

DOCKET NO. G-41, SUB 50

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

On September 8, 2017, the Commission issued its Order Scheduling Hearing, Requiring Filing of Testimony, Establishing Discovery Guidelines, and Requiring Public Notice. This Order established a hearing date of November 1, 2017, set prefiled testimony dates, and required Toccoa to give at least 30 days prior notice to its customers of the hearing on this matter.

On October 5, 2017, Toccoa filed its Affidavit of Publication.

On October 12, 2017, Toccoa filed the revised schedules and exhibit of Company witness Trippe.

On October 16, 2017, the Public Staff filed the Joint Testimony of Jan A. Larsen, Director, Natural Gas Division; Iris Morgan, Staff Accountant, Accounting Division; and Julie G. Perry, Accounting Manager, Natural Gas & Transportation Section, Accounting Division (Public Staff Panel).

On October 17, 2017, Toccoa and the Public Staff filed a Joint Motion to Excuse Appearance of Witnesses and Accept Testimony, which was granted by the Commission on October 20, 2017.

On November 1, 2017, the matter came on for hearing as scheduled, and all prefiled testimony and exhibits were admitted into evidence. No public witnesses appeared at the hearing.

Commissioner ToNola D. Brown-Bland was assigned as a member of the panel in this docket. Commissioner Brown-Bland was unable to be present at the hearing on November 1, 2017. However, because there were no witnesses present at the hearing and all pre-filed testimony was stipulated into the record, no testimony or cross-examination was presented at the hearing. Therefore, the parties stipulated that Commissioner Brown-Bland can participate as a member of the panel in this docket.

In compliance with the requirements of Chapter 138A of the North Carolina Government Ethics Act, each member of the Commission panel has made a due and diligent effort to determine whether he or she has a conflict of interest in the matter presented in this docket, and each member of the panel has determined that he or she does not have any such conflict.

On November 30, 2017, Toccoa and the Public Staff filed a Joint Proposed Order.

On December 15, 2017, Toccoa and the Public Staff (Movants) filed a joint motion requesting that the Commission allow the Movants to supplement the record by accepting two revised pages of the Public Staff's testimony, and accepting one revised page of the Joint Proposed Order filed by the Movants in order to correct minor errors in the Public Staff's original testimony and in the Joint Proposed Order.

On December 18, 2017, the Commission issued an Order Granting Motion to Supplement Record that accepted the Movants' filings supplementing the Public Staff's testimony and the 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 G.S. 62-3(23) and as such 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 6,567 retail customers of which approximately 726 are in North Carolina.
3. The Company has filed with the Commission and submitted to the Public Staff all information required by G.S. 62-133.4(c) for an annual review of gas costs and Commission Rule R1-17(k) for an annual review of gas costs and has complied with the procedural requirements of such statute and rule.
4. The review period in this proceeding is 12-months ended June 30, 2017.
5. During the review period, Toccoa incurred total North Carolina gas costs of \$380,846¹, which was comprised of demand and storage costs of \$94,977 and commodity costs of \$286,297, less other gas costs of \$427.
6. On June 30, 2017, Toccoa had a credit balance of \$37,260, owed by Toccoa to customers, in its Deferred Gas Cost Account.
7. On October 1, 2016, Toccoa began calculating interest on its deferred account using the net-of-tax overall rate of return approved by the Commission in its Order Granting Certificate of Public Convenience and Necessity to the City of Toccoa and the Municipal Gas Authority of Georgia issued December 8, 1998, in Docket No. G-41, Sub 0, adjusted for any known corporate income tax rate changes, as the applicable interest rate on all amounts overcollected or undercollected from customers, as reflected in its Deferred Gas Cost Account.
8. Toccoa properly accounted for its gas costs during the review period.
9. Toccoa's hedging activities during the review period were reasonable and prudent.
10. Toccoa has transportation and storage contracts with interstate pipelines that provide for the transportation of gas to Toccoa's system and an "all requirements" gas supply contract with the Gas Authority.
11. Toccoa released unutilized capacity during the review period to mitigate the cost of demand capacity, and all margins earned on secondary market transactions reduced the cost of gas and were flowed through to ratepayers.

¹ Due to rounding of the numbers on Revised Trippe Schedule 2, the total North Carolina gas costs totals \$380,846 instead of \$380,847.

12. Toccoa has adopted 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.

13. Toccoa's gas purchasing policy and practices during the review period were prudent, and its gas costs during the review period were prudently incurred.

14. Toccoa should be permitted to recover 100% of its prudently incurred gas costs.

15. The Company should implement a temporary rate decrement of \$0.4397 per dekatherm (dt) and remove the existing decrement of \$1.3172 per dt, as recommended by the Public Staff and agreed to by Toccoa.

