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4 DOCKET NO: G-40, Sub 149 **N.C. Utilities Commission**
5 BEFORE: Commissioner ToNola D. Brown-Bland, Presiding
6 Chairman Edward S. Finley, Jr.
7 Commissioner Jerry C. Dockham

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10 **IN THE MATTER OF:**
11 Frontier Natural Gas
12 Application for Annual Review of Gas Costs Pursuant to
13 G.S. § 62-133.4(c) and Commission Rule R1-17(k)(6).
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NORTH CAROLINA UTILITIES COMMISSION

1 A P P E A R A N C E S:

2 **FOR FRONTIER NATURAL GAS COMPANY:**

3 James H. Jeffries, IV, Esq.

4 McGuireWoods LLP

5 201 North Tryon Street, Suite 3000

6 Charlotte, North Carolina 28202

7

8 **FOR THE USING AND CONSUMING PUBLIC:**

9 Elizabeth Culpepper, Esq.

10 Public Staff - North Carolina Utilities Commission

11 4326 Mail Service Center

12 Raleigh, North Carolina 27699-4300

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P R O C E E D I N G S

COMMISSIONER BROWN-BLAND: Good morning.

Let's come to order and go on the record. I am Commissioner ToNola D. Brown-Bland, the presiding Commissioner for this hearing. With me this morning are Chairman Edward S. Finley, Jr., and Commissioner Jerry C. Dockham.

I now call for hearing Docket Number G-40, Sub 149, In the Matter of an Application of Frontier Natural Gas Company, hereafter Frontier, for the Annual Review of Gas Costs Pursuant to G.S. § 62-133.4(c) and Commission Rule R1-17(k)(6).

In compliance with the Commission Rule R1-17(k)(6), this is an annual review proceeding for Frontier, the purpose of which is to compare Frontier's prudently incurred gas costs with costs recovered from its customers served during the test period.

On December 3, 2018, Frontier filed the direct testimony and exhibits of its witness in this matter, Fred A. Steele.

On December 10, 2018, the Commission issued an Order Scheduling Hearing, Requiring Filing of Testimony, Establishing Discovery Guidelines, and

1 Requiring Public Notice. That Order scheduled this
2 hearing for today, March 5, 2019 at 10:00 a.m.

3 On February 18, 2019, in response to a
4 motion filed by the Public Staff, Orders were issued
5 extending the date for the Public Staff to file direct
6 testimony to February 22, 2019, and extended the date
7 for Frontier to file rebuttal testimony to March 4,
8 2019. The Order reaffirmed March 5th, today, as the
9 hearing date.

10 The Public Staff's joint testimony and
11 exhibit of Jan A. Lawsen -- Larsen, Shawn L. Dorgan,
12 and Julie G. Perry was filed on February 22, 2019.

13 The intervention and participation of the
14 Public Staff is recognized pursuant to G.S. § 62-15(d)
15 and Commission Rule R1-19(e).

16 In compliance with the requirements of
17 Chapter 138A of the State Government Ethics Act, I
18 remind the members of the Commission of our
19 responsibility to avoid conflicts of interest, and I
20 inquire whether any member has a conflict of interest
21 with respect to the matter before us this morning?

22 (No response)

23 Let the record reflect that no such
24 conflicts were identified.

1 I now call for appearances of -- appearances
2 of counsel beginning with Frontier.

3 MR. JEFFRIES: Good morning, Madam Chairman,
4 Chairman Finley, Commissioner Dockham. My name is Jim
5 Jeffries with the Law Firm of McGuireWoods. I'm here
6 on behalf of Frontier Natural Gas Company.

7 COMMISSIONER BROWN-BLAND: Good morning,
8 Mr. Jeffries.

9 MS. CULPEPPER: Good morning. Elizabeth
10 Culpepper with the Public Staff appearing on behalf of
11 the Using and Consuming Public.

12 COMMISSIONER BROWN-BLAND: All right.
13 Ms. Culpepper, have you checked to see if there are
14 any public witnesses who wish to give public witness
15 testimony?

16 MS. CULPEPPER: I've checked and there are
17 none that I'm aware of.

18 COMMISSIONER BROWN-BLAND: Let the record
19 reflect that Ms. Culpepper has checked and I'll call,
20 just out of abundance of caution. Is there anyone in
21 the courtroom prepared to give public witness
22 testimony this morning?

23 (No response)

24 The record will reflect that none appeared.

1 Are there any other preliminary matters
2 before we go into an evidentiary hearing?

3 MR. JEFFRIES: I think there may be two
4 points that I would mention, Madam Chair. The first
5 is, as the Commission is aware I believe, this -- the
6 Public Staff and Frontier were able to reach an
7 Agreement of -- of Settlement in this docket. It was
8 filed after hours yesterday evening. I understand
9 there may have been a glitch in the system which
10 caused it to disappear this morning. But it's also my
11 understanding that Ms. Culpepper has refiled the
12 Settlement this morning and we have copies available
13 in the hearing room of the actual Settlement if the
14 Commissioners don't have a copy.

15 And I would also like to note for the record
16 that the Affidavits of Publication for Frontier were
17 filed this morning shortly before the hearing.

18 COMMISSIONER BROWN-BLAND: All right. Thank
19 you for that, Mr. Jeffries. I'm glad that the filed
20 Stipulation reappeared. And I believe we all do have
21 a copy. All right.

22 So with that, the case is with you.

23 MR. JEFFRIES: Thank you, Madam Chairman.
24 Frontier would call Mr. Fred Steele to the stand.

1 FRED A. STEELE;
2 having been duly sworn,
3 testified as follows:

4 DIRECT EXAMINATION BY MR. JEFFRIES:

5 Q Mr. Steele, could you state your name and
6 business address for the record, please?

7 A My name is Fred A. Steele. Business address is
8 110 PGW Drive, Elkin, North Carolina.

9 Q And could I ask you to pull that mic just a
10 little bit closer to you?

11 A Certainly.

12 Q Thank you. Then -- you work at Frontier Natural
13 Gas; is that correct?

14 A That is correct. Yes, sir.

15 Q And what's your position with Frontier?

16 A I am the President and General Manager.

17 Q All right. Are you the same Fred Steele that
18 prefiled testimony in this proceeding on December
19 3, 2018, consisting of 23 pages, Schedules 1
20 through 11 (sic), and Exhibits A through C?

21 A Yes, I am.

22 Q Okay. And was that testimony and were those
23 exhibits prepared by you or under your direction?

24 A Yes, they were.

1 Q Do you have any corrections to your prefiled
2 testimony?

3 A I do not.

4 Q Okay. Mr. Steele, if I ask you the same
5 questions that are set forth in your prefiled
6 testimony while you're on the stand today would
7 your answers be the same as is reflected in your
8 prefiled testimony?

9 A Yes, they would.

10 Q Okay.

11 MR. JEFFRIES: Madam Chairman, we would ask
12 that Mr. Steele's prefiled testimony be entered into
13 the record as if given orally from the stand.

14 COMMISSIONER BROWN-BLAND: That motion will
15 be allowed.

16 MR. JEFFRIES: Thank you.

17 (WHEREUPON, the prefiled direct
18 testimony of FRED A. STEELE is
19 copied into the record as if given
20 orally from the stand.)

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**State of North Carolina
North Carolina Utilities Commission
Raleigh**

Docket No. G-40, Sub 149

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION:

In the Matter of)
)
Application of Frontier Natural Gas)
Company, LLC for Annual Review of)
Gas Costs Pursuant to G.S. 62-133.4(c))
and Commission Rule R1-17(k)(6))

DIRECT TESTIMONY AND EXHIBITS

OF

FRED A. STEELE

December 3, 2018

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Dec 03 2018

1 Q. Please state your name, business address, by whom you are employed, and in
2 what capacity.

3 A. My name is Fred A. Steele. My business address is 110 PGW Drive, Elkin
4 North Carolina, North Carolina, 28621. I am employed by Frontier Natural
5 Gas Company ("Frontier"), as President/General Manager.

6 Q. Mr. Steele, how long have you been associated with Frontier?

7 A. I began working with Frontier in March 2014.

8 Q. Mr. Steele, what are your current responsibilities with Frontier?

9 A. I am responsible for the management and oversight of the natural gas supply
10 group which supports the gas supply and capacity management functions for
11 Frontier. Frontier's gas supply department's specific responsibilities include
12 procurement and optimization of pipeline transportation, storage, and supply
13 assets, system demand forecasting, administration of Frontier's hedging
14 plans, gas cost accounting, state and federal regulatory issues concerning
15 supply and capacity, asset and risk management, and transportation
16 administration.

17 Q. Mr. Steele, please summarize your educational and professional background.

18 A. I am a graduate of Ohio University with a degree in accounting. I am a
19 licensed Certified Public Accountant in the State of Ohio. I began working in
20 the oil and gas industry in 1975. Initially I worked as an accountant for an oil
21 and gas exploration and development company. Building upon that
22 experience, I then became the Controller of another oil and gas exploration
23 and development company. Later, I formed and developed an accounting
24 practice primarily serving oil and gas clients. Upon selling the practice in

1 1986, I became the Chief Financial Officer of an oil and gas exploration and
2 development company and natural gas distribution company. I served in this
3 capacity for ten years. I became the Chief Executive Officer of the company
4 after ten years and then served in that position for an additional thirteen
5 years. The company operated in five states. The company's primary focus
6 was natural gas distribution. Upon sale of the company, I worked as a
7 consultant with clients in the energy industry for almost three years prior to
8 accepting the position with Frontier in March 2014. I became the General
9 Manager of Frontier on September 9, 2014. Over the years I have held
10 various positions of management and oversight related to gas procurement,
11 interstate pipeline and local distribution company scheduling, and preparation
12 of gas accounting information.

13 Q. Please describe Frontier and its system.

14 A. Frontier is headquartered in Elkin, North Carolina and is a utility subsidiary
15 of Hearthstone Utilities, Inc. The Frontier natural gas system is physically
16 comprised of approximately 139 miles of transmission line with two Transco
17 take off points located in Warren County and Rowan County. Frontier is
18 engaged in the business of transporting and selling natural gas in North
19 Carolina as a local distribution company, subject to regulation by the North
20 Carolina Utilities Commission. Frontier has transmission and distribution
21 lines that serve customers in Yadkin, Surry, Wilkes, Warren, Watauga, and
22 Ashe Counties. Distribution pipeline construction and the provision of
23 service to existing and additional customers is evaluated on an ongoing basis

1 in all six franchised counties based on the economic feasibility of serving the
2 customer.

3 Q. Please briefly describe Frontier and the composition of its market.

4 A. Frontier is a local distribution company primarily engaged in the purchase,
5 transportation, distribution, and sale of natural gas to approximately 3,853
6 customers in and/or near Wilkesboro, North Wilkesboro, Elkin, Dobson, Mt.
7 Airy, Yadkinville, Hays, Roaring River, Manson, Warrenton, Norlina,
8 Boone, Jefferson, and West Jefferson.

9 Approximately 69% percent of Frontier's throughput during the
10 review period was comprised of deliveries to industrial or large commercial
11 customers that either purchased natural gas from Frontier or transported gas
12 on Frontier's system. The majority of these customers were and are currently
13 served under interruptible rate schedules. These large customers have the
14 ability to use an alternative fuel other than natural gas (e.g., #2 fuel oil, or
15 propane) and can make the switch to an alternative fuel when its price is less
16 than natural gas. The remainder of Frontier's sales are to residential and
17 small commercial customers served under firm rate schedules. Frontier's
18 primary competition for residential and small commercial customers is
19 electricity, propane, and fuel oil and varies according to geographic area.

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

21 A. The purpose of my testimony is to demonstrate that all of Frontier's gas costs
22 were prudently incurred during the review period ended September 30, 2018,
23 and therefore meet the requirement for recovery. North Carolina General

1 Statute § 62-133.4 allows Frontier to track and recover from its customers the
2 cost of natural gas supply and transportation and to adjust customer charges
3 to reflect changes in those costs. Under subsection (c) of the statute, the
4 Commission must conduct an annual review of Frontier's gas costs,
5 comparing Frontier's prudently incurred costs with costs recovered from
6 customers during a twelve month test period. To facilitate this review,
7 Commission Rule R1-17(k)(6) requires Frontier to submit to the
8 Commission, on or before December 1 of each year, certain information for
9 the twelve month test period ended September 30. In addition to my
10 testimony, Frontier is submitting schedules contained in the accompanying
11 exhibits for the purpose of providing the Commission with the data necessary
12 to true-up Frontier's gas costs during the review period. This is Frontier's
13 20th proceeding under Commission Rule R1-17(k)(6) since we began
14 operations.

15 Q. Please describe Frontier's gas supply policy.

16 A. Frontier's system and gas supply procurement policy are designed to serve
17 firm customers reliably on a peak day. Frontier's gas supply procurement
18 policy and mission is to provide safe and reliable service at a reasonable cost
19 to our customers. The purpose of this policy is to provide direction for the
20 procurement of natural gas for resale and to establish financially sound,
21 responsible, and prudent guidelines for the procurement of natural gas from
22 available sources for the operation of the natural gas utility system. The gas
23 supply procurement policy of Frontier seeks supply adequacy, reliability,

1 diversity and minimization of the associated costs. This begins with accurate
2 estimation of the customer usage requirements and how to meet them in an
3 efficient manner. This is accomplished through a diligent effort to assess
4 available supply options to meet system and customer requirements in an
5 organized approach. It is Frontier's policy that the gas supply group is
6 established and maintained to pursue this mission. The gas supply group may
7 be comprised of company staff, consultants, industry peers, gas marketers,
8 and from affiliated entities. The information the gas supply group will use
9 includes, but is not limited to, market indicators, seasonal weather forecasts,
10 periodicals and forecast in pricing to gather intelligence on the direction of
11 natural gas and pipeline capacity prices. Frontier's gas supply policy
12 continues to be best described as a best evaluated cost supply strategy. This
13 gas supply strategy is based upon several criteria: operational flexibility,
14 supply security, creditworthiness, reliability of supply, the cost of the gas,
15 and quality of supplier customer service. The foremost criterion for Frontier
16 is the security of gas supply, which refers to the assurance that the supply of
17 gas will be available when needed. This criterion is required for Frontier's
18 firm sales customers, who have no alternate fuel source, due to the daily
19 changes in Frontier's supply requirements caused by the unpredictable nature
20 of weather, and the production levels/operating schedules of Frontier's
21 industrial customers, combined with their abilities to switch to alternate fuels,
22 and the growth of customers during the test period. While Frontier's gas
23 supply agreements have different purchase commitments and swing

1 capabilities (i.e., ability to adjust purchase volumes within the contract
2 volume), the gas supply portfolio as a whole must be capable of handling the
3 seasonal, monthly, daily and hourly changes in Frontier's market
4 requirements. Frontier is still in a growth mode and the variation in bundled
5 load and the need to cover marketer imbalances is important. Frontier
6 understands the necessity of having security of supply to provide reliable,
7 dependable natural gas service and has demonstrated its ability to do so.
8 Frontier's supply strategy and its contracts with its suppliers implementing
9 this strategy have allowed Frontier to accomplish this objective. The other
10 primary criterion is the cost of gas. Frontier is committed to acquiring the
11 most cost effective supplies of natural gas available for its customers while
12 maintaining the necessary operational flexibility, security and reliability to
13 serve their needs.

