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August 6, 2019

VIA ELECTRONIC FILING

Ms. Janice Fulmore, Deputy Clerk
Ms. Antonia Dunston, Deputy Clerk
North Carolina Utilities Commission
Dobbs Building
430 North Salisbury Street
Raleigh, North Carolina 27603

Re: Petition for Annual Review of Gas Costs
Docket No. G-5, Sub 608

Dear Ms. Fulmore and Ms. Dunston:

Enclosed for filing on behalf of Public Service Company of North Carolina, Inc. in the above-referenced proceeding is its *Additional Supplemental Testimony of Candace A. Paton and Paton Supplemental Exhibit 2*.

Please do not hesitate to contact me should you have any questions. Thank you for your assistance with this matter.

Very truly yours,

/s/Mary Lynne Grigg

MLG:kjg

Enclosure

BEFORE THE

NORTH CAROLINA UTILITIES COMMISSION

PUBLIC SERVICE COMPANY OF NORTH CAROLINA, INCORPORATED

DOCKET NO. G-5, SUB 608

ADDITIONAL SUPPLEMENTAL TESTIMONY

OF

CANDACE A. PATON

AUGUST 6, 2019

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, BY WHOM YOU ARE EMPLOYED AND IN WHAT CAPACITY.

A. My name is Candace A. Paton. I am employed by Dominion Energy Southeast Services, Inc., formerly SCANA Services, Inc., as Rates & Regulatory Manager for Public Service Company of North Carolina, Incorporated, d/b/a Dominion Energy North Carolina ("the Company"). My business address is 800 Gaston Road, Gastonia, North Carolina 28056.

Q. HAVE YOU PREVIOUSLY FILED TESTIMONY IN THIS PROCEEDING?

A. Yes. I pre-filed direct testimony in this proceeding on May 31, 2019, and supplemental testimony on July 29, 2019.

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

A. The purpose of my additional supplemental testimony is to provide information in response to the Order Denying in Part and Granting in Part Tariff Amendments, Requiring Reversal of Interest Charges, Requiring Annual Review of Interest Rate, and Requiring Filing of Testimony ("Interest Rate Order") issued by the Commission in this docket and Docket No. G-5, Subs 595 and 607, on July 30, 2019. The Interest Rate Order: (1) denied the Company's request to amend Riders C and E of its tariff to apply a 6.96% interest rate retroactive to January 1, 2019; (2) directed the Company to make appropriate adjustments to its Sales Customers Only, All Customers, Hedging Deferred Gas Cost Accounts, Rider C, and Rider E accounts to reflect an interest rate of 6.6% from January 1, 2018, until the date of the Interest Rate Order; (3) directed the

Company going forward to apply an interest rate of 6.96% to these accounts as well as the deferred accounts of federal provisionally collected revenues established by the Commission in Docket No. M-100, Sub 148; and (4) directed the Company to file in this docket testimony and supporting schedules that enable the Public Staff and Commission to review the interest rate and determine whether a change in the interest rate is warranted.

Q. HAS PSNC MADE ADJUSTMENTS TO THE VARIOUS DEFERRED ACCOUNTS AS REQUIRED BY THE INTEREST RATE ORDER?

A. Yes. The Company recalculated interest income and expense applicable to the various deferred accounts to determine the adjustments necessary to reflect an interest rate of 6.6% for the months of January 2018 through June 2019. Since the Interest Rate Order was issued prior to the determination of deferred account interest and balances for July 2019, an interest rate of 6.96% was used to determine interest and deferred account balances for that month. Paton Supplemental Exhibit 2, Schedule 1, sets forth the revised balances and the adjustment to interest income and expense. As shown on Schedule 1, adjustments to the various deferred accounts decreases a total net under-collection of $17,209,508.16 to $17,161,024.31, resulting in a net credit to customers of $48,483.85.

Q. WHAT IMPACT DO THE ADJUSTMENTS HAVE ON THE COST OF GAS IN THIS DOCKET?

A. The per books and adjusted balances as of March 31, 2019, of the Sales Customers Only, All Customers, and Hedging Deferred Gas Cost Accounts are set forth on Paton Supplemental Exhibit 2, Schedule 2. The deferred account and interest adjustments do not impact the cost of gas for the 12-month review period ended March 31, 2019.

Q. A NET UNDER-COLLECTION OF $17 MILLION SEEMS SUBSTANTIAL. CAN YOU COMMENT?

A. Yes. Schedule 3 of Paton Supplemental Exhibit 2 sets forth the actual monthly balances in the various deferred accounts for the 18-month period of January 2018 through June 2019 and the average balances for that period. As shown in column [k] of Schedule 3, the Company currently has a total net under-collection of $17 million for the ten deferred accounts; however, the average net under-collection for the period is $9.6 million.

