

**STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH**

DOCKET NO. G-41, SUB 54

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

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

HEARD: Monday, November 4, 2019, at 2:00 pm., in Commission Hearing Room 2115, Dobbs Building, 430 North Salisbury Street, Raleigh, North Carolina

BEFORE: Commissioner ToNola D. Brown-Bland, Presiding; Chair Charlotte A. Mitchell, and Commissioner Lyons Gray

APPEARANCES:

For Toccoa Natural Gas:

Karen M. Kemerait, Fox Rothschild, LLP, 434 Fayetteville Street, Suite 2800, Raleigh, North Carolina 27601

For the Using and Consuming Public:

Elizabeth D. Culpepper, Staff Attorney, Public Staff – North Carolina Utilities Commission, 4326 Mail Service Center, Raleigh, North Carolina 27699

BY THE COMMISSION: On August 30, 2019, pursuant to N.C. Gen. Stat. § 62-133.4(c) and Commission Rule R1-17(k)(6), Toccoa Natural Gas (Toccoa or Company), filed the direct testimony and exhibits of Rai Trippe, Member Support Senior Business Analyst for the Municipal Gas Authority of Georgia (Gas Authority), and Harry Franklin Scott, Jr., Utilities Director for the City of Toccoa, Georgia, in connection with the annual review of Toccoa’s gas costs for the 12-month period ended June 30, 2019.

On September 5, 2019, 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 4, 2019, 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 16, 2019, Toccoa filed its affidavit of publication.

On October 18, 2019, the Public Staff filed the joint testimony of Neha R. Patel, Public Utilities Engineer, Natural Gas Division; Iris Morgan, Staff Accountant, Accounting Division; and Julie G. Perry, Accounting Manager of the Natural Gas & Transportation Section, Accounting Division (Public Staff Panel or Panel).

On October 18, 2019, Toccoa and the Public Staff filed a Motion to Excuse Appearance of Witnesses and Accept Testimony. On October 24, 2019, the Commission granted the Motion.

On November 4, 2019, 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.

On November 27, 2019, Toccoa and the Public Staff filed their Joint Proposed Order.

Based on the testimony and exhibits received into evidence 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 N.C. Gen. Stat. § 62-3(23), and 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 6,679 retail customers of which approximately 751 are in North Carolina.
3. The Company has filed with the Commission and submitted to the Public Staff all information required by N.C.G.S. § 62-133.4(c) and Commission Rule R1-17(k) and has complied with the procedural requirements of such statute and rule.
4. The review period in this proceeding is the 12-months ended June 30, 2019.
5. During the review period, Toccoa incurred total North Carolina gas costs of \$428,903, which was comprised of demand and storage costs of \$86,697, commodity costs of \$344,880, and other gas costs of (\$2,674).
6. At June 30, 2019, Toccoa had a credit balance of \$22,850, owed by Toccoa to customers, in its Deferred Gas Cost Account.
7. Toccoa properly accounted for its gas costs during the review period.

8. Toccoa's hedging activities during the review period were reasonable and prudent.

9. 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.

10. 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.

11. 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.

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

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

14. As a result of this proceeding, the Company should continue the current temporary rate decrement of \$0.4397 per dekatherm (dt) as recommended by the Public Staff Panel and not opposed by Toccoa.

15. It is appropriate for Toccoa to apply an interest rate of 5.83% to its Deferred Account for the review period, and it is appropriate that Toccoa not adjust its Deferred Account interest rate for known tax changes because it is exempt from federal income tax and it does not pay income taxes in North Carolina since Toccoa is a municipality.

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 schedules and exhibits of Toccoa witness Trippe and the testimony of Toccoa witness Scott. These findings are essentially informational, procedural or jurisdictional 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 schedules and exhibits of Toccoa witness Trippe and the testimony of the Public Staff Panel. These findings are based on N.C.G.S. § 62-133.4(c) and Commission Rule R1-17(k)(6).

Pursuant to N.C. Gen. Stat. § 62-133.4(c), Toccoa is required to submit to the Commission information and data for an historical 12-month review period, including

Toccoa's 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, 2019, 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-normalization, sales volume data, 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 on the foregoing, the Commission concludes that Toccoa has complied with all procedural requirements of N.C.G.S. § 62-133.4(c) and Commission Rule R1-17(k) for the 12-month review period ended June 30, 2019.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 5-7

The evidence supporting these findings of fact is contained in the testimony and schedules and exhibits 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 \$428,903 during the review period, which was comprised of demand and storage costs of \$86,697, commodity costs of \$344,880, and other gas costs of (\$2,674). 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, 2019, the balance in Toccoa's Deferred Gas Cost Account was a credit balance of \$22,850, 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 \$9,557, Demand True-up of (\$63,152), Firm Hedges of (\$2,674), Decrement of \$41,833, and Interest of (\$830).

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.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 8

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

Company witness Trippe testified that Toccoa participates in the Gas Authority's "Winter Hedge" 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. Witness Trippe further testified that Toccoa reviewed its Winter Hedge Program participation and elected to hedge its winter hedge volumes at approximately 20.3% of its forecasted firm gas sales for November 2018 through March 2019.

