatory liabilities arising from changes in State and Federal corporate income tax rates in this docket, although the AGO conducted cross-examination of Company witness Barkley suggesting that a shorter amortization period for unprotected EDIT would be beneficial to customers. AGO Barkley Cross Exhibit 1 was the Commission's Order Approving Partial Settlement Agreement and Stipulation, Granting Partial rate Increase and Requiring Customer Notice issued December 18, 2018 in Docket No. W-218, Sub 497. This order approved the return of unprotected EDIT over a 3 year period pursuant to a Partial Settlement Agreement and Stipulation between Aqua North Carolina, Inc. and the Public Staff. The Commission concludes that the Partial Settlement Agreement and Stipulation filed in Docket No. W-218, Sub 497 was the result of give-and-take negotiations and was approved as reasonable by the Commission. Because of the settled nature of this ordered return of unprotected EDIT and the fact that it pertained to a different company under different circumstances, we do not find our prior order binding in this docket.

AGO Barkley Cross Exhibit 2 was the Commission's Order Approving Joint Partial Settlement Agreement and Stipulation, Granting Partial rate Increase, and Requiring Customer Notice issued February 21, 2019 in Docket No. W-354, Sub 360 ("CWS Order"). The CWS Order required Carolina Water Service, Inc. ("CWS") to return unprotected EDIT over 4 years. There are several significant differences between the CWS general rate case and this proceeding. In Docket No. W-354, Sub 360, CWS testified that the company had no plant-related unprotected EDIT. This compares to $74 million of plant-related unprotected EDIT as discussed by Mr. Barkley in his direct testimony. The Commission's ruling in the CWS Order that federal unprotected EDIT be returned over 4 years represented the midpoint between the Company's request of 5 years and the Public Staff's recommendation of of 3 years. In this proceeding, the 5-year period included in the Stipulation represents a significant departure from the 20-year amortization period requested for plant-related unprotected EDIT in Mr. Barkley's direct testimony and matches the recommendation of Public Staff witness Perry. Finally, Piedmont presented evidence in Mr. Sullivan's direct testimony of a recent credit downgrade in its credit rating by Moody's Investors Services in which the impact of federal tax reform on its cash flows was cited.

Based upon these differences, the Commission finds that the 4 year time period approved by this Commission for the flow back of unprotected

EDIT in Docket No. W-354, Sub 360 and the 5-year period included in the Stipulation are both within an acceptable range, but based on the facts of this case, the 5 year period is reasonable and justified.

At the hearing, the AGO conducted cross-examination of Public Staff witness Perry where she explained that the amortization periods reflected in the Stipulation are flowing back the refunds due to ratepayers more quickly than the Company had first proposed. Furthermore, Ms. Perry testified that the Public Staff typically looks at a range of amortization periods and in this case, is attempting to smooth out the rate impacts to customers with the different amortization periods so that ratepayers are not harmed by experiencing huge rate increases after having lower rates if a two-year amortization period had been used as suggested by the AGO.

The Commission has carefully reviewed the evidence on these issues and believes that the rider mechanism, amortization periods, and flow back to customers of certain regulatory liabilities associated with the TCJA and State corporate income tax changes reflected in the Stipulation appropriately balance the interests of customers and the Company with respect to the flow back of these regulatory liabilities. The Commission further notes that it has not adopted a uniform set of amortization periods for the various regulatory liabilities created by the TCJA and state income tax changes and, instead, is evaluating the appropriate amortization periods for individual utilities in discrete proceedings, such as this one. The Commission finds that the rider mechanism, amortization periods, and flow back to customers of regulatory liabilities associated with the TCJA and other State corporate income tax changes are just, reasonable, and appropriate for use in this proceeding.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 39

The evidence for this finding of fact and conclusions is set forth in the depreciation study attached to the prefiled direct testimony of Piedmont witness Watson, in the Company's previous filings in Docket No. G-9, Sub 77G and 77H, direct testimonies of Public Staff witnesses Gilbert and Feasel, and in the Stipulation.

The depreciation rates currently in effect for Piedmont are from a depreciation study filed in2011 based on the estimated remaining service lives of depreciable property in service as of October 31, 2009. Piedmont adopted these depreciation rates effective January 1, 2014, as approved by the Commission in Piedmont's previous general rate case, Docket No. G-9 Sub 631. In 2016, Piedmont filed a depreciation study in Docket No. G-9 Sub 77H, based on the estimated remaining service lives of depreciable property in service as of October 31, 2014.

