



**NORTH CAROLINA
PUBLIC STAFF
UTILITIES COMMISSION**

October 16, 2017

Ms. M. Lynn Jarvis, Chief Clerk
North Carolina Utilities Commission
4325 Mail Service Center
Raleigh, North Carolina 27699-4300

Re: Docket No. G-41, Sub 50

Dear Ms. Jarvis:

In connection with the above-captioned docket, I transmit herewith for filing on behalf of the Public Staff the Joint Testimony of Jan A. Larsen, Director, Natural Gas Division; Iris Morgan, Staff Accountant, Accounting Division; and Julie G. Perry, Accounting Manager, Natural Gas & Transportation Section, Accounting Division.

By copy of this letter, I am forwarding a copy of the above to all parties of record.

Sincerely,

Electronically submitted
/s/ Elizabeth D. Culpepper
Staff Attorney
elizabeth.culpepper@psncuc.nc.gov

EDC/sld

c: Parties of Record

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TOCCOA NATURAL GAS
DOCKET NO. G-41, SUB 50
JOINT TESTIMONY OF
JAN A. LARSEN, IRIS MORGAN, AND JULIE G. PERRY
ON BEHALF OF
THE PUBLIC STAFF – NORTH CAROLINA UTILITIES COMMISSION
OCTOBER 16, 2017

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

3 A. My name is Jan A. Larsen, and my business address is 430 North
4 Salisbury Street, Raleigh, North Carolina. I am the Director of the
5 Natural Gas Division of the Public Staff. My qualifications and
6 experience are provided in Appendix A.

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

9 A. The purpose of my testimony is (1) to evaluate the prudence of the
10 natural gas purchases made by Toccoa Natural Gas (Toccoa or
11 Company), and (2) to discuss my recommendation regarding any
12 temporary rate increments or decrements.

13 Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND
14 PRESENT POSITION.

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

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

7 A. The purpose of my testimony is (1) to present the results of my
8 review of the gas cost information filed by Toccoa in accordance
9 with G.S. 62-133.4(c) and Commission Rule R1-17(k)(6), and (2) to
10 provide my conclusions regarding whether the gas costs incurred
11 by Toccoa during the 12-month review period ended June 30,
12 2017, were properly accounted for, and (3) discuss any changes to
13 the deferred account reporting during the review period.

14 Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND
15 PRESENT POSITION.

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

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

1 A. The purpose of my testimony is to discuss my investigation and
2 conclusions regarding the prudence of Toccoa's hedging activities
3 during the review period.

4 Q. PLEASE EXPLAIN HOW THE PUBLIC STAFF CONDUCTED ITS
5 REVIEW.

6 A. We reviewed the testimony and exhibits of the Company's
7 witnesses, the Company's monthly Deferred Gas Cost Account
8 reports, monthly financial and operating reports, the gas supply,
9 pipeline transportation and storage contracts, and the Company's
10 responses to Public Staff data requests. The responses to the
11 Public Staff data requests contained information related to Toccoa's
12 gas purchasing philosophies, customer requirements, and gas
13 portfolio mixes.

14 Q. MR. LARSEN, WHAT IS THE RESULT OF YOUR EVALUATION
15 OF TOCCOA'S GAS COSTS?

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

18 Q. MR. LARSEN, PLEASE DESCRIBE TOCCOA AND ITS
19 OPERATIONS IN NORTH CAROLINA.

20 A. Toccoa is a municipal corporation created by the laws of the State
21 of Georgia. It has been providing natural gas service in Georgia
22 since 1952, and in Macon County, North Carolina since 1998. It is

1 a full requirements wholesale customer of the Municipal Gas
2 Authority of Georgia (Gas Authority), which manages its capacity,
3 storage, and supply contracts.

4 Toccoa's total sales volume for the annual review year ended
5 June 30, 2017, was 1,251,801 dekatherms (dts), of which 126,105
6 dts (10.8%) were sold in North Carolina.

7 It is expected that Toccoa will experience incremental growth over
8 the next five years as the expansion of its system continues. As
9 necessary, the Gas Authority assists Toccoa in acquiring the most
10 cost effective combination of pipeline, storage, and peaking
11 capacities on the system of Transcontinental Gas Pipe Line
12 Company, LLC (Transco), based on least cost and operational
13 flexibility.

