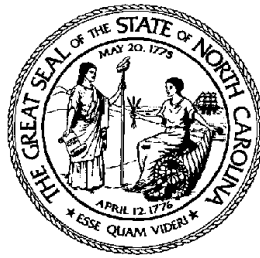


ANNUAL REPORT
to the
GENERAL ASSEMBLY



North Carolina Utilities Commission
Public Staff

2016

INTRODUCTION

The North Carolina Utilities Commission Public Staff (the “Public Staff”) was established pursuant to N.C. Gen. Stat. § 62-15 in 1977. All divisions are supervised and directed by the Public Staff's Executive Director, Christopher J. Ayers, who works to ensure that the Public Staff presents a unified position in the best interest of the customers on all issues before the Commission. The Executive Director is appointed by the Governor and confirmed by the General Assembly for a six-year term. Mr. Ayers began his term as Executive Director on July 1, 2013.

Under North Carolina law, the Public Staff represents the using and consuming public – the customers of certain of the State’s electric, telecommunications, natural gas, water, sewer, and transportation utilities – in matters before the North Carolina Utilities Commission (the “Commission”) affecting public utility rates and service. At the end of December 2016, the Public Staff was organized into eleven operating divisions: Accounting, Communications, Consumer Services, Economic Research, Electric, Executive, Information Technology, Legal, Natural Gas, Transportation, and Water/Sewer.

The Public Staff is a separate and distinct entity from the Commission. The Public Staff and Commission are independent agencies with separate staffs, leadership, and budgets. The Commission does not direct or oversee the Public Staff's operations. The Public Staff appears as a party before the Commission and is subject to rules prohibiting ex parte communications with the Commission. The Public Staff does not participate in Commission decision-making.

KEY FUNCTIONS OF THE PUBLIC STAFF

The Public Staff serves as the eyes, ears, and voice of regulated utility customers on all matters pending before the Commission. The Public Staff participates in virtually all Commission dockets in some manner, including performing audits, filing testimony, and making recommendations to the Commission. The Public Staff interfaces with the general public, media, and intervenors on utility issues and cases.

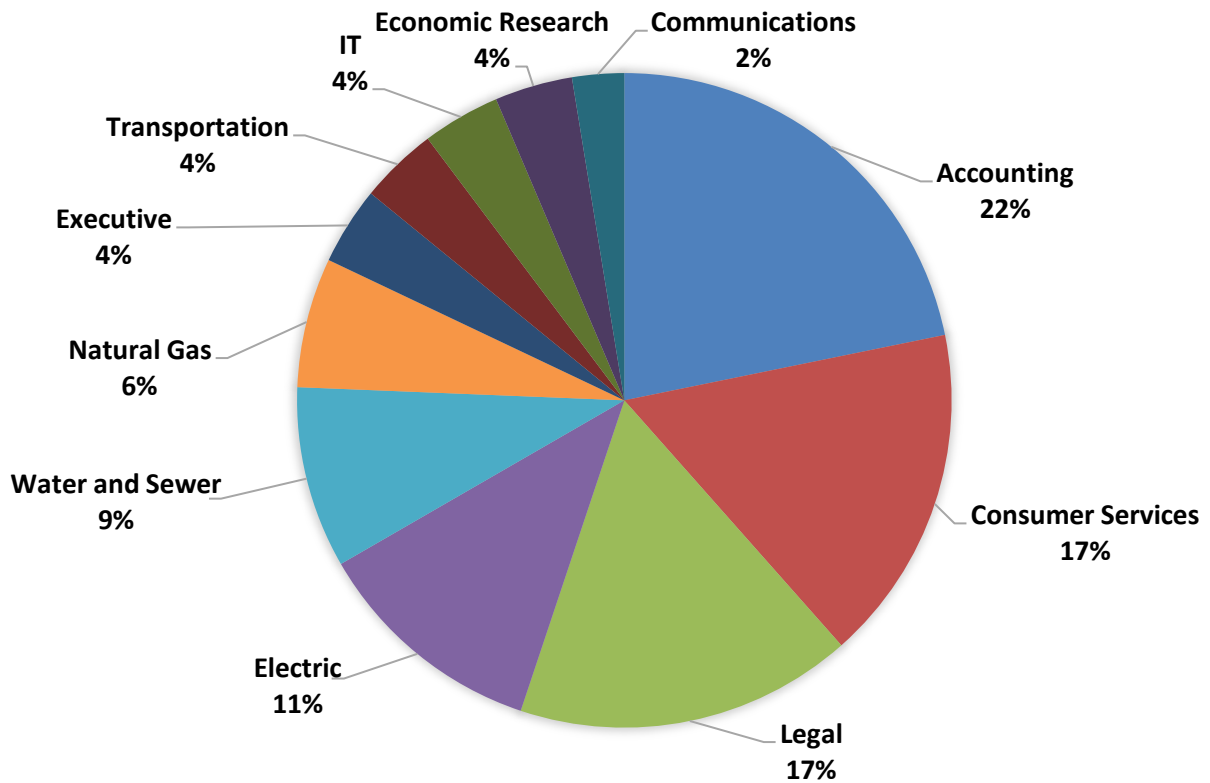
The key functions of the Public Staff are:

- Presenting testimony and recommendations to the Commission on behalf of regulated utility customers
- Investigating customer complaints
- Auditing regulated utilities in Commission investigations and proceedings
- Interfacing with the general public on utilities issues
- Assisting legislative staff and legislators regarding proposed legislation and constituent services
- Working with other State agencies, counties, and municipalities on regulated utility matters
- Providing information and guidance to parties who intervene in cases before the Commission
- Undertaking studies and making recommendations to the Commission regarding:
 - New service offerings and changes to existing services
 - Construction of new generating facilities and transmission lines
 - Mergers and acquisitions involving public utilities
- Facilitating stakeholder and working groups as requested by the Commission
- Serve as educational resource to customers and educational institutions

PUBLIC STAFF PERSONNEL ALLOCATION

As of December 31, 2016, the Public Staff employed a total of seventy-eight positions across eleven different divisions.

Division	Number of Positions
Accounting	17
Consumer Services	13
Legal	13
Electric	9
Water and Sewer	7
Natural Gas	5
Executive	3
Transportation	3
IT	3
Economic Research	3
Communications	2

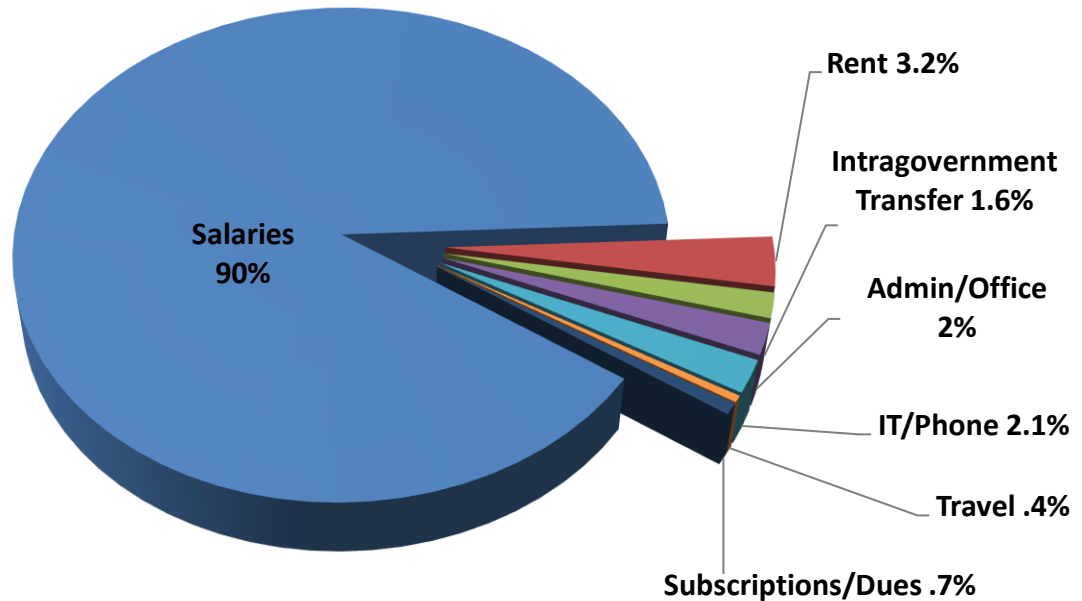


PUBLIC STAFF BUDGET

The Public Staff is funded via a regulatory fee pursuant to N.C. Gen. Stat. § 62-302. For fiscal year 2016-17, the regulatory fee was established at 0.14% of the noncompetitive jurisdictional revenues of public utilities regulated pursuant to Chapter 62 of the General Statutes. The receipts from the regulatory fee are allocated between the Commission and Public Staff. Following allocation of the fee, the Public Staff's and Commission's fiscal budgets are separated.

