REPORT OF THE

NORTH CAROLINA UTILITIES COMMISSION

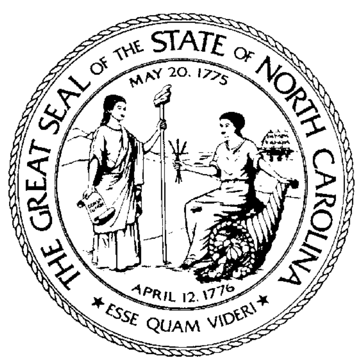
TO THE

JOINT LEGISLATIVE
UTILITY REVIEW COMMITTEE

RE:

THE STATUS AND EXPANSION OF NATURAL GAS SERVICE WITHIN THE STATE

(PURSUANT TO G.S. 62-36A)



May 2000

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Introduction

This report has been prepared and is being submitted pursuant to the provisions of G.S. 62-36A. This statute was promulgated in June 1989 by enactment of Chapter 338 of the 1989 Session Laws, entitled "An Act to Require Natural Gas Local Distribution Companies to Report Plans for Providing Natural Gas Service in Unserved Areas to the Utilities Commission and to Require The Utilities Commission to Report on Expansion of Natural Gas Service to the Joint Legislative Utility Review Committee."

Commission Rule R6-5(11) required each franchised natural gas local distribution company (LDC) to file its initial report with the Commission by January 1, 1990. Biennial updates detailing the LDCs' expansion plans have been subsequently filed, including the biennial updates filed in October 1999, which are the subject of this report.

On January 21, 2000, the Commission issued an Order inviting the public to file comments with respect to the LDCs' updated expansion plans for consideration by the Commission. No such comments or other filings were received in this regard.

The Commission's report, which pursuant to statute has been prepared independently, presents an overview of the status of natural gas service within the State and includes the Commission's summaries and analyses of the updated expansion plans filed by the LDCs. Attached to this report are copies of the biennial updates filed by each LDC which are the subject of this report. Overall, the Commission concludes that the LDCs' plans for expansion of natural gas service are reasonable for purposes of G.S. 62-36A; however, this conclusion is made without prejudice to the Commission's consideration of specific future proposals requiring regulatory approval, such as applications to use expansion funds or natural gas bonds.

Since the filing of the Commission's 1998 report to the Committee, the Commission has authorized funding from expansion funds for the expansion of natural gas service to six unserved counties, i.e., Alexander, Avery, Bertie, Martin, Mitchell and Yancey, awarded a certificate to the City of Toccoa, Georgia and the Municipal Gas Authority of Georgia to provide natural gas service in unserved Macon County, and approved the use of bond funds for the expansion of natural gas service to unserved Warren County. The Commission has received an application requesting funding from expansion funds to extend natural gas service to unserved Jackson, Madison and Swain Counties. Further, the Commission has received applications requesting the use of bond funds to assist in the expansion of natural gas service to sixteen additional counties without natural gas service, fourteen in eastern North Carolina and Ashe and Alleghany Counties in the northwest. Only three counties remain in the far western portion of the State, Cherokee, Clay and Graham, for which natural gas service has been neither authorized nor applied for. In our May 1990 report, we identified 38 counties that did not have natural gas available.

Summary and Analysis of Expansion Plans

Frontier Energy, LLC

The franchised area of Frontier Energy, LLC (Frontier) consists of six counties in northwestern North Carolina and Warren County.

Frontier began construction in Surry, Watauga, Wilkes and Yadkin Counties (the Four County Area) in April 1998. Frontier has constructed over 125 miles of pipeline in this area and the system currently extends to the city gates at Wilkesboro, Mt. Airy and Yadkinville. In 2000, Frontier plans to extend its transmission system from Wilkes County approximately 35 miles to the Boone area in Watauga County to serve Appalachian State University and the surrounding area. Estimated construction expenditures so far for the Four County Area project approximate $63.4 million.

Frontier also has a franchise to provide natural gas service to Warren County and began construction of the first phase of service in Warren County in October 1999. In March 2000, the Commission approved Frontier's request for funding from the proceeds of bond funds in the amount of $2.4 million, which is the negative net present value (NPV) of the project. This project will extend a transmission pipeline from the Transco tap at the North Carolina/Virginia state line south to U.S. Highway 158, where it will fork west to the Manson and Soul City areas and east to the Town of Norlina and then south to the Town of Warrenton. Distribution mains will be constructed in Norlina and Warrenton. Phase I of the project to the Manson/Soul City area has been completed. Phase II, which includes extending the pipeline to Norlina and Warrenton, is underway and should make gas available to the Norlina and Warrenton city gates by May and June 2000, respectively. The total projected cost of the Warren County project is estimated to be $5 million.

In December 1999, Frontier filed an application for approval to use bond funds to finance the negative NPV of the cost of a project to extend natural gas service into Ashe and Alleghany Counties, which are currently unserved. The application states that the total cost of the proposed project is $27 million and that its negative NPV is $20 million. Frontier indicates that the project will comprise five phases. Phase I is scheduled to begin in April 2000 and will consist of extending Frontier's transmission pipeline northwest to provide natural gas supply and capacity to Watauga County as well as to Ashe and Alleghany Counties. Phase II construction will begin by April 2001 and will include the installation of approximately 18 miles of 6-inch steel pipeline starting at Deep Gap and continuing north along U.S. Highway 221 to West Jefferson in Ashe County. From there, approximately 5 miles of 6-inch plastic pipe will be extended from West Jefferson to Jefferson to serve these two towns. Frontier indicates that this phase should be completed by October 2001. In Phase III, Frontier will extend the line from the 6-inch steel transmission pipe in West Jefferson along U.S. Highway 221 northeast to the Town of Twin Oaks in Alleghany County and then southeast along U.S. Highway 21 to the Town of Sparta. Phase III is planned to be completed by the spring of 2002. Phases IV and V involve completion of the distribution system buildout. Construction of these phases will begin in the summer of 2001 and continue over the next two and one-half years. Frontier indicates that it will extend over 100 miles of distribution main along the streets of the Towns of Jefferson, West Jefferson and Sparta to provide service to individual residential and small commercial customers.

A hearing on the original application was scheduled to consider service to both Ashe and Alleghany Counties. Frontier subsequently moved to divide proceedings on that application, explaining that it needed more time to coordinate its construction plans for Alleghany County with the Department of Transportation's plans to widen Highway 221 in the area. The Commission allowed this motion. The Commission has scheduled a hearing on Phases I, II, and IV of this application to begin in May 2000. Frontier states that it intends to serve Alleghany County as soon as possible, and it will request a new hearing for the project as to Alleghany County as soon as plans are revised.

It is the overall conclusion of the Commission that Frontier’s plans for the expansion of natural gas service within its franchised service territory in North Carolina are reasonable for purposes of G.S. 62-36A.

North Carolina Natural Gas Corporation

In July 1999, the Commission approved a business combination transaction whereby North Carolina Natural Gas Corporation (NCNG) became a wholly-owned subsidiary of Carolina Power & Light Company (CP&L). Since the filing of the May 1998 report, NCNG was required by the Commission to forfeit its exclusive franchise rights to 14 counties. NCNG’s franchised territory now consists of 33 counties in south central and eastern North Carolina and encompasses approximately 19,900 square miles or slightly greater than 40% of the State’s land area. NCNG provides service to all counties in its franchised area.

