



**NORTH CAROLINA  
PUBLIC STAFF  
UTILITIES COMMISSION**

February 14, 2020

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

Re: Docket No. G-40, Sub 153

Dear Ms. Campbell:

In connection with the above-captioned docket, I transmit herewith for filing on behalf of the Public Staff the Joint Testimony of Neha R. Patel, Engineer, Natural Gas Division; Shawn L. Dorgan, Staff Accountant, Accounting Division; and Julie G. Perry, Accounting Manager, Natural Gas & Transportation Section, Accounting Division.

By copy of this letter, I am forwarding a copy of this filing to all parties of record by electronic delivery.

Sincerely,

Electronically submitted  
/s/ Elizabeth D. Culpepper  
Staff Attorney  
[elizabeth.culpepper@psncuc.nc.gov](mailto:elizabeth.culpepper@psncuc.nc.gov)

c: Parties of Record

Executive Director (919) 733-2435	Communications (919) 733-2810	Economic Research (919) 733-2902	Legal (919) 733-6110	Transportation (919) 733-7766
Accounting (919) 733-4279	Consumer Services (919) 733-9277	Electric (919) 733-2267	Natural Gas (919) 733-4326	Water (919) 733-5610

**FRONTIER NATURAL GAS COMPANY**

**DOCKET NO. G-40, SUB 153**

**JOINT TESTIMONY OF**

**NEHA R. PATEL, SHAWN L. DORGAN, AND JULIE G. PERRY**

**ON BEHALF OF**

**THE PUBLIC STAFF – NORTH CAROLINA UTILITIES COMMISSION**

**February 14, 2020**

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

3 A. My name is Neha R. Patel and my business address is 430 North  
4 Salisbury Street, Raleigh, North Carolina. I am an engineer with the  
5 Natural Gas Division of the Public Staff. My qualifications and  
6 experience 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 2019, were properly accounted for, and (4) to discuss the prudence  
16 of Frontier's hedging decisions during the review period.

17 **Q. PLEASE EXPLAIN HOW THE PUBLIC STAFF CONDUCTED ITS**  
18 **REVIEW.**

19 A. We reviewed the testimony and exhibits of the Company's  
20 witnesses, the Company's monthly Deferred Gas Cost Account  
21 reports, monthly financial and operating reports, the gas supply and  
22 pipeline transportation contracts, and the Company's responses to  
23 Public Staff data requests. The responses to the Public Staff data

1 requests contained information related to Frontier's gas purchasing  
2 philosophies, customer requirements, and gas portfolio mixes.

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

5 A. Based on the Public Staff's investigation and its review of the data in  
6 this docket, we believe that Frontier's gas costs were prudently  
7 incurred.

8 **CUSTOMER GROWTH**

9 **Q. HOW HAVE FRONTIER'S CUSTOMERS AND THROUGHPUT**  
10 **CHANGED SINCE THE COMPANY'S LAST ANNUAL REVIEW OF**  
11 **GAS COSTS PROCEEDING?**

12 A. The table below reflects Frontier's customer growth rate of 7.3%  
13 during the current review period, which is approximately four times  
14 the growth rate of legacy local distribution companies (LDCs) in  
15 North Carolina. There was a slight decrease in Frontier's sales and  
16 transportation volumes (expressed in dekatherms or dts) from what  
17 was experienced in the prior review period. Since Frontier's winter  
18 throughput is largely dependent on weather due to space heating  
19 load, the volume change is correspondingly affected by a change in  
20 Heating Degree Days (HDDs) as compared to prior periods.

