PUBLIC SERVICE COMPANY OF NORTH CAROLINA, INC.

DOCKET NO. G-5, SUB 635

TESTIMONY OF SHAWN L. DORGAN

ON BEHALF OF

THE PUBLIC STAFF – NORTH CAROLINA UTILITIES COMMISSION

July 26, 2021

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

A. My name is Shawn L. Dorgan, and my business address is 430 North Salisbury Street, Raleigh, North Carolina. I am an Accountant 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 12-month review period ended March 31, 2021 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, 2020 through March 31, 2021.

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) **<u>Commodity Gas Cost True-Up</u>** - 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) **<u>Fixed Gas Cost True-Up</u>** - 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) **<u>Negotiated Losses</u>** - 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) **<u>Temporary Increments and/or Decrements</u>** – All collections and/or refunds from customers that impact deferred account balances, supporting data and calculations are verified.

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

(6) **<u>Secondary Market Transactions</u>** - 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) **<u>Uncollectibles</u>** – 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) **<u>Supplier Refunds</u>** – 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 $220,684,628 for the current review period, as compared with $171,361,359 for the prior period. The components of filed gas costs for the two periods are shown in the table below[1]:

	12 Months Ended March 31, 2021	12 Months Ended March 31, 2020	Increase (Decrease)	% Change
Demand & Storage	$105,081,205	$108,719,294	($3,638,089)	(3.35%)
Commodity	128,838,351	120,268,623	8,569,728	7.13%
Other Costs	(13,234,928)	(57,626,558)	44,391,630	(77.03%)
Totals	$220,684,629	$171,361,359	$49,323,270	28.78%

/1 See Footnote 1

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 12-month review period are as follows:

[1] Footed totals in the following schedules may not sum due to rounding.

	12 Months Ended		Increase	
	March 31, 2021	March 31, 2020	(Decrease)	% Change
Transco:				
FT Reservation	$52,234,211	$57,777,290	($5,543,079)	(9.59%)
FT Momentum	2,073,564	2,324,267	(250,703)	(10.79%)
Southern Expansion	2,278,195	2,724,443	(446,248)	(16.38%)
Southeast Expansion	11,075,585	7,759,043	3,316,542	42.74%
GSS	1,800,118	2,097,241	(297,123)	(14.17%)
WSS	680,128	713,155	(33,027)	(4.63%)
LGA	351,483	196,890	154,593	78.52%
ESS	1,137,570	2,515,995	(1,378,425)	(54.79%)
Total Transco Charges	$71,630,854	$76,108,324	($4,477,470)	(5.88%)
Other Charges:				
Pine Needle LNG	$2,986,316	$3,453,549	($467,233)	(13.53%)
Cardinal	5,577,982	5,598,349	(20,367)	(0.36%)
Dominion Transmission Service	5,089,110	5,088,037	1,073	0.02%
Texas Gas Transmission	546,880	548,378	(1,499)	(0.27%)
Texas Eastern	563,328	563,328	-	0.00%
Columbia FSS/SST	4,352,913	3,851,796	501,117	13.01%
Eminence Demand and Capacity	1,156,471	-	1,156,471	
East Tennessee (Patriot Expansion)	5,735,300	5,674,450	60,850	1.07%
Saltville Gas Storage	3,440,304	3,320,683	119,621	3.60%
EDF Trading FT Reservation	1,873,250	1,793,750	79,500	4.43%
Cove Point LNG	1,165,508	1,024,620	140,888	13.75%
Piedmont Redelivery Agreement	9,120	9,120	-	0.00%
Firm Backhaul Capacity on Transco	910,800	1,641,600	(730,800)	(44.52%)
City of Monroe	43,072	43,311	(239)	(0.55%)
Total Other Charges	$33,450,353	$32,610,971	$839,382	2.57%
Total Demand & Storage Charges	$105,081,205	$108,719,294	($3,638,089)	(3.35%)

/1 See Footnote 1

The primary reason for the overall decrease in Transcontinental Gas Pipe Line 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) charges** of 5.88% is the result of reductions in Transco rates, as ordered in the following Federal Energy Regulatory Commission (FERC) Docket Nos: RP20-575-000 (rates effective April 1, 2020) and RP19-01126-004 (rates effective June 1, 2020). The Public Staff notes that the new rates ultimately stem from the outcome in

FERC Docket No. RP18-1126-003 (a sub-docket of the 2018 Transco Rate Case), in which Transco filed an uncontested stipulation and settlement agreement in resolution of all outstanding rate case issues, and which the Commission approved in its order dated March 24, 2020. The 2018 Transco rate case was addressed at length in the Company's prior Annual Review of Gas Costs (Docket No. G-5, Sub 622).