NCNG’s capital budgeting, decision-making process, as it relates to the expansion of its natural gas distribution system, relies extensively upon utilization of feasibility studies. These studies include assessments of potential markets, customer needs, pipeline routes and preliminary sizing, total project costs and anticipated revenues. After preliminary review, potentially feasible projects are further analyzed through the use of economic analysis relying upon state of the art capital budgeting, decision-making techniques centered around the NPV method of analysis. NPV is equal to the present value of future cash flows, discounted at the cost of capital to NCNG, minus the present value of the cost of the investment.

NCNG identifies one extension project in Richmond and Montgomery Counties planned for the next three-year period. Such pipeline extension would originate south of

Rockingham in Richmond County and travel north, generally paralleling Highway 220 to Candor in Montgomery County. At such point, a transition would be made from an 8-inch to a 6-inch transmission line paralleling Highways 220 and 24/27 to Troy. The estimated cost of this pipeline extension is approximately $15 million and has a negative NPV of approximately $9 million. As of the writing of this report, NCNG had not determined when it will seek Commission approval for funding this project.

In addition to the preceding project, NCNG identifies six potential projects that are under consideration. These projects, if completed, would provide additional gas service to Columbus, Duplin, Hertford, Pitt and Wayne Counties. NCNG states that it will continue to analyze these potential extensions in more detail and that decisions thereon will be based upon the economics of each project. According to NCNG, the current status of these six potential projects is as follows:

The Duplin County - Warsaw/Wallace project has a projected construction cost estimate of $8.4 million. This potential project consists of 24.6 miles of 10-inch transmission line installed along a route paralleling the north-south CSX Railroad and I-40. The economics of this project were severely impacted when the largest industrial customer, which represented approximately 35% of the total projected gas load for this project, went out of business. NCNG indicates that it will work with economic development officials in Duplin County on economic development initiatives that improve the feasibility of this extension of NCNG's system.

The Tabor City Industrial Park project is currently on hold pending further review by representatives of Columbus County. For this project, NCNG provided a preliminary construction cost estimate of $4.3 million for a 6-inch, 21 mile transmission line. The route would generally parallel NC Highway 701, which was determined to be the least expensive alternative, while providing the greatest potential for natural gas service to the residents of Columbus County. This project, like the Duplin County - Warsaw/Wallace project, was included in the 1998 report. In 1999, NCNG conducted a marketing study to identify all potential customers along the proposed route which confirmed that there was not enough customer demand to make this extension economically feasible.

A third potential project would begin at Robersonville in Martin County and travel west to Bethel. At that point, the pipeline route would extend south to Greenville in Pitt County. The project consists of 18.7 miles of 12-inch transmission line at an estimated cost of $6.6 million. This potential extension would promote economic development in areas of Martin and Pitt Counties and improve the operational integrity of NCNG's system in that area by connecting into an existing lateral serving Greenville, Farmville and Washington.

In its October 1999 filing, NCNG indicated that it was negotiating with a potential gas-fired electric power generation customer in Wayne County to construct a one mile 24-

inch transmission line and related facilities at an estimated cost of $4.9 million. In February 2000, NCNG completed this project to serve CP&L's Lee Plant. The power generation plant is currently under construction and is expected to be operational by the summer of 2000.

NCNG is in discussions with a textile manufacturing facility about the prospect of serving their Kenansville facility with natural gas. This project would require a 7.4 mile extension of 4-inch main at an estimated cost of $1.8 million. This project is not economically feasible based on the customer's natural gas requirements. NCNG and the customer are exploring alternatives that might be available to improve the economics of the project.

NCNG is also negotiating with Nucor Corporation about the prospect of serving its new steel mill in Hertford County. This project would require 2.8 miles of 6-inch transmission line at an estimated cost of $850,000. According to NCNG, Nucor has been weighing their options between receiving service from NCNG or building a direct connection to an interstate pipeline supplier.

In NCNG's 1997 biennial update, it listed the following six projects that were in progress or planned for the 1998-2000 time frame:

- Mount Olive-Jacksonville/Camp Lejeune
- Ahoskie/Lewiston/Woodville-Hamilton
- Stanfield
- Oakboro
- Conway
- Benson

Construction of Phase I of the Mount Olive-Jacksonville/Camp Lejeune project, from Mount Olive to Warsaw, began in January 1998 and the 18.6 mile transmission pipeline was activated in May 1998. This phase also included an associated pipeline downstream of Warsaw which was activated in January 1999 and activation of the Faison distribution system. Phase II, from Warsaw to Camp Lejeune, began in January 1999 and the first 20.1 miles of transmission pipeline was activated in June 1999. The remaining 19.3 miles of pipeline was activated in September 1999. Installation of the Kenansville distribution system has been completed and was activated in March 2000. Construction of Phase III, which includes 11.7 miles of transmission facilities on Camp Lejeune/Camp Geiger/Camp Johnson was placed in service in September 1999. The distribution system on Camp Lejeune was activated in September 1999. The Jacksonville distribution system, consisting of 5.4 miles of main, has been installed and was activated in November 1999 with the exception of about 3,200 feet which will be installed by the end of April 2000.

In November 1998, the Commission approved an expansion project that would extend natural gas service into unserved Bertie and Martin Counties. Construction of the 39-mile transmission pipeline from Ahoskie to Robersonville began in June 1999 and the pipeline was activated in December 1999. A 3.9-mile transmission lateral near Lewiston-Woodville to serve two industrial plants at the end of the lateral has been completed. The Robersonville distribution system was activated in January 2000. The Hamilton City Gate Station has been installed. The Lewiston-Woodville City Gate Station has been fabricated, but landowner negotiations have yet to be finalized to site the station. The station site is on a property that is in the final stage of being sold. The future landowner has agreed to the siting of the station, once the property has been acquired.

As reported in our May 1998 report, the project to serve an industrial customer in Stanfield has been completed. The projects to serve industrial customers in Conway and Oakboro were placed in service in September 1998 and March 1999, respectively. The Benson project, which consisted of approximately 11 miles of transmission facilities, was completed in December 1998. This line provides a high pressure gas supply into the Benson and Erwin distribution system which increases local gas pressure, allows the operational advantage of a back-feed to the Benson area and increases available capacity for economic development efforts.

In addition to the foregoing projects, in February 2000 the Commission approved NCNG's application to construct 82 miles of 30-inch pipeline from Transco's Compressor Station 150 near the line between Iredell and Mecklenburg counties, through Iredell, Cabarrus, and Mecklenburg Counties, to just south of Hamlet in Richmond County. This pipeline will essentially parallel the existing NCNG pipeline that extends from Station 150 through Richmond County to Wilmington. The pipeline is needed to serve new electric generation facilities CP&L will be building in Richmond County and the pipeline is scheduled to become operational in the second quarter of 2001. The preliminary estimated cost of construction of the new pipeline and related facilities is approximately $103.9 million. This pipeline will be sized in a manner that will allow NCNG to serve new load in its territory in Anson, Richmond, Stanly and Union Counties and may at some point in the future be extended further to the east, as necessary.

