BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. G-5, SUB 642



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| In the Matter of | | |
| Application of Public Service Company of North Carolina, Inc. for Annual Review of Gas Costs Pursuant to N.C. Gen. Stat. § 62-133.4(c) and Commission Rule R1-17(k)(6) | ) ) ) ) ) | TESTIMONY OF SHAWN L. DORGAN PUBLIC STAFF – NORTH CAROLINA UTILITIES COMMISSION |

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**TESTIMONY OF SHAWN L. DORGAN**
**ON BEHALF OF THE PUBLIC STAFF**
**NORTH CAROLINA UTILITIES COMMISSION**

**JULY 25, 2022**

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

A. My name is Shawn L. Dorgan. My business address is 430 North Salisbury Street, Raleigh, North Carolina. I am a Financial Analyst III with the Public Staff's Accounting Division. My qualifications and experience are provided in Appendix A.

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

A. The purpose of my testimony is: (1) to provide recommendations regarding whether the gas costs incurred by Public Service Company of North Carolina, Inc. (PSNC or Company) during the twelve-month review period ended March 31, 2022, were properly accounted for; (2) to present the results of my review of gas costs as filed by the Company in accordance with N. C. Gen. Stat. § 62-133.4(c), and Commission Rule R1-17(k)(6); and

(3) discuss the Company's deferred account reporting during the review period.

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

A. I reviewed the testimony and exhibits of the Company's witnesses, the Company's monthly deferred account reports, monthly financial and operating reports, gas supply, pipeline transportation and storage contracts, and the Company's responses to Public Staff data requests. Each month, the Public Staff reviews all deferred account reports filed by the Company for accuracy and reasonableness and performs various analytical procedures on the underlying calculations.

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

A. Yes. In my opinion PSNC properly accounted for its gas costs during the review period April 1, 2021, through March 31, 2022.

## ACCOUNTING FOR AND ANALYSIS OF GAS COSTS

**Q. HOW DOES THE PUBLIC STAFF ACCOUNTING DIVISION CONDUCT ITS REVIEW OF THE COMPANY'S FILED GAS COSTS?**

A. Each month the Accounting Division reviews all Deferred Account reports filed by the Company for accuracy and reasonableness, and performs various analytical procedures, including the following:

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

(2) **Fixed Gas Cost True-Up** - The actual fixed gas costs incurred are compared with pipeline tariffs and gas contracts, the rates and volumes underpinning the Company's reported collections from customers are verified, and the overall calculation is reviewed for mathematical accuracy.

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

(4) **Temporary Increments and/or Decrements** – Regarding all collections and/or refunds from customers that impact deferred account balances, supporting data and calculations are verified.

(5) **Interest Accrual** – All calculations of accrued interest are verified, in conformity with N.C.G.S. § 62-130(e), and the Commission's Orders in Docket No. G-5, Subs 565, 595, 607, and 608.

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

(7) **Uncollectibles** – In Docket No. G-5, Sub 473, the Commission approved a mechanism to recover the gas cost portion of the difference between the Company's cost of gas incurred and the amount collected from customers, effective for service rendered on and after December 1, 2005. The Company records a journal entry each month in the Sales Customers' Only Deferred Account for the gas cost portion of its uncollectibles write-offs. The Public Staff reviews the calculations supporting those journal entries to ensure that the proper amounts are recorded.

(8) **Supplier Refunds** – In Docket No. G-100, Sub 57, the Commission held that, unless it orders refunds to be handled differently, supplier refunds shall be flowed through to ratepayers in the All Customers Deferred Account or applied to the NCUC Legal Fund Reserve Account. As such, the Public Staff reviews supplier refund documentation to verify that all amounts received by the Company are flowed through to ratepayers.

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

A. Per Creel Exhibit 1, Schedule 1, the Company has filed total gas costs of $302,423,025 for the current review period, as compared with $220,684,628 for the prior period. The components of filed gas costs for the two periods are shown in the table below:

| | 12 Months Ended | | Increase | |
|---|---|---|---|---|
| | March 31, 2022 | March 31, 2021 | (Decrease) | % Change |
| Demand & Storage Charges | $116,099,905 | $105,081,205 | $11,018,700 | 10.49% |
| Commodity Costs | 225,333,870 | 128,838,351 | 96,495,519 | 74.90% |
| Other Costs | (39,010,750) | (13,234,928) | (25,775,822) | 194.76% |
| Totals | $302,423,025 | $220,684,629 | $81,738,396 | 37.04% |

