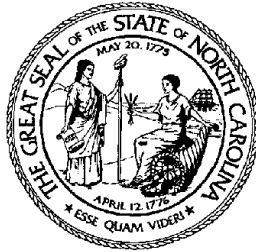


**ANNUAL REPORT**  
**to the**  
**GENERAL ASSEMBLY**



**North Carolina Utilities Commission**  
**Public Staff**

**2018**

# 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 first term as Executive Director on July 1, 2013 and was reappointed to a second term beginning July 1, 2019.

Under North Carolina law, the Public Staff represents the using and consuming public – the customers of certain of the State’s electric, telephone, 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 2018, the Public Staff was organized into ten operating divisions: Accounting, Water/Sewer/Telephone, Consumer Services, Economic Research, Electric, Executive, Information Technology, Legal, Natural Gas, and Transportation.

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 matters pending before the Commission. The Public Staff participates in virtually all Commission dockets in some manner, including reviewing filings, performing audits, filing testimony, participating in stakeholder groups, and making recommendations to the Commission. The Public Staff interfaces with the general public, media, and intervenors on utility issues and cases.

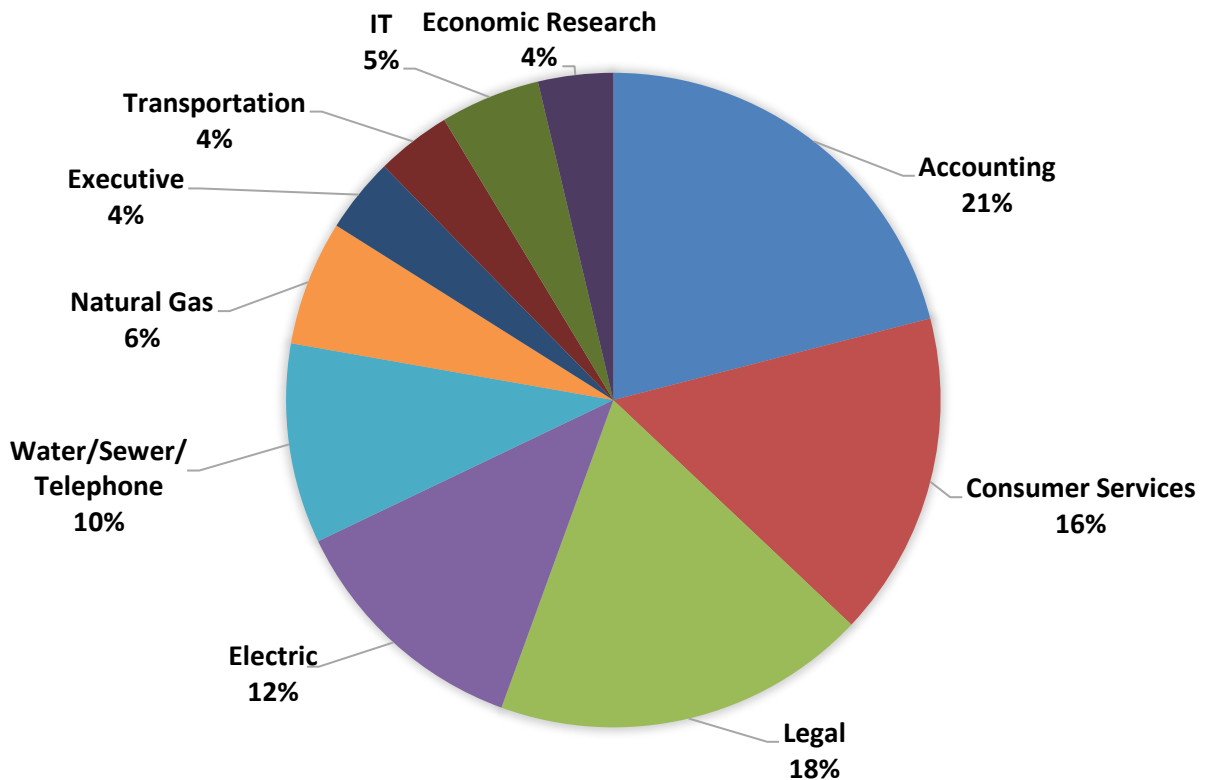
The key functions of the Public Staff are:

- 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
- Serving as an educational resource to customers and educational institutions

# PUBLIC STAFF PERSONNEL ALLOCATION

As of December 31, 2018, the Public Staff had a total of eighty-one positions allocated across ten different divisions.

Division	Number of Positions
<b>Accounting</b>	17
<b>Consumer Services</b>	13
<b>Legal</b>	15
<b>Electric</b>	10
<b>Water/Sewer/Telephone</b>	8
<b>Natural Gas</b>	5
<b>Executive</b>	3
<b>Transportation</b>	3
<b>IT</b>	4
<b>Economic Research</b>	3

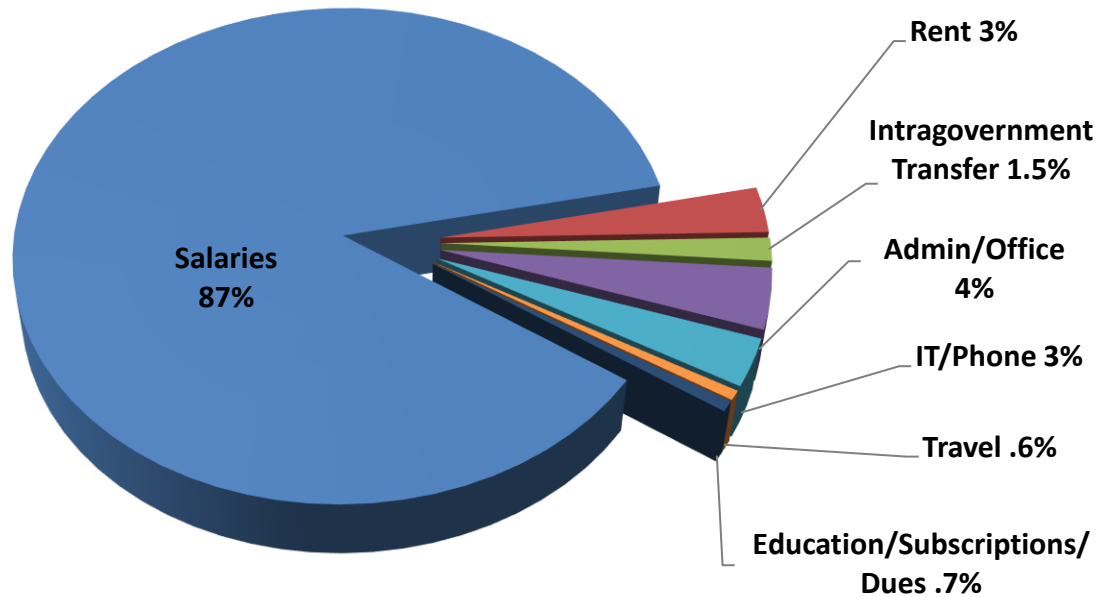


# PUBLIC STAFF BUDGET

The Public Staff is funded via a regulatory fee pursuant to N.C. Gen. Stat. § 62-302. For fiscal year 2018-19, the regulatory fee was 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 2018-19, the Public Staff's total authorized budget was approximately \$9.7 million. Approximately 87% of the Public Staff's budget is dedicated to staff salaries and benefits, totaling \$8.46 million. Approximately \$431,000 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 \$809,000 is allocated to administrative expenses, office equipment and supplies, information technology equipment and services, professional resources, subscriptions, and travel.

