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Apr 30 2019

April 30, 2019

**VIA ELECTRONIC FILING**

Ms. M. Lynn Jarvis  
Chief Clerk  
North Carolina Utilities Commission  
430 N. Salisbury Street, Dobbs Building  
Raleigh, North Carolina 27603

Re: Docket No. G-40, Sub 149

Dear Ms. Jarvis:

Enclosed for filing is the Joint Proposed Order of Frontier Natural Gas Company and the Public Staff in the above-referenced docket. I have emailed the Proposed Order in word format to [briefs@ncuc.net](mailto:briefs@ncuc.net).

Thank you for your assistance with this matter. If you have any questions regarding this filing, you may reach me at the number shown above.

Sincerely,

/s/ James H. Jeffries IV  
James H. Jeffries IV

JHJ/rkg

Enclosure

cc: Fred Steele  
Beth Culpepper

**STATE OF NORTH CAROLINA  
UTILITIES COMMISSION  
RALEIGH**

DOCKET NO. G-40, SUB 149

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of  
Application of Frontier Natural Gas                    )   JOINT PROPOSED ORDER  
Company for Annual Review of Gas                 )   OF FRONTIER NATURAL  
Costs Pursuant to N.C. Gen Stat. § 62-            )   GAS COMPANY AND THE  
133.4(c) and Commission Rule R1-                )   PUBLIC STAFF  
17(k)(6)

HEARD:        Tuesday, March 5, 2019, at 10:00 a.m., in the Commission Hearing Room  
                  2160, Dobbs Building, 430 North Salisbury Street, Raleigh, North Carolina

BEFORE:       Commissioner ToNola D. Brown-Bland, Presiding; and Chairman Edward  
                  S. Finley, Jr. and Commissioner Jerry C. Dockham

APPEARANCES:

For Frontier Natural Gas Company:

James H. Jeffries IV, McGuireWoods LLP, 201 N. Tryon Street, Suite 3000,  
Charlotte, North Carolina 28202

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-  
4300

BY THE COMMISSION: On December 3, 2018, pursuant to N.C. Gen Stat. § 62-133.4(c) and Commission Rule R1-17(k)(6), Frontier Natural Gas Company (Frontier or Company) filed the direct testimony and exhibits of Fred A. Steele, President/General Manager, in connection with the annual review of Frontier’s gas costs for the twelve-month period ended September 30, 2018.

On December 10, 2018, the Commission issued its Order Scheduling Hearing, Requiring Filing of Testimony, Establishing Discovery Guidelines and Requiring Public Notice (Hearing Order). The Hearing Order set the annual review of the Company's gas costs for hearing on March 5, 2019, set pre-filed testimony dates, and required Frontier to give notice of the hearing.

On February 15, 2019, the Public Staff – North Carolina Utilities Commission (Public Staff) filed a motion requesting that the Commission extend the date for the Public Staff to file its testimony to February 25, 2019 and that the date for the expert witness hearing be rescheduled to March 25 or 26, 2019. The Commission issued an Order on February 18, 2019 extending the date for the Public Staff to file its testimony to February 22, 2019 and the date for Frontier to file its rebuttal testimony to March 4, 2019, and to maintain the date for the expert witness hearing date on March 5, 2019.

On February 22, 2019, the Public Staff filed the joint direct testimony and exhibit of Jan A. Larsen, Director, Natural Gas Division; Shawn L. Dorgan, Staff Accountant, Accounting Division; and Julie G. Perry, Accounting Manager, Natural Gas & Transportation Section, Accounting Division (Public Staff Panel). On April 1, 2019, the Public Staff filed revised Pages 82, 84-88, 90, and 91 to its prefiled testimony.

On March 5, 2019, Frontier and the Public Staff filed an Agreement and Stipulation of Settlement (Settlement) detailing the resolution of the differences in their respective positions regarding Frontier's gas purchasing practices for January 2018 and February 2018.

On March 5, 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 April 30 2019, the Joint Proposed Order of Frontier and the Public Staff was filed.

No other party intervened in this docket.

Based upon the testimony and exhibits received into evidence and the record as a whole, the Commission makes the following:

### **FINDINGS OF FACT**

1. Frontier is a public utility as defined by N.C. Gen Stat. § 62-3(23), organized and existing under the laws of the State of North Carolina with its headquarters in Elkin, North Carolina.

2. Frontier is a natural gas local distribution company (LDC), primarily engaged in the business of purchasing, transporting, distributing, and selling natural gas to approximately 3,853 customers in North Carolina, as of September 30, 2018.

