

**STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH**

DOCKET NO. G-9, SUB 631

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of	
Application of Piedmont Natural Gas	) ORDER APPROVING PARTIAL
Company, Inc. for a General Increase in its	) RATE INCREASE AND ALLOWING
Rates and Charges	) INTEGRITY MANAGEMENT RIDER

HEARD IN: Guilford County Courthouse, High Point, North Carolina, on August 29, 2013; Mecklenburg County Courthouse, Charlotte, North Carolina, on August 29, 2013; New Hanover County Courthouse, Wilmington, North Carolina, on September 5, 2013; and the Commission Hearing Room, Dobbs Building, Raleigh, North Carolina, on October 14 and 17, 2013

BEFORE: Chairman Edward S. Finley, Presiding, and Commissioners Bryan E. Beatty, Susan W. Rabon, ToNola D. Brown-Bland, Jerry C. Dockham, and James G. Patterson

APPEARANCES:

For Piedmont Natural Gas Company, Inc.:

James H. Jeffries IV and Brian S. Heslin, Moore & Van Allen PLLC, Bank of America Corporate Center, 100 North Tryon Street, Suite 4700, Charlotte, North Carolina 28202-4003

For the Using and Consuming Public:

Elizabeth A. Denning, Staff Attorney, Public Staff – North Carolina Utilities Commission, 4326 Mail Service Center, Raleigh, North Carolina 27699-4326

Margaret A. Force, Assistant Attorney General, North Carolina Department of Justice, Post Office Box 629, Raleigh, North Carolina 27602

For Carolina Utility Customers Association, Inc.:

Robert F. Page, Crisp, Page & Currin, LLP, 4010 Barrett Drive, Suite 205, Raleigh, North Carolina 27607

For the Greenville Utilities Commission and the Cities of Rocky Mount and Wilson:

M. Gray Styers, Jr., Styers, Kemerait & Mitchell, 1101 Haynes Street,
Suite 101, Raleigh, NC 27604

For the Public Works Commission of the City of Fayetteville:

James P. West, West Law Offices, PC, Suite 2325, Two Hannover
Square, 434 Fayetteville Street, Raleigh, NC 27601

BY THE COMMISSION: On April 30, 2013, 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 May 10, 2013, the Carolina Utility Customers Association, Inc. (CUCA), filed a Petition to Intervene. On May 17, 2013, the Commission issued an Order granting the Petition to Intervene of CUCA.

On May 31, 2013, Piedmont filed a petition (Petition) seeking a general increase in and revisions to its rates and charges, implementation of a new Integrity Management Rider mechanism, implementation of new depreciation rates, updates and revisions to the Company's service regulations and tariffs, amortization of various deferred expenses, and proposed additional funding for gas distribution research activities conducted by the Gas Technology Institute (GTI). With its Petition, the Company also filed: (1) the Direct Testimony and Exhibits of Thomas E. Skains, Chairman, President and Chief Executive Officer of Piedmont; Karl W. Newlin, Senior Vice President and Chief Financial Officer of Piedmont; Victor M. Gaglio, Senior Vice President and Chief Utility Operations Officer of Piedmont; David R. Carpenter, Vice President of Planning and Regulatory Affairs of Piedmont; Pia K. Powers, Director of Regulatory Affairs of Piedmont; Kally A. Couzens, Senior Regulatory Affairs Analyst of Piedmont; Dr. Donald A. Murry, Vice President and Economist with C. H. Guernsey & Company; Daniel P. Yardley, Principal, Yardley Associates; and Paul M. Normand, President and Management Consultant, Management Applications Consulting, Inc., and (2) the Form G-1 information required by Commission Rule R1-17(b)(12) (Form G-1).

On May 31, 2013, a Petition to Intervene was filed by the Public Works Commission of the City of Fayetteville, and its Petition to Intervene was subsequently allowed by Commission Order issued June 5, 2013.

By Order Scheduling Investigation and Hearing, Suspending Proposed Rates, Establishing Intervention and Testimony Dates and Discovery Guidelines, and Requiring Public Notice issued June 27, 2013 (June 27, 2013 Order), the Commission declared the Company's application to be a general rate case pursuant to G.S. 62-137 and suspended the proposed rates for a period of up to 270 days from and after July 1,

2013. In that Order, the Commission also set the matter for hearing, required the Company to give notice of the hearing, established discovery guidelines, and established dates for interventions and for the prefilings of direct testimony by interveners and for the prefilings of rebuttal testimony by the Company.

On June 28, 2013, Piedmont filed a revised page 13 of the Direct Testimony of David R. Carpenter and a Revised Item 4 of its Form G-1.

On July 18, 2013, the Commission issued its Order Continuing Evidentiary Hearing in which it continued the hearing of Piedmont's case-in-chief from October 14, 2013 until October 16, 2013.

On August 1, 2013, the Attorney General filed its Notice of Intervention.

Between June 3, 2013 and October 11, 2013, the Commission received various consumer statements of position regarding and generally opposing Piedmont's rate increase proposal.

On August 29, 2013, this matter came on for hearing in High Point as scheduled. One person, Mr. Gary Hopkins of High Point, appeared and entered testimony as a public witness.

Also on August 29, 2013, the hearing was continued in Charlotte as scheduled. Mr. Jeffrey Edge from the Charlotte Chamber of Commerce appeared and entered testimony as a public witness.

On September 5, 2013, the hearing was continued in Wilmington as scheduled. Mr. Scott Satterfield appeared and entered testimony as a public witness.

On September 19, 2013, the Greenville Utilities Commission and the Cities of Rocky Mount and Wilson (collectively the Municipal Intervenors) filed a Petition to Intervene which was allowed by Commission Order dated September 20, 2013.

On September 20, 2013, the Public Staff filed a Motion for Extension of Time in which it sought a one-week extension in the dates for filing intervenor and rebuttal testimony. The Public Staff's motion was granted by Commission Order dated September 23, 2013.

On September 25, 2013, Piedmont filed its affidavits of publication.

On September 30, 2013, the Public Staff filed its Notice of Settlement in this proceeding whereby it gave notice that Piedmont, CUCA and the Public Staff had reached a settlement in principle and requested that the Commission allow the settling parties until October 4, 2013 to file a formal Stipulation of settlement and supporting testimony. The Public Staff further requested that intervenors be allowed until

October 4, 2013 to file their direct testimony and until October 8, 2013 to file testimony addressing the settlement.

On October 2, 2013, the Commission issued an Order granting the Public Staff's request for a modified testimony filing schedule.

On October 4, 2013, Piedmont filed a Stipulation and Exhibits by and between Piedmont, the Public Staff, and CUCA (Stipulating Parties) resolving all issues between these parties. On the same date, Piedmont filed the supporting Supplemental Testimony and Exhibits of Karl W. Newlin, Donald A. Murry, and David R. Carpenter.

On October 8, 2013, Piedmont filed its Motion to Continue Hearing for One Day and to Excuse Witnesses (October 8, 2013 Motion) in which it sought (1) to continue the hearing of its case-in-chief from October 16, 2013 until October 17, 2013 in order to avoid a conflict with the Company's Board of Directors meeting, and (2) to excuse Piedmont's outside consultant witnesses Daniel P. Yardley and Paul M. Normand from appearing at the hearing of the case. In this filing, Piedmont also provided its proposed order of appearance of witnesses and cross-examination estimates provided by counsel for intervenors.

On October 10, 2013, the Attorney General filed its list of witnesses and estimates of cross-examination times.

Also on October 10, 2013, the Municipal Intervenors made a filing indicating they had no objection to Piedmont's October 8, 2013 Motion.

On October 11, 2013, the Commission issued its Order Continuing Hearing and Excusing Witnesses in which it granted the relief requested in Piedmont's October 8, 2013 Motion.

On October 14, 2013, the hearing of this matter was continued in the Commission Hearing room for the purpose of receiving public witness testimony. No public witnesses appeared.

On October 15, 2013, Piedmont filed a revised Exhibit E to the Stipulation.

Also on October 15, 2013, Piedmont filed its Notice of Change in Order of Witnesses.

On October 17, 2013, the case-in-chief came on for hearing as scheduled in Raleigh. At the hearing, the Company reported, and the Stipulating Parties confirmed, that following substantial negotiations, a comprehensive agreement had been reached between the Company, the Public Staff, and CUCA, and that this agreement resolved all issues in the case as between those parties, and that this agreement was reflected in the Stipulation.

At the hearing, the various prefiled Direct and Supplemental Testimony and Exhibits of the following witnesses were offered and accepted into evidence by the Commission: Thomas E. Skains, Karl W. Newlin, Victor M. Gaglio, David R. Carpenter, Pia K. Powers, Kally A. Couzens, Dr. Donald A. Murry, Daniel P. Yardley, and Paul M. Normand. Company witnesses Newlin, Murry and Carpenter testified at the hearing.

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 corporation organized and existing under the laws of the state of North Carolina, 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.

2. Piedmont is a public utility within the meaning of G.S. 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 public utility.

4. In the Petition in this docket, the Applicants are seeking approval of: (a) a general increase in and revisions to the rates and charges for customers served by the Company; (b) certain changes to the cost allocation, rate designs, and practices underlying existing rates for the Company; (c) changes to the Company's existing service regulations and tariffs; (d) implementation of a new Integrity Management Rider mechanism; (e) implementation of new depreciation rates; (f) amortization of certain deferred expenses; and (g) proposed additional funding of gas distribution research and development activities conducted by GTI.

5. The Applicant is properly before the Commission with respect to the relief sought in the Petition in this proceeding pursuant to the provisions of Chapter 62 of the General Statutes.

Test Period

6. The only parties submitting evidence in this case with respect to revenue, expenses, and rate base levels used a test period of the 12 months ended February 28, 2013, adjusted for certain known and measurable changes through September 30, 2013, or thereafter, and the Stipulation was based upon the same test period.

7. The appropriate test period for use in this proceeding is the 12 months ended February 28, 2013, updated for certain known and measurable changes through September 30, 2013, or thereafter.

Stipulation

8. The Stipulation executed by Piedmont, the Public Staff, and CUCA is actively supported or not opposed by all parties to this docket.

9. The Stipulation settles all matters in this docket as between Piedmont, the Public Staff, and CUCA.

Revenue Increase

10. The Petition seeks an increase in annual revenues for the Company of \$79,826,196.

11. The Stipulation provides for an increase in annual revenues for the Company of \$30,658,314.

12. The stipulated revenue increase of \$30,658,314 is just, reasonable and appropriate for use in this proceeding.

Rate Base

13. Based on the expert witness evidence, the public witness evidence, and the Stipulation, the Commission finds that the original cost of the Company's used and useful property, or to be used and useful within a reasonable time after the test period, in providing natural gas utility service to the public within North Carolina, including gas plant of \$3,171,029,577 and working capital of \$157,222,039, less that portion of the original cost which has been consumed by depreciation expense of \$1,032,491,554 and accumulated deferred income taxes of \$473,326,437, all as described and set forth in Paragraphs 5 and 16, and Exhibit A of the Stipulation and reflected on Schedule 1 hereto, are reasonable and appropriate for use in this docket.

Revenues and Operating Expenses

14. Based on the expert witness evidence, the public witness evidence, and the Stipulation, the Commission finds that the Company's end-of-period *pro forma* revenues under present rates of \$860,537,121, as set forth in Paragraph 6 and Exhibit A of the Stipulation and reflected on Schedule 1 hereto, are reasonable and appropriate for use in this docket.

15. Based on the expert witness evidence, the public witness evidence, and the Stipulation, the Commission finds that the Company's operating expenses of \$322,043,707, including actual investment currently consumed through reasonable

actual depreciation, as set forth in Paragraph 6 and Exhibit A of the Stipulation and reflected on Schedule 1 hereto, and including the adjustments reflected in Paragraphs 12 through 21 of the Stipulation, are reasonable and appropriate for use in this docket.

Capital Structure

16. Based on the expert witness evidence, the public witness evidence, and the Stipulation, the Commission finds that the capital structure set forth in Paragraph 6 and Exhibit B of the Stipulation, consisting of 50.66% common equity, 46.52% long-term debt at a cost of 5.23%, and 2.82% short-term debt at a cost of 0.53%, is reasonable and appropriate for use in this docket.

Return

17. Based on the expert witness evidence, the public witness evidence, and the Stipulation, the Commission finds that 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 7.51%, as set forth in Paragraph 6 and Exhibit A of the Stipulation and reflected on 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 January 1, 2014.

18. Based on the expert witness evidence, the public witness evidence, and the Stipulation, the Commission finds that the rate of return on common equity that the Company should be allowed the opportunity to earn in this docket is 10.0%, as set forth in Paragraph 6 and Exhibit B of the Stipulation, and is reasonable and appropriate for use in this docket.

19. The authorized levels of overall return and return on common equity set forth above are supported by competent, material, and substantial record evidence, are consistent with the requirements of G.S. 62-133, and are neither unfair to nor will cause material hardship to the Company's customers in light of changing economic conditions or otherwise.