The decrease in Pine Needle LNG Company, LLC (**Pine Needle**) charges is due primarily to rate decreases ordered in the following FERC Dockets: RP20-720-000 (rates effective May 1, 2020), and RP20-780-001 (settlement rates effective June 1, 2020). The two aforementioned FERC proceedings address, respectively: (1) changes to Pine Needle's annual fuel retention percentage and electric power rates; and (2), changes per the settlement agreement approved by the Commission in FERC Docket No. RP17-204-001.

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: RP21-351-000 and RP20-1060-000. In FERC Docket No. RP21-351-000 Columbia filed to implement an annual adjustment to its Capital Cost Recovery Mechanism (CCRM) pursuant to the Stipulation and Agreement reached in FERC Docket No. RP16-314-000 (Modernization II Settlement), and in FERC Docket No. RP20-1060-000 Columbia filed an application for a general rate increase under Section 4 of the Natural Gas Act.

The increase in **Dominion Cove Point LNG** charges is due primarily to an increase in reservation charges, as ordered in FERC Docket RP20-004677-000 (rates effective August 1, 2020).

The decrease in **Firm Backhaul Capacity on Transco** is due to a reduction in the transportation rate, effective November 1, 2020.

Q. PLEASE EXPLAIN THE CHANGE IN COMMODITY GAS COSTS.

A. Commodity gas costs for the current review period and the prior 12-month period are as follows:

	12 Months Ended		Increase	
	March 31, 2021	March 31, 2020	(Decrease)	% Change
Gas Supply Purchases	$119,272,275	$119,675,415	($403,140)	(0.34%)
Transportation Charges from Pipelines	1,751,831	1,322,742	429,089	32.44%
Storage Injections	(15,946,430)	(23,318,153)	7,371,723	(31.61%)
Storage Withdrawals	23,760,675	22,588,618	1,172,057	5.19%
Total Commodity Gas Costs Expensed	$128,838,351	$120,268,623	$8,569,728	7.13%
Gas Supply for Deliveries (dt)	52,587,485	49,577,913	3,009,572	6.07%
Commodity Cost per dt	$2.4500	$2.4259	$0.0241	0.99%

/1 See Footnote 1

Gas Supply Purchases decreased by $403,140 during the current review period, as compared with the prior 12-month review period, a slight decline in spite of a 6.07% increase in delivery volumes purchased. As indicated in the chart above, for the current review period the average commodity cost of gas increased fractionally, up

$0.02 or less than 1%, when compared with the prior review period. The small increase is generally consistent with movements in market indices and spot market prices experienced between the two periods.

The decrease in **Storage Injections** was due to the lower average cost of gas supply injected into storage. The average cost of gas injected into storage during the current review period was $1.9338 per dt as compared with $2.3278 per dt for the prior period.

The increase in **Storage Withdrawal** charges was primarily due to a lower average cost of supply withdrawn from storage. PSNC's average cost of gas withdrawn was $2.2365 per dt in this review period as compared with $2.6479 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 12-month period are as follows:

	12 Months Ended		Increase
	March 31, 2021	March 31, 2020	(Decrease)
Deferred Account Activity	($37,794,115)	($27,453,960)	($10,340,155)
Estimate to Actual Gas Cost True-Up	6,862,663	(9,404,717)	16,267,380
CUT Deferral	(11,478,607)	(28,371,847)	16,893,240
CUT Increment/Decrement	27,568,767	9,371,933	18,196,834
High Efficiency Discount Rate	(408,430)	(386,572)	(21,858)
IMT Deferral	2,033,724	(1,386,961)	3,420,685
Gas Loss - Facilities Damages	(18,930)	5,567	(24,497)
Total Other Gas Costs	($13,234,928)	($57,626,558)	$44,391,630

/1 See Footnote 1

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 **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 **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 ACTIVITIES

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

A. During the review period, the Company recorded $25,671,569 of margin on secondary market transactions. These transactions include capacity releases, asset management arrangements, and other similar dealings. Of this amount, $19,253,677 ($25,671,569 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.