14 Q. What are the greatest challenges in the development and implementation of
15 Frontier's gas supply strategy?

16 A. A significant challenge is to accurately forecast Frontier's gas supply needs.
17 There are several factors that make this difficult. First, Frontier is a growing
18 LDC. The number of customers increased from 3,593 on October 1, 2017 to
19 3,853 as of September 30, 2018, an increase of approximately 7.2%. Second,
20 Frontier continues to add new customers with undocumented natural gas
21 needs and winter consumption patterns. It is extremely difficult to forecast
22 winter peak load requirements for new industrial/commercial customers that
23 Frontier did not serve the previous winter. Third, most of Frontier's

1 throughput serves large industrial customers, some of whom have alternative
2 fuel supplies. Fourth, large industrial/commercial customers can change
3 procurement strategies and secure their commodity needs from other sources.
4 Fifth, Frontier has a disparity in climate in the territory that is accentuated by
5 the small size of our company, therefore making it difficult to project the
6 load. Frontier has experienced substantial climate variations between the
7 mountains in Boone and the valleys around Yadkinville. We also have a
8 significant residential load in Warren County, with usage characteristics,
9 based on temperature that can vary from those in Surry or Yadkin County.
10 Finally, and perhaps most importantly, is unpredictable, extreme weather
11 patterns. A number of our new customers are poultry hatcheries and grow-
12 out houses, which require fairly constant temperatures for their chickens to
13 survive and thrive. Most of their facilities are not well insulated, and many
14 of them do not have alternative fuels. Many of these poultry operations are
15 family-owned and highly leveraged (i.e. the families rely upon the revenue
16 from the sale of fully-grown chickens to meat processors to pay off their
17 loans procured to cover the expenses to raise the chickens and have enough
18 left over to live off of). Extremely cold ambient temperatures greatly
19 increase the natural gas demand for heating these facilities. All of these
20 factors create additional challenges in predicting needs.

21 Q. Please describe Frontier's interstate capacity.

22 A. Frontier has contracted for 8,613 DTH per day of firm capacity on the
23 Transco interstate pipeline. This capacity accesses supply in Transco Zones

1 3 and 4 with delivery to the Frontier system in Zone 5. The quantities
2 purchased were based on availability, cost, and projected need. Frontier has
3 already outgrown this initial purchased capacity and has had to buy
4 supplemental swing and peaking contracts to offset the additional need. This
5 additional supply is purchased pursuant to an Asset Management Agreement
6 ("AMA") with UGI Energy Services, LLC ("UGI") as described in greater
7 detail below.

8 Q. What efforts has Frontier undertaken in the past to purchase additional
9 interstate pipeline capacity?

10 A. In an effort to increase its firm capacity on Transco over the last four years,
11 Frontier has submitted the following bids:

12 1. Frontier submitted a bid at the maximum rate possible for 1,656
13 DTHs on June 10, 2014 for a twenty year term but was not awarded
14 that capacity.

15 2. Frontier submitted a bid at the maximum rate possible for 141 DTHs
16 on September 26, 2014 for a forty-five year term and was awarded
17 that capacity.

18 3. Frontier submitted a bid at the maximum rate possible for 2,264
19 DTHs on October 1, 2014 for a forty-five year term but was not
20 awarded that capacity.

21 4. Frontier submitted a bid at the maximum rate possible for 500 DTHs
22 on November 15, 2014 for a fifty-one year term but was not awarded
23 that capacity.

1 5. Frontier submitted a bid at the maximum rate possible for 2,337
2 DTHs on August 19, 2015 for a seventy-eight year term and was
3 awarded the bid.

4 6. Frontier submitted a bid at the maximum rate possible for 2,663
5 DTHs on August 18, 2016 for a eighty-seven year term and was
6 awarded the bid. This capacity became available on January 14, 2017,
7 increasing the total capacity held by Frontier to the current total of
8 8,613 DTHs

9 Additionally Frontier has sought and continues to seek to partner with other
10 gas companies or municipals attempting to purchase capacity on Transco.

11 Q. Has there been any significant change to Frontier's gas supply strategy during
12 the test year?

13 A. No. Frontier is committed to achieving price stability, at a reasonable level,
14 while continuing to provide safe, and reliable natural gas service that is in
15 balance with the requirements of its firm sale customers. Frontier reviewed
16 and implemented policies related to gas planning, system operations and
17 procurement in 2014. Items addressed were Design Day Demand
18 Requirements, Gas Procurement, including Capacity Planning and Resources,
19 and Commodity Planning and Resources, Curtailment Policy and Technical
20 Training. Frontier retained Kan Huston as an independent, unbiased third
21 party consultant which was approved by the Public Staff, to review, critique,
22 and provide comments on these policies. A copy of the Kan Huston 2014
23 report is attached as Exhibit C to this testimony. This report discusses among

1 other things, peak day forecasts and the determination of contract demand
2 policy. Frontier incorporated the recommendations of Kan Huston and began
3 implementing these policies before September 15, 2014 in anticipation of the
4 upcoming winter season and have continued the implementation of these
5 policies throughout the current test year. We also established appropriate
6 internal controls between the Controller/accounting functions and Frontier's
7 gas purchasing agent and designated a specific, qualified employee
8 responsible for the implementation of these policies. Taylor Younger, an
9 engineer, has been designated as the qualified employee.

10 Q. Based upon the development of new policies, and the review and evaluation
11 of Frontier's policies, what is Frontier's current practice?

12 A. Frontier currently contracts with UGI to centralize purchasing and reliability
13 of gas deliveries under a full requirements contract.

14 The core of Frontier's current strategy is to obtain reliability and price
15 stability by fixing components of the gas cost, including fixing commodity
16 costs and/or transportation costs of the commodity under the terms of the
17 AMA with UGI. Under the terms of the UGI AMA the first 8,613 MMbtu/d
18 of daily requirements is the first through the Transco meter, priced at Zone 3
19 First of Month (FOM) index if scheduled on a month ahead basis or Zone 3
20 Daily (GDD) index if scheduled on a day ahead basis. Zone 3 pricing is
21 generally less volatile than Zone 5 pricing.

22 The UGI AMA further provides for additional daily or monthly gas
23 requirements above the 8,613 up to 20,000 MMbtu/d. If scheduled on a

1 month ahead basist is priced at Zone 5 FOM. Frontier has the additional
2 contractual right under the agreement to purchase all other daily gas supply
3 supply requirements at Zone 5 GDD. This additional supply is available on a
4 no-notice basis, up to 20,000 DTHs/d.

5 Q. Does this portfolio contribute to Frontier's goal of price stability and supply
6 reliability?

7 A. Yes. In my opinion Frontier has a diversified gas purchase portfolio priced at
8 a mix of Transco Zone 3 FOM index, Transco Zone 3 GD index, Transco
9 Zone 5 FOM index and Transco Zone 5 GD index. I would note that the
10 published indexes are reflective of the market prices for natural gas. Further,
11 while Frontier is physically located in Transco's Zone 5, the acquisition of
12 Transco Firm Transportation has permitted Frontier to significantly diversify
13 its gas supply purchases, providing the opportunity to stabilize price and
14 increase reliability.

15 To further stabilize Frontier gas cost we have a gas price hedging strategy.
16 This strategy, depending on market conditions, is approached through three
17 methodologies: 1) Conservative, 2) Moderate, and 3) Aggressive:

- 18 1. Conservative: Hedge 0-25% of forecasted volumes when pricing is +/-
19 10% historical pricing levels for the strip period or for the month.
- 20 2. Moderate: Hedge 25-40% of forecasted volumes when pricing is 25%
21 less than historical levels.
- 22 3. Aggressive: Hedge 40-75% of forecasted volumes when pricing is 50%
23 less than historical levels.

1 Q. Please summarize Frontier's efforts to stabilize gas prices.

2 A. Frontier purchases a diverse basket of gas that can be priced at different
3 physical locations, under different price indexes (FOM and GD) and forward
4 priced gas. The basket of purchases provides price diversity. FOM priced
5 gas provides an effective hedge against daily price volatility.

6 Q. Does Frontier periodically evaluate suppliers in the marketplace to ensure the
7 most reasonable and prudent terms, conditions and price for its ratepayers?

8 A. Yes, in June 2014, Frontier issued requests for proposals to four potential
9 natural gas suppliers, including Frontier's supplier at that time. Only two
10 companies responded with proposals for Frontier's consideration. Frontier
11 evaluated the proposals using the criteria of our gas supply policy: flexibility,
12 security/creditworthiness, price, performance/reliability, and quality of
13 supplier customer service. In October 2014, Frontier selected BP Energy
14 Company ("BP") to provide our gas supply needs for the next seventeen
15 months, based on their ability to satisfy these criteria. BP began work as
16 Frontier's new Asset Manager starting November 1, 2014. In January 2016
17 Frontier issued requests for proposals to four potential natural gas suppliers,
18 including Frontier's supplier at that time. Three companies responded with
19 proposals for Frontier's consideration. Frontier evaluated the proposals using
20 the criteria of our gas supply policy: flexibility, security/creditworthiness,
21 price, performance/reliability, and quality of supplier customer service. In
22 March 2016, Frontier selected UGI to provide our gas supply needs for the
23 next twelve months, based on their ability to satisfy these criteria. UGI began

1 work as Frontier's new Asset Manager starting April 1, 2016. On March 31,
2 2017 Frontier exercised an option for the renewal of its contract with UGI
3 until March 31, 2020.

4 Q. Under this approach, does Frontier have the flexibility to meet its market
5 requirements?

6 A. Yes. The gas supply contracts that Frontier has negotiated, including the
7 current one with UGI, have the flexibility and reliability to meet its market
8 requirements in a secure and cost effective manner. Frontier evaluates and
9 plans to meet all short- and long-term requirements on an ongoing basis.

10 Q. What actions have been taken by Frontier to accomplish its stated purchasing
11 policy?

12 A. Frontier has taken the following steps to keep its gas costs as low as
13 reasonably practical while accomplishing its stated policies of maintaining
14 security of supply and delivery flexibility:

15 (1) Frontier has continued to work with its industrial customers to
16 facilitate the transportation of customer-owned gas. Frontier's
17 transportation service allows these customers to manage their energy
18 supply in a way that ensures that natural gas remains as competitive
19 as possible with alternative fuels and maintains throughput on
20 Frontier's system. This also enables Frontier to focus more on
21 accurately predicting and meeting demand/capacity for its bundled
22 full service customers.

1 (2) Frontier routinely communicates directly with customers, numerous
2 supply sources, and other industry participants, and actively
3 researches and monitors the industry and gas markets by using a
4 variety of sources, including industry contacts, consultants, industry
5 trade periodicals and the internet.

6 (3) Frontier has internal discussions when necessary among various
7 senior level personnel concerning gas supply policy and major
8 purchasing decisions.

9 (4) Frontier evaluates various other capacity and supply options.

10 (5) Frontier's AMAs during the review period with UGI allowed Frontier
11 to maximize the capabilities of the Transco firm pipeline capacity
12 purchased and manage its supply portfolio in the most cost and
13 operationally effective manner. Frontier continues to adjust its
14 monthly Maximum Daily Quantity ("MDQ") and carefully evaluates
15 forecasted loads prior to each month and makes prudent adjustments
16 to its MDQ.

17 (6) Frontier's AMA with UGI provides a high degree of operational and
18 supply flexibility.

19 Q. Did Frontier investigate hedging during the test year and, if so, what were the
20 findings and conclusions?

21 A. Frontier continually monitors the NYMEX natural gas commodity market
22 and associated hedging developments, trends, activity and costs. Frontier did
23 not engage in financial or forward price hedging activity during the current

1 review period of October 2017 to September 2018. However, as discussed
2 previously, the ability to purchase FOM priced gas and access different
3 purchase locations provides a hedge against gas price volatility.
4 Additionally, Frontier evaluated a peak day proposal from UGI.

5 Q. Did Frontier mitigate the costs of extra demand capacity?

6 A. Yes, value is captured through the AMA structure with UGI.

7 Q. Does Frontier have plans to obtain any additional pipeline capacity in the
8 future?

9 A. Frontier will evaluate the need to obtain additional capacity on Transco as it
10 becomes available in relationship to its system growth.

11 Q. Did Frontier have sufficient daily capacity reserved during the months of
12 January and February 2018, during the test period?

13 A. Yes, Frontier did have sufficient capacity reserved through a combination of
14 its AMA with UGI and its Transco capacity. Frontier was required to buy
15 additional natural gas and utilized its rights under the UGI AMA on the gas
16 daily market to meet customers demand in December, January and February
17 for those quantities of gas purchased over Frontier's firm Transco capacity of
18 8,613 dth on peak days for Zone 5. Even with the additional peak day
19 purchases Frontier sold gas back to UGI (36,927dth, 54,241 dth, and 109,450
20 dth for December 2017, and January and February 2018 respectively). The
21 MDQ for the months of December, January, and February were set at the end
22 of the preceding month using the best information available at that time. We
23 believed the monthly MDQs were appropriate, in light of the needs of our

1 customers based on the historical and forecasted information that Frontier
2 reviewed when determining what the MDQ for each of these months should
3 be and in order to ensure security of supply and delivery flexibility. We were
4 particularly cognizant of the potential impact to our poultry grow-out
5 customers.

6 Q. What is Frontier's uncollected deferred account balance at September 30,
7 2018?

8 A. Frontier strategically tries to minimize adjustments in pricing. However, we
9 had to institute an increase in our benchmark city gate delivered cost on April
10 1, 2018. We anticipate that the current balance owed to Frontier of \$330,127
11 will be moving back toward \$0.00 over the winter months.

12 Q. Did Frontier follow the gas cost accounting procedures prescribed by Rule
13 R1-17(k) for the year ended September 30, 2018?

14 A. Yes. All accounting was done in accordance with Sections (4) and (5) of
15 Rule R1-17(k) as applied to Frontier in previous Commission prudency
16 review orders. In following Section (5)(c) of the Rule, Frontier is responsible
17 for reporting gas costs and deferred account activity to the Commission and
18 the Public Staff on a monthly basis.

19 Q. What schedules have you caused to be prepared?

20 A. The following schedules were prepared under my supervision and are
21 attached to this testimony:

22 Schedule 1 - Summary of Cost of Gas Expense

23 Schedule 2 - Summary of Demand and Storage Charges

- 1 Schedule 3 - Summary of Commodity Gas Costs
- 2 Schedule 4 - Summary of Other cost of Gas Charges (Credits)
- 3 Schedule 8 – Summary of Deferred Account Activity
- 4 Schedule 10 - Summary of Gas Supply
- 5 Schedule 11 – Summary of Natural Gas Hedge Transactions

6 Q. What activity occurred in the deferred account during the twelve months
7 ended September 30, 2018?

8 The activity can be summarized as follows:

9	Beginning balance, October 1, 2017	\$ 152,846.09
10	Commodity Cost vs Collections	\$ 173,005.91
11	Accrued interest	\$ 25,961.36
12	Transport Balancing	\$ 69,163.70
13	Adjustments	\$ (90,849.91)
14	Ending balance, September 30, 2018	\$ 330,127.15

15 Q. The attached schedules show the gas costs incurred by Frontier and billed to
16 customers during the period October 1, 2017 through September 30, 2018. In
17 your opinion, were all these gas costs prudently incurred?