For fiscal year 2016-17, the Public Staff's overall budget was approximately \$8.92 million, which represented an increase of 1%. Approximately 90% of the Public Staff's budget is dedicated to staff salaries and benefits, totaling \$8.01 million. Approximately \$430,000 of the budget is allocated to the Department of Commerce for human resources and budget support, as well as rental expense for office space in the Dobbs building. Approximately \$475,000 is allocated to administrative expenses, office equipment and supplies, information technology equipment and services, professional resources and subscriptions and travel.

FY 2016-17 PUBLIC STAFF EXPENDITURE ALLOCATIONS



PUBLIC STAFF ACTIVITIES – 2016 OVERVIEW

The Public Staff participated in 3,343 formal proceedings before the Commission through briefs, comments, expert testimony, stakeholder facilitation, audits, and investigations, including appearances at 80 hearings in contested cases. The Public Staff reviewed 14,286 filings made with the Commission and 3,658 orders issued by the Commission. The Public Staff handled over 10,000 consumer complaints and inquiries throughout the year across its various divisions. A summary of major Commission proceedings and the work performed by the Public Staff follows.

ELECTRIC COST RECOVERY RIDERS

FUEL AND FUEL-RELATED COSTS

N.C. Gen. Stat. § 62-133.2 permits electric public utilities to recover changes in certain fuel and fuel-related costs through a rider to base rates. The amount of the rider is determined in annual proceedings before the Commission.

The 2016 fuel proceedings resulted in the following decreases to fuel and fuel-related charges for each of the electric public utilities:

	2016 Total Fuel Rider	Decrease from prior year
Dominion North Carolina Power		
	<i>¢ / kWh</i>	
Residential	1.622	0.915
SGS & Public Authority	1.621	0.915
LGS	1.610	0.907
NS	1.560	0.880
6VP	1.582	0.905
Outdoor Lighting	1.622	0.915
Traffic	1.622	0.915
Duke Energy Carolinas*		
	<i>¢ / kWh</i>	
Residential	1.7014	0.4168
General Service/ Lighting	1.8602	0.3149
Industrial	1.9647	0.2472
Duke Energy Progress		
	<i>¢ / kWh</i>	
Residential	1.836	0.734
Small General Service	1.732	0.841
Medium General Service	1.986	0.604
Large General Service	2.240	0.391
Lighting	0.877	1.638

*Excluding regulatory fee

**RENEWABLE ENERGY AND ENERGY EFFICIENCY PORTFOLIO
STANDARD (“REPS”) COMPLIANCE COSTS; DEMAND-SIDE
MANAGEMENT (“DSM”) AND ENERGY EFFICIENCY (“EE”) MEASURES,
COSTS AND INCENTIVES**

N.C. Gen. Stat. § 62-133.8(h) permits electric power suppliers to recover the incremental costs of complying with the REPS through an annual rider to base rates. Incremental costs recoverable through the REPS annual rider are subject to the following per-account annual charges: Residential, \$34.00; Commercial, \$150.00; and Industrial, \$1,000.00. N.C. Gen. Stat. § 62-133.9 allows electric public utilities to recover the costs incurred for adoption and implementation of new DSM and EE measures through an annual rider to rates. The Commission has approved a cost recovery and incentive mechanism for each utility that provides for the recovery of DSM/EE program costs plus an incentive based on a percentage of the kWh and kW saved because of the programs. The amounts of these riders are determined in annual proceedings that are conducted at the same time as the fuel proceedings. The 2016 REPS and DSM/EE annual proceedings resulted in the following rider amounts for DNCP, DEP and DEC:

	2015	2016	2017
Dominion North Carolina Power			
DSM and EE Programs:	¢ / kWh		
Residential	0.121	0.127	0.062
Small Gen. Service	0.070	0.087	0.060
Large Gen. Service	0.083	0.084	0.054
Industrial (6VP)	0.053	0.102	0
REPs:	\$ / month / account		
Residential	0.69	0.23	0.88
General Service	3.04	0.99	3.87
Industrial	20.65	6.70	25.82
Duke Energy Progress			
DSM and EE Programs:	¢ / kWh		
Residential	0.426	0.621	0.776
Commercial / General Service	0.359	0.593	0.659
REPs:	\$ / month / account		
Residential	0.83	1.17	1.29
General Service	6.11	6.66	10.66
Industrial	24.56	60.86	83.21
Duke Energy Carolinas			
DSM and EE Programs:	¢ / kWh		
Residential	0.5989	0.3621	0.4291
All non-residential	0.3222	0.5227	0.4033
REPs:	\$ / month / account		
Residential	0.39	0.54	0.91
General Service	1.22	3.55	4.19
Industrial	5.12	17.06	20.99

BIENNIAL DETERMINATION OF AVOIDED COST RATES (Docket No. E-100, Subs 140 and 148)

Each electric utility is required under federal law (Section 210 of the Public Utility Regulatory Policies Act ["PURPA"]) to offer to purchase available electric energy from cogeneration and small power production facilities that obtain qualifying facility ("QF") status under Section 210 of PURPA. For such purchases, electric utilities are required to pay rates that are just and reasonable to the ratepayers of the utility, are in the public interest, and do not discriminate against cogenerators or small power producers. Federal Energy Regulatory Commission ("FERC") regulations require that the rates electric utilities pay to purchase electric energy and capacity from qualifying cogenerators and small power producers reflect the cost that the purchasing utility can avoid as a result of obtaining energy and capacity from these sources, rather than generating an equivalent amount of energy itself or purchasing the energy or capacity from other suppliers. Pursuant to FERC rules, the Commission holds biennial avoided cost proceedings to implement Section 210 of PURPA and determine the avoided cost rates to be paid by electric utilities to the QFs with which they interconnect. The Commission also reviews and approves other related matters involving the relationship between the electric utilities and QFs, such as terms and conditions of service, contractual arrangements, and interconnection charges.

Following the Commission's December 2015 order establishing standard rates and contract terms for QFs in Docket No. E-100, Sub 140, the utilities filed revised avoided cost rates in February and March of 2016, which were effective for QFs that had established a legally enforceable obligation as of November 1, 2014. On average, the avoided cost rates decreased approximately 3.8% for DEC, 5.7% for DEP and 14.0% for DNCP compared to the prior avoided cost proceeding in E-100, Sub 136.

On June 22, 2016, the Commission issued an order setting out the procedure for the 2016 avoided cost proceeding in Docket No. E-100, Sub 148. Pursuant to that order, on November 15, 2016, the utilities filed their proposed avoided cost rates for QFs establishing a legally enforceable obligation as of that date. The Public Staff commenced its investigation of the proposed rates. Testimony from the utilities, the Public Staff, and other intervenors was filed and a hearing was held in April 2017.

INTEGRATED RESOURCE PLANNING (Docket No. E-100, Sub 141)

Integrated Resource Planning ("IRP") is intended to identify those electric resource options that can be obtained at least cost to the utility and its ratepayers consistent with the provision of adequate, reliable electric service. The IRP considers demand-side alternatives, including conservation, efficiency, and load management, as well as supply-side alternatives in the selection of resource options. Commission Rule R8-60 defines an overall framework within which the IRP process takes place in North Carolina.

