

**STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH**

DOCKET NO. G-40, SUB 163

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

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)) **ORDER ON ANNUAL REVIEW
OF GAS COSTS**

HEARD: Public witness hearing, Tuesday, March 1, 2022, at 10:00 a.m., in
 Commission Hearing Room 2115, Dobbs Building, 430 North Salisbury
 Street, Raleigh, North Carolina

BEFORE: Commissioner Floyd B. McKissick, Jr., Presiding; Commissioners Kimberly
 W. Duffley and Jeffrey A. Hughes

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

BY THE COMMISSION: On December 1, 2021, 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 testimony and exhibit of Taylor B. Younger, Regulatory Compliance Engineer, and the testimony and schedules of Nathan Bell, Controller, in connection with the annual review of Frontier’s gas costs for the 12-month period ended September 30, 2021.

On December 9, 2021, the Commission issued its Order Scheduling Hearing, Requiring Filing of Testimony, Establishing Discovery Guidelines and Requiring Public Notice (Scheduling Order). The Scheduling Order set the annual review of the Company’s gas costs for hearing on March 1, 2022, set prefiled testimony dates, and required Frontier to publish notice of the hearing.

On February 14, 2022, the Public Staff – North Carolina Utilities Commission (Public Staff) filed the direct testimony of Jordan A. Nader, Engineer, Energy Division; R. Tyler Allison, Financial Analyst, Accounting Division; and Sonja R. Johnson, Acting Accounting Manager, Natural Gas and Transportation Section, Accounting Division. The Public Staff filed corrected testimony for witness Allison on February 15, 2022.

No other party intervened in the docket.

On February 16, 2022, Frontier and the Public Staff (Movants), filed a joint motion requesting that their witnesses be excused from attending the public hearing and that the prefiled testimony and exhibits of the witnesses be received into the record without requiring the appearance of the witnesses. Movants stated that they had conferred with respect to the matters before the Commission in this proceeding, had agreed to waive cross-examination of each other's witnesses, and had no objection to the introduction of the witnesses' prefiled testimony and exhibits into evidence.

On February 18, 2022, and February 21, 2022, Frontier filed Supplemental Exhibit B of Frontier witness Younger.

On February 23, 2022, the Commission issued its Order Excusing Expert Witnesses, Accepting Testimony and Exhibits, and Requiring Proposed Orders. The Order granted Movants' February 16, 2022 motion to excuse Movants' expert witnesses from testifying at the hearing, accepted the witnesses' prefiled testimony and exhibits into evidence, canceled the expert witness portion of the March 1, 2022 hearing, and ordered Movants to file proposed orders, or a joint proposed order, on or before April 1, 2022.

On February 24 and 28, 2022, Frontier filed its Affidavits of Publication.

On March 1, 2022, this matter came on for a public witness hearing as scheduled. No public witnesses appeared at the hearing.

On March 28, 2022, the Joint Proposed Order of Frontier and the Public Staff was filed.

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. Frontier is a public utility as defined by N.C.G.S. § 62-3(23), organized and existing under the laws of the State of North Carolina with its headquarters in Elkin, North Carolina, and is subject to the jurisdiction and regulation of the Commission.
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 4,729 customers in North Carolina, as of September 30, 2021.

3. Frontier has filed with the Commission and submitted to the Public Staff all of the 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 September 30, 2021.

5. During the review period, Frontier incurred total gas costs of \$5,580,895, which was comprised of pipeline demand charges of \$1,331,949, gas supply costs of \$4,331,910, and other gas costs of (\$82,964).

6. The appropriate Deferred Gas Cost Account balance at September 30, 2021, is a debit balance of \$127,686 owed to Frontier from its customers.

7. Frontier properly accounted for its gas costs during the review period.

8. Frontier's hedging decisions during the review period were reasonable and prudent as part of the Company's overall Gas Supply Procurement Policy.

9. During the review period, Frontier purchased all of its gas supply under a full requirements gas supply contract.

10. Frontier utilized its Asset Management Agreement (AMA) with UGI Energy Services, LLC (UGI), which covers up to 20,000 dekatherms (dts) a day, of additional gas supply requirements.

