



**NORTH CAROLINA  
PUBLIC STAFF  
UTILITIES COMMISSION**

July 29, 2019

Ms. Janice Fulmore, Deputy Chief Clerk  
North Carolina Utilities Commission  
4326 Mail Service Center  
Raleigh, North Carolina 27699-4300

Re: Docket No. G-5, Sub 608 - Petition for Annual Review of Gas Costs

Dear Ms. Fulmore:

In connection with the above-captioned docket, I transmit herewith for filing on behalf of the Public Staff the Joint Testimony of Sonja R. Johnson, Staff Accountant, Accounting Division; Geoffrey M. Gilbert, Engineer, Natural Gas Division; and Julie G. Perry, Manager, Natural Gas & Transportation Section, Accounting Division.

By copy of this letter, we are providing copies to all other parties of record.

Sincerely,

/s/ Gina C. Holt  
Staff Attorney  
[gina.holt@psncuc.nc.gov](mailto:gina.holt@psncuc.nc.gov)

Executive Director (919) 733-2435	Communications (919) 733-5610	Economic Research (919) 733-2267	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

**PUBLIC SERVICE COMPANY OF NORTH CAROLINA, INC.**

**DOCKET NO. G-5, SUB 608**

**JOINT TESTIMONY OF**

**SONJA R JOHNSON, GEOFFREY M GILBERT, AND JULIE G PERRY**

**ON BEHALF OF**

**THE PUBLIC STAFF – NORTH CAROLINA UTILITIES COMMISSION**

**July 29, 2019**

1 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND PRESENT**  
2 **POSITION.**

3 A. My name is Sonja R. Johnson, and my business address is 430 North  
4 Salisbury Street, Raleigh, North Carolina. I am an Accountant with the  
5 Public Staff's Accounting Division. My qualifications and experience are  
6 provided in Appendix A.

7 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**  
8 **PROCEEDING?**

9 A. The purpose of my testimony is (1) to provide recommendations based on  
10 my conclusions regarding whether the gas costs incurred by Public  
11 Service Company of North Carolina, Inc. (PSNC or Company), during the  
12 twelve-month review period ended March 31, 2019, were properly  
13 accounted for, and (2) to present the results of my review of gas cost  
14 information filed by PSNC, in accordance with N. C. Gen. Stat. § 62-  
15 133.4(c) and Commission Rule R1-17(k)(6).

1 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND PRESENT**  
2 **POSITION.**

3 A. My name is Geoffrey M. Gilbert and my business address is 430 North  
4 Salisbury Street, Raleigh, North Carolina. I am a Public Utilities Engineer  
5 in the Public Staff's Natural Gas Division. My qualifications and experience  
6 are provided in Appendix B.

7 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**  
8 **PROCEEDING?**

9 A. The purpose of my testimony is to present my conclusions regarding  
10 whether the natural gas purchases made by PSNC during the review  
11 period ended March 31, 2019, were prudently incurred. My testimony also  
12 presents the results of my review of the gas cost information filed by  
13 PSNC in accordance with N. C. Gen. Stat. § 62-133.4(c) and Commission  
14 Rule R1-17(k)(6), and provides my recommendation regarding temporary  
15 rate increments and/or decrements.

16 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND PRESENT**  
17 **POSITION.**

18 A. My name is Julie G. Perry, and my business address is 430 North  
19 Salisbury Street, Raleigh, North Carolina. I am the Accounting Manager of  
20 the Natural Gas & Transportation Section in the Accounting Division of the  
21 Public Staff. My qualifications and experience are provided in Appendix C.

1 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**  
2 **PROCEEDING?**

3 A. The purpose of my testimony is to discuss my investigation and  
4 conclusions regarding the prudence of PSNC's hedging activities during  
5 the review period.

6 **Q. PLEASE EXPLAIN HOW THE PUBLIC STAFF CONDUCTED ITS**  
7 **REVIEW.**

8 A. We reviewed the testimony and exhibits of the Company's witnesses, the  
9 Company's monthly deferred account reports, monthly financial and  
10 operating reports, gas supply, pipeline transportation and storage  
11 contracts, and the Company's responses to Public Staff data requests.  
12 Each month, the Public Staff reviews the deferred account reports filed by  
13 the Company for accuracy and reasonableness and performs many audit  
14 procedures on the calculations.

