



**NORTH CAROLINA
PUBLIC STAFF
UTILITIES COMMISSION**

October 18, 2019

Ms. Kimberley A. Campbell, Chief Clerk
North Carolina Utilities Commission
4325 Mail Service Center
Raleigh, North Carolina 27699-4300

Re: Docket No. G-41, Sub 54

Dear Ms. Campbell:

In connection with the above-captioned docket, I transmit herewith for filing on behalf of the Public Staff the Joint Testimony of Neha R. Patel, Utilities Engineer, Natural Gas Division; Iris Morgan, Accountant, Accounting Division; and Julie G. Perry, Accounting Manager of the Natural Gas & Transportation Section, Accounting Division.

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

TOCCOA NATURAL GAS
DOCKET NO. G-41, SUB 54
JOINT TESTIMONY OF
NEHA R. PATEL, IRIS MORGAN, AND JULIE G. PERRY
ON BEHALF OF
THE PUBLIC STAFF – NORTH CAROLINA UTILITIES COMMISSION
OCTOBER 18, 2019

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

3 A. My name is Neha R. Patel, and my business address is 430 North
4 Salisbury Street, Raleigh, North Carolina. I am a Utilities Engineer
5 with the Natural Gas Division of the Public Staff. My qualifications
6 and experience are 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 evaluate the prudence of the
10 natural gas purchases made by Toccoa Natural Gas (Toccoa or
11 Company), and (2) to discuss my recommendation regarding any
12 temporary rate increments or decrements.

13 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND**
14 **PRESENT POSITION.**

1 A. My name is Iris Morgan, and my business address is 430 North
2 Salisbury Street, Raleigh, North Carolina. I am an Accountant in
3 the Accounting Division of the Public Staff. My qualifications and
4 experience are provided in Appendix B.

5 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
6 **PROCEEDING?**

7 A. The purpose of my testimony is (1) to present the results of my
8 review of the gas cost information filed by Toccoa in accordance
9 with N.C. Gen. Stat. § 62-133.4(c) and Commission Rule R1-
10 17(k)(6), and (2) to provide my conclusions regarding whether the
11 gas costs incurred by Toccoa during the 12-month review period
12 ended June 30, 2019, were properly accounted for, and (3) discuss
13 any changes to the deferred account reporting during the review
14 period.

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

17 A. My name is Julie G. Perry, and my business address is 430 North
18 Salisbury Street, Raleigh, North Carolina. I am the Accounting
19 Manager of the Natural Gas & Transportation Section in the
20 Accounting Division of the Public Staff. My qualifications and
21 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 Toccoa's hedging activities
5 during 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
9 witnesses, the Company's monthly Deferred Gas Cost Account
10 reports, monthly financial and operating reports, the gas supply,
11 pipeline transportation and storage contracts, and the Company's
12 responses to Public Staff data requests. The responses to the
13 Public Staff data requests contained information related to Toccoa's
14 gas purchasing philosophies, customer requirements, and gas
15 portfolio mixes.

16 **Q. MS. PATEL, WHAT IS THE RESULT OF YOUR EVALUATION OF**
17 **TOCCOA'S GAS COSTS?**

18 A. Based on my investigation and review of the data in this docket, I
19 believe that Toccoa's gas costs were prudently incurred.

20 **Q. MS. PATEL, PLEASE DESCRIBE TOCCOA AND ITS**
21 **OPERATIONS IN NORTH CAROLINA.**

1 A. Toccoa is a municipal corporation created by the laws of the State
2 of Georgia. It has been providing natural gas service in Georgia
3 since 1952, and in Macon County, North Carolina since 1998. It is
4 a full requirements wholesale customer of the Municipal Gas
5 Authority of Georgia (Gas Authority), which manages its capacity,
6 storage, and supply contracts.

7 Toccoa's total sales volume for the annual review year ended
8 June 30, 2019, was 1,378,123 dekatherms (dts), of which 140,688
9 dts (10.2%) were sold in North Carolina.

10 It is expected that Toccoa will experience incremental growth over
11 the next five years as the expansion of its system continues. As
12 necessary, the Gas Authority assists Toccoa in acquiring the most
13 cost effective combination of pipeline, storage, and peaking
14 capacities on the system of Transcontinental Gas Pipe Line
15 Company, LLC (Transco), based on least cost and operational
16 flexibility.

