

1 PLACE: Dobbs Building, Raleigh, North Carolina
2 DATE: Tuesday, August 8, 2023
3 DOCKET NO.: G-5, Sub 661
4 TIME: 9:00 a.m. to 9:52 a.m.
5 BEFORE: Commissioner Karen M. Kemerait, Presiding
6 Commissioner ToNola D. Brown-Bland
7 Commissioner Kimberly W. Duffley
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IN THE MATTER OF:
Application of Public Service Company
of North Carolina, Inc., for Annual Review of Gas
Costs Pursuant to N.C.G.S. § 62-133.4(c) and
Commission Rule R1-17(k) (6)

1 A P P E A R A N C E S:
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E X H I B I T S

IDENTIFIED/ADMITTED

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(Confidential - filed under seal)

P R O C E E D I N G S

1
2 COMMISSIONER KEMERAIT: Good morning,
3 everyone. Let us come to order and go on the record.
4 I am Commissioner Karen M. Kemerait with the North
5 Carolina Utilities Commission and I have been assigned
6 to preside over this hearing. With me this morning
7 are Commissioners ToNola D. Brown-Bland and Kimberly
8 W. Duffley.

9 I now call for hearing Docket Number G-5,
10 Sub 661, which is in The Matter of Application of
11 Public Service Company of North Carolina, Inc., that
12 I'll refer to going forward as PSNC or Public Service,
13 for Annual Review of Gas Costs Pursuant to North
14 Carolina General Statute § 62-133.4(c) and Commission
15 Rule R1-17(k) (6).

16 North Carolina General Statute § 62-133.4
17 authorizes gas cost adjustment proceedings for natural
18 gas local distribution companies.

19 North Carolina General Statute § 62-133.4(c)
20 provides that the Utilities Commission shall conduct
21 annual review proceedings to compare each natural gas
22 utilities' prudently occurred costs with costs
23 recovered from all of the utility's customers served
24 during the test period.

NORTH CAROLINA UTILITIES COMMISSION

1 Commission Rule R1-17(k) (6) prescribes the
2 procedures for such annual reviews of natural gas
3 costs.

4 On June 1st, 2023, PSNC filed public and
5 confidential versions of the direct testimony of Rose
6 M. Jackson and direct testimony of Glory J. Creel in
7 this annual review proceeding.

8 On June 6th, 2023, the Commission issued an
9 Order Scheduling Hearing, Requiring Filing of
10 Testimony, Establishing Discovery Guidelines, and
11 Requiring Public Notice, which I will refer to going
12 forward as the Scheduling Order.

13 The Scheduling Order scheduled a hearing for
14 this date and time.

15 On June 16, 2023, PSNC filed public and
16 confidential versions of the supplemental direct
17 testimony of Rose M. Jackson.

18 On July 7, 2023, PSNC filed Rose M.
19 Jackson's Revised Direct Exhibit 2.

20 On July 24, 2023, PSNC filed public and
21 confidential versions of the second supplemental
22 testimony and exhibits for Rose M. Jackson.

23 Also on July 24, 2023, the Public Staff
24 filed a motion, and the Commission issued an Order for

1 a one-day extension of time for the Public Staff and
2 other intervenors to file testimony.

3 On July 25, 2023, the Public Staff filed the
4 testimony and appendices of Kuei Fen Sun and Blaise C.
5 Michna.

6 On July 31, 2023, PSNC filed Affidavits of
7 Publication of Public Notice in compliance with the
8 Scheduling Order.

9 In compliance with the requirements of
10 Chapter 163A of the State Government Ethics Act, I
11 remind the members of the Commission of their
12 responsibility to avoid conflicts of interest, and I
13 inquire whether any member has a conflict of interest
14 with respect to the matter before us in this
15 proceeding?

16 (No response)

17 Let the record reflect that I have no such
18 conflict and that my fellow Commissioners have not
19 identified any such conflict.

20 I now call for appearance of counsel,
21 beginning with PSNC.

22 MS. GRIGG: Good morning, Commissioner
23 Kemerait. Commissioners, I'm Mary Lynne Grigg with
24 the Law Firm of McGuireWoods appearing on behalf of

1 PSNC.

2 COMMISSIONER KEMERAIT: Good morning.

3 MS. ATHENS: Good morning. Kristin Athens
4 with the Law Firm of McGuireWoods also appearing on
5 behalf of PSNC this morning.

6 COMMISSIONER KEMERAIT: Good morning.

7 MS. CULPEPPER: Good morning. Elizabeth
8 Culpepper with the Public Staff appearing on behalf of
9 the Using and Consuming Public.

10 COMMISSIONER KEMERAIT: Good morning,
11 Ms. Culpepper.

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

14 MS. GRIGG: No, ma'am.

15 MS. CULPEPPER: No, ma'am.

16 COMMISSIONER KEMERAIT: Since there are no
17 preliminary matters to be addressed, we'll go ahead
18 and proceed with the hearing.

19 Has the Public Staff identified any public
20 witnesses who wish to testify in this proceeding?

21 MS. CULPEPPER: No, ma'am.

22 COMMISSIONER KEMERAIT: And to make sure
23 that the record is clear, are there any members of the
24 public that are here in the hearing room this morning

1 who wish to testify in this proceeding?

2 (No response)

3 Let the record reflect that no members of
4 the public are in the hearing room and have asked to
5 testify in the proceeding.

6 So, counsel for PSNC may proceed to present
7 the Company's witnesses.

8 MS. GRIGG: Thank you. At this time, the
9 Company calls Ms. Rose Jackson to the stand.

10 COMMISSIONER KEMERAIT: Good morning,
11 Ms. Jackson.

12 MS. JACKSON: Good morning.

13 COMMISSIONER KEMERAIT: Good morning. Place
14 your left hand on the Bible and raise your right hand.

15 ROSE M. JACKSON;
16 having been duly sworn,
17 testified as follows:

18 DIRECT EXAMINATION BY MS. GRIGG:

19 Q Good morning.

20 A Good morning.

21 Q Please state your name and business address for
22 the record.

23 A Rose M. Jackson and my business address is 220
24 Operation Way, Cayce, South Carolina.

1 Q By who are you employed and in what capacity?

2 A I'm employed by the Dominion Energy Services as
3 the Director of Fuel Commodities.

4 Q Did you cause to be filed 20 typed pages of
5 question and answer testimony of Rose M. Jackson,
6 two exhibits, which was filed in public version
7 in this proceeding on June 1st, 2023?

8 A Yes, ma'am.

9 Q And an attachment to Exhibit 2 which was marked
10 confidential, also filed on June 1st.

11 A Yes, ma'am.

12 Q Did you also cause to be filed three typed pages
13 of question and answer testimony of the
14 supplemental direct testimony of Rose M. Jackson
15 which was filed confidentially and in public
16 version in this proceeding on June 16th, 2023?

17 A Yes, ma'am.

18 Q Finally, did you also cause to be filed on
19 July 24th, 2023, four pages of question and
20 answer testimony of the supplemental -- second
21 supplemental direct testimony of Rose M. Jackson
22 which was filed confidentially and publicly?

23 A Yes, ma'am.

24 Q With that testimony, you filed three exhibits,

1 correct?

2 A Yes, I did.

3 Q And of those three exhibits, the exhibit which
4 was premarked Jackson Second Supplemental Direct
5 Exhibit 2 was confidential.

6 A That is correct.

7 Q Were those documents prepared by you or under
8 your supervision?

9 A Yes, ma'am, they were.

10 Q Do you have any corrections or additions to those
11 documents?

12 A No, I do not.

13 Q If I were to ask you the questions appearing in
14 those testimonies today, would your answers be
15 the same?

16 A Yes, ma'am, they would.

17 MS. GRIGG: Commissioner Kemerait, we'd ask
18 that Ms. Jackson's direct testimony, supplemental
19 testimony, and second supplemental testimonies be
20 marked for identification and entered into the record
21 as if given orally from the stand.

22 COMMISSIONER KEMERAIT: And, Ms. Grigg, for
23 clarification for the direct testimony, did you
24 indicate that there were two exhibits or three

1 exhibits?

2 MS. GRIGG: She has three exhibits.

3 COMMISSIONER KEMERAIT: My records indicate
4 three exhibits but I may have misheard you because I
5 thought you indicated two exhibits.

6 MS. GRIGG: No, two exhibits. Two exhibits.

7 THE WITNESS: Direct has two exhibits.

8 COMMISSIONER KEMERAIT: Two exhibits?

9 MS. GRIGG: Two exhibits; yes, ma'am.

10 COMMISSIONER KEMERAIT: So your motion is
11 allowed. Ms. Jackson's direct testimony filed on
12 June 1st of 2023, consisting of 20 pages with two
13 exhibits attached, her supplemental direct testimony
14 filed on June 16 of 2023, consisting of three pages,
15 and second supplemental testimony filed on July 24,
16 2023, consisting of four pages with three exhibits
17 will be copied into the record as if given orally from
18 the stand, and the exhibits will be marked for
19 identification purposes as prefiled.

20 MS. GRIGG: Thank you very much.

21 (WHEREUPON, Jackson Direct
22 Exhibits 1 - 3 are marked
23 for identification as
24 prefiled.) (Confidential -

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filed under seal.)
(WHEREUPON, the prefiled
direct testimony of ROSE M.
JACKSON is copied into the
record as if given orally
from the stand.)
(Confidential filed under
seal.)

BEFORE THE

NORTH CAROLINA UTILITIES COMMISSION

PUBLIC SERVICE COMPANY OF NORTH CAROLINA, INCORPORATED

DOCKET NO. G-5, SUB 661

DIRECT TESTIMONY

OF

ROSE M. JACKSON

JUNE 1, 2023

1 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

2 A. My name is Rose M. Jackson. My business address is 220 Operation Way,
3 Cayce, South Carolina.

4 Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

5 A. I am employed by Dominion Energy Services, Inc. (“DES”) as Director – Fuel
6 Commodities.

7 Q. WHAT ARE YOUR RESPONSIBILITIES?

8 A. I am responsible for managing the group that supports the gas supply and
9 capacity management functions for Public Service Company of North Carolina,
10 Incorporated, d/b/a Dominion Energy North Carolina (“PSNC” or the
11 “Company”), and its affiliate Dominion Energy South Carolina, Inc. (“DESC”).
12 Our group’s specific responsibilities for PSNC include planning and
13 procurement of gas supply and pipeline capacity, nominations and scheduling
14 related to natural gas transportation and storage services on interstate pipelines
15 and the Company’s system, gas cost accounting, state and federal regulatory
16 issues concerning supply and capacity, asset and risk management, and gas
17 transportation administration. As of October 1, 2022, I assumed responsibility
18 for managing coal and oil procurement for DESC.

19 Q. PLEASE SUMMARIZE YOUR EDUCATIONAL AND PROFESSIONAL
20 BACKGROUND.

21 A. I graduated from the University of South Carolina in 1988 with a Bachelor of
22 Science degree in Accounting. Following graduation, I worked as an
23 accountant for a national security services firm. In 1992, I began my

1 employment with SCANA Corporation (“SCANA”) as an accountant. Over the
2 years, I have held various positions of increasing responsibility related to gas
3 procurement, interstate pipeline and local distribution company scheduling, and
4 preparation of gas accounting information. In May 2002, I became Manager of
5 Operations and Gas Accounting at SCANA and was responsible for gas
6 scheduling on interstate pipelines and gas accounting for all SCANA
7 subsidiaries. In November 2003, I was made Fuels Planning Manager and
8 assisted all SCANA subsidiaries with strategic planning and special projects
9 associated with natural gas. I held this position until promoted to General
10 Manager – Supply and Asset Management in December 2005. Following
11 SCANA’s merger with Dominion Energy, Inc. (“Dominion Energy”), in 2019,
12 I became Director – Gas Supply Services in January 2021. In October 2022, I
13 was named Director – Fuel Commodities and assumed responsibility for
14 managing coal and oil procurement for DESC.

15 Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS COMMISSION?

16 A. Yes. I have presented testimony on behalf of the Company many times,
17 including its last ten gas cost reviews.

18 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS
19 PROCEEDING?

20 A. North Carolina General Statute Section 62-133.4 allows the Company to track
21 and recover from its customers the cost of natural gas supply and transportation
22 and to adjust customer charges to reflect changes in those costs. This is
23 accomplished through Rider D to the Company’s tariff. Under subsection (c)

1 of the statute, the Commission must conduct an annual review of the
2 Company's gas costs, comparing the Company's prudently incurred costs with
3 the costs recovered from customers during a 12-month test period. To facilitate
4 this review, Commission Rule R1-17(k)(6) requires the Company to submit to
5 the Commission, on or before June 1 of each year, certain information for the
6 12-month test period ended the previous March 31.

7 The purpose of my testimony is to demonstrate that all gas costs were
8 prudently incurred by the Company during the 12-month review period ended
9 March 31, 2023, and therefore meet the requirement for recovery. My
10 testimony also provides the Commission with information pursuant to the Order
11 Requiring Reporting issued in Docket No. G-100, Sub 91, and addresses the
12 Commission's Order on Annual Review of Gas Costs issued last year in Docket
13 No. G-5, Sub 6 which required an economic analysis of new or incremental
14 supply. Finally, I will describe the Federal Energy Regulatory Commission
15 ("FERC") proceedings in which the Company became a party during the review
16 period, as required by the Commission's Order on Annual Review of Gas Costs
17 issued in Docket No. G-5, Sub 533.

18 In addition to my testimony, the Company is submitting the direct
19 testimony and schedules of Glory J. Creel for the purpose of providing the
20 Commission with data necessary to true-up the Company's gas costs during the
21 review period.

22 Q. PLEASE BRIEFLY DESCRIBE PSNC AND THE COMPOSITION OF ITS
23 MARKET.

1 A. PSNC is a local distribution company primarily engaged in the purchase,
2 transportation, distribution, and sale of natural gas to approximately 640,000
3 customers in North Carolina. About half of the Company's throughput during
4 the review period consisted of deliveries to industrial or large commercial
5 customers, including electric generation, many of whom either purchased or
6 transported gas under interruptible rate schedules. The remainder of the
7 Company's throughput consisted of firm sales service to residential and small
8 and medium-sized commercial customers.

9 Q. PLEASE DESCRIBE PSNC'S GAS SUPPLY PROCUREMENT POLICY.

10 A. PSNC's system and its gas supply procurement policy are designed to serve
11 firm customers reliably on a peak day. In providing sales services, the
12 Company must acquire supplies of natural gas and arrange for their delivery to
13 the Company's system. The most appropriate description of PSNC's gas supply
14 procurement policy is a best-cost supply strategy, which is based on three
15 primary criteria: supply security, operational flexibility, and cost of gas.

16 The first and foremost criterion is security of gas supply, which refers
17 to the assurance that gas will be available when needed for firm sales customers.
18 Supply security is obtained through a diverse portfolio of suppliers, receipt
19 points, purchase quantity commitments, and terms. Potential suppliers are
20 evaluated on a variety of factors, including past performance, creditworthiness,
21 available terms, gas deliverability options, and supply location.

22 The second criterion is maintaining the necessary operational flexibility
23 that will enable the Company to react to the effects of unpredictable weather on

1 firm sales customer usage. The Company's gas supply portfolio must be
2 capable of handling the monthly, daily, and hourly changes in these customers'
3 demand needs. Operational flexibility largely results from gas supply
4 agreements having different purchase commitments and swing capabilities (for
5 example, the ability to adjust purchased gas within the contract volume on either
6 a monthly or daily basis) and from injections into and withdrawals out of
7 storage.

8 The third criterion is the cost of gas. In evaluating costs, it is important
9 to consider not only the actual commodity cost, but also any transportation-
10 related charges such as reservation, usage, and fuel charges. Typically, the
11 greater the flexibility the Company has with a supply contract, the higher the
12 premium assessed. The Company routinely requests gas supply bids from
13 suppliers to help ensure cost-effective proposals. In requests for proposal,
14 suppliers are asked to submit alternative pricing options they believe may be of
15 interest or value to the Company and its customers. In furtherance of its natural
16 gas sustainability initiative, the Company also asks that bids include
17 responsibly sourced gas (geologic natural gas that has been certified to meet
18 certain environmental criteria) and renewable natural gas (methane produced
19 from biomass or other renewable sources). To date, bids that include
20 responsibly sourced gas and renewable natural gas have not been competitive.

21 Q. WHAT IS DOMINION ENERGY'S NATURAL GAS SUSTAINABILITY
22 INITIATIVE?

23 A. This initiative is a part of Dominion Energy's "Net Zero" goal for carbon

1 dioxide and methane emissions by 2050. It includes a plan to reduce emissions
2 associated with upstream natural gas purchases by:

- 3 • Supporting federal methane regulations.
- 4 • Encouraging suppliers to adopt net-zero commitments.
- 5 • Requesting supplier emissions disclosures on an annual basis.
- 6 • Incorporating a sustainability focus into fuel procurement
7 practices.

8 Q. HOW DOES PSNC DETERMINE ITS FIRM CUSTOMERS' DEMAND
9 REQUIREMENTS?

10 A. PSNC estimates firm customer demand for an extremely cold weather day, or
11 design day, using a statistical modeling program that is developed by applying
12 regression analysis to historical firm throughput. Design-day demand is
13 estimated using historical weather and 50 heating degree-days (“HDDs”).
14 HDDs measure the coldness of the weather experienced, based on the extent to
15 which the daily mean temperature falls below a reference temperature of 60
16 degrees Fahrenheit.