In this general rate case proceeding, Piedmont filed a new depreciation study based on the estimated remaining service lives of depreciable property in service as of September 30, 2018. Piedmont requested approval from the Commission to begin using these new depreciation rates concurrent with the month that new billing rates take effect from this general rate case proceeding.

Public Staff witness Gilbert testified that he recommended that the depreciation study as filed be accepted as being in compliance with Commission Rule R6-80. Public Staff witness Feasel testified that she had reflected the proposed depreciation rates in her calculation of the annualized depreciation expense level, but had also made an adjustment to reduce depreciation expense to reflect the impact of reallocation of the reserve account.

In Paragraph 21 of the Stipulation, the Stipulating Parties agreed that it is appropriate to adopt the revised depreciation rates and reallocations of book reserves reflected in the depreciation study attached to the prefiled direct testimony of Piedmont witness Watson, effective November 1, 2019, in order to coincide with the requested effective date of rates in this proceeding. The Stipulating Parties also agreed that it is appropriate to reduce depreciation expense to reflect the impacts of the reallocation of the reserve accounts related to the NC direct and corporate allocated general plant accounts. The Stipulating Parties agreed that the filing of the depreciation study attached to witness Watson's testimony satisfies the five-year depreciation study filing requirement of Commission Rule R6-80.

No party contested the implementation of Piedmont's revised depreciation rates as proposed in the Stipulation and no other party submitted evidence on this issue.

Based upon the direct testimony of Company witness Watson, and the Stipulation, the Commission concludes that implementation of the revised depreciation rates, effective November 1, 2019, as proposed in the Stipulation, is just and reasonable and should be approved. The Commission further concludes that the depreciation study filed in this docket satisfies the five-year depreciation study filing requirement of Commission Rule R6-80.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 40

The evidence for this finding of fact and conclusions is contained in the direct testimony of Company witness Barkley and the Stipulation.

In his direct testimony, Company witness Barkley proposed various changes to Piedmont's rate schedules and Service Regulations. Specifically, Mr. Barkley testified that Piedmont is proposing to eliminate one category of optional standby sales service currently offered to its customers under Rate Schedules 113, T-12, and ST-1 and that it also is proposing to make minor corrective adjustments to a number of other provisions of its Rate Schedules and Service Regulations.

With regard to Piedmont's proposal to eliminate one category of optional standby sales service currently offered to its customers under Rate Schedules 113, T-12, and ST-1, Company witness Barkley testified that Piedmont currently offers customers the right to subscribe to a winter only standby sales service. However, according to Mr. Barkley, Piedmont's experience in recent years, largely due to the abundant sources of supply feeding into the interstate pipeline systems that serve North Carolina, is that customers have no need for, and are not subscribing to standby sales service. Since Piedmont does not anticipate that customers will have a need for this service in the future, and that eliminating the service will simplify Piedmont's gas cost acquisition planning and strategies, it proposes to eliminate it.

With respect to the less significant tariff changes discussed in Mr. Barkley's testimony, he explained that Piedmont is proposing minor changes in the tolerances used in its annual customer classification process under Sections 34 and 35 of the Company's Service Regulations. Mr. Barkley also testified as to Piedmont's proposal to modify Appendix E to the Company's Service Regulations as discussed previously in this Order.

In Paragraph 22 of the Stipulation, and in Exhibits G and H, the Stipulating Parties agreed to adopt the Company's proposed tariff changes described by Mr. Barkley in his direct testimony, with the exception of Appendix E.

No party contests the proposed tariff changes discussed above and no other party has submitted evidence supporting a different disposition of these proposed tariff changes.

Based upon the testimony of Company witness Barkley and the Stipulation, the Commission finds that the proposed rate schedule and service regulation changes reflected in Exhibits G and H to the Stipulation, with the exception of Appendix E, are just and reasonable and should be approved.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 41

The evidence for this finding of fact and conclusions is contained in the prefiled direct testimony of Company witness Powers and Public Staff witness

Jayasheela, the settlement testimony of Company witness Powers, and the Stipulation.

The Company proposed to increase the funding for two programs offered by GTI: (1) the OTD Program, and (2) the Utilization Technology Development ("UTD") Program.