Analysis of the long-range need for future electric generating capacity pursuant to N.C. Gen. Stat. § 62-110.1 is included in the Rule as a part of the IRP process. N.C. Gen. Stat. § 62-15(d) requires the Public Staff to assist the Commission in making its analysis and plan pursuant to N.C. Gen. Stat. § 62-110.1.

The Commission conducts an annual investigation into the electric utilities' IRPs. Commission Rule R8-60 requires that each utility, to the extent that it is responsible for procurement of any or all of its individual power supply resources, furnish the Commission with a biennial report in even-numbered years that contains the specific information set out in that Rule. In odd-numbered years, each of the electric utilities must file an annual report updating its most recently filed biennial report. Commission Rule R8-60.1 requires each utility to file a smart grid technology plan ("SGTP") with its biennial IRP. Under the streamlined rules, the Public Staff reviews IRP updates filed in odd years for compliance with the revised Rule.

In 2016, the Public Staff filed separate comments on the SGTPs filed by DEC, DEP, and DNCP, recommending that the utilities continue to investigate the potential to deploy cost-effective smart grid technologies that would improve the reliability and operation of the power grid, provide opportunities for customers to save money on their electric bills, and ensure customer rates and services driven by smart grid investments are cost-effective and prudent, while simultaneously maintaining grid reliability and the security of customer data. The Public Staff also recommended that the utilities include additional information about developments in, and opportunities for, smart grid investments in future SGTPs.

With respect to the 2015 updates to the biennial IRPs, the Public Staff reviewed the reports and notified the Commission that the reports complied with the Commission's rules regarding the contents of IRP updates. The Public Staff also assisted 13 consumers in presenting testimony at a public hearing in Raleigh on February 8, 2016. One notable issue raised by witnesses in the public hearing was DEC's installation of smart meters in its territory and the option for customers to opt-out.

SMART METER OPT-OUT

(Docket No. E-7, Sub 1115)

In its 2015 Order approving the utilities' 2015 SGTPs, the Commission ordered DEC to address the issue of advanced metering infrastructure ("AMI") opt-outs. DEC agreed to file an AMI opt-out tariff in the summer of 2016. DEC filed a proposed rider on July 29, 2016, which would require residential customers opting out of smart meter installation on their homes to pay an initial set-up fee of \$150.00 and an ongoing monthly fee of \$11.75. The Public Staff filed comments on the proposal supporting the availability of an opt-out program, raised questions regarding certain data and assumptions, and made recommendations regarding program implementation and fees. A substantial number of consumer statements of position raising health and privacy concerns have also been filed.

REPS COMPLIANCE PLANS AND REPORTS

Each electric power supplier is required under the Commission's rules to submit annually its plan for compliance with the REPS established by N.C. Gen. Stat. § 62-133.8. The plan must include, among other things, the following information for at least the current calendar year and the following two years: forecasted retail sales, renewable energy certificates (RECs) earned or purchased, EE measures, and a comparison of projected compliance costs to the annual cost caps set forth in the statute. The Public Staff reviews the REPS compliance plans and submits its findings and recommendations to the Commission.

During 2016, the Public Staff reviewed the REPS compliance plans filed by DEC, DEP, and DNCP in conjunction with their IRP updates as well as the compliance plans of North Carolina Eastern Municipal Power Agency ("NCEMPA"), North Carolina Municipal Power Agency No. 1 ("NCMPA1"), GreenCo Solutions (GreenCo) on behalf of North Carolina Electric Membership Corporation ("NCEMC"), Halifax Electric Membership Corporation ("EMC"), EnergyUnited EMC, Fayetteville Public Works Commission ("PWC"), Tennessee Valley Authority ("TVA"), and the Towns of Fountain and Waynesville.

The Commission's rules also require the electric power suppliers to submit annual REPS compliance reports of RECs earned or purchased and energy savings actually realized during the preceding calendar year and the electric power supplier's progress toward meeting its REPS obligations. These reports must include, among other things, RECs actually earned or purchased, RECs used for compliance and RECs carried forward for compliance in future years, retail sales, avoided costs, compliance costs, and status of compliance. REPS compliance reports submitted by electric public utilities are considered by the Commission in conjunction with the utilities' annual REPS cost recovery proceedings. In 2016, the Public Staff reviewed the 2015 REPS compliance reports of DEC, DEP, and DNCP and testified as to its findings and recommendations in the utilities' respective REPS rider proceedings. In addition, the Public Staff reviewed and filed comments and recommendations on the 2015 REPS compliance reports of the following electric power suppliers: NCEMPA, NCMPA1, GreenCo, Halifax EMC, EnergyUnited EMC, Fayetteville PWC, TVA, and the Town of Fountain.

IMPLEMENTATION OF HOUSE BILL 998/S.L. 2013-316 – TAX SIMPLIFICATION AND REDUCTION ACT **(Docket No. M-100, Sub 138)**

North Carolina Session Law 2013-316 (House Bill 998) made many changes to North Carolina tax law that impact utility revenue requirements and the amounts ultimately paid by ratepayers for utility service. The bill reduced the income tax rates of C corporations and made changes to the gross receipts and franchise taxes. In addition, the bill increased the tax rate paid on sales of electricity and imposed a sales tax on piped

natural gas. The law directed the Commission to change the rates of certain utilities to reflect the change in the gross receipts and franchise taxes. North Carolina Session Law 2015-6 clarified that the intent of HB 998 was to require the Commission to adjust rates for utilities to reflect the reduction in the corporate income tax rate and directed the Commission to add interest to money not yet refunded to customers.

Pursuant to G.S. 105-130.3C, as enacted in HB 998 and amended in Session Law 2015-241, a reduction in the State corporate income tax rate from 4% to 3% became effective for taxable years beginning on or after January 1, 2017. Consequently, on September 16, 2016, the Commission entered an Order directing the utilities to adjust their rates to reflect the decrease in the State corporate income tax rate from 4% to 3% effective January 1, 2017 and to file revised tariffs reflecting the change and proposed customer notices. The order further directed the Public Staff to comment on all utility filings and for those utilities that did not file revised tariffs, to provide revised tariffs and customer notices. As directed, the Public Staff reviewed the filings of the utilities, and for those utilities that did not file, the Public Staff filed proposed revised tariffs reflecting the tax change for the Commission's consideration.

REPS SWINE AND POULTRY WASTE SET-ASIDE COMPLIANCE

(Docket No. E-100, Sub 113)

N.C. Gen. Stat. § 62-133.8(i)(2) authorizes the Commission to modify or delay the REPS provisions, in whole or in part, if the Commission determines it to be in the public interest to do so. In August 2016, DEC, DEP, DNCP, GreenCo, Fayetteville PWC, EnergyUnited EMC, Halifax EMC, TVA, NCEMPA, and NCMPA1 (the Joint Movants) filed a joint motion pursuant to N.C. Gen. Stat. § 62-133.8(i)-(2), requesting that the Commission: 1) delay the requirements of G.S. 62-133.8(e) (compliance with the REPS requirements through the use of swine waste resources) until 2017; and 2) to modify the requirements of G.S. 62-133.8(f) (compliance with REPS requirements through the use of poultry waste resources) by lowering the 2016 requirement to 170,000 MWh and delaying subsequent increases until 2017. The Joint Movants further requested that they be allowed to bank any swine and poultry waste RECs previously or subsequently acquired for use in future compliance years and to replace compliance with the swine and poultry waste requirements in 2016 with other compliance measures.

The Joint Movants asserted that they had individually and collectively taken a number of actions to comply with the REPS swine and poultry waste resource provisions, including actively engaging waste-to-energy developers, issuing requests for proposals, evaluating bids received, negotiating and executing long-term REC purchase agreements for these resources, processing interconnection requests from these generators, actively monitoring executed agreements, and, in some cases, further modifying REC purchase agreements to provide developers reasonable opportunity for successful project execution. The Public Staff submitted comments on the joint motion and supported the requested delay.

