



**NORTH CAROLINA
PUBLIC STAFF
UTILITIES COMMISSION**

June 2, 2014

The Honorable Phil Berger
President Pro Tempore of the Senate
Legislative Building, Room 2008
Raleigh, North Carolina 27601-2808

The Honorable Thom Tillis
Speaker of the House
Legislative Building, Room 2304
Raleigh, North Carolina 27601-1096

Gentlemen:

As required by G.S. 62-17(a1), I am submitting an annual report on the activities of the Public Staff during 2013.

Sincerely,

A handwritten signature in blue ink, appearing to read "Chris Ayers".

Christopher J. Ayers
Executive Director

CJA:cei

Enclosure

cc: Governor Pat McCrory
Governmental Operations Commission (govops@ncleg.net)
Edward S. Finley, Jr., Chair, North Carolina Utilities Commission
Attorney General Roy Cooper
Heather Fennell, Staff Attorney – General Assembly

ANNUAL REPORT
to the
GENERAL ASSEMBLY



North Carolina Utilities Commission
Public Staff

2013

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 sets policy and guidelines to ensure that the Public Staff presents a unified position in the best interest of the ratepayers 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, succeeding Robert P. Gruber upon his retirement.

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. The Public Staff is organized into nine operating divisions: Accounting, Communications, Consumer Services, Economic Research, Electric, 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 PUBLIC STAFF

The Public Staff serves as the eyes, ears and voice of the body 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 utilities issues and cases.

The key functions of the Public Staff are:

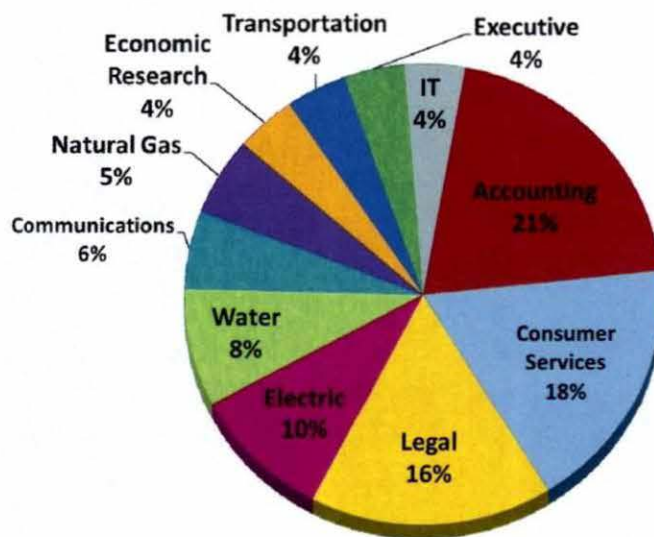
- Presenting testimony and recommendations to the Commission on behalf of regulated utility customers
- Investigating customer complaints
- Auditing regulated utilities in Commission investigations and proceedings
- Interfacing with the general public on utilities issues
- Assisting legislative staff 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
- Assisting in North Carolina economic development efforts

PUBLIC STAFF PERSONNEL ALLOCATION

As of December 31, 2013, the Public Staff employed a total of seventy-three individuals across nine different operating divisions. For illustrative purposes, Executive and IT staff have been denoted separately from the divisions within which they are housed.

Staff Allocation by Division (as of December 31, 2013)

<u>Division</u>	<u>Number of Employees</u>
Accounting	15
Consumer Services	13
Legal	12
Electric	7
Water	6
Communications	4
Natural Gas	4
Economic Research	3
Transportation	3
Executive	3
IT	3

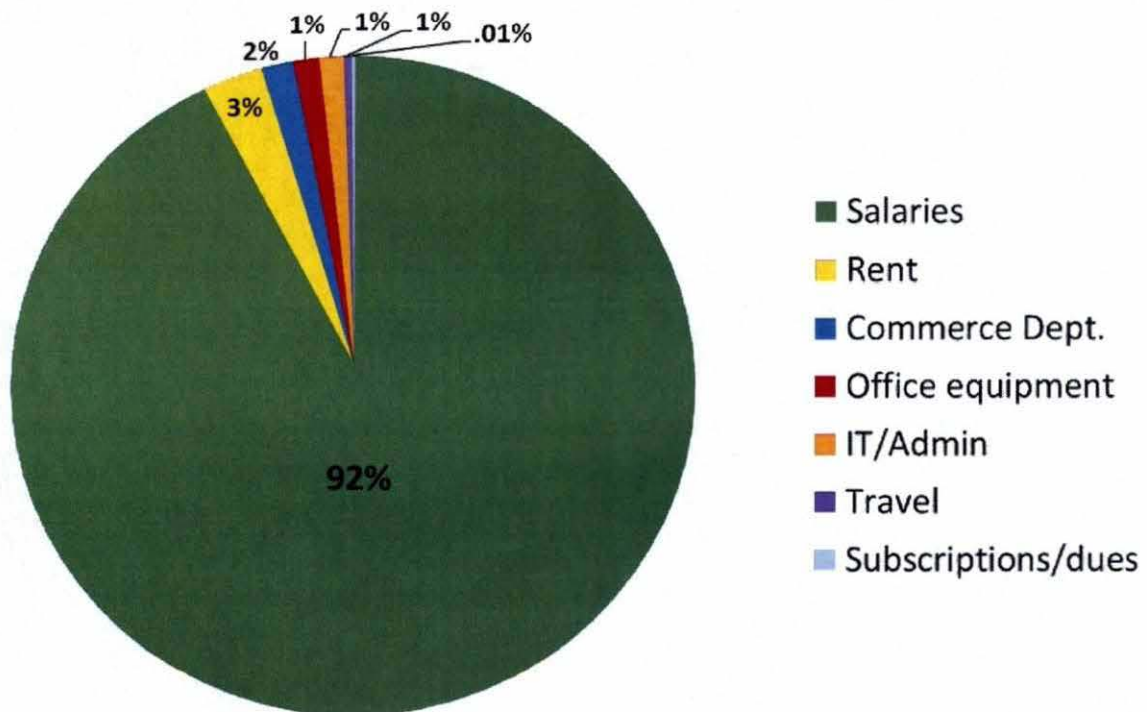


PUBLIC STAFF BUDGET

The Public Staff is funded via a regulatory fee established by the General Assembly pursuant to N.C. Gen. Stat. § 62-302. For fiscal year 2013-14, the regulatory fee was established at 0.13% of the 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 2013-14, the Public Staff's overall budget was approximately \$9.05 million. Over 92% of the Public Staff's budget is dedicated to staff salaries, totaling \$8.35 million. Approximately \$420,000 of the budget is allocated to the Department of Commerce for human resources and budget support, as well as rental expense for the Dobbs building. The remaining \$280,000 is allocated to office equipment and supplies, information technology equipment and services, training, travel and development.