17 **Q. MS. MORGAN, HAS THE COMPANY PROPERLY ACCOUNTED**
18 **FOR ITS GAS COSTS DURING THE REVIEW PERIOD?**

19 A. Yes.

20 **Q. MS. PATEL, WHAT OTHER ITEMS DID THE NATURAL GAS**
21 **DIVISION REVIEW?**

1 A. Even though the scope of Commission Rule R1-17(k) is limited to a
2 historical review period, the Public Staff's Natural Gas Division also
3 considers other information received pursuant to the data requests
4 in order to anticipate the Company's requirements for future needs,
5 including design day estimates, forecasted gas supply needs,
6 projection of capacity additions and supply changes, and customer
7 load profile changes.

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

9 **Q. MS. MORGAN, HOW DOES THE ACCOUNTING DIVISION GO**
10 **ABOUT CONDUCTING ITS REVIEW OF THE COMPANY'S**
11 **ACCOUNTING FOR GAS COSTS?**

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

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

21 (2) **Temporary Increments and/or Decrements** -
22 Calculations and supporting data are verified regarding the

1 collections from and/or refunds to customers that have
2 occurred through the Deferred Gas Cost Account.

3 (3) **Hedging Transactions** - The hedged cost of gas
4 prices are traced to the supporting documentation and are
5 verified for mathematical accuracy.

6 (4) **Supplier Refunds** - In Docket No. G-100, Sub 57, the
7 Commission held that, unless it orders refunds to be handled
8 differently, supplier refunds should be flowed through to
9 ratepayers through a company's deferred account. I
10 reviewed documentation received by the Company from its
11 suppliers to ensure that the amount received by the
12 Company is flowed through to ratepayers.

13 (5) **Interest Accrual** - Toccoa began calculating interest
14 on its Deferred Gas Cost Account in October 2016.
15 Calculations of the interest accrued on the account balance
16 during the month are verified in accordance with N.C. Gen.
17 Stat. § 62-130 (e).

18 **Q. HOW DO THE COMPANY'S FILED GAS COSTS FOR THE**
19 **CURRENT REVIEW PERIOD COMPARE WITH THOSE FOR THE**
20 **PRIOR REVIEW PERIOD?**

21 A. Toccoa's total company gas costs for the current review period
22 were \$5,407,265, compared to the prior year's costs of \$4,893,027.

1 The North Carolina portion of gas costs incurred during the current
 2 review period was \$428,903, compared with \$411,310 for the prior
 3 period. The components of gas costs incurred for the two periods
 4 are as follows:

	12 Months Ended		Increase (Decrease)	% Change
	June 30, 2019	June 30, 2018		
Transco Pipeline Charges:				
Cherokee - FT	\$213,100	\$212,882	\$218	0.10%
Converted Firm Transp. - CFT	145,436	133,163	12,273	9.22%
South Coast - FT Mainline	123,161	124,598	(1,437)	-1.15%
Sunbelt 1997 - FT	38,327	39,451	(1,124)	-2.85%
Capacity Release Credits	(14,780)	(14,033)	(747)	5.32%
Total Transco Pipeline Charges	\$505,244	\$496,061	\$9,183	1.85%
Storage/Peaking Services:				
Transco LGA	\$24,355	\$20,736	\$3,619	17.45%
Pine Needle Capacity	97,189	88,868	8,321	9.36%
Total Storage/Peaking Services	\$121,544	\$88,868	\$32,676	36.77%
Total Demand and Storage Costs	\$626,788	\$584,929	\$41,859	7.16%
Gas Supply Costs:				
Authority Gas Supply FT	\$4,400,536	\$3,867,571	\$532,965	13.78%
Supply Charge-meters and throughput	113,981	112,939	1,042	0.92%
Pine Needle Supply	41,195	87,765	(46,570)	-53.06%
LNG Withdrawal	16,714	17,484	(770)	-4.40%
FT Released Capacity Supply	60,226	51,052	9,174	17.97%
Authority G&A Charges	144,241	141,791	2,450	1.73%
Swing Supply Charges ¹	64,610	54,178	10,432	19.26%
Total Gas Supply Costs	\$4,841,503	\$4,332,780	\$508,723	11.74%
Total Other Gas Costs	(\$61,027)	(\$24,682)	(\$36,345)	147.25%
Total Company Gas Costs	\$5,407,265	\$4,893,027	\$514,238	10.51%
NC Portion of Total Gas Costs	\$428,903	\$411,310	\$17,593	4.28%

¹Reclassified Swing Supply Charges to Gas Supply Costs in prior period. Total Gas Supply Costs remain unchanged.