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

16 A. Yes.

17 Q. MR. LARSEN, WHAT OTHER ITEMS DID THE NATURAL GAS
18 DIVISION REVIEW?

19 A. Even though the scope of Commission Rule R1-17(k) is limited to a
20 historical review period, the Public Staff's Natural Gas Division also
21 considers other information received pursuant to the data requests
22 in order to anticipate the Company's requirements for future needs,

1 including design day estimates, forecasted gas supply needs,
2 projection of capacity additions and supply changes, and customer
3 load profile changes.

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

5 Q. MS. MORGAN, HOW DOES THE ACCOUNTING DIVISION GO
6 ABOUT CONDUCTING ITS REVIEW OF THE COMPANY'S
7 ACCOUNTING FOR GAS COSTS?

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

12 (1) **Gas Cost True-Up** - The actual commodity and
13 demand gas costs are verified, calculations and data
14 supporting the gas costs collected are checked, invoices are
15 reviewed, and the overall calculation is checked for
16 mathematical accuracy.

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

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

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

11 (5) **Interest Accrual** - Toccoa began calculating interest
12 on its Deferred Gas Cost Account in October 2016.
13 Calculations of the interest accrued on the account balance
14 during the month are verified in accordance with G.S.
15 62-130(e).

16 Q. HOW DO THE COMPANY'S FILED GAS COSTS FOR THE
17 CURRENT REVIEW PERIOD COMPARE WITH THOSE FOR THE
18 PRIOR REVIEW PERIOD?

19 A. Toccoa's total company gas costs for the current review period
20 were \$4,766,389, compared to the prior year's costs of \$3,966,557.
21 The North Carolina portion of gas costs incurred during the current
22 review period was \$380,846, compared with \$298,562 for the prior

1 period. The components of gas costs incurred for the two periods
2 are as follows:

	12 Months Ended		Increase	%
	June 30, 2017	June 30, 2016	(Decrease)	Change
Transco Pipeline Charges:				
Cherokee - FT	\$215,604	\$215,764	(\$160)	-0.07%
Converted Firm Transp. - CFT	133,350	134,539	(1,189)	-0.88%
South Coast - FT Mainline	124,832	135,847	(11,015)	-8.11%
Sunbelt 1997 - FT	39,509	39,754	(245)	-0.62%
Capacity Release Credits	(23,029)	(16,625)	(6,404)	38.52%
Swing Supply Charges	47,103	44,093	3,010	6.83%
Total Transco Pipeline Charges	\$537,369	\$553,372	(\$16,003)	-2.89%
Storage/Peaking Services:				
Transco LGA	20,736	20,793	(57)	-0.27%
Pine Needle LNG	99,203	121,818	(22,615)	-18.56%
Total Storage/Peaking Services	\$119,939	\$142,612	(\$22,673)	-15.90%
Total Demand and Storage Costs	\$657,308	\$695,984	(\$38,676)	-5.56%
Gas Supply Costs:				
Authority Gas Supply FT	\$3,904,099	\$2,848,979	\$1,055,120	37.04%
Supply Charge-meters and throughput	90,890	0	90,890	100.00%
Pine Needle Supply	19,848	13,921	5,927	42.58%
FT Released Capacity Supply	29,712	50,349	(20,637)	-40.99%
Authority G&A Charges	137,390	129,930	7,460	5.74%
Production Area Supply Savings	0	(1,862)	1,862	-100.00%
Total Gas Supply Costs	\$4,181,939	\$3,041,317	\$1,140,622	37.50%
Total Other Gas Costs	(\$72,858)	\$229,257	(\$302,115)	-131.78%
Total Company Gas Costs	\$4,766,389	\$3,966,557	\$799,831	20.16%
NC Portion of Total Gas Costs	\$380,846	\$298,562	\$82,284	27.56%

3 Q. PLEASE EXPLAIN ANY SIGNIFICANT INCREASES OR
4 DECREASES IN DEMAND AND STORAGE CHARGES.

5 A. The decreases in **Cherokee - FT**, **Converted Firm Transportation**
6 **(CFT)**, and **Sunbelt 1997 - FT** are primarily due to changes in
7 Transco's rates pursuant to Federal Energy Regulatory
8 Commission (FERC) Docket Nos. RP17-331-000 and
9 RP17-452-000, which became effective January 1, 2017 and April
10 1, 2017, respectively.