On October 17, 2016, the Commission issued an Order finding that the State's electric power suppliers had made reasonable efforts to comply with the 2015 statewide swine waste set-aside requirement, as previously modified by the Commission in 2012, 2013, 2014, and 2015, and determining that it was in the public interest to delay the required compliance schedule by one additional year. The Commission also allowed electric power suppliers that acquired swine waste RECs for 2016 REPS compliance to bank them for swine waste set-aside requirement compliance in future years. The Commission directed electric power suppliers to continue to make efforts to comply with the swine waste set-aside requirement.

With regard to the poultry waste set-aside, the Commission held that the 2016 poultry waste set-aside requirement of N.C. Gen. Stat. § 62-133.8(f), as modified by the Commission in 2015, should be modified to maintain the same level as the 2015 requirement for one additional year, and that the scheduled increases in the requirement thereafter should be delayed by one year. In addition, the Commission required all electric power suppliers to continue to file reports on their compliance efforts on a semiannual basis until the Commission orders that they be discontinued. Finally, the Commission directed the Public Staff to arrange and facilitate two stakeholder meetings within six weeks of the filing of a semiannual report.

ANNUAL NATURAL GAS COST REVIEWS

N.C. Gen. Stat. § 62-133.4 allows the natural gas local distribution companies ("LDCs") to adjust their rates from time-to-time to track changes in the cost of gas supply and transportation. These rate adjustments, which are known as purchased gas adjustments, can occur as often as monthly and do not require an evidentiary hearing. The Public Staff reviews the calculations of the adjustments and supporting documentation and makes recommendations to the Commission regarding approval.

N.C. Gen. Stat. § 62-133.4 also provides for annual proceedings to compare the LDCs' prudently incurred gas costs with the costs recovered from ratepayers during a 12-month test period. If the prudently incurred gas costs of an LDC are less than the costs recovered from ratepayers, the Commission must require the LDC to make refunds through bill credits or rate decrements. If the prudently incurred costs are greater than the costs recovered, the Commission may allow the LDC to recover the deficiency through a rate increment.

There are four LDCs in North Carolina: Public Service Company of North Carolina, Inc. ("PSNC"), Piedmont Natural Gas Company, Inc. ("Piedmont"), Frontier Natural Gas Company, LLC ("Frontier"), and Toccoa Natural Gas. Throughout 2016, the Public Staff reviewed the LDCs' gas costs and deferred account reports, gas procurement practices, and hedging policies. The Public Staff conducted in-depth investigations of the information submitted by the LDCs in their 2016 filings and presented its findings and recommendations regarding whether the utilities' gas purchases and hedging activities

were prudent and whether the utilities' properly accounted for gas costs. After conducting a hearing for each LDC, the Commission issued orders approving rate increments and decrements as appropriate.

DUKE ENERGY – PIEDMONT MERGER

(Docket Nos. E-2, Sub 1095, E-7, Sub 1100, and G-9, Sub 682)

On January 15, 2016, Duke Energy Corporation (Duke Energy) and Piedmont Natural Gas Company, Inc. (Piedmont) (collectively, the Applicants), filed an application for authorization to engage in a business combination transaction and to revise and apply Duke Energy Carolinas, LLC's (DEC's) and Duke Energy Progress, LLC's (DEP's) Regulatory Conditions and Code of Conduct to Piedmont. According to the application, upon approval of the merger, Piedmont would operate as a fully functional and separate natural gas subsidiary of Duke Energy, continue to operate under its existing name, continue to maintain its headquarters in Charlotte at its existing offices, and retain most of its current operational employees.

The Applicants entered into settlement agreements with the Public Staff, Carolina Utility Customers Association, Inc. (CUCA), and the Environmental Defense Fund (EDF). The Applicants' settlement agreement with the Public Staff includes agreements by the Applicants to forego the recovery of specific costs, including both operational and merger costs; to provide specific amounts of funds for various charitable organizations; to provide a specific amount of funds for workforce development and low income energy assistance; and to apply the existing DEC and DEP Regulatory Conditions and Code of Conduct, with amendments, to Piedmont. The Applicants' settlement agreement with CUCA includes a guarantee by DEC and DEP that their North Carolina retail ratepayers will receive an additional \$35 million in fuel and fuel-related cost savings under the Joint Dispatch Agreement (JDA) mechanism approved by the Commission in the 2012 merger of Duke Energy and Progress Energy, Inc., in Docket Nos. E-2, Sub 998 and E-7, Sub 986 (Duke/Progress Merger Order). The Applicants' settlement agreement with EDF requires DEC and DEP to study the costs and benefits of implementing integrated voltage control systems in their North Carolina operations.

The matter was heard by the Commission at a hearing held on July 18 and 19, 2016. On September 29, 2016, the Commission issued an *Order Approving Merger Subject to Regulatory Conditions and Code of Conduct* (Order Approving Merger). Based on the Commission's findings of fact and the whole record, the Commission concluded that the Applicants' commitments in their testimony, the settlement agreement with the Public Staff, the Regulatory Conditions and Code of Conduct, and the settlement agreement with CUCA are sufficient to ensure that: (1) the merger will have no adverse impact on the rates and services provided by DEC, DEP, and Piedmont to their North Carolina ratepayers; (2) DEC's, DEP's, and Piedmont's ratepayers are protected as much as reasonably possible from potential costs and risks resulting from the merger; and (3)

the known and potential benefits of the merger are sufficient to offset the potential costs and risks. Therefore, the Commission concluded that the proposed business combination between Duke Energy and Piedmont is justified by the public convenience and necessity and serves the public interest, and should be approved pursuant to N.C. Gen. Stat. § 62-111(a).

INTEGRITY MANAGEMENT RIDER (“IMR”) (Docket Nos. G-9, Subs 631, 642, and 697)

N.C. Gen. Stat. § 62-133.7A authorizes the Commission to approve a rate adjustment mechanism to enable a natural gas LDC to recover its prudently incurred capital investment and associated costs of complying with federal gas pipeline safety requirements. Pursuant to this authority, the Commission approved an IMR mechanism as part of Piedmont’s 2013 general rate case. Based on concerns raised by the Public Staff, in November 2015, the IMR mechanism was revised to provide for changes to the IMR processes and procedures, including the exclusion of certain costs from recovery through the IMR mechanism (Excluded Costs) and the allowance of bi-annual rate adjustments. The Excluded Costs percentages are intended to reduce the level of non-pipeline safety costs charged to customers through the IMR mechanism, but are still eligible for inclusion in recoverable rate base in Piedmont’s next general rate case proceeding.

On May 2, 2016, Piedmont, pursuant to the revised IMR mechanism, filed an Integrity Management Revenue Requirement (IMRR) bi-annual rate adjustment, effective June 1, 2016, based on the Company’s Integrity Management (IM) Plant Investment through March 31, 2016. In the filing, the Company also proposed a true-up adjustment for the IM Deferred Account based on the actual account balance at March 31, 2016. The computation for the proposed IMRR adjustment and IM Deferred Account true-up adjustment incorporated the adjustments contained in the Public Staff 2015 Annual IMR Report to the Commission. The Public Staff determined that these adjustments were properly recorded and they were approved by the Commission.