Public Staff witness Jayasheela agreed with the Company's proposed increase for the OTD Program expense since the OTD projects are designed mainly to enhance safety, increase operating efficiency, reduce operating costs and help maintain system reliability and integrity. Ms. Jayasheela testified that she did not agree with the UTD Program funding because she believes that ratepayers should be not be required to fund a program which is targeted towards research and development for natural gas appliances.

In the Stipulation, the Stipulating Parties agreed, in Paragraph 23, "that the Company's proposed funding for the Utilization Technology Development Program operated by GTI is not included in the annual revenue requirement reflected herein, but that the proposed funding for the Operations Technology Development Program, in the amount of $375,000, is included in the annual revenue requirement reflected herein."

No party has contested the inclusion of funding for the Operations Technology Development Program, in the amount of $375,000, in the annual revenue requirement as agreed to in the Stipulation and no other party has presented evidence on this issue.

The Commission has carefully considered the GTI funding proposed in the Stipulation, and concludes that inclusion of $375,000 for the OTD Program in the Company's annual revenue requirement is in the public interest and is also fair and reasonable and should be approved.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 42

The evidence for this finding of fact and conclusions is contained in the direct testimony of Public Staff witness Perry, in the Stipulation, in the settlement testimony of Company witness Powers, and in the hearing testimony of Company witness Gaglio.

In her direct testimony, Public Staff witness Perry recommends removing from rate base a portion of the capital investment in Piedmont's Line 434 and creating a regulatory liability to provide for the future collection of these costs from DEP through existing approved transportation/redelivery agreements once the Atlantic Coast Pipeline ("ACP") project comes online and DEP begins making payments to Piedmont. Witness Perry's rationale for this proposal was that most of the cost of Line 434, as originally conceived, was intended to be paid by DEP, beginning as soon as ACP was placed into service.

In Paragraph 31 of the Stipulation, Piedmont and the rest of the Stipulating Parties agreed that instead of adopting Ms. Perry's initial approach, Piedmont would establish a separate rate rider mechanism ("Line 434 Revenue Rider") that would effectively begin contemporaneously flowing through revenues associated with any demand charges paid by DEP relative to the ACP related transportation/redelivery agreements once ACP begins providing service until Piedmont's next general rate case proceeding, at which time the appropriateness and necessity of continuing, modifying, replacing, or eliminating the Line 434 Revenue Rider would be considered.

In her settlement testimony, Company witness Powers supported the Line 434 Revenue Rider and noted that Line 434 was currently used and useful and had been providing gas service to Piedmont's customers since November of 2018, notwithstanding the fact that ACP has not begun providing service at this time.

In his testimony at the hearing of this matter, Piedmont witness Gaglio provided more details about the sequence and process that resulted in the construction of Line 434 and confirmed that it was critical in providing service to Piedmont's existing customers last winter.

No other party submitted evidence on this issue.

The Commission has carefully reviewed the evidence on this issue and concludes that the Line 434 Revenue Rider proposed with regard to Piedmont's Line 434 is just, reasonable, and appropriate for utilization in this docket. These facilities are used and useful in providing service to Piedmont's customers and, therefore, qualify as rate base. The Commission further concludes that the Line 434 Revenue Rider will benefit Piedmont's customers once service through ACP begins by flowing through revenues associated with demand charges paid by DEP to Piedmont's customers.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 43

The evidence for this finding of fact and conclusions is contained in the Petition, the prefiled direct testimony of Piedmont witnesses Gaglio, Barkley, and Powers, the direct testimony of Public Staff witnesses Larsen, Allison, Jayasheela, and Perry, the Stipulation, and the settlement testimony of Piedmont witness Powers.

In the Petition, Piedmont sought approval for regulatory asset treatment of O&M costs associated with PHMSA Distribution Integrity Management Program ("DIMP") compliance costs similar to treatment previously authorized by the Commission for PSNC in Docket No. G-5, Sub 565. This request was supported in the direct testimony of Piedmont witnesses Gaglio and Barkley. Public Staff witness Larsen provided testimony supporting the DIMP compliance costs. Public Staff witness Jayasheela also testified regarding the proposed regulatory asset accounting treatment for certain O&M expenses incurred due to the Company's DIMP. She testified that Piedmont should treat such costs as regulatory assets and to defer such costs and reflect the approved annual amortization of DIMP costs until the resolution of the Company's next general rate case proceeding.

