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BEFORE

THE PUBLIC SERVICE COMMISSION OF

SOUTH CAROLINA

DOCKET NO. 2018-7-G

IN RE: Application of Piedmont Natural Gas Company, Incorporated to Have the Terms of the Natural Gas Rate Stabilization Act Apply to the Company's Rates and Charges for Gas Distribution Services	))))	**SETTLEMENT AGREEMENT**

This Settlement Agreement is made by and among the South Carolina Office of Regulatory Staff ("ORS") and Piedmont Natural Gas Company, Inc. ("PNG" or the "Company") (collectively referred to as the "Parties" or sometimes individually as a "Party").

WHEREAS, by Public Service Commission of South Carolina ("Commission") Order Nos. 2005-491 and 2005-567, dated September 28, 2005 and October 13, 2005, respectively, the Commission established a baseline for PNG under the Natural Gas Rate Stabilization Act (the "RSA") and approved certain accounting adjustments proposed by ORS and PNG;

WHEREAS, pursuant to S.C. Code Ann. § 58-5-455 (2015), PNG filed its Quarterly Monitoring Report and Proposed Rate Changes with the Commission on June 15, 2018 for the review period consisting of April 1, 2017 through March 31, 2018 ("Review Period");

WHEREAS, the Report of ORS's examination of PNG's Monitoring Report for the Twelve-Month Period Ended March 31, 2018 pursuant to the RSA, was filed with the Commission on August 31, 2018;

WHEREAS, the Parties to this Settlement Agreement are the only parties of record in the above-captioned docket;

WHEREAS, the Parties have engaged in discussions to determine if a settlement of this proceeding would be in their best interest; and,

WHEREAS, following those discussions, the Parties have each determined that their interests, and ORS has determined that the public interest, would be best served by settling the above-captioned case under the terms and conditions set forth below:

1. PNG will implement rates for the twelve-month period beginning with the first billing cycle of November 2018 calculated on the basis of a 10.2% Return on Equity ("ROE") instead of the 12.6% ROE approved by Commission Orders No. 2002-761, 2005-491, and 2005-567.

2. The Parties agree that the following are the only attachments to this Settlement Agreement: Settlement Schedule 1 (Net Operating Income and Rate of Return); Settlement Schedule 2 (Explanations of Accounting and Pro Forma Adjustments); and Settlement Schedule 3 (Weighted Cost of Capital).

3. The Parties agree that PNG will adopt the accounting adjustments of ORS as set forth in Settlement Schedule 2 as attached to this Settlement Agreement.

4. The Parties agree that, based upon the accounting adjustments proposed by ORS and adopted by PNG, a Debt/Equity Ratio of 47/53, and the agreement of PNG to implement rates based on a 10.2% ROE, South Carolina ratepayers will realize a decrease in current margin rates totaling $13,855,623. This equates to a reduction of $5,787,901 for South Carolina ratepayers when compared to rates calculated at the authorized 12.6% ROE.

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5. The Parties agree to a decrease in demand cost of $2,118,799, due to a demand cost over-recovery.

6. The Parties agree to cooperate in good faith with one another in recommending to the Commission that this Settlement Agreement be accepted and approved by the Commission as a fair, reasonable, and full resolution of the above-captioned proceeding. The Parties agree to use reasonable efforts to defend and support any Commission order issued approving this Settlement Agreement and the terms and conditions contained herein.

7. The Parties agree that by signing this Settlement Agreement, it will not constrain, inhibit or impair their arguments or positions in future proceedings. Should the Commission decline to approve this Settlement Agreement in its entirety, then any Party desiring to do so may withdraw from this Settlement Agreement without penalty.

8. This Settlement Agreement shall be interpreted according to South Carolina law.

9. Each Party acknowledges its consent and agreement to this Settlement Agreement by authorizing its counsel to affix his or her signature to this document where indicated below. Counsel's signature represents his or her representation that his or her client has authorized the execution of the agreement. Facsimile signatures and email signatures shall be as effective as original signatures to bind any Party. This document may be signed in counterparts, with the various signature pages combined with the body of the document constituting an original and provable copy of this Settlement Agreement.