## FY 2018-19 PUBLIC STAFF BUDGETED EXPENDITURES



## **PUBLIC STAFF ACTIVITIES – 2018 OVERVIEW**

The Public Staff participated in 2,465 formal proceedings before the Commission through briefs, comments, expert testimony, stakeholder facilitation, audits, and investigations, including appearances at 69 hearings in contested cases. The Public Staff reviewed 16,943 filings made with the Commission and 3,213 orders issued by the Commission. The Public Staff handled over 10,485 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 2018 fuel proceedings resulted in the following changes to fuel and fuel-related charges for each of the electric public utilities:

	2018 Total Fuel Rider	Change from prior year
<b>Dominion Energy North Carolina</b>		
	<i>¢ / kWh</i>	
Residential	2.558	0.587
SGS & Public Authority	2.556	0.587
LGS	2.536	0.584
NS	2.459	0.565
6VP	2.495	0.573
Outdoor Lighting	2.558	0.587
Traffic	2.558	0.587
<b>Duke Energy Carolinas</b>		
	<i>¢ / kWh</i>	
Residential	1.7983	0.1236
General Service/ Lighting	1.9382	0.0983
Industrial	2.0233	0.0737
<b>Duke Energy Progress</b>		
	<i>¢ / kWh</i>	
Residential	2.89	0.708
Small General Service	2.924	0.800
Medium General Service	2.823	0.562
Large General Service	2.798	0.378
Lighting	3.14	1.481

**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. 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 2018 REPS and DSM/EE annual proceedings resulted in the following rider amounts for Dominion Energy North Carolina (“DENC”), Duke Energy Carolinas, LLC (“DEC”) and Duke Energy Progress, LLC (“DEP”):

	2017	2018	2019
<b>Dominion Energy North Carolina</b>			
DSM and EE Programs:	<i>¢ / kWh</i>		
Residential	0.062	0.12	0.121
Small Gen. Service	0.060	0.154	0.222
Large Gen. Service	0.054	0.118	0.233
REPs:	<i>\$ / month / account</i>		
Residential	0.88	0.49	0.43
General Service	3.87	2.71	2.34
Industrial	25.82	18.12	15.89
<b>Duke Energy Carolinas</b>			
DSM and EE Programs:	<i>¢ / kWh</i>		
Residential	0.4291	0.5529	0.322
All non-residential	0.4822	0.6238	0.8286
REPs:	<i>\$ / month / account</i>		
Residential	0.91	0.83	0.07
General Service	4.19	3.71	1.03
Industrial	20.99	15.15	-6.44
<b>Duke Energy Progress</b>			
DSM and EE Programs:	<i>¢ / kWh</i>		
Residential	0.776	0.61	0.34
Commercial / General Service	0.659	0.623	0.244
REPs:	<i>\$ / month / account</i>		
Residential	1.29	0.55	1.42
General Service	10.66	6.42	7.96
Industrial	83.21	58.71	73.17



## **BIENNIAL DETERMINATION OF AVOIDED COST RATES**

**(Docket No. E-100, Sub 158)**

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.

On June 26, 2018, the Commission issued an order setting out the procedure for the 2018 avoided cost proceeding in Docket No. E-100, Sub 158. Pursuant to that order, on November 1, 2018, the utilities filed their proposed avoided cost rates for QFs establishing a legally enforceable obligation (“LEO”) as of that date. The Public Staff commenced its investigation of the proposed rates, and also assisted three consumers in presenting testimony at a public hearing in Raleigh on February 19, 2019.

Following the filing of initial and reply comments by the parties in February and March 2019, the Commission issued an Order Scheduling Evidentiary Hearing and Establishing Procedural Schedule on April 24, 2019, which found that the following issues merited consideration in an evidentiary hearing:

- Duke Energy’s Quantification of Ancillary Services Cost of Integrating QF Solar;
- Duke Energy’s Proposed Solar Integration Charge “Average Cost” Rate Design and Biennial Update;
- NCSEA and Public Staff’s Proposals Related to Differing Ancillary Services Costs for Innovative QFs;
- Duke Energy’s IRP Assumptions Regarding Expiring Wholesale Contracts;
- NCSEA’s Recommendation to Calculate Avoided Capacity Rate Based Upon Hypothetical 12/31/2021 In-Service Date for Standard Offer QFs;
- Duke Energy’s Updated Avoided Capacity Rate Design, Including Seasonal Allocation of Avoided Capacity;
- Dominion’s Proposed Re-Dispatch Charge; and
- Duke Energy’s Proposed Modifications to the Standard Terms and Conditions.

On these matters, the Commission directed the parties to file testimony in May and June of 2019, and set the matter for hearing to start on July 15, 2019.

## **INTEGRATED RESOURCE PLANNING**

**(Docket No. E-100, Sub 157)**

Integrated Resource Planning 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. Each utility's 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 Integrated Resource Planning 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 Integrated Resource Planning 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' Integrated Resource Planning. 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 IRP 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 IRP. 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.

On May 1, 2018, DENC filed its 2018 biennial IRP. On September 5, 2018, DEC and DEP filed their biennial IRPs and, on October 1, 2018, the utilities filed their 2018 SGTPs.

In 2018, the Public Staff filed separate comments on the SGTPs filed by DEC, DEP, and DENC, 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. On October 23, 2018, Duke Energy made a presentation to the Commission regarding its decision to deploy Advanced Metering Infrastructure ("AMI") meters.

With respect to DEC and DEP's 2018 biennial IRPs, the Public Staff recommended, among other things, that the Companies: continue to review their winter

peak equations; present compound annual growth rates for both the summer and winter seasons; maximize the use of their DSM to reduce fuel costs; use DSM resource forecasts that represent the reasonably expected load reductions that are available at the time the resource is called upon as capacity; include more information regarding curtailed resources during activations of DSM; investigate and implement cost-effective DSM available to respond to winter peak demands; evaluate in future IRPs subsequent license renewals for all of their existing nuclear units; evaluate the feasibility and benefits of advanced analytic techniques that incorporate sub-hourly modeling and more granular system performance data; include in future IRPs a discussion of the data from smart meters to inform load forecasting, cost of service studies, and rate design; amend its utilization of forward natural gas prices greater than five years in future expansion models to develop methods of quantifying the benefits of fuel diversity; develop analytical tools to determine the least cost plan that provides the lowest risk to customers while maintaining operational and compliance flexibility for the utility; evaluate the residential rate impacts of each portfolio; consider different capacity values for solar resources; and include a statement of need in future IRPs clarifying the first year of capacity need for avoided cost purposes

On March 7, 2019, DENC filed an update to its IRP to comply with an order by the Virginia State Corporations Commission requiring revisions to its 2018 IRP, for which the Public Staff filed comments on May 6, 2019.

The Public Staff also assisted 49 consumers in presenting testimony at a public hearing in Raleigh on February 4 2019.

## **SMART METER OPT-OUT**

In its 2015 Order approving the utilities' 2015 SGTPs, the Commission ordered DEC to address the issue of AMI opt-outs. DEC filed a proposed rider in Docket No. E-7, Sub 1115 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. In addition, the Commission required DEC to submit verified responses to questions on April 28, 2017, August 21, 2017, and November 20, 2017. A substantial number of consumer statements of position raising health and privacy concerns were also filed.

On June 22, 2018, the Commission issued an *Order Approving Manually Read Meter Rider with Modifications and Requesting Meter-Related Information*, in which it approved DEC's opt-out tariff, with certain modifications, including waiving the customer fees associated with opting out for those customers who provide the Company with a notarized statement from a medical physician licensed by the North Carolina Medical Board that the customer must avoid exposure to radio frequency emissions to the extent possible to protect their health. In addition, the Commission directed DEC to include information in its Smart Grid Technology plans addressing privacy and safety concerns

raised by customers surrounding the use of AMI meters. Following the filing of recommendations by the Public Staff, the Commission issued an *Order Approving Revised Tariff and Implementation Plan* on September 26, 2018.

On October 4, 2018, DEP filed a Request for Approval of Revised Meter-Related Optional Programs Rider MROP (AMI Opt-Out) in Docket No. E-2, Sub 834 that was similar in many respects to the approved DEC program, including the medical waiver options, but would require residential customers opting out of smart meter installation on their homes to pay an initial set-up fee of \$170.00 and an ongoing monthly fee of \$14.75. The DEP AMI-Opt Out was approved by the Commission on May 2, 2019.

## **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 2018, the Public Staff reviewed the REPS compliance plans filed by DEC, DEP, and DENC in conjunction with their IRP updates, as well as the compliance plans of EnergyUnited Electric Membership Corporation ("EnergyUnited"), the Public Works Commission of the City of Fayetteville ("Fayetteville PWC"), Halifax Electric Membership Corporation ("Halifax EMC"), North Carolina Electric Membership Corporation ("NCEMC"), North Carolina Eastern Municipal Power Agency ("NCEMPA"), North Carolina Municipal Power Agency No. 1 ("NCMPA1"), the North Carolina Towns ("NC Towns"), the NTE Municipalities, the Tennessee Valley Authority ("TVA"), and the Towns of Waynesville and Winterville.

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, RECs carried forward for compliance in future years, retail sales, avoided costs, compliance costs, and the 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 2018, the Public Staff reviewed the 2017 REPS compliance reports of DEC, DEP, and DENC 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 2017 REPS compliance reports of EnergyUnited EMC, Fayetteville PWC, Halifax EMC, NCEMC, NCEMPA, NCMPA1, TVA, and the Town of Waynesville.