FY 2013-14 PUBLIC STAFF BUDGET ALLOCATION



PUBLIC STAFF ACTIVITIES – 2013 OVERVIEW

The Public Staff was very active on behalf of the North Carolina using and consuming public throughout 2013. The Public Staff participated in 2,641 formal proceedings before the Commission through briefs, comments, expert testimony, audits and investigations, including appearances at 130 hearings in contested cases. The Public Staff reviewed 11,941 filings made with the Commission and 2,756 orders issued by the Commission. The Public Staff handled 15,719 consumer complaints and inquiries throughout the year. As summary of major Commission proceedings and the work performed by each Public Staff Division follows.

Major 2013 Commission Proceedings

GENERAL RATE CASES

Duke Energy Carolinas, LLC (Docket No. E-7, Sub 1026)

Duke Energy Carolinas, LLC (DEC), serves approximately 1.8 million retail electric customers in North Carolina. In February of 2013, DEC requested a \$446 million increase in its base rates, which would have resulted in a rate increase of approximately 9.7%. This was DEC's third general rate increase request in the last five years. The Public Staff participated in each of the public hearings, which were held in Franklin, Marion, Winston-Salem, Charlotte, and Hillsborough, with a total of 131 customers testifying.

After an extensive investigation and audit, the Public Staff entered into a settlement and stipulation with DEC that reduced the proposed increase by approximately 48% and included \$10 million to assist low-income customers. The Commission approved the terms of the settlement in an order granting a partial rate increase on September 24, 2013. As a result of the settlement and order, the base rate increase for an average residential customer was 5.99%, resulting in an average monthly residential bill (excluding annual riders) of \$108.87.

Duke Energy Progress, Inc. (Docket No. E-2, Sub 1023)

Duke Energy Progress, Inc. (DEP), serves approximately 1.3 million retail electric customers in North Carolina. In October of 2012, DEP requested a \$359 million increase in its base rates, which would have resulted in a rate increase of approximately 11%. This was DEP's first general rate increase request in 25 years. The Public Staff

participated in each of the public hearings, which were held in Wilmington, Rockingham, Snow Hill, Asheville, and Raleigh, with a total of 127 customers testifying.

After an extensive investigation and audit, the Public Staff entered into a settlement and stipulation with DEP that reduced the proposed increase by approximately 50% and provided \$20 million to assist low-income customers and provide worker training. The Commission approved the terms of the settlement in an order granting a partial rate increase on May 30, 2013. As a result of the settlement, the base rate increase for an average residential customer was 7.5%, resulting in an average monthly residential bill (excluding annual riders) of \$108.79.

Piedmont Natural Gas Company, Inc. (Docket No. G-9, Sub 631)

Piedmont Natural Gas Company serves approximately 750,000 customers in North Carolina. In May of 2013, Piedmont filed an application for a \$79 million increase, which would have resulted in a rate increase of approximately 9.32%, and for an Integrity Management Rider (IMR) mechanism authorized under newly enacted N.C. Gen. Stat. § 62-133.7A. This was Piedmont's first general rate case since 2008. The Public Staff participated in each of the customer hearings, which were held in High Point, Charlotte, Wilmington, and Raleigh, with a total of three customers testifying. After an extensive investigation and audit, the Public Staff and Piedmont entered into a settlement and stipulation that reduced the proposed increase by approximately 63%. The Commission approved the terms of the settlement in an order granting a partial rate increase on December 17, 2013.

CWS Systems, Inc. (Docket No. W-778, Sub 89)

CWS Systems serves approximately 4,600 water customers and 3,100 sewer customers in Fairfield Harbour, Fairfield Mountains and Fairfield Sapphire Valley Subdivisions. In December of 2012, CWS Systems filed an application requesting rate increases totaling approximately \$3.8 million, with percentage increases ranging from 7.32% to 60.33%. The Public Staff participated in each of the customer hearings, which were held in Brevard, Rutherfordton, New Bern, and Raleigh, with a total of eight customers testifying. After an extensive investigation and audit, the Public Staff and CWS Systems entered into a settlement and stipulation that provided for a rate increase of \$3.6 million, with percentage increases ranging from 5.62% to 59.00%. The Commission approved the terms of the settlement in an order granting a partial rate increase on August 30, 2013.

Carolina Water Service, Inc. of North Carolina (Docket No. W-354, Sub 336)

Carolina Water Service serves approximately 17,600 water customers and 11,300 sewer customers in North Carolina. In June of 2013, Carolina Water Service filed an application requesting a rate increase totaling approximately \$3.34 million, equaling a 22.14% increase, and included a request for Water System Improvement Charge ("WSIC") and Sewer System Improvement Charge ("SSIC") Mechanisms pursuant to newly enacted N.C. Gen. Stat. § 62-133.12. The Public Staff participated in each of the customer hearings, which were held in Jacksonville, Currituck, Raleigh, Asheville, Boone, and Charlotte, with a total of 36 customers testifying. After an extensive investigation and audit, the Public Staff and Carolina Water Service entered into a settlement and stipulation that provided for a rate increase of \$2.0 million, or 13.32%, and establishment of WSIC/SSIC mechanisms. The Commission partially approved the terms of the settlement in an order granting a partial rate increase on March 10, 2013.

