

**STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH**

DOCKET NO. G-100, SUB 93

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of		
Petition for a Rulemaking Proceeding for)	
the Implementation of a Cost Recovery)	ORDER ADOPTING FINAL
Mechanism for Natural Gas Economic)	RULE R6-96
Development Infrastructure Pursuant to)	
G.S. 62-133.15)	

BY THE COMMISSION: On October 6, 2017, the Public Staff filed a Petition for Rulemaking in the above-captioned docket. In summary, the Public Staff requested that the Commission adopt the Public Staff's proposed rule for implementation of the cost recovery mechanism authorized in G.S. 62-133.15.

On October 17, 2017, the Commission issued an Order Adopting Interim Commission Rule and Requesting Comments. The Order adopted the Public Staff's proposed Rule R6-96 on an interim basis, set a schedule for receipt of petitions to intervene, initial comments, and reply comments, and made Piedmont Natural Gas Company, Inc. (PNG), Public Service Company of North Carolina (PSNC), Frontier Natural Gas Company, LLC, Toccoa Natural Gas (Toccoa), and the North Carolina Attorney General's Office parties to this proceeding.

On October 25, 2017, the Carolina Utility Customers Association, Inc. (CUCA) filed a petition to intervene. On October 27, 2017, the Commission issued an Order granting the requested intervention by CUCA. On November 8, 2017, CUCA filed initial comments.

On November 9, 2017, Toccoa filed a response to the Commission's Order Requesting Comments.

On November 15, 2017, the Public Staff filed reply comments in response to CUCA's proposals in this docket.

SUMMARY OF COMMENTS

In its response, Toccoa advised the Commission that it is in agreement with the Public Staff's proposed rule.

In its comments, CUCA states that it supports economic development and the recruitment of new industry to North Carolina. In addition, CUCA requests that the Commission consider the interests of existing businesses across North Carolina.

CUCA states that if the revenue retention factor used in the calculation of the proposed rate adjustment surcharge (RAS) is equivalent to a margin decoupling mechanism, then industrial customers should be excluded from such a factor. In its reply comments, the Public Staff explains that CUCA conflated the revenue retention factor used in calculating the RAS with the margin decoupling mechanism. The Public Staff states that the revenue retention factor is used to gross up the expenses and return on investment and is specifically listed in G.S. 62-133.15(d)(4) as one of the costs recoverable in the mechanism.

In addition, CUCA opines that a strict reading of G.S. 62-133.15 does not indicate that the Commission is required to impose the RAS on all customer classes and, therefore, that the Commission should exempt industrial customers from paying the RAS. In its reply comments, the Public Staff explains that G.S. 62-133.15 does not provide that any particular class of ratepayers should be excluded from paying the RAS. Further, the Public Staff states that exempting a class of ratepayers from the RAS would be inconsistent with prior Commission orders.

CUCA also questions whether cost recovery would be allowed for new manufacturers that tap directly onto interstate pipelines, bypassing the natural gas local distribution company (LDC). In its reply comments, the Public Staff points out that G.S. 62-133.15 authorizes cost recovery only for LDCs that construct natural gas economic development infrastructure, not new manufacturers that tap directly into an interstate gas pipeline, and, therefore, the payment of a manufacturer's bypass costs will not occur under the statute.

Further, CUCA recommends that the Commission require the LDCs to list the RAS as a separate line item on customers' gas bills. CUCA contends that this will allow customers to know how much they are paying each month in higher gas bills to support economic development.

Finally, CUCA recommends that because the RAS will recover the costs of capacity related assets it should be in the form of a demand charge rather than a volumetric charge. However, the Public Staff notes that each of the LDC's interstate pipeline and storage capacity charges are recovered through volumetric rates and, therefore, RAS should be administered through a volumetric rate for all customer classes consistent with other approved riders in North Carolina.

The Public Staff states that it shared its reply comments with PNG and PSNC and they agree with its comments.

DISCUSSION AND CONCLUSIONS

G.S. 62-133.15 addresses the implementation of a cost recovery mechanism for an LDC that constructs natural gas economic development infrastructure to serve a project the North Carolina Department of Commerce determines is an eligible project

under G.S. 143B-437.021. Pursuant to G.S. 62-133.15(a), the Commission is required to adopt rules implementing the statute. The Commission's interim Rule R6-96, adopted by Order issued October 17, 2017, established guidelines for applications by LDCs seeking cost recovery for the construction of natural gas development infrastructure under G.S. 62-133.15. After careful consideration of the comments filed in this proceeding, the Commission finds and concludes that its interim Rule R6-96 should be made permanent.

