



**NORTH CAROLINA
PUBLIC STAFF
UTILITIES COMMISSION**

February 19, 2024

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

Re: Docket No. G-40, Sub 175 – Application of Frontier Natural Gas Company
for Annual Review of Gas Costs

Dear Ms. Dunston,

Attached for filing on behalf of the Public Staff – North Carolina Utilities Commission (Public Staff) in the above-referenced docket is the public version (redacted) of the testimony of Sonja R. Johnson, Public Utility Regulatory Analyst Supervisor with the Accounting Division of the Public Staff.

By copy of this letter, we are forwarding a redacted copy of the testimony to all parties of record by electronic delivery. Confidential information is located on pages 9 and 13. A confidential version will be provided to those parties that have entered into a confidentiality agreement.

Sincerely,

Electronically submitted
/s/ Elizabeth D. Culpepper
Staff Attorney
elizabeth.culpepper@psncuc.nc.gov

/s/ Davia A. Newell
Staff Attorney
davia.newell@psnuc.nc.gov

Attachment

cc: Parties of Record

Executive Director
(919) 733-2435

Accounting
(919) 733-4279

Consumer Services
(919) 733-9277

Economic Research
(919) 733-2267

Energy
(919) 733-2267

Legal
(919) 733-6110

Transportation
(919) 733-7766

Water/Telephone
(919) 733-5610

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. G-40, SUB 175

In the Matter of
Application of Frontier Natural Gas Company)
for Annual Review of Gas Costs Pursuant to)
N.C. Gen. Stat. § 62-133.4(c) and)
Commission Rule R1-17(k)(6))

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

February 19, 2024

1 **Q. Please state your name, business address, and current**
2 **position.**

3 A. My name is Sonja R. Johnson. My business address is 430 North
4 Salisbury Street, Raleigh, North Carolina. I am a Public Utility
5 Regulatory Analyst Supervisor with the Accounting Division of the
6 Public Staff – North Carolina Utilities Commission (Public Staff).

7 **Q. What is the mission of the Public Staff?**

8 A. The Public Staff represents the concerns of the using and
9 consuming public in all public utility matters that come before the
10 North Carolina Utilities Commission (Commission). Pursuant to
11 N.C. Gen. Stat. § 62-15(d), it is the Public Staff's duty and
12 responsibility to review, investigate, and make appropriate
13 recommendations to the Commission with respect to the following
14 utility matters: (1) retail rates charged, service furnished, and
15 complaints filed, regardless of retail customer class; (2) applications
16 for certificates of public convenience and necessity; (3) franchise
17 transfers, mergers, consolidations, and combinations of public
18 utilities; and (4) contracts of public utilities with affiliates or
19 subsidiaries. The Public Staff is also responsible for appearing
20 before state and federal courts and agencies in matters affecting
21 public utility service.

1 **Q. Briefly state your qualifications and experience.**

2 A. My qualifications and experience are included in Appendix A.

3 **Q. What is the purpose of your testimony in this proceeding?**

4 A. The purpose of my testimony is to: (1) present the results of my
5 review of the gas costs as filed by Frontier Natural Gas Company
6 (Frontier or Company) in accordance with N.C.G.S. § 62-133.4(c)
7 and Commission Rule R1-17(k)(6); (2) provide my conclusions
8 regarding whether the gas costs incurred by Frontier during the
9 twelve-month review period ended September 30, 2023, were
10 properly accounted for; and (3) provide my conclusions regarding
11 the prudence of Frontier's hedging activities during the review
12 period.

13 **Q. Please explain how you conducted your review.**

14 A. I reviewed the testimony and exhibits of the Company's witnesses,
15 monthly financial and operating reports, gas supply and pipeline
16 transportation contracts, the Company's monthly Deferred Gas
17 Cost Account reports, reports filed with the Commission in Docket
18 No. G-100, Sub 24A, and the Company's responses to Public Staff
19 data requests.

20 Each month the Public Staff reviews the Deferred Gas Cost
21 Account reports filed by the Company for accuracy and

1 reasonableness, and performs several audit procedures on the
2 calculations, including the following:

3 (1) Gas Cost True-Up – The actual commodity and demand
4 costs are verified by reviewing invoices received on a
5 monthly basis; calculations and data supporting gas cost
6 collections are checked against the invoices received, and
7 the Company’s overall gas cost calculations at Commission
8 approved benchmark are checked for mathematical
9 accuracy.

