

**STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH**

DOCKET NO. G-9, SUB 727

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of
Application of Piedmont Natural Gas Company, Inc. for Annual Review of Gas Costs Pursuant to N.C.G.S. § 62-133.4(c) and Commission Rule R1-17(k)(6))
ORDER ON ANNUAL REVIEW OF GAS COSTS)

HEARD: Tuesday, October 2, 2018, at 10:00 a.m., in Commission Hearing Room 2115, Dobbs Building, 430 North Salisbury Street, Raleigh, North Carolina

BEFORE: Commissioner ToNola D. Brown-Bland, Presiding, Commissioner Lyons Gray and Commissioner Charlotte A. Mitchell

APPEARANCES:

For Piedmont Natural Gas Company, Inc.:

James H. Jeffries IV, McGuireWoods LLP, 201 N. Tryon Street, Suite 3000, Charlotte, North Carolina 28202

Brian S. Heslin, Duke Energy Corporation, 550 S. Tryon Street, Charlotte, North Carolina 28202

For the Using and Consuming Public:

Elizabeth D. Culpepper, Staff Attorney, Public Staff – North Carolina Utilities Commission, 4326 Mail Service Center, Raleigh, North Carolina 27699

For Carolina Utility Customers Association, Inc.:

Robert F. Page, Crisp & Page, PLLC, 4010 Barrett Drive, Suite 205, Raleigh, North Carolina 27609

BY THE COMMISSION: On August 1, 2018, pursuant to N.C. Gen. Stat. § 62-133.4(c) and Commission Rule R1-17(k)(6), Piedmont Natural Gas Company, Inc. (Piedmont or Company), filed the direct testimonies and exhibits of MaryBeth Tomlinson, Manager of Gas Accounting; Gennifer Raney, Director of Pipeline Services; and Sarah E. Stably, Managing Director of Gas Supply Optimization and Pipeline Services. Piedmont's witnesses attested to the prudence of the Company's gas purchasing practices and the accuracy of the Company's gas cost accounting for the twelve-month period ended May 31, 2018 (review period).

On August 7, 2018, the Commission issued its Order Scheduling Hearing, Requiring Filing of Testimony, Establishing Discovery Guidelines and Requiring Public Notice. This Order established a hearing date of October 2, 2018, set prefiled testimony dates, and required the Company to give notice to its customers of the hearing on this matter.

On August 23, 2018, Carolina Utility Customers Association, Inc. (CUCA) filed a petition seeking to intervene in this docket. On August 24, 2018, the Commission issued an Order Granting Petition to Intervene.

On September 17, 2018, the Public Staff filed the prefiled joint testimony of Poornima Jayasheela, Staff Accountant, Natural Gas Section, Accounting Division; Zarka H. Naba, Public Utilities Engineer, Natural Gas Division; and Michael C. Maness, Director, Accounting Division (Public Staff Panel or Panel). The Public Staff revised its filed testimony on October 1, 2018.

On September 24, 2018, the Commission issued its Order Providing Notice of Commission Questions.

On September 27, 2018, September 28, 2018, October 1, 2018, and October 2, 2018, numerous consumer statements of position were filed with the Commission.

On September 28, 2018 and October 1, 2018, Piedmont filed written responses to the Commission's September 24, 2018 questions.

On October 1, 2018, the Company filed its affidavits of publication.

On October 2, 2018, this matter came on for hearing as scheduled, and all prefiled testimony and exhibits were admitted into evidence. Public witness Cathy Buckley testified on behalf of members of the Sierra Club.

On November 28, 2018, the Joint Proposed Order of Piedmont and the Public Staff was filed.

On December 7, 2018, the Public Staff filed a motion requesting that the Commission accept corrections to its pre-filed testimony. The Commission issued an order on December 11, 2018, accepting the Public Staff's corrected testimony.

Based on the testimony and exhibits received into evidence and the record as a whole, the Commission makes the following:

FINDINGS OF FACT

1. Piedmont is a public utility as defined in Chapter 62 of the North Carolina General Statutes and is subject to the jurisdiction and regulation of the Commission.

2. Piedmont is engaged primarily in the business of transporting, distributing, and selling natural gas to customers in North Carolina, South Carolina, and Tennessee.

3. Piedmont has filed with the Commission and submitted to the Public Staff all of the information required by N.C.G.S. § 62-133.4(c) and Commission Rule R1-17(k).

4. The review period in this proceeding is the twelve months ended May 31, 2018.

5. The Company properly accounted for its gas costs incurred during the review period.

6. During the review period, the Company incurred total North Carolina gas costs of \$343,478,124, which was comprised of demand and storage charges of \$129,398,029, commodity gas costs of \$220,382,071, and other gas costs of (\$6,301,977).

