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1 PLACE: Dobbs Building, Raleigh, North Carolina
2 DATE: Wednesday, November 7, 2018
3 TIME: 10:00 a.m. - 10:07 a.m.
4 DOCKET NO: G-41, Sub 53
5 BEFORE: Commissioner ToNola D. Brown-Bland, Presiding
6 Commissioner James G. Patterson
7
8

9 **IN THE MATTER OF:**

10 Application of Toccoa Natural Gas
11 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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1 A P P E A R A N C E S:

2 FOR TOCCOA NATURAL GAS:

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7

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T A B L E O F C O N T E N T S

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IDENTIFIED / ADMITTED

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1 P R O C E E D I N G S

2 COMMISSIONER BROWN-BLAND: Good morning.
3 Let's come to order and go on the record. I'm
4 Commissioner ToNola D. Brown-Bland, the presiding
5 Commissioner for this hearing, and with me this
6 morning is Commissioner James G. Patterson.

7 I now call for hearing Docket Number G-41,
8 Sub 53, In the Matter of an Application of Toccoa
9 Natural Gas for Annual Review of Gas Costs Pursuant to
10 G.S. § 62-133.4(c) and Commission Rule R1-17(k)(6).

11 G.S. § 62-133.4 authorizes gas cost
12 adjustment proceedings for natural gas local
13 distribution companies.

14 G.S. § 62-133.4(c) provides that the
15 Utilities Commission shall conduct annual review
16 proceedings to compare each natural gas utility's
17 prudently incurred costs with costs recovered from all
18 of the utility's customers served during the test
19 period.

20 Commission Rule R1-17(k)(6) prescribes the
21 procedures for such annual reviews of natural gas
22 costs.

23 In compliance with other provisions of Rule
24 R1-17(k)(6), on September 4, 2018, Toccoa Natural Gas,

1 hereafter Toccoa, filed the direct testimony and
2 exhibits of Harry Franklin Scott, Jr., and Rai Trippe
3 relating to this annual review proceeding.

4 On September 11, 2018 the Commission issued
5 an Order Scheduling Hearing, Requiring Filing of
6 Testimony, Establishing Discovery Guidelines,
7 and Requiring Public Notice. That Order scheduled
8 this hearing for today, November 7, 2018, at 10:00
9 a.m.

10 There are no intervenors in this docket
11 other than the intervention and participation of the
12 Public Staff who's recognized pursuant to G.S.
13 62-15(d) and Commission Rule R1-19(e).

14 On October 22, 2018, the Public Staff filed
15 the joint direct testimony of Geoffrey M. Gilbert,
16 Iris Morgan and Julie G. Perry.

17 On October 24, 2018, Toccoa and the Public
18 Staff filed a Joint Motion to Excuse Appearance of
19 Witnesses and Accept Testimony. And the Commission
20 issued an Order on October 29, 2018, granting the
21 motion to excuse the parties' witnesses from attending
22 today's hearing.

23 On October 29, 2018, Toccoa filed Affidavits
24 of Publication of Public Notice.

1 In compliance with the requirements of
2 Chapter 138A of the State Government Ethics Act, I
3 remind the members of the Commission of our
4 responsibility to avoid conflicts of interest, and I
5 inquire whether any member has a conflict of interest
6 with respect to the matter before us this morning?

7 (No response)

8 And the record will reflect that no
9 conflicts were identified. I now call for appearances
10 of counsel.

11 MS. KEMERAIT: Good morning. My name is
12 Karen Kemerait. I'm with the Law Firm of Fox
13 Rothschild which previously was Smith Moore
14 Leatherwood, and I'm here on behalf of Toccoa Natural
15 Gas Company.

16 COMMISSIONER BROWN-BLAND: All right,
17 Ms. Kemerait, welcome this morning.

18 MS. HOLT: Good morning. I'm Gina Holt with
19 the Public Staff here on behalf of the Using and
20 Consuming Public.

21 COMMISSIONER BROWN-BLAND: Good morning.
22 Ms. Holt, have you identified any public witnesses
23 this morning?

24 MS. HOLT: No, I haven't.

1 COMMISSIONER BROWN-BLAND: The record will
2 reflect that the only person in the audience is a
3 Commission Staff Attorney and so the record will
4 reflect that there are no public witnesses here to
5 provide testimony.