5 **Q. PLEASE EXPLAIN ANY SIGNIFICANT INCREASES OR**
 6 **DECREASES IN DEMAND AND STORAGE CHARGES.**

7 A. The increases in **Cherokee – FT and Converted Firm**
 8 **Transportation (CFT)** are primarily due to changes in Transco's

1 rates pursuant to Federal Energy Regulatory Commission (FERC)
2 Docket No. RP19-800-000 effective April 1, 2019.

3 The decreases in **South Coast – FT Mainline and Sunbelt 1997 –**
4 **FT** are primarily due to changes in Transco’s rates pursuant to
5 FERC Docket No. RP18-1126-000, which became effective March
6 1, 2019.

7 **Capacity Release Credits** are margins earned by Toccoa for the
8 release of unutilized pipeline capacity. These credits increased
9 during the current review period primarily due to the Gas Authority
10 releasing more of Toccoa’s unutilized capacity during the period.
11 Toccoa’s policy has always been to flow through 100% of its
12 capacity release credits to ratepayers.

13 The increase in **Transco LGA** is primarily due to changes in
14 Transco’s rates pursuant to FERC Docket No. RP18-1126-000, and
15 Docket No. RP19-800-000, which became effective March 1, 2019
16 and April 1, 2019, respectively.

17 The increase in **Pine Needle Capacity** is primarily due to changes
18 in Transco’s rates pursuant to FERC Docket No. RP19-945-000,
19 which became effective May 1, 2019.

20 **Authority Gas Supply FT** charges increased primarily due to
21 higher wellhead gas prices during this review period compared with

1 the prior review period. This increase is generally consistent with
2 the changes in market indices experienced between the two
3 periods.

4 The **Supply Charge – meters and throughput** is a charge based
5 on the number of meters on Toccoa's system and its monthly
6 pipeline throughput. These charges represent additional gas
7 supply costs incurred in order to provide gas service to its
8 customers.

9 The decrease in **Pine Needle Supply** is primarily due to a
10 decrease in the level of volumes during the current review period as
11 compared to the prior period.

12 The decrease in **LNG Withdrawal** is due to the fact that there was
13 a decrease in LNG Withdrawals during the current review period.

14 **FT Released Capacity Supply** is excess supply available from
15 other members of the Gas Authority that is used to meet Toccoa's
16 needs. During the review period, these charges increased primarily
17 due to higher gas prices during this review period as compared with
18 the prior review period.

19 **Authority G&A Charges** include items for general and
20 administrative costs based on the number of meters and
21 throughput. These charges increased due to an increase in the

1 Gas Authority's operating costs during the current review period as
2 compared to the prior review period.

3 **Swing Supply Charges** are charges assessed by the Gas
4 Authority to its members for additional daily supply requirements,
5 primarily during the winter months. The increase is primarily due to
6 higher allocated Swing Supply charges during the current review
7 period as compared to the prior period.

8 **Total Other Gas Costs** decreased due to lower charges from
9 Toccoa's total company hedging program during the current review
10 period as compared to the prior period.

11 **HEDGING ACTIVITIES**

12 **Q. MS. PERRY, WHAT IS THE STANDARD SET FORTH BY THE**
13 **COMMISSION FOR EVALUATING THE PRUDENCE OF A**
14 **COMPANY'S HEDGING DECISIONS?**

15 A. In its February 26, 2002, Order on Hedging in Docket No. G-100,
16 Sub 84 (Hedging Order), the Commission stated that the standard
17 for reviewing the prudence of hedging decisions is that the decision
18 "must have been made in a reasonable manner and at an
19 appropriate time on the basis of what was reasonably known or
20 should have been known at that time." Hedging Order, 92 NCUC 4,
21 11-12 (2002).

22

1 **Q. PLEASE DESCRIBE THE COMPANY'S HEDGING PROGRAM.**

2 A. Toccoa participates in the "Winter Hedge Program," which is
3 managed by the Gas Authority for its members, including Toccoa.
4 The Gas Authority is the largest non-profit joint action natural gas
5 agency in the nation and supplies the natural gas needs of 78
6 member cities. The goal of the "Winter Hedge Program" is to
7 achieve price stability at a reasonable price for its customers by
8 locking-in futures prices for a portion of the anticipated winter firm
9 load. Under the Gas Authority's "Winter Hedge Program," a
10 member enters into hedging arrangements with the Gas Authority
11 specifying the targeted level of volumes to hedge. These hedging
12 arrangements typically span two to three years.