15 **Q. WHAT OTHER ITEMS DID THE NATURAL GAS DIVISION REVIEW?**

16 A. Even though the scope of Commission Rule R1-17(k) is limited to a  
17 historical review period, the Public Staff's Natural Gas Division also  
18 considers other information received in response to data requests in order  
19 to anticipate the Company's requirements for future needs, including  
20 design day estimates, forecasted gas supply needs, projected capacity  
21 additions and supply changes, and customer load profile changes.

1 Q. MR. GILBERT, WHAT IS THE RESULT OF YOUR EVALUATION OF  
2 PSNC'S GAS COSTS?

3 A. Based on my investigation and review of the data in this docket, I believe  
4 that PSNC's gas costs were prudently incurred for the 12-month review  
5 period ending March 31, 2019.

6 Q. MS. JOHNSON, HAS THE COMPANY PROPERLY ACCOUNTED FOR  
7 ITS GAS COSTS DURING THE REVIEW PERIOD?

8 A. Yes. I believe that PSNC properly accounted for its gas costs during the  
9 review period from April 1, 2018 through March 31, 2019.

#### **ACCOUNTING FOR AND ANALYSIS OF GAS COSTS**

10 Q. MS. JOHNSON, HOW DOES THE ACCOUNTING DIVISION GO ABOUT  
11 CONDUCTING ITS REVIEW OF THE ACCOUNTING FOR GAS COSTS?

12 A. Each month the Public Staff's Accounting Division reviews the Deferred  
13 Gas Cost Account reports filed by the Company for accuracy and  
14 reasonableness, and performs many audit procedures on the calculations,  
15 including the following:

16 (1) **Commodity Gas Cost True-Up** - The actual commodity gas costs  
17 incurred are verified, the calculations and data supporting the commodity  
18 gas costs collected from customers are checked, and the overall  
19 calculation is reviewed for mathematical accuracy.

1 (2) **Fixed Gas Cost True-Up** - The actual fixed gas costs incurred are  
2 compared with pipeline tariffs and gas contracts, the rates and volumes  
3 supporting the calculation of collections from customers are verified, and  
4 the overall calculation is reviewed for mathematical accuracy.

5 (3) **Negotiated Losses** - Negotiated prices for each customer are  
6 reviewed to ensure that the Company does not sell gas to the customer  
7 below the cost of gas to the Company or the price of the customer's  
8 alternative fuel.

9 (4) **Temporary Increments and/or Decrements** - Calculations and  
10 supporting data are verified regarding the collections and/or refunds from  
11 customers that have occurred through the Deferred Account.

12 (5) **Interest Accrual** - Calculations of the interest accrued on the  
13 account balance during the month are verified in accordance with  
14 N. C. Gen. Stat. § 62-130 (e) and the Commission's Order in Docket No.  
15 G-5, Sub 565.

16 (6) **Secondary Market Transactions** - The secondary market  
17 transactions conducted by the utility are reviewed and verified to the  
18 financial books and records, asset manager agreements, and the monthly  
19 Deferred Gas Cost Accounts.

20 (7) **Uncollectibles** – In Docket No. G-5, Sub 473, the Commission  
21 approved a mechanism to recover the gas cost portion of the difference

1 between the Company's cost of gas incurred and the amount collected  
2 from customers, effective for service rendered on and after December 1,  
3 2005. The Company records a journal entry each month in the Sales  
4 Customers' Only Deferred Account for the gas cost portion of its  
5 uncollectibles write-offs. We review the calculations supporting those  
6 journal entries to ensure that the proper amounts are recorded.

7 (8) **Supplier Refunds** – In Docket No. G-100, Sub 57, the Commission  
8 held that, unless it orders refunds to be handled differently, supplier  
9 refunds should be flowed through to ratepayers in the All Customers'  
10 Deferred Account, or may be applied to the NCUC Legal Fund Reserve  
11 Account. We review documentation received by the Company from its  
12 suppliers to ensure that the amount received by the Company is flowed  
13 through to ratepayers.