	<u>2018 Review</u>	<u>2019 Review</u>	<u>Change</u>
Number Of Customers (at September 30)	3,853	4,137	7.4%
Sales Volume (dts)	1,311,863	1,279,751	-2.4%
Transportation Volume (dts)	2,956,643	2,909,813	-1.6%
Total Sales & Transportation Volumes (dts)	4,268,506	4,189,564	-1.8%

*Table 1: Frontier Natural Gas Company – Customer Growth*

1 **Q. DID FRONTIER ACQUIRE ADDITIONAL PIPELINE CAPACITY**  
2 **DURING THE REVIEW PERIOD?**

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

8 Frontier states that it will continue to seek incremental pipeline  
9 capacity and evaluate storage, liquefied natural gas (LNG), and other  
10 opportunities as they arise in order to serve its customers. Frontier  
11 also states that it plans to meet with other natural gas producers who  
12 have purchased capacity on the Transco system in an effort to  
13 increase its available capacity to accommodate its anticipated  
14 growth and improve reliability. Frontier indicated in a data request  
15 response that it was focusing more effort on LNG options as they  
16 may prove to be more prudent compared to the cost of acquiring  
17 additional pipeline and capacity.

1 Q. HAS THE COMPANY PROPERLY ACCOUNTED FOR ITS GAS  
2 COSTS DURING THE REVIEW PERIOD?

3 A. Yes. However, as discussed in greater detail later in our testimony,  
4 we have reclassified certain costs represented by the Company as  
5 Demand and Storage Costs on Schedule 2 to the testimony of  
6 Company witness Steele, and made a limited number of adjustments  
7 stemming from timing differences, including an adjustment to the  
8 transportation customer balancing true-up entry.

9 Q. WHAT OTHER ITEMS DID THE NATURAL GAS DIVISION  
10 REVIEW?

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

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

19 Q. HOW DOES THE ACCOUNTING DIVISION GO ABOUT  
20 CONDUCTING ITS REVIEW OF THE COMPANY'S ACCOUNTING  
21 FOR GAS COSTS?

1 A. The Public Staff's Accounting Division reviews the Company's  
2 monthly Deferred Account reports (together with all supporting  
3 documentation), its monthly financial and other operating reports,  
4 and all executed gas supply and transportation contracts. In  
5 addition, we review the schedules attached to the Company's  
6 testimony, as well as the Company's responses to all Public Staff  
7 data requests submitted in this proceeding.

8 Each month we review the Deferred Account reports filed by the  
9 Company for accuracy and completeness, and perform certain  
10 review procedures on the calculations, including the following:

11 (1) **Gas Cost True-Up** – The actual commodity and demand  
12 costs are verified, calculations and data supporting gas cost  
13 collections are checked, invoices are reviewed, and the  
14 Company's overall gas cost calculations at benchmark are  
15 checked for mathematical accuracy.

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

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

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

4 (5) **Temporary Increments and/or Decrements** – All  
5 calculations and supporting data regarding amounts due to or  
6 from customers as recorded in the Deferred Gas Cost  
7 Account are verified, and supporting data and schedules are  
8 reviewed.

9 (6) **Supplier Refunds** – In Docket No. G-100, Sub 57, the  
10 Commission held that, unless or until it orders refunds to be  
11 handled differently, supplier refunds should be flowed through  
12 to ratepayers through an LDC's deferred account. Pursuant  
13 to this order we review all supplier refunds issued during the  
14 review period, and verify that all amounts received by the  
15 Company, if any, have been flowed through to ratepayers.

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. Frontier's total gas costs for the current review period were  
20 \$6,776,781, compared with \$5,814,378 for the prior 12-month  
21 period. The components of total gas cost for the two periods, and  
22 our analysis of the changes in those components, are as follows:



