

1 PLACE: Chamber of Commerce, Durham, North Carolina
2 DATE: Thursday, July 10, 2008
3 DOCKET NO.: G-5, Sub 495
4 TIME IN SESSION: 2:00 p.m. - 2:24 p.m.
5 BEFORE: Commissioner Lorinzo L. Joyner, Presiding
6 Chairman Edward S. Finley, Jr.
7 Commissioner William T. Culpepper, III

8 IN THE MATTER OF
9 Public Service Company of North Carolina, Inc.,
10 Application for a General Increase in Its Rates and
11 Charges.
12

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

14 PUBLIC SERVICE NORTH CAROLINA

15 Mary Lynn Grigg
16 Womble, Carlyle, Sandridge & Rice
17 150 Fayetteville Street, Suite 2100
18 Raleigh, North Carolina 27612

19 USING AND CONSUMING PUBLIC

20 Gina Holt
21 4326 Mail Service Center
22 Raleigh, North Carolina 27699-4326
23
24

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2 COMMISSIONER JOYNER: Good afternoon. We are
3 going to come on the record. My name is Lorinzo Joyner.
4 I am a Member of the North Carolina Utilities Commission.
5 With me today, to my left, is Chairman Edward S. Finley,
6 Jr.; and William T. Culpepper, III.

7 I now call for hearing Docket No. G-5, Sub 495,
8 wherein Public Service Company of North Carolina, Inc.,
9 d/b/a as PSNC Energy has Applied for an Adjustment in Its
10 Retail Rates and Charges. On February 27, 2008, PSNC
11 filed a letter with the Commission providing Notice of Its
12 Intent to File an Application for a General Rate Increase.
13 That Application was filed on March 31, 2008.

14 PSNC has requested approval of various changes
15 to its rates, terms and conditions of service. Generally,
16 the Company is requesting an increase of \$20,441,501 in
17 revenues from its rates and charges for natural gas
18 service; certain changes to the cost allocations and rate
19 designs underlying the existing rates for the Company;
20 certain revisions to its tariff; amortization to certain
21 account balances; approval to implement a customer usage
22 tracker; and approval to implement a cost recovery
23 mechanism for customer conservation programs. The
24 increase in annual revenues of \$20,441,501 requested by

1 the Company represents an annual increase of 3 percent
2 over present rates.

3 According to testimony filed by PSNC in support
4 of the requested increase, it has greatly expanded natural
5 gas service in its rapidly growing service territory since
6 its last general increase in rates and charges, which was
7 effective November 1, 2006. The Company states that since
8 the end of the test period in that case, it has installed
9 over 929 miles of transmission and distribution mains;
10 added 31,812 customers; and made approximately \$188
11 million in capital investments in its utility plant.

12 Several parties have intervened in this case:
13 Carolina Utility Customers Association, Inc., filed a
14 Petition to Intervene on March 10, 2008. That Petition
15 was granted by Order of the Commission March 11, 2008.
16 The Attorney General has also filed Notice of Intervention
17 in this matter. That Notice of Intervention is recognized
18 pursuant to statute. Intervention and participation of
19 the Public Staff of the North Carolina Utilities
20 Commission is recognized pursuant to G.S.62-15(d) and
21 Commission Rule R1-19(e).

22 On April 30, 2008, the Commission entered a
23 Procedural Order in this case, which scheduled an
24 investigation and hearing; suspended the rates for 270

1 days from the requested implementation date of May 1;
2 established the deadline for filing Petitions to
3 Intervene; establish testimony due dates and discovery
4 guidelines; and required public notice.

5 On June 25, 2008, PSNC caused to be filed
6 Affidavits of Publication indicating that notice had been
7 given in accordance with the Commission's Procedural
8 Order.

9 That brings us up to date on the procedural
10 history of the case. In compliance with the requirements
11 of the State Government Ethics Act, I remind all Members
12 of the Commission of their duty to avoid conflicts of
13 interest, and inquire now whether any member has any known
14 conflict with respect to the matters coming before us at
15 this time?

