STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH

DOCKET NO. G-40, SUB 145

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of		
Application of Frontier Natural Gas Company for Annual Review of Gas Costs Pursuant to G.S. 62-133.4(c) and Commission Rule R1-17(k)(6)	))))	ORDER ON ANNUAL REVIEW OF GAS COSTS

HEARD: Tuesday, March 6, 2018, at 10:00 a.m., in the Commission Hearing Room 2160, Dobbs Building, 430 North Salisbury Street, Raleigh, North Carolina

BEFORE: Commissioner ToNola D. Brown-Bland, Presiding; and Commissioners Lyons Gray and Charlotte A. Mitchell

APPEARANCES:

For Frontier Natural Gas Company:

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

For the Using and Consuming Public:

Elizabeth D. Culpepper, Staff Attorney, Public Staff – North Carolina Utilities Commission, 4326 Mail Service Center, Raleigh, North Carolina 27699-4300

BY THE COMMISSION: On December 1, 2017, pursuant to G.S. 62-133.4(c) and Commission Rule R1-17(k)(6), Frontier Natural Gas Company (Frontier or Company) filed the direct testimony and exhibits of Fred A. Steele, President/General Manager, in connection with the annual review of Frontier’s gas costs for the 12-month period ended September 30, 2017.

On December 6, 2017, the Commission issued its Order Scheduling Hearing, Requiring Filing of Testimony, Establishing Discovery Guidelines and Requiring Public Notice. The Order set the annual review of the Company's gas costs for hearing on March 6, 2018, set pre-filed testimony dates, and required Frontier to give notice of the hearing.

On February 15, 2018, the Public Staff – North Carolina Utilities Commission (Public Staff) filed a motion requesting that the Commission extend the date for the Public Staff to file its testimony to February 22, 2018, and the date for Frontier to file its rebuttal to March 2, 2018. The Commission granted the extension of time by order dated February 16, 2018.

On February 22, 2018, the Public Staff filed the joint direct testimony and exhibits of Jan A. Larsen, Director, Natural Gas Division; Shawn L. Dorgan, Staff Accountant, Accounting Division; and Julie G. Perry, Accounting Manager, Natural Gas & Transportation Section, Accounting Division (Public Staff Panel). On February 27, 2018, the Public Staff filed revised Pages 9, 10, and 22 to its pre-filed testimony.

On March 1, 2018, Frontier filed the rebuttal testimony of Company witness Steele and its Affidavits of Publication of Public Notice of Hearing.

No other party intervened in this docket.

On March 1, 2018, Frontier and the Public Staff filed a joint motion for witnesses to be excused from appearance at the hearing and requested that the pre-filed testimony and exhibits of all witnesses be received into the record without requiring the appearance of any such witnesses, which was granted by the Commission on March 2, 2018.

On March 6, 2018, the matter came on for hearing as scheduled, and all pre-filed testimony and exhibits were admitted into evidence. No public witnesses appeared at the hearing. In accordance with the March 2 Order, no expert witnesses took the stand or provided testimony at the hearing and all pre-filed testimony and exhibits were received and stipulated into the record.[1]

In compliance with the requirements of Chapter 138A of the North Carolina Government Ethics Act, each member of the Commission panel has made a due and diligent effort to determine whether he or she has a conflict of interest in the matter presented in this docket, and each member of the panel has determined that he or she does not have any such conflict.

On April 5, 2018, the Joint Proposed Order of Frontier and the Public Staff was filed.

[1] Presiding Commissioner Brown-Bland and Commissioner Gray did not appear at the hearing on March 6, 2018, due to another hearing which continued beyond the time it had been expected to conclude. For this reason, Commissioner Mitchell presided on March 6 to receive the evidence in accordance with the Commission's March 2, 2018 Order. At the hearing, the parties stipulated they did not object to Commissioners Brown-Bland's and Gray's continued participation as panel members in this docket notwithstanding their being unable to attend the March 6 hearing, where only testimony and exhibits as pre-filed were received into evidence.

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

FINDINGS OF FACT

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

2. Frontier is a natural gas local distribution company (LDC), primarily engaged in the business of purchasing, transporting, distributing, and selling natural gas to approximately 3,600 customers in North Carolina, as of September 30, 2017.

