

April 13, 2023

**VIA ELECTRONIC FILING**

Ms. Shonta Dunston  
Chief Clerk  
North Carolina Utilities Commission  
430 N. Salisbury Street, Dobbs Building  
Raleigh, North Carolina 27603

**Re: Docket No. G-40, Sub 171**

Dear Ms. Dunston:

Enclosed for filing is the *Joint Proposed Order of Frontier Natural Gas Company and the Public Staff* in the above-referenced docket. A copy of the Joint Proposed Order in Word format has also been emailed to [briefs@ncuc.net](mailto:briefs@ncuc.net).

Thank you for your assistance with this matter. If you have any questions regarding this filing, you may reach me at the number shown above.

Sincerely,

/s/ Brian L. Franklin  
Brian L. Franklin

BLF/bms

Enclosure

cc: Gina Holt  
Megan Jost  
John Little  
Nathan Bell  
Taylor Younger  
James H. Jeffries

**CERTIFICATE OF SERVICE**

The undersigned hereby certifies that a copy of the attached is being served this date upon all of the parties to this docket electronically or by depositing a copy of the same in the United States Mail, First Class Postage Prepaid, at the addresses contained in the official service list in this proceeding.

This the 13th day of April, 2023.

/s/ Brooke M. Szymanski  
Brooke M. Szymanski

STATE OF NORTH CAROLINA  
UTILITIES COMMISSION  
RALEIGH

DOCKET NO. G-40, SUB 171

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of  
Application of Frontier Natural Gas ) JOINT PROPOSED ORDER  
Company for Annual Review of Gas Costs ) OF FRONTIER NATURAL  
Pursuant to N.C. Gen Stat. § 62-133.4(c) ) GAS COMPANY AND THE  
and Commission Rule R1-17(k)(6) ) PUBLIC STAFF

HEARD: Tuesday, March 7, 2023, at 10:00 a.m., in Commission Hearing Room  
2115, Dobbs Building, 430 North Salisbury Street, Raleigh, North Carolina

BEFORE: Chair Charlotte A. Mitchell, Presiding; Commissioners ToNola D. Brown-  
Bland, Daniel G. Clodfelter, Kimberly W. Duffley, Jeffrey A. Hughes, Floyd  
B. McKissick, Jr., and Karen M. Kemerait

APPEARANCES:

For Frontier Natural Gas Company:

James H. Jeffries IV, McGuireWoods LLP, 201 N. Tryon Street, Suite 3000,  
Charlotte, North Carolina 28202

Brian L. Franklin, McGuireWoods LLP, 201 N. Tryon Street, Suite 3000,  
Charlotte, North Carolina 28202

For the Using and Consuming Public:

Gina C. Holt, Staff Attorney, Public Staff – North Carolina Utilities  
Commission, 4326 Mail Service Center, Raleigh, North Carolina 27699-  
4300

John D. Little, Staff Attorney, Public Staff – North Carolina Utilities  
Commission, 4326 Mail Service Center, Raleigh, North Carolina 27699-  
4300

BY THE COMMISSION: On December 1, 2022, pursuant to N.C. Gen. Stat. § 62-  
133.4(c) and North Carolina Utilities Commission (Commission) Rule R1-17(k)(6),

Frontier Natural Gas Company (Frontier or Company) filed the testimony and schedules of Nathan Bell, President, and the testimony and exhibit of Taylor B. Younger, Manager of Compliance and Operations in connection with the annual review of Frontier's gas costs for the 12-month period ended September 30, 2022.

On December 6, 2022, the Commission issued its Order Scheduling Hearing, Requiring Filing of Testimony, Establishing Discovery Guidelines and Requiring Public Notice (Scheduling Order). The Scheduling Order set the annual review of the Company's gas costs for hearing on March 7, 2023, set pre-filed testimony dates, and required Frontier to publish notice of the hearing.

On January 9, 2023, Frontier filed the Supplemental Direct Testimony and Exhibits of Nathan Bell.

