



**NORTH CAROLINA  
PUBLIC STAFF  
UTILITIES COMMISSION**

October 18, 2022

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

Re: Docket No. G-41, Sub 58 – Annual Review of Gas Costs

Dear Ms. Dunston:

In connection with the above-referenced docket, I transmit herewith for filing on behalf of the Public Staff the Direct Testimonies of Hemanth Meda and Neha Patel.

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

Sincerely,

s/ John Little  
Staff Attorney  
[john.little@psncuc.nc.gov](mailto:john.little@psncuc.nc.gov)

Attachments

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Oct 18 2022

**BEFORE THE NORTH CAROLINA UTILITIES COMMISSION**

**DOCKET NO. G-41, SUB 58**

**OCTOBER 18, 2022**

In the Matter of  
Annual Prudency Review for Toccoa  
Natural Gas for the year July 1, 2021,  
through June 30, 2022

) **TESTIMONY OF**  
) **HEMANTH MEDA**  
) **ON BEHALF OF**  
) **THE PUBLIC STAFF –**  
) **NORTH CAROLINA**  
) **UTILITIES COMMISSION**

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

3 A. My name is Hemanth Meda, and my business address is 430 North  
4 Salisbury Street, Raleigh, North Carolina. I am a Financial Analyst  
5 III with the Accounting Division of the Public Staff North Carolina  
6 Utilities Commission. A summary of my education and qualifications  
7 is attached as Appendix A.

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

9 A. The purpose of my testimony is to: (1) present the results of my  
10 review of the gas cost information filed by Toccoa Natural Gas  
11 (Toccoa or the Company) in accordance with N.C. Gen. Stat. §  
12 62-133.4(c) and Commission Rule R1-17(k)(6); (2) provide my  
13 conclusions regarding whether the gas costs incurred by Toccoa  
14 during the 12-month review period ended June 30, 2022, were  
15 properly accounted for; (3) discuss any changes to the deferred  
16 account reporting during the review period; and (4) report the  
17 prudence of Toccoa's hedging activities during the review period.

18 **Q. Please explain how the Public Staff conducted its review.**

19 A. I reviewed the testimony and exhibits of the Company's witnesses,  
20 the Company's monthly Deferred Gas Cost Account reports, the  
21 monthly operating reports, and the Company's responses to Public  
22 Staff data requests. The Public Staff and the Company also held  
23 several virtual meetings with Toccoa.

1 Q. Has the company properly accounted for its gas costs during  
2 the review period?

3 A. Yes.

4 Accounting for and Analysis of Gas Costs

5 Q. How does the Accounting Division conduct its review of the  
6 Company's accounting for gas costs?

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

11 (1) **Gas Cost True-Up** - The actual commodity and demand gas  
12 costs are verified, calculations and data supporting the gas costs  
13 collected are checked, invoices are reviewed, and the overall  
14 calculation is checked for mathematical accuracy.

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

19 (3) **Hedging Transactions** - The hedged cost of gas prices is  
20 traced to the supporting documentation and is verified for  
21 mathematical accuracy.

1           (4)    **Supplier Refunds** - In Docket No. G-100, Sub 57, the  
2           Commission held that, unless it orders refunds to be handled  
3           differently, supplier refunds should be flowed through to ratepayers  
4           through a company's deferred account. I reviewed documentation  
5           received by the Company from its suppliers to ensure that the  
6           amount received by the Company was flowed through to  
7           ratepayers.

8           (5)    **Interest Accrual** - Toccoa began calculating interest on its  
9           Deferred Gas Cost Account in October 2016. Calculations of the  
10          interest accrued on the account balance during the month are  
11          verified in accordance with N.C.G.S. § 62-130(e).