Aqua North Carolina, Inc. (Docket No. W-218, Sub 363)

Aqua North Carolina serves approximately 72,660 water customers and 15,260 sewer customers in North Carolina. On August 2, 2013, Aqua North Carolina filed a petition requesting an increase in the Company's service revenues of approximately \$8.8 million, or 19.77%, and authority to implement WSIC and SSIC mechanisms pursuant to newly enacted N.C. Gen. Stat. § 62-133.12. The Public Staff participated in each of the customer hearings, which were held in Newton, Raleigh, Fayetteville, Wilmington, Winston-Salem and Charlotte, with a total of 53 customers testifying. After an extensive investigation and audit, the Public Staff and Aqua North Carolina entered into a settlement agreement that provided for an increase in service revenues of approximately \$2.5 million, or 5.31%, and required Aqua to investigate and report to the Commission on various concerns raised by customers, including water quality issues and the viability of metered residential sewer. The Public Staff and Aqua also agreed to the establishment of WSIC/SSIC mechanisms upon a Commission finding that these mechanisms are in the public interest. On May 2, 2014, the Commission issued an order approving the terms of the settlement agreement and, concluding that Aqua's request to utilize WSIC/SSIC mechanisms is in the public interest, authorized procedures for the implementation and administration of the mechanisms.

ELECTRIC COST RECOVERY RIDERS

FUEL AND FUEL-RELATED COSTS

N.C. Gen. Stat. § 62-133.2 permits electric public utilities to recover certain fuel and fuel-related costs through a separate rider to base rates. The amount of the rider is determined in annual proceedings before the Commission. Under Commission Rule R8-55, the annual fuel proceedings for each investor-owned electric utility (IOU) are scheduled as follows: DEC on the first Tuesday of June of each year; DEP on the third Tuesday of September of each year; and Virginia Electric and Power Company, d/b/a Dominion North Carolina Power (DNCP), on the second Tuesday of November of each year.

The 2013 fuel proceedings resulted in the following changes to fuel and fuel-related charges for each of the IOUs: for DEC's retail customers, a rate decrease of 0.0840 cents per kilowatt hour (¢/kWh), 0.0611¢/kWh and 0.0458 ¢/kWh (including gross receipts tax and regulatory fee) for Residential, General Service/Lighting and Industrial customer classes, respectively, or a decrease of approximately \$36,845,789, on an annual basis; for DEP's retail customers, a rate decrease of 0.136 ¢/kWh for Residential, 0.141 ¢/kWh for Small General Service; 0.102 ¢/kWh for Medium General Service; 0.087 ¢/kWh for Large General Service; and 0.300 ¢/kWh for Lighting; and for DNCP's retail customers, rate increases of 2.561 ¢/kWh for Residential; 2.559 ¢/kWh for SGS & Public Authority; 2.540 ¢/kWh for LGS; 2.462 ¢/kWh for NS; 2.508 ¢/kWh for 6VP; 2.561¢/kWh for Outdoor Lighting; and 2.561 ¢/kWh for Traffic, or an increase of approximately \$4,899,151 on an annual basis.

RENEWABLE ENERGY AND ENERGY EFFICIENCY PORTFOLIO STANDARD (REPS) COMPLIANCE COSTS

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. The amount of DEC, DEP and DNCP's riders is determined in annual proceedings before the Commission conducted at the same time as each company's fuel proceedings.

The 2013 REPS proceedings resulted in decreases in DEC's REPS charges of \$0.26 per month for the Residential customer class, \$0.04 per month for General Service customer class and \$9.19 per month for the Industrial customer class; changes in DEP's charges as follows: Residential Class – \$0.22 decrease; Commercial Class – \$0.82 increase; Industrial Class – \$3.67 decrease; and increases in DNCP's REPS charges of \$0.37 for Residential; \$5.33 for Commercial and \$35.93 for Industrial.

DEMAND-SIDE MANAGEMENT (DSM) AND ENERGY EFFICIENCY (EE) MEASURES ADOPTION AND IMPLEMENTATION COSTS

N.C. Gen. Stat. § 62-133.9 allows electric public utilities to recover the costs incurred for adoption and implementation of new demand-side management and energy efficiency measures through an annual rider to rates. The amount of the rider is determined in annual proceedings before the Commission that are conducted at the same time as the fuel and REPS proceedings.

The DSM-EE measure proceedings in 2013 resulted in a decrease in the monthly rate per customer for DEP as follows: 0.068 ¢/kWh for Residential; 0.090 ¢/kWh for Small General Service; 0.090 ¢/kWh for Medium General Service; 0.090 ¢/kWh for Large General Service; and 0.016 ¢/kWh for Lighting; and an aggregate increase for DNCP as follows: 0.092 ¢/kWh for Residential; 0.084 ¢/kWh for SGS & Public Authority; 0.106 ¢/kWh for LGS; 0.091 ¢/kWh for 6VP; and no charge for NS, Outdoor Lighting and Traffic.

For DEC, the 2013 DSM-EE proceeding resulted in an increment of 0.2603 ¢/kWh for Residential customers. The amounts for Nonresidential customer classes by vintage year participation are as follows:

Calendar Year 2014 (Vintage Year 2014) participants: EE increment of 0.0963 ¢/kWh; and DSM increment of 0.0797 ¢/kWh,

Calendar Year 2013 (Vintage Year 4) participants: EE increment of 0.0107 ¢/kWh,

Calendar Year 2012 (Vintage Year 3) participants: EE increment of 0.0790 ¢/kWh; and DSM decrement of (0.0071) ¢/kWh,

Calendar Year 2011 (Vintage Year 2) participants: EE increment of 0.0051 ¢/kWh, and

June 1, 2009, to December 31, 2010, (Vintage Year 1) participants: EE decrement of (0.0017) ¢/kWh.

BIENNIAL DETERMINATION OF AVOIDED COST RATES

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.