On January 18, 2023, Frontier filed an Errata to the Supplemental Direct Testimony of Nathan Bell.

On January 23, 2023, the Commission issued an Order Rescheduling Expert Witness hearing to March 14, 2023.

On February 20, 2023, the Public Staff – North Carolina Utilities Commission (Public Staff) filed the testimony of Blaise C. Michna, Engineer, Energy Division, and the joint testimony of Hemanth Meda, Financial Analyst III, Accounting Division, and Sonja R. Johnson, Financial Manager, Natural Gas and Transportation Section, Accounting Division (Public Staff Panel or Panel).

On February 21, 2023, the Company filed its Notice of Appearance for Brian L. Franklin on behalf of Frontier in this proceeding.

On February 24, 2023, Frontier and the Public Staff filed a joint motion for witnesses to be excused from attending the public hearing and requested that the pre-filed testimony and exhibits of all witnesses be received into the record without requiring the appearance of any such witnesses.

On February 28, 2023, Frontier filed its Affidavits of Publication of Public Notice of Hearing.

On March 2, 2023, the Commission issued its Order Excusing Expert Witnesses, Canceling Expert Witness Hearing, Requiring Additional Testimony, and Requiring Proposed Orders.

On March 7, 2023, this matter came on for a public witness hearing as scheduled, and all pre-filed testimony and exhibits were admitted into evidence. No public witnesses appeared at the hearing.

On March 10, 2023, Frontier filed the Second Supplemental Direct Testimony, Revised Schedules, and Direct Exhibit of Nathan Bell providing verified answers to the Commission's questions contained in Attachment A to its Order Excusing Witnesses, Canceling Expert Witness Hearing, Requiring Additional Testimony, and Requiring Proposed Orders.

On April 13, 2023, the Joint Proposed Order of Frontier and the Public Staff was filed.

No other party intervened in this docket.

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

## FINDINGS OF FACT

1. Frontier is a public utility as defined by N.C.G.S. § 62-3(23), organized and existing under the laws of the State of North Carolina with its headquarters in Elkin, North Carolina.

2. Frontier is a natural gas local distribution company (LDC), primarily engaged in the business of purchasing, transporting, distributing, and selling natural gas to approximately 4,800 customers in North Carolina, as of September 30, 2022.

3. Frontier has filed with the Commission and submitted to the Public Staff all of the 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 September 30, 2022.

5. During the review period, Frontier incurred total gas costs of \$9,439,654, which was comprised of pipeline demand charges of \$1,332,559, gas supply costs of \$8,936,911, and other gas costs of (\$829,816).

6. The appropriate Deferred Gas Cost Account balance at September 30, 2022, is a debit balance of \$1,005,001 owed to Frontier by its customers.

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

8. Frontier's hedging decisions during the review period were reasonable and prudent as part of the Company's overall Gas Supply Procurement Policy.

9. During the review period, Frontier purchased all of its gas supply under a full requirements gas supply contract.

10. Frontier's Asset Management Agreement (AMA) with UGI Energy Services, LLC (UGI), provided for up to 20,000 dekatherms (dts) a day for additional gas supply requirements delivered to Zone 5 through March 31, 2023. Frontier will begin a new asset management arrangement with Gas South in April 2023, which has more favorable terms than the AMA with UGI. Under the terms of the AMA with Gas South, Frontier will have no Zone 3 or Zone 5 fees associated per dt. Frontier will also receive a refund of \$9,500 per month for potential unused capacity.

11. Frontier utilized pipeline capacity from Transcontinental Gas Pipe Line Company, LLC (Transco). Frontier met its supply and capacity needs for the winter 2022/2023 heating season through a combination of the AMA with UGI, Transco capacity, and a peaking contract.

12. Frontier has continued its "Best Evaluated Cost" gas supply strategy policy.

13. The Company's gas costs during the review period were prudently incurred, and Frontier should be permitted to recover 100% of its prudently incurred gas costs.

