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OFFICIAL COPY

Aug 29 2016

August 29, 2016

**VIA ELECTRONIC FILING**

Chief Clerk  
North Carolina Utilities Commission  
Dobbs Building  
430 North Salisbury Street  
Raleigh, North Carolina 27603

Re: Docket No. G-5, Sub 565

Dear Chief Clerk:

Enclosed on behalf of Public Service Company of North Carolina, Inc. is its Supplemental Testimony of Candace A. Paton to replace Ms. Paton's supplemental testimony as filed on August 25, 2016 in the above-referenced proceeding.

If you have any questions regarding this filing, please do not hesitate to call me.  
Thank you for your assistance with this matter.

Very truly yours,

/s/Mary Lynne Grigg

MLG:gmp

Enclosures

BEFORE THE  
NORTH CAROLINA UTILITIES COMMISSION  
PUBLIC SERVICE COMPANY OF NORTH CAROLINA, INC.

DOCKET NO. G-5, SUB 565

SUPPLEMENTAL TESTIMONY  
OF  
CANDACE A. PATON

AUGUST 29, 2016

1 Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND CURRENT  
2 POSITION WITH PUBLIC SERVICE COMPANY OF NORTH  
3 CAROLINA, INC.

4 A. My name is Candace A. Paton. I am employed by SCANA Services, Inc. as  
5 Rates & Regulatory Manager for Public Service Company of North Carolina,  
6 Inc., d/b/a PSNC Energy (“PSNC” or “the Company”). My business address  
7 is 800 Gaston Road, Gastonia, North Carolina 28056.

8 Q. HAVE YOU PREVIOUSLY FILED TESTIMONY IN THIS PROCEEDING?

9 A. Yes. I pre-filed direct testimony in this proceeding on March 31, 2016.

10 Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL TESTIMONY?

11 A. The purpose of my supplemental testimony is to support the Stipulation filed  
12 in this proceeding on August 29, 2016.

13 Q. PLEASE DESCRIBE THE EVENTS WHICH LEAD TO THE FILING OF A  
14 STIPULATION IN THIS PROCEEDING.

15 A. Subsequent to the filing of the Company’s Application in this docket, PSNC,  
16 the Public Staff, Carolina Utility Customers Association, Inc., and Blue Ridge  
17 Paper Products Inc. d/b/a Evergreen Packaging (collectively, “the Stipulating  
18 Parties”) engaged in substantial discovery regarding the matters contained  
19 therein. Additionally, the Public Staff spent several days in both Gastonia and  
20 SCANA’s corporate office in Cayce, South Carolina, performing on-site audits  
21 and interviewing various Company personnel. After lengthy negotiations in  
22 multiple meetings and conference calls, the Stipulating Parties were able to  
23 arrive at a partial settlement of all but one issue in the case. The Stipulating

1 Parties were ultimately able to resolve the final issue, which resulted in the  
2 filing of the Stipulation on August 29, 2016.

3 Q. WHAT WAS THE OUTCOME OF THE NEGOTIATIONS AMONG THE  
4 STIPULATING PARTIES?

5 A. The agreement reflected in the Stipulation was the result of the give-and-take  
6 negotiations in which each party made substantial compromises on individual  
7 issues in order to obtain a compromise from the other parties on other issues.  
8 In the end, each party believes that the results reached, in the aggregate, are  
9 fair to the Company and its customers.

10 Q. PLEASE SUMMARIZE THE EFFECT OF THE STIPULATION ON  
11 PSNC'S REQUESTED REVENUE INCREASE.

12 A. This effect is shown on Paton Supplemental Exhibits 1 and 2. The  
13 recommended change in margin on Paton Supplemental Exhibit 1 reflects the  
14 amortization of MGP, PIM and DIMP costs as set forth on Supplemental  
15 Paton Exhibit 2. In addition, the recommended change in margin reflects a  
16 further decrease in advertising expenses of \$159,027.

