NORTH CAROLINA
PUBLIC STAFF
UTILITIES COMMISSION

July 31, 2020

Ms. Kimberley A. Campbell, Chief Clerk
North Carolina Utilities Commission
4325 Mail Service Center
Raleigh, North Carolina 27699-4300

Re: Docket No. G-5 Sub 622 - Petition for Annual Review of Gas Costs

Dear Ms. Campbell:

In connection with the above-referenced docket, I transmit herewith for filing on behalf of the Public Staff the following Joint Testimony of Neha R. Patel, Engineer, Natural Gas Division; and Sonja R. Johnson, Staff Accountant, Accounting Division.

By copy of this letter, we are forwarding copies to all parties of record.

Sincerely,

/s Gina C. Holt
Staff Attorney
gina.holt@psncuc.nc.gov

Attachment

PUBLIC SERVICE COMPANY OF NORTH CAROLINA, INC.

DOCKET NO. G-5, SUB 622

JOINT TESTIMONY OF

SONJA R. JOHNSON AND NEHA R. PATEL

ON BEHALF OF

THE PUBLIC STAFF – NORTH CAROLINA UTILITIES COMMISSION

July 31, 2020

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

A. My name is Sonja R. Johnson, 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 based on my conclusions 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, 2020, were properly accounted for, (2) to present the results of my review of gas cost information filed by PSNC, in accordance with N. C. Gen. Stat. § 62-133.4(c) and Commission Rule R1-17(k)(6), and (3) to discuss my investigation and conclusions regarding the prudence of PSNC's hedging activities during the review period.

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

A. My name is Neha R. Patel and my business address is 430 North Salisbury Street, Raleigh, North Carolina. I am a Public Utilities Engineer in the Public Staff's Natural Gas Division. My qualifications and experience are provided in Appendix B.

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

A. The purpose of my testimony is to present my conclusions regarding whether the natural gas purchases made by PSNC during the review period ended March 31, 2020, were prudently incurred. My testimony also presents the results of my review of the gas cost information filed by PSNC in accordance with N. C. Gen. Stat. § 62-133.4(c) and Commission Rule R1-17(k)(6), and provides my recommendation regarding temporary rate increments and/or decrements.

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

A. We 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 the deferred account reports filed by the Company for accuracy and reasonableness and performs many audit procedures on the calculations.

Q. WHAT OTHER ITEMS DID THE NATURAL GAS DIVISION REVIEW?

A. Even though the scope of Commission Rule R1-17(k) is limited to a historical review period, the Public Staff's Natural Gas Division also considers other information received in response to data requests in order to anticipate the Company's requirements for future needs, including design day estimates, forecasted gas supply needs, projected capacity additions and supply changes, and customer load profile changes.

Q. MS. PATEL, WHAT IS THE RESULT OF YOUR EVALUATION OF PSNC'S GAS COSTS?

A. Based on my investigation and review of the data in this docket, I believe that PSNC's gas costs were prudently incurred for the 12-month review period ending March 31, 2020.

Q. MS. JOHNSON, HAS THE COMPANY PROPERLY ACCOUNTED FOR ITS GAS COSTS DURING THE REVIEW PERIOD?

A. Yes. I believe that PSNC properly accounted for its gas costs during the review period from April 1, 2019 through March 31, 2020.

ACCOUNTING FOR AND ANALYSIS OF GAS COSTS

Q. MS. JOHNSON, HOW DOES THE ACCOUNTING DIVISION GO ABOUT CONDUCTING ITS REVIEW OF THE ACCOUNTING FOR GAS COSTS?

A. Each month the Public Staff's Accounting Division reviews the Deferred Gas Cost Account reports filed by the Company for accuracy and reasonableness, and performs many audit procedures on the calculations, 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 supporting the calculation of 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 the customer below the cost of gas to the Company or the price of the customer's alternative fuel.

(4) **Temporary Increments and/or Decrements** - Calculations and supporting data are verified regarding the collections and/or refunds from customers that have occurred through the Deferred Account.