[PARTY SIGNATURES TO FOLLOW ON SEPARATE PAGES]

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Settlement Schedule 1

Piedmont Natural Gas Company
South Carolina Operations
Net Operating Income and Rate of Return
For the Twelve-Month Period Ended March 31, 2018
Docket No. 2018-7-G

		(1) Per Regulatory Books	(2) ORS Accounting and Pro Forma Adjustments	(3) ORS As Adjusted	(4) Adjustments for Proposed Margin Decrease	(4A) Adjustments for 2017 Tax Act	(5) Adjustments for Demand Cost Under(Over) Recovery	(6) Total After Proposed Rates
	Operating Revenues							
1	Sale and Transportation of Gas	$ 160,372,960	$ 271,263 (1)	$ 160,644,223	$ (7,650,527) (11)	$ (6,205,096) (17)	$ (2,134,959) (22)	$ 144,653,641
2	Other Operating Revenues	687,112	0	687,112	0	0	0	687,112
3	Total Operating Revenues	161,060,072	271,263	161,331,335	(7,650,527)	(6,205,096)	(2,134,959)	145,340,753
	Operating Expenses							
4	Cost of Gas	72,167,684	(5,342,292) (2)	66,825,392	0	0	(2,118,799) (23)	64,706,593
5	Operations and Maintenance	30,221,417	(1,768,211) (3)	28,453,206	(19,096) (12)	(936,045) (18)	(5,329) (24)	27,492,736
6	Depreciation	13,024,590	1,735,365 (4)	14,759,955	0	0	0	14,759,955
7	General Taxes	7,017,387	(63,784) (5)	6,953,603	(38,811) (13)	(31,478) (19)	(10,831) (25)	6,872,483
8	State Income Taxes	(759,238)	2,616,613 (6)	1,857,375	(379,631) (14)	(261,878) (20)	0	1,215,866
9	Federal Income Taxes	8,549,869	3,801,676 (7)	12,351,545	(2,524,546) (15)	(4,975,696) (21)	0	4,851,303
10	Amortization of Investment Tax Credits	(18,535)	0	(18,535)	0	0	0	(18,535)
11	**Total Operating Expenses**	130,203,174	979,367	131,182,541	(2,962,084)	(6,205,097)	(2,134,959)	119,880,401
12	**Net Operating Income**	30,856,898	(708,104)	30,148,794	(4,688,443)	0	0	25,460,352
13	Interest on Customers' Deposits	(75,284)	0	(75,284)	0	0	0	(75,284)
14	Amortization of Debt Redemption Premium	0	0 (8)	0	0	0	0	0
15	Allowance for Funds Used During Construction	377,403	0	377,403	0	0	0	377,403
16	Customer Growth	228,341	(5,240) (9)	223,101	(34,694) (16)	0	0	188,407
17	**Net Operating Income for Return**	$ 31,387,358	$ (713,344)	$ 30,674,014	$ (4,723,137)	0	$ 0	$ 25,950,878
	Rate Base:							
18	Plant in Service	$ 624,060,903	$ 0	$ 624,060,903				$ 624,060,903
19	Accumulated Depreciation	(233,405,970)	0	(233,405,970)				(233,405,970)
20	Net Plant in Service	390,654,933	0	390,654,933				390,654,933
	Add:							
21	Construction Work in Progress	29,910,156	0	29,910,156				29,910,156
22	Materials and Supplies	7,126,250	0	7,126,250				7,126,250
23	Cash Working Capital	5,103,233	(1,518,136) (10)	3,585,097				3,585,097
	Deduct:							
24	Customers' Advances	0	0	0				0
25	Customers' Deposits	2,278,666	0	2,278,666				2,278,666
26	Accumulated Deferred Income Taxes	87,463,111	0	87,463,111				87,463,111
27	Unclaimed Funds	116,183	0	116,183				116,183
28	**Total Rate Base:**	$ 342,936,612	$ (1,518,136)	$ 341,418,476				$ 341,418,476
29	**Rate of Return**	9.15%		8.98%				7.60%
30	**Return on Common Equity**	13.13%		12.81%				10.20%

Piedmont Natural Gas Company
South Carolina Operations
Explanations of Accounting and Pro Forma Adjustments
For the Twelve-Month Period Ended March 31, 2018
Docket No. 2018-7-G

