North Carolina’s Public Utility Infrastructure & Regulatory Climate

Presented by

NORTH CAROLINA UTILITIES COMMISSION

www.ncuc.net
Who We Are

NORTH CAROLINA UTILITIES COMMISSION

Dobbs Building, 430 North Salisbury Street  27603-5918
4325 Mail Service Center, Raleigh, North Carolina 27699-4300
www.ncuc.net    Phone: 919-733-4249    Fax: 919-733-7300

Commissioners

Edward S. Finley, Jr., Chairman

Bryan E. Beatty
ToNola D. Brown-Bland
Don M. Bailey

Jerry C. Dockham
James G. Patterson
Lyons Gray
• Established in the Commission is the Public Staff, an independent agency created in 1977 by legislation. *(G.S. 62-15)*

• Represents the Using and Consuming Public of the State’s investor-owned public utilities and intervenes on their behalf in all Commission proceedings affecting rates or service.

**Christopher J. Ayers, Executive Director**

Dobbs Building, 430 North Salisbury Street  27603-5918
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Phone: 919-733-9277    Toll Free: 1-866-380-9816    Fax: 919-733-4744
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Regulation of Public Utilities

- Purpose: protect the public’s interest in receiving adequate service at reasonable rates.
- Traditional regulatory bargain: utilities exchange benefit of monopoly franchised service territory for obligation to provide adequate service at reasonable rates.
- Commission’s regulatory obligation: to be fair and reasonable to public utilities and their customers.
- Commission’s regulatory tools:
  - certification of new facilities
  - rate establishment or review
  - service quality oversight
- Recent trends: regulation of certain utility industries and services by the Commission has become more complex due to changes in State and Federal law and rules, and industry trends. Certain utility services have been fully or partially deregulated.
History of NC Utilities Commission

• Oldest regulatory body in state government: evolved from Railroad Commission (1891) to Corporation Commission (1899) to Utilities Commission (1933)

• History of significant legislative grants of, or limitation on, regulatory authority:
  - Railroad – 1891
  - Telephone – 1893
  - Electric, Gas, & Water – 1913
  - Wastewater – 1917
  - Housing – 1935
  - Hospitals – 1943
  - Buses/Brokers – 1949
  - Motor Carriers & Ferries – 1963
  - Electric Generation – 1965
  - Electric Membership Cooperatives – 1965
  - Payphone Service Providers – 1985
  - Long Distance Telephone Competition – 1985
  - Telephone Shared Tenant Service – 1987
  - Local Telephone Competition – 1995
  - Railroad Transferred to Dept. of Transportation – 1996
  - Water/Wastewater Resale – 1996
  - Charter Bus Deregulation – 1998
  - Long Distance Telephone Rate Deregulation – 2003
  - Electric Resale – 2011
NCUC Organization

- Administrative agency of General Assembly; legislative oversight by House Committee on Public Utilities, Senate Committee on Commerce, and Joint Legislative Commission on Governmental Operations.

- Seven members: appointed by Governor, subject to confirmation by General Assembly. Terms of four Commissioners now serving are staggered, remaining portions of eight-year terms. Terms of three most recently appointed Commissioners are six-year terms. (*G.S. 62-10*)

- Chairman: appointed by Governor, four-year term, organizes Commission’s work. *Ex officio* member of Geographic Information Coordinating Council. Membership responsibilities currently shared among Commissioners. (*G.S. 62-12, 13*)
NCUC Organization cont.

- Commissioners are subject to standards of judicial conduct and prohibited by law from engaging in any other employment, business or profession while in office (G.S. 62-10[i])
- Commission employs up to 60 people, current staffing is 55, organized among three divisions:
  - Legal & Administrative, Operations, and Fiscal Management
- Certified FY2016 annual budget: $7,555,374
  - NCUC budget: $ 6,922,318
  - Gas Pipeline Safety budget: $ 633,056
- Gas Pipeline Safety is housed in the Commission and receives partial federal reimbursement
- NCUC is a fee-funded agency, supported by regulatory fee percentage established by General Assembly annually and applied to the jurisdictional revenues of public utilities (G.S. 62-302)
- The Public Staff maintains its own budget which is separate from the Commission’s budget but it is funded by the same regulatory fee
NCUC’s Responsibilities & Procedures

