

**Before the  
North Carolina Utilities Commission**

**Docket No. G-9, Sub 771**

**Annual Review of Gas Costs Pursuant to G.S. 62-133.4(c)  
and Commission Rule R1-17(k)(6)**

**Testimony of Todd Breece**

**On Behalf Of**

**Piedmont Natural Gas Company, Inc.**

1 **Q. Please state your name and your business address.**

2 A. My name is Todd Breece. My business address is 4720 Piedmont Row  
3 Drive, Charlotte, North Carolina.

4 **Q. What is your position with Piedmont Natural Gas Company**  
5 **(“Piedmont” or the “Company”)?**

6 A. I am employed by Duke Energy Corporation (“Duke”) and work on behalf  
7 of Piedmont, a wholly owned subsidiary of Duke, as the Manager of Natural  
8 Gas Trading & Optimization.

9 **Q. Please describe your educational and professional background.**

10 A. I graduated from North Carolina State University in May of 2002 with a  
11 Bachelor of Science Degree in Civil Engineering. I joined the Company as  
12 an Engineer in June of 2002. In June 2003 I was promoted to Design  
13 Engineer and in June 2007 I was promoted to Senior Engineer. In  
14 November 2007 I took a position in the Company as a Gas Supply  
15 Representative. In May 2011 I was promoted to Senior Gas Supply  
16 Representative and then promoted to Senior Gas Trader in January 2018.  
17 In October 2018 I was promoted to Manager of Natural Gas Trading &  
18 Optimization.

19 **Q. Please describe the scope of your present responsibilities.**

20 A. My current major responsibilities include supervision of the long and short  
21 term purchasing of supply, optimization of pipeline transportation, storage,  
22 and supply assets, and administration of the Company’s Hedging Plan.

1 **Q. Have you previously testified before this Commission or any other**  
2 **regulatory authority?**

3 A. Yes. I have previously testified in the Annual Review of Purchased Gas  
4 Adjustment and Gas Purchasing Policies for Piedmont before the Public  
5 Service Commission of South Carolina (Docket No. 2020-4-G).

6 **Q. What is the purpose of your testimony in this proceeding?**

7 A. My testimony will describe the Company's gas purchasing policies and  
8 hedging activity during June 1, 2019 through May 31, 2020 ("Review  
9 Period"). This testimony is in response to Commission Rule R1-17(k)(6),  
10 which provides for an annual review of the Company's gas costs recovered  
11 from all its customers that it served during the Review Period. I will also  
12 discuss the Company's hedging activity during the Review Period.

13 **Q. Please explain the Company's gas purchasing policies.**

14 A. The Company has previously utilized and continues to maintain a "best  
15 cost" gas purchasing policy. This policy consists of five main components:  
16 1) the price of the gas, 2) the security of the gas supply, 3) the flexibility of  
17 the gas supply, 4) gas deliverability, and 5) supplier relations. As all of  
18 these components are interrelated, we continue to weigh the relative  
19 importance of each of these factors when developing the overall gas supply  
20 portfolio to meet the needs of our customers.

21 **Q. Please describe each of the five components.**

22 A. 1) The "price of the gas" refers to the final cost of gas delivered to the  
23 Company's city gates. The majority of the Company's supply purchases

1 take place at “pooling points” or at interconnects into the pipeline on which  
2 the Company holds firm transportation capacity rights. In the case of  
3 “bundled” city gate supply purchases, the Company may pay the gas  
4 supplier an all-inclusive price that covers the cost of gas, fuel, and  
5 transportation charges. The use of storage services may add additional  
6 injection, withdrawal, and related fuel charges to the city gate cost of gas.  
7 In order to accurately assess prices at a comparable transaction point, the  
8 Company evaluates purchase prices at the receipt point and adds the  
9 applicable fuel and transportation costs associated with delivery to our  
10 pipeline city gate points.