17 Q. WHAT DESIGN-DAY REQUIREMENTS DID PSNC USE DURING THE
18 REVIEW PERIOD AND HOW DID THE COMPANY PLAN TO MEET
19 THOSE REQUIREMENTS?

20 A. Column (1) of the table in Jackson Direct Exhibit 1 shows the results of the
21 review period’s firm peak-day demand forecast, which was performed prior to
22 the winter heating season, and the assets that were available to meet those firm
23 peak-day requirements going into the winter heating season. The assets

1 included year-round, seasonal, and peaking capabilities and consisted of firm
2 transportation and storage capacity on interstate pipelines as well as the LNG
3 peaking capability of the Cary Energy Center. They also included short-term
4 peaking services the Company acquired to cover a temporary shortfall of assets.

5 Q. WHAT TYPES OF SUPPLY CONTRACTS DOES PSNC HAVE IN ITS
6 PORTFOLIO?

7 A. PSNC has developed a gas supply portfolio made up of long-term agreements
8 and supplemental short-term agreements with a variety of suppliers, including
9 both producers and independent marketers. The portfolio includes:

- 10 • Baseload contracts, which provide fixed volumes of gas each
11 day of the contract term.
- 12 • Physical option contracts, which provide flexibility to modify
13 the volumes delivered on a monthly or daily basis to address
14 changing demands and weather patterns.
- 15 • No-notice contracts, which provide flexibility to increase or
16 decrease delivered volumes daily to respond to changing
17 operational demands and weather.
- 18 • Spot (daily) market contracts, which are primarily used for price
19 mitigation, system balancing, and peak shaving.

20 The Company's gas supply portfolio had approximately 187,000
21 dekatherms per day (dts/day) under term contracts with nine different suppliers
22 as of November 1, 2022, the beginning of the winter heating season for the
23 period under review. These contracts all included provisions to ensure the

1 prices paid were market based. The remaining contracts were for purchases in
2 the spot market. Spot purchase contracts do not include reservation fees but
3 reflect only commodity cost, generally by reference to standard indices or
4 negotiated prices.

5 Q. PLEASE DESCRIBE PSNC'S INTERSTATE TRANSPORTATION AND
6 STORAGE CAPACITY.

7 A. PSNC subscribes to interstate capacity so that natural gas can be delivered from
8 supply areas or gas storage facilities to PSNC's local distribution system. Most
9 of PSNC's firm transportation and storage capacity is obtained from Transco,
10 which currently is the only interstate pipeline having a direct interconnection
11 with the Company's system. The other interstate transportation and storage
12 providers with whom PSNC has contracted for service include Columbia Gas
13 Transmission, LLC ("Columbia Gas"); Cove Point LNG, LP ("Cove Point");
14 Eastern Gas Transmission and Storage, Inc. ("Eastern Gas"); East Tennessee
15 Natural Gas, LLC ("East Tennessee"); Pine Needle LNG Company, LLC
16 ("Pine Needle"); Saltville Gas Storage Company, L.L.C. ("Saltville"); and
17 Texas Gas Transmission, LLC ("Texas Gas"). Because Transco is the sole
18 direct interstate pipeline interconnection, the Company needs to use the Transco
19 firm transportation capacity, including segmentation of that capacity, to receive
20 natural gas from the other interstate providers.

21 Q. WHAT IS SEGMENTATION?

22 A. Segmentation allows a shipper on an interstate pipeline to double the amount of
23 its contracted-for capacity by scheduling deliveries of natural gas from both

1 directions. Thus, for example, PSNC can use one segment of contracted firm
2 transportation capacity on Transco to schedule deliveries on a primary firm
3 basis from supply points in the Gulf production area northward to the
4 Company's city gate. At the same time, PSNC may be able to use a different,
5 non-overlapping segment of Transco capacity to schedule deliveries on a
6 secondary firm basis from Columbia Gas, Cove Point, Eastern Gas, East
7 Tennessee/Saltville, Pine Needle, and Texas Gas southward to the Company's
8 city gate. In addition, when a segment is not needed to serve customers, PSNC
9 can release it to other shippers, which generates revenue that mitigates the
10 Company's capacity costs.

11 Q. DID WINTER STORM ELLIOTT AFFECT PSNC'S GAS SUPPLY
12 PROCUREMENT DURING THIS REVIEW PERIOD?

13 A. Yes. The Company had to adjust its plans during the weather event due to some
14 unexpected developments resulting from the storm.

15 Q. PLEASE EXPLAIN.

16 A. The Company prepared extensively for the winter storm that was forecasted to
17 occur over the long Christmas holiday weekend, December 23-26, 2022. As
18 temperatures fell on the night of December 23rd, pressures at the Company's
19 Dan River Takeoff from Transco dropped well below the historical operating
20 pressure that the Company uses to model deliveries of gas on that part of the
21 system. As a result, the Company was unable to deliver quantities of peaking
22 supply and off-system storage as originally planned. To address this situation,
23 the Company curtailed additional interruptible customers and made additional

1 withdrawals of gas from the Company’s on-system liquefied natural gas
2 (“LNG”) facility at the Cary Energy Center.

3 In addition, one supplier declared force majeure due to Winter Storm
4 Elliott. This affected less than 1% of total gas supply, and the Company was
5 able to replace the affected quantities using Cary LNG storage.

6 Q. PLEASE DESCRIBE THE COMPANY’S LNG PEAKING FACILITY.

7 A. The Cary Energy Center can liquefy and store up to 1 billion cubic feet of LNG
8 and has a maximum daily withdrawal capability of approximately 100,000
9 dts/day. Assuming that storage levels are at maximum capacity, the LNG
10 inventory would be exhausted in 10 days at the maximum daily withdrawal rate.

11 Q. WHAT BENEFITS DOES THE CARY ENERGY CENTER PROVIDE THE
12 COMPANY?

13 A. Because the facility is located on PSNC’s system, the Cary Energy Center
14 provides additional reliability and security of gas supply during colder than
15 normal weather or critical operating conditions. For example, during Winter
16 Storm Elliott, when the Company experienced lower than normal Transco
17 operating pressures at the Dan River Takeoff, the Company made more LNG
18 withdrawals than were originally planned to deliver gas in the area.

19 Q. DID PSNC ACQUIRE ASSETS TO MEET EXPECTED PEAK-DAY
20 REQUIREMENTS DURING THIS REVIEW PERIOD?

21 A. To meet an expected capacity shortfall during the 2022-23 winter season,
22 PSNC contracted for a total of 61,000 dts/day of firm peaking services from
23 two different suppliers for a specified number of days during the winter.

1 Q. WHAT PROCESS DOES PSNC UNDERTAKE TO ACQUIRE CAPACITY
2 TO MEET ITS INCREASING CUSTOMER DEMAND?

3 A. PSNC's design-day demand forecast projects firm customer load growth and is
4 used to determine total asset needs. This forecast is updated annually, and
5 capacity alternatives are evaluated on an on-going basis. If needed, PSNC
6 acquires incremental storage or transportation capacity to meet the growth
7 requirements of its firm sales customers consistent with its best-cost strategy.
8 This analysis incorporates the reliability and timing of new services, as well as
9 any transportation charges, storage costs, and supplier reservation fees required
10 to deliver gas to the city gate.

11 As I have noted on other occasions, to acquire long-term expansion
12 capacity in balance with customer needs is impossible due to many external
13 factors beyond the Company's control. A significant concern continues to be
14 the long lead-time and uncertainty involved in acquiring capacity from new
15 interstate pipeline projects to meet growing customer demand.

16 Q. IN LIGHT OF THE CAPACITY SHORTFALL YOU MENTIONED
17 EARLIER, WHAT STEPS IS THE COMPANY TAKING TO ACQUIRE
18 ADDITIONAL RESOURCES TO SERVE FIRM PEAK-DAY DEMAND?

19 A. In the short-term, PSNC has contracted for 40,000 dt/ day of peaking supply for
20 the upcoming winter season and is in the process of acquiring additional
21 peaking services to meet its peak-day demand. In the long-term, PSNC has
22 entered into precedent agreements with Mountain Valley Pipeline ("MVP") for
23 firm transportation on two projects that, if completed, will provide PSNC a

1 second direct interstate pipeline interconnection. PSNC is also proceeding with
2 plans to construct a second LNG peaking facility.

3 Q. PLEASE PROVIDE A BRIEF DESCRIPTION OF THE MVP PROJECTS
4 AND THE ARRANGEMENTS THE COMPANY MADE TO OBTAIN
5 SERVICE.

6 A. MVP's mainline project consists of approximately 300 miles of transmission
7 pipeline, with compression facilities, extending from northwestern West
8 Virginia to southern Virginia. The 75-mile Southgate lateral project, also with
9 compression facilities, connects the mainline with the Company's system.

10 PSNC entered into precedent agreements for 250,000 dts/day of firm
11 transportation on the mainline and 300,000 dts/day of firm transportation on
12 Southgate. This capacity will provide PSNC access to natural gas produced in
13 the Marcellus and Utica shale regions of West Virginia, Pennsylvania, and
14 Ohio. The completion of the mainline will benefit PSNC by providing much
15 needed natural gas supply into Transco Zone 5 which should help mitigate price
16 spikes and recently experienced lower pressures on Transco. In addition, the
17 Southgate lateral is designed to connect directly with East Tennessee's pipeline,
18 which will enable PSNC to make primary firm deliveries from Saltville storage
19 to the Company's system and replace less reliable secondary firm deliveries
20 using Transco segmented capacity. That is why PSNC contracted for 50,000
21 dts/day more of capacity on Southgate than on the MVP mainline.

22 Q. WHAT IS THE CURRENT STATUS OF THE TWO MVP PIPELINE
23 PROJECTS?

1 A. The MVP mainline is nearly 94% complete and work continues to
2 obtain the permits necessary to complete the project. MVP's latest target in-
3 service date for the mainline project is the second half of 2023. During the
4 review period, the following updates were announced:

- 5 • On August 23, 2022, FERC granted an extension of time to
6 October 13, 2026, to complete the MVP mainline project.
- 7 • On February 28, 2023, the United States Fish and Wildlife
8 Service ("Wildlife Service") issued its third biological opinion
9 for the MVP mainline project in response to vacatur and remand
10 of the second biological opinion in February 2022 by the United
11 States Court of Appeals for the Fourth Circuit ("Fourth
12 Circuit").
- 13 • On March 29, 2023, the Fourth Circuit published an opinion
14 denying the petition for review in which the Sierra Club and
15 other environmental pipeline opponents challenged the Virginia
16 Department of Environmental Quality's issuance of a Virginia
17 Water Protection Individual Permit for the MVP mainline
18 project.
- 19 • On April 3, 2023, the Fourth Circuit granted the Sierra Club's
20 and other pipeline opponents' petition for review of the West
21 Virginia Department of Environmental Protection's issuance of
22 a Clean Water Act certification for the MVP project and vacated
23 the certification.

- 1 • On April 10, 2023, the Sierra Club and other environmental
2 organizations filed a petition for review in the Fourth Circuit
3 challenging the Wildlife Service’s recently issued third
4 biological opinion and incidental take statement under the
5 Endangered Species Act.
- 6 • On May 26, 2023, the United States Court of Appeals for the
7 District of Columbia Circuit rejected the Sierra Club’s and other
8 pipeline opponents’ petition for review, except for holding that
9 FERC failed to explain adequately its basis for not conducting a
10 new environmental impact assessment. However, the case was
11 remanded without FERC’s orders being vacated, which will
12 allow work to resume while FERC reconsiders its orders.

13 In June 2020, FERC issued an order granting MVP a certificate of public
14 convenience and necessity for Southgate in which it conditioned
15 commencement of construction on receipt by MVP of the appropriate federal
16 permits for the mainline. Construction of Southgate has been estimated to take
17 at least two years after the mainline project is placed into service.

18 Q. ARE YOU AWARE OF RECENT PROVISIONS IN A FEDERAL BILL
19 REGARDING MVP?

20 A. Yes. The bill pending in Congress to raise the debt ceiling includes a provision
21 to expedite MVP. If the bill becomes law, I will file supplemental testimony in
22 this proceeding to address the legislation. *Fiscal Responsibility Act of 2023*,
23 H.R. Res. 3746, 118th Cong. (2023)

1 Q. PLEASE DISCUSS THE COMPANY'S PLANS FOR BUILDING A
2 SECOND LNG PEAKING FACILITY.

3 A. In reviewing its design-day demand over a ten-year period, the Company
4 forecasted a need for assets in 2030 even if MVP is placed into service. The
5 Company developed a plan for a new LNG facility to meet that incremental
6 need. The Company has selected a site [BEGIN CONFIDENTIAL] [REDACTED]
7 [REDACTED] [END CONFIDENTIAL] to build an LNG facility with up to 200
8 million cubic feet per day of withdrawal capacity for approximately ten days.
9 The in-service date for the new LNG facility is estimated to be late 2026 or
10 early 2027, in order to provide withdrawals in the winter of 2027-2028. The
11 Company is in the process of acquiring the site and selecting the engineering,
12 procurement, and construction contractor and is planning to begin site work in
13 late 2023 or early 2024. The Company estimates that the LNG project will cost
14 between [BEGIN CONFIDENTIAL] [REDACTED] [END
15 CONFIDENTIAL].

16 Q. DID PSNC PERFORM A COST/BENEFIT ANALYSIS OF THE PROPOSED
17 LNG FACILITY?

18 A. A traditional economic analysis of alternatives could not be completed because
19 long-term viable alternatives to the proposed facility are not available in the
20 similar timeframe as the LNG project. Additionally, the operational constraints
21 caused by lower than historical pressures on Transco's system during Winter
22 Storm Elliott demonstrates the need for more on-system supply, since the
23 Company could not receive all the winter peaking supply it had contracted for.

1 Additional benefits of on-system LNG include allowing PSNC to manage daily
2 firm demand swings in a reliable manner and mitigating the impact of price
3 spikes during periods of high demand.

4 Q. HOW DID THE COMPANY REACH THE CONCLUSION THAT
5 ALTERNATIVES TO THE LNG FACILITY WERE NOT AVAILABLE?

6 A. As I stated earlier, security of supply refers to the assurance that gas will be
7 available when needed for firm sales customers and is the first and foremost
8 criterion in PSNC's gas procurement policy. The Company evaluated whether
9 there were alternatives to the proposed facility that would provide security of
10 supply to serve firm customers. PSNC determined that there are currently no
11 viable alternatives to meet security of supply in the same timeframe as the new
12 LNG facility.

13 Short-term peaking contracts are the most similar service to LNG to
14 meet peak demand, but they have become increasingly difficult to acquire and
15 are not a long-term solution. For example, PSNC acquired a short-term contract
16 from an LNG facility that temporarily had excess availability, but as the demand
17 continues to rise, that LNG facility will not continue to have supply for PSNC
18 to acquire. Further, the current constraints on interstate pipelines and lack of
19 future firm transportation options exacerbate the lack of short-term peaking
20 options available to meet demand. Additionally, as PSNC experienced in
21 Winter Storm Elliott, when pressure issues occurred on Transco, PSNC could
22 not receive the contracted supplies. Therefore, the Company does not have

1 long-term viable options that provide reliable alternatives to the new LNG
2 facility.

3 Q. HAVE YOU PROVIDED THE INFORMATION CONCERNING
4 CAPACITY ACQUISITION AS REQUIRED BY THE COMMISSION'S
5 ORDER IN DOCKET NO. G-100, SUB 91?

6 A. Yes. PSNC's responses to the ten questions set forth in that order are attached
7 as Jackson Direct Exhibit 2.

8 Q. WHAT ADDITIONAL ACTIONS HAS PSNC TAKEN TO ACCOMPLISH
9 ITS BEST-COST POLICY?

10 A. PSNC continues to take the following steps to keep its gas costs as low as
11 possible while accomplishing its stated policy goals of maintaining security of
12 supply and delivery flexibility:

- 13 • Optimize the flexibility available within its supply and capacity
14 contracts to realize their value.
- 15 • Monitor and intervene in matters before the FERC whose actions
16 could impact the rates the Company pays and the services it
17 receives from interstate pipelines and storage facilities.
- 18 • Work with industrial customers to facilitate transportation of
19 customer-acquired natural gas.
- 20 • Communicate directly with customers, suppliers, and other
21 industry participants and actively monitor developments in the
22 industry.
- 23 • Conduct frequent internal discussions concerning gas supply

1 policy and major purchasing decisions.

2 • Utilize deferred gas cost accounting to calculate the Company's
3 benchmark cost of gas to provide a smoothing effect on gas price
4 volatility.

5 • Conduct a hedging program to mitigate price volatility.