7. At May 31, 2018, the Company had a credit balance of \$15,300 owed from the Company to the customers in its Sales Customers Only Deferred Account, and a credit balance of \$17,078,428, owed from the Company to the customers, in its All Customers Deferred Account.

8. During the review period, Piedmont actively participated in secondary market transactions earning actual margins of \$32,831,848 for the benefit of North Carolina ratepayers.

9. Piedmont operated a gas cost hedging program on behalf of customers during the review period. Piedmont's hedging activities during the review period were reasonable and prudent.

10. At May 31, 2018, the balance in the Company's Hedging Deferred Account was a debit balance of \$5,207,171.

11. It is appropriate for the Company to include the \$5,207,171 debit balance in its Hedging Deferred Account in its Sales Customers Only Deferred Account. The combined balance for the Hedging and Sales Customers Only Deferred Accounts is a net debit balance of \$5,191,871.

12. The Company has transportation and storage contracts with interstate pipelines, which provide for the transportation of gas to the Company's system, and long-term supply contracts with producers, marketers, and other suppliers.

13. The Company utilized a "best cost" gas purchasing policy during the applicable review period consisting of five main components: price of gas, security of the gas supply, flexibility of the gas supply, gas deliverability, and supplier relations.

14. The Company's gas purchasing policy and practices during the review period were prudent.

15. The Company's capacity acquisition planning and arrangements are reasonable and prudent.

16. The Company's gas costs during the review period were prudently incurred, and the Company should be permitted to recover 100% of such prudently incurred gas costs.

17. The Company should implement the temporary rate decrement and increments as proposed by Company witness Tomlinson and agreed to by the Public Staff Panel.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 1-2

The evidence supporting these findings of fact is contained in the official files and records of the Commission and the testimony of Company witnesses Tomlinson, Raney, and Stabley. These findings are essentially informational, procedural, or jurisdictional in nature and are not contested by any party.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 3-4

The evidence supporting these findings of fact is contained in the testimony of Company witnesses Tomlinson, Raney, and Stabley, and the revised testimony of the Public Staff Panel. These findings are made pursuant to N.C.G.S. § 62-133.4(c) and Commission Rule R1-17(k)(6).

Pursuant to N.C.G.S. § 62-133.4, Piedmont is required to submit to the Commission information and data for an historical 12-month review period including Piedmont's actual cost of gas, volumes of purchased gas, sales volumes, negotiated sales volumes, and transportation volumes. Commission Rule R1-17(k)(6)(a) establishes May 31, 2018, as the end date of the annual review period for the Company in this proceeding. Commission Rule R1-17(k)(6)(c) requires that Piedmont file weather-normalized data, sales volumes, work papers, and direct testimony and exhibits supporting the information.

Company witness Tomlinson testified that the Company filed with the Commission and submitted to the Public Staff throughout the review period complete monthly accountings of the computations required by Commission Rule R1-17(k)(6)(c). Witness Tomlinson included the annual data required by Commission Rule R1-17(k)(6)(c) as Exhibit_(MBT-1) to her direct testimony. The Public Staff Panel stated that they had presented the results of their review of the gas cost information filed by Piedmont in accordance with N.C.G.S. § 62-133.4(c) and Commission Rule R1-17(k)(6).

Based upon the foregoing, the Commission concludes that Piedmont has complied with the procedural requirements of N.C.G.S. § 62-133.4(c) and Commission Rule R1-17(k) for the 12-month review period ended May 31, 2018.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 5-7

The evidence supporting these findings of fact is contained in the testimony of Company witness Tomlinson and the revised Public Staff Panel testimony.

Company witness Tomlinson testified that Piedmont incurred total North Carolina gas costs of \$343,478,124 during the review period, which was comprised of demand and storage charges of \$129,398,029, commodity gas costs of \$220,382,071, and other gas costs of (\$6,301,977).¹

The Public Staff's testimony included a thorough analysis of Piedmont's gas costs. The testimony showed that the level of demand and storage charges were down 2.6% from the level in last year's annual review in Docket No. G-9, Sub 710. The bulk of the reduction was attributed to changes in the costs of four sources of capacity. The most significant cost reduction was a \$1,789,913 reduction in the rates paid to Cardinal Pipeline Company LLC as a result of a general rate case in Docket No. G-39, Sub 38. The costs of Piedmont's capacity from Pine Needle LNG, which is regulated by the Federal Energy Regulatory Commission (FERC), decreased \$1,451,281 as a result of a change in Pine Needle LNG's Electric power and Fuel Tracker in FERC Docket No. RP17-576. The reduction of \$491,283 in Transcontinental Gas Pipe Line Company, LLC (Transco) Firm Transportation charges was the result of a reduction in the electric component of the reservation charge in FERC Docket No. RP18-541. The reduction of \$470,996 in Columbia Gulf was the result of the termination of the Columbia Gulf contract, effective October 31, 2017.