## **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 September 2018, DEC, DEP, DENC, 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) modify the requirements of N.C. Gen. Stat. § 62-133.8(e) (compliance with the REPS requirements through the use of swine waste resources) for DEC, DEP, and DENC by lowering the 2018 compliance requirement to 0.02% of prior-year retail sales, shifting the increase to 0.07% to begin in calendar year 2019, and delaying the requirements of N.C. Gen. Stat. § 62-133.8(e) for all other Joint Movants until 2019; and 2) modify the requirements of N.C. Gen. Stat. § 62-133.8(f) (compliance with REPS requirements through the use of poultry waste resources) by lowering the 2018 requirement to 300,000 MWh and shifting the increase to 700,000 MWh and 900,000 MWh to calendar years 2019 and 2020, respectively. 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 2018 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 a reasonable opportunity for successful project execution. The Public Staff submitted comments on the joint motion and supported the requested delay.

On October 8, 2018, the Commission issued an Order finding that the State’s electric power suppliers had made reasonable efforts to comply with the 2017 statewide swine waste set-aside requirement, as previously modified by the Commission, and determining that it was in the public interest to grant the modifications as requested in the Joint Motion. 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 continue to arrange and facilitate a stakeholder meeting at least once a year to occur in the summer months. The Public Staff held those meetings in June 14, 2018, and June 13, 2019.

## **INTERCONNECTION STANDARDS REVISIONS**

**(Docket No. E-100, Sub 101)**

Following the completion of the stakeholder process in 2017 that was mandated by the Commission as part of its last revision to the North Carolina Interconnection Standard (“NCIP”), the Public Staff filed with the Commission in December 2017 a consolidated, but not consensus, set of revisions to the NCIP that attempted to capture the different perspectives of the stakeholder participants.

Following the filing of comments in January and February 2018, the Commission, in August 2018, set the matter for hearing and directed the parties to file testimony on the proposed revisions. In addition, the Commission scheduled an oral argument in September 2018 to discuss interim modifications to the NCIP to accommodate the evaluation and selection of proposals received in response to the Tranche 1 CPRE RFP Solicitation, as well as file additional comments on this matter.

On October 5, 2018, the Commission issued an *Order Approving Interim Modifications to North Carolina Connection Procedures for Tranche 1 of CPRE RFP*, based on the information presented in the oral arguments and filings by the parties. The Commission held an evidentiary hearing in January 2019 on the broader changes to the NCIP. On June 14, 2019, the Commission issued an *Order Approving Revised Interconnection Standard and Requiring Reports and Testimony*, in which the Commission made the following modifications, among others:

- Made clarifying and conforming revisions to the NCIP to reflect certain changes proposed by the parties;
- Adjusted the fees applicable to the interconnection process;
- Modified the Material Modification standard in the Interconnection Procedures to consider the addition of energy storage equipment to interconnection requests;
- Provided for an expedited review of interconnections for small swine and poultry waste facilities, pursuant to Part VII of House Bill 589, Session Law 2017-192;
- Modified the dispute resolution process available to interconnection customers;
- Directed DEC and DEP to clarify and formalize the process by which the Companies consider and share technical study practices and amendments to their application of good utility practice with all interconnection customers, the Public Staff, and other interested parties; and
- Modified the queue management reports and other reporting requirements applicable to the NCIP.

## **DENC AND SCANA CORPORATION MERGER**

**(Docket Nos. E-22, Sub 551, and G-5, Sub 585)**

On January 24, 2018, pursuant to N.C. Gen. Stat. § 62-111(a) and Commission Rule R1-5, Dominion Energy, Inc. (Dominion Energy) and SCANA Corporation (SCANA), collectively, Applicants filed an Application for authorization to engage in a business combination transaction (Merger). The Application included a copy of the Agreement and Plan of Merger between Dominion Energy and SCANA (Merger Agreement) as well as a cost-benefit analysis (Cost-Benefit Analysis) and a market power analysis (Market Power Analysis) as required by the Commission's Order Requiring Filing of Analyses, issued November 2, 2000, in Docket No. M-100, Sub 129 (M-100, Sub 129 Order). Petitions to intervene were filed by Carolina industrial Group for Fair Utility Rates I, North Carolina Sustainable Energy Association, and Transcontinental Gas Pipe Line Company, LLC (Transco).

A stipulation between Dominion Energy, SCANA, the Public Staff, and Transco was filed with the Commission that included commitments by the Applicants to forego recovery of Merger-related expenses and hold DENC and PSNC customers harmless from the impacts of debt downgrade; to create a regulatory liability of \$3.75 million representing a refund to PSNC's customers of 2017 revenues over the course of three years; to increase PSNC's charitable contributions over its 2017 contributions by \$150,000; to not file an application for a PSNC general rate case before April 1, 2021; to maintain current levels of PSNC's customer service and professional cooperation; to pursue cost savings opportunities between DENC and SCE&G; to provide for future filing and operation under new or amended affiliate agreements; and to comply with the Regulatory Conditions and Code of Conduct.

On November 19, 2018, the Commission issued an Order approving the Merger subject to the provisions of the Stipulation and of the revised Regulatory Conditions and Code of Conduct, which were attached to the Order.

## **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, may 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 2018, 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 2018 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.

## **INTEGRITY MANAGEMENT RIDER (“IMR”)** **(Docket No. G-9, Subs 715, 723, and 734)**

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; however, these costs are eligible for inclusion in recoverable rate base in Piedmont’s next general rate case proceeding.

On May 1, 2018, Piedmont, pursuant to the revised IMR mechanism, filed an Integrity Management Revenue Requirement (“IMRR”) bi-annual rate adjustment, effective June 1, 2018, based on the Company’s Integrity Management (“IM”) Plant Investment through March 31, 2018. 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, 2018. 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 30<sup>th</sup> and the data substantiating and supporting its IMRR calculation for the next bi-annual IMR rate adjustment. On October 31, 2018, Piedmont filed its projected three-year plan of IM Plant Investment and computations of the IMR rate adjustments that it proposed to implement effective December 1, 2018. On November 15, 2018, Piedmont filed its proposed IMR rate adjustments, including an increment to collect the October 31, 2018



balance in the IM Deferred Account to be effective December 1, 2018. The proposed IMR rate adjustments, expressed in dollars per dekatherm (\$/dt), are as follows:

Description	Small & Medium General		Firm	Interruptible
	Residential Rate 101	Rate 102, 142, 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	\$52,247,466	\$23,787,793	\$2,158,118	\$2,635,005
IM Deferred Account Balance	<u>(\$5,083,683)</u>	<u>(\$2,314,554)</u>	<u>(\$209,985)</u>	<u>(\$256,386)</u>
Total Amount for recovery	\$47,163,783	\$21,473,239	\$1,948,133	\$2,378,619
Rate Case Volumes (dts)	36,504,751	27,448,263	30,188,509	34,669,378
IM Increment per dt	\$1.2920	\$0.7823	\$0.0645	\$0.0686
Remove Previous Increment	(\$1.0836)	(\$0.6562)	(\$0.0541)	(\$0.0575)
Change in IM Increment per dt	\$0.2084	\$0.1261	\$0.0104	\$0.0111

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

## **INTEGRITY MANAGEMENT TRACKER (“IMT”)** (Docket No. G-5, Subs 587, 592, and 602)

Pursuant N.C. Gen. Stat. § 62-133.7A, the Commission approved an IMT mechanism in its order on PSNC’s application for a general rate increase in Docket No. G-5, Sub 565. On January 31, 2018, pursuant to PSNC’s IMT mechanism included as Rider E of its Service Regulations, PSNC filed an IMRR bi-annual rate adjustment, effective March 1, 2018, based on the Company’s IM Plant Investment through December 31, 2017.

Rider E requires PSNC to file a revision to its tariff for Commission approval by February 15 and August 15 each year showing the computation of the IM adjustment that it proposes to charge during the six-month period beginning the following March 1 and September 1, respectively. On February 9, 2017, PSNC filed a Revised Integrity Management Tracker Annual 2017 Report that included a proposed true-up adjustment for the IM Deferred Account based on the actual account balance at January 31, 2018. On February 14, 2018, PSNC filed an application seeking authority to adjust its IMT rates, effective March 1, 2018.

The Public Staff reviewed the Company’s amended application and recommended approval. By Order dated March 1, 2018, the Commission authorized PSNC to implement the proposed IM rate adjustments.

