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1 PLACE: Dobbs Building, Raleigh, North Carolina

2 DATE: Wednesday, November 1, 2017

3 TIME: 10:00 a.m. - 10:08 a.m.

4 DOCKET NO: G-41, Sub 50

5 BEFORE: Commissioner Jerry C. Dockham, Presiding

6 Commissioner James G. Patterson

FILED

NOV 29 2017

**Clerk's Office
N.C. Utilities Commission**

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9 **IN THE MATTER OF:**

10 Toccoa Natural Gas

11 Application for Annual Review of Gas Costs Pursuant to

12 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

3 **FOR TOCCOA NATURAL GAS:**

4 Karen M. Kemerait, Esq.

5 Smith Moore Leatherwood

6 434 Fayetteville Street, Suite 2800

7 Raleigh, North Carolina 27601

8

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

10 Elizabeth Culpepper, Esq.

11 Public Staff - North Carolina Utilities Commission

12 4326 Mail Service Center

13 Raleigh, North Carolina 27699-4300

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P R O C E E D I N G S

COMMISSIONER DOCKHAM: Good morning. Let's come to order and go on the record. I'm Commissioner Jerry C. Dockham and I've been assigned to preside over this hearing. With me this morning is Commissioner James G. Patterson.

I now call for hearing Docket Number G-41, Sub 50, In the Matter of an Application of Toccoa Natural Gas for Annual Review of Gas Costs pursuant to G.S. 62-133.4(c) and Commission Rule R1-17(k)(6). G.S. 62-133.4 authorizes gas cost adjustment proceedings for natural gas local distribution companies. G.S. 62-133.4(c) provides that the North Carolina Utilities Commission shall conduct annual review proceedings to compare each natural gas utility's prudently incurred costs with costs recovered from all of the utility's customers serviced during the test period. Commission Rule R1-17(k)(6) prescribes the procedures for such annual reviews of natural gas costs.

In compliance with those provisions of R1-17(k)(6), on September 1, 2017, Toccoa Natural gas, other known as Toccoa, filed the direct testimony and exhibits of Harry Franklin Scott, Jr., and Rai Trippe,

1 relating to this annual review proceeding.

2 On September 8, 2017, an Order Scheduling
3 Hearing, Requiring Filing of Testimony, Establishing
4 Discovery Guidelines and Requiring Public Notice was
5 issued. That Order scheduled this hearing for today,
6 November 1, 2017 at 10:00 a.m.

7 On October 5, 2017, Toccoa filed Affidavits
8 of Publication of Public Notice.

9 On October 12, 2017, Toccoa filed Revised
10 Schedules 1 through 10 and Exhibit 2 supporting the
11 testimony of Rai Trippe.

12 There were no intervenors in this docket.
13 The intervention and participation of the Public Staff
14 is recognized pursuant to G.S. 62-15(d) and Commission
15 Rule R1-19(e).

16 On October 16, 2017, the Public Staff filed
17 the joint testimony of Jan A. Larsen, Iris Morgan and
18 Julie G. Perry.

19 On October 17, 2017, Toccoa and the Public
20 Staff filed a Joint Motion to Excuse Appearance of
21 Witnesses and Accept Testimony.

22 On October 20, 2017, the Commission issued
23 an Order granting the Motion to Excuse the witnesses
24 from attending today's hearings and stating that the

1 parties' testimony and exhibits shall be admitted into
2 evidence at today's hearing.

3 In compliance with the requirement of
4 Chapter 138A of the State Government Ethics Act, I
5 remind members of the Commission of their
6 responsibility to avoid conflicts of interest, and I
7 inquire whether any member has a conflict of interest
8 with respect to the matter that is before us this
9 morning?

10 (No response.)

11 Let the record reflect that I have no such
12 conflict, and that my fellow Commissioner has not
13 identified any such conflict.

14 I now call for appearances of counsel
15 beginning with Toccoa.

16 MS. KEMERAIT: Good morning. My name is
17 Karen Kemerait and I'm with the Law Firm of Smith
18 Moore Leatherwood in Raleigh, and I'm here on behalf
19 of Toccoa Natural Gas Company.

20 COMMISSIONER DOCKHAM: Ms. Kemerait,
21 welcome. Public Staff.

22 MS. CULPEPPER: Good morning. Elizabeth
23 Culpepper with the Public Staff appearing on behalf of
24 the Using and Consuming Public.

1 COMMISSIONER DOCKHAM: Ms. Culpepper, have
2 you identified any public witnesses pursuant -- to
3 testify in this docket?

4 MS. CULPEPPER: There are none, sir.

5 COMMISSIONER DOCKHAM: For the record, are
6 there any persons in the hearing room who would like
7 to present testimony as a public witness?

8 (No response)

9 Let the record reflect no public witnesses
10 came forward to testify.

11 Are there any preliminary matters which need
12 to be addressed prior to the beginning of the hearing?

13 MS. CULPEPPER: No.

14 MS. KEMERAIT: No.

15 COMMISSIONER DOCKHAM: If not, we will
16 proceed with the Applicant.

17 MS. KEMERAIT: Toccoa Natural Gas Company
18 would move that the direct testimony of Harry F.
19 Scott, Jr., that consists of three pages of testimony
20 and one exhibit that was filed on September 1, 2017,
21 be copied into the record as if given orally from the
22 stand and received into evidence. In addition, I
23 would move that the direct testimony of Rai Trippe
24 that consists of 12 pages of testimony and exhibits

1 that consists of 23 pages that was filed also on
2 September 1, 2017, be copied into the record as if
3 given orally from the stand and be admitted into
4 evidence.

