

**STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH**

DOCKET NO. G-41, SUB 58

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

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

HEARD: Wednesday, November 2, 2022, at 10:00 a.m., in Commission Room 2115,
Dobbs Building, 430 North Salisbury Street, Raleigh, North Carolina
(Public Witness Hearing, Hearing Examiner Jenny Li, Presiding)

BEFORE: Commissioner ToNola D. Brown-Bland, Presiding; Commissioner Jeffrey A.
Hughes and Commissioner Floyd B. McKissick, Jr.

APPEARANCES:

For Toccoa Natural Gas:

Gray Styers and Joel R. White, Fox Rothschild LLP, 230 N. Elm Street,
Suite 1200 Greensboro, NC 27401

David T. Drooz, Fox Rothschild LLP, 434 Fayetteville Street, Suite 2800,
Raleigh, North Carolina 27601

For the Using and Consuming Public:

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

BY THE COMMISSION: On September 1, 2022, pursuant to N.C. Gen. Stat. § 62-133.4(c) and Commission Rule R1-17(k)(6), Toccoa Natural Gas (Toccoa or Company), filed the direct testimony and exhibits of Rai Trippe, Member Support Senior Consultant for the Municipal Gas Authority of Georgia (Gas Authority), and Harry Franklin Scott, Jr., Utilities Director for the City of Toccoa, Georgia, in connection with the annual review of Toccoa’s gas costs for the 12-month period ended June 30, 2022.

On September 9, 2022, the Commission issued its Order Scheduling Hearing, Requiring Filing of Testimony, Establishing Discovery Guidelines and Requiring Public Notice (Scheduling Order). The Scheduling Order established a hearing date of

November 2, 2022, at 10:00 a.m., to be held in Commission Hearing Room 2115, Dobbs Building, 430 North Salisbury Street, Raleigh, North Carolina. Further, the Scheduling Order set dates for pre-filing the testimony and exhibits of parties and required Toccoa to give at least 30 days prior notice to its customers of the hearing on this matter.

On October 7, 2022, Toccoa filed its Affidavit of Publication evidencing its publication of a Public Notice of the hearing, as required by the Scheduling Order.

On October 18, 2022, the Public Staff filed the testimony of Neha R. Patel, Manager of the Natural Gas Section of the Energy Division, and Hemanth Meda, Financial Analyst III, Accounting Division.

On October 20, 2022, the Public Staff and Toccoa filed a joint motion to excuse the appearance of all expert witnesses at the hearing scheduled in this proceeding for November 2, 2022, and to allow all pre-filed testimony and exhibits to be entered into the record without the appearance of the witnesses. The joint motion stated that the parties had agreed to waive cross-examination of all expert witnesses.

On October 28, 2022, the Commission issued its Order Excusing Expert Witnesses, Accepting Testimony and Exhibits, and Canceling Expert Witness Hearing. In its Order, the Commission found good cause to excuse all Toccoa and Public Staff witnesses from testifying at the expert witness hearing, to receive the witnesses' pre-filed testimony and exhibits into evidence, and to cancel the expert witness hearing scheduled for November 2, 2022. The Commission also found good cause to require that the parties file proposed orders, or a joint proposed order, on or before December 2, 2022, and that the parties file briefs by the same date, if they desired to file briefs.

This matter came on for the public witness hearing as scheduled on November 2, 2022, before Hearing Examiner Jenny Li. No public witnesses appeared at the hearing.

On November 11, 2022, Toccoa and the Public Staff filed their Joint Proposed Order.

Based on the testimony, exhibits, and the entire record in this proceeding, the Commission makes the following

FINDINGS OF FACT

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

2. Toccoa is primarily engaged in the business of purchasing, transporting, distributing, and selling natural gas to approximately 6,670 retail customers of which approximately 779 are in North Carolina.

3. Toccoa has filed with the Commission and submitted to the Public Staff all information required by N.C.G.S. § 62-133.4(c) and Commission Rule R1-17(k) and has complied with the procedural requirements of such statute and rule.
4. The review period in this proceeding is the 12 months ended June 30, 2022.
5. During the review period, Toccoa incurred total North Carolina gas costs of \$648,225.
6. On June 30, 2022, Toccoa had a credit balance of \$82,795, owed by Toccoa to customers, in its Deferred Gas Cost Account.
7. Toccoa properly accounted for its gas costs during the review period.
8. Toccoa's hedging activities during the review period were reasonable and prudent.
9. Toccoa has transportation and storage contracts with interstate pipelines that provide for the transportation of gas to Toccoa's system, and a gas supply arrangement with the Municipal Gas Authority of Georgia (Gas Authority).
10. Toccoa released unutilized capacity during the review period, which generated \$25,113 of cost savings to mitigate the cost of demand capacity over the review period, and all capacity release credits earned were flowed through to ratepayers.
11. Through its membership in the Gas Authority, Toccoa uses a "portfolio approach" gas purchasing policy that consists of four main components: long-term firm supply arrangements, short-term spot market purchases, seasonal peaking, and contract storage services.
12. Toccoa's gas purchasing policy and practices during the review period were prudent, and its gas costs during the review period were prudently incurred.
13. Toccoa should be permitted to recover 100% of its prudently incurred gas costs.
14. As a result of this proceeding, Toccoa should replace the current temporary rate decrement of \$0.4470 per dekatherm (dt) with a new temporary rate of decrement of \$0.8180 per dt, as recommended by the Public Staff and not opposed by Toccoa.
15. It is appropriate for Toccoa to continue to apply an interest rate of 5.83% to its Deferred Gas Cost Account for the review period. It is appropriate that Toccoa not adjust its Deferred Gas Cost Account interest rate for known tax changes, as it is exempt from federal income tax, and it does not pay income taxes in North Carolina due to its status as a municipality.

