

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



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

**2015**

# 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:

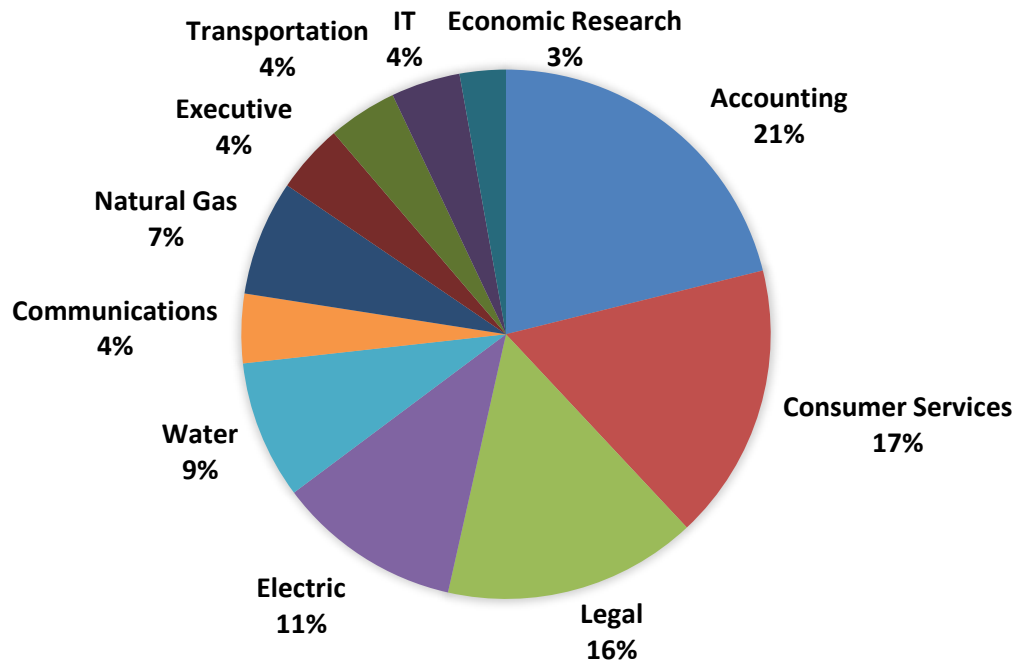
- Presenting testimony and recommendations to the Commission on behalf of regulated utility customers
- Investigating customer complaints
- Auditing regulated utilities in Commission investigations and proceedings
- Interfacing with the general public on utilities issues
- Assisting legislative staff 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, 2015, the Public Staff employed a total of seventy-one 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, 2015)

Division	Number of Employees
Accounting	15
Consumer Services	12
Legal	11
Electric	8
Water	6
Communications	3
Natural Gas	5
Executive	3
Transportation	3
IT	3
Economic Research	2

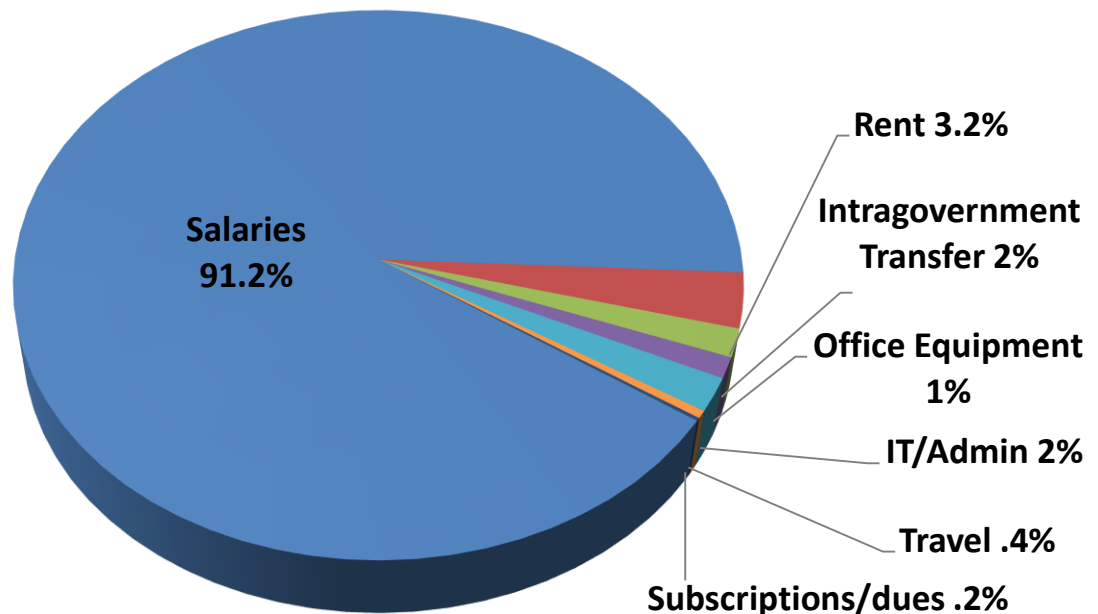


## PUBLIC STAFF BUDGET

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 2015-16, the regulatory fee was established at 0.148% 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 2015-16, the Public Staff's overall budget was approximately \$8.81 million, which represented a decrease of 3.8% resulting from the elimination of long-term vacant positions that were no longer needed. Approximately 91.2% of the Public Staff's budget is dedicated to staff salaries and benefits, totaling \$8.0 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. The remaining \$380,000 is allocated to office equipment and supplies, information technology equipment and services, training, and travel.