In the Stipulation, the Stipulating Parties agreed to the regulatory asset treatment of O&M costs associated with DIMP compliance costs as shown in Paragraph 25 of the Stipulation. In connection with the agreement of the Stipulating Parties regarding the adoption of regulatory asset treatment for DIMP O&M costs, Piedmont also agreed, in Paragraph 26 of the Stipulation to provide annual reports to the Public Staff providing transactional details showing allocated or directly assigned NC amounts, a description of the nature of the expense, and supporting documentation (i.e., invoices) for the O&M expenses incurred and deferred in relation to federal TIMP and DIMP requirements and treated by Piedmont as regulatory assets. This report will be filed annually, beginning on January 31, 2020, for the 12-month period ending on November 30 of each year.

In the direct testimony of Piedmont witness Barkley, Piedmont proposed to reduce the number of CGAs on its system from eleven to two both for administrative efficiency and because, based on its experience with its current CGA measurements, the variations in heat content across its system were not material enough to justify the need for maintaining such a large number of CGAs. This proposal was supported by the direct testimony of Public Staff witness Larsen and was adopted in the Stipulation in Paragraph 27.

In Paragraph 28 of the Stipulation, Piedmont agreed to work with the Public Staff in good faith to improve the transparency and reporting of costs allocated to Piedmont from DEBS or other subsidiaries of Duke Energy in order to facilitate the Public Staff's ability to efficiently audit such cost allocations in the future.

In the Petition, as supported by the direct testimony of Piedmont witnesses Powers and Barkley, Piedmont proposed to increase the funding for conservation programs recovered from customers by $1,225,000 annually.

This proposal was opposed in the direct testimony of Public Staff witness Gilbert. In the Stipulation, at Paragraph 29, the Stipulating Parties agreed that the stipulated annual revenue requirement for Piedmont does not include any amounts for this proposed additional conservation spending, and that conservation program spending will remain at its current level of $1,275,000.

In the Petition, as supported by the direct testimony of Piedmont witness Gaglio, Piedmont made an adjustment to increase the test year level of line locates, based on a growth rate of 17.28%. Public Staff witness Allison testified that a growth rate of 12.11% was a much more representative level of growth for the 12-month period ended May 31, 2019.

In Paragraph 30 of the Stipulation, the Stipulating Parties agreed that the stipulated annual revenue requirement for Piedmont included an increase in line locate expense of 12.56% from test period levels to reflect significant increased activity in this area. The settlement testimony of Piedmont witness Powers indicates, however, that even with this stipulated increase in line locate expense, that Piedmont's proposed line locate expense was adjusted downward, for purpose of settlement by $465,162, as reflected on Settlement Exhibit__(PKP-1). No other parties provided evidence on any of the matters addressed in Paragraphs 25 – 30 of the Stipulation and no parties contested any of these provisions.

In Paragraph 32 of the Stipulation, the Stipulating Parties agreed that Piedmont would implement a system support volumetric rate component in all future special and electric generation contracts filed with the Commission following the effective date of rates in this docket. The purpose of this special and electric generation contract volumetric rate component was to ensure that special and electric generation contract customers provide adequate system support for Piedmont's infrastructure and operations and are not subsidized by Piedmont's other customers. This agreement was subject to a possible exception to the extent that Piedmont and the Public Staff agree and the Commission ultimately concludes, that it is just and reasonable and not unduly discriminatory to exclude such rate component from a special or electric generation contract arrangement in discrete circumstances. The Stipulation provides that, if Piedmont and the Public Staff are unable to agree to the nature and design of such a volumetric rate component, Piedmont and the Public Staff will bring the matter to the Commission for resolution. No other party presented testimony on this issue but counsel for FPWC cross-examined Public Staff witness Perry about it and raised concerns about whether a competitive disadvantage might result from this provision of the Stipulation. Public Staff witness Perry explained at the hearing that the special and electric generation contract volumetric rate component is to ensure that the electric generation and special contracts are providing system support, that there is no unfair advantage, and that there is no way to unduly discriminate between different customers, especially now that there are so many affiliated agreements. Ms. Perry further clarified that currently all contracts provide a system benefit and contribution, but that the Public Staff is just trying to fine tune the contract structure to be more consistent going forward.