The revised IMR mechanism requires that Piedmont file an annual report summarizing the IM Plant Investment for the prior 12-month period ending September 30th and the data substantiating and supporting its IMRR calculation for the next bi-annual IMR rate adjustment. On October 31, 2016, Piedmont filed its projected three-year plan of IM Plant Investment and computations of the IMR rate adjustments that Piedmont proposed to implement effective December 1, 2016. On November 15, 2016, Piedmont filed its proposed IMR rate adjustments, including an increment to collect the October 31, 2016 balance in the IM Deferred Account to be effective December 1, 2016. The proposed IMR rate adjustments, expressed in dollars per dekatherm (\$/dt), are as follows:

Description	Residential Rate 101	Small & Medium General	Firm	Interruptible
		Rate 102, 142, 144, 152	Large General Rate 103, 113, 12 T-10, T-12	Large General Rate 104, 114
Rate Class Percentage	64.64%	29.43%	2.67%	3.26%
IMRR	<u>\$31,246,712</u>	\$14,226,342	\$1,290,667	\$1,575,871
IM Deferred Account Balance	<u>(\$1,608,963)</u>	<u>(\$732,546)</u>	<u>(\$66,459)</u>	<u>(\$81,145)</u>
Total Amount for recovery	\$29,637,749	\$13,493,796	\$1,224,208	\$1,494,726
Rate Case Volumes (dts)	36,504,751	27,448,263	30,188,509	34,669,378
IM Increment per dt	\$0.8119	\$0.4916	\$0.0406	\$0.0432
Remove Previous Increment	(\$0.76350)	(\$0.46230)	(\$0.03810)	(\$0.04050)
Change in IM Increment per dt	\$0.0484	\$0.0293	\$0.0025	\$0.0027

The Public Staff investigated the filing and recommended approval of the proposed IMR rate adjustments. The Commission approved the adjustments.

WATER AND SEWER SYSTEM IMPROVEMENT CHARGES

N.C. Gen. Stat. § 62-133.12 authorizes the Commission to approve a rate adjustment mechanism to allow a water or sewer utility to recover incremental depreciation expenses and capital costs associated with reasonable and prudently incurred investment in eligible water and sewer system improvements upon a finding in a general rate case that such a mechanism is in the public interest. In 2014, the Commission approved Water System Improvement Charge (“WSIC”) and Sewer System Improvement Charge (“SSIC”) rate adjustment mechanisms in general rate case proceedings for Carolina Water Service, Inc. of North Carolina (“CWSNC”), and Aqua North Carolina, Inc. (“Aqua NC”). Following the issuance of the Aqua NC and CWSNC rate case orders, the Commission adopted Rules R7-39 and R10-36 to implement the WSIC/SSIC mechanisms. In 2016, the Commission approved WSIC/SSIC rate adjustment mechanisms in a general rate case proceeding for CWS Systems, Inc. (“CWSS”).

For Aqua NC’s investment in eligible projects completed and in service in 2016, the Commission approved on a provisional basis WSIC annual revenues of \$668,387, a 2.07% rate increase for Aqua’s uniform water operations, and SSIC annual revenues of \$189,307, a 1.55% rate increase for Aqua’s uniform sewer operations. By separate orders, the Commission also authorized Aqua NC to implement four filtration projects to comply with secondary drinking water standards. Costs associated with these projects will be eligible for WSIC rate adjustments once the projects are complete and serving customers. The majority of the filtration projects were designed to address high levels of iron and manganese in water supplied to customers. The estimated capital cost associated with these projects is \$1.14 to \$1.21 million. Following installation of these projects, the Public Staff has noted a decrease in customer water quality complaints from systems where filtration projects were installed.

For CWSNC's investment in eligible WSIC projects in 2016, the Commission approved on a provisional basis WSIC annual revenues of \$31,181, a 0.29% rate increase, and SSIC annual revenues of \$8,205, a 0.17% rate increase.

For CWSS investment in eligible SSIC projects in 2016, the Commission approved on a provisional basis SSIC annual revenues of \$12,029, a 1.38% rate increase for customers residing in the Fairfield Harbour service area.

JOINT AGENCY ASSET RIDER PROCEEDING

(Docket No. E-2, Sub 1110)

Senate Bill 305 (S.L. 2015-3) enacted N.C. Gen. Stat. § 62-133.14. In summary, N.C. Gen. Stat. § 62-133.14 provides for the recovery of costs incurred by an electric utility to acquire, operate, and maintain interests in electric generating facilities purchased from a joint municipal agency. Pursuant to N.C. Gen. Stat. § 62-133.14(a), the Commission adopted a new rule (Rule R8-70) proposed by the Public Staff and DEP to implement the provisions of the new statute. The initial Joint Agency Asset Rider ("JAAR") was approved by the Commission on November 19, 2015, effective for service rendered on and after December 1, 2015. An adjustment to correct a miscalculation in these rates was approved by the Commission on January 4, 2016, to become effective on and after February 1, 2016.

On June 22, 2016, DEP filed an application to establish its second JAAR. In its application, as revised during the proceeding, DEP requested a total JAAR revenue requirement of \$74.625 million, including regulatory fee, to be charged to its North Carolina retail customers for the period December 1, 2016, through November 30, 2017, associated with the acquisition of NCEMPA's undivided ownership interest in the Joint Units. This revenue requirement consisted of an estimated charge for the rate period of \$74.274 million, and a true-up charge of \$0.351 million for the test year ended December 31, 2015. On November 7, 2016, the Commission entered an Order approving the JAAR as requested.

WESTERN CAROLINAS MODERNIZATION PROJECT

(Docket No. E-2, Sub 1089)

On December 16, 2015, DEP filed a letter with the Commission giving notice of its intent to file an application on or after January 15, 2016, for a CPCN to construct a 752 MW natural gas-fired electric generation facility consisting of two new natural gas-fired 280 MW (winter rating) CC units and a contingent natural gas-fired 192 MW (winter rating) simple cycle CT unit, each with fuel back up, in Buncombe County near Asheville. The notice of intent was filed pursuant to Section 1 of the Mountain Energy Act, Session Law 2015-110.

On December 18, 2015, the Commission issued an Order scheduling a public hearing in Asheville and directing the Public Staff to investigate the application and present its findings, conclusions, and recommendations at the Commission's Regular Staff Conference on February 22, 2016.

On January 15, 2016, DEP filed an application for the CPCN. A number of parties intervened and filed comments and the Commission received the testimony of 51 members of the public during the hearing in Asheville. On February 22, 2016, the Public Staff presented its findings and recommendations as directed. The Public Staff found that granting DEP's request for a CPCN for the CC units would accomplish the purpose of the Mountain Energy Act and is otherwise required by the public convenience and necessity, and therefore recommended issuance of a CPCN for the two-280 MW CC units, with conditions, including a condition that the coal units at the Asheville Plant be retired upon the commercial operation of the CC units. However, the Public Staff recommended that the Commission not grant a CPCN for the 186 MW CT at this time.

On March 28, 2016, the Commission entered its Order granting the CPCN for the CC units, essentially agreeing with the Public Staff that while DEP had shown that the public convenience and necessity requires issuance of the CPCN for the CC units, the public convenience and necessity standard had not been met for the CT unit. Two of the intervenors filed a notice of appeal awarding the CPCN. Subsequently, the Commission and the Court of Appeals dismissed the appeal for failure to file the requisite bond pursuant to N.C. Gen. Stat. § 62-82(b).

**VIRGINIA ELECTRIC & POWER COMPANY D/B/A
DOMINION NORTH CAROLINA POWER
APPLICATION FOR GENERAL RATE INCREASE
(Docket No. E-22, Sub 532)**

On March 1, 2016, Virginia Electric and Power Company, d/b/a in North Carolina as Dominion North Carolina Power (DNCP or the Company), filed notice of its intent to file a general rate case application. On March 31, 2016, the Company filed its Application for Adjustment of Rates and Charges Applicable to Electric Service in North Carolina (Application). In the Application, DNCP sought an increase in its non-fuel base rates and charges to its North Carolina retail customers of \$51,073,000, along with other relief, including cost deferrals and changes to its rate design and regulatory conditions. The Application was based upon a requested rate of return on common equity (ROE) of 10.50%, an embedded long-term debt cost of 4.889%, and DNCP's actual capital structure of 53.36% common equity and 46.64% long-term debt.

On October 3, 2016, DNCP, the Public Staff, and others (the Stipulating Parties) entered into and filed a Stipulation resolving all of the issues in this proceeding among the Stipulating Parties. The Stipulation provided for a stipulated increase in the

Company's non-fuel revenues of \$34,732,000. The Stipulation also provided for an ROE of 9.90%, an embedded long-term debt cost of 4.650%, and a capital structure of 51.75% common equity and 48.25% long-term debt. This represented an overall base rate increase for all customer classes of approximately 7.47%, as compared to the 20.90% increase originally sought by DNCP. The Stipulation also provided for a one-time \$400,000 shareholder contribution by DNCP to the EnergyShare program that provides energy assistance to customers in need in the Company's North Carolina service territory.

