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December 6, 2021

Ms. A. Shonta Dunston  
Chief Clerk  
North Carolina Utilities Commission  
430 N. Salisbury Street  
Raleigh, NC 27603

**RE: JOINT PROPOSED ORDER OF TOCCOA NATURAL GAS  
AND PUBLIC STAFF**  
*In the matter of Toccoa Natural Gas' Annual Review of Gas Costs  
for the Period July 1, 2020 through June 30, 2021  
Docket No. G-41, Sub 56*

Dear Ms. Dunston:

On behalf of Toccoa Natural Gas ("Toccoa") and North Carolina Public Staff ("Public Staff"), in the above referenced matter and docket, and in accordance with the Commission's Order of October 25, 2021, attached for filing is the Joint Proposed Order of Toccoa and Public Staff.

Should you have any questions concerning this filing, please do not hesitate to contact me.

Sincerely,

/s/ Karen M. Kemerait

Karen M. Kemerait

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STATE OF NORTH CAROLINA  
UTILITIES COMMISSION  
RALEIGH

DOCKET NO. G-41, SUB 56

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

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

HEARD: Wednesday, November 3, 2021, at 10:00 a.m. via Webex

BEFORE: Hearing Examiner Erin Duffy

APPEARANCES:

For Toccoa Natural Gas:

Karen M. Kemerait and David T. Drooz, Fox Rothschild LLP,  
434 Fayetteville Street, Suite 2800, Raleigh, North Carolina 27601

For the Using and Consuming Public:

Elizabeth D. Culpepper, Staff Attorney, Public Staff – North Carolina  
Utilities Commission, 4326 Mail Service Center, Raleigh, North  
Carolina 27699-4300

BY THE COMMISSION: On September 1, 2021, pursuant to N.C. Gen. Stat. § 62-133.4(c) and Commission Rule R1-17(k)(6), Toccoa Natural Gas (Toccoa or Company), filed the direct testimony and exhibits of Rai Trippe, Member Support Senior Business Analyst for the Municipal Gas Authority of Georgia (Gas Authority), and Harry Franklin Scott, Jr., Utilities Director for the City of Toccoa, Georgia, in connection with the annual review of Toccoa's gas costs for the twelve-month period ended June 30, 2021.

On September 2, 2021, Toccoa filed revised direct testimony of Rai Trippe and Schedule 8.

On September 3, 2021, the Commission issued its Order Scheduling Hearing, Requiring Filing of Testimony, Establishing Discovery Guidelines and Requiring Public Notice (Scheduling Order). The Scheduling Order established a hearing date of November 3, 2021, at 10:00 a.m., to be held in Commission Hearing Room 2115, Dobbs Building, 430 North Salisbury Street, Raleigh, North Carolina. Further, the Scheduling Order set dates for prefiling testimonies and exhibits of parties and required Toccoa to give at least 30 days prior notice to its customers of the hearing on this matter.

On September 29, 2021, Toccoa filed its Affidavit of Publication.

On October 14, 2021, the Commission issued an Order changing the expert witness portion of the hearing from in-person to Webex, starting at 10:30 a.m. on November 3, 2021. The public witness hearing remained in-person because of the impracticality of reissuing the public notice at that late date. Pursuant to that Order, the Public Staff filed its consent to remote hearing for expert witnesses on October 18, 2021, and Toccoa filed its consent on October 20, 2021.

On October 18, 2021, the Public Staff filed the testimonies of Neha R. Patel, Manager of the Natural Gas Section of the Energy Division, and Iris Morgan, Staff Accountant, Accounting Division.

On October 20, 2021, the Public Staff filed corrected testimony of its witnesses Patel and Morgan.

Also on October 20, 2021, the Public Staff and Toccoa filed a joint motion to excuse the appearance of all expert witnesses at the remote hearing scheduled in this proceeding for November 3, 2021, and to allow all pre-filed testimony and exhibits to be entered into the record without the appearance of the witnesses. The parties also agreed to waive cross-examination of witnesses.

