

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. G-5, SUB 642

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

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION
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TESTIMONY OF SONJA R. JOHNSON
ON BEHALF OF THE PUBLIC STAFF
NORTH CAROLINA UTILITIES COMMISSION

JULY 25, 2022

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

3 A. My name is Sonja R. Johnson, and my business address is 430
4 North Salisbury Street, Raleigh, North Carolina. I am the Financial
5 Manager of the Natural Gas & Transportation Section in the
6 Accounting Division of the Public Staff. My qualifications and
7 experience are provided in Appendix A.

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

10 A. The purpose of my testimony is to provide my conclusions
11 regarding the prudence of Public Service Company of North
12 Carolina, Inc.'s (PSNC or the Company) hedging decisions during
13 the review period.

14 **Q. PLEASE EXPLAIN HOW YOU CONDUCTED YOUR REVIEW.**

15 A. I reviewed the testimony and exhibits of the Company's witnesses,
16 monthly Deferred Gas Cost Account reports,

1 monthly financial and operating reports, the gas supply and
2 pipeline transportation contracts, and responses to Public Staff data
3 requests. The responses to the Public Staff data requests
4 contained information related to PSNC's gas purchasing
5 philosophies, customer requirements, and gas portfolio mixes.

6 **HEDGING ACTIVITIES**

7 **Q. PLEASE EXPLAIN HOW THE PUBLIC STAFF CONDUCTED ITS**
8 **REVIEW OF THE COMPANY'S HEDGING ACTIVITIES.**

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

12 1. The Company's monthly hedging deferred account
13 reports;

14 2. Detailed source documentation, such as broker
15 statements, which provide support for the amounts spent and
16 received by the Company for financial instruments;

17 3. Workpapers supporting the derivation of the
18 maximum hedge volumes targeted for each month;

19 4. Periodic reports on the status of hedge coverage for
20 each month;

21 5. Periodic reports on the market values of the various
22 financial instruments used by the Company to hedge;

- 1 6. The monthly Hedging Program Status Report;
- 2 7. The monthly report reconciling the Hedging Program
- 3 Status Report and the Hedging Deferred Account Report;
- 4 8. Minutes from meetings of the Company's risk
- 5 management personnel;
- 6 9. Minutes from meetings of the Company's risk
- 7 management personnel and its committees that pertain to hedging
- 8 activities;
- 9 10. Reports and correspondence from the Company's
- 10 external and internal auditors that pertain to hedging activities;
- 11 11. Hedging plan documents that set forth the Company's
- 12 gas price risk management policy, hedge strategy, and gas price
- 13 risk management operations;
- 14 12. Communications with Company personnel regarding
- 15 key hedging events and plan modifications under consideration by
- 16 the Company's risk management personnel; and
- 17 13. Testimony and exhibits of the Company's witnesses
- 18 in the annual review proceeding.

19 **Q. WHAT IS THE STANDARD SET FORTH BY THE COMMISSION**

20 **FOR EVALUATING THE PRUDENCE OF A COMPANY'S**

21 **HEDGING DECISIONS?**

1 A. In its February 26, 2002, Order on Hedging in Docket No. G-100,
2 Sub 84 (Hedging Order), the Commission stated that the standard
3 for reviewing the prudence of hedging decisions is that the decision
4 “must have been made in a reasonable manner and at an
5 appropriate time on the basis of what was reasonably known or
6 should have been known at that time.” Hedging Order, 92 NCUC 4,
7 11-12 (2002).

8 **Q. PLEASE DESCRIBE THE ACTIVITY REPORTED IN THE**
9 **COMPANY’S HEDGING DEFERRED ACCOUNT DURING THE**
10 **REVIEW PERIOD.**

11 A. The Company experienced a net credit of \$9,818,653 in its Hedging
12 Deferred Account during the review period. This net credit amount
13 on March 31, 2022, is composed of the following items:

Economic (Gain)/Loss - Closed Positions	(\$13,552,663)
Premiums Paid	3,935,280
Brokerage Fees & Commissions	47,883
Interest on Hedging Deferred Account	<u>(249,154)</u>
Hedging Deferred Account Balance	<u><u>(\$9,818,653)</u></u>

14 The first item shown in the chart above, Economic (Gain)/Loss –
15 Closed Positions, is the gain on hedging positions that the
16 Company realized during the review period. Premiums Paid is the
17 amount spent by the Company on futures and options positions
18 during the current review period. As of March 31, 2022, this amount

1 includes call options purchased by PSNC for the March 2023
2 contract period, a contract period which is 12 months beyond the
3 end of the current review period and 11 months beyond the April
4 2022 prompt month.¹ Brokerage Fees and Commissions are the
5 amounts paid to brokers to complete the transactions. The Interest
6 on Brokerage Account amount is the interest earned by the
7 Company on amounts deposited with its broker, and the Interest on
8 Hedging Deferred Account is the amount accrued by the Company
9 on its Hedging Deferred Account in accordance with N.C. Gen.
10 Stat. § 62-130(e).

11 The Company proposed that the \$9,818,653 credit balance in the
12 Hedging Deferred Account as of the end of the review period be
13 transferred to its Sales Customers' Only Deferred Account. The
14 hedging charges result in an annual credit of \$11.84 for the
15 average residential customer, which equates to approximately
16 \$0.99 per month. PSNC's weighted average hedged cost of gas for
17 the review period was \$5.04 per dt.

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

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

1 A. Based on what was reasonably known or should have been known
2 at the time the Company made its hedging decisions affecting the
3 review period, as opposed to the outcome of those decisions, my
4 analysis leads me to the conclusion that the Company's decisions
5 were prudent. I therefore recommend that the \$9,818,653 credit
6 balance in the Hedging Deferred Account as of the end of the
7 review period be transferred to the Company's Sales Customers'
8 Only Deferred Account.

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

10 A. Yes, it does.

QUALIFICATIONS AND EXPERIENCE

SONJA R. JOHNSON

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 became the Accounting Division's Manager for Natural Gas and Transportation in May 2022.

As an Accounting Manager, I am responsible for the performance and supervision of the following activities: (1) the examination and analysis of testimony, exhibits, books and records, and other data presented by utilities and other parties under the jurisdiction of the Commission or involved in Commission proceedings; and (2) the preparation and presentation to the Commission of testimony, exhibits, and other documents in those proceedings.

Since initially joining the Public Staff in December 2002, I have filed testimony or affidavits in several water and sewer general rate cases. I have also filed testimony in applications for certificates of public convenience and necessity to construct water and sewer systems and noncontiguous extension of existing systems. My experience also includes filing affidavits

in several fuel clause rate cases and Renewable Energy and Energy Efficiency Portfolio Standard (REPS) cost recovery cases for the utilities currently organized as Duke Energy Carolinas, LLC, Duke Energy Progress, LLC, and Virginia Electric and Power Company d/b/a Dominion North Carolina Power.

While away from the Public Staff, I was employed by Clifton Gunderson, LLP. My duties included the performance of cost report audits of nursing homes, hospitals, federally qualified health centers, intermediate care facilities for the mentally handicapped, residential treatment centers and health centers.