6 Q. PLEASE DESCRIBE THE FERC PROCEEDINGS THAT PSNC BECAME
7 A PARTY TO DURING THE REVIEW PERIOD.

8 A. Jackson Exhibit 3 is a complete listing of the new FERC matters that PSNC
9 intervened in during the review period. PSNC may not have stated a position
10 in a proceeding but filed an intervention without protest or comment. Such
11 interventions typically are made in proceedings where the Company has an
12 interest and the issues or dollar impact appears to be relatively minor but might
13 escalate and become significant later or where the Company would like to
14 receive more information from the participants on an issue in order to monitor
15 future developments. Unless specifically indicated in the last column of
16 Jackson Direct Exhibit 3, PSNC did not express a position during its
17 participation in a matter listed.

18 Q. WHAT IS THE PURPOSE OF PSNC'S HEDGING PROGRAM?

19 A. The primary objective of PSNC's hedging program has always been to help
20 mitigate the price volatility of natural gas for firm sales customers at a
21 reasonable cost. The hedging program meets this objective by having financial
22 instruments such as call options or futures in place to mitigate in a cost-effective
23 manner the impact of unexpected or adverse price fluctuations to customers.

1 Q. PLEASE DESCRIBE PSNC'S HEDGING PROGRAM.

2 A. PSNC's hedging program provides protection from higher prices through the
3 purchase of call options for up to 25% of estimated firm sales volume. To help
4 control costs, the call options are purchased at a price no higher than 10% of
5 the underlying commodity price. Hedges also are limited to a 12-month future
6 period, which allows the Company to obtain favorable option pricing terms and
7 better react to changing market conditions. The hedging program continues to
8 utilize two proprietary models developed by Kase and Company that assist in
9 determining the appropriate timing and volume of hedging transactions. The
10 total amount available to hedge is divided equally between the two models.

11 Q. HAS PSNC MADE ANY CHANGES TO ITS HEDGING PROGRAM?

12 A. No changes were made to PSNC's hedging program during the review period.
13 However, the Company continues to analyze and evaluate the program and will
14 implement changes as warranted.

15 Q. WHAT WAS THE NET ECONOMIC RESULT OF THE HEDGING
16 PROGRAM DURING THE REVIEW PERIOD?

17 A. The hedging program decreased gas costs by \$3,485,031.

18 Q. IN YOUR OPINION, WERE ALL OF THE REVIEW PERIOD GAS COSTS
19 PRUDENTLY INCURRED?

20 A. Yes. All gas costs were incurred under PSNC's best-cost supply strategy,
21 which this Commission has consistently upheld. In my opinion, they are the
22 result of reasonable business judgments considering the conditions under which
23 the gas purchasing decisions were made.

1 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

2 A. Yes.

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(WHEREUPON, Jackson Revised Direct Exhibit 2 is marked for identification as prefiled.)

(WHEREUPON, the prefiled supplemental direct testimony of ROSE M. JACKSON is copied into the record as if given orally from the stand.)

(Confidential filed under seal.)

BEFORE THE

NORTH CAROLINA UTILITIES COMMISSION

PUBLIC SERVICE COMPANY OF NORTH CAROLINA, INCORPORATED

DOCKET NO. G-5, SUB 661

SUPPLEMENTAL DIRECT TESTIMONY

OF

ROSE M. JACKSON

JUNE 16, 2023

1 Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, BY WHOM YOU
2 ARE EMPLOYED, AND IN WHAT CAPACITY.

3 A. My name is Rose M. Jackson. My business address is 220 Operation Way,
4 Cayce, South Carolina. I am employed by Dominion Energy Services, Inc., as
5 Director – Fuel Commodities.

6 Q. HAVE YOU PREVIOUSLY FILED TESTIMONY IN THIS PROCEEDING?

7 A. Yes, I pre-filed direct testimony on June 1, 2023.

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

10 A. In my direct testimony, I testified that a bill pending in Congress to raise the
11 debt ceiling included a provision to expedite completion of the Mountain Valley
12 Pipeline (“MVP”) mainline project, to which PSNC has subscribed for 250,000
13 dekatherms per day of firm transportation capacity. I stated that, if the bill
14 became law, I would file supplemental testimony to address the legislation. The
15 bill did pass Congress and was signed into law by President Biden on June 3,
16 2023. The purpose of my supplemental direct testimony is to provide the
17 Commission with information about the law, which is known as the “Fiscal
18 Responsibility Act of 2023.”

19 Q. PLEASE DESCRIBE THE PORTION OF THE ACT THAT PERTAINS TO
20 MVP.

21 A. Title III of the Act contains provisions regarding environmental permitting
22 reform. Within that title, Section 324 is devoted to expediting completion of
23 the MVP mainline project, which subsection (a) defines as the project generally

1 described and approved in Federal Energy Regulatory Commission Docket
2 Nos. CP16–10, CP19–477, and CP21–57. Subsection (b) includes the
3 following legislative findings:

- 4 • Timely completion of construction and operation of MVP is
5 required in the national interest.
- 6 • MVP will serve demonstrated natural gas demand in the
7 Northeast, Mid-Atlantic, and Southeast regions, will increase
8 the reliability of natural gas supplies and the availability of
9 natural gas at reasonable prices, will allow natural gas producers
10 to access additional markets for their product, and will reduce
11 carbon emissions and facilitate the energy transition.

12 Subsection (c) ratifies and approves all permits and authorizations issued under
13 federal law and necessary for the construction and initial operation of MVP and
14 directs the applicable federal agencies and officials to maintain those permits.
15 Under subsection (d), no later than June 24, 2023, the Secretary of the Army
16 must issue all permits and verifications necessary to complete construction of
17 the pipeline across federal waters and to allow for its operation and
18 maintenance. Subsection (e) divests all courts of jurisdiction to review any
19 approvals by applicable federal agencies and officials or by state administrative
20 agencies acting under federal law for the project, whether issued before or after
21 the effective date of Section 324, including any pending lawsuit. Finally,
22 subsection (f) provides that Section 324 supersedes any other provision of law
23 inconsistent with the issuance of any permit or authorization for the project.

1 Q. WHAT EFFECT WILL THE LAW HAVE ON COMPLETION OF THE MVP
2 MAINLINE PROJECT?

3 A. Following enactment of the law, Equitrans Midstream, operator of MVP, stated
4 its intent to work with its project partners to complete construction of the project
5 by the end of this year. This assumes the timely issuance of the few
6 authorizations remaining.

7 Q. HOW WILL THIS AFFECT PSNC'S PLANS?

8 A. As I indicated in my initial direct testimony, construction of the lateral
9 connecting PSNC's system with the mainline has been estimated to take at least
10 two years after the mainline project is placed into service. The legislation does
11 not purport to apply to the lateral project, and considerable uncertainty remains
12 as to when the Company might be able to access natural gas supplies through
13 MVP. Uncertainty surrounding the construction of new interstate pipeline
14 projects is an ongoing concern. For these reasons, the Company currently is
15 proceeding with plans to construct a second on-system liquefied natural gas
16 ("LNG") storage facility. However, the Company is monitoring potential
17 options that may become available when the MVP mainline project is placed
18 into service. **[BEGIN CONFIDENTIAL]** [REDACTED]

19 [REDACTED]
20 [REDACTED] **[END CONFIDENTIAL]**

21 Q. DOES THIS CONCLUDE YOUR SUPPLEMENTAL DIRECT
22 TESTIMONY?

23 A. Yes, it does.

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(WHEREUPON, Jackson Second Supplemental Direct Exhibits 1 - 3 are marked for identification as prefiled.) (confidential Jackson Second Supplemental Direct Exhibit 2 is filed under seal.)

(WHEREUPON, the prefiled second supplemental testimony of ROSE M. JACKSON is copied into the record as if given orally from the stand.)

(Confidential filed under seal.)

BEFORE THE

NORTH CAROLINA UTILITIES COMMISSION

PUBLIC SERVICE COMPANY OF NORTH CAROLINA, INCORPORATED

DOCKET NO. G-5, SUB 661

SECOND SUPPLEMENTAL DIRECT TESTIMONY

OF

ROSE M. JACKSON

JULY 24, 2023

1 Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, BY WHOM YOU
2 ARE EMPLOYED, AND IN WHAT CAPACITY.

3 A. My name is Rose M. Jackson. My business address is 220 Operation Way,
4 Cayce, South Carolina. I am employed by Dominion Energy Services, Inc., as
5 Director – Fuel Commodities.

6 Q. HAVE YOU PREVIOUSLY FILED TESTIMONY IN THIS PROCEEDING?

7 A. Yes, I pre-filed direct testimony on June 1, 2023. I also filed supplemental
8 direct testimony on June 16, 2023.

9 Q. WHAT IS THE PURPOSE OF YOUR SECOND SUPPLEMENTAL DIRECT
10 TESTIMONY IN THIS PROCEEDING?

11 A. In my direct testimony and supplemental direct testimony, I testified regarding
12 the status of the Mountain Valley Pipeline (“MVP”) mainline project, to which
13 PSNC has subscribed for 250,000 dekatherms per day of firm transportation
14 capacity. In my supplemental direct testimony, I testified that a law to raise the
15 debt ceiling, known as the “Fiscal Responsibility Act of 2023,” had recently
16 passed and that it intended to expedite the completion of MVP. I also testified
17 regarding the Company’s plans to construct a second liquefied natural gas
18 (“LNG”) facility. Since my supplemental testimony was filed, the Company
19 has discussed with the Public Staff the economic analysis required by the North
20 Carolina Utilities Commission’s (“Commission”) order in Docket No. G-5, Sub
21 642. In my second supplemental testimony, I provide the economic analysis
22 performed by the Company which supports PSNC’s decision to construct a two
23 billion cubic feet (“Bcf”) LNG facility. I will also provide an update on the

1 Company's acquisition of an additional winter peaking contract.

2 Q. ARE YOU SPONSORING ANY EXHIBITS TO YOUR SECOND
3 SUPPLEMENTAL DIRECT TESTIMONY?

4 A. Yes. I am including three exhibits:

5 ○ Jackson Second Supplemental Direct Exhibit 1 –Economic Analysis of
6 New LNG Facility

7 ○ Confidential Jackson Second Supplemental Direct Exhibit 2 –
8 Economic Analysis of New LNG Facility

9 ○ Jackson Second Supplemental Direct Exhibit 3 – Updated Design-Day
10 Demand Requirements and Available Assets for Winter Seasons From
11 2022-23 Through 2027-28

12 Each of these exhibits was prepared under my direction and control, and to the
13 best of my knowledge all factual matters contained therein are true and accurate.

14 Q. PLEASE DESCRIBE THE ECONOMIC ANALYSIS CONTAINED IN
15 CONFIDENTIAL JACKSON SECOND SUPPLEMENTAL DIRECT
16 EXHIBIT 2.

17 A. The economic analysis contained in my Confidential Jackson Second
18 Supplement Direct Exhibit 2 compares the cost of a 1.5 Bcf LNG facility versus
19 a 2.0 Bcf facility. As stated in Jackson Second Supplemental Direct Exhibit 1,
20 the 2.0 Bcf facility would only require incremental cost increases associated
21 with the tank, the vaporization equipment and the Administrative & General
22 and contingency expenses. This results in the 2.0 Bcf facility costing
23 approximately 2.5% more than the 1.5 Bcf facility. With a cost differential of

1 only 2.5%, the 2.0 Bcf facility is the most prudent and cost-effective option.
2 Confidential Exhibit 2 to this second supplemental testimony sets forth the
3 specific cost differences between the two facilities.

4 Q. WAS AN ECONOMIC ANALYSIS PERFORMED TO COMPARE THE
5 PROPOSED LNG FACILITY TO OTHER CAPACITY ALTERNATIVES?

6 A. No. As stated in my direct testimony, on pages 15-17:

7 ... A traditional economic analysis of alternatives could not be
8 completed because long-term viable alternatives to the proposed
9 facility are not available in the similar timeframe as the LNG
10 project. Additionally, the operational constraints caused by
11 lower than historical pressures on Transco's system during
12 Winter Storm Elliott demonstrates the need for more on-system
13 supply, since the Company could not receive all the winter
14 peaking supply it had contracted for. Additional benefits of on-
15 system LNG include allowing PSNC to manage daily firm
16 demand swings in a reliable manner and mitigating the impact
17 of price spikes during periods of high demand.

18 ... As I stated earlier, security of supply refers to the assurance
19 that gas will be available when needed for firm sales customers
20 and is the first and foremost criterion in PSNC's gas
21 procurement policy. The Company evaluated whether there
22 were alternatives to the proposed facility that would provide
23 security of supply to serve firm customers. PSNC determined
24 that there are currently no viable alternatives to meet security of
25 supply in the same timeframe as the new LNG facility. Short-
26 term peaking contracts are the most similar service to LNG to
27 meet peak demand, but they have become increasingly difficult
28 to acquire and are not a long-term solution. For example, PSNC
29 acquired a short-term contract from an LNG facility that
30 temporarily had excess availability, but as the demand continues
31 to rise, that LNG facility will not continue to have supply for
32 PSNC to acquire. Further, the current constraints on interstate
33 pipelines and lack of future firm transportation options
34 exacerbate the lack of short-term peaking options available to
35 meet demand. Additionally, as PSNC experienced in Winter
36 Storm Elliott, when pressure issues occurred on Transco, PSNC
37 could not receive the contracted supplies. Therefore, the
38 Company does not have long-term viable options that provide
39 reliable alternatives to the new LNG facility.

1 Q. WILL THE COMPANY PROVIDE UPDATES ON THE NEW LNG
2 FACILITY?

3 A. Yes. The Company will continue to keep the Commission and Public Staff
4 informed on the status as the project progresses.

5 Q. PLEASE UPDATE THE COMMISSION ON A RECENT WINTER
6 PEAKING ACQUISITION.

7 A. Since I filed my supplemental direct testimony, PSNC has acquired 35,000
8 dekatherms/ day of short-term peaking supply for the upcoming winter season.
9 Accordingly, I am updating my original Jackson Direct Exhibit 1 as Jackson
10 Second Supplemental Exhibit 3.

11 Q. DOES THIS CONCLUDE YOUR SECOND SUPPLEMENTAL DIRECT
12 TESTIMONY?

13 A. Yes, it does.

1 MS. GRIGG: Ms. Jackson is available for
2 questions.

3 COMMISSIONER KEMERAIT: And my understanding
4 is that the Public Staff has waived cross examination
5 of Ms. Jackson; is that correct?

6 MS. CULPEPPER: That's correct, yes.

7 THE WITNESS: Commissioner Kemerait, there
8 are three, I apologize, in my direct. One was marked
9 confidential. Sorry.

10 COMMISSIONER KEMERAIT: So, I will admit for
11 identification purposes for -- the three exhibits that
12 were attached to Ms. Jackson's direct testimony will
13 be marked for identification purposes as prefiled.

14 MS. GRIGG: Thank you.

15 COMMISSIONER KEMERAIT: We will correct the
16 record.

17 THE WITNESS: Thank you.

18 COMMISSIONER KEMERAIT: Ms. Jackson, the
19 Commission has several questions for you that really
20 are going to be talking about what happened during
21 Winter Storm Elliott, what PSNC has done since or
22 learned since Winter Storm Elliott, to ensure that the
23 system remains reliable. So, that's kind of, I
24 think, what we're mostly trying to get more

information
NORTH CAROLINA UTILITIES COMMISSION

1 about.

2 THE WITNESS: Okay.

3 EXAMINATION BY COMMISSIONER KEMERAIT:

4 Q So if you could begin by explaining, just giving
5 the Commission an explanation or an overview
6 about how PSNC prepared for Winter Storm Elliott.
7 And I know that you've walked the Commission
8 through this previously but I think we'd like to
9 have an update and some additional information.

10 A Yes, ma'am. In preparation for Winter Storm
11 Elliott or any major winter storm similar to that
12 event, we go into that period forecasting what
13 our design day demand would be for that period.
14 So we're focused on our firm customer demand.
15 And we look back at historical weather patterns
16 that could help us determine what that design day
17 component or that firm demand component would be
18 for that weather event, so we were prepared for
19 that.

20 The Saturday, which happened
21 to be Christmas Eve, was when we anticipated that
22 the bulk or the difficult part of that weather
23 event would occur. So going into that weekend,
24 we were set up; we had sufficient supply; we were

1 prepared to meet our forecasted firm demand for
2 that weekend event; and the only issues that we
3 faced, we had a small force majeure from one of
4 our suppliers that affected less than 1 percent
5 of our supply. But the event that occurred that
6 we were not anticipating is the lower than
7 historical pressures on Transco's system at our
8 interconnect with our LDC distribution system.

9 So previously we had modeled
10 all of the gas coming into PSNC's system at
11 around 625 to 650 pounds and what we actually --
12 what actually occurred on those days was around
13 450 pounds of pressure. So what happened is it
14 limited how much gas we could bring into our
15 system. While Transco has stated publicly that
16 they met all of their delivery obligations, we
17 have never seen pressures that low on Transco's
18 system.

19 So, as a follow-up, we have
20 had a few meetings with them. One in particular
21 where we went through with our engineering group
22 and we said, "do we need to change our model
23 because your tariff specifically states that the
24 minimum pressure guarantee on your system is

1 50 pounds", and we said, "can you model that for
2 us? What does that look like? How much gas
3 would you be able to get to PSNC's city gates if
4 it were 50 pounds?" And they said, "no, that is
5 left over from long ago. The 50 pounds is not
6 something we should focus on. It should be" --
7 they suggested we should use 425. Because at
8 that point in time they have to dispatch people
9 to man their compressor stations.