1 The decrease in **South Coast - FT Mainline** is primarily due to
2 changes in Transco's rates pursuant to FERC Docket No.
3 RP17-452-000, which became effective April 1, 2017.

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

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

15 **Authority Gas Supply FT Charges** increased primarily due to
16 higher wellhead gas prices during this review period compared with
17 the prior review period. This decrease is generally consistent with
18 the changes in market indices experienced between the two
19 periods.

20 The **Supply Charge - meters & throughput** is a new charge
21 based on the number of meters on Toccoa's system and its
22 monthly pipeline throughput. These charges represent additional

1 gas supply costs incurred in order to provide gas service to its
2 customers.

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

6 **FT Released Capacity Supply** is excess supply available from
7 other members of the Gas Authority that is used to meet Toccoa's
8 needs. During the review period, Toccoa utilized a lower level of
9 volumes as compared with the prior review period.

10 **Authority G&A Charges** include items for general and
11 administrative costs based on the number of meters and
12 throughput. These charges increased due to a higher G&A meter
13 charge and meter count during the current review as compared to
14 the prior review period.

15 **Production Area Supply Savings** are supply savings realized
16 using the portfolio of supply contracts from all Gas Authority
17 members. These savings decreased since there were no supply
18 savings during the current review.

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

1 HEDGING ACTIVITIES

2 Q. MS. PERRY, WHAT IS THE STANDARD SET FORTH BY THE
3 COMMISSION FOR EVALUATING THE PRUDENCE OF A
4 COMPANY'S HEDGING DECISIONS?

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

12 Q. PLEASE DESCRIBE THE COMPANY'S HEDGING PROGRAM.

13 A. Toccoa participates in the "Winter Hedge Program," which is
14 managed by the Gas Authority for its members, including Toccoa.
15 The Gas Authority is the largest non-profit joint action natural gas
16 agency in the nation and supplies the natural gas needs of 78
17 member cities. The goal of the "Winter Hedge Program" is to
18 achieve price stability at a reasonable price for its customers by
19 locking-in futures prices for a portion of the anticipated winter firm
20 load. Under the Gas Authority's "Winter Hedge Program," a
21 member enters into hedging arrangements with the Gas Authority
22 specifying the targeted level of volumes to hedge. These hedging
23 arrangements typically span two to three years.

1 Q. PLEASE COMMENT ON THE TYPES OF FINANCIAL
2 INSTRUMENTS THAT THE GAS AUTHORITY MAY USE IN ITS
3 HEDGING PROGRAM.

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

16 Q. PLEASE DESCRIBE THE HEDGING ACTIVITY OF THE GAS
17 AUTHORITY DURING THE REVIEW PERIOD.

18 A. During the current review period, the hedging program resulted in a
19 \$427 credit to Toccoa's gas supply costs for North Carolina
20 customers.

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

1 A. Yes. Toccoa reviewed its Winter Hedge Program participation and
2 elected to continue its winter hedge volumes at approximately 23%
3 of all firm North Carolina gas sales for November 2016 through
4 March 2018. Toccoa continued to adopt the more conservative
5 hedge volumes for their participation in the Winter Hedge Program
6 because market and future pricing has been significantly lower than
7 in prior years. Toccoa also elected to continue the maximum
8 hedging program term offered by the Gas Authority of two years
9 beginning November 1, 2016.

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

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

17 **DESIGN DAY REQUIREMENTS**

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

21 A. I reviewed the Company's testimony and information submitted by
22 the Company in response to data requests that dealt with how well

1 the projected firm demand requirements aligned with the available
2 capacity in the future.

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

6 **DEFERRED ACCOUNT REPORTING AND BALANCE**

7 Q. MS. MORGAN, DID TOCCOA HAVE ANY CHANGES TO ITS
8 DEFERRED ACCOUNT REPORTING DURING THE REVIEW
9 PERIOD?

10 A. Yes. Based on discussions with the Public Staff regarding the
11 recurring credit balances in the Company's Deferred Gas Cost
12 Account, and in accordance with G.S. 62-130(e), on October 1,
13 2016, Toccoa began calculating interest on its deferred account.
14 Toccoa is using the net-of-tax overall rate of return approved by the
15 Commission in its Order Granting Certificate of Public Convenience
16 and Necessity to the City of Toccoa and the Municipal Gas
17 Authority of Georgia issued December 8, 1998, in Docket No. G-41,
18 Sub 0, adjusted for any known corporate income tax rate changes,
19 as the applicable interest rate on all amounts overcollected or
20 undercollected from customers as reflected in its Deferred Gas
21 Cost Account. All other methods and procedures used by the
22 Company for the accrual of interest on the Deferred Gas Cost
23 Account are consistent with the other North Carolina LDCs.