• For the 12-Month Period Ending 6/30/16:
  — 4,099 formal proceedings instituted before NCUC
  — 76 hearings in contested cases
  — 14,201 filings in Chief Clerk’s office
  — 3,249 orders issued
  — 706 open dockets as of 6/30/16

• Appeals from general rate case decisions to NC Supreme Court; all others to NC Court of Appeals (absent federal jurisdiction)

• NCUC conducts proceedings pursuant to federal law and participates in proceedings before federal courts and regulatory agencies (G.S. 62-48)
• Publication requirements (G.S. 62-17):
  — Annual reports to Governor include copies of general orders, regulations, comparative statistical data, rate comparisons, report of pending matters, and digest of principal decisions
  — Final decisions on merits in formal proceedings

• Limited jurisdiction over municipalities and cooperatives
### Regulated Entities

<table>
<thead>
<tr>
<th>Category</th>
<th>QTY</th>
</tr>
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<tbody>
<tr>
<td>BUS / BROKER</td>
<td>13</td>
</tr>
<tr>
<td>ELECTRIC</td>
<td>5</td>
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<tr>
<td>ELECTRIC COOPERATIVES</td>
<td>31</td>
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<tr>
<td>ELECTRIC MERCHANT PLANTS</td>
<td>10</td>
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<tr>
<td>ELECTRIC RESELLER</td>
<td>44</td>
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<tr>
<td>FERRIES</td>
<td>9</td>
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<tr>
<td>MOTOR CARRIERS OF HOUSEHOLD GOODS</td>
<td>286</td>
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<tr>
<td><strong>NATURAL GAS:</strong></td>
<td></td>
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<tr>
<td>– LOCAL DISTRIBUTION COMPANIES</td>
<td>5</td>
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<tr>
<td>– INTRASTATE PIPELINE</td>
<td>1</td>
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<tr>
<td><strong>SMALL POWER PRODUCERS</strong></td>
<td>902</td>
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<tr>
<td><strong>TELEPHONE:</strong></td>
<td></td>
</tr>
<tr>
<td>– COMPETING LOCAL PROVIDERS</td>
<td>169</td>
</tr>
<tr>
<td>– INCUMBENT LOCAL EXCHANGE COMPANIES</td>
<td>16</td>
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<tr>
<td>– LONG DISTANCE CARRIERS</td>
<td>267</td>
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<tr>
<td>– PAYPHONE SERVICE PROVIDERS</td>
<td>55</td>
</tr>
<tr>
<td>– SHARED TENANT SERVICES</td>
<td>16</td>
</tr>
<tr>
<td><strong>WATER / WASTEWATER</strong></td>
<td>108</td>
</tr>
<tr>
<td><strong>WATER / WASTEWATER RESELLERS</strong></td>
<td>1,185</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>3,122</td>
</tr>
</tbody>
</table>
Industry Revenue Profile

- FY2015 Jurisdictional Revenues: $11.74 billion
  - Electric: $8.78 billion
  - Telecommunications: $1.30 billion
    - Includes Local and Long Distance Telephone Companies, Payphone Service Providers, and Shared Tenant Service Providers
  - Natural Gas: $1.40 billion
  - Water and Wastewater: $175.2 million
    - Includes Water/Wastewater Resale Companies
  - Transportation: $82.0 million
    - Includes Brokers, Buses, Ferries, and Household Goods (HHG) Carriers
Filings & Orders by Industry Group

(For the 12-Month Period Ending 6/30/16)

<table>
<thead>
<tr>
<th>Industry Group</th>
<th>Filings</th>
<th>Orders</th>
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</thead>
<tbody>
<tr>
<td>Electric</td>
<td>1,792</td>
<td>462</td>
</tr>
<tr>
<td>Telephone</td>
<td>1,042</td>
<td>127</td>
</tr>
<tr>
<td>Natural Gas</td>
<td>611</td>
<td>88</td>
</tr>
<tr>
<td>Water/Wastewater</td>
<td>3,138</td>
<td>1,425</td>
</tr>
<tr>
<td>Household Goods Carriers</td>
<td>1,044</td>
<td>206</td>
</tr>
<tr>
<td>Small Power Producers</td>
<td>5,836</td>
<td>776</td>
</tr>
<tr>
<td>Other (Bus/Broker, Electric Merchant Plant, EMC, Ferry, Payphone Provider, Renewable Energy Facilities, &amp; Misc.)</td>
<td>738</td>
<td>165</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>14,201</strong></td>
<td><strong>3,249</strong></td>
</tr>
</tbody>
</table>
Filings by Industry Group

