



**NORTH CAROLINA  
PUBLIC STAFF  
UTILITIES COMMISSION**

October 22, 2018

Ms. M. Lynn Jarvis, Chief Clerk  
North Carolina Utilities Commission  
Mail Service Center 4325  
Raleigh, North Carolina 27699-4300

Re: Docket No. G-41, Sub 53

Dear Ms. Jarvis:

In connection with the above-captioned docket, I transmit herewith for filing on behalf of the Public Staff the Joint Testimony of:

1. Geoffrey M. Gilbert, Utilities Engineer, Natural Gas Division;
2. Iris Morgan, Staff Accountant, Accounting Division; and
3. Julie G. Perry, Manager, Natural Gas & Transportation Section, Accounting Division.

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

Sincerely,

/s/ Gina C. Holt  
Staff Attorney  
[gina.holt@psncuc.nc.gov](mailto:gina.holt@psncuc.nc.gov)

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**TOCCOA NATURAL GAS**  
**DOCKET NO. G-41, SUB 53**  
**JOINT TESTIMONY OF**  
**GEOFFREY M. GILBERT, IRIS MORGAN, AND JULIE G. PERRY**  
**ON BEHALF OF**  
**THE PUBLIC STAFF – NORTH CAROLINA UTILITIES COMMISSION**  
**OCTOBER 22, 2018**

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

3 A. My name is Geoffrey M. Gilbert, and my business address is 430  
4 North Salisbury Street, Raleigh, North Carolina. I am a Public  
5 Utilities Engineer in the Public Staff’s Natural Gas Division. My  
6 qualifications and experience are provided in Appendix A.

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

9 A. The purpose of my testimony is present my conclusions regarding  
10 whether the natural gas purchases made by Toccoa Natural Gas  
11 (Toccoa or Company) during the twelve-month review period ended  
12 June 30, 2018, were prudently incurred. My testimony also  
13 presents the results of my review of the gas cost information filed  
14 by Toccoa in accordance with N.C. Gen. Stat. § 62-133.4(c) and  
15 Commission Rule R1-17(k)(6), and provides my recommendation  
16 regarding temporary rate increments and/or decrements.

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

3 A. My name is Iris Morgan, and my business address is 430 North  
4 Salisbury Street, Raleigh, North Carolina. I am an Accountant in  
5 the Accounting Division of the Public Staff. My qualifications and  
6 experience are provided in Appendix B.

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

9 A. The purpose of my testimony is (1) to provide recommendations  
10 based on my conclusions regarding whether the gas costs incurred  
11 by Toccoa, during the twelve-month review period ended June 30  
12 30, 2018, were properly accounted for, and (2) to present the  
13 results of my review of gas cost information filed by Toccoa, in  
14 accordance with N.C. Gen. Stat. § 62-133.4(c) and Commission  
15 Rule R1-17(k)(6).

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

18 A. My name is Julie G. Perry, and my business address is 430 North  
19 Salisbury Street, Raleigh, North Carolina. I am the Accounting  
20 Manager of the Natural Gas & Transportation Section in the  
21 Accounting Division of the Public Staff. My qualifications and  
22 experience are provided in Appendix C.

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

3 A. The purpose of my testimony is to discuss my investigation and  
4 conclusions regarding the prudence of Toccoa's hedging activities  
5 during the twelve-month review period.

6 **Q. PLEASE EXPLAIN HOW THE PUBLIC STAFF CONDUCTED ITS**  
7 **REVIEW.**

8 A. We reviewed the testimony and exhibits of the Company's  
9 witnesses, the Company's monthly Deferred Gas Cost Account  
10 reports, monthly financial and operating reports, the gas supply,  
11 pipeline transportation and storage contracts, and the Company's  
12 responses to Public Staff data requests. Each month, the Public  
13 Staff reviews the deferred account reports filed by the Company for  
14 accuracy and reasonableness and performs many audit procedures  
15 on the calculations.

16 Public Staff witness Gilbert reviewed the testimony and exhibits of  
17 Company witnesses Trippe and Scott along with responses to the  
18 Public Staff data requests that contained information related to  
19 Toccoa's gas purchasing philosophies, customer requirements, and  
20 gas portfolio mixes.

21 **Q. MR. GILBERT, WHAT IS THE RESULT OF YOUR EVALUATION**  
22 **OF TOCCOA'S GAS COSTS?**

1 A. Based on my investigation and review of the data in this docket, I  
2 believe that Toccoa's gas costs were prudently incurred.