NCNG states that the forecasted sales to the proposed extension projects for the next three years can be supplied from its current gas supply portfolio, and it does not believe that gas supply/capacity constraints will hinder growth during the next five years. The additional peak day gas supply provided by the Pine Needle LNG Facility and the additional year-round delivery capacity to the NCNG system by the Cardinal Pipeline, together with the new 82-mile pipeline to be built from Davidson to Richmond County, will be adequate for the customer growth expected during that period. Although demand for gas will increase significantly during the period, primarily because of new gas-fired power generation, NCNG believes that supply will increase to keep pace with demand. According to NCNG, sources of new supply include accelerated deepwater development in the Gulf of Mexico, increased imports of Canadian production, and reactivation of East Coast LNG import terminals at Elba Island, Georgia and Cove Point, Maryland. NCNG has also seen a continued willingness of Transco and competing pipeline companies to expand capacity into North Carolina. Transco's most recent regional capacity expansion is their Sundance project, which was announced in 1999 and is scheduled to go into service in 2002.

With respect to financing, NCNG indicates that in situations where the project margins earned from expansion projects would be adequate to cover the costs of the new extensions, the Company will finance the projects through its conventional sources. Where extensions are projected to be economically infeasible, the Company proposes to make up the deficiency through the use of expansion funds, proceeds of general obligation natural gas bonds, government participation and investment, or customer contributions in aid of construction.

It is the overall conclusion of the Commission that NCNG's plans for the expansion of natural gas service within its franchised service territory in North Carolina are reasonable for purposes of G.S. 62-36A.

NUI North Carolina Gas

The franchised service territory of NUI North Carolina Gas (NC Gas) encompasses all of Rockingham County and two Townships in southeastern Stokes County including the Town of Walnut Cove. The Town of Stoneville in Rockingham County is the only incorporated community in the Company's service territory that is not presently served with natural gas.

NC Gas assesses the economic feasibility of expansion projects using the NPV method of analysis. For the Company to consider a project to be economically feasible, the project must produce an NPV that is zero or greater when discounted at the after-tax cost of new capital over its expected life cycle. The division manager, with the assistance of the marketing manager, is responsible for ensuring that adequate and reliable market and cost data are used in the NPV analysis. This support consists of the development of market data using both secondary and primary sources. Market data is obtained from secondary sources such as census data, economic and demographic reports and construction permits and records. Primary sources such as interviews and market surveys are also used.

To the extent practical, NC Gas considers factors other than the NPV analysis when making decisions regarding expansion projects. These factors are:

- future potential customer growth beyond the scope of the project being analyzed;

- potential economic development as a result of natural gas being made available to an area;
- system strengthening;
- improvement to the overall system operations by economies of scale;
- the availability of contributions from end users and third parties, such as local governments; and
- the availability of expansion funds.

NC Gas has identified plans for three extension projects during the next three year period. These projects include natural gas facilities to serve the Town of Stoneville and the Eden and Reidsville industrial development zones. The Stoneville project would provide natural gas service to the Town of Stoneville in Rockingham County, and the unserved area along the Route 220 Business corridor between Mayodan and Stoneville. The project consists of approximately 4 miles of high pressure pipeline and a distribution system to serve the community of Stoneville, and it is estimated to cost approximately $1.7 million. The Reidsville industrial zone project on Highway 87 would provide natural gas service to an industrial development zone south of Reidsville in Rockingham County. This area is currently being marketed to attract industrial development in the area. The project consists of approximately 2.5 miles of high pressure pipeline, and it is estimated to cost approximately $366,345. The Eden industrial zone project on Highways 135 and 770 would provide natural gas service to an industrial development zone west of Eden in Rockingham County. This area is also currently being marketed to attract industrial development in the area. The project consists of approximately 5 miles of high pressure pipeline, and it is estimated to cost approximately $754,262.

The forecasted NPV and internal rate of return for the Stoneville, Eden and Reidsville projects fall short of the Company's target for a project to be considered feasible. Accordingly, the Company indicates that it will seek expansion funding to construct the pipelines and distribution system to serve these areas. NC Gas is holding approximately $1.9 million in escrow available for establishment of an expansion fund. The Company indicates that it expects to file with the Commission to establish an expansion fund during April 2000. A filing requesting approval for the withdrawal of funds for a specific project is anticipated to be made during the summer of 2000. The Company believes that there are sufficient funds being held to offset the negative NPV of all three projects. The NPV assumptions and techniques employed by NC Gas will be subject to further review and scrutiny in the context of the Commission's administration of G.S. 62-158.

Over the past two years, NC Gas has invested a significant amount of capital in projects that did not exceed $100,000 but collectively represent substantial expansion in terms of capital expenditures, miles of main and new customers attached. Over the two years ending September 30, 1999, NC Gas invested in excess of $1.8 million and installed approximately 850 service lines and 129,000 feet of new mains.

It is the overall conclusion of the Commission that NC Gas' plans for the expansion of natural gas service within its franchised service territory in North Carolina are reasonable for purposes of G.S. 62-36A.

<u>Piedmont Natural Gas Company, Inc.</u>

Piedmont's franchised service territory includes all or part of 18 counties in the Piedmont and mountain regions of the State. Piedmont's counties are in two clusters, separated by a part of Public Service Company of North Carolina, Inc.'s (PSNC) service territory. Five of Piedmont's 18 counties are split between Piedmont and PSNC, with Piedmont assigned the bulk of Mecklenburg, Rowan and Alamance Counties and PSNC assigned most of Gaston and Alexander Counties. Avery, Mitchell and Yancey Counties (the Three County Area) were assigned to Piedmont in August 1996. In October 1996, the Commission awarded Piedmont a certificate to serve most of Stokes County.

Since the filing of its 1998 biennial update, Piedmont has initiated plans for providing service to its four recently franchised counties. Since January 1998, when an appeal was finalized awarding a portion of Stokes County to Piedmont, it has extended service into the southwest corner of Stokes County and began serving its first customer in November 1998.

In November 1998, the Commission approved Piedmont's application to extend natural gas service to the Three County Area using funding from its expansion fund. The amount of funding approved for this project was $27.8 million, which is the negative NPV of the project. This project will bring natural gas service to Avery, Mitchell and Yancey Counties, which currently have no natural gas service. Subsequent to the Commission approving this project, Piedmont has begun surveying the transmission route, initiated the permitting process associated with the use of public rights-of-way and crossing federal lands, begun the acquisition of private rights-of-way, and has begun designing the transmission and distribution systems. It is Piedmont's intention to be serving its first customers in the Three County Area by September 2000. However, Piedmont has encountered several environmental and right-of-way issues that threaten to increase the cost of the project as well as extend the time frame in which the residents of the Three County Area will receive natural gas service.

As indicated above, Piedmont anticipates that by September 2000, it will be providing natural gas service to at least some portion of all 18 franchised counties. According to Piedmont, there still remain areas in its territory where the extension of natural gas service is infeasible without the assistance of expansion funds. Summarized below are expansion projects where natural gas service is not available and according to Piedmont are infeasible to construct without the use of expansion funds. Note all dollar amounts shown are in millions.

PROJECT DESCRIPTION	. ESTIMATED CUSTOMERS	DEKATHERM DELIVERIES	PROJECT COST	EXPANSION FUNDS REQUIRED	COMPANY SUPPLIED CAPITAL
Denton	155	22,263	$6.3	$5.7	$0.6
Stokes County-Highway 52 Corridor	86	18,750	$3.3	$2.7	$0.6
Bethlehem	417	49,364	$3.7	$2.1	$1.6
Summerfield/ Stokesdale	77	15,382	$2.5	$1.8	$0.7
Walkertown	131	11,020	$1.4	$0.9	$0.4
Faith	168	23,392	$1.5	$0.6	$0.8
Total	1,034	140,171	$18.6	$13.8	$4.8

It is Piedmont's intention to include projects from this table in a filing with the Commission for the use of expansion funds. However, Piedmont indicates that it will delay any new requests for expansion funds until events surrounding the expansion of service to the Three County Area can be better understood in terms of the impact on the project's cost and need for additional expansion fund monies.