### FY 2015-16 PUBLIC STAFF BUDGET ALLOCATION BY EXPENSE CATEGORY



## **PUBLIC STAFF ACTIVITIES – 2015 OVERVIEW**

The Public Staff was very active on behalf of the North Carolina using and consuming public throughout 2015. The Public Staff participated in 4,548 formal proceedings before the Commission through briefs, comments, expert testimony, audits, and investigations, including appearances at 75 hearings in contested cases. The Public Staff reviewed 15,612 filings made with the Commission and 3,474 orders issued by the Commission. The Public Staff handled 13,445 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 2015 fuel proceedings resulted in the following decreases to fuel and fuel-related charges for each of the electric public utilities:

	2015 Total Fuel Rider	Decrease from prior year
<b>Dominion North Carolina Power</b>		
	¢ / kWh	
Residential	2.537	0.256
SGS & Public Authority	2.536	0.255
LGS	2.517	0.205
NS	2.440	0.245
6VP	2.487	0.247
Outdoor Lighting	2.537	0.256
Traffic	2.537	0.256
<b>Duke Energy Carolinas*</b>		
	¢ / kWh	
Residential	2.1182	0.0332
General Service/ Lighting	2.1751	0.0247
Industrial	2.2119	0.0195
<b>Duke Energy Progress</b>		
	¢ / kWh	
Residential	2.570	0.564
Small General Service	2.573	0.606
Medium General Service	2.590	0.445
Large General Service	2.631	0.320
Lighting	2.515	1.009

\*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, \$34.00; 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 as a result of the programs. The amount of these riders are determined in annual proceedings that are conducted at

the same time as the fuel proceedings. The 2015 REPS and DSM/EE annual proceedings resulted in the following rider amounts for DNCP, DEP and DEC:

	2015	2016
<b>Dominion North Carolina Power</b>		
DSM and EE Programs:	$\phi$ / kWh	
Residential	0.121	0.127
Small Gen. Service	0.070	0.087
Large Gen. Service	0.083	0.084
Industrial (6VP)	0.053	0.102
REPs:	\$ / month / account	
Residential	0.69	0.23
General Service	3.04	0.99
Industrial	20.65	6.70
<b>Duke Energy Progress</b>		
DSM and EE Programs:	$\phi$ / kWh	
Residential	0.426	0.621
Commercial / General Service	0.359	0.593
REPs:	\$ / month / account	
Residential	0.83	1.17
General Service	6.11	6.66
Industrial	24.56	60.86
<b>Duke Energy Carolinas</b>		
DSM and EE Programs:	$\phi$ / kWh	
Residential	0.5989	0.3621
All non-residential	0.3222	0.5227
REPs:	\$ / month / account	
Residential	0.39	0.54
General Service	1.22	3.55
Industrial	5.12	17.06

## 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.

Following the Commission’s December 2014 order setting avoided cost input parameters in the 2014 avoided costs proceeding, the utilities filed proposed new rates in March 2015 utilizing the guidance provided by the Commission. During this second phase of the proceeding, the Public Staff and other parties filed extensive comments on the proposed rates, the changes to standard power purchase agreement terms and conditions proposed by the utilities, and the form and content of a notice of commitment letter for the purposes of helping to establish a legally enforceable obligation on the part of both qualifying facilities and the utilities. The Commission issued an order establishing standard rates and contract terms for qualifying facilities in December 2015.

## **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. In July 2015, the Commission adopted amendments to the Rule, streamlining the requirements for IRP filings in odd-

years to updates of the biennial IRP filings made in even years. 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. No comments on the updates are filed unless allowed by the Commission.

In 2015, the Public Staff filed separate comments on the SGTPs and the IRPs filed by DEC, DEP, and DNCP, making recommendations for items that should be included in future plans. These recommendations included the following items with respect to the SGTPs: accomplishments and expenditures to date, planned projects and expenditures, cost-benefit analyses, forecasts of impacts to rates and cost of service, more information on reliability and grid security, and state-specific information.

With respect to the IRPs, the Public Staff recommended including potential scenarios for and costs of complying with the Clean Power Plan, further review of forecasting models, winter peak equations, identified DSM resources, projections of solar capacity, new DSM programs to meet winter peak demands as well as summer peak demands, and consideration of the potential for relicensing of existing nuclear units. The Public Staff also assisted 13 consumers in presenting testimony at a public hearing in Raleigh on March 9, 2015.

## **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 2015, the Public Staff reviewed the REPS compliance plans filed by DEC, DEP, and DNCP 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 (“EMC”), EnergyUnited EMC, Fayetteville Public Works Commission (“PWC”), Tennessee Valley Authority (“TVA”), and the Town of Fountain.