13 **Q. PLEASE COMMENT ON THE TYPES OF FINANCIAL**
14 **INSTRUMENTS THAT THE GAS AUTHORITY MAY USE IN ITS**
15 **HEDGING PROGRAM.**

16 A. The Gas Authority typically uses three-way options, basis swaps,
17 and fixed price swaps. A three-way option involves the purchase of
18 a call option, the sale of a put option, and the sale of a call option at
19 a strike price that is above the strike price of the purchased call
20 option. The three-way option offers upside protection over the
21 spread in the strike prices of the two call options, and allows
22 downside participation until prices drop below the strike price of the
23 put option. A basis swap is used to lock in the price difference

1 between a Transco pricing point and Henry Hub (NYMEX), the
2 pricing point typically used by the Gas Authority. Fixed price swaps
3 provide the most upside protection, effectively locking in a forward
4 purchase price, but offer no downside participation if prices drop.

5 **Q. PLEASE DESCRIBE THE HEDGING ACTIVITY OF THE GAS**
6 **AUTHORITY DURING THE REVIEW PERIOD.**

7 A. During the current review period, the hedging program resulted in a
8 (\$2,674) credit to Toccoa's gas supply costs for North Carolina
9 customers.

10 **Q. HAS TOCCOA MADE ANY CHANGES TO ITS HEDGING**
11 **ARRANGEMENTS WITH THE GAS AUTHORITY?**

12 A. Yes. During the current review period, Toccoa continued to elect to
13 hedge its winter hedge volumes at approximately 20% of all firm
14 North Carolina gas sales of through March 2019.

15 Toccoa reviewed its current Winter Hedge Program participation
16 and elected to continue its winter hedge volumes at approximately
17 20% of all firm North Carolina gas sales for November 2019
18 through March 2021. Toccoa continued to adopt the more
19 conservative hedge volumes for its participation in the Winter
20 Hedge Program because market and future pricing has been
21 significantly lower than in prior years. Toccoa also elected to

1 continue the maximum hedging program term offered by the Gas
2 Authority of two years beginning November 1, 2019.

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

5 A. Based on what was reasonably known or should have been known
6 by Toccoa at the time the Company made its hedging decisions
7 affecting the review period, as opposed to the outcome of those
8 decisions, my analysis leads me to the conclusion that the
9 decisions were prudent.

10 **DESIGN DAY REQUIREMENTS**

11 **Q. MS. PATEL, AS TO THE COMPANY'S FUTURE CAPACITY**
12 **REQUIREMENTS, WHAT DID YOU REVIEW AND HAVE YOU**
13 **DRAWN ANY CONCLUSION FROM YOUR REVIEW?**

14 A. I reviewed the Company's testimony and information submitted by
15 the Company in response to data requests that dealt with how well
16 the projected firm demand requirements aligned with the available
17 capacity in the future.

18 From my review, I concluded that it appears that the Company has
19 adequate capacity to meet firm demand for the next several winter
20 seasons.

21

1

DEFERRED ACCOUNT REPORTING

2 **Q. MS. MORGAN, DID TOCCOA HAVE ANY CHANGES TO ITS**
3 **DEFERRED ACCOUNT INTEREST RATE REPORTING DURING**
4 **THE REVIEW PERIOD?**

5 A. No. Based on discussions with the Public Staff regarding the
6 recurring credit balances in the Company's Deferred Gas Cost
7 Account, and in accordance with N.C. Gen. Stat. § 62-130(e), on
8 October 1, 2016, Toccoa began calculating interest on its deferred
9 account using the overall rate of return approved by the
10 Commission in its Order Granting Certificate of Public Convenience
11 and Necessity to the City of Toccoa and the Municipal Gas
12 Authority of Georgia issued December 8, 1998, in Docket No. G-41,
13 Sub 0. The current interest rate applied to the deferred account is
14 the overall rate of return, not the net-of-tax overall rate of return,
15 and has remained unchanged because Toccoa is exempt from
16 federal income tax and it does not pay income taxes in North
17 Carolina as Toccoa is a municipality. The calculations of the
18 interest accrued on the account balance during the month are
19 verified in accordance with N.C. Gen. Stat. § 62-130 (e). The
20 Public Staff agrees with this interest rate.