10 (2) Transportation Customer Balancing True-Up – The monthly
11 Cash-Out Report received from the Company for each
12 marketer is reviewed to see the amount of gas that has been
13 nominated, or delivered from the marketer to Frontier versus
14 what the actual metered use is, and all calculations for cash-
15 out amounts are verified by reviewing monthly marketer
16 activity and balancing reports received by the Company.

17 (3) Interest Accrual – Interest accrual calculations on the
18 outstanding Deferred Gas Cost Account balances are
19 verified each month in accordance with N.C.G.S. § 62-
20 130(e).

21 (4) Hedging Transactions – The computed cost of each hedging
22 transaction is traced to the underlying hedging contract, and

1 computational accuracy is verified in accordance with
2 N.C.G.S. § 62-130(e).

3 (5) Temporary Increments and/or Decrements – All calculations
4 and supporting data regarding amounts due to or from
5 customers as recorded in the Deferred Gas Cost Account
6 are verified by review of Commission orders, and supporting
7 data and schedules are reviewed for accuracy.

8 (6) Supplier Refunds – In Docket No. G-100, Sub 57, the
9 Commission held that, unless or until it orders refunds to be
10 handled differently, supplier refunds should flow through to
11 ratepayers through a local distribution company’s deferred
12 account. Pursuant to this order, all supplier refunds issued
13 during the review period are reviewed for accuracy of
14 calculation and all amounts received by the Company are
15 verified by supporting documentation to have been flowed
16 through to ratepayers.

17 **Q. Has the Company properly accounted for its gas costs during**
18 **the review period?**

19 A. Yes.

1

Analysis of Gas Costs

2 **Q. How do the Company's filed gas costs for the current review**
3 **period compare with those for the prior review period?**

4 **A.** Frontier's total gas costs for the current review period are
5 \$12,958,980 compared with \$9,439,654 for the prior 12-month
6 period. The components of total gas cost for the two periods, and
7 my analysis of the changes in those components, are as follows:

Line	12 Months Ended		Increase (Decrease)	% Change	
	Sept. 30, 2023	Sept. 30, 2022			
Demand Charges					
1	Transco FT	\$1,334,082	\$1,332,559	\$1,523	0.11%
2	Other	0	-0-	0	N/A
3	Total Demand Charges	\$1,334,082	\$1,332,559	\$1,523	0.11%
Gas Supply Costs					
4	Baseload Purchases	\$2,801,025	\$5,336,980	(\$2,535,955)	-47.52%
5	Delivered Purchases	1,513,336	732,667	780,669	106.55%
6	Hedge Purchases	5,429,023	2,793,794	2,635,229	94.32%
7	Marketer Cash Out	(17,569)	73,470	(91,039)	-123.91%
8	Peaking Plan	1,209,838	-	1,209,838	N/A
9	Capacity Credit	(57,000)	-	(57,000)	N/A
10	Total Gas Supply Costs	\$10,878,653	\$8,936,911	\$1,941,742	21.73%
11	Total Other Gas Costs	758,103	(829,816)	\$1,587,919	-191.36%
12	Total Gas Costs	\$12,970,838	\$9,439,654	\$3,531,184	37.41%
13	Gas Supply for Delivery (dts)	1,480,807	1,330,359	150,448	11.31%
14	Total Gas Costs per Dt	\$8.7593	\$7.0956	\$1.66	23.45%

8 **Baseload Purchases** are the base gas supply purchased by
9 Frontier and are priced at the first-of-the-month (FOM) index. The
10 decrease of 47.52% is due to both a lower level of purchased
11 volumes in this review period, as compared to the prior review

1 period, and a lower commodity cost of gas. The average baseload
2 gas supply cost decreased by 37.34% from \$7.40 per dekatherm
3 (dt) in the prior review period to \$4.63 per dt for the current review
4 period. The Company purchased 893,848 dts in the current review
5 period compared to 1,123,758 dts purchased in the prior review
6 period, which is a 20.46% decrease.