6 Are there any preliminary matters that we
7 need to deal with other than the one I'll take care
8 of in a minute?

9 MS. KEMERAIT: Not from Toccoa Natural Gas.

10 MS. HOLT: No.

11 COMMISSIONER BROWN-BLAND: Okay. I guess
12 before I do that I'll just put the case with you,
13 Ms. Kemerait.

14 MS. KEMERAIT: Commissioners, Toccoa Natural
15 Gas Company moves the direct testimony of Harry F.
16 Scott, Jr., that consists of three pages of testimony
17 and 23 pages of exhibits that was filed on
18 September 4, 2018, be copied into the record as if
19 given orally from the stand and received into
20 evidence.

21 In addition, I move that the direct
22 testimony of Rai Trippe that consists of 11 pages of
23 testimony and one exhibit that was also filed on
24 September 4, 2018, be copied into the record as if

1 given orally from the stand and be admitted into
2 evidence.

3 COMMISSIONER BROWN-BLAND: That motion will
4 be allowed, and the direct testimony as filed on
5 September 4th of Witness Harry F. Scott, Jr., and Rai
6 Trippe will be received into evidence, treated as if
7 given orally from the witness stand, and the exhibits
8 also will be received into evidence.

9 MS. KEMERAIT: Thank you.

10 (WHEREUPON, Scott Exhibits 1 - 3
11 are marked for identification as
12 prefiled and received into
13 evidence.)

14 (WHEREUPON, the prefiled direct
15 testimony of HARRY FRANKLIN SCOTT,
16 JR., is copied into the record as
17 if given orally from the stand.)
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**BEFORE THE
NORTH CAROLINA UTILITIES COMMISSION
TOCCOA NATURAL GAS
DOCKET G-41, SUB 53**

**DIRECT TESTIMONY
OF
Harry Franklin Scott, Jr**

August 28, 2018

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.

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

7 A. My title is Utilities Director.

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 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.

17 Q. Please summarize your professional background.

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

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 90

1 miles of transmission main, 17 miles of which are in North Carolina, and 418
2 miles of distribution main, approximately 71 miles of which are in North
3 Carolina. Toccoa serves approximately 6502 retail customers, of which
4 approximately 715 are in North Carolina, and has two offices: and Toccoa,
5 Georgia and Franklin, North 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; 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 464 residential, 249 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, 2018, Toccoa's actual gas costs and volumes of purchased
22 gas based on a twelve-month period ended June 30, 2018, 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 (WHEREUPON, Trippe Exhibit 1 is
2 marked for identification as
3 prefiled and received into
4 evidence.)

5 (WHEREUPON, the prefiled direct
6 testimony of RAI TRIPPE is copied
7 into the record as if given orally
8 from the stand.)
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**BEFORE THE
NORTH CAROLINA UTILITIES COMMISSION
TOCCOA NATURAL GAS
DOCKET NO. G-41, SUB 53**

**DIRECT TESTIMONY
OF
Rai Trippe**

September 1, 2018

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. 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, 2018, Toccoa's actual gas costs and volumes of purchased
18 gas for the twelve-month period ended June 30, 2018, 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

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 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

1 futures prices on approximately 20% of their forecasted firm Georgia residential
2 gas sales and all firm North Carolina gas sales for November 2017 – March 2018.
3 See Exhibit 2 for monthly hedge volumes during the current review period. At the
4 time that these hedge volume decisions were made, Toccoa chose to adopt more
5 conservative hedge volumes for their participation in the Winter Hedge Program
6 because market and future pricing was significantly less than it had been at the
7 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

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?

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 2017 – June 2018 totaled \$14,033. 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, 2018?

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?

1 A. Exhibit 2 and Schedules 1 – 10 which includes the Deferred Account Summary.

2

3 Q. What activity occurred in the deferred account during the twelve months ended
4 June 30, 2018?

5 A. Toccoa began the review period with a balance of (\$37,260) owed to firm
6 customers. On December 20, 2017 the Commission issued ORDER ON
7 ANNUAL REVIEW OF GAS COSTS in Docket No. G-41 Sub 50 authorizing
8 Toccoa to remove the previous existing temporary decrement of \$1.3172 and to
9 implement the rate decrement of \$0.4397 per dth for its North Carolina firm
10 service customers. This became effective January 1, 2018. Toccoa desired to
11 rely on the Deferred Account process and tracking method such that the
12 forecasted Deferred Account balance at the end of the current review period
13 would be as close to zero as practical, and through this there was a significant
14 reduction in the Deferred Account Balance. The ending Deferred Account
15 Balance ending June 30, 2018 was (\$7,261). I refer you to Schedule 8 for specific
16 tracking.