Line	12 Months Ended		Increase (Decrease)	% Change	
	Sept. 30, 2019	Sept. 30, 2018			
<b>Demand Charges</b>					
1	Transco FT	\$1,465,925 [1]	\$1,202,629 [1]	\$263,296	21.89%
2	Other	455,000 [2]	-0-	455,000	N/A
3	<b>Total Demand Charges</b>	<b>\$1,920,925</b>	<b>\$1,202,629</b>	<b>\$718,296</b>	<b>59.73%</b>
<b>Gas Supply Costs</b>					
4	Baseload Purchases	\$4,291,818	\$3,628,681	\$663,137	18.27%
5	Delivered Purchases	440,206	1,288,203	(847,997)	-65.83%
6	Hedge and/or Peaking Service Purchases	166,613 [3]	-0-	166,613	N/A
7	Other	4,325	(106,873)	111,198	-104.05%
8	<b>Total Gas Supply Costs</b>	<b>\$4,902,962</b>	<b>\$4,810,011</b>	<b>\$92,951</b>	<b>1.93%</b>
<b>Other Gas Costs</b>					
9	True-up Entries per Monthly Deferred Account Filings	(\$189,271)	(\$248,262)	\$58,991	-23.76%
10	Other Deferred Account Related Gas Costs	117,508 [4]	96,931	20,577	21.23%
11	Other Gas Costs & Adjustments	24,657 [5]	(46,931)	71,588	-152.54%
12	<b>Total Other Gas Costs</b>	<b>(\$47,106)</b>	<b>(\$198,262)</b>	<b>\$151,156</b>	<b>-76.24%</b>
13	<b>Total Gas Costs</b>	<b>\$6,776,781 [6]</b>	<b>\$5,814,378</b>	<b>\$962,403</b>	<b>16.55%</b>
14	<b>Gas Supply for Delivery (dts)</b>	<b>1,395,416</b>	<b>1,366,150</b>	<b>29,266</b>	<b>2.14%</b>
15	<b>Total Gas Costs per Dt</b>	<b>\$4.8565</b>	<b>\$4.2560</b>	<b>\$0.60</b>	<b>14.11%</b>

**Notes:**

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

[2] - Fixed Charges per Frontier's peaking service contract with UGI.

[3] - Volumetric Charges per Frontier's peaking service contract with UGI.

[4] - Deferred Account Adjustment per Settlement Agreement in G-40, Sub 149.

[5] - Marketer cash-outs, less reclassifications and other miscellaneous adjustments.

[6] - Ties to the Company's 2019 Q3 GS-1 Report, and Cost of Gas Sold amounts recorded in Frontier's monthly earnings reports.

**Table 2: Frontier Natural Gas Company – Comparison of Total Gas Costs**

1 As will be discussed in further detail later in our testimony, **Demand**  
2 **Charges** increased during the current review period predominately  
3 due to the Company's utilization of a peaking supply contract entered  
4 into with UGI Energy Services, LLC (UGI) for the winter period.  
5 During January and February 2019, the peaking service agreement  
6 resulted in demand charges in the amount of \$455,000, payable in  
7 two equal monthly installments of \$227,500.

1           **Baseload Purchases** increased primarily due to a higher average  
2           total cost of gas of \$4.8565 per dt for the current review period. This  
3           represented a 14.11% increase over the average total cost of gas for  
4           the prior review period of \$4.2560 per dt. In addition, total purchased  
5           gas supply volumes increased by 29,266 dts, or 2.14%.

6           The decrease in **Delivered Purchases** is due to a sizable decrease  
7           in volumes purchased at Zone 5 Delivered prices during the current  
8           review period as compared to the prior review period.

9           **Hedging/Peaking Service Purchases** increased in the current  
10          review period due to volumes acquired under a peaking service  
11          contract with UGI at a locked-in strike price for the winter period.

12          The change in **Total Other Gas Costs** relates primarily to activity in  
13          Frontier's Deferred Account. These totals reflect: (1) the offsetting  
14          true-up entries recorded in the Company's Deferred Gas Cost  
15          Account during the review period; (2) a \$117,508 adjustment to  
16          Frontier's deferred account pursuant to a settlement agreement  
17          entered into by Frontier and the Public Staff in Docket No. G-40, Sub  
18          149, Frontier's prior annual review proceeding (Settlement  
19          Agreement); and (3) marketer net cash-outs and other  
20          miscellaneous 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, with two exceptions. First, in the case of gas costs labeled by  
5 the Company as "Other Capacity Charges" (Schedule 2) we have  
6 reclassified these costs as Commodity Charges (Schedule 3). We  
7 have done so because these costs are, in fact, volumetric  
8 transportation surcharges billed by UGI and are properly classifiable  
9 as supply-related costs, not pipeline charges. The Public Staff has  
10 routinely reclassified these costs as commodity charges in prior  
11 annual review proceedings.