(5) **Interest Accrual** - Calculations of the interest accrued on the account balance during the month are verified in accordance with N. C. Gen. Stat. § 62-130 (e) and the Commission's Order 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. We review 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 should be flowed through to ratepayers in the All Customers

Deferred Account, or may be applied to the NCUC Legal Fund Reserve Account. We review documentation received by the Company from its suppliers to ensure that the amount received by the Company is 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. The Company filed total gas costs of $171,361,359 per Hinson Exhibit 1, Schedule 1, for the current review period as compared with $229,186,277 for the prior twelve-month period. The components of the filed gas costs for the two periods are as follows:

	12 Months Ended		Increase	
	March 31, 2020	March 31, 2019	(Decrease)	% Change
Demand & Storage	$108,719,294	$91,410,714	$17,308,580	18.93%
Commodity	120,268,623	172,769,819	(52,501,196)	(30.39%)
Other Costs	(57,626,558)	(34,994,258)	(22,632,300)	64.67%
Total	$171,361,359	$229,186,277	($57,824,916)	(25.23%)

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, 2020	12 Months Ended March 31, 2019	Increase (Decrease)	%Change
Transco:				
FT Reservation	$57,777,290	$47,748,330	$10,028,960	21.00%
FT Momentum	2,324,267	2,349,731	(25,464)	(1.08%)
Southern Expansion	2,724,443	1,971,370	753,073	38.20%
Southeast Expansion	7,759,043	5,633,731	2,125,312	37.72%
GSS	2,097,241	1,575,920	521,321	33.08%
WSS	713,155	549,942	163,213	29.68%
LGA	196,890	128,991	67,899	52.64%
ESS	2,515,995	1,893,065	622,930	32.91%
Total Transco Charges	$76,108,324	$61,851,080	$14,257,244	23.05%
Other Charges:				
Pine Needle LNG	$3,453,549	$3,416,808	$36,741	1.08%
Cardinal	5,598,349	5,924,953	(326,604)	(5.51%)
Dominion Transmission Service	5,088,037	5,089,350	(1,313)	(0.03%)
Texas Gas Transmission	548,378	515,622	32,756	6.35%
Texas Eastern	563,328	563,328	-	0.00%
Columbia FSS/SST	3,851,796	3,700,563	151,233	4.09%
East Tennesse (Patriot Expansion)	5,674,450	5,189,910	484,540	9.34%
Saltville Gas Storage	3,320,683	2,784,234	536,449	19.27%
EDF Trading FT Reservation	1,793,750	-	1,793,750	0.00%
Cove Point LNG	1,024,620	1,024,620	-	0.00%
Piedmont Redelivery Agreement	9,120	9,120	-	0.00%
Firm Backhaul Capacity on Transco	1,641,600	1,296,000	345,600	26.67%
City of Monroe	43,311	45,126	(1,815)	(4.02%)
Total Other Charges	$32,610,971	$29,559,634	$3,051,337	10.32%
Total Demand and Storage Charges	$108,719,294	$91,410,714	$17,308,580	18.93%

The primary reason for the increase in the 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 are primarily due to an increase in Transco's demand rates, pursuant to a general rate case filing in FERC Docket No. RP19-800-000, effective April 1, 2019.

The decrease in **Cardinal** is primarily due to the North Carolina Utilities Commission Order in Docket No. G-39, Sub 42, directing certain utilities, including Cardinal Pipeline Company, LLC, to adjust rates to reflect the reduction in the federal corporate income tax rate from 35% to 21% during the prior review period, effective January 1, 2019. The current year's charges reflect a full year of these rate reductions.

Texas Gas Transmission charges increased due to a rate increase during the prior review period, effective November 2018, in FERC Docket No. RP15-1077. The current year's charges reflect a full year of this rate increase.

The net increase in **East Tennessee (Patriot Expansion)** charges for the current period is due to an increase in rates in FERC Docket No. RP19-64-000, effective December 2018 and a rate decrease effective January 2019, pursuant to FERC Docket No. RP19-63-002.

Saltville charges increased as a result of rate increases in July 2019, pursuant to FERC Docket No. RP18-1115-002.

The increase in **Firm Backhaul Capacity on Transco** reflects a full year of the Company's agreement to have firm delivery of 60,000 dekatherms (dts) per day of gas during the winter months of November 2019 through March 2020 as opposed to last year's review reflecting only a partial winter period.

EDT Trading FT Reservation increased due to the Company entering into a new contract for up to 20,000 dts per day of firm delivered supply for ten days during the 2019-20 review period winter season.