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

The evidence supporting these findings is contained in the official files and records of the Commission, the testimony and schedules and exhibit of Toccoa witness Trippe and the testimony of Toccoa witness Scott. These findings are essentially informational, procedural, or jurisdictional and are not contested by any party.

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

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

Pursuant to N.C.G.S. § 62-133.4(c), Toccoa is required to submit to the Commission information and data for a historical 12-month review period concerning its actual cost of gas, volumes of purchased gas, sales volumes, negotiated sales volumes, and transportation volumes. Commission Rule R1-17(k)(6)(a) establishes June 30, 2022, as the end date of the annual review period for Toccoa in this proceeding. Commission Rule R1-17(k)(6)(c) requires Toccoa to file certain information and data showing weather-normalized sales volumes, supporting work papers, and direct testimony and exhibits.

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

Based on the foregoing, the Commission concludes that Toccoa has complied with all procedural requirements of N.C.G.S. § 62-133.4(c) and Commission Rule R1-17(k) for the 12-month review period ended June 30, 2022.

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

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

Toccoa witness Trippe testified that Toccoa incurred total North Carolina gas costs of \$648,225 during the review period, which was comprised of demand and storage costs of \$87,929 and commodity costs of \$576,195, offset by other credits of \$15,899, as shown on his Schedule 1.¹

¹ Witness Trippe's Schedule 1 included the storage costs of \$87,929 and commodity costs of \$576,195, offset by other credits of \$15,899. Witness Trippe's Schedule 1 was filed under seal as a confidential document. However, Toccoa and the Public Staff filed a Joint Proposed Order (JPO) as a public

Public Staff witness Meda testified that as of June 30, 2022, the balance in Toccoa's Deferred Gas Cost Account was a credit balance of \$82,795, owed by Toccoa to customers. Witness Meda also testified that Toccoa's Deferred Gas Cost Account consisted of the following activity: Commodity True-up of \$10,666, Demand True-up of (\$72,003), Firm Hedges of (\$15,899), Decrement of \$44,763, and Interest of (\$3,642). Witness Meda stated that every month the Public Staff reviews the Deferred Gas Cost Account reports filed by Toccoa for accuracy and reasonableness and performs audit procedures on the calculations. Witness Meda also testified that Toccoa had properly accounted for its gas costs during the review period.

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

EVIDENCE AND CONCLUSIONS FOR FIND OF FACT NO. 8

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

Toccoa witness Trippe testified that Toccoa participates in the Gas Authority's "Winter Hedge Program" under the Authority's Option 2, which allows Toccoa to rely on the Gas Authority's advice on locking in future prices for a portion of Toccoa's firm load. Witness Trippe stated that the Gas Authority's objective in hedging prices is to achieve price stability at a reasonable level for its members' retail customers, and that this objective was accomplished by locking in future prices on approximately 21.6% of its forecasted firm gas sales from November 2021 through March 2022.

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

Public Staff witness Meda testified that when a Gas Authority member enters into hedging arrangements with the Gas Authority, the member specifies the targeted level of volumes to hedge and that these arrangements typically span two years. Witness Meda further testified that the Gas Authority used 100% fixed price swaps because the

document and the JPO included disclosure of these numbers. Counsel for Toccoa subsequently confirmed that the numbers are no longer confidential and could be included in the Commission's Order as public information.

obtainable market was low. Witness Meda further stated that the fixed price trades resulted in favorable credits to member's rates.

Public Staff witness Meda testified that Toccoa had not made changes to its hedging arrangements for the current review period, continuing to elect to hedge its Winter Hedge volumes at approximately 21.6% of all firm North Carolina forecasted gas sales. Witness Meda further testified that based on what was reasonably known, or should have been known, by Toccoa at the time the Company made its hedging decisions affecting the review period, as opposed to the outcome of those decisions, the Company's hedging decisions were prudent.

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

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

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

Toccoa witness Trippe testified that Toccoa is a charter member of the Gas Authority, the largest non-profit joint action natural gas agency in the nation. Witness Trippe also testified that as a member of the Gas Authority, Toccoa receives all its gas supply at very competitive rates. Witness Trippe further explained that the Gas Authority uses a portfolio approach to supply its 82 member cities' needs, relying on a combination of long-term firm supply arrangements, short-term spot market purchases, seasonal peaking, and contract storage services. He also testified that Toccoa is assured adequate, dependable, and economical gas supplies through the Gas Authority's efforts.