20. With respect to the foregoing ultimate findings on the appropriate overall rate of return on rate base and allowed rate of return on common equity 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 rate of return on common equity underlying Piedmont's current base rates are 8.55% and 10.6% respectively.

b. Piedmont's current base rates became effective on November 1, 2008 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 8.15% and an allowed rate of return on common equity of 11.3%.

d. In the Stipulation, the Stipulating Parties seek approval of an overall rate of return on rate base of 7.51% and an allowed rate of return on common equity of 10.0%.

e. The reduction in overall return from Piedmont's existing base rates that is reflected in the Stipulation is a substantial economic benefit to Piedmont's customers.

f. Piedmont's currently authorized allowed rate of return on common equity in South Carolina and Tennessee are 11.3% and 10.2% respectively.

g. The currently authorized allowed rate of return on common equity underlying Public Service Company of North Carolina, Inc.'s base rates is 10.6%.¹

h. The currently authorized allowed rate of return on common equity for Duke Energy, Progress Energy, and Dominion Power is 10.2%.²

i. The average allowed rate of return on common equity for southeastern United States natural gas local distribution companies granted by various state public service commissions is 10.23%.

j. The estimated 2013 rate of return on common equity projected by Value Line for natural gas companies comparable to Piedmont is 10.2%.

k. The Value Line 2013 projected rate of return on common equity for Piedmont is 11.0%.

l. The stipulated allowed rate of return on common equity of 10.0% is lower than any of the comparable allowed rates of return on common equity identified in above.

m. The stipulated overall rate of return on rate base of 7.51% and allowed rate of return on common equity of 10.0% are supported by competent, material, and substantial evidence.

¹ Order Approving Partial Rate Increase and Requiring Conservation Program Filing and Reporting, Docket No. G-5, Sub 495 (October 24, 2008).

² Order Granting General Rate Increase, Docket No. E-7, Sub 1026 (September 24, 2013); Order Granting General Rate Increase, Docket No. E-2, Sub 1023 (May 30, 2013); and Order Granting General Rate Increase, Docket No. E-22, Sub 497 (December 12, 2012).

n. There is no competent, material and substantial evidence that the stipulated overall rate of return on rate base of 7.51% or allowed rate of return on common equity of 10.0% will be harmful, injurious, or unfair to customers.

o. There is no competent, material, and substantial evidence supporting any overall rate of return on rate base or allowed rate of return on common equity other than the stipulated overall rate of return on rate base of 7.51% and allowed rate of return on common equity of 10.0%.

p. The stipulated rates will produce average annual residential bills for Piedmont's customers [at the Company's existing Benchmark Commodity Cost of Gas (Benchmark) of \$740.

q. An annual average residential bill of \$740 is substantially lower than the annual residential bill resulting from Piedmont's last general rate case in 2008 and is lower than actual average annual residential bills paid by Piedmont's customers in eight of the last nine years.

r. The impact of the stipulated rate increase on the average residential customer, exclusive of other rate adjustments that will occur on or shortly before the effective date of rates herein, is \$30 a year or \$2.50 a month. Approximately 45% of this increase is for an increase in fixed gas costs which Piedmont is statutorily entitled to recover.³

s. A recent adjustment to Piedmont's Margin Decoupling Tracker (MDT) mechanism rate increment and a prospective adjustment in Piedmont's fixed gas costs, as well as a potential adjustment in Piedmont's Benchmark, will more than offset, by as much as \$50 a year for an average residential customer, the impact of the stipulated rate increase.

t. Unchallenged evidence presented at the hearing of this matter indicates that the overall economic climate in North Carolina (and nationally) is improving, including data and projections from reliable sources that in the few months before the hearing in this matter: (i) initial jobless claims were declining; (ii) consumer confidence was improving; (iii) projected job growth was improving; (iv) real disposable income was increasing; (v) private wages and salaries were increasing; (vi) personal savings as a percentage of disposable income were increasing; (vii) personal spending for consumption was increasing; (viii) the rate of late payments on credit card debt was improving; (ix) North Carolina exports were materially increasing; (x) construction starts were improving; (xi) business investing was improving; (xii) multiple additional businesses announced plans to either move to North Carolina or to expand jobs in the State; (xiii) housing prices increased; and (xiv) the North Carolina economy was expected to generate 86,000 new jobs in 2014.

³ N.C. Gen. Stat. 62-133.4.

u. The characteristics of North Carolina households are similar to the United States as a whole with some minor distinctions.

v. Piedmont is engaging in a very significant capital construction program during the next 3 years, much of which relates to the Company's integrity management programs in compliance with federal regulations to enhance the safety and integrity of its natural gas transmission facilities.

w. Access to capital at reasonable rates is critical to Piedmont's ability to fund its capital construction program.

x. Establishing an allowed rate of return on common equity at a rate below 10.0% could pose a threat to Piedmont's ability to access both debt and equity capital on reasonable terms.

y. The 10.0% return on equity and the 50.66% equity financing approved by the Commission in this case results in a cost of capital that, within the context of the Stipulation, will enable Piedmont by sound management to produce a fair return for its shareholders, considering changing economic conditions, and is reasonable and fair to Piedmont's customers. It appropriately balances Piedmont's need to obtain equity financing and maintain a strong credit rating with its customers' need to pay the lowest possible rates.

Throughput

21. For the purpose of this proceeding, the appropriate level of adjusted sales and transportation volumes is 128,818,548 dekatherms (dts), which is comprised of 66,294,712 dts of sales quantities and 62,523,836 dts of transportation quantities. The total throughput, including electric generation and special contract quantities, is 289,955,054 dts. The appropriate level for company use and lost and unaccounted for gas is 2,447,552 dts, and the appropriate level of purchased gas supply is 68,742,264 dts consisting of sales volumes, company use and lost and unaccounted for gas.

Cost of Gas

22. The total cost of gas reasonable and appropriate for use in this proceeding is \$418,904,994, as described in Paragraph 4 and on Exhibit I to the Stipulation and consisting of \$299,642,527 in commodity costs, \$11,013,986 in company use and lost and unaccounted for costs, and \$108,248,481 in fixed gas costs.

23. The Benchmark reasonable and appropriate for use in this proceeding is the Company's current Benchmark of \$4.50/dt, subject to any filed changes in such rate prior to implementation of revised rates in accordance with this order.

24. The fixed gas costs that should be embedded in the proposed rates and used in true-ups of fixed gas costs for periods subsequent to January 1, 2014, in

proceedings under Commission Rule R1-17(k), subject to any filed changes in such costs prior to January 1, 2014, are those derived from the fixed gas cost allocation percentages discussed in Paragraph 8 and set forth in Exhibit D to the Stipulation.

Rate Design

25. The rate design and rates, including volumetric rates, fixed monthly charges, demand charges, and other charges, as described in Paragraph 7 of the Stipulation and reflected in the column shown as "Proposed Rates (\$/DT)" on Exhibit C of the Stipulation (as the same may be adjusted for any changes in the Company's Benchmark or changes in Demand and Storage Charges prior to the effective date of the revised rates), comprised, in part, of the rate elements set forth on Exhibit K to the Stipulation, are just and reasonable and appropriate for use in this docket. Similarly, the percentage increases by customer class that result from the rates design aforementioned and shown on Exhibit J are also just and reasonable.

Integrity Management Rider

26. The Integrity Management Rider (IMR) attached to the Stipulation as Exhibit F is reasonable and appropriate and consistent with G.S. 62-133.7A, and should be approved and implemented as provided in Paragraph 9 of the Stipulation.

Margin Decoupling Factors

27. 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 mechanism and should be approved.

Amortization of Deferred Assets

28. The quantification and amortization of certain deferred assets, including Pipeline Integrity Management (PIM) operating and maintenance (O&M) costs, EasternNC O&M costs, environmental assessment and clean-up O&M costs, Robeson Liquefied Natural Gas (LNG) development costs, and NCNG OPEB (Other Post-Employment Benefits) costs, all as set forth and described in Paragraph 11 of the Stipulation, is reasonable and appropriate and should be approved.

Implementation of State Tax Changes

29. The proposed process for modification of Piedmont's rates to make appropriate adjustments to Piedmont's rates for the effect of pending reductions in North Carolina corporate income tax rates reflected in North Carolina Session Law 2013-316 (House Bill 998), and as set forth in Paragraph 22 of the Stipulation, is reasonable and appropriate and should be approved.

Depreciation Rates

30. The change in depreciation rates for the Company agreed to in the Stipulation and previously filed in Docket No. G-9, Sub 77G is reasonable and appropriate and should be approved effective January 1, 2014.

Changes to Rate Schedules and Service Regulations

31. The changes to the Company's Rate Schedules and Service Regulations reflected in Exhibits G and H to the Stipulation, and the margin loss mitigation plan as described in Paragraph 30 of the Stipulation, are reasonable and appropriate and should be approved.

Gas Technology Institute Research Funding

32. The proposed additional funding of GTI research and development activities of \$340,000 per year, as discussed in Paragraph 25 of the Stipulation, is reasonable and appropriate and should be approved.

Miscellaneous Matters

33. The various agreements between the Company, the Public Staff and CUCA, reflected in paragraphs 4.C., 26, 27, 28, and 31 of the Stipulation as to accounting conventions and practices relative to (i) the Company's gas cost deferred accounts, (ii) the filing of tariff revisions related to vehicular natural gas service, (iii) a possible filing for a change in the Company's Benchmark Commodity Cost of Gas, and (iv) the implementation schedule for the Public Staff to conduct the investigation of Piedmont required pursuant to Docket No. M-100, Sub 113A, are each reasonable and appropriate and should be approved.

34. 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.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 1 - 5

The evidence supporting these findings 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. These findings are essentially jurisdictional and procedural in nature and are based on uncontested evidence.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 6 - 7

The evidence supporting these findings is contained in the Petition, the Direct Testimony of Piedmont witness Powers and the Stipulation.

In its Petition, the Company utilized a test period of the 12 months ended February 28, 2013 in presenting its application and exhibits for the requested rate increase. This test period was confirmed in the Direct Testimony of Piedmont witness Powers who indicated that, consistent with North Carolina statutory requirements and the Commission's Rules, the Company had based its Petition on the 12 month period ended February 28, 2013. In its June 27, 2013 Order, the Commission ordered the parties to use a test period consisting of the 12 months ended February 28, 2013, with appropriate adjustments. The Stipulation is based upon the test period ordered by the Commission, with appropriate adjustments in some cases, and this test period was not contested by any party. In the Stipulation, the Stipulating Parties agreed to make appropriate adjustments to the test period data for circumstances occurring or becoming known through February 28, 2013, or thereafter. No party introduced evidence supporting an alternative test period or opposing the use of the 12 months ended February 28, 2013, with appropriate adjustments, as the appropriate test period in this case.

Based upon the unopposed evidence, the Commission concludes that the 12 months ended February 28, 2013, with appropriate adjustments, is the appropriate test period for use in this proceeding.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 8 - 9

The evidence supporting these findings consists of the Stipulation, the Supplemental Testimony of Company witness Carpenter, and the representations of the parties to the Commission regarding the Stipulation.

In his Supplemental Testimony, Company witness Carpenter describes an extensive audit and negotiation process between the Company, the Public Staff, and CUCA with respect to the Company's filed case, which ultimately led to the willingness of the Company, the Public Staff and CUCA to join the Stipulation. According to Piedmont witness Carpenter, as part of this process, the Company responded to approximately 350 questions from the Public Staff in 28 separate sets of data requests and participated in a multi-day onsite audit of the Company's filing. The Company also responded to multiple data requests from CUCA and the Attorney General, copies of which were provided to each of the Stipulating Parties at the time they were provided to the party initiating such data requests. Following this process, according to Mr. Carpenter, the Company, the Public Staff and CUCA engaged in difficult settlement negotiations for roughly a week before a settlement in principle was reached. The Stipulation was filed on October 4, 2013, and states that it is filed on behalf of Piedmont, the Public Staff, and CUCA and resolves all issues between those parties in the case.

On October 10, 2013, counsel for the Municipal Intervenors made a filing with the Commission in which he indicated that "the Municipal Intervenors do not object to the terms and provisions set forth in the Stipulation filed by Piedmont in this docket on October 4, 2013."

No party filed a formal statement or testimony indicating opposition to the Stipulation, however, the Attorney General did pursue cross-examination of Company witness Dr. Murry at the hearing of this matter on issues related to the appropriate rate of return on common equity for use in this proceeding.

The Stipulation is binding as between Piedmont, the Public Staff and CUCA, and conditionally resolves all matters in this case as between those three parties. The Municipal Intervenors have indicated that they do not oppose the Stipulation and the Fayetteville Power Commission has not taken a position before the Commission with respect to the Stipulation. Through the end of the evidentiary process, the Attorney General has neither approved nor overtly disapproved of the settlement reflected in the terms of the Stipulation. These constitute all parties to this proceeding.

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 the evidence presented that the Stipulation was entered into by the stipulating parties after full discovery and extensive negotiations and represents a proposed negotiated resolution of the matters in dispute in this docket that is supported, or not opposed, by all parties except the Attorney General.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 10 - 12

These findings are supported by the Petition, the Direct Testimony and Exhibits of Company witness Powers, the Direct and Supplemental Testimony and Exhibits of Company witness Carpenter, and the Stipulation.

Schedule 7 to Exhibit__ (PKP-1), attached to the Direct Testimony of Company witness Powers, indicates that the Company filed for a total revenue increase in this proceeding of \$79,826,196, consisting of \$66,202,716 in increased margin and \$13,623,480 in increased fixed gas costs. Ms. Powers explained the various components of this revenue increase request in her Direct Testimony.

