

**STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH**

**STAFF CONFERENCE AGENDA
JANUARY 28, 2019**

COMMISSION STAFF

NO AGENDA ITEMS

PUBLIC STAFF

B. NATURAL GAS

- P1. DOCKET NO. G-5, SUB 599 - APPLICATION OF PUBLIC SERVICE COMPANY OF NORTH CAROLINA, INC., FOR AN ADJUSTMENT OF ITS RATES AND CHARGES TO TRACK CHANGES IN ITS WHOLESALE COST OF GAS

EXPLANATION: On January 16, 2019, Public Service Company of North Carolina, Inc. (PSNC), filed an application, pursuant to N.C. Gen. Stat. § 62-133.4, Commission Rule R1-17(k)(3)(a), and PSNC's Rider D, requesting authority to decrease its sales rates by \$0.5049 per dekatherm (dt) and its transportation rates by \$0.0049 per dt effective February 1, 2019. The decrease is a result of a change in PSNC's Benchmark Commodity Gas Cost from \$4.25 per dt to \$3.75 per dt, as well as the change in the company use and unaccounted for gas as described in PSNC's Rider D.

The Public Staff has reviewed the application and recommends approval as filed.

EXHIBIT: A copy of the proposed order is attached as Exhibit No. P-1.

RECOMMENDATION: (Gilbert) That the Commission issue the proposed order approving PSNC's proposed rate changes as filed.

C. COMMUNICATIONS

P1. FILING OF INTERCONNECTION AGREEMENT AMENDMENTS BY AT&T

EXPLANATION: The following interconnection agreement amendments were filed for Commission approval between November 6, 2018, and November 27, 2018:

BellSouth Telecommunications, LLC, d/b/a AT&T North Carolina (AT&T)

Docket No. P-55, Subs 1735 and 1901

Amendment filed on November 6, 2018, following a merger transaction between Neutral Tandem-North Carolina, LLC (Neutral Tandem) and Onvoy, LLC (Onvoy), that implements changes to the interconnection agreement with Neutral Tandem-North Carolina, LLC, approved by the Commission in Docket No. P-55, Sub 1735, on March 27, 2008. Under the amendment, certain AT&T services will be provided to Onvoy under the amended Neutral Tandem agreement, including changing the name in that agreement from Neutral Tandem to Onvoy. This amended agreement supersedes AT&T's existing agreement with Onvoy, approved by the Commission on November 26, 2014, in Docket No. P-55, Sub 1901.

The parties agree to continue use of Neutral Tandem's company codes and to assign Onvoy's company codes to the Neutral Tandem agreement. This amendment also replaces Section N of the Neutral Tandem agreement with new language specifying the terms for providing notices between the parties and new contact information.

Docket No. P-55, Sub 1460

Amendment filed on November 27, 2018, to an interconnection agreement with Matrix Telecom, LLC, approved by the Commission on August 11, 2003. The amendment modifies certain provisions of the agreement related to Operations Support Systems, including adding new language regarding Data Connection Security Requirements and replacing Section N with new language specifying terms and conditions for providing notices between the parties and new contact information.

These filings were made in compliance with Commission Rule R17-4(d) and Sections 252(e) and 252(i) of the Telecommunications Act of 1996. The Act provides for the filing of such agreements and amendments with the state commission and approval or rejection by the state commission within 90 days after filing. On June 18, 1996, the Commission issued an Order in Docket No. P-100, Sub 133, allowing interim operation under negotiated agreements filed as public records prior to Commission approval of the agreements.

The Public Staff has reviewed these filings and recommends Commission approval.

RECOMMENDATION: (Proffitt) That orders be issued approving the amendments effective on the date they were filed. The Public Staff has provided copies of the proposed orders to the Commission's Legal Staff.

D. ELECTRIC

P1. APPLICATION FOR CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY TO CONSTRUCT SOLAR FACILITY

EXPLANATION: The following application seeking a certificate of public convenience and necessity pursuant to N.C. Gen. Stat. § 62-110.1 for construction of a solar photovoltaic electric generating facility was filed pursuant to Commission Rule R8-64.

North Carolina Electric Membership Corporation:

- Docket Nos. SP-9830, Sub 1, SP-9831, Sub 1, and SP-9832, Sub 1 – Application filed on November 30, 2018, by Panda Solar NC 9, LLC, Panda Solar NC 10, LLC, and Panda Solar NC 11, LLC, for a certificate to construct a 5.97-MW_{AC} facility in Cumberland County, North Carolina

The Public Staff has reviewed the application and determined that it complies with the requirements of N.C. Gen. Stat. § 62-110.1 and Commission Rule R8-64.