The Commission notes that the overall demand and storage costs paid by Piedmont have increased in recent years as additional capacity was added to accommodate growth. In Piedmont's Docket No. G-9, Sub 690, which covered a 12-month review period ending May 31, 2016, demand and storage costs rose to approximately \$133.2 million from \$124.5 million during the previous review period. This increase was mostly attributable to the cost of adding 100,000 dts/day on Transco's Leidy Southeast project.

Witness Tomlinson's prefiled testimony and exhibits reflected a debit balance of \$5,191,871 in Piedmont's Sales Customers Only Deferred Account and a credit balance of \$17,078,428 in its All Customers Deferred Account as of May 31, 2018. The Public Staff Panel agreed with these balances and testified that the Company properly accounted for its gas costs incurred during the review period.

¹ Immaterial difference of \$1 between this total and the individual components listed is due to rounding of amounts shown on Exhibit_ (MBT – 1), Schedule 1.

Based upon the foregoing, the Commission concludes that the Company properly accounted for its gas costs incurred during the review period. The Commission also concludes that the appropriate level of total North Carolina gas costs incurred for this proceeding is \$343,478,124. The Commission further concludes that the appropriate deferred account balances as of as of May 31, 2018, are a debit balance of \$5,191,871, owed from the customers to the Company, in its Sales Customers Only Deferred Account, and a credit balance of \$17,078,428, owed from the Company to the customers, in its All Customers Deferred Account.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 8

The evidence supporting this finding of fact is contained in the testimony of Company witness Stabley and the revised Public Staff Panel testimony.

Company witness Stabley provided testimony on the process that Piedmont utilized and the market intelligence that was evaluated during the review period to determine the prices charged for off-system sales. Witness Stabley explained that the process and information used by Piedmont in pricing off-system sales depends upon the location of the sale, term and type of the sale, and prevailing market conditions at the time of the sale. Witness Stabley stated that for long-term delivered sales (longer than one month), Piedmont generally solicits bids from potential buyers and, if acceptable, awards volumes based on bids received and its evaluation. Witness Stabley further stated that, for short-term transactions (daily or monthly), Piedmont monitors prices and volumes on the Intercontinental Exchange, as well as by talking to various market participants and, for less liquid trading points, estimating prices based on price relationships with more liquid points. The Company also evaluates the amount of supply available for sale and weighs that against current market conditions in formulating its sales strategy.

The Public Staff Panel testified that the Company earned actual total company margins of \$51,420,263 on secondary market transactions and credited the All Customers Deferred Account in the amount of \$32,831,848 for the benefit of North Carolina ratepayers ($(\$51,420,263 - 100\% \text{ of Duke Off System Sales}) \times \text{NC demand allocator} \times 75\% \text{ ratepayer sharing percent} + (100\% \text{ Duke Off System Sales} \times \text{NC demand allocator})$). The margins earned were a result of Piedmont's participation in asset management arrangements, capacity releases, and off system sales. As explained in Company witness Tomlinson's testimony, Piedmont has reported in Piedmont's Deferred Gas Cost accounts all of the margins received by Piedmont on secondary market sales and capacity release to DEC and DEP for the benefit of customers without any benefit to or sharing by Piedmont as of October 2016, the month in which the Duke Energy/Piedmont merger was consummated.

The Public Staff's analysis showed significant changes in amount of margins received from the three types of secondary market activities that Piedmont engaged in during the review period compared to the previous review period. While capacity releases still accounted for the single largest amount at \$20,465,242, margins from those transactions were down by 15%. Margins from Asset Management Agreements, at

\$10,885,208, were down 41%. Margins from off-system sales, at \$20,069,813, were up over 186%. In total, Piedmont's margins from secondary market transactions were up 3.8%.

Based on the foregoing, the Commission concludes that Piedmont actively participated in secondary market transactions, resulting in \$32,831,848 of margin for the benefit of North Carolina ratepayers during the review period.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 9-11

The evidence supporting these findings of fact is contained in the testimony of Company witnesses Tomlinson and Stabley and the revised Public Staff Panel testimony.

Company witness Tomlinson stated in her testimony that the Company had a debit balance of \$5,207,171 in its Hedging Deferred Account at May 31, 2018. The Public Staff Panel testified that the net hedging costs were composed of Economic Gains on Closed Positions of (\$114,950), Premiums Paid of \$5,016,010, Brokerage Fees and Commissions of \$69,440, and Interest on the Hedging Deferred Account of \$236,671.