11 2) “Security of gas supply” refers to the assurances that the supply of gas  
12 will be available when required. It is imperative to maintain a high level of  
13 supply security for the Company’s firm customers. Security of gas supply  
14 is less important for our interruptible customers who have access to alternate  
15 fuels and whose service is subject to interruption in order to provide service  
16 to the Company’s firm customers. Fixed supply reservation fees are  
17 generally required, in addition to the commodity cost of gas, in order to  
18 contract for and reserve firm gas supplies. In addition, the geographic  
19 source of supply, the nature of the supplier’s portfolio of gas supplies, and  
20 negotiated contract terms must be considered when evaluating the level of  
21 supply security. Thus, the security of gas supply is interrelated with the  
22 price of gas as well as other components of the Company’s “best cost”  
23 purchasing policy.

1 3) “Flexibility of gas supply” refers to our ability to adjust the volume of a  
2 particular supply contract as operating and market conditions change. For  
3 example, the demand of firm heat-sensitive customers will vary depending  
4 on the weather conditions. Interruptible customers will vary their level of  
5 purchases depending on the price of alternate fuels and the demand for  
6 product in their own industry. Thus, the Company must arrange a portfolio  
7 of gas supplies and storage services flexible enough to meet the daily and  
8 monthly “swings” in demand. Contractual “swing rights” are implemented  
9 through monthly and daily elections with gas suppliers and through  
10 injections into and withdrawals out of storage.

11 4) “Gas deliverability” refers to the ability to deliver the Company’s gas  
12 supplies at the city gate through reliable transportation and storage capacity  
13 arrangements. The interstate pipeline industry has created a complex  
14 system of multiple pipeline and storage service combinations.  
15 Transportation arrangements can involve intrastate pipeline transportation,  
16 interstate pipeline transportation, interstate pipeline storage arrangements,  
17 interstate pipeline lateral lines, interstate pipeline pooling services, and  
18 interstate pipeline balancing and peaking services. The marketplace for  
19 pipeline capacity service is limited, with little to no unused capacity  
20 available during periods of high demand conditions such as extreme cold or  
21 hot weather conditions. Consequently, it is important that we secure and  
22 maintain firm transportation and storage capacity rights to ensure the  
23 deliverability of our gas supplies to meet the design day, seasonal, and

1 annual needs of our customers. Pipeline transportation and storage capacity  
2 contracts require the payment of fixed demand charges to reserve firm  
3 transportation and/or storage entitlements. The Company is active in  
4 proceedings at the Federal Energy Regulatory Commission (“FERC”) not  
5 only with respect to the level of pipeline charges under these contracts, but  
6 also the tariff terms and conditions that apply to these pipeline services.

7 5) “Supplier relations” refers to the dependability, integrity and flexibility  
8 of a particular gas supplier. We contract with gas suppliers who have a  
9 reputation of honoring their contractual commitments and have proven  
10 themselves as reliable suppliers. Conversely, we avoid suppliers which  
11 have a reputation of defaulting on contract obligations or who unilaterally  
12 interpret contracts to their advantage. We prefer to deal with suppliers who  
13 are constantly looking for ways to improve service and offer “win-win”  
14 solutions for meeting customer needs.

15 **Q. Please describe the arrangements under which the Company purchases**  
16 **gas.**

17 A. The Company purchases gas supplies under a diverse portfolio of  
18 contractual arrangements with several gas producers and marketers. In  
19 general, under the Company’s firm gas supply contracts, the Company may  
20 pay negotiated reservation fees for the right to reserve and call upon firm  
21 supply service up to the maximum daily contract quantity (elected either on  
22 a monthly or daily basis), with market-based commodity prices. These  
23 market-based commodity prices, to which the Company’s gas supply

1 contracts refer, are published daily and monthly in industry trade  
2 publications. These firm contracts typically range in term from one month  
3 to two years. Some of these contracts are for winter only (peaking or  
4 seasonal) service or 365-day (annual) service. Firm gas supplies are  
5 purchased for reliability and security of service. The reservation fees  
6 associated with firm gas supplies may vary according to the amount of  
7 flexibility built into the contract, with daily swing service generally being  
8 more expensive than monthly baseload service. Normally, prior to or when  
9 existing supply contracts expire, requests for proposals (“RFPs”) may be  
10 sent to potential suppliers, their responses are evaluated, and firm gas  
11 supplies are then contracted with suppliers whose proposals best fulfill the  
12 Company’s “best cost” purchasing policy.