Line No.		Description	Per Piedmont	Per ORS
1		**Operating Revenues - Sale and Transportation of Gas**		
		To adjust revenues on a going-level basis.	$ (3,209,090)	$ 271,263
		Total Operating Revenues - Sale and Transportation of Gas	$ (3,209,090)	$ 271,263
2		**Cost of Gas**		
		To adjust cost of gas on a going-level basis.	$ (6,492,809)	$ (5,342,292)
		Total Cost of Gas	$ (6,492,809)	$ (5,342,292)
3		**Operations and Maintenance Expenses**		
	a.	To adjust payroll expense to the going-level basis.	$ 269,768	$ 251,612
	b.	To adjust expenses for the employee retirement and welfare benefits.	(524,160)	(507,150)
	c.	To adjust uncollectible gas margin utilizing the applicable uncollectible rate of .24961%.	(15,896)	(7,202)
	d.	To decrease expenses for allocations to non-utility activities.	(14,661)	(14,661)
	e.	To decrease expenses for equity incentive plans (formerly LTIP).	(99,023)	(262,650)
	f.	To decrease expenses for the short term incentive (formerly MVP & STIP).	(11,247)	(815,822)
	g.	To adjust expenses for lease adjustments.	666,701	378,394
	h.	To adjust expenses for the South Carolina assessment fee.	(19,451)	(31,613)
	i.	To decrease expenses for non-allowables for ratemaking purposes.	(437,597)	(850,000)
	j.	To adjust expenses for Gas Technology Institute (GTI) expense.	0	0
	k.	To adjust expenses for amortization of SC environmental expense.	121,024	118,041
	l.	To adjust lease allocation expense for leases booked to corporate that should have been allocated to the appropriate states.	(27,160)	(27,160)
		Total Operations and Maintenance Expense	$ (91,702)	$ (1,768,211)

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Piedmont Natural Gas Company
South Carolina Operations
Explanations of Accounting and Pro Forma Adjustments
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Line No.		Description	Per Piedmont	Per ORS
4		**Depreciation Expense**		
		To adjust depreciation expense on a going-level basis using the most current depreciation study rates.	$ 1,735,365	$ 1,735,365
		Total Depreciation Expense	$ 1,735,365	$ 1,735,365
5		**General Taxes**		
	a.	To allocate the appropriate amount of property tax applicable to South Carolina operations.	$ (1,137)	$ (1,137)
	b.	To adjust payroll tax expense.	$ 9,066	$ (64,023)
	c.	To adjust the utility license fee (rate of .3%) and gross receipts tax (rate of .2072986%) for the adjustment made to revenues on a going-level basis.	$ (16,686)	$ 1,376
		Total General Taxes	$ (8,757)	$ (63,784)
6		**State Income Taxes**		
		To adjust state income taxes (rate of 5%) to reflect the impact on income for accounting and pro forma adjustments.	$ 2,413,315	$ 2,616,613
		Total State Income Taxes	$ 2,413,315	$ 2,616,613
7		**Federal Income Taxes**		
		To adjust federal income taxes (rate of 35%) to reflect the impact on income for accounting and pro forma adjustments.	$ 2,449,740	$ 3,801,676
		Total Federal Income Taxes	$ 2,449,740	$ 3,801,676
8		**Amortization of Debt Redemption Premium**		
		To adjust net operating income for amortization of debt redemption premium.	$ 0	$ 0
		Total Amortization of Debt Redemption Premium	$ 0	$ 0
9		**Customer Growth**		
		To adjust net operating income to reflect an anticipated increase in customer growth (rate of .74%) for the adjustments to operating revenues and expenses.	$ (23,785)	$ (5,240)
		Total Customer Growth	$ (23,785)	$ (5,240)

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Piedmont Natural Gas Company
South Carolina Operations
Explanations of Accounting and Pro Forma Adjustments
For the Twelve-Month Period Ended March 31, 2018
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Line No.		Description	Per Piedmont	Per ORS
10		**Cash Working Capital**		
	a.	To decrease average tax accruals to zero due to a positive balance as of March 31, 2018.	(1,182,040)	(1,182,040)
	b.	To adjust cash working capital to reflect the pro forma adjustments to operation and maintenance expenses (rate of 12.5%).	$ (126,532)	$ (336,096)
		Total Cash Working Capital	$ (1,308,572)	$ (1,518,136)
11		**Operating Revenues - Sale and Transportation of Gas**		
		To adjust revenues from the sale and transportation of gas for the proposed margin decrease. ORS has recalculated this adjustment utilizing all ORS adjustments to operating experience.	$ 3,504,044	$ (7,650,527)
		Total Operating Revenues - Sale and Transportation of Gas	$ 3,504,044	$ (7,650,527)
12		**Operations and Maintenance Expenses**		
		To adjust the provision for uncollectible accounts (.24961%) for the proposed margin decrease.	$ 8,746	$ (19,096)
		Total Operations and Maintenance Expenses	$ 8,746	$ (19,096)
13		**General Taxes**		
		To adjust the utility license fee (rate of .3%) and gross receipts tax (rate of .2072986%) for the proposed margin decrease.	$ 18,220	$ (38,811)
		Total General Taxes	$ 18,220	$ (38,811)
14		**State Income Taxes**		
		To adjust state income taxes (rate of 5%) to reflect the impact on income from the proposed margin decrease.	$ 173,854	$ (379,631)
		Total State Income Taxes	$ 173,854	$ (379,631)
15		**Federal Income Taxes**		
		To adjust federal income taxes (rate of 35%) to reflect the impact on income from the proposed margin decrease.	$ 1,156,128	$ (2,524,546)
		Total Federal Income Taxes	$ 1,156,128	$ (2,524,546)