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 2015, the Public Staff reviewed the 2014 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 2014 REPS compliance reports of the following electric power suppliers: NCEMPA, NCMPA1, GreenCo, Halifax EMC, EnergyUnited EMC, Fayetteville PWC, TVA, and the Town of Fountain.

## **IMPLEMENTATION OF HOUSE BILL 998/S.L. 2013-316 – TAX SIMPLIFICATION AND REDUCTION ACT (Docket No. M-100, Sub 138)**

North Carolina Session Law 2013-316 (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 rates of C corporations and made changes to the gross receipts and franchise taxes. In addition, the bill increased the tax rate paid on sales of electricity and imposed a sales tax on piped natural gas. The law directed the Commission to change the rates of certain utilities to reflect the change in the gross receipts and franchise taxes, but did not specifically require the Commission to adjust rates to reflect the reduction in the corporate income tax.

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.

During 2015, the Public Staff filed numerous proposed orders for water and wastewater utilities that had not yet adjusted rates to account for the tax changes in HB 998. The Public Staff also reviewed the compliance filings of utilities to determine whether proposed tariffs accurately reflected the tax changes, and filed letters with the Commission with its recommendation.

## **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.

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 2015, 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 2015 filings and presented its findings and recommendations regarding whether the utilities' gas purchases and hedging activities were prudent and whether the utilities' property accounted for gas costs. After conducting a hearing for each LDC, the Commission issued orders approving rate increments and decrements as appropriate.

## **CHANGES TO THE NORTH CAROLINA INTERCONNECTION PROCEDURES**

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

In April 2014, the Commission initiated a proceeding to revise the North Carolina Interconnection Procedures ("NCIP") for small electricity generators. This action was in response to changes in federal interconnection procedures, the tremendous increase in renewable energy project development in North Carolina that was resulting in significant delays in the interconnection study process and construction queue, and a motion filed by the North Carolina Sustainable Energy Association seeking relief from these concerns. The Public Staff and other parties participated in an extensive stakeholder process in 2014 and 2015 to propose revisions to the NCIP to increase the efficiency and effectiveness of the process, as well as to improve the transparency of the interconnection process. On May 15, 2015, the Commission issued an Order adopting the revised provisions. Since that time, the Public Staff has continued to work on interconnection issues with the utilities and renewable energy developers.

## **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 2015, 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 and poultry set-aside requirements in N.C. Gen. Stat. § 62-133.8(e) and (f) by delaying their compliance

obligations under this requirement by one year, until 2016. 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 2015 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 reasonable opportunity for successful project execution.

The North Carolina Pork Council (“NCPC”), the North Carolina Poultry Federation (NCPF), the North Carolina Sustainable Energy Association (“NCSEA”), Optima KV, LLC, and the Public Staff submitted separate comments on the joint motion. None of the commenters opposed the requested delay. The Public Staff recommended that the Commission delay the Joint Movants’ need to comply with the swine waste set-aside requirement of N.C. Gen. Stat. § 62-133.8(e) until calendar year 2016 and modify the requirements of N.C. Gen. Stat. § 62-133.8(f) to maintain the poultry waste set-aside requirement at 170,000 MWh for calendar year 2015.

On December 1, 2015, the Commission issued an Order finding that the State’s electric power suppliers had made reasonable efforts to comply with the 2015 statewide swine waste set-aside requirement, as previously modified by the Commission in 2012, 2013, and 2014, 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 2015 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 2015 poultry waste set-aside requirement of N.C. Gen. Stat. § 62-133.8(f), as modified by the Commission in 2013, should be modified to maintain the same level as the 2014 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 that had previously been subject to tri-annual reporting requirements to continue to file reports on a semiannual basis until the Commission orders that they be discontinued. Finally, the Commission directed the Public Staff to arrange and facilitate two stakeholder meetings during 2016.

## **INTEGRITY MANAGEMENT RIDER (“IMR”)**

**(Docket Nos. G-9, Subs 631, 642, and 680)**

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. The Commission concluded that without the mechanism, the estimated expense of compliance with federal pipeline safety regulations would require regular and repeated general rate case proceedings. 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.

In September 2015, Piedmont and the Public Staff entered into a Stipulation and Settlement Agreement, which provided for adjustments to the IMR processes and procedures, including both presumptive levels of cost disallowance and a bi-annual surcharge mechanism. The presumptive levels of cost disallowance are intended to reduce the level of costs charged to customers through the IMR and to ensure such costs were limited to non-pipeline safety expenses. In November 2015, the Commission accepted the Stipulation and authorized Piedmont to implement the changes to its IMR tariff and procedures accordingly.

