



**NORTH CAROLINA
PUBLIC STAFF
UTILITIES COMMISSION**

July 13, 2018

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

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

Gentlemen :

Pursuant to G.S. 62-17(a1), I am submitting an annual report on the activities of the North Carolina Utilities Commission Public Staff during 2017.

Sincerely,

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

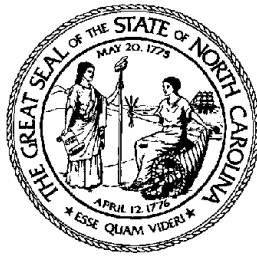
Christopher J. Ayers
Executive Director

CJA:dwd

Enclosure

cc: Governor Roy Cooper
Attorney General Josh Stein
Edward S. Finley, Jr., Chair, North Carolina Utilities Commission
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ANNUAL REPORT
to the
GENERAL ASSEMBLY



North Carolina Utilities Commission
Public Staff

2017

INTRODUCTION

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

Under North Carolina law, the Public Staff represents the using and consuming public – the customers of certain of the State’s electric, 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 2017, 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 all matters pending before the Commission. The Public Staff participates in virtually all Commission dockets in some manner, including performing audits, filing testimony, and making recommendations to the Commission. The Public Staff interfaces with the general public, media, and intervenors on utility issues and cases.

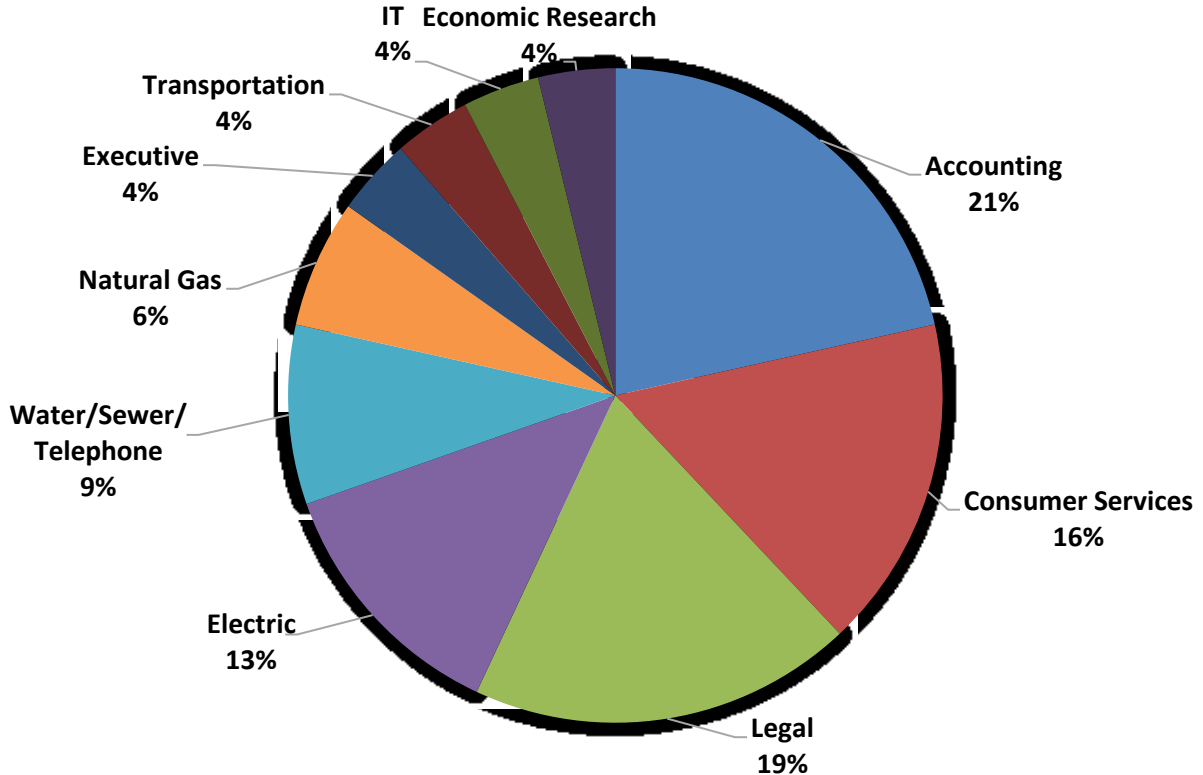
The key functions of the Public Staff are:

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

PUBLIC STAFF PERSONNEL ALLOCATION

As of December 31, 2017, the Public Staff had a total of seventy-nine positions allocated across ten different divisions. Session Law 2017-192 (House Bill 589) authorized the creation of two additional positions to meet the requirements imposed by the session law. Pursuant to the legislation, the Public Staff added one attorney and one engineer position.

Division	Number of Positions
Accounting	17
Consumer Services	13
Legal	15
Electric	10
Water/Sewer/Telephone	7
Natural Gas	5
Executive	3
Transportation	3
IT	3
Economic Research	3