On October 25, 2021, the Commission issued its Order Excusing Expert Witnesses, Accepting Testimony and Exhibits, and Canceling Expert Witness Hearing. In its Order, the Commission found good cause to excuse all Toccoa and Public Staff witnesses from testifying at the expert witness hearing, to receive the witnesses' prefiled testimony and exhibits into evidence, and to cancel the expert witness hearing scheduled for November 3, 2021. The Commission also found good cause to require that the parties file proposed orders, or a joint proposed order, on or before December 6, 2021, and that the parties file briefs by the same date, if they desire to file briefs.

This matter came on for public hearing as scheduled on November 3, 2021, before Hearing Examiner Erin Duffy. No public witnesses appeared at the hearing.

On December 6, 2021, the Joint Proposed Order of Toccoa and the Public Staff was filed.

Based on the testimony, exhibits, and the entire record in this proceeding, the Commission makes the following:

#### **FINDINGS OF FACT**

1. Toccoa, a division of the City of Toccoa, Georgia, is a public utility as defined by N.C.G.S. 62-3(23) and is subject to the jurisdiction of the Commission.

2. Toccoa is primarily engaged in the business of purchasing, transporting, distributing, and selling natural gas to approximately 6,681 retail customers of which approximately 786 are in North Carolina.

3. The Company has filed with the Commission and submitted to the Public Staff all 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 twelve months ended June 30, 2021.

5. During the review period, Toccoa incurred total North Carolina gas costs of \$394,529.

6. At June 30, 2021, Toccoa had a credit balance of \$46,680, owed by Toccoa to customers, in its Deferred Gas Cost Account.

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

8. Toccoa's hedging activities during the review period were reasonable and prudent.

9. Toccoa has transportation and storage contracts with interstate pipelines that provide for the transportation of gas to Toccoa's system, and a gas supply arrangement with the Gas Authority.

10. Toccoa released unutilized capacity during the review period, which generated \$22,063 of cost savings to mitigate the cost of demand capacity over the review period, and all capacity release credits earned were flowed through 100% to ratepayers.

11. Through its membership in the Gas Authority, Toccoa uses a “portfolio approach” gas purchasing policy that consists of four main components: long-term firm supply arrangements, short-term spot market purchases, seasonal peaking, and contract storage services.

12. Toccoa’s gas purchasing policy and practices during the review period were prudent, and its gas costs during the review period were prudently incurred.

13. Toccoa should be permitted to recover 100% of its prudently incurred gas costs.

14. As a result of this proceeding, Toccoa should replace the current temporary rate decrement of \$0.4397 per dekatherm (dt) with a new temporary rate decrement of \$0.4470 per dt as recommended by Public Staff Witness Patel and is not opposed by Toccoa.

15. It is appropriate for Toccoa to continue to apply an interest rate of 5.83% to its Deferred Gas Cost Account for the review period. It is appropriate that Toccoa not adjust its Deferred Gas Cost Account interest rate for known tax changes, as it is exempt from federal income tax and it does not pay income taxes in North Carolina due to its status as a municipality.

#### **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 schedules and exhibit of Toccoa witness Trippe, and the testimony of Toccoa witness Scott. These findings are

essentially informational, procedural, or jurisdictional and are not contested by any party.

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

The evidence supporting these findings of fact is contained in the testimony, revised schedules and exhibits of Toccoa witness Trippe, and the testimonies of Public Staff witnesses Morgan and Patel.

Pursuant to N.C.G.S. 62-133.4(c), Toccoa is required to submit to the Commission information and data for an historical twelve month review period including its actual cost of gas, volumes of purchased gas, sales volumes, negotiated sales volumes, and transportation volumes. Commission Rule R1-17(k)(6)(a) establishes June 30, 2021, as the end date of the annual review period for the Company in this proceeding. Commission Rule R1-17(k)(6)(c) requires that Toccoa file certain information and data showing weather-normalized sales volumes, supporting work papers, and direct testimony and exhibits.

Toccoa witness Trippe testified that he was not aware of any outstanding issues regarding the reporting requirements of Commission Rule R1-17(k)(5)(c), which requires the Company to file a complete monthly accounting of computations under the provisions of the Rule for gas costs and deferred account activity. Public Staff witness Morgan confirmed that she had reviewed the filings and monthly reports filed by Toccoa.