This proceeding also is a result of the mandate of N.C. Gen. Stat. § 62-156, which was enacted by the General Assembly in 1979. This statute provides that "no later than March 1, 1981, and at least every two years thereafter" the Commission shall determine the rates to be paid by electric utilities for power purchased from small power producers according to certain standards prescribed therein. Such standards generally approximate those prescribed in the FERC regulations regarding factors to be considered in the determination of avoided cost rates. The definition of the term "small power producer" for purposes of N.C. Gen. Stat. § 62-156 is more restrictive than the PURPA definition of that term, in that N.C. Gen. Stat. § 62-3(27a) includes only hydroelectric facilities of 80 MW or less, thus excluding users of other types of renewable resources.

The most recent avoided cost proceeding was established in 2012, and an evidentiary hearing was held in October 2013. The Public Staff was an active participant in the proceeding through the submission of comments and the presentation of testimony of two witnesses. On February 21, 2014, the Commission issued its *Order Establishing Standard Rates and Contract Terms for Qualifying Facilities*, adopting many of the Public Staff's recommendations.

INTEGRATED RESOURCE PLANNING

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. 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.

On February 5, 2013, the Public Staff filed comments on the IRPs of DEC, DEP, DNCP and the electric membership cooperatives (EMCs). The Public Staff recommended, among other things, that DEC and DEP review their equations and other assumptions used in their load forecasts in order to reduce the possibility of overestimation bias in future load forecasts. In addition with regard to the IRPs of DNCP and DEC, which included preferred plans that called for the construction of new nuclear generation, the Public Staff noted that it believes that the benefit of additional nuclear generation from a fuel diversity perspective requires further evaluation. The Public Staff also pointed out that the economics of fuel diversity are difficult to quantify, and the potential risks associated with added construction costs and other uncertainties associated with nuclear power raise additional questions.

The Commission held two public hearings, on February 11, 2013, in Raleigh, and on February 28, 2013, in Charlotte. The Public Staff appeared at these hearings and assisted consumers in presenting their testimony to the Commission.

On September 9, 2013, the Public Staff submitted a proposed order. The Commission issued an Order on October 14, 2013, approving the IRPs and generally agreeing with the Public Staff's recommendations. In particular, the Commission ordered that to the extent an IOU selects a preferred resource scenario based on fuel diversity, the IOU should provide additional support for its decision based on the costs and benefits of alternatives to achieve the same goals.

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 provide for at least the current and following two calendar years and must include, among other things, 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 all of the information submitted in the REPS compliance plans as well as information obtained through requests of individual electric power suppliers. The Public Staff's findings and recommendations are submitted to the Commission for its consideration.

During 2013, the Public Staff reviewed the REPS compliance plans of DEC, DEP and DNCP in conjunction with their IRP updates and filed comments and

recommendations on April 11, 2014, in Docket No. E-100, Sub 137. The REPS compliance plans of DNCP, DEC, DEP, NCEMPA, NCMPA1, GreenCo Solutions on behalf of NCEMC, Halifax EMC, Energy United EMC, Fayetteville Public Works Commission, TVA, the Town of Fountain, and the Town of Winterville were filed in Docket No. E-100, Sub 139. The Public Staff reviewed these plans and filed comments and recommendations on March 14, 2014.

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 2013, the Public Staff reviewed the 2012 REPS compliance reports of DEC, DEP and DNCP and testified as to its findings and recommendations in the utilities' respective REPS rider proceedings. (DEP, Docket No. E-2, Sub 1032; DEC, Docket No. E-7, Sub 1034; and DNCP, Docket No. E-22, Sub 503) In addition, the Public Staff reviewed the 2012 REPS compliance reports of the following electric power suppliers: NCEMPA, NCMPA1, GreenCo Solutions on behalf of NCEMC, Halifax EMC, Energy United EMC, Fayetteville Public Works Commission, TVA, the Town of Fountain, and the Town of Winterville. The Public Staff's comments on these reports were filed in conjunction with its comments and recommendations on the suppliers' 2013 REPS compliance plans.

IMPLEMENTATION OF HOUSE BILL 998/S.L. 2013-316 – TAX SIMPLIFICATION AND REDUCTION ACT

On July 23, 2013, North Carolina Session Law 2013-316 (House Bill 998) was signed into law. 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 of C corporations and made changes to the gross receipts and franchise taxes. In addition, the bill increased the sales tax rate paid on sales of electricity and imposed a sales tax on piped natural gas. The Commission opened a docket to determine how the provisions of House Bill 998 should be implemented by the regulated utilities. Initial comments were filed on November 12, 2013, and reply comments were filed on December 16, 2013. On May 13, 2014, the Commission entered an order detailing how the various tax law changes are to be implemented by the utilities.

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. Gas costs incurred by the LDCs and recovered from ratepayers are accounted for by the LDCs in deferred accounts and reported to the Commission.

N.C. Gen. Stat. § 62-133.4 also provides for annual proceedings to compare the LDCs' prudently incurred costs with the costs recovered from ratepayers during a 12-month test period. If the prudently incurred gas costs of a 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. Throughout 2013, the Public Staff reviewed the LDCs' gas costs and deferred account reports, gas procurement practices, and hedging policies. Under Commission Rule R1-17(k), the annual review proceedings are scheduled for hearing as follows: Frontier, the first Tuesday of March; PSNC, the first Tuesday of August; Piedmont, the first Tuesday of October; and Toccoa, the first Wednesday of November. When the LDCs made their annual gas cost review filings in 2013, the Public Staff conducted in-depth investigations of the information submitted by the LDCs and filed testimony concerning its findings and recommendations regarding whether the gas purchases and hedging activities of the utilities were prudent and whether the utilities' gas costs were properly accounted for. (Frontier, Docket No. G-40, Sub 110; PSNC, Docket No. G-5, Sub 540; Piedmont, Docket No. G-9, Sub 633; and Toccoa, Docket No. G-41, Sub 37) After conducting hearings for each LDC, the Commission issued orders making findings as to the prudence the LDC's gas costs and implementing appropriate rate increments and decrements as appropriate.

