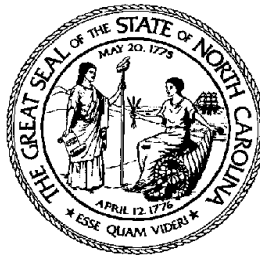


ANNUAL REPORT
to the
GENERAL ASSEMBLY



North Carolina Utilities Commission
Public Staff

2014

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 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.

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 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:

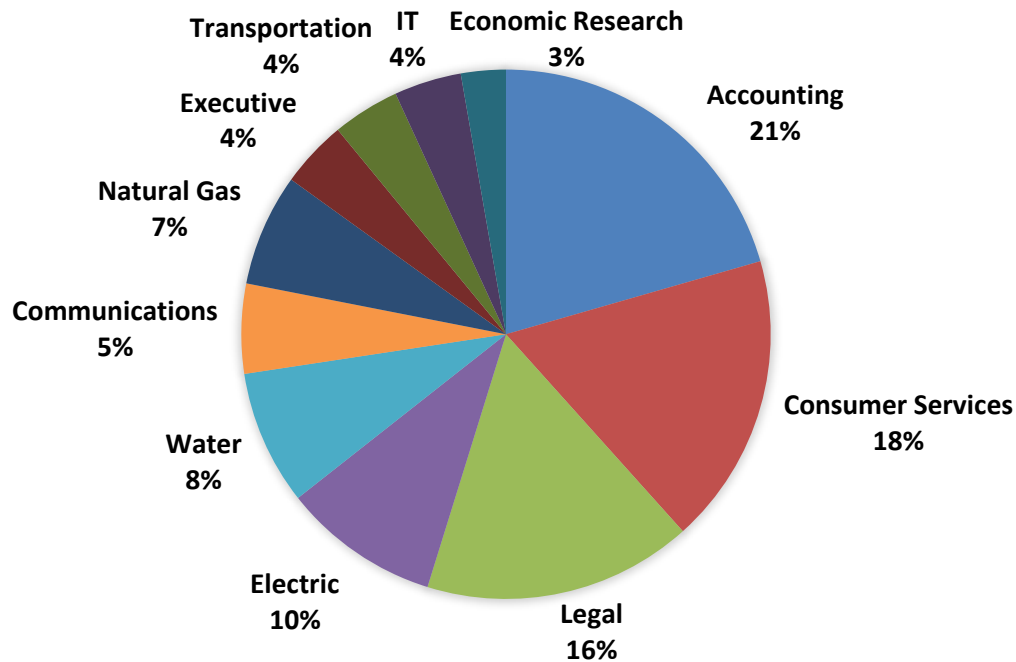
- Presenting testimony and recommendations to the Commission on behalf of regulated utility customers
- Investigating customer complaints
- Auditing regulated utilities in Commission investigations and proceedings
- Interfacing with the general public on utilities issues
- Assisting legislative staff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

PUBLIC STAFF PERSONNEL ALLOCATION

As of December 31, 2014, 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, 2014)

Division	Number of Employees
Accounting	15
Consumer Services	13
Legal	12
Electric	7
Water	6
Communications	4
Natural Gas	5
Executive	3
Transportation	3
IT	3
Economic Research	2

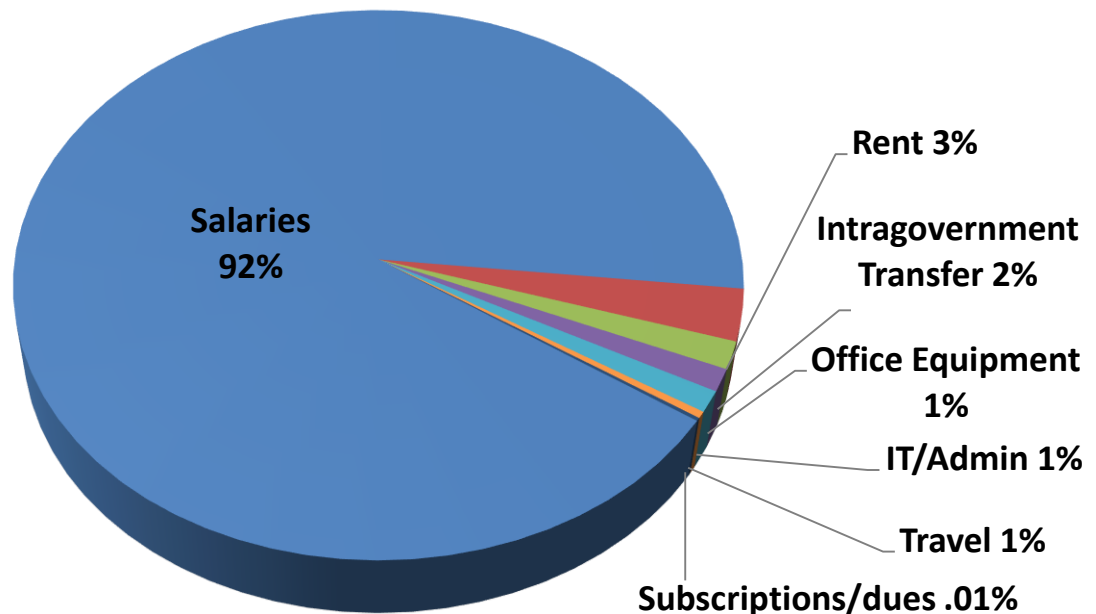


PUBLIC STAFF BUDGET

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 2014-15, the regulatory fee was established at 0.135% 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 2014-15, the Public Staff's overall budget was approximately \$9.15 million, which represented an increase of 1% from the prior fiscal year to cover the legislative increase to state employee salaries and benefits. Approximately 92.3% of the Public Staff's budget is dedicated to staff salaries and benefits, totaling \$8.45 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, and travel.