The revised IMR mechanism requires that Piedmont file an annual report summarizing the Integrity Management (IM) Plant Investment for the prior 12-month period ending September 30<sup>th</sup> and the data substantiating and supporting its Integrity Management Revenue Requirement calculation for the next bi-annual Integrity Management Adjustment. On November 2, 2015, Piedmont filed its projected three-year plan of IM Plant Investment and computations of the IMR rate adjustments that Piedmont proposed to implement effective December 1, 2015. On November 16, 2015, Piedmont filed its proposed IMR rate adjustments, including an increment to collect the October 31, 2015, balance in the IM Deferred Account. The proposed IMR rate adjustments, expressed in dollars per dekatherm (\$/dt), are as follows:

Description	Residential Rate 101	Small & Medium General	Firm Large General Rate 103, 113, 12	Interruptible Large Rate 104, 114
		Rate 102, 142, 152	T-10, T-12	
Rate Class Percentage	64.64%	29.43%	2.67%	3.26%
Net IMRR for Recovery	\$26,449,200	\$12,042,079	\$1,092,503	\$1,333,917
IM Deferred Account	\$1,422,500	\$647,651	\$58,757	\$71,741
Total	\$27,871,700	\$12,689,730	\$1,151,260	\$1,405,658
Rate Case Volumes	36,504,751	27,448,263	30,188,509	34,669,378
IMR Increment per dt	\$0.7635	\$0.4623	\$0.0381	\$0.0405

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

## 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.

For Aqua NC’s investment in eligible projects completed and in service in 2015, the Commission approved on a provisional basis WSIC annual revenues of \$413,829, a 1.10% rate increase, and SSIC annual revenues of \$86,858, a .68% rate increase. By separate orders, the Commission also authorized Aqua NC to implement 17 filtration projects to comply with secondary drinking water standards. Costs associated with these projects will be eligible for WSIC rate adjustments once the projects are complete and serving customers. The majority of the filtration projects were designed to address high levels of iron and manganese in water supplied to customers. The estimated capital cost associated with these projects is \$3.2 to \$3.4 million.

For CWSNC’s investment in eligible projects in 2015, the Commission approved on a provisional basis WSIC annual revenues of \$17,200, a .18% rate increase, and SSIC annual revenues of \$47,062, a .81% rate increase.

## **CAMP LEJEUNE SOLAR FACILITY**

### **(Docket No. E-2, Sub 1063)**

On February 2, 2015, DEP filed an application for a certificate of public convenience and necessity ("CPCN") to construct a 12.8-MW solar photovoltaic electric generating facility to be located at Marine Corps Base Camp Lejeune, Jacksonville, Onslow County, North Carolina ("Camp Lejeune"). The Camp Lejeune project supports Duke's goal of procuring 300 MW of solar energy resources established in DEP and DEC's 2014 joint request for proposals. The 12.8 MW would bring the total solar generation capacity to approximately 291 MW delivered in 2015, assuming that all the selected projects from the RFP are completed. Additionally, the timing of the project would allow DEP to leverage both the North Carolina Energy Tax Credit as well as the federal Investment Tax Credit.

The Public Staff investigated the application and recommended approval, subject to conditions designed to protect ratepayers and addressing DEP's analysis of the cost effectiveness of the Camp Lejeune facility as it relates to actual revenue requirements associated with the facility. DEP agreed with the Public Staff's recommended conditions, and on April 14, 2015, the Commission entered an Order granting the CPCN, subject to the conditions recommended by the Public Staff.

## **SUTTON BLACKSTART CT PROJECT**

### **(Docket No. E-2, Sub 1066)**

On April 15, 2015, DEP filed an application for a CPCN to construct two new nominal 42-MW simple-cycle combustion turbine ("CT") dual-fuel electric generating units to be located at its existing L.V. Sutton Energy Complex, located in New Hanover County near Wilmington, North Carolina. The project was designed to provide three important functions in the unlikely event of a system blackout: 1) to restore the transmission system, 2) to provide offsite power to the Brunswick Nuclear Plant, and 3) to comply with related North American Electric Reliability Corporation ("NERC") Reliability Standards. The project was also designed to provide fast-start capability that the existing CT units at Sutton do not have, thereby providing additional resources for DEP to meet NERC contingency reserve requirements. The Public Staff investigated the application and filed a joint proposed order with DEP to approve the project.

By Order dated August 3, 2015, the Commission approved the project and issued the CPCN, subject to the condition that DEP retire existing Sutton CT Units 1, 2A and 2B no later than the commercial operation of the project. In its Order, the Commission found that the project will provide substantial benefits to DEP's system and is the best resource option for the 2017 timeframe in light of the critical nature and function of the existing 1960s Sutton CT units that are nearing the end of their useful life, as well as the voltage, reliability and reserve requirements DEP must meet in the face of uncertain future system conditions.



## **NCEMPA CPCN AND ASSET TRANSFER JOINT AGENCY ASSET RIDER RULEMAKING AND PROCEEDING**

**(Docket Nos. E-2, Sub 1067; E-48, Sub 8; E-100, Sub 144; E-2, Sub 1088)**

Senate Bill 305 (S.L. 2015-3) enacted N.C. Gen. Stat. § 62-133.14. In summary, N.C. Gen. Stat. § 62-133.14 provides for the recovery of costs incurred by an electric utility to acquire, operate, and maintain interests in electric generating facilities purchased from a joint municipal agency. Pursuant to N.C. Gen. Stat. § 62-133.14(a), the Commission adopted a new rule proposed by the Public Staff and DEP to implement the provisions new statute.