N.C. COURT OF APPEALS AND SUPREME COURT CASES IN WHICH THE PUBLIC STAFF PARTICIPATED

- *State of N.C. ex rel. Utilities Commission v. Attorney General, et al.* (N.C. Supreme Court Case No. 268A-12 – Duke Energy Carolinas 2011 rate case – appeal of Attorney General
- *State of N.C. ex rel. Utilities Commission v. Attorney General, et al.* (N. C. Supreme Court Case No. 424A13) – Duke Energy Progress rate case – appeal of Attorney General
- *State of N.C. ex rel. Utilities Commission v. Attorney General et al.* (N.C. Supreme Court Case No 234A13) – Dominion North Carolina Power rate case – appeal of Attorney General
- *State of N.C. ex rel. Utilities Commission v. Attorney General et al.* (N.C. Supreme Court Case No. 12A14) – Duke Energy Carolinas 2013 rate case – appeal of Attorney General
- *In the Matter of: Duke Energy Corporation and Progress Energy, Inc.* (N.C Court of Appeals Case No. 13-880) – merger closing investigation – appeal of NC WARN
- *In the Matter of: Application of Duke Energy Corporation and Progress Energy, Inc.* (N.C. Court of Appeals Case No. 13-566) – merger approval – appeals of NC WARN and City of Orangeburg

CONSUMER SERVICES DIVISION

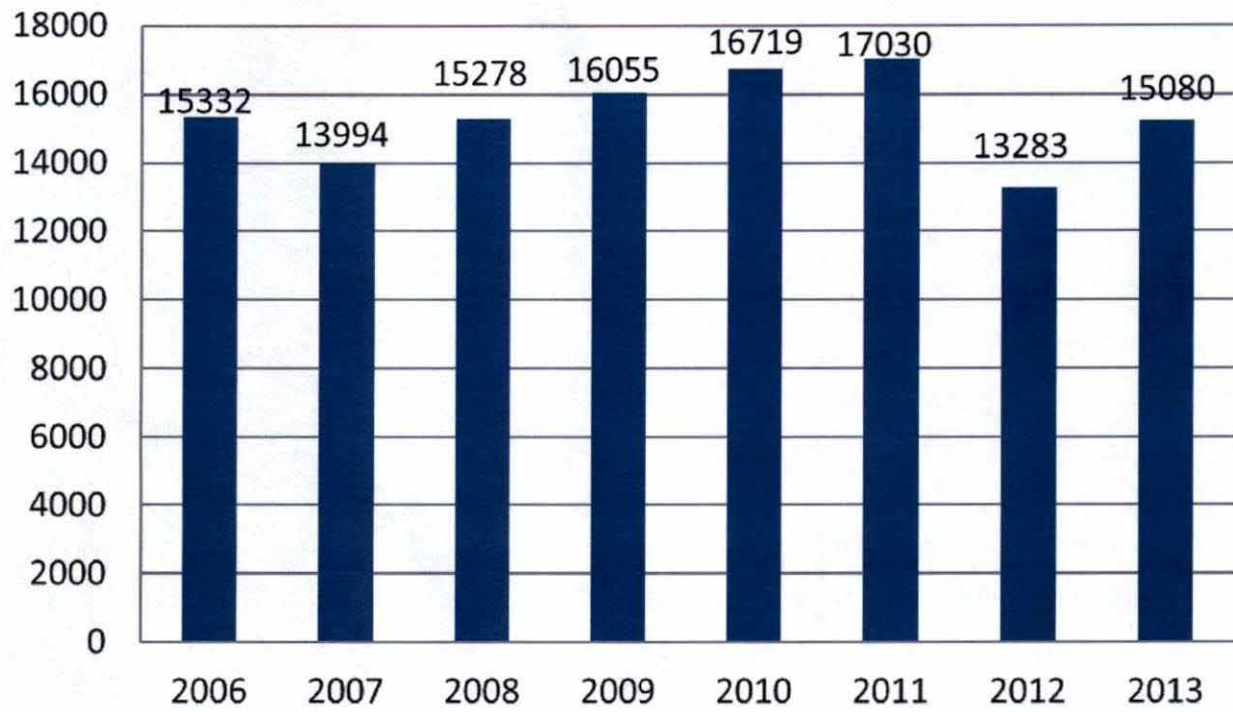
The Consumer Services Division facilitates the resolution of disputes between consumers and regulated utilities.¹ In addition, it also responds to customer requests for information on utility matters and to letters protesting proposed utility rate increases. Complaints and inquiries often relate to the quality of service provided and billing disputes. While the majority of the complaints are resolved informally, a small percentage results 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 FCC.

The Consumer Services Division processed a total of 15,080 complaints and inquiries during 2013. This represented a 13.5% increase over the prior year.

¹ The Transportation Division handles all complaints related to household goods movers separately from the Consumer Services Division. Those numbers are reported separately under the Transportation Division section.

Annual Complaints/Inquiries Received



CONSUMER COMPLAINTS/INQUIRIES BY INDUSTRY

Industry	Complaints	Utility	Complaints
Electric	12,695		
		Duke Energy Carolinas	6,431
		Duke Energy Progress	5,784
		Dominion NC Power	322
		Other	158
Natural Gas	712		
		Piedmont	549
		PSNC	153
		Other	10
Telecommunications	892		
		AT&T	498
		Frontier	113
		CenturyLink (EBQ)	107
		Other	174
Water/Sewer	476		
		Aqua	180
		Water resellers	114
		CWS	44
		Other	138
Other	305		

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, energy efficiency program approval and performance, power plant operations, fuel procurement, quality of service, REPS compliance, mergers and acquisitions, electric resellers, avoided cost, IRP and review of renewable energy facility applications. Engineers in the Division work with the Consumer Services Division to resolve electric service quality complaints.

There are three IOUs that provide service in North Carolina. DEC serves approximately 1.8 million customers across North Carolina. DEP has service territories located in western and eastern North Carolina, serving approximately 1.3 million customers. DNCP's service territory is located in northeastern North Carolina where it serves approximately 120,000 customers. New River Light and Power and Western Carolina University, located in Boone and Cullowhee, respectively, provide retail electric service in their immediate localities; the Commission's regulation of these entities is limited to rates.