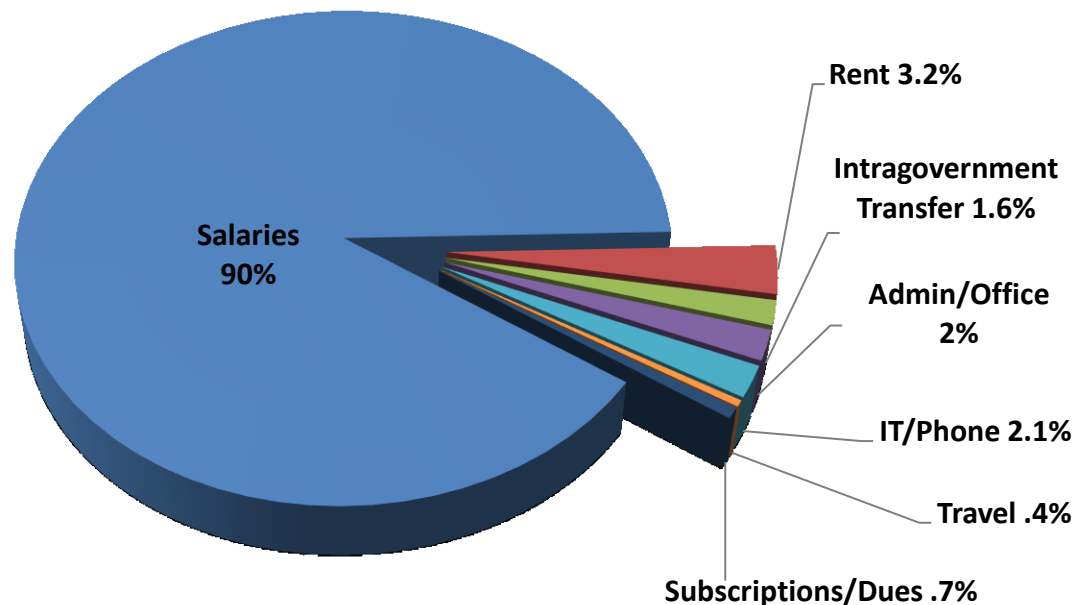


PUBLIC STAFF BUDGET

The Public Staff is funded via a regulatory fee pursuant to N.C. Gen. Stat. § 62-302. For fiscal year 2017-18, the regulatory fee is 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 2017-18, the Public Staff's overall budget was approximately \$9.18 million, which represented an increase of 2.8%. Approximately 90% of the Public Staff's budget is dedicated to staff salaries and benefits, totaling \$8.28 million. Approximately \$430,000 of the budget is allocated to the Department of Commerce for human resources and budget support, as well as rental expense for office space in the Dobbs building. Approximately \$475,000 is allocated to administrative expenses, office equipment and supplies, information technology equipment and services, professional resources, subscriptions, and travel.

FY 2017-18 PUBLIC STAFF EXPENDITURE ALLOCATIONS



PUBLIC STAFF ACTIVITIES – 2017 OVERVIEW

The Public Staff participated in 3,825 formal proceedings before the Commission through briefs, comments, expert testimony, stakeholder facilitation, audits, and investigations, including appearances at 86 hearings in contested cases. The Public Staff reviewed 13,410 filings made with the Commission and 3,176 orders issued by the Commission. The Public Staff handled over 10,617 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 2017 fuel proceedings resulted in the following changes to fuel and fuel-related charges for each of the electric public utilities:

	2017 Total Fuel Rider	Change from prior year
Dominion Energy North Carolina		
	¢ / kWh	
Residential	1.971	0.349
SGS & Public Authority	1.969	0.348
LGS	1.952	0.342
NS	1.894	0.334
6VP	1.922	0.340
Outdoor Lighting	1.971	0.349
Traffic	1.971	0.349
Duke Energy Carolinas*		
	¢ / kWh	
Residential	1.6747	(0.0267)
General Service/ Lighting	1.8399	(0.0203)
Industrial	1.19496	(0.0151)
Duke Energy Progress		
	¢ / kWh	
Residential	2.182	0.346
Small General Service	2.124	0.392
Medium General Service	2.261	0.275
Large General Service	2.220	0.180
Lighting	1.659	0.782

*Excluding regulatory fee

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

N.C. Gen. Stat. § 62-133.8(h) permits electric power suppliers to recover the incremental costs of complying with the REPS through an annual rider to base rates. Incremental costs recoverable through the REPS annual rider are subject to the following per-account annual charges: Residential, \$27.00¹; Commercial, \$150.00; and Industrial, \$1,000.00. N.C. Gen. Stat. § 62-133.9 allows electric public utilities to recover the costs incurred for adoption and implementation of new DSM and EE measures through an annual rider to rates. The Commission has approved a cost recovery and incentive mechanism for each utility that provides for the recovery of DSM/EE program costs plus an incentive based on a percentage of the kWh and kW saved because of the programs. The amounts of these riders are determined in annual proceedings that are conducted at the same time as the fuel proceedings. The 2017 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”):

¹Reduced from \$34.00 in S.L. 2017-192 (House Bill 589), Section 5.1.

	2016	2017	2018
Dominion Energy North Carolina			
DSM and EE Programs:	¢ / kWh		
Residential	0.127	0.062	0.12
Small Gen. Service	0.087	0.060	0.154
Large Gen. Service	0.084	0.054	0.118
Industrial (6VP)	0.102	0	0
REPs:	\$ / month / account		
Residential	0.23	0.88	0.49
General Service	0.99	3.87	2.71
Industrial	6.70	25.82	18.12
Duke Energy Carolinas			
DSM and EE Programs:	¢ / kWh		
Residential	0.3621	0.4291	0.5529
All non-residential	0.4366	0.4822	0.6238
REPs:	\$ / month / account		
Residential	0.54	0.91	0.83
General Service	3.55	4.19	3.71
Industrial	17.06	20.99	15.15
Duke Energy Progress			
DSM and EE Programs:	¢ / kWh		
Residential	0.621	0.776	0.61
Commercial / General Service	0.593	0.659	0.623
REPs:	\$ / month / account		
Residential	1.17	1.29	0.55
General Service	6.66	10.66	6.42
Industrial	60.86	83.21	58.71

BIENNIAL DETERMINATION OF AVOIDED COST RATES

(Docket No. E-100, Sub 148)

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

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

On October 11, 2017, the Commission issued an *Order Establishing Standard Rates and Contract Terms for Qualifying Facilities* ("October 11 Order"), in which the Commission directed the utilities to recalculate their avoided cost rates, as well as incorporate a number of changes to avoided cost calculations mandated by passage of House Bill 589, including the following:

- Lowering the threshold for eligibility for standard offer contracts under PURPA to projects of 1 megawatt ("MW") or less, from the previous 5 MW.
- Shortening the length of standard offer QF contracts to 10 years from 15 years and limiting the terms of negotiated contracts to no more than five years, except in the case of certain hydroelectric, animal waste, landfill gas, and digester gas facilities.
- Eliminating capacity payments for QFs in years when a utility's Integrated Resource Plan ("IRP") does not identify a need for new capacity, except for swine and poultry waste-to-energy facilities.

The October 11 Order also revised the timeframe and process by which a QF can establish a LEO with a utility, and also provided clarification regarding the circumstances during which the utilities may seek to curtail or limit the output of QFs during system

emergencies such as imminent violations of North American Electric Reliability Corporation (“NERC”) balancing standards.

In response to the October 11 Order, the utilities filed revised avoided cost rates, which were effective for QFs that had established a LEO as of November 15, 2016. On average, the avoided cost rates decreased approximately 25% for DEC and DEP, and 35% for DENC compared to the prior avoided cost proceeding in Docket No. E-100, Sub 140.

INTEGRATED RESOURCE PLANNING

(Docket No. E-100, Sub 147)

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.