On April 13, 2015, DEP and NCEMPA filed a joint notice and request for approval of the planned transfer to DEP of NCEMPA's CPCN and ownership interests in five generating facilities, which consisted of undivided interests of 18.33% in the Brunswick Steam Electric Plant, 12.94% in the Roxboro Steam Electric Plant, 16.17% in the Mayo Electric Generating Plant, and 16.17% in the Shearon Harris Nuclear Power Plant (collectively, Joint Units). On May 12, 2015, the Commission issued an Order approving the transfer of NCEMPA's ownership interests in the Joint Units to DEP.

On September 29, 2015, DEP filed an application to establish its initial Joint Agency Asset Rider ("JAAR") pursuant to N.C. Gen. Stat. § 62-133.14 and Commission Rule R8-70. In its application, DEP requested a total increase of \$65.797 million in its North Carolina retail revenue requirement, including regulatory fee, for the period December 1, 2015, through November 30, 2016, associated with the acquisition of NCEMPA's undivided ownership interest in the Joint Units. On November 19, 2015, the Commission entered an Order approving the JAAR as requested.

## **WESTERN CAROLINAS MODERNIZATION PROJECT (Docket No. E-2, Sub 1089)**

The DEP-Western Region, which includes Asheville, is an energy island in that there is insufficient local generation to meet peak demand, and the transmission facilities into DEP-West are significantly constrained so as to limit the import of additional energy. This constraint led DEP to propose the construction of a 733 MW two-by-one natural gas-fired combined cycle ("CC") generating unit at the site of its existing Asheville coal units and a 45-mile 230 kV transmission line, known as the Foothills Transmission Line, from Asheville to Campobello, South Carolina. This proposal was met with significant opposition from residents in the affected counties. DEP received more than 9,000 comments regarding the proposed line, and hundreds of statements of position were filed with the Commission in Docket No. E-2, Sub 1083. In response to the extremely high level of interest in the project, the Public Staff conducted an informational session with residents in September 2015. At the meeting, DEP staff answered questions posed by the Public Staff concerning the line, and residents spoke regarding their concerns. In

response to the significant opposition from residents, DEP made the decision in November to cancel the proposed Foothills Transmission Line project.

Cancellation of the Foothills Transmission Line required the development of an alternative configuration that could meet NERC reliability standards, while continuing to satisfy future load growth in the DEP-Western Region. On December 16, 2015, DEP filed a letter with the Commission giving notice of its intent to file an application on or after January 15, 2016, for a CPCN to construct a 752 MW natural gas-fired electric generation facility consisting of two new natural gas-fired 280 MW (winter rating) CC units and a contingent natural gas-fired 192 MW (winter rating) simple cycle CT unit, each with fuel back up, in Buncombe County near Asheville.

The notice of intent was filed pursuant to Section 1 of the Mountain Energy Act, Session Law 2015-110, which provides for an expedited decision on a CPCN for a natural gas-fired generating facility that meets the following criteria:

- (1) The application for a certificate is for a generating facility to be constructed at the site of the Asheville Steam Electric Generating Plant located in Buncombe County.

- (2) The public utility will permanently cease operations of all coal-fired generating units at the site on or before the commercial operation of the generating unit that is the subject of the certificate application.

- (3) The new natural gas-fired generating facility has no more than twice the generation capacity as the coal-fired generating units to be retired.

On December 18, 2015, the Commission issued an Order scheduling a public hearing in Asheville and directing the Public Staff to investigate the application and present its findings, conclusions, and recommendations at the Commission's Regular Staff Conference on February 22, 2016.

On January 15, 2016, DEP filed an application for the CPCN. A number of parties intervened and filed comments, and the Commission received the testimony of 51 members of the public during the hearing in Asheville. On February 22, 2016, the Public Staff presented its findings and recommendations as directed. The Public Staff found that granting DEP's request for a CPCN for the CC units would accomplish the purpose of the Mountain Energy Act and is otherwise required by the public convenience and necessity, and therefore recommended issuance of a CPCN for the two-280 MW CC units, with conditions, including a condition that the coal units at the Asheville Plant be retired upon the commercial operation of the CC units. However, the Public Staff recommended that the Commission not grant a CPCN for the 186 MW CT at this time.

On February 29, 2016, the Commission issued a notice of its decision to grant a CPCN for the CC units but not the CT unit. On March 28, 2016, the Commission entered its Order granting the CPCN for the CC units, essentially agreeing with the Public Staff that while DEP had shown that the public convenience and necessity requires issuance

of the CPCN for the CC units, the public convenience and necessity standard had not been met for the CT unit.

Two of the intervenors have given notice of appeal.

### **CWSNC GENERAL RATE CASE** **(Docket No. W-354, Sub 344)**

On March 31, 2015, CWSNC filed an application for authority to increase and adjust its rates for water and sewer utility service in all of its service areas in North Carolina. By its application, CWSNC initially requested a total annual revenue increase of \$3,642,251, a 22.25% increase over the total revenue level generated by the rates then in effect.