13 The Company also purchases gas supplies in the spot market under contract  
14 terms of one month or less. These contracts provide less supply security  
15 and, as a result, the Company relies on these contracts primarily for  
16 interruptible or spot markets during off-peak periods when secondary  
17 supplies are more abundant, and for supplemental system balancing  
18 requirements. Because of the nature of spot contracts, these supplies do not  
19 command reservation fees and are priced at a market rate, generally by  
20 reference to an industry index or at negotiated fixed prices.

21 **Q. How does the combination of the five factors described above**  
22 **determine the nature of the supply and capacity contracts under your**  
23 **“best cost” policy?**

1 A. Under our “best cost” policy, we secure and maintain a supply portfolio that  
2 is in balance with the requirements of our sales customers. Because our  
3 firm sales customers must have secure and reliable gas supply, we meet the  
4 need of our firm sales customers’ demand primarily with long-term firm  
5 supply, transportation, storage, and peaking service contracts. The  
6 temperature sensitivity of our firm customers necessitates that flexibility of  
7 supply and storage also be provided. As mentioned earlier, firm gas supply  
8 contracts demand a premium, typically in the form of fixed reservation fees.  
9 Also, firm supply contracts with flexible swing service entitlements will  
10 command a higher reservation fee than baseload arrangements. Because  
11 our interruptible customers are more price sensitive and require less supply  
12 security, we supply these customers with off-peak firm gas supply and  
13 transportation services when the firm customers’ demand declines and  
14 through the purchase of gas supplies in the spot market.

15 In short, before entering into any agreement to purchase gas supply, pipeline  
16 transportation capacity, or storage capacity, we carefully consider the  
17 requirement for the supply and weigh the five “best cost” factors (price,  
18 security, deliverability, flexibility, and supplier relations). A great deal of  
19 judgment is required when weighing these factors and to help us exercise  
20 this judgment, we keep informed about all aspects of the natural gas  
21 industry. We intervene in all major FERC proceedings involving our  
22 pipeline transporters, stay in constant contact with our existing and potential  
23 suppliers, monitor gas prices on a real-time basis, subscribe to industry

1 literature, follow supply and demand developments, and attend industry  
2 seminars.

3 **Q. What is Piedmont’s greatest challenge in applying its “best cost” gas**  
4 **purchasing policy?**

5 A. Since most major gas supply decisions require a considerable degree of  
6 planning and must be made a year or more in advance of service, our  
7 greatest challenge is dealing with future uncertainties in a dynamic global,  
8 national, and regional energy market. Future demand for gas is affected by  
9 economic conditions, customer conservation efforts, weather patterns,  
10 regulatory policies, and public health crises, such as the ongoing COVID-  
11 19 pandemic. In addition, the future availability and pricing of gas supplies  
12 will be affected by overall end-user demand, oil and gas exploration and  
13 development, pipeline expansion and storage projects, and regulatory  
14 policies and approvals.