14. Frontier should not be required to implement a rate adjustment in this docket.

15. It is appropriate for Frontier to use the net-of-tax overall rate of return of 5.67% as the applicable interest rate on all amounts over-collected or under-collected from customers reflected in its Deferred Gas Cost Account.

#### **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 testimonies and exhibits of Frontier witnesses Bell and Younger, the testimony of Public Staff witness Michna, and the Public Staff Panel. These

findings are essentially informational, procedural, or jurisdictional and are based on evidence uncontested by any of the parties.

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

The evidence supporting these findings of fact is contained in the testimonies of Frontier witnesses Bell and Younger, the testimony of the Public Staff witness Michna, and the Public Staff Panel, and the provisions of N.C.G.S. § 62-133.4(c) and Commission Rule R1-17(k)(6).

N.C.G.S. § 62-133.4 requires that each natural gas utility submit to the Commission information and data for an 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)(c) requires the filing of work papers, direct testimony, and exhibits supporting the information.

Frontier witness Bell testified that the Company is required to submit to the Commission, on or before December 1 of each year, certain information for the 12-month test period ended September 30 as required by Commission Rule R1-17(k). Public Staff witness Michna, and the Public Staff Panel confirmed that the Public Staff has reviewed the monthly reports filed by Frontier. The Commission, therefore, concludes that Frontier has complied with all of the procedural requirements of N.C.G.S. § 62-133.4(c) and Commission Rule R1-17(k) for the review period.

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

The evidence supporting these findings of fact is contained in the testimonies and exhibits of Frontier witness Bell and the testimony of the Public Staff Panel.



Company witness Bell's Schedule 1 reflected that Frontier's total gas costs for the review period were \$9,439,654, which was comprised of pipeline demand charges of \$1,332,559, gas supply costs of \$8,936,911 and other gas costs of (\$829,816).

The Public Staff Panel testified that they had reviewed the testimony and exhibits of the Company witnesses, the Company's monthly Deferred Gas Cost Account reports, monthly financial and operating reports, the gas supply and pipeline transportation contracts, and the Company's responses to Public Staff data requests.

Company witness Bell testified that at September 30, 2022, Frontier's Deferred Gas Cost Account had an ending debit balance of \$1,005,001.11, owed to Frontier from customers, as shown on Company witness Bell's Schedule 8. Additionally, witness Bell's Second Supplemental Direct Testimony and Direct Exhibit with Revised Schedules 1, 4, and 8 aligned the total gas cost adjustment between the provided schedules. The Public Staff Panel testified that the Company properly accounted for its gas costs during the review period.

Based on the foregoing, the Commission concludes that the appropriate Deferred Gas Cost Account balance at September 30, 2022, is a debit balance of \$1,005,001, owed to Frontier by its customers, and that Frontier has properly accounted for its gas costs incurred during the review period.

#### **EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 8**

The evidence supporting this finding of fact is contained in the testimonies and exhibits of Frontier witnesses Bell and Younger, the testimony of the Public Staff Panel, and the Commission's final Order in Docket No. G-40, Sub 163.

Ordering Paragraph 5 of the Commission's Order on Annual Review of Gas Costs issued May 3, 2022, in Docket No. G-40, Sub 163, states that "Frontier and the Public Staff shall continue to work together to discuss Frontier's Gas Supply Procurement Policy, including hedging and other price mitigation strategies, as changes to the policy are contemplated."

Witness Younger stated that Frontier met with Public Staff and the Commission's Pipeline Safety Section on June 4, 2019, to discuss Frontier's updated Gas Supply Procurement Policy and focused on Frontier's plan to utilize its Procurement Policy going forward. Witness Younger testified that, after conversations with the Public Staff in April of 2020, Frontier slightly revised the Gas Supply Procurement Policy. Both the Public Staff Panel and Company witness Younger testified that Frontier met with the Public Staff again on June 22, 2022, to discuss its procurement strategies for the upcoming winter. The Public Staff Panel testified that this meeting included discussions on hedging and other price mitigation strategies to protect customers from gas cost volatility. Witness Younger stated that as of that meeting, Frontier again slightly revised its procurement policy, which is included as Exhibit\_(TBY-1) to her direct testimony in this proceeding.