21 **Q. MS. MORGAN, BASED ON YOUR REVIEW OF GAS COSTS IN**
22 **THIS PROCEEDING AND MS. PATEL'S OPINION THAT THE**
23 **COMPANY'S GAS COSTS WERE PRUDENTLY INCURRED,**

1 **WHAT IS THE APPROPRIATE DEFERRED ACCOUNT**
 2 **BALANCE AS OF JUNE 30, 2019?**

3 A. The balance in Toccoa's Deferred Gas Cost Account at June 30,
 4 2018, is a \$22,850 credit balance, owed to customers. The
 5 following chart summarizes Toccoa's Deferred Gas Cost Account
 6 activity for the current review period:

Deferred Account Balance - July 1, 2018	(\$7,261)
Commodity True-up	9,557
Demand True-Up	(63,152)
Firm Hedges	(2,674)
(Increment) Decrement	41,833
Adjustment	(324)
Interest	(830)
Deferred Account Balance - June 30, 2019	<u>(\$22,850)</u>

7 **Q. MS. PATEL, WHAT IS YOUR RECOMMENDATION REGARDING**
 8 **ANY PROPOSED INCREMENTS/DECREMENTS?**

9 A. In general, temporary increments or decrements for a local
 10 distribution company (LDC) are calculated using the volumes from
 11 an LDC's last general rate case. As Toccoa has never had a
 12 general rate case, the Public Staff has previously recommended,
 13 and the Commission has previously approved, using the review
 14 period North Carolina firm sales volumes instead in this calculation.

15 Toccoa's Deferred Account balance as of June 30, 2019, is a credit
 16 balance of \$22,850, owed to customers from the Company. At the
 17 end of August 2019, the over-collection had decreased to credit
 18 balance of \$18,153, owed to customers. The Company estimates

1 that the balance will flip to an under-collection going into the 2019
2 winter period and then swing back to an over-collection as the
3 winter period progresses. It is my recommendation that the
4 Company leave the current decrement of \$0.4397 per dt that was
5 placed into rates effective January 1, 2018, in Docket No. G-41,
6 Sub 50. The Public Staff made the same recommendation in
7 Toccoa's prior annual review of gas costs proceeding in Docket No.
8 G-41, Sub 53, which was approved by the Commission. I further
9 recommend that Toccoa continue to monitor the balance in its
10 Deferred Account and file a request to implement new temporary
11 increments or decrements, as applicable, through the Purchased
12 Gas Cost Adjustment mechanism to avoid significant over-
13 collection of its fixed gas costs. It is my understanding that Toccoa
14 does not oppose these recommendations.

15 **Q. DOES THIS CONCLUDE THE PUBLIC STAFF'S TESTIMONY?**

16 A. Yes, it does.

QUALIFICATIONS AND EXPERIENCE**OF****NEHA R. PATEL
UTILITIES ENGINEER****PUBLIC STAFF – NORTH CAROLINA UTILITIES COMMISSION
NATURAL GAS DIVISION**

I graduated from the University Of Mumbai in 1995 with a Degree of Bachelor of Science in Electronic Engineering. I began working as a Utilities Engineer with the Natural Gas Division of the Public Staff in February of 2014.

My most current work experience with the Natural Gas Division includes the following topics:

1. Purchase Gas Cost Adjustment Procedures;
2. Tariff Filings;
3. Customer Utilization Trackers;
4. Special Contract Review and Analysis;
5. Weather Normalization Adjustments;
6. Customer Complaint Resolutions;
7. Integrity Management Riders
8. Franchise Exchange Filings;
9. Annual Review of Gas Costs Proceedings;
10. Cost Of Service Study;
11. General Rate Case Proceedings;
12. Rate Design;
13. Compressed Natural Gas Special Contracts
14. Peak Day Demand and Capacity Calculations; and
15. Fuel and Electric Usage Trackers
16. Gas Resellers.

IRIS MORGAN

Qualifications and Experience

I graduated from North Carolina Wesleyan College with a Bachelor of Science in Accounting and Business Administration in 2007. Also, I graduated from Keller Graduate School of Management with a Master of Accounting and Financial Management (2011), Master of Business Administration (2013), and a Master of Public Administration (2014).

Prior to joining the Public Staff, I was employed by WorldCom, Inc., as a CORE Analyst. My duties included providing customer service support and addressing customer billing and reporting requirements.

I joined the Public Staff in September 2002 as an Administrative Assistant. In 2006, I was promoted to a Consumer Services Complaint Analyst, where I resolved numerous consumer complaints and performed utility reporting analysis. Once I completed my Accounting degree, I was promoted to a Public Staff Accountant in December of 2008.

I have performed audits and filed testimony and exhibits in a number of water rate cases and assisted in investigations addressing a wide range of topics and issues related to the water, electric, and gas industries.

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.