17

18 Q. The attached schedules show the gas costs incurred by Toccoa and billed to
19 customers during the period July 1, 2017 through June 30, 2018. In your opinion,
20 were all these gas costs prudently incurred?

21 A. Yes.

22

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1 Q. What action does Toccoa request the Commission take regarding the deferred
2 accounts?

3 A. Toccoa requests that the Commission approve the June 30, 2018 balances and
4 find that Toccoa's gas purchases were prudent during the relevant twelve-month
5 period.

6
7 Q. Has Toccoa taken any steps recently to enable it to more effectively manage its
8 deferred account?

9 A. Toccoa has effectively managed the Deferred Account and filed monthly
10 Deferred Account Summary reports in a timely manner as required. No new steps
11 or actions were undertaken.

12
13 Q. Does Toccoa have additional comments or information to provide?

14
15 A. Yes. Per Order Requiring Reporting Issued in Docket G-100 Sub 91, Toccoa
16 submits the following responses.

17
18 1. Please describe any changes in the Company's customer mix or customer market
19 profiles that it forecasts for the next ten (10) years and explain how the changes will
20 impact the Company's gas supply, transportation, and storage requirements.

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

9

10 2. Please identify the rate schedules and special contracts that the Company uses to
11 determine peak day demand requirements for planning purposes.

12

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

17

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

20

21 **Response 1-3:** Response 1-3: Please refer to Docket No. G-41, Sub 53, Annual
22 Review Schedule 6 submitted in conjunction with Mr. Trippe's testimony. This

1 Schedule details monthly demand and storage contract volumes. We expect that
2 Toccoa's base load demand requirements for the next five years will be sufficiently
3 served under the demand contract, LNG contract, and Pine Needle contract volumes
4 shown in this summary.

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

13
14 **Response 1-4:** Toccoa's peak day and peak demand requirements are evaluated
15 annually by the Municipal Gas Authority of GA staff, and an updated Winter Service
16 Plan is produced and submitted to Toccoa each year prior to the winter season.
17 Please see Exhibit 3, "Municipal Gas Authority of Georgia Winter Service Plan -
18 2017 - 2018". Gas Authority analysis uses 51 HDD's to forecast design day usage.

19
20 5. Please describe how Toccoa determines which type of resources should be
21 acquired or developed for meeting the Company's deliverability needs. Also, please
22 describe the factors evaluated in deciding whether the Company should acquire pipeline

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

3

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

8

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

13

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

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1 7. Please describe each new capacity and storage opportunity that the Company is
2 contemplating entering into during the next five (5) year period beginning with the -2018
3 - 2019 winter season.

4
5 **Response 1-7:** No new, additional capacity or storage opportunities are being
6 considered at this time.

7
8 8. Please provide a computation of the reserve or excess capacity estimated for the
9 review period and forecasted for each of the next five (5) winter seasons.

10
11 **Response 1-8:** Please see Exhibit 3, "Municipal Gas Authority of Georgia
12 Winter Service Plan -2017 - 2018".

13
14 9. Please describe any significant storage, transmission, and distribution upgrades
15 required for the Company to fulfill its peak day requirements during the next five (5)
16 years.

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

18
19 Q. Does that conclude your testimony?

20 A. Yes.

1 COMMISSIONER BROWN-BLAND: All right.

2 MS. HOLT: Yes, the Public Staff moves that
3 the joint testimony of Geoffrey M. Gilbert, Iris
4 Morgan and Julie G. Perry filed on October 22, 2018,
5 consisting of 15 pages and three appendices be copied
6 into the record as if given orally from the stand,
7 that the appendices be admitted as premarked, and the
8 testimony be admitted into evidence, also.

9 COMMISSIONER BROWN-BLAND: And that motion
10 will also be allowed, and the joint direct testimony
11 of the three Public Staff Witnesses Gilbert, Morgan
12 and Perry along with their appendices and any exhibits
13 will be received into evidence and the testimony
14 treated as if given orally from the witness stand.

15 (WHEREUPON, the prefiled joint
16 direct testimony and Appendices of
17 GEOFFREY M. GILBERT, IRIS MORGAN
18 and JULIE G. PERRY is copied into
19 the record as if given orally from
20 the stand.)

