

BEFORE  
THE PUBLIC SERVICE COMMISSION OF  
SOUTH CAROLINA  
DOCKET NO. 2016-7-G - ORDER NO. 2016-705

OCTOBER 13, 2016

IN RE: Application of Piedmont Natural Gas	)	INITIAL ORDER
Company, Inc. to Have the Terms of the	)	APPROVING
Natural Gas Rate Stabilization Act Apply to	)	QUARTERLY
the Company's Rates and Charges for Gas	)	MONITORING REPORT
Distribution Services	)	AND ADOPTING
	)	SETTLEMENT
	)	AGREEMENT

This matter comes before the Public Service Commission of South Carolina (the “Commission”) pursuant to S.C. Code Ann. §§ 58-5-420(2) and 58-5-455, a portion of the Natural Gas Rate Stabilization Act (“Act”), as related to Piedmont Natural Gas Company, Inc. (“Piedmont” or the “Company”). Order No. 2005-491 established a baseline return on equity for the Company under the Act, based on the Company’s last rate case. See Order No. 2002-761. Section 58-5-455 sets out a procedure for the handling of monitoring reports under the Act related to the quarter ending March 31, which we detailed in Order No. 2005-491 at page 5.

Briefly, under Section 58-5-455, the Company files the monitoring report with the Commission and the Office of Regulatory Staff (“ORS”). Interested parties may comment on the report. Where it appears to the Commission or ORS that an adjustment in rates may be warranted, ORS shall conduct an audit of the monitoring report and specify any changes that it determines are necessary to correct errors in the report or to otherwise bring the report into compliance with the statute. Parties may comment on the ORS audit. On or

before October 15, the Commission shall issue an initial order setting forth any changes required in the utility's request to adjust rates under the statute. Any gas rate adjustments authorized under the terms of the statute shall take effect for all bills rendered on or after the first billing cycle of November of that year. This present Order is the "initial order" contemplated by S.C. Code Ann. Section 58-5-455 for Piedmont.

Pursuant to the South Carolina Natural Gas Rate Stabilization Act, Piedmont submitted its quarterly monitoring report for the twelve-month period ending March 31, 2016, as well as the required revenue calculations and any proposed changes to its tariff rates necessary to permit Piedmont the opportunity to earn the rate of return on common equity established in its last general rate case as specified in Section 58-5-420(1).

The ORS conducted a review of Piedmont's Monitoring Report for the twelve-month period ending March 31, 2016, to evaluate compliance with Section 58-5-430 and Section 58-5-440 of the Act. The ORS proposed certain adjustments to reported amounts to bring the report into conformance with those sections. Piedmont filed written comments advising the Commission that Piedmont had no objection to or comments on the findings and adjustments reflected in the ORS Audit Report.

A Settlement Agreement was reached by and among Piedmont and ORS (collectively, the Parties). The complete text of the Settlement Agreement and exhibits attached to the Settlement Agreement may be found in the Commission's Docket Management System under Docket No. 2016-7-G, Document ID No. 266526. Under the terms of the Settlement Agreement, attached hereto as Order Exhibit 1, Piedmont will implement rates for the twelve-month period beginning with the first billing cycle of

November 2016, calculated on the basis of a 10.2% return on equity (“ROE”), instead of the 12.6% ROE approved by Commission Order Nos. 2002-761, 2005-491, and 2005-567. The Parties agree that Piedmont will adopt the accounting adjustments of ORS as set forth in Schedule 2 attached to the Settlement Agreement, attached hereto as Order Exhibit 2. The Parties further agree that, based upon the accounting adjustments proposed by ORS and adopted by Piedmont, and the agreement of Piedmont to implement rates based upon a 10.2% ROE, South Carolina ratepayers will realize an increase in current margin rates totaling \$8,300,000. The Settlement Agreement states that this equates to a reduction of (\$5,072,586) for South Carolina ratepayers when compared to rates calculated on Piedmont’s authorized 12.6% ROE, which was authorized by Commission Order Nos. 2002-761, 2005-491, and 2005-567. The Parties further agree to a decrease in demand cost of (\$644,922) due to a demand cost (over)-recovery. We have examined the accounting and pro forma adjustments proposed and agreed upon by the Parties, as well as the Settlement Agreement, and we take no exception to them.

### **FINDINGS AND CONCLUSIONS**

1. S.C. Code Ann. Section 58-5-455, a portion of the Natural Gas Rate Stabilization Act, requires the filing of certain documents and the issuance of this Initial Order.
2. Changes are required to the Company’s request to adjust rates.
3. ORS has suggested certain changes to which Piedmont does not object, as outlined above. Indeed, the Parties have reached a Settlement Agreement.