15 **Q. Please explain the Company’s position regarding the current U.S.**  
16 **supply situation.**

17 A. For much of the first decade of this century, futures pricing of natural gas  
18 reflected by the NYMEX was extremely volatile. Peak pricing for futures  
19 contracts occurred in July 2008 when contracts for gas to be delivered  
20 during January 2009 sold for \$14.516 per dekatherm. However, due to the  
21 significant quantities of shale gas that have become available to the market,  
22 the cost of gas in the production areas has declined dramatically. It is the  
23 Company’s expectation that some volatility will remain in the physical

1 markets, particularly related to *force majeure* type events, interstate pipeline  
2 capacity markets, and/or significant changes in supply and/or demand, but  
3 that the dramatic swings previously seen in the futures market are not likely  
4 to recur with the same regularity or intensity so long as shale gas supplies  
5 remain abundant and regulatory policies remain favorable for gas and oil  
6 exploration and development. Another factor to consider in the U.S. supply  
7 situation is the exportation of liquefied natural gas (“LNG”). Piedmont  
8 continues to evaluate approvals of LNG export terminals, applications for  
9 trade with Free Trade Agreement and non-Free Trade Agreement countries,  
10 and to what extent exportation may impact gas prices. Nevertheless, market  
11 experts believe that future LNG exports would be adequately served by  
12 shale supplies and that while there is a reasonable expectation of an increase  
13 in gas costs, the anticipated effect is marginal.

14 **Q. Please explain the factors that the Company evaluates in determining**  
15 **the pricing basis for its gas supply contracts. Please discuss the various**  
16 **pricing alternatives available, such as fixed prices, monthly market**  
17 **indexing and daily spot market pricing and describe how supplier**  
18 **reservation charges and discounts or premiums from market prices**  
19 **enter into the Company’s evaluation.**

20 A. The Company has various pricing options available to it when developing  
21 its gas supply portfolio. These options include monthly market indexing,  
22 daily spot pricing, and fixed pricing. Pricing for gas contracted for a term  
23 of one month or longer generally refers to a monthly or daily index as

1 published by industry trade publications. Prices for daily spot deals may  
2 refer to a daily index or be a negotiated fixed price.

3 The reservation fee the Company pays for each contract in its firm supply  
4 portfolio is dependent upon the pricing options chosen and the supply  
5 flexibility requirements associated with each contract. Reservation fees are  
6 generally lower for baseload supplies (purchased at a constant volume for  
7 the entire month, season or year) and higher if swing service is required.  
8 Reservation fees also vary depending on the type of swing service being  
9 provided. Examples of factors which affect the cost of swing service are:  
10 1) the number of days of swing required, 2) the volume of swing allowed,  
11 3) commodity pricing at first of the month indices versus daily spot pricing,  
12 4) next day versus intraday swing capabilities, and 5) location of the supply  
13 being purchased.

14 The Company considers its anticipated load and swing requirements under  
15 various demand scenarios, contemplates the factors listed above and makes  
16 a “best cost” purchasing decision.

17 **Q. Please describe how the Company determines the daily contract**  
18 **quantity of gas supplies that should be acquired through long-term**  
19 **contracts for the whole year, the full winter season and periods less than**  
20 **a full winter season.**

21 **A.** The Company purchases gas supplies on a year-round basis to fulfill its firm  
22 requirements including storage injections and to minimize supply costs  
23 utilized to serve firm customers. Some of these contracts will escalate in

1 volume during the winter period (November through March) as the  
2 Company's firm requirements increase due to higher demand, thus  
3 sculpting year-round contracts to fit seasonal needs. The Company also  
4 purchases volumes for the winter period to meet its forecasted sales  
5 customers' demand within the limits of the Company's firm transportation  
6 capacity entitlements, which increase during the winter period. In addition,  
7 the Company reviews low demand scenarios to measure its ability to fulfill  
8 its contractual purchase commitments with suppliers. Lastly, the Company  
9 may purchase short-term city gate peaking supply to fulfill additional firm  
10 obligations that exceed the Company's firm transportation capacity  
11 entitlements.