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TOCCOA NATURAL GAS
DOCKET NO. G-41, SUB 53
JOINT TESTIMONY OF
GEOFFREY M. GILBERT, IRIS MORGAN, AND JULIE G. PERRY
ON BEHALF OF
THE PUBLIC STAFF – NORTH CAROLINA UTILITIES COMMISSION
OCTOBER 22, 2018

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

3 **A.** My name is Geoffrey M. Gilbert, and my business address is 430
 4 North Salisbury Street, Raleigh, North Carolina. I am a Public
 5 Utilities Engineer in the Public Staff's Natural Gas Division. My
 6 qualifications and 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 present my conclusions regarding
 10 whether the natural gas purchases made by Toccoa Natural Gas
 11 (Toccoa or Company) during the twelve-month review period ended
 12 June 30, 2018, were prudently incurred. My testimony also
 13 presents the results of my review of the gas cost information filed
 14 by Toccoa in accordance with N.C. Gen. Stat. § 62-133.4(c) and
 15 Commission Rule R1-17(k)(6), and provides my recommendation
 16 regarding temporary rate increments and/or decrements.

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

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

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

9 A. The purpose of my testimony is (1) to provide recommendations
10 based on my conclusions regarding whether the gas costs incurred
11 by Toccoa, during the twelve-month review period ended June 30
12 30, 2018, were properly accounted for, and (2) to present the
13 results of my review of gas cost information filed by Toccoa, in
14 accordance with N.C. Gen. Stat. § 62-133.4(c) and Commission
15 Rule R1-17(k)(6).

16 Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND
17 PRESENT POSITION.

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

1 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS
2 PROCEEDING?

3 A. The purpose of my testimony is to discuss my investigation and
4 conclusions regarding the prudence of Toccoa's hedging activities
5 during the twelve-month review period.

6 Q. PLEASE EXPLAIN HOW THE PUBLIC STAFF CONDUCTED ITS
7 REVIEW.

8 A. We reviewed the testimony and exhibits of the Company's
9 witnesses, the Company's monthly Deferred Gas Cost Account
10 reports, monthly financial and operating reports, the gas supply,
11 pipeline transportation and storage contracts, and the Company's
12 responses to Public Staff data requests. Each month, the Public
13 Staff reviews the deferred account reports filed by the Company for
14 accuracy and reasonableness and performs many audit procedures
15 on the calculations.

16 Public Staff witness Gilbert reviewed the testimony and exhibits of
17 Company witnesses Trippe and Scott along with responses to the
18 Public Staff data requests that contained information related to
19 Toccoa's gas purchasing philosophies, customer requirements, and
20 gas portfolio mixes.

21 Q. MR. GILBERT, WHAT IS THE RESULT OF YOUR EVALUATION
22 OF TOCCOA'S GAS COSTS?

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

3 Q. MR. GILBERT, PLEASE DESCRIBE TOCCOA AND ITS
4 OPERATIONS IN NORTH CAROLINA.

5 A. Toccoa is a municipal corporation created by the laws of the State
6 of Georgia. It has been providing natural gas service in Georgia
7 since 1952, and in Macon County, North Carolina since 1998. It is
8 a full requirements wholesale customer of the Municipal Gas
9 Authority of Georgia (Gas Authority), which manages its capacity,
10 storage, and supply contracts.

11 Toccoa's total sales volume for the annual review year ended
12 June 30, 2018, was 1,358,091 dekatherms (dts), of which 147,165
13 dts (10.8%) were sold in North Carolina.

14 It is expected that Toccoa may experience incremental growth over
15 the next five years as the expansion of its system continues. As
16 necessary, the Gas Authority assists Toccoa in acquiring the most
17 cost effective combination of pipeline, storage, and peaking
18 capacities on the system of Transcontinental Gas Pipe Line
19 Company, LLC (Transco), based on least cost and operational
20 flexibility.

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

1 A. Yes.

2 Q. MR. GILBERT, WHAT OTHER ITEMS DID THE NATURAL GAS
3 DIVISION REVIEW?

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

11 ACCOUNTING FOR AND ANALYSIS OF GAS COSTS

12 Q. MS. MORGAN, HOW DOES THE ACCOUNTING DIVISION GO
13 ABOUT CONDUCTING ITS REVIEW OF THE COMPANY'S
14 ACCOUNTING FOR GAS COSTS?