4. This Commission has found no other changes appropriate or necessary other than those agreed to by the Parties.

5. The Settlement Agreement is approved. This Commission adopts the changes and adjustments proposed by the Parties and the resulting rates and charges.

6. The new approved rates and charges shall be effective for bills rendered on and after the first billing cycle in November 2016, subject to changes under the Company's Gas Cost Recovery Mechanism.

7. If it has not already done so by the date of issuance of this Order, the Company shall file its revised tariff utilizing the Commission's e-filing system for tariffs prior to its first billing cycle in November 2016. The revised tariff should be electronically filed in a text searchable PDF format using the Commission's DMS System (<http://dms.psc.sc.gov>). An additional copy should be sent via email to [etariff@psc.sc.gov](mailto:etariff@psc.sc.gov) to be included in the Commission's ETariff System (<http://etariff.psc.sc.gov>). Future revisions to the tariff should be made using the ETariff System. The revised tariff shall be consistent with the findings of this Order and shall be consistent with the Commission's Rules and Regulations, as well as the provisions of the Settlement Agreement.

8. Piedmont shall provide a reconciliation of each tariff rate change approved as a result of this order to each tariff rate revision filed in the ETariff system. Such reconciliation shall include an explanation of any differences and be submitted separately from the Company's ETariff system filing.

9. If it has not already done so by the date of issuance of this Order, the Company shall file a schedule showing the revenue produced by each and every tariffed

rate approved by the Commission and reconcile the revenue produced, by tariffed rate, to the revenue requirement approved in this Order.

10. This Order shall remain in full force and effect until further order of the Commission.

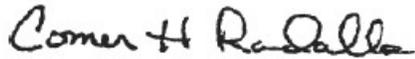
BY ORDER OF THE COMMISSION:



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Swain E. Whitfield, Chairman

ATTEST:



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Comer H. Randall, Vice Chairman

**BEFORE**  
**THE PUBLIC SERVICE COMMISSION OF**  
**SOUTH CAROLINA**  
**DOCKET NO. 2016-7-G**

August 31, 2016

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

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 (Supp. 2014), PNG filed its Quarterly Monitoring Report and Proposed Rate Changes with the Commission on June 15, 2016 for the review period consisting of April 1, 2015 through March 31, 2016 (“Review Period”);

WHEREAS, the Report of ORS’s examination of PNG’s Monitoring Report for the Twelve-Month Period Ended March 31, 2016 pursuant to the RSA, was filed with the Commission on August 31, 2016;

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 2016 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); Settlement Schedule 3 (Weighted Cost of Capital); and Settlement Schedule 4 (New Depreciation Study).**

**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, which include adjustments based upon the Company’s most recent depreciation study for the Company’s Carolinas and Corporate Assets as of October 31, 2014 (Settlement Schedule 4) and implementation of the new depreciation rates and methodologies.**

**4. The Parties agree that, based upon the accounting adjustments proposed by ORS and adopted by PNG, and the agreement of PNG to implement rates based on a 10.2% ROE, South Carolina ratepayers will realize an increase in current margin rates totaling \$8,300,000. This equates to a reduction of (\$5,072,586) for South Carolina ratepayers when compared to rates calculated at the authorized 12.6% ROE.**

5. The Parties agree to a decrease in demand cost of (\$644,922), 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.

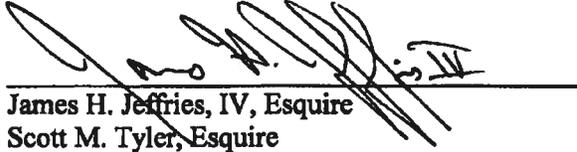
**[PARTY SIGNATURES TO FOLLOW ON SEPARATE PAGES]**

**Representing the South Carolina Office of Regulatory Staff**

A handwritten signature in black ink, appearing to read "Jeffrey Nelson", is written over a horizontal line.