On December 22, 2016, the Commission entered an Order approving the Stipulation.

PUBLIC SERVICE COMPANY OF NORTH CAROLINA, INC.
APPLICATION FOR GENERAL RATE INCREASE
(Docket No. G-5, Sub 565)

On February 17, 2016, Public Service Company of North Carolina, Inc. (PSNC or the Company), filed its Letter of Intent to File for authority to adjust and increase its retail natural gas rates and charges pursuant to Commission Rule R1-17(a). On March 31, 2016, PSNC filed an Application for a General Rate Increase (Application) seeking a general increase in and revisions to its rates and charges. The Application sought an increase in annual revenues for the Company of \$41,583,020. This represented an overall increase of 9.66% in PSNC's revenue. Further, the Application sought approval of a 10.6% rate of return on common equity (ROE), an 8.14% overall return on rate base, and a capital structure of 53.5% common equity, 3.38% short-term debt, and 43.12% long-term debt. PSNC also requested approval of a rider to its rates to provide for ongoing recovery of its capital costs related to pipeline safety improvements and management.

On August 25, 2016, PSNC, the Public Staff, and other parties (Stipulating Parties) filed an Amended Partial Stipulation resolving most of the issues between the Stipulating Parties. On August 29, 2016, the Stipulating Parties filed the Amended Stipulation. The Amended Stipulation stated that it represents a complete and integrated settlement of all matters at issue between the Stipulating Parties. The Amended Stipulation provided for a total increase in annual revenues for the Company of \$19,054,160, of which \$276,576 is recovered through the proposed increase in other operating revenues. This represented an overall increase of 4.39% in revenues instead of the 9.66% increase originally sought by PSNC. The Stipulating Parties proposed a capital structure of 52.00% common equity, 3.38% short-term debt and 44.62% long-term debt. The Stipulating Parties agreed to use 5.52% for the cost of long-term debt and 0.77% for the cost of short-term debt.

By Order dated October 28, 2016, the Commission approved the Amended Stipulation. Overall, the Commission approved a residential rate increase for the Company of 4.0%. This represented an increase to the typical residential bill of approximately \$24 per year or \$2.00 per month. The Commission also approved an

Integrity Management Tracker mechanism, which will allow the Company to recover the capital related costs of compliance with federal pipeline and distribution integrity management requirements on an intra-rate case basis. This mechanism will facilitate timely recovery of costs related to capital investment needed to comply with federal law and will help to avoid frequent general rate proceedings.

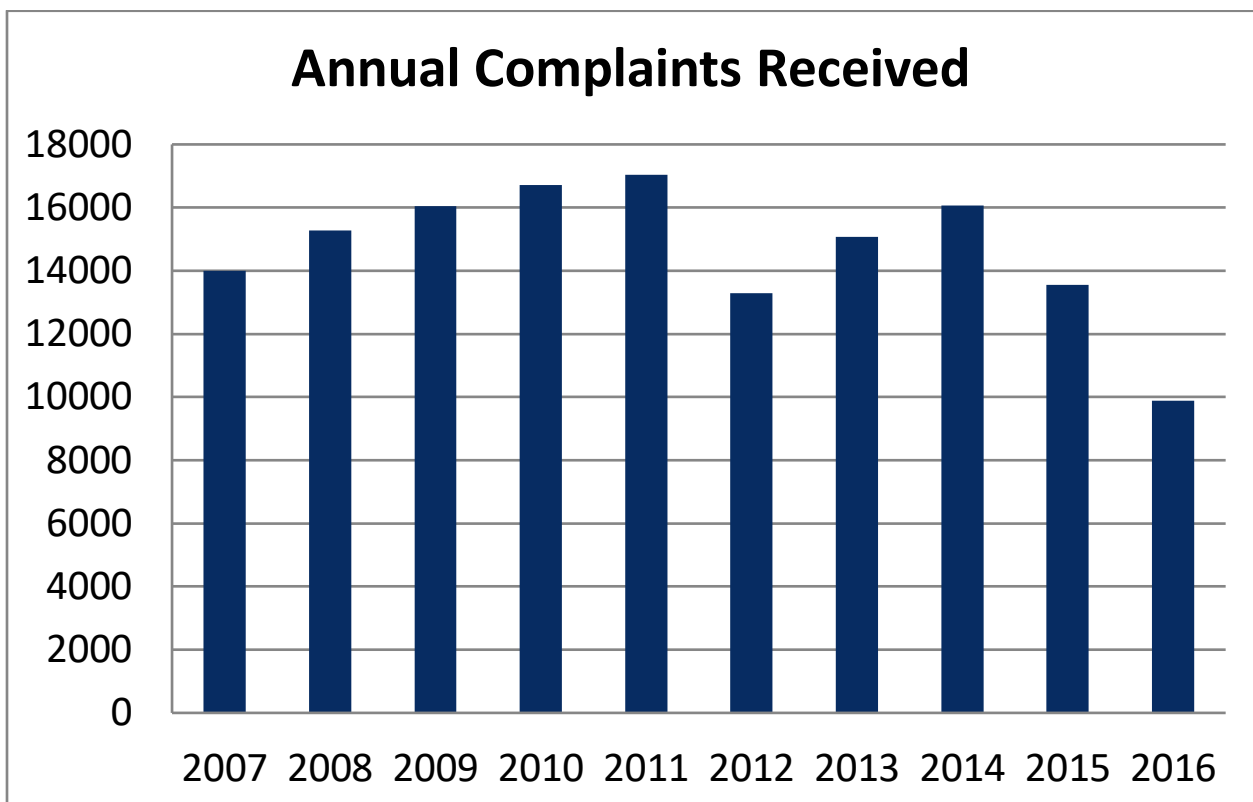
APPELLATE CASES IN WHICH THE PUBLIC STAFF PARTICIPATED

- *State of North Carolina Ex. Rel. Utilities Commission v. N.C. Waste Awareness and Reduction Network*, NO. COA16-811
- *State of North Carolina Ex Rel. Utilities Commission; Public Staff – North Carolina Utilities Commission; Duke Energy Carolinas, LLC; Duke Energy Progress, LLC; Southern Alliance for Clean Energy v. North Carolina Sustainable Energy Association*, NO. COA16-1067
- *State Of North Carolina Ex Rel. Utilities Commission; Public Staff - North Carolina Utilities Commission; and Duke Energy Progress, LLC v. N.C. Waste Awareness and Reduction Network and The Climate Times*, NO. P16-368

CONSUMER SERVICES DIVISION

The Consumer Services Division facilitates the resolution of disputes between consumers and regulated utilities.¹ In addition, it also handles customer requests for information on utility matters and letters protesting proposed utility rate increases. Complaints and inquiries often relate to quality of service issues, billing disputes, pending disconnections, and assistance in establishing alternative payment arrangements. In 2016, the Public Staff processed a total of 9,884 complaints and inquiries, which represented a 27% decrease in the number of overall complaints and inquiries. While the majority of the complaints are resolved informally, a small percentage result in formal proceedings before the Commission.

Callers complaining about non-regulated aspects of utility services are directed to the appropriate government agency for resolution. These types of complaints include complaints regarding cable television services, municipal utility services, cellular services, electric and telephone membership corporation services, and those services regulated by the Federal Communications Commission (FCC).



¹ The Transportation Division handles all complaints related to household goods movers separately from the Consumer Services Division. Transportation Division complaints are reported on page 29.