FY 2013-14 PUBLIC STAFF BUDGET ALLOCATION BY EXPENSE CATEGORY



PUBLIC STAFF ACTIVITIES – 2014 OVERVIEW

The Public Staff was very active on behalf of the North Carolina using and consuming public throughout 2014. The Public Staff participated in 3,852 formal proceedings before the Commission through briefs, comments, expert testimony, audits, and investigations, including appearances at 84 hearings in contested cases. The Public Staff reviewed 14,134 filings made with the Commission and 3,456 orders issued by the Commission. The Public Staff handled 15,972 consumer complaints and inquiries throughout the year. 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 2014 fuel proceedings resulted in the following changes to fuel and fuel-related charges for each of the electric public utilities: for retail customers of Duke Energy Carolinas (DEC), rate decreases for each 1,000 kilowatt-hour (kWh) of usage per month of approximately \$0.42 for the Residential customer class, \$0.33 for the General Service/Lighting customer class, and \$0.28 for the Industrial customer class; for retail customers of Duke Energy Progress (DEP), an increase for each 1,000 kWh of usage for each rate class as follows: Residential – \$2.69; Small General Service – \$3.01; Medium General Service – \$2.13; Large General Service – \$1.53; and Lighting – \$4.81; and for retail customers of Dominion NC Power (DNCP), rate increases resulting in net fuel factors (base fuel, adjusted by Riders A and B) to be billed during calendar year 2015 as follows for each 1,000 kWh of usage: Residential - \$2.32; SGS & Public Authority - \$2.32; LGS - \$2.32; NS - \$2.23; 6VP - \$2.26; Outdoor Lighting - \$2.32 ; and Traffic - \$2.32.

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 proceeding.

The 2014 REPS proceedings resulted in changes in DEC's monthly REPS charges as follows: Residential Class – \$0.43 increase; Commercial Class – \$2.03 decrease; and Industrial Class – \$5.98 decrease; changes in DEP's monthly REPS charges as follows: Residential Class – \$0.64 increase; Commercial Class – \$1.73 decrease; and Industrial

Class – \$5.09 decrease; and changes in DNCP's monthly REPS charges as follows: Residential Class – \$0.32 increase; Commercial Class – \$2.29 decrease; and Industrial Class – \$15.28 decrease.

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

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 as a result of the programs. The amount of the rider is determined in annual proceedings that are conducted at the same time as the fuel and REPS proceedings.

The DSM/EE measure proceedings in 2014 resulted in an increase in the monthly charge for each 1,000 kWh of usage per customer for DEP as follows: Residential Class - \$1.39; Small General Service Class - \$1.20; Medium General Service Class - \$1.20; Large General Service Class - \$1.20; and Lighting Class - \$0.17. The 2015 charges for DNCP customers for each 1,000 kWh of usage are as follows: Residential Class – \$0.29 increase; SGS & Public Authority Class – \$0.14 decrease; LGS Class - \$0.23 decrease; 6VP Class - \$0.38 decrease; and no change for NS, Outdoor Lighting and Traffic Classes.

For DEC, the 2014 DSM-EE proceeding resulted in an increment of 0.5989 ¢/kWh for Residential customers, or an increase of \$1.88 for each 1,000 kWh of usage. The amounts for Nonresidential customer classes varied by vintage year participation and ranged from a DSM decrement of (0.0003) ¢/kWh for participants from June 1, 2009, to December 1, 2010 (Vintage Year 1), to an EE increment of 0.0861 ¢/kWh for Calendar Year 2015 (Vintage Year 2015) participants.

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.

N.C. Gen. Stat. § 62-156 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.

Due to the large number of issues raised during the 2012 avoided cost proceeding, the Commission adopted a two-phase approach in the 2014 proceeding, and after multiple rounds of comments and an evidentiary hearing, issued an Order establishing avoided cost input parameters to be used in developing avoided cost rates. The Public Staff filed extensive comments and presented the testimony of four witnesses in the first phase of the proceeding. The second phase is now underway, and the Public Staff and other parties are currently in the process of evaluating the proposed avoided cost rates filed by the utilities based on the input parameters established by the Commission.

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.

The Public Staff reviewed the 2013 IRPs of DEC, DEP, and DNCP and filed comments in 2014 setting forth its recommendations regarding future IRPs. These

recommendations included maximizing DSM resources, incorporating solar generation and other renewable generation, extending the planning period to include future retirements of nuclear generating plants, quantifying the impacts of fuel diversity, estimating the annual rate impacts of resource plans, conducting economic analyses of the cost of complying with environmental regulations, and including decommissioning costs in one or more scenarios evaluated in developing a resource plan. The Public Staff also recommended that the Commission request comments from stakeholders on potential changes to the IRP process to make it more robust and effective. In addition to filing written comments, the Public Staff assisted consumers in presenting testimony at a public hearing in Raleigh.

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 2014, the Public Staff reviewed the REPS compliance plans filed by DEC, DEP, and DNCP in conjunction with their IRP updates and filed comments and recommendations on those plans. The Public Staff also reviewed and filed comments on the REPS compliance plans of North Carolina Eastern Municipal Power Agency (NCEMPA), North Carolina Municipal Power Agency 1 (NCMPA1), GreenCo Solutions (GreenCo) on behalf of North Carolina Electric Membership Corporation (NCEMC), Halifax Electric Membership Corporation (EMC), EnergyUnited EMC, Fayetteville Public Works Commission (PWC), Tennessee Valley Authority (TVA), the Town of Fountain, and the Town of Winterville.