14 **Q. HOW DO THE COMPANY'S FILED GAS COSTS FOR THE CURRENT**  
15 **REVIEW PERIOD COMPARE WITH THOSE FOR THE PRIOR REVIEW**  
16 **PERIOD?**

17 A. The Company filed total gas costs of \$229,186,278 per Paton Exhibit 1,  
18 Schedule 1, for the current review period as compared with \$235,756,952  
19 for the prior twelve-month period. The components of the filed gas costs  
20 for the two periods are as follows:

	12 Months Ended		Increase (Decrease)	% Change
	March 31, 2019	March 31, 2018		
Demand & Storage	\$91,410,716	\$91,043,580	\$367,136	0.40%
Commodity	172,769,818	145,801,389	26,968,429	18.50%
Other Costs	(34,994,258)	(1,088,015)	(33,906,243)	3116.34%
Total	\$229,186,277	\$235,756,954	(\$6,570,678)	(2.79%)

1 **Q. PLEASE EXPLAIN ANY SIGNIFICANT INCREASES OR DECREASES**  
2 **IN DEMAND AND STORAGE CHARGES.**

3 **A.** The Demand and Storage Charges for the current review period and the  
4 prior twelve-month review period are as follows:

	12 Months Ended		Increase (Decrease)	%Change
	March 31, 2019	March 31, 2018		
<b>Transco:</b>				
FT Reservation	\$47,748,330	\$49,153,763	(\$1,405,433)	(2.86%)
FT Momentum	2,349,731	2,576,207	(226,476)	(8.79%)
Southern Expansion	1,971,370	1,974,279	(2,909)	(0.15%)
Southeast Expansion	5,633,731	5,642,131	(8,400)	(0.15%)
GSS	1,575,920	1,576,812	(892)	(0.06%)
WSS	549,942	549,942	-	0.00%
LGA	128,991	128,991	-	0.00%
ESS	1,893,065	1,893,065	-	0.00%
Total Transco Charges	\$61,851,080	\$63,495,190	(\$1,644,110)	(2.59%)
<b>Other Charges:</b>				
Pine Needle LNG	\$3,416,808	\$3,116,591	\$300,217	9.63%
Cardinal	5,924,953	6,504,118	(579,165)	(8.90%)
Dominion Transmission Service	5,089,350	5,087,079	2,271	0.04%
Texas Gas Transmission	515,622	500,313	15,309	3.06%
Texas Eastern	563,328	563,328	0	0.00%
Columbia FSS/SST	3,700,563	3,708,372	(7,809)	(0.21%)
East Tennessee (Patriot Expansion)	5,189,910	5,004,480	185,430	3.71%
Saltville Gas Storage	2,784,234	2,178,274	605,960	27.82%
Cove Point LNG	1,024,620	788,055	236,565	30.02%
Piedmont Redelivery Agreement	9,120	9,120	-	0.00%
Firm Backhaul Capacity on Transco	1,296,000			
City of Monroe	45,126	88,660	(43,534)	(49.10%)
Total Other Charges	\$29,559,634	\$27,548,390	\$715,244	2.60%
Total Demand and Storage Charges	\$91,410,716	\$91,043,580	\$367,136	0.40%



1 The primary reason for the decrease in **Transco FT Reservation** charges  
2 during the review period is due to a decrease in rates pursuant to FERC  
3 Docket No. RP18-541-000 that went into effect on April 1, 2018.

4 **Pine Needle LNG** charges increased as a result of an Electric Power and  
5 Fuel Tracker adjustment, effective May 1, 2018, in FERC Docket No.  
6 RP18-652-000.

7 The decrease in **Cardinal** is primarily due to a decrease in rates, effective  
8 August 1, 2018, pursuant to Commission Order dated March 27, 2018, in  
9 Docket No. G-39, Sub 41.

10 **Cove Point LNG** charges increased as a result of a tariff change, effective  
11 March 1, 2018, in FERC Docket No. RP17-197-000.

12 The decrease in the **City of Monroe** charges relates to the completion of  
13 the demand charge payments related to the Joint Venture Agreement  
14 (Agreement) between PSNC and the City of Monroe<sup>1</sup>, whereby PSNC  
15 leased 17,250 dekatherms (dts) per day of intrastate capacity from the  
16 City of Monroe. The Agreement stated that PSNC would pay monthly  
17 demand payments beginning July 2010 through June 2016. The decrease  
18 in charges during the current review period as compared to the prior  
19 review period reflects that PSNC is no longer paying the demand charges

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<sup>1</sup> The amended Agreement was a part of the Settlement Agreement approved by Commission Order dated May 18, 2010 in Docket No. G-5, Sub 510.