(For the 12-Month Period Ending 6/30/16)

- Natural Gas
- Electric
- Water/Wastewater
- Telephone
- HHG Carriers
- Small Power Producers
- Other
Orders by Industry Group

(For the 12-Month Period Ending 6/30/16)
Industry Specific Overview

• I Electric
• II Natural Gas
• III Telecommunications
• IV Transportation
• V Water and Wastewater
• VI Selected Financial and Operational Data
I Electric
Basic Facts: Regulated Electric Utilities

• 3 Investor-Owned Utilities (IOUs)
  – Duke Energy Carolinas – 1,921,000 customers in Piedmont and Western North Carolina
  – Duke Energy Progress – 1,339,000 customers in Eastern and Western North Carolina
  – Dominion NC Power – 120,000 customers in Northeastern North Carolina
EMC, Municipal-Owned, & University-Owned

- 31 Electric Membership Corporations (EMCs) – 1,071,000 customers
- About 75 Municipal and University-owned electric distribution systems – 587,000 customers
- Limited NCUC jurisdiction: EMCs, Munis, and certain University systems
  - Monitor subsidiary business activities of EMCs to prevent subsidization by electric customers (G.S. 117-18.1)
  - EMC territorial assignment issues (G.S. 62-110.2)
  - Certification authority for construction of electric generating facilities (G.S. 62-110.1) and electric transmission lines of 161 + kV (G.S. 62-101)
  - Adjudicate pole attachment disputes (G.S. 62-350)
  - Safety jurisdiction over gas pipeline facilities operated by municipalities and similar entities (G.S. 62-50)
  - Rates charged to customers of New River Light and Power (Boone) and Western Carolina University (Cullowhee) are regulated by the Commission
North Carolina Electric IOU Service Area Map

SERVICE TERRITORIES
(counties served)

- Duke Energy Carolinas
- Duke Energy Progress
- Duke Energy Carolinas/
  Duke Energy Progress overlapping counties
- Dominion North Carolina Power
- Dominion North Carolina Power/
  Duke Energy Progress overlapping counties
Duke Energy’s Carolinas and Progress NC & SC Service Areas
Dominion NC Power
NC & VA Service Area
Duke Energy Carolinas
Typical Residential 1,000 kWh Monthly Bill
Total $107.24

JULY 2016

Fuel & Variable O&M
$25.71
24%

Customer Costs
$21.25
20%

Distribution
$9.28
9%

Transmission
$3.68
3%

Fixed Production
$47.32
44%
Duke Energy Progress
Typical Residential 1,000 kWh Monthly Bill
Total $110.04

Customer Costs
$20.96
19%

Fuel & Variable O&M
$43.69
40%

Distribution
$7.41
7%

Transmission
$3.75
3%

Fixed Production
$34.23
31%

JULY 2016
Dominion NC Power
Typical Residential 1,000 kWh Monthly Bill
Total $105.83

JANUARY 2016

- Production: $44.44 (42%)
- Distribution: $21.91 (21%)
- Transmission: $3.15 (3%)
- Fuel: $25.37 (24%)
- Customer Costs: $10.96 (10%)

Total bill: $105.83
Generating Capacity by Fuel Type

- Duke Energy Progress
- Duke Energy Carolinas
- Dominion

- Coal
- Nuclear
- Natural Gas & Oil
- Hydroelectric
- Non-Hydro Renewable
## Projected Reserve Margins Through 2029

<table>
<thead>
<tr>
<th>Company</th>
<th>Reserve Margins</th>
</tr>
</thead>
<tbody>
<tr>
<td>Duke Energy Progress</td>
<td>15.2% – 21.1%</td>
</tr>
<tr>
<td>Duke Energy Carolinas</td>
<td>15.0% – 22.7%</td>
</tr>
<tr>
<td>Dominion</td>
<td>11.2% – 17.4%</td>
</tr>
</tbody>
</table>
• In 2007, North Carolina became the first State in Southeast to adopt a renewable energy portfolio standard – Session Law 2007-397 (Senate Bill 3)

• REPS requirement may be met through combination of renewable energy generation and energy efficiency savings

• REPS requirement applies to investor-owned electric utilities (electric public utilities), electric membership corporations, and municipal utilities

• REPS requirement increases from 3% of customer electricity use in 2012 to 12.5% by 2021 (for electric public utilities)