16 (No response.)

17 I now call for appearances of counsel beginning
18 with the Company.

19 MS. GRIGG: Good afternoon. I am Mary Lynn
20 Grigg with the law firm of Womble, Carlyle, Sandridge and
21 Rice, appearing on behalf of PSNC Energy. Also appearing
22 on behalf of the Company is Mr. Craig Collins, Assistant
23 General Counsel, who has been admitted by this Commission
24 for pro hac vice.

1 MS. HOLT: Good afternoon. I am Gina Holt with
2 the Public Staff here on behalf of the Using and Consuming
3 Public.

4 COMMISSIONER JOYNER: Thank you. Are there any
5 preliminary matters we need to address before we inquire
6 as whether or not there are any public witnesses?

7 MS. GRIGG: No, ma'am.

8 MS. HOLT: No.

9 COMMISSIONER JOYNER: Ms. Holt, do we have any
10 public witnesses who wish to testify?

11 MS. HOLT: Yes, we do. Public Staff calls Mr.
12 Richard Leber.

13 RICHARD LEBER; Being first duly sworn,
14 testified as follows:

15 DIRECT EXAMINATION BY MS. HOLT:

16 Q Please state your name and spell your last name.

17 A Yes. My name is Richard Leber, L-e-b-e-r.

18 Q And what is your address, Mr. Leber?

19 A 103 Cherrywood Circle, Chapel Hill, North
20 Carolina, 27516.

21 Q Go ahead.

22 A As I said, my name is Richard Leber. My wife and
23 I have lived in Chapel Hill for the last 13 years. In the
24 mid 70s, we lived in Fayetteville when I served in the

1 Army as an Officer in the Army Engineering Corp. My wife
2 was raised in Sampson County. Her family owned a farm and
3 fuel, oil and kerosene and gasoline supply business in
4 Garland. I was raised in Pennsylvania. My father owned a
5 fuel oil, kerosene, motor oil and gasoline
6 distributorship. In one sense, we were both raised in an
7 energy supply environment.

8 I want to give you my thoughts on three topics
9 this afternoon: The first is a suggestion that the PSNC
10 proprietary project feasibility model used to evaluate new
11 customer profitability be subject to a full and open
12 public audit.

13 The second is the level of benefit currently
14 being given to interruptible customers be reduced.

15 My last comments are related to the decoupling
16 request.

17 I hope we all share one interest as Americans:
18 the need to reduce our dependence on foreign energy
19 sources. Although we may debate how this should be done,
20 more drilling, more clean energy, more or less coal and
21 nuclear, more hybrid or all electric or all natural gas
22 cars, I think we would all agree the most immediate way
23 and probably the least expensive way to reduce our energy
24 dependence is conservation by using less of our precious

1 resources.

2 The use of these resources is interrelated.
3 Here's a few examples: If we follow the Governor's
4 suggestion to limit ourselves to a military shower, we use
5 less water and less energy to heat our water. If we are
6 more careful about the frequency of washing our clothes
7 and use predominantly cold water in our washing machines,
8 we use less water and less energy to heat our water. Less
9 energy is also used when we dry some of our clothes -- air
10 dry some of our clothes.

11 New technologies and such things as dual-fuel
12 heating systems that combine efficient electric heat pump
13 technology with supplemental gas furnace are very
14 efficient. Some attention has also been given to
15 insulating the exterior walls around gas log fireplaces.

16 I mention these items as I think PSNC management
17 would agree that conservation and new technology are some
18 of the reason the residential customers are using less
19 natural gas.