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 and the testimony and revised schedules and exhibit of Toccoa witness Trippe and the testimony of Toccoa witness Scott. These findings are essentially informational, procedural, or jurisdictional in nature 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 and revised schedules and exhibit of Toccoa witness Trippe and the testimony of the Public Staff Panel. These findings are made pursuant to G.S. 62-133.4(c), and Commission Rule R1-17(k)(6).

G.S. 62-133.4(c) requires that each natural gas utility 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, 2017, as the end date of the annual review period for the Company in this proceeding. Commission Rule R1-17(k)(6)(c) requires that Toccoa file weather-normalized sales volumes, work papers, and direct testimony and exhibits supporting the information.

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 the Company to file a complete monthly accounting of computations under the provisions of the Rule for gas costs and deferred account activity. The Public Staff Panel confirmed that it had reviewed the filings and monthly reports filed by Toccoa.

Based upon the foregoing, the Commission concludes that Toccoa has complied with all procedural requirements of G.S. 62-133.4(c) and Commission Rule R1-17(k) for the 12-month review period ended June 30, 2017.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 5-8

The evidence supporting these findings of fact is contained in the testimony and revised schedules and exhibit of Toccoa witness Trippe and the testimony of the Public Staff Panel.

Company witness Trippe testified that Toccoa incurred total North Carolina gas costs of \$380,846² during the review period, which was comprised of demand and storage costs of \$94,977, commodity costs of \$286,297, and other gas costs of (\$427). The Public Staff Panel 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. The Public Staff Panel also provided testimony that Toccoa had properly accounted for its gas costs during the review period.

The Public Staff Panel testified that, as of June 30, 2017, the balance in Toccoa's Deferred Gas Cost Account was a credit balance of \$37,260, owed by Toccoa to customers. The Public Staff Panel also testified that Toccoa's Deferred Gas Cost Account consisted of the following activity: Commodity True-up of \$5,029, Demand True-up Credit of \$39,201, Firm Hedges Credit of \$427, and Increment activity of \$109,884 and Interest Credit of \$2,806.

The Public Staff Panel further testified that due to the recurring credit balances in the Company's Deferred Gas Cost Account, and in accordance with G.S. 62-130(e), on October 1, 2016, Toccoa began calculating interest on its deferred account. The Public Staff Panel further explained that Toccoa is using the net-of-tax overall rate of return approved by the Commission in its Order Granting Certificate of Public Convenience and Necessity to the City of Toccoa and the Municipal Gas Authority of Georgia issued December 8, 1998, in Docket No. G-41, Sub 0, adjusted for any known corporate income tax rate changes, as the applicable interest rate on all amounts overcollected or undercollected from customers as reflected in its Deferred Gas Cost Account. All other methods and procedures used by the Company for the accrual of interest on the Deferred Gas Cost Account are consistent with the other North Carolina local distribution companies (LDCs).

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 the Company's schedules and exhibits is correct. The Commission further concludes that it is appropriate for Toccoa to begin calculating interest on the deferred account using the net-of-tax overall rate of return approved by the Commission in its Order Granting Certificate of Public Convenience and Necessity to the City of Toccoa and the Municipal Gas Authority

² Due to rounding of the numbers on Revised Trippe Schedule 2, the total North Carolina gas costs totals \$380,846 instead of \$380,847.

of Georgia issued in Docket No. G-41, Sub 0.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 9

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

Company witness Trippe testified that Toccoa participates in the Gas Authority's WinterHedge Program under the Authority's Option 2. 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. Company witness Trippe also testified that although hedging helps manage volatility in the wholesale cost of gas, it can create its own challenges. He 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 assumes that the goal of hedging is "to beat the market." He also testified that the principal goal of hedging is to achieve price stability, at a reasonable level, for the consuming public.

The Public Staff Panel 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 to three years. The Public Staff Panel further testified that the Gas Authority typically uses fixed price swaps, basis swaps, and three-way options as financial instruments in its hedging program.

Further, the Public Staff Panel stated that during the current review period, Toccoa's hedging program resulted in a \$427 credit to its gas supply cost for North Carolina customers.

The Public Staff Panel testified that Toccoa had reviewed its Winter Hedge Program participation and elected to reduce its winter hedge volumes to approximately 23% of all firm North Carolina gas sales for November 2016 through March 2018. The Public Staff Panel further stated that at the time this decision was made, Toccoa chose to adopt more conservative hedge volumes for its participation in the Winter Hedge Program because market and futures pricing was significantly lower than it had been at the time the previous Winter Hedge Program volumes were put in place. The Public Staff Panel also explained that Toccoa elected the maximum hedging program term offered by the Gas Authority of two years beginning November 1, 2016.