• Specific requirements for energy derived from the sun and from poultry and swine waste, with solar requirement that began in 2010

• Cap on incremental cost of compliance, including annual rate adjustments for investor-owned utilities

• Legislation adopting REPS also provides timely cost recovery for new demand-side management programs and energy efficiency measures by electric public utilities, including the opportunity for utility incentives

• The Commission has approved about 1,280 renewable energy facilities, and a third-party renewable energy certificate (REC) tracking system became operational in 2010
II Natural Gas
Basic Facts: Industry Structure

• Three parts of natural gas industry
  — Exploration and Production (E&P)
  — Interstate pipelines and storage facilities
  — Local Distribution Companies (LDCs)

• E&P companies are not price-regulated

• Interstate companies are regulated by FERC (Federal Energy Regulatory Commission)

• LDCs are regulated by state commissions
Natural Gas Utilities

• 4 Local Distribution Companies (LDCs) in the state
  — Piedmont Natural Gas Company, Inc.
  — PSNC Energy
  — Frontier Natural Gas Company, LLC
  — Toccoa Natural Gas

• 1 Intrastate Gas Pipeline (Cardinal Pipeline Company, LLC)

• 8 Municipal Gas Systems – rates not regulated by NCUC

• 1 Interstate Gas Pipeline (Transco) crosses the State
  — 2 others (Columbia and Patriot) provide small volumes
  — Atlantic Coast Pipeline to cross the State in late 2018

• 1 interstate liquefied natural gas storage facility
  (Pine Needle LNG Company, LLC)
Local Distribution Companies’ Service Territories
Major Local Distribution Companies’
Number of Customers

(As of 3/31/16)

<table>
<thead>
<tr>
<th></th>
<th>Residential</th>
<th>Commercial</th>
<th>Industrial</th>
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<tbody>
<tr>
<td>Piedmont</td>
<td>653,789</td>
<td>69,155</td>
<td>1,707</td>
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<tr>
<td>PSNC</td>
<td>494,055</td>
<td>43,763</td>
<td>685</td>
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</table>
Major Local Distribution Companies’ Volumes Delivered
(In Millions of Dekatherms)

(12-Month Period Ending 3/31/16)

<table>
<thead>
<tr>
<th></th>
<th>Piedmont</th>
<th>PSNC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Residential</td>
<td>32.5</td>
<td>24.6</td>
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<tr>
<td>Commercial</td>
<td>27.5</td>
<td>13.5</td>
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<tr>
<td>Industrial</td>
<td>359.3</td>
<td>48.5</td>
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</table>

Note: “Industrial” volumes include deliveries to gas-fired electric generators; Piedmont’s “Industrial” volumes include deliveries for resale to municipal gas systems.
Rates

- NCUC establishes level of base rates in a general rate case
- LDCs earn a return on equity invested
  - Pass through prudently incurred costs
- LDCs may file purchased gas adjustments at any time
  - To adjust gas cost portion of rates prospectively
  - To pass through the wholesale cost of natural gas
  - LDCs do not profit from high gas prices
- NCUC annually reviews each LDC’s gas purchasing practices
  - Compares prudently incurred costs to costs recovered
  - Changes rates to “true up” under-recoveries or over-recoveries
State Regulatory Framework
For Local Distribution Companies cont.

Tracker Mechanisms

• Laws allow for certain costs to be recovered outside of a rate case
  — G.S. 62-133.7 – customer usage adjustment
  — G.S. 62-133.7A – safety-related capital expenditure adjustment

• G.S. 62-133.7 – Lets LDCs adjust rates to track customer usage
  — Without this, reduced usage would cause LDCs to under-recover margin
  — Would punish LDCs for promoting conservation and efficiency
  — Tracker allows for rate adjustments to recover rate case margins

• G.S. 62-133.7A. – Lets LDCs put safety-related investments in rate base
  — Federal pipeline safety laws and regulations require major investments
  — Without this, LDCs might have to file frequent “pancaked” rate cases
Current Issues: Growing, Changing Market

• U.S. natural gas production is at a four-decade high
  — New shale plays have greatly increased production
  — Infrastructure is needed to move shale gas from new areas

• Natural gas prices are low

• U.S. natural gas use is at an historic high
  — 27.5 trillion cubic feet in 2015
  — Up 20% over 2009