Company witness Younger further testified that Frontier is under a contract with Marquette Energy Analytics (Marquette), which provides Frontier with an annual report showing a monthly forecast for the upcoming year including an expected daily average flow and an expected daily maximum flow for each month of the upcoming year. Witness Younger stated that the report as provided by Marquette is derived from actual historical usage, historical weather patterns, and projected customer growth and affirmed that Frontier's supply planning for each review period is based off of this forecast, as it

receives this report each March to help the Company make hedging decisions for the upcoming winter. Company witness Younger testified that in order to ensure a best cost scenario without speculation, Frontier plans to make 1/6 of its total planned hedge purchase in each month of April to September to cover gas supply purchases for the months of November through March.

Witness Younger also stated that Frontier has made a conscious effort to engage the Hearthstone Utilities (HUI) Risk and Supply Committee in all aspects of its gas supply planning by providing committee members with not only weekly usage updates, but also more insight into the Company's hedging plan and purchases. Company witness Younger provided further clarity that this has created a more collaborative approach to gas supply planning by giving committee members a chance to offer their opinions and that within the past few years, Frontier has sought outside expertise for gas supply endeavors by utilizing Hearthstone's gas supply consultants, Al Harms and Len Gilmore. Witness Younger further testified that these consultants gave insight into revising Frontier's Gas Supply Procurement Plan in 2019 and helped guide the Company through the process of rationalizing and choosing its Gas Supply Asset Manager for the period of April 1, 2020 – March 31, 2023. Company witness Younger affirmed Mr. Harms's retirement from the organization on December 1, 2021, and Mr. Gilmore's retirement on October 31, 2022.

Witness Younger stated that Frontier has hired an individual to focus on Gas Supply and Procurement since she has taken on a new role as Manager of Compliance and Operations and that she will train Frontier's new hire and oversee gas supply. Frontier believes that with the additional gas supply hire, witness Younger's experience, and the

expertise available to Frontier through the HUI Risk and Supply Committee, Frontier has resources necessary for gas supply and procurement planning.

Company witness Bell testified that Frontier's Hedging Program covers the period November through March, and the net savings from the hedging program was \$1,173,316 or \$1.37 per dts supplied from November through March. Witness Bell's Schedule 11 shows a detailed breakout by month of the Hedging Program. Company witness Bell also testified that Frontier only utilizes physical hedges as part of its winter gas procurement plan and stated that as such, the net benefit of those transactions for this period were passed along to the customers on a month-to-month basis through lower cost of gas compared to the pricing that would have been paid if the gas were not hedged in advance of the winter.

Company witness Younger stated that Frontier is only able to swing on the portion of its Zone 3 firm transportation capacity that is firm primary to its City Gate, and that 3,613 dts of its 8,613 dts capacity is currently delivered on a firm primary basis to its City Gate, with the remaining 5,000 dts delivered under a firm contract which has a firm primary delivery point south of Frontier's City Gate. Company witness Bell clarified that Frontier will either need to hedge the 5,000 dts for each day of the month or purchase it for the month at a FOM index price.