Company witness Stabley testified that Piedmont's Hedging Plan accomplished its goal of providing an insurance policy to reduce gas cost volatility for customers in the event of a gas price fly up. Witness Stabley testified that the Company did not make any changes to its Hedging Plan during the review period. Witness Stabley further testified that the Company continues to utilize storage as a physical hedge to stabilize cost, and that the Company's Equal Payment Plan, the use of the Purchased Gas Adjustment benchmark price, and deferred gas cost accounting also provide a smoothing effect on gas prices.

The Public Staff Panel testified that its review of the Company's hedging activities is performed on an ongoing basis and includes analysis and evaluation of information contained in several documents and other data. These include the Company's monthly hedging deferred account reports, detailed source documentation, work papers supporting the derivation of the maximum targeted hedge volumes for each month, and periodic reports on the status of hedge coverage for each month. In addition, the Public Staff reviews periodic reports on the market values of the various financial instruments used by the Company to hedge, monthly Hedging Program Status Reports, monthly reports reconciling the Hedging Program Status Report and the hedging deferred account report. Further, the Public Staff reviews minutes from the meetings of Piedmont's Gas Market Risk Committee (GMRC), which was formerly the Energy Price Risk Management Committee, minutes from the meetings of the Board of Directors and its committees that pertain to hedging activities, reports and correspondence from the Company's internal and external auditors, hedging plan documents, communications with Company personnel regarding key hedging events and plan modifications under consideration by the GMRC, and the testimony and exhibits of the Company's witnesses in the annual proceeding.

The Public Staff Panel concluded that Piedmont's hedging activities were reasonable and prudent and recommended that the \$5,207,171 debit balance in the Hedging Deferred Account as of the end of the review period be transferred to the Sales Customers Only Deferred Account. Based on this recommendation, the Panel stated that the combined balance in the Sales Customers Only Deferred Account as of May 31, 2018 is a net debit balance, owed to the Company, of \$5,191,871.

As demonstrated by the testimony and exhibits provided by Piedmont and the Public Staff's revised testimony, the Commission finds that Piedmont's hedging program has met the objective of contributing to the mitigation of gas price volatility and avoiding rate shock to customers. The Commission concludes that Piedmont's hedging activities were reasonable and prudent and that the \$5,207,171 debit balance in the Hedging Deferred Account as of the end of the review period should be transferred to the Sales Customers Only Deferred Account. The combined balance for the Hedging and Sales Customers Only Deferred Accounts is a net debit balance of \$5,191,871, owed to the Company.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 12-16

The evidence supporting these findings of fact is contained in the testimony of Company witnesses Stabley and Raney, the Company's responses to the Commission's September 24, 2018 questions, and the revised Public Staff Panel testimony.

Company witness Stabley testified that the Company maintains a "best cost" gas purchasing policy. This policy consists of five main components: price of the gas; security of the gas supply; flexibility of the gas supply; gas deliverability; and supplier relations. Witness Stabley testified that all of these components are interrelated and that the Company weighs the relative importance of each of these factors in developing its overall gas supply portfolio to meet the needs of its customers.

Witness Stabley also described how the interrelationship of the five factors of Piedmont's "best cost" policy affects the Company's construction of its gas supply and capacity portfolio under its best cost policy. The long-term contracts, supplemented by long-term peaking services and storage, generally are aligned with the firm market; the short-term spot gas generally serves the interruptible market. In order to weigh and consider the five factors, the Company stays abreast of current issues facing the natural gas industry by intervening in all major FERC proceedings involving its pipeline transporters, maintaining constant contact with existing and potential suppliers, monitoring gas prices on a real-time basis, subscribing to industry literature, following supply and demand developments, and attending industry seminars. Witness Stabley further testified that the Company did not make any changes in its best cost gas purchasing policies or practices during the review period.

Gas Supply

Witness Stabley further testified that the Company purchases gas supplies under a diverse portfolio of contractual arrangements with a number of reputable gas producers and marketers. In general, under the Company's firm gas supply contracts, Piedmont may pay negotiated reservation fees for the right to reserve and call on firm supply service up to a maximum daily contract quantity (nominated either on a monthly or daily basis), with market-based commodity prices tied to indices published in industry trade publications. Some of these firm contracts are for winter only (peaking or seasonal) service and some provide for 365 day (annual) service. Firm gas supplies are purchased for reliability and security of service and are generally priced on a reservation fee basis according to the amount of nomination flexibility built into the contract with daily swing service generally being more expensive than monthly baseload service.

