

**STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH**

DOCKET NO. G-41, SUB 59

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of		
Application of Toccoa Natural Gas for)	
Annual Review of Gas Costs Pursuant)	ORDER ON ANNUAL REVIEW OF
to N.C. Gen. Stat. § 62-133.4(c) and)	GAS COSTS
Commission Rule R1-17(k)(6))	

HEARD: Wednesday, November 1, 2023, at 9:30 a.m. in Commission Hearing Room
2115, Dobbs Building, 430 North Salisbury Street, Raleigh, North Carolina

BEFORE: Commissioner Floyd B. McKissick, Jr., Presiding; and Commissioner Karen
M. Kemerait

APPEARANCES:

For Toccoa Natural Gas:

Jack Taggart, Fox Rothschild LLP, 434 Fayetteville Street, Suite 2800,
Raleigh, North Carolina 27601

For the Using and Consuming Public:

Elizabeth D. Culpepper, Staff Attorney, Public Staff – North Carolina Utilities
Commission, 4326 Mail Service Center, Raleigh, North Carolina
27699-4326

BY THE COMMISSION: On August 29, 2023, pursuant to N.C. Gen. Stat. § 62-133.4(c) and Commission Rule R1-17(k)(6), Toccoa Natural Gas (Toccoa) filed the direct testimony and exhibits of Rai Trippe, Member Support Senior Consultant for the Municipal Gas Authority of Georgia (Gas Authority), and Harry Franklin Scott, Jr., Utilities Director for the City of Toccoa, Georgia, in connection with the annual review of Toccoa’s gas costs for the 12-month period ended June 30, 2023.

On September 8, 2023, the Commission issued its Order Scheduling Hearing, Requiring Filing of Testimony, Establishing Discovery Guidelines and Requiring Public Notice (Scheduling Order). The Scheduling Order set a public hearing date of November 1, 2023, at 9:30 a.m. for the annual review of Toccoa’s gas costs, set prefiled direct testimony dates, and required Toccoa to publish notice to its customers of the hearing on this matter.

On September 29, 2023, Toccoa filed a motion requesting a partial suspension of the hearing schedule. On October 5, 2023, the Commission issued an Order Granting Motion for Partial Suspension of Hearing Schedule, which suspended the procedural schedule, continued the expert witness portion of the hearing pending further order of the Commission, and maintained the public witness hearing to be held on November 1, 2023.

On October 9, 2023, Toccoa filed its Affidavit of Publication as required by the Scheduling Order.

On November 1, 2023, this matter came on for a public witness hearing. No public witnesses appeared at the hearing.

On November 2, 2023, the Commission issued an Order Setting Dates for Filing Testimony and Expert Witness Hearing, which scheduled the expert witness hearing for Tuesday, January 30, 2024, at 10:00 a.m., and set the dates for the filing of the Public Staff's testimony and Toccoa's rebuttal testimony.

On January 16, 2024, the Public Staff filed the testimony of Andrew R. S. Puglisi, Public Utilities Engineer in the Natural Gas Section of the Energy Division, and the testimony of Charles A. Akpom, Public Utilities Regulatory Analyst in the Accounting Division.

No other party intervened in this proceeding.

On January 17, 2024, Toccoa and the Public Staff filed a joint motion to excuse the appearance of all expert witnesses at the hearing scheduled for January 30, 2024, and to allow all prefiled testimony and exhibits to be entered into the record without the appearance of the witnesses.

On January 25, 2024, the Commission issued an Order Excusing Witnesses, Accepting Testimony, Canceling Expert Witness Hearing, and Setting Date for Proposed Orders, which canceled the expert witness hearing and admitted all expert witnesses' prefiled testimony and exhibits into evidence.

On February 26, 2024, Toccoa and the Public Staff filed a Joint Proposed Order.