7 **Delivered Purchases** are bundled gas supply and capacity
8 purchases delivered to Frontier's city gate in order to meet its daily
9 demand requirements, and exceed Frontier's maximum daily
10 contract quantity on Transcontinental Gas Pipe Line Company, LLC
11 (Transco), of 8,613 dts per day. The increase of 106.55% in the
12 current review period was due to an increase in volumes purchased
13 at Zone 5 spot market prices during the winter period months as
14 compared to the prior review period. Gas supply for delivery in the
15 current review period was 212,391 dts totaling \$1,513,336
16 compared to 92,203 dts totaling \$732,667 in the prior review period.
17 Although the commodity cost per dt decreased by 10.33% from
18 \$7.95/dt to \$7.13/dt in the current review period, I wanted to
19 highlight the fact that Frontier made intraday Zone 5 purchases that
20 totaled 11,900 dts at an average price of \$48.76/dt in December
21 2022, as well as purchased 573 dts at \$53.165/dt in the same
22 month.

1 **Hedge Purchases** are physical gas supply purchases that Frontier
2 made through UGI Energy Services, LLC (UGI), and Gas South,
3 LLC (Gas South). Hedge purchases increased 94.32% in the
4 current review period due to an increased level of hedged volumes
5 at an increased average price per dt in the current review period.
6 Frontier acquired 716,059 dts in the current review period
7 compared to 630,510 dts in the prior review period. The average
8 price paid was \$4.50/dt in the prior review period compared to
9 \$6.75/dt in the current review period.

10 **Marketer Cash Out** costs are the calculated differences between
11 the actual volumes that were allocated or delivered from Frontier's
12 marketer customers, less the actual gas consumed or metered from
13 marketer customers. These amounts are reported on a monthly
14 basis by Frontier's marketers on Cash-Out Reports and reviewed
15 on a monthly basis by the Public Staff. This amount decreased
16 123.91% during the review period compared to the prior review
17 period. The \$91,039 decrease from \$73,470 in the prior review
18 period to (\$17,569) in the current period is a result of fewer
19 volumes of actual gas being consumed or metered, from 4,262,378
20 to 4,259,901, and a change in Frontier's Benchmark City Gate

1 Delivered Cost of Gas (Benchmark) from \$10.50 per dt¹ to \$4.75
2 per dt.

3 **Peaking Plan** costs are firm peak day gas supply and capacity
4 purchases delivered to Frontier’s city gate in order to meet its
5 projected peak daily demand requirements during the winter
6 months. The plan costs were reservation fees paid under a peaking
7 service contract with UGI for the months of January 2023 and
8 February 2023 in which Frontier reserved the right to **[BEGIN**
9 **CONFIDENTIAL]** [REDACTED]
10 [REDACTED]
11 [REDACTED]
12 [REDACTED] **[END CONFIDENTIAL]**.

13 The **Capacity Credit** is the margins earned by Frontier from the
14 contract with Gas South for the release of unutilized firm pipeline
15 capacity each month of the fiscal period according to the Asset
16 Management Agreement effective April 1, 2023. The contract
17 includes **[BEGIN CONFIDENTIAL]** [REDACTED]
18 [REDACTED]
19 [REDACTED]
20 [REDACTED]
21 [REDACTED] **[END CONFIDENTIAL]**.

¹ Frontier’s Benchmark was last adjusted by Commission order issued April 24, 2023, in Docket No. G-40, Sub 172.

1 **Total Other Gas Costs** decreased by 191.36% in the current
2 review period. The change relates primarily to activity in Frontier's
3 deferred account, including (1) the offsetting journal entries
4 recorded in the Company's Deferred Gas Cost Account during the
5 review period; (2) gas cost true-up adjustments that include two
6 benchmark proration adjustments in the months of April 2023 and
7 October 2023 (Docket No. G-40, Subs 172 and 174, respectively);
8 (3) an adjustment to the deferred account to correct a previous
9 balance overstatement due to a formula error and the associated
10 interest adjustment in the prior review period in the month of
11 October 2022, breakout of marketer net cash-out amounts as
12 compared to that shown in the chart on Page 5 of the joint
13 testimony of Public Staff witnesses Meda and Johnson filed in
14 Docket No. G-40, Sub 171, Frontier's prior annual review of gas
15 costs proceeding; and (4) other miscellaneous supplier billing
16 adjustments.

