NORTH CAROLINA UTILITIES COMMISSION

NOTICE TO PARTIES

Docket No. _____G-40, Sub 149 __ Exceptions Due on or Before _June 26, 2019_

Parties to the above proceeding may file exceptions to the report and Recommended Order hereto attached on or before the day above shown as provided in G.S. 62-78. Exceptions, if any, must be filed (original and thirty (30) copies) with the North Carolina Utilities Commission, Raleigh, North Carolina, and a copy thereof mailed or delivered to each party of record, or to the attorney for such party, as shown by appearances noted. Each exception must be numbered and clearly and specifically stated in one paragraph without argument. The grounds for each exception must be stated in one or more paragraphs, immediately following the statement of the exception, and may include any argument, explanation, or citations the party filing same desires to make. In the event exceptions are filed, as herein provided, a time will be fixed for oral argument before the Commission upon the exceptions so filed, and due notice given to all parties of the time so fixed; provided, oral argument will be deemed waived unless written request is made therefore at the time exceptions are filed. If exceptions are not filed, as herein provided, the attached report and recommended decision will become final and effective on _June 27, 2019__, unless the Commission, upon its own initiative, with notice to parties of record modifies or changes said Order or decision or postpones the effective date thereof.

The report and Recommended Order attached shall be construed as tentative only until the same becomes final in the manner hereinabove set out.

STATE OF 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 for Annual Review of Gas Costs Pursuant to N.C.G.S. § 62-133.4(c) and Commission Rule R1-17(k)(6)	))))	RECOMMENDED ORDER ON ANNUAL REVIEW OF GAS COSTS

HEARD: Tuesday, March 5, 2019, at 10:00 a.m., in Commission Hearing Room 2115, Dobbs Building, 430 North Salisbury Street, Raleigh, North Carolina

BEFORE: Commissioner ToNola D. Brown-Bland, Presiding; and Chairman Edward S. Finley, Jr.[1] and Commissioner Jerry C. Dockham

APPEARANCES:

For Frontier Natural Gas Company:

James H. Jeffries IV, McGuireWoods LLP, 201 N. Tryon Street, Suite 3000, Charlotte, North Carolina 28202

For the Using and Consuming Public:

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

BY THE COMMISSION: On December 3, 2018, pursuant to N.C. Gen Stat. § 62-133.4(c) and Commission Rule R1-17(k)(6), Frontier Natural Gas Company (Frontier or Company) filed the direct testimony and exhibits of Fred A. Steele, President/General Manager, in connection with the annual review of Frontier's gas costs for the twelve-month period ended September 30, 2018 (review period).

On December 10, 2018, the Commission issued its Order Scheduling Hearing, Requiring Filing of Testimony, Establishing Discovery Guidelines and Requiring Public Notice (Hearing Order). The Hearing Order set the annual review of the Company's gas costs for hearing on March 5, 2019, set pre-filed testimony dates, and required Frontier to give notice of the hearing.

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[1] Chairman Edward S. Finley, Jr., resigned from the Commission effective May 31, 2019, and did not participate in this decision.

On February 15, 2019, the Public Staff – North Carolina Utilities Commission (Public Staff) filed a motion requesting that the Commission extend the date for the Public Staff to file its testimony to February 25, 2019, and that the date for the expert witness hearing be rescheduled to March 25 or 26, 2019. The Commission issued an Order on February 18, 2019, extending the date for the Public Staff to file its testimony to February 22, 2019, extending the date for Frontier to file its rebuttal testimony to March 4, 2019, and maintaining the date for the expert witness hearing on March 5, 2019.

On February 22, 2019, the Public Staff filed the joint direct testimony and exhibit of Jan A. Larsen, Director, Natural Gas Division; Shawn L. Dorgan, Staff Accountant, Accounting Division; and Julie G. Perry, Accounting Manager, Natural Gas & Transportation Section, Accounting Division (Public Staff Panel). On April 1, 2019, the Public Staff filed revised Pages 82, 84-88, 90, and 91 to its prefiled testimony.

On March 5, 2019, Frontier and the Public Staff filed an Agreement and Stipulation of Settlement (Settlement) detailing the resolution of the differences in their respective positions regarding Frontier's gas purchasing practices for January 2018 and February 2018.

On March 5, 2019, the matter came on for hearing as scheduled, and all prefiled testimony and exhibits were admitted into evidence. No public witnesses appeared at the hearing.

On April 30, 2019, the Joint Proposed Order of Frontier and the Public Staff was filed.