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

Toccoa witness Trippe testified that the Gas Authority, on behalf of Toccoa, was able to release a portion of Toccoa's unutilized capacity in each month of the review period to mitigate the cost of extra demand capacity, generating \$25,113 in savings during the current review period. Public Staff witness Meda testified that Toccoa's policy has always been to flow through 100% of its capacity release credits to ratepayers.

Public Staff witness Patel testified that she reviewed the testimony and exhibits of Toccoa's witnesses, Toccoa's monthly Deferred Gas Cost Account reports, monthly operating reports, the Company's responses to Public Staff data requests, and held virtual meetings with Toccoa. She explained that the responses to the Public Staff's data

requests contained information related to Toccoa's gas purchasing philosophies, customer requirements, design day analysis, and gas portfolio mixes.

Public Staff witness Patel stated that she also reviewed Toccoa's testimony and information submitted by the Company in response to data requests that dealt with how well the projected firm demand requirements aligned with future available capacity. Witness Patel stated that per Toccoa's gas supply agreement with the Gas Authority, the Company's gas supply, storage, and capacity contracts as administered by the Gas Authority obligated the Gas Authority to deliver 100% of Toccoa's gas supply, and obligated Toccoa to only receive gas supply through this agreement and not from other outside sources. She further testified that she performed independent calculations utilizing Toccoa's assumptions and concluded that it appeared Toccoa has adequate capacity to meet firm demand for the next five winter seasons. Based upon the Public Staff's investigation and review of the data filed in this docket, Public Staff witness Patel concluded that Toccoa's gas costs during the review period were prudently incurred.

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

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 14

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

Public Staff witness Patel testified that the balance in Toccoa's Deferred Gas Cost Account on June 30, 2022, was a \$82,795 credit balance, owed to customers. Witness Patel stated, in general, temporary increments or decrements for a local distribution company (LDC) are calculated using the deferred account balance at the end of the review period divided by the volumes from the LDC's last general rate case. As Toccoa has never had a general rate case, the Public Staff has previously recommended, and the Commission has previously approved, using the review period North Carolina firm sales volumes instead in this calculation.

Public Staff witness Patel recommended a new rate decrement to refund this high deferred account credit balance and calculated the recommended new rate decrement of \$0.8180 per dekatherm (dt) by using the deferred account credit balance of \$82,795 divided by 101,217 dts, the North Carolina firm sales volumes for the review period ended June 30, 2022. Witness Patel further recommended that the new temporary rate decrement be approved for all North Carolina firm sales customers effective the first day of the month following the date of the Commission's Order in this proceeding, and that the current decrement of \$0.4470 per dt, that was placed into rates effective February 1, 2022, pursuant to the Commission's Order on Annual Review of Gas Costs issued January 31, 2022, in Docket No. G-41, Sub 56, be removed.

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

Based on the foregoing, the Commission concludes that effective on the first day of the month following the date of the Commission's Order in this proceeding, the current rate decrement should terminate and a new temporary rate decrement of \$0.8180 per dt should be effective.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 15

The evidence supporting this finding of fact is contained in the testimony and exhibit of Toccoa witness Trippe and the testimony of Public Staff witness Meda.

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

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

Based on the foregoing, the Commission concludes that 5.83% is the appropriate interest rate to apply to Toccoa's Deferred Gas Cost Account for the period of July 1, 2021, through June 30, 2022. Furthermore, the Commission finds that it is appropriate that Toccoa not adjust its Deferred Gas Cost Account interest rate for known tax changes, as it is exempt from federal income tax, and it does not pay income taxes in North Carolina.

IT IS, THEREFORE, ORDERED as follows:

1. That Toccoa's accounting for gas costs for the 12-month period ended June 30, 2022, is approved;
2. That the gas costs incurred by Toccoa during the 12-month period ended June 30, 2022, including Toccoa's hedging costs, were reasonably and prudently incurred, and that Toccoa is authorized to recover 100% of its gas costs as provided herein;
3. That the existing temporary decrement of \$0.4470 per dt that was approved in Docket No. G-41, Sub 56, be removed, and a new temporary decrement of \$0.8180 per dt as found appropriate herein, shall go into effect on the first day of the month following the date of the Commission's Order in this proceeding;
4. That Toccoa shall give notice to its customers of the rate changes allowed in this Order;
5. That Toccoa shall file revised tariffs as soon as practicable to reflect the implementation of the rate changes ordered herein;
6. That Toccoa shall continue to monitor the balance in its Deferred Gas Cost Account and file a request to implement new temporary increments or decrements, as applicable, through the PGA mechanism to avoid significant over-collections or under-collections of its gas costs; and
7. That it is appropriate for Toccoa to continue calculating interest using a rate of 5.83% on its Deferred Gas Cost Account.

ISSUED BY ORDER OF THE COMMISSION.

This the 9th day of January, 2023.

NORTH CAROLINA UTILITIES COMMISSION



Erica N. Green , Deputy Clerk