In its 1998 biennial update, Piedmont identified and reported on 77 new projects requiring expenditures of $100,000 or more. The 1998 update also indicated that 17 of those projects had already been completed and 60 remained open or under construction. As of the filing of its 2000 update, 34 of the projects are still in process.

Since its 1998 update, 103 new projects have been identified requiring expenditures of $100,000 or more. Twenty-seven of these projects have been completed and 76 remain open or under construction.

Over the period 1995 through 1999, Piedmont has had a net addition of over 87,000 North Carolina customers - a total five-year increase of over 29 percent. Over the next five years, Piedmont projects to add 102,000 customers in North Carolina representing a compound annual growth rate of 5.4 percent.

Piedmont plans for and obtains gas supply and financing based on the overall needs and growth of the Company. The Company indicates that although it currently has enough interstate pipeline capacity to serve the reasonable needs of its existing firm customers, additional interstate capacity is continually being added to support its present rate of firm growth. Piedmont does not anticipate the lack of gas supply or pipeline capacity to constrain growth during the next five years. In terms of distribution capacity constraints, Piedmont believes that there is an adequate supply of qualified contractors available to keep pace with Piedmont's construction needs.

Piedmont listed other intangible factors that are considered in addition to economic analysis when performing analyses to justify projects. These factors include the following:

- potential for future growth and economic development;
- impact on Piedmont's relationship with community leaders, general public, builders, developers and architects;
- contribution to community development objectives;
- competitive environment of the market; and
- regulatory and political climate.

It is the overall conclusion of the Commission that Piedmont's plans for the expansion of natural gas service within its franchised service territory in North Carolina are reasonable for purposes of G.S. 62-36A.

Public Service Company of North Carolina, Inc.

In December 1999, the Commission approved a business combination transaction whereby PSNC became a wholly-owned subsidiary of SCANA Corporation. Since the filing of the May 1998 report, PSNC was required by the Commission to forfeit its exclusive franchise rights to 6 counties which were assigned to PSNC in August 1996. PSNC's franchised service territory now includes all or part of 25 counties in the Piedmont and mountain regions of the State. However, PSNC has applied to have Jackson, Madison and Swain Counties re-assigned to it so that it may proceed with a project to serve these counties. PSNC's counties are in three clusters, separated by parts of Piedmont's service territory. Five of PSNC's 25 counties are split between PSNC and Piedmont, with PSNC assigned most of Gaston and Alexander Counties and Piedmont assigned the bulk of Mecklenburg, Rowan and Alamance Counties.

PSNC employs both the NPV approach and the internal rate of return approach in its analysis of individual expansion projects. These are both discounted cash flow techniques. In evaluating specific projects, the Company does not rely solely on financial analysis. It also considers the economic impact of the project on its area, the chance that the project will lead to additional projects, the project's marketing visibility, the availability in the area of other key public and utility services as well as appropriate land areas and a properly educated workforce, the competitive threat from alternate fuels, the likelihood of future environmental pressure on industrial users currently using alternative fuels and, finally, system strengthening benefits of the specific project.

As stated in earlier reports, PSNC completed its project to extend natural gas service to the City of Marion and the Town of Old Fort in McDowell County in

December 1996. This was the first project completed in North Carolina as a result of the expansion fund mechanism created by the North Carolina General Assembly.

A second project using expansion funds extended service from the Town of Canton in eastern Haywood County for a distance of approximately 7.6 miles to the Town of Waynesville in western Haywood County. This project was completed in the summer of 1998.

In February 1999, the Commission approved PSNC's proposed project to extend natural gas service to Alexander County, including the Towns of Hiddenite, Stoney Point and Taylorsville, for funding from its expansion fund. The project involves running a 6-inch diameter steel transmission main from the terminus of PSNC's existing line in Statesville for a distance of 24.9 miles to the Town of Taylorsville at a cost of approximately $6.3 million. The Company completed construction of this project in February 2000 and has added approximately ten small general service customers.

In 1996, PSNC was assigned the franchise to provide natural gas service to six unserved counties - Cherokee, Clay, Graham, Jackson, Madison and Swain. The franchise for these counties was taken away, as explained hereinafter, but PSNC is proceeding with plans to serve three of these counties. The Company has conducted a preliminary NPV analysis of extending service to the six unserved counties which indicates that such extension is not economically feasible.

In December 1999, the Company filed for a certificate of public convenience and necessity and for approval of expansion funding to offset the negative NPV of a project that would extend natural gas service into Jackson, Madison, and Swain Counties. The proposed expansion facilities include two separate extensions of PSNC's transmission system for a total of approximately 55.5 miles of 6-inch diameter steel pipe and 1.9 miles of 4-inch diameter steel pipe, the installation of a compressor station, and the building of distribution systems. The first extension begins at the terminus of PSNC's transmission system northwest of Asheville and runs northeast to Mars Hill. The second extension starts at the terminus of PSNC's transmission system in Waynesville and runs southwest to Bryson City. The proposed project will also include distribution systems to Mars Hill, Sylva, Cherokee, and Bryson City. PSNC desires to begin construction in June 2000 and anticipates that it will have natural gas service available in Madison County by January 2001, in Jackson County by May 2002, and in Swain County by December 2002. The project is estimated to cost $31.4 million. According to PSNC, the project will have a negative NPV of $30 million.

PSNC currently has no plans to extend natural gas service to Cherokee, Clay and Graham Counties. PSNC believes that the Jackson, Madison and Swain extension project should be completed before a formal evaluation of extending service to these counties is undertaken.

PSNC's 1997 biennial update identified 22 new projects requiring expenditures of $100,000 or more. Nineteen were completed and 3 are in progress. PSNC now estimates that $1.2 million will be required to complete the 3 remaining projects. In addition, PSNC's latest biennial update reports that 13 projects requiring expenditures of $100,000 or more that began during 1995-1997 have been completed since the 1997 filing. PSNC also reports that 21 projects requiring expenditures of $100,000 or more have been initiated since the 1997 biennial update was filed. Of them, 12 have been completed and 9 are still in progress.

PSNC identifies 45 extension projects requiring expenditures of $100,000 of more that will be budgeted in the period from November 1, 1999, to October 31, 2001. PSNC estimates that construction costs for these projects will total $10.4 million and that, by the tenth year, these 45 projects will provide service to approximately 10,308 residential customers.

Over the past three fiscal years, PSNC has added 16,656, 15,834, and 17,332 customers, respectively. Anticipated customer additions over the next three year period are 17,800, 18,600 and 19,600, respectively.

PSNC's gas supply planning is done on a total-company basis. The estimated needs of all existing and future customers are considered and transportation capacity, gas supplies and storage services are arranged to meet those needs. PSNC does not typically secure long-term gas supply to serve specific projects. PSNC does not anticipate any hindrance of growth due to gas supply or capacity constraints over the next five years. PSNC states that it anticipates that it will need additional capacity prior to 2004, but is confident that this need will be met by enhancements to the system of its existing interstate pipeline providers or by the extension of new pipelines into North Carolina. According to the Company, it is possible that both of these options will occur. PSNC has engaged in preliminary discussions with potential providers.