Witness Stabley testified that the Company identifies the volume and type of supply that it needs to fulfill its market requirements and generally solicits requests for proposals from a list of suppliers that the Company continuously updates as potential suppliers enter and leave the market place. The type of supply is classified as either baseload or swing. Witness Stabley stated that swing supplies priced at first of month indices command the highest reservation fees because suppliers incur all the price risk associated with market volatility during the delivery period.

Witness Stabley testified that lower reservation fees are also associated with swing contracts based upon daily market conditions since both buyer and seller assume the risk of daily market volatility. Witness Stabley stated that after forecasting the ultimate cost delivered to the city gate for each point of supply and evaluating the cost of the reservation fees associated with each type of supply and its corresponding bid, the Company makes a "best cost" decision on which type of supply and supplier best fulfills its needs. Company witness Stabley also testified regarding the current U.S. supply situation and the various pricing alternatives available, such as fixed prices, monthly market indexing, and daily spot market pricing.

Pipeline and Storage Capacity

Company witness Raney testified about the market requirements of Piedmont's North Carolina customers and the acquisition of capacity to serve those markets. Witness Raney also testified that the Company expects the economy to continue recovering and to result in potentially increasing residential, commercial, and industrial demand, and in turn, result in greater firm temperature sensitive requirements that will require firm sales service from the Company.

Witness Raney further testified that Piedmont and the natural gas industry have not seen evidence that conservation/reduced usage occurs during design day conditions. Witness Raney testified that for that reason Piedmont is confident the conservative approach to design day forecasting is the most prudent approach.

Witness Raney testified that the Company currently believes that it has sufficient supply and capacity rights to meet its near-term customer needs into the 2018-2019 winter period. Witness Raney testified that in light of prospective growth requirements, Piedmont reviewed new capacity options in addition to continuous monitoring of interstate pipeline and storage capacity offerings. Witness Raney further stated that the Company subscribed to the Leidy Southeast Expansion Project (Leidy Southeast) of Transco, for 100,000 dekatherms (dts) per day of year-around capacity and 20,000 dts per day on Transco's Virginia Southside Expansion Project (Virginia Southside). Witness Raney testified that previously contracted capacity for Leidy Southeast and Transco's Virginia Southside went into service in late 2015 and 2016. The Company signed a Precedent Agreement with the Atlantic Coast Pipeline (ACP) in October 2014 for 160,000 dts of firm capacity, which is scheduled to go in service in November 2019. Witness Raney testified that growth projections begin to show a capacity deficit beginning in the 2019-2020 timeframe if the ACP capacity does not go into service as projected.

Witness Raney testified that capacity additions are acquired in "blocks" of additional transportation, storage, or LNG capacity, as they become needed, to ensure Piedmont's ability to serve its customers based on the options available at that time. Witness Raney explained that as a practical matter, this means that at any given moment in time, Piedmont's actual capacity assets will vary somewhat from its forecasted demand capacity requirements. Witness Raney also stated that this aspect of capacity planning is unavoidable, but Piedmont attempts to mitigate the impact of any mismatch through its use of bridging services, capacity release, and off-system sales activities.

Witnesses Raney and Stabley also indicated that during the past year the Company has taken several additional steps to manage its costs, including, actively participating in proceedings at the FERC and other regulatory agencies that could reasonably be expected to affect the Company's rates and services, promoting more efficient peak day use of its system, and utilizing the flexibility within its existing supply and capacity contracts to purchase and dispatch gas, and release capacity in the most cost-effective manner.

Ms. Cathy Buckley testified as a public witness. Witness Buckley testified that she is not a customer of Piedmont, but, rather was testifying as a representative of the Sierra Club. In summary, witness Buckley made a general statement asserting that Piedmont has failed to show that its gas costs were prudently incurred. In addition, witness Buckley expressed her opinion that construction of the ACP should not be approved because the ACP is not needed, and that the Commission should disallow Piedmont's costs associated with the ACP. Further, witness Buckley requested that the Commission conduct a review of the contracts between ACP and Duke relating to the Duke utilities' subscriptions to capacity from ACP. In response to questions from the Commission, witness Buckley stated that her concerns about the ACP project are in relation to global warming and opposition to fossil fuels, and in favor of renewable fuel sources. Witness Buckley also questioned the necessity of the proposed Piedmont Robeson LNG project.

The Public Staff Panel testified that, although the scope of Commission Rule R1-17(k) is limited to a historical review period, they also considered other information in order to anticipate the Company's requirements for future needs, including design day estimates, forecasted gas supply needs, projection of capacity additions and supply changes, and customer load profile changes.

The Public Staff Panel testified that they reviewed the testimony and exhibits of the Company's witnesses, the monthly operating reports, and the gas supply and pipeline transportation and storage contracts, as well as the Company's responses to the Public Staff's data requests. Based on this review, the Panel testified that the Company's gas costs were prudently incurred.