Public hearings were held in Jacksonville, Currituck, Raleigh, Charlotte, Boone, and Asheville, and a total of 28 customers testified. CWSNC, the Public Staff, and the intervenor in the case, Corolla Light Community Association, Inc., filed stipulations agreeing to a total annual revenue increase of \$2,737,728, a 16.11% increase in total revenue. On December 7, 2015, the Commission entered an Order adopting the stipulations and requiring customer notice.

### **CWS SYSTEMS GENERAL RATE CASE** **(Docket No. W-778, Sub 91)**

On June 29, 2015, CWS Systems, Inc. ("CWSS") filed an application seeking authority to increase and adjust its rates and charges for water and sewer utility service in all of its service areas in North Carolina and for approval of a WISC/SSIC mechanism pursuant to N.C. Gen. Stat. § 62-133.12. CWSS has six service areas spanning portions of nine counties. By its application, CWSS requested a total increase in annual operating revenue of \$920,325, a 21.36% increase over the total revenue level generated by the rates then in effect.

Public hearings were held in Raleigh, Wilmington, New Bern, Brevard, Sylva, and Rutherfordton, and a total of nine customers testified. Through stipulations between the Public Staff and CWSS, the parties agreed on an increase in CWSS's annual operating revenue of \$341,765, a 7.68% increase. On February 24, 2016, the Commission approved the stipulations and required customer notice. The Commission also approved CWSS's request for a WSIC/SSIC mechanism.

### **SUPREME COURT CASES IN WHICH THE PUBLIC STAFF PARTICIPATED**

- *State of N.C. ex rel. Utilities Commission v. Cooper*, 368 N.C. 216, 775 S.E.2d 809 (2015) – Aqua NC general rate case

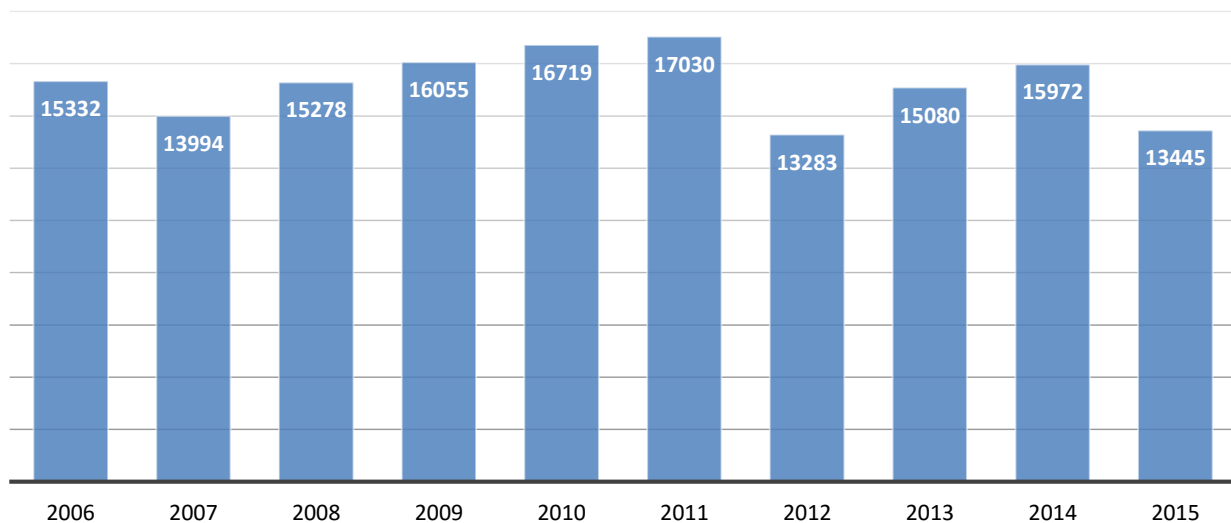
## CONSUMER SERVICES DIVISION

The Consumer Services Division facilitates the resolution of disputes between consumers and regulated utilities.<sup>1</sup> 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 quality of service issues, billing disputes, pending disconnections, and assistance in establishing alternative payment arrangements. In 2015,<sup>2</sup> the Public Staff saw a decrease in the number of overall complaints and inquiries. While the majority of the complaints are resolved informally, a small percentage 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, 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 13,445 complaints and inquiries during 2015. This represented a 16% decrease over the prior year.

### Annual Complaints/Inquiries Received



<sup>1</sup> 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.

<sup>2</sup> The numbers for November and December are estimated due to a database crash resulting in a partial data loss.

## CONSUMER COMPLAINTS/INQUIRIES BY INDUSTRY

Industry	Complaints	Utility	Complaints
Electric	11,378		
		Duke Energy Carolinas	6,142
		Duke Energy Progress	4,919
		Dominion NC Power	286
		Other	31
Natural Gas	519		
		Piedmont	383
		PSNC	136
Telecommunications	642		
		AT&T	292
		Frontier	94
		CenturyLink	130
		Windstream	24
		Time Warner	54
		Other	48
Water/Sewer	428		
		Aqua	192
		Water resellers	94
		Carolina Water Service	49
		Other	93
Other	478		

## **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, IRP, and review of renewable energy facility applications. Engineers in the Division work with the Consumer Services Division to resolve electric service complaints.