18 A. Yes. All of these gas costs were incurred under Frontier's best evaluated cost
19 supply strategy and are the result of reasonable business judgments
20 considering the conditions and information available at the time the gas
21 purchasing decisions were made.

22

1 Q. In reviewing the monthly schedules that have been filed throughout the
2 current review period and the attached annual Prudency Review Schedules do
3 you believe that there are any additional adjustments that may be required in
4 the Deferred Account in order for Frontier to recover all of its natural gas
5 costs incurred as of September 30, 2018.

6 A. No.

7 Q. Please describe any changes in Frontier's customer mix or customer market
8 profiles that it forecasts for the next ten (10) years and explain how the
9 changes will impact Frontier's gas supply transportation and storage
10 requirements

11 A. Frontier continues to focus on expanding its system to new customers. The 6"
12 and 10" Steel Transmission (backbone) pipeline system for the Company's
13 franchised area was completed in 2002. Significant PE pipeline construction
14 has occurred since then throughout Frontier's franchised area and will
15 continue wherever economically feasible to extend natural gas service to
16 additional customers. Frontier's market mix will also continue to evolve and
17 change as it matures. Several of Frontier's larger customers have
18 transportation-only service. While service switching has stabilized (because
19 of the relatively low cost of natural gas), fuel switching is still a potential risk
20 if natural gas prices increase relative to alternative fuels. During the test
21 period, natural gas enjoyed a more competitive pricing than alternative fuels.

22 Over the next five years, the annual forecasted growth is
23 approximately 10.0% annually. Frontier is expecting this rate of growth to

1 remain at this level over the next five years, with an increased focus on
2 residential and small commercial customers. Sales loads are gradually
3 increasing as more people have access to natural gas due to system
4 expansion. Infill customers are slowly converting as current appliances need
5 to be replaced and they become more aware of the benefits and lower prices
6 of natural gas.

7 Frontier intends to meet its gas supply needs through its current
8 capacity on Transco, and by acquiring additional capacity as it becomes
9 available at reasonable terms, and by buying from wholesale suppliers
10 utilizing an AMA with a third-party wholesale supplier, as needed. Frontier
11 has determined that its current level of purchased capacity is not sufficient for
12 its future, long-term needs -- based on historical winter needs and projected
13 load growth in the future. To supplement Frontier's needs, Frontier
14 purchased an additional 2,337 DTHs of capacity, effective January 1, 2016,
15 and 2,663 DTHs to be effective on January 14, 2017. As Frontier continues
16 to grow, it will look for incremental pipeline capacity on Transco. In
17 addition, Frontier will continue to evaluate storage, LNG, and other
18 opportunities as they arise. Frontier continues to bid on additional pipeline
19 capacity as opportunities present themselves on the Transco system. Frontier
20 evaluates cooperative participation with other companies or municipalities
21 when bidding on the additional capacity, and it plans to meet with other
22 natural gas producers who have purchased capacity on the Transco system --

1 all in an effort to increase its available capacity to accommodate its
 2 anticipated growth and improve reliability.

3 Q. Please identify the rate schedules and special contracts that the Company uses
 4 to determine its peak day demand requirements for planning purposes.
 5 Please explain the rationale and basis for each rate schedule or special
 6 contract included in the determination of peak day demand requirements.

7 A. For the peak day demand in January 2018 and the next four (4) winter
 8 seasons:

9 Peak Demand

10

DTH/Day*	2015	2018	2019	2020	2021	2022
System Forecast	11,845	12,060	15,597	16,774	17,967	19,107
Rate 151 & 161	474	474	474	474	474	474
Rate 121	1,658	1,688	2,183	2,348	2,515	2,675
Rate 111 & 131	8,528	8682	11,230	12,077	12,936	13,757
Rate 101	1,185	1216	1,710	1,875	2,042	2,201
Total	11,845	12,060	15,597	16,774	17,967	19,107

11

- Review Period (February 2015)

12

13

Note: Frontier's peak demand can be impacted by daily imbalances from Transportation Customers anywhere between +/- 10 to 20%. The numbers above do not include the imbalance potential.

14

15

16

17

CONFIDENTIAL Exhibit A shows the projected capacity growth requirements

18

for both special contracts and by rate schedules.

19

1 Q. Please provide the base load demand requirements estimated for the review
2 period and forecasted for each of the next four years. Please provide the one-
3 day design peak demand requirements used by the Company for planning
4 purposes for the review period and forecasted for each of the next four winter
5 seasons. The peak demand requirement amounts should set forth the
6 estimated demand for each rate schedule or priority with peak day demand.
7 All assumptions, such as heating degree days, dekatherms per heating degree
8 day, customer growth rates and supporting calculations used to determine the
9 peak day requirement amounts should be provided.

10 A. CONFIDENTIAL Exhibit B, report on Design Day Study prepared by Dr.
11 Ronald H. Brown, Ph.D utilizing the Marquette University Gas Day, filed
12 confidentially concurrently herewith, shows the projected capacity growth
13 requirements for the 2018-2019 winter. CONFIDENTIAL Exhibit A
14 prepared by Frontier shows the projected capacity growth requirements for
15 the next four years.

16 In addition Frontier prepares a projected design day demand for its firm
17 customers. This projection is calculated using a historical modeling program
18 prepared by Frontier personal which assumes a 50 heating degree day on a 65
19 degree Fahrenheit base and uses historical heating degree days to estimate
20 peak-day demand.

21 Q. Please explain how Frontier determines which type of resource should be
22 acquired or developed for meeting the Company's deliverability needs, and
23 describe the factors evaluated in deciding whether the Company should

1 acquire a storage service, or develop additional on-system storage
2 deliverability.

3 A. Frontier has historically relied on its gas supplier to provide the commodity
4 and the capacity requirements to deliver its needs. This was an appropriate
5 approach when Frontier was smaller, and its mix of customers and load
6 was less predictable. Frontier currently has long-term firm pipeline
7 capacity, but not enough to cover the full winter designed peak day needs.
8 Frontier continues to acquire its own capacity on the Transco System in an
9 effort to reduce reliance upon a third-party gas supplier for its capacity needs.
10 Frontier has addressed the shortage of capacity by buying additional capacity
11 from its wholesale supply contractors, UGI, and on the market.

12 Frontier acquired a long-term commitment for pipeline capacity to handle the
13 projected gas supply needs for the review period. Frontier's need for
14 additional capacity continues to grow. Over the next five years Frontier is
15 projecting that this need for capacity will continue to increase.

16 When Frontier initially purchased capacity, Transco had available
17 incremental capacity. This availability, however, did not always align with
18 Frontier's needs to buy the desired increments that strategically correspond
19 with company growth and meet forecasted daily peak day requirements. To
20 more efficiently manage this process, Frontier entered into an AMA to
21 minimize potential stranded gas costs, lower the demand fees, and enable it to
22 meet the supply needs of its growing customer base. During the review
23 period, Frontier's total bundled gas sales were approximately 1,311,894

1 DTHs, which represents a 29.5% increase from the Prudency Review period
2 ending September 2017. Frontier did not acquire any storage service, or on-
3 system storage capability. During the review period, Frontier's system
4 growth gas sales were approximately 426,967, which represents an 11%
5 increase from the Prudency Review period ending September 2017.

6 Q. Please describe any significant storage, transmission, and distribution
7 upgrades required for Frontier to fulfill its peak day requirements during the
8 next five years.

9 A. As discussed above in greater detail, the issue is available capacity on
10 Transco, not infrastructure. At this time, Frontier's system has sufficient
11 infrastructure to handle forecasted gas supply needs for the next five years.
12 Frontier will continue to assess its needs on an ongoing basis.

13 Q. What action does Frontier request the Commission to take regarding these
14 deferred accounts?

15 A. Frontier requests that the Commission approve the September 30, 2018
16 balances and find that the costs incurred by Frontier's gas purchases were
17 prudent during the relevant twelve-month period.

18 Q. Does that conclude your testimony?

19 A. Yes, at this time.

1 BY MR. JEFFRIES:

2 Q Mr. Steele, the Public Staff has made a
3 disallowance proposal in this docket; is that
4 correct?

5 A That is correct.

6 Q All right. And -- and that disallowance proposal
7 is related to Frontier's first a month nomination
8 practices for January 2018; is that correct?

9 A That is correct.

10 Q Okay. And the proposed disallowance reflected in
11 the Public Staff's testimony was \$243,359?

12 A That is correct, yeah.

13 Q And was that number subsequently corrected based
14 on revised data?

15 A Yes, it was.

16 Q And can you tell the Commission what the revised
17 number is?

18 A The revised number is \$218,837.

19 Q And is it your understanding that the Public
20 Staff agrees with that --

21 A That is my understanding. That's correct.

22 Q Thank you. Does -- did Frontier agree with the
23 proposed disallowance that was set forth in the
24 Public Staff's testimony?

1 A We did not agree with what was set forth in their
2 testimony.

3 Q Okay. Did you prepare rebuttal testimony
4 responding to the Public Staff's proposed
5 disallowance?

6 A Yes, we did prepare a rebuttal.

7 Q Did you file that?

8 A We did not file the rebuttal.

9 Q Why not?

10 A It was because we reached an agreement with the
11 Public Staff yesterday and the Staff had asked us
12 to exclude the filing of that testimony as part
13 of the Settlement Agreement.

14 Q Okay. Does Frontier support the Settlement?

15 A Yes, we do.

16 Q Okay. Have you prepared a statement in support
17 of the settlement with the Public Staff?

18 A Yes, we have.

19 Q And I have already provided copies of that to the
20 court reporter and to the Commissioners. Could
21 you provide that statement for the Commission,
22 please?

23 A Yes, I can. Madam Chair, Mr. Chairman,
24 Commissioner, thank you very much.

1 My name is Fred Steele. I am
2 employed by Frontier Natural Gas Company as the
3 President and General Manager. I have prefiled
4 direct testimony in this proceeding supporting
5 Frontier's gas supply policy and demonstrated
6 that -- demonstrated that all Frontier's gas
7 costs were prudently incurred during the review
8 period ended September 30th, 2018.

9 In addition to my prefiled
10 testimony, I'm here today to support the
11 Settlement Agreement we reached with the Public
12 Staff in this matter. In this regard, we are
13 aware that the Commission is operating without
14 the benefit of our rebuttal testimony, which
15 would've presented a different perspective and
16 some greater context around our January 2018 gas
17 purchasing practices and some concerns we had
18 with the Public Staff's disallowance
19 recommendations.

20 In order to give the Commission
21 some basis to review the Settlement, I will
22 provide a brief discussion of our concerns with
23 the Public Staff's proposal, all of which we
24 discussed with the Public Staff in great detail.

1 These concerns are as follows:

2 Number one, we engaged in a very
3 deliberate process in analyzing our projected gas
4 costs for January 2018, by looking at historic
5 usage on our system in prior years, reviewing the
6 average Zone 5 gas costs in prior winter periods,
7 and adjusting our historic usage for new growth.
8 In January of 2018, we established our first of
9 the month nomination at level that was
10 approximately 62 percent higher than the average
11 projected daily usage for January of 2018.

12 Number two, we currently have firm
13 Zone 5 capacity rights on Transco of 8,613
14 dekatherms a day. Because this is insufficient
15 to support our peak day needs, we have entered
16 into an Asset Management Agreement with UGI to
17 supply and manage our needs. Under this
18 agreement, we have the right to call on UGI to --
19 to -- to deliver up to 20,000 dekatherms a day of
20 natural gas, which is far more than the current
21 customers are capable of using. Pricing for our
22 gas under the AMA varies and the cost and/or cost
23 risk generally increases as the nominations
24 exceed the 8,613 dekatherms per day. This is

1 reflected in Zone 5 first of the month pricing or
2 exceed our first of the month nomination of Zone
3 5 gas daily.

4 Number three, because there is
5 direct cost impact on our customers from our
6 first of the month nominations, we try to take a
7 balanced approach to the first of the month
8 nominations. We do not make nominations at a
9 level that avoids all exposure to daily Zone 5
10 prices, because we -- if we did, we would
11 essentially be buying more gas than we needed and
12 sometimes far more every day of the month.

13 As an example, in January of 2018
14 when we purchased a -- substantial amounts of
15 Zone 5 gas daily, we were still long on supply
16 for the total month and ultimately bought more
17 than 50,000 dekatherms of gas from UGI that we
18 did not need to serve our customers. This was
19 the result of the fact that while our first of
20 the month nomination was short on 11 days of that
21 month of January of 2018, it was long on the
22 other 20 days.

23 Number four, our AMA does have a
24 very valuable sellback feature that allows us to

1 sell over-nominated volumes back to UGI, but that
2 sellback is a prevailing daily market price,
3 which may be higher or lower than the first of
4 the month price. This pricing provision
5 represents risk for our customers and we are not
6 comfortable relying on the sellback provision to
7 be the intentionally long on our first of the
8 month nominations to ensure no possible exposure
9 to the daily market.

10 We recognize that this matter is a
11 matter of judgment on our part, but we feel
12 obligated to balance the risk of excessive
13 upfront costs and the exposure to a potentially
14 volatile daily markup -- market for any
15 incremental supplies needed.

16 Number five, on December 27, 2017,
17 consistent with the nomination timing
18 requirements of our AMA, we made our first of the
19 month nominations for January of 2018 using our
20 standard nomination analysis largely without the
21 benefit of sustained colder than normal weather
22 forecasts.

23 Number six, that resulted in a
24 first of the month nomination for January of 2018

1 of 8,613 dekatherms per day of baseload gas. As
2 I mentioned earlier, this nomination was 62
3 percent higher than our average projected daily
4 consumption for the month and effectively
5 purchased all the gas we would -- we could at
6 Zone 3 first of the month pricing. At the end of
7 the month this nomination resulted in 92 percent
8 of the gas we bought that month moving at Zone 3
9 pricing first of the month price of \$2.84 -- \$2
10 -- \$2.8461.

11 And number seven, we do not agree
12 that our actions were imprudent. We do agree
13 that we paid for some gas in the Zone 5 daily
14 market that was high priced in January 2018, but
15 we believe our approach to gas purchasing that
16 month was deliberate and prudent and that
17 singling out a single month for an analysis of
18 our gas purchasing practice is inappropriate.
19 Our approach to settling -- setting the first of
20 the month nominations is sound based on several
21 analyses.

22 We concluded our approach does not
23 yield materially different results over time than
24 an approach like that proposed by the Public

1 Staff of purposely nominating baseload volumes at
2 a level intended to eliminate exposure to the
3 daily market.

4 Number eight, finally, we do not
5 believe that the Public Staff's proposed
6 disallowance was formulated in a manner
7 consistent with articulated standards for review
8 of gas purchasing decisions by an LDC.