10 Q Can I interrupt you for a minute? You mentioned
11 425; 425 what?

12 A Pounds, psig.

13 Q So we've gone from 50 pounds to 425 pounds?

14 A That's what they suggested we model. So that is
15 one of the things that we will request in the
16 next Transco rate case that they're required to
17 file third quarter of next year. We think that
18 they should update their tariff to state that the
19 minimum pressure on their system should be 425.
20 Because if they can't prepare a model that shows
21 and demonstrates what the 50 pounds would look
22 like, we need to be accurate in what we're
23 stating in the tariff. So that's one of the
24 changes we will be asking for.

1 Q And about the 425 pounds, do you and PSNC believe
2 that if it has been updated on Transco for
3 425 pounds that that will ensure the pressure
4 problem will be alleviated or addressed?

5 A I can't state that for sure because in another
6 jurisdiction we had a minimum pressure guarantee
7 in a contract and that was not met. I think the
8 real issue is that in the event that an
9 interstate pipeline does not meet their
10 contractual minimum pressures, what they are
11 required to do is refund the reservation fees
12 associated with those volumes. But that doesn't
13 even compare to what we are faced with paying to
14 replace that gas.

15 So that's the real concern,
16 is what can we do long-term in the event that we
17 see lower than normal pressures on their system?
18 And I think one of the changes that we're looking
19 at is that second LNG facility on our system,
20 because that is on our distribution system. We
21 control the dispatch of it and we can control the
22 pressure on the outlet side of that plant. So in
23 the event that we were to have any type of
24 unusual circumstance on an interstate pipeline,

1 that will provide us with on-system supply that
2 will backup any volumes that we can't take into
3 our system from the interstate pipelines.

4 Q So backing up to issues that you experienced on
5 Transco. And you've talked specifically about
6 the low pressure issues. Were there any other
7 problems or issues with Transco during Winter
8 Storm Elliott in addition to the low pressure
9 issue?

10 A One of the things that they have stated is that
11 they communicated with the various parties prior
12 to Winter Storm Elliott. That did not occur in
13 the southern region. They have told us since
14 that they have a coordination meeting in the
15 northern region where they have all the different
16 shippers that include LDCs, power generation
17 plants; they also include interconnecting
18 pipelines in that meeting to discuss and to
19 prepare for a weather event such as Winter Storm
20 Elliott. That did not occur in the southern
21 region. So, we have asked that they plan to have
22 those types of communication meetings and
23 preparation meetings in advance of another storm
24 with the southern region. We think it's very

1 important that they include the interconnecting
2 pipelines as well as the shippers, that would
3 also include the LDCs and the power generation
4 facilities on their system in the southern
5 region.

6 Q And has Transco committed to having the meeting
7 that you have requested or said that is necessary
8 with the southern region? Have they committed to
9 doing so going forward?

10 A They are evaluating that, but they said that they
11 would cooperate with us in doing so.

12 Q And you talked about one of the suppliers
13 declared force majeure and did not perform. It
14 was just one supplier that declared force
15 majeure --

16 A Yes.

17 Q -- and that was 1 percent; is that your
18 testimony?

19 A Yes, ma'am; so a very small volume.

20 Q Okay. And just to be clear, did any other
21 suppliers fail to meet their contractual supply
22 requirements?

23 A No, ma'am.

24 Q It was just that one force majeure situation?

1 A Yes, ma'am.

2 Q And in your testimony, you talked about that the
3 pressures dropped at the Dan River takeoff
4 location from the historical operating pressures.
5 Were there any other drops in pressure at any
6 other takeoff locations in North Carolina or was
7 that the only one that you experienced?

8 A We had drops at other locations, but the Dan
9 River point, I think, was impacted greater
10 because that's where the null point or where the
11 volumes that are flowing from the Gulf to the
12 North and the North to the South. That null
13 point was fluctuating right there around Dan
14 River, and what we saw is because the pressure --
15 the temperatures dropped so severely in such a
16 short period of time on Christmas Eve, that
17 Saturday, we did not get notified.

18 I was on the phone with
19 Transco representatives from right after lunch
20 that day and on into the night, and what they
21 were telling us is that they were noticing that
22 supply was not coming in on the receipt side of
23 their system. So that was pulling down their
24 line pack on their system. But then, when prices

1 posted for that day, typically prices do post in
2 the morning time period, the -- we had -- we
3 contacted 17 suppliers before we could find any
4 amount of gas to purchase, and the price of that
5 gas was so high, so much higher than what the OFO
6 and the -- I'm sorry, the Operational Flow Order
7 penalty on Transco's system was, then you started
8 seeing shippers that were overtaking Transco's
9 system.

10 So what happened is you had
11 supply not coming in on the receipt side and gas
12 going out on the delivery side that was not
13 scheduled or accounted for, so the line pack just
14 dropped tremendously on Transco's system. And
15 because we sit at the null point, that's why Dan
16 River was so greatly affected with the pressure
17 drop.

18 Q And can you tell me what other takeoff locations
19 where the pressure did drop that affected PSNC in
20 addition to Dan River, if you have that
21 information handy?

22 A I don't have that specifically. I just know that
23 that one in particular and, of course, because
24 our largest load center is in that Raleigh/Durham

1 area so Dan River feeds that area. So that was
2 our greatest concern.

3 Q And then in your testimony, you testified that
4 PSNC was unable to deliver quantities of peaking
5 and off-system storage as originally planned, and
6 then you testified that PSNC curtailed
7 interruptible customers and made additional
8 withdrawals of gas from their own system LNG
9 facility at the Cary Energy Center.

10 A Yes, ma'am.

11 Q And did the use of LNG from the Cary storage
12 facility cause problems for supply after Winter
13 Storm Elliott? Did you experience any problems
14 because you had to use that capacity after Winter
15 Storm Elliott? Does that make sense?

16 A Yes, ma'am.

17 No, ma'am. If you look at our
18 January and February weather, it was actually
19 warmer than normal. So, December was our coldest
20 month of this past winter season, so we were very
21 fortunate that we didn't have any similar weather
22 patterns to come through. So we had no impact in
23 the later months of the winter.

24 Q And then you also testified that after Winter

1 Storm Elliott some of the industrial customers
2 converted from interruptible sales to firm sales.

3 A Yes, ma'am.

4 Q And has that had, that change from interruptible
5 to firm sales, has that had any impact on PSNC?

6 A No, ma'am. What we've done is we planned for
7 those firm customers, whether it be residential,
8 commercial or firm, that goes into our planning,
9 you know, into our planning numbers, and it also
10 helps us when we forecast on a daily basis. So
11 they -- and we have movement going the other way
12 as well.

13 So we have our annual election
14 that takes place on June 1st and we will have
15 some customers that convert from interruptible to
16 firm, and we have some customers that convert
17 from firm to interruptible. So there was no net
18 increase this year but what we do is make sure
19 that as they convert to the firm requirement,
20 that that goes into our daily forecast for firm
21 customers.

22 Q And Ms. Jackson, you've talked a lot about this,
23 but I thought it would be helpful just for the
24 record to get this stated pretty succinctly.

1 But can you describe the
2 actions that PSNC has taken after Winter Storm
3 Elliott to ensure that you will, PSNC will be as
4 well-prepared as possible for another storm event
5 like this and, too, as best as possible ensure
6 that the Winter Storm Elliott situation does not
7 happen again? And just for the record, provide
8 information, kind of, succinctly for the record.

9 A Overall, our system performed very well. We were
10 prepared as we went into the weekend for Winter
11 Storm Elliott. We had supply sufficient to meet
12 our firm customer demands and we had backup
13 through our Cary LNG facility in the event that
14 the firm demand forecast was higher than we
15 anticipated.

16 So other than having the lower
17 than normal pressures associated with Transco's
18 system, we have gone back, we are updating our
19 models. As you can imagine, this is a lengthy
20 process. So we're going through updating our
21 models to reflect the 425 pounds of pressure.
22 We're evaluating what type of distribution
23 changes may be needed. One of those changes is
24 looking at, as part of our long-term IMT

1 projects, what we'll have to do as part of that
2 to upgrade our system.

3 So we are trying to determine
4 where we can do changes on our system to help
5 mitigate those lower than normal pressures in the
6 future. But as I stated in my testimony, we do
7 think that that second LNG plant will help us in
8 situations like that, because we can't control
9 what happens on the interstate pipeline side.
10 But if the plant is located on our distribution
11 system, then that gives us the ability to
12 dispatch outside of those scheduling requirements
13 on the interstate pipeline.

14 So when you see these colder
15 than normal weather events that come through,
16 it's difficult to determine how that's going to
17 affect firm customer usage. So an LNG plant on
18 our system helps us to meet as that demand
19 changes over that day so we can see if we need to
20 ramp up or decrease withdrawals from the LNG
21 facility. So, having that second facility, in
22 addition to Cary, I think will help us.

23 We're also working with
24 Transco and the other shippers. Transco has --

1 they are evaluating what changes they need on
2 their system. We have been in discussions with
3 them for a number of years that, as they added
4 more capacity on a bidirectional flow basis,
5 instead of going from the Gulf to the North, it
6 flows from the North to the South. They have
7 added a tremendous amount of capacity on their
8 system without any additional storage. And so
9 when you have greater volumes on your system but
10 you don't have a greater volume in storage to
11 balance it, that's why it becomes more and more
12 difficult.

13 Our concern as a contract
14 holder for storage on Transco's system and a firm
15 transportation capacity holder, we don't want to
16 see onerous operational requirements placed on
17 the shippers and not placed on the upstream
18 pipelines or the interconnecting pipelines.

19 It is clear that during Winter
20 Storm Elliott part of the problem was on the
21 receipt side where these interconnecting
22 pipelines did not have gas to show up to
23 Transco's system. Currently, today, they have
24 operating balancing agreements with Transco and

1 there is no cash-out provision in those. They --
2 well, in most of those. They pay back in kind at
3 a later date. So what Transco's asking for is to
4 have daily requirements put on the shippers but
5 not have those same type of requirements placed
6 on the interconnecting pipelines.

7 So we're working very closely
8 to revise the cash-out mechanism. We just filed
9 a settlement with FERC. We're also going to be
10 working to find out how we can make sure that
11 everybody is treated similarly on Transco's
12 system, because I don't think that the LDCs,
13 such as PSNC, should be burdened with additional
14 costs unless everybody is going to share in those
15 costs.

16 Q And Ms. Jackson, you talked about the second LNG
17 facility and, for the record, what is the
18 proposal for the date that it would be in
19 service?

20 A We are anticipating that the plant will be ready
21 to liquefy by 2027 but, of course, it will take
22 us time to fill up the tank, so we are
23 forecasting 2027 to 2028 will be the first winter
24 season that we will have that available in the

1 stack, if you will, to support our firm customer
2 demand. So that's what we're planning for.

3 Q And in the period before the 2027-2028, when the
4 new LNG facility is in service, do you have
5 concerns or what -- is the Company going to
6 ensure reliability during that period?

7 A The only other option we currently have is to go
8 out into the marketplace to seek these short-term
9 peaking contracts of delivered supply which
10 includes capacity and supply with it. Of course,
11 our design day is growing by approximately, I'd
12 say somewhere between 15,000 to 20,000 dekatherms
13 a day, and so we are going to be faced with
14 contracting for higher volumes during that bridge
15 period. Because as you're aware the interstate
16 pipeline capacity industry is very difficult to
17 plan and forecast when new interstate pipeline
18 capacity may be available, and much of that
19 uncertainty is associated with litigation risk,
20 and so there's no way to determine how long a
21 litigated case may last. So it's not simply what
22 is the timeline before FERC and other agencies
23 approve these permits. Once permits are
24 approved, then those permits can be litigated,

1 and that's when it's very difficult to determine
2 how long it can take for a pipeline to be built.

3 Q And for these short-term peaking contracts, is
4 there sufficient capacity so that -- sufficient
5 capacity for these short-term contracts is really
6 the issue. The price that you'll have to pay --
7 the capacity is there but the cost will be
8 greater, or is there a concern about whether
9 there's even sufficient capacity for the
10 short-term contracts?

11 A I think it's both, because as we're fortunate
12 that as an LDC our demand growth is growing by
13 that 15 to 20,000 dekatherms per year. But
14 what's happening is that you had two major
15 pipeline projects that were supposed to be in
16 service today, Atlantic Coast Pipeline and
17 Mountain Valley Pipeline; that was going to bring
18 approximately four and a half Bcf of gas into
19 Transco Zone 5. And so Atlantic Coast Pipeline
20 has been canceled. Mountain Valley Pipeline has
21 been delayed. And so what you see is the demand
22 growth in the Southeast continues and so each
23 year we have more and more competition for that
24 capacity and for that supply, so we are

1 concerned, and that was one of the reasons we
2 pulled forward our own system LNG plant.

3 We had originally anticipated
4 that that project would be needed in that 2030
5 timeframe but we, as a contingency, we had
6 to find something in the event Mountain Valley
7 Pipeline was further delayed or even canceled.
8 So we felt like that would be the only option
9 that we would have that would avoid that
10 litigation risk, if you will, that an interstate
11 pipeline could have.

12 So that's what we're planning
13 on to have in that 2027 winter and we're hoping
14 that Mountain Valley Pipeline is completed by the
15 end of the year. And I think that will be very
16 beneficial to Transco Zone 5, because right now
17 we don't have enough supply flowing into that
18 zone of delivery that PSNC is currently in.

19 Q Ms. Jackson, I'm going to move on to the -- what
20 you've listed as Jackson Exhibit 1 that talks
21 about the shortfall in your reserve margin.

22 A Yes, ma'am.

23 Q And can you walk us through that exhibit and give
24 a little bit more explanation about the shortfall

1 that is increased and is expected to increase?

2 A Let's go to --

3 Q I believe it's Jackson Exhibit 1, I believe.

4 A Yes, ma'am. Okay. So if you look with my
5 updated, my second supplemental, you'll see for
6 this upcoming winter season we have secured
7 75,000 dekatherms of the short-term peaking and
8 that was filed with my last supplemental
9 testimony, second supplemental testimony. So
10 you'll see that we have a very small positive
11 reserve margin.

12 COMMISSIONER KEMERAIT: Ms. Grigg, this is
13 not a confidential exhibit, is it?

14 THE WITNESS: Oh, I'm sorry. That's --

15 MS. GRIGG: Yes, sure. Thank you.

16 COMMISSIONER KEMERAIT: Let's make sure.

17 MS. GRIGG: Thank you.

18 A I can go off Direct Exhibit 1. If you take the
19 40,000 on the short-term peaking service as I
20 stated in my supplemental testimony, we have
21 added 35,000 to that. So that takes us to a
22 slightly positive reserve margin percentage. But
23 then as you go out through time over the next
24 four winters, you will see that we are working on

1 renewing some of those short-term peaking
2 contracts but you'll see next winter season we're
3 short by 88,547. The next winter season it's
4 105,000. The next winter season it's 122,000.
5 And then the timeline when the new LNG facility
6 will be available for withdrawals, you'll see
7 it's 139,390. So that also drove the size of the
8 LNG facility that we were looking at. So, in my
9 second supplemental, that's what we focused on.

10 As part -- we tried to
11 determine what size facility we would need. And
12 when you look at a 1 Bcf tank, that only provides
13 100,000 dekatherms of withdrawal for 10 days. So
14 that was going to be insufficient in that
15 2027-'28 timeframe. So then when you look at the
16 1.5 Bcf, that would give us 150,000, so that
17 would show roughly 6 percent reserve margin when
18 that comes online. And when we did an analysis
19 of the 1.5 Bcf tank versus a 2 Bcf tank, it was
20 such a small increase that we made the decision
21 that that 2 Bcf tank was the most prudent
22 decision to make going forward.

23 COMMISSIONER KEMERAIT: And Ms. Grigg, I'm
24 attempting to stay away from any confidential

1 information or testimony. If we start moving in that
2 direction, please let me know.

3 MS. GRIGG: Thank you. I'm watching. Thank
4 you very much.

5 THE WITNESS: Thank you.

6 BY COMMISSIONER KEMERAIT:

7 Q And Ms. Jackson, in regard to the Bcf size
8 facility, you talked about that there would be
9 greater vaporization capability. Can you explain
10 what vaporization capability, what benefit that
11 that would have and what that means?

12 A It just allows us to vaporize or regasify the
13 liquid in the tank. So instead of at a 1.5 Bcf
14 tank, we were anticipating 150,000 dekatherms of
15 withdrawal capability for 10 days. With
16 increased vaporization and a 2 Bcf tank, we'll be
17 able to get an additional 50,000 a day out so our
18 maximum withdrawal will be 200,000 dekatherms for
19 a 10-day service.

20 Q Okay.

21 A And it was such a small incremental cost
22 differential estimated to be around two and a
23 half percent. That, as you're aware, is very
24 difficult and the timelines of any -- to

1 construct anything is difficult. So we felt for
2 that differential it was more prudent to go with
3 a larger tank.

4 Q And you've given us a lot of really good detailed
5 information. I appreciate it.

6 My last question is that the
7 Public Staff had made a recommendation that the
8 credit in the hedging deferred account be
9 transferred to the deferred account. Is the
10 Company in agreement with the Public Staff's
11 recommendation?