In 2017, 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 10, 2017, DEC made a presentation to the Commission regarding its decision to deploy Advanced Metering Infrastructure (“AMI”) meters.

With respect to the 2016 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, and develop methods of quantifying the benefits of fuel diversity. The Public Staff also assisted 32 consumers in presenting testimony at a public hearing in Raleigh on February 27, 2017.

SMART METER OPT-OUT

(Docket No. E-7, Sub 1115)

In its 2015 Order approving the utilities' 2015 SGTPs, the Commission ordered DEC to address the issue of AMI opt-outs. DEC filed a proposed rider on July 29, 2016, which would require residential customers opting out of smart meter installation on their homes to pay an initial set-up fee of \$150.00 and an ongoing monthly fee of \$11.75. The Public Staff filed comments on the proposal supporting the availability of an opt-out program, raised questions regarding certain data and assumptions, and made recommendations regarding program implementation and fees. 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.

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 2017, 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 North Carolina Eastern Municipal Power Agency (“NCEMPA”), North Carolina Municipal Power Agency No. 1 (“NCMPA1”), GreenCo Solutions (“GreenCo”) on behalf of North Carolina Electric Membership Corporation (“NCEMC”), Halifax Electric Membership Corporation (“Halifax EMC”), EnergyUnited EMC, Fayetteville Public Works Commission (“Fayetteville PWC”), Tennessee Valley Authority (“TVA”), and the Towns of Fountain and Waynesville.

The Commission’s rules also require the electric power suppliers to submit annual REPS compliance reports of RECs earned or purchased and energy savings actually realized during the preceding calendar year and the electric power supplier’s progress toward meeting its REPS obligations. These reports must include, among other things, RECs actually earned or purchased, RECs used for compliance, 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 2017, the Public Staff reviewed the 2016 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 2016 REPS compliance reports of the following electric power suppliers: NCEMPA, NCMPA1, GreenCo, Halifax EMC, EnergyUnited EMC, Fayetteville PWC, TVA, and the Town of Fountain.

On November 16, 2017, NCEMC and GreenCo filed a joint notice and petition for waiver of certain Commission rules related to compliance with REPS. In their notice, NCEMC and GreenCo stated their plan for GreenCo to dissolve and for NCEMC to instead serve as the utility compliance aggregator for the 22 EMCs for which GreenCo provided REPs compliance, as well as for: (a) Mecklenburg Electrical Cooperative, headquartered in Chase, Virginia, and (b) Broad River Electrical Cooperative, headquartered in Gaffney, South Carolina, both of whom GreenCo has provided REPS compliance services. The Public Staff recommended approval of the waiver on December 8, 2017, and the Commission granted the request on December 18, 2017.

REPS SWINE AND POULTRY WASTE SET-ASIDE COMPLIANCE

(Docket No. E-100, Sub 113)

N.C. Gen. Stat. § 62-133.8(i)(2) authorizes the Commission to modify or delay the REPS provisions, in whole or in part, if the Commission determines it to be in the public interest to do so. In August 2017, 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) delay the requirements of N.C. Gen. Stat. § 62-133.8(e) (compliance with the REPS requirements through the use of swine waste resources) until 2018; 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 2017 requirement to 170,000 MWh and delaying subsequent increases until 2018. 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 2017 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 16, 2017, the Commission issued an Order finding that the State's electric power suppliers had made reasonable efforts to comply with the 2016 statewide swine waste set-aside requirement, as previously modified by the Commission, and determining that it was in the public interest to delay the required compliance schedule by one additional year. The Commission also allowed electric power suppliers that acquired swine waste RECs for 2017 REPS compliance to bank them for swine waste set-aside requirement compliance in future years. The Commission directed electric power suppliers to continue to make efforts to comply with the swine waste set-aside requirement.

With regard to the poultry waste set-aside, the Commission held that the 2017 poultry waste set-aside requirement of N.C. Gen. Stat. § 62-133.8(f), as modified by the Commission in 2016, should be modified to maintain the same level as the 2016 requirement for one additional year, and that the scheduled increases in the requirement thereafter should be delayed by one year. In addition, the Commission required all electric power suppliers to continue to file reports on their compliance efforts on a semiannual basis until the Commission orders that they be discontinued. Finally, the Commission directed the Public Staff to continue to arrange and facilitate a stakeholder meeting at least once a year to occur in the summer months.

INTERCONNECTION STANDARDS REVISIONS

(Docket No. E-100, Sub 101)

In the Commission's May 15, 2015, *Order Approving Revised Interconnection Standard (2015 Order)*, Ordering Paragraph No. 3 provided:

That the Public Staff shall convene a workgroup of interested parties not later than two years after the date of this Order to determine if this NC Interconnection Standard needs revising or whether the NC Interconnection Standard should remain unchanged, and to report such recommendations from the stakeholder group within four months from the first meeting of the group which shall not be later than two years after the date of this Order.

Pursuant to the 2015 Order, the Public Staff convened a stakeholder group to evaluate whether the NC Interconnection Standard needed further revisions. The Public Staff convened an initial planning meeting for the stakeholder process on May 9, 2017, followed by four larger stakeholder meetings.

In addition to the general review of changes to the NC Interconnection Standard called for in this docket, the working group also considered the changes related to Part VII of House Bill 589, which amended N.C. Gen. Stat. § 62-133.8(i)(4) to direct the Commission to adopt rules to provide for an expedited interconnection review process for swine and poultry waste-to-energy facilities of 10 MW or less to help achieve the animal waste set-aside objectives in N.C. Gen. Stat. § 62-133.8(e) and (f).

The Public Staff, along with other parties, also retained Advanced Energy to assist with facilitating the stakeholder process and documenting recommendations for revisions, if any, that are identified through the process. In addition to the larger stakeholder group meetings, a number of smaller working group discussions also took place on various topics related to the interconnection process over the six months the stakeholder group met. The Public Staff filed a consolidated set of revisions reflecting the different perspectives of the stakeholder participants with the Commission on December 15, 2017. This matter is still pending before the Commission.

Since that time, the Public Staff has continued to work on interconnection issues with the utilities and renewable energy developers.

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 2017, 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 2017 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 631, 642, 708, and 715)**

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, 2017, Piedmont, pursuant to the revised IMR mechanism, filed an Integrity Management Revenue Requirement ("IMRR") bi-annual rate adjustment, effective June 1, 2017, based on the Company's Integrity Management ("IM") Plant Investment through March 31, 2017. 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, 2017. The Public Staff determined that these adjustments were properly recorded and they were approved by the Commission.