RECOMMENDATION: (Saillor/D. Williamson) That the Commission issue an order approving the application and issuing the requested certificate for this facility. A proposed order has been provided to the Commission Staff.

P2. DOCKET NOS. E-2, SUB 998A and E-7 SUB 986A – DUKE ENERGY CAROLINAS, LLC AND DUKE ENERGY PROGRESS, LLC – JOINT MOTION FOR AUTHORITY TO TRANSFER INTERCOMPANY ASSETS AND FOR RELATED ACCOUNTING AUTHORITY

EXPLANATION: On January 9, 2019, Duke Energy Carolinas, LLC, and Duke Energy Progress, LLC (DEC, DEP or collectively the Companies), filed a Joint Motion for Authority to Transfer Intercompany Assets and For Approval of Accounting Treatment (Joint Motion) pursuant to their Intercompany Asset Transfer Agreement (IATA), which has been approved by the Commission in the above-referenced dockets. The Companies are requesting Commission approval of the following. First, the Companies request to transfer inventory in excess of \$10 million from DEP to DEC for rotatable fleet spare (RFS) components in anticipation of scheduled maintenance during major outages in early 2019 at DEC's Buck Combined Cycle Plant Units 11 and 12. DEP and DEC maintain that through these transfers, the Companies can coordinate and optimize the management of their respective RFS inventories and create potential maintenance outage cost savings through the transfer of RFS parts between them at fair market value.

Second, the Companies request Commission authority to use the following Federal Energy Regulatory Commission (FERC) accounts: (1) Account 182 - Other Regulatory Assets and (2) Account 254 – Other Regulatory Liabilities. The Companies propose to account for the difference between the transfer price (market value) and the cost of the assets by utilizing the above referenced accounts.

Finally, the Companies request expedited consideration of the Joint Motion because the proposed transfers are in anticipation of maintenance to be performed during major planned outages at the transferee facilities in early 2019.

In support of the Joint Motion, the Companies assert that the used and useful lives of the Companies' generating units often extend over 30 years and that certain rotatable parts must be replaced more often. Both DEC and DEP have constructed multiple turbine units in the past decade which require certain rotatable parts to be replaced approximately every three years. Currently, the Companies have two sets of rotatable components that support six Base Load, Advanced Gas Path units. The Companies maintain that transferring these components between DEP and DEC will enable the respective Companies to manage the combined fleet of generating units with only two sets of rotatable components, versus four sets if these transfers are not allowed. The Companies assert that the combined savings compared to additional inventory purchases is approximately \$30 million. The Companies also assert that the total gross values to be transferred from DEP to DEC are \$20,373,179, the depreciated net value of the transfer is \$18,786,288 and the fair market value is \$13,733,807.

The Companies are required to seek Commission approval for the transfer of assets with a fair market value in excess of \$10 million under Section 1.1 of the IATA. As a result, DEC and DEP are seeking Commission approval to transfer RFS components from DEP's inventory to DEC's inventory to optimize their respective spare parts inventories ahead of maintenance to be performed during major planned outages at the Buck Combined Cycle Plant Units 11 and 12. Therefore, the Companies propose an inventory-to-inventory transfer at the fair market value of \$13,733,807 from DEP to DEC. DEP and DEC both assert that this request is in the public interest, as it would benefit the transferring utility by allowing efficient deployment of its RFS assets without penalizing the purchasing utility by requiring the transfer of used components to occur at the materially higher net book value, which is \$18,786,288. The Companies indicate that DEP would be able to transfer the RFS assets for which it has no immediate need, and DEC would be able to obtain assets it needs at fair market value. Both DEC and DEP assert that this increased coordination of inventory would result in the combined RFS inventory of DEP and DEC being reduced, which would result in material costs savings for DEP, DEC, and their ratepayers.

DEP and DEP maintain that if they are allowed to evaluate the third-party purchases and the asset transfer between themselves using the comparable market of the refurbished RFS part[s], this will send the purchasing utility a more appropriate price signal and would also allow DEP and DEC to optimize the use of their respective RFS inventories for the benefit of their respective customers. The Companies also assert that if the proposed transfers are made at market value, the purchasing utility and the selling utility will have to account for the difference between the transfer price (market value) and the book value of the assets. DEC and DEP propose that the difference between the transfer price and cost be accounted for by the purchasing utility using FERC Account 254 – Other Regulatory Liabilities and by the selling utility using FERC Account 182 – Other Regulatory Assets. The fair market value of these assets is lower than the book value; therefore, that is the value on which DEC and DEP propose to base their accounting treatment.