Based upon the testimony and exhibits received into evidence and the record as a whole, the Commission makes the following

FINDINGS OF FACT

1. Toccoa, a division of the City of Toccoa, Georgia, is a public utility as defined by N.C.G.S. § 62-3(23) and is subject to the jurisdiction of the Commission.

2. Toccoa is primarily engaged in the business of purchasing, transporting, distributing, and selling natural gas to approximately 6,798 retail customers of which approximately 811 are in North Carolina.

3. Toccoa filed with the Commission and submitted to the Public Staff all information required by N.C.G.S. § 62-133.4(c) and Commission Rule R1-17(k) and has complied with the procedural requirements of such statute and rule.

4. The review period in this proceeding is the 12 months ended June 30, 2023.

5. During the review period, Toccoa incurred total North Carolina gas costs of \$728,140.

6. On June 30, 2023, Toccoa had a credit balance of \$98,557, owed by Toccoa to customers, in its Deferred Gas Cost Account.

7. Toccoa properly accounted for its gas costs during the review period.

8. Toccoa's hedging activities during the review period were reasonable and prudent.

9. Toccoa has transportation and storage contracts with interstate pipelines that provide for the transportation of gas to Toccoa's system, and a gas supply arrangement with the Gas Authority.

10. Toccoa released unutilized capacity during the review period, which generated \$63,900 of cost savings to mitigate the cost of demand capacity over the review period, and all capacity release credits earned flowed through to ratepayers.

11. Through its membership in the Gas Authority, Toccoa receives all its gas supply at competitive rates. The Gas Authority uses a "portfolio approach" to supply its members' needs, and the gas purchasing policy consists of four main components: (1) long-term firm supply arrangements; (2) short-term spot market purchases; (3) seasonal peaking; and (4) contract storage services.

12. Toccoa's gas purchasing policy and practices during the review period were prudent, and its gas costs during the review period were prudently incurred.

13. Toccoa should be permitted to recover 100% of its prudently incurred gas costs.

14. As a result of this proceeding, Toccoa should replace the current temporary rate decrement of \$0.8180 per dekatherm (dt) with a new temporary rate decrement of \$0.8787 per dt, as recommended by the Public Staff and not opposed by Toccoa.

15. It is appropriate for Toccoa to continue to apply an interest rate of 5.83% to its Deferred Gas Cost Account for the review period. It is appropriate that Toccoa not adjust its Deferred Gas Cost Account interest rate for known tax changes, as it is exempt from federal income tax, and it does not pay income taxes in North Carolina due to its status as a municipality.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 1-2

The evidence supporting these findings of fact is contained in the official files and records of the Commission; the testimony, schedules, and exhibits of Toccoa witness Trippe; and the testimony of Toccoa witness Scott. These findings are informational, procedural, or jurisdictional and are based on uncontested evidence.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 3-4

The evidence supporting these findings of fact is contained in the testimony, schedules, and exhibits of Toccoa witness Trippe; the testimony of Public Staff witnesses Puglisi and Akpom; and the provisions of N.C.G.S. § 62-133.4(c) and Commission Rule R1-17(k)(6).

Pursuant to N.C.G.S. § 62-133.4(c), Toccoa is required to submit information and data for a historical 12-month review period concerning its actual cost of gas, volumes of purchased gas, sales volumes, negotiated sales volumes, and transportation volumes. Commission Rule R1-17(k)(6)(a) establishes June 30, 2023, as the end date of the annual review period for Toccoa in this proceeding. Commission Rule R1-17(k)(6)(c) requires that Toccoa file certain information and data showing weather-normalized sales volumes, work papers, and direct testimony and exhibits.

Toccoa witness Trippe testified that he was not aware of any outstanding issues regarding the reporting requirements of Commission Rule R1-17(k)(5)(c), which requires Toccoa to file a complete monthly accounting of computations for gas costs and deferred account activity. Public Staff witness Akpom confirmed that he reviewed the filings and monthly reports filed by Toccoa.