No other party intervened in this docket.

Based upon the testimony and exhibits received into evidence and the record as a whole, the Commission makes the following:

FINDINGS OF FACT

1. Frontier is a public utility as defined by N.C. Gen. Stat. § 62-3(23), organized and existing under the laws of the State of North Carolina with its headquarters in Elkin, North Carolina.

2. Frontier is a natural gas local distribution company (LDC), primarily engaged in the business of purchasing, transporting, distributing, and selling natural gas to approximately 3,853 customers in North Carolina, as of September 30, 2018.

3. Frontier has filed with the Commission and submitted to the Public Staff all of the information required by N.C. Gen. Stat. § 62-133.4(c) and Commission Rule R1-17(k) and has complied with the procedural requirements of such statute and rule.

4. The review period in this proceeding is the twelve months ended September 30, 2018.

5. During the review period, Frontier incurred total gas costs of $5,814,378, which was comprised of pipeline demand charges of $1,202,629, gas supply costs of $4,810,011, and other gas costs of ($198,262).

6. The Public Staff initially recommended a disallowance of Frontier's recovery of certain gas costs related to Frontier's gas purchases for the months of January and February 2018.

7. Although Frontier disputes the Public Staff's position on Frontier's gas purchasing practices during the months of January and February 2018, and disputes that any gas costs should be disallowed, Frontier and the Public Staff reached an agreement, the terms of which are memorialized in the Settlement and resolve all issues and claims in this docket. The Commission accepts the Settlement as reasonable and appropriate for purposes of this proceeding, and serving the public interest.

8. The appropriate Deferred Gas Cost Account balance at September 30, 2018, is a debit balance of $212,619, owed to Frontier by its customers, taking into account a deferred account adjustment of $117,508 (inclusive of interest) agreed to by the Company and the Public Staff.

9. Subject to the deferred account adjustment agreed to by the Public Staff and Frontier, Frontier properly incurred and accounted for its gas costs during the review period.

10. Subject to the deferred account adjustment agreed to by the Public Staff and Frontier, Frontier's hedging decisions during the review period were reasonable and prudent.

11. During the review period, Frontier purchased all of its gas supply requirements from a full requirements gas supplier.

12. Frontier has access to 20,000 dekatherms per day (dts/day) of capacity which should allow the Company to serve its firm market on peak day until the 2021-2022 winter period.

13. Frontier utilized pipeline capacity from Transcontinental Gas Pipe Line Company, LLC (Transco).

14. Frontier has continued its "best evaluated cost" gas purchasing supply strategy policy.

15. Subject to the deferred account adjustment noted above, the gas costs incurred by Frontier during the review period were prudently incurred, and Frontier should be permitted to recover 100% of its prudently incurred gas costs.

16. Frontier should be required to examine options for bolstering its gas supply planning.

17. Frontier should not be required to implement a rate increment or decrement in this docket.

18. The appropriate interest rate to be used to calculate interest on Frontier's deferred gas cost account should be 6.60%, effective January 1, 2018.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 1-2

These findings are essentially informational, procedural, or jurisdictional and are based on evidence uncontested by any of the parties. The evidence supporting these findings is contained in the official files and records of the Commission, the testimony and exhibits of Company witness Steele, and the testimony and exhibit of the Public Staff Panel.

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

The evidence supporting these findings is contained in the testimony of Frontier witness Steele, the testimony and exhibit of the Public Staff Panel, and the provisions of N.C.G.S. § 62-133.4(c) and Commission Rule R1-17(k)(6).

Section 62-133.4 requires that each natural gas utility submit to the Commission information and data for an historical twelve-month review period concerning its actual cost of gas, volumes of purchased gas, sales volumes, negotiated sales volumes, and transportation volumes. Commission Rule R1-17(k)(6)(c) requires the filing of work papers, direct testimony, and exhibits supporting the information.

Frontier witness Steele testified that the Company is responsible for and has complied with reporting gas costs and deferred account activity to the Commission and the Public Staff on a monthly basis as required by Commission Rule R1-17(k). The Public Staff Panel confirmed that the Public Staff has reviewed the reports filed by Frontier. The Commission, therefore, concludes that Frontier has complied with all of the procedural requirements of N.C.G.S. § 62-133.4(c) and Commission Rule R1-17(k) for the review period.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 5-9

The evidence supporting these findings of fact is contained in the testimony and exhibits of Frontier witness Steele, the testimony and exhibit of the Public Staff Panel, and the Settlement.