The Commission's rules also require the electric power suppliers to submit annual REPS compliance reports of RECs earned or purchased and energy savings actually realized during the preceding calendar year and the electric power supplier's progress toward meeting its REPS obligations. These reports must include, among other things, RECs actually earned or purchased, RECs used for compliance 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 2014, 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. In addition, the Public Staff reviewed and filed comments and recommendations on the 2012 REPS compliance reports of the

following electric power suppliers: NCEMPA, NCMPA1, GreenCo, Halifax EMC, Energy United EMC, Fayetteville PWC, TVA, the Town of Fountain, and the Town of Winterville.

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

(Docket No. M-100, Sub 138)

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. Pending disposition of the matter, the Commission ordered that the incremental revenue requirement impact of the change in the State income tax rate on each utility's cost of service would be deemed collected on a provisional basis beginning January 1, 2014. After receiving comments from the affected utilities and other interested parties, the Commission issued an Order (the May 2014 Order), requiring all electric, natural gas, water, and sewer utilities, other than those utilities specifically named in the Order, to adjust their rates to reflect, as applicable, the changes to the gross receipts tax, the State corporate income tax, and the general franchise tax effectuated by House Bill 998. The Commission further ordered the utilities to file proposals to adjust the rates in compliance with the Order, including provisions that would refund to customers the amounts collected on a provisional basis.

In accordance with the May 2014 Order, a number of electric, natural gas, water, and sewer companies, including DEC, DEP, and Piedmont Natural Gas Company, Inc. (Piedmont), filed proposals and compliance tariffs reflecting the ordered changes, and adjusted their rates accordingly.

DNCP and Public Service Company of North Carolina, Inc. (PSNC) gave notice of appeal to the North Carolina Court of Appeals from the May 2014 Order and moved the Commission for reconsideration of the Order.

The Commission then entered an Order (the October 2014 Order) concluding that it lacked authority to require rate reductions to reflect the change in the State corporate income tax rate and authorized utilities that implemented rate reductions for this change pursuant to the May 2014 Order to either recoup amounts foregone or leave the reductions in place, as they choose. The October 2014 Order further authorized utilities that refunded or credited to customers amounts collected on a provisional basis to either recover those amounts from customers or retain those amounts, as they choose. In response to the October 2014 Order, PSNC chose to adjust rates to reflect the change in the State corporate income tax rate; DNCP did not. The Public Staff and the Attorney

General separately filed notices of appeal to the Court of Appeals from the October 2014 Order.

North Carolina Session Law 2015-6 clarified that the intent of HB 998 was to require the Commission to adjust rates for utilities to reflect the reduction in the corporate income tax rate and directed the Commission to add interest to money not yet refunded to customers. Following enactment of S.L. 2015-6, the Public Staff dismissed its appeal in the matter, and subsequently DNCP notified the Commission of its intent to make a compliance filing to comply with the provisions of S.L. 2015-6.

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 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: PSNC, Piedmont, Frontier Natural Gas Company, LLC (Frontier), and Toccoa Natural Gas. Throughout 2014, 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 2014 filings and filed testimony concerning its findings and recommendations regarding whether the utilities' gas purchases and hedging activities were prudent and whether the utilities' gas costs were properly accounted for. After conducting a hearing for each LDC, the Commission issued orders approving rate increments and decrements as appropriate.

ATLANTIC COAST PIPELINE

(Docket Nos. E-2, Sub 1052, E-7 Sub 1062, and G-9, Sub 655)

In September 2014, Piedmont and Duke Energy Corporation (Duke Energy) announced the selection of Dominion Transmission, Inc. (Dominion), to build and operate the Atlantic Coast Pipeline, a 550-mile interstate natural gas pipeline from West Virginia, through Virginia, and into North Carolina to meet the region's rapidly growing demand for natural gas. The pipeline will have an initial capacity of 1.5 billion cubic feet per day and will provide direct access to production in the Marcellus and Utica shale basins of West

Virginia, Pennsylvania, and Ohio. The estimated costs to construct the pipeline and place it into service are in the range of \$5.0 billion. The project has a target in-service date of late 2018 and will require FERC approval. Piedmont has agreed to subscribe to 160,000 dekatherms per day, subject to Commission approval. DEC and DEP together, also subject to Commission approval, have agreed to subscribe to 725,000 dekatherms per day of firm transportation capacity. PSNC has also agreed to subscribe to 100,000 dekatherms per day of firm transportation capacity on the pipeline, but is not an equity participant in the project.

The pipeline will be owned by Atlantic Coast Pipeline, LLC (ACP), which will be jointly owned by Dominion, Duke Energy Atlantic Coast Pipeline, LLC (a wholly-owned subsidiary of Duke Energy and an affiliate of DEC and DEP), Piedmont, and AGL Resources, Inc. While the Utilities Commission does not have jurisdiction over interstate pipelines, agreements between regulated utilities and their affiliates are subject to the Commission's jurisdiction pursuant to N.C. Gen. Stat. § 62-153.

Shortly after the announcement of the pipeline, DEC and DEP filed an advance notice of their intent to enter into certain agreements with ACP related to firm natural gas pipeline capacity and requested a limited waiver of the asymmetrical pricing provisions of their Code of Conduct. The Commission entered an Order in late October accepting the agreements and authorizing payments pursuant thereto, subject to conditions recommended by the Public Staff, and granting the limited waiver request.