1 and currently only pays the O&M charges as provided for in the  
2 Agreement.

3 **Saltville** charges increased as a result of a reversion from negotiated  
4 rates to tariff rates in April 2018 as well as rate increases in August 2018,  
5 pursuant to FERC Docket No. RP14-618.

6 **Q. PLEASE EXPLAIN THE CHANGE IN COMMODITY GAS COSTS.**

7 A. Commodity gas costs for the current review period and the prior twelve-  
8 month period are as follows:

	12 Months Ended		Increase (Decrease)	% Change
	March 31, 2019	March 31, 2018		
Gas Supply Purchases	\$174,084,532	\$145,656,452	\$28,428,080	19.52%
Transportation Charges from Pipelines	1,151,892	1,244,611	(92,719)	(7.45%)
Storage Injections	(30,795,846)	(28,720,168)	(2,075,678)	(7.23%)
Storage Withdrawals	28,329,241	27,620,494	708,747	2.57%
Total Commodity Gas Costs Expended	\$172,769,818	\$145,801,389	\$26,968,430	18.50%
Gas Supply for Deliveries (dt)	52,537,574	49,083,753	3,453,821	7.04%
Commodity Cost per dt	\$3.2885	\$2.9705	\$0.32	10.71%

9 **Gas Supply Purchases** increased by \$28,428,080 primarily due to a  
10 higher level of volumes purchased during the current review period as  
11 compared with the prior twelve-month review period. As indicated in the  
12 chart above, the total commodity cost per dt for the current review period  
13 increased by \$0.32, or 10.71%, when compared to the prior review period.  
14 This increase is generally consistent with the changes in market indices  
15 and spot market prices experienced between the two periods.

1 The increase in **Storage Injections** was due to the higher cost of gas  
 2 supply injected into storage. The average cost of gas injected into storage  
 3 during the current review period was \$3.2401 per dt as compared with  
 4 \$2.8393 per dt for the prior period.

5 The increase in **Storage Withdrawal** charges was primarily due to a  
 6 higher average cost of supply withdrawn from storage. PSNC's average  
 7 cost of gas withdrawn was \$2.9012 per dt in this review period as  
 8 compared to \$2.7494 per dt in the prior review period.

9 **Q. PLEASE EXPLAIN THE CHANGE IN OTHER GAS COSTS.**

10 A. Other gas costs for the current review period and the prior twelve-month  
 11 period are as follows:

	12 Months Ended		Increase (Decrease)
	March 31, 2019	March 31, 2018	
Deferred Account Activity	(\$33,521,161)	(\$37,011,566)	\$3,490,405
Estimate to Actual Gas Cost True-Up	121,056	6,417,374	(6,296,318)
CUT Deferral	(9,359,283)	(4,658,583)	(4,700,700)
CUT Increment/Decrement	7,627,390	39,419,119	(31,791,729)
High Efficiency Discount Rate	(355,106)	(325,566)	(29,540)
IMT Deferral	415,683	746,750	(331,067)
IMT Tax Adjustment	81,985	(5,674,552)	5,756,537
Gas Loss-Facilities Damages	(4,822)	(991)	(3,831)
Total Other Gas Costs	<u>(\$34,994,258)</u>	<u>(\$1,088,015)</u>	<u>(\$33,906,243)</u>

12 The **Deferred Account Activity** amounts reflect offsetting accounting  
 13 journal entries for most of the information recorded in the Company's  
 14 Deferred Gas Cost Account during the review periods.

1 The **Estimate to Actual Gas Cost True-Up** amount results from the  
2 Company's monthly account closing process. Each month, the Company  
3 estimates its current month's gas costs for financial reporting purposes  
4 and trues-up the prior month's estimate to reflect the actual cost incurred.

5 The **CUT Deferral** entries relate to the order issued in Docket No. G-5,  
6 Sub 495 (Sub 495 Order), in which the Commission approved the use of a  
7 Customer Usage Tracker (CUT) by the Company beginning November 1,  
8 2008. The Company charges or credits other cost of gas for the  
9 accounting journal entry that offsets its CUT deferral.