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Piedmont Natural Gas Company
South Carolina Operations
Explanations of Accounting and Pro Forma Adjustments
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Line No.		Description	Per Piedmont	Per ORS
16		**Customer Growth**		
		To adjust net operating income to reflect an anticipated customer growth (rate of .74%) for the proposed margin decrease.	$ 15,889	$ (34,694)
		Total Customer Growth	$ 15,889	$ (34,694)
17		**Operating Revenues - Sale and Transportation of Gas**		
		To decrease the revenue requirement for the sale and transportation of gas due to the impacts of the 2017 Tax Cuts and Jobs Act.	$ (7,456,682)	$ (6,205,096)
		Total Operating Revenues - Sale and Transportation of Gas	$ (7,456,682)	$ (6,205,096)
18		**Operations and Maintenance Expense**		
	a.	To decrease expenses for the 2017 tax reform EDIT giveback to customers.	$ (920,556)	$ (920,556)
	b.	To decrease the provision for uncollectible accounts (rate of .24961%) following adjustment 17.	(18,612)	(15,489)
		Total Operations and Maintenance Expense	$ (939,168)	$ (936,045)
19		**General Taxes**		
		To adjust the utility license fee (rate of .3%) and gross receipts tax (rate of .2072986%) for the adjustment to revenue for the 2017 Tax Cuts and Jobs Act.	$ (38,773)	$ (31,478)
		Total General Taxes	$ (38,773)	$ (31,478)
20		**State Income Taxes**		
		To adjust state income taxes (rate of 5%) to reflect the impact on income from adjustments 17 through 19.	$ (323,938)	$ (261,878)
		Total State Income Taxes	$ (323,938)	$ (261,878)
21		**Federal Income Taxes**		
		To adjust federal income taxes (rate of 21%) to reflect the impact on income from adjustments 17 through 20.	$ (6,154,803)	$ (4,975,696)
		Total Federal Income Taxes	$ (6,154,803)	$ (4,975,696)
22		**Operating Revenues - Sale and Transportation of Gas**		
		To decrease the revenue requirement for the sale and transportation of gas associated with demand cost over-recovery.	$ (1,734,199)	$ (2,134,959)
		Total Operating Revenues - Sale and Transportation of Gas	$ (1,734,199)	$ (2,134,959)
23		**Cost of Gas**		
		To decrease cost of gas for the demand cost over-recovery.	$ (1,718,197)	$ (2,118,799)
		Total Cost of Gas	$ (1,718,197)	$ (2,118,799)

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Piedmont Natural Gas Company
South Carolina Operations
Explanations of Accounting and Pro Forma Adjustments
For the Twelve-Month Period Ended March 31, 2018
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Line No.	Description	Per Piedmont	Per ORS
24	**Operations and Maintenance Expenses**		
	To decrease the provision for uncollectible accounts (rate of .24961%) following adjustment 22.	$ (6,999)	$ (5,329)
	Total Operations and Maintenance Expenses	$ (6,999)	$ (5,329)
25	**General Taxes**		
	To adjust the utility license fee (rate of .3%) and gross receipts tax (rate of .2072986%) following adjustment 22.	$ (9,003)	$ (10,831)
	Total General Taxes	$ (9,003)	$ (10,831)

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Settlement Schedule 3

Piedmont Natural Gas Company
South Carolina Operations
Weighted Cost of Capital
For the Twelve-Month Period Ended March 31, 2018
Docket No. 2018-7-G

			Regulatory Per Books				ORS As Adjusted				After Proposed Rates			
Description	Capital Structure	Ratio	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return
Long-Term Debt	1,783,158,316	47.00%	161,180,208	4.67%	2.19%	7,527,116	160,466,684	4.67%	2.19%	7,493,794	160,466,684	4.67%	2.19%	7,493,794
Common Equity	1,772,714,547	53.00%	181,756,404	13.13%	6.96%	23,860,242	180,951,792	12.81%	6.79%	23,180,220	180,951,792	10.20%	5.41%	18,457,084
Total	3,555,872,863	100.00%	342,936,612		9.15%	31,387,358	341,418,476		8.98%	30,674,014	341,418,476		7.60%	25,950,878