• Demand for gas for electric generation is increasing
  — Now accounts for about half the gas delivered by NC LDCs

• Shale gas beginning to flow south to North Carolina
Current Issues:
Interstate Pipeline Capacity

• Development of Northeast shale play has had a major impact
  — Gas production at a record high
  — Demand is growing, particularly for electric generation

• Transco is adding capacity, reversing flow from north to south
  — Several projects, including Leidy Southeast (SE) Project
  — Piedmont & PSNC both got 100,000 dekatherms/day on Leidy SE

• Dominion plans the Atlantic Coast Pipeline (ACP)
  — Duke (40%) and Piedmont (10%) are equity partners
  — ACP will generally run down the I-95 corridor
  — Duke, Piedmont, and PSNC are customers
  — In service by November 2018
III  Telecommunications
Basic Facts: Telecom Utilities

(As of 6/30/16)

- 16 Incumbent Local Exchange Companies (ILECs)
  - 4 ILECs price-plan regulated¹
  - No ILECs remain rate-of-return regulated
  - 8 ILECs Subsection (h) price-plan elected, effective upon filing notice² (G.S. 62-133.5[h])
  - 4 ILECs Subsection (m) price-plan elected, effective upon filing notice³ (G.S. 62-133.5[m])

- 169 Competing Local Providers (CLPs)
  - Rates are not regulated; may raise rates after 14 days customer notice

- 267 Interexchange Long Distance Carriers (IXCs)
  - Senate Bill 814, signed into law on 5/30/03, found long distance services sufficiently competitive and no longer subject to regulation by the Commission. However, the Commission has authority regarding certification and enforcement of slamming and cramming rules.

¹ Barnardsville Telephone Company, Citizens Telephone Company, d/b/a Comporium, Saluda Mountain Telephone Company, and Service Telephone Company.
³ BellSouth Telecommunications, Inc. d/b/a AT&T North Carolina, Carolina Telephone and Telegraph Company LLC d/b/a CenturyLink, Central Telephone Company d/b/a CenturyLink, and MebTel, Inc. d/b/a CenturyLink.
Telecom Utilities cont.

(As of 6/30/16)

• 55 Payphone Service Providers (PSPs)
• 16 Shared Tenant Services (STS) Providers
• Commission does not regulate:
  — Telephone Membership Corporations
  — Cable and Satellite
  — Commercial Mobile Radio Service (includes cellular and pagers)
  — Data and Internet Service Providers
  — Long Distance Providers (with the exceptions of certification and enforcement of slamming and cramming rules)
  — Rates, terms, conditions, or availability of retail services of Subsection (h) and Subsection (m) price-plan entities (ILEC or CLP)
NCUC's Responsibilities & Procedures

• HB1180 signed into law on 6/30/09

• Allowed ILECs and CLPs to adopt a Subsection (h) price plan

• ILEC or CLP only needs to file notice of adoption of Subsection (h) price plan with the Commission which becomes effective immediately upon filing

• Commission cannot regulate the rates, terms, conditions, or availability of retail services for Subsection (h) price-plan companies

• Subsection (h) price-plan ILECs must continue to offer stand-alone basic residential lines to all customers who choose to subscribe to that service, and the rate for stand-alone basic residential service may not increase more than the GDP-PI on an annual basis

• The following CLPs are Subsection (h) companies: dishNet Wireline, LLC, ETC Communications, LLC, Frontier Communications of America, Inc., Onvoy, Inc., Rosebud Telephone, LLC, SCTG Communications, Smithville Telecom, LLC, and Tri-County Communications, Inc.
• The following ILECs are Subsection (h) companies: Ellerbe Telephone Company, Frontier Communications of the Carolinas, Inc., North State Telephone Company, Pineville Telephone Company, Verizon South, Inc., Windstream Concord Telephone, Inc., Windstream Lexcom Communications, Inc., and Windstream North Carolina, LLC

• Subsection (h) ILECs are not required to file financial information and are only required to provide, on an annual basis, a link to their financial filings with the SEC which does not provide North Carolina-specific data
Senate Bill 343
Subsection (m) Price Plans – G.S. 62-133.5(m)

• SB343 signed into law on 4/26/11

• Allowed ILECs and CLPs to adopt a Subsection (m) price plan

• ILEC or CLP only needs to file notice of adoption of Subsection (m) price plan with the Commission which becomes effective immediately upon filing

• Commission cannot regulate the rates, terms, conditions, or availability of retail services for Subsection (m) price-plan companies, including stand-alone basic residential service

• A Subsection (m) company does not have any carrier of last resort obligations

• Subsection (m) price-plan companies are **not** required to offer stand-alone basic residential service
Subsection (m) Price Plans cont.