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

14   A.    Toccoa's total company gas costs for the current review period  
15    were \$7,673,669, compared to the prior year's costs of \$4,659,894.  
16    The North Carolina portion of gas costs incurred during the current  
17    review period was \$648,225, compared with \$394,529 for the prior  
18    period. The components of gas costs incurred for the two periods  
19    are as follows:

	12 Months Ended		Increase (Decrease)	% Change
	June 30, 2022	June 30, 2021		
<b>Transco Pipeline Charges:</b>				
Cherokee - FT	\$213,768	\$216,150	(\$2,382)	-1.10%
Converted Firm Transp. - CFT	139,133	139,516	(383)	-0.27%
South Coast - FT Mainline	107,003	107,082	(79)	-0.07%
Sunbelt 1997 - FT	34,219	34,239	(20)	-0.06%
Capacity Release Credits	(25,113)	(22,063)	(3,050)	13.82%
<b>Total Transco Pipeline Charges</b>	<b>\$469,010</b>	<b>\$474,924</b>	<b>(\$5,914)</b>	<b>-1.25%</b>
<b>Storage/Peaking Services:</b>				
LNG Capacity	22,531	22,531	0	0.00%
LNG Daily Demand	38,971	38,971	0	0.00%
Pine Needle Capacity	83,193	80,597	2,596	3.22%
<b>Total Storage/Peaking Services</b>	<b>\$144,695</b>	<b>\$142,099</b>	<b>\$2,596</b>	<b>1.83%</b>
<b>Total Demand and Storage Costs</b>	<b>\$613,705</b>	<b>\$617,022</b>	<b>(\$3,318)</b>	<b>-0.54%</b>
<b>Gas Supply Costs:</b>				
Authority Gas Supply FT	\$7,051,677	\$3,604,269	\$3,447,408	95.65%
Supply Charge-meters and throughput	113,584	115,534	(1,950)	-1.69%
Pine Needle Supply	41,919	49,645	(7,726)	-15.56%
LNG Withdrawal	10,375	6,073	4,302	70.84%
FT Released Capacity Supply	25,052	49,587	(24,535)	-49.48%
Authority G&A Charges	143,089	146,921	(3,832)	-2.61%
Swing Supply Charges	67,313	68,135	(822)	-1.21%
<b>Total Gas Supply Costs</b>	<b>\$7,453,008</b>	<b>\$4,040,164</b>	<b>\$3,412,845</b>	<b>84.47%</b>
<b>Total Other Gas Costs</b>	<b>(\$393,044)</b>	<b>\$2,709</b>	<b>(\$395,753)</b>	<b>-14608.82%</b>
<b>Total Company Gas Costs</b>	<b>\$7,673,668</b>	<b>\$4,659,896</b>	<b>\$3,013,772</b>	<b>64.67%</b>
<b>NC Portion of Total Gas Costs</b>	<b>\$648,225</b>	<b>\$394,529</b>	<b>\$253,696</b>	<b>64.30%</b>

1 **Q. Please explain any significant increases or decreases in**  
2 **demand and storage charges.**

3 **A.** The decrease in **Cherokee FT** charges is primarily due to  
4 decreases related to rate changes resulting from FERC Docket No.  
5 RP21-579-000, which became effective April 1, 2021.

6 **Capacity Release Credits** are margins earned by Toccoa for the  
7 release of unutilized pipeline capacity. These credits increased  
8 during the current review period primarily due to the Municipal Gas  
9 Authority of Georgia (Gas Authority) releasing more of Toccoa's  
10 unutilized capacity during the period. Toccoa's policy has always

1           been to flow through 100% of its capacity release credits to  
2           ratepayers.

3           **Pine Needle Capacity** charges increased primarily due to rate  
4           changes resulting from FERC Docket No. RP21-681-000, which  
5           became effective May 1, 2021.

6           **Authority Gas Supply FT** costs increased due to higher wellhead  
7           gas prices during this review period as compared with the prior  
8           review period. This increase is generally consistent with the  
9           changes in market indices experienced between the two periods.

10          **Pine Needle Supply** costs decreased primarily due to decreased  
11          commodity purchases during the current review period as  
12          compared to the prior period.

13          **LNG Withdrawal** costs increased due to higher LNG withdrawals  
14          occurred during January and March 2022 in the current review  
15          period as compared to the prior period.

16          **FT Released Capacity Supply** is excess supply available from  
17          other members of the Gas Authority that is used to meet Toccoa's  
18          needs. Costs decreased during the current review period as a  
19          result of timely management of supply requirements and Toccoa's  
20          need for less gas supply from the other Gas Authority members  
21          than in the prior review period.