12 A That is outside of my area of expertise.

13 Q Okay.

14 MS. GRIGG: Yes.

15 THE WITNESS: Okay, thank you.

16 COMMISSIONER KEMERAIT: That's all the
17 questions I have so I will look to my fellow
18 Commissioners to see if they have any questions.
19 Commissioner Brown-Bland?

20 EXAMINATION BY COMMISSIONER BROWN-BLAND:

21 Q Ms. Jackson, just to complete, you started to say
22 with regard to the increase, well the decrease,
23 the 425 pound minimum pressure that Transco says
24 that's what you should model based on. You

1 started to say because at that number something
2 changed for Transco. What was that?

3 A Oh, I said we need to change their tariff
4 provision additionally because their tariff
5 currently states that the minimum guarantee
6 pressure on their system is 50 pounds. So we've
7 asked them to model that to our system, what that
8 looks like, and they're saying that that would
9 not be -- it would be very difficult to model
10 that and that was left over from some older
11 contract requirements. So we've asked them -- as
12 part of the next rate case, we're recommending
13 that they update their tariff to reflect the 425.

14 Q Besides their word, do you have anything in the
15 interim, as long as it's not a part of the
16 tariff, to kind of hold them to the 425?

17 A No, ma'am.

18 Q But what I was getting at, I thought you -- I
19 didn't know if it meant there was something that
20 happens that's manual on their side, but
21 something about they have to send to somebody.

22 A Yes, ma'am. The 425 is based on the fact that if
23 they drop below that 450 down to 425 -- they
24 typically look at 450 pounds -- but once it drops

1 to the 450, they have told us that they have to
2 dispatch personnel manually to the compressor
3 stations. So that's why they don't believe that
4 anything lower than that 425 range would occur,
5 because they are going to have personnel on site
6 to ensure that that 425 is met.

7 Q All right. And then a minute ago in your
8 testimony you talked about as a result of -- it
9 was part of the discussion about where the null
10 point is and what happened with the Winter Storm
11 Elliott that you said, you used the phrase they
12 overtook or somebody was overtaking the Transco
13 system. Could you just flesh that out for me and
14 what that means?

15 A Yes, ma'am. It's my understanding that there
16 were other shippers on Transco's system, not
17 PSNC, that decided to take more gas than what
18 they had contracted for. So they didn't have
19 sufficient capacity to deliver but they continued
20 to use gas, therefore, having a short, imbalance
21 position. And they -- I can't tell you exactly
22 what their thought process was but I will tell
23 you that the market price of gas on that day was
24 so much higher than the Operational Flow Order

1 penalty, it was an economic decision.

2 Q And other than a change in the economics of it,
3 is there anything that we could do, sitting here
4 in North Carolina, to help with that situation?

5 A There are some changes that Transco is discussing
6 with all the shippers on their system. One of
7 the changes is we have an ability to do what we
8 call retro nominations. So after the fact,
9 people can request retro nominations on Transco's
10 system that trues up how much gas is taken where.
11 So one of the concerns that Transco has voiced is
12 that the amount of Operational Flow Order
13 penalties that they thought they were going to
14 bill versus the amount that they actually did
15 bill, it was much lower because of these retro
16 nominations, if you will.

17 And we also have imbalance
18 trading that can occur. So they are looking at
19 tightening that up on these critical days such as
20 what we faced with Winter Storm Elliott. So
21 we're just beginning the discussion with them to
22 see how that would work. But that will be a
23 tariff change that is required and it will
24 tighten up on critical days like this to ensure

1 that folks are staying within their contract
2 rights.

3 Q It would be that they would not or somehow you
4 would lesson the ability to do the retro
5 nomination?

6 A Yes, ma'am. On those critical days they would
7 not approve retro nominations.

8 Q Okay. And just a question to my mind, I know
9 that the LNG facilities generally fill up now
10 during the summer?

11 A Yes, ma'am.

12 Q Is there any indication, just in terms of gas
13 supply, is there any reason to be concerned about
14 planning for, seeing any reasons there would be
15 interruptions with the ability to get the new
16 tank filled?

17 A We haven't encountered anything in a summer
18 season as far as injection season goes with
19 supply concerns. Of course, we -- you know, in
20 the past when we have hurricanes in the Gulf we
21 could typically see, like, limitations for those
22 specific days. But since shale has been produced
23 in the Northeastern region with Marcellus, we
24 haven't encountered those types of supply

1 interruptions, because, since Transco's system is
2 truly bidirectional, we have a lot more
3 flexibility in the summertime.

4 COMMISSIONER BROWN-BLAND: I think that's
5 all I had. Thank you.

6 THE WITNESS: Okay.

7 EXAMINATION BY COMMISSIONER DUFFLEY:

8 Q I just have one follow up to this conversation
9 about the retro nominations and tightening those
10 procedures up. But would that help with the fact
11 that I thought I heard you say that because of
12 the price of gas that day even with the OFO
13 penalties it was still an economic decision
14 whether you did the retro or not. So is there
15 anything to solve that issue?

16 A Transco has a number of items that we're looking
17 at as far as tariff changes go and they have just
18 begun the discussion with the shippers on their
19 system. They have like a phased approach of when
20 those tariff changes may be filed at FERC. But
21 we're looking at different things like what
22 should be the Operational Flow Order penalty on
23 critical days like that.

24 But I do think by looking at

1 these retros, the fact that customers would have
2 encountered Operational Flow Order penalties and
3 they were able to reverse those before they're
4 billed, I think that is one issue because it
5 doesn't provide them with a proper incentive to
6 make sure they stay within contract.

7 But on days like Winter Storm
8 Elliott, I've been in this business for 31 years,
9 and that is the worst event that I have faced in
10 my career. So I don't know how you plan for
11 something like that until it actually happens.
12 And so what we're trying to look at is what do we
13 do in the future in the event we have something
14 similar to this, and it's difficult. You have to
15 really look at a lot of different pieces of their
16 tariff because if they change one thing it could
17 affect us in another area. So I think it's going
18 to be a lot of discussion. But I just don't want
19 Transco to completely go to -- swing to the other
20 side of the pendulum, if you will, where it's so
21 restrictive that we lose all flexibility. And it
22 won't just be the bad actors, if you will, those
23 that overran the system, it will affect all of
24 us.

1 And so I just want to make
2 sure that they are trying to prevent the people
3 who violated the tariff. We need to make sure
4 that those are the people they're focused on
5 instead of making it so difficult for all of us
6 who did what we should of on a daily basis. But
7 I will tell you that they need to take a long,
8 hard look at their system because they need
9 additional storage, and everybody should share in
10 that cost, not just the storage holders that pay
11 for that contract.

12 They also need to look at how
13 they operate their system. Because since that
14 bidirectional flow of gas has occurred, I would
15 tell you that PSNC should be one of the easiest
16 customers to serve on the system, because we're
17 in the null point, so they should have much more
18 flexibility to serve us in various ways but they
19 haven't done so, and I have complained about this
20 for nearly a decade. So we continue to work with
21 them very actively. There is a customer, a
22 shipper working group, we are very actively
23 involved in that and we are very actively
24 involved in their rate case proceedings.

1 Q And you mentioned this need for more storage on
2 the system.

3 A Yes, ma'am.

4 Q What activities are ongoing to modify the amount
5 of storage currently on the system?

6 A Transco is actively looking at incremental
7 storage that can be made available to the system
8 overall. They are talking with shippers as part
9 of this discussion after Winter Storm Elliott:
10 What do we need to do to upgrade or change the
11 system? So those are the discussions that we're
12 currently involved in with them and with other
13 shippers on the system. But I don't think it
14 should be that Transco offers up a storage rate
15 or a storage -- an additional storage service
16 that the shippers have to pay for. I do think
17 there should be a portion of that that's retained
18 storage to help them balance the system and that
19 way everybody that moves gas on Transco's system
20 would pay a portion of that. Because I feel like
21 PSNC as a contract storage holder, we're getting
22 additional costs by paying for that storage.
23 We're paying for our storage and then as part of
24 the cash-out mechanism we are paying even more,

1 because there is not enough storage to balance
2 their entire system.

3 Q Okay. Thank you for that.

4 A Uh-huh (yes).

5 COMMISSIONER KEMERAIT: So Ms. Jackson,
6 you've given us a lot of really good information. I'd
7 like to give you an opportunity -- is there anything
8 else that you would like to tell the Commission about
9 what happened during Winter Storm Elliott, what PSNC
10 has learned, and how we're going to be going forward
11 that you haven't already talked about? Is there
12 anything else that you think is important that we
13 understand?

14 THE WITNESS: I will tell you I'm very proud
15 of the PSNC personnel and the services group that
16 supported them. We worked very closely to make sure
17 that we were prepared for the event. I'm happy to
18 report that we had very little firm customer
19 interruptions. They were very small. And we had to
20 curtail all of our interruptible customers but that
21 was more of a defense mechanism because it was the
22 Christmas holiday. So we weren't sure how long that
23 weather pattern was going to last so we wanted to make
24 sure that the interruptible load did not come back on

1 sooner than we anticipated. So just a huge joint
2 effort for all the personnel that support PSNC.

3 I do think we've learned a lesson, you know,
4 several lessons and, going forward, I think it's key
5 that Transco not only communicate with us after the
6 event but going into the event. So we'll make sure
7 that we -- and they are in the process of updating key
8 contacts so that we know who to call -- they know who
9 to call, and we're going to have a greater internal
10 discussion with different groups that were affected
11 after the storm preceding a storm. So we want to make
12 sure that we get all the different groups that were
13 impacted by the storm in the planning process as we
14 head into the storm.

15 So I think overall communications will be
16 better if we have a similar event in the future. But
17 I do not think that this really brings to light that
18 Transco needs to look really hard at their system, not
19 just on the delivery side of their system but on the
20 receipt side of their system. And in the past, they
21 had stated that they did not think that the receipt
22 side or the interconnecting pipelines were affecting
23 imbalances on their system, but they have given us the
24 data now where it is clear. It's not just shippers

1 overtaking their system on the delivery side, they
2 have some issues on the receipt side, too. So the
3 cash-out mechanism needs to be looked at and modified,
4 because it's not a matter of "if" but "when" we will
5 see those impacts in the future.

6 So I think over the next year, year and a
7 half before they are required to file their rate case,
8 we will continue to participate in those detailed
9 discussions to figure out what we need to do going
10 forward to protect their system but also to protect
11 the PSNC system, and to make sure we still have
12 flexibility to meet our customers' needs.

13 EXAMINATION BY COMMISSIONER KEMERAIT:

14 Q And one follow-up question. When you talked
15 about better communication going into a
16 significant winter storm event like Winter Storm
17 Elliott and you said that better communication
18 needs to happen before those type of events,
19 does that include communication between PSNC and
20 your interruptible customers? Is that -- are you
21 referring to that as well or are you talking
22 about in the larger setting?

23 A I think it's in the larger setting, because it's
24 not just -- I don't think it's just PSNC

1 communicating to Transco. I think what they were
2 doing in the northern region, if we had all the
3 LDCs and the power generation shippers talking
4 before that event, and also the interconnecting
5 pipelines, then that would have made us more
6 prepared and it would have helped us when we had
7 issues.

8 I was on the phone with some
9 Transco representatives talking to an
10 interconnecting pipeline and they didn't even
11 know the people to call. So that was key. So we
12 need to make sure. There have been a lot of
13 changes as y'all are well aware of with
14 retirements and whatnots, so we need to keep
15 those key contact lists up-to-date.

16 But our interruptible
17 customers, we typically give them a forecasted
18 weather update. It may not be a curtailment per
19 se notification but we'll tell them in advance of
20 this winter storm please be prepared. Make sure
21 your alternate fuel is ready. But with
22 Christmas, that weekend, because it fell on a
23 weekend, a lot of our interruptible customers
24 were already planned to be shut down or on a

1 reduced load. So our major concern was
2 preventing them from coming back on if the storm
3 or that weather pattern continued into
4 Monday/Tuesday. But our account reps do a great
5 job in following up. Once the notice is given
6 they make a telephone contact with an
7 interruptible customer.

8 COMMISSIONER KEMERAIT: Thank you. I think
9 Commissioner Brown-Bland has a follow-up question.

10 EXAMINATION BY COMMISSIONER BROWN-BLAND:

11 Q Just curious if you know or you had an informed
12 opinion, but was there a reason that Transco
13 didn't do that communication with the southern
14 region or have a plan to do so? Was that just
15 kind of weather-based that they never thought
16 there would be problems in the southern region?

17 A I'm not sure why they weren't doing that. I was
18 kind of surprised that they had those type of
19 discussions with the northern region. Now, I
20 will say typically we don't have that type of
21 weather event in the South and they do have
22 colder than normal temperatures in the North.

23 It may also be because of the
24 RTO situation on the electric side. I'm not

1 sure. They didn't give a firm reason why. But
2 we think that that would be a key part of
3 planning for a future event. Because just to
4 know, there are a lot of protocols that go on the
5 electric generation side where we have to notify
6 the interstate pipelines about our anticipated
7 demand, how much capacity we're going to be
8 using. But I just think by having that
9 coordinated effort in the southern region, it
10 helps, because the more people that are looking
11 at a problem, the better off you are. Because
12 one group may have seen something that my group
13 didn't see. So you get to really -- you get the
14 benefit of that many eyes looking at a situation.

15 COMMISSIONER KEMERAIT: Well, that's all the
16 questions that we have. So Ms. Culpepper, do you have
17 any questions?

18 MS. CULPEPPER: No questions.

19 MS. GRIGG: No questions.

20 COMMISSIONER KEMERAIT: Ms. Jackson, thank
21 you again for coming and we appreciate all the
22 information that you gave us, and you may be excused.

23 THE WITNESS: Thank you.

24 COMMISSIONER KEMERAIT: So now motions?

1 MS. GRIGG: Thank you, Commissioner
2 Kemeraït. The Company requests that the document
3 entitled direct testimony of Glory J. Creel consisting
4 of seven typed pages of question and answer testimony,
5 which was filed publicly in this proceeding on
6 June 1st, 2023, be marked for identification and
7 admitted into the record as if given orally from the
8 stand.

9 COMMISSIONER KEMERAÏT: Seeing no objection,
10 your motion is allowed.

11 MS. GRIGG: Thank you. We'd also move
12 Creel's first exhibit which is a one -- has a one-page
13 table of contents and 10 Schedules, her Exhibit 2
14 which is one page, her Exhibit 3 consisting of one
15 page, and her Exhibit 4, which is also one page, be
16 admitted into evidence.

17 COMMISSIONER KEMERAÏT: Seeing no objection,
18 your request is allowed.

19 (WHEREUPON, Creel Direct
20 Exhibits 1 - 4 were marked
21 for identification as
22 prefiled and received into
23 evidence.) (Confidential -
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filed under seal.)
(WHEREUPON, the prefiled
direct testimony of GLORY
J. CREEL is copied into the
record as if given orally
from the stand.)

**BEFORE THE
NORTH CAROLINA UTILITIES COMMISSION**

PUBLIC SERVICE COMPANY OF NORTH CAROLINA, INCORPORATED

DOCKET NO. G-5, SUB 661

DIRECT TESTIMONY

OF

GLORY J. CREEL

June 1, 2023

1 Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, BY WHOM YOU ARE
2 EMPLOYED AND IN WHAT CAPACITY.

3 A. My name is Glory J. Creel. My business address is 800 Gaston Road, Gastonia,
4 North Carolina. I am employed by Dominion Energy Services, Inc. as Rates and
5 Regulatory Affairs Specialist for Public Service Company of North Carolina,
6 Incorporated d/b/a Dominion Energy North Carolina (“the Company”).

7 Q. PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND, WORK
8 EXPERIENCE AND OTHER QUALIFICATIONS.

9 A. I graduated from Winthrop University in 2003 with a Bachelor of Science degree
10 in Accounting and in 2004 with a Master of Business Administration with emphasis
11 in Accounting. Following graduation, I worked as an accountant with SCANA
12 Corporation in the Cost of Gas department and as an analyst in the Rates and
13 Regulatory group. Over the years, I have held various positions of increasing
14 responsibility including corporate accounting and budgeting and forecasting. In
15 May 2019, I assumed my current position with the Company.

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

17 A. The purpose of my testimony is to provide the data necessary to true-up the
18 Company’s actual gas costs with the gas costs billed to our customers during the
19 12-month review period ended March 31, 2023. Commission Rule R1-17(k)(6)
20 sets forth the filing requirements for the annual review of gas costs. Subsection (c)
21 requires the Company to file certain data showing actual gas costs, volumes of gas
22 purchased, and such other information as may be directed by the Commission.