	Actual 12 Month Period Ended		Increase	
	March 31, 2021	March 31, 2020	(Decrease)	Change
Capacity Release	$2,290,999	$2,108,109	$182,890	8.68%
Asset Management	22,606,318	23,962,994	(1,356,676)	(5.66%)
Bundled Sales	33,402	337,886	(304,484)	(90.11%)
Straddles	740,850	673,700	67,150	9.97%
Spot Sales	-	59,433	(59,433)	(100.00%)
Total Secondary Market Margins	$25,671,569	$27,142,122	($1,470,553)	(5.42%)

/1 See Footnote 1

Capacity Release is the 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 8.68%, due primarily to a slight increase on the margin earned for volumes released during the current review period, 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 5.68% decrease in net compensation from AMAs results from a decrease, for the second consecutive review period, in the value of the interstate pipeline and storage capacity that PSNC has subject to AMAs.

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 the second consecutive review period, PSNC's bundled sales decreased, with net compensation for the 12-month period ended March 31, 2021 dropping by 90.11%. As was the case in the prior review period, the decline was attributable to lower sales volumes.

Straddle transactions are the physical exchange 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, principally 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 did not make any spot sales during the current review period.

DEFERRED ACCOUNT REPORTING

Q. BASED ON YOUR REVIEW OF GAS COSTS IN THIS PROCEEDING, WHAT ARE THE APPROPRIATE DEFERRED ACCOUNT BALANCES AS OF MARCH 31, 2021?

A. The appropriate All Customers' Deferred Account balance is a debit balance of $8,065,604, owed to the Company, as filed by PSNC. This balance consists of the following deferred account activity:

Beginning Balance as of April 1, 2020	**$8,101,647**
Commodity Cost (Over) Under Collections	(64,687)
Demand Costs (Over) Under Collections	34,815,218
(Increment) / Decrement Activity	(3,478,910)
Secondary Market Transactions	(19,253,677)
Supplier Refunds	(13,097,646)
Miscellaneous	(4,911)
Interest	1,048,570
Ending Balance as of March 31, 2021	**$8,065,604**

Regarding the Sales Customers' Only Deferred Account balance at March 31, 2021, Creel Exhibit 1, Schedule 8 reflects a debit balance of $4,501,726, owed to the Company. Public Staff witness Perry recommends transferring the Company's Hedging Deferred Account credit balance of $436,502, as of March 31, 2021, to the Sales Customers' Only Deferred Account. Therefore, the recommended balance in the Sales Customers' Only Deferred Account is a net debit balance of $4,065,224, owed by the customers to the Company, as follows:

Balance per Creel Exhibit I, Schedule 8	**$4,501,726**
Transfer of Hedging Balance	(436,502)
Balance per Public Staff	**$4,065,224**

Q. HAVE YOU REVIEWED THE COMPANY'S INTEREST RATE IN THE DEFERRED ACCOUNTS?

A. Yes. Decretal paragraph numbers four and five of the Commission's Order in the Company's prior annual review proceeding in Docket No. G-5, Sub 622 (Sub 622 Order), provide in part that "PSNC shall continue to use 6.96% as the applicable interest rate on all amounts overcollected or under collected from customers reflected in its Deferred Gas Cost Account(s) . . . and that it is appropriate for PSNC to continue to review the interest rate calculation and file for approval of any necessary adjustments, in compliance with the Commission's prior orders."

The Public Staff has reviewed the Company's interest rate calculations and found that PSNC continues to use the 6.96% interest rate and has made the appropriate adjustments in its deferred accounts, consistent with the Commission's Sub 622 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.

APPENDIX A

QUALIFICATIONS AND EXPERIENCE

SHAWN L. DORGAN

I am a two-time accounting graduate of Appalachian State University, having earned a B.S.B.A. in Accountancy in 1988 and a Master's of Science in Accountancy (concentration in taxation; functional equivalent of an MST) in 1997. After graduation in August of that year 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. My license number is 27030.

I joined the Public Staff in May 2016 and since have specialized in providing accounting support in conjunction with rider rate proceedings, in particular program cost reviews of 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 (ARGC) proceedings, first for Frontier Natural Gas Company, and now for Public Service Company of North Carolina (PSNC, a Dominion Energy company).

Alongside the rider and ARGC proceedings, I have provided accounting and testimonial support in general rate cases involving North Carolina's largest 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).