17 Q. DOES THE STIPULATION MAKE CHANGES TO ANY OF PSNC'S  
18 RATE SCHEDULES?

19 A. Yes. The Stipulation adds a sixth step to Rate Schedules 145 and 175.

20 Q. DO YOU HAVE A SCHEDULE THAT SHOWS THE EFFECT OF THE  
21 STIPULATION ON PSNC'S RATES AND CHARGES?

22 A. Not at this time. The Parties have agreed to the rate design principles and the  
23 revenue requirement and will work together to file revised rates by close of

1 business this Wednesday, August 31, 2016.

2 Q. ARE THERE ANY OTHER ITEMS IN THE STIPULATION THAT  
3 REQUIRE FURTHER ACTION?

4 A. Yes. Paragraph 10 of the Stipulation addresses the adoption of an Integrity  
5 Management Tracker ("IMT"). That paragraph provides for the Company and  
6 the Public Staff to work together to determine the appropriate level of costs  
7 associated with the planned Highway 751 transmission integrity management  
8 project as well as other projects which may have significant non-integrity  
9 management components. Working together to resolve such issues before the  
10 fact will improve the accounting, reporting, and auditing process of the IMT  
11 for all parties.

12 As discussed in paragraph 8 of the Stipulation, the Company and the  
13 Public Staff have agreed to work together to determine the appropriate rate  
14 adjustment needed to reflect the decrease in the state income tax rate from 4%  
15 to 3% effective January 1, 2017. Additionally, as discussed in the testimony  
16 of Public Staff witness Boswell the Company and the Public Staff have agreed  
17 to determine the appropriate amount of excess accumulated deferred income  
18 taxes to be refunded resulting from the decrease in the state income tax rate  
19 from 4% to 3%.

20 Q. IN YOUR OPINION DOES THE STIPULATION REFLECT A FAIR, JUST,  
21 AND REASONABLE RESOLUTION OF THE ISSUES IT COVERS?

22 A. Yes. The Stipulation is the result of negotiations between the Stipulating  
23 Parties who, collectively, represent all segments of PSNC's customer base

1           impacted by this rate case. It resolves all the issues in the case without the  
2           necessity of contentious litigation. In summary, I respectfully request that the  
3           Commission approve the Stipulation in its entirety.