The Public Staff Panel testified that Frontier's total gas costs for the review period were $5,814,378, which was comprised of pipeline demand charges of $1,202,629, gas supply costs of $4,810,011, and other gas costs of ($198,262).

The Public Staff Panel testified that the Public Staff reviewed the testimony and exhibits of Company witness Steele, the Company's monthly Deferred Gas Cost Account reports, monthly financial and operating reports, the gas supply and pipeline transportation contracts, and the Company's responses to Public Staff data requests, which contained information related to Frontier's gas purchasing philosophies, customer requirements, and gas portfolio mixes.

Company witness Steele testified that at September 30, 2018, Frontier's Deferred Gas Cost Account had an ending debit balance of $330,127, owed to Frontier from customers, as shown on Company Schedule 8. Initially, the Public Staff Panel testified that, based on (1) the recommended hedging/price mitigation adjustment to the deferred gas cost account, (2) their review of the gas costs in this proceeding, and (3) their opinion that the Company's gas costs were prudently incurred, the appropriate balance in Frontier's Deferred Gas Cost Account at September 30, 2018, is a $65,998 debit balance, owed to Frontier. However, per the terms of the Settlement agreed to by the Company and Public Staff, Frontier agreed, without acknowledging any imprudence on its part with respect to its gas purchasing practices during the review period, to credit its Deferred Gas Cost Account in the amount of $117,508 (inclusive of interest), thereby resulting in a Deferred Gas Cost Account balance at September 30, 2018, of $212,619, owed by Frontier's customers to the Company.

Based on the foregoing, the Commission concludes that the Settlement between Frontier and the Public Staff is reasonable and appropriate for purposes of this proceeding, and serves the public interest. Therefore, the Commission accepts the Settlement. The Commission further concludes that the appropriate Deferred Gas Cost Account balance at September 30, 2018, is a debit balance of $212,619, owed to Frontier by its customers, taking into account a $117,508 adjustment (inclusive of interest) agreed to by the Company and the Public Staff, and that Frontier has properly accounted for its gas costs incurred during the review period.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 10

The evidence for this finding of fact is contained in the testimony and exhibits of Company witness Steele, the testimony and exhibit of the Public Staff Panel, and the Settlement.

Company witness Steele testified that the Company continually monitors the NYMEX natural gas commodity market and associated hedging developments, trends, activity and costs and that Frontier made the decision not to engage in hedging activity during the current review period of October 2017 to September 2018.

The Public Staff Panel testified that the appropriate standard for the review of hedging decisions by LDCs is set forth in the Commission's February 26, 2002, Order on Hedging in Docket No. G-100, Sub 84 (Hedging Order). In the Hedging Order, the Commission concluded that the purpose of hedging is to reduce the volatility of commodity costs. The Public Staff witnesses further testified that even a conservative approach to stabilize costs would have enabled the Company to mitigate the impact of the large fly ups in gas prices during the winter. However, Frontier opted to rely on Zone 5 daily pricing instead of utilizing other possible alternatives to mitigate price risk such as: (1) locking in a portion of its gas supply under its Asset Management Agreement (AMA) First of the Month (FOM) Option, (2) entering into the Peaking Proposal offered by UGI Energy Services, LLC (UGI), or (3) initiating physical hedges for January and February 2018. The Public Staff Panel testified that by making little or no effort to mitigate possible price spikes consistent with the objectives identified by the Commission in Docket No. G-100, Sub 84, the Company, in the Public Staff's opinion, acted imprudently. Based upon the terms of the Settlement and witness Steele's testimony at the hearing of this matter, the Commission acknowledges Frontier's disagreement with the Public Staff's conclusion in this regard. Notwithstanding this disagreement, the parties agreed to and filed the Settlement, which incorporates an adjustment to Frontier's gas costs for the benefit of its customers.

Based upon the deferred account adjustment agreed to as part of the Settlement, the Public Staff Panel's investigation, and the review of the data filed in this docket, the Public Staff Panel agreed that Frontier's hedging decisions were prudent.

Based on the foregoing, and taking into consideration the impact of the Settlement on the review period gas costs ultimately paid by Frontier's customers, the Commission concludes that Frontier's hedging decisions during the review period were reasonable and prudent. While the Commission has accepted the parties' Settlement and found the Company's hedging decisions reasonable, Frontier is nevertheless advised to be mindful of the Public Staff's noted concerns regarding available opportunities to reduce or mitigate exposure to price risks going forward.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 11-15

The evidence for these findings of fact is contained in the testimony and exhibits of Company witness Steele, the testimony and exhibit of the Public Staff Panel, and the Settlement.