17 **Hedging and Other Risk Mitigation Strategies**

18 **Q. Please explain how the Public Staff conducted its review of the**
19 **Company's hedging activities.**

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

- 1 (1) The Company's monthly hedging costs, as reflected on the
2 invoices of UGI for the period October 2022 through March
3 2023, and Gas South for the period April 2023 through
4 September 2023;

- 5 (2) Detailed source documentation received from UGI and Gas
6 South, such as physical gas confirmations, that provide
7 support for the amount of gas hedged and the strike prices;

- 8 (3) Workpapers supporting the derivation of the maximum
9 hedge volumes targeted for each month;

- 10 (4) The monthly summary of hedging costs (benefits);

- 11 (5) Hedging plan documents that set forth the Company's gas
12 price risk management policy, hedge strategy, gas price risk
13 management operations;

- 14 (6) Documentation from meetings of Frontier's Gas Supply
15 Planning Committee and the Risk Committee of its parent
16 company, Hope Utilities, Inc.;

- 17 (7) Testimony and exhibits of the Company's witnesses in the
18 annual review of gas costs proceeding; and

- 19 (8) Company responses to Public Staff data requests.

1 **Q. What is the standard set forth by the Commission for**
2 **evaluating the prudence of a company's hedging decisions?**

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

9 **Q. Please describe the Company's hedging program.**

10 A. Frontier's overall Gas Procurement Policy is designed to establish
11 price stability, utilize cost-efficient purchasing, and reduce the risk
12 of price increases to ratepayers. In its gas purchasing strategy,
13 Frontier uses a weighted average, three-part approach in
14 purchasing its physical gas supplies: first-of-the-month baseload,
15 hedging, and daily swing. A core part of Frontier's strategy is to
16 obtain reliability and price stability by fixing components of its gas
17 costs, primarily commodity costs, through hedging.

18 The primary difference in Frontier's hedging approach as compared
19 to other LDCs is that Frontier uses physical hedges exclusively and
20 does not use financial hedges, such as options, futures, or swaps.
21 A physical hedge is a fixed price contract between two parties to
22 buy or sell physical natural gas supplies at a certain future time, at

1 a specific price, which is agreed upon at the time the deal is
2 executed. Frontier's gas supply portfolio includes the physical
3 purchase of fixed price gas supplies for delivery at its city gate on a
4 monthly basis.

5 **Q. Did the Company modify its hedging program during the**
6 **review period?**

7 A. Yes. Previously, Frontier had locked into a three-year arrangement
8 with UGI that included purchase fees for the physical purchase of
9 gas supplies for delivery at its city gate for the three winter periods
10 ending March 31, 2023. Effective April 1, 2023, Frontier agreed to a
11 three-year arrangement with Gas South regarding all of its
12 delivered gas supply purchases, including hedge purchases.

13 **[BEGIN CONFIDENTIAL]** [REDACTED]

14 [REDACTED]

15 [REDACTED]

16 [REDACTED]

17 [REDACTED]

18 [REDACTED] **[END CONFIDENTIAL]**. Frontier believes that, with the
19 new gas supply agreement, its total gas supply costs, including
20 hedging, will be greatly reduced in the coming years.

21 Frontier also modified its Gas Supply Procurement Policy, effective
22 April 3, 2023, with the inclusion of a peaking plan option to be

1 executed in the event of “unprecedented industry pricing.” This plan
2 allows Frontier to work with its Asset Manager to produce different
3 cost scenarios for modeling likely financial outcomes to determine
4 the best option for securing enough capacity for upcoming winter
5 periods.

6 **Q. Did Frontier utilize a peaking plan during the current review**
7 **period?**

8 A. Yes, in April 2022, Frontier began hedging for the winter months of
9 November 2022 through March 2023 of the current review period in
10 six equal installments, according to its Gas Supply Procurement
11 Policy. Company witness Younger testified that after two rounds of
12 payments in May 2022, as a result of unprecedented industry
13 activities and reviewing peak day analysis provided by Marquette
14 Energy Analytics, LLC (Marquette), which projected peak daily
15 usage for Frontier of 12,065 dt/day during January 2023, Frontier
16 decided that it was in the best interest of ratepayers to abandon its
17 Gas Supply Procurement Policy and shift to a peaking plan from
18 UGI that would potentially provide Frontier with up to 2,000 dts per
19 day above baseload volumes for 12 days at Zone 4 pricing in
20 January 2023 and February 2023. This contract was signed by the
21 Company in July 2022 after brief discussions with the Public Staff in
22 June 2022.