The Stipulation, in Paragraph 6, indicates that pursuant to the agreement of the Stipulating Parties the Company should be allowed to increase its revenues by \$30,658,314, consisting of \$16,808,751 in increased margin, \$13,781,445 in increased fixed gas costs, and \$68,118 in increased commodity gas costs. This increase in revenues is further reflected in the Supplemental Testimony of Company witness

Carpenter and in his Supplemental Exhibit__(DRC-1) detailing the adjustments to Piedmont's filed case reflected in the Stipulation. In his Supplemental Testimony, Mr. Carpenter described the process through which the reductions in Piedmont's filed-for revenue increase were agreed to and also testified that the revenue and non-revenue matters resolved by the Stipulation, including the adjusted proposed revenue increase, were "very well informed and easily within the range of reason." He also noted that the stipulated revenue increase was only 38% of the requested increase and that the total adjusted revenue increase recommended in the Stipulation represented a cumulative increase in revenues of only 3.58% since the effective date of rates in Piedmont's last general rate proceeding in 2008. Spread over the five-year period since Piedmont's last rate case, the rate increase proposed for approval in the Stipulation is well below the overall inflation rate for the same period. Mr. Carpenter further testified that the stipulated resolution of this case would lead to only a small increase in average residential customer rates of roughly \$30 per year (or \$2.50 a month) which would be more than offset by pending decreases to various components of Piedmont's rates including its MDT increment, its Benchmark and its fixed gas costs. Mr. Carpenter also noted that roughly 45% of the stipulated revenue increase was attributable to an increase in fixed gas costs, which are a flow-through item of expense that does not benefit Piedmont. Mr. Carpenter further testified that the resulting net decrease in customer rates at the time the stipulated revenue increase would go into effect was fair, just and reasonable to all of Piedmont's customers. Mr. Carpenter's testimony has not been challenged by any party and no party has submitted other evidence on this issue.

Based upon the evidence recited above and the cumulative testimony and evidence supporting the individual components of the stipulated revenue increase discussed throughout this Order, including the discussion and analysis related to the proper rate of overall return and return on common equity for use in this proceeding, the Commission finds, in the exercise of its independent judgment, that the stipulated revenue increase in this case is just, reasonable, and appropriate for ratepayers, the Company, and its shareholders.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 13

The evidence supporting this finding is contained in Schedule 7 of Exhibit__(PKP-1) to the Direct Testimony of Company witness Powers, the Stipulation and the Supplemental Testimony of Company witness Carpenter.

In its initial filing, as reflected in Schedule 7 to Exhibit__(PKP-1), Piedmont proposed the use of original cost rate base of \$3,246,683,144, accumulated depreciation of \$1,041,287,233, working capital of \$179,902,052, and Accumulated Deferred Income Taxes (ADIT) of \$473,326,437. In Paragraph 5 and Exhibit A of the Stipulation, the Stipulating Parties agreed that the reasonable 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 public within North Carolina was \$3,171,029,577, and that the portion of that cost that had been consumed by depreciation expense was \$1,032,491,554. The Stipulating Parties further agreed

that an appropriate allowance for working capital was \$157,022,359, including the adjustments described in Paragraph 16 of the Stipulation, and that ADIT amounted to \$473,326,437. No other party presented evidence on these matters.

The amounts shown on Exhibit A to the Stipulation are the result of negotiated adjustments to the Company's filed position and were agreed to by the Stipulating Parties in this docket, as described in the Stipulation and the Supplemental Testimony of Company witness Carpenter, and are not opposed by any party. The stipulated amounts attributable to the reasonable 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 service to the public plus an allowance for working capital and less depreciation expense and Accumulated Deferred Income Taxes, is not contested by any party.

The Commission has carefully reviewed these amounts, as well as all record evidence relating to the Company's rate base, which collectively constitute the only evidence in this docket regarding the Company's rate base and concludes that the stipulated amounts are appropriate for use in this docket.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 14 - 15

The evidence supporting these findings is set forth in the Stipulation and the Supplemental Testimony of Company witnesses Newlin, Carpenter, and Dr. Murry.

The end of test period pro forma revenues under the Company's present and stipulated proposed rates are set forth in Paragraph 6 and Exhibit A to the Stipulation and reflected on Schedule 1 hereto. 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 Supplemental Testimony of Company witness Carpenter. The Stipulated pro forma revenues represent a reduction of almost \$50 million dollars from the revenues proposed by Piedmont in its Petition. No other party submitted evidence on the Company's pro forma revenues, and the stipulated pro forma revenues are not challenged by any party.

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

The Company's reasonable operating expenses, including actual investment currently consumed through reasonable actual depreciation, is set forth in Paragraph 6 and Exhibit A to the Stipulation and reflected on Schedule 1 hereto. This amount includes individual adjustments described in Paragraphs 12 through 21 of the Stipulation and in the Supplemental Testimony of Company witness Carpenter. These adjustments, as described by the Stipulation or Mr. Carpenter, include: (i) an allocation

of \$687,000 in executive compensation to non-utility operations and equity investments; (ii) a downward adjustment of \$1,567,890 in the Company's payroll and benefits expense to reflect an annualized going-level expense at August 31, 2013; (iii) a downward adjustment to corporate office overhead allocated to North Carolina of \$1,898,493; (iv) a downward adjustment to property taxes of \$2,972,072 reflecting the resolution of a property tax dispute between the Company and the North Carolina Department of Revenue that was pending at the time Piedmont's Petition was filed; (v) a downward adjustment of \$1,749,394 in the Company's Operations and Maintenance (O&M) expense attributable to an increased allocation of O&M expense to non-utility businesses; (vi) a downward adjustment in pension expense of \$2,782,883; (vii) a downward adjustment to non-gas uncollectibles expense of \$130,760; (viii) an upward adjustment of \$86,434 to regulatory fee expense attributable to the increase in Piedmont's regulatory fee ratio effective July 1, 2013; and (ix) a downward adjustment to Piedmont's annual amortized rate case expense amount of \$140,327.

The amounts shown on Exhibit A to the Stipulation, including the adjustments described in Paragraphs 12 through 21 of the Stipulation, are the result of negotiations among the Stipulating Parties in this docket, as described in the Stipulation and the Supplemental Testimony of Company witness Carpenter. 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 these amounts, as well as all record evidence relating to the Company's reasonable operating expenses, and concludes that the stipulated reasonable operating expenses, including actual investment currently consumed through reasonable actual depreciation and the adjustments reflected in Paragraphs 12 through 21 of the Stipulation, are appropriate for use in this docket.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 16

The evidence for this finding is contained in the prefiled Direct and Supplemental testimony of Company witness Newlin and the Stipulation.

In the Petition, and as explained by Piedmont witness Newlin in his Direct Testimony, the Company filed its case utilizing a capital structure consisting of its actual equity and long-term debt as of February 28, 2013, updated for known and measurable changes through December 31, 2013. The equity and long-term debt components of the Company's capital structure calculated in this manner were 50.7% common equity and 46.5% long-term debt. For short-term debt, the Company proposed to utilize a 13-month average of its gas inventory as a proxy, consistent with long-standing practice in prior rate case proceedings, which resulted in a short-term debt component of the Company's capital structure of 2.8%. According to Mr. Newlin, for the cost of long-term debt, the Company used 5.18% -- the Company's actual embedded long-term debt cost as of February 28, 2013 -- adjusted for both an anticipated \$300 million long-term debt issuance later this year and the elimination of \$100 million in currently outstanding long-term debt coming due in December 2013. For short-term debt cost, Mr. Newlin

explained that the Company used the actual cost of short-term debt incurred by the Company for the 12 months ended February 28, 2013 of 0.62%.

In the Stipulation, in Paragraph 6, the Stipulating Parties agreed that the capital structure appropriate for use in this proceeding was 50.66% common equity, 46.52% long-term debt, and 2.82% short-term debt. This is essentially identical to the capital structure proposed by the Company in its Petition. For the cost of long-term debt, the Stipulating Parties used 5.23% and for the cost of short-term debt, the Stipulating Parties agreed to use 0.53%.

Mr. Newlin's testimony as to the Company's capital structure was not challenged and no other party submitted testimony on the issue of the appropriate capital structure for the Company.

Based upon the evidence described above and the record in this docket as a whole, the Commission concludes that the stipulated capital structure and costs of long-term and short-term debt are fair and reasonable, and appropriate for use in this proceeding.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 17 - 20

The evidence supporting these findings is contained in the Petition, the prefiled Direct and Supplemental Testimony and Exhibits of Company witnesses Newlin and Dr. Murry, the hearing testimony of Company witnesses Carpenter and Dr. Murry, and the Stipulation. No other party submitted evidence on the appropriate overall rate of return on rate base ("ROR" or "Overall Return") or allowed rate of return on common equity appropriate for use in this proceeding.

Based upon the evidence and legal analysis set forth below, the Commission concludes, on the basis of its own independent analysis, that the stipulated allowed rate of return on common equity of 10.0% proposed in the Stipulation in this proceeding and the resulting stipulated overall rate of return on rate base of 7.51%, are just, reasonable, and fair to the Company, its shareholders and its customers and that such rates of return are fully consistent with the requirements of North Carolina law governing the establishment of public utility rates of overall return and returns on common equity.

Summary of the Evidence on Return

Piedmont's existing allowed rate of return on common equity, established by the Commission in 2008 in Docket No. G-9, Sub 550, is 10.6%.⁴ Its existing approved overall rate of return on rate base is 8.55%. In its Petition, Piedmont proposed that the allowed rate of return on common equity in this proceeding be established at 11.3%. This proposed rate of return on common equity, in conjunction with the other elements

⁴ See Order Approving Partial Rate Increase and Requiring Conservation Program Filing and Reporting, Docket No. G-9, Sub 550 (October 24, 2008).

of the Company's proposed capital structure, resulted in a proposed overall rate of return on rate base for the Company of 8.15%.

Piedmont's original return on common equity request was supported by the Direct Testimony and Exhibits of Piedmont witnesses Newlin and Dr. Murry. Dr. Murry, a Professor Emeritus of Economics at the University of Oklahoma and a Vice President of the economic consulting firm C.H. Guernsey & Company, served as Piedmont's cost of capital witness and provided the econometric analysis underlying Piedmont's return on common equity request of 11.3%. Dr. Murry's Direct Testimony and Exhibit documents the specific econometric analyses he conducted in support of Piedmont's rate filing and provides a detailed description of the results of his analyses and resulting cost of capital recommendations. According to Dr. Murry, his analyses started with accepting the Company's proposed capital structure of 50.7% common equity, 46.5% long-term debt, and 2.8% short term debt with long- and short-term debt costs of 5.18% and 0.62% respectively. Dr. Murry then studied the current and near-term credit and equities markets, the associated current financial statistics, current and forecasted gas distribution utility common stock earnings, and market-based measures of return on common stock. Like most cost of capital witnesses, Dr. Murry conducted a discounted cash-flow (DCF) analysis of Piedmont and a group of 8 comparable companies and also conducted a Capital Asset Pricing Model (CAPM) analysis, both of which were designed to provide a quantitative basis for his ultimate determination of Piedmont's cost of capital.

According to Dr. Murry, the results of his DCF analysis were a 9.14% cost of common equity for Piedmont and a comparable company average cost of common equity of 10.56% (with a range of 8.0% to 13.76%). Dr. Murry cautioned that these mathematical DCF results were low in his opinion due to the marginal cost nature of the DCF methodology and also indicated that the results required interpretation due to the impact of the then current volatility in the equities markets (and the impact of that volatility on the factors utilized to conduct his DCF analysis). The results of Dr. Murry's CAPM analysis showed a cost of common equity for Piedmont of 11.8% and a comparable company average of 12.13%. Dr. Murry also indicated that the *Value Line* estimated return on common equity for Piedmont for 2013 was 11.0% and that it projected that this rate of return on common equity would remain consistent into at least 2016. The estimated Value Line average return on equity for Dr. Murry's comparable companies is 10.2%.

Based on his interpretation of these analyses, the state of the markets, investor expectations, and other econometric factors and analyses, Dr. Murry indicated his opinion that the proper cost of capital for Piedmont was between 11.0% to 11.5% and that his recommendation was 11.3%. Dr. Murry then confirmed the reasonableness of his recommended cost of capital using an after-tax interest coverage (ATIC) analysis. Dr. Murry also clarified that this recommended allowed rate of return on common equity for Piedmont would result in an overall return on rate base of 8.15%.