Like gas supply, PSNC arranges for financing on a total-company basis. With the exception of expansion fund monies which are project-specific, the Company does not generally arrange financing for individual projects. PSNC indicates that the availability of capital is not expected to present a problem over the next few years. According to PSNC, its recent acquisition by SCANA should allow capital to be assessed more easily and at a lower cost.

It is the overall conclusion of the Commission that PSNC's plans for the expansion of natural gas service within its franchised service territory in North Carolina are reasonable for purposes of G.S. 62-36A.

Toccoa Natural Gas

The City of Toccoa, Georgia, operating in North Carolina as Toccoa Natural Gas (TNG), received a certificate in December 1998 to provide natural gas service to unserved Macon County. In 1999, the Municipal Gas Authority of Georgia commenced construction of a 12.3 mile transmission line to bring gas into Macon County. The Municipal Gas Authority further began construction of a 44.5 mile distribution system in Franklin, North Carolina. Agreements were signed to lease these lines to TNG for use in providing gas service to Franklin. The construction of these lines is virtually complete and TNG anticipates that service to customers in Franklin will begin by the first week in April 2000. The construction costs for the transmission line from Toccoa to Franklin were $13.8 million and the construction costs for the distribution system in Franklin have been $3 million. No budget has been set for the construction of any additional lines in Macon County.

The Company will begin evaluating the feasibility of further construction in Macon County right away and hopes to have additional lines constructed by the end of the year. TNG states that it is anxious to expand into additional areas of the County as soon as possible, as this will increase its customer base in North Carolina. However, TNG has been focusing on the extension into Franklin and feasibility studies with regard to further construction have not yet been performed.

It is the overall conclusion of the Commission that TNG's plans for the expansion of natural gas service within its franchised service territory in North Carolina are reasonable for purposes of G.S. 62-36A.

Summary of Recent Legislation

In September 1998, the General Assembly ratified and the Governor signed legislation providing a new method for funding the expansion of natural gas facilities into unserved areas of the State. The Clean Water and Natural Gas Critical Needs Bond Act of 1998, Session Law 1998-132, authorizes the issuance of certain general obligation bonds for new infrastructure, $200 million of which are allocated for construction of natural gas facilities. In Section 16 of Session Law 1998-132, the General Assembly explained the new legislation. The General Assembly found that the natural gas expansion funds authorized in 1991 had been successful, but that more needed to be done since "there are still counties with no gas service or virtually no gas service." North Carolina voters approved issuance of the $200 million in general obligation bonds for natural gas expansion in November 1998.

The bond proceeds are to be administered by the Utilities Commission. G.S. 62-159 authorizes the Utilities Commission to provide funding through the proceeds of the general obligation bonds for construction of natural gas facilities in unserved areas that would otherwise not be economically feasible. Funding must be authorized by order of the Commission following a hearing. The Commission is to base its order on an NPV analysis and no more than the negative NPV may be authorized from the bond proceeds for any specific project. G.S. 62-159 also provides that the recipient of funding shall remit appropriate funds plus interest, to be deposited with the State Treasurer and used for other projects, if the Commission determines that an authorized project has become economically feasible.

In November 1998, the Commission initiated a rulemaking proceeding to implement G.S. 62-159. The Commission received comments from interested parties and adopted Rules by Orders of March 8, 1999, and August 4, 1999. The Commission also adopted guidelines to be used in preparing NPV analyses. The Commission Rules and the NPV analysis guidelines are attached. The Rules provide for the application process to begin with a letter of intent, which will give notice to others and will allow for any competing applications for the same area to be considered together. The Rules also specify what information must be included in applications for approval to use bond funds and what factors the Commission will consider in deciding whether to approve an application.

Status of Natural Gas Bond Funds

The natural gas bonds authorized by Session Law 1998-132 are issued by the State Treasurer. The authorized amount of bonds will be issued in phases. The first phase has been issued and proceeds of $25 million are available for natural gas infrastructure during the period of September 1999 through September 2000. The Commission must authorize how the bond funds are used. The Commission has received three applications for approval to use natural gas bond funds. One of them has been approved; the others are being processed but have not been decided as of this report.

The first application to use bond funds was filed by Frontier in September 1999. Frontier filed an application for approval to use bond funds to serve Warren County. This application was heard by the Commission in November 1999. On March 16, 2000, the Commission issued an order approving Frontier's Warren County project for funding from the proceeds of bond funds in the amount of $2.4 million. Although Frontier's predecessor had indicated when it received the franchise for Warren County in 1997 that it would serve the county using investor funds, the Commission found that changes in circumstances justified approval of the use of bond funds. More specifically, the Commission found that changes in the project, including a different route and some larger facilities, and new and more accurate cost projections and market assessments warranted the use of bond funds.

In October 1999, an application for approval to use bond funds was filed by the Albemarle Pamlico Economic Development Corporation (APEC) and CP&L. APEC is a non-profit, tax-exempt corporation created to encourage infrastructure and economic development in eastern North Carolina. The application seeks both a certificate of public convenience and necessity and approval to use bond funds to provide natural gas service to 14 counties in eastern North Carolina -- Pasquotank, Camden, Washington, Carteret, Pender, Chowan, Currituck, Dare, Gates, Hyde, Jones, Pamlico, Perquimans, and Tyrrell. In March 2000, APEC and CP&L moved to amend their application to revise the amount of bond funds requested and to explain that they will form a limited liability company to act as an LDC and to be the actual recipient of the certificate and the bond funds. The amended application asks that the Commission reserve the exclusive use of $195.6 million in bond funds for this project. The project for the 14 counties will be constructed in phases through June 2003. The first phase will provide service to Currituck, Camden, Pasquotank, Perquimans, Chowan and Gates counties, and the application asks for $51.2 million in bond funds for this first phase of the project. A hearing on the application was held on April 12, 2000, and the Commission will be issuing a decision soon.

In December 1999, Frontier filed an application to use bond funds for a project to serve both Ashe and Alleghany Counties. Frontier subsequently moved to divide proceedings on that application, explaining that it needed more time to coordinate its construction plans for Alleghany County with the Department of Transportation's plans to widen Highway 221 in the area. The Commission allowed this motion. The Commission has scheduled a hearing on the Ashe County portion of the application for May 2000. Frontier is requesting approximately $11 million for this portion of the project. Frontier is expected to revise its plans for Alleghany County in the near future, and the Commission will then schedule that portion of the application for hearing.

Status of Natural Gas Franchises

The May 1998 report of the Utilities Commission reviewed the Commission's implementation of G.S. 62-36A(b1), which required the Commission to issue franchises by January 1, 1997, for all areas of the State which had not previously been franchised for natural gas service. The North Carolina state map attached to that report, dated January 1998, showed all counties franchised to an LDC. There have been several changes in the natural gas franchises granted by the Commission since that time. The North Carolina state map attached to this report shows the status of natural gas franchises as of March 2000.

The first change of note is that several counties are now unfranchised. As previously reported, the General Assembly amended G.S. 62-36A(b) on June 15, 1995, to provide for the Commission to adopt rules which

> shall provide for expansion of service by each franchised natural gas local distribution company to all areas of its franchise territory by July 1, 1998 or within three years of the time the franchise territory is awarded, whichever is later, and shall provide that any local distribution company that the Commission determines is not providing adequate service to at least some portion of each county within its

> franchise territory by July 1, 1998 or within three years of the time the franchise territory is awarded, whichever is later, shall forfeit its exclusive franchise rights to that portion of its territory not being served.