The approved IM rate adjustments, expressed in dollars per dekatherm (\$/dt), are as follows:

Description	Residential	Commercial	Firm	Interruptible
	Rates 101, 102, 115	Rates 125, 126 127, 140	Large General Rates 145, 175	Large General Rates 135, 150, 160, 165, 180
Rate Class Percentage	69.89%	19.92%	7.25%	2.94%
IMRR for Recovery	\$14,529,696	\$4,141,244	\$1,507,230	\$611,208
IM Deferred Account Balance	<u>(\$548,537)</u>	<u>(\$156,344)</u>	<u>(\$56,902)</u>	<u>(\$23,075)</u>
Net IMRR for Recovery	\$13,981,159	\$3,984,900	\$1,450,328	\$588,133
Rate Case Volumes (therms)	302,709,607	154,775,495	202,384,732	148,716,728
IM Rate Increment (per therm)	\$0.04619	\$0.02575	\$0.00717	\$0.00395
Current IMT Increment	<u>\$0.04229</u>	<u>\$0.02357</u>	<u>\$0.00656</u>	<u>\$0.00362</u>
Adjustment to IMT Increment	\$0.00390	\$0.00218	\$0.00061	\$0.00033

On July 31, 2018, in accordance with its Rider E, PSNC filed its bi-annual computation for the IMRR that supports the bi-annual IM Adjustment effective September 1, 2018, based on the Company's IM plant investment through June 30, 2018. The Public Staff reviewed the proposed IM rate adjustments and recommended approval. By Order dated August 29, 2018, the Commission authorized PSNC to implement the proposed IM rate adjustments.

The approved IM rate adjustments, expressed in dollars per dekatherm are as follows:

Description	Residential	Commercial	Firm	Interruptible
	Rates 101, 102, 115	Rates 125, 126 127, 140	Large General Rates 145, 175	Large General Rates 135, 150, 160, 165, 180
Rate Class Percentage	69.89%	19.92%	7.25%	2.94%
Net IMRR for Recovery	\$12,801,117	\$3,648,566	\$1,327,917	\$538,493
Rate Case Volumes (therms)	302,709,607	154,775,495	202,384,732	148,716,728
IM Rate Increment (per therm)	\$0.04229	\$0.02357	\$0.00656	\$0.00362

## **CWSNC APPLICATION FOR GENERAL RATE INCREASE**

**(Docket No. W-354, Sub 360)**

On April 27, 2018, CWSNC filed an application with the Commission seeking authority to increase its rates for providing water and sewer utility service in all of its service areas in North Carolina. The Company's last general rate case order was issued by the Commission on November 8, 2017, in Docket No. W-354, Sub 356 (Sub 356). The Applicant serves approximately 34,871 water customers, 21,531 sewer customers, and 5,087 availability accounts in 38 counties throughout the State. This was the Company's second general rate case filed since the Commission approved a merger of all the Company's North Carolina systems on August 17, 2016, in Docket No. W-354, Sub 350. By the rate case application filed in the Sub 356 rate case, CWSNC proposed and was allowed by the Commission to establish the following four Rate Divisions for ratemaking purposes: CWSNC Uniform Water, CWSNC Uniform Sewer, Bradfield Farms/Fairfield Harbour/Treasure Cove Water, and Bradfield Farms/Fairfield Harbour/Treasure Cove Sewer.

The Company sought an increase in total annual revenues of \$4,405,535, a 13.52% increase over current rates. Further, the Company requested an 11.50% rate of return on common equity, an 8.91% overall return on rate base, a capital structure of 52.89% common equity and 47.11% long-term debt, and an embedded cost of debt of 6.58%. In its Application, the Company requested authority to implement a Consumption Adjustment Mechanism (CAM) applicable to water and wastewater service within each rate division for non-purchased water and wastewater commodity customers. CWSNC stated the mechanism was intended to balance the risk and impact on customers and shareholders of levels of water and wastewater consumption that are either significantly higher or lower than those levels of consumption that were used to set rates. Additionally, the Company's Application also addressed issues related to the appropriate way to implement the provisions of the recently enacted Federal Tax Act, which was the subject of a generic proceeding initiated by the Commission in NCUC Docket No. M-100, Sub 148.

On October 19, 2018, CWSNC and the Public Staff filed a Partial Joint Settlement Agreement and Stipulation (Stipulation), resolving some issues in the matter. In its *Order Approving Joint Partial Settlement Agreement and Stipulation, Granting Partial Rate Increase, and Requiring Customer Notice*, dated February 2, 2019, the Commission approved an overall rate of return of 7.75%, a 9.75% rate of return on equity, a 50.91% common equity and 49.09% long-term debt ratio, and a 5.68% embedded cost of debt. Notably, the Commission approved for CWSNC a rate design for water utility service based on a ratio of 52%/48% base charge to usage charge; however the Commission did not approve the Company's request for a CAM. Additionally, the Commission held that the Company's federal unprotected EDIT should be returned to ratepayers through a levelized rider over a period of four years, and the Company's over-collection of federal income taxes in rates related to the decrease in the federal corporate income tax rate for period beginning January 1, 2018, and corresponding interest should be refunded to

ratepayers as a credit for a one-year period beginning when the new base rates became effective.

## **AQUA NC APPLICATION FOR GENERAL RATE INCREASE (Docket No. W-218, Sub 497)**

On March 7, 2018, Aqua North Carolina, Inc. (Aqua NC), filed an application with the Commission seeking authority to increase its rates for providing water and sewer utility service in all of its service areas in North Carolina. Aqua NC serves approximately 78,739 water customers and 17,940 sewer customers in 53 counties throughout the State.

By its application, Aqua NC sought an increase in total annual revenues of \$4,935,516, an 8.97% increase over current rates. Further, Aqua NC requested a 7.82% overall return on rate base, a 10.90% rate of return on common equity, a capital structure of 50% common equity and 50% long-term debt, and an embedded cost of debt of 4.76%.

A hearing for the purpose of receiving expert testimony began on September 11, 2018, and concluded on September 25, 2018.

On September 17, 2018, Aqua and the Public Staff entered into and filed a partial stipulation resolving some of the disputed issues between the stipulating parties in this proceeding.

By Order dated December 18, 2018, the Commission approved the partial stipulation and granted a partial rate increase. The Order set a 9.70% rate of return on common equity, a 7.17% overall return on rate base, a capital structure of 50% common equity and 50% long-term debt, and an embedded cost of debt of 4.63%. The Order further provided for an increase in Aqua NC's annual level of operating revenues of \$2,896,020, a total increase in Aqua NC's combined water and wastewater revenues of approximately 5.12% of its total operating revenues, or roughly 58.68% of the combined rate increase requested in the application.

## **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 2018, the Commission did not approve a WSIC annual revenue increase for Aqua NC’s water operations, as Aqua NC had already achieved the cumulative five percent revenue increase statutory cap, but approved SSIC annual revenues of \$49,962, a .30% rate increase for Aqua NC’s sewer operations. By separate orders, the Commission also authorized Aqua NC to implement ten 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 \$3.11 million to \$3.34 million. Following installation of these projects, the Public Staff observed a decrease in customer water quality complaints from systems where filtration projects were installed.

CWSNC in 2018 did not apply to the Commission for WSIC or SSIC approval of CWSNC’s investments.

## **JOINT AGENCY ASSET RIDER PROCEEDING** **(Docket No. E-2, Sub 1176)**

On June 20, 2018, DEP filed an application for approval of its annual Joint Agency Asset Rider (“JAAR”) to recover acquisition and operating costs related to facilities purchased from NCEMPA pursuant to N.C. Gen. Stat. § 62-133.14 and Commission Rule R8-70. In its application, DEP requested a total of \$147.654 million for the prospective component of its N.C. retail revenue requirement for the period December 1, 2018 through November 30, 2019. In addition to the prospective component, DEP requested \$9.196 million for the Joint Agency Asset Rolling Recovery Factor (RRF) component of its N.C. retail revenue requirement for the same period, related to the under-recovery of financing and non-fuel operating costs through the test year ended December 31, 2017. On November 8, 2018, the Commission entered an Order approving the JAAR and the following JAAR rates by class. For an average residential customer using 1,000 kWh, this represents a decrease of \$0.35 per month.