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

19 (1) **Gas Cost True-Up** - The actual commodity and
20 demand gas costs are verified, calculations and data
21 supporting the gas costs collected are checked, invoices are

1 reviewed, and the overall calculation is checked for
2 mathematical accuracy.

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

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

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

17 **(5) Interest Accrual -** Toccoa began calculating interest
18 on its Deferred Gas Cost Account in October 2016.
19 Calculations of the interest accrued on the account balance
20 during the month are verified in accordance with N.C. Gen.
21 Stat. § 62-130(e).

1 Q. HOW DO THE COMPANY'S FILED GAS COSTS FOR THE
 2 CURRENT REVIEW PERIOD COMPARE WITH THOSE FOR THE
 3 PRIOR REVIEW PERIOD?

4 A. Toccoa's total company gas costs for the current review period
 5 were \$4,913,769, compared to the prior year's costs of \$4,766,389.
 6 The North Carolina portion of gas costs incurred during the current
 7 review period was \$411,310, compared with \$380,846 for the prior
 8 period. The components of gas costs incurred for the two periods
 9 are as follows:

	12 Months Ended		Increase (Decrease)	% Change
	June 30, 2018	June 30, 2017		
Transco Pipeline Charges:				
Cherokee - FT	\$212,882	\$215,604	(\$2,722)	-1.26%
Converted Firm Transp. - CFT	133,163	133,350	(\$187)	-0.14%
South Coast - FT Mainline	124,598	124,832	(\$234)	-0.19%
Sunbelt 1997 - FT	39,451	39,509	(\$58)	-0.15%
Capacity Release Credits	(14,033)	(23,029)	\$8,996	-39.06%
Total Transco Pipeline Charges	\$496,061	\$490,266	\$5,795	1.18%
Storage/Peaking Services:				
Transco LGA	20,736	20,736	0	0.00%
Pine Needle LNG	88,868	99,203	(10,335)	-10.42%
Total Storage/Peaking Services	\$109,604	\$119,940	(\$10,336)	-8.62%
Total Demand and Storage Costs	\$605,665	\$610,206	(\$4,541)	-0.74%
Gas Supply Costs:				
Authority Gas Supply FT	\$3,867,571	\$3,904,099	(\$36,528)	-0.94%
Supply Charge-meters and throughput	112,939	90,890	22,049	24.26%
Pine Needle Supply	87,765	19,847	67,918	342.21%
LNG Withdrawal	17,484	0	17,484	100.00%
FT Released Capacity Supply	51,052	29,712	21,340	71.82%
Authority G&A Charges	141,791	137,390	4,401	3.20%
Swing Supply Charges ¹	54,178	47,103	7,075	15.02%
Total Gas Supply Costs	\$4,332,780	\$4,229,041	\$103,739	2.45%
Total Other Gas Costs	(\$24,682)	(\$72,858)	\$48,176	-66.12%
Total Company Gas Costs	\$4,913,763	\$4,766,389	\$147,374	3.09%
NC Portion of Total Gas Costs	\$411,310	\$380,846	\$30,464	8.00%

¹Reclassified Swing Supply Charges to Gas Supply Costs. Total Gas Supply Costs remain unchanged.

1 Q. PLEASE EXPLAIN ANY SIGNIFICANT INCREASES OR
2 DECREASES IN DEMAND AND STORAGE CHARGES.

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

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

15 The reduction in the **Pine Needle LNG** charges is due to a
16 decrease in its rates pursuant to FERC Docket No. RP17-204-000,
17 effective January 1, 2017, and RP17-576-000, effective May 1,
18 2017.

19 **Authority Gas Supply FT Charges** decreased primarily due to
20 lower wellhead gas prices during this review period compared with
21 the prior review period. This decrease is generally consistent with

1 the changes in market indices experienced between the two
2 periods.

3 The **Supply Charge - meters & throughput** is a charge based on
4 the number of meters on Toccoa's system and its monthly pipeline
5 throughput. These charges represent additional gas supply costs
6 incurred in order to provide gas service to its customers.

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

10 **FT Released Capacity Supply** is excess supply available from
11 other members of the Gas Authority that is used to meet Toccoa's
12 needs. During the review period, Toccoa utilized a higher level of
13 volumes as compared with the prior review period.

14 **Authority G&A Charges** include items for general and
15 administrative costs based on the number of meters and
16 throughput. These charges increased due to an increase in the
17 Gas Authority's operating costs during the current review period as
18 compared to the prior review period.