The revised IMR mechanism requires that Piedmont file an annual report summarizing the IM Plant Investment for the prior 12-month period ending September 30th and the data substantiating and supporting its IMRR calculation for the next bi-annual IMR rate adjustment. On October 31, 2017, 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, 2017. On November 15, 2017, Piedmont filed its proposed IMR rate adjustments, including an increment to collect the October 31, 2017

balance in the IM Deferred Account to be effective December 1, 2017. The proposed IMR rate adjustments, expressed in dollars per dekatherm (\$/dt), are as follows:

Description	Residential Rate 101	Small & Medium General	Firm Large General	Interruptible Large General Rate 104, 114
		Rate 102, 142, 152	Rate 103, 113, 12 T-10, T-12	
Rate Class Percentage	64.64%	29.43%	2.67%	3.26%
IMRR	\$49,767,198	\$22,658,550	\$2,055,669	\$2,509,917
IM Deferred Account Balance	<u>\$5,973,851</u>	<u>\$2,719,840</u>	<u>\$246,754</u>	<u>\$301,280</u>
Total Amount for recovery	\$55,741,049	\$25,378,390	\$2,302,423	\$2,811,197
Rate Case Volumes (dts)	36,504,751	27,448,263	30,188,509	34,669,378
IM Increment per dt	\$1.5270	\$0.9246	\$0.0763	\$0.0811
Remove Previous Increment	(\$1.2253)	(\$0.7419)	(\$0.0612)	(\$0.0651)
Change in IM Increment per dt	\$0.3017	\$0.1827	\$0.0151	\$0.0160

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 565C, 575, 579, and 587)

On October 28, 2016, 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, 2017, 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, 2017, based on the Company’s IM Plant Investment through December 31, 2016. 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 15, 2017, pursuant to its Rider E, PSNC filed for Commission approval a revision to its tariff showing the allocation of the IMRR to its various customer classes and the computation of the proposed increments applicable to each class. On February 23, 2017, PSNC filed an amendment to its application, along with a corrected Rider E.

The Public Staff reviewed the Company’s amended application and recommended approval. By Order dated February 28, 2017, 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 Rates 101, 102, 115	Commercial Rates 125, 126, 127, 140	Firm Large General Rates 145, 175	Interruptible Large General Rates 135, 150, 160, 165, 180
Rate Class Percentage	69.89%	19.92%	7.25%	2.94%
Net IMRR for Recovery	\$1,317,186	\$375,423	\$136,638	\$55,409
Rate Case Volumes (therms)	302,709,607	154,775,495	202,384,732	148,716,728
IM Rate Increment (per therm)	\$0.00435	\$0.00243	\$0.00068	\$0.00037

On July 31, 2017, 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, 2017, based on the Company's IM plant investment through June 30, 2017. The Public Staff reviewed the proposed IM rate adjustments and recommended approval. By Order dated August 28, 2017, 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 Rates 101, 102, 115	Commercial Rates 125, 126 127, 140	Firm Large General Rates 145, 175	Interruptible Large General Rates 135, 150, 160, 165, 180
Rate Class Percentage	69.89%	19.92%	7.25%	2.94%
Net IMRR for Recovery	\$1,795,493	\$511,750	\$186,254	\$75,529
Rate Case Volumes (therms)	302,709,607	154,775,495	202,384,732	148,716,728
IM Rate Increment (per therm)	\$0.00593	\$0.00331	\$0.00092	\$0.00051

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 2017, the Commission approved on a provisional basis WSIC annual revenues of \$311,509, a .84% rate increase for Aqua’s water operations, and SSIC annual revenues of \$161,546, a 1.34% rate increase for Aqua’s sewer operations. By separate orders, the Commission also authorized Aqua NC to implement five filtration projects to comply with secondary drinking water standards. Costs associated with these projects will be eligible for WSIC rate adjustments once the projects are complete and serving customers. The majority of the filtration projects were designed to address high levels of iron and manganese in water supplied to customers. The estimated capital cost associated with these projects is \$1.72 million to \$1.85 million. Following installation of these projects, the Public Staff noted a significant decrease in customer water quality complaints from systems where filtration projects were installed.

For CWSNC’s investment in eligible WSIC projects in 2017, the Commission approved on a provisional basis WSIC annual revenues of \$37,306, a 0.35% rate increase, and SSIC annual revenues of \$10,138, a 0.17% rate increase.

CWSNC APPLICATION FOR GENERAL RATE INCREASE

(Docket No. W-354, Sub 356)

On March 31, 2017, 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 Carolina² except the Corolla Light/Monteray Shores service area and the Elk River Development. The Applicant serves approximately 34,402 water customers, 21,373 sewer customers, and 5,087 availability accounts in 38 counties throughout the State.

In its Application, CWSNC proposed to establish four rate divisions for ratemaking purposes: CWSNC Uniform Water, CWSNC Uniform Sewer, Bradfield Farms/Fairfield Harbour Water, and Bradfield Farms/Fairfield Harbour Sewer. The Applicant proposed uniform water rates for the former Clearwater systems, Treasure Cove, Register Place Estates/North Hills, Glen Arbor/North Bend and Forest Hills Subdivisions; and uniform water and sewer rates for the Fairfield Mountain Valley (a.k.a. Rumbling Bald) service

² On August 17, 2016, the Commission approved the merger of Bradfield Farms Water Company (“Bradfield Farms”), Carolina Trace Utilities, Inc. (“Carolina Trace”), CWSS, Elk River Utilities, Inc. (“Elk River”), and Transylvania Utilities, Inc. (“Transylvania”) [all of which, like CWSNC, were wholly-owned subsidiaries of Utilities, Inc. (“UI”)] into CWSNC. Since that date, CWSNC has owned and operated all of the merged water and sewer systems previously owned and operated by the five former UI subsidiaries.

area, Highland Shores Subdivision, Laurel Mountain Estates, Fairfield Sapphire Valley service area, Carolina Trace Development, Connetsee Falls Subdivision, and Nags Head service area (sewer only).

The Company sought an increase in total annual revenues of \$5,557,499, a 19.14% increase over current rates. Further, the Company requested a 10.3% rate of return on common equity, an 8.55% 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%.

On August 7, 2017, CWSNC and the Public Staff filed a stipulation proposing a capital structure of 52% common equity and 48% long-term debt at a cost of 5.93%, and a rate of return on common equity of 9.6% with an overall rate of return on rate base of 7.84%.