At the same time, Piedmont filed a petition requesting authority to enter into, and perform in accordance with, agreements with ACP related to firm natural gas pipeline capacity, amendments to existing approved natural gas redelivery agreements between Piedmont and DEP, and a transmission capacity lease between Piedmont and ACP.

The Commission entered an Order, also in late October, approving Piedmont's petition, subject to conditions recommended by the Public Staff.

FRONTIER NATURAL GAS COMPANY, LLC

(Docket No. G-40, Sub 124)

In June 2014, Frontier and the Public Staff entered into a stipulation in lieu of a management audit pursuant to N.C. Gen. Stat. § 62-37(b) for the purpose of resolving issues identified by the Public Staff that impacted Frontier's ability to operate as a public utility and to render adequate natural gas service at reasonable rates. Frontier and the Public Staff agreed that the measures to be undertaken by Frontier pursuant to the stipulation should improve reporting, transparency, oversight, and internal controls in ways that are beneficial to both Frontier and its ratepayers; and that a negotiated resolution of the issues addressed by the stipulation provides a level of certainty and financial stability that is beneficial to both Frontier and its ratepayers. The Public Staff continues to monitor Frontier's implementation of the terms of the stipulation.

REPS SWINE SET-ASIDE COMPLIANCE DELAY

(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 2014, DEC, DEP, DNCP, GreenCo, Fayetteville PWC, EnergyUnited EMC, Halifax EMC, TVA, NCEMPA, and NCMPA1 (the joint movants) filed a joint motion pursuant to N.C. Gen. Stat. § 62-133.8(i)-(2), requesting that the Commission relieve them of compliance with the 2014 swine set-aside requirements in N.C. Gen. Stat. § 62-133.8(e) by delaying their compliance obligations under this requirement by one year, until 2015. The joint movants further requested that they be allowed to bank any swine RECs previously or subsequently acquired for use in future compliance years and to replace compliance with the swine waste requirements in 2014 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 waste resource provisions, including actively engaging swine waste-to-energy developers, issuing requests for proposals, evaluating bids received, negotiating and executing long-term REC purchase agreements for these resources, processing interconnection requests from these generators, actively monitoring executed agreements, and, in some cases, further modifying REC purchase agreements to provide developers reasonable opportunity for successful project execution.

The Environmental Defense Fund, North Carolina Pork Council (NCPC), and Public Staff submitted separate comments on the joint motion. None of the commenters opposed the motion, although the NCPC noted that not much progress towards compliance has been made and made recommendations to help the electric suppliers achieve compliance. The Public Staff stated that the electric power suppliers, in general, are making a good faith effort to comply with the swine waste set-aside requirement, but identified several problem areas affecting compliance. These areas included interconnection issues; reluctance of farmers to sign long-term fuel supply agreements; the sunset of the federal production tax credit; uncertainty in contract fulfillment based on past lack of performance; air quality permit delays; issues with the anaerobic digestion process, including waste disposal; and the uncertainty caused by the previous delays to the swine waste set-aside requirement. The Public Staff recommended that the Commission grant the requested delay of the swine waste set-aside requirement until 2015 and allow electric power suppliers to bank any swine waste RECs previously, or subsequently, acquired for use in future compliance years.

The Commission found that the State's electric power suppliers had made a reasonable effort to comply with the 2014 statewide swine waste set-aside requirement, as previously modified by the Commission in 2012 and 2013, and determined 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 2014 REPS compliance to bank them for swine waste set-aside requirement compliance in future years. The Commission ordered electric power suppliers to continue to make efforts to comply with the swine waste set-aside requirement. In addition, the Commission ordered all electric power suppliers subject to the tri-annual reporting requirements to continue to file reports until the Commission orders that they be discontinued. Finally, the Commission directed the Public Staff to arrange and facilitate two stakeholder meetings during 2015.

INTEGRITY MANAGEMENT RIDER (IMR) **(Docket Nos. G-9, Sub 631, and G-9, Sub 659)**

N.C. Gen. Stat. § 62-133.7A authorizes the Commission to approve a rate adjustment mechanism to enable a natural gas LDC to recover the prudently incurred capital investment and associated costs of complying with federal gas pipeline safety requirements. Pursuant to this authority, the Commission approved an Integrity Management Rider mechanism as part of the Piedmont general rate case in Docket No. G-9, Sub 631. The Commission concluded that without the IMR, the estimated expense of compliance with federal pipeline safety regulations would require regular and repeated general rate case proceedings to roll such investments into Piedmont's rate base. The Commission also found that implementation of an IMR mechanism will promote public safety by supporting the timely recovery of costs associated with pipeline safety and integrity expenditures by Piedmont.

The approved IMR mechanism provides for annual adjustments to Piedmont's rates every February 1st based upon qualifying capital investments in integrity and safety projects as of October 31st of the preceding year as reported by Piedmont to the Commission in an annual report filing. On December 1, 2014, Piedmont made a filing in Docket No. G-9, Sub 659, to recover \$27,485,939 associated with expenditures related to its integrity management (IM) program through the following rate adjustments:

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%
IM Deferred Account	\$17,766,911	\$8,089,112	\$733,875	\$896,042
Rate Case Volumes (dts)	36,504,751	27,448,263	30,188,509	34,669,378
IM Increment per dt	\$0.4867	\$0.2947	\$0.0243	\$0.0258

The Public Staff investigated the filing and recommended approval of the proposed IM rate adjustments.