CONSUMER COMPLAINTS/INQUIRIES BY INDUSTRY

Industry	Complaints	Utility	Complaints
Electric	7,717		
		Duke Energy Carolinas	4,629
		Duke Energy Progress	2,805
		Dominion NC Power	227
		Other	56
Natural Gas	434		
		Piedmont	296
		PSNC	131
		Other	7
Communications	741		
		AT&T	345
		Frontier	134
		CenturyLink	118
		Windstream	37
		Time Warner	33
		Other	74
Water/Sewer	577		
		Aqua	256
		Water resellers	105
		Carolina Water Service	82
		Other	134
Other	415		

ELECTRIC DIVISION

The Electric Division represents the using and consuming public in matters brought before the Commission regarding regulated electric utilities, including matters such as generation plant siting, transmission line siting, rates and tariffs, DSM/EE program approval and performance, power plant operations, fuel procurement, quality of service, REPS compliance, mergers and acquisitions, electric resellers, avoided cost, integrated resource planning, and review of renewable energy facility applications. Engineers in the Division work with the Consumer Services Division to resolve electric service complaints.

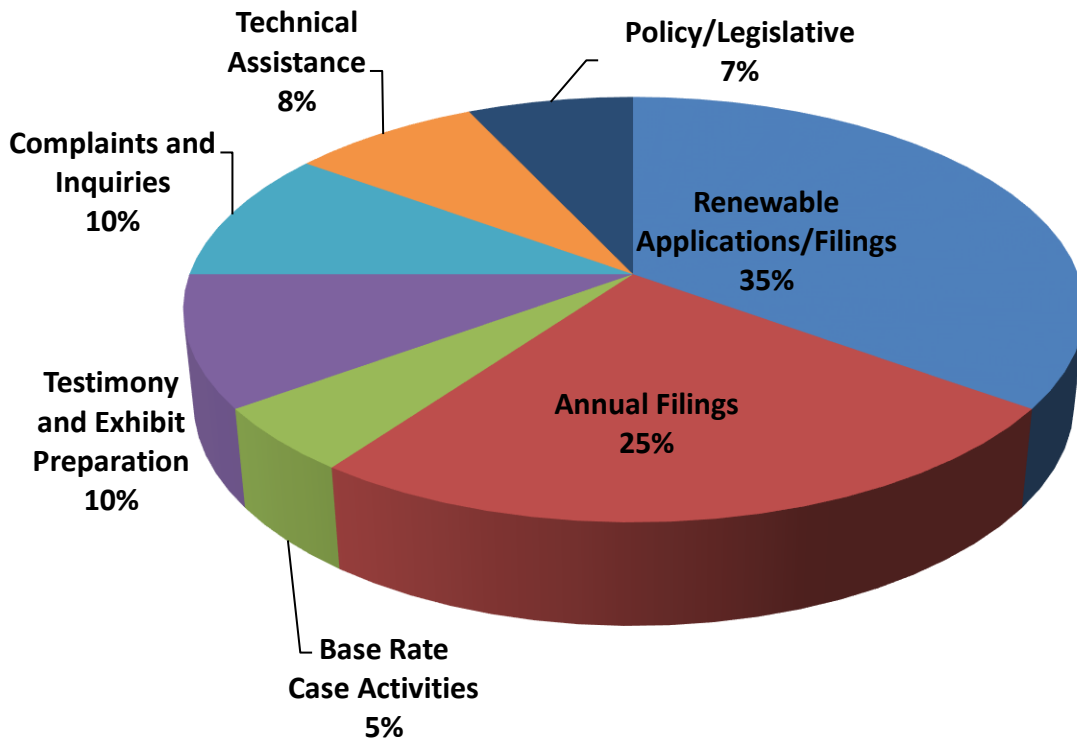
Small power producers and renewable energy facilities require certification by the Commission prior to commencing operation in the State. The Electric Division reviews and processes applications and makes recommendations to the Commission related to these facilities. In 2016, the Public Staff reviewed approximately 2,000 renewable applications. As of December 31, 2016, DEP had 2,541 interconnected solar projects representing 1,200 MW; DEC had 2,747 interconnected solar projects representing 546 MW; and DNCP had 114 interconnected solar projects representing 346 MW. As of December 31, 2016, there were approximately 2,900 MW of proposed QF projects in DEP's territory, including 630 MW under construction; 880 MW of proposed QF projects in DEC's territory, including 430 MW under construction; and 454 MW of proposed QF projects in DNCP's territory.

The Electric Division reviews and makes recommendations with respect to the annual REPS compliance plans and reports required by N.C. Gen. Stat. § 62-133.8(i)(1) and Commission Rule R8-67, as discussed earlier in this Report.

Electric Subject Matter Allocation

Rate proceedings (Base rates and DSM/fuel/energy efficiency/renewable energy riders)	40%
Senate Bill 3 issues/REPS compliance/Renewable facility applications	40%
Customer Complaints	10%
Transmission, Resource Planning, and Service Reliability	7.5%
Electric Resellers	2.5%

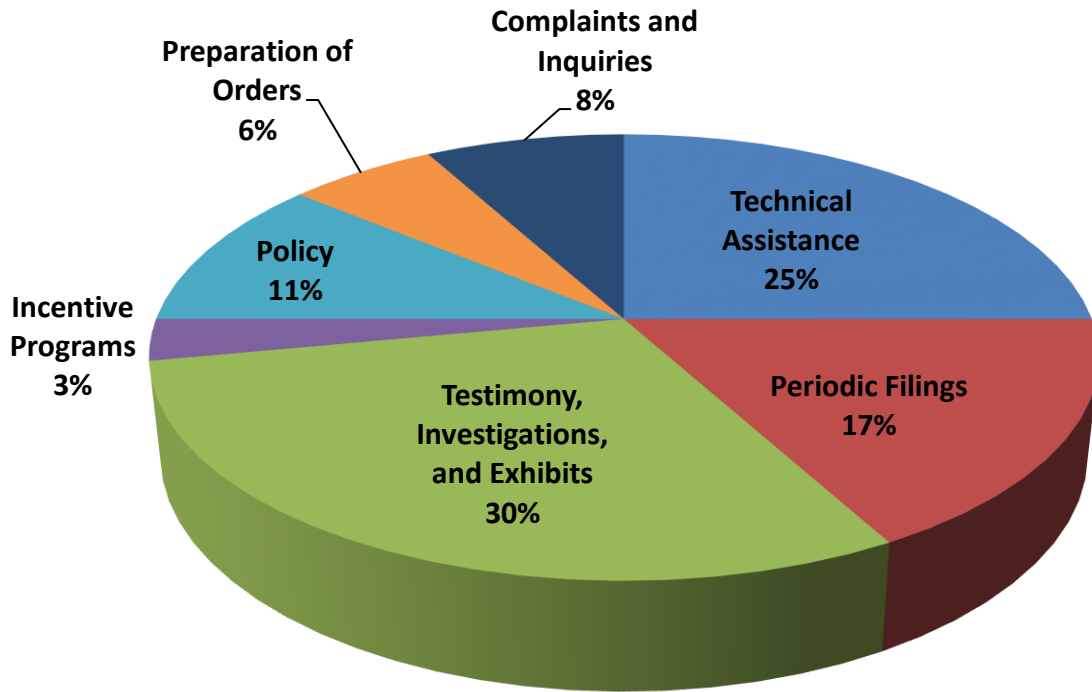
Allocation of Electric Staff Resources (by Task)



NATURAL GAS DIVISION

The Natural Gas Division represents the using and consuming public in matters brought before the Commission regarding regulated natural gas utilities, such as general rate cases, rider proceedings, annual gas cost reviews, purchased gas adjustment proceedings, and oversight of customer usage tracker and margin decoupling tracker mechanisms. The Division also works with the Consumer Services Division to investigate customer complaints as necessary.

Allocation of Natural Gas Staff Resources



WATER AND SEWER DIVISION

The Water and Sewer Division represents the using and consuming public in matters brought before the Commission regarding regulated water and sewer utilities. The Division also works with the Consumer Services Division to investigate customer complaints as necessary. During 2016, the Division handled over 1,150 filings.