12 Second, the Company recognized the effect of transportation  
13 customer balancing billing adjustments for the months of May and  
14 June 2019, in the August 2019 Deferred Gas Cost Account. Based  
15 on our review of these billing adjustments, the Public Staff  
16 recommends a correction to a transportation customer balancing  
17 true-up entry in the amount of \$1,734.

18 **HEDGING AND OTHER RISK MITIGATION STRATEGIES**

19 Q. PLEASE EXPLAIN HOW THE PUBLIC STAFF TYPICALLY  
20 CONDUCTS ITS REVIEW OF HEDGING ACTIVITIES.

- 1 A. The Public Staff's review of the Company's hedging activities  
2 typically includes an analysis and evaluation of the following  
3 information:
- 4 1. The Company's monthly hedging costs, as reflected on the  
5 invoices of UGI;
  - 6 2. Detailed source documentation, such as physical gas  
7 confirmations, that support the amount of gas hedged and the  
8 strike prices;
  - 9 3. Workpapers supporting the derivation of the maximum hedge  
10 volumes targeted;
  - 11 4. The monthly summary of hedging costs (benefits);
  - 12 5. Hedging plan documents that set forth the Company's gas  
13 price risk management policy, hedge strategy, and gas price  
14 risk management operations;
  - 15 6. Documentation from meetings of Frontier's Supply Team and  
16 the Risk Committee of its parent company, Hearthstone  
17 Utilities, Inc.;
  - 18 7. Testimony and exhibits of the Company's witnesses in the  
19 annual review of gas costs proceeding; and
  - 20 8. Company responses to the Public Staff's data requests.

1 Q. PLEASE EXPLAIN YOUR UNDERSTANDING OF THE  
2 STANDARD SET FORTH BY THE COMMISSION FOR  
3 EVALUATING THE COMPANY'S HEDGING DECISIONS?

4 A. The appropriate standard for the review of hedging decisions by  
5 LDCs is set forth in the Commission's February 26, 2002, Order on  
6 Hedging in Docket No. G-100, Sub 84 (Hedging Order). In the  
7 Hedging Order, the Commission concluded that the purpose of  
8 hedging is to reduce the volatility of commodity costs. The  
9 Commission noted that hedging involves costs and risks and that it  
10 is possible that the long term cost of hedged gas will be higher than  
11 gas bought at market prices. The Commission stated it understands  
12 that with the use of hedging mechanisms, costs and risks are  
13 accepted in exchange for reduced volatility.

14 The Commission concluded that hedging is an option that must be  
15 considered in connection with an LDC's gas purchasing practices.  
16 The Commission stated that an LDC's decision to make no effort to  
17 mitigate price spikes – including a decision not to hedge – would be  
18 a decision subject to review in the LDC's annual gas cost prudence  
19 review proceeding just as much as a decision to hedge.

20 The Commission further concluded that if an LDC decides to hedge  
21 in some fashion, prudently incurred costs in connection with hedging  
22 should be treated as gas costs under N.C.G.S. § 62-133.4. The  
23 Commission stated that while such costs cannot be pre-approved

1 within the context of the annual gas cost prudence review, the  
2 Commission recognized that the review of the prudence of a decision  
3 to hedge or not to hedge should be made on the basis of the  
4 information available at the time each decision is made, not on the  
5 basis of the information available at the time of the prudence review  
6 proceeding.

7 The Commission ordered that each LDC should address its current  
8 hedging policy and program in its testimony in each annual gas cost  
9 prudence review, explaining why and how it hedged or why it did not  
10 hedge during the test period.