9 Having said all of this, I hope
10 that it is apparent that Frontier and the Public
11 Staff have different perspectives on the way in
12 which Frontier approached nominations for January
13 2018. We also recognize that the Public Staff
14 has the right to be concerned when ratepayers are
15 exposed to daily gas prices as high as we saw in
16 January of 2018. We also believe that we now
17 understand that the Public Staff may have a
18 preference for less exposure to price volatility
19 even if it means a more significant upfront
20 commitment to mitigate the spikes in usage or
21 pricing.

22 Based on extensive discussions
23 with the Public Staff, we have agreed to an
24 adjustment to our deferred gas account \$117,508

1 in favor of our customers and have also agreed to
2 continuing discussions with the Public Staff
3 regarding how Frontier approaches winter
4 nominations and gas scheduling.

5 We believe the resolution of the
6 Public Staff's concerns in this docket reflected
7 in the Settlement Agreement is fair to both sides
8 and to our customers and should be approved by
9 this Commission. We also look forward to working
10 with the Public Staff to more closely align our
11 respective expectations around gas purchasing
12 practices in the future.

13 I'm happy to try and answer any
14 questions the Commission may have about the
15 Settlement or Frontier's gas purchasing
16 practices.

17 MR. JEFFRIES: Mr. Steele is available for
18 questions from the Commission.

19 EXAMINATION BY COMMISSIONER BROWN-BLAND:

20 Q Mr. Steele, just having followed you as you went
21 through your summary, explain -- and I'm looking
22 at point enumerated Item 5 on your summary,
23 whereas on December 27, 2017 --

24 A Uh-huh (yes).

1 Q -- at that point you -- you say you made your
2 decisions based largely without the benefit of
3 the weather forecast indicating that prices would
4 be sustained -- the weather would be sustained, a
5 colder period; is that correct?

6 A That is correct -- correct, Madam Chair.

7 Q And could you shed some light on how it is that
8 on December 2017, what is it you mean by you were
9 largely without the benefit? Was not the -- was
10 the forecast not available prior to then?

11 A No, we did have a -- Madam Chair, we did have a
12 forecast available to us. We actually -- UGI had
13 asked us to set the nominations on the 26th. We
14 continued to monitor the weather forecast that we
15 had available to us from AccuWeather and on the
16 morning of December 27th by 10 a.m., we had to
17 set the nominations for the month of January
18 2018, so we were reviewing those right up to the
19 point and time. We actually did not set the
20 nomination until even after ten o'clock that
21 particular morning. But we were - we were
22 looking at AccuWeather at that point in time and
23 those particular projections showed that we may
24 have exposure on two days for that particular

1 month; Gas Day 1 and Gas Day 2.

2 Q Okay. In your direct testimony you speak to your
3 responsibility for the natural gas supply group
4 and you talk about that group and --

5 A Uh-huh (yes).

6 Q -- and the different types of people who make up
7 the group, but who were the people in the supply
8 group during the period covered by this review?

9 A December 7th -- December 27, 2017, it would've
10 been myself. It would've been Taylor Younger and
11 Drew Warifdecker (spelled phonetically), both of
12 those are young -- we had young engineers at the
13 time in our group. Ted Gamble who has been with
14 Frontier Natural Gas for nine years. That's --
15 that's who made up the group at that particular
16 time when we were making the nominations for
17 January of 2018.

18 Q All right. And none of those -- all of those
19 persons are with Frontier and not with the parent
20 company?

21 A All of those individuals do work directly with
22 Frontier Natural Gas.

23 Q Did -- did Frontier receive any assistance or
24 support from the parent company with regard to

1 gas supply?

2 A Not on that particular day. No, we did not, not
3 on December 27th.

4 Q Well, I'm just saying in general with regard to
5 your gas supply planning, do you receive support
6 from --

7 A We do.

8 Q -- the parent company?

9 A We do.

10 Q Could you describe that support and who -- who
11 provides it?

12 A We have a weekly risk call meeting. It's every
13 Thursday afternoon. Those I mentioned from
14 Frontier participate in that call along with
15 individuals from each of the other divisions of
16 Hearthstone Utilities, Inc. At -- at the parent
17 level it's typically Jed Henthorne, Kevin
18 Degenstein. We have some consultants who also Al
19 Harms and Lynn Gilmore. They have -- they
20 participate in that call, not every week but on a
21 regular basis. Yes.

22 Q And you have full access to them. Do you ever
23 reach out to them; the Frontier, reach out to the
24 -- to them for --

1 gas supply?

2 A Not on that particular day. No, we did not, not
3 on December 27th.

4 Q Well, I'm just saying in general with regard to
5 your gas supply planning, do you receive support
6 from --

7 A We do.

8 Q -- the parent company?

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15 individuals from each of the other divisions of
16 Hearthstone Utilities, Inc. At -- at the parent
17 level it's typically Jed Henthorne, Kevin
18 Degenstein. We have some consultants who also Al
19 Harms and Lynn Gilmore. They have -- they
20 participate in that in that call, not every week
21 but on a regular basis. Yes.

22 Q And you have full access to them. Do you ever
23 reach out to them; the Frontier, reach out to the
24 -- to them for --

1 A We work very closely --

2 Q -- advice?

3 A -- more so now we work very closely with Mr.
4 Gilmore, Mr. Harms, Mr. Degenstein,
5 Mr. Henthorne. We work very closely with them on
6 a lot of the proposals that we're receiving now.
7 Yes, we do.

8 Q And at one time the Commission had been
9 introduced and informed of an engineer, Mr.
10 Grewal (spelled phonetically), who was assisting
11 with supply planning and we believe he's no
12 longer with the -- with the parent company; is
13 that correct?

14 A That is correct.

15 Q And so did someone specifically replace his
16 duties, the duties that had been assigned to him?

17 A I don't believe that anybody has specifically
18 replaced him, no.

19 Q All right.

20 A Not that I'm aware of.

21 Q And then -- and you referred to Taylor Younger
22 and the type of work that she's done. Could you
23 describe her responsibilities for you at
24 Frontier?

1 A Yes. Ms. Younger, she's actually here with us
2 today. She has been with Frontier since June --
3 I'm sorry -- since August of 2017. She's been
4 very instrumental in a lot of the spreadsheets,
5 helping us prepare when we do the analysis, the
6 data analysis, the historical data analysis, the
7 pricing, the weather forecasts. She's -- she
8 prepares a lot of the data we use in coming up
9 with what we project to be our anticipated load
10 for any -- for the year and for each individual
11 month.

12 Q But she has other responsibilities, too, I take
13 it?

14 A She does. . She's an engineer and participates in
15 several functions in our engineering group.

16 Q Such as security and integrity and all those
17 kinds of things?

18 A She does compliance work. She's -- she's aided
19 us in our compliance, our natural gas -- our
20 pipeline safety compliance.

21 Q What percentage of her work would you say is in
22 the gas planning -- gas supply planning area?

23 A I would say it's probably split 50/50 between
24 compliance and the gas planning.

1 Q All right. Is Frontier looking towards adding
2 any other engineer or getting her some help?

3 A We are looking for another engineer, yes.

4 Q Okay. Does -- does Ms. Younger, does she also
5 have that same access to parent company
6 assistance that you and I discussed?

7 A Absolutely.

8 Q To your knowledge does she -- has she had
9 occasion to call on them?

10 A Yes, Madam Chair. She calls them on a regular
11 basis. She speaks with Mr. Harms, supplies
12 information if he has questions. She supplies
13 spreadsheets and does analysis for him. She does
14 the same thing for Mr. Degenstein or Mr. Gilmore.

15 Q All right.

16 COMMISSIONER BROWN-BLAND: Mr. Jeffries, I'm
17 going to ask a question that refers to a Design Day
18 Study and if -- if this gets into confidential, I
19 don't think there's anyone in the room that --

20 MR. JEFFRIES: I don't either. Everybody in
21 the room is either a member of the Public Staff --

22 THE WITNESS: Right.

23 MR. JEFFRIES: -- or the Commission Staff,
24 so I don't know I have any concerns --

1 THE WITNESS: I don't have any.

2 COMMISSIONER BROWN-BLAND: But what I do
3 need you to do is to ensure that we appropriately mark
4 it in the record -- in the transcript --

5 MR. JEFFRIES: Uh-huh (yes).

6 COMMISSIONER BROWN-BLAND: -- so if there's
7 anything confidential either in the question or in the
8 response, you let us know and be sure to get with the
9 court reporter so she can properly identify.

10 MR. JEFFRIES: Okay. And we can do that
11 after the fact. Is that sufficient?

12 COMMISSIONER BROWN-BLAND: Yes.

13 MR. JEFFRIES: Okay:

14 COMMISSIONER BROWN-BLAND: That's our deal,
15 okay?

16 MR. JEFFRIES: Okay. Thank you.

17 COMMISSIONER BROWN-BLAND: All right. Thank
18 you.

19 BY COMMISSIONER BROWN-BLAND:

20 Q Mr. Steele, on Confidential Exhibit B, which is a
21 Design Day Study for the 2017/2018 winter
22 prepared by a Dr. Ronald Brown of Marquette
23 University, on page 20 of your testimony it
24 includes a table of the peak day demand for

- 1 January 2018, and the next four winter seasons.
2 None of the results for the Design Day Study seem
3 to match the peak day demand on page 20. Does
4 Frontier make a distinction between design day
5 and peak day?
- 6 A Well, the design day is -- it would be the -- the
7 system is designed for that particular peak, and
8 I believe in that study, I'd have to -- I'm doing
9 this from memory, but I think it was a little
10 over 13,000 dekatherms would be our peak day from
11 that Dr. Brown study.
- 12 Q All right. On -- what role did Dr. Brown's study
13 play in the Frontier's peak day demand forecast?
- 14 A I'm sorry.
- 15 Q The role of Dr. Brown's study, what role did it
16 play in Frontier's peak day demand forecast?
- 17 A Well, we certainly utilized his -- his study when
18 evaluating that, along with the history, the
19 projected increase in customers. That was part
20 of the -- one of the tools that we utilized in
21 developing our -- setting our first of the month
22 quantities for January of 2018.
- 23 Q And on the chart on page 20 of your testimony --
24 no, on the study I believe -- no, page 20 of your

1 testimony -- I was right -- there's an asterisk
2 on dekatherms per day and there -- we don't see
3 the other asterisk on the page. Can you -- do --
4 is there a purpose behind the asterisk?

5 A Madam Chair, without looking at that, I -- I'm
6 not sure that I can answer that.

7 Q I think your counsel is providing you a copy.
8 (Mr. Jeffries approaches the witness stand.)

9 A It appears that he's -- excuse me. It appears
10 that he's referring back to our previous peak
11 demand day. That was our high on February -- I
12 believe it was February 19th of 2015 and our high
13 -- our peak day on that particular day was 11,845
14 dekatherms.

15 Q All right. And going back to -- to the
16 discrepancy that we see between the Design Day
17 Study and the peak day, the design day numbers in
18 the study, the study is dated November 30, 2017,
19 and it doesn't appear to be relating to the
20 2018/2019 winter?

21 A The study by Mr. Brown -- Dr. Brown does
22 reference a system forecast in 2018 that we could
23 incur a peak day of 12,060 and -- and in 2019 it
24 was 15,597.

1 Q Okay. I just wanted to be sure we're all -- we
2 have the right study here. Okay. All right. On
3 page -- again, back on the chart that's on page
4 20 there, there's a note that states "Frontier's
5 peak demand can be impacted by the daily
6 imbalances from transportation customers anywhere
7 between plus or minus 10 to 20 percent. The
8 numbers above do not include the imbalance
9 potential." That -- that's taken from the
10 testimony. Please explain what steps Frontier
11 takes to ensure that its transportation customers
12 do no run up excessive imbalances.

13 A Well, we do monitor their usage every day through
14 a SCADA system. We -- through a telemetering
15 system we monitor it on a daily basis. We also
16 communicate with them. That's one of
17 Ms. Younger's responsibilities. She also
18 communicates daily with all of the marketers. We
19 do -- if they do go over, they have the ability
20 to go back. If they haven't nominated enough
21 gas, they have the ability to go back and bring
22 in additional gas. If they do not, we -- we
23 actually send them a bill for the -- any
24 additional purchases they -- that any gas that

- 1 they -- we had to utilize on their behalf.
- 2 Q And do -- with regard to curtailment, that --
- 3 that's -- do you use that?
- 4 A We have curtailed them, yes.
- 5 Q And do you --
- 6 A We have not curtailed them. I apologize. We
- 7 have not had any curtailments at this point.
- 8 Q That's a tool? Do you have --
- 9 A That is a tool that's available to us, yes.
- 10 Q Do you have a procedure in place?
- 11 A We do.
- 12 Q Could you describe or tell us what that procedure
- 13 is for curtailments?
- 14 A I mean, initially we curtail the transportation
- 15 customers who have an alternative fuel available
- 16 to them in the event that they don't nominate
- 17 enough gas to cover their usage.
- 18 Q So how do you go about -- is there -- what's the
- 19 communications? Is there --
- 20 A The -- the communications, both email -- it's --
- 21 Q Is there a written out process and policy? Is
- 22 there a written -- is there a written policy and
- 23 procedure in place for how you go about it?
- 24 A It's within each of their contracts the procedure

1 that we follow.

2 Q All right. And so is it generally the same or is
3 it different? And what's the -- what's the
4 rationale for why there's differences?

5 A I believe all the contracts are the same. I'm
6 not sure that there's any difference between any
7 of the transportation customers and the rationale
8 for curtailing.

9 Q All right. And so the procedure that you go
10 about to inform them of the need to curtail, how
11 long they need to curtail, the consequences of
12 curtailment, all of that is you have a -- a
13 routine procedure that you follow?

14 A We have a procedure that's written within their
15 contract that we would follow in the event that
16 we had to curtail. We've not had to curtail
17 anybody at this point.

18 Q Right. I understand that you didn't this time.

19 A Okay. Okay.

20 Q But just inquiring about the procedure, because
21 we had questions about this from last time I
22 believe or the time before. One of the two times
23 we were interested in whether or not you actually
24 had policies and procedures --

- 1 A We do have.
- 2 Q -- around.
- 3 A Yes.
- 4 Q All right. On page 10 beginning on line 22 you
5 state that the Asset Management Agreement with
6 UGI provides for additional daily or monthly gas
7 requirements above the 8,613 up to 20,000
8 dekatherms per day. And on page 13 you state
9 that on March 31, 2017 you exercised the option
10 for renewal of the contract with UGI until March
11 31, 2020. Does Frontier have the right to renew
12 that contract under the current terms?
- 13 A You mean March -- March 31, 2020?
- 14 Q Right.
- 15 A Yes, we do.
- 16 Q And are you assured of having 20,000 dekatherms
17 per day of firm capacity past March 31, 2020?
- 18 A Based on all of the discussions we've had with
19 UGI to this point in time, yes, I'm pretty
20 comfortable that we can still maintain 20,000
21 dekatherms per day.
- 22 Q So the contract has not been renewed yet, but you
23 anticipate renewing or do you?
- 24 A It would be our standard practice to send out an

1 RFP sometime in January of 2020 and -- and try to
2 see if there's anybody else, I mean, such as
3 other potential marketers on the system that
4 would come back with something better than what
5 we currently have.