Based on the foregoing, the Commission concludes that Toccoa has complied with all procedural requirements of N.C.G.S. § 62-133.4(c) and Commission Rule R1-17(k) for the 12-month review period ended June 30, 2023.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 5-7

The evidence supporting these findings of fact is contained in the testimony, schedules, and exhibits of Toccoa witness Trippe; and the testimony of Public Staff witness Akpom.

Toccoa witness Trippe testified that Toccoa incurred total North Carolina gas costs of \$728,140 during the review period, which was comprised of demand and storage costs

of \$94,411 and commodity costs of \$645,546, offset by other credits of \$11,817, as shown on his Schedule 1.

Public Staff witness Akpom testified that as of June 30, 2023, the balance in Toccoa's Deferred Gas Cost Account was a credit balance of \$98,557, owed by Toccoa to customers. Public Staff witness Akpom also testified that Toccoa's Deferred Gas Cost Account consisted of the following activity: Commodity True-up of \$20,526, Demand True-up of (\$85,696), Firm Hedges of (\$11,817), Decrement of \$66,553, and Interest of (\$5,328). Witness Akpom further stated that every month the Public Staff reviews the Deferred Gas Cost Account reports filed by Toccoa for accuracy and reasonableness and performs several audit procedures on the calculations. Public Staff witness Akpom also testified that Toccoa had properly accounted for its gas costs during the review period.

Based on the foregoing, the monthly filings by Toccoa pursuant to Commission Rule R1-17(k)(5)(c), and the findings and conclusions set forth above, the Commission concludes that Toccoa properly accounted for its gas costs incurred during the review period and that Toccoa's Deferred Gas Cost Account balance reflected in Toccoa's schedules and exhibits is correct.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 8

The evidence supporting this finding of fact is contained in the testimony and exhibits of Toccoa witness Trippe; and the testimony of Public Staff witness Akpom.

Toccoa witness Trippe testified that Toccoa participates in the Gas Authority's "Winter Hedge Program" under the Gas Authority's Option 2, which allows Toccoa to rely on the Gas Authority's advice on locking in future prices for a portion of Toccoa's firm load. Witness Trippe stated that the Gas Authority's objective in hedging prices is to achieve price stability at a reasonable level for its members' retail customers, and that this objective was accomplished by locking in future prices on approximately 21.7% of its forecasted firm gas sales for November 2022 through March 2023.

Toccoa witness Trippe also testified that although hedging helps manage volatility in the wholesale cost of gas, it can create its own challenges. Witness Trippe explained that some customers have unrealistic expectations of the benefits of hedging because a common benchmark for evaluating hedged prices is the actual spot market price. Witness Trippe further testified that this can be an unfair measure because it is only available after the fact and incorrectly assumes that the goal of hedging is to beat the market. Witness Trippe stated that the principal goal of hedging is to achieve price stability at a reasonable level for the consuming public.

Public Staff witness Akpom testified that when a Gas Authority member enters into hedging arrangements with the Gas Authority, the member specifies the targeted level of volumes to hedge and these arrangements typically span two years. Witness Akpom further testified that the Gas Authority used 100% fixed price swaps that resulted in favorable credits to members' rates.

Public Staff witness Akpom testified that Toccoa did not make changes to its hedging arrangements for the current review period. Witness Akpom further testified that based on what was reasonably known, or should have been known, by Toccoa at the time Toccoa made its hedging decisions affecting the review period, as opposed to the outcome of those decisions, its hedging decisions were prudent.

Based upon the foregoing, the Commission concludes that Toccoa's hedging activities during the review period were reasonable and prudent.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 9-13

The evidence for these findings of fact is contained in the testimony of Toccoa witness Trippe; and the testimony of Public Staff witnesses Puglisi and Akpom.