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.

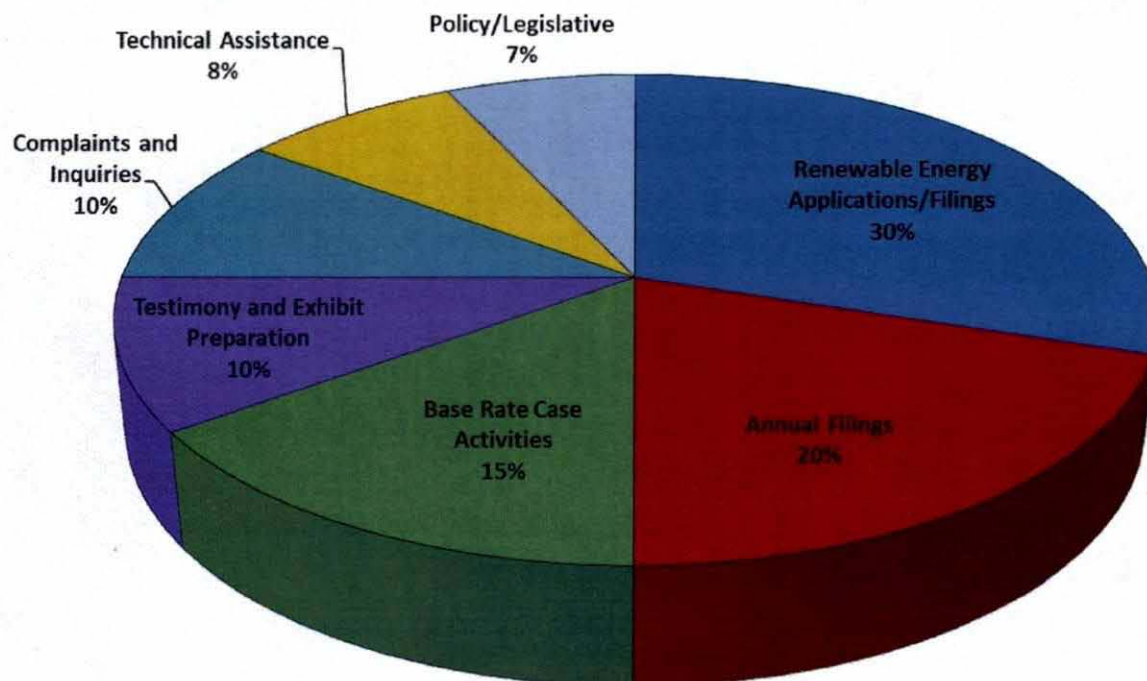
The Public Staff also reviews and makes recommendations with respect to the annual REPS compliance plans and reports required by N.C. Gen. Stat. § 62-133.8(i)(1) and Commission Rule R8-67. While the rates and services of municipal electric systems and electric cooperatives are not regulated by the Commission pursuant to Chapter 62, the Commission oversees the REPS compliance efforts of those entities. In 2013, a total of 12 REPS compliance plans and 12 REPS compliance reports were reviewed by the Public Staff.

Allocation of Electric Staff Resources (by Substantive Area)

Participated in rate proceedings (base rates and fuel, DSM/energy efficiency, REPS compliance cost recovery riders)	40%
Worked on matters involving Senate Bill 3 implementation, including REPS compliance renewable and energy facility applications*	40%
Investigated and helped resolve customer complaints	10%
Worked on issues involving transmission resources, integrated resource planning, and service reliability	7.5%
Reviewed electric reseller applications	2.5%

* 2,220 new dockets in FY 2012-13

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.

There are four LDCs in North Carolina:

- Piedmont Natural Gas Company, Inc. (Piedmont), provides service to a total of 753,518 customers. This total includes approximately 60,000 municipal customers served by one of three municipalities Piedmont serves in the State. Piedmont's headquarters is located in Charlotte and it has a satellite office in Cary.

In 2005, Piedmont acquired North Carolina Natural Gas (NCNG) and Eastern North Carolina Natural Gas Company (EasternNC). Piedmont "legacy" provides service in the piedmont area of the state, including Charlotte, Greensboro, and Winston-Salem. Piedmont/NCNG provides natural gas service in eastern and south central North Carolina, including four municipal gas distribution systems. Piedmont/EasternNC provides service in Currituck, Camden, Pasquotank, Perquimans, Gates, Chowan, Washington, Tyrrell, Dare, Hyde, Pamlico, Jones, Carteret, and Pender counties.