10 The **CUT Increment/Decrement** entries relate to the Sub 495 Order in  
11 which the Commission authorized the Company to collect from or refund  
12 to customers balances in the CUT Deferred Account by imposing either an  
13 increment or a decrement to rates, effective April and October of each  
14 year. The decrease in the current review period is due to a lower under-  
15 collection in the current review period as compared to the under-collection  
16 from the previous review period that resulted from warmer than normal  
17 weather. .

18 The **High Efficiency Discount Rate** and the **Conservation Program**  
19 **Accrual** entries represent accruals and expenses associated with  
20 \$750,000 of conservation-related expenses allowed in PSNC's prior rate  
21 case in Docket No. G-5, Sub 495.

**SECONDARY MARKET ACTIVITIES**

Q. MS. JOHNSON, PLEASE SUMMARIZE THE COMPANY'S SECONDARY MARKET ACTIVITIES DURING THE REVIEW PERIOD.

A. The Company recorded \$36,471,965 of margins on secondary market transactions, including capacity release transactions, asset management arrangements, and other secondary market transactions during the review period. Of this amount, \$27,353,974 (\$36,471,965 x 75%) was credited to the All Customers' Deferred Account for the benefit of ratepayers. Presented below is a chart that compares the margins recorded by PSNC on the various types of secondary market transactions in which it was engaged during the review period and the prior review period.

	<b>Actual 12 Month Period Ended</b>		Increase (Decrease)	Change
	March 31, 2019	March 31, 2018		
Capacity Release	\$3,433,824	\$2,525,124	\$908,700	35.99%
Asset Management	30,771,076	39,551,582	(8,780,506)	(22.20%)
Bundled Sales	1,433,881	2,749,946	(1,316,065)	(47.86%)
Straddles	635,400	776,575	(141,175)	(18.18%)
Spot Sales	197,784	89,041	108,743.00	122.13%
Total Secondary Market Margins	<u>\$36,471,965</u>	<u>\$45,692,268</u>	<u>(\$9,220,303)</u>	<u>(20.18%)</u>

**Capacity Release** is the short-term posting of unutilized firm capacity on the electronic bulletin board that is released to third parties at a biddable price. The overall net compensation from capacity release transactions increased by 35.99% primarily due to increased volumes being released during the current review period as compared to the prior period.

1       **Asset Management Agreements (AMAs)** are contractual relationships  
2       where a party agrees to manage gas supply and delivery arrangements,  
3       including transportation and storage capacity, for another party. Typically  
4       a shipper holding firm transportation and/or storage capacity on a pipeline  
5       or multiple pipelines temporarily releases all or a portion of that capacity  
6       along with associated gas production and gas purchase agreements to an  
7       asset manager. The asset manager uses that capacity to serve the gas  
8       supply requirements of the releasing shipper, and, when the capacity is  
9       not needed for that purpose, uses the capacity to make releases or  
10      bundled sales to third parties. The 22.20% decrease in net compensation  
11      from Asset Management Agreements results primarily from a decrease in  
12      the value of the interstate pipeline and storage capacity that PSNC has  
13      subject to AMAs.

14      **Bundled Sales** are sales of delivered gas supply to a third-party  
15      consisting of gas supply and pipeline capacity at a specified receipt point.  
16      During the current winter period, PSNC's bundled sales decreased by  
17      47.86% due to a decrease in the level of volumes as compared to the prior  
18      review period.

19      **Straddle** transactions are the physical exchange of gas allowing a third-  
20      party to either put gas to the LDC or call on gas from an LDC for a fee.  
21      The level of volumes associated with the straddle transactions decreased  
22      slightly during the current review period, although the net compensation  
23      received increased due to higher market prices.



1           7.     The monthly report reconciling the Hedging Program Status  
2 Report and the hedging deferred account report;

3           8.     Minutes from meetings of Service Company risk management  
4 personnel;

5           9.     Minutes from meetings of Service Company risk  
6 management personnel and its committees that pertain to hedging  
7 activities;

8           10.    Reports and correspondence from the Company's external  
9 and internal auditors that pertain to hedging activities;

10          11.    Hedging plan documents that set forth the Company's gas  
11 price risk management policy, hedge strategy, and gas price risk  
12 management operations;

13          12.    Communications with Company personnel regarding key  
14 hedging events and plan modifications under consideration by Service  
15 Company risk management personnel; and

16          13.    Testimony and exhibits of the Company's witnesses in the  
17 annual review proceeding.