Toccoa witness Trippe testified that Toccoa is a charter member of the Gas Authority, the largest nonprofit joint action natural gas agency in the nation. Witness Trippe stated that as a member of the Gas Authority, Toccoa receives all its gas supply at very competitive rates. Witness Trippe further explained that the Gas Authority uses a portfolio approach to supply its 83 member cities' needs, relying on a combination of long-term firm supply arrangements, short-term spot market purchases, seasonal peaking, and contract storage services. He also testified that because of the Gas Authority's efforts, Toccoa's gas supply is adequate, dependable, and economical.

Toccoa witness Trippe further described Toccoa's interstate capacity and testified that Toccoa has contracts for firm transportation (FT) capacity on the Transcontinental Gas Pipe Line operated by Williams Companies (Transco), as well as an additional liquefied natural gas storage service agreement with Pine Needle LNG Company, LLC. Witness Trippe testified that through participation in the Gas Authority, Toccoa has access to other members' available pipeline capacity.

Toccoa witness Trippe testified that the Gas Authority, on behalf of Toccoa, was able to release a portion of Toccoa's unutilized capacity in each month of the review period to mitigate the cost of extra demand capacity, generating \$63,900 in savings during the current review period. Public Staff witness Akpom testified that Toccoa's policy has always been to flow through 100% of its capacity release credits to ratepayers.

Public Staff witness Puglisi testified that he reviewed the testimony and exhibits of Toccoa's witnesses, Toccoa's monthly Deferred Gas Cost Account reports, monthly operating reports, and Toccoa's responses to the Public Staff data requests. He explained that the responses to the Public Staff's data requests contained information related to Toccoa's gas purchasing philosophies, customer requirements, design day analysis, and gas portfolio mixes.

Public Staff witness Puglisi stated that he also reviewed Toccoa's testimony and other information submitted by Toccoa in response to data requests that addressed how well the projected firm demand requirements align with future available capacity. Witness

Puglisi stated that according to Toccoa's gas supply agreement with the Gas Authority, Toccoa's gas supply, storage, and capacity contracts as administered by the Gas Authority obligate the Gas Authority to deliver 100% of Toccoa's gas supply, and obligate Toccoa to only receive gas supply through this agreement and not from other outside sources. Witness Puglisi further testified that he performed independent calculations utilizing Toccoa's assumptions which indicate that Toccoa should have adequate capacity to meet firm demand for the next five winter seasons. Based upon the Public Staff's investigation and review of the data filed in this docket, Public Staff witness Puglisi concluded that Toccoa's gas costs during the review period were prudently incurred.

Based on the foregoing, the Commission concludes that Toccoa's gas purchasing policies and practices during the review period were reasonable and prudent, that its gas costs during the review period were prudently incurred, and that Toccoa should be permitted to recover 100% of its prudently incurred gas costs.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 14

The evidence for this finding of fact is contained in the testimony, schedules, and exhibits of Toccoa witness Trippe; and the testimony of Public Staff witness Puglisi.

Public Staff witness Puglisi testified that the balance in Toccoa's Deferred Gas Cost Account on June 30, 2023, was a credit balance of \$98,557, owed to customers. Witness Puglisi stated that, in general, temporary increments or decrements for a local distribution company (LDC) are calculated using the volumes from the LDC's last general rate case. As Toccoa has never had a general rate case, the Public Staff previously recommended, and the Commission previously approved, using the North Carolina firm sales volumes from the review period in this calculation.

Public Staff witness Puglisi recommended a new rate decrement to refund this deferred account credit balance and calculated the recommended new rate decrement of \$0.8787 per dt by using the deferred account credit balance of \$98,557 divided by 112,161 dts, the North Carolina firm sales volumes for the review period ended June 30, 2023. Witness Puglisi further recommended that the new temporary rate decrement be approved for all North Carolina firm sales customers effective the first day of the month following the date of the Commission's Order in this proceeding, and that the current decrement of \$0.8180 per dt that was placed into rates effective February 1, 2023, pursuant to the Commission's Order on Annual Review of Gas Costs issued January 9, 2023, in Docket No. G-41, Sub 58 be removed.

