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VIA Electronic Filing

Ms. Antonia Dunston, Interim Chief Clerk
North Carolina Utilities Commission
Dobbs Building
430 North Salisbury Street
Raleigh, North Carolina 27603

*Re: Petition for Annual Review of Gas Costs
Docket No. G-5, Sub 635*

Dear Ms. Dunston:

Public Service Company of North Carolina, Inc., d/b/a Dominion Energy North Carolina, submits for filing in the above-referenced docket its Rebuttal Testimony of Rose M. Jackson.

Please do not hesitate to contact me should you have any questions. Thank you for your assistance with this matter.

Very truly yours,

/s/Mary Lynne Grigg

MLG:kjg

Enclosure

cc: Gina Holt

BEFORE THE

NORTH CAROLINA UTILITIES COMMISSION

PUBLIC SERVICE COMPANY OF NORTH CAROLINA, INCORPORATED

DOCKET NO. G-5, SUB 635

REBUTTAL TESTIMONY

OF

ROSE M. JACKSON

AUGUST 5, 2021

1 Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, BY WHOM YOU ARE
2 EMPLOYED, AND IN WHAT CAPACITY.

3 A. My name is Rose M. Jackson, and my business address is 220 Operation Way,
4 Cayce, South Carolina. I am employed by Dominion Energy Services, Inc. (“DE
5 Services”) as Director-Gas Supply Services.

6 Q. ARE YOU THE SAME ROSE M. JACKSON WHO FILED DIRECT
7 TESTIMONY IN THIS PROCEEDING?

8 A. Yes. I filed direct testimony in this proceeding on June 1, 2021.

9 Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY IN THIS
10 PROCEEDING?

11 A. The purpose of my rebuttal testimony is to provide Public Service Company of
12 North Carolina, Inc., d/b/a Dominion Energy North Carolina’s (“PSNC” or the
13 “Company”) response to the direct testimony of Gregory M. Lander filed on behalf
14 of the Haw River Assembly.

15 Q. HAS WITNESS LANDER PROVIDED ANY RECOMMENDATIONS
16 REGARDING PSNC’S GAS COSTS INCURRED DURING THE 12-MONTH
17 REVIEW PERIOD ENDED MARCH 31, 2021?

18 A. No. Witness Lander has not recommended any changes to the Company’s gas costs
19 incurred during the 12-month review period ended March 31, 2021, and does not
20 opine on the prudence of such costs. Rather, his testimony criticizes the Company’s
21 best-cost strategy and recommends the Company use an “all-in costs” approach in
22 evaluating potential gas purchases.

1 Q. DO YOU AGREE WITH WITNESS LANDER'S TESTIMONY AND
2 RECOMMENDATIONS?

3 A. No. Witness Lander's testimony is based on hypothetical scenarios and ignores
4 many "real world" factors that PSNC must address in order to provide reliable
5 natural gas service to firm customers. I explain how his conclusions are erroneous,
6 speculative, and based on unsubstantiated assumptions.

7 Q. PLEASE EXPLAIN WITNESS LANDER'S CRITICISMS OF PSNC'S BEST-
8 COST STRATEGY.

9 A. Witness Lander makes several unsupported generalizations regarding PSNC's best-
10 cost strategy. He argues that he has never "encountered" "this sort of strategy"
11 before, and goes on to contend, without any supporting examples, that "[u]sually,
12 [local distribution companies] articulate a "least-cost" procurement process..."¹
13 Witness Lander next argues that the best-cost strategy is "problematic" because the
14 first two prongs of the strategy—supply security and operational flexibility—are
15 "entirely subjective" and that the Company should instead focus its evaluations on
16 cost.² He continues his criticism of PSNC's best-cost strategy by stating as a
17 matter-of-fact that the best-cost strategy does not allow PSNC to adequately
18 consider lesser-cost options.