3. Frontier has filed with the Commission and submitted to the Public Staff all of the information required by N.C. Gen Stat. § 62-133.4(c) and Commission Rule R1-17(k).

4. The review period in this proceeding is the twelve months ended September 30, 2018.

5. During the review period, Frontier incurred total gas costs of \$5,814,378, which was comprised of pipeline demand charges of \$1,202,629, gas supply costs of \$4,810,011, and other gas costs of (\$198,262).

6. The Public Staff Panel initially recommended a disallowance of Frontier's recovery of certain gas costs related to Frontier's gas purchases for the months of January and February 2018.

7. Although Frontier disputes Public Staff Panel's position on Frontier's gas purchasing practices during the months of January and February 2018 and that any gas costs should be disallowed, the parties reached an agreement, which terms are memorialized in the Settlement that resolves all issues and claims in this docket.

8. The appropriate Deferred Gas Cost Account balance at September 30, 2018, is a debit balance of \$212,619, owed to Frontier by its customers, taking into account a deferred account adjustment of \$117,508 (inclusive of interest) agreed to by the Company and the Public Staff Panel.

9. Subject to the deferred account adjustment agreed to by the Public Staff Panel and Frontier, Frontier properly incurred and accounted for its gas costs during the review period.

10. Subject to the deferred account adjustment agreed to by the Public Staff Panel and Frontier, Frontier's hedging decisions during the review period were reasonable and prudent.

11. During the review period, Frontier purchased all of its gas supply requirements from a full requirements gas supplier.

12. Frontier has access to 20,000 dekatherms a day of capacity which should allow the Company to serve its firm market on peak day until the 2021 - 2022 winter period.

13. Frontier utilized pipeline capacity from Transcontinental Gas Pipe Line Company, LLC (Transco).

14. Frontier has continued its “best evaluated cost” gas purchasing supply strategy policy.

15. Subject to the deferred account adjustment noted above, the gas costs incurred by Frontier during the review period were prudently incurred, and Frontier should be permitted to recover 100% of its prudently incurred gas costs.

16. Frontier should not be required to implement a rate increment in this docket.

17. The appropriate interest rate to be used to calculate interest on Frontier’s deferred gas cost account should be 6.60%, effective January 1, 2018.

#### **EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 1-2**

These findings are essentially informational, procedural, or jurisdictional and are based on evidence uncontested by any of the parties. The evidence supporting these findings is contained in the official files and records of the Commission, the testimony and exhibits of Company witness Steele, and the testimony and exhibit of the Public Staff Panel.

#### **EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 3-4**

The evidence supporting these findings is contained in the testimony of Frontier witness Steele, the testimony and exhibit of the Public Staff Panel, and the provisions of N.C. Gen Stat. § 62-133.4(c) and Commission Rule R1-17(k)(6).

N.C. Gen Stat. § 62-133.4 requires that each natural gas utility submit to the Commission information and data for an historical twelve-month review period concerning its actual cost of gas, volumes of purchased gas, sales volumes, negotiated sales

volumes, and transportation volumes. Commission Rule R1-17(k)(6)(c) requires the filing of work papers, direct testimony, and exhibits supporting the information.

Frontier witness Steele testified that the Company is responsible for and has complied with reporting gas costs and deferred account activity to the Commission and the Public Staff on a monthly basis as required by Commission Rule R1-17(k). The Public Staff Panel confirmed that the Public Staff has reviewed the reports filed by Frontier. The Commission, therefore, concludes that Frontier has complied with all of the procedural requirements of N.C. Gen Stat. § 62-133.4(c) and Commission Rule R1-17(k) for the review period.

#### **EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 5-9**

The evidence supporting these findings of fact is contained in the testimony and exhibits of Frontier witness Steele, the testimony and exhibit of the Public Staff Panel and the Settlement.

Company Schedule 1 reflected that Frontier's total gas costs for the review period were \$5,814,378, which was comprised of pipeline demand charges of \$1,202,629, gas supply costs of \$4,810,011, and other gas costs of (\$198,262).

The Public Staff Panel testified that the Public Staff reviewed the testimony and exhibits of Company witness Steele, the Company's monthly Deferred Gas Cost Account reports, monthly financial and operating reports, the gas supply and pipeline transportation contracts, and the Company's responses to Public Staff data requests, which contained information related to Frontier's gas purchasing philosophies, customer requirements, and gas portfolio mixes.