The Commission has carefully reviewed the evidence on these issues and considered the public interest inherent in each of the matters raised in Paragraphs 25-30 and 32 of the Stipulation. The Commission finds that the result of each of these stipulated issues is just, reasonable, and consistent with the public interest. With respect to the matters raised in Paragraph 32, the Commission finds that the concerns raised by FPWC are premature. Paragraph 32 provides only for a process for Piedmont and the Public Staff to attempt to reach agreement on a volumetric system support component of special contract or electric generation contract rates going forward. There is nothing prejudicial about this process and whether it is successful or not, the determination of whether such charges are just and reasonable and appropriate for use is ultimately a question for this Commission to resolve. To the extent FPWC has concerns about actual (or prospective) special contract charges that result from the process specified in Paragraph 32, FPWC may raise those concerns in any subsequent proceeding where approval by the Commission of such rates is sought.

Based on the foregoing, the Commission finds the specified provisions of Paragraphs 25-30 and 32 to the Stipulation to be just, reasonable, and appropriate for use in this proceeding and approves the same.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 44

The evidence for this finding of fact and conclusions is contained in the Stipulation, the settlement testimonies of Company witnesses Hevert and

Powers, the settlement testimony of Public Staff witness Hinton, and in all of the testimony and exhibits in this proceeding.

As is fully discussed above, the provisions of the Stipulation are the product of give-and-take settlement negotiations between Piedmont, the Public Staff, CUCA, and CIGFUR IV. As a consequence, the Stipulation reflects the fact that each of the Stipulating Parties agreed to certain provisions that advanced each such party's interests. The end result is that the Stipulation strikes a fair balance between the interests of each of the Stipulating Parties. With regard to the other parties to this proceeding only four issues are contested. These are the amortization period for return of unprotected EDIT, the stipulated equity percentage and stipulated return on equity all of which are contested by the AGO, and the agreement regarding steps to evaluate special contract usage-based system contribution charges which is contested by FPWC. The Commission has independently evaluated the resolution of issues set forth in the Stipulation, including the four contested issues, and in the exercise of the Commission's independent judgment, as is set forth in detail throughout this Order, the Commission has determined that the resolution of issues in this case set forth in the Stipulation are just and reasonable to all parties to this proceeding in light of the evidence presented and serve the public interest. Therefore, the Commission approves the Stipulation in its entirety.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 45

The evidence for this finding of fact and conclusions is contained in the testimony of public witnesses and in the statements of consumer position filed with the Commission in this docket.

Numerous public witnesses in this docket, some of whom are Piedmont's customers and many of whom are not, either appeared at the public hearings in this proceeding or filed statements of consumer position with the Commission in which they called into question the wisdom or necessity of continuing to construct additional natural gas infrastructure (such as ACP or the Robeson LNG project), raised concerns with the environmental impacts of utilizing natural gas as an energy source, or expressed concerns about the impacts of global warming.

The Commission appreciates the public's input on these issues and acknowledges that they are important matters of national (and State) policy. These issues are not properly before the Commission in this docket, however, and accordingly, the Commission will take no action regarding these issues in this Order.

As a matter of jurisdiction, this Commission has no authority over the certification, construction, or operation of ACP because that project is an interstate natural gas pipeline subject to the exclusive jurisdiction of the Federal Energy Regulatory Commission under the Natural Gas Act. And while the Commission does have jurisdiction over the Robeson LNG project, there are no costs of that project included in the annual revenue increase provided for herein, nor does this proceeding relate to that project in any way.

With regard to concerns about the environmental impacts of continued utilization of fossil fuels and/or global warming, these matters are also not implicated in this proceeding – whose purpose is to address the rates, terms and conditions upon which Piedmont will provide ongoing natural gas sales and transportation service. While the Commission acknowledges that these issues are matters of public concern and that decisions about them are important matters of public policy, the Commission is generally not in a position to and not in the practice of attempting to establish such policy (particularly in a company specific general rate proceeding) and no part of its authority under Chapter 62 of the General Statutes suggests otherwise. Instead, to the extent Chapter 62 defines the public policy of the State of North Carolina those policy pronouncements are expressly incorporated into the statutory provisions by the General Assembly. Accordingly, the Commission declines to undertake any evaluation of these issues in this proceeding.

IT IS, THEREFORE, ORDERED as follows:

1. That the Stipulation is hereby approved in its entirety.

2. That the Company is hereby authorized to adjust its rates and charges in accordance with the Stipulation and this Order (as such rates may be further adjusted for any changes in the Benchmark, and changes in

Demand and Storage Charges prior to the effective date of the revised rates) effective for service rendered on and after November 1, 2019.