DEC and DEP also propose to record acquired RFS assets in their plant, accumulated depreciation, and inventory accounts at net book value. DEC proposes to record a regulatory liability in the amount of (\$5,052,481) for the difference between the net book value recorded and the market value paid, which will be amortized to reduce the cost of service over a relatively short period of time. DEP proposes to remove the assets from its rate base accounts at net book value, but will record the difference between those amounts and the payment received as a regulatory asset in the amount of \$5,052,481, which will be amortized as an increase to the cost of service over a similarly short time period. The Companies assert that this treatment will remove a disincentive for the recipient in any given case to engage in an affiliate transaction likely to be economic, and will result in a more economic use of the combined assets of the two utilities. The Companies assert that the proposed accounting and cost of service treatment is consistent with appropriate ratemaking practices. The Companies assert that there are two good reasons for the Commission to approve the use of FERC accounts 254 and 182 and for the RFS asset transfers to be based on market value. The first is that DEC and

DEP are required by Section 5.7 of the Regulatory Conditions to file Annual Reports of Affiliate Transactions, and allowing this accounting treatment will not diminish the Commission's authority to review the prudence of the transfers or appropriateness of the pricing in future proceedings, including ratemaking dockets, and that there is no disadvantage to allowing the Companies to properly account for the at-market transfers. The second is that the Companies assert that the request does not involve a change to any DEC or DEP rate or tariff. As a result, the Companies submit that neither notice to the public nor a hearing is required.

It is the Public Staff's understanding from conversations with representatives of the Companies that the Companies desire approval of the physical transfers of these assets as soon as absolutely possible. The Public Staff does not have operational concerns regarding the transfer. However, given the filing date of January 9, 2018, the Public Staff is still in the process of its investigation and review of the Joint Motion to verify and evaluate the assertions made by the Companies in this matter regarding regulatory accounting and ratemaking treatment. Based on its preliminary review, the Public Staff does not object to allowing DEP to transfer the RFS components to DEC, with dollar amounts recorded as requested in the Joint Motion, on a provisional basis. Once the Public Staff's review is complete, it will bring its final recommendations to the Commission, via either a filing or placement of the matter on an agenda for a future Commission Staff Conference. In the meantime, the Public Staff recommends that the Commission allow DEP to transfer inventory, specifically RFS components, to DEC and allow DEP and DEC to utilize FERC accounts 182 and 254 on a provisional basis. The Public Staff further recommends that the Commission's Order state that for ratemaking purposes, this action does not constitute approval of the amount of compensation paid pursuant to this transaction, and that the authority granted by the Order is without prejudice to the right of any party to take issue with any provision of this transaction in a future proceeding.

EXHIBIT: A proposed order is attached as Exhibit No. P-2.

RECOMMENDATION: (Peedin/Maness/Culpepper) That the Commission (1) issue the proposed order allowing DEP to transfer inventory, specifically RFS components, to DEC; (2) allow the Companies to utilize FERC Account 182 – Other Regulatory Assets and Account 254 – Other Regulatory Liabilities on a provisional basis, and (3) state that for ratemaking purposes, the Commission's Order does not constitute approval of the amount of compensation paid pursuant to this transaction, and that the authority granted by the Order is without prejudice to the right of any party to take issue with any provision of this transaction in a future proceeding.

**STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH**

DOCKET NO. G-5, SUB 599

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of Application of Public Service Company) of North Carolina, Inc., for an Adjustment) of its Rates and Charges to Track) Changes in its Wholesale Cost of Gas)	ORDER APPROVING RATE CHANGE EFFECTIVE FEBRUARY 1, 2019
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BY THE COMMISSION: On January 16, 2019, Public Service Company of North Carolina, Inc. (PSNC), filed an application, pursuant to N.C. Gen. Stat. § 62-133.4, Commission Rule R1-17(k)(3)(a), and PSNC's Rider D, requesting authority to decrease its sales rates by \$0.5049 per dekatherm (dt) and its transportation rates by \$0.0049 per dt effective February 1, 2019. The decrease is a result of a change in PSNC's Benchmark Commodity Gas Cost from \$4.25 per dt to \$3.75 per dt, as well as the change in the company use and unaccounted for gas as described in PSNC's Rider D.

The Public Staff presented this matter to the Commission at its January 28, 2019, Regular Staff Conference. The Public Staff stated that it had reviewed the proposed rate changes and recommended approval as filed.