Company witness Younger also stated that pursuant to its current gas supply policy, Frontier targeted up to 60% of this amount to be hedged, with the rest being purchased at an FOM index price. Witness Bell explained that if the remainder of the 3,613 capacity is needed on top of the total nominated daily gas amount made up of Zone 3 hedged gas, Zone 3 FOM index priced gas, Zone 5 hedged gas, and Zone 5 FOM index

priced gas, Frontier will purchase it at the Zone 3 Daily index price. Company witness Younger also testified that the minimum quantity of Zone 5 gas to be Forward Hedged will depend on the expected maximum day flow for each winter month and that current firm Zone 3 transportation capacity of 8,613 dts should be subtracted from the expected maximum day flow to conclude how much Zone 5 gas Frontier should purchase for that month. Witness Younger further testified that when the estimated peak day requirements for a month indicate that no Zone 5 purchases are anticipated, there will be no required Zone 5 hedge volume and confirmed that Frontier will review Zone 5 Forward Hedged quantity annually and re-establish it based on changes in system needs. Company witness Bell provided further explanation that the Company will base Zone 5 FOM purchase quantity upon considerations of the current market prices and the most current weather forecast at the time FOM nominations are due.

The Public Staff Panel testified that Frontier's Gas Supply Policy has provided an appropriate strategy to address the volatile Zone 5 daily market. The Public Staff Panel further explained that by purchasing winter hedges in each month of April to September for the upcoming winter period November through March, using FOM pricing for the remaining expected daily nominations at Zone 3 and Zone 5, as well as utilizing the 3,613 dts at Zone 3 pricing for swing volumes needed above the daily nominations, the Company's Gas Supply Policy helped mitigate the risk of price spikes to customers due to large temperature fluctuations and price volatility during the winter period. Discussing Frontier's current Gas Supply Policy, the Public Staff Panel believes that it provides a reasonable level of price mitigation during the winter months and reduced the Zone 5 daily pricing exposure to the Company, which has had a history of extremely volatile

peaks during the heating season. As changes to the policy are contemplated, the Public Staff Panel recommended that Frontier continue to work with the Public Staff to discuss its Gas Supply Policy, including hedging and other price mitigation strategies.

The Public Staff Panel testified that the appropriate standard for the review of hedging decisions by local distribution companies (LDCs) is set forth in the Commission's February 26, 2002, Order on Hedging in Docket No. G-100, Sub 84 (Hedging Order). The Panel testified that in the Hedging Order, the Commission concluded that the purpose of hedging is to reduce the volatility of commodity costs, noted that hedging involves costs and risks and that it is possible that the long term cost of hedged gas will be higher than gas bought at market prices, and stated that it understands that with the use of hedging mechanisms, costs and risks are accepted in exchange for reduced volatility. The Panel also noted that the Commission concluded that hedging is an option that must be considered in connection with an LDC's gas purchasing practices, and that it stated that an LDC's decision to make no effort to mitigate price spikes – including a decision not to hedge – would be a decision subject to review in the LDC's annual gas cost prudence review proceeding just as much as a decision to hedge.

The Public Staff Panel testified to the Commission's further conclusion in the Hedging Order that if an LDC decides to hedge in some fashion, prudently incurred costs in connection with hedging should be treated as gas costs under N.C.G.S. § 62-133.4. The Public Staff Panel provided further explanation that the Commission has stated that while such costs cannot be preapproved within the context of the annual gas cost prudence review, the Commission recognized that the review of the prudence of a decision to hedge or not to hedge should be made on the basis of the information

available at the time each decision is made, not on the basis of the information available at the time of the prudency review proceeding. The Commission then ordered that each LDC should address its current hedging policy and program in its testimony in each annual gas cost prudency review, explaining why and how it hedged or why it did not hedge during the test period.

The Public Staff Panel testified that in its opinion, based on what was reasonably known or should have been known at the time the Company made its hedging decisions affecting the review period, as opposed to the outcome of those decisions, its analysis leads it to the conclusion that the Company's decisions were prudent.

Based on the Public Staff's investigation and the review of the data filed in this docket, the Commission concludes that Frontier's hedging decisions during the review period were reasonable and prudent. The Commission directs Frontier to continue to work with the Public Staff to discuss its Gas Supply Procurement Policy, including hedging and other price mitigation strategies, as changes to the policy are contemplated.