Q. IN DOCKET NO. G-5, SUB 578, THE COMMISSION STATED THAT THE BALANCES IN THE SALES CUSTOMERS AND ALL CUSTOMERS DEFERRED ACCOUNTS SHOULD NOT BE LOOKED AT AS ONE BALANCE WHEN DETERMINING WHETHER OR NOT A RATE ADJUSTMENT IS NECESSARY. WHY IS IT RELEVANT TO LOOK AT ALL DEFERRED ACCOUNT BALANCES AS A WHOLE?

A. The Company is not suggesting or requesting that the deferred account balances be treated as one account; Schedule 3 is provided for informational purposes only. The Commission stated on page 5 of the Interest Rate Order that "in principle, the idea is for PSNC to manage its deferred accounts such that neither PSNC nor its ratepayers are disadvantaged by an extended debit or credit balance. However, that principle works only when PSNC is consistent in making adjustments to its various deferred accounts, and the applicable interest rate, in order to keep credit and debit balances at a minimum, and to fairly compensate ratepayers for the use of their money during a credit balance." Schedule 3 is intended to illustrate to the Commission that the Company does attempt to adhere to this principle.

Q. PLEASE ELABORATE.

A. As discussed in the Interest Rate Order, Riders C and E of the Company's tariff have set dates for rate adjustments. Rider C, the Customer Usage Tracker ("CUT"), provides for rate adjustments April 1st and October 1st. Rider E, the Integrity Management Tracker ("IMT"), provides for rate adjustments on March 1st and September 1st. Section V(c) of Rider E does allow the Company to request additional adjustments throughout the year at the Company's discretion. The Company has not found it necessary to request any additional rate adjustments under Rider E. As can be seen in column [i] of Schedule 3, during the 18-month period the balance in the IMT deferred account has varied from a net under-collection of $1.2 million in October 2018 to a net over-collection of $1.2 million in March 2019.

The CUT deferred account balances are set forth in columns [d] through [h] of Schedule 3. As can be seen, other than the deferred account applicable to Rate 127, each of the CUT deferred accounts maintained an under-collection during the 18-month period. These balances are due to the difference between actual customer usage and the normalized level of usage determined in the Company's last general rate case, Docket No. G-5, Sub 565. Unlike Rider E, Rider C does not provide for the Company to request rate adjustments other than the rate adjustments each April and October as provided for in Sections V and VII. As a result, the Company cannot manage the balances in the CUT deferred accounts in the same way it can manage IMT deferred account balances.

The balances in the Company's deferred gas cost accounts are set forth in columns [a] through [c] of Schedule 3. Per the Commission's Order dated February 23, 1993, in Docket No. G-100, Sub 57, the Company is required to maintain a minimum balance of $19,800 in a restricted account for the purpose of paying certain NCUC legal and travel costs. As shown in column [c] of Schedule 3, on average during the 18-month period the Company maintained a balance slightly higher than that required.

Rider D, Purchased Gas Adjustment Procedures, allows the Company to file for rate adjustments as needed. The balances in the Sales Customers Only deferred account are set forth in column [a] of Schedule 3. Although the Company is currently $3.5 million over-collected in its Sales Customers Only deferred account, the average for the 18-month period is a $1 million under-collection. As shown on Schedule 3, the under-collected balance increased in November 2018 and again in December 2018. In anticipation of higher gas costs the Company increased its benchmark cost of gas from $3.00 per dekatherm ("DT") in October 2018 to $3.25 per DT in November 2018. The Company again increased the benchmark cost of gas in January 2019 to $4.25 per DT. This change resulted in a significant decrease in the under-collection in January 2019 and the balance flipped to an over-collection by the end of February 2019. After the increase in January 2019, the Company filed to decrease the benchmark cost of gas to $3.75 per DT in February 2019, then to $3.00 per DT in March 2019, and again to $2.75 per DT in July 2019. The Company does an analysis monthly to determine whether a change in the benchmark cost of gas is warranted. The Company's goal is to maintain a 12-month average balance as close to zero as reasonably possible.