6 Q Well, the Commission has some concerns about, I
7 guess, the trends that we see that backhaul
8 capacity is no longer generally available in the
9 state, you know --

10 A Uh-huh.

11 Q -- to -- for storage and we continue to see
12 extreme sometimes unpredictable weather in
13 January --

14 A We do.

15 Q -- sometimes February. Other LDCs will all be
16 seeking to cover to make sure they have adequate
17 capacity and that kind of thing. And -- and so
18 there's just general concern in that area, so
19 what steps has -- does Frontier propose to make
20 sure that the peak day demand is met for existing
21 and future customers.

22 A Well, you know, Frontier has over the course of
23 the last five years since I became the General
24 Manager we have acquired additional 5,114

1 dekatherms of new capacity since September 2014.
2 We continue to explore -- we've met with Transco
3 on numerous occasions during 2018 and early '19
4 to talk about additional capacity.

5 Something else we've done is we've
6 looked at alternative pipelines. We've also
7 explored -- we -- to bringing in gas from
8 Mountain Valley South, from East Tennessee
9 Natural Gas, and also we've approached Piedmont
10 about an additional feed to Frontier's System.
11 So all those things are things that we're
12 currently working on at this point in time.

13 We're also exploring the
14 possibility of some type of an LNG facility for
15 peak days. And that's -- that -- we've met with
16 and actually visited with UGI at some of their
17 facilities that they currently have in
18 Pennsylvania, and also have met with the folks in
19 Greenville to look at their facility. So we're
20 exploring all of those alternatives, but the best
21 option for Frontier is if we can acquire
22 additional capacity on Transco at some point in
23 time. We are participating in their rate case at
24 this point in time and we're going to continue to

1 monitor that as well, but we're trying to work on
2 finding additional capacity through Transco in
3 Zone 5 and Zone 3.

4 Q And the new pipelines, the Mountain Valley and
5 the ACP, they've -- I guess when they may be
6 available --

7 A Right.

8 Q -- is -- is far from a certainty at this point.

9 A It is. It is.

10 Q So your plan is take that into account?

11 A That is correct.

12 Q And LNG, if that -- if that -- I realize that's
13 just exploration, but have you given any thought
14 to when something like that might become
15 available, how far out into the future?

16 A Well, we've talked -- we've talked to -- we have
17 another meeting scheduled with the folks from
18 UGI - I believe it's the 18th of this month - to
19 explore the possibility of some planning. They
20 have some sites that they are going to recommend
21 for us and we would like to look at those and see
22 how they fit into our system. So that's
23 something we'd probably -- we're thinking would
24 take at least a year of planning, engineering, et

1 cetera, and then permitting, because it's a long
2 process for the permitting for LNG facilities. I
3 -- at the -- at the very earliest it would be a
4 couple of years.

5 Q And also in your summary you talked about the --
6 that you didn't agree with the Public Staff sort
7 of singling out a month for analysis and finding
8 its imprudence around that --

9 A Uh-huh (yes).

10 Q -- month. But the planning and the purpose of
11 the hedging is to lessen price spikes for the
12 customers --

13 A Uh-huh (yes).

14 Q -- and you build your system around the design
15 day and in -- in January we know is, you know,
16 that's when the peak usage --

17 A Yes.

18 Q -- comes to -- comes home, comes to apply. So
19 explain your view of what the problem is if the
20 Public Staff is focused on January.

21 A For the month of January, I -- I guess we felt
22 like that it was problematic and it did not
23 provide us with a insight into a strategy that we
24 might -- there was no suggestion of how can we

1 use this particular method, it is focusing on the
2 one particular month. How would that -- how
3 could we use that to -- how could we have better
4 strategized going forward. That was probably the
5 biggest concern.

6 And -- and personally I felt like
7 it was based on worksheets that we provided,
8 spreadsheets that we provided. I hate to say,
9 but I think it was hindsight at that point in
10 time. I mean, when we looked at the sheets, we
11 could see at that point on -- or on December 27th
12 when we were preparing or having to make our
13 nominations at that point in time, I was relying
14 on a spreadsheet that showed that we might have
15 exposure on two days, the first two days of the
16 month.

17 Q But -- and you take into account that that time
18 period is -- is volatile itself in the weather?

19 A It is. Yes. I understand that.

20 Q And you have to be a mighty good forecaster,
21 predictor of weather, meteorologist or what to
22 actually make sound decisions relying on --
23 relying on those forecasts, right?

24 A Yes.

1 Q All right. And then the -- the other question,
2 as I had read the Settlement or the Stipulation,
3 there's an agreement to work with the Public
4 Staff going forward, but you do understand that
5 the Public Staff won't be held accountable for
6 the decisions that the Company makes?

7 A We do understand that, Madam Chair. We do.

8 Q All right. And so it's -- it's -- well, it's
9 fine and we encourage you to work with them, but
10 the Commission in future annual reviews will be
11 looking to what Frontier did and -- and we'll
12 take into account what the Public Staff may have
13 -- may have said, but ultimately the decision
14 rests with you and the Company. And then we look
15 at that for prudence:

16 COMMISSIONER BROWN-BLAND: Any questions?
17 Any questions? Any questions on Commission's
18 questions?

19 MR. JEFFRIES: No questions, Madam Chair.

20 MS. CULPEPPER: No questions.

21 COMMISSIONER BROWN-BLAND: All right.

22 MR. JEFFRIES: That's concludes the
23 presentation of Frontier's evidence. Madam Chair, we
24 would ask that Mr. Steele's Schedules 1 through 11

1 (sic) and Exhibits A through C be entered into
2 evidence as identified.

3 COMMISSIONER BROWN-BLAND: Without
4 objection, they will be marked as they were when
5 prefiled and received into evidence. And some of
6 those are pre-identified as confidential.

7 MR. JEFFRIES: That's correct.

8 COMMISSIONER BROWN-BLAND: Any -- any
9 information either in the prefiled testimony or the
10 exhibits that are confidential shall remain so in the
11 transcript, in the record of this proceeding.

12 MR. JEFFRIES: All right. Thank you, Madam
13 Chair.

14 (WHEREUPON, Steele Schedules 1-4,
15 8, 10 and 11, Confidential Steel
16 Exhibits A and B, and Steele
17 Exhibit C are received into
18 evidence.)

19 COMMISSIONER BROWN-BLAND: Mr. Steele, thank
20 you.

21 THE WITNESS: Thank you.

22 COMMISSIONER BROWN-BLAND: You may be
23 excused.

24 (The witness is excused)

1 MS. CULPEPPER: Frontier has waived cross of
2 the Public Staff's witnesses, however, they are
3 available if there's Commission questions.

4 COMMISSIONER BROWN-BLAND: Let's call them
5 up.

6 MS. CULPEPPER: All right.

7 JAN A. LARSEN, SHAWN L. DORGAN and JULIE, G. PERRY,
8 as a panel;
9 having been duly sworn,
10 testified as follows:

11 COMMISSIONER BROWN-BLAND: In as much I will
12 dispense with the reading of your summary unless you
13 want to give it.

14 MS. CULPEPPER: That's fine with us. We do
15 have a few corrections to our testimony.

16 COMMISSIONER BROWN-BLAND: Did I --

17 MS. CULPEPPER: Oh, no. I'm sorry. We --
18 we have a few, but --

19 COMMISSIONER BROWN-BLAND: Oh, you do. You
20 do.

21 MS. CULPEPPER: -- you want me to go through
22 that?

23 COMMISSIONER BROWN-BLAND: All right.

24 MS. CULPEPPER: Okay.

1 COMMISSIONER BROWN-BLAND: All right.

2 MS. CULPEPPER: Okay.

3 DIRECT EXAMINATION BY MS. CULPEPPER:

4 Q So beginning with Mr. Larsen, would you please
5 state your name, business address, and present
6 position for the record?

7 A (Mr. Larsen) My name is Jan A. Larsen. My
8 address is 430 North Salisbury Street, Raleigh,
9 North Carolina. I'm the Director of the Public
10 Staff's Natural Gas Division.

11 A (Ms. Perry) My name is Julie G. Perry. I'm the
12 Accounting Manager for Natural Gas and
13 Transportation for the Public Staff, and my
14 business address is 430 North Salisbury Street.

15 A (Mr. Dorgan) My name is Shawn Dorgan. My
16 business address is 430 North Salisbury Street,
17 Raleigh, North Carolina. I'm a Staff Accountant
18 attached to the Natural Gas Division, Accounting
19 Division, Public Staff. I'm a Certified Public
20 Accountant licensed in the State of North
21 Carolina. My Certificate Number is 27030. And
22 my credentials are as listed in Appendix B to the
23 Public Staff's prefiled testimony.

24 Q Ms. Perry, speaking on behalf of the entire

1 Panel, did the Panel prepare and cause joint
2 testimony consisting of 31 pages, three
3 appendices, and one exhibit filed in this docket
4 on February 22, 2019?

5 A (Ms. Perry) Yes, we did.

6 Q Do you have any corrections to that testimony?

7 A I do. On page 11 of our testimony on line 8, it
8 says "The risk committee of its parent company,"
9 and we still have the name Gas Natural,
10 Incorporated, in there from the premerger, so it
11 should be Hearthstone Utilities, Incorporated,
12 there.

13 Also, on my Public Staff Panel
14 Exhibit 1 we have an accounting correction,
15 debits and credits. On the top heading the debit
16 should have no brackets and the credit should
17 have a bracket around it.

18 We had some other error
19 corrections in numbers, but I think we've handled
20 that through the Stipulation.

21 Q Through the stipulation. If each of you were
22 asked those same questions in the testimony
23 today, would the answers as corrected be the
24 same?

1 A Yes, they would.

2 MS. CULPEPPER: I request that the prefiled
3 joint testimony as corrected be copied into the record
4 as if given orally from the stand and that the three
5 appendices and one exhibit attached to the prefiled
6 testimony be identified as marked when filed and
7 entered into evidence.

8 COMMISSIONER BROWN-BLAND: That motion will
9 be allowed and the testimony will be treated as if
10 given orally from the witness stand. The exhibit will
11 be identified as it was when prefiled. And I'll go
12 ahead if there's no objection, I'll receive it into
13 evidence at this time.

14 MR. JEFFRIES: No objection.

15 MS. CULPEPPER: Thank you.

16 (WHEREUPON, Public Staff Panel
17 Exhibit 1, as corrected, is marked
18 for identification as prefiled and
19 into evidence.)

20 (WHEREUPON, the prefiled joint
21 testimony and Appendices A, B, and
22 C of JAN A. LARSEN, SHAWN L.
23 DORGAN and JULIE G. PERRY, as
24 corrected, is copied into the

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record as if given orally from the
stand with confidential pages
filed under seal.)

FRONTIER NATURAL GAS COMPANY
DOCKET NO. G-40, SUB 149
JOINT TESTIMONY OF
JAN A. LARSEN, SHAWN L. DORGAN, AND JULIE G. PERRY
ON BEHALF OF
THE PUBLIC STAFF – NORTH CAROLINA UTILITIES COMMISSION
February 22, 2019

1 Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND
2 PRESENT POSITION.

3 A. My name is Jan A. Larsen and my business address is 430 North
4 Salisbury Street, Raleigh, North Carolina. I am the Director of the
5 Public Staff's Natural Gas Division. My qualifications and experience
6 are provided in Appendix A.

7 Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND
8 PRESENT POSITION.

9 A. My name is Shawn L. Dorgan and my business address is 430 North
10 Salisbury Street, Raleigh, North Carolina. I am a Staff Accountant in
11 the Accounting Division of the Public Staff. My qualifications and
12 experience are provided in Appendix B.

13 Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND
14 PRESENT POSITION.

1 A. My name is Julie G. Perry and my business address is 430 North
2 Salisbury Street, Raleigh, North Carolina. I am the Accounting
3 Manager of the Natural Gas & Transportation Section in the
4 Accounting Division of the Public Staff. My qualifications and
5 experience are provided in Appendix C.

6 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
7 **PROCEEDING?**

8 The purpose of our testimony is to (1) present the results of our
9 review of the gas cost information filed by Frontier Natural Gas
10 Company (Frontier or Company) in accordance with N.C. Gen. Stat.
11 § 62-133.4(c) and Commission Rule R1-17(k)(6), (2) to evaluate the
12 prudence of the natural gas purchases made by Frontier, (3) to
13 provide our conclusions regarding whether the gas costs incurred by
14 Frontier during the 12-month review period ended September 30,
15 2018, were properly accounted for, and (4) to discuss the prudence
16 of Frontier's decision not to hedge during the review period and the
17 impact of Frontier's decision to purchase daily gas supplies instead
18 of utilizing other available options.

19 **Q. PLEASE EXPLAIN HOW THE PUBLIC STAFF CONDUCTED ITS**
20 **REVIEW.**

21 A. We reviewed the testimony and exhibits of the Company's witness,
22 the Company's monthly Deferred Gas Cost Account reports, monthly
23 financial and operating reports, the gas supply and pipeline

1 transportation contracts, and the Company's responses to Public
2 Staff data requests. The responses to the Public Staff data requests
3 contained information related to Frontier's gas purchasing
4 philosophies, customer requirements, and gas portfolio mixes.

5 **Q. WHAT IS THE RESULT OF YOUR EVALUATION OF FRONTIER'S**
6 **GAS COSTS?**

7 A. Based on the Public Staff's investigation and its review of the data in
8 this docket, and except for the adjustment to Frontier's deferred gas
9 cost account discussed later in testimony, we believe that Frontier's
10 gas costs were prudently incurred.

11 **CUSTOMER GROWTH**

12 **Q. HOW HAVE FRONTIER'S CUSTOMERS AND THROUGHPUT**
13 **CHANGED SINCE THE COMPANY'S LAST ANNUAL REVIEW OF**
14 **GAS COSTS PROCEEDING?**

15 A. The table below reflects Frontier's customer growth rate of 7.24%
16 during the current review period, which is approximately four times
17 the growth rate of legacy local distribution companies (LDCs) in
18 North Carolina. There was an increase in both Frontier's sales and
19 transportation volumes (expressed in dekatherms or dts) from what
20 was experienced in the prior review period. Since Frontier's winter
21 throughput is largely dependent on weather due to space heating

1 load, the volume change is correspondingly affected by a change in
2 Heating Degree Days (HDDs) as compared to prior periods.

	<u>2017 Review</u>	<u>2018 Review</u>	<u>Change</u>
Number of Customers (at September 30)	3,593	3,853	7.24%
Sales Volume (dts)	1,012,584	1,311,863	29.56%
Transportation Volume (dts)	<u>2,828,955</u>	<u>2,956,643</u>	4.51%
Total Sales & Transportation Volumes (dts)	3,841,539	4,268,506	11.11%

3 **Q. DID FRONTIER ACQUIRE ADDITIONAL PIPELINE CAPACITY**
4 **DURING THE REVIEW PERIOD?B**

5 **A.** Although Frontier has acquired additional capacity in the past few
6 years, the Company did not acquire any additional capacity during
7 this review period. Frontier currently has a total of 8,613 dts per day
8 of pipeline capacity on the Transcontinental Gas Pipeline Company,
9 LLC (Transco) interstate pipeline.