Company witness Steele testified that at September 30, 2018, Frontier's Deferred Gas Cost Account had an ending debit balance of \$330,127, owed to Frontier from customers, as shown on Company Schedule 8. Initially, the Public Staff Panel testified that that, based on (1) the recommended hedging/price mitigation adjustment to the deferred gas cost account, (2) their review of the gas costs in this proceeding, and (3) their opinion that the Company's gas costs were prudently incurred, the appropriate balance in Frontier's Deferred Gas Cost Account at September 30, 2018, is a \$65,998 debit balance, owed to Frontier. However, per the terms of the Settlement agreed to by the Company and Public Staff Panel, Frontier agreed, without acknowledging any imprudence on its part with respect to its gas purchasing practices during the review period, to credit its Deferred Gas Cost Account in the amount of \$117,508 (inclusive of interest), thereby resulting in a Deferred Gas Cost Account balance at September 30, 2018, of \$212,619, owed by Frontier's customers to the Company.

Based on the foregoing, the Commission concludes that the Settlement between Frontier and the Public Staff is reasonable and appropriate for purposes of this proceeding. The Commission further concludes that the appropriate Deferred Gas Cost Account balance at September 30, 2018, is a debit balance of \$212,619, owed to Frontier by its customers, taking into account a \$117,508 adjustment (inclusive of interest) agreed to by the Company and the Public Staff, and that Frontier has properly accounted for its gas costs incurred during the review period.

## EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 10

The evidence for this finding of fact is contained in the testimony and exhibits of Company witness Steele, the testimony and exhibit of the Public Staff Panel, and the Settlement.

Company witness Steele testified that the Company continually monitors the NYMEX natural gas commodity market and associated hedging developments, trends, activity and costs and that Frontier made the decision not to engage in hedging activity during the current review period of October 2017 to September 2018.

The Public Staff Panel testified that the appropriate standard for the review of hedging decisions by LDCs is set forth in the Commission's February 26, 2002, Order on Hedging in Docket No. G-100, Sub 84 (Hedging Order). In the Hedging Order, the Commission concluded that the purpose of hedging is to reduce the volatility of commodity costs. The Public Staff further testified that even a conservative approach to stabilize costs would have enabled the Company to mitigate the impact of the large fly ups in gas prices during the winter. However, Frontier opted to rely on Zone 5 daily pricing instead of utilizing other possible alternatives to mitigate price risk such as: (1) locking in a portion of its gas supply under its Asset Management Agreement (AMA) First of the Month (FOM) Option, (2) entering into the Peaking Proposal offered by UGI Energy Services, LLC (UGI), or (3) initiating physical hedges for January and February 2018. The Public Staff testified that by making little or no effort to mitigate possible price spikes consistent with the objectives identified by the Commission in Docket No. G-100, Sub 84 that the Company, in the Public Staff's opinion, acted imprudently. Based upon the terms of the Settlement and Mr. Steele's testimony at the hearing of this matter, it is clear that

Frontier disagrees with the Public Staff's conclusion in this regard. Notwithstanding this disagreement, the Parties agreed to and filed the Settlement which incorporates an adjustment to Frontier's gas costs for the benefits of its customers.

Based upon the deferred account adjustment agreed to as part of the Settlement, the Public Staff Panel's investigation, and the review of the data filed in this docket, the Public Staff Panel agreed that Frontier's hedging decisions were prudent.

Based on the foregoing, and taking into consideration the impact of the Settlement on the review period gas costs ultimately paid by Frontier's customers, the Commission concludes that Frontier's hedging decisions during the review period were reasonable and prudent.

#### **EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 11-15**

The evidence for these findings of fact is contained in the testimony and exhibits of Company witness Steele, the testimony and exhibit of the Public Staff Panel, and the Settlement.

Witness Steele testified that Frontier has contracted with Transco for interstate pipeline capacity, and that it contracts with UGI to centralize purchasing and reliability of gas deliveries under a full requirements contract. Witness Steele testified that Frontier has access to up to 20,000 dekatherms of capacity per day, which will allow it to serve its firm market on peak day until the 2021-2022 winter period.

The Public Staff Panel stated that it had evaluated the report on a Design Day Study prepared by Dr. Ronald H. Brown, PhD, shown on CONFIDENTIAL Exhibit B, who utilized the Marquette University GasDay program in evaluating Frontier's projected peak day demand and concluded that it accurately calculates Frontier's peak day using

reasonable assumptions, such as HDDs and frequency of occurrence of such cold weather events. The Public Staff Panel also concurred that Frontier has adequate capacity in order to serve its firm market on peak days until the 2021-2022 winter period.

Company witness Steele testified that the Company's gas supply policy is best described as a "best evaluated costs" supply strategy. This strategy is based upon the following criteria: flexibility, security/creditworthiness, reliability of supply, the cost of the gas, and the quality of supplier customer service. Witness Steele stated that the primary criteria for the Company are security of gas supply, which refers to the assurance that the supply of gas will be available when needed, as well as maintaining the necessary operational flexibility, security and reliability to serve their needs.