11. Frontier utilized interstate pipeline capacity from Transcontinental Gas Pipe Line Corporation (Transco).

12. Frontier met its supply and capacity needs through a combination of the AMA with UGI, and Transco capacity.

13. Frontier has continued its "Best Evaluated Cost" gas supply strategy policy.

14. The Company's gas costs during the review period were prudently incurred, and Frontier should be permitted to recover 100% of its prudently incurred gas costs.

15. Frontier should not be required to implement a rate adjustment in this docket.

16. It is appropriate for Frontier to continue to 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.

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, the testimony and exhibits of Company witnesses Younger and Bell, and the testimony of Public Staff witnesses Allison and Nader. These findings are essentially informational, procedural, or jurisdictional and are based on evidence not contested by any party.

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

The evidence supporting these findings is contained in the testimony of Frontier witnesses Younger and Bell, the testimony of Public Staff witnesses Allison and Nader, and the provisions of N.C.G.S. § 62-133.4(c) and Commission Rule R1-17(k)(6).

North Carolina General Statute § 62-133.4 requires that each natural gas utility submit to the Commission information and data for an historical 12-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 Bell testified that the Company is required to submit to the Commission, on or before December 1 of each year, certain information for the 12-month test period ended September 30 as required by Commission Rule R1-17(k). Public Staff witnesses Allison and Nader confirmed that the Public Staff reviewed the monthly reports filed by Frontier. The Commission, therefore, concludes that Frontier has complied with all of the procedural requirements of N.C.G.S. § 62-133.4(c) and Commission Rule R1-17(k) for the review period.

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

The evidence supporting these findings of fact is contained in the testimony and schedules of Frontier witness Bell and the testimony of Public Staff witness Allison.

Company witness Bell's Schedule 1 reflected that Frontier's total gas costs for the review period were \$5,580,895. Public Staff witness Allison testified that this amount was comprised of pipeline demand charges of \$1,331,949, gas supply costs of \$4,331,910 and other gas costs of (\$82,964).

Public Staff witness Allison also testified that he had reviewed the testimony and exhibits of the Company witnesses, 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.

Public Staff witness Allison explained the increases and decreases in demand charges, gas supply costs, and other gas costs compared to Frontier's prior annual review proceeding in Docket No. G-40, Sub 158. Witness Allison testified that total demand

charges decreased from the prior review period primarily due to a decrease in Transco's Firm Transportation (FT) service as a result of Transco's general rate case and fuel tracker filings, pursuant to Federal Energy Regulatory Commission (FERC) Docket No. RP20-575-000 and RP21-579-000, effective April 1, 2020 and April 1, 2021, respectively. Witness Allison testified that baseload purchases increased 23.81% primarily due to the higher level of wellhead gas prices in this review period. Witness Allison further testified that delivered purchases increased as a result of an increase in volumes purchased at Zone 5, that hedge purchases increased primarily due to an increase in the number of hedged volumes purchased at Zone 3 and Zone 5, and that the change in total other gas costs reflected offsetting journal entries for the cost of gas recorded in Frontier's Deferred Gas Cost Account.

Company witness Bell testified that at September 30, 2021, Frontier's Deferred Gas Cost Account had an ending debit balance of \$127,686, owed to Frontier from customers, as shown on Company witness Bell's Schedule 8. Public Staff witness Allison testified that he agreed with the Company's Deferred Gas Cost Account balance. Witness Allison further testified that the Company properly accounted for its gas costs during the review period.

Based on the foregoing, the Commission concludes that the appropriate Deferred Gas Cost Account balance at September 30, 2021, is a debit balance of \$127,686, owed to Frontier by its customers, and that Frontier has properly accounted for its gas costs incurred during the review period.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 8

The evidence for this finding of fact is contained in the testimony and exhibits of Company witness Younger and the testimony of Public Staff witness Johnson.

Company witness Younger summarized Frontier's current hedging program and explained that Frontier utilizes an annual report provided by Marquette Energy Analytics (Marquette) in March of each year to make hedging decisions for the upcoming winter. Witness Younger explained that the report shows monthly forecasts for the upcoming year and is derived from actual historical usage, historical weather patterns, and projected growth patterns.