This amendment is commonly referred to as the "use-it-or-lose-it" legislation. The Commission adopted Rules to implement this legislation. Commission Rule R6-63(d) provides that even if an LDC is not providing service as of the forfeiture date provided in G.S. 62-36A(b), the LDC will be allowed a two-year grace period if it has met certain conditions by the forfeiture date. If these conditions are met, the LDC will be given two years from the forfeiture date to provide service. If the LDC is not providing service and has not met the conditions for the grace period, its franchise must be forfeited.

The Commission initiated its first proceedings under this legislation in July 1998. At that time, the Commission initiated proceedings as to four of the State's LDCs -- NCNG, NC Gas, PSNC, and Piedmont -- to determine whether they were providing adequate service to at least some portion of each county that had been franchised to them for three years or more as of July 1, 1998.

The proceeding as to NC Gas applied to its franchise territory in Rockingham and Stokes Counties. The Commission found that NC Gas was providing adequate service to at least some portion of Rockingham and Stokes Counties as of July 1, 1998, and that NC Gas was not subject to forfeiture of its franchise for these counties.

The proceeding as to PSNC applied to PSNC's franchise territory in the counties of Haywood, Transylvania, Buncombe, Henderson, Polk, Rutherford, McDowell, Cleveland, Iredell, Cabarrus, Caswell, Orange, Chatham, Lee, Wake, Durham, Person, Granville, Franklin, Vance, Alexander, Gaston, Mecklenburg, Rowan, and Alamance. The Commission found that PSNC was providing service to at least some portion of all those counties except Alexander County as of July 1, 1998, and that PSNC was not subject to forfeiture of its franchise for these counties. Although PSNC was not providing actual gas service to Alexander County as of July 1, 1998, PSNC had undertaken a project to serve the county, funded in part by natural gas expansion funds. Therefore, the Commission gave PSNC until July 1, 2000, to complete construction on this project and to establish service to Alexander County. This is a good illustration of why the Commission provided for a grace period in its Rules implementing G.S. 62-36A(b).

The proceeding as to Piedmont applied to the counties of Burke, Caldwell, Catawba, Lincoln, Davie, Forsyth, Davidson, Guilford, Randolph, Alexander, Gaston, Mecklenburg, Rowan, and Alamance. The Commission found that Piedmont was providing adequate service to at least some portion of these counties as of July 1, 1998, and that Piedmont was not subject to forfeiture of its franchise for these counties.

As to NCNG, all 47 counties in its franchise territory were subject to review in its forfeiture proceedings. (All of the counties in NCNG's territory had been franchised for three years as of July 1, 1998, except Camden, Currituck, Dare, and Tyrrell Counties, and the General Assembly enacted legislation providing that July 1, 1998 should also be the applicable forfeiture date as to Camden, Currituck, Dare, and Tyrrell Counties. Chapter 8 of the 1998 Session Laws.) The Commission issued an Order on Forfeiture Proceedings on March 17, 1999, finding that NCNG was providing natural gas service to 30 of the 47 counties subject to the proceeding. Thus, no forfeiture was ordered as to these 30 counties. As to the remaining 17 counties, the Commission found that NCNG had met the conditions for a two-year grace period as to three counties -- Onslow, Bertie and Martin. Although NCNG was not providing actual gas service to these three counties as of July 1, 1998, NCNG had proposed and the Commission had approved projects to serve these counties, funded in part by natural gas expansion funds. Therefore, the Commission gave NCNG until July 1, 2000, to complete construction on these projects and to establish service to those counties. As to the remaining 14 counties in its franchise territory, the Commission found that NCNG was not providing adequate service to them as of July 1, 1998, and the Commission ordered that NCNG forfeit its exclusive franchise to Pasquotank, Camden, Washington, Carteret, Pender, Chowan, Currituck, Dare, Gates, Hyde, Jones, Pamlico, Perquimans, and Tyrrell Counties. These counties are shown as unfranchised on the attached state map. However, as noted earlier in this report, an application for a new franchise for these counties has been filed with the Commission by APEC and CP&L, and a decision will be issued on that application soon.

The Commission held two more forfeiture proceedings in late-1999. As of August 16, 1999, Piedmont and PSNC had held the franchises for certain counties assigned to them in August of 1996 pursuant to G.S. 62-36A(b1) for three years. The Commission therefore initiated proceedings to determine if they were providing adequate service to these counties.

The proceeding as to Piedmont applied to Avery, Yancey and Mitchell Counties. The Commission found that Piedmont had proposed and the Commission had approved a project to serve these counties using expansion funds. The Commission found that Piedmont was entitled to a two year grace period, until August 16, 2001, to complete that project and no forfeiture was ordered.

Finally, the Commission initiated a proceeding to determine if PSNC was providing adequate service to six counties -- Cherokee, Graham, Swain, Jackson, Clay, and Madison Counties -- which were assigned to PSNC on August 16, 1996. The Commission found that PSNC had no plans to serve Graham, Clay, or Cherokee Counties. As to Madison, Jackson and Swain, PSNC had filed an application for approval of an expansion fund project to serve them; however, the Commission found that the project did not entitle PSNC to a grace period since it had not been filed six months before the forfeiture date (a requirement of Commission Rule R6-63) and because PSNC's plans did not provide for completion of the project within the two years of the grace period. The Commission therefore ordered forfeiture as to all six counties and these counties are unfranchised on the attached map. However, PSNC has applied to have Madison, Jackson and Swain Counties re-assigned to it so that it may proceed with its expansion fund project to serve these counties. That application has been scheduled for hearing as of this report, and an order will be issued soon.

Finally, the map reflects one other change in the natural gas franchises. Macon County was assigned to PSNC in August 1996. However, TNG applied to have the franchise for Macon County re-assigned to it, and that was done by Commission Order of December 8, 1998. As indicated herein, TNG is now providing natural gas service in Macon County.

ARTICLE 13

ADDITIONAL FUNDING FOR NATURAL GAS EXPANSION

RULE R6-90. Application Process.

(a) *Purpose.* The purpose of these Rules is to implement G.S. 62-2(a)(9) and G.S. 62-159 by providing a process pursuant to which funding from the proceeds of the general obligation natural gas bonds approved by referendum in November 1998 can be made available to (i) existing North Carolina local distribution companies (LDCs) or (ii) a person awarded a new franchise or a regional gas district for the construction of natural gas facilities in unserved areas that would otherwise not be economically feasible to construct (hereinafter collectively referred to as "eligible recipients" or "applicants"). For purposes of these Rules, a "project" is defined as all of the natural gas facilities, including but not limited to, transmission and distribution lines, metering facilities, and compressors, and all of the activities necessary to extend and provide natural gas service to an unserved area that is eligible under the statutes for funding from the natural gas bonds.