DISCUSSION AND CONCLUSIONS

Pursuant to N.C. Gen. Stat. § 62-133.4(e), the Commission is authorized to include all costs related to the purchase and transportation of natural gas to the natural gas local distribution company's system. Pursuant to that statute, in Docket No. G-100, Sub 58, the Commission adopted Rule R1-17(k), which includes "charges in connection with the purchase, storage or transportation of gas for the LDC's system supply" in the definition of gas costs.

Further, N.C. Gen. Stat. § 62-36.01 addresses the need to have natural gas local distribution companies enter into service agreements with interstate or intrastate pipelines to provide increased competition in North Carolina's natural gas industry. It authorizes the Commission, under certain circumstances, to order natural gas local distribution companies (LDCs) to enter into such agreements. In Docket No. G-100, Sub 91, the Commission issued an Order Requiring Reporting, which required LDCs to include information in their annual reviews concerning their future capacity needs in order to assist the Commission in carrying out its responsibilities under the statute. Although the Commission is not exercising its authority under N.C.G.S. § 62-36.01 in this docket, it recognizes that Piedmont's efforts to enter into a service agreement with ACP has the desired effect of increasing competition while reducing the risk of service interruptions.

In the prefiled questions in the Commission's Order Providing Notice of Commission Questions, and at the hearing of this matter, the Commission made inquiry into variations in projected customer demand for future periods reflected in successive Piedmont annual prudence filings. In particular, the Commission focused on changes in projected demand for the winter of 2018-2019 in the four previous annual prudence review filings by Piedmont, which reflected a decrease in projected demand of approximately 47,000 dekatherms between the Docket No. G-9, Sub 690 filing and the G-9, Sub 710 filing. Piedmont's witnesses clarified that the projected demand for this future winter period was calculated in each annual review filing using a consistently applied linear regression analysis based upon an assumed usage per heating degree day. The assumed usage per heating degree day was based on actual experience over the preceding seven year period. According to Piedmont witness Raney, the drop in projected demand for the winter 2018-2019 period was attributable to the inclusion in the

look back period utilized to calculate usage per heating degree day of two relatively warm winter periods and the impacts of Hurricane Matthew. Both Piedmont witness Raney and Public Staff witness Naba indicated that they were comfortable with Piedmont's design day calculation methodology.

In the prefiled questions attached to the Commission's Order Providing Notice of Commission Questions in this docket, and on questions from the Commission at the hearing of this matter, the issue was raised as to whether Piedmont's capacity acquisition planning and arrangements were adequate to meet customer needs in light of customer growth and changing dynamics on the interstate pipelines through which Piedmont receives upstream supplies of gas. Piedmont's written responses to the prefiled questions, as well as the testimony of Company witness Raney and the revised testimony of the Public Staff Panel, support the conclusion that Piedmont's capacity acquisition planning and arrangements are reasonable and prudent to meet projected customer demand.

In addition to its design-day demand calculation, Piedmont also utilizes a five percent (5%) reserve margin in its capacity planning and acquisition activities. In its prefiled questions, the Commission noted that, when Piedmont first proposed to use a 5% reserve margin, it used a warmer design day than other LDCs in North Carolina. The Public Staff pointed to that fact to support the addition of a 5% reserve margin, stating that, with the reserve margin, Piedmont's level of demand was equivalent to that calculated using a colder design day. In a subsequent docket, a Piedmont witness also testified in effect that the reserve margin protected against demand at a colder temperature. However, Piedmont has since significantly lowered its design-day temperature criteria. In this docket, Public Staff witness Naba testified that the Public Staff had reviewed Piedmont's use of the 5% reserve margin. She stated that the 5% reserve margin provides a cushion against higher than projected customer demand or the potential for a constraint on its upstream capacity assets on a peak day. Witness Naba noted that, historically, the Public Staff has seen a growth in Piedmont's firm customer demand and that Piedmont has a legal obligation to provide natural gas to its firm customers on the coldest day of the year. The Commission recognizes Piedmont's responsibility to stand ready to serve its customers. It also recognizes that the Public Staff represents the using and consuming public and its testimony should be given significant weight. It therefore concludes that Piedmont's capacity planning and acquisition activities are reasonable and prudent in this regard.