3. That an extension of the Company's IMR mechanism, in the proposed form of IMR reflected in Exhibit F to the Stipulation, along with the modifications to the calculations to the IMRR agreed to in the Stipulation, is hereby authorized from the date hereof for a period of four (4) years at which time the Company may seek further extension of the mechanism through a request to the Commission seeking such relief.

4. That the protected federal EDIT shall be amortized over 52.91 years in accordance with ARAM in base rates.

5. That the unprotected federal EDIT associated with the reduction in the federal corporate income tax rate shall be returned to Piedmont's ratepayers through a levelized amortization over a 5-year period with carrying costs.

6. That the EDIT associated with the reductions in state corporate income tax rates shall be returned to Piedmont's ratepayers through a levelized amortization over a 3-year period with carrying costs.

7. That the over-collected tax revenues attributable to the federal corporate income tax rate reduction shall be returned to Piedmont's ratepayers over a 1-year period.

8. That the Company is authorized to implement the changes to its Rate Schedules and Service Regulations reflected in Exhibits G and H to the Stipulation.

9. That the Company shall file clean versions of the revised Rate Schedules and Service regulations to comply with this order within five (5) days from the date of this Order.

10. That the Company is authorized to implement the revised depreciation rates and book reserve reallocations as agreed to in the Stipulation as of November 1, 2019.

11. That the Company is authorized to implement deferral accounting for DIMP O&M expenses as set forth in the Stipulation effective November 1, 2019.

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

13. That the Company shall send the notice attached hereto as Attachment A to its customers beginning with the billing cycle that includes the rate changes approved herein.

ISSUED BY ORDER OF THE COMMISSION

This the ____ day of October, 2019.

NORTH CAROLINA UTILITIES COMMISSION

Kimberley A. Campbell, Chief Clerk

SCHEDULE 1

Schedule 1

Piedmont Natural Gas Company, Inc.
Docket No. G-9, Sub 743
STATEMENT OF NET OPERATING INCOME FOR RETURN, RATE BASE AND OVERALL RETURN
For The Test Year Ended December 31, 2018

Line No.	Item	Per Company Update (a)	Settlement (b)	After Settlement Adjustments (c)	Rate Increase (d)	After Rate Increase (e)
	NET OPERATING INCOME FOR RETURN					
	Operating Revenues:					
1	Sales and transportation of gas	$795,180,723	($5,854)	$795,174,869	$108,796,788	$903,971,657
2	Other operating revenues	4,343,374	143,469	4,486,843		4,486,843
3	Operating revenues, excl special contracts	799,524,097	137,615	799,661,712	108,796,788	908,458,500
4	Electric Generation & Special Contract Revenues	102,381,824	0	102,381,824		102,381,824
5	Total operating revenues	901,905,921	137,615	902,043,536	108,796,788	1,010,840,324
6	Cost of gas	334,653,470	0	334,653,470		334,653,470
7	**Margin**	567,252,451	137,615	567,390,066	108,796,788	676,186,854
	Operating Expenses:					
8	Operating and maintenance	229,301,103	(15,961,067)	213,340,036	737,266	$214,077,302
9	Depreciation	136,676,708	(371,051)	136,305,657		136,305,657
10	General taxes	31,426,103	446,065	31,872,168		31,872,168
11	State income tax (2.5%)	2,461,268	357,222	2,818,490	2,696,186	5,514,676
12	Federal income tax (21%)	20,157,781	2,925,645	23,083,426	22,081,762	45,165,188
13	Amortization of investment tax credits	(79,424)	0	(79,424)		(79,424)
14	Amortization of EDIT	0	(4,061,162)	(4,061,162)		(4,061,162)
15	Total operating expenses	419,943,539	(16,664,348)	403,279,191	25,515,213	428,794,405
16	Interest on customer deposits	(796,448)	0	(796,448)		(796,448)
17	Net operating income for return	$146,512,464	$16,801,963	$163,314,427	$83,281,574	$246,596,002
18	**RATE BASE**					
19	Plant in service	$5,524,939,964	($8,566,684)	$5,516,373,281	$0	$5,516,373,281
20	Accumulated depreciation	(1,508,506,101)	(12,131,404)	(1,520,637,505)	0	(1,520,637,505)
21	Net plant in service	4,016,433,863	(20,698,087)	3,995,735,776	0	3,995,735,776
22	Working Capital - Other	(6,264,000)	0	(6,264,000)	0	(6,264,000)
23	Working Capital - Lead Lag	56,088,683	(13,660,157)	42,428,526	10,019,415	52,447,941
24	Defered Regulatory Assets		135,551,187	135,551,187		135,551,187
25	Deferred Income Taxes	(849,671,872)	122,811,918	(726,859,954)	0	(726,859,954)
26	Original cost rate base	$3,216,586,674	$224,004,861	$3,440,591,535	$10,019,415	$3,450,610,950
27	Overall Rate of Return on Rate Base	4.55%		4.74%		7.14%