Based upon review of the application and the recommendation of the Public Staff, the Commission is of the opinion that the proposed rate changes should be allowed to become effective as filed.

IT IS, THEREFORE, ORDERED as follows:

1. That PSNC is authorized to decrease its sales rates by \$0.5049 per dekatherm effective for service rendered on and after February 1, 2019.
2. That PSNC is authorized to decrease its transportation rates by \$0.0049 per dekatherm effective for service rendered on and after February 1, 2019.
3. That PSNC shall file revised tariffs consistent with Ordering Paragraphs 1 and 2 within five (5) days of the date of this Order.

4. That PSNC shall give notice to its customers of the rate changes authorized in this Order.

ISSUED BY ORDER OF THE COMMISSION.

This the _____ day of _____, 2019.

NORTH CAROLINA UTILITIES COMMISSION

M. Lynn Jarvis, Chief Clerk

**STATE OF NORTH CAROLINA
NORTH CAROLINA UTILITIES COMMISSION
RALEIGH**

DOCKET NO. E-2, SUB 998A
DOCKET NO. E-7, SUB 986A

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of		
Joint Motion by Duke Energy Carolinas, LLC, and)	
Duke Energy Progress, LLC, for Approval to)	ORDER ON
Transfer Certain Intercompany Assets)	JOINT MOTION
And for Related Accounting Authority)	

BY THE COMMISSION: On January 9, 2019, Duke Energy Carolinas, LLC, and Duke Energy Progress, LLC (DEC, DEP or collectively the Companies), filed a Joint Motion for Authority to Transfer Intercompany Assets and For Approval of Accounting Treatment (Joint Motion) pursuant to their Intercompany Asset Transfer Agreement (IATA), which has been approved by the Commission in the above-referenced dockets.

In the Joint Motion, the Companies request Commission approval of the following. First, the Companies request to transfer inventory in excess of \$10 million from DEP to DEC for rotatable fleet spare (RFS) components in anticipation of scheduled maintenance during major outages in early 2019 at DEC’s Buck Combined Cycle Plant Units 11 and 12. DEP and DEC maintain that through these transfers, the Companies can coordinate and optimize the management of their respective RFS inventories and create potential maintenance outage cost savings through the transfer of RFS parts between them at fair market value.

Second, the Companies request Commission authority to use the following Federal Energy Regulatory Commission (FERC) accounts: (1) Account 182 – Other Regulatory Assets and (2) Account 254 – Other Regulatory Liabilities. The Companies propose to account for the difference between the transfer price (market value) and the cost of the assets by utilizing the above referenced accounts.

Finally, the Companies request expedited consideration of the Joint Motion because the proposed transfers are in anticipation of maintenance to be performed during major planned outages at the transferee facilities in early 2019.

In support of the Joint Motion, the Companies assert that the used and useful lives of the Companies’ generating units often extend over 30 years and that certain rotatable

parts must be replaced more often. Both DEC and DEP have constructed multiple turbine units in the past decade which require certain rotatable parts to be replaced approximately every three years. Currently, the Companies have two sets of rotatable components that support six Base Load, Advanced Gas Path units. The Companies maintain that transferring these components between DEP and DEC will enable the respective Companies to manage the combined fleet of generating units with only two sets of rotatable components, versus four sets if these transfers are not allowed. The Companies assert that the combined savings compared to additional inventory purchases is approximately \$30 million. The Companies also assert that the total gross values to be transferred from DEP to DEC are \$20,373,179, the depreciated net value of the transfer is \$18,786,288 and the fair market value is \$13,733,807.

The Companies are required to seek Commission approval for the transfer of assets with a fair market value in excess of \$10 million under Section 1.1 of the IATA. As a result, DEC and DEP are seeking Commission approval to transfer RFS components from DEP's inventory to DEC's inventory to optimize their respective spare parts inventories ahead of maintenance to be performed during major planned outages at the Buck Combined Cycle Plant Units 11 and 12. Therefore, the Companies propose an inventory-to-inventory transfer at the fair market value of \$13,733,807 from DEP to DEC. DEP and DEC both assert that this request is in the public interest, as it would benefit the transferring utility by allowing efficient deployment of its RFS assets without penalizing the purchasing utility by requiring the transfer of used components to occur at the materially higher net book value, which is \$18,786,288. The Companies indicate that DEP would be able to transfer the RFS assets for which it has no immediate need, and DEC would be able to obtain assets it needs at fair market value. Both DEC and DEP assert that this increased coordination of inventory would result in the combined RFS inventory of DEP and DEC being reduced, which would result in material costs savings for DEP, DEC, and their ratepayers.