Further, the Public Staff Panel stated 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 on the testimony presented by the Company and the Public Staff, the

Commission concludes that the Company's hedging activities during the review period were reasonable and prudent.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 10-14

The evidence for these findings of fact is contained in the testimony and revised schedule and exhibit of Toccoa witness Trippe and the testimony of the Public Staff Panel.

Company 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. Company witness Trippe also testified that, as a member of the Gas Authority, Toccoa receives all of its gas supply at very competitive rates. He further explained that the Gas Authority uses a portfolio approach to supply its 79 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.

The Public Staff Panel testified that Toccoa has contracts for pipeline capacity and storage service from Transcontinental Gas Pipe Line Company, LLC, for a storage service contract with Pine Needle LNG Company, LLC, and for a gas supply contract with the Gas Authority. The Public Staff Panel further explained that as the all requirements supplier for Toccoa, the Gas Authority manages all of Toccoa's pipeline, storage service, and gas supply contracts. Based upon the Public Staff Panel's investigation and review of the data filed in this docket, the Public Staff concluded that Toccoa's gas costs during the review period were prudently incurred.

Company witness Trippe testified that the Gas Authority, on behalf of Toccoa, was able to release a portion of Toccoa's unutilized capacity each month of the test period to mitigate the cost of extra demand capacity, generating a savings during the period of July 2016 - June 2017 that totaled \$23,029. The Public Staff Panel testified that Toccoa's policy has always been to flow through 100% of its capacity release credits to ratepayers.

Based on the foregoing, the Commission concludes that the Company'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 the Company should be permitted to recover 100% of its prudently incurred gas costs.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 15

The evidence for this finding of fact is contained in the testimony and revised schedule and exhibit of Toccoa witness Trippe and the testimony of the Public Staff Panel.

The Public Staff Panel testified that the balance in Toccoa's Deferred Gas Cost Account at June 30, 2017, was a \$37,260 credit balance, owed to customers. The Public Staff Panel stated, in general, temporary increments or decrements for an LDC

are calculated using 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. For the current review period ended June 30, 2017, the North Carolina firm sales volumes are 84,749 dts. Therefore, the Public Staff Panel proposed a temporary rate decrement of \$0.4397 per dt calculated using the Deferred Gas Cost Account credit balance of \$37,260 divided by 84,749 dts. Furthermore, the Public Staff Panel recommended that this 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 \$1.3172 per dt that was placed into rates effective August 1, 2016, in Docket No. G-41, Sub 46, be removed. Finally, the Public Staff Panel stated that it understood that Toccoa did not oppose this recommendation.

Based on the foregoing, the Commission concludes that the temporary rate decrement recommended by the Public Staff Panel and not opposed by Toccoa is appropriate and should be implemented.

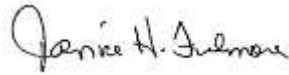
IT IS, THEREFORE, ORDERED as follows:

1. That Toccoa's accounting for gas costs for the 12-month period ended June 30, 2017, is approved;
2. That the gas costs incurred by Toccoa during the 12-month period ended June 30, 2017, including the company's hedging costs, were reasonably and prudently incurred, and that Toccoa is authorized to recover 100% of its gas costs incurred during the period of review;
3. That Toccoa shall use the net-of-tax overall rate of return approved by the Commission in its Order Granting Certificate of Public Convenience and Necessity to the City of Toccoa and the Municipal Gas Authority of Georgia issued December 8, 1998, in Docket No. G-41, Sub 0, adjusted for any known corporate income tax rate changes, as the applicable interest rate on all amounts overcollected or undercollected from customers as reflected in its Deferred Gas Cost Account;
4. That Toccoa shall remove the existing temporary decrement of \$1.3172 per dt, that was approved in Docket No. G-41, Sub 46, and implement the rate decrement of \$0.4397 per dt as found appropriate herein, effective for service rendered on and after the first day of the month following the date of this Order;
5. That Toccoa shall give notice to its customers of the rate changes allowed in this Order; and
6. That Toccoa shall file revised tariffs as soon as practicable to reflect the implementation of the rate changes ordered herein.

ISSUED BY ORDER OF THE COMMISSION.

This the 20th day of December, 2017.

NORTH CAROLINA UTILITIES COMMISSION

A handwritten signature in dark ink, appearing to read "Janice H. Fulmore". The signature is written in a cursive, flowing style.

Janice H. Fulmore, Deputy Clerk