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, 2020	March 31, 2019	(Decrease)	% Change
Gas Supply Purchases	$119,675,415	$174,084,532	($54,409,117)	(31.25%)
Transportation Charges from Pipelines	1,322,742	1,151,892	170,850	14.83%
Storage Injections	(23,318,153)	(30,795,846)	7,477,693	24.28%
Storage Withdrawals	22,588,618	28,329,241	(5,740,623)	(20.26%)
Total Commodity Gas Costs Expensed	$120,268,623	$172,769,819	($52,501,197)	(30.39%)
Gas Supply for Deliveries (dt)	49,577,913	52,537,574	(2,959,661)	(5.63%)
Commodity Cost per dt	$2.4259	$3.2885	($0.86)	(26.23%)

Gas Supply Purchases decreased by $54,409,117 primarily due to a lower commodity cost of gas purchased during the current review period , as well as a lower level of volumes purchased during the current review period as compared with the prior twelve-month review period. As indicated in the chart above, the total commodity cost per dt for the current review period decreased by $0.86, or 26.23%, when compared with the prior review period. This decrease is generally consistent with the changes 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 $2.3278 per dt as compared with $3.2401 per dt for the prior period.

The decrease 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 $2.6479 per dt in this review period as compared with $2.9012 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, 2020	March 31, 2019	(Decrease)
Deferred Account Activity	($27,453,960)	($33,521,161)	$6,067,201
Estimate to Actual Gas Cost True-Up	(9,404,717)	121,056	(9,525,773)
CUT Deferral	(28,371,847)	(9,359,283)	(19,012,564)
CUT Increment/Decrement	9,371,933	7,627,390	1,744,543
High Efficiency Discount Rate	(386,572)	(355,106)	(31,466)
IMT Deferral	(1,386,961)	415,683	(1,802,644)
IMT Tax Adjustment	-	81,985	(81,985)
Gas Loss-Facilities Damages	5,567	(4,822)	10,389
Total Other Gas Costs	($57,626,558)	($34,994,258)	($22,632,299)

The **Deferred Account Activity** amounts reflect offsetting accounting journal entries for most of the information recorded in the Company's Deferred Gas Cost Account 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 for the accounting journal entry that offsets its CUT deferral.

The **CUT Increment/Decrement** entries relate to the Sub 495 Order in which the Commission authorized the Company to collect from or refund to customers balances in the CUT Deferred Account by imposing either an increment or a decrement to rates, effective April and October of each year. The decrease in the current review period is due to a lower under-collection in the current review period as compared to the under-collection from the previous review period that resulted from warmer than normal weather.

The **High Efficiency Discount Rate** and the **Conservation Program Accrual** entries represents 9 months of accruals and expenses associated with $750,000 of annual conservation-related expenses allowed beginning in the Sub 495 Order.

<u>SECONDARY MARKET ACTIVITIES</u>

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

A. The Company recorded $27,142,122 of margins on secondary market transactions, including capacity release transactions, asset management arrangements, and other secondary market transactions during the review period. Of this amount, $20,356,592 ($27,142,122 x 75%) was credited to the All Customers' Deferred Account for the benefit of ratepayers. Presented below is a chart that compares the margins recorded by PSNC on the various types of secondary market transactions in which it was engaged during the review period and the prior review period.

	Actual 12 Month Period Ended		Increase	
	March 31, 2020	March 31, 2019	(Decrease)	Change
Capacity Release	$2,108,109	$3,433,824	($1,325,715)	(38.61%)
Asset Management	23,962,994	30,771,076	(6,808,082)	(22.12%)
Bundled Sales	337,886	1,433,881	(1,095,995)	(76.44%)
Straddles	673,700	635,400	38,300	6.03%
Spot Sales	59,433	197,784	(138,351.00)	(69.95%)
Total Secondary Market Margins	$27,142,122	$36,471,965	($9,329,843)	(25.58%)

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 decreased by 38.61% primarily due to decreased volumes being 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 22.12% decrease in net compensation from AMAs results primarily from a decrease 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. During the current winter period, PSNC's bundled sales decreased by 76.44% due to a decrease in the level of volumes as compared with the prior review period.

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. The level of volumes associated with the straddle transactions decreased slightly during the current review period, although the net compensation received increased due to higher market prices.

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 decrease is due to the fact that PSNC had fewer spot gas supply sales in the current review period as compared with the prior period.