1 The Public Staff believes that entering into the peaking plan
2 arrangement helped mitigate the risk of price spikes to customers
3 during the winter period that might involve large temperature
4 fluctuations and price volatility as short-term peaking contracts are
5 difficult to come by and expensive in nature. Therefore, the Public
6 Staff believes that even though Frontier prematurely utilized its
7 revised hedging strategy during the current review period, the
8 peaking plan provided a reasonable level of price mitigation during
9 January 2023 and February 2023 as Frontier has an obligation to
10 serve its customers on peak days in accordance with the
11 Company's gas supply procurement policy.

12 **Q. What is your conclusion regarding the prudence of the**
13 **Company's hedging activities?**

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

1 **DEFERRED ACCOUNT BALANCE**

2 **Q. Based on your review of gas costs in this proceeding, what is**
 3 **the appropriate deferred account balance as of September 30,**
 4 **2023?**

5 A. Based on my review of the Company's monthly deferred account
 6 filings and the Public Staff's conclusion that the gas costs are
 7 prudently incurred, the Public Staff has determined that the
 8 appropriate ending balance in Frontier's Deferred Gas Cost
 9 Account at September 30, 2023, is a \$342,026 debit balance owed
 10 to Frontier from customers, as shown on Schedule 8 of Company
 11 witness Lemmon's testimony. The following table summarizes the
 12 activity in Frontier's Deferred Gas Cost Account for the current
 13 review period:

Filed Deferred Account Balance - October 1, 2022	\$1,056,261
Gas Cost True-up	(580,792)
Transportation Customer Balancing True-up	(106,517)
Interest	43,869
Supplier Refund & Corrections	(70,795)
Public Staff Recommended Deferred Account Balance - September 30, 2023	<u>\$342,026</u>

14 **Q. Has the Company applied the correct interest rate in the**
 15 **deferred account?**

16 A. Yes. In its Order on Annual Review of Gas Costs issued on June 8,
 17 2018, in Docket No. G-40, Sub 145 (Sub 145 Order), the
 18 Commission concluded that Frontier should use the net-of-tax

1 overall rate of return of 6.60% as the applicable interest rate on all
2 amounts overcollected or undercollected from customers reflected
3 in its Deferred Gas Cost Account, effective January 1, 2018.

4 **Q. Did the Company have any changes to its deferred account**
5 **interest rate as part of this proceeding?**

6 A. Yes. Pursuant to Commission Order issued on June 12, 2023, in
7 Docket No. G-40, Sub 171, Frontier filed supplemental direct
8 testimony and exhibits calculating the annual interest rate approved
9 in Finding of Fact No.16 of the Sub 145 Order, and determined that
10 an adjustment to the interest rate was necessary. The Company
11 calculated a net-of-tax interest rate of 5.67% for all deferred
12 accounts, adjusted as appropriate for income taxes. This rate
13 became applicable to the deferred account balances on January 1,
14 2023, as provided in the Company's tariff. The Public Staff has
15 reviewed the Company's interest rate calculations and found that it
16 was appropriate for Frontier to change its interest rates from 6.60%
17 to 5.67%. The Public Staff will continue to review the interest rate
18 each month to determine if an adjustment is needed.

19 **Q. Does this conclude your testimony?**

20 A. Yes, it does.

QUALIFICATIONS AND EXPERIENCE

SONJA R. JOHNSON

I am a graduate of North Carolina State University with Bachelor of Science and Master of Science degrees 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 Financial Manager for Natural Gas and Transportation in May 2022.

As a Financial 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 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 extensions 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. I have performed numerous audits and/or presented testimony and exhibits before the Commission addressing a wide range of natural gas topics.

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.

CERTIFICATE OF SERVICE

I certify that a copy of the foregoing Testimony has been served on all parties of record or their attorneys, or both, in accordance with Commission Rule R1-39, by United States mail, first class or better; by hand delivery; or by means of facsimile or electronic delivery upon agreement of the receiving party.

This the 19th day of February, 2024.

Electronically submitted
/s/ Elizabeth D. Culpepper
Staff Attorney