10 Frontier states that it will continue to seek incremental pipeline
11 capacity and evaluate storage opportunities in order to serve its
12 customers. Frontier indicated in a data request response that it
13 reached out to gas companies and municipalities in order to partner
14 to obtain additional capacity on Transco. Frontier also indicated that
15 it did not encounter any storage opportunities during the review
16 period.

17 **Q. HAS THE COMPANY PROPERLY ACCOUNTED FOR ITS GAS**
18 **COSTS DURING THE REVIEW PERIOD?**

1 A. Yes. However, as will be discussed in more detail later in testimony,
2 we have reclassified – as commodity costs – certain costs
3 represented by the Company as Demand and Storage Costs on
4 Schedule 2 attached to the Company's testimony.

5 **Q. WHAT OTHER ITEMS DID THE NATURAL GAS DIVISION**
6 **REVIEW?**

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

14 **ACCOUNTING FOR AND ANALYSIS OF GAS COSTS**

15 **Q. HOW DOES THE ACCOUNTING DIVISION GO ABOUT**
16 **CONDUCTING ITS REVIEW OF THE COMPANY'S ACCOUNTING**
17 **FOR GAS COSTS?**

18 A. The Public Staff's Accounting Division reviews the Company's
19 monthly Deferred Account reports (together with all supporting
20 documentation), its monthly financial and other operating reports,
21 and all executed gas supply and transportation contracts. In
22 addition, we review the schedules attached to the Company's

1 testimony, as well as the Company's responses to all Public-Staff
2 data requests submitted in this proceeding.

3 Each month we review the Deferred Account reports filed by the
4 Company for accuracy and reasonableness, and perform certain
5 review procedures on the calculations, including the following:

6 (1) **Gas Cost True-Up** – The actual commodity and demand
7 costs are verified, calculations and data supporting gas cost
8 collections are checked, invoices are reviewed, and the
9 Company's overall gas cost calculations at benchmark are
10 checked for mathematical accuracy.

11 (2) **Transportation Customer Balancing True-Up** – The
12 monthly Cash-Out Report for each marketer is reviewed and
13 all calculations for cash-out amounts are verified.

14 (3) **Interest Accrual** – Interest accrual calculations on the
15 outstanding Deferred Gas Cost Account balances are verified.

16 (4) **Hedging Transactions** – The computed cost of each hedging
17 transaction is traced to the underlying hedging contract, and
18 computational accuracy is verified.

19 (5) **Temporary Increments and/or Decrements** – All
20 calculations and supporting data regarding amounts due to or
21 from customers – as recorded in the Deferred Gas Cost

1 Account – are verified, and supporting data and schedules are
2 reviewed.

3 (6) **Supplier Refunds** – In Docket No. G-100, Sub 57, the
4 Commission held that, unless or until it orders refunds to be
5 handled differently, supplier refunds should be flowed through
6 to ratepayers through a company's deferred account.
7 Pursuant to this order we review all supplier refund
8 documentation received by the Company during the review
9 period, and verify that all amounts received by the Company,
10 if any, have been flowed through to ratepayers.

11 **Q. HOW DO THE COMPANY'S FILED GAS COSTS FOR THE**
12 **CURRENT REVIEW PERIOD COMPARE WITH THOSE FOR THE**
13 **PRIOR REVIEW PERIOD?**

14 **A.** Frontier's total gas costs for the current review period were
15 \$5,814,378, compared with \$4,699,507 for the prior 12-month
16 period. The components of total gas cost for the two periods, and
17 our corresponding analysis, are as follows:

Line	12 Months Ended		Increase (Decrease)	% Change	
	Sept. 30, 2018	Sept. 30, 2017			
Pipeline Charges					
1	Transco FT	\$1,202,629 [1]	\$1,090,560 [1]	\$112,069	10.28%
2	Other	0	0	0	N/A
3	Total Pipeline Charges	\$1,202,629	\$1,090,560	\$112,069	10.28%
Gas Supply Costs					
4	Baseload Purchases	\$3,628,681	\$3,385,754	\$232,927	6.86%
5	Delivered Purchases	1,288,203	305,541	982,662	321.81%
6	Hedge Purchases	0	0	0	N/A
7	Other	(106,873) [2]	(1,034)	(105,839)	10235.88%
8	Total Gas Supply Costs	\$4,810,011	\$3,700,261	\$1,109,750	29.99%
Other Gas Costs					
9	True-up Entries per Monthly Deferred Account Filings	(\$248,262)	(\$149,768)	(\$98,494)	65.76%
10	Other Deferred Account Related Gas Costs	96,931 [3]	0	96,931	N/A
11	Other Gas Costs & Adjustments	(48,931) [4]	58,454	(105,385)	-180.28%
12	Total Other Gas Costs	(\$198,262)	(\$81,314)	(\$106,948)	117.12%
13	Total Gas Costs	\$5,814,378 [5]	\$4,699,507	\$1,114,871	23.72%
14	Gas Supply for Delivery (dts)	1,366,160	1,065,672	300,478	28.20%
15	Total Gas Supply Cost per Dt	\$4.2660	\$4.4099	(\$0.1539)	-3.49%

Notes:

[1] - Excludes reclassified commodity gas costs per Public Staff analysis of the Company's monthly deferred account reports.

[2] - Removes Integrity Management gas costs as well as compensated gas costs associated with a gas line hit (Boone, NC - June 28, 2018).

[3] - Benchmark proration adjustments (G-40 Sub 145, G-40 Sub 147) and other timing differences.

[4] - Adjustment to correct a deferred account overstatement in the prior review period; also includes effect of marketer cash-outs.

[5] - Ties to the Company's 2018 Q3 GS-1 Report and Cost of Gas Sold amounts recorded in Frontier's monthly earnings reports.

1 The increase in Transco Firm Transportation charges is due to the
2 Company's first full year of access to the additional 2,663 dts per day
3 of year round pipeline capacity, which Frontier acquired in January
4 of 2017, as compared to only 9 months of charges in the prior review
5 period.

6 **Baseload Purchases** increased primarily due to a higher level of
7 purchased volumes during the current review period as compared to
8 the prior period.

1 The increase in **Delivered / Daily Purchases** is due to a sizable
2 increase in volumes purchased at Zone 5 Gas Daily Delivery (or
3 Zone 5 spot market) prices during the winter period months.

4 There are no **Hedging Purchases** represented since Frontier did not
5 engage in any hedging activity during the current review period, or
6 the prior review period.

7 The credit amount in **Other Gas Supply Costs** represents, primarily,
8 the removal of the cost of gas utilized in integrity management
9 activities, as well as compensation for gas costs incurred in
10 connection with a pipeline breach that occurred near the Town of
11 Boone in June of 2018.

12 The change in **Other Gas Costs** relates primarily to activity in
13 Frontier's Deferred Account. These totals reflect the offsetting
14 journal entries recorded in the Company's Deferred Gas Cost
15 Account during the review period, two offsetting entries for
16 benchmark proration adjustments, an adjustment to the deferred
17 account to correct a previous balance overstatement in the prior
18 review period (effect on gas cost true-up amounts of previously
19 unbilled and uncompensated customer usage in Rate Class 161),
20 marketer net cash-outs, and other miscellaneous supplier billing
21 adjustments.

1 Q. ARE YOUR GAS COST COMPUTATIONS IN AGREEMENT WITH
2 THE COMPANY'S SCHEDULES AS FILED IN THIS
3 PROCEEDING?

4 A. Yes. However, in the case of gas costs labeled "Other Capacity
5 Charges" (Schedule 2) we have reclassified these costs as
6 Commodity Charges (Schedule 3). We have done so due to the fact
7 that these costs represent volumetric transportation surcharges
8 passed through to the Company by UGI Energy Services, LLC (UGI),
9 and are supply-related costs which the Public Staff has contended in
10 prior annual review proceedings should be considered commodity
11 costs, and thus not properly includible as a pipeline charge.

12 **HEDGING AND OTHER RISK MITIGATION STRATEGIES**

13 Q. PLEASE EXPLAIN HOW THE PUBLIC STAFF TYPICALLY
14 CONDUCTS ITS REVIEW OF HEDGING ACTIVITIES.

15 A. The Public Staff's review of the Company's hedging activities
16 typically includes an analysis and evaluation of the following
17 information:

- 18 1. The Company's monthly hedging costs, as reflected on the
19 invoices of UGI;
- 20 2. Detailed source documentation, such as physical gas
21 confirmations, that support the amount of gas hedged and the
22 strike prices;

- 1 3. Workpapers supporting the derivation of the maximum hedge
- 2 volumes targeted;
- 3 4. The monthly summary of hedging costs (benefits);
- 4 5. Hedging plan documents that set forth the Company's gas
- 5 price risk management policy, hedge strategy, and gas price
- 6 risk management operations;
- 7 6. Documentation from meetings of Frontier's Supply Team and
- 8 the Risk Committee of its parent company, Gas Natural Inc.;
- 9 7. Testimony and exhibits of the Company's witnesses in the
- 10 annual review of gas costs proceeding; and
- 11 8. Company responses to the Public Staff's data requests.

12 **Q. PLEASE EXPLAIN YOUR UNDERSTANDING OF THE**
13 **STANDARD SET FORTH BY THE COMMISSION FOR**
14 **EVALUATING THE COMPANY'S HEDGING DECISIONS?**

15 A. The appropriate standard for the review of hedging decisions by
16 LDCs is set forth in the Commission's February 26, 2002, Order on
17 Hedging in Docket No. G-100, Sub 84 (Hedging Order). In the
18 Hedging Order, the Commission concluded that the purpose of
19 hedging is to reduce the volatility of commodity costs. The
20 Commission noted that hedging involves costs and risks and that it
21 is possible that the long term cost of hedged gas will be higher than
22 gas bought at market prices. The Commission stated it understands

1 that with the use of hedging mechanisms, costs and risks are
2 accepted in exchange for reduced volatility.

3 The Commission concluded that hedging is an option that must be
4 considered in connection with an LDC's gas purchasing practices.
5 The Commission stated that an LDC's decision to make no effort to
6 mitigate price spikes—including a decision not to hedge—would be a
7 decision subject to review in the LDC's annual gas cost prudence
8 review proceeding just as much as a decision to hedge.

9 The Commission further concluded that if an LDC decides to hedge
10 in some fashion, prudently incurred costs in connection with hedging
11 should be treated as gas costs under N.C. Gen. Stat. § 62-133.4.
12 The Commission stated that while such costs cannot be pre-
13 approved within the context of the annual gas cost prudence review,
14 the Commission recognized that the review of the prudence of a
15 decision to hedge or not to hedge should be made on the basis of
16 the information available at the time each decision is made, not on
17 the basis of the information available at the time of the prudence
18 review proceeding.

19 The Commission ordered that each LDC should address its current
20 hedging policy and program in its testimony in each annual gas cost
21 prudence review, explaining why and how it hedged or why it didn't
22 hedge during the test period.

1 Q. PLEASE DESCRIBE FRONTIER'S HEDGING PROGRAM.

2 A. Frontier stated that the gas price hedging program is used to stabilize
3 Frontier's gas costs. This strategy, depending on market conditions,
4 is approached through three methodologies:

5 (1) Conservative: Hedge 0-25% of forecasted volumes when
6 pricing is +/- 10% historical pricing levels for the strip period
7 or for the month.

8 (2) Moderate: Hedge 25-40% of forecasted volumes when pricing
9 is 25% less than historical levels.

10 (3) Aggressive: Hedge 40-75% of forecasted volumes when
11 pricing is 50% less than historical levels.

12 Frontier also stated that it continually monitors the NYMEX natural
13 gas commodity market and associated hedging developments,
14 trends, activity, and costs. A core part of Frontier's strategy is to
15 obtain reliability and price stability by fixing components of its gas
16 costs, primarily commodity costs, through hedging and/or other price
17 risk mitigation techniques.

18 The primary difference between Frontier's hedging approach and the
19 approach of the other LDCs is that Frontier uses physical hedges
20 exclusively and does not use financial hedges, such as options,
21 futures, or swaps. A physical hedge is a fixed price contract between

1 two parties to buy or sell physical natural gas supplies at a certain
2 future time, at a specific price, which is agreed upon at the time the
3 deal is executed. If Frontier hedges, its gas supply portfolio typically
4 includes the physical purchase of fixed price gas supplies for delivery
5 at its city gate on a monthly basis.

6 Q. PLEASE DESCRIBE YOUR UNDERSTANDING OF THE
7 COMPANY'S HEDGING PROGRAM DURING THE REVIEW
8 PERIOD.

9 A. Company witness Steele's testimony states as follows:

10 Q. Did Frontier investigate hedging during the test year and, if so,
11 what were the findings and conclusions?

12 A. Frontier continually monitors the NYMEX natural gas
13 commodity market and associated hedging developments,
14 trends, activity and costs. Frontier did not engage in financial
15 or forward price hedging activity during the current review
16 period of October 2017 to September 2018. However, as
17 discussed previously, the ability to purchase FOM [First of
18 Month] priced gas and access different purchase locations
19 provides a hedge against gas price volatility. Additionally,
20 Frontier evaluated a peak day proposal from UGI.

21 Direct Testimony of Fred A. Steele, page 14, line 19 – page 15,
22 line 4.

23 Based on its testimony, it appears that Frontier had three alternatives
24 to supply its physical gas needs above its baseload quantity during
25 the 2017-2018 winter period: (1) purchasing gas at the spot price
26 with explicit hedging activity, (2) purchasing FOM priced gas (as
27 further explained later), and (3) purchasing gas pursuant to a UGI
28 peak day proposal (Peaking Proposal). The Public Staff believes

1 that Frontier's decisions regarding these three alternatives for
2 purchasing physical gas supplies above its baseload quantity should
3 be examined in this proceeding.

4 Q. PLEASE EXPLAIN WHAT HEDGING PROPOSALS FRONTIER
5 EVALUATED.

6 A. Frontier stated that it did not evaluate any hedging proposals for the
7 2017-2018 winter period, but instead relied on historical Zone 5
8 hedge pricing to rationalize that a hedge would be approximately
9 \$6.00 per dt; it did not analyze this alternative further since it had an
10 Asset Management Agreement (AMA) with UGI (UGI AMA).
11 Specifically, in response to Public Staff Data Request 3-3, the
12 Company stated that [BEGIN CONFIDENTIAL] [REDACTED]

13 [REDACTED]
14 [REDACTED]
15 [REDACTED]
16 [REDACTED]
17 [REDACTED]
18 [REDACTED]
19 [REDACTED]
20 [REDACTED]
21 [REDACTED]
22 [REDACTED] [END

23 CONFIDENTIAL]

1 Q. PLEASE EXPLAIN THE UGI PEAKING PROPOSAL FRONTIER
2 EVALUATED.

3 A. Frontier stated that it evaluated a Peaking Proposal from UGI. The
4 proposal provided Frontier with 20 days of 3,232 dts per day of Zone
5 5 delivered gas supplies above Frontier's baseload volumes for
6 January and February 2018. The proposal required Frontier to pay
7 a fixed fee of \$430,000 plus a Zone 3 daily or FOM price depending
8 on when the gas supply was nominated, either a day ahead or at the
9 first of the month, multiplied by the 3,232 dts and the number of days
10 provided. Frontier further stated that it had decided not to accept this
11 option since it would be better for Frontier to utilize the UGI AMA.