Witness Steele testified that Frontier has contracted with Transco for 8,613 dts/day of firm interstate pipeline capacity. He testified that Frontier, "has already outgrown this initial purchased capacity and has had to buy supplemental swing and peaking contracts to offset the additional need." He explained that "[t]his additional supply is purchased pursuant to an Asset Management Agreement (AMA)" with UGI. Witness Steele stated that Frontier contracts with UGI to centralize purchasing and reliability of gas deliveries under a full requirements contract. He testified that UGI provides for additional daily or monthly gas requirements above the 8,613 dts/day up to 20,000 dts/day.

The Public Staff Panel stated that it evaluated the report on a Design Day Study prepared by Dr. Ronald H. Brown, PhD, shown on CONFIDENTIAL Exhibit B. Dr. Brown utilized the Marquette University Gas Day program in evaluating Frontier's projected peak day demand. The Public Staff Panel concluded that it accurately calculates Frontier's peak day using reasonable assumptions, such as high degree days (HDDs) and frequency of occurrence of such cold weather events. The Public Staff Panel also concurred that Frontier has adequate capacity in order to serve its firm market on peak days until the 2021-2022 winter period.

Company witness Steele testified that the Company's gas supply policy is best described as a "best evaluated costs" supply strategy. This strategy is based upon the following criteria: flexibility, security/creditworthiness, reliability of supply, the cost of the gas, and the quality of supplier customer service. Witness Steele stated that the primary criterion for the Company are security of gas supply, which refers to the assurance that the supply of gas will be available when needed, and cost of gas, which refers to acquiring the most cost-effective supplies of natural gas available for its customers while maintaining the necessary operational flexibility, security and reliability to serve their needs.

Company witness Steele stated that security of gas supply is required because of the daily changes in Frontier's market requirements caused by the unpredictable nature of weather, the production levels/operating schedules of Frontier's industrial customers, the industrial customers' option to switch to alternative fuels, and customer growth during the test period. He noted that while Frontier's gas supply agreements have different purchase commitments and swing capabilities (i.e., the ability to adjust purchase volumes within the contract volume), the gas supply portfolio as a whole must be capable of handling the seasonal, monthly, daily, and hourly changes in Frontier's market requirements.

Company witness Steele testified that Frontier understands the necessity of having security of supply to provide reliable and dependable natural gas service and has demonstrated its ability to do so. He stated that Frontier's gas supply strategy and its contracts implementing this strategy have allowed Frontier to accomplish this objective.

Company witness Steele testified that the Company continues to incorporate a three part pricing strategy to obtain the optimum opportunity in savings and price stability: hedging, first of the month index purchases, and daily purchases. Frontier will adjust the weights of each component and incorporate the best pricing methodology to obtain the optimum opportunity in savings and price stability.

The Public Staff Panel testified that during the review period of October 1, 2017, through September 30, 2018, Frontier experienced customer growth of 7.24%. Further, based on its investigation, the review of the data filed in this docket, and subject to the deferred account adjustment agreed to as part of the Settlement, the Public Staff Panel agreed that the Company's gas costs during the review period were prudently incurred and accounted for properly.

Based on the evidence of record, the Commission concludes that the Company's gas costs incurred during the review period were reasonable and prudently incurred and that subject to the deferred account adjustment agreed to as part of the Settlement, the Company should be permitted to recover 100% of its prudently incurred gas costs.

However, the Commission notes that Frontier continues to rely exclusively on firm, year-around pipeline capacity from Transco and short-term contracts to provide flexibility. For some time now, the Commission has been inquiring about Frontier’s efforts to secure storage assets. Frontier’s consistent answer has been that no storage capacity was available.

Frontier has met its seasonal and peak needs through short-term agreements with “natural gas suppliers” that provide gas as well as transportation and storage capacity. Witness Steele testified that “[t]he gas supply contracts that Frontier has negotiated, including the current one with UGI, have the flexibility and reliability to meet its market requirements in a secure and cost effective manner.” Tr., p. 22. Frontier's current contract with UGI expires on March 31, 2020. Witness Steele testified that, “[b]ased on all of the discussions we've had with UGI to this point in time … I'm pretty comfortable that we can still maintain 20,000 dekatherms per day.” Tr., p. 56.

