

**STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH**

DOCKET NO. G-100, SUB 87

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of
Rulemaking Proceeding to Revise Commission)
Rule R1-17(k)(4)(c), Company Use and Lost) ORDER REVISING
and Unaccounted For) COMMISSION RULE R1-17(k)

BY THE COMMISSION: On May 12, 2009, the Commission issued an Order Instituting Rulemaking Proceeding to receive comments and to consider modifications to Commission Rule R1-17(k)(4)(c). That order came about as a result of testimony received in Docket Nos. G-5, Sub 497, and G-9, Sub 554. In those dockets, witnesses for Public Service Company of North Carolina, Inc. (PSNC) and Piedmont Natural Gas, Inc. (Piedmont), respectively, and the Public Staff testified to a problem in the manner of calculating the annual true-up of Company Use and Unaccounted For gas -- which is also commonly referred to as "Company Use and Lost and Unaccounted For" (CU&LUAF) gas -- pursuant to the existing Rule. The Commission's May 12, 2009 Order made PSNC and Piedmont parties to this docket. Other persons wishing to participate were invited to file petitions to intervene on or before June 12, 2009. Parties were invited to file comments on or before June 12, 2009, addressing whether the Commission should modify Commission Rule R1-17(k)(4)(c) and, if so, what such a modified rule should be. Reply comments were due on or before June 26, 2009.

On May 22, 2009, the Carolina Utility Customers Association, Inc. (CUCA), filed a petition to intervene. On June 6, 2009, the Commission issued an order allowing the intervention by CUCA.

On June 12, 2009, PSNC, Piedmont, and the Public Staff (the Parties) filed Joint Comments. The Parties stated that in Docket No. G-5, Sub 497, PSNC witness Paton testified that the existing true-up process did not result in the recovery of the actual gas costs incurred as provided in G.S. 62-133.4. That statute requires in part that "[t]he Commission. . .shall compare the utility's prudently incurred costs with costs recovered from all the utility's customers. . .and shall permit the utility to recover any deficiency through an increment in its rates." The Parties stated that witness Candace Paton testified that Rule R1-17(k)(4)(c) as written does not allow PSNC to recover 100% of its CU&LUAF gas costs because the true-up is based on the presumed level of cost recovery and not on the actual level of cost PSNC recovers from its customers.

The Parties further commented that in Docket No. G-5, Sub 497, Public Staff witness James Hoard agreed, stating that the Rule is inaccurate and that the Rule as written does not allow PSNC to recover 100% of its prudently incurred costs as intended by Rule R1-17(k). Witness Hoard recommended that, subsequent to the review period

at issue in that case, the commodity true-up be modified in such a manner that the annual CU&LUAF true-up would be eliminated because the CU&LUAF true-up would be incorporated into the monthly commodity true-up. He further suggested that the monthly commodity true-up entry to the deferred accounts be modified such that the amount actually collected for gas supply costs from customers -- based on the volumes delivered to customers -- is compared to the actual amount of incurred gas supply costs. The Parties stated that witness Hoard recommended that -- consistent with Commission rulings that all customers, including transportation customers, should bear the cost responsibility for CU&LUAF gas costs -- the entry should be apportioned between the Sales Customers Only and the All Customers Deferred Accounts based on the relationship of sales to purchased dekatherms. He also recommended that the Sales Customers Only Deferred Account should be apportioned a share of the commodity true-up based upon the ratio of sales to purchased dekatherms and that the All Customers Deferred Account should be apportioned the residual portion of the entry, which will represent the CU&LUAF portion of the commodity true-up entry. The Parties commented that witness Hoard suggested that the Commission undertake this Rulemaking proceeding to modify Rule R1-17(k) and the gas cost adjustment procedures consistent with the practice described above and that the Commission agreed with the Public Staff's recommendations in that docket.

The Parties commented that in the 2008 annual review of Piedmont's gas costs in Docket No. G-9, Sub 554, Public Staff witness Hoard recommended that the Commission follow the same approach as in Docket No. G-5, Sub 497. Piedmont witness David R. Carpenter agreed, and the Commission again accepted the Public Staff's recommendations.

The Parties commented that because the commodity true-up was modified in such a manner that the annual CU&LUAF true-up was eliminated in Docket Nos. G-5, Sub 497, and G-9, Sub 554, it is appropriate to eliminate in its entirety paragraph (4)(c) of Rule R1-17(k). Paragraphs (2)(g), (4)(a), and (4)(b) of Rule R1-17(k) should be modified to reflect the change in the commodity true-up approved in those proceedings. The Parties recommended modifications as shown in Appendix A of this Order. Appendix B is a revised version of paragraphs (2)(g), (4)(a), and (4)(b) of Rule R1-17(k) of the Commission's Rules and Regulations, after these modifications have been made.