12 Q. PLEASE EXPLAIN THE UGI AMA AND THE PRICING OPTIONS
13 AVAILABLE THEREUNDER.

14 A. As mentioned previously, Frontier currently has contracts in place
15 with Transco for 8,613 dts per day of year round baseload capacity.
16 Frontier has the UGI AMA to nominate, purchase, and schedule
17 physical gas deliveries for its full requirements. The UGI AMA allows
18 Frontier the ability to purchase 100% of its baseload gas supply
19 needs at the FOM Zone 3 prices if nominated at the first of the month,
20 or Zone 3 gas daily prices if scheduled a day ahead.

21 The UGI AMA further allows for additional Zone 5 delivered gas
22 supplies to be purchased above the baseload quantity, up to a
23 maximum of 20,000 dts per day. The UGI AMA is structured so that

1 if Frontier nominates additional Zone 5 delivered gas supplies at the
2 first of the month (the AMA FOM Option), it pays the Zone 5 FOM
3 delivered price, but if Frontier purchases those additional gas
4 supplies only a day ahead (the AMA Daily Option), then it pays the
5 Zone 5 daily delivered prices (Spot Market). The UGI AMA also
6 allows Frontier the ability to sell back its gas supplies to UGI on a
7 daily basis if Frontier's nomination was too high. Frontier can sell
8 back those additional volumes to UGI at the Zone 5 daily pricing
9 basis, less a small discount, thus reducing gas costs and minimizing
10 the risk of paying extremely high gas prices.

11 **Q. HOW WOULD THE THREE ALTERNATIVES COMPARE TO**
12 **EACH OTHER IN DOLLAR EFFECT?**

13 **A.** In response to Public Staff Data Request 2-2, Frontier confirmed that
14 if it had nominated [BEGIN CONFIDENTIAL] [REDACTED]

15 [REDACTED]

16 [REDACTED]

17 [REDACTED]

18 [REDACTED]

19 [REDACTED]

20 [REDACTED]

21 [REDACTED]

22 [REDACTED]

23 [REDACTED]

1 [REDACTED]

2 [REDACTED]

3 [REDACTED]

4 [REDACTED]

5 [REDACTED]

6 [REDACTED]

7 [REDACTED]

8 [REDACTED]

9 [REDACTED]

10 [REDACTED]

11 [REDACTED] [END CONFIDENTIAL]

12 Q. PLEASE EXPLAIN WHICH PRICING OPTION FRONTIER CHOSE.

13 A. During the month of January 2018, Frontier's first of the month gas

14 supply nomination only included its baseload quantity of 8,613 dts

15 per day. Therefore, it did not utilize the AMA FOM Option for its

16 additional gas needs. Furthermore, as stated previously, it did not

17 choose to engage in the Peaking Proposal. Because of these

18 choices, and based on the extreme cold that North Carolina

19 experienced during January 2018, there were 11 days when Frontier

20 had to purchase gas above its baseload quantity at a daily Zone 5

21 delivered price under the AMA Daily Option. Since the UGI AMA

22 requires Frontier to purchase additional Zone 5 delivered gas

23 supplies a day ahead at a gas daily price, for those additional

1 supplies Frontier paid gas prices for these days that ranged from a
2 low of [BEGIN CONFIDENTIAL] [REDACTED]
3 [REDACTED] [END CONFIDENTIAL] Steele Schedule 3
4 reflects a commodity cost of gas incurred by Frontier of
5 \$1,329,367.02, including these daily purchases.

6 **Q. PLEASE EXPLAIN THE PUBLIC STAFF'S CONCERNS.**

7 A. When asked about implementing a hedging proposal during the
8 2017-2018 winter in order to reduce the risk of paying high gas prices
9 in Zone 5, Frontier referenced evaluating the Peaking Proposal, but
10 stated that it was better to utilize its UGI AMA. As it turned out,
11 Frontier did utilize the UGI AMA (thus also obtaining the very
12 favorable sell-back rights), although instead of locking in above-
13 baseload gas needs at the FOM price, it instead decided to risk
14 purchasing all of its gas supplies needed above its baseload quantity
15 at the Gas Daily Zone 5 delivered price. The Public Staff is
16 concerned that Frontier did not utilize the AMA FOM Option in the
17 UGI AMA to nominate volumes in order to secure a FOM Zone 5
18 delivered price for a least a portion of its gas supply purchases above
19 its baseload volumes.

20 **Q. PLEASE EXPLAIN WHY FRONTIER DID NOT UTILIZE THE AMA**
21 **FOM OPTION.**

22 A. When asked a question about mitigating the costs of extra demand
23 capacity in Public Staff Data Request 2-2, Frontier responded that

1 [BEGIN CONFIDENTIAL] [REDACTED]

2 [REDACTED]

3 [REDACTED]

4 [REDACTED]

5 [END CONFIDENTIAL]

6 In response to Public Staff Data Request 3-5, Frontier stated that

7 [BEGIN CONFIDENTIAL] [REDACTED]

8 [REDACTED]

9 [REDACTED]

10 [REDACTED]

11 [REDACTED] [END

12 CONFIDENTIAL]

13 The Public Staff has two issues with these statements. First, the
14 Public Staff does not agree that such a circumstance justifies Frontier
15 not setting its MDQ above its baseload. The Public Staff contends
16 that both hedging and gas supply planning entail planning for the
17 unexpected, especially during the winter period. The LDCs in North
18 Carolina have an obligation to serve their firm customers on a peak
19 day in accordance with their gas supply procurement policy that
20 includes purchasing gas supplies at a reasonable cost. Second, we
21 also know that Frontier is growing at a fast pace and needs to plan
22 for its current and prospective customers while mitigating price
23 spikes to customers.

1 [BEGIN CONFIDENTIAL] [REDACTED]
2 [REDACTED]
3 [REDACTED]
4 [REDACTED]
5 [REDACTED]
6 [REDACTED]
7 [REDACTED]
8 [REDACTED] [END

9 CONFIDENTIAL] Therefore, the Public Staff does not believe that it
10 was reasonable for Frontier to decide to use none of the price
11 mitigation tools available to it (hedging, peak day agreements, or
12 additional FOM nomination) when approaching a winter month that
13 might involve large temperature fluctuations and price volatility.

14 Q. SHOULD FRONTIER AND THE OTHER LDCS IN OUR STATE
15 HAVE EXPECTED THE JANUARY 2018 EXTENDED WEATHER
16 EVENT?

17 A. Yes. We have researched the weather forecasts in late December
18 2017 and since there were predictions of record breaking arctic cold
19 for an extended period of time over the central and eastern United
20 States, we believe that this extended cold weather event was
21 expected. For example, looking through the archives of the National
22 Oceanic and Atmospheric Administration – National Weather
23 Service (NWS) Weather Prediction Center shows that the NWS

1 predicted much colder than normal weather starting on
2 December 26, 2017, through the first several days of January 2018.
3 Specifically, NWS's forecast at 4:04 p.m. on Wednesday,
4 December 27, 2017 (which is three business days before the first of
5 the month and a time when Frontier could have exercised its AMA
6 FOM Option) predicted temperatures starting out at 10 degrees
7 below normal and then dropping to 25 degrees below normal later in
8 the 7 day forecast. Likewise, an archived story dated December 28,
9 2017, 4:32 a.m., from Accuweather® titled "US New Year's Eve
10 forecast 2017: NYC to face biting winds as cold grips central, eastern
11 US" stated "Temperatures on New Year's Eve may be at least 15
12 degrees Fahrenheit below normal from the northern Plains and New
13 England southward to the central Plains and the Carolinas. This
14 includes the cities of Chicago, Minneapolis, New York, Philadelphia,
15 St. Louis, Oklahoma City and Raleigh. This frigid pattern looks to
16 continue into the first week of 2018." This arctic blast began in late
17 December in the central United States and moved towards the
18 eastern US, affecting North Carolina with below normal temperatures
19 beginning on December 26, 2017, and continuing until January 9,
20 2018. We believe these weather predictions from credible sources
21 (in addition to others) were readily available in time for Frontier to
22 make prudent decisions regarding its gas supply nominations during
23 this time period.

1 Q. HAS THE ZONE 5 DAILY DELIVERED DAILY GAS MARKET
2 SEEN MUCH VOLATILITY IN GAS PRICES IN THE PAST?

3 A. Both Frontier and the other LDCs in North Carolina have seen
4 extremely volatile prices in the daily Zone 5 delivered market during
5 periods of colder weather, and all should have strategies in place to
6 mitigate the risk of these price spikes. The following graph reflects
7 the daily Zone 5 delivered gas prices experienced over the last 5
8 years.

[BEGIN CONFIDENTIAL]

[END CONFIDENTIAL]

9 [BEGIN CONFIDENTIAL] [REDACTED]
10 [REDACTED]
11 [REDACTED]

1 [REDACTED]
2 [REDACTED]
3 [REDACTED]
4 [REDACTED]
5 [REDACTED]
6 [REDACTED]
7 [REDACTED]
8 [REDACTED]
9 [REDACTED]
10 [REDACTED]
11 [REDACTED]
12 [REDACTED]

13 [END CONFIDENTIAL]

14 Q. WHAT WERE THE CHANGES IN FRONTIER'S DEFERRED
15 ACCOUNT DURING JANUARY AND FEBRUARY 2018?

16 A. Due to the extremely high daily gas prices paid by Frontier during
17 January 2018, Frontier's deferred gas cost account balance
18 increased from an \$8,900 undercollection as of December 31, 2017,
19 to an undercollection of \$589,991 as of January 31, 2018, and further
20 increased due to high gas prices to an \$850,052 undercollection as
21 of February 28, 2018. On March 16, 2018, Frontier ultimately filed a
22 Purchased Gas Adjustment (PGA) to increase its Benchmark
23 Delivered Cost of Gas to \$6.00 per dt, a \$2.00 per dt increase to

1 Frontier's customers. As of the end of the review period, Frontier still
2 had a deferred gas cost account balance of \$330,127, owed to
3 Frontier by its customers.

4 **Q. BASED ON YOUR REVIEW AND ANALYSIS, WERE THE**
5 **COMPANY'S HEDGING DECISIONS DURING THE REVIEW**
6 **PERIOD PRUDENT?**

7 **A.** Even a conservative approach to stabilize costs would have enabled
8 the Company to mitigate the impact of the large fly ups in gas prices
9 during the winter. However, in this case, Frontier opted to rely on
10 Zone 5 daily pricing instead of (1) locking in a portion of its gas supply
11 under its AMA FOM Option at a first of the month price, (2) entering
12 into the Peaking Proposal offered by UGI, or (3) initiating physical
13 hedges for January and February 2018. By making little or no effort
14 to mitigate possible price spikes consistent with the objectives
15 identified by the Commission in Docket No. G-100, Sub 84, we
16 believe the Company acted imprudently. Even if no extreme
17 temperatures had been forecasted experienced, we believe that it
18 would have been prudent for Frontier to engage in a reasonable level
19 of price risk mitigation during January and February 2018, especially
20 given the recent history of frequent winters with significant price
21 spikes provisions of the UGI AMA. Consequently, we recommend
22 that the Commission adjust the balance in the Company's Deferred

1 Gas Cost Account in this proceeding to reflect a portion of the FOM
2 prices to its customers.

3 In our opinion, based on what was reasonably known or should have
4 been known at the time the Company made its hedging decisions
5 affecting the review period, as opposed to the outcome of those
6 decisions, our analysis leads me to the conclusion that the decisions
7 were imprudent.

8 **Q. PLEASE DESCRIBE YOUR RECOMMENDED ADJUSTMENT.**

9 A. As noted previously, the decision to rely on daily pricing instead of
10 FOM pricing for the month of January 2018 resulted in Frontier
11 incurring \$487,305 in additional gas costs. Based on using the same
12 assumptions in the February 2018 calculations, the Public Staff has
13 also determined that if the AMA FOM Option had been chosen for
14 February as well, the cost of gas would have been increased by
15 \$243,359 over the amount experienced using the daily price.¹ We
16 have, therefore, computed an adjustment that credits the Deferred
17 Gas Cost Account for the net amount of \$243,946 (\$487,305 –
18 \$243,359) plus interest as shown on Public Staff Panel Exhibit I, to
19 reflect the pro forma effect of utilizing the Zone 5 AMA FOM option
20 to purchase physical gas supplies associated with Frontier's UGI

¹ The Public Staff has computed the commodity cost of gas supply associated with February 2018 for both the Peaking Proposal and the AMA FOM Option of \$1,207,295 and \$873,034, respectively. The Company actually utilized the AMA Daily Option and incurred total commodity costs of \$629,675.

1 AMA for both January and February 2018. Our adjustment reflects
2 the purchase of 42,997 dts and 38,276 dts, approximately 1,387 dts
3 per day above its baseload quantity times the number of days in the
4 month, of gas supplies during January and February 2018,
5 respectively.

6 **Q. HAS THE COMMISSION APPROVED OTHER ADJUSTMENTS**
7 **WHEN AN LDC DECIDED NOT TO HEDGE?**

8 A. Yes. In Docket No. G-21, Sub 450, the Commission found that an
9 adjustment to North Carolina Natural Gas's (NCNG's) Sales
10 Customers Only Deferred Account of \$457,324 in order to mitigate
11 the impact on NCNG's customers of the natural gas price spike that
12 occurred in February and March 2003 was just and reasonable, since
13 NCNG failed to have an effective hedging program in place for gas
14 purchases during this period.

15 **Q. HAS FRONTIER HAD PRIOR GAS PROCUREMENT ISSUES?**

16 A. Yes. In Docket No. G-40, Sub 124, Frontier and the Public Staff
17 entered into a stipulation in lieu of a management audit pursuant to
18 N.C. Gen. Stat. § 62-37(b) for the purpose of resolving certain issues.
19 A few of the issues were gas planning, system operations, and
20 procurement. Frontier and the Public Staff agreed to the transfer of
21 \$2,450,000 from Frontier's deferred gas cost account to a regulatory
22 asset account to amortize, effective July 1, 2014, resolving any

1 issues between the parties regarding the prudence of Frontier's gas
2 purchases for the months of January 2014 and February 2014.

3 **Q. HAS THE PUBLIC STAFF MADE FRONTIER AWARE OF THE**
4 **RISKS OF NOT HAVING A STRATEGY IN PLACE TO MITIGATE**
5 **GAS PRICE VOLATILITY?**

6 A. Yes. The Public Staff typically cites the language in the Hedging
7 Order concerning an LDC's decision to mitigate price spikes--
8 including a decision not to hedge--as stated previously in our
9 testimony. As to Frontier's previous Annual Review of Gas Costs
10 proceeding (Docket No. G-40, Sub 145), although Frontier did not
11 hedge during the review period and was found prudent, the Public
12 Staff recommended that the Commission remind Frontier that the
13 purpose of hedging is to reduce price spikes to customers, not just
14 to secure gas supply, and put Frontier on notice that the risk is on
15 Frontier, not its ratepayers, if price spikes occur and no hedging
16 strategies are in place in the future.