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

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

|  | 12 Months Ended March 31, 2022 | 12 Months Ended March 31, 2021 | Increase (Decrease) | % Change |
|---|---|---|---|---|
| **Transco:** |  |  |  |  |
| FT Reservation | $50,378,892 | $52,234,211 | ($1,855,319) | (3.55%) |
| FT Momentum | 1,986,733 | 2,073,564 | (86,831) | (4.19%) |
| Southern Expansion | 2,173,317 | 2,278,195 | (104,878) | (4.60%) |
| Southeast Expansion | 20,340,536 | 11,075,585 | 9,264,951 | 83.65% |
| GSS | 1,700,706 | 1,800,118 | (99,412) | (5.52%) |
| WSS | 669,655 | 680,128 | (10,473) | (1.54%) |
| LGA | 382,611 | 351,483 | 31,128 | 8.86% |
| ESS | 1,101,625 | 1,137,570 | (35,945) | (3.16%) |
| Total Transco Charges | $78,734,075 | $71,630 854 | $7,103,221 | 9.92% |
| **Other Charges:** |  |  |  |  |
| Pine Needle LNG | $2,904,884 | $2,986,316 | ($81,432) | (2.73%) |
| Cardinal | 5,579,002 | 5,577,982 | 1,020 | 0.02% |
| Dominion Demand and Capacity (DTI-GSS) | 2,076,910 | 5,089,110 | (3,757) | (0.07%) |
| Eastern Gas Transmission | 3,008,443 | - |  |  |
| Texas Gas Transmission | 546,880 | 546,880 | - | 0.00% |
| Texas Eastern | 563,328 | 563,328 | - | 0.00% |
| Columbia FSS/SST | 7,496,070 | 4,352,913 | 3,143,157 | 72.21% |
| Eminence Demand and Capacity | 1,119,937 | 1,156,471 | (36,534) | (3.16%) |
| East Tennessee Patriot Expansion (Enbridge) | 5,648,250 | 5,735,300 | (87,050) | (1.52%) |
| Saltville Gas Storage | 3,440,304 | 3,440,304 | - | 0.00% |
| Peaking Contracts | 3,631,375 | 1,873,250 | 1,758,125 | 93.85% |
| Cove Point LNG | 1,157,460 | 1,165,508 | (8,048) | (0.69%) |
| Piedmont Redelivery Agreement | 9,120 | 9,120 | - | 0.00% |
| Firm Backhaul Capacity on Transco | 148,800 | 910,800 | (762,000) | (83.66%) |
| City of Monroe | 35,067 | 43 072 | (8,005) | (18.59%) |
| Total Other Charges | $37,365,830 | $33,450,354 | $3,915,476 | 11.71% |
| Total Demand & Storage Charges | $116,099,905 | $105,081,205 | $11,018,700 | 10.49% |

The primary reason for the overall increase in Transcontinental Gas Pipeline Company, LLC (**Transco**) **Firm Transportation (FT) Reservation, Southern Expansion, Southeast Expansion, Transco General Storage Service (GSS), Washington Storage Service (WSS), LGA, and Eminence Storage Service (ESS)** of 9.92% is the result of an increase in firm transportation capacity due to the Transco Southeast Expansion Project.

The Company began receiving partial service of the firm transportation capacity on November 1, 2020, and began receiving the total contract amount on January 1, 2021. The current year's charges reflect a full year of service.

The increase in Columbia Gas Transmission LLC (**Columbia FSS/SST**) demand and storage charges is attributable to rate increases filed in the following FERC Dockets: RP21-00565-000, RP21-00687-000, and RP20-1060-000. In FERC Docket No. RP20-1060-000, Columbia, FERC Staff, and other intervening parties reached a settlement agreement, which increased Columbia's Storage Service Transportation (SST) demand rates from $6.900/dt to $12.603/dt.

The increase in **Peaking Contracts** charges is due to an expiring contract and settlement agreement reached between PSNC and one supplier, and the start of a peak-day supply contract with a new supplier.

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

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

| | 12 Months Ended | | Increase | |
|---|---|---|---|---|
| | March 31, 2022 | March 31, 2021 | (Decrease) | % Change |
| Gas Supply Purchases | $234,564,960 | $119,272,275 | $115,292,685 | 96.66% |
| Transportation Charges from Pipelines | 1,810,488 | 1,751,831 | 58,657 | 3.35% |
| Storage Injections | (37,399,976) | (15,946,430) | (21,453,546) | (134 54%) |
| Storage Wi hdrawals | 26,358,398 | 23,760,675 | 2,597,723 | 10 93% |
| Total Commodity Gas Costs Expensed | $225,333,870 | $128,838,351 | $96,495,519 | 74.90% |
| Gas Supply for Delivery (dt) | 53,885,299 | 52,587,485 | 1,297,814 | 2.47% |
| Commodity Cost per dt | $4.1817 | $2.4500 | $1.7318 | 70.68% |

**Gas Supply Purchases** increased by $115,292,685 during the current review period, as compared with the prior twelve-month review period. The primary driver for this change was an increase in the commodity cost of gas, though an increase in volumes purchased played a role as well. The average commodity cost of gas for the Company increased 70.68% during the review period.