• A subsection (m) company forgoes receipt of any funding from a State funding mechanism that may be established to support universal service.

• The following CLPs are Subsection (m) companies: AT&T Corp., CenturyLink Communications, LLC, Comporium, Inc., Crosstel Tandem, Inc., eNetworks, LLC, Lightrunner, LLC, North State Communications Advanced Services, LLC, Teleport Communications America, LLC, Time Warner Cable Information Services, LLC, and Wide Voice, LLC.

• The following ILECs are Subsection (m) companies: BellSouth Telecommunications, LLC d/b/a AT&T North Carolina, Carolina Telephone and Telegraph Company, Central Telephone Company, and MebTel, Inc.

• Subsection (m) ILECs are not required to file financial information and are only required to provide, on an annual basis, a link to their financial filings with the SEC which does not provide North Carolina-specific data.
• Largest NC Incumbent Local Exchange Companies (ILECs)
  — AT&T – 515,826 access lines
  — Carolina Telephone (d/b/a CenturyLink) – 496,104 access lines
  — Frontier – 140,898 access lines
  — Central Telephone (d/b/a CenturyLink) – 109,448 access lines

• All other ILECs serve total of 277,406 access lines in NC
## North Carolina Area Codes

<table>
<thead>
<tr>
<th>Area Code</th>
<th>Exhaust Date*</th>
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</thead>
<tbody>
<tr>
<td>336/743</td>
<td>Beyond 30 Years</td>
</tr>
<tr>
<td>910</td>
<td>1&lt;sup&gt;st&lt;/sup&gt; Qtr. 2024</td>
</tr>
<tr>
<td>252</td>
<td>4&lt;sup&gt;th&lt;/sup&gt; Qtr. 2035</td>
</tr>
<tr>
<td>828</td>
<td>Beyond 30 Years</td>
</tr>
<tr>
<td>919/984</td>
<td>Beyond 30 Years</td>
</tr>
<tr>
<td>704/980</td>
<td>2&lt;sup&gt;nd&lt;/sup&gt; Qtr. 2039</td>
</tr>
</tbody>
</table>

* Exhaust dates are current projections which are subject to change.
North Carolina Area Code Map
IV Transportation
Basic Facts

(As of 6/30/16)

• Motor Carriers of Household Goods (HHG)
  — 286 certificated movers
  — Subject to provisions of Maximum Rate Tariff, effective 1/1/03
  — Provide intrastate transport of HHG

• Regular Route Passenger Carriers
  — 2 certificated bus companies
  — Provide passenger service over regular routes

• Passenger Brokers
  — 11 licensed brokers
  — Broker tours and trips with charter bus companies

• Ferryboat Operators
  — 9 certificated ferryboat operators
  — Provide passenger service via water over authorized routes
  — Commission does not regulate ferries operated by NCDOT’s Ferry Division
V Water and Wastewater
Basic Facts: Water/Wastewater Industry

- Anyone furnishing water to the public for compensation or operating a public sewerage system for compensation is a public utility *(G.S. 62-3(23)a.2)*

- Regulation does not include –
  - Operations with less than 15 residential customers
  - Municipal or County systems
  - Sanitary Districts
  - Mobile Home Parks (where water/wastewater included in rent)
  - Homeowners’ Associations
  - Nonprofit and consumer-owned corporations
• NCUC grants certificates for specific service area and regulates rates and service aspects of utility operation

• NCUC does not regulate drinking water quality, but requires compliance with NCDEQ, Division of Water Resources, Public Water Supply regulations

• NCUC does not regulate discharge of sewage being treated, but requires compliance with NCDEQ, Division of Water Resources, Water Quality regulations
Rates of Water/Wastewater Utilities

• Traditional Companies
  — NCUC establishes base rates in general rate case (G.S. 62-133 and G.S. 62-133.1).
  — In general rate case, Company may seek approval of rate adjustment mechanism for investment in eligible repair, improvement, and replacement of water and sewer facilities (G.S. 62-133.12). Once mechanism is approved and eligible system improvements are completed and placed in service between rate cases, Company may seek approval to impose water (and/or sewer) system improvement charge (WSIC and SSIC) pursuant to mechanism, subject to 5% statutory cap and NCUC procedures (Rules R7-39 and R10-26).
  — Company may request a pass-through rate adjustment, outside a general rate case, for changes in costs based on third-party supplier’s rates (G.S. 62-133.11).