4       Q.   DOES THIS COMPLETE YOUR SUPPLEMENTAL TESTIMONY?

5       A.   Yes, it does.

Public Service Company of North Carolina  
Docket No. G-5, Sub 565

RECONCILIATION OF GROSS REVENUE INCREASE REQUESTED BY THE COMPANY TO THE  
SETTLEMENT AMOUNT

For The Test Year Ended December 31, 2015

Line No.	Item	Amount
1	Increase in revenue requirement requested by the Company	\$41,583,020
	Settlement Adjustments:	
2	Change in equity ratio from 53.75% to 52.00%	(1,614,203)
3	Change in cost of long-term debt from 5.66% to 5.52%	(593,475)
4	Change in cost of short-term debt from 0.82% to 0.77%	(16,056)
5	Change in return on equity from 10.60% to 9.70%	(7,125,357)
6	Plant in Service Updates and Related Items at June 30, 2016	51,324
7	Working Capital Updates at June 30, 2016	(158,131)
8	Update gas in storage through June 2016	(563,311)
9	Update materials and supplies through June 2016	91,901
10	ADIT - updated to June 30, 2016	174,724
11	Adjust working capital for lead lag to reflect Settlement adjustments	196,137
12	Adjustment to end of period revenue - weather, growth, and commodity costs	(1,457,266)
13	Adjustment to other operating revenues	(114,232)
14	Special Contract - remove PIS associated with facilities	(517,243)
15	Payroll and Related Expenses	(288,568)
16	Bonus accruals updated to actuals 6/30/16	(1,183,067)
17	Payroll Benefits Percentage - updated through June 30, 2016	(21,854)
18	Modify the allocation of incentive pay for certain executives to PSNC	(872,982)
19	Executive Compensation Adjustment	(280,405)
20	Remove retired executive compensation	(139,795)
21	Nonutility Adjustment - O&M expense	(262,228)
22	Nonutility Adjustment - effect of change in plant additions	(24,508)
23	Inflation Adjustment - removed certain expenses and updated rate to 2.2%	450,911
24	Rate Case Expenses - updated through June 30, 2016 w/ 5 yr amortization	(77,327)
25	Postage Adjustment - excluded growth since adjusted elsewhere & removed adv.	(145,282)
26	Uncollectibles - changes in revenue	(22,533)
27	Regulatory Fee - change for 0.148% to 0.14% per Commission Order	(34,439)
28	MGP Costs - update actual expenses @ 6/30/16	(887,970) [1]
29	PIM Costs - update actual expenses @ 6/30/16	(1,651,192) [1]
30	DIMP Costs - deferral	(1,706,430) [1]
31	SalesForce Adjustment - ongoing level	(37,532)
32	Advertising - remove promotional, image, competitive, & non-recurring	(678,559)
33	Update Interest on Customer Deposits through June 2016	(11,382)
34	Service Company Charges - removed unsupported budgeted charges	(3,228,865)
35	Update GTI to June 2016 actual meters	(6,394)
36	Fuel Costs - adjust to test year fuel costs	(117,471)
37	Adjustment to remove lobbying expenses	(168,417)
38	Change in retention factor - regulatory fee changes	(3,332)
39	Adjust cash working capital for revenue impact of Settlement adjustments	(150,481)
40	Rounding	43
41	Settlement Adjustments	(23,195,245)
42	Recommended Change in Margin	\$18,387,775
43	Fixed Gas Cost Adjustment	643,643
44	LAUF Rate Change	22,742
45	Recommended Change in Revenue Requirement per Settlement	\$19,054,160

Public Service Company of North Carolina, Inc.  
Docket No. G-5, Sub 565  
Revised MGP, PIM & DIMP Amortizations

	MGP		PIM		DIMP		Total
1 Balance @ 6/30/16	\$6,848,729	[1]	\$20,309,785	[2]	\$1,501,093	[3]	\$28,659,607
2 Years	5		5		5		5
3 Annual amortization	<u>1,369,746</u>		<u>4,061,957</u>		<u>300,219</u>		<u>5,731,921</u>
4 MGP as filed	2,254,255	[4]					2,254,255
5 PIM as filed			5,706,715	[5]			5,706,715
6 DIMP as filed					2,000,000	[6]	2,000,000
7 Total	<u>2,254,255</u>		<u>5,706,715</u>		<u>2,000,000</u>		<u>9,960,970</u>
8 Adjustment	<u>(\$884,509)</u>		<u>(\$1,644,758)</u>		<u>(\$1,699,781)</u>		<u>(\$4,229,049)</u>
9 Revenue requirement	<u>(\$887,970)</u>		<u>(\$1,651,192)</u>		<u>(\$1,706,430)</u>		<u>(\$4,245,592)</u> [7]

- [1] Boswell Exhibit 1, Schedule 3-13, Line 2 plus Line 3  
[2] Boswell Exhibit 1, Schedule 3-12, Line 2 plus Line 3  
[3] Boswell Exhibit 1, Schedule 3-14, Line 3  
[4] Docket No. G-5, Sub 565, N.C.U.C. Form G-1, Item 4, Workpaper 3-I, Line 7  
[5] Docket No. G-5, Sub 565, N.C.U.C. Form G-1, Item 4, Workpaper 3-K, Line 7  
[6] Docket No. G-5, Sub 565, N.C.U.C. Form G-1, Item 4, Workpaper 3-P  
[7] Line 8 ÷ .9961035