Public Staff witness Puglisi additionally recommended that Toccoa continue to monitor the balance of its Deferred Gas Cost Account and file a request to implement new temporary increments or decrements, as needed, through the Purchased Gas Cost Adjustment (PGA) mechanism to avoid significant over-collection or under-collection of its gas costs. Toccoa did not oppose these recommendations.

Based on the foregoing, the Commission concludes that effective on the first day of the month following the date of the Commission's Order in this proceeding, the current rate decrement should terminate and a new temporary rate decrement of \$0.8787 per dt should be effective.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 15

The evidence supporting this finding of fact is contained in the testimony and exhibits of Toccoa witness Trippe; and the testimony of Public Staff witness Akpom.

Toccoa witness Trippe testified that the interest rate applied to Toccoa's Deferred Account for amounts over-collected or under-collected from the North Carolina firm sales customers was established in Docket No. G-41, Sub 0, and approved by the December 8, 1998, order granting Toccoa and the Municipal Gas Authority of Georgia a Certificate of Public Convenience and Necessity. Witness Trippe further testified that Toccoa's Deferred Account interest rate as proposed by the Public Staff is the overall rate of return. Witness Trippe explained that Toccoa has not adjusted its Deferred Account interest rate for known tax changes because it is exempt from federal income tax, and it does not pay income taxes in North Carolina because Toccoa is a municipality. Witness Trippe stated that the present interest rate of 5.83% has been applied to Toccoa's Deferred Account during the full 12 months of the review period.

Public Staff witness Akpom testified that he reviewed Toccoa's interest rate calculations, found that Toccoa has continued its use of 5.83% interest rate, and determined that no changes were needed. The current interest rate applied to the Deferred Account is Toccoa's overall rate of return, not the net-of-tax overall rate of return. Public Staff witness Akpom stated that the calculations of the interest accrued on the account balance during each month are verified in accordance with N.C.G.S. § 62-130(e). He also stated that the Public Staff will continue to review the interest rate each month to determine if an adjustment is needed.

Based on the foregoing, the Commission concludes that 5.83% is the appropriate interest rate to apply to Toccoa's Deferred Gas Cost Account for the period of July 1, 2022, through June 30, 2023. Furthermore, the Commission finds that it is appropriate that Toccoa not adjust its Deferred Gas Cost Account interest rate for known tax changes, as it is exempt from federal income tax, and it does not pay income taxes in North Carolina.

IT IS, THEREFORE, ORDERED as follows:

1. That Toccoa's accounting for gas costs for the 12-month period ended June 30, 2023, is approved;
2. That the gas costs incurred by Toccoa during the 12-month period ended June 30, 2023, including Toccoa's hedging costs, were reasonably and prudently

incurred, and Toccoa is hereby authorized to recover 100% of its gas costs as provided herein;

3. That the existing temporary decrement of \$0.8180 per dt that was approved in Docket No. G-41, Sub 58, be removed, and a new temporary decrement of \$0.8787 per dt as found appropriate herein shall go into effect on the first day of the month following the date of the Commission's Order in this proceeding;

4. That Toccoa shall give notice to its customers of the rate changes allowed in this Order;

5. That Toccoa shall file revised tariffs as soon as practicable to reflect the implementation of the rate changes ordered herein;

6. That Toccoa shall continue to monitor the balance in its Deferred Gas Cost Account and file a request to implement new temporary increments or decrements, as applicable, through the PGA mechanism to avoid significant over-collections or under-collections of its gas cost; and

7. That it is appropriate for Toccoa to continue calculating interest using a rate of 5.83% on its Deferred Gas Cost Account.

ISSUED BY ORDER OF THE COMMISSION.

This the 24th day of May, 2024.

NORTH CAROLINA UTILITIES COMMISSION

A handwritten signature in black ink that reads "A. Shonta Dunston". The signature is written in a cursive style with a large, stylized "D" at the end.

A. Shonta Dunston, Chief Clerk