1 **Total Other Gas Costs** decreased due to Toccoa’s participation in  
2 Gas Authority’s Winter Hedge Program and Poultry Growers Hedge  
3 Program, which resulted in lower charges from Toccoa’s total  
4 company hedging program during the review period as compared  
5 to the prior period.

6 **Hedging Activities**

7 **Q. What is the standard set forth by the Commission for**  
8 **evaluating the prudence of a Company’s hedging decisions?**

9 A. In its February 26, 2002, Order on Hedging in Docket No. G-100,  
10 Sub 84 (Hedging Order), the Commission stated that the standard  
11 for reviewing the prudence of hedging decisions is that the decision  
12 “must have been made in a reasonable manner and at an  
13 appropriate time on the basis of what was reasonably known or  
14 should have been known at that time.” Hedging Order, 92 NCUC 4,  
15 11-12 (2002).

16 **Q. Please describe the Company’s hedging program.**

17 A. Toccoa participates in the Winter Hedge Program, which is  
18 managed by the Gas Authority for its members, including Toccoa.  
19 The Gas Authority is the largest non-profit joint action natural gas  
20 agency in the nation and supplies the natural gas needs of  
21 82 member cities. The goal of the Winter Hedge Program is to  
22 achieve price stability at a reasonable price for its customers by



1 locking-in futures prices for a portion of the anticipated winter firm  
2 load. Under the Gas Authority's Winter Hedge Program, a member  
3 enters into hedging arrangements with the Gas Authority specifying  
4 the targeted level of volumes to hedge. These hedging  
5 arrangements typically span two years.

6 **Q. Please comment on the types of financial instruments that the**  
7 **Gas Authority used in its hedging program.**

8 A. The Gas Authority typically uses financial instruments that offer the  
9 most benefit at the time the hedge trades are executed. During the  
10 2021-2022 review period, the Gas Authority used 100% fixed price  
11 swaps because the obtainable market was low. The fixed price  
12 trades resulted in favorable credits to Member's rates. The Gas  
13 Authority's assessment was that it would not be prudent to incur  
14 costs on options in the same low-price environment.

15 **Q. Please describe the hedging activity of the Gas Authority**  
16 **during the review period.**

17 A. During the current review period, the hedging program resulted in a  
18 (\$15,899) credit to Toccoa's gas supply costs for North Carolina  
19 customers.

20 **Q. Has Toccoa made any changes to its hedging arrangements**  
21 **with the Gas Authority during the current review period?**

1 A. No. Toccoa has not made changes to its hedging arrangements for  
2 the current review period. During the current review period, Toccoa  
3 continued to elect to hedge its Winter Hedge volumes at  
4 approximately 21.6% of all firm North Carolina gas sales through  
5 March 2022.

6 Every two years Toccoa reviews its current Winter Hedge Program  
7 participation with the Gas Authority. Toccoa elected to continue its  
8 Winter Hedge volumes at approximately 21.6% of all firm North  
9 Carolina forecasted gas sales.

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

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

17

1 **Deferred Account Reporting**

2 **Q. Based on your review of gas costs in this proceeding, what is**  
 3 **the appropriate deferred account balance as of June 30, 2022?**

4 A. The balance in Toccoa's Deferred Gas Cost Account at June 30,  
 5 2022, is a \$82,795 credit balance, owed to customers. The  
 6 following chart summarizes Toccoa's Deferred Gas Cost Account  
 7 activity for the current review period:

Deferred Account Balance - July 1, 2021	(\$46,680)
Commodity True-up	10,666
Demand True-Up	(72,003)
Firm Hedges	(15,899)
(Increment) Decrement	44,763
Interest	<u>(3,642)</u>
Deferred Account Balance - June 30, 2022	<u>(\$82,795)</u>

8 **Q. Did Toccoa have any changes to its deferred account interest**  
 9 **rate reporting during the review period?**

10 A. No. The Public Staff reviewed the Company's interest rate  
 11 calculations, found that Toccoa is continuing to use an interest rate  
 12 of 5.83% and determined that no changes were needed. The  
 13 current interest rate applied to the deferred account is the overall  
 14 rate of return, not the net-of-tax overall rate of return. This rate  
 15 remained unchanged because Toccoa is exempt from federal  
 16 income tax, and it does not pay income taxes in North Carolina as  
 17 Toccoa is a municipality. The calculations of the interest accrued on

1 the account balance during the month are verified in accordance  
2 with N.C.G.S. § 62-130(e). The Public Staff will continue to review  
3 the interest rate each month to determine if an adjustment is  
4 needed.