Piedmont's Senior Vice President and Chief Financial Officer, Karl Newlin, in his Direct Testimony supported all the elements of Piedmont's proposed capital structure other than the cost of common equity. Mr. Newlin also provided the Commission with an overview of the unsettled state of the capital markets in which the Company was competing for debt and equity capital and explained the importance and significance of the Commission's ultimate allowed rate of return on common equity in this proceeding to the Company's ability to compete for and obtain adequate access to debt and equity capital on reasonable terms. Mr. Newlin stressed that obtaining access to such capital was critical for the Company as a result of the significant capital investment budget of the Company related to system pipeline integrity compliance related projects in the next several years. Finally, Mr. Newlin testified that the proposed allowed return on common equity of 11.3% was fair and reasonable to Piedmont's customers in light of current and changing economic conditions. Mr. Newlin's assessment in this regard was based upon a number of factors, including (1) the substantial economic and job benefits that will result from Piedmont's pending capital investments in integrity related projects, (2) the approximate \$170 dollar reduction in annual customer bills resulting from Piedmont's filed case in this proceeding when compared to annual customer bills resulting from Piedmont's last rate case, (3) the relatively modest level of annual rate increase sought by Piedmont's filed case in comparison to the inflation rate during the period since Piedmont's last rate case, (4) the significant reduction in Piedmont's overall rate of return in its filed case compared to the overall return approved in its last rate case, and (5) the relatively modest monthly impact on customers of the proposed rate increase.

Following settlement negotiations between Piedmont, the Public Staff, and CUCA, as is reflected in Paragraph 6 of the Stipulation, the Stipulating Parties propose an allowed rate of return on common equity for the Company of 10.0% and a corresponding overall rate of return on rate base of 7.51%. In the Stipulation, these parties agreed that the proposed return on common equity of 10.0%:

is deemed by each Stipulating Party to be a reasonable rate of return on common equity that will provide the Company with a reasonable opportunity, by sound management, to produce a fair return for its shareholders, considering changing economic conditions and other factors, to maintain its facilities and services in accordance with the reasonable requirements of its customers in the territory covered by its franchise, and to compete in the market for capital funds on terms that are fair to its customers and to its existing investors.

Stipulation at ¶ 6.D. The Stipulation further provides that "[e]ach of the Stipulating Parties . . . agrees that such agreed rate of return on common equity, together with the agreed capital structure and adjustments to the Company's rate base and operating expenses, results in a revenue requirement that is just and reasonable to the Company's customers in light of changing economic conditions." *Id.*

The overall return on rate base and the proposed allowed rate of return on common equity set forth in the Stipulation were supported by the Supplemental

Testimony of Piedmont witnesses Dr. Murry and Newlin and by the hearing testimony of Piedmont witness Carpenter. In his Supplemental Testimony, Dr. Murry updated the results of his cost of capital analysis and indicated that while an allowed rate of return on common equity of 10.0% was 50 basis points below his original cost of capital range for Piedmont of 10.5% to 11.5%, changes in the capital markets had caused a 50 basis point decline in the cost of capital for comparable natural gas distribution utilities since his Direct Testimony was filed. Based on this updated analysis, Dr. Murry indicated that a return on common equity of 10.0% was at the bottom of his updated range but should be adequate under favorable future market conditions. Dr. Murry then performed an ATIC analysis to confirm his opinion. That analysis showed a lower after-tax interest coverage than in his prior analysis but one that was within the range of the ATIC values for his comparable companies. Based on this fact, Dr. Murry concluded that “many Piedmont common stock investors would view the 10 percent return on common equity as low, but adequate, for Piedmont.”

Dr. Murry also noted the context for his analysis of the adequacy of a 10.0% return on common equity for Piedmont and specifically noted that this allowed rate of return on common equity was the result of a negotiated settlement in which many issues were addressed and resolved. He ultimately concluded that the “proposed settlement ROE of 10 percent is adequate, with very little margin for error, for Piedmont at this time.”

In support of his conclusions, Dr. Murry also undertook an analysis of contextual factors relative to a return on common equity for Piedmont of 10.0%. In his analysis, Dr. Murry indicated that North Carolina households have similar characteristics to the nation as a whole, that current economic indicators are that the North Carolina economy is improving and growing, and that Piedmont’s overall cost of capital (i.e. its overall return on rate base) was decreased significantly in the Stipulation (and that this was a significant benefit to customers).

In his Supplemental Testimony, Company witness Newlin testified that the stipulated rate of return on common equity was at the low end of what could be determined to be reasonable for Piedmont but that it was one component of an overall settlement of the case that each of the Stipulating Parties found to be reasonable. Mr. Newlin then identified a number of factors that he believed indicated that the stipulated return on common equity was, in fact, very reasonable on a contextual basis. First, Mr. Newlin indicated that the stipulated return on common equity was 60 basis points below Piedmont’s current allowed return on common equity and 130 basis points below Piedmont’s requested return on common equity in this docket. Mr. Newlin also noted that the stipulated return on common equity was 20 basis points lower than Piedmont’s allowed rate of return on common equity in Tennessee and 130 basis points below Piedmont’s allowed return on common equity in South Carolina. With respect to North Carolina, Mr. Newlin indicated that the stipulated return on common equity was below the current allowed return on common equity for any other major gas or electric utility in North Carolina and that it was also below the average return on common equity approved for natural gas distribution companies in the southeastern United States

(10.23%) since 2010. According to Mr. Newlin, all of these facts are indicators of the reasonableness of the stipulated return on common equity.

Mr. Newlin also testified that the average annual residential bill resulting from the Stipulation would be approximately \$740 and that this was lower than the average annual residential bill paid by Piedmont customers in eight of the last nine years.

Finally, Mr. Newlin confirmed that the overall rate of return on rate base resulting from the stipulated capital structure and rate of return on common equity was 7.51%, which is well below the 8.55% overall rate of return on rate base underlying Piedmont's current rates.

At the hearing of this matter, Mr. Carpenter testified to several matters relating to the Stipulation and its ultimate impact on customers. First, Mr. Carpenter indicated that the impact of the stipulated rate increase on residential customers would be approximately \$30 a year (roughly 45% of which will be for fixed gas cost recovery). Second, Mr. Carpenter indicated that the relatively small rate increase provided for under the settlement would be more than offset by other pending changes to Piedmont's rates. These changes included a pending reduction of \$9 million a year in Piedmont's fixed gas costs under an uncontested settlement of a Transcontinental Gas Pipe Line Company, LLC (Transco) rate case awaiting approval at the Federal Energy Regulatory Commission (FERC). The net impact of this change will be a reduction in residential customer bills of approximately \$10 a year. Mr. Carpenter also indicated that a reduction in the rates charged to customers under Piedmont's Margin Decoupling Tracker mechanism in Docket No. G-9, Sub 635, effective November 1, 2013, would reduce average residential customers bills by another \$40 a year. Finally, a Benchmark change that Piedmont conditionally committed to make in the Stipulation of \$0.50/dt would further reduce average annual residential customer bills by approximately \$30. The net impact on customers of these three rate changes of approximately \$80 and the stipulated increase in rates of approximately \$30 is a savings of approximately \$50 a year for the average residential customer over existing rates.

No other party presented evidence on the Company's cost of capital or overall rate of return on rate base.

Legal Standards Applicable to Rate of Return Findings by the Commission

The Commission's analysis of and decision on rate of return on rate base and allowed rate of return on common equity in this case is governed by the United States Supreme Court's Hope and Bluefield decisions,⁵ the requirements of G.S. 62-133, and the North Carolina Supreme Court decisions interpreting and applying each of the foregoing to rate of return decisions by the Commission.

⁵ Federal Power Comm'n v. Hope Natural Gas Co., 320 U.S. 591 (1944); Bluefield Waterworks & Imp. Co. v. Public Service Comm'n of W. Va., 262 U.S. 679 (1923).

In Bluefield, the US Supreme Court established the basic framework for rate of return regulation of public utilities. On this subject, the Court held that:

A public utility is entitled to such rates as will permit it to earn a return on the value of the property which it employs for the convenience of the public equal to that generally being made at the same time and in the same general part of the country on investments in other business undertakings which are attended by corresponding risks and uncertainties; . . . The return should be reasonably sufficient to assure confidence in the financial soundness of the utility and should be adequate, under efficient and economical management, to maintain and support its credit and enable it to raise the money necessary for the proper discharge of its public duties.

Bluefield, 262 U.S. at 692-93. In the subsequent Hope decision, the Court expanded on its analysis by stating:

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. These include service on the debt and dividends on the stock. By that standard the return to the equity owner should be commensurate with the returns on investments in other enterprises having corresponding risks. That return, moreover, should be sufficient to assure confidence in the financial integrity of the enterprise, so as to maintain its credit and to attract capital.

Hope, 320 U.S. at 603. The Court succinctly reiterated the Hope and Bluefield standards in its subsequent decision in Permian Basin Area Rate Cases, 390 U.S. 747, 792 (1968), where it held that a regulatory rate of return order should “reasonably be expected to maintain financial integrity, attract necessary capital and fairly compensate investors for the risks they have assumed . . .”

These principles have been found to be consistent with and applicable to public utility return decisions by this Commission, State ex rel. Utilities Comm’n v. General Telephone Co. of the Southeast, 285 N.C. 671, 208 S.E. 2d 681 (1974), and a failure to abide by the minimum standards of Hope and Bluefield, and their progeny, in setting a public utility return on common equity constitutes an unconstitutional taking.

Minimum constitutional requirements aside, G.S. 62-133 provides the legislative framework for Commission decisions on public utility rates. This statute provides a formula for the determination of such rates which includes a determination of the utility’s rate base, its operating expenses and return. With respect to the question of return, G.S. 62-133(b)(4) provides that the Commission shall:

Fix such rate of return on the cost of the property ascertained pursuant to subdivision (1) of this subsection as will enable the public utility by sound

management to produce a fair return for its shareholders, considering changing economic conditions and other factors, . . . as they then exist, to maintain its facilities and services in accordance with the reasonable requirements of its customers in the territory covered by its franchise, and to compete in the market for capital funds on terms that are reasonable and that are fair to its customers and to its existing investors.

N.C. Gen. Stat. 62-133(b)(4) (2013). It is important to note that G.S. 62-133(b)(4) establishes the statutory criteria for determining an overall rate of return on rate base rather than the narrower determination of a specific rate of return on common equity, which is simply a component part of the overall return allowed to the utility.⁶

In interpreting and applying this statutory directive for the establishment of an adequate, and constitutionally permissible, rate of return for North Carolina public utilities, our Supreme Court has established a number of corollary or clarifying principles.

First, the North Carolina Supreme Court has determined (as noted above) that the enumerated statutory factors are consistent with the requirements of Hope and Bluefield and that these factors comprise “the test of a fair rate of return” under those decisions. State ex rel. Utilities Comm’n v. General Tel. Co., 281 N.C. 318, 370, 189 S.E.2d 705, 738 (1972). This determination establishes that there is no gap between the requirements of the United States Constitution as interpreted by the United States Supreme Court and the requirements of G.S. 62-133(b)(4) with respect to the determination of the appropriate overall return on rate base to be used in establishing utility rates.

⁶ With regard to determining return on common equity, the United States Supreme Court has determined that return on common equity is a cost of providing utility service that is differentiated from other types of costs only by the fact that it is a cost established through the use of subjective judgment by regulators. Missouri ex rel. Southwestern Bell Tel. Co. v. Pub. Serv. Comm’n, 262 U.S. 276 (1923). In Southwestern Bell, Justice Brandeis compared return on common equity to other types of utility costs such as operating expenses, depreciation, and taxes and noted:

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.

Southwestern Bell, 262 U.S. at 306.

Second, the North Carolina Supreme Court has made clear its understanding that the process of determining the appropriate allowed rate of return on common equity in utility rate cases is one that involves the exercise of discretion by the Commission.

Under N.C.G.S. § 62-133 the determination of what is a fair rate of return requires the exercise of subjective judgment. Utilities Commission v. Duke Power Co., 305 N.C. at 23, 287 S.E.2d at 799; see Utilities Comm. v. Telephone Co., 298 N.C. 162, 178, 257 S.E.2d 623, 634 (1979); cf. J.C. Bonright, A.L. Danielson & D.R. Kamerschen, Principles of Public Utility Rates 317 (1988) (describing the highly judgmental aspect of determining the cost of equity capital); C.F. Phillips, Jr., The Regulation of Public Utilities 363-64 (noting the difficulty in estimating the cost of equity capital and recognizing that estimates vary significantly).

State ex rel. Utilities Comm'n v. Public Staff, 323 N.C. 481, 490-91, 374 S.E.2d 361, 366 (1988). It has also recognized the corollary principle that there may be a range of permissible rates of return on common equity that meet statutory and constitutional requirements. State ex rel. Utilities Comm'n v. General Tel. Co., 285 N.C. 671, 681, 208 S.E.2d 681 (1974).

Third, the North Carolina Supreme Court has determined that the provisions of G.S. 62-133 “effectively require the Commission to fix rates as low as may be reasonably consistent with the requirements of the Due Process Clause of the Fourteenth Amendment to the Constitution of the United States, those of the State Constitution, Art. I, § 19, being the same in this respect.” State ex rel. Utilities Comm'n v. Duke Power Co., 285 N.C. 377, 388, 206 S.E. 2d 269, 276 (1974). See also State ex rel. Utilities Comm'n v. Public Staff, 323 N.C. at 490, 374 S.E.2d at 366.

Fourth, in complying with the foregoing principles, the Commission must effectively use its judgment to balance between two competing factors, the economic conditions facing customers and the utility's need to attract equity financing in order to continue providing safe and reliable service. State ex rel. Utilities Comm'n v. Public Staff, 323 N.C. at 490, 374 S.E.2d at 366.

