

FRONTIER NATURAL GAS COMPANY

DOCKET NO. G-40, SUB 158

TESTIMONY OF R. TYLER ALLISON

ON BEHALF OF

THE PUBLIC STAFF – NORTH CAROLINA UTILITIES COMMISSION

February 15, 2021

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

3 A. My name is R. Tyler Allison and my business address is 430 North
4 Salisbury Street, Raleigh, North Carolina. I am a Staff Accountant in
5 the Accounting Division of the Public Staff. My qualifications and
6 experience are provided in Appendix A.

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

9 The purpose of my testimony is to (1) present the results of my review
10 of the gas cost information filed by Frontier Natural Gas Company
11 (Frontier or Company) in accordance with N.C. Gen. Stat. § 62-
12 133.4(c) and Commission Rule R1-17(k)(6), (2) provide my
13 conclusions regarding whether the gas costs incurred by Frontier
14 during the 12-month review period ended September 30, 2020, are
15 properly accounted for, and (3) discuss the interest rate used in the
16 deferred account during the review period.

1 Q. HAS THE COMPANY PROPERLY ACCOUNTED FOR ITS GAS
2 COSTS DURING THE REVIEW PERIOD?

3 A. Yes.

4 ACCOUNTING FOR AND ANALYSIS OF GAS COSTS

5 Q. HOW DOES THE ACCOUNTING DIVISION GO ABOUT
6 CONDUCTING ITS REVIEW OF THE COMPANY'S ACCOUNTING
7 FOR GAS COSTS?

8 A. I reviewed the testimony and exhibits of the Company's witnesses,
9 the Company's monthly Deferred Gas Cost Account reports, monthly
10 financial and operating reports, gas supply and transportation
11 contracts, and the Company's responses to the Public Staff data
12 requests submitted in this proceeding.

13 Each month I review the Deferred Gas Cost Account reports filed by
14 the Company for accuracy and completeness, and perform certain
15 review procedures on the calculations, including the following:

16 (1) **Gas Cost True-Up** – The actual commodity and demand
17 costs are verified, calculations and data supporting gas cost
18 collections are checked, invoices are reviewed, and the
19 Company's overall gas cost calculations at benchmark are
20 checked for mathematical accuracy.

- 1 (2) **Transportation Customer Balancing True-Up** – The
2 monthly Cash-Out Report for each marketer is reviewed and
3 all calculations for cash-out amounts are verified.

- 4 (3) **Interest Accrual** – Interest accrual calculations on the
5 outstanding Deferred Gas Cost Account balances are verified.

- 6 (4) **Hedging Transactions** – The computed cost of each hedging
7 transaction is traced to the underlying hedging contract, and
8 computational accuracy is verified.

- 9 (5) **Temporary Increments and/or Decrements** – All
10 calculations and supporting data regarding amounts due to or
11 from customers as recorded in the Deferred Gas Cost
12 Account are verified, and supporting data and schedules are
13 reviewed.

- 14 (6) **Supplier Refunds** – In Docket No. G-100, Sub 57, the
15 Commission held that, unless or until it orders refunds to be
16 handled differently, supplier refunds should be flow through to
17 ratepayers through a local distribution company’s deferred
18 account. Pursuant to this order I review all supplier refunds
19 issued during the review period, and verify that all amounts
20 received by the Company, if any, have been flow through to
21 ratepayers.

1 **Q. HOW DO THE COMPANY'S FILED GAS COSTS FOR THE**
2 **CURRENT REVIEW PERIOD COMPARE WITH THOSE FOR THE**
3 **PRIOR REVIEW PERIOD?**

4 A. Frontier's total gas costs for the current review period are \$5,111,817
5 compared with \$6,776,781 for the prior 12-month period. The
6 components of total gas cost for the two periods, and my analysis of
7 the changes in those components, are as follows:

	12 Months Ended		Increase	%
	Sept. 30, 2020	Sept. 30, 2019	(Decrease)	Change
Demand Charges				
Transco FT	\$1,550,119	\$1,465,925	\$84,194	5.74%
Other	0	455,000	(455,000)	-100.00%
Total Demand Charges	\$1,550,119	\$1,920,925	(\$370,806)	-19.30%
Gas Supply Costs				
Baseload Purchases	\$950,057	\$4,291,818	(\$3,341,761)	-77.86%
Delivered Purchases	724,785	440,206	284,579	64.65%
Hedge Purchases	1,900,843	166,613	1,734,230	1040.87%
Other	356	4,325	(3,969)	-91.77%
Total Gas Supply Costs	\$3,576,041	\$4,902,962	(\$1,326,921)	-27.06%
Total Other Gas Costs	(\$14,343)	(\$47,106)	(\$1,697,727)	-69.55%
Total Gas Costs	\$5,111,817	\$6,776,781	(\$3,395,454)	-24.57%
Gas Supply for Delivery (dts)	1,254,273	1,395,416	(141,143)	-10.11%
Total Gas Costs per Dt	\$4.0755	\$4.8565	(\$0.78)	-16.08%

* This chart may include reclassified amounts based on the Public Staff's analysis of Company's deferred account.
The total gas costs amounts did not change.