The balances in the All Customers deferred account are set forth in column [b] of Schedule 3. As discussed in previous annual reviews of gas costs, in general the Company over-collects fixed gas cost during winter months and under-collects during summer months. The balances over the 18-month period show this to be the case. In anticipation of a significant over-collection in the All Customers deferred account at the end of March 2018, the Company filed to implement rate decrements effective January 1, 2018. These decrements remained in place through March 2019. In response to the rate increase implemented by Transco in March 2019 the Company filed to implement rate increments effective May 1, 2019. As with the benchmark, the Company does a monthly analysis to determine whether changes to fixed gas cost recovery rates are warranted. It should be pointed out, however, that changes in fixed gas rates do not immediately result in changes in deferred account balances as changes in the benchmark cost of gas do. As shown on Revised Exhibit C filed September 6, 2016, in the Company's last general rate case, Docket No. G-5, Sub 565, the Company's fixed gas rates are designed such that 58.58% of its fixed gas costs are recovered from residential customers during the winter months. As a result, it takes longer to affect the balance in the All Customers deferred account unless rate changes are implemented prior to or during the winter season.

The final cost of gas deferred account is the Hedging deferred account. The balances in this deferred account are set forth in column [j] of Schedule 3. This account is reviewed in the Company's annual review of gas costs. If the Company's hedging costs are deemed to be prudent the balance is transferred to the Sales Customers Only deferred account. The Company considers the combined balance in the Hedging and Sales Customers Only deferred accounts when determining whether a change in the benchmark cost of gas is warranted. As shown on Schedule 3, the current balance in the Hedging deferred account is a debit balance (owed to the Company) of less than $200,000 while the 18-month average is a debit balance of approximately $1 million.

Q. DO YOU HAVE ADDITIONAL COMMENTS ON THE INTEREST RATE TO BE APPLIED TO THE VARIOUS DEFERRED ACCOUNTS?

A. Yes. As discussed in the Interest Rate Order, in the Company's last general rate case, Docket No. G-5, Sub 565, an annual interest rate of 6.6% was approved for the calculation of interest on the various deferred accounts. Riders C and E of the Company's tariff explicitly provided for the rate to be reviewed annually and, as I testified in that case, the Company also agreed to review the rate applied to the deferred gas cost accounts annually.

Although it was not specifically stated in the rate case Stipulation or Order, the 6.6% interest rate was based on the net-of-tax return approved in the rate case. Because there was one known upcoming change in the state income tax rate with the potential for additional changes, the parties agreed that this net-of-tax return should be reviewed annually and adjusted if necessary. This agreement was reflected in language added to Riders C and E. Schedule 1 of Paton Supplemental Exhibit 1 filed in this docket on July 29, 2019, shows the determination of the 6.6% rate used to calculate interest on the Company's various deferred accounts. Schedules 2, 3, and 4 show the calculation of the net of tax return based on the reductions in the state income tax rate from 4% to 3% and then to 2.5% as well as the reduction in the federal income tax rate from 35% to 21%.

In retrospect, the Company should have expressly addressed how the tax rate changes affected the deferred accounts interest rate in its filings in Docket No. M-100, Sub 138, and Docket No. G-5, Subs 595 and 598. These filings showed the impact of the tax changes on cost of service and the Company's rates. The Company mistakenly assumed that approval of these cost of service and rate adjustments necessarily implied approval of the net-of-tax return used as the deferred account interest rate.

Q. PLEASE ADDRESS THE REQUIREMENT IN THE INTEREST RATE ORDER THAT AN INTEREST RATE OF 6.96% SHOULD BE APPLIED PROSPECTIVELY TO THE FEDERAL PROVISIONALLY COLLECTED REVENUES DEFERRED ACCOUNT ("DEFERRED REVENUE ACCOUNT").

A. The Company agrees that all deferred accounts should accrue interest at the same rate. The Company notes, however, that the Interest Rate Order was silent as to the interest rate that has been applied to the Deferred Revenue Account. The Company deferred revenue in 2017 associated with the error in determining the impact of the change in the state income tax from 4% to 3%. During 2017 the Company accrued interest on this deferral at a rate of 6.6%. As shown in the Company's February 8, 2018 filing in Dockets No. M-100, Sub 138 and G-5, Sub 565, during 2017 the Company deferred revenue of $479,271.52 and accrued $17,694.32 of interest on that deferral. Beginning in January 2018 the Company accrued interest at a rate of 6.9% and during 2019 has accrued interest at a rate of 6.96%.

Pursuant to Commission Order in Docket No. M-100, Sub 148, dated January 3, 2018, the Company began deferring revenues in January 2018 to reflect the cost of service impact of the reduction in the federal income tax rate from 35% to 21%. During 2018 the Company accrued interest on this deferral at a rate of 6.9% and during 2019 has accrued interest at a rate of 6.96%.