### **EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 9-13**

The evidence supporting these findings of fact is contained in the testimonies and exhibits of Frontier witnesses Bell and Younger, the testimony of Public Staff witness Michna, and the testimony of the Public Staff Panel.

Company witness Younger testified that Frontier's current AMA contract with UGI covers the Company up to 20,000 dts a day through April 2023 and that Frontier utilized its current AMA to limit exposure to the volatile Zone 5 daily market. Witness Younger stated that in January of 2022, Frontier was covered up to 13,500 daily dts through a

combination of forward hedged Zone 3 and Zone 5 gas and Zone 3 and Zone 5 FOM nominations. The 13,500 dts covered the potential maximum daily use from Marquette while including the potential for marketer imbalances, with the goal being to avoid being subject to volatile Zone 5 Daily pricing.

Witness Younger also testified that Frontier has capacity to cover the Company up to 8,613 dts/day and, on average, Frontier used 7,330 dts/day in the coldest months of January and February 2022. Witness Younger also stated that she feels comfortable with Frontier's capacity coverage of 8,613 dts/day, as this is more than it needs on average in the winter. Company witness Younger further explained that Frontier is also constantly looking for open capacity on Transco as its customer base continues to grow. Witness Younger testified that the Company utilizes Marquette, a well-known organization with established expertise in peak day calculations for natural gas local distribution companies, for its Peak Day analysis to determine the Company's peak demand requirements for its firm customer load. Witness Younger stated that Frontier was able to follow its procurement plan to hedge and nominate FOM gas to cover the Marquette expected peak for each winter month.

Witness Younger stated that Frontier was able to continuously meet its firm customers' demands for gas throughout the winter 2021/2022 heating season without curtailment or interruption of any firm customers and explained that because of Transco Operational Flow Order (OFO) imbalances becoming more frequent, Frontier can no longer cover itself to be long every day and must make sure its nominations cover only its expected daily average. Company witness Younger provided further clarification that due to market volatility last winter resulting in FOM prices being much higher than daily



sellback prices, the Company was experiencing higher than expected losses on its FOM nominations when weather was not extremely cold resulting in Frontier's decision to cover itself with a peaking plan, which covers it up to 24,000 dts on 12 days between January and February of 2023. Witness Younger testified that Frontier had the ability to call on up to 2,000 dts daily on any 12 days, and that it would purchase the 24,000 dts at Zone 4 daily pricing should it need it. For its daily nominations, which are a combination of hedges and FOM gas Company witness Younger explained that it will still cover Frontier up to the expected average, and that the Company will still have a swing available for Zone 3 daily purchases, which will cover it on most days. Witness Younger further testified that using the covered dts amounts in Table 2 row 26 of her testimony, Frontier would have been covered 97% of days in January and February of last year. Since the Company cannot predict the weather, witness Younger stated that the peaking gas is available if it should need it due to an unforeseen cold snap in January and February 2022, and explained that Frontier had discussed the peaking option in the June 22, 2022 meeting with the Public Staff.

Company witness Younger testified that Frontier believes it will be able to continuously meet its firm customers' demands for gas throughout the winter 2022/2023 heating season without curtailment or interruption of any firm customers.

Public Staff witness Michna confirmed Company witness Younger's testimony that the Company: (1) will be operating under this same contract with UGI through March 31, 2023; (2) it will begin a new asset management arrangement with Gas South in April of 2023, which has more favorable terms than those available to Frontier under the UGI AMA that it has had in place the last three years; and (3) that under the new contract with

Gas South, Frontier will have no Zone 3 or Zone 5 fees associated per dts and will also receive a refund of \$9,500 dollars per month for potential unused capacity.