	Prospective Rate	RRF	Combined Rate
<b>Non-Demand Rate Classes</b>		<u>\$/KwH</u>	
Residential	0.00456	(0.00015)	0.00441
Small General Service	0.00542	(0.00044)	0.00498
Medium General Service	0.00411	(0.00039)	0.00372
Seasonal and Intermittent	0.00412	0.00037	0.00449
Traffic Signal	0.00248	(0.00011)	0.00237
Outdoor Lighting	-	-	-
<b>Demand Rate Classes</b>		<u>\$/KwH</u>	
Medium General Service	1.35	(0.18)	1.17
Large General Service	1.38	(0.02)	1.36

## HOUSE BILL 589 IMPLEMENTATION

House Bill 589, entitled “Competitive Energy Solutions for NC,” was enacted on July 27, 2017. It requires the implementation of several new renewable energy programs. Those programs and the status of their implementation are described below.

### Competitive Procurement for Renewable Energy (“CPRE”) Program

Part II of House Bill 589 requires Duke Energy to procure 2,660 MW of renewable energy through a competitive procurement program. In accordance with the bill, the Commission adopted rules for the CPRE program in Docket No. E-100, Sub 150, approved CPRE programs for DEP and DEC in Docket Nos. E-2, Sub 1159, and E-7, Sub 1156, respectively, and selected an independent administrator (“IA”) of the program in Docket No. E-100, Sub 151.

The opening solicitation for the first tranche of the Program was delayed in order for the Commission to issue CPRE-related modifications to the North Carolina Interconnection Procedures to implement a grouping study process. The first solicitation opened on October 9, 2018 and aimed to procure 600 MW of energy for DEC and 80 MW for DEP. The IA concluded the first solicitation and reported on its results on April 9, 2019. The IA reported that the procured amount fell short of the initial procurement target but calculated the total nominal savings were estimated versus avoided cost over the full 20-year term as follows: DEC is estimated to have \$290.20 million in savings, and DEP to have \$84.69 million in savings. As of July 2019, the selected Tranche 1 CPRE projects have completed the contracting phase of the procurement.

Tranche 2 of the CPRE, which was scheduled to open for bids in July 2019, has been postponed pending Commission consideration of changes to the CPRE rules and the bidding process to implement lessons learned from Tranche 1. On May 23, 2019, the Commission scheduled a technical conference to address the impact of four issues on the CPRE Program: (1) the need for more detailed locational guidance and when that guidance should be published to market participants; (2) the reasonableness of the energy storage protocol that is part of the CPRE pro forma power purchase agreement (PPA); (3) the reasonableness of the dispatchable PPA as proposed by First Solar; and (4) how to structure a “bid refresh” procedure.

### **Green Source Advantage (“GSA”) Program**

Part III of House Bill 589 requires Duke Energy to file with the Commission an application for approval of a new program to procure 600 MW of renewable energy for major military installations, the University of North Carolina, and large nonresidential customers.

The program plan for the new GSA program was filed in Docket Nos. E-2, Sub 1170 and E-7, Sub 1169. Duke Energy, the Public Staff, the University of North Carolina, organizations representing potential GSA program customers and solar developers, and others took part in the proceeding. The Commission on February 1, 2019 issued an order modifying and approving the GSA Program and Duke Energy made a compliance filing containing a proposed program on March 18, 2019.

### **Community Solar or “Shared Solar” Program**

The Distributed Resources Access Act, as enacted by Part VI of House Bill 589, required Duke to file with the Commission applications for approval of a new program offering retail customers the opportunity to participate in community solar energy facilities. The law further requires Duke to deploy, on a first-come first-served basis, up to 20 MW of community solar capacity in each service territory (40 MW total), with subscribers able to participate in, and receive benefits from, distributed solar photovoltaic (“PV”) resources without having to install, own, or maintain a system of their own.

The Commission approved Duke’s Community Solar Program on April 4, 2019. The Program allows Duke to align the implementation of the Community Solar Program with the implementation of Customer Connect, the Company’s new billing system, which will result in a one-year delay to the start of the Program. In the interim, Duke will work with the Public Staff to identify opportunities to accelerate implementation of the Program and find other partners to help with the development of solar projects to participate in the Program and help keep Program costs down. Duke is required file an interim report with the Commission detailing its efforts to date on October 1, 2019.

### **Solar Leasing program**

The Distributed Resources Access Act allows Duke Energy customers the option to lease solar energy systems from third parties. Under a leasing program, a third party owns the solar energy system while the customer has a contract to use the solar panels.

A rulemaking has been completed for the program in Docket No. E-100, Sub 156, with the Commission issuing Rule R8-73 governing Electric Generator Lessors (“EGL”). Since that time, two EGL applications have been approved by the Commission, and two additional applications have been filed, but not yet approved.

### **Solar Rebate Program**

Part VIII of House Bill 589 required Duke Energy to file an application requesting approval of a program to offer reasonable incentives to residential and nonresidential customers to install small solar energy facilities. The Commission approved Duke Energy’s proposed rebate program (Solar Rebate Program) in April 2018 for eligible projects that were installed on or after January 1, 2018 in Docket Nos. E-2, Sub 1167, and E-7, Sub 1166. Duke Energy will provide rebates for residential and nonresidential customers totaling an estimated \$62 million, which the utility is authorized to recover, along with program costs, under the annual REPS cost recovery rider. Under the Program, residential customers will be eligible for a rebate of 60 cents per watt for solar energy systems of 10 kW or less. Nonresidential customers will be eligible for 50 cents per watt and non-profit customers will be eligible for a rebate of 75 cents per watt for systems of 100 kW or less.

Duke Energy opened the initial application window for the Solar Rebate Program July 9, 2018, and closed the window for the residential and nonresidential classes on July 26, 2018, as a result of the annual participation levels being reached. On September 20, 2018, the Commission issued an *Order Modifying First Year of Solar Rebate Program* to allow certain affected customers to be reallocated capacity if any unused 2018 capacity became available, and also requiring Duke Energy to undertake efforts to more effectively communicate Solar Rebate Program details to existing and future rebate applicants and solar installers, to include hosting installer webinars, sending email notifications, and continuing to regularly update Duke’s website to ensure that participation eligibility requirements and details are transparent.

Duke Energy opened the 2019 application window for the Solar Rebate Program January 2, 2019, and closed the window for the residential and nonresidential classes on January 4, 2019, as a result of the annual participation levels being reached.

Duke filed its annual report March 27, 2019, indicating that during the 2018 program year, a total of 1,863 rebates were paid, with an associated installed capacity of approximately 14,264 kilowatts. Duke anticipates opening the enrollment window for the 2020 Program year on January 2, 2020.

## **DEP’S APPLICATION FOR A GENERAL RATE INCREASE (Docket No. E-7, Sub 1142)**

On May 2, 2017, DEP filed notice of its intent to file a general rate case application. On June 1, 2017, DEP filed its Application to Adjust Retail Rates and Request for an Accounting Order seeking a net increase of approximately \$477.5 million, or 14.9%, in its annual electric sales revenues from its North Carolina retail electric operations, including



a rate of return on common equity of 10.75%. On September 15, 2017, DEP filed supplemental testimony and exhibits that detailed a \$57.958 million reduction in its original request, thereby reducing the total proposed increase to approximately \$419.5 million. On November 17, 2017, DEP filed further supplemental testimony and exhibits detailing additional adjustments to its Application that changed its proposed annual revenue increase to \$425.6 million.

The Public Staff and other intervenors filed testimony on or around October 19, 2017, and DEP filed rebuttal testimony on November 6, 2017. On November 22, 2017, DEP and the Public Staff filed a partial stipulation, and DEP entered into individual agreements with Kroger, the Commercial Group, and NC Justice Center that were consistent with DEP and the Public Staff's stipulation. The stipulation provided for a rate of return on equity of 9.90%, based upon a capital structure containing 52% equity and 48% debt, updated plant, accumulated depreciation, revenues, construction work in progress, inflation, and labor, and agreements regarding depreciation rates, the Harris combined construction and operation license application amortization, distribution vegetation management, DEP's new Customer Connect billing system, certain revenue reductions, coal inventory, the Mayo Zero Liquid Discharge and Sutton combustion turbine projects, nuclear materials and supplies, merger costs, the Power/Forward Carolinas initiative, cost of service and rate design matters, excess deferred tax liability ("EDIT"), and the Basic Customer Charge. The Stipulation did not resolve issues regarding cost recovery of DEP's coal combustion residual ("CCR") costs, storm costs, and certain issues regarding the proposed job retention rider ("JRR").