17 **DESIGN DAY REQUIREMENTS**

18 **Q. DO YOU HAVE ANY RECOMMENDATIONS REGARDING HOW**
19 **FRONTIER IS PLANNING TO MEET FUTURE SYSTEM**
20 **DEMAND?**

21 A. Attached to Company witness Steele's testimony as
22 CONFIDENTIAL Exhibit B is a report on Design Day Study prepared

1 by Dr. Ronald H. Brown, PhD, who utilized the Marquette University
2 GasDay program in evaluating Frontier's projected peak day
3 demand. We have evaluated this report and have concluded that it
4 accurately calculates Frontier's peak day using reasonable
5 assumptions, such as HDDs and frequency of occurrence of such
6 cold weather events. Based on this report, it appears that Frontier
7 has adequate capacity in order to serve its firm market on peak days
8 until the 2021-2022 winter period. Due to the confidential nature of
9 this document, we will not discuss any specifics of the report's
10 findings.

11 **DEFERRED ACCOUNT BALANCE**

12 **Q. WHAT IS THE APPROPRIATE DEFERRED ACCOUNT BALANCE**
13 **AS OF SEPTEMBER 30, 2018?**

14 **A.** We have determined that, based on (1) the recommended
15 hedging/price mitigation adjustment to the deferred gas cost
16 account, (2) our review of the gas costs in this proceeding, and (3)
17 our opinion that the Company's gas costs were prudently incurred,
18 the appropriate balance in Frontier's Deferred Gas Cost Account at
19 September 30, 2018, is a \$65,998 debit balance, owed to Frontier.
20 The following chart summarizes Frontier's Deferred Gas Cost
21 Account activity for the current review period:

Filed Deferred Account Balance - October 1, 2017	\$152,846
Gas Cost True-up	173,006
True-up Adjustments	(191,951)
Transportation Customer Balancing True-up	69,164
Benchmark Proration Adjustment - G-40, Sub 145	98,151
Benchmark Proration Adjustment - G-40, Sub 147	2,960
Interest	<u>25,961</u>
Deferred Account Balance - September 30, 2018	\$330,127
Public Staff Adjustment for Hedging / Price Mitigation	<u>(264,129)</u>
Public Staff Recommended Deferred Account Balance -September 30, 2018	<u>\$65,998</u>

1 Q. WHAT IS YOUR RECOMMENDATION REGARDING ANY
2 PROPOSED INCREMENTS/DECREMENTS?

3 A. Company witness Steele testified that Frontier anticipated that the
4 current deferred account balance will be moving back toward \$0.00
5 over the winter months. Frontier did not propose any temporaries in
6 this proceeding. As shown in the chart above, the recommended
7 deferred account balance owed from customers to Frontier is a debit
8 balance of \$65,998. While normally the Public Staff would
9 recommend a temporary rate increment in order to collect this debit
10 balance from customers, based on our investigation we have
11 determined that Frontier's deferred account has changed
12 significantly since the end of the review period.

13 In Frontier's previous Annual Review of Gas Costs proceeding
14 (Docket No. G-40, Sub 145), the Public Staff recommended that
15 Frontier file for a PGA in mid-March for an effective date of April 1,
16 2018, in order to resolve the under-collection of gas costs. On
17 March 16, 2018, in Docket No. G-40, Sub 147, Frontier filed a PGA

1 for authority to increase its Benchmark City Gate Delivered Gas Cost
2 by \$2.00 per dt effective April 1, 2018.

3 While in the instant docket we would have recommended that same
4 course of action, Frontier filed a PGA on February 15, 2019, in
5 Docket No. G-40, Sub 151 for authority to decrease its Benchmark
6 by \$2.05 per dt, effective March 1, 2019. That application has been
7 evaluated by the Public Staff and our recommendation will be
8 presented to the Commission for its consideration after the filing of
9 the Public Staff's testimony in the instant docket. Therefore, based
10 on Frontier's Sub 151 PGA filing, we believe that no further
11 temporary rate increments or decrements are needed at this time.

12 **Q. DOES THIS CONCLUDE THE PUBLIC STAFF'S TESTIMONY?**

13 **A. Yes, it does.**

APPENDIX A

QUALIFICATIONS AND EXPERIENCE
OF
JAN A. LARSEN
DIVISION DIRECTOR

PUBLIC STAFF - NATURAL GAS DIVISION
NORTH CAROLINA UTILITIES COMMISSION

I graduated from North Carolina State University in 1983 with a Bachelor of Science degree in Civil Engineering. I was employed with Law Engineering Testing Company as a Materials Engineer from 1983 to 1984. From 1984 until 1986, I was employed by the North Carolina Department of Transportation as a Highway Engineer. In 1986, I was employed by the Public Staff's Water Division as a Utilities Engineer I. In 1992, I was promoted to Utilities Engineer II with the Public Staff's Natural Gas Division and promoted to Utilities Engineer III in 2002. In May of 2016, I was promoted to the Director of the Public Staff's Natural Gas Division.

My most current work experience with the Public Staff includes the following topics:

1. Rate Design / Allocated Cost-of-Service Studies
2. Purchase Gas Cost Adjustment Procedures
3. Tariff Filings
4. Natural Gas Expansion Project Filings
5. Depreciation Rate Studies
6. Annual Review of Gas Costs
7. Weather Normalization Adjustments
8. Customer Utilization Trackers
9. Feasibility Studies / Line Extension Policies
10. Pipeline Integrity Management Riders
11. Utility Mergers and Acquisitions
12. Injection of Bio-Gas Into Natural Gas Pipelines

SHAWN L. DORGAN**Qualifications and Experience**

I am a two-time accounting graduate of Appalachian State University, having earned a B.S.B.A. in Accountancy in 1988 and a Master's of Science in Accountancy (concentration in taxation; functional equivalent of an MST) in 1997. After graduation in August of that year I entered the public accounting industry, working first at the Charlotte practice office of Deloitte & Touche LLP, and later for several local and regional accounting firms in the metro-Charlotte, metro-Raleigh, and metro-Atlanta areas. I am a Certified Public Accountant, licensed in the State of North Carolina. My license number is 27030.

I joined the Public Staff in May 2016 and since have specialized in providing accounting support in conjunction with rider rate proceedings in both the Natural Gas and Electric Divisions, focusing primarily on program cost reviews of energy efficiency programs authorized for the state's electric utilities under N.C.G.S. §62-133.9 – *Cost recovery for demand-side management and energy efficiency measures* – and analytical reviews of tax issues connected to Piedmont Natural Gas Company's annual integrity management rider proceedings (*In the Matter of Annual Integrity Management Rider Report of Piedmont Natural Gas Company, Inc., Pursuant to Appendix E of Its Service Regulations, Docket Numbers G-9 Sub 715, and G-9 Sub 734*).

Additionally, I have provided testimony in connection with annual gas cost review proceedings of Frontier Natural Gas Company LLC, as well as accounting support in rate cases involving North Carolina's two largest investor-owned electric utilities. This support centered on applicant rate-base requests in the area of cash working capital, and in particular on detailed analyses of accounting transactions underlying applicant lead-lag schedules.

JULIE G. PERRY**Qualifications and Experience**

I graduated from North Carolina State University in 1989 with a Bachelor of Arts degree in Accounting and I am a Certified Public Accountant.

Prior to joining the Public Staff, I was employed by the North Carolina State Auditor's Office. My duties there involved the performance of financial and operational audits of various state agencies, community colleges, and Clerks of Court.

I joined the Public Staff in September 1990, and was promoted to Supervisor of the Natural Gas Section in the Accounting Division in September 2000. I was promoted to Accounting Manager – Natural Gas & Transportation effective December 1, 2016. I have performed numerous audits and/or presented testimony and exhibits before the Commission addressing a wide range of natural gas topics.

Additionally, I have filed testimony and exhibits in numerous water rate cases and performed investigations and analyses addressing a wide range of topics and issues related to the water, electric, transportation, and telephone industries.

1 MS. CULPEPPER: The witnesses are available
2 for questions by the Commission.

3 COMMISSIONER BROWN-BLAND: All right. Just
4 a couple.

5 EXAMINATION BY COMMISSIONER BROWN-BLAND:

6 Q You heard the discussion earlier with Mr. Steele
7 around planning for -- planning for January and
8 the time period of the availability of the
9 weather forecast and being assured of adequate
10 supply at reasonable stable prices for the month
11 of January. Do you have anything to add to that
12 discussion as to the importance of planning
13 around that month and related to his view that
14 there was somehow unfair singling out of the
15 month of January?

16 A (Ms. Perry) I think we stated in our testimony,
17 but I think we did address the issue as far as
18 January and February, which are both their high
19 peak winter months, even though I think February
20 was a much warmer month than we've seen
21 sometimes. So I would say if you look at our
22 testimony, in general we're trying to look at the
23 winter planning, not just singling out January.
24 Otherwise we would've had a bigger adjustment in

1 our initial filing.

2 Q Do you agree that -- that your view or the focus
3 on January caused a skewed view and caused --
4 caused them to -- resulted in your decision
5 initially of an imprudence disallowance?

6 A We were just looking at the exposure to the daily
7 market and we were trying to limit the exposure.
8 We believed that there should be some limit --
9 reducing the exposure to the daily market is what
10 we were doing. And we expressed our adjustment
11 as a sort of a winter season adjustment to both
12 of them and -- ask the question again. I think I
13 lost track.

14 Q Well, do you agree that there was a -- that the
15 focus on January somehow skewed -- skewed the
16 results that you came up with and caused the
17 recommendation of a disallowance?

18 A I think January had some extremely high gas
19 prices in it and we'd had two warmer winters
20 coming into it, and they stopped hedging in
21 '16/'17, the winter, and we had put in testimony
22 that we put them on notice that we were concerned
23 about that. And so when the high prices came in
24 January it did cause a situation to make us look

1 very closely at what was going on with their
2 purchasing practices and hedging.

3 Q Why -- in your view why is it fair to focus on
4 January?

5 A So your hedging orders state in the Sub -- Sub 84
6 orders that you're supposed to mitigate gas
7 volatility to customers and -- and price
8 mitigation tools that they have in place to help
9 customers not see, you know, huge fly ups in
10 prices, and in January we saw that. And so I
11 think anytime -- and Frontier has acknowledged
12 this. No one wants ratepayers paying, you know.
13 And I won't say the dollar amount -- I'm not sure
14 -- but the high -- the high gas prices that we
15 saw. So in doing that we feel like it -- it is
16 -- we've said it in years in our testimony, we've
17 put it in our testimony that -- that the prudence
18 is on the Company if they don't hedge, and they
19 didn't hedge and they didn't -- they had other
20 tools at their disposal and they chose to stay
21 with the daily market and we just felt like they
22 needed to do more. And that's -- that's where
23 our adjustment came from.

24 Q All right. So on page 29 of the prefilled direct

1 testimony, the Public Staff has stated that
2 Frontier has adequate capacity to serve its firm
3 market on peak days until the 2021/'22 winter
4 period. And Mr. Steele has provided a system on
5 system forecast and he also has spoken to the
6 Asset Management Agreement with UGI that allows
7 additional daily and monthly requirements.

8 What's the basis for the Public Staff's testimony
9 that there is adequate capacity until 2021/'22?

10 A (Mr. Larsen) When we look at the anticipated peak
11 day demand at that time period, it crosses over
12 the 20,000 dekatherms peak day. And Mr. Steele
13 stated in his testimony and we've confirmed that
14 they do have ability to serve up to 20,000
15 dekatherms a day. So that's -- that was our --
16 that's how we came to that conclusion.

17 Q All right. And so with that I'll ask you pretty
18 much what I was asking Mr. Steele before you. If
19 that contract expires in 2020, is the Public
20 Staff comfortable today that Frontier will be
21 able to replace that contract with one that
22 provides firm capacity up to 20,000 dekatherms in
23 a day?

24 A They would need to in order to continue to serve

1 --

2 Q Are you comfortable --

3 A -- that peak day and through that time period
4 that we've stated.

5 Q Are you comfortable in that they will be able to
6 given all the things that you foresee right now
7 happening in the market and the trends?

8 A (Ms. Perry) So I've -- I've dealt a lot more with
9 the AMA agreement itself. They seem to have a --
10 a pretty large portfolio, UGI, of capacity
11 contracts and they have never not -- even in
12 these very cold spells never not delivered, so I
13 think we -- we're having some security with that.

14 You know, a lot of what Frontier,
15 their peak day is about 14, was about 14 when the
16 last consultant did their analysis and I'm sure
17 you put growth in that. And their highest send
18 out has been like 11,845, so that sort of -- we
19 -- you kind of balance between those and what you
20 can expect. So we -- I think they could always
21 renegotiate just like they did in '16. They had
22 a contract that went up to 15,000 a day and they
23 renegotiated a similar contract that went up to
24 20. So I don't believe it would be hard for them

1 to increase that if they needed to based on their
2 growth.

3 Q All right.

4 COMMISSIONER BROWN-BLAND: Any -- any other
5 questions?

6 (No response)

7 Mr. Jeffries, the same deal. If -- if
8 you've caught anything that might be confidential,
9 we'll allow you that leeway to correct -- make sure
10 it's identified correctly with the court reporter.

11 MR. JEFFRIES: Happy to do that.

12 COMMISSIONER BROWN-BLAND: All right. There
13 are no further questions from the Commission. Do you
14 have questions on Commission's questions?

15 MR. JEFFRIES: No questions.

16 MS. CULPEPPER: No questions.

17 COMMISSIONER BROWN-BLAND: All right. You
18 may be excused.

19 (The witnesses are excused)

20 COMMISSIONER BROWN-BLAND: I've already
21 received into evidence -- the Stipulation will be
22 received into evidence at this time.

23 (WHEREUPON, the Agreement and
24 Stipulation of Settlement is

1 received into evidence.)

2 COMMISSIONER BROWN-BLAND: Any other matters
3 to come before the Commission in this proceeding?
4 Proposed orders or -- or post-hearing filings 30 days
5 from the availability of the transcript?

6 MR. JEFFRIES: That's fine.

7 COMMISSIONER BROWN-BLAND: Is that good?

8 MS. CULPEPPER: That's fine with us.

9 COMMISSIONER BROWN-BLAND: All right. There
10 being nothing else, we thank everyone for their
11 conscientious participation with these proceedings and
12 we'll be adjourned.

13 (The hearing was adjourned at 10:40 a.m.)

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C E R T I F I C A T E

I, KIM T. MITCHELL, DO HEREBY CERTIFY that
the Proceedings in the above-captioned matter were
taken before me, that I did report in stenographic
shorthand the Proceedings set forth herein, and the
foregoing pages are a true and correct transcription
to the best of my ability.

Kim T. Mitchell

Kim T. Mitchell
Court Reporter

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