DEP and DEP maintain that if they are allowed to evaluate the third-party purchases and the asset transfer between themselves using the comparable market of the refurbished RFS part[s], this will send the purchasing utility a more appropriate price signal and would also allow DEP and DEC to optimize the use of their respective RFS inventories for the benefit of their respective customers. The Companies also assert that if the proposed transfers are made at market value, the purchasing utility and the selling utility will have to account for the difference between the transfer price (market value) and the book value of the assets. DEC and DEP propose that the difference between the transfer price and cost be accounted for by the purchasing utility using FERC Account 254 – Other Regulatory Liabilities and by the selling utility using FERC Account 182 – Other Regulatory Assets. The fair market value of these assets is lower than the book value; therefore, that is the value on which DEC and DEP propose to base their accounting treatment.

DEC and DEP also propose to record acquired RFS assets in their plant, accumulated depreciation, and inventory accounts at net book value. DEC proposes to record a regulatory liability in the amount of (\$5,052,481) for the difference between the net book value recorded and the market value paid, which will be amortized to reduce the cost of service over a relatively short period of time. DEP proposes to remove the assets from its rate base accounts at net book value, but will record the difference between those amounts and the payment received as a regulatory asset in the amount of \$5,052,481, which will be amortized as an increase to the cost of service over a similarly short time period. The Companies assert that this treatment will remove a disincentive for the recipient in any given case to engage in an affiliate transaction likely to be economic, and will result in a more economic use of the combined assets of the two utilities. The Companies assert that the proposed accounting and cost of service treatment is consistent with appropriate ratemaking practices. The Companies assert that there are two good reasons for the Commission to approve the use of FERC accounts 254 and 182 and for the RFS asset transfers to be based on market value. The first is that DEC and DEP are required by Section 5.7 of the Regulatory Conditions to file Annual Reports of Affiliate Transactions, and allowing this accounting treatment will not diminish the Commission's authority to review the prudence of the transfers or appropriateness of the pricing in future proceedings, including ratemaking dockets, and that there is no disadvantage to allowing the Companies to properly account for the at-market transfers. The second is that the Companies assert that the request does not involve a change to any DEC or DEP rate or tariff. As a result, the Companies submit that neither notice to the public nor a hearing is required.

The Public Staff presented this item at the January 28, 2019, Staff Conference and indicated that it is the Public Staff's understanding from conversations with representatives of the Companies that the Companies desire approval of the physical transfers of these assets as soon as absolutely possible. The Public Staff stated that it does not have operational concerns regarding the transfer. However, given the filing date of January 9, 2018, the Public Staff stated that it is still in the process of its investigation and review of the Joint Motion to verify and evaluate the assertions made by the Companies in this matter regarding regulatory accounting and ratemaking treatment. Based on its preliminary review, the Public Staff stated that it does not object to allowing DEP to transfer the RFS components to DEC, with dollar amounts recorded as requested in the Joint Motion, on a provisional basis. Once the Public Staff's review is complete, it will bring its final recommendations to the Commission, via either a filing or placement of the matter on an agenda for a future Commission Staff Conference. In the meantime, the Public Staff recommended that the Commission allow DEP to transfer inventory, specifically RFS components, to DEC and allow DEP and DEC to utilize FERC accounts 182 and 254 on a provisional basis. The Public Staff further recommended that the Commission's Order state that for ratemaking purposes, this action does not constitute

approval of the amount of compensation paid pursuant to this transaction, and that the authority granted by the Order is without prejudice to the right of any party to take issue with any provision of this transaction in a future proceeding.

Based upon the foregoing, the Commission concludes that the Public Staff's recommendations should be accepted.

IT IS, THEREFORE, ORDERED as follows:

1. That DEP is allowed to transfer inventory, specifically RFS components, to DEC;
2. That DEP and DEC are allowed to utilize FERC Account 182 – Other Regulatory Assets and FERC Account 254 – Other Regulatory Liabilities on a provisional basis; and
3. That for ratemaking purposes, the Commission's Order does not constitute approval of the amount of compensation paid pursuant to this transaction, and that the authority granted by the Order is without prejudice to the right of any party to take issue with any provision of this transaction in a future proceeding.

ISSUED BY ORDER OF THE COMMISSION.

This the ____ day of January, 2019.

NORTH CAROLINA UTILITIES COMMISSION

Martha Lynn Jarvis, Chief Clerk