STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH

DOCKET NO. G-100, SUB 93

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of		
Petition for a Rulemaking Proceeding for the Implementation of a Cost Recovery Mechanism for Natural Gas Economic Development Infrastructure Pursuant to G.S. 62-133.15	))))	ORDER ADOPTING INTERIM COMMISSION RULE AND REQUESTING COMMENTS

BY THE COMMISSION: Senate Bill 673, Session Law (SL) 2016-118, codified as G.S. 62-133.15, authorized the recovery of certain costs incurred by natural gas local distribution companies (LDCs) for construction of economic development infrastructure projects found eligible by the North Carolina Department of Commerce. Pursuant to G.S. 62-133.15(a), the Commission is required to adopt rules implementing the statute.

On October 6, 2017, the Public Staff filed a Petition for Rulemaking in the above-captioned docket. In summary, the Public Staff states that it worked with representatives of Piedmont Natural Gas Company, Inc., and Public Service Company of North Carolina, Inc., to draft a proposed rule, which was attached to the petition as Appendix A. The Public Staff proposed that the rule be adopted by the Commission to implement the cost recovery mechanism authorized in G.S. 62-133.15. In addition, the Public Staff recommended that the Commission request comments on the proposed rule, with a 21-calendar day comment period and a seven-calendar day reply comment period. Further, the Public Staff recommended that Piedmont Natural Gas Company, Inc., Public Service Company of North Carolina, Inc., Frontier Natural Gas Company, Toccoa Natural Gas, and the North Carolina Attorney General's Office be made parties to the proceeding without the need for them to file petitions to intervene.

Based on G.S. 62-133.15 and the Public Staff's petition, the Commission finds good cause to initiate a rulemaking proceeding to consider the adoption of the Public Staff's proposed rule, which is attached to this Order as Appendix A, and to request comments and reply comments on the proposed rule. In addition, the Commission finds good cause to adopt proposed Commission Rule R6-96 as the interim Commission rule governing projects found eligible for economic development infrastructure cost recovery by the North Carolina Department of Commerce pursuant to G.S. 62-133.15(a). Further, the Commission finds good cause to make North Carolina's LDCs and the North Carolina Attorney General's Office parties to this proceeding without the need for them to file petitions to intervene.

IT IS, THEREFORE, ORDERED as follows:

1. That proposed Commission Rule R6-96, attached hereto as Appendix A, is hereby adopted as the interim Commission rule governing projects found eligible for economic development infrastructure cost recovery by the North Carolina Department of Commerce pursuant to G.S. 62-133.15(a).

2. That on or before November 8, 2017, persons having an interest in this matter may file petitions to intervene.

3. That Piedmont Natural Gas Company, Inc., Public Service Company of North Carolina, Inc., Frontier Natural Gas Company, Toccoa Natural Gas, and the North Carolina Attorney General's Office are hereby made parties to this proceeding without the need for them to file petitions to intervene.

4. That the Chief Clerk shall send notice of this Order to the parties named in Ordering Paragraph No. 3 above by electronic service.

5. That on or before November 8, 2017, all parties may file initial comments regarding the proposed rule.

6. That on or before November 15, 2017, all parties may file reply comments.

ISSUED BY ORDER OF THE COMMISSION.

This the 17th day of October, 2017.

NORTH CAROLINA UTILITIES COMMISSION

Linnetta Threatt

Linnetta Threatt, Acting Deputy Clerk

Proposed Rule

Article 15. Economic Development Infrastructure Cost Recovery

R6-96 NATURAL GAS ECONOMIC DEVELOPMENT INFRASTRUCTURE COST RECOVERY

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

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

(1) "Commission" means the North Carolina Utilities Commission.

(2) "Economic development infrastructure" is the natural gas infrastructure placed in service to serve an eligible project.

(3) "Economically infeasible" refers to that portion of investment in economic development infrastructure that has a negative net present value.

(4) "Eligible economic development infrastructure costs" are the economically infeasible portion of an economic development infrastructure project investment.

(5) "Eligible project" means a project that the Department of Commerce has designated as eligible under G.S. 143B-437.021.

(6) "LDC" means a natural gas local distribution company.

(7) "Net cash inflows" are the expected margin revenues, exclusive of gas costs recovered under G.S. 62-133.4, generated from the provision of natural gas service to Eligible Projects.

(8) "Net cash outflows" are reasonable and prudent economic development infrastructure costs. Such costs include, but are not limited to, the following: (a) planning costs; (b) development costs; (c) construction costs and an allowance for funds used during construction and a return on investment once the project is completed, calculated using the pretax overall rate of return approved by the Commission in the LDC's most recent general rate case; (d) a revenue retention factor; (e) depreciation; and (f) property taxes.

(9) “Net present value (NPV)” means the present value of expected future net cash inflows over the useful life of economic development infrastructure, minus the present value of net cash outflows.

(10) “Rate adjustment surcharge (RAS)” is a yearly surcharge that allows an LDC to charge a Commission approved rate to recover the eligible economic development infrastructure costs.

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

(1) Documentation showing the infrastructure is designed to serve an eligible project.

(2) A precise geographic description, a map or maps of the area proposed to be served, a detailed description of the proposed physical facilities, including their projected operating parameters and characteristics, and the arrangements that have been or are proposed to be made to obtain rights of-way.

(3) Documentation of a binding commitment from the prospective customer or the occupant of the eligible project to the LDC regarding the need to take natural gas service for a period of at least 10 years from the date the gas is made available.

(4) A market study, including an analysis of any potential customers and volumes, probable conversions from other fuels, and projected growth and economic development resulting from the infrastructure.

(5) An engineering study that includes the proposed design of the system (including a pipe network flow analysis), routing (including a review of planned or proposed state highway improvements), and construction cost estimates.

(6) An NPV analysis conducted in a generally accepted manner that provides support for the eligible economic development infrastructure costs.

(7) The estimated beginning and ending dates of the proposed construction of the infrastructure, including the date service to the eligible project is proposed to begin, and specific itemized construction budgets.

(8) Proposed rates to be charged under the RAS mechanism.

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

(1) The Commission shall provide for notice of each request for approval filed under this Rule and shall afford an opportunity for review and comment by interested parties. The Commission shall set the request for hearing if it deems it appropriate.

(2) The Commission shall enter an order approving or denying the eligible economic development infrastructure costs on a project-specific basis. The order shall include a finding of the negative net present value of economic development infrastructure costs for each eligible project. The negative NPV is the maximum amount to be recovered through the RAS for an eligible project.

(3) The LDC may request modifications to eligible economic development infrastructure costs approved by the Commission. If the Commission finds the requested change is material, the Commission shall provide for appropriate notice and shall afford an opportunity for review and comment by interested parties. The Commission shall set the proposal for hearing if it deems it appropriate.

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

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

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

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

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

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

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

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

(1) Monthly RAS Deferred Account reports reflecting the activity recorded for the month.

(2) Annual RAS Deferred Account report to recover the balance in the account and an annual computation of the Economic Development Infrastructure revenue requirement supporting the RAS for the next 12-month period.

(3) Annual reports by March 1 of each year the Eligible Project is under construction summarizing the total infrastructure costs for the preceding calendar year, the remaining balance to be spent on total infrastructure costs, and the estimated completion date of the infrastructure.

(4) Annual reports by March 1 of each year for completed Eligible Projects, providing the total amounts recovered from the RAS for each project, the amount of gas consumed each year for each project, and all customer additions and the respective natural gas load for each project. Annual reports on completed eligible projects are required until the LDC's next general rate case.