Based on the foregoing, the Commission concludes that Toccoa has complied with all procedural requirements of N.C.G.S. 62-133.4(c) and

Commission Rule R1-17(k) for the twelve month review period ended June 30, 2021.

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

The evidence supporting these findings of fact is contained in the testimony, revised schedules and exhibits of Toccoa witness Trippe, and the testimony of Public Staff witness Morgan.

Company witness Trippe testified that Toccoa incurred total North Carolina gas costs of \$394,529 during the review period, which was comprised of demand and storage costs of \$86,381, commodity costs of \$307,806, and other gas costs of \$341, as shown on his Schedule 1.

Public Staff witness Morgan testified that as of June 30, 2021, the balance in Toccoa's Deferred Gas Cost Account was a credit balance of \$46,680, owed by Toccoa to customers. Witness Morgan also testified that Toccoa's Deferred Gas Cost Account consisted of the following activity: Commodity True-up of \$14,121, Demand True-up of (\$78,643), firm Hedges of \$341, Decrement of \$45,922, and Interest of (\$1,943). Witness Morgan stated that every month the Public Staff reviews the Deferred Gas Cost Account reports filed by Toccoa for accuracy and reasonableness and performs audit procedures on the calculations. Public Staff witness Morgan also testified that Toccoa had properly accounted for its gas costs during the review period.

Based on the foregoing, the monthly filings by Toccoa pursuant to Commission Rule R1-17(k)(5)(c), and the findings and conclusions set forth above, the Commission concludes that Toccoa has properly accounted for its gas costs

incurred during the review period and that Toccoa's Deferred Gas Cost Account balance reflected in the Company's schedules, including revised Schedule 8, and exhibits is correct.

### **EVIDENCE AND CONCLUSIONS FOR FIND OF FACT NO. 8**

The evidence supporting this finding of fact is contained in the testimony and exhibits of Toccoa witness Trippe, and the testimony of Public Staff witness Morgan.

Company witness Trippe testified that Toccoa participates in the Gas Authority's "Winter Hedge Program" under the Authority's Option 2, which allows Toccoa to rely on the Gas Authority's advice on locking in future prices for a portion of the Company's firm load. Witness Trippe stated that the Gas Authority's objective in hedging prices is to achieve price stability at a reasonable level for its members' retail customers, and that this objective was accomplished by locking in future prices on approximately 20.2% of its forecasted firm gas sales for November 2020 through March 2021.

Company witness Trippe also testified that although hedging helps manage volatility in the wholesale cost of gas, it can create its own challenges. He explained that some customers have unrealistic expectations of the benefits of hedging because a common benchmark for evaluating hedged prices is the actual spot market price. Witness Trippe further testified that this can be an unfair measure because it is only available after the fact, and incorrectly assumes that the goal of hedging is "to beat the market." He testified that the principal goal of hedging is to achieve price stability at a reasonable level for the consuming public.

Public Staff witness Morgan testified that when a Gas Authority member enters into hedging arrangements with the Gas Authority, the member specifies the targeted level of volumes to hedge and that these arrangements typically span two years. Witness Morgan further testified that the Gas Authority used a combination of fixed price and options as financial instruments in its hedging program during the current review period. She further stated that these strategies provided stability if prices went up, while allowing some downside participation as prices fall.

Public Staff witness Morgan testified that Toccoa's current hedge plan spans the maximum hedging program term offered by the Gas Authority for two winter periods that began November 1, 2021, and continues through March 2023. She also stated that Toccoa's current Winter Hedge Program participation reflects winter hedge volumes continuing at approximately 20.2% of all firm North Carolina forecasted gas sales for the two-year period. Witness Morgan further stated that Toccoa continues to adopt the more conservative hedge volumes for their participation in the Winter Hedge Program because market and future pricing has been significantly lower than in prior years.

Public Staff witness Morgan stated that during the current review period, Toccoa's hedging program resulted in a \$341 charge to its gas supply cost for North Carolina customers. Witness Morgan further testified that based on what was reasonably known, or should have been known, by Toccoa at the time the Company made its hedging decisions affecting the review period, as opposed to the outcome of those decisions, the Company's hedging decisions were prudent.