In response to the first issue raised by CUCA in its comments, the Commission agrees with the Public Staff that the revenue retention factor is specifically listed in G.S. 62-133.15(d)(4), and the revenue retention factor is different than the margin decoupling mechanism. The revenue retention factor is used to gross up the expenses and return on plant investment to cover such items as uncollectibles, regulatory fees, and taxes. In contrast, the margin decoupling mechanism is designed to allow the Company to track and true-up changes in its margins due to variations in average customer usage from levels approved in a general rate case.

The Commission also agrees with the Public Staff that G.S. 62-133.15 authorizes cost recovery for LDCs that construct natural gas economic development infrastructure, and does not address cost recovery for a manufacturer that chooses to bypass an LDC by connecting directly to an interstate pipeline. Therefore, CUCA's concern need not be addressed by the new rule.

Further, the Commission agrees with the Public Staff that G.S. 62-133.15 does not provide that any particular class of ratepayers should be excluded from payment of the RAS. If a class of ratepayers was exempted from the RAS, it would shift the costs of the infrastructure improvements between rate classes in a manner inconsistent with prior Commission Orders. Therefore, all LDCs should allocate the RAS to the rates of all customer classes, consistent with the intent of G.S. 62-133.15.

With regard to CUCA's recommendation that the Commission require the LDCs to list the RAS as a separate line item on customers' gas bills, the Commission declines to require this addition to the LDCs' bills. The RAS will be a relatively temporary rider compared to the integrity management riders (IMR) and customer usage tracker (CUT). The Commission previously has decided not to require separate line items for the IMR and CUT, in part due to a concern about information overload and bill clutter. Based on these same concerns, the Commission is not persuaded that it should require the LDCs to create a separate line item for the RAS.

The Commission also agrees with the Public Staff that the RAS should be administered through a volumetric rate for all customer classes consistent with other approved LDC riders in North Carolina.

Based upon the foregoing and the entire record in this proceeding, the Commission finds good cause to adopt interim Rule R6-96 as the final Rule, as set forth in Appendix A attached hereto.

IT IS, THEREFORE, SO ORDERED.

ISSUED BY ORDER OF THE COMMISSION.

This the 27th day of March, 2018.

NORTH CAROLINA UTILITIES COMMISSION

A handwritten signature in dark ink, appearing to read "Linnetta Threatt", is written over a faint, circular official stamp.

Linnetta Threatt, Deputy Clerk

Article 15. Economic Development Infrastructure Cost Recovery

**R6-96 NATURAL GAS ECONOMIC DEVELOPMENT INFRASTRUCTURE
COST RECOVERY**

(a) Purpose. – The purpose of this rule is to establish guidelines for applications of an LDC seeking cost recovery for the construction of natural gas development infrastructure under G.S. 62-133.15.

(b) Definitions. – As used in this section:

1. “Commission” means the North Carolina Utilities Commission.
2. “Economic development infrastructure” is the natural gas infrastructure placed in service to serve an eligible project.
3. “Economically infeasible” refers to that portion of investment in economic development infrastructure that has a negative net present value.
4. “Eligible economic development infrastructure costs” are the economically infeasible portion of an economic development infrastructure project investment.
5. “Eligible project” means a project that the Department of Commerce has designated as eligible under G.S. 143B-437.021.
6. “LDC” means a natural gas local distribution company.
7. “Net cash inflows” are the expected margin revenues, exclusive of gas costs recovered under G.S. 62-133.4, generated from the provision of natural gas service to Eligible Projects.
8. “Net cash outflows” are reasonable and prudent economic development infrastructure costs. Such costs include, but are not limited to, the following: (a) planning costs; (b) development costs; (c) construction costs and an allowance for funds used during construction and a return on investment once the project is completed, calculated using the pretax overall rate of return approved by the Commission in the LDC’s most recent general rate case; (d) a revenue retention factor; (e) depreciation; and (f) property taxes.
9. “Net present value (NPV)” means the present value of expected future net cash inflows over the useful life of economic development infrastructure, minus the present value of net cash outflows.
10. “Rate adjustment surcharge (RAS)” is a yearly surcharge that allows an LDC to charge a Commission approved rate to recover the eligible economic development infrastructure costs.

(c) Application. – An application to recover eligible economic development infrastructure costs under this section shall contain all of the following information:

- (1) Documentation showing the infrastructure is designed to serve an

eligible project.