Company witness Younger also testified that Frontier did not make any changes to its Gas Supply Procurement Policy during the review period. Witness Younger stated that pursuant to Frontier's Gas Supply Procurement Policy, the Company will target up to 60% of the amount to be hedged for Zone 3 purchases and purchase the rest at the First of Month (FOM) index price. For Zone 5 purchases, witness Younger stated that Frontier will subtract out 8,613 dts of its Zone 3 firm transportation capacity from the expected maximum volumes, hedge 60% of this amount, and then purchase the remaining Zone 5 purchases at the FOM index price.

Company witness Younger further testified that the Company continued to engage outside expertise for all gas supply endeavors by utilizing the Hearthstone Utilities Risk and Supply Committee gas supply consultants, Al Harms and Len Gilmore. Witness Younger stated that these consultants attended all internal gas supply planning meetings and guided Frontier through the process of rationalizing and choosing its Gas Supply Asset Manager for the period of April 1, 2020 through March 31, 2023.

Public Staff witness Johnson testified that she reviewed the testimony and exhibits of the Company's witnesses, 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.

Public Staff witness Johnson 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). Witness Johnson stated that in the Hedging Order, the Commission concluded that the purpose of hedging is to reduce the volatility of commodity costs.

Public Staff witness Johnson also testified that the primary difference between Frontier's hedging approach and the approach of the other Commission-regulated LDCs is that Frontier uses physical hedges exclusively and does not use financial hedges, such as options, futures, or swaps. Witness Johnson explained that a physical hedge is a fixed price contract between two parties to buy or sell physical natural gas supplies at a certain future time, at a specific price, which is agreed upon at the time the deal is executed. Witness Johnson further stated that Frontier's hedges are considered part of the Company's overall gas supply portfolio since these typically include the physical purchase of fixed price gas supplies for firm delivery at its city gate on a monthly basis to meet its customer demand.

Public Staff witness Johnson explained that Frontier complied with Ordering Paragraph 5 of the Commission's Order on Annual Review of Gas Costs issued April 28, 2021, in Docket No. G-40, Sub 158, Frontier's prior annual review proceeding, which states that "Frontier and the Public Staff shall continue to work together to discuss Frontier's Gas Supply Procurement Policy, including hedging and other price mitigation strategies, as changes to the policy are contemplated." Witness Johnson confirmed that Frontier and the Public Staff had conference calls and met virtually to discuss Frontier's Gas Supply Procurement Policy. Witness Johnson noted that these conversations included discussions on hedging and other price mitigation strategies to protect customers from possible gas cost volatility.

Public Staff witness Johnson concluded that based on what was reasonably known or should have been known at the time the Company made its hedging decisions affecting the review period, as opposed to the outcome of those decisions, that Frontier's hedging decisions were prudent.

Based on the Public Staff's investigation and the review of the data filed in this docket, the Commission concludes that Frontier's hedging decisions during the review period were reasonable and prudent. The Commission directs Frontier to continue to work with the Public Staff to discuss its Gas Supply Procurement Policy, including hedging and other price mitigation strategies, as changes to the policy are contemplated.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 9-14

The evidence for these findings of fact is contained in the testimony and exhibits of Company witnesses Younger and Bell, and the testimony of Public Staff witness Nader.

Public Staff witness Nader testified that Frontier has not made any changes to its gas supply and pipeline capacity during the review period. Witness Nader noted that Frontier's current AMA with UGI, which provides up to 20,000 dts per day of additional gas supply to serve its firm market on a peak day, has a current expiration date of March 31, 2023.

Public Staff witness Nader also testified that Frontier currently has a total of 8,613 dts per day of pipeline capacity on Transco. Witness Nader stated that the Company indicated in a data request response that it was evaluating all options for expanded pipeline capacity.

Public Staff witness Nader further testified that in the recent past, Frontier has provided the Design Day study prepared by Marquette. Witness Nader stated that he has evaluated this report and finds that it provides a reasonable forecast of Frontier's peak day demand using reasonable assumptions, such as heating degree days and frequency of occurrence of cold weather events. Witness Nader explained that in response to a Public Staff data request, the Company stated that, pursuant to its contract with Marquette, it is provided with an annual report forecasting a monthly expected max flow and a daily expected average flow for the upcoming year on Frontier's system. Witness Nader further stated that for the current review period, Frontier used Marquette's monthly expected maximum projections with a growth factor added based on an historical five-year average in order to project out the peak day for the next five years. Based on the application of this report, witness Nader stated that he believes Frontier has adequate capacity to serve its firm market on peak days.