18 **Q.    WHAT IS THE STANDARD SET FORTH BY THE COMMISSION FOR**  
19 **EVALUATING THE PRUDENCE OF A COMPANY'S HEDGING**  
20 **DECISIONS?**

21 A.    In its February 26, 2002, Order on Hedging in Docket No. G-100, Sub 84  
22 (Hedging Order), the Commission stated that the standard for reviewing  
23 the prudence of hedging decisions is that the decision "must have been



1 made in a reasonable manner and at an appropriate time on the basis of  
 2 what was reasonably known or should have been known at that time.”  
 3 Hedging Order, 92 NCUC 4, 11-12 (2002).

4 **Q. PLEASE DESCRIBE THE ACTIVITY REPORTED IN THE COMPANY’S**  
 5 **HEDGING DEFERRED ACCOUNT DURING THE REVIEW PERIOD.**

6 A. The Company experienced net credits of \$832,249 in its Hedging Deferred  
 7 Account during the review period. This net credit amount at March 31,  
 8 2019, is composed of the following items:

Economic (Gain)/Loss - Closed Positions	(\$2,783,925)
Premiums Paid	1,824,850
Brokerage Fees & Commissions	28,837
Interest on Hedging Deferred Account	97,988
Hedging Deferred Account Balance	<u>(\$832,249)</u>

9 The first item shown in the chart above, Economic (Gain)/Loss – Closed  
 10 Positions, is the gain on hedging positions that the Company realized  
 11 during the review period. Premiums Paid is the amount spent by the  
 12 Company on futures and options positions during the current review  
 13 period. As of March 31, 2019, this amount includes call options purchased  
 14 by PSNC for the March 2020 contract period, a contract period, which is  
 15 12 months beyond the end of the current review period and 11 months  
 16 beyond the April 2019 prompt month.<sup>2</sup> Brokerage Fees and Commissions  
 17 are the amounts paid to brokers to complete the transactions. The Interest

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<sup>2</sup> Prompt month refers to the futures contract that is closest to expiration and is usually for delivery in the next calendar month (e.g., prompt month contracts traded in February are typically for delivery in March).

1 on Brokerage Account amount is the interest earned by the Company on  
2 amounts deposited with its broker, and the Interest on Hedging Deferred  
3 Account is the amount accrued by the Company on its Hedging Deferred  
4 Account in accordance with N. C. Gen. Stat. § 62-130(e).

5 The Company proposed that the \$832,249 credit balance in the Hedging  
6 Deferred Account as of the end of the review period be transferred to its  
7 Sales Customers' Only Deferred Account. The hedging charges result in  
8 an annual charge of (\$1.03) for the average residential customer, which  
9 equates to approximately (\$0.09) per month. PSNC's weighted average  
10 hedged cost of gas for the review period was \$3.81 per dt.

11 **Q. WHAT IS YOUR CONCLUSION REGARDING THE PRUDENCE OF THE**  
12 **COMPANY'S HEDGING ACTIVITIES?**

13 A. Based on what was reasonably known or should have been known at the  
14 time the Company made its hedging decisions affecting the review period,  
15 as opposed to the outcome of those decisions, our analysis leads us to  
16 the conclusion that the decisions were prudent. We recommend that the  
17 \$832,249 credit balance in the Hedging Deferred Account as of the end of  
18 the review period be transferred to the Company's Sales Customers' Only  
19 Deferred Account.