Finally, the North Carolina Supreme Court has established that:

Given the legislature's goal of balancing customer and investor interests, the customer-focused purpose of Chapter 62, and this Court's recognition that the Commission must consider all evidence presented by interested parties, which necessarily includes customers, it is apparent that customer interests cannot be measured only indirectly or treated as mere afterthoughts and that Chapter 62's ROE provisions cannot be read in isolation as only protecting public utilities and their shareholders. Instead, it is clear that the Commission must take customer interests into account when making an ROE determination. Therefore, we hold that in retail electric service rate cases the Commission must make findings of fact

regarding the impact of changing economic conditions on customers when determining the proper ROE for a public utility.

State ex rel. Utilities Comm'n. v. Cooper, ___ N.C. ___, 739 S.E. 2d 541, 548 (2013) (emphasis in original).⁷ Return on equity, also referred to as the cost of equity capital, is 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 settlement stipulation between the utility and the consumer advocate has been reached. In the absence of a settlement agreed to by all parties, the Commission must still exercise its independent judgment and arrive at its own independent conclusion as to all matters at issue, including return on equity. See, e.g., CUCA I, 348 N.C. at 466, 500 S.E.2d at 707. In order to reach an appropriate independent conclusion regarding return on equity, the Commission should evaluate the available evidence, particularly that presented by conflicting expert witnesses. State ex rel. Utils. Comm'n v. Attorney Gen. Roy Cooper, ___ N.C. ___, 739 S.E.2d 541, 546-47 (2013) (Cooper). In this case, the evidence relating to the Company's cost of equity capital was presented by the stipulating parties. No return on equity expert evidence was presented by any other party.

In addition to its evaluation of the expert evidence, the Commission must also make findings of fact regarding the impact of changing economic conditions on customers when determining the proper return on equity for a public utility. Cooper, ___ N.C. ___, 739 S.E.2d at 548. This is a requirement announced by the Supreme Court in its Cooper decision. One additional principle is applicable to the Commission's return analysis in this case and is driven by the nature of the parties final positions through the evidentiary hearing. These positions are a settlement among all active parties to this docket, other than the Attorney General, the terms of which are reflected in the Stipulation filed by the Company, the Public Staff and CUCA. Under established precedent, and as noted previously in this Order, 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 the evidence presented." Id.

⁷ The Cooper decision is, on its face, limited to electric utility rate cases. That being said, there does not appear to be any obvious distinction between an electric public utility and a natural gas public utility in terms of discerning the intent or application of G.S. 62-133, and, therefore, the Commission's analysis in this case includes consideration of the principles set forth in Cooper.

With these legal principles in mind, the Commission now turns to the analysis of the evidence in this proceeding relating to a determination of the appropriate overall rate of return on rate base and allowed return on common equity for use in this proceeding.

Analysis of the Evidence

The only evidence in this proceeding related to the determination of an overall rate of return on rate base or allowed rate of return on common equity is provided in the Stipulation and in the testimony and exhibits of Piedmont's witnesses Mr. Newlin, Mr. Carpenter, and Dr. Murry. Dr. Murry indicated in his Supplemental Testimony that based upon an updated cost of capital analysis of comparable companies at the time of the Stipulation, the reasonable cost of capital range for Piedmont was between 10.0% and 11.0%. Based on that analysis, he concluded that a stipulated rate of return on common equity of 10.0% was "adequate, with very little margin of error" for purposes of this case. He confirmed this conclusion by conducting an ATIC analysis. And while this range and specific return on common equity was lower than what Dr. Murry testified to in his Direct Testimony, he explained the basis for his adjusted range and his conclusion that 10.0% is an adequate return on common equity for Piedmont in his Supplemental Testimony. Dr. Murry also provided testimony in which he analyzed the stipulated level of return on common equity in the context of economic conditions facing Piedmont's customers. This analysis included a review of a number of economic statistics regarding the condition of the economy in North Carolina which indicated improving economic conditions and a review of the customer benefits of declining debt and equity costs since Piedmont's last general rate case. He also indicated that customers had been benefited during the same period by a decline in wholesale gas costs which resulted in a substantial reduction in average annual bills resulting from the Stipulation compared to average customer bills resulting from Piedmont's last general rate proceeding. Finally, Dr. Murry indicated his belief that because the stipulated return on common equity was at the low end of the constitutionally permissible range for Piedmont, it was responsive to any customer concerns regarding increased rates.

The Attorney General questioned Dr. Murry about several components of his analysis, but did not provide any affirmative evidence that would support a return on common equity lower than the 10.0% proposed in the Stipulation. In fact, when asked about the impact of a possibly lower return on common equity on customers, Dr. Murry indicated that the impact of a 10 basis point reduction (or increase) in return on common equity was only about \$0.12 per month. At best, the Attorney General's cross-examination established only that Dr. Murry could have, but did not, use a different short-term growth forecast for his CAPM analysis, reached a different conclusion on the appropriate return on common equity for Piedmont, etc. In each instance, Dr. Murry convincingly explained his reasoning for his calculations. The Commission finds Dr. Murry to be a credible witness in this case and accepts Dr. Murry's adjusted cost of capital range as probative evidence for purposes of establishing a return on common equity for Piedmont in this proceeding. The Commission notes that Dr. Murry's testimony is the only economic rate of return testimony in this case.

In his Supplemental Testimony, Mr. Newlin testified that the stipulated return on common equity was fair to customers because it was below a number of comparable levels of return on common equity applicable to Piedmont, to other natural gas distribution companies in the southeastern United States, and to other large investor-owned public utilities in North Carolina. Mr. Newlin also testified to the importance of the perception of reasonable regulatory treatment by the Commission to market analysts and, by extension, to the debt and equity markets as a whole. He also discussed the fact that while customers may not subjectively like rate increases, such increases are typically indicators of growth which typically puts downward pressure on customer costs over time and which produces many desirable impacts on the economy. As further evidence of the relative reasonableness of the stipulated result in this case, Mr. Newlin also explained that average annual residential bills resulting from the stipulated rate increase (\$740 a year) will be lower than actual annual residential customer bills for eight of the last nine years (\$756 to \$1,034). Mr. Newlin also indicated in his Supplemental Testimony that, subject to certain conditions, Piedmont has committed to reduce its Benchmark on the effective date of rates requested in this case and that this reduction will largely offset the margin increase granted to Piedmont in this case. Finally, Mr. Newlin cited numerous statistics from a variety of sources indicating an improved and improving economy in North Carolina as evidence that the 3.58% rate increase provided for in the Stipulation is fair and reasonable to customers.

As was noted above, Mr. Carpenter's hearing testimony included the discussion of several offsetting rate adjustments, two of which directly relate to matters integrated into the settlement rates, the net effect of which, when applied as an offset to the stipulated rate increase, will be a reduction to annual residential customer bills of as much as \$50.

The uncontested evidence presented by the Company in this case, which is the only evidence other than the Stipulation itself, clearly establishes a *prima facie* case supporting the justness and reasonableness of the Stipulation.

Unlike other recent rate cases before the Commission, there is no record evidence in this case establishing meaningful customer opposition to the stipulated overall rate of return on rate base of 7.51% or the stipulated rate of return on common equity of 10.0% or suggesting that the stipulated rates are either unfair or would cause substantial hardship to Piedmont's customers. Only a single public witness appeared and expressed concern over Piedmont's rate increase request at any of the four public hearings held to receive such public testimony. That witness, Mr. Gary Hopkins, appeared at the High Point public hearing and expressed general concern about the size of Piedmont's rate increase request. Mr. Hopkins testimony was clear that he himself would not have difficulty with paying the proposed increase but that he was concerned that some customers, particularly those living on fixed incomes, might have difficulty. Mr. Hopkins suggested that a "graduating increase," phased in over time, "wouldn't be quite so bad." Mr. Hopkins also indicated that he understood the need of public utilities to increase their rates from time to time in order to maintain reliable service and adequate infrastructure. This testimony is the only evidence in the record

that in any way challenges or objects to Piedmont's rate increase request.⁸ With respect to the testimony of Mr. Hopkins, the Commission would note that it related to the original rate increase request of Piedmont which sought an increase in residential rates in excess of 10%. The Commission appreciates and acknowledges the testimony of Mr. Hopkins, and echoes his concerns about the potential impact of the original rate increase sought by Piedmont on fixed-income customers. The Commission also recognizes, however, that Piedmont's original rate increase request is no longer before the Commission and has, instead, been replaced with the much more modest 3.58% increase reflected in the Stipulation. Piedmont witness Carpenter testified that, spread out over the period since the last rate case, the 3.58% increase is less than the overall rate of inflation. Furthermore, witness Carpenter testified that the impact of the stipulated increase on the residential ratepayer would be more than offset by pending decreases to various fixed gas costs. The Commission therefore concludes that it is not appropriate to phase in the rate increase in this docket.

The only other indications of consumer discontent with Piedmont's proposed rate increase in this case are a number of consumer "statement of position" letters in this proceeding which either questioned or objected to that rate increase request. With respect to these letters, the Commission notes that they do not satisfy the necessary criteria to be considered competent, material, or substantial evidence upon which the Commission would be entitled to rely in reaching a determination in this case. The Commission further notes, however, that based upon the timing of receipt and the contents of these letters it is clear that they relate, like Mr. Hopkins testimony, to Piedmont's original rate increase request rather than the substantially smaller stipulated rate increase. The Commission again notes that the approved rate increase when coupled with the other provisions of the stipulation will result in a decrease to Piedmont's customers' bills.

While the lack of substantive evidence of consumer opposition to Piedmont's stipulated rate increase provides no evidentiary basis upon which the Commission could reject the Stipulation, it does not relieve the Commission of its obligation to reach its own independent conclusion as to whether the Stipulation is just and reasonable, fair to customers, the Company and its shareholders in light of changing economic conditions, and otherwise sufficient to satisfy the requirements of G.S. 62-133. Further, even though the record evidence does not establish this fact with respect to any specific Piedmont customer, the Commission of its own experience acknowledges and accepts as true the proposition that some percentage of Piedmont's customers, particularly those living on fixed incomes, are economically vulnerable and may struggle to pay Piedmont's existing rates or any increase to those rates granted in this docket. Piedmont's own witnesses, Dr. Murry and Mr. Newlin acknowledge this reality in their testimony. Likewise, the Commission must keep this in mind as it undertakes to balance

⁸ Two other public witnesses, Mr. Jeffry Edge and Mr. Scott Satterfield, appeared at the Charlotte and Wilmington Public Hearings but both of these witnesses testified in support of the Company's request.

the interests of customers with the constitutional requirements of establishing adequate rates for Piedmont.

As noted above, the uncontested record evidence in this proceeding establishes a *prima facie* case supporting the legitimacy and reasonableness of the levels of return on rate base and allowed rate of return on common equity reflected in the Stipulation. In light of this fact, the question for the Commission becomes whether the Stipulation represents an appropriate balancing of the interests of customers, the Company, and shareholders, by establishing rates that are as low as may be reasonably consistent with the requirements of due process. As is explained below, the Commission concludes, based upon its own independent judgment, that the Stipulation satisfies the requirements of North Carolina law in this respect.

As an initial matter, it is clear from the testimony of both Mr. Newlin and Dr. Murry that both believe that the stipulated allowed rate of return on common equity of 10.0% is at the bottom of any reasonable range of possible returns and barely adequate to satisfy the requirements of G.S. 62 133(b)(4). Dr. Murry makes this clear in his Supplemental Testimony, stating that the “proposed settlement ROE of 10 percent is adequate, with very little margin for error, for Piedmont at this time.” Dr. Murry also indicates that this conclusion is based, in part, on the fact that the stipulated return on common equity was arrived at through a larger settlement of many issues in the rate case. Dr. Murry’s testimony similarly evinces the belief that the stipulated levels of return are not only as low as he could support but also beneficial to customers and responsive to customer concerns because they are as low as is constitutionally permissible. He also testified that any concern over increased rates should be effectively mitigated by decreases in the overall cost of capital since Piedmont’s last rate proceeding – a reduction of 60 basis points – and by substantially lowered commodity gas costs.

Mr. Newlin, indicated his belief that the stipulated return on common equity is imminently fair to customers largely by noting the fact that it is in all cases lower than: (1) Piedmont’s existing approved return on common equity in North Carolina, (2) Piedmont’s approved return on equities in South Carolina and Tennessee, (3) the return on common equities recently granted by the Commission to other major North Carolina utilities, and (4) the average return on common equities allowed to other gas distribution utilities in the southeastern United States since 2010. Mr. Newlin supplemented this conclusion with a discussion of the possible negative impacts on the Company’s ability to access both debt and equity at reasonable costs if the allowed return on common equity is set too low – i.e. below 10.0%.

Mr. Newlin also noted that Piedmont is embarking on a multi-year program to enhance and upgrade its facilities in compliance with federal pipeline safety and integrity requirements and that, as a result, access to capital at reasonable rates is a critical requirement of the Company. As an indicator of the reasonableness of the stipulated return and rate increase, Mr. Newlin also testified to a number of factors indicating that the stipulated rates are fair and reasonable and not harmful to customers in light of changing economic conditions. Included among these is the fact that annual

residential bills resulting from the Stipulation would be lower than actual annual customer bills in 8 of the last 9 years. Mr. Newlin also provided an extensive listing of economic data and analyses both current and projected which indicated substantial and ongoing improvement in the North Carolina economy.