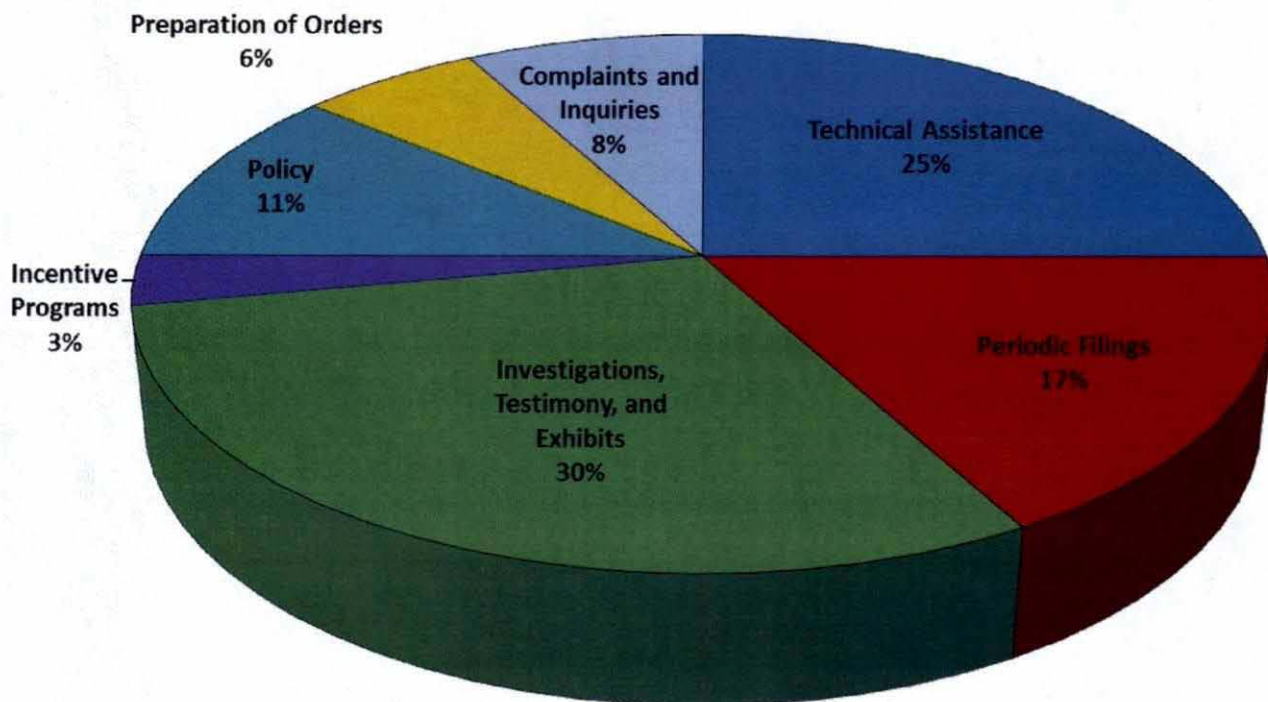
- Public Service Company of North Carolina, Inc. (PSNC) serves 508,506 customers in 26 counties in the piedmont and mountain areas of the state. The major cities served are Raleigh, Durham, Gastonia, and Asheville. PSNC's headquarters is located in Gastonia.
- Frontier Energy, LLC (Frontier) provides service to 2,506 customers in Surry, Wilkes, Yadkin, Watauga, Ashe, and Warren Counties. Frontier's headquarters is located in Elkin.
- Toccoa Natural Gas (Toccoa) provides service to 639 customers in and around Franklin in Macon County. Toccoa is a municipal corporation in the state of Georgia and serves over 6,500 customers, most of them in Georgia. Toccoa's headquarters is located in Clayton, Georgia, and it has an operations and call center in Franklin, North Carolina.

Collectively, the four LDCs serve a total of 1,265,169 customers in North Carolina and have total annual revenues of \$1.364 billion. These companies have experienced an average customer growth rate of approximately 1.1% annually over the

past five years and a growth rate in 2013 of 1.7%, which is higher than the 2012 growth rate of 1.5% and also higher than the national growth rate of less than one percent for 2013. The volume of natural gas sold in North Carolina in 2013 was 437,161,225 dekatherms (dts), an increase of 21.3% compared to 2012. The main reasons for this increase in consumption are the large increase in natural gas fired electric generation plants in North Carolina and colder weather experienced in 2013 v. 2012.

The Commission also regulates Cardinal Pipeline Company, LLC (Cardinal), an intrastate pipeline company whose members are PSNC Cardinal Pipeline Company, a wholly owned subsidiary of PSNC; Piedmont Intrastate Pipeline Company, a wholly owned subsidiary of Piedmont; and TransCardinal Company, a wholly owned subsidiary of Transcontinental Gas Pipe Line Corporation. Cardinal's headquarters is located in Houston, Texas, at the offices of its operator, Cardinal Operating Company.

Allocation of Natural Gas Staff Resources



Communications Division

The Communications Division of the Public Staff represents the using and consuming public in regulated telecommunications 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. The Division monitors regulatory developments within the Federal Communications Commission and is responsive to jurisdictional mandates that are delegated to the individual states. Division engineers also work directly with the Consumer Services Division to resolve service issues.

In 2013, the Communications Division reviewed over 1,900 annual filings, 75% of which were retail and 25% of which were wholesale. Activities included:

- Tariff and price plan modifications
- Interconnection agreements
- Service quality reviews
- Local and long distance telephone applications
- Investigation of customer complaints
- Service quality
- Outages
- Billing
- Bundled offerings (regulated and non-regulated)
- Assistance to Lifeline/Linkup Program and Telecommunications Relay Service

There are 495 regulated telephone companies operating in North Carolina: 16 incumbent local exchange companies, 305 interexchange carriers and 174 competing local providers.

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 2013, there were 261 household goods carriers holding certificates of exemption issued by the Commission and three bus companies and 16 ferry operators holding certificates of public convenience and necessity.

The Transportation Division investigated 113 customer complaints and responded to 526 inquiries related to household goods movers received by the Public Staff in 2013.

Allocation of Transportation Staff Resources

Facilitated certificate of exemption application process	15%
Conducted compliance audits of Moving Documents	15%
Investigated 109 damage claims and complaints	15%
Processed annual reports	15%
Responded to 528 inquiries from outside parties	10%
Investigating/Enforcement – Unauthorized Carriers	10%
Reviewed filings related to ferry service operations	8%
Conducted Maximum Rate Tariff training seminars	5%
Reviewed fuel surcharge adjustments	5%
Handled matters related to regular route passenger service	2%

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. As of December 31, 2013, the Commission regulated 111 franchised water and/or sewer companies serving a total of 147,695 water customers and 63,536 sewer customers in a total of 1,940 service areas. The service areas are primarily subdivisions located outside municipal boundaries. In addition, the Commission regulated 905 resale companies serving a total of 219,805 water customers and 218,935 sewer customers. The service areas are primarily apartment complexes or mobile home parks that purchase bulk service from municipalities and sell water and sewer service to their tenants.