19 Q. ARE WITNESS LANDER'S CRITICISMS VALID?

20 A. No. The Company's best-cost strategy is a long-standing approach which has been
21 utilized by all the LDCs in North Carolina, in which security of supply, operational

¹ Direct Testimony of Gregory M. Lander, P. 6, Ln. 10-15.

² *Id.* at P. 6, Ln. 16-20.

1 flexibility and **all cost options** are thoroughly evaluated, not just the least-cost
2 supply under any circumstances.

3 Q. PLEASE PROVIDE AN OVERVIEW OF THE HISTORY OF THE BEST-
4 COST STRATEGY IN NORTH CAROLINA.

5 A. In 1991, the North Carolina General Assembly enacted N.C. Gen. Stat. § 62-133.4,
6 of which subsection (c) requires what is known as “Annual Gas Cost Reviews.”
7 The Commission initiated a rulemaking proceeding in Docket No. G-100, Sub 58
8 on August 21, 1991, for the purpose of considering the manner in which the statute
9 should be implemented, and on April 9, 1992, issued its Final Order Adopting Rule
10 R1-17(k). Pursuant to that order, on June 1, 1993, Franklin H. Yoho filed testimony
11 on behalf of PSNC in its first annual review proceeding.

12 Q. IN THAT TESTIMONY, DID MR. YOHO TESTIFY REGARDING THE
13 COMPANY’S “BEST-COST STRATEGY”?

14 A. Yes. In fact, in every PSNC annual gas cost review since then—almost 30 years—
15 witnesses on the Company’s behalf have described its gas supply policy as a “best-
16 cost strategy,” the criteria of which include supply security, operational flexibility,
17 and cost of gas.

18 Q. HAS THE COMMISSION CONSISTENTLY FOUND THAT PSNC’S GAS
19 COSTS HAVE BEEN PRUDENTLY INCURRED?

20 A. Yes. The Commission has consistently determined that PSNC’s incurred gas costs
21 to be reasonable and prudent. These costs, of course, were incurred under the
22 Company’s best-cost strategy for its gas supply acquisitions. I am not aware of any
23 instances where the Commission has disapproved of, or otherwise taken issue with,

1 PSNC's best-cost strategy. Also, as explained below, I am aware of instances
2 where the Commission has accepted a best-cost strategy as utilized by other North
3 Carolina natural gas utilities.

4 Q. HAS THE PUBLIC STAFF EVER TAKEN ISSUE WITH PSNC'S BEST-COST
5 STRATEGY?

6 A. No. Rather, it is my understanding that the Public Staff has thoroughly investigated
7 the Company's gas supply acquisitions in each of its annual reviews since 1993 and
8 has consistently found that PSNC's gas costs were prudently incurred. Again, the
9 Company's gas costs were incurred as a result of the decisions made pursuant to
10 the best-cost strategy. Likewise, in this proceeding, the Public Staff does not take
11 issue with the Company's best-cost strategy.

12 Q. HAS THE COMMISSION OTHERWISE ADDRESSED THE BEST-COST
13 METHODOLOGY?

14 A. Yes. In its Order Approving Merger Subject to Regulatory Conditions and Code
15 of Conduct in Docket No. G-5, Sub 585, the Commission adopted a regulatory
16 condition requiring PSNC to manage its contracts in conformance with its best-cost
17 strategy.³ Regulatory Condition 15.2 states:

18 Ownership and Control of Contracts. Except as provided in Code of
19 Conduct Section III.D.5 (Joint purchases), PSNC shall retain title,
20 ownership, and management of all gas contracts necessary to ensure
21 the provision of reliable Natural Gas Services consistent with
22 **PSNC's best cost gas and capacity procurement methodology.**
23 (emphasis added).

³ *Order Approving Merger Subject to Regulatory Condition*, at 29, Docket No. G-5, Sub 585 (Nov. 19, 2018).

1 Q. HAVE OTHER NATURAL GAS UTILITIES USED A BEST-COST
2 STRATEGY?

3 A. Yes. In North Carolina, I am aware that the other natural gas utilities regulated by
4 this Commission have relied upon a best-cost strategy, and have testified to this
5 strategy before the Commission during annual review proceedings.