HEDGING ACTIVITIES

Q. MS. JOHNSON, PLEASE EXPLAIN HOW THE PUBLIC STAFF CONDUCTED ITS REVIEW OF THE COMPANY'S HEDGING ACTIVITIES.

A. The Public Staff's review of the Company's hedging activities is performed on an ongoing basis and includes the analysis and evaluation of the following information:

1. The Company's monthly hedging deferred account reports;
2. Detailed source documentation, such as broker statements, which provide support for the amounts spent and received by the Company for financial instruments;
3. Workpapers supporting the derivation of the maximum hedge volumes targeted for each month;
4. Periodic reports on the status of hedge coverage for each month;
5. Periodic reports on the market values of the various financial instruments used by the Company to hedge;
6. The monthly Hedging Program Status Report;
7. The monthly report reconciling the Hedging Program Status Report and the Hedging Deferred Account Report;
8. Minutes from meetings of Service Company risk management personnel;

9. Minutes from meetings of Service Company risk management personnel and its committees that pertain to hedging activities;

10. Reports and correspondence from the Company's external and internal auditors that pertain to hedging activities;

11. Hedging plan documents that set forth the Company's gas price risk management policy, hedge strategy, and gas price risk management operations;

12. Communications with Company personnel regarding key hedging events and plan modifications under consideration by Service Company risk management personnel; and

13. Testimony and exhibits of the Company's witnesses in the annual review proceeding.

Q. WHAT IS THE STANDARD SET FORTH BY THE COMMISSION FOR EVALUATING THE PRUDENCE OF A COMPANY'S HEDGING DECISIONS?

A. In its February 26, 2002, Order on Hedging in Docket No. G-100, Sub 84 (Hedging Order), the Commission stated that the standard for reviewing the prudence of hedging decisions is that the decision "must have been made in a reasonable manner and at an appropriate time on the basis of what was reasonably known or should have been known at that time." Hedging Order, 92 NCUC 4, 11-12 (2002).

Q. PLEASE DESCRIBE THE ACTIVITY REPORTED IN THE COMPANY'S HEDGING DEFERRED ACCOUNT DURING THE REVIEW PERIOD.

A. The Company experienced a net debit of $2,959,771 in its Hedging Deferred Account during the review period. This net debit amount at March 31, 2020, is composed of the following items:

Economic (Gain)/Loss - Closed Positions	($43,048)
Premiums Paid	2,945,230
Brokerage Fees & Commissions	18,738
Interest on Hedging Deferred Account	38,816
Hedging Deferred Account Balance	$2,959,771

The first item shown in the chart above, Economic (Gain)/Loss – Closed Positions, is the gain on hedging positions that the Company realized during the review period. Premiums Paid is the amount spent by the Company on futures and options positions during the current review period. As of March 31, 2020, this amount includes call options purchased by PSNC for the March 2021 contract period, a contract period, which is 12 months beyond the end of the current review period and 11 months beyond the April 2020 prompt month.[1] Brokerage Fees and Commissions are the amounts paid to brokers to complete the transactions. The Interest on Brokerage Account amount is the interest earned by the Company on amounts deposited with its broker, and the Interest on Hedging Deferred

[1] Prompt month refers to the futures contract that is closest toexpiration and is usually for delivery in the next calendar month (e.g., prompt month contracts traded in February are typically for delivery in March).

Account is the amount accrued by the Company on its Hedging Deferred Account in accordance with N. C. Gen. Stat. § 62-130(e).

The Company proposed that the $2,959,771 debit balance in the Hedging Deferred Account as of the end of the review period be transferred to its Sales Customers' Only Deferred Account. The hedging charges result in an annual charge of $3.88 for the average residential customer, which equates to approximately $0.32 per month. PSNC's weighted average hedged cost of gas for the review period was $3.08 per dt.

Q. WHAT IS YOUR CONCLUSION REGARDING THE PRUDENCE OF THE COMPANY'S HEDGING ACTIVITIES?

A. Based on what was reasonably known or should have been known at the time the Company made its hedging decisions affecting the review period, as opposed to the outcome of those decisions, our analysis leads us to the conclusion that the decisions were prudent. We recommend that the $2,959,771 debit balance in the Hedging Deferred Account as of the end of the review period be transferred to the Company's Sales Customers' Only Deferred Account.

Q. MS. PATEL, DO YOU HAVE ANY RECOMMENDATIONS REGARDING PSNC'S DEFERRED ACCOUNT BALANCES AND ANY PROPOSED TEMPORARY INCREMENTS OR DECREMENTS?

A. Yes, I do. The All Customers' Deferred Account reflects a debit balance of $8,101,647, owed by the customers to the Company as of March 31,

2020. PSNC received a $13,112,646 refund from Transco on July 1, 2020, pursuant to Article IV of the Stipulation and Agreement filed on December 31, 2019, in FERC Docket No. RP18-1126 (July Transco Refund). As indicated in a letter filed with the Commission on July 10, 2020, in Docket No. G-100, Sub 57, PSNC stated it intends to record $13,097,646 in the All Customers' Deferred Account and the remaining $15,000 will be recorded in its Account 254.0002, NCUC Restricted Account.