11 **Q. PLEASE DESCRIBE FRONTIER'S HEDGING PROGRAM.**

12 A. Company witness Younger testified that Frontier revised and  
13 updated its Gas Supply Procurement Policy during the review period  
14 and the most significant updates to the policy were under the  
15 guidelines for hedging. Company witness Younger summarized  
16 Frontier's hedging policy in her testimony by stating that Frontier  
17 anticipates it will hedge 50% of expected average daily flow for each  
18 winter month. She further explains that Frontier will subtract out  
19 current capacity of 8,613dth from the expected max daily flow for  
20 each month to conclude how much of the forecasted Zone 5  
21 purchase gas should be hedged for that month. Witness Younger  
22 also states the remaining Zone 5 purchases shall be executed with

1 FOM pricing, to minimize the likelihood of the need to purchase  
2 volatile Zone 5 daily priced gas.

3 The primary difference between Frontier's hedging approach and the  
4 approach of the other LDCs is that Frontier uses physical hedges  
5 exclusively and does not use financial hedges, such as options,  
6 futures, or swaps. A physical hedge is a fixed price contract between  
7 two parties to buy or sell physical natural gas supplies at a certain  
8 future time, at a specific price, which is agreed upon at the time the  
9 deal is executed. If Frontier hedges, its gas supply portfolio typically  
10 includes the physical purchase of fixed price gas supplies for delivery  
11 at its city gate on a monthly basis.

12 **Q. PLEASE DESCRIBE YOUR UNDERSTANDING OF THE**  
13 **COMPANY'S HEDGING PROGRAM DURING THE REVIEW**  
14 **PERIOD.**

15 A. Although Frontier did not utilize the updated Gas Supply  
16 Procurement Policy for this review period, Frontier reached out to its  
17 Gas Supply Asset Manager, UGI, to discuss the best strategy for to  
18 address the volatile Zone 5 daily market for the review period. The  
19 Company entered into a peaking supply contract for 3,232 dts per  
20 day for 20 days throughout January and February 2019, which  
21 resulted in a maximum contract quantity of 64,640 dts. The peaking  
22 supply contract also enabled the Company to lock-in a \$3.072 strike  
23 price for all peaking contract gas used. In Exhibit B to Company

1 witness Younger's testimony, it stated that the peaking supply  
2 contract also provided the flexibility for Frontier to use the maximum  
3 contract quantity of 64,640 dts over any number of days in January  
4 and February 2019, if it preferred that option instead of only being  
5 able to nominate 3,232 dts per day for 20 days.

6 The Public Staff believes that entering into the peak day arrangement  
7 with UGI helped mitigate the risk of price spikes to customers during  
8 the winter period that might involve large temperature fluctuations  
9 and price volatility. Therefore, the Public Staff believes that even  
10 though Frontier did not utilize its hedging strategy during the current  
11 review period, the peak day service with the locked-in pricing  
12 provided a reasonable level of price mitigation during January and  
13 February 2019.

14 The Public Staff recommends that Frontier continue to work with the  
15 Public Staff to discuss its Gas Supply Procurement Policy, including  
16 hedging and other price mitigation strategies, as changes to the  
17 policy are contemplated.

18 **Q. BASED ON YOUR REVIEW AND ANALYSIS, WERE THE**  
19 **COMPANY'S HEDGING DECISIONS DURING THE REVIEW**  
20 **PERIOD PRUDENT?**

21 In our opinion, based on what was reasonably known or should have  
22 been known at the time the Company made its hedging decisions



1 affecting the review period, as opposed to the outcome of those  
2 decisions, our analysis leads me to the conclusion that the decisions  
3 were prudent.

4 **DESIGN DAY REQUIREMENTS**

5 **Q. DO YOU HAVE ANY RECOMMENDATIONS REGARDING HOW**  
6 **FRONTIER IS PLANNING TO MEET FUTURE SYSTEM**  
7 **DEMAND?**

8 A. Attached to Company witness Steele's testimony as  
9 CONFIDENTIAL Exhibit B is a report on Design Day Study prepared  
10 by Dr. Ronald H. Brown, PhD, who utilized the Marquette University  
11 GasDay program in evaluating Frontier's projected peak day  
12 demand. We have evaluated this report and have concluded that it  
13 accurately calculates Frontier's peak day using reasonable  
14 assumptions, such as HDDs and frequency of occurrence of such  
15 cold weather events. Based on this report, it appears that Frontier  
16 has adequate capacity in order to serve its firm market on peak days  
17 until the 2021-2022 winter period. Due to the confidential nature of  
18 this document, we will not discuss any specifics of the report's  
19 findings in this testimony.