20 After working in our family oil business for
21 years, I spent several years as an operations and cost
22 analyst for a major regulated pipeline company and later
23 for a large international chemical company. A natural
24 question of an analyst in a market experiencing lower

1 customer volumes is: How do you evaluate the
2 profitability of new customers? This is why I think a
3 full audit should be made of the PSNC proprietary
4 projected profitability model. As these new customers
5 using -- Are these new customers using the amount of gas
6 that was projected by this proprietary model? Has the
7 model been adjusted for customers taking the recommended
8 short military shower? Using cold-water wash cycles?
9 Setting our house or zone temperatures at lower settings
10 or even installing the efficient duel fuel heating system
11 as we've done.

12 My second topic is the amount of benefit being
13 given to large interruptible gas customers. As an
14 operations analyst for one of the largest refined products
15 pipeline companies in the country, my primary
16 responsibility was to deal with over two dozen electric
17 utilities. I was tasked with understanding how the
18 pipeline could make use of utility tariff provisions that
19 include time-of-day pricing, simple block, block based on
20 monthly or yearly demands as well as interruptible pricing
21 tariff provisions.

22 Here is why I think the credit to large
23 interruptible gas customers should be reduced: We agree
24 PSNC residential volumes are decreasing. System

1 residential volume, which includes 62,000 new customers
2 since '03 has decreased by over 5 percent. Residential
3 customers now represent a smaller portion of system
4 volumes. In 2007 over 30 percent of PSNC volume was on
5 interruptible rates. The benefit to the interruptible
6 customer may be well over \$8 million per year or about \$20
7 per residential customer.

8 What's the right amount of financial benefit to
9 these customers? In a perfect world interruptible credit
10 would be put out to auction and the amount of volume that
11 would need to be interrupted may be 10 or 15 percent of
12 the system volume would be auctioned to the lowest bidder.

13 My last topic is decoupling. Mr. Chairman, you
14 asked me about my thoughts on decoupling at the June 30
15 meeting, public hearing. As most of my working career was
16 spent in marketing product management and this business
17 development for large international chemical company, I
18 tend to look at the differences in product life cycles. I
19 think it is noteworthy that the natural gas industry has
20 seen more conservation and volume decreases than our
21 electric utilities. There's a large part of the natural
22 gas conservation due to the fact that natural gas prices
23 have risen much faster than electric utility prices. What
24 will happen with electric utility demand when a doubling

1 of coal prices is passed on to residential consumers?
2 What should be done when a utility asks for some type of
3 decoupling? First, I think the return on equity should be
4 reduced for a utility asking for decoupling. I think a
5 good case could actually be made to equate the return on
6 equity to cost of debt. In a perfect world, I would
7 suggest that a utility that is concerned about return on
8 decreasing or flat volumes would want to evaluate its
9 strategies such as selling these assets to a non-profit
10 utility authority and redeploying equity capital to a more
11 useful purpose.

12 I also recommend implementation of my first two
13 suggestions: A full and open-to-the-public audit of the
14 Public Service NC proprietary new customer model and a
15 reduction to the interruptible rate credit.

16 If PSNC has actually invested capital in
17 low-return new customers because the proprietary model
18 does not reflect current customer volumes, I think a
19 portion of this low-return invested capital should be
20 excluded from this rate case. If PSNC is not required to
21 fully disclose the interworkings of this model, aren't we
22 giving PSNC an open checkbook to invest capital that will
23 have a guaranteed return?

24 In closing I also recommend that increasing

1 block structures be considered in future utility rate
2 increases as a way of promoting even more conservation of
3 our precious resources. Thank you for your time.

4 COMMISSIONER JOYNER: Any questions for
5 Mr. Leber?

6 MS. GRIGG: May I have one moment, please?

7 CROSS-EXAMINATION BY MS. GRIGG:

8 Q Good afternoon, Mr. Leber. Again, I'm Mary Lynn
9 Grigg, counsel for PSNC. I understand that over the past
10 few months you have had several phone calls with Angie
11 Townsend of PSNC's Public Affairs, and y'all have
12 exchanged --

13 A Yes. She has been extremely helpful. I'm really
14 happy to have a resource like Angie. It helps us to be
15 educated.