5 COMMISSIONER DOCKHAM: If there is no
6 objection, the Commission accepts into evidence the
7 prefiled direct testimony and exhibits of Harry
8 Franklin Scott, Jr., consisting of three pages and one
9 exhibit. Mr. Scott's exhibit shall be marked as
10 identified as marked when prefiled.

11 Scott Exhibit 1

12 (Identified and Admitted)

13 (WHEREUPON, the prefiled direct
14 testimony of HARRY F. SCOTT, JR.,
15 is copied into the record as if
16 given orally from the stand.)
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1 Q. Mr. Scott , please state your name, your employer and business address.

2 A. My name is Harry Scott. I am employed by the City of Toccoa, Georgia (the
3 "City"), and my business address is Post Office Box 579, 92 N. Alexander Street,
4 Toccoa, Georgia 30577.

5
6 Q. In what capacity are you employed by the City?

7 A. My title is Utilities Director.

8
9 Q. What are your current responsibilities with the City?

10 A. My responsibilities, among others, include overseeing the operation of all the
11 utilities owned and operated by the City of Toccoa, including water, wastewater,
12 and the Toccoa Natural Gas ("Toccoa" or the "Company") system. I am also
13 responsible for ensuring compliance with the statutes and regulations of the North
14 Carolina Utilities Commission, and the development and administration of all
15 components of firm and interruptible service.

16
17 Q. Please summarize your professional background.

18 A. Please see *Exhibit 1, Biographical Sketch*.

19
20 Q. Please describe generally Toccoa and its system.

21 A. Toccoa is a municipal gas system physically comprised of approximately 90 miles
22 of transmission line from the tap off Williams Pipeline in Elbert County, Georgia
23 to the city-gate at Franklin, North Carolina. The system contains approximately

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1 90 miles of transmission main, 17 miles of which are in North Carolina, and 418
2 miles of distribution main, 71 miles of which are in North Carolina. Toccoa
3 serves approximately 6,567 retail customers, of which approximately 726 are in
4 North Carolina, and has two offices in Toccoa, Georgia and in Franklin, North
5 Carolina.

6
7 Q. What communities does Toccoa serve?

8 A. Toccoa serves Bowersville, Lavonia, Martin, Avalon, Toccoa, Tallulah Falls,
9 Tiger, Lakemont, Clayton, Mountain City and Dillard in Georgia, and Otto and
10 Franklin in North Carolina.

11
12 Q. Please briefly describe Toccoa's business and markets.

13 A. Toccoa is in the business of providing natural gas to residential, commercial, and
14 industrial customers in Northeast Georgia (parts of Elbert, Hart, Franklin,
15 Stephens, Habersham and Rabun Counties) and Western North Carolina (Macon
16 County). Approximately 470 residential, 254 commercial and 2 industrial
17 customers are served in North Carolina.

18
19 Q. What is the purpose of your testimony in this proceeding?

20 A. Commission Rule R1-17(k)(6) requires Toccoa to submit to the Commission, on
21 or before September 1, 2017, Toccoa's actual gas costs and volumes of purchased
22 gas based on a twelve-month period ended June 30, 2017, and certain other
23 information as directed by the Commission. The Rule provides for a hearing on

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1 the first Wednesday of November "in order to compare each LDC's prudently
2 incurred gas costs with gas costs recovered from all its customers that it served
3 during the test period." Toccoa is providing my testimony along with the
4 testimony and schedules of Mr. Trippe in compliance with this Rule. The primary
5 purpose of my testimony is to describe Toccoa's system in North Carolina.
6

7 Q. Does this conclude your testimony?

8 A. Yes.
9

1 COMMISSIONER DOCKHAM: In addition, there
2 being no objection, the Commission accepts into
3 evidence the prefiled direct testimony, and revised
4 exhibits of Rai Trippe, consisting of 12 pages,
5 Revised Schedules 1 through 10 and Exhibit Number 2.
6 Mr. Trippe's revised exhibits shall be marked as
7 identified as marked as prefiled.

8 Trippe Exhibit 1

9 (Identified and Admitted)

10 Trippe Exhibit 2, including

11 Revised Schedules 1 - 10

12 (Identified and Admitted)

13 (WHEREUPON, the prefiled direct
14 testimony of RAI TRIPPE is copied
15 into the record as if given orally
16 from the stand.)

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1 Q. Mr. Trippe, please state your name, your employer and business address.

2 A. My name is Rai Trippe. I am employed by Municipal Gas Authority of Georgia
3 ("Gas Authority"). My business address is 104 TownPark Drive, Kennesaw,
4 Georgia 30144.

5
6 Q. In what capacity are you employed by Toccoa?

7 A. I am employed by the Gas Authority as a Member Support Senior Business
8 Analyst. My duties include retail rate studies and design, budget forecasting,
9 contract administration and negotiation, and general activities in support of our
10 members. The Gas Authority serves the City of Toccoa.

11
12 Q. Please summarize your professional background.

13 A. Please see Exhibit 1, Biographical Sketch.

14
15 Q. What is the purpose of your testimony in this proceeding?