Based upon the foregoing, the Commission concludes that the Company's hedging activities during the review period were reasonable and prudent.

#### **EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 9-13**

The evidence for these findings of fact is contained in the testimony of Toccoa witness Trippe and Public Staff witnesses Patel and Morgan.

Company witness Trippe testified that Toccoa is a charter member of the Gas Authority, the largest non-profit joint action natural gas agency in the nation. Witness Trippe also testified that as a member of the Gas Authority, Toccoa receives all its gas supply at very competitive rates. He further explained that the Gas Authority uses a portfolio approach to supply its 81 member cities' needs, relying on a combination of long-term firm supply arrangements, short-term spot market purchases, seasonal peaking, and contract storage services. He also testified that Toccoa is assured adequate, dependable, and economical gas supplies through the Gas Authority's efforts.

Company witness Trippe further described Toccoa's interstate capacity and testified that Toccoa has contracts for firm transportation capacity with Transcontinental Gas Pipe Line Company, LLC (Transco), as well as an additional liquefied natural gas storage service and storage service agreements with Pine Needle LNG Company, LLC. He also testified that through participation in the Gas Authority, Toccoa has access to other members' available pipeline capacity.

Company witness Trippe testified that the Gas Authority, on behalf of Toccoa, was able to release a portion of Toccoa's unutilized capacity in each month of the review period to mitigate the cost of extra demand capacity,

generating \$22,063 in savings during the current review period. Public Staff witness Morgan testified that Toccoa's policy has always been to flow through 100% of its capacity release credits to ratepayers.

Public Staff witness Patel testified that she reviewed the testimony and exhibits of the Company's witnesses, the Company's monthly Deferred Gas Cost Account reports, monthly operating reports, the gas supply, pipeline transportation and storage contracts, and the Company's responses to Public Staff data requests. She explained that the responses to the Public Staff's data requests contained information related to Toccoa's gas purchasing philosophies, customer requirements, design day analysis, and gas portfolio mixes.

Public Staff witness Patel stated that she also reviewed the Company's testimony and information submitted by the Company in response to data requests that dealt with how well the projected firm demand requirements aligned with the available capacity in the future. She further testified that she performed independent calculations utilizing the Company's assumptions and concluded that it appeared the Company has adequate capacity to meet firm demand for the next five winter seasons. Based upon the Public Staff's investigation and review of the data filed in this docket, Public Staff witness Patel concluded that Toccoa's gas costs during the review period were prudently incurred.

Based on the foregoing, the Commission concludes that the Company's gas purchasing policies and practices during the review period were reasonable and prudent, that its gas costs during the review period were 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. 14**

The evidence for this finding of fact is contained in the testimony, schedules and exhibits of Toccoa witness Trippe, and the testimony of Public Staff witness Patel.

Toccoa witness Trippe testified that Toccoa desired to rely on the deferred account process and tracking method such that the forecasted deferred account balance at the end of the current review period would be as close to zero as practical. He further explained that the deferred account balance was closely monitored, as each monthly deferred account update was filed in anticipation that the effective rate decrement would decrease the balance owed to customers without causing a swing to a balance owed to Toccoa.

Public Staff witness Patel testified that the balance in Toccoa's Deferred Gas Cost Account at June 30, 2021, was a \$46,680 credit balance, compared to a \$26,478 deferred account credit balance from the prior review period. Witness Patel stated, in general, temporary increments or decrements for a local distribution company (LDC) are calculated using the deferred account balance at the end of the review period divided by the volumes from the LDC's last general rate case. She further explained that since Toccoa has never had a general rate case, the Public Staff has previously recommended, and the Commission has previously approved, using the review period North Carolina firm sales volumes instead in this calculation.

Public Staff witness Patel recommended a new rate decrement to refund this higher credit balance. She calculated her recommended new rate decrement of \$0.4470 per dt by using the deferred account credit balance of \$46,680 divided by 104,439 dts, the North Carolina firm sales volumes for the review period ended June 30, 2021. Witness Patel further recommended that the new temporary rate decrement be approved for all North Carolina firm sales customers effective the first day of the month following the date of the Commission's Order in this proceeding, and that the current decrement of \$0.4397 per dt, that was placed into rates effective January 1, 2018, pursuant to the Commission's Order on Annual Review of Gas Costs issued December 20, 2107, in Docket No. G-41, Sub 50, be removed.