16 Q Thank you. I understand that you read the
17 Company's Application and testimony in this proceeding?

18 A I have gone through it. I wouldn't say that I
19 know it by heart. But I think I have a conceptual
20 understanding; but not the details to the specific case.
21 I was trying to talk more in general case today and not
22 specific.

23 Q Certainly. I was going the thank you because we
24 put a lot of time and effort in that, and not many people

1 read it. Thank you for your time and attention. I just
2 have one general question. You were talking about --

3 A Ask any question, we have the time.

4 Q Thank you. This is just for clarification: You
5 were raising questions and concerns about the Company's
6 project feasibility model.

7 A Yes.

8 Q Were you aware, Mr. Leber, that when a customer
9 inquires with the Public Staff about a contribution on
10 construction, the Company looks into the -- the Public
11 Staff looks into the Company's calculation to assure the
12 reasonableness of the contribution that the Company is
13 asking from the customer?

14 A Yes. I have been in communication with the Staff,
15 Jan Lawson, and he told me that -- Here's my concern:
16 Industry standards are used for the amount of consumption
17 that comes off. I was talking to another church member
18 Sunday who was offered a \$7,000 connection fee and was
19 told he would have to hook up his hot water heater or some
20 appliance, either heating or hot water, as one of the
21 variables used to connect.

22 A few years ago, I was volunteering for Habitat
23 for Humanity, and I refused to join any committee because
24 I was tired of committees. And within a year and a half,

1 I was elected President of the Orange County Habitat
2 Affiliate. But in that process, I was also Chair of the
3 Construction Committee. And one of the things that I
4 really pushed as Chair of the Construction Committee is to
5 evaluate gas use in Habitat Homes. Now counter-to-gas use
6 in Habitat Homes is that an organization in Raleigh, a
7 non-profit called Advanced Energy -- I am sure you are
8 familiar with them -- has a program for low-income home
9 constructions for Habitat. They go in and really analyze
10 the structure of a house. The Habitat homes are typically
11 about a thousand square feet to 1200 square feet; three to
12 four bedrooms.

13 And I have to share with you when I worked in my
14 family business, I was actually in hundreds of homes. At
15 one time I was a qualified oil service technician and was
16 involved in installing heating equipment in homes.

17 Here's my concern: The amount of gas that is
18 consumed in these models -- I think on the Public Service
19 website an assumption is made that a water -- gas hot
20 water heater will consume about 20 therms a month. I
21 don't think it relates to reality.

22 Getting back to the Habitat situation, Advanced
23 Energy through insulating and designing a well-constructed
24 electric heat pump with backed-up resistance electric

1 guarantees the Habitat customers that they won't consume
2 more than \$28 a month for the heating and cooling expense.
3 When you have the \$10 a month monthly service fee, which
4 is requested to go to 12, to install gas into a house,
5 even if it's within a hundred feet, you have to overcome
6 that 10 to \$12 monthly service fee.

7 So my point is that I think the model concept is
8 goods, but I don't think it really reflects, as I was
9 saying in my testimony, the amount of consumption that is
10 actually used in a home. In reality, if you look back
11 over the last 5 years, composite volume has gone from 720
12 something therms to 580 therms for an average customer.
13 I'm not sure what the model shows for heating and water
14 use. And that's my concern as a public advocate.

15 I don't know why it has to be proprietary. I
16 think it should be open and people should understand that
17 if they hook up to a house with gas, their expectation is
18 that they are going to use 20 therms of water. If they
19 are taking a military shower and using cold water like we
20 do to wash clothes, we use about 2 therms a month, which
21 is 4 or \$5 a month. I know I shared that with Angie, and
22 she looked up in my records that for years -- we have a
23 gas hot water heater and gas dryer -- and we are using as
24 low as 2 therms.

1 If you have a -- If you go back to the situation
2 of latter part of 2006 when Public Service enacted the
3 minimum use during the Summer times, there was a letter,
4 after letter that highlighted they were using hot water
5 and gas dryer and they weren't meeting the minimum.