SCHEDULE 2

Schedule 2

Piedmont Natural Gas Company, Inc.
Docket No. G-9, Sub 743
SUMMARY OF SETTLEMENT ADJUSTMENTS
For The Test Year Ended December 31, 2018

Line No.	Item	Settlement
1	**Original Application - Increase in Revenue Requirement filed by the Company**	$118,116,597
2	Additional Increase in Revenue Requirement due to June 2019 update	25,519,289
3	**Increase in Margin Revenue Requested due to Company Update**	**$143,635,886**
	Settlement Adjustments:	
4	Change in Equity ratio from 52% to 52%	(16,459)
5	Change in cost of long-term debt from 4.40% to 4.41%	159,698
6	Change in cost of short-term debt from 2.78% to 2.72%	(17,274)
7	Change in return on equity from 10.60% to 9.70%	(20,579,402)
8	Plant in Service Updates and Related Items at June 30, 2019	(865,491)
9	ADIT - updated to June 30, 2019	(137,715)
10	Adjustment to exclude Federal Tax EDIT	6,638,773
11	Adjustment to exclude State Tax EDIT	3,769,738
12	Adjust working capital for lead lag to reflect reclassifying lead lag adjustment from Proposed to Pro Forma	(1,189,797)
13	Adjustment to end of period revenue - weather, growth, and commodity costs	5,818
14	Adjustment to other operating revenues	(143,469)
15	Customer Conservation Program	(1,233,358)
16	Special Contract - remove PIS associated with facilities	(112,358)
17	Payroll and Related Expenses	(169,581)
18	Overtime	(234,480)
19	Employee Benefits	(836,922)
20	Board Expenses	(422,000)
21	Executive Compensation	(1,484,492)
22	Incentives	(1,185,815)
23	Rate Case Expenses - updated, 4 year amortization, no rate base	(268,917)
24	Sponsorships & Donations	(119,152)
25	Uncollectibles	(45,603)
26	Inflation Adjustment - removed certain expenses and updated rate	(635,832)
27	Nonutility Adjustment - O&M and plant	(1,364,212)
28	Pension Expense	(844,683)
29	Deferral: PIM Transmission Costs - update actual expenses @ June 30, 2019, 4 year amortization	(5,450,230)
30	Deferral: Environmental Costs - update actual expenses @ June 30, 2019, 4 year amortization	(11,359)
31	Deferral: NCNG OPEB Liability, remove balance	(829)
32	Deferral EasternNC, 4 year amortization	(846,566)
33	Undercollection of Regulatory Fee, 4 year amortization	(22,368)
34	Line Locates Expense	(465,162)
35	Regulatory Fee Expense - change to 0.13% per Commission Order	2,242
36	Advertising - remove promotional, image, competitive, & non-recurring	(297,937)
37	Miscellaneous General Expenses	(358,102)
38	Aviation Expense	(485,760)
39	Gas Technology Institute (GTI) Funding	(352,387)
40	Lobbying Expenses	(156,536)
41	Amortization of protected EDIT, net of tax	(4,954,772)
42	Rents Expense	(497,525)
43	Change in retention factor - Uncollectibles and Regulatory Fee changes	(482,492)
44	Adjust cash working capital for revenue impact of Settlement adjustments	872,742
45	Rounding	929
46	**Settlement Adjustments**	(34,839,098)
47	**Settlement Recommended Change in Margin Revenue**	**$108,796,788**
	Rider impacts on Settlement Revenue Requirement:	
48	Federal Unprotected EDIT Rider, 5 year flow back	($23,304,269)
49	State EDIT, 3 year flow back	(20,735,154)
50	Overcollection of Revenues from Federal Tax Change, 1 year flow back	(36,699,240)
51	**Settlement Recommended Change in Revenue Requirement due to Riders (Sum of Lines 48-50)**	**($80,738,663)**
52	**Settlement Recommended Change in Revenue Requirement for Year 1**	$28,058,125
53	Settlement Recommended Change in Revenue Requirement for Years 2 -3	$64,757,365
54	Settlement Recommended Change in Revenue Requirement for Years 4 -5	$85,492,519 [1]
55	Settlement Recommended Change in Revenue Requirement for Year 6	$108,796,788 [1]