Mr. Carpenter testified that on an annual basis, customers will see a significant reduction in the amounts they have to pay for natural gas service as the cumulative result of the rate case and other related rate changes to be effective on or before the effective date of rates requested in this case.

It is also significant to note that the Direct Testimony of Piedmont witnesses Gaglio, Newlin, and Carpenter establish that Piedmont is actively engaged in a significant capital investment program over the next few years driven by federal pipeline safety and integrity requirements and that access to capital on reasonable terms is critical to Piedmont in order to fund that investment.

No other evidence has been presented to the Commission on these issues.

The Commission has carefully reviewed the evidence presented on return and the resulting rates in this case and finds the following facts of particular significance to its analysis:

1. The rate of return on common equity reflected in the Stipulation is supported by competent, material and substantive evidence presented by Piedmont's witnesses Dr. Murry, Carpenter, and Newlin and by the Stipulation itself.
2. No other party submitted affirmative evidence supporting any alternative return on equity or overall rate of return on rate base.
3. No other party submitted evidence asserting or supporting the notion that the stipulated return on common equity or overall return is excessive.
4. The stipulated return on common equity of 10.0% is lower than:
 - a. Piedmont's existing allowed return on common equity of 10.6%.
 - b. Piedmont's existing allowed return on common equities in South Carolina (11.3%) and Tennessee (10.2%).
 - c. The allowed rates of return for all other significant electric and natural gas public utilities in North Carolina.
 - d. The average return on common equities allowed to other southeastern natural gas distribution company's (cited in Mr. Newlin's Supplemental Testimony) since 2010.
5. The overall rate of return on rate base of 7.51% is 104 basis points below the original rate of return on rate base approved in Piedmont's last general rate case.

6. The revenue increase proposed in the Stipulation represents a 3.58% increase from rates approved in 2008, or an annual increase of approximately 0.7% per year or \$30 per residential customer per year.
7. Approximately 45% of the rate increase provided for by the Stipulation is for an increase in Piedmont's fixed gas costs which Piedmont is statutorily entitled to recover and does not benefit Piedmont.
8. There is no evidence in the record of consumer objections to or the potential for consumer harm resulting from the stipulated rates or stipulated rates of return.
9. There is substantial evidence in the record supporting the notion that the economy of North Carolina is slowly but significantly improving and there is no evidence in the record indicating that this is not the case.
10. As a result of decreased commodity costs of gas, annual residential customer bills resulting from approval of the stipulated rates will be lower than the actual average annual residential customer bills paid by Piedmont's customers in 8 of the last 9 years and will be substantially lower than the annual bills resulting from Piedmont's last general rate case.
11. The stipulated rate increase will be more than offset by other contemporaneous downward adjustments in Piedmont's rates included in the Stipulation, including:
 - a. A potential downward reduction in Piedmont's Benchmark committed to in the Stipulation.
 - b. A recent downward reduction in rates under Piedmont's Margin Decoupling Tracker mechanism in Docket No. G-9, Sub 635.
 - c. A downward reduction in fixed gas costs (which constitute 45% of the stipulated rate increase) that will result from an uncontested settlement of Transco's most recent general rate case before the FERC, which is currently pending approval by that agency.

Conclusions on Return

The Commission accepts as undisputed that rate increases are not favored by ratepayers and that some portion of any utility's customer base will find it difficult to pay their utility bills from time to time. The Commission further acknowledges that it is our primary responsibility to protect the interests of utility customers in setting rates for public utilities by complying with the legal principles discussed earlier in this Order. It is

also the Commission's responsibility to abide by the constitutional requirements of the Hope and Bluefield cases as reflected in the provisions of G.S. 62-133 and to balance the interests of customers and the utilities which we regulate in that process.

After a careful review of all the evidence in this case, and adhering to the requirements of the above cited legal precedent, the Commission finds that the overall rate of return on rate base and the allowed rate of return on common equity, as well as the resulting customer rates provided for under the Stipulation, are just and reasonable, fair to both the Company and its customers, and appropriate for use in this proceeding and should be approved. The rate increase approved herein, as well as the embedded rates of return underlying such rates, are not unfair or unduly harmful to customers considering changing economic conditions, are as low as is constitutionally permissible, and are required in order to allow Piedmont, by sound management, to produce a fair return for its shareholders, maintain its facilities and services in accordance with the reasonable requirements of its customers in the territory covered by its franchise, and to compete in the market for capital funds on terms that are reasonable and that are fair to its customers and existing investors.

In this matter contemporaneous downward adjustments that will more than offset the stipulated rate increase have been taken under consideration by the Commission as they are part of the Stipulation and have been brought before the Commission in such a form. The Commission has considered these contemporaneous adjustments in its review of the Stipulation. As noted above, pursuant to the Supreme Court's Cooper decision, the Commission must make findings of fact regarding the impact of changing economic conditions on customers when determining the proper return on equity for a public utility. Cooper, ___ N.C. ___, 739 S.E. 2d at 548. Contemporaneous downward adjustments are certainly a type of changing economic conditions that must be considered when determining the impact of a rate increase on residential customers. However, the Commission notes that it does not consider contemporaneous downward adjustments as a necessary factor to grant a rate increase, a request to increase rates should be approved or disapproved based on whether the request itself meets the statutory requirements for approval. Thus, the decision to approve the Stipulation and the rate increase therein is made primarily on the weight of the evidence discussed above.

The Stipulation also states that the overall rate of return on rate base of 7.51% should be used by the Company as its AFUDC rate effective January 1, 2014. The Commission believes that the AFUDC method that has been historically used by the Company is reasonable and appropriate for use in this docket. Therefore, the Commission concludes that it is appropriate for Piedmont to continue to use the approved overall rate of return as its AFUDC rate.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 21

The evidence supporting this finding is contained in the Stipulation and the Supplemental Testimony of Company Witness Carpenter.

Paragraph 3 of the Stipulation sets forth the agreed throughput volumes established by the Stipulating Parties. The level of adjusted sales and transportation volumes used in the Stipulation is 128,818,548 dts and the level of purchased gas supply is 68,742,264 dts. Total throughput, including electric generation and special contract quantities, is 289,955,054 dts. The sales and transportation throughput volume level is derived as follows:

Sales	66,294,712
Transportation	<u>62,523,836</u>
Total Throughput	128,818,548

The level of purchased gas supply is 68,742,264 dts is derived as follows:

Sales	66,294,712
Company Use and Lost & Unaccounted For	<u>2,447,552</u>
Purchased Gas Supply	68,742,264

This throughput level and level of purchased gas supply are the result of negotiations among the Stipulating Parties, as described in the Stipulation and the Supplemental Testimony of Company witness Carpenter, 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 are a fair and reasonable approximation of the Company's *pro forma* adjusted sales and transportation volumes. The Commission has also carefully reviewed the purchased gas supply level and concludes that it is a fair and reasonable approximation of the Company's *pro forma* purchased gas supply level.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 22 - 24

The evidence for these findings is contained in the Company's initial filing, the Stipulation and in the Supplemental Testimony of Company witness Carpenter.

The test period cost of gas is set forth in Paragraph 4 and Exhibit I to the Stipulation. The amounts shown on Exhibit I to the Stipulation are the result of negotiations among the Stipulating Parties in this docket. The Stipulation reflects the following agreements among the parties regarding Piedmont's cost of gas:

Commodity Costs	\$299,642,527
Company Use and Lost & Unaccounted For	\$11,013,986
Fixed Costs	<u>\$108,248,481</u>
Total Cost of Gas	\$418,904,994

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 *pro forma* cost of gas, 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 appropriate to determine the amount of fixed gas costs that are embedded in the rates approved herein. In 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. The Stipulation provides that in establishing rates for this proceeding, the parties have agreed to use Piedmont's current Benchmark of \$4.50/dt subject to Piedmont's conditional commitment to file for a reduction in that Benchmark on or before the effective date of rates requested in this docket of January 1, 2014. No party contests the use of a \$4.50/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 \$4.50/dt Benchmark for purposes of establishing rates in this proceeding, subject to Piedmont's conditional obligation to file for a reduction in such Benchmark, is fair and reasonable.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 25

The evidence for this finding is contained in the Stipulation, as supported by the Supplemental Testimony of Company witness Carpenter.

The stipulated rate design and rates, necessary and appropriate to provide Piedmont a reasonable opportunity to recover the stipulated revenue requirement in this docket, are reflected in Exhibits C, J, and K to the Stipulation. Exhibit C sets forth the projected rates and revenues resulting from the stipulated rate design, Exhibit J shows the percentage increase by customer class, and Exhibit K sets out the discrete elements comprising Piedmont's stipulated rates. In Mr. Carpenter's Supplemental Testimony, he testified that "the rates agreed to as part of the Stipulation were the product of give and take negotiations between the Stipulating Parties" and that they were "highly favorable to Piedmont's customers in comparison to Piedmont's proposed rates."

No party has contested the use of the rates and rate design elements set out in Exhibits C, J, and K to the Stipulation and no other party has submitted evidence supporting any alternative rate design or rate elements (other than the Company's filed case). Based upon the Stipulation and other record evidence in this proceeding regarding rate design and individual rate elements, the Commission finds the stipulated rate design and rate elements to be reasonable and appropriate for use in this proceeding.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 26

The evidence supporting this finding is contained in the Petition, the Direct Testimony of Company witnesses Skains and Gaglio, the Direct and Supplemental Testimony of Company witness Carpenter, and the Stipulation.

In its Petition, Piedmont indicated that it was incurring substantial and ongoing capital expenses associated with efforts to comply with federal pipeline safety and integrity requirements. In order to address the magnitude and impact of its capital investments required to comply with federal pipeline safety and integrity requirements on a going-forward basis, and as authorized by G.S. 62-133.7A, Piedmont proposed the adoption of an Integrity Management Rider or IMR mechanism in its tariffs. According to Piedmont, this mechanism would help preserve the ability of the Company to earn its allowed return on equity resulting from the rate case, on an intra-rate case basis, and would avoid the need for multiple annual "pancaked" rate cases that might otherwise be necessary to address the significant new capital investments associated with compliance with federal pipeline safety and integrity requirements.

In his Direct Testimony, Piedmont's Chairman, President, and Chief Executive Officer, Thomas Skains, identified the extraordinary nature of the Company's ongoing capital investments driven by compliance with federal pipeline safety and integrity requirements and emphasized the importance of pipeline safety to the Company, its customers, and the public in general. Mr. Skains also indicated that the levels of ongoing capital investment in pipeline integrity compliance activities, which do not generate any offsetting revenues, would require a series of "pancaked" rate cases on a 12 to 18 month interval in the absence of some bridge mechanism to provide rate relief in between general rate case filings. Finally, Mr. Skains offered his opinion that the regulatory costs and efforts involved with multiple and repeated general rate case proceedings driven solely by the capital investments incurred in compliance with federal pipeline safety and integrity requirements was not in the public interest.

In his Direct Testimony, Piedmont's Senior Vice President and Chief Utility Operations Officer, Victor Gaglio, who is responsible for the Company's efforts to comply with federal pipeline safety and integrity requirements, set out a detailed description of the federal Transportation Integrity Management Planning (TIMP) and Distribution Integrity Management Planning (DIMP) processes required of the Company. He also described in some detail the Company's evolving techniques and efforts to

comply with TIMP and DIMP requirements as well as the Company's future planned compliance activities. In his testimony, Mr. Gaglio described the differing nature of TIMP and DIMP compliance activities and the fact that federal regulation (and potentially state regulation) was an actively evolving process that could generate substantial additional compliance requirements in the future and that the full scope of those requirements could not be known at this time. Mr. Gaglio also described how the Company (and the local distribution company industry as a whole) was transitioning from a primarily Direct Assessment approach to TIMP compliance to a broader based approach which included more utilization of In-Line Assessment (smart pigging) and pressure testing techniques, both of which are more effective but also more capital intensive than Direct Assessment in determining the condition of the facilities being tested. Finally, Mr. Gaglio testified that Piedmont projected an average of approximately \$150 million per year in new capital investment associated with TIMP/DIMP compliance for each of its fiscal years 2014, 2015 and 2016. According to Mr. Gaglio, this level of capital investment in TIMP/DIMP compliance represents approximately 50% of Piedmont's total capital budget for each of these years and is equivalent to roughly a 10% increase in Piedmont's total rate base for each of those years.

In his Direct Testimony, Mr. Carpenter explained the Company's proposed IMR mechanism and provided a proposed form of such rider as Exhibit__ (DRC-4). Mr. Carpenter reiterated the Company's projected annual capital investment in TIMP/DIMP compliance costs for fiscal years 2014 through 2016 of approximately \$150 million per year and offered several reasons why a rider mechanism is justified in this situation. First, Mr. Carpenter affirmed that capital investments incurred at the rate projected by the Company for its fiscal years 2014 through 2016, in the absence of any offsetting additional revenues, will require frequent and repeated general rate case proceedings in order to fold such capital investments into Piedmont's rate base and permit Piedmont to begin to earn a return on these investments, even if the other factors underlying its rates do not change materially. Second, Mr. Carpenter noted that Piedmont's more usual rate case interval has historically ranged from two to five years and as such, it was clear that TIMP/DIMP spending was going to drive rate case filings at a much higher frequency than has been experienced in the past. Third, Mr. Carpenter noted that the regulatory expense incurred by the Company to prosecute a general rate case proceeding, which is recovered from Piedmont's customers, typically runs in the range of \$1 million. In the event Piedmont was required to file three consecutive rate cases in each of its fiscal years 2014, 2015, and 2016, the approximate rate case expense would likely be in excess of \$3 million. Finally, Mr. Carpenter testified that multiple repeated annual rate case filings, driven solely by TIMP/DIMP compliance costs, would be administratively inefficient and would induce regulatory fatigue in the Company, the Public Staff, and the Commission.