Piedmont's testimony (and/or written responses to Commission questions) and the Public Staff Panel's revised testimony support the fact that Piedmont has an affirmative legal obligation to maintain sufficient upstream capacity assets to serve its firm customers natural gas needs. These needs are not constant throughout the year and, accordingly, Piedmont acquires upstream capacity for baseload supply, seasonal demand during the November through March timeframe each year, and for peak day projected demand on the coldest days of the year. In order to meet its legal obligations to customers, Piedmont must ensure that these baseload, seasonal, and peak day assets exceed projected customer consumption patterns. The uncontroverted testimony in this proceeding

supports the conclusion that Piedmont's capacity planning and acquisition activities taken as a whole are reasonable and prudent.

The testimony in this proceeding also demonstrates, however, that Piedmont's capacity planning has been impacted by changes in flow patterns that have occurred in recent years on the Transco pipeline. These changing flow dynamics, which include the reversal of flows in Transco's Zone 5 on occasion, have created uncertainty about the relative firmness of deliverability of supply utilizing north-to-south secondary segmented transportation rights from downstream supply sources (backhaul) on Transco. Piedmont has recently undertaken certain steps to "firm up" its capacity portfolio with respect to these supplies that were dependent on backhaul by purchasing additional primary firm North to South capacity rights on Transco in lieu of relying on secondary segmentation rights. Witness Stabley testified that firm asset management agreement contracts were used to provide for delivery to Piedmont's city gate. She also testified that agreements to firm up delivery of formally backhaul supplies is on a temporary basis, with contracts expiring in October 2019.

According to Piedmont witness Raney, the additional capacity promised by the ACP project and the proposed Robeson LNG project will also mitigate the negative impacts of changing flow dynamics on Transco. Witness Raney also testified that the vast majority of natural gas supplied to Piedmont in North Carolina currently comes off Transco, and if Transco had some serious issue, that would cause a serious issue for Piedmont.

As required in the Docket No. G-100, Sub 91 Order Requiring Reporting, Piedmont listed the FERC proceedings in which the Company participated. The Commission notes that during the review period, the Commission itself took active positions in a number of FERC dockets.

Piedmont has contracted for capacity from Transco's Eminence Storage Field (Eminence). Piedmont has not taken any position at the FERC regarding demand credits to customers where significant portions of the Eminence Storage Field are out of service. The Commission, on the other hand, has been active before the FERC on matters pertaining to Eminence.

Tomlinson Exhibit 1, Schedule 2 shows that, during the review period, Piedmont paid \$2,318,429 for ESS (Eminence) Demand and Capacity, of which 85.08% or \$1,972,519 was charged to North Carolina ratepayers.

In Docket No. CP11-551, Transco requested that it be allowed to abandon four of seven salt dome caverns at Eminence. After granting Transco's request to abandon the caverns at Eminence, the FERC established new operating parameters for each of the remaining three caverns. However, filings at the FERC show that Transco has been taking the remaining storage caverns out of service for extended periods for testing and maintenance, thereby raising questions as to whether it can meet the certificate parameters. Despite taking significant portions of the Eminence Storage Field out of

service, Transco has not been providing demand credits to customers like Piedmont. Piedmont has not pursued demand credits, which ultimately would benefit its own North Carolina customers.

In contrast, the Commission actively pursued the question of demand credits with the FERC and, as a result, Docket No. CP18-42 was opened. Transco asserted that it operates its system on an integrated basis and, as long as it meets its contractual obligations for capacity and deliverability, it does not matter what assets it actually uses to provide those services. Piedmont filed an intervention in CP18-42, but took no position.

Following the Commission's pursuit of demand credits and the opening of the related FERC docket, Transco filed a request to reduce the certificated capacity of Eminence in Docket No. CP18-145, essentially, in the Commission's opinion, conceding that Eminence could not meet the operating parameters required by FERC in CP11-551. In effect, while Transco may have met its contractual obligations to Piedmont using undefined system assets, the Commission does not believe it was, in fact, capable of meeting full contract demand for all customers at any single point in time from Eminence. Piedmont paid for and should be assured of firm service from Transco at Eminence. The Commission has no way of knowing if Transco's undefined system assets would actually have been available on a firm basis if the system had experienced a design-day event. Accordingly, the Commission filed a protest intervention in CP18-145 based on the lack of support Transco provided for its requested certificate revisions. The Commission notes that Piedmont filed an intervention in CP18-145 on April 10, 2018, but again, took no position.

The Public Staff has recommended that the Commission find that Piedmont's gas costs were prudently incurred. The Commission agrees with and will accept that recommendation. However, the Commission remains interested in Piedmont's decisions with regard to participation in matters before the FERC. In future annual reviews, the Commission will continue to monitor and closely scrutinize the positions and actions taken by Piedmont on FERC matters, including Eminence.