19 The increase in **LNG Withdrawal** is due to the fact that there were
20 no LNG Withdrawals during the previous review period.

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

4 **HEDGING ACTIVITIES**

5 **Q. MS. PERRY, WHAT IS THE STANDARD SET FORTH BY THE**
6 **COMMISSION FOR EVALUATING THE PRUDENCE OF A**
7 **COMPANY'S HEDGING DECISIONS?**

8 **A.** In its February 26, 2002, Order on Hedging in Docket No. G-100,
9 Sub 84 (Hedging Order), the Commission stated that the standard
10 for reviewing the prudence of hedging decisions is that the decision
11 "must have been made in a reasonable manner and at an
12 appropriate time on the basis of what was reasonably known or
13 should have been known at that time." Hedging Order, 92 NCUC 4,
14 11-12 (2002).

15 **Q. PLEASE DESCRIBE THE COMPANY'S HEDGING PROGRAM.**

16 **A.** Toccoa participates in the "Winter Hedge Program," which is
17 managed by the Gas Authority for its members, including Toccoa.
18 The Gas Authority is the largest non-profit joint action natural gas
19 agency in the nation and supplies the natural gas needs of 78
20 member cities. The goal of the "Winter Hedge Program" is to
21 achieve price stability at a reasonable price for its customers by
22 locking-in futures prices for a portion of the anticipated winter firm
23 load. Under the Gas Authority's "Winter Hedge Program," a

1 member enters into hedging arrangements with the Gas Authority
2 specifying the targeted level of volumes to hedge. These hedging
3 arrangements typically span two to three years.

4 **Q. PLEASE COMMENT ON THE TYPES OF FINANCIAL**
5 **INSTRUMENTS THAT THE GAS AUTHORITY MAY USE IN ITS**
6 **HEDGING PROGRAM.**

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

19 **Q. PLEASE DESCRIBE THE HEDGING ACTIVITY OF THE GAS**
20 **AUTHORITY DURING THE REVIEW PERIOD.**

21 A. During the current review period, the hedging program resulted in a
22 \$1,205 charge to Toccoa's gas supply costs for North Carolina
23 customers.

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

3 A. Yes. Toccoa reviewed its Winter Hedge Program participation and
4 elected to continue its winter hedge volumes at approximately 20%
5 of all firm North Carolina gas sales for November 2017 through
6 March 2018. Toccoa continues to adopt the more conservative
7 hedge volumes for their participation in the Winter Hedge Program
8 because market and future pricing has been significantly lower than
9 in prior years. Toccoa also elected to continue the maximum
10 hedging program term offered by the Gas Authority of two years
11 beginning November 1, 2018.

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

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

19 DESIGN DAY REQUIREMENTS

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

1 A. I reviewed the Company's testimony and information submitted by
 2 the Company in response to data requests that dealt with how well
 3 the projected firm demand requirements aligned with the available
 4 capacity in the future.

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

8 **DEFERRED ACCOUNT REPORTING AND BALANCE**

9 **Q. MS. MORGAN, BASED ON YOUR REVIEW OF GAS COSTS IN**
 10 **THIS PROCEEDING AND MR. GILBERT'S OPINION THAT THE**
 11 **COMPANY'S GAS COSTS WERE PRUDENTLY INCURRED,**
 12 **WHAT IS THE APPROPRIATE DEFERRED ACCOUNT**
 13 **BALANCE AS OF JUNE 30, 2018?**

14 A. The balance in Toccoa's Deferred Gas Cost Account at June 30,
 15 2018, is a \$7,261 credit balance, owed to customers. The following
 16 chart summarizes Toccoa's Deferred Gas Cost Account activity for
 17 the current review period:

Deferred Account Balance - July 1, 2017	(\$37,260)
Commodity True-up	(7,001)
Demand True-Up	(51,664)
Firm Hedges	1,205
(Increment) Decrement	88,314
Interest	<u>(855)</u>
Deferred Account Balance - June 30, 2018	<u>(\$7,261)</u>

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

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

9 For the current review period ended June 30, 2018, the North
10 Carolina firm sales volumes are 99,580 dts. Toccoa's Deferred
11 Account balance as of June 30, 2018, is a credit balance of \$7,261
12 (owed from the Company to its customers). At the end of August
13 the over-collection had decreased to (\$1,564). The Company
14 estimates that the balance will flip to an under-collection going into
15 the 2018 winter period and then swing back to an over-collection as
16 the winter period progresses. It is my recommendation that the
17 Company leave the current decrement of \$0.4397 per dt that was
18 placed into rates effective January 1, 2018, in Docket No. G-41,
19 Sub 50. I further recommend that Toccoa continue to monitor the
20 balance in its Deferred Account and file a request to implement new
21 temporary increments or decrements, as applicable, through the
22 PGA mechanism to avoid significant over-collections of its fixed gas

1 costs. It is my understanding that Toccoa does not oppose these
2 recommendations.