Jeffrey Nelson, Esquire  
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**Representing Piedmont Natural Gas Company, Inc.**



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Settlement Schedule 2

Piedmont Natural Gas Company  
South Carolina Operations  
Explanations of Accounting and Pro Forma Adjustments  
For the Test Year Ended March 31, 2016  
Docket No. 2016-7-G

Line No.	Description	Per Piedmont	Per ORS
1	<b><u>Operating Revenues - Sale and Transportation of Gas</u></b>		
	To increase revenues on a going-level basis.	\$ 7,284,012	\$ 7,284,012
	<b><u>Total Operating Revenues - Sale and Transportation of Gas</u></b>	<b>\$ 7,284,012</b>	<b>\$ 7,284,012</b>
2	<b><u>Cost of Gas</u></b>		
	To increase cost of gas on a going-level basis.	\$ 6,147,639	\$ 6,147,639
	<b><u>Total Cost of Gas</u></b>	<b>\$ 6,147,639</b>	<b>\$ 6,147,639</b>
3	<b><u>Operations and Maintenance Expenses</u></b>		
a.	To annualize the payroll expense as of March 31, 2016.	\$ 494,383	\$ 494,383
b.	To decrease expenses for the salary and payroll investment plan. The plan allows participants to defer a portion of their base salary and the Company matches a portion of the participant's contribution.	(20,887)	(20,887)
c.	To adjust pension expenses included in the filing.	(290,561)	(290,561)
d.	To adjust uncollectible gas margin utilizing the applicable uncollectible rate of .33640%.	(25,923)	(25,923)
e.	To decrease expenses for allocations to non-utility activities.	(35,946)	(35,946)
f.	To adjust expenses for the Long-Term Incentive Plan.	(1,280,772)	(1,280,772)
g.	To decrease expenses for the Short-Term Incentive Plan.	(151,984)	(151,984)
h.	To decrease expenses for the Mission Value Performance Incentive Plan.	(18,033)	(18,033)
i.	To increase expenses for group insurance.	76,606	76,606
j.	To increase expenses for Piedmont Town Center lease.	10,804	10,804
k.	To adjust expenses for Piedmont Town Center CAM expenses.	0	0
l.	To increase expenses for SC's allocation factor adjustment.	3,404,327	3,404,327
m.	To adjust expenses for the South Carolina assessment fee.	7,503	16,208
n.	To decrease expenses for items that are nonallowable for ratemaking purposes.	(428,372)	(501,133)
o.	To adjust expenses for GTI.	0	0
p.	To adjust for South Carolina Environmental expenses.	(28,670)	(28,670)
q.	To decrease expenses for Robeson LNG project.	(312,334)	(312,334)

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Docket No. 2016-7-G

Line No.	Description	Per Piedmont	Per ORS
r.	To decrease expenses for Retention Bonuses.	(103,298)	(103,298)
	<b><u>Total Operations and Maintenance Expense</u></b>	<b><u>\$ 1,296,843</u></b>	<b><u>\$ 1,232,787</u></b>
4	<b><u>Depreciation Expense</u></b>		
	To decrease depreciation expense on a going-level basis using the most current depreciation study rates.	\$ 1,175,491	\$ (914,294)
	<b><u>Total Depreciation Expense</u></b>	<b><u>\$ 1,175,491</u></b>	<b><u>\$ (914,294)</u></b>
5	<b><u>General Taxes</u></b>		
a.	To increase payroll tax expense.	90,437	90,437
b.	To increase franchise tax (rate of .3%) and gross receipts tax (rate of .206421%) for the adjustment made to increase revenues on a going-level basis.	36,530	36,888
	<b><u>Total General Taxes</u></b>	<b><u>\$ 126,967</u></b>	<b><u>\$ 127,325</u></b>
6	<b><u>State Income Taxes</u></b>		
	To adjust state income taxes (rate of 5%) to reflect the impact on income for accounting and pro forma adjustments.	\$ (11,700)	\$ 95,983
	<b><u>Total State Income Taxes</u></b>	<b><u>\$ (11,700)</u></b>	<b><u>\$ 95,983</u></b>
7	<b><u>Federal Income Taxes</u></b>		
	To adjust federal income taxes (rate of 35%) to reflect the impact on income for accounting and pro forma adjustments.	\$ (262,774)	\$ 453,320
	<b><u>Total Federal Income Taxes</u></b>	<b><u>\$ (262,774)</u></b>	<b><u>\$ 453,320</u></b>
8	<b><u>Amortization of Debt Redemption Premium</u></b>		
	To adjust net operating income for amortization of debt redemption premium.	\$ 0	\$ 0
	<b><u>Total Amortization of Debt Redemption Premium</u></b>	<b><u>\$ 0</u></b>	<b><u>\$ 0</u></b>
9	<b><u>Customer Growth</u></b>		
	To adjust net operating income to reflect an anticipated increase in customer growth (rate of .76%) for the adjustments to operating revenues and expenses.	\$ (9,032)	\$ 1,074
	<b><u>Total Customer Growth</u></b>	<b><u>\$ (9,032)</u></b>	<b><u>\$ 1,074</u></b>