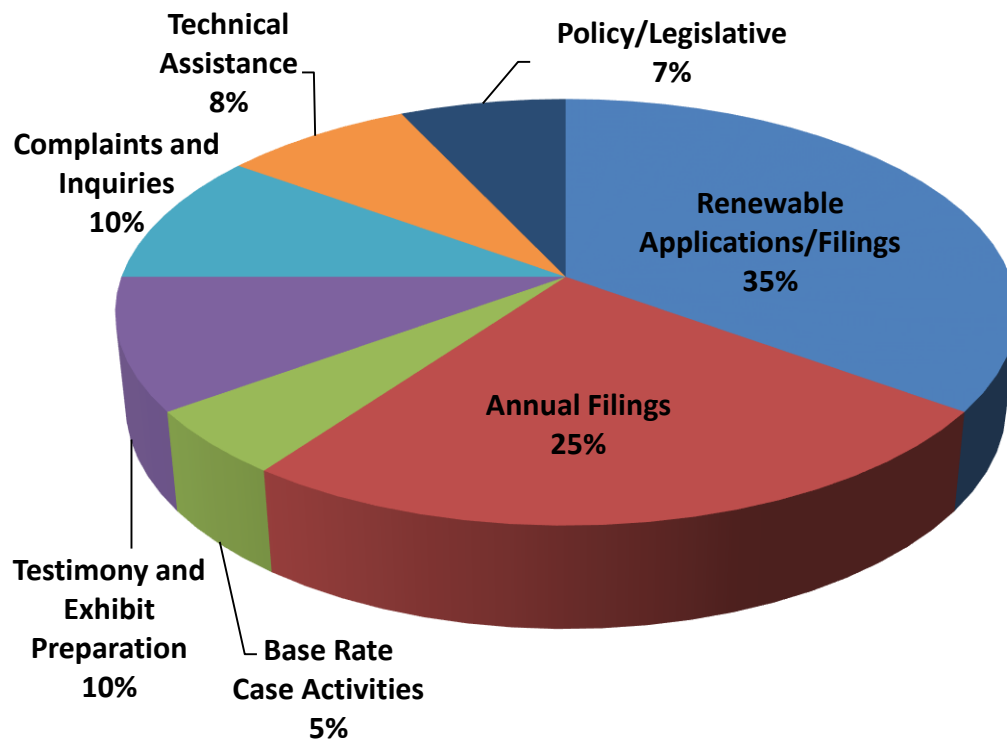
Small power producers and renewable energy facilities require certification by the Commission prior to commencing operation in the State. The Electric Division reviews and processes applications and makes recommendations to the Commission related to these facilities. In 2015, the Public Staff reviewed approximately 2,800 applications for certification. As of December 31, 2015, DEP had 2,243 interconnected solar systems representing 867 MW; DEC had 2,077 interconnected solar systems representing 317 MW; and DNCP had 38 interconnected solar projects representing 82 MW. As of March 31, 2016, there were approximately 2,100 MW of proposed QF projects in DEP's territory; 600 MW of proposed QF projects in DEC's territory; and 301 MW of proposed QF projects in DNCP's territory.

The Electric Division 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, as discussed earlier in this Report.

### 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%

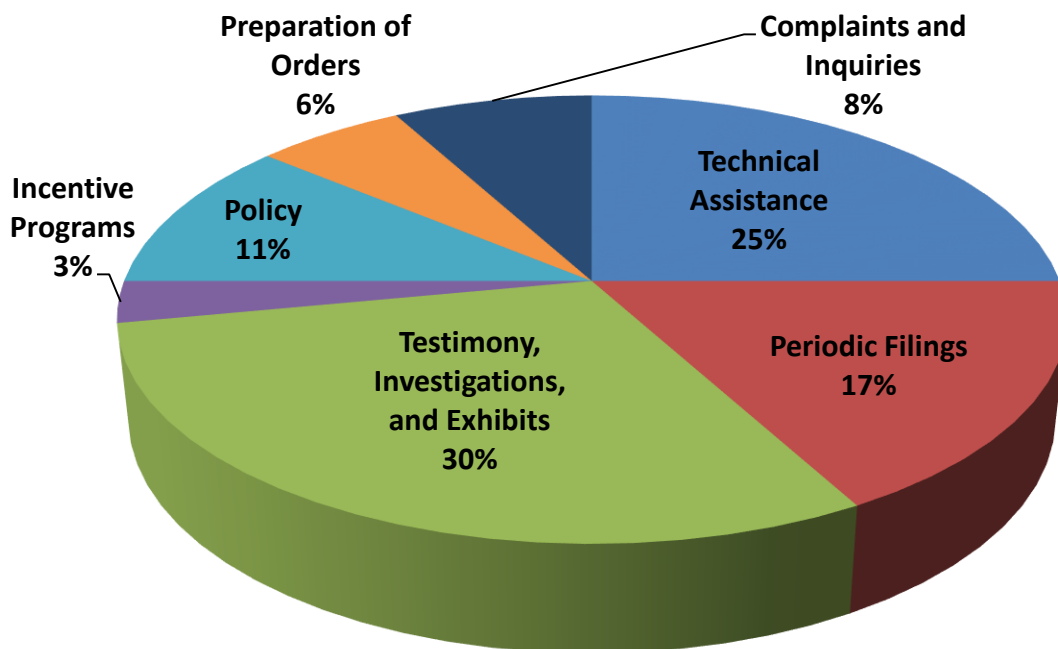
### Allocation of Electric Staff Resources (by Task)