Public hearings were held in Rockingham, Raleigh, Asheville, Snow Hill, and Wilmington. The evidentiary hearing began on November 27, 2017. Following the evidentiary hearing, the parties submitted proposed orders, and on February 23, 2018, the Commission entered its *Order Accepting Stipulation, Deciding Contested Issues and Granting Partial Rate Increase*. In addition to accepting the Stipulation, the Commission concluded that DEP should be allowed to recover its coal ash basin closure costs totaling \$232 million, less a mismanagement penalty in the sum of \$30 million. The Commission also disallowed DEP's request to collect future coal ash basin closure costs on an ongoing basis, but established a deferral account to record coal ash costs until DEP's next rate case. The Commission's order resulted in a net increase of approximately \$194 million, or 6%, in its annual electric sales revenues from its North Carolina retail electric operations.

## **DEC'S APPLICATION FOR A GENERAL RATE INCREASE (Docket No. E-7, Sub 1146)**

On August 25, 2017, DEC filed an application seeking a generate rate increase. In its application and initial direct testimony and exhibits, DEC originally sought a net increase of approximately \$611 million, or 12.8%, in its annual electric sales revenues from its North Carolina retail electric operations, including a rate of return on common equity of 10.75%. DEC also requested a Grid Reliability and Resiliency Rider to recover an additional \$26 million in costs related to its grid modernization initiative

(Power/Forward Carolinas), which had the effect of an additional 0.8% increase. On December 15, 2017, DEC filed supplemental direct testimony and exhibits. On December 18, 2017, DEC filed Revised Supplemental testimony.

From the filing of the application to the end of 2017, the Public Staff and other intervenors conducted extensive discovery on DEC's application. On January 23, 2018, the Public Staff filed direct testimony, and on February 6, 2018, DEC filed rebuttal testimony. On February 28, 2018, DEC and the Public Staff filed a partial stipulation. The stipulation provided for a 9.9% rate of return on equity, based upon a capital structure of 52% equity and 48% debt, and agreements related to the Lee Combined Cycle project, distribution vegetation management, Customer Connect, recovery of coal ash basin disposal costs through the fuel clause, and other expenses. The stipulation did not address a number of issues, including the following: (1) the Company's request to recover its deferred coal ash costs and its ongoing environmental compliance costs, as well as the method by which the Company should allocate coal ash costs; (2) whether it is appropriate to allow a return on the unamortized balance of costs relating to the Lee Nuclear Project during the amortization period; (3) the manner in which the Federal Tax Cuts and Jobs Act should be addressed in the case; (4) the amount of annual depreciation expense and associated accumulated depreciation to be used for ratemaking in the case; (5) whether a Grid Rider should be adopted in this proceeding, and if so, which costs would be included in the Grid Rider and the structure of the Grid Rider; and (6) the amount of the Basic Facilities Charge. The stipulation also did not resolve certain issues regarding DEC's proposed JRR. On March 2, 2018, DEC filed a settlement agreement with the North Carolina League of Municipalities, and the cities of Concord, Kings Mountain, and Durham which resolved certain lighting issues between the parties.

Public hearing were conducted in Franklin, Greensboro, and Charlotte. The evidentiary hearing began on March 5, 2018. Following the evidentiary hearing, the parties submitted proposed orders, and on June 22, 2018, the Commission entered its *Order Accepting Stipulation, Deciding Contested Issues, and Requiring Revenue Reduction*. In addition to accepting the stipulations described above, the Commission concluded that DEC should be allowed to recover its coal ash basin closure costs totaling \$545 million, less a mismanagement penalty in the sum of \$70 million. The Commission disallowed DEC's request to collect future coal ash basin closure costs on an ongoing basis, but established a deferral account to record coal ash costs until DEC's next rate case. The Commission determined that DEC should not be permitted to earn a return on the Lee Nuclear costs, and denied DEC's request to establish a rider to recover Power/Forward costs. Finally, regarding the Federal Tax Cuts and Jobs Act, the Commission ordered an immediate reduction of \$211 million representing the decrease in the federal corporate tax rate from 35% to 21%. The Commission's order resulted in a small net decrease in DEC's annual electric sales revenues from its North Carolina retail electric operations.

**DEP’S APPLICATION FOR A CERTIFICATE OF PUBLIC  
CONVENIENCE AND NECESSITY (CPCN) TO CONSTRUCT THE HOT  
SPRINGS SOLAR AND BATTERY STORAGE FACILITY (MICROGRID)  
(Docket No. E-2, Sub 1185)**

On October 8, 2018, DEP filed an application for a CPCN to construct the generation aspects of the Hot Springs Microgrid Solar and Battery Storage Facility (Microgrid). DEP also requested appropriate approval from the Commission for DEP’s decision to construct the battery storage components of the Microgrid as being consistent with DEP’s commitment and the Commission’s March 28, 2016 Order Granting Application, in part, with Conditions, and Denying Application in Part in Docket No. E-2, Sub 1089 (the “Western Carolinas Modernization Project (WCMP) Order”).

The Hot Springs Microgrid consists of an approximately 3 MW direct current (“DC”) / 2 MW alternating current (“AC”) solar photovoltaic (“PV”) electric generator and an approximately 4 MW lithium-based battery storage facility to be constructed in Madison County, North Carolina. In addition to providing energy to the DEP system, the Hot Springs Microgrid will be capable of operating while disconnected from the grid (known as “islanding”) to improve reliability for DEP customers connected to the Hot Springs 22.86 kV feeder, which runs for approximately ten miles from the Marshall Substation along the French Broad River and through the Great Smoky Mountains. While grid-tied, the Hot Springs Microgrid should be capable of providing ancillary system services, such as frequency, voltage, and ramping support, to the electric grid, and capacity during system peaks.

On January 30, 2019, the Public Staff filed testimony recommending that the Microgrid be approved as a pilot project and that the certificate be granted, subject to certain conditions, which were agreed upon by DEP.

On May 10, 2019, the Commission entered an order issuing the CPCN and approving the Microgrid as a pilot project. In the order, the Commission found that although it is not clear that the Hot Springs Microgrid is the most cost effective way to address reliability and service quality issues at Hot Springs, the overall public convenience and necessity would be served by granting the certificate for the solar facility and approving the Hot Springs Microgrid as a pilot project. The system benefits from the Microgrid are material but are difficult to quantify accurately without real world experience in DEP’s service territory. The Commission further found that DEP will gain valuable experience by operating the Microgrid, and this experience, data collection, and analysis will be beneficial in future cost-benefit analyses of projects that propose to include an energy storage component. The Commission’s order granting the CPCN included (1) the reporting requirements, (2) a study of frequency regulation, (3) the imposition of a cap on the above-the-line capital costs of the project, and (4) other conditions proposed by the Public Staff, all of which were agreed to by DEP.

# **ORDER ADDRESSING THE IMPACTS OF THE FEDERAL TAX CUTS AND JOBS ACT ON PUBLIC UTILITIES**

**(Docket No. M-100, Sub 148)**

On December 22, 2017, President Donald J. Trump signed into law the Tax Cuts and Jobs Act (the Tax Act). The Tax Act reduced the tax rate of most, if not all, investor-owned public utilities providing services in North Carolina. Specifically, the Tax Act reduced the federal corporate income tax rate from 35% to 21%, effective for taxable years beginning after December 31, 2017.

On January 3, 2018, the Commission issued an Order stating that the federal corporate income tax expense component of all existing rates and charges of public utilities subject to the Order would be billed and collected on a provisional basis pending further investigation and disposition of the matter by the Commission, with accompanying deferred accounting for the amount of reduced rates.

On October 8, 2018, the Commission issued an Order providing the following:

- The base rates of public utilities would be adjusted to reflect the reduction in the federal tax rate to 21%, unless the reduction had been reflected in a recent rate case, would be reflected in a pending rate case, or was otherwise inappropriate.
- The excess deferred income taxes related to the decrease in the federal tax rate would be addressed in the earlier of (i) each utility's next general rate case, or (ii) in three years. If a utility subject to the Order has not filed a general rate case by October 5, 2021, the utility must file a proposal to flow back the excess deferred income taxes to ratepayers.
- That the reduction in the federal corporate income tax rate for each rider proceeding would be addressed in the next annual rider proceeding.