Water and Sewer Subject Matter Allocation

Filings by utilities reselling water/sewer utility service in apartment complexes and mobile home parks for new/transfer/cancellation of service areas, and establishment of new rates	42%
Traditional water and wastewater utility rate case investigations/audits/inspections and presentations before the NCUC	20%
Investigations/audits of filings by water and wastewater utilities for new/expanded franchise areas, transfers of franchises, contiguous extensions of service areas, discontinuations of service, tariff revisions, and related recommendations to the Commission	17%
Responding to verbal and written inquiries for information from the public, utilities, agencies, and outside professionals	6%
Working with Consumer Services Division to resolve utility customer complaints	5%
Resolving issues where water and/or wastewater utility customers are in danger of losing utility service	5%
Investigation/resolution of water quality issues	5%

COMMUNICATIONS DIVISION

The Communications Division represents the using and consuming public in regulated communications matters before the Commission. The Communications Division reviews filings and applications made by incumbent telephone companies and new entrants to the local and long distance industry. These filings include tariff filings, applications and certificates, interconnection agreements and other general issue filings, such as universal service, competition in local/long distance markets and unbundled network elements. Division engineers also work directly with the Consumer Services Division to resolve service issues. While the NCUC no longer has authority to order telephone companies to take corrective action in response to complaints, the Public Staff works with telephone companies to achieve acceptable outcomes for customers where possible.

In 2016, the Communications Division reviewed over 1,125 filings. Activities included reviewing or investigating the following matters:

- Tariff and price plan modifications
- Interconnection agreements
- Service quality
- Local and long distance telephone applications
- Customer complaints
- Access line counts
- Service outages
- Billing disputes

On January 1, 2017, the Communications Division of the Public Staff was consolidated under the Water and Sewer Division based on declining workload following the progressive deregulation of the communications industry in North Carolina from 1995 through 2013.

TRANSPORTATION DIVISION

The Transportation Division represents the using and consuming public in matters brought before the Commission regarding regulated transportation utilities. The Commission regulates the transport of passengers by motor carrier (buses) and over water (ferry service operations) as well as most movers of household goods by motor carriers over public highways. At the end of 2016, there were 291 household goods carriers holding certificates of exemption issued by the Commission, and two bus companies and eight ferry operators holding certificates of public convenience and necessity. During 2016, the Division reviewed approximately 1,025 filings.

The Transportation Division investigated 145 customer complaints and responded to 395 inquiries related to household goods movers and other transportation matters received by the Public Staff in 2016.

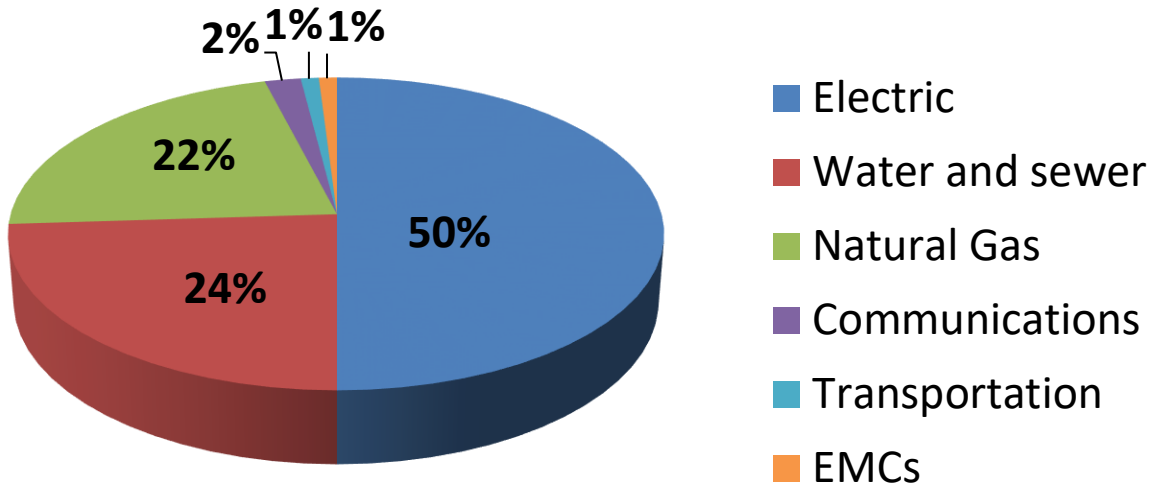
Allocation of Transportation Staff Resources

Facilitated certificate of exemption application process	15%
Processed annual reports	15%
Investigated damage claims and complaints	12%
Responded to inquiries from outside parties	12%
Investigation/Enforcement of unauthorized carriers	12%
Conducted compliance audits of moving documents	10%
Conducted Maximum Rate Tariff training seminars	8%
Reviewed and filed fuel surcharge adjustments	8%
Facilitated filings and tariffs for ferry service operations	6%
Reviewed filings related to bus services and brokers	2%

ACCOUNTING DIVISION

The Accounting Division represents the using and consuming public by conducting investigations, undertaking accounting reviews and audits of utility companies, and providing recommendations to the Commission regarding accounting and other regulatory issues in utility cases. The Accounting Division provides significant support to the other Public Staff divisions in general rate cases, merger and acquisition approval proceedings, natural gas prudence review proceedings, and renewable energy, DSM/EE proceedings, and miscellaneous electric rider proceedings. The Accounting Division also reviews and processes the annual reports that all regulated utilities must file pursuant to statute.

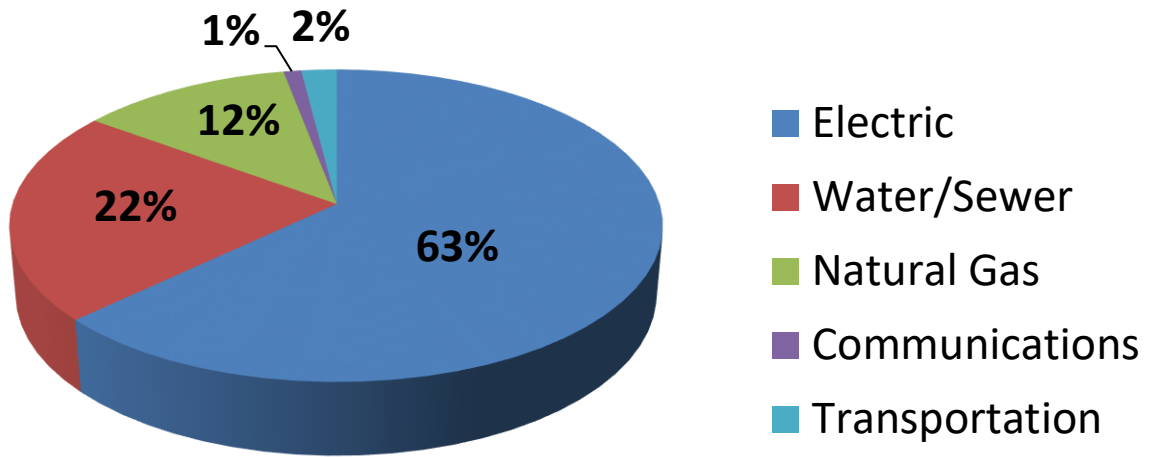
Allocation of Accounting Staff Resources



LEGAL DIVISION

The Legal Division represents the Public Staff and the using and consuming public in proceedings before the Commission and North Carolina appellate courts. The Legal Division is responsible for coordinating the preparation of reports, comments, testimony, proposed orders and other documents on behalf of the Public Staff. The Legal Division also provides research on utility matters to members of the General Assembly as requested.

Allocation of Legal Staff Resources



ECONOMIC RESEARCH DIVISION

The Economic Research Division represents the using and consuming public in matters before the Commission by providing research, analysis and testimony on economic, statistical, and financial aspects of utility regulation. The Economic Research Division supports and collaborates with the other technical and professional divisions of the Public Staff. Over 70% of the Economic Research Division's resources are devoted to the biennial avoided cost proceedings and annual IRP dockets. In addition, the Economic Research Division is responsible for utility financial viability assessments and general rate case analysis, including the recommendation of cost of capital rates/structures, customer growth adjustments, and decommissioning expense. The Division also provides financial analysis related to annual electric utility rider dockets, issuances of new securities, weather normalization of utility sales, and statistical sampling plans for meter testing.