12 **Q. What process does the Company employ in selecting its firm gas**  
13 **suppliers?**

14 A. The Company identifies the volume and type of supply that it needs to fulfill  
15 its customer demand requirements, and in general, solicits RFPs from a list  
16 of suppliers that the Company continuously updates as potential suppliers  
17 enter and leave the market place. The RFPs may be for firm baseload or  
18 swing supply. RFPs for swing supply may be further categorized into  
19 pricing based on first of the month indices or daily market indices. Swing  
20 supplies priced at first of the month indices command the highest  
21 reservation fees because the supplier assumes the risk associated with  
22 market volatility during the delivery period. Lower reservation fees are  
23 associated with swing contracts referencing a daily market index because

1 both buyer and seller assume the risk of daily market volatility. After  
2 forecasting the ultimate cost delivered to the city gate for each point of  
3 supply (incorporating the forecasted cost at the supply point plus pipeline  
4 fuel plus pipeline transportation fees), and evaluating the cost of reservation  
5 fees associated with each type of supply and its corresponding bid, the  
6 Company makes a “best cost” decision on which type of supply and supplier  
7 is best suited to fulfill the Company’s needs.

8 **Q. Did the Company enter into any new supply arrangements during the**  
9 **Review Period?**

10 A. Yes, during the Review Period the Company added new supply  
11 arrangements.

12 **Q. Please describe the new supply arrangements the Company entered**  
13 **into during the Review Period.**

14 A. The Company entered into various new supply arrangements consisting of  
15 daily swing supply priced at the first of the month index during November  
16 through March, daily swing supply priced at the daily market index during  
17 November through March, and daily swing supply priced at the daily market  
18 index during December through February.

19 **Q. Please describe the process that the Company utilized and the market**  
20 **intelligence evaluated during the Review Period to determine the prices**  
21 **charged for secondary market sales.**

22 A. The process and information used by the Company in pricing secondary  
23 market sales depends upon the location of the sale, term of the sale, the type

1 of sale, and prevailing market conditions at the time of the sale. For long-  
2 term delivered sales (longer than one month), in general, the Company  
3 solicits bids from potential buyers, and if acceptable, evaluates and awards  
4 available volumes. For short-term transactions (daily or monthly), the  
5 Company: 1) monitors prices and volumes on the Intercontinental Exchange  
6 (“ICE”) (ICE is an electronic trading platform where potential buyers post  
7 bids and potential sellers post offers at various locations/hubs along the  
8 interstate pipelines), 2) talks to various market participants, and 3) for less  
9 liquid trading points, estimates prices based on price relationships with  
10 more liquid points. The Company also evaluates the amount of supply  
11 available for sale and weighs that against current market conditions in  
12 formulating its sales strategy (i.e., if the Company has a large amount of  
13 supply to sell on a particular day and determines that market demand is low,  
14 the Company will be more aggressive in its sales strategy). The Company  
15 incorporates all of these factors and then initiates its sales strategy.

16 **Q. Did the Company make any changes to its gas purchasing policies or**  
17 **practices during the Review Period?**

18 A. The Company did not implement any changes in its “best cost” gas  
19 purchasing policies or practices during the Review Period.

20 **Q. Did the Company take any other actions to reduce price volatility for**  
21 **its customers?**

22 A. Yes. The Company continues to utilize the Company’s Hedging Plan as  
23 well as storage which acts as a physical hedge to stabilize the cost of gas.

1 The Company's Equal Payment Plan, in addition to the adjustment of the  
2 Purchased Gas Adjustment benchmark price and deferred gas cost  
3 accounting, also provide a smoothing effect on gas prices charged to  
4 customers.

5 **Q. What were the net economic results of the Hedging Plan during the**  
6 **Review Period?**

7 A. The Company's North Carolina sales customers incurred a net economic  
8 cost of \$3,976,782.16 (see **Exhibit\_(MBT-2)**) as a result of the Company's  
9 Hedging Plan during the Review Period, which was an increase compared  
10 to the last Review Period. This net economic impact includes the cost of  
11 commissions and amounts to an average cost per sales customer of roughly  
12 \$0.43 per month.

13 **Q. Did the Company's Hedging Plan work properly during the Review**  
14 **Period?**

15 A. Yes. The Hedging Plan accomplished its goal of providing an insurance  
16 policy to reduce gas cost volatility for customers in the event of a gas price  
17 fly up.