Company witness Younger testified that the Company's Gas Supply Procurement Policy is attached to her testimony as Exhibit A. In Exhibit A, the policy is described as a "Best Evaluated Cost" supply strategy. This strategy is based upon the following criteria: adequacy, flexibility, reliability/dependability of supply, cost of gas, stability of costs incurred and quality of supplier, including their creditworthiness and reliability.

Public Staff witness Nader testified that during the review period, Frontier experienced customer growth of 7.45%, which is approximately three times the growth rate of other Commission-regulated LDCs in North Carolina. Witness Nader also testified that there was a 5.85% increase in Frontier's sales and transportation volumes from what

was experienced in the prior review period, which increases were primarily driven by system expansion rather than changes in weather.

Public Staff witness Nader determined that, based on his investigation and the review of the data filed in this docket, the Company's gas costs during the review period were prudently incurred.

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 the Company should be permitted to recover 100% of its prudently incurred gas costs.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 15

The evidence for this finding of fact is contained in the testimony and exhibits of Public Staff witnesses Nader and Allison.

Public Staff witness Allison testified that he agreed with Frontier's Deferred Gas Cost Account debit balance of \$127,686, owed to the Company by the customers.

Frontier did not propose any temporary rate increments or decrements (temporaries) in this proceeding. Public Staff witness Nader recommended that Frontier monitor the deferred account balance and, if necessary, file an application for authority to adjust its benchmark delivered cost of gas through its Purchased Gas Adjustment (PGA) mechanism in order to keep the deferred account balance at a reasonable level. Witness Nader did not recommend that Frontier implement any temporary rate increments or decrements at this time.

The Commission acknowledges that on February 15, 2022, subsequent to the filings made in this docket, Frontier filed an application in Docket No. G-40, Sub 164, for an adjustment of its rates and charges pursuant to N.C.G.S. § 62-133.4, Commission Rule R1-17(k)(3), and its PGA mechanism, which is Appendix A of its Gas Service Rules & Regulations, seeking authority to increase its sales rates by \$3.25 per dt effective for service rendered on and after March 1, 2022. On February 28, 2022, the Commission issued an order allowing the rate changes.

Based on the foregoing, the Commission concludes that Frontier should not be required to implement a rate adjustment in this proceeding. The Commission agrees that Frontier should continue to monitor the deferred account balance and, if needed, file an application for authority to implement new temporary increments or decrements through the PGA mechanism in order to keep the deferred account balance at a reasonable level.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 16

The evidence for this finding of fact is contained in the testimony of Public Staff witness Allison.

Public Staff witness Allison testified that he reviewed the Company's interest rate calculations for all known corporate income tax rate changes and determined that no change was required. Therefore, witness Allison stated that it is appropriate that Frontier continue to 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. Witness Allison further stated that the Public Staff will continue to review the interest rate each month to determine if an adjustment is warranted.

Based on the foregoing, the Commission concludes that it is appropriate for Frontier to continue to 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. The Commission also concludes that it is appropriate for the Public Staff to continue to review the interest rate each month to determine if an adjustment is warranted.

IT IS, THEREFORE, ORDERED as follows:

1. That Frontier's accounting for gas costs during the 12-month period ended September 30, 2021, is approved;
2. That the gas costs incurred by Frontier during the 12-month period ended September 30, 2021, were reasonably and prudently incurred, and Frontier is hereby authorized to recover 100% of its gas costs incurred during the period of review;
3. That Frontier's hedging activities during the review period were reasonable and prudent;
4. That Frontier shall not implement any temporary rate changes in this docket;
5. That Frontier and the Public Staff shall continue to work together to discuss Frontier's Gas Supply Procurement Policy, including hedging and other price mitigation strategies, as changes to the policy are contemplated;
6. That Frontier shall continue to closely monitor the deferred account balance and, if necessary, file an application for authority to adjust its benchmark delivered cost of gas through its PGA mechanism;
7. That Frontier shall continue to 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; and

8. That the Public Staff shall continue to review the interest rate each month to determine if an adjustment is warranted.

ISSUED BY ORDER OF THE COMMISSION.

This the 3rd day of May, 2022.

NORTH CAROLINA UTILITIES COMMISSION

A handwritten signature in cursive script, appearing to read "Joann R. Snyder".

Joann R. Snyder, Deputy Clerk