6 I think Angie gave me the credit of writing the
7 first letter to the editor on that case, which was then
8 picked up by Allen Corey(phonetic) in the editorial. So I
9 don't know if I answered your question. But there is a
10 lot of background to it that my concern is the amount of
11 consumption that is in that model. I have no idea what it
12 is. I was glad to see you were going to charge one of my
13 friends \$7,000 to connect. Of course, he wasn't
14 interested in it because he wanted to know what gas oven
15 -- he is a gourmet cook and he liked to control the gas.
16 But \$7,000, I think he was going to get propane gas grill
17 for the back deck.

18 MS. GRIGG: Thank you. No further questions.

19 COMMISSIONER JOYNER: Questions from the
20 Commission?

21 EXAMINATION BY CHAIRMAN FINLEY:

22 Q What is your impression, Mr. Leber, of Advanced
23 Energy based on your contact with this?

24 A I think they are an under-utilized resource. I

1 think you may have seen one of my letters to the Editor.
2 I have been published several times in Talk Back pieces.
3 My mother always said you need to speak out on those
4 issues that are important, otherwise the world doesn't get
5 changed. I carry that every day.

6 I never pictured myself as a writer; in school,
7 English was always my worst subject. I've been published
8 several times in the paper. And one of the things that I
9 called for was an independent agency in North Carolina
10 that would have a website that would maintain unbiased
11 information on the efficiency of appliances. I think -- I
12 apologized to Angie one day when she was quoted in the
13 paper as saying gas heat is always more efficient than
14 electric. And there's the dual-fuel heating systems that
15 are very popular today that would question that
16 assumption.

17 Is gas hot water heating always more efficient?
18 Yes. But is it worth the additional capital? Probably
19 not if you are using 2 therms a month. So I think
20 Advanced Energy has a tremendous role to play in this
21 state if we are really interested in educating and
22 empowering consumers to make the decisions, and taking
23 that decision away from our utilities.

24 As another example, I agree with Public Service

1 when they attacked the electric utilities in offering
2 incentives for energy conservation projects. How do you
3 entice someone to put in a dual-fuel heating system which
4 is probably an ideal system when somebody already has gas
5 and is replacing a gas furnace? Who gives the credit to
6 customers and who gets the credit for conservation?
7 Insulation and windows, the same way. A gas utility may
8 not see the full benefit of insulation or windows because
9 the benefit is going to be in both heating and cooling. I
10 think Advanced Energy is a tremendous resource that we
11 have that should be strengthened as we move forward if we are
12 serious about conservation. Sorry for my long-winded
13 comments.

14 Q I do remember you saying you were going to be
15 studying decoupling the other night and, obviously, you
16 have. I appreciate that. We are studying it, too. Thank
17 you very much.

18 COMMISSIONER JOYNER: Thank you so much for
19 coming, Mr. Leber. Ms. Holt?

20 MS. HOLT: We have no further witnesses.

21 COMMISSIONER JOYNER: There appears to be no
22 other public witnesses. Anything else we need to deal
23 with before we recess and reconvene in Raleigh?

24 MS. GRIGG: No, ma'am.

1 MS. HOLT: No.

2 COMMISSIONER JOYNER: If there is nothing else,
3 thank you so much, Mr. Leber, for coming. We are
4 adjourned.

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6 Whereupon, the hearing was adjourned.

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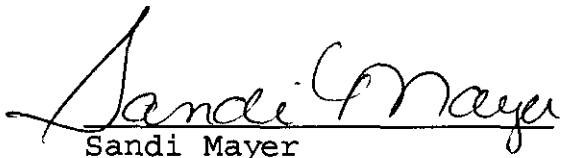
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CERTIFICATE

The undersigned Court Reporter certifies that
this is the transcription of notes taken by her during
this proceeding and that the same is true, accurate and
correct.


Sandi Mayer
Court Reporter II