As shown in the Company's July 30, 2019 filing in Docket No. G-5, Sub 595, the combined balance in these two accounts as of June 30, 2019, was a credit balance of $16,447,853.35, including interest of $1,187,444.73. If these deferred accounts were adjusted to reflect the use of a 6.6% interest rate through June 30, 2019, the credit balance due to customers would decrease by $57,419.76. This would more than offset the $48,483.85 credit to customers as a result of recalculating interest on the other deferred accounts.

Q. DOES THIS CONCLUDE YOUR ADDITIONAL SUPPLEMENTAL TESTIMONY?

A. Yes.

Public Service Company of North Carolina, Inc.
Docket No. G-5, Sub 608
Paton Supplemental Exhibit 2
Adjustment to Deferred Account Balances and Interest Expense
Schedule 1

Deferred Account Balances

	Sales Cust. Def. Acct. 254.0001	All Cust. Def. Acct. 182.3011	NCUC Legal Def. Acct. 254.0002	CUT D/A Rate 101 182.3130	CUT D/A Rate 102 182.3131	CUT D/A Rate 125 182.3132	CUT D/A Rate 127 254.0133	CUT D/A Rate 140 182.3134	IMT Def. Acct. 254.0097	Hedging Def. Acct. 182.3021	Total Adjustment
Per Books Balance	(3,486,156.16)	8,621,834.86	(22,764.10)	10,518,544.54	259,451.34	1,105,606.71	(38,449.62)	192,816.88	(114,959.23)	173,582.94	17,209,508.16
Adjusted Balance	(3,491,203.48)	8,632,408.66	(22,643.82)	10,477,982.31	257,738.53	1,099,746.50	(38,272.20)	191,289.63	(114,012.76)	167,990.94	17,161,024.31
Debit/(Credit)	($5,047.32)	$10,573.80	$120.28	($40,562.23)	($1,712.81)	($5,860.21)	$177.42	($1,527.25)	$946.47	($5,592.00)	($48,483.85)

Interest Income/(Expense)

	Sales Cust. Def. Acct. Inc./(Exp.)	All Cust. Def. Acct. Inc./(Exp.)	NCUC Legal Def. Acct. Inc./(Exp.)	CUT D/A Rate 101 Inc./(Exp.)	CUT D/A Rate 102 Inc./(Exp.)	CUT D/A Rate 125 Inc./(Exp.)	CUT D/A Rate 127 Inc./(Exp.)	CUT D/A Rate 140 Inc./(Exp.)	IMT Def. Acct. Inc./(Exp.)	Hedging Def. Acct. Inc./(Exp.)	Net Adjustment Inc./(Exp.)
As Recorded	104,973.73	(221,025.92)	(2,487.86)	833,782.27	35,728.22	121,501.99	(3,679.30)	32,013.06	(16,741.50)	124,027.00	1,008,091.69
Adjusted	99,926.41	(210,452.12)	(2,367.58)	793,220.04	34,015.41	115,641.78	(3,501.88)	30,485.81	(15,795.03)	118,435.00	959,607.84
Debit/(Credit)	$5,047.32	($10,573.80)	($120.28)	$40,562.23	$1,712.81	$5,860.21	($177.42)	$1,527.25	($946.47)	$5,592.00	$48,483.85

Public Service Company of North Carolina, Inc.
Docket No. G-5, Sub 608
Paton Supplemental Exhibit 2
Per Books and Adjusted Deferred Account Balances
Schedule 2

	Sales Customers	All Customers	Hedging
Reported Balance at 3/31/19	(699,746.63)	(3,040,185.76)	(832,248.66)
Adjusted Balance at 3/31/19	(706,300.08)	(3,027,769.62)	(838,187.66)
Difference	($6,553.45)	$12,416.14	($5,939.00)

Public Service Company of North Carolina, Inc.
Docket No. G-5, Sub 608
Paton Supplemental Exhibit 2
Per Books Deferred Account Balances
Schedule 3