1

**DESIGN DAY REQUIREMENTS**

2 **Q. MR. GILBERT, DO YOU HAVE ANY COMMENTS REGARDING**  
3 **COMPANY WITNESS JACKSON'S EXHIBIT 1 AND DISCUSSION**  
4 **REGARDING DESIGN-DAY DEMAND AND AVAILABLE ASSETS**  
5 **PROJECTIONS?**

6 A. Yes. The Public Staff has done an independent analysis using similar  
7 calculations to determine peak day (design-day) demand levels and  
8 compares that to the assets the Company has available (or is planning to  
9 have available when needed in the future) to meet that demand. The  
10 Public Staff uses the review period data of customer usage and heating  
11 degree days (HDDs), which are calculated by taking the average of the  
12 minimum and maximum daily temperature and subtracting that quotient  
13 from 65 degrees. (For example, a low of 10 degrees and a high of 30  
14 would yield 45 HDDs.) Base load (usage that does not fluctuate with  
15 weather) plus a usage per HDD factor is developed, and the projected  
16 peak day demand is calculated. The assumption in developing a peak  
17 design day demand is 55 HDDs, which is the accepted peak coldest day  
18 that would be anticipated to be experienced in PSNC's territory. The  
19 results of our analysis are similar to the levels presented by PSNC in  
20 Jackson Exhibit 1. PSNC's design-day demand models show a shortfall of  
21 capacity beginning in the 2019 – 2020 winter season. To bridge the  
22 capacity shortfall for the 2019-20 winter season, the Company will issue a  
23 request for proposal (RFP) for firm capacity to the city gate similar to what

1 it did in the current annual review. In order to overcome this anticipated  
 2 shortfall in future review periods, PSNC has contracted for necessary  
 3 capacity on Transco's Southeastern Trail Expansion project, which is  
 4 scheduled to be in service by late 2020; the Mountain Valley Pipeline, LLC  
 5 (MVP), which is expected to have lateral facilities capable of delivering  
 6 capacity to PSNC completed by late 2020; and the Atlantic Coast Pipeline  
 7 (ACP), which is expected to come into service by early 2021. If any of  
 8 these projects are not placed into service as of the anticipated time period,  
 9 PSNC will issue an RFP for firm capacity for any anticipated shortfall.  
 10 PSNC witness Jackson has addressed this in her testimony.

11 **DEFERRED ACCOUNT BALANCES**

12 **Q. MS. JOHNSON, BASED ON YOUR REVIEW OF GAS COSTS IN THIS**  
 13 **PROCEEDING, WHAT ARE THE APPROPRIATE DEFERRED**  
 14 **ACCOUNT BALANCES AS OF MARCH 31, 2019?**

15 **A.** The All Customers Deferred Account balance filed by the Company was a  
 16 credit of \$3,040,186, owed to the customers. This balance consists of the  
 17 following deferred account activity:

Beginning Balance as of April 1, 2018	(\$13,770,526)
Commodity Costs Under Collections	249,999
Demand Costs Under Collections	22,309,241
(Increment)/Decrement	15,423,574
Secondary Market Transaction Credits	(27,353,971)
Supplier Refunds	(438,560)
Miscellaneous Adjustments	637,872
Accrued Interest	(97,813)
Ending Balance as of March 31, 2019	<u>(\$3,040,186)</u>

1 Paton Exhibit 1, Schedule 8 reflects a credit balance in the Sales  
2 Customers' Only Deferred Account balance as of March 31, 2019, of  
3 (\$699,747), owed by the Company to the customers. After the Hedging  
4 Deferred Account credit balance of (\$832,249) has been transferred to the  
5 Sales Customers' Only Deferred Account, we recommend that the Sales  
6 Customers' Only Deferred Account as of March 31, 2019, is a credit  
7 balance, owed by the Company to the customers, of \$1,531,996,  
8 determined as follows:

Balance per Paton Exhibit, Schedule 8	(\$699,747)
Transfer of Hedging Balance	<u>(832,249)</u>
Balance per Public Staff	<u>(\$1,531,996)</u>

9 **Q. MS. JOHNSON, DID PSNC HAVE ANY CHANGES TO ITS DEFERRED**  
10 **ACCOUNT INTEREST RATE DURING THE REVIEW PERIOD?**

11 A. Yes. PSNC has reflected its interest rate for the current federal corporate  
12 income tax rate of 21% and the state corporate income tax rate of 2.5%.  
13 All other methods and procedures used by the Company for the accrual of  
14 interest on the Deferred Gas Cost Accounts remained unchanged.