16 A. Commission Rule R1-17(k)(6) requires Toccoa to submit to the Commission, on
17 or before September 1, 2017, Toccoa's actual gas costs and volumes of purchased
18 gas for the twelve-month period ended June 30, 2017, and certain other
19 information as directed by the Commission. This information is contained in this
20 direct testimony and the accompanying exhibits. The Rule provides for a hearing
21 on the first Wednesday of November "in order to compare each LDC's prudently
22 incurred gas costs with gas costs recovered from all its customers that it served

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1 during the test period.” Toccoa is providing my testimony and schedules in
2 compliance with this Rule. My testimony demonstrates that all of Toccoa’s gas
3 costs during the test period were prudently incurred and therefore meet the
4 requirement for recovery under the Commission Rule. This is Toccoa’s sixteenth
5 proceeding under Commission Rule R1-17(k)(6) since it began gas operations.
6

7 Q. Please describe Toccoa’s gas supply policy.

8 A. Toccoa is a charter member of the Municipal Gas Authority of Georgia, the
9 largest non-profit joint action natural gas agency in the nation. As a member of
10 the Gas Authority, Toccoa receives all of its gas supply at very competitive rates.
11 The Gas Authority uses a portfolio approach to supply its 79 member cities’
12 needs, relying on a combination of long-term firm supply arrangements, short-
13 term spot market purchases, seasonal peaking, and contract storage services.
14 Specifically, the Gas Authority bills its Williams Transco supplied members at the
15 first-of-the-month spot market index price for gas delivered into Transco at 50%
16 of Transco Zone 3 index + 50% of Transco Zone 4 index. In addition, Toccoa
17 participates in the Gas Authority’s “Winter Hedge Program” under the
18 Authority’s *Option 2*; that is, Toccoa relies on the Gas Authority’s advisement in
19 locking-in future prices for a portion of their firm load (*Option 3* members make
20 their own decisions, and *Option 1* members do not hedge prices). The Gas
21 Authority’s objective in hedging prices is to achieve price stability at a reasonable
22 level for its members’ retail customers. This was accomplished by locking in

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1 futures prices on approximately 26% of their forecasted firm Georgia residential
2 gas sales and all firm North Carolina gas sales for November 2016 – March 2017.
3 Please see Exhibit 2 for monthly hedge volumes during the current review period.
4 At the time that these hedge volume decisions were made, Toccoa chose to adopt
5 more conservative hedge volumes for their participation in the Winter Hedge
6 Program because market and future pricing was significantly less than it had been
7 at the time the previous Winter Hedge Program volumes were put in place. Large
8 industrial customers may make their own hedging decisions if they choose to do
9 so. Because of its participation in Gas Authority, Toccoa's "gas supply policy" is
10 the same as that of the Gas Authority.

11
12 Q. What are some of the challenges in the development and implementation of
13 Toccoa's gas supply strategy, if any?

14 A. Because of the experience, expertise, and resources of the Gas Authority, gas
15 supply is not a problem for Toccoa. Through the Gas Authority's efforts, Toccoa
16 is assured adequate, dependable, and economical gas supplies. One of the
17 challenges for Toccoa is explaining to customers swings and spikes in the
18 wholesale cost of natural gas. Although hedging helps manage this volatility, it
19 can create its own challenges. Some customers have unrealistic expectations of
20 the benefits of hedging, because a common benchmark for evaluating hedged
21 prices is the actual spot market price. This can be an unfair measure because it is
22 only available after the fact and assumes the goal of hedging is "to beat the

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1 market.” In reality, the principal goal of hedging is to achieve price stability, at a
2 reasonable level, for the consuming public. The Gas Authority’s “Winter Hedge
3 Program” helps achieve this goal.
4

5 Q. Has there been any significant change to Toccoa’s gas supply strategy or source
6 during the test year?

7 A. No.
8

9 Q. Please describe Toccoa’s interstate capacity.

10 A. Toccoa currently contracts for firm transportation (FT) capacity on
11 Transcontinental Gas Pipeline/Williams (Transco), as well as an additional
12 liquefied natural gas storage service. In addition, Toccoa has storage service
13 agreements with Pine Needle LNG Company, LLC. Further, through participation
14 in the Gas Authority, Toccoa has access to other members’ available pipeline
15 capacity.
16

17 Q. With this approach, does Toccoa have the flexibility to meet its market
18 requirements?

19 A. Absolutely.
20

21 Q. How does Toccoa participate in and communicate with the Gas Authority
22 regarding gas supply purchases?

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1 A. Toccoa is an active member of the Gas Authority; therefore, no specific initiative
2 is necessary. Toccoa's management meets with the Gas Authority's staff on a
3 regular and frequent basis.

4
5 Q. Did Toccoa pursue capacity release options to mitigate the cost of extra demand
6 capacity?

7 A. Yes. On behalf of Toccoa, the Gas Authority released a portion of Toccoa's
8 unutilized capacity each month of the fiscal period. Total demand cost savings
9 generated during the period of July 2016 – June 2017 totaled \$23,029. This
10 released capacity that generated the demand savings encompassed production area
11 and market area FT capacity contracted by Toccoa on Transco.

12
13 Q. Did Toccoa follow the gas cost accounting procedures prescribed by Rule R1-
14 17(k) for the year ended June 30, 2017?

15 A. Yes.

16
17 Q. In following Section (5)(c) of the Rule, Toccoa was responsible for reporting gas
18 costs and deferred account activity to the Commission and the Public Staff on a
19 monthly basis. Are you aware of any outstanding issues regarding these reports?

20 A. No.

21
22 Q. What schedules have you caused to be prepared?

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1 A. Exhibit 2 and Schedules 1 – 10 that include the Deferred Account Summary.