## **APPELLATE CASES IN WHICH THE PUBLIC STAFF PARTICIPATED**

State Of North Carolina Ex Rel. Utilities Commission; Duke Energy Progress, LLC, v. Attorney General Joshua H. Stein, Sierra Club, Public Staff – North Carolina Utilities Commission, NO. 271A18

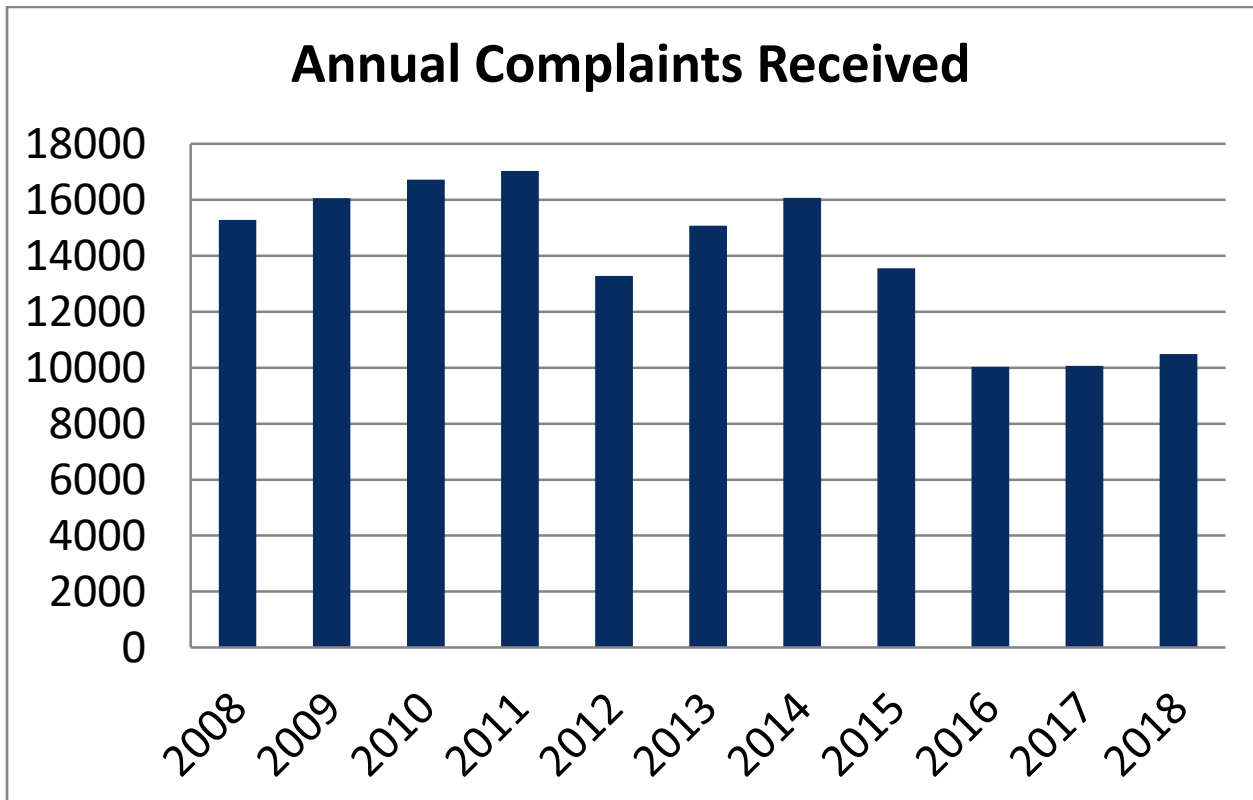
State Of North Carolina Ex Rel. Utilities Commission; Duke Energy Carolinas, LLC, v. Attorney General Joshua H. Stein; Sierra Club; North Carolina Sustainable Energy Association; North Carolina Justice Center, North Carolina Housing Coalition, Natural Resources Defense Council, And Southern Alliance For Clean Energy; Public Staff – North Carolina Utilities Commission, NO. 401A18

State of North Carolina Ex. Rel. Utilities Commission; Public Staff – North Carolina Utilities Commission; Fresh Air Energy II, LLC; And North Carolina Sustainable Energy Association v. Col. Francis X. De Luca USMCR (RET), NO. COA17-1339

## CONSUMER SERVICES DIVISION

The Consumer Services Division facilitates the resolution of disputes between consumers and regulated utilities.<sup>1</sup> In addition, it 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 requests for assistance in establishing alternative payment arrangements. In 2018, the Consumer Services Division processed a total of 10,485 complaints and inquiries. While the majority of the complaints are resolved informally, a small percentage of the complaints 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, internet, municipal utility services, cellular services, electric and telephone membership cooperative services, and those services regulated by the Federal Communications Commission (“FCC”).



<sup>1</sup> The Transportation Division handles all complaints related to household goods movers separately from the Consumer Services Division. Transportation Division complaints are reported on page 37.

## CONSUMER COMPLAINTS/INQUIRIES BY INDUSTRY

Industry	Complaints	Utility	Complaints
<b>Electric</b>	8,285		
		Duke Energy Carolinas	5,235
		Duke Energy Progress	2,856
		Dominion NC Power	191
		Other	3
<b>Natural Gas</b>	698		
		Piedmont	550
		PSNC	143
		Other	5
<b>Telephone</b>	608		
		AT&T	167
		Frontier	127
		CenturyLink	119
		Windstream	30
		Time Warner/Spectrum	28
		Other	137
<b>Water/Sewer</b>	426		
		Aqua	165
		Water resellers	85
		Carolina Water Service	76
		Other	100
<b>Other</b>	468		

## 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 reporting to, or 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 2018, the Public Staff reviewed approximately 4,100 renewable facility applications. The status of solar renewable energy facilities in electric utility territories is shown below.

<b>Status of Solar Renewable Energy Facilities as of December 31, 2018</b>				
	<b>Connected Facilities</b>		<b>Proposed Facilities (Pre- and Under-construction)</b>	
<b>Electric Utility</b>	<b>Number of Facilities</b>	<b>Capacity of Facilities in MW</b>	<b>Number of Facilities</b>	<b>Capacity of Facilities in MW</b>
DEP	4,751	2,169	741	4,166
DEC	4,894	692	544	2,285
DENC	200	1,090	53	396
Total	9,845	3,951	1,338	6,847

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.

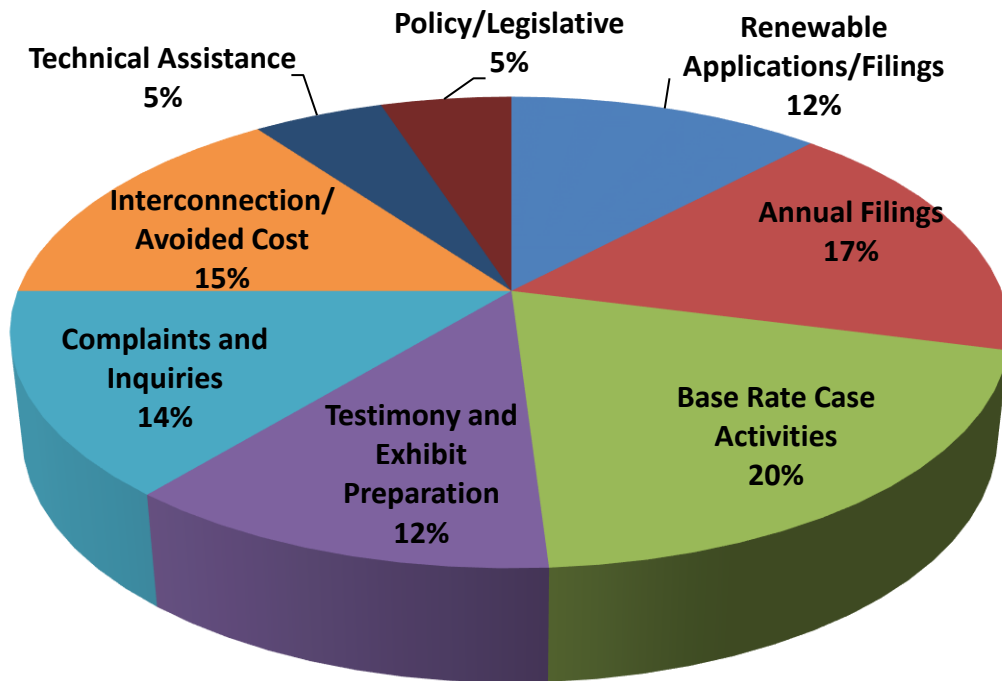
In addition, the Electric Division is directly and actively involved in the review, recommendations, and implementation of House Bill 589.