NATURAL GAS CURTAILMENT PROCEEDINGS

(Docket Nos. G-5, Sub 545, and G-9, Sub 649)

Natural gas LDCs plan the capacity of their transmission and distribution systems based on the projected design day demand of their firm customers. A design day is a 24-hour period of an LDC's greatest theoretical demand for gas. Residential customers and others with space heating needs and no alternative fuel are served under rate schedules that cover the LDC's cost of building the capacity and obtaining the gas supply necessary to provide firm service. Large industrial and commercial customers often subscribe to interruptible service on rate schedules that provide for curtailment in exchange for lower rates. An LDC relies heavily on the ability to curtail interruptible customers in planning its system, and its tariffs are designed to recover costs with this in mind.

Rider A of PSNC's tariffs governs curtailment of service and the provision of emergency service to its customers who subscribe to interruptible service. Rider A authorizes PSNC to provide emergency service under certain circumstances to customers who would otherwise be curtailed. A curtailed customer who continues to burn gas and does not take emergency service is deemed to have used unauthorized gas. Similarly, Piedmont's Rate Schedule 106 provides that Piedmont may provide emergency service to a curtailed customer if the customer requests it. Curtailed customers who otherwise burn gas without permission are deemed to have used unauthorized gas. Both Rider A and Rate Schedule 106 provide that customers who take emergency gas or unauthorized gas during periods of curtailment must pay a penalty plus a cost of gas calculated at the higher of a monthly index price or a daily index price for the day of consumption.

In January 2014, PSNC initiated 11 different curtailments due largely to projected high firm customer demand during periods of extremely cold weather. Customers were released from these curtailments when PSNC determined that system conditions, weather conditions, and other factors warranted it. All of PSNC's 173 interruptible customer accounts were subject to curtailment, and 92 of them used gas at one time or another during a curtailment period contrary to the requirements of their rate schedules and conditions of service. Seven of the 173 interruptible accounts were served under a sales rate schedule and 166 were served under a transportation rate schedule.

Some of the index prices during the curtailment period were as high as \$136 per dekatherm (/dt). To avoid imposing charges that would be extremely burdensome (and in some cases devastating) to its customers who took emergency or unauthorized gas at charges based on these prices, PSNC allowed these customers to pay \$6.3397/dt for gas burned during curtailment (which was the highest price that PSNC paid during the period) and filed a petition with the Commission requesting a limited modification of the cost of gas component of Rider A.

Piedmont also initiated 11 curtailments in January 2014. Of the 35 interruptible customers involved, ten took quantities of unauthorized gas above the approved emergency gas they received. An additional six customers took unauthorized gas. Instead of requesting a tariff modification, however, Piedmont filed a petition requesting a limited waiver of the cost of gas component of its Rate Schedule 106 billing procedures.

The Public Staff participated in both proceedings and recommended that the penalty components of the LDC tariffs apply to curtailed customers who used emergency or unauthorized gas, but the cost of gas components be limited to the highest flowing gas cost of the LDC during January 2014. It was the Public Staff's view that the gas cost components in question were intended to be a fair proxy for the price that PSNC and Piedmont would have had to pay in order to serve their interruptible customers during a curtailment period, and that the cost of gas charged to curtailed customers in accordance with the tariffs would be unduly burdensome and even punitive as it far exceeded the price of gas actually purchased by the LDCs in January 2014.

The Commission issued orders denying both PSNC's request to amend Rider A and Piedmont's request for a waiver of Rate Schedule 106 billing procedures. In both cases, the Commission concluded that once tariffs are approved in a general rate case, the companies' rates were presumed to be just and reasonable, irrespective of what the Commission's intent may have been at the time the rates were approved. The Commission determined that granting the relief requested would have countervailing and adverse consequences for customers other than the interruptible customers who chose not to curtail when notified that they should do so. The orders provided, however, that customers would be allowed to pay the additional amount owed in equal installments over an 18-month period without the imposition of a late fee or interest charge so long as the payments were made on time. Finally, the Commission ordered PSNC and Piedmont to engage in person-to-person discussions with their customers presently being served on an interruptible tariff regarding the consequences of choosing not to curtail and to investigate whether there were interruptible customers receiving natural gas for space heating and other uses that should be served under a firm service tariff.

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 (Carolina Water), and Aqua North Carolina, Inc. (Aqua NC).

Following the issuance of the Aqua NC and Carolina Water rate case orders, the Commission issued an Order in Docket No. W-100, Sub 54, adopting rules to implement WSIC/SSIC mechanisms. The Commission subsequently approved for Aqua NC on a provisional basis WSIC annual revenues of \$64,788, a 0.17% rate increase, and SSIC annual revenues of \$38,064, a .30% rate increase. By separate order, the Commission also authorized Aqua NC to implement 19 filtration projects to comply with secondary drinking water standards that will be eligible for WSIC rate adjustments once they are complete and serving customers. The estimated capital cost associated with these projects is \$2.8 to \$3.0 million.

APPLICATIONS TO TRANSFER CERTIFICATES OF PUBLIC CONVENIENCE AND NECESSITY (CPCN) FOR SOLAR FACILITIES TO DEP

(Docket Nos. E-2, Subs 1054, 1055, and 1056)

In February 2014, DEC and DEP issued a request for proposals (RFP) for up to 300 MW of solar photovoltaic capacity through purchased power agreements and turnkey construction proposals for projects greater than 5 MW of alternating current (AC). In September 2014, DEP and the developers of three of the projects that bid in response to the RFP filed applications to transfer the CPCNs and associated assets for projects from the developers to DEP. The three facilities total 128 MW_{AC} and will be located in Duplin, Wilson, and Bladen Counties. The facilities, which are expected to be in operation prior to the end of 2015, will assist DEP in meeting its obligations under the REPS.