2
3 Q. What activity occurred in the deferred account during the twelve months ended
4 June 30, 2017?

5 A. Toccoa began the review period with a balance of (\$109,739) owed to firm
6 customers. On August 1, 2016 the Commission issued its Order Allowing Rate
7 Changes Effective August 1, 2016 in Docket No. G-41, Sub 46, authorizing
8 Toccoa to increase its temporary decrement from (\$0.7649) per dth to (\$1.3172)
9 per dth for its North Carolina firm service customers. Following the Annual
10 Review, the Commission issued its Order on Annual Review of Gas Costs on
11 December 13, 2016 in Docket No. G-41, Sub 47, keeping the existing (\$1.3172)
12 per dth decrement issued in G-41 Sub 46 in effect until further order by the
13 Commission. Toccoa desired to rely on the Deferred Account process and
14 tracking method such that the forecasted Deferred Account balance at the end of
15 the current review period would be as close to zero as practical. Therefore, there
16 was a significant reduction in the Deferred Account balance. The ending
17 Deferred Account balance ending June 30, 2016 was (\$37,260). Please refer to
18 Schedule 8 for specific tracking.

19
20 Q. The attached schedules show the gas costs incurred by Toccoa and billed to
21 customers during the period July 1, 2016 through June 30, 2017. In your opinion,
22 were all these gas costs prudently incurred?

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1 A. Yes.

2

3 Q. What action does Toccoa request the Commission take regarding the deferred
4 accounts?

5 A. Toccoa requests that the Commission approve the June 30, 2017 balances and
6 find that Toccoa's gas purchases were prudent during the relevant twelve-month
7 period.

8

9 Q. Has Toccoa taken any steps recently to enable it to more effectively manage its
10 deferred account?

11 A. Toccoa filed an application on July 19, 2016 requesting authority to increase the
12 review period temporary rate decrement of (\$0.7649) per dth to (\$1.3172) per dth
13 in order to accelerate the reduction of the Deferred Account balance owed to the
14 NC firm service customers. The Commission approved the request and issued an
15 Order in G-41 Sub 46, for the new temporary decrement with an effective date of
16 August 1, 2016.

17

18 Q. Does Toccoa have additional comments or information to provide?

19

20 A. Yes. Per Order Requiring Reporting Issued in Docket G-100 Sub 91, Toccoa
21 submits the following responses.

22

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- 1 1. Please describe any changes in the Company's customer mix or customer market
2 profiles that it forecasts for the next ten (10) years and explain how the changes
3 will impact the Company's gas supply, transportation, and storage requirements.
4

5 **Response 1-1:** We do not forecast a significant change in Toccoa's customer
6 mix over the next ten years; however, Toccoa's gas system may experience
7 incremental growth over the next ten years as the Northern Expansion Project
8 continues to build out. Importantly, the general condition of the economy and
9 more recent economic trends will impact the rate at which Toccoa actually
10 connects customers. Any additional growth may create a need for additional firm
11 capacity. At the appropriate time, the Gas Authority will assist Toccoa in
12 acquiring the most cost-effective combination of pipeline, storage, and peaking
13 capacity on Transco as needed.
14

- 15 2. Please identify the rate schedules and special contracts that the Company uses to
16 determine peak day demand requirements for planning purposes.
17

18 **Response 1-2:** The Gas Authority evaluates all firm customer classes that are
19 part of Toccoa's total firm load in planning for peak day demand requirements.
20 The Gas Authority's planning is based on the number of customers within each
21 firm rate schedule, and we consider all customer requirements with the exception
22 of alternate fuel customers.

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3. Please provide the base load demand requirements of the firm market estimated for the review period and forecasted for each of the next five (5) years.

Response 1-3: Response 1-3: Please refer to Docket No. G-41, Sub 50, Annual Review Schedule 6 submitted in conjunction with Mr. Trippe's testimony. This Schedule details monthly demand and storage contract volumes. We expect that Toccoa's base load demand requirements for the next five years will be sufficiently served under the demand contract, LNG contract, and Pine Needle contract volumes shown in this summary.

4. Please provide the one-day design peak demand requirements used by the Company for planning purposes for the review period and forecasted for each of the next five (5) winter seasons. The peak demand requirement amounts should set forth the estimated demand for each rate schedule or priority with peak day demand. All assumptions, such as heating degree-days, dekatherms per heating degree-day, customer growth rates, and supporting calculations used to determine the peak day requirement amounts should be provided.

Response 1-4: Toccoa's peak day and peak demand requirements are evaluated annually by the Municipal Gas Authority of GA staff, and an updated Winter Service Plan is produced and submitted to Toccoa each year prior to the winter

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1 season. Please see Exhibit A, "Municipal Gas Authority of Georgia Winter
2 Service Plan 2016 - 2017". Gas Authority analysis uses 51 HDD's to forecast
3 design day usage.

- 4
- 5 5. Please describe how Toccoa determines which type of resources should be
6 acquired or developed for meeting the Company's deliverability needs. Also,
7 please describe the factors evaluated in deciding whether the Company should
8 acquire pipeline transportation capacity, acquire a storage service, or develop
9 additional on-system storage deliverability.

10

11 **Response 1-5:** The Gas Authority makes these determinations based on least
12 cost and operational flexibility of the options available at the time new pipeline,
13 storage, or peaking capacity is forecasted to be necessary to meet TNG's firm
14 needs. No new, additional capacity or storage opportunities are being considered
15 at this time.