Company witness Steele stated that flexibility is required because of the daily changes in Frontier's market requirements caused by the unpredictable nature of weather, the production levels/operating schedules of Frontier's industrial customers, the industrial customers' option to switch to alternative fuels, and customer growth during the test period. He noted that while Frontier's gas supply agreements have different purchase commitments and swing capabilities (i.e., the ability to adjust purchase volumes within the contract volume), the gas supply portfolio as a whole must be capable of handling the seasonal, monthly, daily, and hourly changes in Frontier's market requirements.

Company witness Steele testified that Frontier understands the necessity of having security of supply to provide reliable and dependable natural gas service and has demonstrated its ability to do so. He stated that Frontier's gas supply strategy and its contracts implementing this strategy have allowed Frontier to accomplish this objective.

Company witness Steele testified that the Company continues to incorporate a three part pricing strategy to help establish price stability and reduce risk to customers: hedging, first of the month index purchases, and daily purchases. Frontier will adjust the weights of each component and incorporate the best pricing methodology to obtain the optimum opportunity in savings and price stability.

The Public Staff Panel testified that during the review period of October 1, 2017, through September 30, 2018, Frontier experienced customer growth of 7.24%. Further, based on its investigation, the review of the data filed in this docket, and subject to the deferred account adjustment agreed to as part of the Settlement, the Public Staff Panel agrees that the Company's gas costs during the review period were prudently incurred and that its gas purchasing decisions were prudent.

Based on the foregoing, the Commission concludes that the Company's gas costs incurred during the review period were reasonable and prudently incurred and that subject to the deferred account adjustment agreed to as part of the Settlement, the Company should be permitted to recover 100% of its prudently incurred gas costs.

#### **EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NO. 16**

The evidence for these findings of fact is contained in the testimony and exhibits of Company witness Steele and the testimony and exhibit of the Public Staff Panel, and the Settlement.

The Public Staff Panel testified that Frontier filed a Purchased Gas Adjustment (PGA) filing on February 15, 2019, in Docket No. G-40, Sub 151 for authority to decrease its Benchmark City Gate Delivered Gas Cost by \$2.05 per dt, effective March 1, 2019. The Public Staff Panel testified that it has evaluated the application and that based on

Frontier's Sub 151 PGA filing that it was not necessary to implement a temporary rate increment or decrement at this time.

Based on the foregoing, the Commission concludes that Frontier should not be required to implement a rate increment or decrement in this proceeding.

#### **EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NO. 17**

The evidence for these findings of fact is contained in the testimony and exhibits of Company witness Steele, the testimony and exhibit of the Public Staff Panel.

As shown on Company Schedule 8 and Public Staff Panel Exhibit I, the appropriate interest rate to be used to calculate interest on Frontier's Deferred Gas Cost Account should be 6.60%, effective January 1, 2018.

Based on the foregoing, the Commission concludes that 6.60% is the appropriate interest rate to use in the Frontier Deferred Gas Cost Account effective January 1, 2018.

IT IS, THEREFORE, ORDERED as follows:

1. That the Settlement filed by Frontier and the Public Staff is hereby approved in its entirety.
2. That subject to the deferred account adjustment provided for in the Settlement, Frontier's accounting for gas costs during the twelve month period ended September 30, 2018, is approved;
3. That subject to the deferred account adjustment provided for in the Settlement, that the gas costs incurred by Frontier during the twelve-month period ended September 30, 2018, were reasonably and prudently incurred, and Frontier is hereby authorized to recover 100 % of its gas costs incurred during the period of review;

4. That subject to the deferred account adjustment provided for in the Settlement, Frontier's hedging decisions during the review period were reasonable and prudent.

5. That Frontier and the Public Staff shall work together collaboratively to address future gas purchasing practices by Frontier, including hedging and other price mitigation practices, in order to reduce or eliminate concerns over customer exposure to potential gas cost volatility while maintaining reasonable up-front charges to customers for the right to call on gas under high demand scenarios.

6. That Frontier shall use the net-of-tax overall rate of return of 6.60% as the applicable interest rate on all amounts over-collected or under-collected from customers reflected in its Deferred Gas Cost Account effective January 1, 2018.

ISSUED BY ORDER OF THE COMMISSION.

This the \_\_ day of \_\_\_\_\_, 2019.

NORTH CAROLINA UTILITIES COMMISSION

M. Lynn Jarvis, Chief Clerk