18 **Q. Has the Company made any changes to its Hedging Plan during the**  
19 **Review Period?**

20 A. There were no changes made to the Hedging Plan during the Review Period.  
21 The Company has and will continue to closely monitor the gas supply –  
22 demand picture and when appropriate will propose changes it deems  
23 necessary to its Hedging Plan.

1 **Q. Please describe how compliance with the Hedging Plan is monitored.**

2 A. Currently, the Gas Accounting, Finance, Risk, and Corporate Compliance  
3 areas of the Company perform ongoing activities to monitor compliance  
4 with the Hedging Plan. In addition, the Company's Gas Market Risk  
5 Committee monitors compliance with the Hedging Plan, as well as  
6 considers and approves any changes to the Hedging Plan. Periodic internal  
7 audits have and will be performed to ensure that controls continue to be  
8 adequate and function as management intends.

9 **Q. Have there been any deviations from the Hedging Plan during the**  
10 **Review Period?**

11 A. There were no deviations from the Hedging Plan during the Review Period.

12 **Q. Given the current low gas price forecast and low gas cost volatility**  
13 **environment, do you think continuing to hedge under the current**  
14 **Hedging Plan is prudent?**

15 A. Yes. Because the goal of the Hedging Plan is to provide insurance against  
16 gas cost volatility if prices fly up, the Company feels it is prudent to incur  
17 what it deems is a low-cost insurance policy and continue with the current  
18 Hedging Plan. As stated previously, the cost per sales customer during the  
19 Review Period was approximately \$0.43 per month. Because the current  
20 Hedging Plan only contemplates the purchase of options, the cost of the  
21 Hedging Plan is relatively low. As stated above, the Company has and will  
22 continue to closely monitor the gas supply demand picture and will propose  
23 changes to its Hedging Plan if necessary.

1 **Q. What are some of the other steps the Company has taken to manage its**  
2 **gas costs consistent with its “best cost” policy during the Review**  
3 **Period?**

4 A. During the past year, the Company has taken the following additional steps  
5 to manage its gas costs, consistent with its “best cost” policy:

6 (1) As more fully described in Mr. Patton’s testimony, the Company  
7 has actively participated in proceedings before the FERC and other  
8 regulatory agencies that could reasonably be expected to affect the  
9 Company’s rates and services;

10 (2) The Company has utilized the flexibility available within its  
11 supply, transportation, and storage contracts to purchase and dispatch gas,  
12 release transportation and storage capacity, and initiate secondary  
13 marketing sales in a cost-effective manner, resulting in secondary market  
14 credits to customers of \$25,414,407.44, compared to last year’s secondary  
15 market credits of \$24,057,394.48; and

16 (3) The Company has actively promoted more efficient peak day use  
17 of natural gas and load growth from “year-round” markets in order to  
18 improve the Company’s load factor and reduce average unit costs.

19 **Q. Please summarize your testimony.**

20 A. The Company’s “best cost” purchasing policy provides our customers with  
21 secure and reasonably priced gas supplies to meet their energy  
22 requirements. This policy and the Company’s practices under this policy  
23 have been reviewed and found prudent on all occasions in North Carolina

1 and in the other state jurisdictions in which we operate. Although we  
2 believe our policies and procedures are reasonable, we are cognizant of the  
3 fact that the natural gas industry is rapidly changing, and we are  
4 continuously monitoring our policies and procedures to keep up with, and  
5 anticipate, these changing conditions. We have and will continue to work  
6 with the Commission and Public Staff to review current regulations and  
7 tariffs and explore possible changes that will better serve our natural gas  
8 customers in the future. We are satisfied that our existing policies and  
9 procedures are prudent and that they have produced and will continue to  
10 produce adequate amounts of secure and reasonably priced gas for our  
11 customers.

12 **Q. Does this conclude your testimony?**

13 **A. Yes.**