

**FRONTIER NATURAL GAS COMPANY**

**DOCKET NO. G-40, SUB 163**

**TESTIMONY OF SONJA R. JOHNSON**

**ON BEHALF OF**

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

**February 14, 2022**

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

3 A. My name is Sonja R. Johnson and my business address is 430 North  
4 Salisbury Street, Raleigh, North Carolina. I am the Acting Accounting  
5 Manager of the Natural Gas & Transportation Section in the  
6 Accounting Division of the Public Staff. My qualifications and  
7 experience are provided in Appendix A.

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

10 The purpose of my testimony is to provide my conclusions regarding  
11 the prudence of the hedging decisions of Frontier Natural Gas  
12 Company (Frontier or Company) during the review period.

13 **Q. PLEASE EXPLAIN HOW YOU CONDUCTED YOUR REVIEW.**

14 A. I reviewed the testimony and exhibits of the Company's witnesses,  
15 the Company's monthly Deferred Gas Cost Account reports, monthly  
16 financial and operating reports, the gas supply and pipeline

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

5 **HEDGING ACTIVITIES**

6 **Q. PLEASE EXPLAIN HOW THE PUBLIC STAFF CONDUCTED ITS**  
7 **REVIEW OF THE COMPANY'S HEDGING ACTIVITIES.**

8 A. The Public Staff's review of the Company's hedging activities  
9 performed on an on-going basis and typically includes an analysis  
10 and evaluation of the following information:

- 11 1. The Company's monthly hedging costs, as reflected on the  
12 invoices of UGI Energy Services, LLC (UGI);
- 13 2. Detailed source documentation, such as physical gas  
14 confirmations, that support the amount of gas hedged and the  
15 strike prices;
- 16 3. Workpapers supporting the derivation of the maximum hedge  
17 volumes targeted;
- 18 4. A monthly summary of hedging costs (benefits);
- 19 5. Hedging plan documents that set forth the Company's gas  
20 price risk management policy, hedge strategy, gas price risk  
21 management operations;

- 1           6.     Documentation from meetings of Frontier's Gas Supply  
2                    Planning Committee and the Risk and Supply Committee of  
3                    its parent company, Hearthstone Utilities, Inc.;
- 4           7.     Testimony and exhibits of the Company's witnesses in the  
5                    annual review of gas costs proceeding; and
- 6           8.     Company responses to the Public Staff's data requests.

7   **Q.   PLEASE EXPLAIN YOUR UNDERSTANDING OF THE**  
8           **STANDARD SET FORTH BY THE COMMISSION FOR**  
9           **EVALUATING THE COMPANY'S HEDGING DECISIONS?**

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

20           The Commission concluded that hedging is an option that must be  
21           considered in connection with an LDC's gas purchasing practices.  
22           The Commission stated that an LDC's decision to make no effort to  
23           mitigate price spikes – including a decision not to hedge – would be

1 a decision subject to review in the LDC's annual gas cost prudence  
2 review proceeding just as much as a decision to hedge.

3 The Commission further concluded that if an LDC decides to hedge  
4 in some fashion, prudently incurred costs in connection with hedging  
5 should be treated as gas costs under N.C. Gen. Stat. § 62-133.4.

6 The Commission stated that while such costs cannot be pre-  
7 approved within the context of the annual gas cost prudence review,  
8 the Commission recognized that the review of the prudence of a  
9 decision to hedge or not to hedge should be made on the basis of  
10 the information available at the time each decision is made, not on  
11 the basis of the information available at the time of the prudence  
12 review proceeding.

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

17 **Q. PLEASE DESCRIBE YOUR UNDERSTANDING OF THE**  
18 **COMPANY'S HEDGING PROGRAM DURING THE REVIEW**  
19 **PERIOD.**

20 A. Company witness Younger summarized Frontier's hedging program  
21 in her testimony by stating that Frontier utilizes an annual report  
22 provided by Marquette Energy Analytic (Marquette) in March of each  
23 year that shows monthly forecasts for the upcoming year. This data

1 is derived from actual historical usage, historical weather patterns,  
2 and projected growth patterns, which includes an expected daily  
3 average flow and an expected daily maximum flow for each month  
4 of the upcoming year. When the report is received by Frontier,  
5 hedging decisions are made for the upcoming winter. Based on the  
6 Marquette report, Frontier anticipates it will hedge up to 60% of  
7 expected average daily flow for each winter month, November  
8 through March.

9 The primary difference between Frontier's hedging approach and the  
10 approach of the other LDCs is that Frontier uses physical hedges  
11 exclusively and does not use financial hedges, such as options,  
12 futures, or swaps. A physical hedge is a fixed price contract between  
13 two parties to buy or sell physical natural gas supplies at a certain  
14 future time, at a specific price, which is agreed upon at the time the  
15 deal is executed. Frontier's gas supply portfolio typically includes  
16 these type of hedges which are the physical purchase of fixed price  
17 gas supplies for delivery at its city gate for each winter month.

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

21 **A.** In my opinion, based on what was reasonably known or should have  
22 been known at the time the Company made its hedging decisions  
23 affecting the review period, as opposed to the outcome of those

1 decisions, my analysis leads me to the conclusion that the  
2 Company's hedging decisions were prudent.

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

5 A. Yes. Ordering Paragraph 5 of the Commission's Order on Annual  
6 Review of Gas Costs issued April 28, 2021, in Docket No. G-40, Sub  
7 158, Frontier's prior annual review proceeding, states that "Frontier  
8 and the Public Staff shall continue to work together to discuss  
9 Frontier's Gas Supply Procurement Policy, including hedging and  
10 other price mitigation strategies, as changes to the policy are  
11 contemplated".

12 Frontier and the Public Staff have had and continue to have  
13 conference calls, as well as meet virtually as needed to discuss  
14 Frontier's procurement policy which includes discussions on hedging  
15 and other price mitigation strategies to protect customers from  
16 possible gas cost volatility.

17 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

18 A. Yes, it does.

**SONJA R. JOHNSON**

**Qualifications and Experience**

I am a graduate of North Carolina State University with a Bachelor of Science and Master of Science degree in Accounting. I was initially an employee of the Public Staff from December 2002 until May 2004 and rejoined the Public Staff in January 2006.

I am responsible for analyzing testimony, exhibits, and other data presented by parties before this Commission. I have the further responsibility of performing and supervising the examinations of books and records of utilities involved in proceedings before the Commission and summarizing the results into testimony and exhibits for presentation to the Commission.

Since initially joining the Public Staff in December 2002, I have filed testimony or affidavits in several water and sewer general rate cases. My experience also includes filing affidavits in several fuel rate cases of Duke Energy Carolinas, LLC and Dominion North Carolina Power. I have also performed audits and/or presented testimony in Public Service Company of North Carolina and Frontier Natural Gas Company annual gas cost reviews.