15 **Q. MR. GILBERT, DO YOU HAVE ANY RECOMMENDATIONS**  
16 **REGARDING PSNC'S DEFERRED ACCOUNT BALANCES AND ANY**  
17 **PROPOSED TEMPORARY INCREMENTS OR DECREMENTS?**

18 A. Yes, I do. The All Customers Deferred Account reflects a credit balance of  
19 (\$3,040,186), owed by the Company to customers. PSNC has proposed  
20 not to place a decrement in rates to refund this credit balance. At the end

1 of April 2019, the balance had increased to (\$360,228). The Public Staff  
2 notes that it is not unusual to have a change in deferred account balances  
3 since fixed gas costs are typically over-collected during the winter period  
4 when throughput is higher due to heating load, and under-collected during  
5 the summer when throughput is lower. The Sales Customers' Only  
6 Deferred Account reflects a credit balance of (\$699,747), owed from the  
7 Company to customers. PSNC has proposed not to place a decrement in  
8 rates for the refund of this credit balance. At the end of April the balance  
9 had decreased to (\$1,199,243).

10 PSNC has proposed not to place a increment in rates for the recovery of  
11 the credit balances, but to manage it by using the Purchased Gas  
12 Adjustment (PGA) mechanism, pursuant to N. C. Gen. Stat. § 62-133.4.  
13 During the review period, PSNC used the Purchased Gas Adjustment  
14 (PGA) mechanism to address deferred account balances that may need to  
15 be collected or refunded. Using the PGA allows for a quicker  
16 implementation of temporaries that can address balances that are more  
17 current. I believe that requiring PSNC to implement temporary rate  
18 changes in the instant docket at this time would not be productive, and,  
19 therefore, agree with the Company's proposal.

20 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

21 A. Yes.

## APPENDIX A

**SONJA R. JOHNSON****Qualifications and Experience**

I am a graduate of North Carolina State University with a Bachelor of Science and Master of Science degree in Accounting. I was initially an employee of the Public Staff from December 2002 until May 2004, and rejoined the Public Staff in January 2006.

I am responsible for analyzing testimony, exhibits, and other data presented by parties before this Commission. I have the further responsibility of performing and supervising the examinations of books and records of utilities involved in proceedings before the Commission, and summarizing the results into testimony and exhibits for presentation to the Commission.

Since initially joining the Public Staff in December 2002, I have filed testimony or affidavits in several water and sewer general rate cases. My experience also includes filing affidavits in several fuel rate cases of Duke Energy Carolinas, LLC and Dominion North Carolina Power. I have also performed audits and/or presented testimony or affidavits in Public Service Company of North Carolina Annual Gas Cost reviews.

**APPENDIX B****GEOFFREY M. GILBERT****Qualifications and Experience**

I am a graduate of North Carolina State University with a Bachelor of Science Degree in Environmental Engineering.

Prior to joining the Public Staff, I worked in the environmental field for TRC Solutions beginning in October 2008. At TRC, I specialized in air emissions testing and monitoring. Beginning in May 2015, I worked for Geo-Technology Associates, Inc., where I was responsible for completing Transaction Screens, and Phase I and II Environmental Site Assessments for a variety of sites, including residential, commercial, industrial, and brownfield.

I joined the Public Staff in August 2017 as a Public Utilities Engineer with the Natural Gas Division. My work to date includes Purchased Gas Cost Adjustment Procedures, Customer Utilization Trackers, Integrity Management Riders, Annual Review of Gas Costs Proceedings, Peak Day Demand and Capacity Calculations, and Customer Complaint Resolutions.



**JULIE G. PERRY**

Qualifications and Experience

I graduated from North Carolina State University in 1989 with a Bachelor of Arts degree in Accounting and I am a Certified Public Accountant.

Prior to joining the Public Staff, I was employed by the North Carolina State Auditor's Office. My duties there involved the performance of financial and operational audits of various state agencies, community colleges, and Clerks of Court.

I joined the Public Staff in September 1990, and was promoted to Supervisor of the Natural Gas Section in the Accounting Division in September 2000. I was promoted to Accounting Manager – Natural Gas & Transportation effective December 1, 2016. I have performed numerous audits and/or presented testimony and exhibits before the Commission addressing a wide range of natural gas topics.

Additionally, I have filed testimony and exhibits in numerous water rate cases and performed investigations and analyses addressing a wide range of topics and issues related to the water, electric, transportation, and telephone industries.