3 **Q. MR. GILBERT, PLEASE DESCRIBE TOCCOA AND ITS**  
4 **OPERATIONS IN NORTH CAROLINA.**

5 A. Toccoa is a municipal corporation created by the laws of the State  
6 of Georgia. It has been providing natural gas service in Georgia  
7 since 1952, and in Macon County, North Carolina since 1998. It is  
8 a full requirements wholesale customer of the Municipal Gas  
9 Authority of Georgia (Gas Authority), which manages its capacity,  
10 storage, and supply contracts.

11 Toccoa's total sales volume for the annual review year ended  
12 June 30, 2018, was 1,358,091 dekatherms (dts), of which 147,165  
13 dts (10.8%) were sold in North Carolina.

14 It is expected that Toccoa may experience incremental growth over  
15 the next five years as the expansion of its system continues. As  
16 necessary, the Gas Authority assists Toccoa in acquiring the most  
17 cost effective combination of pipeline, storage, and peaking  
18 capacities on the system of Transcontinental Gas Pipe Line  
19 Company, LLC (Transco), based on least cost and operational  
20 flexibility.

21 **Q. MS. MORGAN, HAS THE COMPANY PROPERLY ACCOUNTED**  
22 **FOR ITS GAS COSTS DURING THE REVIEW PERIOD?**

1 A. Yes.

2 **Q. MR. GILBERT, WHAT OTHER ITEMS DID THE NATURAL GAS**  
3 **DIVISION REVIEW?**

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

11 **ACCOUNTING FOR AND ANALYSIS OF GAS COSTS**

12 **Q. MS. MORGAN, HOW DOES THE ACCOUNTING DIVISION GO**  
13 **ABOUT CONDUCTING ITS REVIEW OF THE COMPANY'S**  
14 **ACCOUNTING FOR GAS COSTS?**

15 A. Each month the Public Staff's Accounting Division reviews the  
16 Deferred Gas Cost Account reports filed by the Company for  
17 accuracy and reasonableness, and performs many audit  
18 procedures on the calculations, including the following:

19 (1) **Gas Cost True-Up** - The actual commodity and  
20 demand gas costs are verified, calculations and data  
21 supporting the gas costs collected are checked, invoices are

1 reviewed, and the overall calculation is checked for  
2 mathematical accuracy.

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

7 (3) **Hedging Transactions** - The hedged cost of gas  
8 prices are traced to the supporting documentation and are  
9 verified for mathematical accuracy.

10 (4) **Supplier Refunds** - In Docket No. G-100, Sub 57, the  
11 Commission held that, unless it orders refunds to be handled  
12 differently, supplier refunds should be flowed through to  
13 ratepayers through a company's deferred account. I  
14 reviewed documentation received by the Company from its  
15 suppliers to ensure that the amount received by the  
16 Company is flowed through to ratepayers.

17 (5) **Interest Accrual** - Toccoa began calculating interest  
18 on its Deferred Gas Cost Account in October 2016.  
19 Calculations of the interest accrued on the account balance  
20 during the month are verified in accordance with N.C. Gen.  
21 Stat. § 62-130(e).

1 Q. HOW DO THE COMPANY'S FILED GAS COSTS FOR THE  
 2 CURRENT REVIEW PERIOD COMPARE WITH THOSE FOR THE  
 3 PRIOR REVIEW PERIOD?

4 A. Toccoa's total company gas costs for the current review period  
 5 were \$4,913,769, compared to the prior year's costs of \$4,766,389.  
 6 The North Carolina portion of gas costs incurred during the current  
 7 review period was \$411,310, compared with \$380,846 for the prior  
 8 period. The components of gas costs incurred for the two periods  
 9 are as follows:

	12 Months Ended		Increase (Decrease)	% Change
	June 30, 2018	June 30, 2017		
<b>Transco Pipeline Charges:</b>				
Cherokee - FT	\$212,882	\$215,604	(\$2,722)	-1.26%
Converted Firm Transp. - CFT	133,163	133,350	(\$187)	-0.14%
South Coast - FT Mainline	124,598	124,832	(\$234)	-0.19%
Sunbelt 1997 - FT	39,451	39,509	(\$58)	-0.15%
Capacity Release Credits	(14,033)	(23,029)	\$8,996	-39.06%
<b>Total Transco Pipeline Charges</b>	<b>\$496,061</b>	<b>\$490,266</b>	<b>\$5,795</b>	<b>1.18%</b>
<b>Storage/Peaking Services:</b>				
Transco LGA	20,736	20,736	0	0.00%
Pine Needle LNG	88,868	99,203	(10,335)	-10.42%
<b>Total Storage/Peaking Services</b>	<b>\$109,604</b>	<b>\$119,940</b>	<b>(\$10,336)</b>	<b>-8.62%</b>
<b>Total Demand and Storage Costs</b>	<b>\$605,665</b>	<b>\$610,206</b>	<b>(\$4,541)</b>	<b>-0.74%</b>
<b>Gas Supply Costs:</b>				
Authority Gas Supply FT	\$3,867,571	\$3,904,099	(\$36,528)	-0.94%
Supply Charge-meters and throughput	112,939	90,890	22,049	24.26%
Pine Needle Supply	87,765	19,847	67,918	342.21%
LNG Withdrawal	17,484	0	17,484	100.00%
FT Released Capacity Supply	51,052	29,712	21,340	71.82%
Authority G&A Charges	141,791	137,390	4,401	3.20%
Swing Supply Charges <sup>1</sup>	54,178	47,103	7,075	15.02%
<b>Total Gas Supply Costs</b>	<b>\$4,332,780</b>	<b>\$4,229,041</b>	<b>\$103,739</b>	<b>2.45%</b>
<b>Total Other Gas Costs</b>	<b>(\$24,682)</b>	<b>(\$72,858)</b>	<b>\$48,176</b>	<b>-66.12%</b>
<b>Total Company Gas Costs</b>	<b>\$4,913,763</b>	<b>\$4,766,389</b>	<b>\$147,374</b>	<b>3.09%</b>
<b>NC Portion of Total Gas Costs</b>	<b>\$411,310</b>	<b>\$380,846</b>	<b>\$30,464</b>	<b>8.00%</b>

<sup>1</sup>Reclassified Swing Supply Charges to Gas Supply Costs. Total Gas Supply Costs remain unchanged.



1 Q. PLEASE EXPLAIN ANY SIGNIFICANT INCREASES OR  
2 DECREASES IN DEMAND AND STORAGE CHARGES.

3 A. **Capacity Release Credits** are margins earned by Toccoa for the  
4 release of unutilized pipeline capacity. These credits decreased  
5 during the current review period primarily due to the Gas Authority  
6 releasing less of Toccoa's unutilized capacity during the period.  
7 Toccoa's policy has always been to flow through 100% of its  
8 capacity release credits to ratepayers.

9 **Swing Supply Charges** are charges assessed by the Gas  
10 Authority to its members for additional daily supply requirements,  
11 primarily during the winter months. The increase is primarily due to  
12 Toccoa requiring more Swing Supply volumes during the current  
13 review period compared to the prior period, as well an increase in  
14 the price.

15 The reduction in the **Pine Needle LNG** charges is due to a  
16 decrease in its rates pursuant to FERC Docket No. RP17-204-000,  
17 effective January 1, 2017, and RP17-576-000, effective May 1,  
18 2017.

19 **Authority Gas Supply FT Charges** decreased primarily due to  
20 lower wellhead gas prices during this review period compared with  
21 the prior review period. This decrease is generally consistent with

1 the changes in market indices experienced between the two  
2 periods.

3 The **Supply Charge - meters & throughput** is a charge based on  
4 the number of meters on Toccoa's system and its monthly pipeline  
5 throughput. These charges represent additional gas supply costs  
6 incurred in order to provide gas service to its customers.

7 The increase in **Pine Needle Supply** is primarily due to an increase  
8 in the level of volumes during the current review period as  
9 compared to the prior period.

10 **FT Released Capacity Supply** is excess supply available from  
11 other members of the Gas Authority that is used to meet Toccoa's  
12 needs. During the review period, Toccoa utilized a higher level of  
13 volumes as compared with the prior review period.

14 **Authority G&A Charges** include items for general and  
15 administrative costs based on the number of meters and  
16 throughput. These charges increased due to an increase in the  
17 Gas Authority's operating costs during the current review period as  
18 compared to the prior review period.

19 The increase in **LNG Withdrawal** is due to the fact that there were  
20 no LNG Withdrawals during the previous review period.

1           **Total Other Gas Costs** decreased due to lower charges from  
2           Toccoa's total company hedging program during the current review  
3           period as compared to the prior period.

4                                **HEDGING ACTIVITIES**

5    **Q.    MS. PERRY, WHAT IS THE STANDARD SET FORTH BY THE**  
6           **COMMISSION FOR EVALUATING THE PRUDENCE OF A**  
7           **COMPANY'S HEDGING DECISIONS?**

8    A.    In its February 26, 2002, Order on Hedging in Docket No. G-100,  
9           Sub 84 (Hedging Order), the Commission stated that the standard  
10           for reviewing the prudence of hedging decisions is that the decision  
11           "must have been made in a reasonable manner and at an  
12           appropriate time on the basis of what was reasonably known or  
13           should have been known at that time." Hedging Order, 92 NCUC 4,  
14           11-12 (2002).