• Resale Companies
  — NCUC establishes rates based upon charges by a third-party supplier of service and an administrative fee (G.S. 62-110[g]).
Water/Wastewater Utilities

(As of 3/31/16)

• Traditional Companies
  — 44 Water and Wastewater
  — 35 Water only
  — 31 Wastewater only
  — 1,192 Systems
  — 125,289 Water and 58,853 Wastewater customers

• Resale Companies
  — 1,154 Water and/or Wastewater
Water Customers

Distribution of 125,289 Traditional Water Customers

(As of 3/31/16)

78,053
62.3%

34,419
27.5%

12,817
10.2%

Aqua America Cos.
Utilities, Inc. Cos.
Other
Wastewater Customers

Distribution of 58,853 Traditional Wastewater Customers

(As of 3/31/16)

- Aqua America Cos.: 19,970 (33.9%)
- Utilities, Inc. Cos.: 21,635 (36.8%)
- Other: 17,248 (29.3%)
VI  Selected Financial and Operational Data
Operating Revenues by Electric Utility ($8.8B Total)

($ in Billions)

$4.9  56%
$3.5  40%
$0.4  4%

(12-Month Period Ending 3/31/16)

Duke Energy Carolinas
Duke Energy Progress
Dominion
Net Plant Investment by Electric Utility ($27.4B Total)

($ in Billions)

- $15.7 (57%)
- $10.5 (38%)
- $1.2 (5%)

(As of 3/31/16)
Operating Revenues by Natural Gas Utility ($1.2B Total)

($ in Billions)

$0.8
67%

$0.4
33%

(As of 3/31/16)
Net Plant Investment by Natural Gas Utility ($4.1B Total)

($ in Billions)

$1.1
27%

$3.0
73%

Piedmont
PSNC

(As of 3/31/16)
Selected Mergers and Acquisitions 2003 to Present[1]

• Electric
  — In 2005, Dominion joined PJM Interconnection, LLC
  — In 2006, Duke Energy acquired Cinergy
  — In 2012, Progress Energy merged with Duke Energy

• Natural Gas
  — In 2003, Piedmont acquired NCNG and 50% interest in Eastern NCNG
  — In 2005, Piedmont acquired the remaining 50% interest in Eastern NCNG
  — In 2007, Energy West acquired Frontier

• Water/Wastewater
  — In 2004, Aqua America acquired stock of Heater
  — In 2006, Hydro Star acquired stock of Utilities, Inc., from nv Nuon
  — In 2007, Utilities, Inc. subsidiaries: Belvedere, Queens Harbor, Riverpointe, and Watauga Vista merged into Carolina Water
  — In 2008, Aqua America subsidiaries: Fairways, Glynnwood, Heater, Mountain Point, Rayco, and Willowbrook merged into Aqua NC
  — In 2009, Pluris acquired North Topsail
  — In 2010, Utilities, Inc. subsidiaries: Carolina Pines and Nero merged into Carolina Water
  — In 2012, Corix acquired stock of Utilities, Inc., from Hydro Star

[1] The business combinations presented, although dated, typically engender the greatest interest.
Major Issues

• Electricity
  – Strong demand for renewable energy, new government policies to reduce carbon dioxide emissions, modernizing the power grid, security risks, coal ash waste management

• Natural Gas
  – Low natural gas prices, new sources and pipelines, growing electric generation use, pipeline safety

• Telecommunications
  – Transition to all-IP network (national trials underway), broadband deployment, intercarrier compensation, net neutrality, universal service, Lifeline reform and expansion of Lifeline to broadband service
Major Issues cont.

- **Transportation**
  - Criminal history background checks and fitness of company principals, insurance compliance, unauthorized movers and related complaints

- **Water & Wastewater**
  - Water supply, environmental issues, industry consolidation, drought conditions, financing/bonding, system repair/improvement/replacement, appointment of emergency operators

- **Generic**
  - Financial market pressures, storm impacts, emergency preparedness, accounting issues, merger conditions, tension at intersection of regulated and competitive activities of regulated companies, State versus Federal regulatory authority issues, cyber security