1 Q. HAVE YOU CAUSED TO BE PREPARED AND FILED THE DATA
2 REQUIRED BY COMMISSION RULE R1-17(k)(6)(c)?

3 A. Yes. The required information provided in Schedules 1 through 10 of Creel Direct
4 Exhibit 1 attached to my testimony was prepared under my supervision. The
5 following schedules were prepared in the prescribed format:

6 Schedule 1: Summary of Cost of Gas Expense

7 Schedule 2: Summary of Demand and Storage Charges

8 Schedule 3: Summary of Commodity Gas Cost

9 Schedule 4: Summary of Other Cost of Gas Charges (Credits)

10 Schedule 5: Summary of Demand and Storage Rate Changes

11 Schedule 6: Summary of Demand and Storage Capacity Level Changes

12 Schedule 7: Summary of Demand and Storage Costs Incurred Versus
13 Collected

14 Schedule 8: Summary of Deferred Account Activity - Sales Customers Only
15 Account

16 Schedule 9: Summary of Deferred Account Activity - All Customers
17 Account

18 Schedule 10: Summary of Gas Supply

19 In addition, Creel Direct Exhibit 2 sets forth the review period Hedging Deferred
20 Account Activity, Creel Direct Exhibit 3 sets forth the review period Deferred
21 Account Interest Rate and Creel Direct Exhibit 4 sets forth the review period of
22 Over-Collection Tax Rider Account Activity.

1 Q. DID THE COMPANY FOLLOW THE GAS COST ACCOUNTING
 2 PROCEDURES PRESCRIBED BY RULE R1-17(k) FOR THE TWELVE
 3 MONTHS ENDED MARCH 31, 2023?

4 A. Yes. The Company followed the gas cost accounting procedures in accordance
 5 with Sections (4) and (5) of Rule R1-17(k).

6 Q. HAS THE COMPANY FILED MONTHLY AN ACCOUNTING OF GAS COSTS
 7 AND DEFERRED ACCOUNT ACTIVITY WITH THE COMMISSION AND
 8 THE PUBLIC STAFF?

9 A. Yes, the required filings were made.

10 Q. WHAT ACTIVITY OCCURRED IN THE SALES CUSTOMERS ONLY
 11 DEFERRED ACCOUNT DURING THE TWELVE MONTHS ENDED MARCH
 12 31, 2023?

13 A. The activity in the Sales Customers Only deferred account is set forth below:

14	Under-Collection as of March 31, 2022	\$10,922,343
15	Commodity Cost Over-Collections	(\$21,994,938)
16	Hedging Deferred Account Balance as of March 31, 2022	(\$9,818,653)
17	Uncollectible Gas Cost	\$1,197,212
18	Miscellaneous Adjustments	(\$415,226)
19	Accrued Interest	<u>\$1,110,178</u>
20	Over-Collection as of March 31, 2023	<u>(\$18,999,083)</u>

21 Q. WHAT ACTIVITY OCCURRED IN THE ALL CUSTOMERS DEFERRED
 22 ACCOUNT DURING THE TWELVE MONTHS ENDED MARCH 31, 2023?

23 A. The activity in the All Customers deferred account is set forth below:

1	Under-Collection as of March 31, 2022	\$26,767,209
2	Demand Cost Under-Collections	\$54,435,440
3	Commodity Cost Under-Collections	\$7,363,933
4	All Customers Increment	(\$21,056,781)
5	Miscellaneous Adjustments	(\$254,397)
6	Secondary Market Transaction Credits	(\$38,432,050)
7	Supplier Refunds	(\$3,146,903)
8	Accrued Interest	<u>\$3,187,191</u>
9	Under-Collection as of March 31, 2023	<u>\$28,863,641</u>

10 Q. DID THE COMPANY ACCOUNT FOR CAPACITY RELEASE AND OTHER
 11 SECONDARY MARKET TRANSACTIONS DURING THE REVIEW PERIOD
 12 IN ACCORDANCE WITH THE COMMISSION'S ORDER IN DOCKET NO. G-
 13 100, SUB 67?

14 A. Yes, seventy-five percent of the net compensation received from secondary market
 15 transactions was recorded in the All Customers deferred account.

16 Q. PLEASE DISCUSS CREEL DIRECT EXHIBIT 2.

17 A. Creel Direct Exhibit 2 reflects the cash transactions associated with the Company's
 18 hedging program during the 12-month review period ended March 31, 2023. As of
 19 the end of the review period, there was a credit (over-collection) balance of
 20 (\$3,485,031) due to the sales customers in the Hedging deferred account. When
 21 added to the (\$18,999,083) credit (over-collection) balance in the Sales Customers
 22 Only deferred account, the total is (\$22,484,114) due to sales customers.

1 Q. WHAT IS THE INTEREST RATE PRESENTLY BEING APPLIED TO THE
2 COMPANY'S DEFERRED ACCOUNTS?

3 A. In the Company's last general rate case, Docket No. G-5, Sub 632, the Commission
4 approved in Finding of Fact No. 33 of its Order dated January 21, 2022, the
5 Company's use of "a net of tax interest rate of 6.57% for all deferred accounts,
6 adjusted as appropriate for income taxes."

7 Q. DID THE COMPANY REVIEW THE DEFERRED ACCOUNT INTEREST
8 RATE AS PART OF THIS PROCEEDING?

9 A. Yes. The Company reviewed the 6.57% annual interest rate approved in Docket
10 No. G-5, Sub 632, and determined that no adjustment is necessary at this time.
11 Creel Direct Exhibit 3 attached hereto sets forth the calculation of the 6.57% annual
12 interest rate. This rate was applicable to deferred account interest starting in January
13 2022 when approved by the Commission in the Company's general rate case. As
14 provided in the applicable riders of the Company's tariff, the Company will
15 continue to review the interest rate calculation annually and make adjustments as
16 necessary.

17 Q. DOES THE COMPANY CURRENTLY HAVE ANY TEMPORARY RATE
18 INCREMENTS OR DECREMENTS RELATED TO ITS SALES CUSTOMERS
19 ONLY AND ALL CUSTOMERS DEFERRED ACCOUNTS?

20 A. Yes. Effective December 1, 2021, temporary increments applicable to All
21 Customers deferred account was approved in Docket No. G-5, Sub 638. These
22 increments were in effect until December 1, 2022 when new increments applicable

1 to the All Customers deferred account went into effect pursuant to the
2 Commission's Order in Docket No. G-5, Sub 654.

3 Q. DOES THE COMPANY PROPOSE NEW TEMPORARY RATE INCREMENTS
4 OR DECREMENTS?

5 A. The Company proposed an increase to fixed gas cost rates and a decrease to the
6 temporary rate increments applicable to the All Customers deferred account filed
7 on June 1, 2023 in Docket No. G-5, Sub 662. Therefore, the Company is not
8 proposing any change in the temporary rate increments applicable to the All
9 Customers deferred account in this proceeding.

10 Q. THE COMPANY PETITIONED FOR AUTHORIZATION TO TRANSFER THE
11 TAX RIDER BALANCE TO THE ALL CUSTOMERS DEFERRED ACCOUNT.
12 IS THIS TRANSFER REFLECTED IN THE COMPANY'S ALL CUSTOMERS
13 DEFERRED ACCOUNT?

14 A. No. In its October 14, 2022 filing in Docket No. G-5, Sub 653, the Company
15 requested to transfer the balance in the Tax Act Revenue Deferred from Over-
16 Collections ("Tax Rider") deferred account to the Company's All Customers
17 deferred account. After discussions with the Public Staff subsequent to the October
18 filing the Company agreed to request Commission authority to transfer this balance
19 to the All Customers deferred account in this proceeding.

20 Q. PLEASE EXPLAIN THE TAX RIDER BALANCE.

21 The over-collection of federal taxes was determined in the Company's last general
22 rate case, Docket No. G-5, Subs 632 and 634, to be amortized and returned to
23 customers over a one-year period via a Tax Rider effective November 1, 2021. As

1 of September 30, 2022 the Company projected the Tax Rider balance would likely
2 be over-refunded if the Tax Rider was extended beyond the October 31, 2022
3 expiration. Therefore, after October 31, 2022, the Company proposed the remaining
4 balance and any miscellaneous adjustments going forward to be moved to the All
5 Customers deferred account.

6 Q. PLEASE DISCUSS CREEL DIRECT EXHIBIT 4.

7 A. Creel Direct Exhibit 4 reflects the one-year refund to customers associated with the
8 Company's over-collection of federal taxes. As of March 31, 2023, there was a
9 credit (over-collection) balance of (\$1,372,576) due to all customers in the over-
10 collection ("Tax Rider") deferred account. When netted with the \$28,863,641 debit
11 (under-collection) balance in the All Customers deferred account, the total is
12 \$27,491,065 due from all customers.

13 Q. IN DOCKET NO. G-5, SUB 442, THE COMMISSION STATED THAT IN
14 FUTURE GAS COST PRUDENCE REVIEWS THE COMPANY SHOULD
15 DISCUSS ANY SIGNIFICANT ACCOUNTING CHANGES THAT
16 OCCURRED DURING THE REVIEW PERIOD. WERE THERE ANY SUCH
17 CHANGES DURING THIS REVIEW PERIOD?

18 A. The Company did not make any significant accounting changes during the review
19 period.

20 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

21 A. Yes, it does.

1 MS. GRIGG: Thank you. That completes our
2 case.

3 COMMISSIONER KEMERAIT: And would you like
4 to go ahead and move to have the exhibits for
5 Ms. Jackson entered into the record, and her
6 testimony.

7 MS. GRIGG: Yes, please. We'd move those
8 into evidence.

9 COMMISSIONER KEMERAIT: Seeing no objection,
10 your motion is allowed.

11 MS. GRIGG: Thank you.

12 (WHEREUPON, Jackson Direct
13 Exhibits 1-3, Jackson
14 Revised Direct Exhibit 2,
15 and Jackson Second
16 Supplemental Exhibits 1-3
17 are received into
18 evidence.)

19 MS. CULPEPPER: I move that the prefilled
20 testimony of Kuei Fen Sun, filed on July 25, 2023,
21 consisting of 23 pages including an appendix, be
22 copied into the record as if given orally from the
23 stand.

24 COMMISSIONER KEMERAIT: Seeing no objection,

1 your motion is allowed.

2 (WHEREUPON, the prefiled
3 direct testimony and
4 Appendix A of KUEI FEN SUN
5 is copied into the record
6 as if given orally from the
7 stand.)

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BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. G-5, SUB 661

In the Matter of
Application of Public Service Company) TESTIMONY OF
of North Carolina, Inc. for Annual) KUEI FEN SUN
Review of Gas Costs Pursuant to N.C.) PUBLIC STAFF – NORTH
Gen. Stat. § 62-133.4(c) and) CAROLINA UTILITIES
Commission Rule R1-17(k)(6)) COMMISSION

July 25, 2023

1 **Q. Please state your name, business address, and current**
2 **position.**

3 A. My name is Kuei Fen Sun. My business address is 430 North
4 Salisbury Street, Raleigh, North Carolina. I am a Public Utility
5 Regulatory Analyst with the Public Staff's Accounting Division of the
6 Public Staff – North Carolina Utilities Commission.

7 **Q. Briefly state your qualifications and duties.**

8 A. My qualifications and duties are attached as Appendix A.

9 **Q. What is the purpose of your testimony in this proceeding?**

10 A. The purpose of my testimony is: (1) to provide my conclusion
11 regarding whether the gas costs incurred by Public Service
12 Company of North Carolina, Inc. (PSNC or Company) during the
13 twelve-month review period ended March 31, 2023, were properly
14 accounted for; (2) to present the results of my review of gas costs as
15 filed by the Company in accordance with N.C. Gen. Stat. §
16 62-133.4(c), and Commission Rule R1-17(k)(6); (3) discuss the
17 Company's deferred account reporting during the review period,
18 (4) to provide my conclusion regarding the prudence of the
19 Company's hedging decisions during the review period, and (5) to
20 provide my conclusion regarding the Company's request to refund
21 the remaining over-collection of federal taxes through the All
22 Customers' deferred account.

1 **Q. Please explain how you conducted your review.**

2 A. I reviewed the testimony and exhibits of the Company's witnesses,
3 the Company's monthly deferred account reports, monthly financial
4 and operating reports, gas supply, pipeline transportation and
5 storage contracts, and the Company's responses to Public Staff data
6 requests. Each month, the Public Staff reviews all deferred account
7 reports filed by the Company for accuracy and reasonableness and
8 performs various analytical procedures on the underlying
9 calculations.

10 **Q. Has the Company properly accounted for its gas costs during**
11 **the review period?**

12 A. Yes. Based on my review, PSNC properly accounted for its gas costs
13 during the review period April 1, 2022, through March 31, 2023.

Accounting for and Analysis of Gas Costs

14 **Q. How does the Public Staff Accounting Division conduct its**
15 **review of the Company's filed gas costs?**

16 A. Each month the Accounting Division reviews all Deferred Account
17 reports filed by the Company for accuracy and reasonableness, and
18 performs various analytical procedures on an ongoing basis,
19 including the following:

20 (1) **Commodity Gas Cost True-Up** – The actual commodity gas
21 costs incurred are verified, the calculations and data supporting the

1 commodity gas costs collected from customers are checked, and the
2 overall calculation is reviewed for mathematical accuracy.

3 (2) **Fixed Gas Cost True-Up** – The actual fixed gas costs
4 incurred are compared with pipeline tariffs and gas contracts, the
5 rates and volumes underpinning the Company's reported collections
6 from customers are verified, and the overall calculation is reviewed
7 for mathematical accuracy.

8 (3) **Negotiated Losses** – Negotiated prices for each customer
9 are reviewed to ensure that the Company does not sell gas to any
10 customer below cost, or the price of the customer's alternative fuel.

11 (4) **Temporary Increments and/or Decrements** – Regarding all
12 collections and/or refunds from customers that impact deferred
13 account balances, supporting data and calculations are verified.

14 (5) **Interest Accrual** – All calculations of accrued interest are
15 verified, in conformity with N.C.G.S. § 62-130 (e), and the
16 Commission's Orders in Docket No. G-5, Subs 565, 595, 607, 608,
17 and 642.

18 (6) **Secondary Market Transactions** – The secondary market
19 transactions conducted by the utility are reviewed and verified to the
20 financial books and records, asset manager agreements, and the
21 monthly Deferred Gas Cost Accounts.

1 (7) **Uncollectibles** – In Docket No. G-5, Sub 473, the
2 Commission approved a mechanism to recover the gas cost portion
3 of the difference between the Company's cost of gas incurred and
4 the amount collected from customers, effective for service rendered
5 on and after December 1, 2005. The Company records a journal
6 entry each month in the Sales Customers' Only Deferred Account for
7 the gas cost portion of its uncollectibles write-offs. The Public Staff
8 reviews the calculations supporting those journal entries to ensure
9 that the proper amounts are recorded.

10 (8) **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 shall be flowed through to ratepayers in
13 the All Customers Deferred Account or applied to the NCUC Legal
14 Fund Reserve Account. As such, the Public Staff reviews supplier
15 refund documentation to verify that all amounts received by the
16 Company are flowed through to ratepayers.

17 **Q. How do the Company's filed gas costs for the current review**
18 **period compare with those from the prior period?**

19 A. Per Creel Direct Exhibit 1, Schedule 1, the Company has filed total
20 gas costs of \$367,586,524 for the current review period, as
21 compared with \$302,423,025 for the prior period. The components

- 1 of filed gas costs for the current review period and prior twelve-month
 2 review period are shown in the table below:

	12 Months Ended		Increase (Decrease)	% Change
	March 31, 2023	March 31, 2022		
Demand & Storage Charges	\$118,632,402	\$116,099,905	\$2,532,497	2.18%
Commodity Costs	296,597,503	225,333,870	71,263,633	31.63%
Other Costs	<u>(47,643,381)</u>	<u>(39,010,750)</u>	<u>(8,632,631)</u>	22.13%
3 Totals	<u>\$367,586,524</u>	<u>\$302,423,025</u>	<u>\$65,163,499</u>	<u>21.55%</u>

- 4 **Q. Please explain any significant increases or decreases in**
 5 **demand and storage charges.**

- 6 A. The Demand and Storage costs for the current review period and the
 7 prior twelve-month review period are shown in the table below:

	12 Months Ended		Increase (Decrease)	% Change
	March 31, 2023	March 31, 2022		
Transco:				
FT Reservation	\$50,463,537	\$50,378,892	\$84,645	0.17%
FT Momentum	1,992,275	1,986,733	5,542	0.28%
Southern Expansion	2,176,265	2,173,317	2,948	0.14%
Southeast Expansion	20,367,797	20,340,536	27,261	0.13%
GSS	2,165,601	1,700,706	464,895	27.34%
WSS	669,655	669,655	(0)	(0.00%)
LGA	382,611	382,611	0	0.00%
ESS	1,101,625	1,101,625	(0)	(0.00%)
Total Transco Charges	<u>\$79,319,366</u>	<u>\$78,734,075</u>	<u>\$585,291</u>	0.74%
Other Charges:				
Pine Needle LNG	\$3,208,847	\$2,904,884	\$303,963	10.46%
Cardinal	5,560,653	5,579,002	(18,349)	(0.33%)
Dominion Demand and Capacity (DTI-GSS)	3,648,463	2,076,910	1,571,553	75.67%
Eastern Gas Transmission	4,633,589	3,008,443	1,625,146	54.02%
Texas Gas Transmission	546,880	546,880	(1)	(0.00%)
Texas Eastern	563,328	563,328	-	0.00%
Columbia FSS/SST	5,956,162	7,496,070	(1,539,908)	(20.54%)
Eminence Demand and Capacity	1,119,937	1,119,937	(0)	(0.00%)
East Tennessee Patriot Expansion (Enbridge)	5,010,000	5,648,250	(638,250)	(11.30%)
Saltville Gas Storage	3,440,304	3,440,304	-	0.00%
Winter Peaking Reservation	4,420,292	3,631,375	788,917	21.73%
Cove Point LNG	1,157,460	1,157,460	-	0.00%
Piedmont Redelivery Agreement	9,120	9,120	-	0.00%
Firm Backhaul Capacity on Transco	-	148,800	(148,800)	(100.00%)
City of Monroe	38,001	35,067	2,934	8.37%
Total Other Charges	<u>\$39,313,035</u>	<u>\$37,365,830</u>	<u>\$1,947,205</u>	5.21%
1 Total Demand & Storage Charges	<u>\$118,632,402</u>	<u>\$116,099,905</u>	<u>\$2,532,497</u>	2.18%

2 The primary reason for the increase in **Transco General Storage**
3 **Service (GSS)** is due to the rate increases filed in FERC Dockets
4 RP22-00845-000, RP23-00087-000 and RP23-00361-000.