On September 19, 2017, CWSNC and the Public Staff filed a second stipulation resolving the remaining issues between the Stipulating Parties. The second stipulation provided for an increase in CWSNC's annual level of operating revenues of \$3,743,691, a total increase in the Company's combined water and wastewater revenues of approximately 12.98% of the Company's total operating revenues, or roughly 67.56% of the combined rate increase requested in the Application.

By Order dated November 8, 2017, the Commission approved both stipulations and granted a partial rate increase.

CARDINAL PIPELINE COMPANY, LLC, APPLICATION FOR AN ADJUSTMENT IN RATES AND CHARGES

(Docket No. G-39, Sub 38)

On March 15, 2017, Cardinal Pipeline Company, LLC ("Cardinal") filed an application seeking a general decrease in its rates and charges for natural gas service. In the Application, Cardinal sought a general decrease \$1,976,070 per year. Cardinal also requested authority to defer certain pipeline integrity management costs for proposed future collection and to implement new depreciation rates. On April 26, 2017, Cardinal filed a revised tariff sheet pursuant to the Commission's April 18, 2017 Order, which placed Cardinal's proposed rates into effect on May 1, 2017.

On June 9, 2017, Cardinal, the Public Staff, Piedmont, and PSNC filed a stipulation in settlement of all aspects of the proceeding. These parties agreed to a total annual cost of service and revenue requirement for Cardinal of \$12,591,640, a decrease in annual revenues of \$3,769,850, and a debt cost of 4.27%. As part of the stipulation, Cardinal agreed to file its next general rate case no later than March 15, 2022, and to provide the other stipulating parties with a rough outline of the rate case one month prior to the filing date.

By Order dated July 27, 2017, the Commission approved the stipulation and the rate decrease.

JOINT AGENCY ASSET RIDER PROCEEDING

(Docket No. E-2, Sub 1143)

On June 21, 2017, 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 \$151.575 million for the prospective component of its N.C. retail revenue requirement for the period December 1, 2017 through November 30, 2018. In addition to the prospective component, DEP requested \$2.891 million for the Joint Agency Asset Rolling Recovery Factor 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, 2016. On November 17, 2017, 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 an increase of \$2.53 per month.

Rate Class	Applicable Schedule(s)	Prospective Rate	Rolling Recovery Factor	Combined Rate*
Non-Demand Rate Class (dollars per kilowatt-hour)				
Residential	RES, R-TOUD, R-TOUE, R-TOU	0.00467	0.00009	0.00476
Small General Service	SGS, SGS-TOUE	0.00533	0.00009	0.00542
Medium General Service	CH-TOUE, CSE, CSG	0.00424	0.00009	0.00433
Seasonal and Intermittent Service	SI	0.00685	0.00009	0.00694
Traffic Signal Service	TSS, TFS	0.00252	0.00009	0.00261
Outdoor Lighting Service	ALS, SLS, SLR, SFLS	0.00000	0.00000	0.00000
Demand Rate Classes (dollars per kilowatt)				
Medium General Service	MGS, GS-TES, AP-TES, SGS-TOU	1.39	0.03	1.42
Large General Service	LGS, LGS-TOU	1.44	0.03	1.47

*Incremental Rates, shown above, include North Carolina regulatory fee of 0.14%.

ACQUISITION OF THE STOCK OF FRONTIER'S PARENT COMPANY (Docket No. G-40, Sub 136)

Frontier and FR Bison Holdings, Inc. ("FR Bison") filed an application on November 23, 2016, as amended on February 14, 2017, pursuant to N.C. Gen. Stat. § 62-111(a) for authorization for FR Bison to acquire 100% of the stock of Gas Natural, Inc. ("GNI"), the parent company of Frontier. According to the application, upon approval of the merger, Frontier would continue to operate as a fully functional and separate natural gas subsidiary of GNI (now called Hearthstone, Inc.), continue to operate under its existing

name, continue to maintain its headquarters at its existing offices in Elkin, North Carolina, and retain its current operational employees.

The Public Staff proposed a set of regulatory conditions, which were agreed to by Frontier and FR Bison and certain other entities (“Regulatory Conditions”). The Regulatory Conditions require Frontier to forego the recovery of specific costs, including both operational and merger costs, require a third party consultant to report on Frontier’s pipeline integrity management program, provide a guarantee that Frontier would credit \$100,000 to its North Carolina customers through a one-time bill credit, preserve Frontier’s existing rates and charges through a commitment to maintain Frontier’s margin rates at existing levels until December 31, 2021, and make a determination of Frontier’s rate base as of the date of the acquisition to eliminate any possible future proposed adjustment to recapture past negative acquisition adjustments or any portion of the acquisition premium resulting from the current proceeding, as well as require additional regulatory reporting.

The matter was heard by the Commission on May 8, 2017. On August 1, 2017, the Commission issued an *Order Approving Merger Subject to Regulatory Conditions*. The Commission concluded that Frontier and FR Bison’s commitments in their application, testimony, and the agreed upon Regulatory Conditions were sufficient to ensure that: (1) the merger would have no adverse impact on the rates and services provided to Frontier’s ratepayers; (2) Frontier’s ratepayers were protected as much as reasonably possible from potential costs and risks resulting from the merger; and (3) the known and potential benefits of the merger were sufficient to offset the potential costs and risks. Therefore, the Commission concluded that the proposed merger between FR Bison and GNI was justified by the public convenience and necessity, served the public interest, and should be approved subject to compliance with the provisions of the Order and the Regulatory Conditions.

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 first tranche of the program is expected to procure 600 MW of energy for DEC and 80 MW for DEP. After working with Duke Energy, the Public Staff, and interested

market participants, the IA issued pre-solicitation documents and a draft Request for Proposals (“RFP”) on May 11, 2018. Market participants were invited to suggest modifications prior to the finalization of the RFP documents. The window for the first RFP is currently estimated to open in July 2018.

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 have filed comments in the proceeding. The plan has not yet been approved by the Commission.

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 program plan has been filed, but has not yet been approved by the Commission. Duke is proposing a plan to install an initial project in each service territory up to 5 MW. Reply comments were due in Dockets E-2 Sub 1169, and E-7 Sub 1168, on June 4, 2018.

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”). The first EGL application was filed for Commission approval on May 11, 2018.