15   **Q.    PLEASE DESCRIBE THE COMPANY'S HEDGING PROGRAM.**

16    A.    Toccoa participates in the "Winter Hedge Program," which is  
17           managed by the Gas Authority for its members, including Toccoa.  
18           The Gas Authority is the largest non-profit joint action natural gas  
19           agency in the nation and supplies the natural gas needs of 78  
20           member cities. The goal of the "Winter Hedge Program" is to  
21           achieve price stability at a reasonable price for its customers by  
22           locking-in futures prices for a portion of the anticipated winter firm  
23           load. Under the Gas Authority's "Winter Hedge Program," a

1 member enters into hedging arrangements with the Gas Authority  
2 specifying the targeted level of volumes to hedge. These hedging  
3 arrangements typically span two to three years.

4 **Q. PLEASE COMMENT ON THE TYPES OF FINANCIAL**  
5 **INSTRUMENTS THAT THE GAS AUTHORITY MAY USE IN ITS**  
6 **HEDGING PROGRAM.**

7 A. The Gas Authority typically uses three-way options, basis swaps,  
8 and fixed price swaps. A three-way option involves the purchase of  
9 a call option, the sale of a put option, and the sale of a call option at  
10 a strike price that is above the strike price of the purchased call  
11 option. The three-way option offers upside protection over the  
12 spread in the strike prices of the two call options, and allows  
13 downside participation until prices drop below the strike price of the  
14 put option. A basis swap is used to lock in the price difference  
15 between a Transco pricing point and Henry Hub (NYMEX), the  
16 pricing point typically used by the Gas Authority. Fixed price swaps  
17 provide the most upside protection, effectively locking in a forward  
18 purchase price, but offer no downside participation if prices drop.

19 **Q. PLEASE DESCRIBE THE HEDGING ACTIVITY OF THE GAS**  
20 **AUTHORITY DURING THE REVIEW PERIOD.**

21 A. During the current review period, the hedging program resulted in a  
22 \$1,205 charge to Toccoa's gas supply costs for North Carolina  
23 customers.

1 Q. HAS TOCCOA MADE ANY CHANGES TO ITS HEDGING  
2 ARRANGEMENTS WITH THE GAS AUTHORITY?

3 A. Yes. Toccoa reviewed its Winter Hedge Program participation and  
4 elected to continue its winter hedge volumes at approximately 20%  
5 of all firm North Carolina gas sales for November 2017 through  
6 March 2018. Toccoa continues to adopt the more conservative  
7 hedge volumes for their participation in the Winter Hedge Program  
8 because market and future pricing has been significantly lower than  
9 in prior years. Toccoa also elected to continue the maximum  
10 hedging program term offered by the Gas Authority of two years  
11 beginning November 1, 2018.

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

14 A. Based on what was reasonably known or should have been known  
15 by Toccoa at the time the Company made its hedging decisions  
16 affecting the review period, as opposed to the outcome of those  
17 decisions, my analysis leads me to the conclusion that the  
18 decisions were prudent.

19 **DESIGN DAY REQUIREMENTS**

20 Q. MR. GILBERT, AS TO THE COMPANY'S FUTURE CAPACITY  
21 REQUIREMENTS, WHAT DID YOU REVIEW AND HAVE YOU  
22 DRAWN ANY CONCLUSION FROM YOUR REVIEW?

1 A. I reviewed the Company's testimony and information submitted by  
 2 the Company in response to data requests that dealt with how well  
 3 the projected firm demand requirements aligned with the available  
 4 capacity in the future.

5 From my review, I concluded that it appears that the Company has  
 6 adequate capacity to meet firm demand for the next several winter  
 7 seasons.

8 **DEFERRED ACCOUNT REPORTING AND BALANCE**

9 **Q. MS. MORGAN, BASED ON YOUR REVIEW OF GAS COSTS IN**  
 10 **THIS PROCEEDING AND MR. GILBERT'S OPINION THAT THE**  
 11 **COMPANY'S GAS COSTS WERE PRUDENTLY INCURRED,**  
 12 **WHAT IS THE APPROPRIATE DEFERRED ACCOUNT**  
 13 **BALANCE AS OF JUNE 30, 2018?**

14 A. The balance in Toccoa's Deferred Gas Cost Account at June 30,  
 15 2018, is a \$7,261 credit balance, owed to customers. The following  
 16 chart summarizes Toccoa's Deferred Gas Cost Account activity for  
 17 the current review period:

Deferred Account Balance - July 1, 2017	(\$37,260)
Commodity True-up	(7,001)
Demand True-Up	(51,664)
Firm Hedges	1,205
(Increment) Decrement	88,314
Interest	(855)
Deferred Account Balance - June 30, 2018	<u>(\$7,261)</u>

1 Q. MR. GILBERT, WHAT IS YOUR RECOMMENDATION  
2 REGARDING ANY PROPOSED INCREMENTS/DECREMENTS?

3 A. In general, temporary increments or decrements for a local  
4 distribution company (LDC) are calculated using the volumes from  
5 an LDC's last general rate case. As Toccoa has never had a  
6 general rate case, the Public Staff has previously recommended,  
7 and the Commission has previously approved, using the review  
8 period North Carolina firm sales volumes instead in this calculation.

9 For the current review period ended June 30, 2018, the North  
10 Carolina firm sales volumes are 99,580 dts. Toccoa's Deferred  
11 Account balance as of June 30, 2018, is a credit balance of \$7,261  
12 (owed from the Company to its customers). At the end of August  
13 the over-collection had decreased to (\$1,564). The Company  
14 estimates that the balance will flip to an under-collection going into  
15 the 2018 winter period and then swing back to an over-collection as  
16 the winter period progresses. It is my recommendation that the  
17 Company leave the current decrement of \$0.4397 per dt that was  
18 placed into rates effective January 1, 2018, in Docket No. G-41,  
19 Sub 50. I further recommend that Toccoa continue to monitor the  
20 balance in its Deferred Account and file a request to implement new  
21 temporary increments or decrements, as applicable, through the  
22 PGA mechanism to avoid significant over-collections of its fixed gas

1 costs. It is my understanding that Toccoa does not oppose these  
2 recommendations.

3 **Q. DOES THIS CONCLUDE THE PUBLIC STAFF'S TESTIMONY?**

4 **A.** Yes, it does.



**GEOFFREY M. GILBERT**  
Qualifications and Experience

I am a graduate of North Carolina State University with a Bachelor of Science Degree in Environmental Engineering.

I began working in the environmental field in October 2008 with TRC Solutions. I worked out of TRC's Raleigh, NC office and specialized in air emissions testing and monitoring. In May 2015 I accepted a position in Charlotte, NC with Geo-Technology Associates, Inc. (GTA). While employed at GTA I was responsible for completing Transaction Screens, Phase I Environmental Site Assessments (ESA), and Phase II ESA for a variety of sites, including residential, commercial, industrial, and brownfield.

I joined the Public Staff in August of 2017 as a member of the Natural Gas Division. My work to date includes Purchased Gas Cost Adjustment Procedures, Customer Utilization Trackers, Integrity Management Riders, Peak Day Demand and Capacity Calculations, and Customer Complaint Resolutions.

## **IRIS MORGAN**

### **Qualifications and Experience**

I graduated from North Carolina Wesleyan College with a Bachelor of Science in Accounting and Business Administration in 2007. Also, I graduated from Keller Graduate School of Management with a Master of Accounting and Financial Management (2011), Master of Business Administration (2013), and a Master of Public Administration (2014).

Prior to joining the Public Staff, I was employed by WorldCom, Inc., as a CORE Analyst. My duties included providing customer service support and addressing customer billing and reporting requirements.

I joined the Public Staff in September 2002, as an Administrative Assistant. In 2006, I was promoted to a Consumer Services Complaint Analyst where I resolved numerous consumer complaints and performed utility reporting analysis. Once I completed my Accounting degree, I was promoted to a Public Staff Accountant in December of 2008.

I have performed audits and filed testimony and exhibits in a number of water rate cases, and assisted in investigations addressing a wide range of topics and issues related to the water, electric and gas industries.

**JULIE G. PERRY**

**Qualifications and Experience**

I graduated from North Carolina State University in 1989 with a Bachelor of Arts degree in Accounting and I am a Certified Public Accountant.

Prior to joining the Public Staff, I was employed by the North Carolina State Auditor's Office. My duties there involved the performance of financial and operational audits of various state agencies, community colleges, and Clerks of Court.

I joined the Public Staff in September 1990, and was promoted to Supervisor of the Natural Gas Section in the Accounting Division in September 2000. I was promoted to Accounting Manager – Natural Gas & Transportation effective December 1, 2016. I have performed numerous audits and/or presented testimony and exhibits before the Commission addressing a wide range of natural gas topics.

Additionally, I have filed testimony and exhibits in numerous water rate cases and performed investigations and analyses addressing a wide range of topics and issues related to the water, electric, transportation, and telephone industries.