The increase in **Storage Injections** was due to a higher average cost for gas supplies injected into storage. The average cost of gas placed in storage during the current review period was $3.7332 per dt, as compared with $1.9338 per dt for the prior period.

The increase in **Storage Withdrawals** was due to a higher average cost of supply withdrawn from storage. PSNC's average cost of gas withdrawn was $3.1692 per dt in this review period as compared with $2.2365 per dt in the prior review period.

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

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

| | 12 Months Ended | | Increase |
|---|---|---|---|
| | March 31, 2022 | March 31, 2021 | (Decrease) |
| Deferred Account Activity | ($45,130,899) | ($37,794,115) | ($7,336,784) |
| Estimate to Actual Gas Cost True-Up | 8,447,498 | 6,862,663 | 1,584,835 |
| CUT Deferral | (14,793,134) | (11,478,607) | (3,314,527) |
| CUT Increment/Decrement | 15,718,734 | 27,568,767 | (11,850,033) |
| High Efficiency Discount Rate | (417,596) | (408,430) | (9,166) |
| IMT Deferral | (2,835,353) | 2,033,724 | (4,869,077) |
| Gas Loss - Facility Damages | - | (18,930) | 18,930 |
| Total O her Gas Costs | ($39,010,750) | ($13,234,928) | ($25,775,822) |

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

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

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

The **CUT Increment/Decrement** entries relate to the Sub 495 Order in which the Commission authorized the Company to collect or refund outstanding balances in the CUT Deferred Account by imposing either an increment or a decrement to customer rates, effective April and October of each year. The increase in the current review period is due to higher under-collections in the current review period as compared to the prior review period.

The **High Efficiency Discount Rate** and the **Conservation Program Accrual** entries represent nine months of accruals and expenses associated with $750,000 of annual conservation-related expenses, as allowed in the Sub 495 Order.

## SECONDARY MARKET TRANSACTIONS

**Q. PLEASE SUMMARIZE THE COMPANY'S SECONDARY MARKET ACTIVITIES DURING THE REVIEW PERIOD.**

A. During the review period the Company recorded $29,083,730 of margin on secondary market transactions. These transactions included capacity releases, asset management arrangements, and other similar dealings. Of this amount, $21,812,797 ($29,083,730 x 75%) was credited to the All Customers' Deferred Account, for the benefit of ratepayers.

Below is a chart that compares the margins recorded by PSNC on the various types of secondary market transactions in which the Company engaged during both the current review period and the prior review period.

| | 12 Months Ended | | Increase | |
| --- | --- | --- | --- | --- |
| | March 31, 2022 | March 31, 2021 | (Decrease) | Change |
| Capacity Release | $2,890,741 | $2,290,999 | $599,742 | 26.18% |
| Asset Management | 25,256,959 | 22,606,318 | 2,650,641 | 11.73% |
| Bundled Sales | 25,280 | 33,402 | (8,122) | (24.32%) |
| Straddles | 918,400 | 740,850 | 177,550 | 23.97% |
| Spot Sales | (7,650) | - | (7,650) | |
| Total Secondary Market Margins | $29,083,730 | $25,671,569 | $3,412,161 | 13.29% |

**Capacity Release** is a short-term posting of unutilized firm capacity on the electronic bulletin board that is released to third parties at a biddable price. The overall net compensation from capacity release transactions increased by 26.18% in the current review period, due primarily to an increase in volumes released, as compared with the prior period.

**Asset Management Agreements (AMAs)** are contractual relationships where a party agrees to manage gas supply and delivery arrangements, including transportation and storage capacity, for another party. Typically, a shipper holding firm transportation and/or storage capacity on a pipeline or multiple pipelines temporarily releases all or a portion of that capacity along with associated gas production and gas purchase agreements to an asset manager. The asset manager uses that capacity to serve the gas supply requirements of the releasing shipper, and, when the capacity is not needed for that purpose, uses the capacity to make releases or bundled sales to third parties. The 11.73% increase in net compensation from AMAs results from an increase in the value of interstate pipeline and storage capacity released under these agreements.

