



March 2, 2017

Ms. M. Lynn Jarvis  
Chief Clerk  
North Carolina Utilities Commission  
4325 Mail Service Center  
Raleigh, NC 27699-4325

Re: Docket No. G-5, Sub 565, Application for a General Increase in Rates  
and Charges

Dear Ms. Jarvis:

PSNC is submitting for filing a revised Rider E to its Tariff as required by the Commission's Order dated February 28, 2017. A marked-up copy of the previously approved Rider E is also included.

If you have any questions, please call me at 704-834-6317.

Sincerely,

Electronically submitted  
/s/Candace A. Paton  
Rates & Regulatory Manager  
[cpaton@scana.com](mailto:cpaton@scana.com)

## INTEGRITY MANAGEMENT TRACKER - RIDER E

Under G.S. 62-133.7A the Commission may adopt a rate adjustment mechanism to allow a natural gas local distribution company to recover "the prudently incurred capital investment and associated costs of complying with federal gas pipeline safety requirements." These capital investment and associated costs are required in order to comply with federal laws and regulations, will generate no additional revenue for PSNC, and vary significantly in nature, scope, and scale from prior system reinforcement/maintenance projects and also from PSNC's more usual system expansion projects. The Integrity Management Tracker is authorized to allow PSNC to recover the integrity management plant investment net of excluded costs. At the time of PSNC's next general rate case proceeding, all prudently incurred Integrity Management Plant Investment associated with this Rider E shall be included in base rates and the Excluded Costs shall be eligible for inclusion in recoverable rate base.

### **I. Definitions**

- (a) "Excluded Costs" means the portion of capital expenditures related to system enhancement and system strengthening of a capital project that results in more volumes, higher pressure, or larger pipe sizes. These costs are not included in the Integrity Management Plant Investment recovered through this Rider E.
- (b) "Integrity Management Adjustment" means a per-Therm amount calculated under this Rider E as an increment and applied to the applicable rate schedules to recover the IMRR biannually for the six-month periods ending June 30th and December 31st.
- (c) "Integrity Management Deferred Account" means a deferred account established under this Rider E subject to the Integrity Management Deferred Account Adjustment for such account.
- (d) "Integrity Management Deferred Account Adjustment" means a monthly adjustment to the Integrity Management Deferred Account as calculated under this Rider E.
- (e) "Integrity Management Deferred Account True-Up Adjustment" means an annual adjustment to recover the balance in the Integrity Management Deferred Account as of January 31st as calculated under this Rider E.
- (f) "Integrity Management Month Factor" means the percentage of annualized and normalized Therms as set forth in the Relevant Rate Order by month for the applicable rate schedules.
- (g) "Integrity Management Plant Investment" means the gross plant and associated costs incurred by PSNC resulting from prevailing federal standards for pipeline integrity and safety, net of Excluded Costs, and not otherwise included in current base rates.
- (h) "Integrity Management Revenue Requirement" or "IMRR" means the total annual revenue requirement for the Integrity Management Plant Investment as calculated under this Rider E.
- (i) "Relevant Rate Order" means the final order of the Commission in PSNC's most recent rate case fixing PSNC's rates or the most recent final order of the Commission specifically prescribing the factors and procedures to be used in the application of this Rider E.
- (j) "Special Contract" means any contract, including for electric generation, for Service entered into between PSNC and a Customer that provides for rates, terms or conditions that vary from those set forth PSNC's Tariff, Rate Schedules, or Rules and Regulations.
- (k) "Vintage year" means the fiscal year during which the Integrity Management Plant Investment is made.

### **II. Applicable Rate Schedules**

The base rates for Service under PSNC's Rate Schedule Nos. 101, 102, 115, 125, 126, 127, 135, 140, 145, 150, 160, 165, 175, and 180 shall be subject to an Integrity Management Adjustment in accordance with this Rider E.

### **III. Computation of Integrity Management Revenue Requirement**

- (a) PSNC shall file by January 31st and July 31st of each year information showing the computation of the IMRR that forms the basis of the biannual Integrity Management Adjustment for the six-month period ending the prior December 31st and June 30th, respectively.

- (b) The total revenue requirement will be calculated for each Vintage Year of Integrity Management Plant Investment, as follows:

Integrity Management Plant Investment	\$X,XXX,XXX
Less: Accumulated Depreciation	XXX,XXX
Less: Accumulated Deferred Income Taxes	XXX,XXX
Net Plant Investment	\$X,XXX,XXX
Pre-Tax ROR 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

- (c) The IMRR for each Vintage Year of Integrity Management Plant Investment is reduced by a Special Contract Credit to compute the Net IMRR. The Net IMRR forms the basis for determining the Integrity Management Adjustment. The Special Contract Credit represents the amount provided by the Special Contracts towards the Integrity Management Plant Investment. Until PSNC's next general rate case, the Special Contract Credits applicable to each twelve-month period beginning January 1 are as follows:

January 1, 2019	\$
January 1, 2020	\$
January 1, 2021	\$
January 1, 2022	\$
January 1, 2023	\$

- (d) The amount of the Special Contract Credit shall be amended one year after the effective date of any new contract or amendment, approved by the Commission after the effective date of this Rider E, where PSNC provides natural gas redelivery service to an electric generation customer at a levelized rate.
- (e) For the purposes of determining the Net IMRR on a biannual basis, the Special Contract Credit shall be prorated by month using the Integrity Management Month Factors shown in subsection (f).
- (f) Each month PSNC will charge its Integrity Management Deferred Account for the portion of the Net IMRR (the IMRR as reduced by the Special Contract Credit), that corresponds to that month. The monthly IMRR is the product of the annual Net IMRR and the Integrity Management Month Factor. The Integrity Management Month Factor for each month is as follows:

January	15.33%
February	13.16%
March	10.74%
April	6.95%
May	5.09%
June	4.27%
July	4.31%
August	4.35%
September	4.52%
October	7.30%
November	10.53%
December	13.45%

**IV. Computation of Biannual Integrity Management Adjustment**

- (a) PSNC will file for Commission approval by February 15th and August 15th of each year a revision to its Tariff and information showing the computation of the Integrity Management Adjustment for each rate schedule that it proposes to charge during the six-month period beginning the following March 1st and September 1st, respectively.
- (b) To compute the Integrity Management Adjustment, the Net IMRR shall first be apportioned to each customer class based on margin apportionment percentages established in the Relevant Rate Order. The customer class apportionment percentages are as follows:

Residential Rate Schedules 101, 102, 115	69.89%
Commercial Rate Schedules 125, 126, 127, 140	19.92%
Large General - Firm Rate Schedules 145, 175	7.25%
Large General - Interruptible Rate Schedules 135, 150, 160, 165, 180	2.94%

- (c) The amount of the Net IMRR apportioned to each rate schedule will then be divided by the annual Therms as set forth in the Relevant Rate Order for each rate schedule to determine the Integrity Management Adjustment to the nearest one-thousandth cent per Therm. The annual Therms of throughput used in the computation of the Integrity Management Adjustment for each rate schedule is as follows:

Residential Rate Schedules 101, 102, 115	302,709,607
Commercial Rate Schedules 125, 126, 127, 140	154,775,495
Large General - Firm Rate Schedules 145, 175	202,384,732
Large General - Interruptible Rate Schedules 135, 150, 160, 165, 180	148,716,728

- (d) Each month PSNC will credit the Integrity Management Deferred Account for the amount of the Integrity Management Adjustment collected from customers. The amount of the Integrity Management Adjustment collected from Customers will be computed by multiplying the Integrity Management Adjustment for each rate schedule by the corresponding actual Therms of usage billed Customers for the month.

**V. Computation of Integrity Management Deferred Account True-Up Adjustment**

- (a) PSNC will file with the Commission by February 15th to recover through an Integrity Management Deferred Account True-Up Adjustment the balance in the Integrity Management Deferred Account as of the prior January 31st.
- (b) The Integrity Management Deferred Account True-Up Adjustment will be computed by multiplying the balance of the Integrity Management Deferred Account, as of January 31st, by the customer class apportionment percentages determined in Section IV above. The Integrity Management Deferred Account balance apportioned to each customer class shall then be divided by the annual Therms of throughput for each of the applicable rate schedules shown in Section IV above to determine the Integrity Management Deferred Account True-Up Adjustment applicable to each rate schedule for the following twelve-month period beginning March 1st. The Integrity Management Deferred Account True-Up Adjustment will be computed to the nearest one-thousandth cent per Therm.
- (c) PSNC may, at its discretion, file for further Integrity Management Deferred Account True-Up Adjustments throughout the year, upon 14 days' notice to the Commission

**VI. Interest**

Interest will be applied to the Integrity Management Deferred Account at a rate of 6.6% per annum. This rate shall be reviewed annually.

**VII. Integrity Management Deferred Account**

PSNC shall maintain an Integrity Management Deferred Account for the purpose of recording the monthly (a) Net IMRR, (b) Integrity Management Adjustment, (c) Integrity Management Deferred Account True-Up Adjustment, and (d) interest on the Integrity Management Deferred Account.

**VIII. Monthly Filing with Commission**

PSNC shall file monthly (a) a report providing in detail the current month's Integrity Management Plant Investment, including supporting documentation for the amount incurred by project, (b) the cumulative Integrity Management Plant Investment subject to this Rider E, and (c) a report of the activity recorded for the month in the Integrity Management Deferred Account. Such reports will be filed within 45 days after the end of the month for which the report is being filed.

**IX. Annual Integrity Management Plant Investment Forecast**

PSNC shall file by January 31st its projected three-year plan of Integrity Management Plant Investment, which will encompass Integrity Management Plant Investment planned for its next three fiscal years.

**X. Review and Approval of Annual Report and Rates**

- (a) PSNC shall file an annual report summarizing the Integrity Management Plant Investment for the prior 12-month period ending December 31st and the data substantiating and supporting its IMRR calculation for the next biannual Integrity Management Adjustment by January 31st.
- (b) Upon PSNC's annual report filing, the Public Staff and any other intervenors of record shall have until the following May 15th to review such filing and to prepare and file with the Commission a report of such review to include supporting testimony if disallowances or adjustments are proposed in such report. PSNC shall have until June 1st to respond to any report or testimony filed by the Public Staff or other intervenors and, to the extent necessary to resolve disputes regarding PSNC's annual report, such disputes shall be promptly scheduled for hearing by the Commission with the goal of resolving such disputes by Commission order issued by August 15th with corresponding rate adjustments made on a prospective basis on September 1st.

**XI. Commission Review**

The terms and conditions of this Rider E shall be reviewed, and prospective modifications considered by the Commission: (1) in PSNC's next general rate case; or (2) at the end of four years from the effective date of this Rider E, whichever first occurs. Furthermore, any interested party may petition the Commission to modify or terminate Rider E on the grounds that, as approved, it is no longer in the public interest.

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Less: Accumulated Deferred Income Taxes	XXX,XXX
Net Plant Investment	\$X,XXX,XXX
Pre-Tax ROR 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

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Large General - Firm Rate Schedules 145, 175	7.25%
Large General - Interruptible Rate Schedules <u>135</u> , 150, 160, 165, 180	2. <del>90</del> <u>94</u> %

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