- 16
- 17 6. Please describe how the Company determines the amount of pipeline capacity that
18 should be acquired for (a) the whole year, (b) the full winter season, and (c) less
19 than the full winter season. Also, please describe the factors evaluated in
20 determining the appropriate amount and mix of service period options.

Response 1-6: Each year Toccoa's capacity needs are met by its existing capacity agreements. Most of these contracts are in place for 15 years or more. If Toccoa exceeds the contract, the least expensive option will be chosen to cover that particular period. Options include shifting capacity from another MGAG Member city, acquiring a delivered service, incurring "penalty gas" charges, etc. However, Toccoa has the ability to interrupt several large gas users to prevent the potential cost of exceeding the contract. No additional capacity needs are anticipated and no new capacity opportunities are being considered at this time.

7. Please describe each new capacity and storage opportunity that the Company is contemplating entering into during the next five (5) year period beginning with the 2017 - 2018 winter season.

Response 1-7: No new, additional capacity or storage opportunities are being considered at this time.

8. Please provide a computation of the reserve or excess capacity estimated for the review period and forecasted for each of the next five (5) winter seasons.

Response 1-8: Please see Exhibit A, "Municipal Gas Authority of Georgia Winter Service Plan 2016 - 2017".

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1 9. Please describe any significant storage, transmission, and distribution upgrades
2 required for the Company to fulfill its peak day requirements during the next five
3 (5) years.

4 **Response 1-9:** No upgrades are anticipated at this time.

5

6 Q. Does that conclude your testimony?

7 A. Yes.

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1 COMMISSIONER DOCKHAM: Ms. Culpepper.

2 MS. CULPEPPER: I move that the prefilled
3 joint testimony of Jan A. Larsen, Iris Morgan and
4 Julie G. Perry filed on October 16, 2017, consisting
5 of 15 pages be copied into record as if given orally
6 from the stand, and that the three Appendices attached
7 to the prefilled testimony be identified as marked when
8 filed and entered into evidence.

9 COMMISSIONER DOCKHAM: Without objection,
10 the Commission accepts into evidence the prefilled
11 direct testimony and appendices of Jan A. Larsen, Iris
12 Morgan and Julie G. Perry consisting of 15 pages and
13 three appendices. The Public Staff's appendices shall
14 be marked for identification as marked when prefilled.

15 Appendix A

16 (Identified and Admitted)

17 Appendix B

18 (Identified and Admitted)

19 Appendix C

20 (Identified and Admitted)

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1 (WHEREUPON, the prefiled joint
2 direct testimony of JAN A. LARSEN,
3 IRIS MORGAN and JULIE G. PERRY is
4 copied into the record as if given
5 orally from the stand.)
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TOCCOA NATURAL GAS
DOCKET NO. G-41, SUB 50
JOINT TESTIMONY OF
JAN A. LARSEN, IRIS MORGAN, AND JULIE G. PERRY
ON BEHALF OF
THE PUBLIC STAFF – NORTH CAROLINA UTILITIES COMMISSION
OCTOBER 16, 2017

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 Natural Gas Division of the Public Staff. My qualifications and
6 experience are provided in Appendix A.

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

9 A. The purpose of my testimony is (1) to evaluate the prudence of the
10 natural gas purchases made by Toccoa Natural Gas (Toccoa or
11 Company), and (2) to discuss my recommendation regarding any
12 temporary rate increments or decrements.

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

1 A. My name is Iris Morgan, and my business address is 430 North
2 Salisbury Street, Raleigh, North Carolina. I am an Accountant in
3 the Accounting Division of the Public Staff. My qualifications and
4 experience are provided in Appendix B.

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

7 A. The purpose of my testimony is (1) to present the results of my
8 review of the gas cost information filed by Toccoa in accordance
9 with G.S. 62-133.4(c) and Commission Rule R1-17(k)(6), and (2) to
10 provide my conclusions regarding whether the gas costs incurred
11 by Toccoa during the 12-month review period ended June 30,
12 2017, were properly accounted for, and (3) discuss any changes to
13 the deferred account reporting during the review period.

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

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

21 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS
22 PROCEEDING?

1 A. The purpose of my testimony is to discuss my investigation and
2 conclusions regarding the prudence of Toccoa's hedging activities
3 during the review period.

4 Q. PLEASE EXPLAIN HOW THE PUBLIC STAFF CONDUCTED ITS
5 REVIEW.

6 A. We reviewed the testimony and exhibits of the Company's
7 witnesses, the Company's monthly Deferred Gas Cost Account
8 reports, monthly financial and operating reports, the gas supply,
9 pipeline transportation and storage contracts, and the Company's
10 responses to Public Staff data requests. The responses to the
11 Public Staff data requests contained information related to Toccoa's
12 gas purchasing philosophies, customer requirements, and gas
13 portfolio mixes.

14 Q. MR. LARSEN, WHAT IS THE RESULT OF YOUR EVALUATION
15 OF TOCCOA'S GAS COSTS?

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

18 Q. MR. LARSEN, PLEASE DESCRIBE TOCCOA AND ITS
19 OPERATIONS IN NORTH CAROLINA.

20 A. Toccoa is a municipal corporation created by the laws of the State
21 of Georgia. It has been providing natural gas service in Georgia
22 since 1952, and in Macon County, North Carolina since 1998. It is

1 a full requirements wholesale customer of the Municipal Gas
2 Authority of Georgia (Gas Authority), which manages its capacity,
3 storage, and supply contracts.