5 **Q. Does this conclude the Public Staff's testimony?**

6 **A.** Yes, it does.



**Qualifications and Experience**

**Hemanth Meda**

I graduated from University of Wollongong, Australia with a Master of Professional Accounting degree. I also received Master of Commerce and Bachelor of Commerce degrees from Osmania University, Hyderabad, India.

I am licensed Certified Public Accountant in the State of North Carolina.

I joined the Public Staff Accounting Division as a Financial Analyst in May 2022. Prior to joining the Public Staff, I was employed as Senior Financial Analyst with Swissport USA. I have over twenty years of progressive experience in accounting and finance across various industries.

Since joining the Public Staff, I am responsible for: (1) the examination and analysis of testimony, exhibits, books and records, and other data presented by utilities and other parties involved in Commission proceedings; and (2) the preparation and presentation to the Commission of testimony, exhibits, and other documents in those proceedings.

**BEFORE THE NORTH CAROLINA UTILITIES COMMISSION**

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**OCTOBER 18, 2022**

In the Matter of  
Annual Prudency Review for Toccoa  
Natural Gas for the year July 1, 2021,  
through June 30, 2022

) **TESTIMONY OF**  
) **NEHA R. PATEL**  
) **ON BEHALF OF**  
) **THE PUBLIC STAFF –**  
) **NORTH CAROLINA**  
) **UTILITIES COMMISSION**

**Q. Please state your name, business address, and present position.**

1 A. My name is Neha R. Patel, and my business address is 430 North  
2 Salisbury Street, Raleigh, North Carolina. I am Manager of the  
3 Natural Gas Section of the Energy Division of the Public Staff. My  
4 qualifications and experience are provided in Appendix A.

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

6 A. The purpose of my testimony is: (1) to present my conclusions as to  
7 whether the gas costs charged to North Carolina operations by  
8 Toccoa Natural Gas (Toccoa or Company) during the 12-month  
9 review period ended June 30, 2022, were prudently incurred, (2) to  
10 discuss my review of the gas cost information filed by Toccoa in  
11 accordance with G.S. 62-133.4(c) and Commission Rule R1-  
12 17(k)(6), and (3) my recommendation regarding any temporary rate  
13 increments or decrements.

**14 Q. Please describe Toccoa and its operations in North Carolina.**

15 A. Toccoa is a municipal corporation created by the laws of the State  
16 of Georgia. It has been providing natural gas service in Georgia  
17 since 1952, and in Macon County, North Carolina since 1998.  
18 Toccoa is a full requirements wholesale customer of the Municipal  
19 Gas Authority of Georgia (Gas Authority), which manages its  
20 capacity, storage, and supply contracts.



1 Toccoa's total sales volume for the annual review year ended  
2 June 30, 2022, was 1,281,640 dekatherms (dts), of which 143,225  
3 dts (11.18%) were sold in North Carolina.

4 It is expected that Toccoa will experience incremental growth as the  
5 expansion of its system continues. As necessary, the Gas Authority  
6 assists Toccoa in acquiring the most cost-effective combination of  
7 pipeline, storage and peaking capacities available on the system of  
8 Transcontinental Gas Pipe Line Company, LLC (Transco), based  
9 on least cost and operational flexibility.

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

11 A. I have reviewed: (1) the testimony and exhibits of the Company's  
12 witnesses, (2) the Company's monthly Deferred Gas Cost Account  
13 reports, (3) monthly operating reports, (4) held virtual meetings with  
14 Toccoa, (5) and the Company's responses to Public Staff data  
15 requests. The responses to the Public Staff's data requests  
16 contained information related to Toccoa's gas purchasing  
17 philosophies, customer requirements, design day analysis, and gas  
18 portfolio mixes.