1 Q. MS. MORGAN, BASED ON YOUR REVIEW OF GAS COSTS IN
 2 THIS PROCEEDING AND MR. LARSEN'S OPINION THAT THE
 3 COMPANY'S GAS COSTS WERE PRUDENTLY INCURRED,
 4 WHAT IS THE APPROPRIATE DEFERRED ACCOUNT BALANCE
 5 AS OF JUNE 30, 2017?

6 A. The balance in Toccoa's Deferred Gas Cost Account at June 30,
 7 2017, is a \$37,260 credit balance, owed to customers. The
 8 following chart summarizes Toccoa's Deferred Gas Cost Account
 9 activity for the current review period:

Deferred Account Balance - July 1, 2016	(\$109,739)
Commodity True-up	5,029
Demand True-Up	(39,201)
Firm Hedges	(427)
(Increment) Decrement	109,884
Interest @ 5.8268% per annum	(2,806)
Deferred Account Balance - June 30, 2017	<u>(\$37,260)</u>

10 Q. MR. LARSEN, WHAT IS YOUR RECOMMENDATION
 11 REGARDING ANY PROPOSED INCREMENTS/DECREMENTS?

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

18 For the current review period ended June 30, 2017, the North
 19 Carolina firm sales volumes are 82,303 dts. Therefore, I propose a

1 temporary rate decrement of \$0.4397 per dt calculated using the
2 deferred account credit balance of \$37,260 divided by 82,303 dts. I
3 recommend that this temporary rate decrement be approved for all
4 North Carolina firm sales customers effective the first day of the
5 month following the date of the Commission's order in this
6 proceeding, and that the current decrement of \$1.3172 per dt that
7 was placed into rates effective August 1, 2016, in Docket No. G-41,
8 Sub 46, be removed. It is my understanding that Toccoa does not
9 oppose this recommendation.

10 Q. MR. LARSEN, WHAT EFFECT DOES THIS CHANGE IN
11 TEMPORARIES HAVE ON THE TYPICAL RESIDENTIAL BILL?

12 A. Since the proposed decrement in the instant docket is smaller than
13 the one currently in rates, customers will experience an increase in
14 their bills. The Company is still refunding the credit balance to
15 Customers, but now at a relatively lower pace. Therefore, the
16 typical residential customer will experience an increase of \$30.56
17 per year due to this rate change.

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

19 A. Yes, it does.

APPENDIX A

QUALIFICATIONS AND EXPERIENCE
OF
JAN A. LARSEN
DIVISION DIRECTOR

PUBLIC STAFF - NATURAL GAS DIVISION
NORTH CAROLINA UTILITIES COMMISSION

I graduated from North Carolina State University in 1983 with a Bachelor of Science degree in Civil Engineering. I was employed with Law Engineering Testing Company as a Materials Engineer from 1983 to 1984. From 1984 until 1986, I was employed by the North Carolina Department of Transportation as a Highway Engineer. In 1986, I was employed by the Public Staff's Water Division as a Utilities Engineer I. In 1992, I was promoted to Utilities Engineer II with the Public Staff's Natural Gas Division and promoted to Utilities Engineer III in 2002. In May of 2016, I was promoted to the Director of the Public Staff's Natural Gas Division.

My most current work experience with the Public Staff includes the following topics:

1. Rate Design
2. Cost-of-Service Studies
3. Purchase Gas Cost Adjustment Procedures
4. Tariff Filings
5. Natural Gas Expansion Project Filings
6. Depreciation Rate Studies
7. Annual Review of Gas Costs
8. Weather Normalization Adjustments
9. Customer Utilization Trackers
10. Feasibility Studies / Line Extension Policies
11. Pipeline Integrity Management Riders

IRIS MORGAN

Qualifications and Experience

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

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

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

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

JULIE G. PERRY

Qualifications and Experience

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

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

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

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