**Bundled Sales** are sales of delivered gas supply to a third-party consisting of gas supply and pipeline capacity at a specified receipt point. For a third consecutive review period proceeds from bundled sales decreased, dropping by 24.32% over the prior review period. As was the case in the prior review period, the decline was attributable to lower sales volumes.

**Straddle** transactions are physical exchanges of gas allowing a third-party to either put gas to the LDC or call on gas from an LDC for a fee. For the review period, total net compensation from straddles increased, due to higher fee revenue from options written.

**Spot Sales** are the sales of gas supply on the daily market when the daily spot price is higher than the first of the month index price. The Company made one spot sale during the current review period.

## DEFERRED ACCOUNTS AND ACCRUED INTEREST

**Q. BASED ON YOUR REVIEW OF GAS COSTS IN THIS PROCEEDING, WHAT ARE THE APPROPRIATE DEFERRED ACCOUNT BALANCES AS OF MARCH 31, 2022?**

A. The appropriate All Customers' Deferred Account balance is a debit balance of $26,767,209, owed to the Company, as filed by PSNC. This balance consists of the following deferred account activity:

| | |
|---|---|
| **Beginning Balance as of April 1, 2021** | **$8,065,604** |
| Commodity Cost (Over) Under Collections | 6,436,109 |
| Demand Costs (Over) Under Collections | 42,799,423 |
| (Increment) / Decrement Activity | (9,254,551) |
| Secondary Market Transactions | (21,812,797) |
| Supplier Refunds | (1,144,170) |
| Miscellaneous | (453,917) |
| Interest | 2,131,508 |
| **Ending Balance as of March 31, 2022** | **$26,767,209** |

Regarding the Sales Customers' Only Deferred Account balance at March 31, 2022, Creel Exhibit 1, Schedule 8 reflects a debit balance of $10,922,343, owed to the Company. Public Staff witness Johnson recommends transferring the Company's Hedging Deferred Account credit balance as of March 31, 2022, of $9,818,653 to the Sales Customers' Only Deferred Account. Therefore, the recommended balance in the Sales Customers' Only Deferred Account is a net debit balance of $1,103,690, owed by the customers to the Company, as follows:

| | |
|---|---|
| **Ending Balance per Creel Exhibit I, Schedule 8** | **$10,922,343** |
| Transfer of Ending Credit Balance in Hedging Activities Deferred Account | (9,818,653) |
| **Ending Balance, as Recommended by the Public Staff** | **$1,103,690** |

**Q. DID PSNC HAVE ANY CHANGES TO ITS DEFERRED ACCOUNT INTEREST RATE DURING THE REVIEW PERIOD?**

A. Yes. In the Commission's *Order Approving Stipulation, Granting Rate Increase, and Requiring Customer Notice*, issued January 21, 2022, in Docket G-5, Sub 632, Finding of Fact Number 33 provides that "beginning in the month in which this Order is issued, PSNC will use a net of tax rate of 6.57% for all deferred accounts." The Supplemental Direct Testimony of Glory J. Creel, filed in this docket on June 17, 2022, addressed the issue and states that, "The Company reviewed the 6.57% annual interest rate approved in Docket No. G-5, Sub 632, and determined that no adjustment is necessary at this time." (P. 2, LL 5-6) The Public Staff has reviewed the Company's interest rate calculations and found that PSNC continues to use the 6.57% interest rate and has made the appropriate adjustments in its deferred accounts, consistent with the Commission's Sub 632 Order. The Public Staff will continue to review the interest rate each month to determine if an adjustment is needed.

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

A. Yes.

## QUALIFICATIONS AND EXPERIENCE

## SHAWN L. DORGAN

I am an accounting graduate of Appalachian State University, having earned a B.S.B.A. in Accountancy in 1988 and a Master of Science in Accountancy (concentration in taxation; functional equivalent of a Master of Science in Taxation) in 1997. After graduation, I entered the public accounting industry, working first at the Charlotte practice office of Deloitte & Touche LLP, and later for several local and regional accounting firms in the metro-Charlotte, metro-Raleigh, and metro-Atlanta areas. I am a Certified Public Accountant, licensed in the State of North Carolina.

Since joining the Public Staff in May 2016, I have provided accounting support in conjunction with rider rate proceedings, particularly in program cost reviews of demand-side management and energy efficiency programs authorized for the state's electric utilities under N. C. Gen. Stat. § 62-133.9. In addition, I have provided expert witness testimony in annual review of gas cost proceedings for Frontier Natural Gas Company, and Public Service Company of North Carolina.

I also have provided accounting and testimonial support in general rate cases involving investor-owned electric and natural gas utilities, serving as the lead technical accountant in the 2019 Duke Energy Progress general rate case (Docket No. E-2, Sub 1219).