



**NORTH CAROLINA
PUBLIC STAFF
UTILITIES COMMISSION**

February 27, 2018

Ms. M. Lynn Jarvis, Chief Clerk
North Carolina Utilities Commission
4325 Mail Service Center
Raleigh, North Carolina 27699-4300

Re: Docket No. G-40, Sub 145

Dear Ms. Jarvis:

In connection with the above-captioned docket, I transmit herewith for filing on behalf of the Public Staff revised Pages 9, 10, and 22 of the Joint Testimony and Exhibits of Jan A. Larsen, Shawn L. Dorgan, and Julie G. Perry, which was filed in this docket on February 22, 2018. The chart on Page 9 has been replaced in its entirety and the revisions to Pages 10 and 22 are shown in tracked changes.

By copy of this letter, I am forwarding a copy of the above to all parties of record.

Sincerely,

Electronically submitted
/s/ Elizabeth D. Culpepper
Staff Attorney
elizabeth.culpepper@psncuc.nc.gov

c: Parties of Record

Executive Director
(919) 733-2435

Communications
(919) 733-2810

Economic Research
(919) 733-2902

Legal
(919) 733-6110

Transportation
(919) 733-7766

Accounting
(919) 733-4279

Consumer Services
(919) 733-9277

Electric
(919) 733-2267

Natural Gas
(919) 733-4326

Water
(919) 733-5610

Frontier Natural Gas Company

Docket No. G-40, Sub 145

Comparison of Gas Costs

Line		12 Months Ended		Increase (Decrease)	% Change
		Sept. 30, 2017	Sept. 30, 2016 [1]		
	Pipeline Charges				
1	Transco FT	\$1,090,560	\$738,694	\$351,866	47.63%
2	Other	-	-	-	
3	Total Pipeline Charges	\$1,090,560	\$738,694	\$351,866	47.63%
	Gas Supply Costs				
4	Baseload Purchases	\$3,395,754	\$1,773,314	\$1,622,440	91.49%
5	Delivered Purchases	305,541	212,145	93,396	44.02%
6	Hedge Purchases	-	1,818,200	(1,818,200)	-100.00%
7	Other	(1,034)	184,108	(185,142)	-100.56%
8	Total Gas Supply Costs	\$3,700,261	\$3,987,767	(\$287,506)	-7.21%
	Other Gas Costs				
9	True-up Entries per Monthly				
10	Deferred Account Filings	\$(149,768)	\$516,407	\$(666,175)	-129.00%
11	Additional Non Deferred				
	Account Related Gas Costs	58,454	-	58,454	100.00%
12	Total Other Gas Costs	\$(91,314)	\$516,407	(\$607,721)	-117.68%
13	Total Gas Costs	\$4,699,507 [2]	\$5,242,868	(\$543,361)	-10.36%
14	Gas Supply for Delivery (dts)	1,065,672	1,112,904	(47,232)	-4.24%
15	Total Gas Supply Cost per Dt	\$4.4099	\$4.7110	(\$0.3011)	-6.39%

Notes:

[1] - Includes reclassified gas costs per Public Staff analysis of the Company's monthly deferred account reports.

[2] - Ties to Income Statement Cost of Gas Sold per Company monthly filings with both the Public Staff and the Commission.

1 The increase in the **Transco Firm Transportation** is due to the
 2 addition of 2,663 dts per day of year round pipeline capacity
 3 effective January 2017.

4 The **Baseload Purchases** increased due to the fact that there were
 5 no physical hedging purchases during the review period as
 6 compared to the prior period.

1 The increase in the **Delivered / Daily Purchases** is due to a
2 reduction of physical hedging purchases as compared to the prior
3 year.

4 Other **Gas Supply Costs** decreased due to a prior period
5 adjustment to reclassify pipeline charges to gas supply charges.

6 The decrease in the **Hedging Purchases** is due to the fact that
7 Frontier did not hedge during the current review period.

8 **Gas Supply Costs** decreased by \$287,506, due to a decrease in
9 the commodity cost of gas, as well as a decrease in volumes
10 purchased during the current review period as compared with the
11 prior year. As indicated in the chart above, total gas supply cost
12 per dt for the current period decreased by ~~\$.0544~~\$0.3011 or
13 ~~4.59%~~6.39% when compared to the prior period. This decrease is
14 generally consistent with the prevailing trends in market indices and
15 spot market prices observed in recent years.

16 The change in the **Other Gas Costs** primarily relates to the
17 deferred account activity. These amounts reflect the offsetting
18 accounting journal entries for the information actually recorded in
19 the Company's Deferred Gas Cost Account during the review
20 period. These entries also relate to items that are recorded in other
21 cost of gas but do not impact the Company's deferred account.

1 on its deferred account using the net-of-tax overall rate of return
2 approved by the Commission in its Order Approving Use of Natural
3 Gas Bond Funds issued March 12, 2000, in Docket No. G-40, Sub
4 2, adjusted for any known corporate income tax rate changes, as
5 the applicable interest rate on all amounts over-collected or under-
6 collected from customers reflected in its Deferred Gas Cost
7 Account.

8 Also in 2017, the Public Staff investigated a merger application filed
9 by Frontier in November 2016 (Docket No. G-40, Sub 136), which
10 caused the Public Staff to further evaluate the appropriate
11 determinants to be used to calculate the earnings of Frontier in
12 order to determine a reasonable overall rate of return applicable to
13 Frontier. This review included the capital structure, debt cost from
14 Frontier's most recent financing docket (Docket No. G-40, Sub
15 133), and a reasonable return on equity.

16 In addition, the 2017 Federal Tax Cuts and Jobs Act has reduced
17 the corporate federal income tax rate from 35% to 21%, effective
18 January 1, 2018.

19 In light of the foregoing, the Public Staff recommends that Frontier
20 begin using 6.50% as the interest rate on the deferred gas cost
21 account effective January 1, 2018, as shown on Public Staff Panel
22 Exhibit III.