4 Toccoa's total sales volume for the annual review year ended
5 June 30, 2017, was 1,251,801 dekatherms (dts), of which 126,105
6 dts (10.8%) were sold in North Carolina.

7 It is expected that Toccoa will experience incremental growth over
8 the next five years as the expansion of its system continues. As
9 necessary, the Gas Authority assists Toccoa in acquiring the most
10 cost effective combination of pipeline, storage, and peaking
11 capacities on the system of Transcontinental Gas Pipe Line
12 Company, LLC (Transco), based on least cost and operational
13 flexibility.

14 Q. MS. MORGAN, HAS THE COMPANY PROPERLY ACCOUNTED
15 FOR ITS GAS COSTS DURING THE REVIEW PERIOD?

16 A. Yes.

17 Q. MR. LARSEN, WHAT OTHER ITEMS DID THE NATURAL GAS
18 DIVISION REVIEW?

19 A. Even though the scope of Commission Rule R1-17(k) is limited to a
20 historical review period, the Public Staff's Natural Gas Division also
21 considers other information received pursuant to the data requests
22 in order to anticipate the Company's requirements for future needs,

1 including design day estimates, forecasted gas supply needs,
2 projection of capacity additions and supply changes, and customer
3 load profile changes.

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

5 Q. MS. MORGAN, HOW DOES THE ACCOUNTING DIVISION GO
6 ABOUT CONDUCTING ITS REVIEW OF THE COMPANY'S
7 ACCOUNTING FOR GAS COSTS?

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

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

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

1 (3) **Hedging Transactions** - The hedged cost of gas
2 prices are traced to the supporting documentation and are
3 verified for mathematical accuracy.

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

11 (5) **Interest Accrual** - Toccoa began calculating interest
12 on its Deferred Gas Cost Account in October 2016.
13 Calculations of the interest accrued on the account balance
14 during the month are verified in accordance with G.S.
15 62-130(e).

16 Q. HOW DO THE COMPANY'S FILED GAS COSTS FOR THE
17 CURRENT REVIEW PERIOD COMPARE WITH THOSE FOR THE
18 PRIOR REVIEW PERIOD?

19 A. Toccoa's total company gas costs for the current review period
20 were \$4,766,389, compared to the prior year's costs of \$3,966,557.
21 The North Carolina portion of gas costs incurred during the current
22 review period was \$380,846, compared with \$298,562 for the prior

1 period. The components of gas costs incurred for the two periods
2 are as follows:

	12 Months Ended		Increase	%
	June 30, 2017	June 30, 2016	(Decrease)	Change
Transco Pipeline Charges:				
Cherokee - FT	\$215,604	\$215,764	(\$160)	-0.07%
Converted Firm Transp. - CFT	133,350	134,539	(1,189)	-0.88%
South Coast - FT Mainline	124,832	135,847	(11,015)	-8.11%
Sunbelt 1997 - FT	39,509	39,754	(245)	-0.62%
Capacity Release Credits	(23,029)	(16,625)	(6,404)	38.52%
Swing Supply Charges	47,103	44,093	3,010	6.83%
Total Transco Pipeline Charges	\$537,369	\$553,372	(\$16,003)	-2.89%
Storage/Peaking Services:				
Transco LGA	20,736	20,793	(57)	-0.27%
Pine Needle LNG	99,203	121,818	(22,615)	-18.56%
Total Storage/Peaking Services	\$119,939	\$142,612	(\$22,673)	-15.90%
Total Demand and Storage Costs	\$657,308	\$695,984	(\$38,676)	-5.56%
Gas Supply Costs:				
Authority Gas Supply FT	\$3,904,089	\$2,848,979	\$1,055,120	37.04%
Supply Charge-meters and throughput	90,890	0	90,890	100.00%
Pine Needle Supply	19,848	13,921	5,927	42.58%
FT Released Capacity Supply	29,712	50,349	(20,637)	-40.99%
Authority G&A Charges	137,390	129,930	7,460	5.74%
Production Area Supply Savings	0	(1,862)	1,862	-100.00%
Total Gas Supply Costs	\$4,181,939	\$3,041,317	\$1,140,622	37.50%
Total Other Gas Costs	(\$72,858)	\$229,257	(\$302,115)	-131.78%
Total Company Gas Costs	\$4,766,389	\$3,966,557	\$799,831	20.16%
NC Portion of Total Gas Costs	\$380,846	\$298,562	\$82,284	27.56%

3 Q. PLEASE EXPLAIN ANY SIGNIFICANT INCREASES OR
4 DECREASES IN DEMAND AND STORAGE CHARGES.

5 A. The decreases in **Cherokee - FT**, **Converted Firm Transportation**
6 **(CFT)**, and **Sunbelt 1997 - FT** are primarily due to changes in
7 Transco's rates pursuant to Federal Energy Regulatory
8 Commission (FERC) Docket Nos. RP17-331-000 and
9 RP17-452-000, which became effective January 1, 2017 and April
10 1, 2017, respectively.

1 The decrease in **South Coast - FT Mainline** is primarily due to
2 changes in Transco's rates pursuant to FERC Docket No.
3 RP17-452-000, which became effective April 1, 2017.

4 **Capacity Release Credits** are margins earned by Toccoa for the
5 release of unutilized pipeline capacity. These credits increased
6 during the current review period primarily due to the Gas Authority
7 releasing more of Toccoa's unutilized capacity during the period.
8 Toccoa's policy has always been to flow through 100% of its
9 capacity release credits to ratepayers.