20 **DEFERRED ACCOUNT BALANCE**

21 **Q. WHAT IS THE APPROPRIATE DEFERRED ACCOUNT BALANCE**  
22 **AS OF SEPTEMBER 30, 2019?**

1 A. Based on our review of the Company's monthly deferred account  
 2 filings and our conclusion that the gas costs were prudently incurred,  
 3 the Public Staff has determined that the appropriate balance in  
 4 Frontier's Deferred Gas Cost Account at September 30, 2019, is  
 5 \$417,132, debit balance owed to Frontier. The following table  
 6 summarizes activity in Frontier's Deferred Gas Cost Account for the  
 7 current review period:

<b>Filed Deferred Account Balance - October 1, 2018</b>	<b>\$330,127</b>
Gas Cost True-up	211,649
Transportation Customer Balancing True-up	(20,645)
Deferred Account Adjustment, plus interest, per Settlement Agreement - G-40, Sub 149	(117,508)
Transco Refund	(113)
Interest (Includes interest effect of benchmark proration adjustment - G-40, Sub 151)	13,579
Rounding	43
<b>Public Staff Recommended Deferred Account Balance -September 30, 2019</b>	<b>\$417,132</b>

*Table 3: Frontier Natural Gas Company – Deferred Gas Cost Account at September 30, 2019*

8 Frontier filed a Deferred Gas Cost Account debit balance, owed from  
 9 customers to Frontier, of \$410,265, as shown on Schedule 8 of  
 10 Company witness Steele's testimony. Based on timing differences  
 11 associated with an estimated settlement adjustment made by the  
 12 Company related to the Settlement Agreement, which impacted  
 13 accrued interest, and the correction of a transportation customer  
 14 balancing true-up entry mentioned earlier in testimony, the Public  
 15 Staff recommends a debit adjustment to Frontier's deferred account

1 balance at September 30, 2019 in the amount of \$6,867.

2 The Public Staff has discussed the above adjustment with the  
3 Company, and it is our understanding that they are in agreement.

4 **Q. HAS THE COMPANY CONTINUED TO USE THE APPROPRIATE**  
5 **INTEREST RATE IN THE DEFERRED ACCOUNT?**

6 A. Yes. In Docket No. G-40, Sub 135, the Public Staff recommended  
7 and the Commission approved in its Order on Annual Review of Gas  
8 Costs issued June 13, 2017, that Frontier shall begin calculating  
9 interest on its deferred account using the net-of-tax overall rate of  
10 return approved by the Commission in its Order Approving Use of  
11 Natural Gas Bond Funds issued March 12, 2000, in Docket No. G-40,  
12 Sub 2, adjusted for any known corporate income tax rate changes,  
13 as the applicable interest rate on all amounts over-collected or under-  
14 collected from customers reflected in its Deferred Gas Cost Account.

15 The Public Staff has reviewed the Company's interest rate  
16 calculations for all known corporate income tax rate changes, and  
17 determined that the decrease in North Carolina's corporate income  
18 tax rate (from 3.00% to 2.50%, effective January 1, 2019) had no  
19 effect on the calculation of the net-of-tax overall rate of return.  
20 Therefore, the Public Staff believes that it is appropriate that Frontier  
21 shall continue to use the net-of-tax overall rate of return of 6.60% as  
22 the applicable interest rate on all amounts over-collected or under-

1 collected from customers reflected in its Deferred Gas Cost Account,  
2 effective January 1, 2019.