5 The increase in **Pine Needle LNG** was due a rate increase during
6 the current review period, effective May 1, 2022, in FERC Docket No.
7 RP22-00749-000.

8 The increase in **Dominion Demand and Capacity (DTI-GSS)**
9 charges was attributable to rate increases filed in FERC Dockets
10 RP22-00845-000, RP23-00087-000 and RP23-00361-000.

1 **Eastern Gas Transmission** charges increased due to rate
2 increases filed in FERC Dockets RP21-01187-006, RP22-01283-000
3 and RP21-01187-010.

4 The decrease in **Columbia FSS/SST** charges was due to both a
5 decrease in firm transportation reservation charges as well as
6 demand and storage charges.

7 **East Tennessee Expansion Project** had a decrease due to a
8 reduction in the monthly contract demand.

9 The increase in **Winter Peaking Reservation** charges was due to
10 an additional peak day supply contract that became effective in
11 November 2022, which increased monthly reservation charges.

12 The decrease in **Firm Backhaul Capacity on Transco** was a result
13 of the expiration of the Company's agreement to have firm delivery
14 of gas during the winter months.

15 The **City of Monroe** charges increased as a result of increased
16 operations and maintenance expense billed during the current
17 review period as compared to the previous review period.

18 **Q. Please explain any changes in commodity gas costs.**

19 A. Commodity gas costs for the current review period and the prior
20 twelve-month period are shown in the table below:

	12 Months Ended		Increase (Decrease)	% Change
	March 31, 2023	March 31, 2022		
Gas Supply Purchases	\$318,165,496	\$234,564,960	\$83,600,536	35.64%
Pipelines Transportation Charges	1,952,149	1,810,488	141,661	7.82%
Storage Injections	(55,964,504)	(37,399,976)	(18,564,528)	(49.64%)
Storage Withdrawals	32,444,362	26,358,398	6,085,964	23.09%
Total Commodity Gas Cost Expensed	\$296,597,503	\$225,333,870	\$71,263,633	31.63%
Gas Supply for Delivery (dt)	52,099,336	53,885,299	(1,785,963)	(3.31%)
Commodity Cost per dt	\$5.6929	\$4.1817	\$1.5112	36.14%

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Gas Supply Purchases increased by \$83,600,536 during the current review period, as compared with the prior twelve-month review period. The primary driver for this change was the increase in the commodity cost of gas, as the average commodity cost per dt increased 36.14% during the review period.

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Pipeline Transportation Charges increased by 7.62% during the review period due to higher transportation rates as compared to the prior review period.

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The increase in **Storage Injections** was due to a higher average cost for gas supplies injected into storage. The average cost of gas placed in storage during the current review period was \$6.9556 per dt, as compared with \$3.7332 per dt for the prior period.

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The increase in **Storage Withdrawals** was due to higher average cost of supply withdrawn from storage. PSNC's average cost of gas withdrawn was \$5.2414 per dt in this review period as compared with \$3.1692 per dt in the prior review period.

- 1 **Q. Please explain the change in other gas costs.**
- 2 A. Other gas costs for the current review period and the prior twelve-
- 3 month period are as follows:

	12 Months Ended		Increase (Decrease)
	March 31, 2023	March 31, 2022	
Deferred Account Activity	(\$18,078,031)	(\$45,130,899)	\$27,052,868
Estimate to Actual Gas Cost True-Up	(5,630,088)	8,447,498	(14,077,586)
CUT Deferral	(46,883,782)	(14,793,134)	(32,090,648)
CUT Increment/Decrement	24,432,159	15,718,734	8,713,425
High Efficiency Discount Rate	(466,464)	(417,596)	(48,868)
IMT Deferral	(1,030,232)	(2,835,353)	1,805,121
Trailerred Gas	13,057	-	13,057
	<u>(\$47,643,381)</u>	<u>(\$39,010,750)</u>	<u>(\$8,632,631)</u>

4 The **Deferred Account Activity** amounts reflect offsetting

5 accounting journal entries for most of the information recorded in the

6 Company's Deferred Gas Cost Accounts during the review period.

7 The **Estimate to Actual Gas Cost True-Up** amount results from the

8 Company's monthly account closing process. Each month, the

9 Company estimates its current month's gas costs for financial

10 reporting purposes and trues-up the prior month's estimate to reflect

11 the actual cost incurred.

12 The **CUT Deferral** entries relate to the Order issued in Docket No.

13 G-5, Sub 495 (Sub 495 Order), in which the Commission approved

14 the use of a Customer Usage Tracker (CUT) by the Company

15 beginning November 1, 2008. The Company charges or credits other

1 cost of gas in its accounting journal entry that offsets the CUT
2 deferral.

3 The **CUT Increment/Decrement** entries relate to the Sub 495 Order
4 in which the Commission authorized the Company to collect or
5 refund outstanding balances in the CUT Deferred Account by
6 imposing either an increment or a decrement to customer rates,
7 effective April and October of each year. The increase in the current
8 review period is due to higher under-collections in the current review
9 period as compared to the prior review period.

10 The **High Efficiency Discount Rate** entries represent accruals and
11 expenses associated with annual conservation-related expenses as
12 allowed in the Order issued in Docket No. G-5, Sub 632.

13 The **IMT Deferral** entries relate to the Order issued in Docket No.
14 G-5, Sub 565, in which the Commission approved the use of an
15 Integrity Management Tracker (IMT) by the Company beginning
16 November 1, 2016. The cost recovery mechanism allows PSNC to
17 timely recover its costs of compliance with federal pipeline safety and
18 integrity management requirements of the Pipeline and Hazardous
19 Materials Safety Administration (PHMSA).

20 The **Trailered Gas** entries relate to commodity charges incurred in
21 connection with providing trailered compressed natural gas to a
22 commercial customer.

1 **Secondary Market Transactions**

2 **Q. Please summarize the Company's secondary market activities**
 3 **during the review period.**

4 A. During the review period the Company recorded \$51,242,730 of
 5 margin on secondary market transactions. These transactions
 6 included capacity releases, asset management arrangements,
 7 bundled sales, and straddles. Of this amount, \$38,432,048
 8 (\$51,242,730 x 75%) was credited to the All-Customers' Deferred
 9 Account, for the benefit of ratepayers.

10 Below is a chart that compares the margins recorded by PSNC on
 11 the various types of secondary market transactions in which the
 12 Company engaged during both the current review period and the
 13 prior review period.

	12 Months Ended		Increase (Decrease)	% Change
	March 31, 2023	March 31, 2022		
Capacity Release	\$8,601,345	\$2,890,741	\$5,710,604	197.55%
Asset Management	40,011,041	25,256,959	14,754,082	58.42%
Bundled Sales	36,733	25,280	11,453	45.30%
Straddles	2,593,611	918,400	1,675,211	182.41%
Spot Sales	-	(7,650)	7,650	(100.00%)
14 Total Secondary Market Margins	<u>\$51,242,730</u>	<u>\$29,083,730</u>	<u>\$22,159,000</u>	<u>76.19%</u>

1 **Capacity Release** is a short-term posting of unutilized firm
2 capacity on the electronic bulletin board that is released to third
3 parties at a biddable price. The overall net compensation from
4 capacity release transactions increased by 197.55% in the current
5 review period, due to an increase in volumes released, as compared
6 with the prior period, as well as higher gas market prices.

7 **Asset Management Agreements (AMAs)** are contractual
8 relationships where a party agrees to manage gas supply and
9 delivery arrangements, including transportation and storage
10 capacity, for another party. Typically, a shipper holding firm
11 transportation and/or storage capacity on a pipeline or multiple
12 pipelines temporarily releases all or a portion of that capacity along
13 with associated gas production and gas purchase agreements to an
14 asset manager. The asset manager uses that capacity to serve the
15 gas supply requirements of the releasing shipper, and, when the
16 capacity is not needed for that purpose, uses the capacity to make
17 releases or bundled sales to third parties. During the review period,
18 there were two contracts that ended, and one new contract. The
19 58.42% increase in net compensation from AMAs results from an
20 increase in the value of interstate pipeline and storage capacity
21 released under these agreements.

1 **Bundled sales** are sales of delivered gas supply to a third-party
2 consisting of gas supply and pipeline capacity at a specified receipt
3 point. Bundled sales increased 45.30% in the current review period
4 due to higher sales volumes.

5 **Straddle** transactions are physical exchanges of gas allowing a third
6 party to either put gas to the local distribution company (LDC) or call
7 on gas from an LDC for a fee. For the review period, total net
8 compensation from straddles increased 182.41% from the prior
9 review period due to higher fee revenue from options written.

10 **Spot Sales** are the sales of gas supply on the daily market when the
11 daily spot price is higher than the first of month index price. The
12 Company did not make any spot sales during the review period.

13 **Deferred Accounts and Accrued Interest**

14 **Q. Based on the Public Staff's review of gas costs in this**
15 **proceeding, what is the appropriate deferred account balance**
16 **as of March 31, 2023?**

17 A. The appropriate All Customers' Deferred Account balance is a debit
18 balance of \$28,863,641, owed to the Company, as filed by PSNC.
19 This balance consists of the following deferred account activity:

Beginning Balance as of April 1, 2022	\$26,767,209
Commodity Cost (Over) Under Collections	7,363,933
Demand Costs (Over) Under Collections	54,435,440
(Increment) / Decrement Activity	(21,056,781)
Secondary Market Transactions	(38,432,050)
Supplier Refunds	(3,146,903)
Miscellaneous	(254,397)
Interest	3,187,191
Ending Balance as of March 31, 2023	<u>\$28,863,641</u>

1 Additionally, as discussed below, I recommend including the
2 \$1,372,576 remaining balance related to the refund of federal taxes
3 from the Tax Rider in PSNC's last general rate case in Docket No.
4 G-5, Subs 632 and 634 (Subs 632 and 634) as a credit to the
5 Company's All Customers' Deferred Account balance. The net debit
6 balance in the All Customers' Deferred Account after the transfer is
7 (\$27,491,065).

8 Regarding the Sales Customers' Only Deferred Account balance at
9 March 31, 2023, Creel Direct Exhibit 1, Schedule 8 reflects a credit
10 balance of (\$18,999,083), due to the customers. As discussed
11 below, I recommend transferring the Company's Hedging Deferred
12 Account credit balance as of March 31, 2023, of (\$3,485,031) to the
13 Sales Customers' Only Deferred Account. Therefore, the
14 recommended balance in the Sales Customers' Only Deferred
15 Account is a net credit balance of (\$22,484,114), due to customers,
16 as determined below:

	Ending Balance per Creel Exhibit I, Schedule 8	(\$18,999,083)
	Transfer of Ending Credit Balance in Hedging Activities Deferred Account	(3,485,031)
1	Ending Balance, as Recommended by the Public Staff	<u>(\$22,484,114)</u>

2 **Q. Please explain why you recommend crediting the All**
3 **Customers' Deferred Account with the remaining balance**
4 **related to the refund of federal taxes from the Tax Rider in Subs**
5 **632 and 634.**

6 A. As discussed in the direct testimony of Company witness Creel, per
7 the Commission's Order in Subs 632 and 634, the Company was to
8 refund an over-collection of federal taxes through a rider over a one-
9 year period beginning November 1, 2021. The Company followed the
10 Commission's Order, however, since estimated sales did not match
11 actual sales, there remains an amount to be refunded to customers.
12 Instead of continuing the rider, which was set to expire after one year,
13 the Company seeks Commission approval to credit the remaining
14 balance to customers through the All Customers' Deferred Account.
15 I have reviewed the calculation and request and believe the
16 Company's request represents a reasonable methodology for which
17 to return the remaining over-collection to customers.

1 **Q. Did PSNC have any changes to its deferred account interest rate**
2 **during the review period?**

3 A. No. Company witness Creel stated in her direct testimony that the
4 Company reviewed the 6.57% annual interest rate approved Docket
5 No. G-5, Sub 632, and determined that no adjustment was necessary
6 at this time. I have reviewed the 6.57% annual interest rate and agree
7 that no adjustment is necessary. The Public Staff will continue to
8 review the interest rate each month to determine if an adjustment is
9 needed.

10 **Hedging Activities**

11 **Q. Please explain how you conducted its review of the Company's**
12 **hedging activities.**

13 A. My review of the Company's hedging activities is performed on an
14 ongoing basis and includes the analysis and evaluation of the
15 following information:

16 (1) The Company's monthly hedging deferred account
17 reports;

18 (2) Detailed source documentation, such as broker
19 statements, which provide support for the amounts spent and
20 received by the Company for financial instruments;

- 1 (3) Workpapers supporting the derivation of the maximum
2 hedge volumes targeted for each month;
- 3 (4) Periodic reports on the status of hedge coverage for
4 each month;
- 5 (5) Periodic reports on the market values of the various
6 financial instruments used by the Company to hedge;
- 7 (6) The monthly Hedging Program Status Report;
- 8 (7) The monthly report reconciling the Hedging Program
9 Status Report and the Hedging Deferred Account Report;
- 10 (8) Minutes from meetings of the Company's risk
11 management personnel;
- 12 (9) Minutes from meetings of the Company's risk
13 management personnel and its committees that pertain to hedging
14 activities;
- 15 (10) Reports and correspondence from the Company's
16 external and internal auditors that pertain to hedging activities;
- 17 (11) Hedging plan documents that set forth the Company's
18 gas price risk management policy, hedge strategy, and gas price risk
19 management operations; and

1 (12) Communications with Company personnel regarding
2 key hedging events and plan modifications under consideration by
3 the Company's risk management personnel.

4 (13) Testimony and exhibits of the Company's witnesses in
5 the annual review proceeding.

6 **Q. What is the standard set forth by the Commission for**
7 **evaluating the prudence of a Company's Hedging decision?**

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 at 11-12.

14 **Q. Please describe the activity reported in the Company's hedging**
15 **deferred account during the review period.**

16 A. The Company experienced a net credit of \$3,485,031 in its Hedging
17 Deferred Account during the review period. This net credit amount
18 on March 31, 2023, is composed of the following items:

Economic (Gain)/Loss - Closed Positions	(\$4,296,933)
Premiums Paid	1,399,230
Brokerage Fees & Commissions	14,611
Interest on Hedging Deferred Account	(601,939)
Hedging Deferred Account Balance	<u>(\$3,485,031)</u>

1 **Economic (Gain)/Loss – Closed Positions** are the gains on
2 hedging positions that the Company realized during the review
3 period. **Premiums Paid** are the amounts spent by the Company on
4 futures and options positions during the current review period. As of
5 March 31, 2023, this amount includes call options purchased by
6 PSNC for the March 2024 contract period, a contract period which is
7 12 months beyond the end of the current review period and 11
8 months beyond the April 2023 prompt month.¹ **Brokerage Fees and**
9 **Commissions** are the amounts paid to brokers to complete the
10 transactions. The **Interest on Hedging Deferred Account** is the
11 amount accrued by the Company on its Hedging Deferred Account
12 in accordance with N.C.G.S. § 62-130(e).

13 The Company proposed that the \$3,485,031 credit balance in the
14 Hedging Deferred Account as of the end of the review period be
15 transferred to its Sales Customers' Only Deferred Account. The
16 hedging charges result in an annual credit of \$2.75 for the average
17 residential customer, which equates to approximately \$0.23 per
18 month. PSNC's weighted average hedged cost of gas for the review
19 period was \$7.32 per dt.

¹ Prompt month refers to the futures contract that is closest to expiration and is usually for delivery in the next calendar month (e.g., prompt month contracts traded in February are typically for delivery in March).

1 **Q. What is your conclusion regarding the prudence of the**
2 **Company's hedging activities?**

3 A. Based on what was reasonably known or should have been known
4 at the time the Company made its hedging decisions affecting the
5 review period, as opposed to the outcome of those decisions, my
6 analysis leads me to the conclusion that the Company's decisions
7 were prudent. I therefore recommend that the \$3,485,031 credit
8 balance in the Hedging Deferred Account as of the end of the review
9 period be transferred to the Company's Sales Customers' Only
10 Deferred Account.

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

12 A. Yes.

APPENDIX A**QUALIFICATIONS AND EXPERIENCE****KUEI FEN SUN**

I graduated from North Carolina State University with a Master of Science in Accountancy (concentration in Auditing/ERM) in 2010. Prior to joining the Public Staff, I worked in state government and the private sector in North Carolina for 13 years as an external and internal auditor.