8 **Total Demand Charges** decreased from the prior review period
9 primarily due to a peaking service agreement Frontier entered into

1 during the prior review period, while the current review period did not
2 have any peaking service charges.

3 **Baseload Purchases** decreased by approximately 77.86% primarily
4 due to the changes in Frontier's Gas Procurement Policy discussed
5 in Public Staff witness Perry's testimony. In addition, the average
6 total gas supply cost of \$2.85 per dekatherm (dt) for the current
7 review period decreased by approximately 18.86% as compared to
8 an average total gas supply cost for the prior review period of \$3.51
9 per dt. The total purchased gas supply volumes also decreased by
10 141,143 dts, or 10.11% from the prior review period.

11 The increase in **Delivered Purchases** is due to an increase in
12 volumes purchased at Zone 5 during the current review period as
13 compared to the prior review period.

14 **Hedge Purchases** increased in the current review period due to a
15 change in the Gas Procurement Policy that increased the amount of
16 hedged volumes purchased at Zone 3 and Zone 5.

17 The change in **Total Other Gas Costs** reflects offsetting journal
18 entries for the cost of gas recorded in Frontier's Deferred Account.

19 **DEFERRED ACCOUNT BALANCE**

20 **Q. WHAT IS THE APPROPRIATE DEFERRED ACCOUNT BALANCE**
21 **AS OF SEPTEMBER 30, 2020?**

1 A. Based on my review of the Company's monthly deferred account
 2 filings and the Public Staff's conclusion that the gas costs are
 3 prudently incurred, the Public Staff has determined that the
 4 appropriate ending balance in Frontier's Deferred Gas Cost Account
 5 at September 30, 2020, is \$43,062, debit balance owed to Frontier
 6 from customers, as shown on Schedule 8 of Company witness Bell's
 7 testimony. The following table summarizes the activity in Frontier's
 8 Deferred Gas Cost Account for the current review period:

Filed Deferred Account Balance - October 1, 2019	\$410,265
Gas Cost True-up	(5,539)
Transportation Customer Balancing True-up	16,212
Transco Refund	(414,650)
Interest	29,557
Other - Prior Period Adjustment	7,217
Deferred Account Balance -September 30, 2020	<u>\$43,062</u>

9 **Q. HAS THE COMPANY CONTINUED TO USE THE APPROPRIATE**
 10 **INTEREST RATE IN THE DEFERRED ACCOUNT?**

11 A. Yes. In Docket No. G-40, Sub 135, the Public Staff recommended
 12 and the Commission approved in its Order on Annual Review of Gas
 13 Costs issued June 13, 2017, that Frontier shall begin calculating
 14 interest on its deferred account using the net-of-tax overall rate of
 15 return approved by the Commission in its Order Approving Use of
 16 Natural Gas Bond Funds issued March 12, 2000, in Docket No. G-40,
 17 Sub 2, adjusted for any known corporate income tax rate changes,

1 as the applicable interest rate on all amounts over-collected or under-
2 collected from customers reflected in its Deferred Gas Cost Account.

3 The Public Staff has reviewed the Company's interest rate
4 calculations for all known corporate income tax rate changes during
5 the review period, and determined that no change was required.

6 Therefore, the Public Staff believes that it is appropriate for Frontier
7 to continue to use the net-of-tax overall rate of return of 6.60% as the
8 applicable interest rate on all amounts over-collected or under-
9 collected from customers reflected in its Deferred Gas Cost Account.

10 The Public Staff will continue to review the interest rate each month
11 to determine if an adjustment is warranted.

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

13 A. Yes, it does.

QUALIFICATIONS AND EXPERIENCE

R. TYLER ALLISON

I graduated from North Carolina State University with a Master of Accounting degree. I am also an actively licensed Certified Public Accountant in the State of North Carolina. I joined the Public Staff Accounting Division as a Staff Accountant in October 2017.

Prior to joining the Public Staff, I accumulated more than three years of auditing experience in public accounting and with the U.S. Environmental Protection Agency, and about one year of general accounting experience in the public university system.

Since joining the Public Staff, I have performed various supporting accounting tasks, including (1) the examination and analysis of testimony, exhibits, books and records, and other data presented by utilities and other parties involved in Commission proceedings; and (2) the preparation and presentation to the Commission of testimony, exhibits, and other documents in those proceedings.

I have also been involved with various electric, natural gas, and water utility proceedings. I have filed testimony and affidavits in both natural gas and water rate case proceedings. I have also performed reviews in conjunction with (1) Integrity Management Rider programs, (2) Demand Side Management and Energy Efficiency Rider proceedings, and (3) cash working capital studies in natural gas and electric general rate cases.