No other comments were filed. No reply comments were filed.

The comments received by the Commission in this docket stated that Rule R1-17(k)(4)(c) as written does not allow an LDC to recover 100% of its CU&LUAF gas costs as provided G.S. 62-133.4 because the true-up is based on the presumed level of cost recovery and not on the actual level of cost recovered from the customers. The Parties recommended that the Commission modify its rules as shown in Appendix A. The Commission agrees and therefore concludes that its Rules should be changed as recommended by the Parties in Appendix A and that the effective date for the revisions should be the date of this Order.

IT IS, THEREFORE, ORDERED as follows:

1. That Rule R1-17(k)(4)(c) is rescinded;
2. That paragraphs (2)(g), (4)(a), and (4)(b) of Rule R1-17(k) of the Commission's Rules and Regulations are hereby revised as set forth in Appendix A attached hereto and are hereby, as revised in Appendix B, incorporated into said Rules and Regulations effective as of the date of this Order; and
3. That the Chief Clerk shall mail a copy of the Order to all the natural gas companies operating in North Carolina.

ISSUED BY ORDER OF THE COMMISSION.

This the 8th day of July, 2009.

NORTH CAROLINA UTILITIES COMMISSION



Patricia Swenson, Deputy Clerk

Commissioners Susan Rabon and ToNola Brown-Bland did not participate.

mb070709.01

Rule R1-17 FILING OF INCREASED RATES; APPLICATION FOR AUTHORITY TO ADJUST RATES

....

(k) Procedure for Rate Adjustments Under G.S. 62-133.4.

(2) Definitions. As used in this Section (k) of Rule R1-17, the following definitions shall apply:

(g) "Demand Charges and Storage Charges" shall mean all Gas Costs which are not based on the volume of gas actually purchased or transported by an LDC and any other gas costs determined by the Commission to be properly recoverable from customers, ~~including company use and unaccounted for.~~

....

(4) True-up of Gas Costs.

(a) Demand Charges and Storage Charges. On a monthly basis, each LDC shall determine the difference between (a) Demand Charges and Storage Charges billed to its customers in accordance with the Commission-approved allocation of such costs to the LDC's various rate schedules and (b) the LDC's actual Demand Charges and Storage Charges. This difference shall be recorded in the LDC's deferred account for demand and storage charges. Increments and decrements for Demand Charges and Storage charges this deferred account, including the portion of the Commodity and Other Charges true-up calculated under Section (4)(b) and apportioned to this deferred account, flow to all sales and transportation rate schedules. Where applicable, the percentage allocation to North Carolina shall be the percentage established in the last general rate case. ~~For purposes of this true up, company use and unaccounted for costs will be excluded since they are subject to a true up under Section (4)(c).~~

(b) Commodity and Other Charges. On a monthly basis, each LDC shall determine with respect to gas sold (including company use and unaccounted for) during the month the ~~per unit~~ difference between (a) ~~the Benchmark Commodity Gas Costs most recently approved and~~ (b) the actual Commodity and Other Charges incurred and (b) the actual Commodity and Other Charges billed to customers. ~~The product of the actual volumes multiplied by the per unit~~ This difference shall be apportioned each month to ~~recorded in~~ the LDC's deferred account for commodity and other charges based on the ratio of volumes sold to the volumes purchased for that month. The residual portion of the difference

not apportioned to the LDC's deferred account for commodity and other charges shall be apportioned each month to the LDC's deferred account for Demand Charges and Storage Charges. Increments and decrements for Commodity and Other Charges flow to all sales rate schedules.

(c) ~~Repealed. Company Use and Unaccounted For. Each LDC will true up Gas Costs associated with company use and unaccounted for volumes annually. This shall be done by comparing the actual North Carolina company use and unaccounted for volumes during the true up period with the rate case approved North Carolina company use and unaccounted volumes used to establish rates during the twelve month true up period. Where there is more than one approved company use and unaccounted for volumes during the true up period, the average monthly level will be used. The resulting volumes will be multiplied by the average of the Benchmark Commodity Gas Costs at the end of each month of the true up period, and the resulting amount will be recorded in the deferred account.~~

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(b) Commodity and Other Charges. On a monthly basis, each LDC shall determine with respect to gas sold (including company use and unaccounted for) during the month the difference between (a) the actual Commodity and Other Charges incurred and (b) the actual Commodity and Other Charges billed to customers. This difference shall be apportioned each month to the LDC's deferred account for commodity and other charges based on the ratio of volumes sold to the volumes purchased for that month. The residual portion of the difference not apportioned to the LDC's deferred account for commodity and other charges shall be apportioned each month to the LDC's deferred account for Demand Charges and Storage Charges. Increments and decrements for Commodity and Other Charges flow to all sales rate schedules.

(c) Repealed.