10 **Swing Supply Charges** are charges assessed by the Gas
11 Authority to its members for additional daily supply requirements,
12 primarily during the winter months. The increase is primarily due to
13 Toccoa requiring more Swing Supply volumes during the current
14 review period compared to the prior period.

15 **Authority Gas Supply FT Charges** increased primarily due to^B
16 higher wellhead gas prices during this review period compared with
17 the prior review period. This decrease is generally consistent with
18 the changes in market indices experienced between the two
19 periods.

20 The **Supply Charge - meters & throughput** is a new charge
21 based on the number of meters on Toccoa's system and its
22 monthly pipeline throughput. These charges represent additional

1 gas supply costs incurred in order to provide gas service to its
2 customers.

3 The increase in **Pine Needle Supply** is primarily due to an increase
4 in the level of volumes during the current review period as
5 compared to the prior period.

6 **FT Released Capacity Supply** is excess supply available from
7 other members of the Gas Authority that is used to meet Toccoa's
8 needs. During the review period, Toccoa utilized a lower level of
9 volumes as compared with the prior review period.

10 **Authority G&A Charges** include items for general and
11 administrative costs based on the number of meters and
12 throughput. These charges increased due to a higher G&A meter
13 charge and meter count during the current review as compared to
14 the prior review period.

15 **Production Area Supply Savings** are supply savings realized
16 using the portfolio of supply contracts from all Gas Authority
17 members. These savings decreased since there were no supply
18 savings during the current review.

19 **Total Other Gas Costs** decreased due to lower charges from
20 Toccoa's total company hedging program during the current review
21 period as compared to the prior period.

HEDGING ACTIVITIES

1

2 Q. MS. PERRY, WHAT IS THE STANDARD SET FORTH BY THE
3 COMMISSION FOR EVALUATING THE PRUDENCE OF A
4 COMPANY'S HEDGING DECISIONS?

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

12 Q. PLEASE DESCRIBE THE COMPANY'S HEDGING PROGRAM.

13 A. Toccoa participates in the "Winter Hedge Program," which is
14 managed by the Gas Authority for its members, including Toccoa.
15 The Gas Authority is the largest non-profit joint action natural gas
16 agency in the nation and supplies the natural gas needs of 78
17 member cities. The goal of the "Winter Hedge Program" is to
18 achieve price stability at a reasonable price for its customers by
19 locking-in futures prices for a portion of the anticipated winter firm
20 load. Under the Gas Authority's "Winter Hedge Program," a
21 member enters into hedging arrangements with the Gas Authority
22 specifying the targeted level of volumes to hedge. These hedging
23 arrangements typically span two to three years.

1 Q. PLEASE COMMENT ON THE TYPES OF FINANCIAL
2 INSTRUMENTS THAT THE GAS AUTHORITY MAY USE IN ITS
3 HEDGING PROGRAM.

4 A. The Gas Authority typically uses three-way options, basis swaps,
5 and fixed price swaps. A three-way option involves the purchase of
6 a call option, the sale of a put option, and the sale of a call option at
7 a strike price that is above the strike price of the purchased call
8 option. The three-way option offers upside protection over the
9 spread in the strike prices of the two call options, and allows
10 downside participation until prices drop below the strike price of the
11 put option. A basis swap is used to lock in the price difference
12 between a Transco pricing point and Henry Hub (NYMEX), the
13 pricing point typically used by the Gas Authority. Fixed price swaps
14 provide the most upside protection, effectively locking in a forward
15 purchase price, but offer no downside participation if prices drop.

16 Q. PLEASE DESCRIBE THE HEDGING ACTIVITY OF THE GAS
17 AUTHORITY DURING THE REVIEW PERIOD.

18 A. During the current review period, the hedging program resulted in a
19 \$427 credit to Toccoa's gas supply costs for North Carolina
20 customers.

21 Q. HAS TOCCOA MADE ANY CHANGES TO ITS HEDGING
22 ARRANGEMENTS WITH THE GAS AUTHORITY?

1 A. Yes. Toccoa reviewed its Winter Hedge Program participation and
2 elected to continue its winter hedge volumes at approximately 23%
3 of all firm North Carolina gas sales for November 2016 through
4 March 2018. Toccoa continued to adopt the more conservative
5 hedge volumes for their participation in the Winter Hedge Program
6 because market and future pricing has been significantly lower than
7 in prior years. Toccoa also elected to continue the maximum
8 hedging program term offered by the Gas Authority of two years
9 beginning November 1, 2016.

10 Q. WHAT IS YOUR CONCLUSION REGARDING THE PRUDENCE
11 OF THE COMPANY'S HEDGING ACTIVITIES?

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

17 **DESIGN DAY REQUIREMENTS**

18 Q. MR. LARSEN, AS TO THE COMPANY'S FUTURE CAPACITY
19 REQUIREMENTS, WHAT DID YOU REVIEW AND HAVE YOU
20 DRAWN ANY CONCLUSION FROM YOUR REVIEW?

21 A. I reviewed the Company's testimony and information submitted by
22 the Company in response to data requests that dealt with how well

1 the projected firm demand requirements aligned with the available
2 capacity in the future.

3 From my review, I concluded that it appears that the Company has
4 adequate capacity to meet firm demand for the next several winter
5 seasons.