Mr. Carpenter's proposed solution to the prospect of repeated annual rate filings driven by TIMP/DIMP compliance is a rider mechanism that would provide an annual adjustment to Piedmont's rates to compensate for the costs associated with its capital investment in TIMP/DIMP projects. The costs proposed to be recovered through such a rider mechanism would include taxes, depreciation and return but would not include any

O&M expense. Such costs also would be limited to TIMP/DIMP compliance investments. According to Mr. Carpenter, such a mechanism would effectively preserve the normal rate case processes and intervals while providing a “bridge” to the Company between rate cases, solely with respect to its safety and integrity investments, that would help preserve the Company’s ability to earn its allowed rate of return in the interim. In his testimony, Mr. Carpenter also pointed out that Commission approval of such a rider mechanism is plainly authorized under G.S. 62-133.7A, and that similar infrastructure rider mechanisms have been adopted in many states to address the issue of extraordinary infrastructure improvement costs.

In the Stipulation, Piedmont, the Public Staff, and CUCA support the adoption of a revised form of IMR mechanism for Piedmont. That revised mechanism is discussed in Paragraph 9 of the Stipulation and a copy is attached thereto as Exhibit F. In his Supplemental Testimony, Mr. Carpenter asserts that the revised IMR mechanism included with the Stipulation is fair, just and reasonable and further contends that it will “help ensure the orderly implementation of efforts to comply with federal and state laws and regulations around integrity, reliability, and safety while delaying or deferring rate case filings prompted solely by the incurrence of integrity related compliance costs.”

No other party submitted evidence on the issue of the proposed Integrity Management Rider Mechanism.

The Commission has carefully considered the evidence in this proceeding related to the proposed 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 falls within the scope of G.S. 62-133.7A. That statute 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 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 the version of the IMR mechanism proposed for adoption and implementation in the Stipulation is more favorable to customers than that originally proposed by the Company because it provides for a significant and escalating credit to amounts otherwise recoverable from customers derived from payments made to the Company by special contract customers (who are not otherwise subject to the rider mechanism). It is also more favorable to customers because it provides for a single annual adjustment to rates rather than the bi-annual adjustment proposed in the Company’s originally proposed version of the mechanism. This change reduces the total cost burden on customers from the rider mechanism and

increases regulatory lag associated with the Company's recovery of the costs of investment in federal safety and integrity projects. Finally, the revised 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 G.S. 62-133.7A, the Commission concludes that adoption and implementation of the IMR mechanism attached to the Stipulation as Exhibit F is in the public interest. 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 recognizes that separately accounting for TIMP/DIMP compliance costs and addressing them through the rider mechanism on an intra-rate case basis effectively isolates those costs from other aspects of Piedmont's cost of service, but the Commission is satisfied that the public interest is protected from any potentially adverse impacts from such treatment 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 implementation 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. 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.

The Commission notes that current federal pipeline safety regulations are proving to be increasingly expensive. Piedmont witness Gaglio testified that complying with current federal pipeline safety regulations will require half billion dollars of non-revenue producing capital expenditures. Further, he stated that it is possible that future additional regulations "will only add to Piedmont's projected expenditures in this area." Mr. Gaglio testified about the unique nature of Piedmont's system in North Carolina stating that Piedmont has a relatively new transmission and distribution system, it has

no cast iron or unprotected steel pipe in use and has not suffered a serious gas leak incident (other than those caused by third-party actions) in the State in recent memory. Additionally, Piedmont witness Skains made clear his Company's commitment to safety. He testified that Piedmont's "number one operational priority is the safety of the general public, our customers and our employees." The Commission supports Piedmont's commitment to safety. The Company's system may be "relatively new," but as Mr. Gaglio stated, "Given the complex and dynamic operating conditions that these infrastructure assets are subjected to over decades of service, it is not uncommon for damage or degradation to occur to both plastic and steel pipelines."

Both the Commission and the Company understand that complacency is not an option. However, both the Commission and Piedmont must be aware of the impact on ratepayers of any expensive capital investment. It is imperative that pipeline safety regulations promulgated by the federal government be cost-effective and take into consideration the very real impact that cost increases have on customers. Federal regulations apply to all operators nationwide and, as Mr. Gaglio testified, Piedmont's system is unique in some respects. The federal rule-making process includes the issuance of a notice of proposed rulemaking prior to establishing new regulations. The existence of an Integrity Management Rider should not impact Piedmont's participation in the process of writing new federal regulations. The Commission expects Piedmont to take a pro-active role in ensuring that new federal pipeline safety regulations are reasonable for Piedmont's ratepayers and the general public in North Carolina.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 27

The evidence for this finding is contained in the Stipulation at Paragraph 10 and Exhibit E.

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. 28

The evidence for this finding is contained in the Company's initial filing, the Stipulation and in the Supplemental Testimony of Company witness Carpenter.

In Piedmont's Petition, supported by the Direct Testimony of Company witness Carpenter, the Company proposed to amortize and recover a number of previously deferred regulatory assets including PIM O&M expenses and environmental

assessment and clean-up costs. It also proposed to amortize and recover certain Robeson LNG Project development costs. In Paragraph 11 of the Stipulation, the Stipulating Parties propose certain agreed upon changes to the Company's proposed amortizations and recovery of the following costs: (a) PIM O&M costs; (b) EasternNC deferred O&M expenses; (c) environmental assessment and clean-up costs; (d) Robeson LNG development costs; and (e) NCNG OPEB costs. The PIM O&M costs subject to amortization over a five-year period, beginning January 1, 2014, are \$17,348,593 and represent the unrecovered costs accumulated by the Company through August 31, 2013, net of regulatory amortizations through December 31, 2013. The EasternNC deferred O&M expenses subject to amortization is the remaining balance at December 31, 2013, of \$6,259,460 amortized over the remaining 82 month period beginning January 1, 2014, using levelized amortization with interest at the net-of-tax overall rate of return of 6.55%. The environmental assessment and clean-up costs subject to amortization over a five-year period, beginning January 1, 2014, include O&M costs through August 31, 2013, of \$6,346,642. The parties also agreed that the Company will file annual reports included with its annual manufactured gas plant (MGP) filing that provide details on the environmental assessment and clean-up costs incurred and the state or federal environmental requirement that caused the need for the expenditure to be deferred. The parties agreed that \$1,208,574 of Robeson LNG development costs should be amortized over a 38 month period beginning January 1, 2014. The deferred NCNG OPEB costs subject to amortization include the December 31, 2013, balance of \$414,650 to be amortized over the remaining five-year period beginning January 1, 2014. The Stipulating Parties also propose a continuation of the existing regulatory asset treatment for ongoing PIM O&M costs. The Stipulating Parties support the amortization periods set forth in Paragraph 11 of the Stipulation and the ongoing interim deferral mechanism for PIM O&M costs. 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 concludes that the proposed continuation of the existing regulatory asset treatment for ongoing PIM O&M costs is fair and reasonable and should be approved. Additionally, the Commission concludes that Piedmont shall be required to file annual reports included with its annual MGP filing that provide details on the environmental assessment and clean-up costs incurred and the state or federal environmental requirement that caused the need for the expenditure to be deferred.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 29

The evidence for this finding is contained in the Stipulation and the Supplemental Testimony of Company witness Carpenter.

North Carolina Session Law 2013-316 (House Bill 998) establishes two prospective downward adjustments in the North Carolina corporate income tax rates to be effective for tax years 2014 and 2015. In Piedmont's case, its tax years 2014 and 2015 coincide with its fiscal years 2014 and 2015, which begin, respectively, on November 1, 2014 and November 1, 2015. In Paragraph 22 of the Stipulation, the Stipulating Parties agree that Piedmont will adjust its rates, coincident with the effectiveness of these new tax rates as to Piedmont, for the purpose of making appropriate adjustments to Piedmont's rates as a result of the implementation of House Bill 998. In the Stipulation, Piedmont further agrees to work with the Public Staff and CUCA to develop an appropriate mechanism for making such adjustments and to file notice of such reductions with the Commission. No party opposes this plan to adjust Piedmont's rates for reductions in income tax expense and no other evidence on this issue was presented to the Commission in this docket.

The Commission notes that it has initiated a generic proceeding in Docket No. M-100, Sub 138 to address potential issues raised by the prospective change in corporate tax rates effectuated by House Bill 998 with respect to all major North Carolina utilities and it will continue to require Piedmont to participate in that proceeding. Nonetheless, the Commission finds that the plan for adjusting Piedmont's rates as a result of the prospective decrease in North Carolina corporate income tax rates set forth in the Stipulation is fair and reasonable and should be approved.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 30

The evidence for this finding is set forth in the Direct Testimony of Company witness Carpenter and in the Stipulation.

On July 6, 2011, in Docket No. G-9, Sub 77G, Piedmont filed a revised depreciation study for its property used and useful in providing natural gas utility service to the public consistent with the requirements of Commission Rule R6-80. Piedmont filed a revised Appendix A to that study on November 9, 2011. In making these filings, Piedmont requested that implementation of the revised depreciation rates reflected in the study be deferred until its next general rate case and that request was granted by Commission Order issued on November 22, 2011, in that docket.

In its Petition and in the direct prefiled testimony of Company witness Carpenter, the Company proposed to implement its revised depreciation rates as of the effective date of new rates approved by the Commission in this proceeding. According to Mr. Carpenter, the net impact of such implementation would be to reduce depreciation expense by approximately \$10 million annually. In the Stipulation, the Stipulating Parties agreed that the revised depreciation rates should be implemented effective January 1, 2014, in order to coincide with the requested effective date of rates in this proceeding. No party contested the implementation of Piedmont's revised depreciation rates, effective January 1, 2014, as proposed in the Stipulation and no other party submitted evidence on this issue.

Based upon the Commission's prior orders in Docket No. G-9, Sub 77G, the Direct Testimony of Company witness Carpenter, and the Stipulation, the Commission concludes that implementation of the revised depreciation rates filed in Docket No. G-9, Sub 77G, effective January 1, 2014, as proposed in the Stipulation, is just and reasonable and should be approved.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 31

The evidence for this finding is contained in the Direct Testimony of Company witness Carpenter and the Stipulation.

In his Direct Testimony, Company witness Carpenter proposed various changes to Piedmont's rate schedules and service regulations. Mr. Carpenter specifically identified two "significant" proposed changes as well as a number of smaller and less significant changes. In the significant category, the Company proposed to eliminate the standby fuel requirement for service under Rate Schedule 104 (Large General Interruptible Sales Service) and Rate Schedule 114 (Large General Interruptible Transportation Service) and also proposed to implement a new IMR Mechanism in its tariff. This latter change is addressed in Finding of Fact No. 26 and the evidence and conclusions supporting that finding and will not be addressed here. In conjunction with the elimination of the standby fuel requirement for the Company's interruptible services, Piedmont also proposed a two-year mitigation plan for revenue losses associated with customer migration from firm to interruptible rate schedules resulting from the elimination of the standby fuel requirement for interruptible service.

According to Mr. Carpenter, the proposal to eliminate the standby fuel requirement for interruptible service has its roots in several factors. First, Mr. Carpenter stated that Piedmont has received requests from customers to waive or eliminate the requirement and in several prior proceedings has sought case specific authority from the Commission to waive the requirement in certain circumstances. Second, Piedmont believes that its large general customers (who are the only system customers eligible for interruptible service) are, by definition, sophisticated business entities capable of assessing the risks of interruptible service and deciding for themselves whether they need back-up fuel capability. Third, the mandatory requirement for standby fuel capability may be causing some customers to incur costs they would not otherwise incur simply in order to comply with tariff eligibility requirements for less expensive interruptible service and such requirements may also be forcing customers to elect more expensive firm service when they would not otherwise require such service. Mr. Carpenter also proposes to implement a two-year margin protection mechanism to preserve the effectiveness of rates approved in this proceeding to allow Piedmont to earn its allowed return in the face of possible customer migrations from firm to interruptible service as a result of the elimination of the standby fuel requirement. That mechanism would essentially record such losses in the all customers deferred account, thereby allowing Piedmont to be kept whole from changes in customer usage and the corresponding revenue reductions prompted by the elimination of the standby fuel requirement. In support of this proposal, Mr. Carpenter notes that the Commission has

previously allowed recovery of margin losses attributable to factors beyond the Company's control and has also approved a similar mechanism for Public Service Company of North Carolina, Inc. (PSNC), in Docket No. G-5, Sub 386, when PSNC eliminated the standby fuel requirement for interruptible service in its tariff in 1998.

With respect to the less significant tariff changes discussed in Mr. Carpenter's testimony, he describes these as clarifications or updates to tariff language designed to reflect changes in the Company's markets or customer practices.