## 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 2015, the Division handled over 1,176 filings.

### **Allocation of Water and Sewer Staff Resources**

Traditional water and wastewater utility rate case investigations/audits/inspections and presentations before the NCUC	57%
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	23%
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	3%
Investigation/resolution of water quality issues	6%

## **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 at the Federal Communications Division and responds 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 2015, the Communications Division reviewed over 1,350 filings, 65% of which were retail and 35% of which were wholesale. 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

The Communications Division also provided assistance to consumers with bundled offerings (regulated and non-regulated) and the Lifeline/Linkup Program and the 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 2015, there were 274 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 112 customer complaints and responded to 363 inquiries related to household goods movers and other transportation matters received by the Public Staff in 2015.

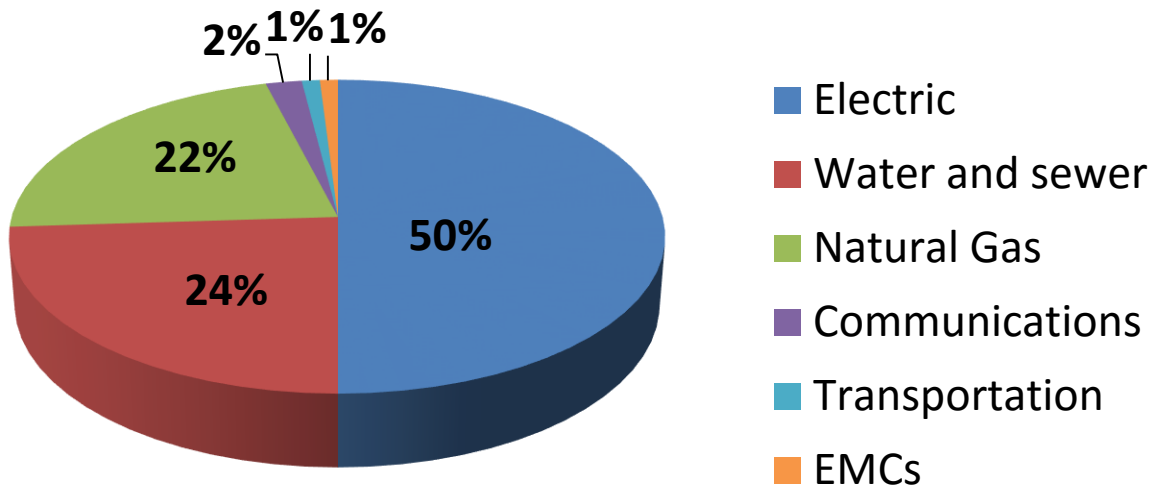
### Allocation of Transportation Staff Resources

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

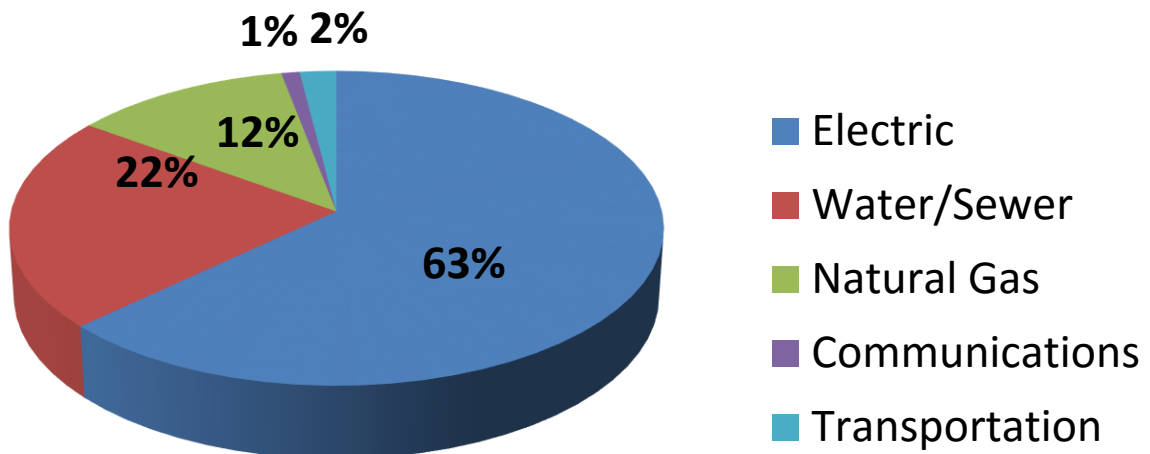
### Allocation of Accounting Staff Resources



## 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. The Legal Division also provides research on utility matters 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 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 70% 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, issuances of new securities, weather normalization of utility sales, and statistical sampling plans for meter testing.