The Commission appreciates witness Buckley's interest in this proceeding and her time in appearing before the Commission to testify. However, the Commission gives little weight to witness Buckley's testimony, for several reasons. First, witness Buckley provided no facts in support of her assertion that Piedmont failed to show that its gas costs were prudently incurred. Second, this Commission does not have jurisdiction over either the certification or construction of the ACP project. ACP will be an interstate natural gas pipeline which, under the provisions of the federal Natural Gas Act, is subject to the exclusive jurisdiction of the FERC. As such, concerns about the need for the project, and whether the actual capacity to be provided by the project is required by the public convenience and necessity, are matters properly addressed to the FERC, not to this Commission.

Third, with respect to witness Buckley's request that the Commission conduct an inquiry into the agreements between Duke Energy utility subsidiaries subject to this

Commission's jurisdiction and ACP, the Commission notes that utility self-dealing between affiliates of Duke Energy is prohibited under statutes and the Regulatory Conditions and Code of Conduct approved by the Commission in the order approving the merger between Duke Energy and Piedmont. Order Approving Merger Subject to Regulatory Conditions and Code of Conduct, Docket Nos. E-2, Sub 1095, E-7, Sub 1100, and G-9, Sub 682 (September 29, 2016). The Commission also notes that pursuant to the Regulatory Conditions and N.C. Gen Stat. § 62-153, it has reviewed the precedent agreements between ACP and Piedmont in Docket Nos. G-9, Sub 655, E-7, Sub 1062 and E-2, Sub 1052, and has authorized Piedmont to enter into agreements for service from ACP. Finally, the Commission notes that no monies have been paid under the Piedmont precedent agreements to date and, thus, Piedmont is not seeking in this docket to recover any gas or capacity costs paid to ACP. Indeed, the Commission's orders approving the ACP precedent agreements, and amendments thereto, expressly reserve any issue of reasonable costs for resolution in subsequent proceedings. The same is and will continue to be true with regard to Piedmont's future recovery of costs associated with its Robeson LNG project.

Based on the foregoing, the Commission concludes that the Company's gas costs incurred during the review period were reasonable and prudently incurred and that the Company should be permitted to recover 100% of its prudently incurred gas costs.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 17

The evidence supporting this finding of fact is contained in the testimony of Company witness Tomlinson and the revised Public Staff Panel testimony.

Company witness Tomlinson testified that based on the Company's deferred accounts end-of-period balances, as reflected on Tomlinson Exhibit_(MBT-3) and Exhibit_(MBT-4), she recommended that the increments/decrements to Piedmont's rates be placed into effect for a period of 12 months after the effective date of the final order in this proceeding.

The Public Staff Panel testified that they had reviewed Company witness Tomlinson's proposed temporary rate increment applicable to the Sales Customers Only Deferred Account balance in Tomlinson Exhibit_(MBT-4), and the proposed temporary rate decrements applicable to the All Customers Deferred Account balance in Tomlinson Revised Exhibit_(MBT-3), and agreed that they should be implemented. The Panel also recommended that Piedmont remove all temporary rates that were implemented in Docket No. G-9, Sub 710, Piedmont's last annual review proceeding.

The Public Staff Panel further testified that Piedmont should monitor the balances in both the All Customers and Sales Customers Only Deferred Accounts, and, if needed, file an application for authority to implement new temporary increments or decrements through the Purchased Gas Adjustment mechanism in order to keep the deferred account balances at reasonable levels.

Based on the foregoing, the Commission concludes that the Company's proposed temporary rates should be implemented. In addition, the Commission concludes that it is appropriate for the Company to remove the temporary rates that were implemented in Docket No. G-9, Sub 710.

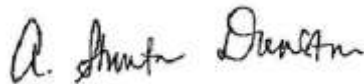
IT IS, THEREFORE, ORDERED as follows:

1. That the Company's accounting for gas costs during the 12-month period ended May 31, 2018, is approved;
2. That the gas costs incurred by Piedmont during the 12-month period ended May 31, 2018, including the Company's hedging costs, were reasonably and prudently incurred, and Piedmont is hereby authorized to recover 100% of its gas costs incurred during the review period;
3. That the Company shall remove the existing temporaries that were implemented in Docket No. G-9, Sub 710, and implement the temporary rate increment for the Sales Customers Only Deferred Account and the temporary rate decrements for the All Customers Deferred Account, as found appropriate herein, effective for service rendered on and after the first day of the month following the date of this Order;
4. That Piedmont shall give notice to its customers of the rate changes allowed in this Order; and
5. That Piedmont shall file revised tariffs within five (5) days of the date of this Order implementing the rate changes approved in Ordering Paragraph No. 3 above.

ISSUED BY ORDER OF THE COMMISSION.

This the 20th day of December, 2018.

NORTH CAROLINA UTILITIES COMMISSION



A. Shonta Dunston, Acting Deputy Clerk