Net metering

The Distributed Resources Access Act requires the utilities to apply for revised rates for the net metering tariff that takes into account the full fixed charges of net metering. No utility has filed to revise rates or to open a docket (no required timeline).

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 in April 2018 for eligible projects that were installed on or after January 1, 2018 in Docket Nos. E-2, Sub 1166, and E-7, Sub 1166. Duke Energy will provide rebates for residential and nonresidential customers totaling an estimated \$62 million. 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 expects to begin accepting applicants for solar rebates on July 9, 2018.

APPLICATION FOR A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY – LINCOLN COMBUSTION TURBINE PROJECT

(Docket No. E-7, Sub 1134)

On January 31, 2017, DEC filed preliminary information in advance of filing an application for a Certificate of Public Convenience and Necessity ("CPCN"). On June 12, 2017, DEC filed an application and testimony requesting a CPCN to construct a 402-MW natural gas-fired combustion turbine ("CT") electric generating facility near Stanley, Lincoln County, North Carolina. According to the application, the facility will be initially operated by the CT manufacturer, Siemens, during an extended commissioning and testing period to begin in 2020 and conclude in late 2024. During that period, Siemens will determine the timing and nature of the operation of the facility and DEC will use the electricity generated by the facility to serve its customers. Commercial operation of the facility is anticipated to begin in 2024 when DEC takes full custody, care, and control of the facility.

On June 28, 2017, the Commission issued an *Order Scheduling Hearings, Requiring Filing of Testimony, Establishing Procedural Guidelines and Requiring Public Notice*. A number of parties intervened, including North Carolina Waste Awareness and Reduction Network, Carolina Utility Customers Association, Inc., North Carolina Electric Membership Corporation, the North Carolina Sustainable Energy Association, the North Carolina Attorney General's Office, the Sierra Club, and the Natural Resources Defense Council. A public hearing was held in Lincolnton on August 16, 2017, where six public witnesses testified.

On August 15, 2017, the Public Staff filed testimony recommending the denial of the CPCN unless certain conditions were imposed to address the potential timing risks associated with the project. On December 7, 2017, the Commission entered an order granting the CPCN with conditions based on recommendations by the Public Staff. The

conditions were: 1) that DEC would not seek cost recovery before the later of December 1, 2024, or the date by which DEC has taken care, custody and control and placed the facility into commercial operation; 2) that in the event the Commission later finds that changes from DEC's forecasts in its 2016 and 2017 IRPs with respect to actual loads and projected load growth, the utilization of EE and DSM measures, the penetration and reliability of renewable resources, DEC's actual mix of generation resources, DEC's reserve margins, or any combination of such facts does not warrant a need for the project until a time later than the winter of 2024-25, the Commission may require that DEC defer recovery for some or all of the costs of the project until such need is demonstrated by DEC's most recently approved IRP.

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 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 this case; (4) the amount of annual depreciation expense and associated accumulated depreciation to be used for ratemaking in this 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.

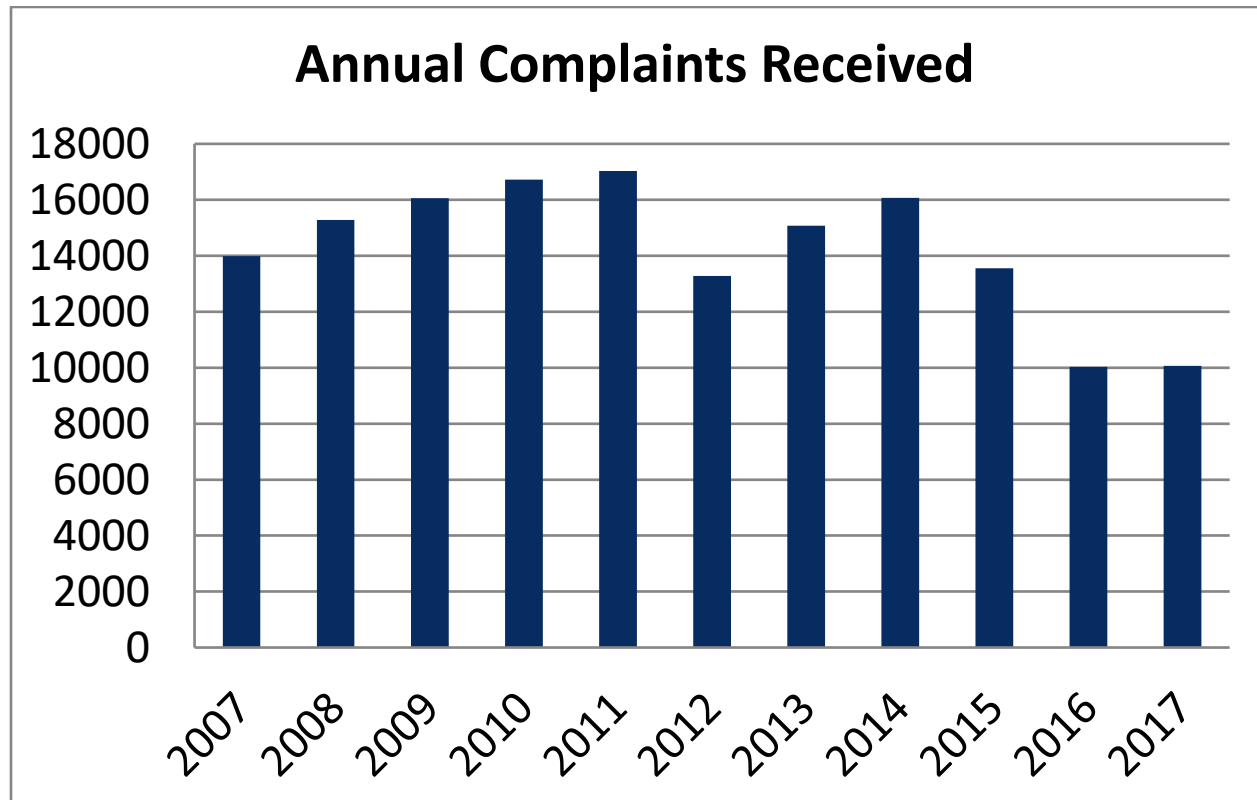
APPELLATE CASES IN WHICH THE PUBLIC STAFF PARTICIPATED

- *State of North Carolina Ex. Rel. Utilities Commission v. N.C. Waste Awareness and Reduction Network*, NO. 350A17
- *State of North Carolina Ex Rel. Utilities Commission; Public Staff – North Carolina Utilities Commission; Duke Energy Carolinas, LLC; Duke Energy Progress, LLC; Southern Alliance for Clean Energy v. North Carolina Sustainable Energy Association*, NO. COA16-1067
- *State of North Carolina Ex. Rel. Utilities Commission; Public Staff – North Carolina Utilities Commission; 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.³ 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 2017, the Consumer Services Division processed a total of 10,070 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 corporation services, and those services regulated by the Federal Communications Commission (“FCC”).