In the Stipulation, in Exhibits G and H and Paragraph 30, the Stipulating Parties propose to adopt the Company's proposals with respect to the elimination of the standby fuel requirement for service under Rate Schedules 104 and 114 and the temporary margin protection plan, as well as the less significant clarifying changes described by Mr. Carpenter in his Direct Testimony.

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 Carpenter and the Stipulation, as well as the Commission's prior treatment of similar issues in Docket No. G-5, Sub 386, the Commission finds that the proposed rate schedule and service regulation changes reflected in Exhibits G and H to the Stipulation are just and reasonable and should be approved and that the proposed temporary margin protection plan discussed in Paragraph 30 of the Stipulation is similarly just and reasonable and should be approved for a period of two years following implementation of the tariff changes authorized herein.

The Commission notes that the long-standing requirement for large general service interruptible customers to have standby fuel served to ensure that those interruptible customers would curtail in a timely manner when called upon to do so. Convincing arguments have been put forward in this docket supporting the elimination of the standby fuel requirement. However, Piedmont is responsible for providing reliable service to its customers. The Commission expects Piedmont to have adequate measures in place to ensure effective control over its system.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 32

The evidence for this finding is contained in the Petition, the Direct Testimony of Company witness Powers, the Stipulation, and the Supplemental Testimony of Company witness Carpenter.

In its Petition, Piedmont proposed to include in its cost of service in this proceeding, an additional \$340,000 for the funding of GTI research into natural gas pipeline safety and reliability. In her Direct Testimony, Company witness Powers indicated that the Company's proposal to increase its contribution to GTI in this case

was targeted at GTI's Operations Technology Development (OTI) initiative. Ms. Powers described the OTI initiative as a "collaborative effort designed to develop, test, and implement new technologies relating to gas transmission and distribution operations, with a particular emphasis on safety and reliability." According to Ms. Powers, the intent of the initiative is to "develop new tools, equipment, software, processes, and procedures that will enhance safety, increase operating efficiency, reduce operating costs, and help maintain system reliability and integrity."

In the Stipulation, the Stipulating Parties agreed, in Paragraph 25, "that the Company may fund research and development activities through annual payments to GTI for an additional \$340,000 per year, which results in a total GTI funding level of \$590,000 per year"

No party has contested the increased funding of GTI proposed in the Petition and agreed to in the Stipulation and no other party has presented evidence on this issue.

The Commission has carefully considered the additional GTI funding proposed in the Stipulation, and concludes that increased funding of GTI at the level of \$340,000 per year to support the development of new technologies, practices and processes which enhance the safety and reliability of natural gas transmission systems is in the public interest and is also fair and reasonable and should be approved.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 33

The evidence for this finding is contained is contained in Paragraphs 4.C., 26, 27, 28, and 31 of the Stipulation. No party contests these matters and no other evidence regarding these matters has been submitted in this proceeding.

In Paragraph 4.C. of the Stipulation the Stipulating Parties agree that effective January 1, 2014, "all property taxes associated with third-party stored gas for North Carolina shall be recovered through the fixed gas cost rate element" of Piedmont's rates. This agreement modifies the treatment of these costs from prior practices where such taxes were included in Piedmont's cost of service. Inasmuch as these costs appear to fit within the broad definition of gas costs set forth in Commission Rule R1-17(k)(2)(b), the Commission finds it reasonable and appropriate to treat them accordingly and include them as a component of the Company's fixed gas costs for ratemaking purposes.

In Paragraph 26 of the Stipulation, the Stipulating Parties agree that it is appropriate to "continue the ADIT annual entry related to cost of gas and the Margin Decoupling Tracker account items in the deferred gas cost account." Based upon the Stipulation, and the agreement of the Stipulating Parties, the Commission approves the continuation of making the ADIT annual entry related to gas cost items and the Margin Decoupling Tracker account in the deferred gas cost account.

In Paragraph 27 of the Stipulation, the Stipulating Parties agree that the Company will submit, within thirty (30) days of approval of the Stipulation by the Commission, and after review and comment by the Public Staff and CUCA, tariff revisions that will allow customers to transport and/or take delivery of natural gas for use as vehicular fuel under the Company's Rate Schedules 113 and 114. The Stipulating Parties also agree to certain processes and procedures in regard to the development of this filing. This provision of the Stipulation is essentially an agreement of the Parties to take future action and presents no issue for resolution by the Commission at this time. Nonetheless, the Commission acknowledges the existence of the obligations set forth in this paragraph and supports those commitments as part of the overall resolution issues between the Stipulating Parties.

In Paragraph 28 of the Stipulation, the Stipulating Parties agree that, subject to certain conditions, Piedmont will make a filing proposing to reduce its Benchmark, effective January 1, 2014, to a rate more reflective of the current wholesale market price of natural gas. This provision of the Stipulation is essentially an agreement of the Parties to take conditional future action and presents no issue for resolution by the Commission at this time. Nonetheless, the Commission acknowledges the existence of the obligations set forth in this paragraph and supports those commitments as part of the overall resolution issues between the Stipulating Parties.

In Paragraph 31 of the Stipulation, the Stipulating Parties agree that the appropriate context in which the Public Staff should conduct its investigation of Piedmont required by the Commission's *Order on Motion for Clarification* (issued September 3, 2013 in Docket No. M-100, Sub 113A) is Piedmont's next general rate proceeding. This agreement is based upon the Public Staff's interpretation of the Commission's order cited above. The Commission has no objection to this interpretation of its order directing the Public Staff to investigate certain matters related to Piedmont and approves the substance of this Paragraph of the Stipulation.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 34

The evidence supporting this finding is contained in the Petition, Form G-1, the testimony and exhibits of the witnesses, the Stipulation, and the entire record in this proceeding.

As fully discussed above, the provisions of the Stipulation are the product of the give-and-take of settlement negotiations between Piedmont, CUCA, and the Public Staff. As a result, the Stipulation reflects the fact that each party to the Stipulation agreed to certain provisions that advanced the other's interests. The end result is that the Stipulation strikes a fair balance between the interests of Piedmont and its customers. As discussed above, the Commission has independently evaluated the provisions of the Stipulation and concludes, in the exercise of its independent judgment that the provisions of 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.

IT IS, THEREFORE, ORDERED as follows:

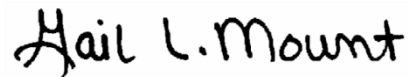
1. That the Stipulation is hereby approved in its entirety.
2. That the Company is hereby authorized to adjust its rates and charges in accordance with the Stipulation and this Order (as such rates may be adjusted for any changes in the Benchmark, and changes in Demand and Storage Charges prior to the effective date of the revised rates) effective for service rendered on and after January 1, 2014.
3. That the Company is authorized to implement the Integrity Rider Mechanism attached to the Stipulation as Exhibit F effective January 1, 2014.
4. That the Company is authorized to implement the changes to its Rate Schedules and Service Regulations attached to the Stipulation as Exhibits G and H effective January 1, 2014.
5. That the Company shall file clean versions of the new and revised tariffs and service regulations to comply with this Order within five (5) days from the date of this Order.
6. That in the true-up of fixed gas costs for periods subsequent to January 1, 2014, in proceedings under Commission Rule R1-17(k), the Company shall use the fixed gas costs allocations set forth in Exhibit D to the Stipulation.
7. That the Margin Decoupling Tracker mechanism factors set forth on Exhibit E to the Stipulation are approved for use in the implementation of the provisions of that mechanism subsequent to January 1, 2014.
8. That the Company is authorized to implement the other actions, practices, principles, and methods agreed upon in the Stipulation.

9. 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 17th day of December, 2013.

NORTH CAROLINA UTILITIES COMMISSION

A handwritten signature in black ink that reads "Gail L. Mount". The signature is written in a cursive, flowing style.

Gail L. Mount, Chief Clerk

Commissioner Don M. Bailey did not participate in this decision.

SCHEDULE 1

PIEDMONT NATURAL GAS COMPANY
Docket No. G-9, Sub 631
STATEMENT OF NET OPERATING INCOME FOR RETURN, RATE BASE AND OVERALL
RETURN
For The Test Year Ended February 28, 2013

Line No.	Item	Per Company	Settlement Adjustments	After Settlement Adjustments	Rate Increase	After Rate Increase
		(a)	(b)	(c)	(d)	(e)
	NET OPERATING INCOME FOR RETURN					
	<u>Operating Revenues:</u>					
1	Sales and transportation of gas	\$756,725,430	\$50,868	\$756,776,298	\$30,658,314	\$787,434,612
2	Electric Generation Revenues	86,319,158	-	86,319,158		86,319,158
3	Special Contract Revenues	13,640,392	-	13,640,392		13,640,392
4	Other operating revenues	3,761,745	39,528	3,801,273		3,801,273
5	Total operating revenues	860,446,725	90,396	860,537,121	30,658,314	891,195,435
6	Cost of gas	405,170,964	13,734,030	418,904,994		418,904,994
7	Margin	455,275,761	(13,643,634)	441,632,127	30,658,314	472,290,441
	<u>Operating Expenses, Excl COG:</u>					
8	Operating and maintenance	191,088,326	(16,326,577)	174,761,749	255,754	175,017,503
9	Depreciation	79,248,132	(829,275)	78,418,857		78,418,857
10	General taxes	22,967,361	(1,851,242)	21,116,119		21,116,119
11	State income tax (6.9%)	7,902,029	493,972	8,396,001	2,097,777	10,493,778
12	Federal income tax (35%)	37,247,445	2,332,762	39,580,207	9,906,674	49,486,881
13	Amortization of investment tax credits	(229,226)	-	(229,226)		(229,226)
14	Total operating expenses, excl COG	338,224,067	(16,180,360)	322,043,707	12,260,205	334,303,912
15	Interest on customer deposits	1,042,351	-	1,042,351		1,042,351
16	Amortization of debt redemption premium	-	-			
17	Net operating income for return	\$116,009,343	\$2,536,726	\$118,546,069	18,398,109	\$136,944,178
	RATE BASE					
18	Plant in service	\$3,246,683,144	(\$75,653,567)	\$3,171,029,577		\$3,171,029,577
19	Accumulated depreciation	(1,041,287,233)	8,795,679	(1,032,491,554)		(1,032,491,554)
20	Net plant in service	2,205,395,911	(66,857,888)	2,138,538,023		2,138,538,023
21	Allowance for Working Capital	179,902,052	(22,680,013)	157,222,039		157,222,039
22	Deferred Income Taxes	(473,326,437)	-	(473,326,437)		(473,326,437)
23	Unamortized debt redemption premium	-	-			
24	Original cost rate base	\$1,911,971,526	(\$89,537,901)	\$1,822,433,625	\$0	\$1,822,433,625
25	Overall Rate of Return on Rate Base	6.07%		6.50%		7.51%

ATTACHMENT A

**STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH**

DOCKET NO. G-9, SUB 631

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of
Application of Piedmont Natural Gas)
Company, Inc. for a General Increase)
in its Rates and Charges) PUBLIC NOTICE

The North Carolina Utilities Commission issued an Order allowing Piedmont Natural Gas Company, Inc. (Piedmont or the Company) to increase its rates and charges by approximately \$31 million annually, or 3.58% overall, effective January 1, 2014.

On May 31, 2013, Piedmont filed an application seeking a general increase in its rates and charges, implementation of a new Integrity Management Rider mechanism, implementation of new depreciation rates, updates and revisions to the Company's service regulations and tariffs, amortization of various deferred expenses, and proposed additional funding for gas distribution research activities conducted by the Gas Technology Institute.

In its application, the Company requested an increase of approximately \$80 million annually. The Company stated that the rate increase was needed because it has been adding customers and making capital improvements in its utility properties and because it had been required to invest substantial capital in order to comply with federal pipeline safety and integrity regulations and requirements. The 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 (Stipulation) entered into between the Company and other parties to the proceeding, including the Public Staff – North Carolina Utilities Commission. The Commission notes that the increase to specific classes of customers will vary in order to have each customer class pay its fair share of the cost of providing service.

Overall, the Commission has approved a residential rate increase for the Company of 4.31%. This represents an increase to the typical residential bill of

approximately \$30 per year or \$2.50 per month. These approved increases are associated with allowed expenses and return on investment only and do not contemplate increases or decreases that may occur in association with gas cost adjustments to rates as allowed by North Carolina law.

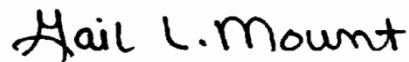
The Commission has also approved an Integrity Management Rider mechanism, which will allow the Company to recover the capital related costs of compliance with federal pipeline and distribution integrity management requirements on an intra-rate case basis. This mechanism will facilitate timely recovery of costs related to capital investment mandated by federal law and will help to avoid otherwise unnecessary general rate proceedings.

A list of approved rates can be obtained from the Company's website, www.piedmontng.com, or at 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 <http://www.ncuc.commerce.state.nc.us> using the Docket Search function.

ISSUED BY ORDER OF THE COMMISSION.

This the 17th day of December, 2013.

NORTH CAROLINA UTILITIES COMMISSION

A handwritten signature in black ink that reads "Gail L. Mount". The signature is written in a cursive, flowing style.

Gail L. Mount, Chief Clerk

(SEAL)