Witness Steele was asked about the impact of extreme and sometimes unpredictable winter weather, and about backhaul no longer generally being available in the State. Backhaul has historically allowed other LDCs to contract for seasonal storage and peaking capacity downstream of North Carolina on Transco’s system and have the gas delivered in North Carolina. The reversal of flow on Transco’s system has made dependence on backhaul for firm delivery problematic. In annual reviews of gas cost before the Commission (Docket Nos. G-9, Sub 727 and G-5, Sub 591), witnesses for Piedmont and PSNC, respectively,have testified that their companies are now looking to secure adequate firm capacity rather than relying on backhaul as they had in the past. Witness Steele’s response was to point to the additional 5,114 dts/day of new pipeline capacity added since September 2014 and to state that Frontier has “met with Transco on numerous occasions during 2018 and early '19 to talk about additional capacity.” Tr., p. 57. He also mentioned alternative pipelines: Mountain Valley South, East Tennessee Natural Gas, and Piedmont.

The Commission’s continued interest in Frontier’s lack of long-term, firm storage capacity stems from the traditional matching of a gas utility’s daily send-out with firm year-round pipeline capacity, seasonal storage capacity and peaking capacity. Frontier has only locked in long-term firm pipeline capacity. The Commission is aware that there are significant changes occurring in both the demand for and the supply of interstate capacity. It is Frontier’s responsibility to determine how much more year-round pipeline capacity is needed.

Witness Steele testified that Frontier continues to add customers at an impressive pace; 7.24% in the review period. Frontier’s filings in Docket No. G-100, Sub 24A show that most of the new customers were firm residential and commercial customers. As noted above, other entities are now looking for additional firm seasonal and peaking capacity. The Commission is concerned that Frontier's practice of continuing to depend entirely on short-term supplier contracts for seasonal storage and peaking capacity could result in Frontier being unable to fulfill its customers’ gas needs. Alternatively, the market price of short-term supplier contracts for seasonal storage and peaking capacity may rise significantly and/or suddenly.

Witness Steele also discussed, “exploring the possibility of some type of an LNG facility for peak days.” Tr., p. 58. An on-system LNG facility would provide both firm, long-term peak day capacity and a tool to help ensure system resiliency in the event of an emergency.

Notwithstanding its conclusion that the Company’s gas costs were prudently incurred and should be recovered by the Company, the Commission encourages Frontier and the Public Staff to continue working together collaboratively to address gas purchasing practices by Frontier, including hedging and other price mitigation practices, in order to reduce or eliminate concerns over customer exposure to potential gas cost volatility and inadequate capacity, while maintaining reasonable up-front charges to customers for the right to call on gas under high demand scenarios.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 16

The evidence for this finding of fact is contained in the testimony and exhibits of Company witness Steele, the testimony and exhibit of the Public Staff Panel, and the Settlement.

Witness Steele discussed Frontier’s natural gas supply group and approach to gas supply planning. He described the supply group, at the time decisions were made in this review period, as consisting of himself, two young engineers including Taylor Younger, and Ted Gamble, a 9-year Frontier employee. Witness Steele testified that “Frontier reviewed and implemented policies related to gas planning, system operations and procurement in 2014.” Tr., p. 19. He explained that Frontier retained an independent consultant, Kan Huston, to, “review, critique, and provide comments on…policies relating to…Design Day Demand Requirements, Gas Procurement, including Capacity Planning and Resources, and Commodity Planning and Resources, Curtailment Policy and Technical Training.” He added:

> Frontier incorporated the recommendations of Kan Huston and began implementing these policies before September 15, 2014 in anticipation of the upcoming winter season and have continued the implementation of these policies throughout the current test year. We also established appropriate internal controls between the Controller/accounting functions and Frontier's gas purchasing agent and designated a specific, qualified employee responsible for the implementation of these policies. Taylor Younger, an engineer, has been designated as the qualified employee.

Tr., p. 20.

When asked about Ms. Younger’s responsibilities at Frontier, witness Steele testified that “She's an engineer and participates in several functions in our engineering group." Tr., p. 47. He further testified that she has aided Frontier in pipeline safety compliance. When specifically asked about the time she spends in gas supply planning, he stated that he estimated that her time was split 50/50 between safety compliance and gas planning. Witness Steele also stated that Frontier was looking at adding another engineer to provide Ms. Younger some help. He testified that she had access to assistance at the parent company level.