The Public Staff investigated the applications and recommended approval subject to conditions that would protect ratepayers against the risk that certain assumptions in DEP's revenue requirement analyses supporting the CPCN transfers would fail to materialize. DEP agreed with these conditions and the Commission issued Orders approving the applications.

EPA CLEAN POWER PLAN

In June 2014, the United States Environmental Protection Agency (EPA) issued proposed Carbon Pollution Emission Guidelines for Existing Stationary Sources: Electric Utility Generating Units. In December 2014, the Public Staff filed comments identifying numerous errors in EPA's calculation of North Carolina's proposed CO₂ emission rate and addressing inappropriate assumptions with respect to technically and economically achievable outcomes in North Carolina. The Public Staff also raised concerns that the EPA's proposal could negatively impact electric rates and impair service reliability in North Carolina.

SUPREME COURT CASES IN WHICH THE PUBLIC STAFF PARTICIPATED

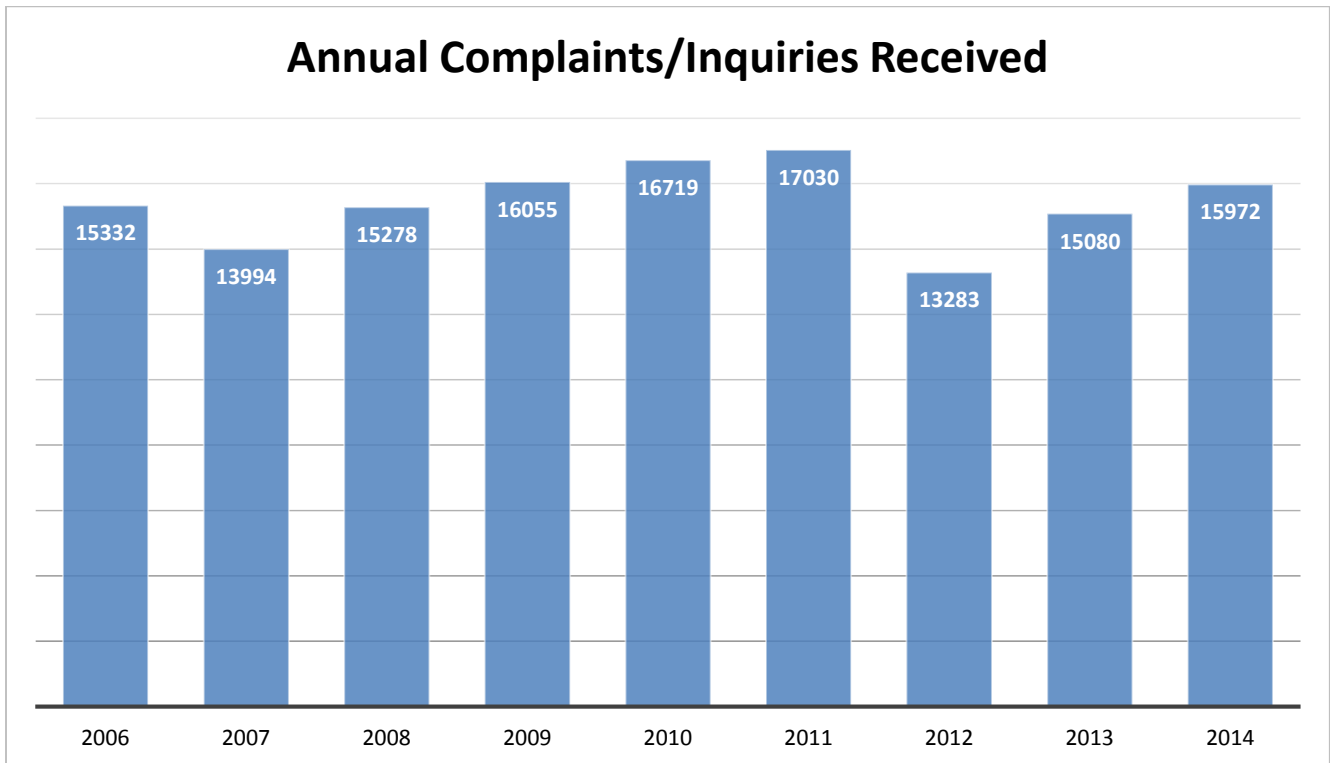
- *State of N.C. ex rel. Utilities Commission v. Attorney General, et al.* (N.C. Supreme Court Case No. 268A-12 – DEC 2011 rate case – appeal of Attorney General
- *State of N.C. ex rel. Utilities Commission v. Attorney General, et al.* (N.C. Supreme Court Case No. 424A13) – DEP rate case – appeal of Attorney General
- *State of N.C. ex rel. Utilities Commission v. Attorney General, et al.* (N.C. Supreme Court Case No 234A13) – DNCP 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) – DEC 2013 rate case – appeal of Attorney General
- *State of N.C. ex rel. Utilities Commission v. Attorney General* (N.C. Supreme Court Case No. 347A14) – Aqua NC 2013 rate case – appeal of Attorney General

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 by utilities and billing disputes. In 2014, the Public Staff saw an increase in the number of complaints and inquiries regarding customer deposits. 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 Federal Communications Commission (FCC).

The Consumer Services Division processed a total of 15,972 complaints and inquiries during 2014. This represented a 5.92% 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.