6 **DEFERRED ACCOUNT REPORTING AND BALANCE**

7 Q. MS. MORGAN, DID TOCCOA HAVE ANY CHANGES TO ITS
8 DEFERRED ACCOUNT REPORTING DURING THE REVIEW
9 PERIOD?

10 A. Yes. Based on discussions with the Public Staff regarding the
11 recurring credit balances in the Company's Deferred Gas Cost
12 Account, and in accordance with G.S. 62-130(e), on October 1,
13 2016, Toccoa began calculating interest on its deferred account.
14 Toccoa is using the net-of-tax overall rate of return approved by the
15 Commission in its Order Granting Certificate of Public Convenience
16 and Necessity to the City of Toccoa and the Municipal Gas
17 Authority of Georgia issued December 8, 1998, in Docket No. G-41,
18 Sub 0, adjusted for any known corporate income tax rate changes,
19 as the applicable interest rate on all amounts overcollected or
20 undercollected from customers as reflected in its Deferred Gas
21 Cost Account. All other methods and procedures used by the
22 Company for the accrual of interest on the Deferred Gas Cost
23 Account are consistent with the other North Carolina LDCs.

1 Q. MS. MORGAN, BASED ON YOUR REVIEW OF GAS COSTS IN
 2 THIS PROCEEDING AND MR. LARSEN'S OPINION THAT THE
 3 COMPANY'S GAS COSTS WERE PRUDENTLY INCURRED,
 4 WHAT IS THE APPROPRIATE DEFERRED ACCOUNT BALANCE
 5 AS OF JUNE 30, 2017?

6 A. The balance in Toccoa's Deferred Gas Cost Account at June 30,
 7 2017, is a \$37,260 credit balance, owed to customers. The
 8 following chart summarizes Toccoa's Deferred Gas Cost Account
 9 activity for the current review period:

Deferred Account Balance - July 1, 2016	(\$109,739)
Commodity True-up	5,029
Demand True-Up	(39,201)
Firm Hedges	(427)
(Increment) Decrement	109,884
Interest @ 5.8268% per annum	(2,806)
Deferred Account Balance - June 30, 2017	<u>(\$37,260)</u>

10 Q. MR. LARSEN, WHAT IS YOUR RECOMMENDATION
 11 REGARDING ANY PROPOSED INCREMENTS/DECREMENTS?

12 A. In general, temporary increments or decrements for a local
 13 distribution company (LDC) are calculated using the volumes from
 14 an LDC's last general rate case. As Toccoa has never had a
 15 general rate case, the Public Staff has previously recommended,
 16 and the Commission has previously approved, using the review
 17 period North Carolina firm sales volumes instead in this calculation.

18 For the current review period ended June 30, 2017, the North
 19 Carolina firm sales volumes are 82,303 dts. Therefore, I propose a

1 temporary rate decrement of \$0.4397 per dt calculated using the
2 deferred account credit balance of \$37,260 divided by 82,303 dts. I
3 recommend that this temporary rate decrement be approved for all
4 North Carolina firm sales customers effective the first day of the
5 month following the date of the Commission's order in this
6 proceeding, and that the current decrement of \$1.3172 per dt that
7 was placed into rates effective August 1, 2016, in Docket No. G-41,
8 Sub 46, be removed. It is my understanding that Toccoa does not
9 oppose this recommendation.

10 Q. MR. LARSEN, WHAT EFFECT DOES THIS CHANGE IN
11 TEMPORARIES HAVE ON THE TYPICAL RESIDENTIAL BILL?

12 A. Since the proposed decrement in the instant docket is smaller than
13 the one currently in rates, customers will experience an increase in
14 their bills. The Company is still refunding the credit balance to
15 Customers, but now at a relatively lower pace. Therefore, the
16 typical residential customer will experience an increase of \$30.56
17 per year due to this rate change.

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

19 A. Yes, it does.

1 COMMISSIONER DOCKHAM: There is one
2 additional matter before us to discuss before the
3 post-hearing matters are discussed. Commissioner D.
4 Brown-Bland was assigned to this panel to be a member,
5 however, Commissioner Brown-Bland could not be here
6 today. All of the evidence was stipulated into the
7 record and there has been no cross-examine of the
8 witnesses. Therefore, do the parties have any
9 concerns or objections to Commissioner Brown-Bland
10 continuing to serve on the panel and participating in
11 the discussion of this docket?

12 MS. KEMERAIT: I have no concern or
13 objection.

14 MS. CULPEPPER: Same for the Public Staff.

15 COMMISSIONER DOCKHAM: Let the record
16 reflect that there was no objections or concerns.

17 Are there any other matters to come before
18 the Commission before we discuss post hearing filings?

19 MS. CULPEPPER: No.

20 MS. KEMERAIT: No.

21 COMMISSIONER DOCKHAM: Okay. Well, is it
22 acceptable to the parties if the Commission requires
23 post-hearing filings and proposed orders to be filed
24 30 days from today?

1 MS. CULPEPPER: That's fine.

2 MS. KEMERAIT: That is fine as well.

3 COMMISSIONER DOCKHAM: It is so ordered.

4 Thank you for your participation in today's hearing.

5 And, if there are no other matters to come before the
6 Commission, we are adjourned.

7 (WHEREUPON, the proceedings were adjourned.)

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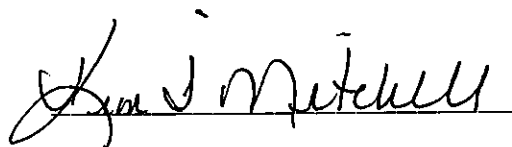
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C E R T I F I C A T E

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
Court Reporter II

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NOV 29 2017
Clerk's Office
N.C. Utilities Commission