Public Staff witness Michna testified that he had reviewed Frontier's prior system peaks relative to its forecasted design day peaks, and that Frontier's peak day during the review period was January 29, 2022, with firm customers utilizing 11,288 dts. Witness Michna stated that Frontier's total firm peak system flow over the past decade occurred on January 21, 2019, at 12,195 dts, explaining further that this peak was higher than the peak day of 12,065 dts that Frontier modeled for Year 1 and is 76% of the peak day modeled for Year 5. Discussing the Company's plans to meet future system demands, Public Staff witness Michna testified that as in the recent past, Frontier has provided the peak day analysis prepared by Marquette, which the Company uses to determine its peak demand requirements for firm customer load. Having evaluated this report, witness Michna stated that it provided a reasonable forecast of Frontier's peak-day demand using reasonable assumptions, such as heating degree days (HDDs) and frequency of occurrence of cold weather events. Witness Michna explained that in response to a Public Staff data request, the Company stated that, pursuant to its contract, Marquette provided an annual report forecasting monthly expected maximum flow and a daily expected average flow in dts for the upcoming year on Frontier's system.

Public Staff witness Michna testified that for the current review period, Frontier used Marquette's monthly expected maximum flow plus a growth factor based on historical five-year averages to project the peak day flow for each month of the next five years confirming that Frontier had increased the expected peak day projection provided by Marquette to include coverage for marketer imbalance in its Expected Nomination.

Additionally, Public Staff Michna stated that due to increasingly frequent OFO's restricting gas flexibility on the Transco system to preserve operational integrity, the Company has placed a greater emphasis on ensuring nominations cover the expected daily average usage and has entered a flexible peaking contract to protect supply in January and February 2023. Based on the application of this report, witness Michna believes that Frontier has adequate capacity to serve its firm customers on its peak day.

Company witness Younger's exhibit TBY-1 describes the Company's Gas Supply Procurement Policy as a "Best Evaluated Cost" supply strategy based upon the following criteria: adequacy, flexibility, reliability/dependability of supply, cost of gas, stability of costs incurred and quality of supplier, including their creditworthiness and reliability.

Witness Michna stated that the Company had responded in a data request response that it was analyzing different options for system redundancy and meeting with other suppliers about the possibility of expanding to their interstate pipeline networks and will continue to evaluate redundancy options.

Discussing changes in the Company's customers and the throughput since its last annual review of gas costs proceeding, Public Staff witness Michna testified that Frontier's customer count decreased by 1.35% which is due to an adjustment made by Frontier on January 1, 2022, to reflect the correct customer count on its system. Witness Michna explained that upon noting a discrepancy between active accounts and the customer numbers reflected in the Company's January 2022 monthly filing in Docket No. G-100, Sub 24A<sup>1</sup>, the Company adjusted its customer count and adjusted its internal processes to audit customer accounts quarterly to prevent this issue from reoccurring. Based on the

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<sup>1</sup> Proceeding instituted April 24, 1975, for the purpose of evaluating Revised Rule R6-19.2, Priorities for Curtailment of Service.

Company's responses to Public Staff data requests and discussions, witness Michna testified that the Company has provided assurances to the Public Staff that the adjusted customer counts would not impact gas planning or procurement strategies. Noting a decrease of 5.73% in HDDs in the current review period compared to the last review period, witness Michna testified that this suggests that growth in the review period was primarily driven by system expansion and that the overall Sales and Transportation volumes, expressed in dts, increased by 0.24% relative to the 2021 review period<sup>2</sup>.

Based on the Public Staff's investigation and the review of the data filed in this docket, the Commission concludes that the Company's gas costs incurred during the review period were reasonable and prudently incurred, that the Company's gas purchasing decisions were prudent, and that the Company 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 testimonies, exhibits, and schedules of Company witness Bell, testimony of Public Staff witness Michna, and testimony of the Public Staff Panel.

The Public Staff Panel testified that they agreed with Frontier's Deferred Gas Cost Account debit balance of \$1,005,001, owed to the Company by the customers.