(b) *Letters of intent.* All applicants who intend to file an application for approval to use natural gas bond funds shall first file a letter of intent 30 days before the projected filing date of the application. The letter shall give notice of the intention to file an application and shall identify the counties involved in the project to be proposed. Upon the filing of such a letter of intent, the Commission will promptly issue an order establishing a filing deadline for competing letters of intent, i.e., letters of intent as to applications that include one or more of the same counties. Typically, this deadline will be 30 days from the date of the Commission's order, and the order will be sent to those on the Commission's natural gas service list, representatives of the counties involved, and all other known interested persons. Upon expiration of the deadline for competing letters of intent, if no competing letter of intent has been filed, the applicant shall file its application for approval to use natural gas bond funds forthwith. If a competing letter of intent is filed, the Commission will promptly issue an order establishing a filing deadline for all applications that include one or more of the same counties. Typically, this deadline will be 60 days from the date of the Commission's order, but the Commission may establish some other period as appropriate. Upon expiration of the deadline and upon the filing of a competing application, the Commission shall consolidate the competing applications as appropriate, set the applications for hearing, and establish a procedural schedule.

(c) *Projects involving a county or counties for which an existing LDC has the exclusive franchise.* For projects involving a county or counties for which an existing LDC has the exclusive franchise, applications for approval to use natural gas bond funds pursuant to G.S. 62-159 and this Rule may be filed only by the existing LDC or by a regional gas district. An application for approval to use bond funds shall contain the following information:

(1) A precise geographic description, a map or maps of the area(s) proposed to be served, a detailed description of the proposed physical facilities, including their projected operating parameters and characteristics, the arrangements that have been or are proposed to be made to obtain rights-of-way and plans for obtaining capacity to supply the projected demand;

(2) Details about any special permitting or licensing that may be required, such as from the National Park Service, the National Forest Service, the Federal Energy Regulatory Commission or the Army Corp of Engineers, and a statement as to how much time the permitting or licensing is likely to take;

(3) A market study, including an analysis of potential customers and volumes, probable conversions from other fuels, and projected growth resulting from population growth and economic development;

(4) An engineering study that includes the proposed design of the system (including a pipe network flow analysis), routing (including a review of planned or proposed state highway improvements), and construction cost estimates;

(5) A net present value (NPV) analysis conducted in a generally accepted manner that provides support for the amount of natural gas bond funding requested in the eligible recipient's application;

(6) A demonstration of the applicant's technical, operational, and financial management capabilities that will ensure the successful and safe construction and operation of the project;

(7) A financing plan for the feasible part of the project that includes the amounts, sources, and costs for common equity, debt, and/or other types of financing;

(8) The estimated beginning and ending dates of the proposed construction, including the date service to one or more customers is proposed to begin, specific itemized construction budgets and a timetable for disbursements from the bond fund; and

(9) A schedule or schedules of proposed rates.

(d) *Projects involving a county or counties for which no LDC has an exclusive franchise.* For projects involving a county or counties for which no LDC has an exclusive franchise, applications for approval to use natural gas bond funds may be filed by any person, including an existing LDC, that is a public utility or would become a public utility by constructing, owning or operating the proposed natural gas facilities or by a regional gas district. For projects involving such counties, a person, including an existing LDC, that is a public utility or would become a public utility by constructing, owning or operating the proposed natural gas facilities also must file an application for a certificate of public convenience and necessity pursuant to G.S. 62-110. All applications for approval to use natural gas bond funds must include the information required by subsection (c) of this Rule.

(e) *Accuracy required.* In all cases, applications for approval to use natural gas bond funds shall be as accurate as possible when filed, particularly as to the estimates used in the NPV analysis of the project. Amendments are discouraged. In cases of competing applications, the Commission shall first give preliminary approval to use natural gas bond funds, and the winning applicant shall then be required to refine the estimates and move for final approval of the amount of bond money to be awarded. If significant changes to the project or to the NPV analysis are made, the Commission may in its discretion re-open the preliminary approval and conduct such further proceedings as appropriate to reconsider the decision.

(f) *Other applications.* If not otherwise addressed in its application, an applicant that is a public utility or would become subject to regulation as a public utility if its application were granted, shall file for approval of its proposed financing for the feasible portion of an approved project to the extent required by G.S. 62-160 through G.S. 62-171 and Commission Rule R1-16. A regional gas district proposing to use revenue bonds to finance the feasible portion of a project for which bond funds have been approved shall file for a certificate of convenience and necessity in accordance with G.S. 159-95.

RULE R6-91. Approval of Projects and Use of Natural Gas Bond Funds.

(a) Eligible recipients applying for bond funds pursuant to Commission Rule R6-90 shall publish a notice of the application at the direction of and in a form approved by the Commission.

(b) The Commission shall consider the following in determining whether to approve the use of bond funds: the scope of the proposed project, including the number of unserved counties and the number of anticipated customers by class that would be served; the total cost of the proposed project; the extent to which the proposed project is feasible; and other relevant factors affecting the public interest.

(c) The Commission shall enter an order approving or denying the use of natural gas bond funds on a project-specific basis. Natural gas bond funds shall be used only pursuant to an order of the Commission after a public hearing. Such an order shall specifically find the negative NPV of the approved project and shall limit the bond funding pursuant to G.S. 62-159 to that negative NPV.

(d) As soon as practicable after an order approving funding of a project becomes final, the Commission shall notify the State Treasurer of such approval and the amount of bond funding that has been approved.

(e) If construction has not begun on a project for which bond funding has been approved within one year after the date on which the order granting approval became final, the Commission shall require the recipient to show cause why the approval should not be rescinded; why its franchise should not be revoked, if appropriate; and why it should not be required to reimburse bond monies paid to it, if any.

RULE R6-92. Disbursements and Final Accounting.

(a) Monies from bond funds shall be disbursed only to an eligible recipient awarded the right to use bond funds and only as ordered by the Commission. All disbursements shall be used solely for the specific project for which they were approved. A project for which bond funding has been approved must be constructed as proposed unless the eligible recipient awarded the bond funding petitions the Commission to make modifications to the project and the Commission finds that the public interest requires that modifications be made.

(b) Disbursements shall be in the form of reimbursements for actual amounts paid by an eligible recipient awarded the right to use bond funds for an approved project. Eligible recipients awarded the right to use bond funds shall submit requests for reimbursement not more often than once a month. Such requests shall specify the work performed on and the materials and equipment delivered to the approved project during the period covered by the request for reimbursement and shall be accompanied by the Project Status Report described in Commission Rule R6-93. Requests also shall contain a certification that the amounts sought by the eligible recipient awarded the right to use bond funds have been paid for work completed on and materials and equipment provided to the approved project. The maximum amount of each reimbursement shall be 75% of total expenditures during the period covered by the request. Cumulative reimbursements for an approved project shall never exceed the approved negative NPV.

(c) If the request for disbursement complies with these Rules and the Commission order approving the use of bond funds, the request shall not be subject to any further proceedings or orders and shall be paid as promptly as possible. If the request is not in compliance or if the request raises issues of material fact as to whether such a disbursement is appropriate, the Commission shall set the matter for hearing or otherwise resolve any issues as to the appropriateness of the disbursement.

(d) Within three years from the date of a final Commission order approving a project and use of bond funds, the recipient shall file a final accounting showing the actual expenditures to date, disbursements to date, the negative NPV determined by the

Commission, and the balance of funds requested to be disbursed, if any. This information shall be provided in formats approved by the Commission. Unless the Commission specifically finds that good cause has been shown, no disbursement will be approved after the final accounting is approved by the Commission. If the total amount of the approved negative NPV has not been disbursed by the time the final accounting is approved, the Commission shall, upon motion by recipient awarded the right to use bond funds and notice to all parties, approve a further disbursement up to the lesser of the approved negative NPV or the actual expenditures to date.