³ The Transportation Division handles all complaints related to household goods movers separately from the Consumer Services Division. Transportation Division complaints are reported on page 36.

CONSUMER COMPLAINTS/INQUIRIES BY INDUSTRY

Industry	Complaints	Utility	Complaints
Electric	7,981		
		Duke Energy Carolinas	4,874
		Duke Energy Progress	2,822
		Dominion NC Power	210
		Other	47
Natural Gas	527		
		Piedmont	379
		PSNC	146
		Other	2
Telephone	712		
		AT&T	220
		Frontier	134
		CenturyLink	124
		Windstream	43
		Time Warner/Spectrum	36
		Other	155
Water/Sewer	556		
		Aqua	245
		Water resellers	132
		Carolina Water Service	58
		Other	121
Other	384		

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 2017, the Public Staff reviewed approximately 1,800 renewable facility applications. The status of renewable energy facilities in electric utility territories is shown below.

Status of Renewable Energy Facilities as of December 31, 2017				
	Connected Facilities		Proposed Facilities	
Electric Utility	Number of Facilities	Capacity of Facilities in MW	Number of Facilities	Capacity of Facilities in MW
DEP	3,369	1,788	444	1,371
DEC	3,454	634	309	1,342
DENC	177	995	55	321
Total	7,000	3,417	808	3,034

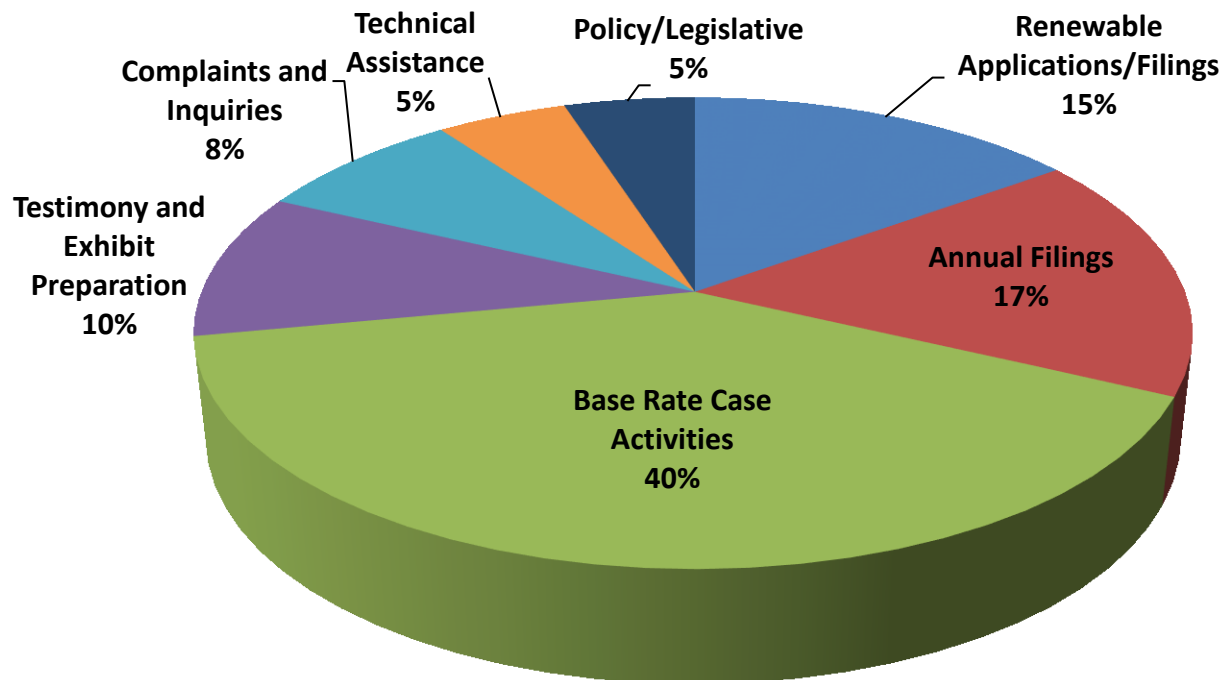
The Electric Division reviews and makes recommendations with respect to the annual REPS compliance plans and reports required by N.C. Gen. Stat. § 62-133.8(i)(1) and Commission Rule R8-67, as discussed earlier in this Report.

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)	62%
SB 3/HB 589 issues/REPS compliance/renewable facility applications	20%
Customer Complaints	8%
Transmission, Resource Planning, and Service Reliability	7.5%
Electric Resellers	2.5%

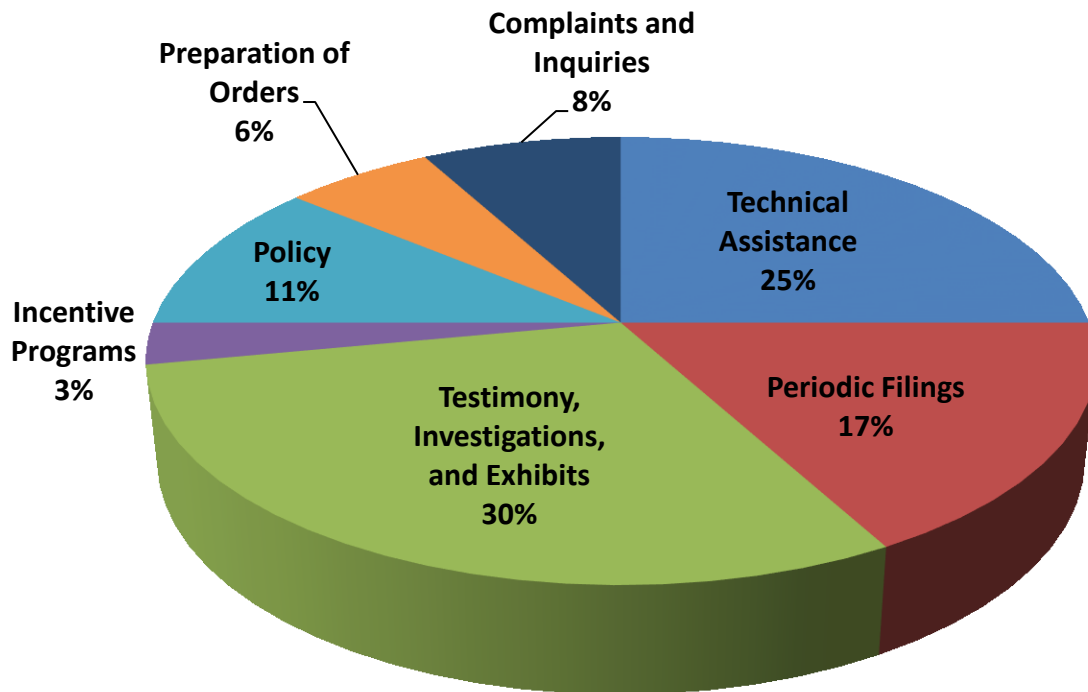
Allocation of Electric Staff Resources (by Task)