- (2) A precise geographic description, a map or maps of the area proposed to be served, a detailed description of the proposed physical facilities, including their projected operating parameters and characteristics, and the arrangements that have been or are proposed to be made to obtain rights of-way.
- (3) Documentation of a binding commitment from the prospective customer or the occupant of the eligible project to the LDC regarding the need to take natural gas service for a period of at least 10 years from the date the gas is made available.
- (4) A market study, including an analysis of any potential customers and volumes, probable conversions from other fuels, and projected growth and economic development resulting from the infrastructure.
- (5) An engineering study that includes the proposed design of the system (including a pipe network flow analysis), routing (including a review of planned or proposed state highway improvements), and construction cost estimates.
- (6) An NPV analysis conducted in a generally accepted manner that provides support for the eligible economic development infrastructure costs.
- (7) The estimated beginning and ending dates of the proposed construction of the infrastructure, including the date service to the eligible project is proposed to begin, and specific itemized construction budgets.
- (8) Proposed rates to be charged under the RAS mechanism.

(d) Approval of Cost Recovery. – Once an eligible project has been approved by the Department of Commerce, the LDC may file an application with the Commission for authority to recover the estimated eligible economic development infrastructure costs.

- (1) The Commission shall provide for notice of each request for approval filed under this Rule and shall afford an opportunity for review and comment by interested parties. The Commission shall set the request for hearing if it deems it appropriate.
- (2) The Commission shall enter an order approving or denying the eligible economic development infrastructure costs on a project-specific basis. The order shall include a finding of the negative net present value of economic development infrastructure costs for each eligible project. The negative NPV is the maximum amount to be recovered through the RAS for an eligible project.
- (3) The LDC may request modifications to eligible economic development infrastructure costs approved by the Commission. If the Commission finds the requested change is material, the Commission shall provide for appropriate notice and shall afford an opportunity for review and comment by interested parties. The Commission shall set the proposal for hearing if it deems it appropriate.

(e) Cost Recovery. – Once economic development infrastructure is placed in service, the LDC may recover the economic development infrastructure costs approved by the Commission in an annual RAS. The RAS will terminate upon the earlier of the full recovery of the approved economic development infrastructure costs, or the effective date of rates in the LDC’s next general rate case, provided that the underlying infrastructure investment is included in calculating such rates.

(f) Computation of the economic development infrastructure revenue requirement. – The LDC shall file information for each year showing the computation of the Economic Development Infrastructure revenue requirement. The total annual revenue requirement will be calculated for each year, as follows:

Economic Development Infrastructure Costs	\$X,XXX,XXX
Less: Accumulated depreciation	XXX,XXX
Less: Accumulated deferred income taxes	<u>XXX,XXX</u>
Net Economic Development Infrastructure Costs	\$X,XXX,XXX
Pre-tax rate of return set forth in the relevant rate order	X.XX%
Allowed pre-tax return	\$X,XXX,XXX
Plus: Depreciation expense	<u>XXX,XXX</u>
Total	\$X,XXX,XXX

(g) Computation of the RAS. – The LDC will file for Commission approval each year information showing the computation of the RAS for each rate schedule and the revised tariffs that it proposes to charge customers during the 12-month period. To compute the RAS, the Economic Development Infrastructure revenue requirement shall first be apportioned to each customer class based on margin apportionment established in the LDC’s most recent general rate case.

The amount of the economic development infrastructure revenue requirement apportioned to each rate schedule shall then be divided by the annual terms established in the LDC’s most recent general rate case proceeding for each rate schedule to determine the RAS to the nearest one-thousandth cent per therm.

(h) RAS Deferred Account. – The LDC shall maintain an RAS Deferred Account for the purpose of recording (1) the economic development infrastructure revenue requirement for the year (2) the monthly RAS collected from customers, and (3) the interest on the RAS Deferred Account. Interest will be applied to the RAS Account at the LDC’s authorized net-of-tax overall rate of return.

Each month the LDC shall credit the RAS Deferred Account for the amount of the RAS collected from customers. The amount of the RAS collected from customers shall be computed by multiplying the RAS for each rate schedule by the corresponding actual therms of usage billed customers for the month.

(i) Reports. – Each LDC with an approved RAS shall provide the following reports to the Commission:

1. Monthly RAS Deferred Account reports reflecting the activity recorded for the month.
2. Annual RAS Deferred Account report to recover the balance in the account and an annual computation of the Economic Development Infrastructure revenue requirement supporting the RAS for the next 12-month period.
3. Annual reports by March 1 of each year the Eligible Project is under construction summarizing the total infrastructure costs for the preceding calendar year, the remaining balance to be spent on total infrastructure costs, and the estimated completion date of the infrastructure.
4. Annual reports by March 1 of each year for completed Eligible Projects, providing the total amounts recovered from the RAS for each project, the amount of gas consumed each year for each project, and all customer additions and the respective natural gas load for each project. Annual reports on completed eligible projects are required until the LDC's next general rate case.