CONSUMER COMPLAINTS/INQUIRIES BY INDUSTRY

Total for 2014: 15,972

Industry	Complaints	Utility	Complaints
Electric	13,678		
		Duke Energy Carolinas	7,748
		Duke Energy Progress	5,504
		Dominion NC Power	277
		Other	149
Natural Gas	744		
		Piedmont	571
		PSNC	159
		Other	14
Telecommunications	732		
		AT&T	393
		Frontier	94
		CenturyLink (EBQ)	81
		Other	164
Water/Sewer	486		
		Aqua	201
		Water resellers	87
		Carolina Water Service	51
		Other	147
Other	332		

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, EE 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.

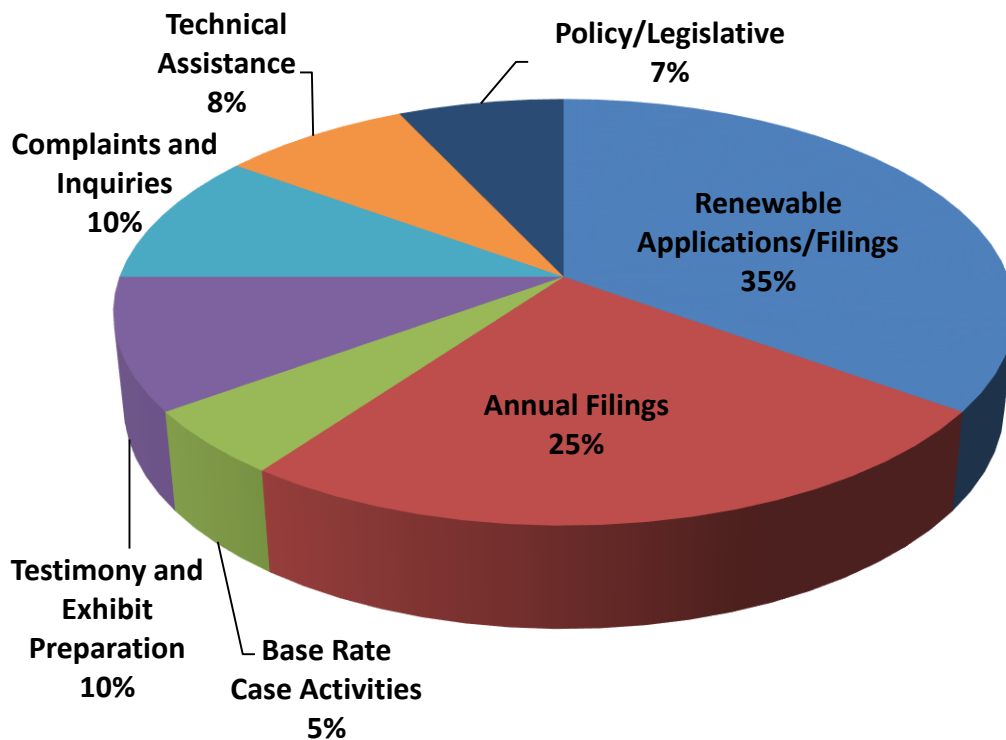
Small power producers and renewable energy facilities require certification by the Commission prior to commencing operation in the State. The Electric Division reviews and processes applications and makes recommendations to the Commission related to these facilities. In 2014, the Public Staff reviewed approximately 1,800 applications for certification. As of March 31, 2015, DEP had 1,645 interconnected solar systems representing 520 MW and DEC had 1,284 interconnected solar systems representing 190 MW. As of March 31, 2015, there were approximately 3,212 MW of proposed QF projects in DEP's territory and 781 MW of proposed QF projects in DEC's territory.

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 2014, a total of twelve REPS compliance plans and twelve REPS compliance reports were reviewed by the Public Staff.

Allocation of Electric Staff Resources (by Substantive Area)

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

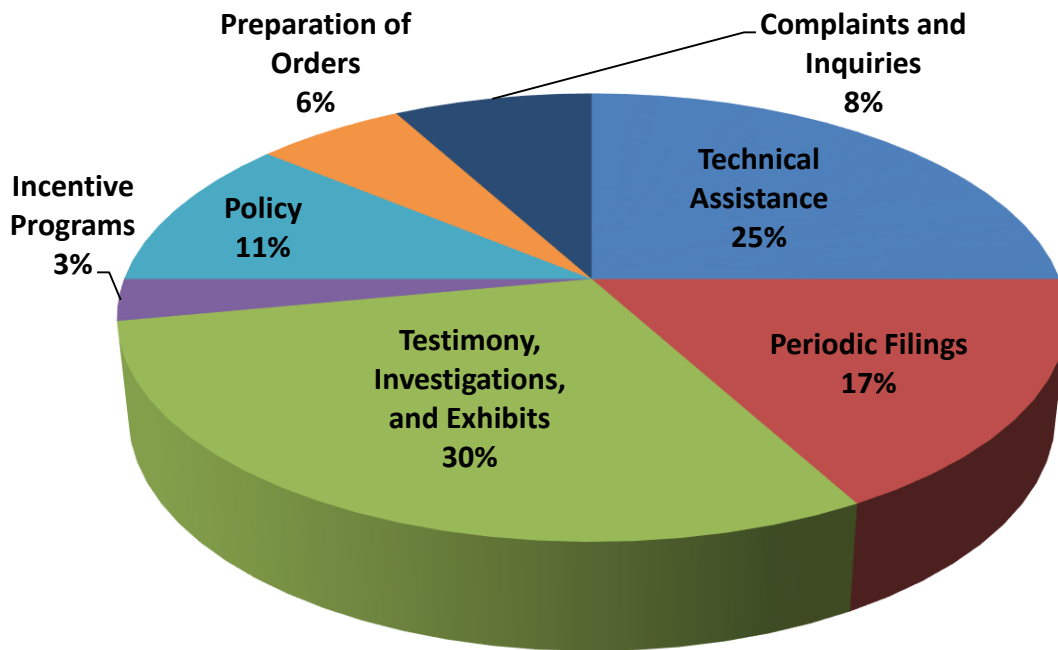
Allocation of Electric Staff Resources (by Task)



NATURAL GAS DIVISION

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

Allocation of Natural Gas Staff Resources



WATER AND SEWER DIVISION

The Water and Sewer Division represents the using and consuming public in matters brought before the Commission regarding regulated water and sewer utilities. The Division also works with the Consumer Services Division to investigate customer complaints as necessary. During 2014, the Division handled over 980 filings.