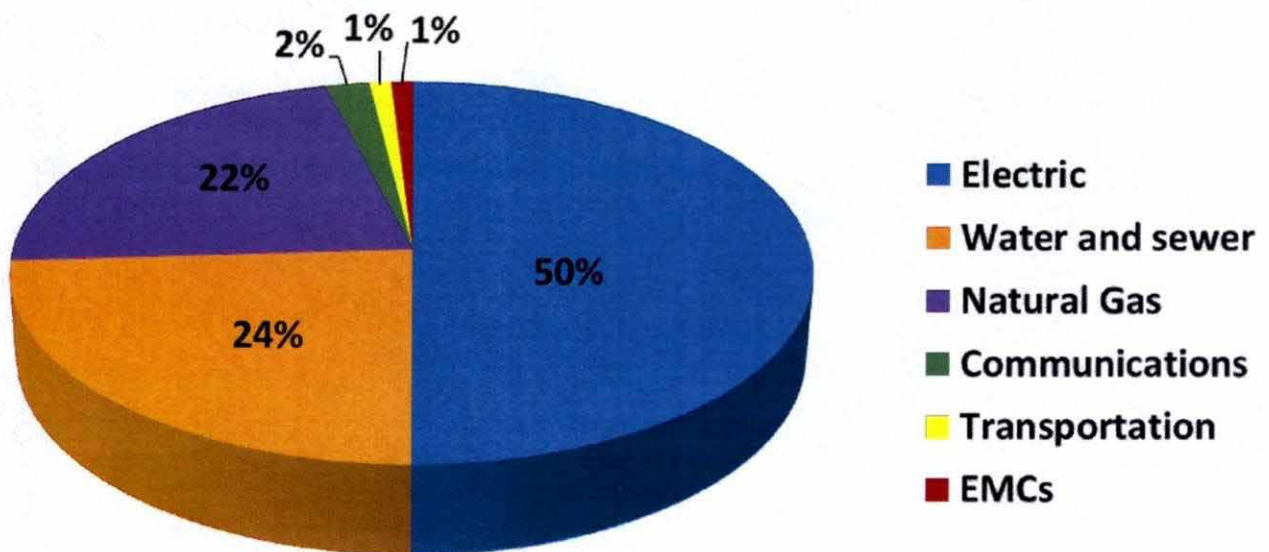
Allocation of Water and Sewer Staff Resources

Traditional water and wastewater utility rate case investigations/audits/inspections and presentations before the NCUC	50%
Investigations/audits of filings by water and wastewater utilities for new/expanded franchise areas, transfers of franchises, contiguous extensions of service areas, discontinuation of service, tariff revisions and related recommendations to the NCUC	40%
Responding to verbal and written inquiries for information from the public, utilities, agencies and outside professionals	5%
Working with Consumer Services Division to resolve utility customer complaints	3%
Resolving issues where water and/or wastewater utility customers are in danger of losing utility service	2%

ACCOUNTING DIVISION

The Accounting Division conducts investigations, undertakes accounting reviews and audits of utility companies, and provides 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 cases involving rates and services, affiliated transactions, mergers and acquisitions, annual riders, fuel proceedings, natural gas prudence proceedings and renewable energy, energy efficiency and demand side management proceedings. The Accounting Division also reviews and processes the annual reports that all regulated utilities must file annually pursuant to statute.

Allocation of Accounting Staff Resources*

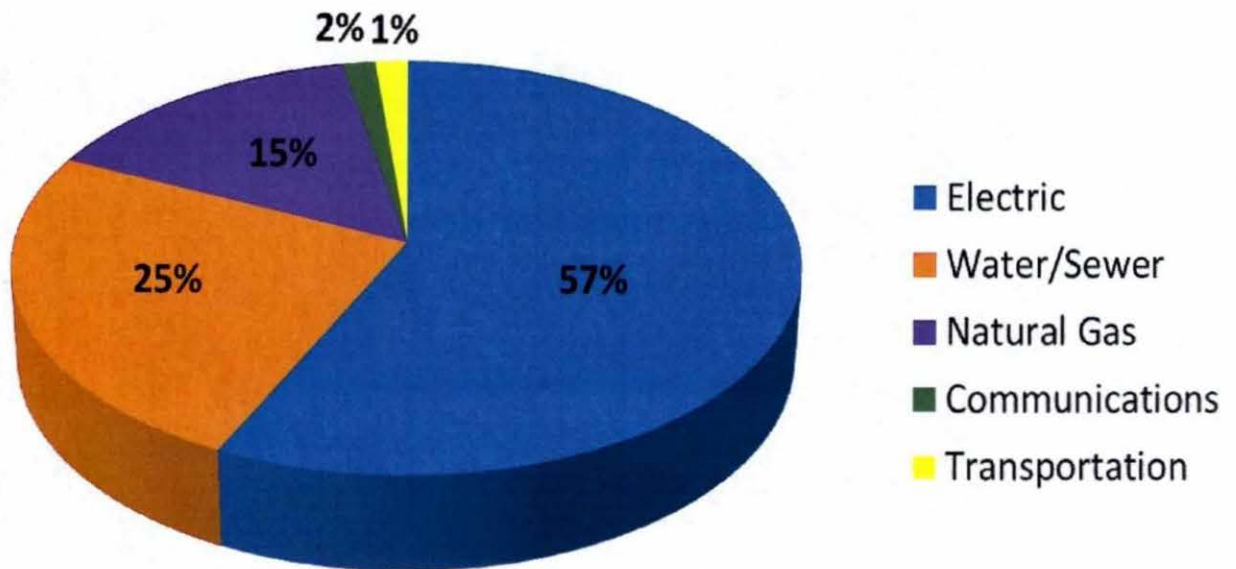


* Resource allocations vary from year-to-year depending upon filing made by regulated companies.

LEGAL DIVISION

The Legal Division represents the Public Staff and the using and consuming public before the Commission and North Carolina appellate courts. The Legal Division is responsible for coordinating the preparation of reports and testimony and supports and collaborates with the other technical and professional divisions of the Public Staff. The Legal Division also provides research to members of the General Assembly as requested.

Allocation of Legal Staff Resources*



* Resource allocations vary from year-to-year depending upon filing made by regulated companies.

ECONOMIC RESEARCH DIVISION

The Economic Research Division represents the using and consuming public in matters brought 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 65% of the Economic Research Division's resources are devoted to the biennial avoided cost proceedings and annual integrated resource planning dockets. 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, issuance of new securities, weather normalization of utility sales and statistical sampling plans for meter testing.