Company witness Bell did not propose any temporary rate increments or decrements (temporaries) in this proceeding. Public Staff witness Michna testified that in response to a Public Staff data request, Frontier stated observing the deferred account balances to fluctuate throughout the winter and decrease in the shoulder months and that

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<sup>2</sup> Company's revised filing under G-100, Sub 24A

pursuant to N.C.G.S § 62-133.4, the Company does not expect to make a Purchased Gas Adjustment (PGA) filing during the winter months but affirmed that Frontier will monitor gas pricing to determine if it necessitates a PGA filing. Witness Michna noted that the deferred account balances vary between winter and summer months, as gas costs are typically over-collected during the winter period when throughput is higher due to heating load and under-collected during the summer due to lower throughput and recommended that the Company monitor the deferred account balance and, if necessary, file an application for authority to adjust its benchmark delivered cost of gas through its PGA mechanism in order to keep the deferred account balance at a reasonable level. Public Staff witness Michna testified that he believes the Company is actively managing its deferred account through the PGA procedures and did not recommend any temporary rate increments or decrements.

Based on the foregoing, the Commission concludes that Frontier should not be required to implement a rate adjustment in this proceeding. The Commission agrees that Frontier should monitor the deferred account balance and, if needed, file an application for authority to implement new temporary increments or decrements through the PGA mechanism in order to keep the deferred account balance at a reasonable level.

#### **EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 15**

The evidence for this finding of fact is contained in the testimonies and exhibits of Company witness Bell and the testimony of the Public Staff Panel.

The Public Staff Panel testified that it reviewed the Company's interest rate calculations Pursuant to Commission Order issued on December 6, 2022, in this docket. Witness Bell filed supplemental direct testimony and exhibits calculating the annual

interest rate approved in Finding of Fact No.16 of the Commission Order dated June 8, 2018, in Docket No. G-40, Sub 145; provided corrected supplemental testimony on January 18, 2023; and determined that an adjustment to the interest rate was necessary. Company witness Bell provided the Company's calculated net-of-tax interest rate of 5.67% for all deferred accounts, adjusted as appropriate for income taxes which will be applicable to the deferred account balances, to become effective on January 1, 2023, upon Commission approval in this docket as provided in the Company's tariff. The Public Staff Panel testified that it has reviewed the Company's interest rate calculations and found that it was appropriate for Frontier to change its interest rates from 6.60% to 5.67%. The Public Staff Panel stated that it will continue to review the interest rate each month to determine if an adjustment is needed.

Based on the foregoing, the Commission concludes that it is appropriate for Frontier to use the net-of-tax overall rate of return of 5.67% as the applicable interest rate on all amounts over-collected or under-collected from customers reflected in its Deferred Gas Cost Account.

IT IS, THEREFORE, ORDERED as follows:

1. That Frontier's accounting for gas costs during the 12-month period ended September 30, 2022, is approved;
2. That subject to the deferred account adjustment provided for in the Public Staff panel testimony, the gas costs incurred by Frontier during the 12-month period ended September 30, 2022, were reasonably and prudently incurred, and Frontier is hereby authorized to recover 100% of its gas costs incurred during the period of review;

3. That Frontier's hedging activities during the review period were reasonable and prudent;

4. That Frontier shall not implement any temporary rate changes in this docket;

5. That Frontier and the Public Staff shall continue to work together to discuss its Gas Supply Procurement Policy, including hedging and other price mitigation strategies, as changes to the policy are contemplated;

6. That Frontier shall continue to closely monitor the deferred account balance and, if necessary, file an application for authority to adjust its benchmark delivered cost of gas through its PGA mechanism;

7. That Frontier shall continue to use the net-of-tax overall rate of return of 5.67% as the applicable interest rate on all amounts over-collected or under-collected from customers reflected in its Deferred Gas Cost Account; and

8. That the Public Staff shall continue to review the interest rate each month to determine if an adjustment is warranted.

ISSUED BY ORDER OF THE COMMISSION.

This the \_\_ day of \_\_\_\_, 2023.

NORTH CAROLINA UTILITIES COMMISSION

Antonia Dunston, Chief Clerk