The Public Staff notes that deferred account balances naturally vary between winter and summer months, since fixed gas costs are typically over-collected during the winter period when throughput is higher due to heating load, and under-collected during the summer when throughput is lower. The Public Staff also notes that at the end of June 2020, the All Customers' Deferred Account balance had increased to $19,452,736. Considering this June 2020 balance along with the July Transco Refund that was just received, I believe that requiring PSNC to implement additional temporary rate changes in the instant docket at this time would not be productive. Therefore, I agree with the Company's proposal to leave the current temporary rate increments in place.

The Sales Customers' Only Deferred Account reflects a credit balance of ($4,785,803), owed from the Company to customers. PSNC has proposed not to place a decrement in rates to refund the credit balance, but to manage it by using the Purchased Gas Adjustment (PGA) mechanism, pursuant to N. C. Gen. Stat. § 62-133.4. Using the PGA mechanism allows for a quicker implementation of temporaries that can address balances that are more current. I believe that requiring PSNC to implement temporary rate changes in the instant docket at this time would not be productive, and, therefore, I agree with the Company's proposal.

DESIGN DAY REQUIREMENTS

Q. MS. PATEL, DO YOU HAVE ANY COMMENTS REGARDING COMPANY WITNESS JACKSON'S EXHIBIT 1 AND DISCUSSION REGARDING DESIGN-DAY DEMAND AND AVAILABLE ASSET PROJECTIONS?

A. Yes. PSNC's design-day demand models show a shortfall of capacity beginning in the 2021 – 2022 winter season. The Company projects the Southeastern Trail project capacity to be available in the fourth quarter of 2020 and to be fully in service by the first quarter of 2021. For the review period, the Company had contracted for firm delivery of 60,000 dts per day of gas during the months of November 2019 through March 2020, notwithstanding any restrictions imposed by Transco on secondary backhaul transportation. The Company states it may need to enter into a similar arrangement for the upcoming winter period depending on the level of service available from the Southeastern Trail projects at that time.

The Company also contracted for 20,000 dts per day of firm delivery supply from a downstream LNG facility for 10 days during the winter season of the current review period and has extended this peaking service for nine days for the upcoming 2020-21 winter season. PSNC states it has also issued a request for proposal (RFP) to obtain an additional firm peaking service of an additional 20,000 dts a day for the 2020-21 winter period to cover the remaining projected shortfall.

PSNC witness Jackson filed supplemental direct testimony on July 10, 2020, to provide updates on the recent cancellation of the Atlantic Coast Pipeline (ACP) project and the potential effect on the Company's capacity and ability to serve its customers on peak day. PSNC witness Jackson stated that the project cancellation was "due to ongoing delays and increasing cost uncertainty which threaten the economic viability of the project" making the project "too uncertain to justify investing more shareholder capital." Witness Jackson's original Exhibit 1, showed the firm peak-day demand requirements for the current review period and the next five winter seasons. The footnote on the original Exhibit I stated that neither ACP nor Mountain Valley Pipeline, LLC (MVP) were reflected in their available assets for capacity needed in the calculation of the Company's reserve margin, since these projects were still under construction at that time. The footnote on Supplemental Exhibit 1 filed by PSNC witness Jackson has now been changed to reflect only the MVP capacity, which is still under construction.

The Public Staff has done an independent analysis using similar calculations to determine peak day (design-day) demand levels and compares that to the assets the Company has available or is planning to have available when needed in the future to meet that demand. The Public Staff uses the review period data of customer usage and heating degree days (HDDs), which are calculated by taking the average of the minimum and maximum daily temperatures and subtracting that quotient from 65 degrees. (For example, a low of 10 degrees and a high of 30 would yield 45 HDDs.) Base load demand, which is usage that does not fluctuate with weather, plus a usage per HDD factor is developed, and the projected peak day demand is calculated. The assumption in developing a peak design-day demand is 55 HDDs, which is the accepted peak coldest day that would be anticipated to be experienced in PSNC’s territory. The results of our analysis are similar to the levels presented by PSNC in Jackson Exhibit 1.