I am responsible for (1) examining and analyzing the applications, testimony, exhibits, books and records, and other data presented by utilities and other parties involved in Commission proceedings; and (2) preparing and presenting testimony, exhibits, and other documents for presentation to the Commission in those proceedings.

Since joining the Public Staff in August 2022, I have performed several audits and presented testimony and exhibits before the Commission regarding a range of electric, gas and water topics. I have filed testimony and exhibits regarding the C&P Enterprises, Inc. general rate case, as well as the Water and Sewer Investment Plans of Carolina Water Service, Inc. of North Carolina and Aqua North Carolina, Inc. Additionally, I have worked on electric rider rate proceedings, particularly in program cost review of demand-side management and energy efficiency (DSM-EE) programs for DEC, DEP and DENC, the Joint Agency Asset Rider proceeding (JAAR),

the Existing Demand Side Management Program Rider, the Bulk Power Marketing Rider (BPM), and the review of New River Light and Power Purchase Power Adjustment (PPA).

1 MS. CULPEPPER: I move that the prefiled
2 testimony of Blaise C. Michna, filed on July 25, 2023,
3 consisting of 13 pages including an appendix, be
4 copied into the record as if given orally from the
5 stand.

6 COMMISSIONER KEMERAIT: And Ms. Culpepper,
7 my notes may be wrong but they indicate that it's 12
8 pages of testimony; is that correct?

9 MS. CULPEPPER: There was 12 and an
10 appendix.

11 COMMISSIONER KEMERAIT: Okay. Twelve pages
12 and an appendix.

13 MS. CULPEPPER: Yes.

14 COMMISSIONER KEMERAIT: Thank you. Seeing
15 no objection, your motion is allowed.

16 (WHEREUPON, the prefiled
17 direct testimony and
18 Appendix A of BLAISE C.
19 MICHNA is copied into the
20 record as if given orally
21 from the stand.)
22
23
24

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. G-5, SUB 661

In the Matter of)	
Application of Public Service Company)	TESTIMONY OF
of North Carolina, Inc. for Annual)	BLAISE C. MICHNA
Review of Gas Costs Pursuant to)	PUBLIC STAFF –
N.C. Gen. Stat. § 62-133.4(c) and)	NORTH CAROLINA
Commission Rule R1-17(k)(6))	UTILITIES COMMISSION

July 25, 2023

1 **Q. Please state your name, business address, and current**
2 **position.**

3 A. My name is Blaise C. Michna, and my business address is 430 North
4 Salisbury Street, Raleigh, North Carolina. I am a Public Utilities
5 Engineer in the Natural Gas Section of the Energy Division of the
6 Public Staff – North Carolina Utilities Commission (Public Staff).

7 **Q. Briefly state your qualifications and duties.**

8 A. My qualifications and experience are provided in Appendix A.

9 **Q. What is the mission of the Public Staff?**

10 A. The Public Staff represents the concerns of the using and consuming
11 public in all public utility matters that come before the North Carolina
12 Utilities Commission (Commission). Pursuant to N.C. Gen. Stat. §
13 62-15(d), it is the Public Staff's duty and responsibility to review,
14 investigate, and make appropriate recommendations to the
15 Commission with respect to the following utility matters: (1) retail
16 rates charged, service furnished, and complaints filed, regardless of
17 retail customer class; (2) applications for certificates of public
18 convenience and necessity; (3) franchise transfers, mergers,
19 consolidations, and combinations of public utilities; and (4) contracts
20 of public utilities with affiliates or subsidiaries. The Public Staff is also
21 responsible for appearing before State and federal courts and
22 agencies in matters affecting public utility service.

1 **Q. What is the purpose of your testimony in this proceeding?**

2 A. The purpose of my testimony is to: (1) present the results of my
3 review of the gas cost information filed by Public Service Company
4 of North Carolina, Inc. (PSNC or Company), in accordance with N.C.
5 Gen. Stat. § 62-133.4(c) and Commission Rule R1-17(k)(6); (2)
6 provide my conclusions regarding whether the costs associated with
7 the natural gas purchases made by PSNC during the 12-month
8 review period ended March 31, 2023, were prudently incurred; (3)
9 present the results of my review of PSNC's design day demand
10 requirements and methodology; (4) provide my conclusions
11 regarding PSNC's short-term capacity and load forecast
12 requirements; and (5) provide my recommendations regarding
13 temporary rate increments and/or decrements.

14 **Q. Please explain how you conducted your review.**

15 A. I reviewed the testimony and exhibits of the Company's witnesses,
16 the Company's monthly deferred account reports, monthly financial
17 and operating reports, gas supply, pipeline transportation and
18 storage contracts, monthly reports filed with the Commission in
19 Docket No. G-100, Sub 24A, and the Company's responses to Public
20 Staff data requests. The data request responses contained
21 information related to PSNC's approach to gas purchasing, customer

1 requirements, and gas portfolio mixes. The Public Staff and the
2 Company have also participated in several virtual meetings.

3 **Q. What other items did you review?**

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

10 **Q. What is the result of your evaluation of PSNC's gas costs?**

11 A. Based on my investigation and review of the data in this docket,
12 including information provided by the Company through data
13 requests and virtual meetings, I believe PSNC's gas costs were
14 prudently incurred for the 12-month review period ending March 31,
15 2023.

16 **DESIGN-DAY AND LOAD FORECAST REQUIREMENTS**

17 **Q. Do you have any comments regarding Company witness**
18 **Jackson's Direct Exhibit 1 and discussion of design-day**
19 **demand and available asset projections?**

20 A. Yes. To discern how well the Company's projected firm demand
21 aligns with the projected capacity over the next five years, I reviewed

1 the Company's testimony and other information submitted by the
2 Company in response to Public Staff data requests and met with the
3 Company on several occasions to review the assumptions and
4 calculations utilized in Jackson Direct Exhibit 1.

5 The Company provided review period data of customer usage and
6 heating degree days (HDDs), which are calculated by taking the
7 average of the minimum and maximum daily temperatures and
8 subtracting that quotient from a 65 degrees base (for example, a low
9 of 10 degrees and a high of 30 would yield 45 HDDs). From this, I
10 was able to extrapolate the baseload demand and evaluate the
11 Company's calculations through extrapolation of review period and
12 past review period data. Examining the customer growth rate, I was
13 able to evaluate the Company's assumptions around customer
14 growth for the coming five years. For PSNC's 2022-2023 design day
15 planning, I accept the Company's design day requirements.

16 For the current review period, the Company contracted for a total of
17 61,000 dekatherms (dts) per day of firm peaking services from two
18 different suppliers for a specified number of days during the winter to
19 meet its expected capacity shortfall during the 2022-23 winter
20 season. In the short term, Public Staff notes that the Company has
21 contracted for 40,000 dts/day of short-term peaking supply for the
22 upcoming winter period and is in the process of acquiring additional

1 peaking services to meet its peak day demand requirements. PSNC
2 has acquired another 35,000 dts/day of short term peaking supply
3 for the upcoming winter season as stated by Company witness
4 Jackson in her Second Supplemental Direct Testimony and Exhibits
5 filed on July 24, 2023 (Jackson Second Supplemental Testimony).

6 In the long term, Company witness Jackson notes the Company's
7 precedent agreements with Mountain Valley Pipeline (MVP) for firm
8 transportation on two projects that, if completed, provide the
9 Company with a second direct interstate pipeline interconnection.¹

10 As stated by Company witness Jackson, commencement of the
11 construction of the 75-mile Southgate lateral project (connecting the
12 MVP mainline with the Company's system) is contingent upon receipt
13 by MVP of appropriate federal permits. Construction of Southgate is
14 estimated to take at least two years after the mainline project is
15 placed into service as noted by witness Jackson. PSNC has entered
16 into precedent agreements for 250,000 dts/day of firm transportation
17 on the mainline, and 300,000 dts/day on firm transportation on
18 Southgate.² Company witness Jackson further states that should the

¹ After the Fiscal Responsibility Act of 2023 (Act) was enacted, Company witness Jackson filed supplemental testimony regarding provisions of the Act devoted to expediting completion of the MVP mainline project.

² Southgate will connect directly with East Tennessee's pipeline, and the additional 50,000 dts/day on Southgate will enable PSNC to make firm deliveries from Saltville storage to its system, replacing less reliable secondary firm deliveries from Transco.

1 MVP mainline be completed, PSNC will benefit from additional
2 needed natural gas supply into Transco Zone 5, which would help
3 mitigate price spikes and the recently experienced lower pressures
4 on Transco.

5 In reviewing the Company's design-day demand over a ten-year
6 period, the Company forecasted a need for assets in 2030 even if
7 MVP is placed into service. Witness Jackson states that the
8 Company developed a plan for a new LNG facility to meet that
9 incremental need, has selected a site to build an LNG facility with up
10 to 200 million cubic feet per day of withdrawal capacity for
11 approximately ten days, and the in-service date of that facility is
12 estimated to be late 2026 or early 2027. PSNC witness Jackson
13 further states that the Company is in the process of acquiring the site
14 and selecting the engineering, procurement, and construction
15 contractor in order to begin site work in late 2023 or early 2024.

16 **ECONOMIC ANALYSIS OF ANY NEW OR INCREMENTAL SUPPLY**

17 **Q. What did the Commission order in PSNC's previous annual**
18 **review of gas costs proceeding regarding an economic analysis**
19 **of new or incremental supply?**

20 A. In Ordering Paragraph 3 of its Order on Annual Review of Gas Costs
21 issued November 15, 2022, in Docket No. G-5, Sub 642, the
22 Commission ordered "in its 2023 annual review PSNC shall provide

1 a detailed economic analysis for the Commission's information of
2 any new or incremental supply proposed to be constructed or
3 procured, pursuant to the Sub 91 Order."³

4 **Q, Did the Company perform a traditional economic analysis to**
5 **compare the proposed 2 BCF LNG facility to other capacity**
6 **alternatives?**

7 A. No. Company witness Jackson states that a traditional economic
8 analysis could not be completed because long-term viable
9 alternatives to the proposed 2 BCF LNG facility are not available in
10 a similar timeframe as the LNG project. Witness Jackson further
11 states that the Company evaluated whether there were alternatives
12 to the proposed facility that would provide security of supply to serve
13 firm customers (PSNC's first and foremost criterion in its gas
14 procurement policy) and determined that there are no viable
15 alternatives to meet security of supply in the same timeframe as the
16 new LNG facility.

³ The "Sub 91 Order" is referencing the Commission's Order Requiring Reporting issued June 28, 2013, in Docket No. G-100, Sub 91.

1 **Q. How did the Public Staff investigate the Company's decision to**
2 **build a 2 BCF LNG facility?**

3 A. In order to evaluate the Company's decision to build a 2 BCF LNG
4 facility, the Public Staff sent discovery requests to the Company
5 regarding issues such as alternatives to the LNG facility analyzed by
6 the Company to address peak day, seasonal, and/or year-round
7 supply and capacity system requirements; operational advantages
8 and disadvantages of an LNG facility as compared with other
9 alternatives analyzed by the Company; and the cost comparison for
10 LNG facilities of different capacity sizes.

11 **Q, Do you have any comments regarding the economic analysis as**
12 **filed by the Company?**

13 A. No, not at this time. After discussion with the Public Staff, the
14 Company filed Jackson Second Supplemental Testimony providing
15 the estimated project costs comparison between a 1.5 BCF and a
16 2BCF LNG facility.

17 The Public Staff has reviewed this analysis and agrees that it
18 indicates support for the Company's current position. The Public
19 Staff recognizes that the Company's proposal to construct a 2 BCF
20 LNG facility will help meet its forecasted demand projections, but we
21 emphasize the need for further review of this matter as an LNG
22 facility is a significant plant addition and will ultimately be passed

1 through to customers in the form of rate base. The Public Staff notes
2 that the Company has committed to keeping the Commission and
3 the Public Staff informed of the status as the project progresses.

4 Due to the timing of the filing of Jackson Second Supplemental
5 Testimony, the Public Staff has not had the opportunity to conduct
6 discovery on the analysis but intends to do so in the Company's next
7 annual review of gas costs proceeding in order to gain a better and
8 fuller understanding of the data supporting the analysis and the
9 customer billing impacts from the construction of this capital-
10 intensive facility. The Public Staff reserves the right to address this
11 matter at a future date, including any costs to be recovered in a future
12 general rate case.

13 **DEFERRED ACCOUNT BALANCES**

14 **Q. Do you have any recommendations regarding PSNC's deferred**
15 **account balances and any proposed temporary adjustments?**

16 A. Yes, I do. Public Staff witness Sun states in her testimony that the
17 Sales Customers' Only Deferred Account reflects a credit of
18 (\$18,999,083), due to the customers by the Company as of March
19 31, 2023. As stated in Public Staff witness Sun's testimony, the
20 Public Staff recommends that the credit balance of (\$3,485,031) in
21 the Hedging Deferred Account as of the end of the review period be
22 transferred into the Sales Customers' Only Deferred Account

1 reflecting an Ending Balance of (\$22,484,114), owed by the
2 Company to the customers.

3 As stated by Company witness Creel, the Company is not proposing
4 any change in the temporary rate increments applicable to the All
5 Customers' Deferred Account in this proceeding. The Public Staff
6 agrees with PSNC and recommends no change.

7 Deferred account balances naturally vary between winter and
8 summer months because fixed gas costs are typically over-collected
9 during the winter period when throughput is higher due to heating
10 load and under-collected during the summer when throughput is
11 lower.

12 The Public Staff notes that the Company received Commission
13 approval in Docket No. G-5, Sub 662 for an adjustment to its Fixed
14 Gas Cost rates and charges applicable to its All Customers' Deferred
15 Account under Rider D to its tariff, for rates effective July 1, 2023.
16 The All Customers' Deferred Account reflects a debit balance of
17 \$28,963,641, owed by customers to the Company as of March 31,
18 2023.

19 Pursuant to the Stipulation and Agreement filed in FERC Docket No.
20 RP21-1187, PSNC received a refund in the amount of \$1,106,241.02
21 from Eastern Gas Transmission and Storage, Inc., on February 28,

1 2023, which the Company recorded in the All Customers' Deferred
2 Account. The Company filed notice of the refund in Docket No. G-
3 100, Sub 57.

4 During the review period, PSNC made temporary decrements to its
5 All Customers' Deferred Account, and pursuant to N.C.G.S. § 62-
6 133.4, used the Purchased Gas Adjustment (PGA) mechanism to
7 address the deferred account balances that needed to be collected
8 or refunded. Using the PGA mechanism allows for a quicker
9 implementation of temporaries to address balances.

10 Due to current market prices, recent volatility in the markets, and the
11 Company's current deferred account balances, the Public Staff
12 recommends that PSNC continue to monitor the balances in both the
13 All Customers' and Sales Customers' Only Deferred Accounts, and,
14 if needed, file an application for authority to change the benchmark
15 commodity cost of gas or implement new temporary increments or
16 decrements through the PGA mechanism in order to keep the
17 deferred account balances at reasonable levels.

18 **Q. Does this conclude your testimony?**

19 A. Yes.

APPENDIX A

QUALIFICATIONS AND EXPERIENCE

BLAISE C. MICHNA

I graduated from Wayne State University with a Bachelor of Science degree in Electrical Engineering in 2016 and The Pennsylvania State University with a Master of Engineering degree in Electrical Engineering in 2021. I currently hold the title of Natural Gas Committee Chair for NASUCA and Consumer Advocate Representative for the Gas Technology Institute.

Prior to joining the Public Staff, I worked in Michigan in several roles for DTE Electric from 2015-2022. During that time, I worked in the company's Fossil Generation group in various capacities of fuel supply operations, coal inventory forecasting, generation studies, fuel procurement, and environmental and regulatory compliance. My final position at the company was as a Fuel Resource Specialist, executing daily natural gas planning and purchasing, long-term natural gas resource planning and procurement, and compilation and preparation of Energy Supply filings with the Michigan Public Service Commission.

I joined the Public Staff in October 2022 as a member of the Natural Gas Section of the Energy Division. My work to date includes Integrity Management Review, Annual Reviews of Gas Costs, Design Day Demand and Capacity Calculations, Purchase Gas Cost Adjustment Procedures, Review of Utility Asset Transfers, Weather Event Investigations, and General and Multi-Year Rate Case Proceedings.

1 MS. CULPEPPER: That completes our case.

2 COMMISSIONER KEMERAIT: Are there any
3 additional matters before we are adjourned?

4 MS. GRIGG: No, ma'am.

5 MS. CULPEPPER: (Shakes head no).

6 COMMISSIONER KEMERAIT: So that concludes
7 the hearing, and we appreciate Ms. Jackson coming
8 and providing testimony and information. And briefs
9 or proposed orders will be due 30 days after the
10 transcript has been prepared. The hearing is now
11 adjourned.

12 (The proceedings were adjourned)

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C E R T I F I C A T E

I, KIM T. MITCHELL, do hereby certify that the Proceedings in the above-captioned matter were taken before me, that I did report in stenographic shorthand the Proceedings set forth herein, and the foregoing pages are a true and correct transcription to the best of my ability.

Kim T. Mitchell_____

Kim T. Mitchell