Settlement Schedule 2

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South Carolina Operations  
Explanations of Accounting and Pro Forma Adjustments  
For the Test Year Ended March 31, 2016  
Docket No. 2016-7-G

Line No.	Description	Per Piedmont	Per ORS
10	<b><u>Cash Working Capital</u></b>		
	To increase cash working capital for the pro forma adjustments to operation and maintenance expenses (rate of 12.5%).	\$ 162,105	\$ 154,098
	<b><u>Total Cash Working Capital</u></b>	<u>\$ 162,105</u>	<u>\$ 154,098</u>
11	<b><u>Operating Revenues - Sale and Transportation of Gas</u></b>		
	To increase revenues from the sale and transportation of gas for the proposed margin increase. ORS has recalculated this adjustment utilizing all ORS adjustments to operating revenues.	\$ 15,555,221	\$ 8,300,000
	<b><u>Total Operating Revenues - Sale and Transportation of Gas</u></b>	<u>\$ 15,555,221</u>	<u>\$ 8,300,000</u>
12	<b><u>Operations and Maintenance Expenses</u></b>		
	To adjust the provision for uncollectible accounts (.33640%) for the proposed margin increase.	\$ 52,328	\$ 27,921
	<b><u>Total Operations and Maintenance Expenses</u></b>	<u>\$ 52,328</u>	<u>\$ 27,921</u>
13	<b><u>General Taxes</u></b>		
	To adjust franchise taxes (rate of .3%) and gross receipts tax (rate of .206421%) for the proposed margin increase.	\$ 78,011	\$ 42,033
	<b><u>Total General Taxes</u></b>	<u>\$ 78,011</u>	<u>\$ 42,033</u>
14	<b><u>State Income Taxes</u></b>		
	To adjust state income taxes (rate of 5%) to reflect the impact on income from the proposed margin increase.	\$ 771,224	\$ 411,503
	<b><u>Total State Income Taxes</u></b>	<u>\$ 771,224</u>	<u>\$ 411,503</u>
15	<b><u>Federal Income Taxes</u></b>		
	To adjust federal income taxes (rate of 35%) to reflect the impact on income from the proposed margin increase.	\$ 5,128,773	\$ 2,736,490
	<b><u>Total Federal Income Taxes</u></b>	<u>\$ 5,128,773</u>	<u>\$ 2,736,490</u>
16	<b><u>Customer Growth</u></b>		
	To adjust net operating income to reflect an anticipated increase in customer growth (rate of .76%) for the proposed margin increase.	\$ 72,389	\$ 38,624
	<b><u>Total Customer Growth</u></b>	<u>\$ 72,389</u>	<u>\$ 38,624</u>

**Piedmont Natural Gas Company**  
**South Carolina Operations**  
**Explanations of Accounting and Pro Forma Adjustments**  
**For the Test Year Ended March 31, 2016**  
**Docket No. 2016-7-G**

<u>Line No.</u>	<u>Description</u>	<u>Per Piedmont</u>	<u>Per ORS</u>
17	<b><u>Operating Revenues - Sale and Transportation of Gas</u></b>		
	To decrease the revenue requirement for the sale and transportation of gas associated with demand cost over-recovery.	\$ (644,889)	\$ (644,922)
	<b><u>Total Operating Revenues - Sale and Transportation of Gas</u></b>	<u>\$ (644,889)</u>	<u>\$ (644,922)</u>
18	<b><u>Cost of Gas</u></b>		
	To decrease cost of gas for the demand cost over-recovery using a demand cost allocation factor of 14.92%, based upon the most recent design day study.	\$ (639,486)	\$ (639,486)
	<b><u>Total Cost of Gas</u></b>	<u>\$ (639,486)</u>	<u>\$ (639,486)</u>
19	<b><u>Operations and Maintenance Expenses</u></b>		
	To decrease the provision for uncollectible accounts (rate of .33640%) following the adjustment for demand cost over-recovery.	\$ (2,169)	\$ (2,170)
	<b><u>Total Operations and Maintenance Expenses</u></b>	<u>\$ (2,169)</u>	<u>\$ (2,170)</u>
20	<b><u>General Taxes</u></b>		
	To decrease the franchise taxes (rate of .3%) and gross receipts tax (rate of .206421%) for the adjustment to revenue for demand cost over-recovery.	\$ (3,234)	\$ (3,266)
	<b><u>Total General Taxes</u></b>	<u>\$ (3,234)</u>	<u>\$ (3,266)</u>