19 **Q. What is the result of your evaluation of Toccoa's gas costs?**

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

22 **Q. What other items did the Energy Division review?**

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

8 **DESIGN DAY REQUIREMENTS**

9 **Q. As to the Company's future capacity requirements, what did**  
10 **you review, and have you drawn any conclusions from your**  
11 **review?**

12 A. I reviewed the Company's testimony and information submitted by  
13 the Company in response to data requests that dealt with how well  
14 its projected firm demand requirements aligned with future available  
15 capacity. Per Toccoa's gas supply agreement with Gas Authority,  
16 the Company's gas supply, storage, and capacity contracts as  
17 administered by Gas Authority obligates Gas Authority to deliver  
18 100% of Toccoa's gas supply and obligates Toccoa to only receive  
19 gas supply through this agreement and not from other outside  
20 sources.

21 I have performed independent calculations utilizing the Company's  
22 assumptions, and the Company appears to have adequate capacity  
23 to meet firm demand for the next five winter seasons. The Public

1 Staff will continue to monitor the Company growth and its  
2 forecasted gas supply needs.

3 **TEMPORARY INCREMENTS OR DECREMENTS**

4 **Q. How do you determine the temporary rate increments or**  
5 **decrements for Toccoa?**

6 A. In general, temporary increments or decrements for a local  
7 distribution company (LDC) are calculated using the Deferred  
8 Account Balance at the end of the review period divided by  
9 volumes from an LDC's last general rate case. As Toccoa has  
10 never had a general rate case, the Public Staff has previously  
11 recommended, and the Commission has previously approved,  
12 using the North Carolina firm sales volumes from the review period  
13 instead in this calculation.

14 **Q. Do you recommend any changes to the temporary increments**  
15 **or decrements for Toccoa?**

16 A. Yes. The current temporary rate decrement of \$0.4470 per dt for all  
17 North Carolina firm services customers as approved by the  
18 Commission was effective February 1, 2022,<sup>1</sup> based on the prior  
19 review period for the 12-month period ending June 30, 2021.  
20 Anticipating a decrease in the balance owed to customers due to  
21 the rate decrement in effect, Toccoa monitored its deferred account  
22 balances for the current review period but recorded an increase in

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<sup>1</sup> G-41, Sub 56 Order on Annual Review of Gas Costs

1 these balances going into the winter period. For the current review  
2 period ended June 30, 2022, Toccoa's deferred account balances  
3 reflect an amount of \$82,795 and its North Carolina firm sales  
4 volumes are 101,217 dts. Therefore, I propose a temporary rate  
5 decrement of \$0.8180 per dt calculated using the deferred account  
6 credit balance of \$82,795 divided by 101,217 dts. I recommend that  
7 this temporary rate decrement be approved for all North Carolina  
8 firm sales customers effective the first day of the month following  
9 the date of the Commission's order in this proceeding, and that the  
10 current decrement of \$0.4470 per dt that was placed into rates  
11 effective February 1, 2022, in Docket No. G-41, Sub 56, be  
12 removed.

13 I further recommend that Toccoa continue to monitor the balance in  
14 its Deferred Account and file a request to implement new temporary  
15 increments or decrements, as needed, through the Purchased Gas  
16 Cost Adjustment mechanism to avoid significant over-collection or  
17 under-collection of its gas costs. It is my understanding that Toccoa  
18 does not oppose these recommendations.

19 **Q. Ms. Patel, what effect does this change in temporaries have on**  
20 **the typical residential bill?**

21 A. Since the proposed decrement in the instant docket is higher than  
22 the one currently in rates, customers will experience a decrease in

1           their bills. Therefore, the typical residential customer bill will  
2           decrease by \$1.27 per month due to this rate change.

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

4   **A.    Yes, it does.**



**Qualifications And Experience**

**Neha Patel**

I graduated from the University of Mumbai in 1995 with a Bachelor of Science degree in Electronic Engineering. I began working as a Utilities Engineer with the Natural Gas Division of the Public Staff in the spring of 2014. In 2020, I became Manager of the Natural Gas Section of the Energy Division.

I have worked on purchased gas cost adjustment procedures, tariff filings, customer utilization trackers, special contract review and analysis, weather normalization adjustments, customer complaint resolutions, integrity management riders, franchise exchange filings, compressed natural gas special contracts, peak day demand and capacity calculations, fuel and electric usage trackers, gas resellers, annual review of gas costs proceedings, renewable natural gas filings, cost of service studies, general rate case proceedings, and rate design.