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.

The Public Staff Panel stated that during the current review period, Toccoa's hedging program resulted in a \$2,674 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 continue its winter hedge volumes at approximately 20% of all firm North Carolina gas sales for November 2019 through March 2021. The Public Staff Panel further stated that Toccoa continues to adopt the more conservative hedge volumes for their participation in the Winter Hedge Program because market and futures pricing has been significantly lower than in prior years. The Public Staff Panel also explained that Toccoa elected to continue the maximum hedging program term offered by the Gas Authority of two years beginning November 1, 2019.

The Public Staff Panel further testified 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 Panel, 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. 9-13

The evidence for these findings of fact is contained in the testimony of Toccoa witness Trippe and 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, a storage service contract with Pine Needle LNG Company, LLC, and a gas supply contract with the Gas Authority. The Public Staff Panel further explained that as the full requirements supplier for Toccoa, the Gas Authority manages all of Toccoa's pipeline capacity, 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 Panel 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 review period to mitigate the cost of extra demand capacity, generating a savings during the period of July 2018 - June 2019 that totaled \$14,780. 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. 14

The evidence for this finding of fact is contained in the testimony and schedule and exhibits 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, 2019, was a \$22,850 credit balance, owed to customers. The Public Staff Panel stated, in general, temporary increments or decrements for a local distribution

company (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.

The Public Staff Panel further stated that at the end of August 2019 the over collection had decreased to a credit balance of \$18,153, owed to customers. The Company estimated the balance would flip to an under-collection going into the 2019 winter period and then swing back to an over-collection as the winter period progressed. The Public Staff Panel recommended that the Company leave in place the current decrement of \$0.4397 per dt that was placed into rates effective January 1, 2018, in Docket No. G-41, Sub 50. The Public Staff Panel noted that the Public Staff made the same recommendation in Toccoa's prior annual review of gas costs proceeding in Docket No. G-41, Sub 53, which was approved by the Commission. Furthermore, the Public Staff Panel recommended that Toccoa continue to monitor the balance in its Deferred Account and file a request to implement new temporary increments or decrements, as applicable, through the Purchased Gas Adjustment (PGA) mechanism to avoid significant over-collections of its fixed gas costs. 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 current rate decrement should remain in place as recommended by the Public Staff Panel and not opposed by Toccoa.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 15

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

Toccoa witness Trippe testified that the interest rate applied to Toccoa's Deferred Account for amounts over-collected or under-collected from its North Carolina firm sales customers was established in Docket No. G-41 Sub 0, and approved by the Commission in its December 8, 1998 Order granting Toccoa and the Municipal Gas Authority of Georgia a Certificate of Public Convenience and Necessity. Witness Trippe further testified that Toccoa's Deferred Account interest rate proposed by Public Staff is the overall rate of return and that Toccoa has not adjusted its Deferred Account interest rate for known tax changes because it is exempt from federal income tax and it does not pay income taxes in North Carolina since Toccoa is a municipality. Witness Trippe stated that the present interest rate of 5.83% has been applied to Toccoa's Deferred Account during the full twelve months of the review period.

The Public Staff Panel stated that based on discussions regarding the recurring credit balances in the Company's Deferred Gas Cost Account, and in accordance with N.C. Gen. Stat. § 62-130(e), on October 1, 2016, Toccoa began calculating interest on its deferred account using the overall rate of return approved by the Commission. The calculations of the interest accrued on the account balance during the month are verified

in accordance with N.C. Gen. Stat. §62-130(e). The Public Staff agrees with the interest rate of 5.83%.

Based on the foregoing, the Commission concludes that the appropriate interest rate to apply to Toccoa's Deferred Account is 5.83% for the period of July 1, 2018, through June 30, 2019. Furthermore, the Commission finds that it is appropriate that Toccoa not adjust its Deferred Account interest rate for known tax changes because it is exempt from federal income tax and it does not pay income taxes in North Carolina since Toccoa is a municipality.

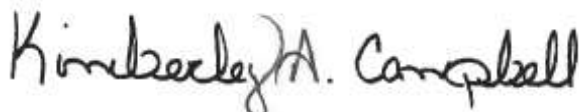
IT IS, THEREFORE, ORDERED as follows:

1. That Toccoa's accounting for gas costs for the 12-month period ended June 30, 2019, is approved;
2. That the gas costs incurred by Toccoa during the 12-month period ended June 30, 2019, including the Company's hedging costs, were reasonably and prudently incurred, and that Toccoa is authorized to recover 100% of its gas costs as provided herein;
3. That the existing temporary decrement approved in Docket No. G-41, Sub 50 shall remain in rates; and
4. That it is appropriate for Toccoa to continue calculating interest using a rate of 5.83% on its Deferred Gas Cost Account, not adjusted for known tax changes because it is exempt from federal income tax and it does not pay income taxes in North Carolina, since Toccoa is a municipality.

ISSUED BY ORDER OF THE COMMISSION.

This the 3rd day of January, 2020.

NORTH CAROLINA UTILITIES COMMISSION



Kimberley A. Campbell, Chief Clerk