[1] The Stipulation caps the aggregate rate increases provided for in years beyond Year 3 at $82,820,089 in order to be consistent with the notice of rate increase provided to the public in this docket.

ATTACHMENT A

STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH

DOCKET NO. G-9, SUB 743

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of		
Application of Piedmont Natural Gas	)	
Company, Inc., for an Adjustment of	)	
Rates, Charges, and Tariffs Applicable to	)	PUBLIC NOTICE
Service in North Carolina, Continuation of	)	
its IMR Mechanism, Adoption of an EDIT	)	
Rider, and Other Relief	)	

The North Carolina Utilities Commission (“Commission”) issued an Order allowing Piedmont Natural Gas Company, Inc. ("Piedmont” or the “Company”), to increase its rates and charges by approximately $28.1 million annually, or 3.1% overall, effective November 1, 2019; an additional $36.7 million for a total of $64.7 million annually, or 7.2% overall, effective November 1, 2020; and an additional $18.1 million effective November 1, 2022, for a total of $82.8 million annually, or 9.2% overall. The differing annual increases are due to the timing of the flow back of deferrals and Excess Deferred Income Taxes (“EDIT”) as a result of reductions in state and federal income tax rates.

On April 1, 2019, Piedmont filed an application seeking a general increase in and revisions to the rates and charges for customers served by the Company; continuation of Piedmont’s Integrity Management Rider mechanism; regulatory asset treatment for certain incremental Distribution Integrity Management Program expenses; revised depreciation rates; updates and revisions to Piedmont’s rate schedules and service regulations; revised and updated amortizations and recovery of certain regulatory assets accrued since Piedmont’s last general rate case proceeding; approval of expanded energy efficiency and conservation program spending; and adoption of an EDIT Rider mechanism to manage the flow back to customers of deferrals and EDIT resulting from reductions in state and federal income tax rates.

In its application, the Company requested an increase of approximately $82.8 million annually, effective November 1, 2019. The Company stated that the rate increase was needed because it has added customers and made capital improvements prompted by system growth and has been required to continue to invest substantial capital in order to comply with federal pipeline safety and integrity regulations and requirements. Additional reasons cited by the Company in support of its request for a rate increase were to allow it to maintain its facilities and services in accordance with the reasonable requirements of its customers, to compete in the market for capital funds on fair and reasonable terms, and to produce a fair profit for its stockholders.

The increase approved by the Commission was the result of a stipulation entered into between the Company and other parties to the proceeding, including the Public Staff – North Carolina Utilities Commission ("Stipulation"). The Commission notes that the increases to specific classes of customers will vary in order that each customer class pays its fair share of the cost of providing natural gas service. For the typical residential customer, the approved rate increase effective November 1, 2019, will result in an annual increase to the customer's bill of $22, or $1.83 per month. These approved increases are associated with allowed expenses and return on investment and the flow back of deferrals and EDIT as a result of reductions in state and federal income tax rates only, and do not contemplate increases or decreases that may occur in association with gas cost adjustments to rates or other Commission approved riders as allowed by North Carolina law.

A list of approved rates can be obtained from the Company's website, www.piedmontng.com, or from the Office of the Chief Clerk of the Commission, Dobbs Building, 430 North Salisbury Street, Raleigh, North Carolina, where copies of the Commission's Order and the Stipulation are available for review by any interested party. The Commission's Order, the Stipulation, and other filings in this docket can be viewed/printed from the Commission's website at https://www.ncuc.net/ using the Dockets drop down list and entering "G-9 Sub 743" in the Docket Search function.

ISSUED BY ORDER OF THE COMMISSION.

This the ____ day of October 2019.

NORTH CAROLINA UTILITIES COMMISSION

Kimberley A. Campbell, Chief Clerk