3 **Q. WHAT IS YOUR RECOMMENDATION REGARDING ANY**  
4 **PROPOSED INCREMENTS/DECREMENTS?**

5 A. Company witness Steele has stated that Frontier anticipates the  
6 current deferred account balance moving back towards \$0 over the  
7 winter months. Frontier did not propose any temporaries in this  
8 proceeding. As shown in Table 3 above, the recommended deferred  
9 account balance owed from customers to Frontier is a debit balance  
10 of \$417,132. In a response to a Public Staff data request, the  
11 Company stated that it anticipates a Transco refund in March 2020,  
12 which will move its deferred account balance closer to \$0. We agree  
13 with Frontier's proposal of not implementing any temporaries in this  
14 proceeding. The Public Staff recommends that Frontier monitor the  
15 deferred account balance and, if needed, file an application for  
16 authority to implement new temporary increments or decrements  
17 through the Purchased Gas Adjustment mechanism in order to keep  
18 the deferred account balance at a reasonable level.

19 **Q. HAS THE COMPANY COMPLIED WITH THE ORDERING**  
20 **PARAGRAPHS IN THE PRIOR ANNUAL REVIEW ORDER?**

21 A. Yes. Ordering Paragraph 5 of the Commission's *Order on Annual*  
22 *Review of Gas Costs* issued June 11, 2019, in Docket No. G-40, Sub  
23 149 (the Sub 149 Order), Frontier's prior annual review proceeding,

1 states that “Frontier and the Public Staff shall work together  
2 collaboratively to address future gas purchasing practices by  
3 Frontier, including hedging and other price mitigation practices, in  
4 order to reduce or eliminate concerns over customer exposure to  
5 potential gas cost volatility while maintaining reasonable up-front  
6 charges to customers for the right to call on gas under high demand  
7 scenarios.”

8 On June 4, 2019, Frontier met with the Public Staff to discuss  
9 Frontier’s updated Gas Supply Procurement Policy and to share how  
10 the Company planned to utilize its revised Procurement Policy in  
11 preparation for the 2019-2020 winter period. This included  
12 discussions on hedging and other price mitigation strategies to  
13 protect customers from possible gas cost volatility.

14 Ordering Paragraph 6 of the Sub 149 Order, states that the Company  
15 was required to report to the Commission within six months of the  
16 date of the order detailing the steps taken and progress made by  
17 Frontier on options to bolster its gas supply planning.

18 On December 9, 2019, Frontier filed a letter in Docket No. G-9, Sub  
19 149 detailing the steps taken and progress made by the Company to  
20 bolster its gas supply planning, which included designating a lead  
21 gas supply planning person, utilizing the availability of two  
22 consultants to assist in gas supply planning and purchasing

1 decisions, and providing additional personnel from other affiliated  
2 regulated utilities to assist in evaluating the natural gas procurement  
3 procedures and help with any engineering distribution needs. In  
4 addition, Frontier stated that it is forging an excellent working  
5 relationship and communicates regularly with UGI about its natural  
6 gas supply needs.

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

8 **A.** Yes, it does.

**Neha R. Patel**

**Qualifications and Experience**

I graduated from University Of Mumbai in 1995 with a Degree of Bachelor of Science in Electronic Engineering. I began working as a Utilities Engineer with the Natural Gas Division of the Public Staff in February of 2014.

My most current work experience with the Natural Gas Division includes the following topics:

1. Purchase Gas Cost Adjustment Procedures;
2. Tariff Filings;
3. Customer Utilization Trackers;
4. Special Contract Review and Analysis;
5. Weather Normalization Adjustments;
6. Franchise Exchange Filings;
7. Annual Review of Gas Costs;
8. Cost Of Service Studies;
9. Peak Day Demand and Capacity Calculations;
10. Fuel and Electric Usage Trackers; and
11. Natural Gas Rate Case Proceedings.

**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. In addition, I have provided accounting and testimonial support in general rate cases involving North Carolina's largest investor-owned electric and natural gas utilities, support focused primarily on applicant rate-base requests in the area of cash working capital.

In addition to serving as a Public Staff panel witness in annual gas cost review proceedings for Frontier Natural Gas Company, currently I serve as the lead technical accountant in the Duke Energy Progress general rate case filed on October 30, 2019 (Docket No. E-2, Sub 1219).



**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.