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

4 **A. Yes, it does.**

GEOFFREY M. GILBERT
Qualifications and Experience

I am a graduate of North Carolina State University with a Bachelor of Science Degree in Environmental Engineering.

I began working in the environmental field in October 2008 with TRC Solutions. I worked out of TRC's Raleigh, NC office and specialized in air emissions testing and monitoring. In May 2015 I accepted a position in Charlotte, NC with Geo-Technology Associates, Inc. (GTA). While employed at GTA I was responsible for completing Transaction Screens, Phase I Environmental Site Assessments (ESA), and Phase II ESA for a variety of sites, including residential, commercial, industrial, and brownfield.

I joined the Public Staff in August of 2017 as a member of the Natural Gas Division. My work to date includes Purchased Gas Cost Adjustment Procedures, Customer Utilization Trackers, Integrity Management Riders, Peak Day Demand and Capacity Calculations, and Customer Complaint Resolutions.

IRIS MORGAN

Qualifications and Experience

I graduated from North Carolina Wesleyan College with a Bachelor of Science in Accounting and Business Administration in 2007. Also, I graduated from Keller Graduate School of Management with a Master of Accounting and Financial Management (2011), Master of Business Administration (2013), and a Master of Public Administration (2014).

Prior to joining the Public Staff, I was employed by WorldCom, Inc., as a CORE Analyst. My duties included providing customer service support and addressing customer billing and reporting requirements.

I joined the Public Staff in September 2002, as an Administrative Assistant. In 2006, I was promoted to a Consumer Services Complaint Analyst where I resolved numerous consumer complaints and performed utility reporting analysis. Once I completed my Accounting degree, I was promoted to a Public Staff Accountant in December of 2008.

I have performed audits and filed testimony and exhibits in a number of water rate cases, and assisted in investigations addressing a wide range of topics and issues related to the water, electric and gas industries.

JULIE G. PERRY**Qualifications and Experience**

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

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

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

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

1 COMMISSIONER BROWN-BLAND: Is there anything
2 else before we move to the post-hearing filings?

3 MS. KEMERAIT: No.

4 COMMISSIONER BROWN-BLAND: Before we do that
5 this morning, Commissioner Jerry Dockham is assigned
6 to be a member of this panel and he was unable to be
7 here this morning. But given that there's been no
8 live testimony given here today and we just moved in
9 and received the prefiled testimony, does anyone have
10 any objection with his remaining on the panel and
11 participating in the decision in this case?

12 MS. KEMERAIT: I have no objection.

13 MS. HOLT: We have no objection.

14 COMMISSIONER BROWN-BLAND: Thank you for
15 that. And, if there are no other concerns, we'll just
16 move forward with post-hearing briefs. Are the
17 parties in agreement that the post-hearing filings and
18 proposed orders could be filed within thirty days from
19 today?

20 MS. KEMERAIT: Yes.

21 MS. HOLT: Yes.

22 COMMISSIONER BROWN-BLAND: Then that will be
23 so ordered.

24 If there is nothing further, that concludes

1 this hearing.

2 (WHEREUPON, the proceedings were adjourned.)

3

4

5

C E R T I F I C A T E

6

I, KIM T. MITCHELL, DO HEREBY CERTIFY that

7

the Proceedings in the above-captioned matter were

8

taken before me, that I did report in stenographic

9

shorthand the Proceedings set forth herein, and the

10

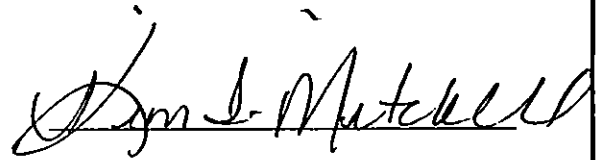
foregoing pages are a true and correct transcription

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to the best of my ability.

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Kim T. Mitchell
Court Reporter

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FILED

DEC 13 2018

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