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, discontinuations 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%

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 FCC 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 2014, the Communications Division reviewed over 1,600 filings, 65% of which were retail and 35% 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
- Access line counts
- Outages
- Billing
- Bundled offerings (regulated and non-regulated)
- Assistance to Lifeline/Linkup Program and Telecommunications Relay Service

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 2014, there were 259 household goods carriers holding certificates of exemption issued by the Commission and two bus companies and nine ferry operators holding certificates of public convenience and necessity.

The Transportation Division investigated 101 customer complaints and responded to 502 inquiries related to household goods movers received by the Public Staff in 2014.

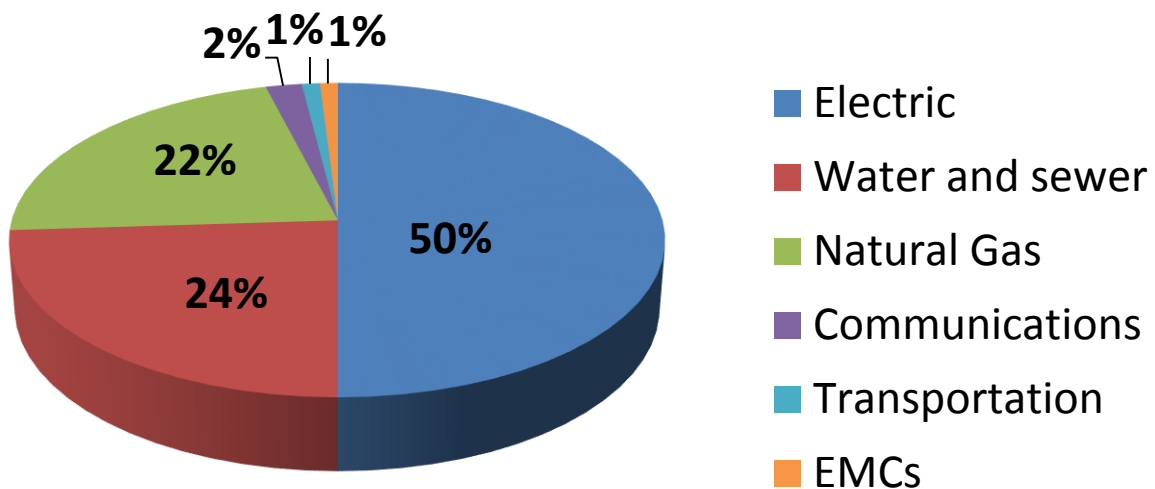
Allocation of Transportation Staff Resources

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

ACCOUNTING DIVISION

The Accounting Division 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, EE and DSM proceedings. The Accounting Division also reviews and processes the annual reports that all regulated utilities must file pursuant to statute.

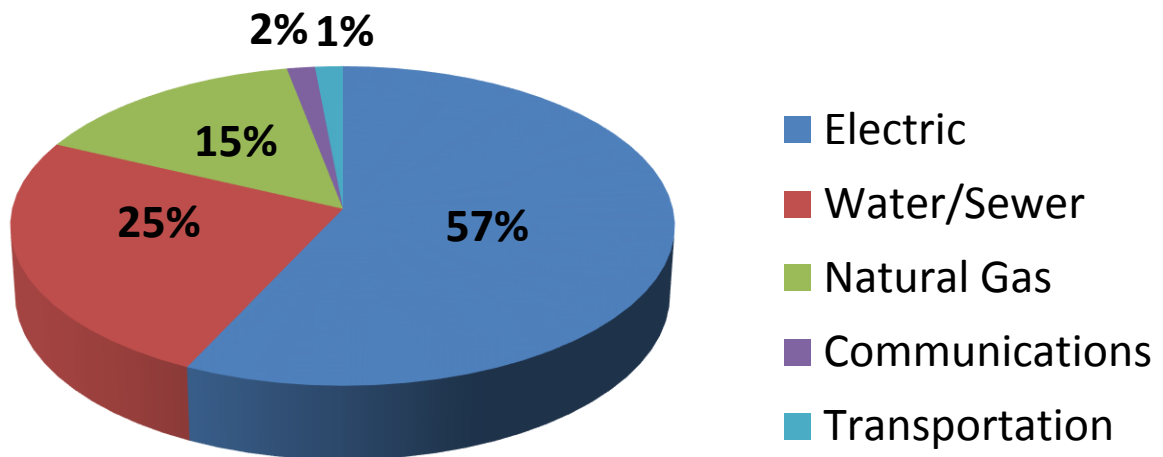
Allocation of Accounting Staff Resources



LEGAL DIVISION

The Legal Division represents the Public Staff and the using and consuming public 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



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 IRP dockets. In addition, the Economic Research Division is responsible for utility financial viability assessments and general rate case analysis, including the recommendation of cost of capital rates/structures, customer growth adjustments and decommissioning expense. The Division also provides financial analysis related to annual electric utility rider dockets, issuance of new securities, weather normalization of utility sales and statistical sampling plans for meter testing.