6 Q. HOW DO YOU RESPOND TO WITNESS LANDER'S POSITION THAT THE
7 SUPPLY SECURITY AND OPERATIONAL FLEXIBILITY CRITERIA OF
8 THE BEST-COST SUPPLY STRATEGY ARE "SUBJECTIVE"⁴?

9 A. Supply security and operational flexibility are not "subjective" criteria. As I
10 explained in my direct testimony, PSNC evaluates supply security based on several
11 objective criteria: (1) the number of suppliers available to the Company; (2) the
12 number of receipt points available to the Company; (3) the number of purchase
13 quantity commitments; and (4) the existence (or not) of favorable contractual terms
14 in gas supply agreements. Moreover, the availability of gas supply is not
15 subjective—there either is, or is not, a specific amount of supply available.

16 Regarding the subjectivity of PSNC's need for operational flexibility, as
17 explained in my direct testimony, operational flexibility results from gas supply
18 agreements having different purchase commitments and swing capabilities, as well
19 as from injections into and withdrawals out of storage. The inclusion of favorable
20 terms in PSNC's gas supply agreements is not subjective—those terms allow PSNC
21 flexibility to increase or decrease the amount of supply received under such

⁴ Direct Testimony of Gregory M. Lander, at P. 6, Ln. 20.

1 agreements. Witness Lander's generalized assertion that PSNC's best-cost strategy
2 is subjective should be rejected as unsupported and incorrect.

3 If PSNC made its supply decisions only on the basis of least-cost with little
4 or no regard to supply security and operational flexibility, it is highly likely the
5 Company may not have been able to serve its firm customers during the Polar
6 Vortex experienced here in North Carolina in 2014. Similarly, the Polar Vortex
7 experienced in Texas in 2021 exposed the risk associated with not planning for
8 supply security and operational flexibility. Gas supply that is acquired without
9 considering reliability is of no value whatsoever if the gas is not available when it
10 is needed.

11 Q. DOES PSNC'S BEST-COST STRATEGY CONSIDER LEAST-COST AND
12 ALTERNATIVE OPTIONS?

13 A. Of course. Witness Lander states that PSNC's best-cost strategy "does not
14 adequately consider lesser-cost options that could also meet the Company's
15 needs,"⁵ and that he "do[es] not know"⁶ whether PSNC has "evaluate[d] a range of
16 alternatives for meeting its projected increased demand."⁷ To clarify, PSNC's best-
17 cost analysis *does* consider least-cost options and PSNC has considered alternatives
18 for meeting both current and future demand. As stated in my direct testimony, ". .
19 . the Company remains committed to acquiring the most cost-effective supplies of
20 gas available while maintaining the necessary supply security and operational

⁵ Direct Testimony of Gregory M. Lander, at P. 7, Ln. 3-6.

⁶ *Id.* at P. 8, Ln. 3-5.

⁷ *Id.*

1 flexibility.”⁸ PSNC has on-going discussions with existing and potential supply
2 providers and, as a need for additional capacity is identified, PSNC solicits
3 competitive gas supply bids to ensure cost-effective proposals.

4 Q. IS IT YOUR OPINION THAT THE BEST-COST SUPPLY STRATEGY IS
5 REASONABLE, PRUDENT, AND WELL-ESTABLISHED?

6 A. Yes. The best-cost supply strategy is utilized by multiple natural gas utilities in
7 North Carolina and has repeatedly been accepted by this Commission and the
8 Public Staff. The best-cost strategy analyzes alternatives to ensure customers
9 receive reliable supply at the most reasonable and prudent cost available.

10 Q. WITNESS LANDER RECOMMENDS PSNC REPLACE ITS BEST-COST
11 STRATEGY WITH AN “ALL-IN COST” ANALYSIS. DO YOU HAVE
12 CONCERNS WITH WITNESS LANDER’S “ALL-IN COST” ANALYSIS?