In response to a Commission question about support from the parent company, witness Steele discussed a weekly risk call meeting with HearthStone Utilities, Inc. (HearthStone), Frontier's natural gas supply group and other HearthStone subsidiaries. He stated that participation at the parent company level typically involves Jed Henthorne, Kevin Degenstein and two consultants, Al Harms and Lynn Gilmore. While risk management may have been the key issue in the discussions between the Public Staff and Frontier in this docket, the Commission has an interest in the broader matter of supply planning, which includes gas supply and capacity procurement.

Witness Steele was asked about an engineer at the parent company level who was previously introduced to the Commission Staff as assisting with supply planning. Witness Steele confirmed that the engineer, Mr. Grewal, was no longer at the parent company and had not been replaced by Hearthstone.

In this docket, the Public Staff took issue with Frontier's gas buying decisions and the Public Staff and Frontier reached a settlement. The Commission notes that in Docket No. G-40, Sub 125, Frontier also entered into a stipulation to deal with perceived problems in gas procurement. In light of the significant engineering needs of this company, particularly with respect to system expansion and pipeline safety compliance, having an engineer in North Carolina spending half of her time on gas supply planning does not seem to be a sustainable approach to gas supply planning on a long-term basis.

Frontier is a small local distribution company. In light of the problems surfaced in Docket No. G-40, Sub 142, the Commission has a profound interest in seeing that Frontier is adequately staffed. The Commission perceives Ms. Younger as fulfilling a critical role in supporting both expansion and compliance with pipeline safety regulations, but is concerned that having one person responsible for both areas may not be a best practice in the long run, particularly with no presently designated help from the parent company. The Commission believes it would be appropriate for Frontier to explore having HearthStone provide more effective support for Mr. Steele and his North Carolina staff by assigning an engineer from the parent company to be accessible for supply planning assistance.

Therefore, the Commission concludes that Frontier should examine the following options for bolstering its gas supply planning: (1) hiring a Frontier employee who will serve as the lead gas supply planning person, or (2) having Hearthstone designate a person to serve as Frontier's gas supply planning person as a substantial part of that person's job. Further, the Commission directs that Frontier file a report with the Commission within six months of the date of this order detailing the steps taken and progress made by Frontier on the above options, or other such options as Frontier may propose.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 17

The evidence for this finding of fact is contained in the testimony and exhibits of Company witness Steele, the testimony and exhibit of the Public Staff Panel, and the Settlement.

The Public Staff Panel testified that Frontier filed a Purchased Gas Adjustment (PGA) filing on February 15, 2019, in Docket No. G-40, Sub 151 for authority to decrease its Benchmark City Gate Delivered Gas Cost by $2.05 per dt, effective March 1, 2019. The Public Staff Panel testified that it has evaluated the application and that based on Frontier’s Sub 151 PGA filing that it was not necessary to implement a temporary rate increment or decrement at this time.

Based on the foregoing, the Commission concludes that Frontier should not be required to implement a rate increment or decrement in this proceeding.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 18

The evidence for this finding of fact is contained in the testimony and exhibits of Company witness Steele and in the testimony and exhibit of the Public Staff Panel.

According to Company Schedule 8 and Public Staff Panel Exhibit I, the appropriate interest rate to be used to calculate interest on Frontier’s Deferred Gas Cost Account should be 6.60%, effective January 1, 2018.

Based on the foregoing, the Commission concludes that 6.60% is the appropriate interest rate to use in the Frontier Deferred Gas Cost Account effective January 1, 2018.

IT IS, THEREFORE, ORDERED as follows:

1. That the Settlement filed by Frontier and the Public Staff is hereby approved in its entirety;

2. That subject to the deferred account adjustment provided for in the Settlement, Frontier’s accounting for gas costs during the twelve month period ended September 30, 2018, is approved;

3. That subject to the deferred account adjustment provided for in the Settlement, the gas costs incurred by Frontier during the twelve-month period ended September 30, 2018, were reasonably and prudently incurred, and Frontier is hereby authorized to recover 100% of its gas costs incurred during the review period;

4. That subject to the deferred account adjustment provided for in the Settlement, Frontier's hedging decisions during the review period were reasonable and prudent;

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

6. That Frontier report to the Commission within six months of the date of this order detailing the steps taken and progress made by Frontier on options to bolster its gas supply planning; and

7. That Frontier shall use the net-of-tax overall rate of return of 6.60% as the applicable interest rate on all amounts over-collected or under-collected from customers reflected in its Deferred Gas Cost Account effective January 1, 2018.

ISSUED BY ORDER OF THE COMMISSION.

This the 11th day of June, 2019.

NORTH CAROLINA UTILITIES COMMISSION

Janice H. Fulmore, Deputy Clerk