NATURAL GAS DIVISION

The Natural Gas Division represents the using and consuming public in 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 and margin decoupling tracker mechanisms. The Division also works with the Consumer Services Division to investigate customer complaints as necessary.

Allocation of Natural Gas Staff Resources



WATER/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 2017, the Division handled over 1,150 filings.

Water and Sewer Subject Matter Allocation

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

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 2017, there were 304 household goods carriers holding certificates of exemption issued by the Commission, and two bus companies and eight ferry operators holding CPCNs. During 2017, the Division reviewed approximately 1,130 filings.

The Transportation Division investigated 100 customer complaints and responded to 447 inquiries related to household goods movers and other transportation matters received by the Public Staff in 2017.

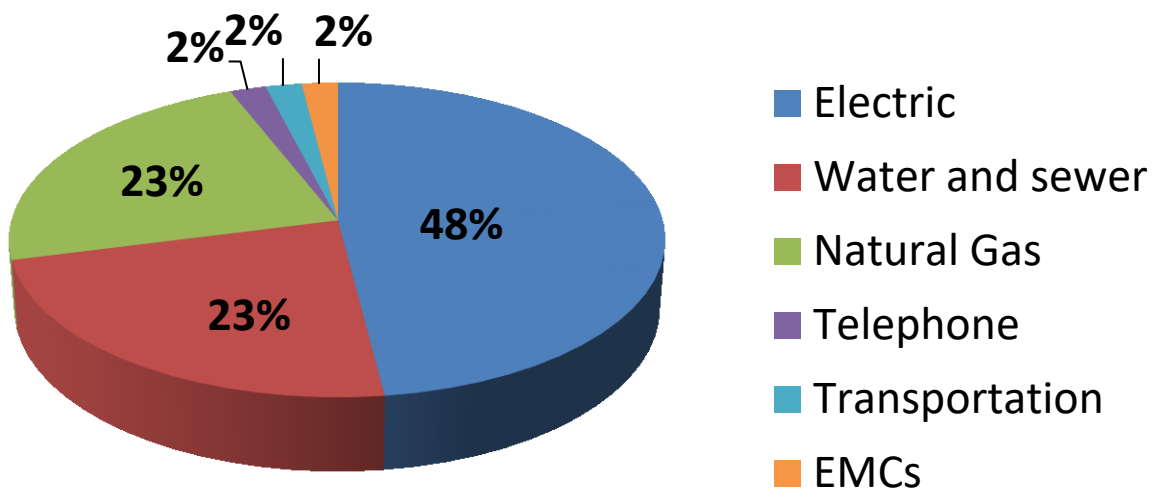
Allocation of Transportation Staff Resources

Clarify Maximum Rate Tariff regulations and facilitate certificate of exemption application process	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%
Respond to various transportation inquiries	5%
Calculate and file fuel surcharge adjustments	5%
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, undertaking accounting reviews and audits of utility companies, and providing recommendations to the Commission regarding accounting and other regulatory issues in utility cases. The Accounting Division provides significant support to the other Public Staff divisions in general rate cases, merger and acquisition approval proceedings, natural gas prudence review proceedings, and renewable energy, DSM/EE, and miscellaneous electric rider proceedings. The Accounting Division also reviews and processes the annual reports that all regulated utilities must file pursuant to statute.

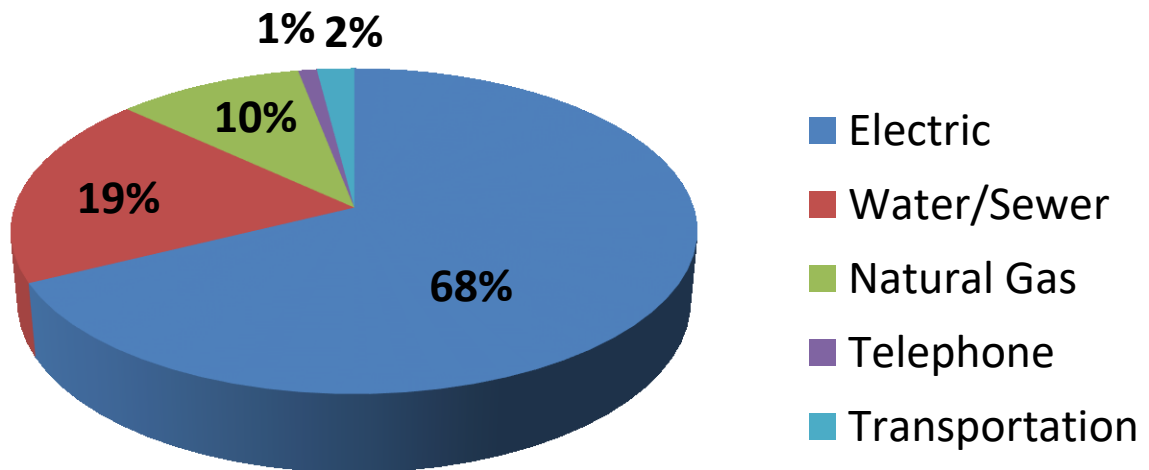
Allocation of Accounting Staff Resources



LEGAL DIVISION

The Legal Division represents the Public Staff and the using and consuming public in proceedings before the Commission and North Carolina appellate courts. The Legal Division is responsible for coordinating the preparation of reports, comments, testimony, proposed orders and other documents on behalf of the Public Staff.

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.

Allocation of Economic Research Staff Resources