	Sales Cust. Def. Acct.	All Cust. Def. Acct.	NCUC Legal Def. Acct.	CUT D/A Rate 101	CUT D/A Rate 102	CUT D/A Rate 125	CUT D/A Rate 127	CUT D/A Rate 140	IMT Def. Acct.	Hedging Def. Acct.	Total Def. Acct. Balance
	[a]	[b]	[c]	[d]	[e]	[f]	[g]	[h]	[i]	[j]	[k]
Jan-18	(488,011.21)	(9,478,496.09)	(13,607.00)	8,614,404.13	402,902.83	1,531,668.50	(40,250.46)	468,638.45	(121,925.55)	1,644,221.55	2,519,545.15
Feb-18	1,545,168.33	(11,067,497.64)	(20,665.78)	14,349,048.38	529,746.96	2,595,921.71	(27,456.23)	658,149.28	(95,608.90)	2,294,062.87	10,760,868.98
Mar-18	1,443,013.56	(13,770,526.37)	(20,784.61)	5,685,266.16	350,544.48	757,884.88	(34,440.19)	258,465.13	(830,287.76)	2,376,550.23	(3,784,314.49)
Apr-18	541,552.22	(12,674,104.27)	(17,489.85)	5,484,231.12	366,217.41	903,273.47	(32,747.38)	285,130.55	(788,322.05)	2,414,000.37	(3,518,258.41)
May-18	281,031.93	(9,145,536.67)	(17,590.42)	6,456,297.39	384,182.81	957,390.32	(35,829.61)	279,170.73	(426,821.72)	2,435,940.80	1,168,235.56
Jun-18	711,422.68	(5,369,030.90)	(44,500.82)	6,845,550.72	385,159.29	1,132,508.28	(34,667.80)	358,194.03	(56,967.16)	2,491,134.06	6,418,802.38
Jul-18	453,839.20	(1,719,278.68)	(32,284.24)	6,273,548.31	376,490.34	1,074,121.71	(36,062.60)	388,282.72	220,234.47	2,501,956.76	9,500,847.99
Aug-18	171,074.99	2,020,888.04	(32,469.87)	5,650,118.84	365,676.04	962,757.20	(39,050.94)	389,965.62	492,762.59	2,654,524.10	12,636,246.61
Sep-18	173,818.76	5,612,126.03	(32,656.57)	5,691,420.05	362,633.88	1,085,776.00	(40,219.90)	430,805.52	850,912.79	2,892,552.72	17,027,169.28
Oct-18	255,265.61	7,880,513.11	(17,412.75)	7,983,638.66	381,170.65	761,239.14	(41,356.85)	259,490.40	1,187,985.96	2,885,631.28	21,536,165.21
Nov-18	3,282,890.52	6,137,601.80	(17,512.87)	5,434,932.18	301,346.03	708,225.43	(44,440.47)	174,214.73	660,452.84	1,294,728.36	17,932,438.55
Dec-18	14,412,715.16	3,360,914.56	(17,613.57)	5,539,240.78	275,163.47	1,073,840.56	(38,924.19)	226,930.31	96,601.72	(1,388,341.90)	23,540,526.90
Jan-19	5,132,887.90	(1,388,817.02)	(13,698.30)	5,076,702.28	230,184.33	220,683.29	(37,478.79)	107,875.93	(784,857.55)	(1,011,288.26)	7,532,193.81
Feb-19	(336,287.03)	(3,330,221.36)	(33,835.75)	9,238,354.35	278,136.81	1,091,025.93	(30,968.22)	239,642.24	(855,306.79)	(826,979.02)	5,433,561.16
Mar-19	(699,746.63)	(3,040,185.76)	(34,032.00)	8,155,519.05	229,082.09	805,083.75	(31,710.00)	133,151.00	(1,248,619.10)	(832,248.66)	3,436,293.74
Apr-19	(1,199,242.77)	(360,228.33)	(22,502.32)	10,145,242.36	267,506.63	1,266,250.00	(32,531.76)	194,581.70	(845,000.04)	(771,374.06)	8,642,701.41
May-19	(2,086,762.24)	4,424,579.68	(22,632.83)	11,451,625.67	283,477.63	1,399,656.96	(33,181.53)	218,746.56	(355,721.65)	(376,787.98)	14,903,000.27
Jun-19	(3,486,156.16)	8,621,834.86	(22,764.10)	10,518,544.54	259,451.34	1,105,606.71	(38,449.62)	192,816.88	(114,959.23)	173,582.94	17,209,508.16
Average	$1,117,137.49	($1,849,192.50)	($24,114.09)	$7,699,649.17	$334,948.50	$1,079,606.32	($36,098.14)	$292,458.43	($167,524.84)	$1,158,437.01	$9,605,307.35

CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing *Additional Supplemental Testimony of Candace A. Paton and Paton Supplemental Exhibit 2*, as filed in Docket No. G-5, Sub 608, were served electronically or via U.S. mail, first-class, postage prepaid, upon all parties of record.

This, the 6th day of August, 2019.

/s/Mary Lynne Grigg

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