The Public Staff also notes that if the MVP mainline and the MVP Southgate projects are not placed into service as of the anticipated time period, PSNC will need to make arrangements to address the shortfall in available assets using their best-cost strategy to serve customers’ firm peak day demand. PSNC witness Jackson has addressed this in her testimony. The Public Staff further notes that, for the reasons discussed in the supplemental direct testimony of PSNC witness Jackson, the cancellation of ACP does not significantly affect PSNC’s forecasted level of available capacity.

DEFERRED ACCOUNT BALANCES

Q. MS. JOHNSON, BASED ON YOUR REVIEW OF GAS COSTS IN THIS PROCEEDING, WHAT ARE THE APPROPRIATE DEFERRED ACCOUNT BALANCES AS OF MARCH 31, 2020?

A. The appropriate All Customers' Deferred Account balance is a debit balance of $8,101,647, owed to the Company, as filed by the Company. This balance consists of the following deferred account activity:

Beginning Balance as of April 1, 2019	($3,040,186)
Commodity Costs Under Collections	201,205
Demand Costs Under Collections	44,333,115
(Increment)/Decrement	(13,718,429)
Secondary Market Transaction Credits	(20,356,592)
Supplier Refunds	(237,455)
Miscellaneous Adjustments	(6,854)
Interest Rate Adjustment July 2019	10,574
Accrued Interest	916,269
Ending Balance as of March 31, 2020	$8,101,647

Hinson Exhibit 1, Schedule 8 reflects a credit balance in the Sales Customers' Only Deferred Account balance as of March 31, 2020, of ($4,785,803), owed by the Company to the customers. The Public Staff recommends transferring the Hedging Deferred Account debit balance of $2,959,771 to the Sales Customers' Only Deferred Account. The recommend balance for the Sales Customers' Only Deferred Account as of March 31, 2020, is a net credit balance, owed by the Company to the customers, of $1,826,032, determined as follows:

Balance per Hinson Exhibit, Schedule 8	($4,785,803)
Transfer of Hedging Balance	2,959,771
Balance per Public Staff	($1,826,032)

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

A. Yes. Decretal paragraph numbers five and six of the Commission's Order in the Company's prior annual review proceeding in Docket No. G-5, Sub 608, provide in part that "PSNC shall continue to apply a 6.96% interest rate to its Sales Customers Only Account, All Customers Account, Hedging Deferred Gas Cost Account . . . until further order by the Commission; and that PSNC shall continue to review the interest rate calculation and file for approval of any necessary adjustments".

The Public Staff has reviewed the Company's interest rate calculations and found that PSNC is continuing to use the 6.96% interest rate and has made the appropriate adjustments in the deferred accounts, consistent with the Commission's prior annual review 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

SONJA R. JOHNSON

Qualifications and Experience

I am a graduate of North Carolina State University with a Bachelor of Science and Master of Science degree in Accounting. I was initially an employee of the Public Staff from December 2002 until May 2004, and rejoined the Public Staff in January 2006.

I am responsible for analyzing testimony, exhibits, and other data presented by parties before this Commission. I have the further responsibility of performing and supervising the examinations of books and records of utilities involved in proceedings before the Commission, and summarizing the results into testimony and exhibits for presentation to the Commission.

Since initially joining the Public Staff in December 2002, I have filed testimony or affidavits in several water and sewer general rate cases. My experience also includes filing affidavits in several fuel rate cases of Duke Energy Carolinas, LLC and Dominion North Carolina Power. I have also performed audits and/or presented testimony or affidavits in Public Service Company of North Carolina Annual Gas Cost reviews.

APPENDIX B

Neha Patel

Qualifications and Experience

I graduated from University Of Mumbai in 1995 with a Bachelor of Science degree in Electronic Engineering. I began working as a Utilities Engineer with the Natural Gas Division of the Public Staff in February of 2014.

My most current work experience with the Natural Gas Division includes the following topics:

1. Purchase Gas Cost Adjustment Procedures;
2. Tariff Filings;
3. Customer Utilization Trackers;
4. Special Contract Review and Analysis;
5. Weather Normalization Adjustments;
6. Customer Complaint Resolutions;
7. Integrity Management Riders
8. Franchise Exchange Filings;
9. Annual Review of Gas Costs Proceedings;
10. Cost Of Service Study;
11. General Rate Case Proceedings;
12. Rate Design;
13. Compressed Natural Gas Special Contracts;
14. Peak Day Demand and Capacity Calculations;
15. Fuel and Electric Usage Trackers; and
16. Gas Resellers.