## Electric Subject Matter Allocation

Rate proceedings (Base rates and DSM/EE, fuel, REPS, JAAR riders)	32%
SB 3/HB 589 issues/REPS compliance/renewable facility applications	20%
Interconnection/Avoided Cost	30%
Customer Complaints	8%
Transmission, Resource Planning, and Service Reliability	7.5%
Electric Resellers	2.5%

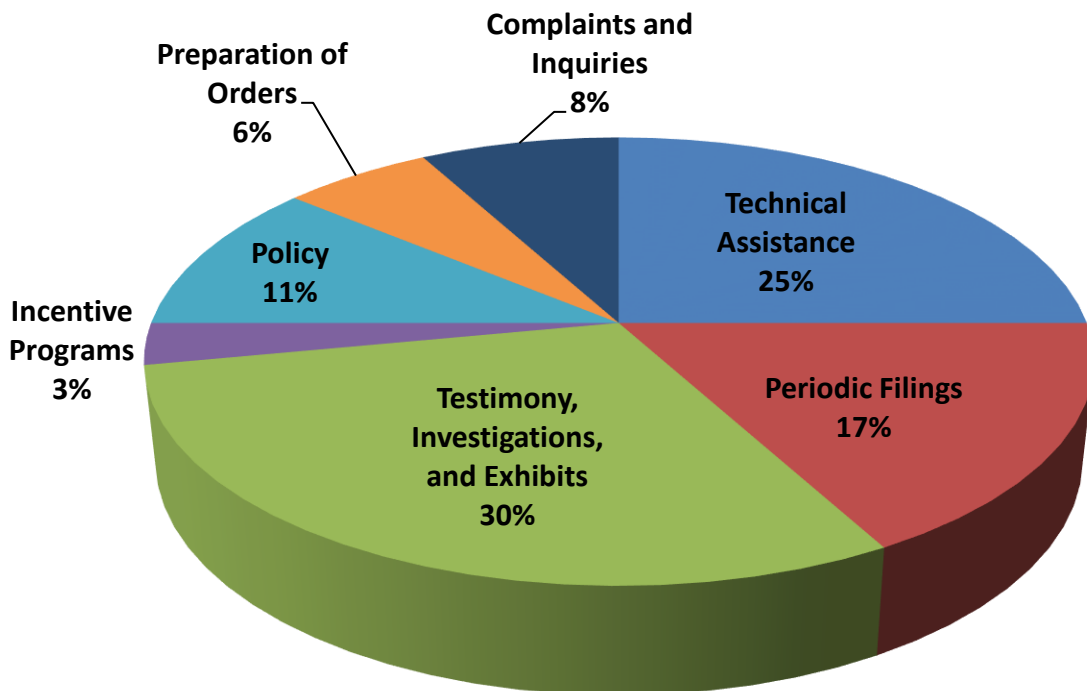
## Allocation of Electric Staff Resources (by Task)



# NATURAL GAS DIVISION

The Natural Gas Division represents the using and consuming public in filings brought before the Commission regarding regulated natural gas utilities. These matters include general rate cases, rider proceedings, annual gas cost reviews, purchased gas adjustment proceedings, pipeline integrity management spending and cost recovery in riders/trackers, oversight of customer usage and margin decoupling tracker mechanisms, and feasibility of extending service to new customers. The Division also works with the Consumer Services Division to provide technical assistance on customer complaints.

## Allocation of Natural Gas Staff Resources



## **WATER/SEWER/TELEPHONE 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 2018, the Division handled over 1,490 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	34%
Traditional water and wastewater utility rate case investigations/ audits/inspections and presentations before the Commission	27%
Investigations/audits of filings by water, wastewater, and telephone 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	23%
Responding to verbal and written inquiries for information from the public, legislature, utilities, agencies, and outside professionals	6%
Working with Consumer Services Division to resolve utility customer complaints	4%
Resolving issues where water and/or wastewater utility customers are in danger of losing utility service	2%
Investigation/resolution of water quality issues	4%

## Telephone Matters

On January 1, 2017, the Telephone 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. The combined division represents the using and consuming public in regulated communications matters before the Commission. The 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 Commission no longer has authority to order telephone companies to take corrective action in response to complaints, the Public Staff works with service providers to achieve acceptable outcomes for customers where possible.

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

## **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 within North Carolina. At the end of 2018, there were 321 household goods carriers holding certificates of exemption issued by the Commission, and two bus companies and eight ferry operators holding CPCNs. During 2018, the Division reviewed approximately 1,326 filings.

The Transportation Division investigated 104 customer complaints and responded to 581 inquiries related to household goods movers and other transportation matters received by the Public Staff in 2018.

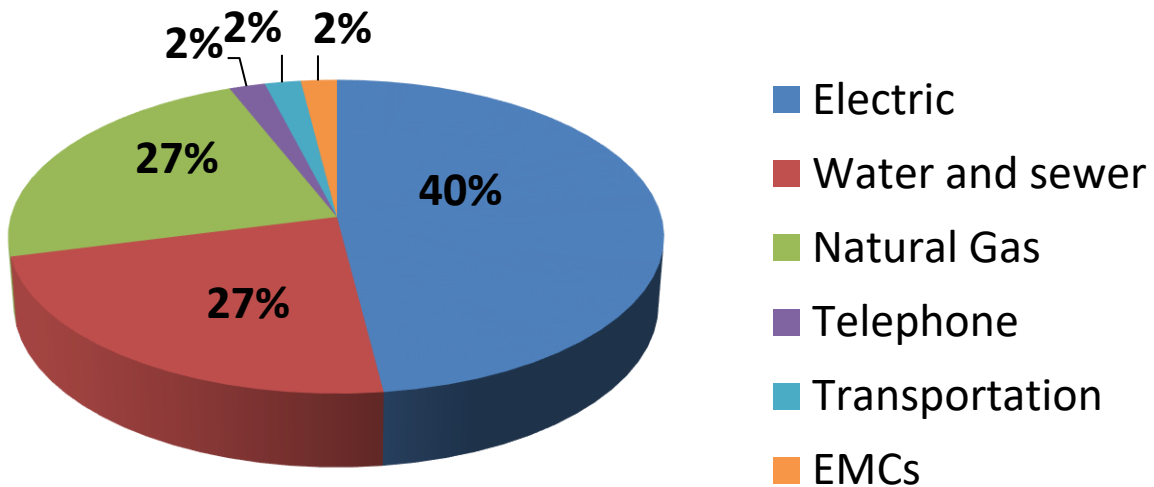
### **Allocation of Transportation Staff Resources**

Clarify Maximum Rate Tariff regulations and provide technical assistance	25%
Investigate unauthorized companies	15%
Investigate/Resolve damage claims and complaints	12%
Conduct Maximum Rate Tariff seminars	12%
Process Annual Reports	12%
Conduct compliance audits of regulated companies	10%
Preparation of filings and orders	10%
Review/Modify tariffs for ferry service operations	3%
Review filings related to bus services and brokers	1%

# ACCOUNTING DIVISION

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

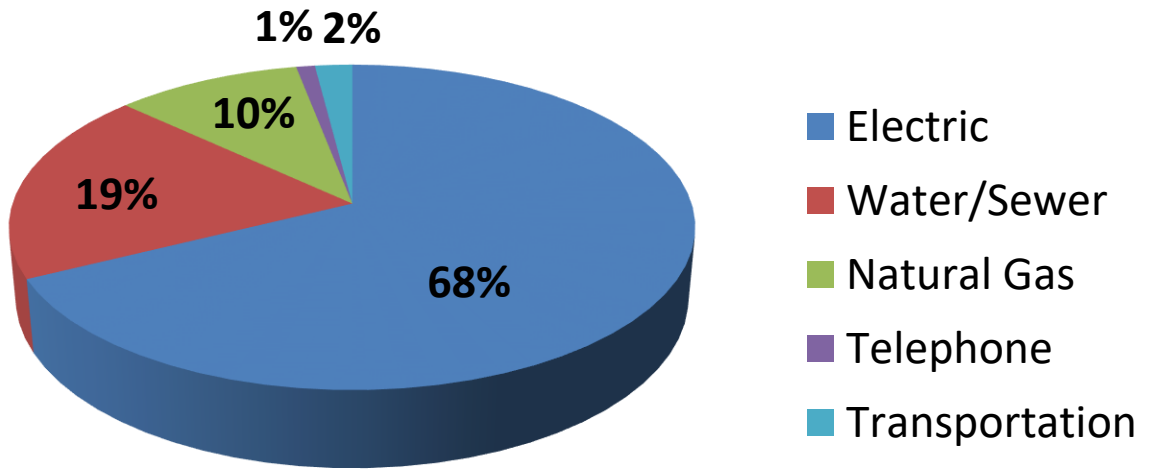
## Allocation of Accounting Staff Resources



# 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.

## 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. Approximately 70% of the Economic Research Division's resources are devoted to the biennial avoided cost proceedings and annual Integrated Resource Planning 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.