13 A. Yes. Witness Lander completely ignores reliability in his analysis. His analysis
14 focuses solely on the cost of gas and disregards supply security and operational
15 flexibility. As mentioned earlier, the Polar Vortex event that occurred earlier this
16 year is a prime example of the least-cost option not being the most reliable option
17 to serve firm customers. PSNC has an obligation to serve its firm customers
18 reliably. Commission Rule R6-23 states:

19 The production and/or storage capacity of the utility’s plant,
20 supplemented by the gas supply regularly available from other
21 sources, must be sufficiently large to meet all reasonably expectable
22 demands for firm service.

⁸ Direct Testimony of Rose M. Jackson, at P. 5, Ln. 13-15.

1 Q. DO YOU HAVE ADDITIONAL CONCERNS WITH THE “ALL-IN COST”
2 ANALYSIS?

3 A. Yes. Witness Lander’s analysis is based on conjecture and ignores real world
4 market conditions. For example, Witness Lander himself characterizes the volumes
5 he uses in his analysis as “hypothetical”⁹ and fails to consider actual demand
6 volumes. He also assumes that his proposed alternatives will be readily available
7 on the coldest days of the year, and at a price that does not reflect a premium for
8 periods of high demand.¹⁰ Historically, this has not been the case. Alternatives
9 like those proposed by Witness Lander have not been readily available in extreme
10 cold weather, such as that experienced in the Polar Vortex events of the last decade,
11 and certainly not at prices assumed by Witness Lander. Witness Lander assumes a
12 \$3.50 per dekatherm (“Dth”) average price which ignores daily and monthly price
13 volatility. Currently, market prices are above \$4.00 per Dth for the winter period.
14 During periods of high demand, such as the 2018 Polar Vortex Event, daily prices
15 delivered in Transco Zone 5 where PSNC is located were as high as \$150.00 per
16 Dth, over forty times higher than the assumption given by Witness Lander. This
17 \$150.00 price is significantly lower than prices during the Texas Polar Vortex Event
18 which reached \$400.00 per Dth.

19 Another concern I have is his proposal to truck LNG to temporary, satellite
20 locations to meet peak demand. The scenario he presents is faulty on many
21 accounts. Witness Lander assumes 1500 Dth per hour or 15,000 Dth per day, yet

⁹ Direct Testimony of Gregory M. Lander, at P. 14, Ln. 22.

¹⁰ *Id.* at P. 15, Ln. 11-12.

1 PSNC faces an incremental demand of approximately 60,000 Dth per day for the
2 upcoming winter. Using the assumptions that Witness Lander makes in his
3 testimony, and applying them to the Company's actual 60,000 Dth incremental
4 requirement, the Company would need to obtain delivery of 45-71 truckloads of
5 LNG on a design day, depending upon the size of the trucks. That would require
6 three truck deliveries every hour to various delivery points on days when LNG is
7 in its highest demand and lowest availability. This hypothetical solution disregards
8 the reality of icy and impassable road conditions in colder than normal weather
9 scenarios, along with the limited availability of LNG tankers and LNG on the
10 coldest days of the year. Once again, reliability is not the concern of Witness
11 Lander.

12 Q. DO YOU RECOMMEND THAT PSNC BE REQUIRED TO USE THE "ALL-IN
13 COST" ANALYSIS?

14 A. No. PSNC has utilized the best-cost strategy for nearly thirty years, and as a result,
15 PSNC has served its customers reliably and cost-effectively.

16 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

17 A. Yes.

CERTIFICATE OF SERVICE

I hereby certify a copy of the foregoing Rebuttal Testimony of Rose M. Jackson, as filed in Docket No. G-5, Sub 635 was served electronically or via U.S. mail, first-class, postage prepaid, upon the parties of record.

This, the 5th day of August, 2021.

/s/Mary Lynne Grigg

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