RULE R6-93. Reports.

(a) Each eligible recipient awarded the right to use bond funds shall file a Project Status Report in the format approved by the Commission for each approved project with each request for reimbursement, or at least quarterly. This report shall contain four separate sections: (1) budgeted versus actual cost data; (2) construction cost summary; (3) summary of construction cost reimbursements already received; and (4) current reimbursement requested. To the extent extraordinary delays have occurred, a report on such delays and expected progress shall be included in this report.

(b) Recipients of bond funds, if subject to the biennial reporting requirement in G.S. 62-36A, shall provide customer and construction cost information on projects for which use of bond funds has been approved in their Biennial Expansion Reports filed every two years pursuant to G.S. 62-36A. Recipients not subject to the reporting requirement in G.S. 62-36A shall provide customer and construction cost information on projects for which use of bond funds has been approved every two years in a report filed at the same time as the Biennial Expansion Reports, beginning with the first due date of those reports following approval of the use of bond funds for a project.

(c) The Commission shall use the information provided by subsection (b) of this Rule to determine whether an investigation is warranted to determine if a project for which use of bond funds has been approved has become economically feasible. If the Commission finds that a project has become economically feasible, the Commission shall require the recipient of the bond funds to remit to the Commission appropriate funds related to the approved project, and the Commission may order those funds to be returned with interest in a reasonable amount to be determined by the Commission and deposited with the State Treasurer.

(d) If a regional gas district wishes to sell or otherwise dispose of facilities financed with bond funds received pursuant to G.S. 62-159, it must first notify the Commission, which shall determine at that time the method of repayment or accounting for those funds.

(e) The Commission shall provide quarterly reports on the expenditure of moneys from the Natural Gas Bonds Fund to the Joint Legislative Commission on Governmental Operations, the Chairs of the Senate and House of Representatives Appropriations Committees, and the Fiscal Research Division of the General Assembly.

RULE R6-94. Accounting and Ratemaking for Regulated Recipients.

(a) The gas plant accounts for recipients of bond funds regulated by the Commission shall be reduced by the amount of bond funds utilized to construct such plant, except to the extent such funds have been remitted by the company pursuant to order of the Commission.

(b) No depreciation expense on the portion of the plant cost financed by disbursements of bond funds shall be included in the cost of service of recipients regulated by the Commission, except to the extent such funds have been remitted by the company pursuant to order of the Commission.

Guidelines for Net Present Value Studies
Filed in Support of Applications for Gas Bond Funds
Docket No. G-100, Sub 75

1. Studies should be prepared for a 40-year period.

2. The discount rate should be computed on a net of income taxes basis.

3. For a utility company, the discount rate should reflect the weighted cost of capital as approved by the Commission in the company' s last general rate case. For other entities, the discount rate should reflect the weighted cost of capital that results from the financing plan for the feasible part of the project in accordance with Rule R6-90(c)(7). The same discount rate should be used for each year of the 40-year period and encompass all security issuances for each type of financing regardless of when they are executed. The financing plan for the feasible portion should specify each type of financing: debt (short-, medium-, and long-term); preferred stock; common equity; and other types of financing - please specify. For each type of financing, each individual security that has been or is anticipated to be issued should be clearly identified by: date of issuance; amount; cost rate(s); source(s) of funds such as underwriter, bank, government, taxpayers, and/or other - please specify; debt or preferred stock rating by a rating agency or private service; provisions for sinking funds, call, etc.; amortization schedule; and other relevant features.

4. Periodic cash flows should be discounted based on the assumption that they occur at the mid-point of the period.

5. Interest expense and other financing costs should not be reflected as a cash flow item. Instead, the cost of debt and other financing costs should be reflected as an element in the computation of the discount rate.

6. The effects of inflation should be incorporated in the determination of all cash flows.

7. The inflation rate applicable to all cash flow items should represent a forecasted long-term inflation rate.

8. The timing for receipt of the gas bond proceeds by the applicant should be reflected in the study in accordance with the provisions of Rule R6-92.

9. Interstate pipeline capacity and storage charges should, for applicants that do not presently have a Commission-approved fixed gas cost true-up mechanism, represent the incremental costs that the applicant expects to incur as the direct result of the

project. If an applicant that presently has a Commission-approved fixed gas cost true-up mechanism elects to use its existing rate structure in the study, interstate pipeline capacity and storage charges should be assigned to the project in a manner that is consistent with its true-up mechanism.

10. Operation and maintenance expenses should represent the incremental expenses that the applicant expects to incur as the direct result of the project.

11. Property and other general taxes (except the gas tax) should represent the incremental taxes that the applicant expects to incur as the direct result of the project.

12. Income tax expenses or savings should represent the incremental tax effect of the project on the applicant.

13. The NPV study should clearly cross-reference the engineering study provided in accordance with Rule R 6-90(c)(4). Construction estimates for the initial system should clearly show the cost components for the project. Details regarding the number of units (e.g. feet of pipe, acres of ROW) and the related unit costs for items such as materials, contractor installation, directional drilling, rights-of-way, permitting, engineering, surveying, design, etc. that the applicant expects to incur should be provided.

14. The tax basis of the assets constructed by an applicant that is a taxable entity should be adjusted to incorporate the impact of the gas bond proceeds.

15. Detailed estimates of the cost to attach each type of customer should be provided. The estimates should clearly show the cost related to attaching customers, including the cost for service lines and meter sets. Contributions in aid of construction that the applicant expects to collect from potential customers should be deducted in determining the applicant's cost to attach customers.

16. The NPV study should clearly cross-reference the market study of potential large users provided in accordance with Rule R6-90(c)(3). The large user market study should include a survey of each potential large user in the area. The survey should present for each potential large user, the name, identity of the contact person, location, current fuel use by fuel type, the natural gas equivalent usage, a description of any prospective facility modifications that might utilize gas, and an evaluation by the applicant as to the likelihood that the customer will convert to natural gas if made available.

17. The NPV study should clearly cross-reference the market study of the residential and small general service market provided in accordance with Rule R6-90(c)(3).

Market studies of large geographic areas should be broken into segments that can be evaluated separately. The small user market study should include a compilation of the potential number of customers, an analysis of prices for current energy sources (electricity, propane, oil, etc.) in the market area and an evaluation of the likelihood that users of other energy sources will convert to natural gas, expected usage and the expected customer growth rate. The study should also set forth the percentage of customers expected to ultimately convert to natural gas for each fuel type and the portion expected to convert in each year after gas service is made available.

18. A computation of the margin rates that the applicant plans to charge each type of customer should be provided. The margin rate is defined as the price charged to the customer less the commodity cost of gas (including the cost of unaccounted for and company use gas costs), temporary increments and decrements, and the gas tax. The computation of the margin rates should be cross-referenced to the proposed rates provided accordance with Rule R6-90(c)(9).

19. A narrative explanation of the assumptions and computational conventions used in the study by the applicant should be provided.

20. Studies should conform as nearly as possible to the generic NPV study format attached as Exhibit I to the Public Staff's filing of June 16, 1999, in this docket. An electronic version of the generic NPV study is available in Excel (Office 97 and 5.0) format at the Public Staff s web site (http://www.pubstaff.commerce.state.nc.us/).

21. Each applicant should provide a fully functional electronic version of its NPV study spreadsheet model in either Excel (Office 97 or lower version) or Lotus l-2-3 (97 Edition or lower version) format.