Public Staff witness Patel additionally recommended that Toccoa continue to monitor the balance in its Deferred Gas Cost Account and file a request to implement new temporary increments or decrements, as needed, through the Purchased Gas Cost Adjustment (PGA) mechanism to avoid significant over-collections or under-collections of its gas costs. Witness Patel stated that per her understanding, Toccoa did not oppose these recommendations.

Based on the foregoing, the Commission concludes that effective on the first day of the month following the date of the Commission's Order in this proceeding, the current rate decrement should terminate and a new temporary rate decrement of \$0.4470 per dt should be effective.

## EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 15

The evidence supporting this finding of fact is contained in the testimony and exhibit of Toccoa witness Trippe and the testimony of Public Staff witness Morgan.

Toccoa witness Trippe testified that the interest rate applied to Toccoa's deferred account for amounts over-collected or under-collected from the North Carolina firm sales customers was established in Docket No. G-41, Sub 0, and approved by the December 8, 1998, Order granting Toccoa and the Municipal Gas Authority of Georgia a Certificate of Public Convenience and Necessity. Witness Trippe further testified that Toccoa's deferred account interest rate as proposed by the Public Staff is the overall rate of return. He also explained that Toccoa has not adjusted its deferred account interest rate for known tax changes because it is exempt from federal income tax and it does not pay income taxes in North Carolina because Toccoa is a municipality. Witness Trippe stated that the present interest rate of 5.83% has been applied to Toccoa's deferred account during the full twelve months of the review period.

Public Staff witness Morgan testified that she reviewed the Company's interest rate calculations, found that Toccoa is continuing to use the 5.83% interest rate, and determined no changes were needed. The current interest rate applied to the deferred account is the overall rate of return, not the net-of-tax overall rate of return. Public Staff witness Morgan stated that the calculations of the interest accrued on the account balance during each month are verified in accordance with

N.C.G.S. 62-130(e). She also stated that the Public Staff will continue to review the interest rate each month to determine if an adjustment is needed.

Based on the foregoing, the Commission concludes that 5.83% is the appropriate interest rate to apply to Toccoa's Deferred Gas Cost Account for the period of July 1, 2020, through June 30, 2021. Furthermore, the Commission finds that it is appropriate that Toccoa not adjust its Deferred Gas Cost Account interest rate for known tax changes, as it is exempt from federal income tax and it does not pay income taxes in North Carolina.

IT IS, THEREFORE, ORDERED as follows:

1. That Toccoa's accounting for gas costs for the twelve month period ended June 30, 2021, is approved;
2. That the gas costs incurred by Toccoa during the twelve month period ended June 30, 2021, including the Company's hedging costs, were reasonably and prudently incurred, and that Toccoa is authorized to recover 100% of its gas costs as provided herein;
3. That the existing temporary decrement of \$0.4397 per dt that was approved in Docket No. G-41, Sub 50 be removed, and a new temporary decrement of \$0.4470 per dt as found appropriate herein, shall go into effect on the first day of the month following the date of the Commission's Order in this proceeding;
4. That Toccoa shall give notice to its customers of the rate changes allowed in this Order;

5. That Toccoa shall file revised tariffs as soon as practicable to reflect the implementation of the rate changes ordered herein;

6. That Toccoa shall continue to monitor the balance in its Deferred Gas Cost Account and file a request to implement new temporary increments or decrements, as applicable, through the PGA mechanism to avoid significant over-collections or under-collections of its gas costs; and

7. That it is appropriate for Toccoa to continue calculating interest using a rate of 5.83% on its Deferred Gas Cost Account, without adjustment for tax changes because it is exempt from federal income tax and it does not pay income taxes in North Carolina since Toccoa is a municipality.

ISSUED BY ORDER OF THE COMMISSION.

This the \_\_\_\_\_ day of \_\_\_\_\_, 2021.

NORTH CAROLINA UTILITIES COMMISSION

A. Shonta Dunston, Chief Clerk