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

4. The review period in this proceeding is the 12-months ended September 30, 2017.

5. During the review period, Frontier incurred total gas costs of $4,699,507, which was comprised of pipeline demand charges of $1,090,560, gas supply costs of $3,700,261, and other gas costs of ($91,314).

6. The appropriate Deferred Gas Cost Account balance at September 30, 2017, is a debit balance of $251,005, owed by Frontier's customers to the Company.

7. It is reasonable to include an adjustment of $98,159, including interest, for the proration of Frontier's Benchmark City Gate Delivered Gas Cost (Benchmark) in the calculation of its gas cost collections during the current review period.

8. Frontier properly accounted for its gas costs during the review period.

9. Frontier did not hedge during the current review period.

10. Frontier's decision not to engage in financial hedging transactions during the review period was reasonable and prudent.

11. During the review period, Frontier purchased all of its gas supply requirements from a full requirements gas supplier, with the exception of transportation imbalance cash-outs.

12. Frontier utilized pipeline capacity from Transcontinental Gas Pipe Line Company, LLC (Transco), and acquired additional year round pipeline capacity on Transco during this review period.

13. Frontier has continued its “best evaluated cost” gas purchasing supply strategy policy.

14. The gas costs incurred by Frontier during the review period were prudently incurred, and Frontier should be permitted to recover 100% of its prudently incurred gas costs.

15. Frontier should not be required to implement a rate increment in this docket.

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

17. Frontier should file its annual review schedules in such a manner that they present a summary of its gas costs that agree with Frontier’s monthly deferred account reports in future annual review proceedings.

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

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

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

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

G.S. 62-133.4 requires that each natural gas utility submit to the Commission information and data for an historical 12-month review period concerning its actual cost of gas, volumes of purchased gas, sales volumes, negotiated sales volumes, and transportation volumes. Commission Rule R1-17(k)(6)(c) requires the filing of work papers, direct testimony, and exhibits supporting the information.

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

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 5-8

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

Company Schedule 1 reflected that Frontier's total gas costs for the review period were $4,804,228. Public Staff witness Dorgan testified that Frontier's total gas costs for the current review period per the Company's monthly deferred account reports filed with the Commission were $4,641,053, as compared to the prior year of $5,242,868. Witness Dorgan testified that in the current review period, in order to reconcile the cost of gas to the GS-1 Reports filed with the Commission, the Company reflected the offsetting gas cost true-up entries of $149,768 as well as entries that are recorded in other cost of gas but do not impact the Company's deferred account of $58,454, resulting in a total cost of gas for the current review period of $4,699,507.

The Public Staff Panel testified that the Public Staff reviewed the testimony and exhibits of Company witness Steele, the Company's monthly Deferred Gas Cost Account reports, monthly financial and operating reports, the gas supply and transportation contracts, and the Company's responses to Public Staff data requests. The Public Staff Panel also testified it reviewed Frontier's responses to the Public Staff data requests which contained information related to Frontier's gas purchasing and hedging philosophies, key customer metrics, gas portfolio mixes, long-term contracts entered into for the purchase of additional pipeline capacity, and reconciliations of capacity versus commodity cost of gas charges.

Company witness Steele testified that Frontier's Deferred Gas Cost Account had an ending debit balance at September 30, 2017, of $262,677 owed to Frontier from customers, as shown on Company Schedule 8.

Public Staff witness Perry cited Ordering Paragraph 4 of the Commission's Order on Annual Review of Gas Costs issued on August 23, 2016, in Docket No. G-40, Sub 130 (2015 Annual Review Order), that required Frontier to "begin prorating its Benchmark cost of gas in the calculation of its gas cost collections from customers in a manner consistent with how Frontier prorates customers' bills." She explained that in accordance with the 2015 Annual Review Order, Frontier started prorating its Benchmark cost of gas rate changes in its deferred account during the 2015-2016 annual review period. Witness Perry noted that during the present review period, in Docket No. G-40, Subs 137 and 141, Frontier filed to change its Benchmark cost of gas effective February 1, 2017, and August 1, 2017, respectively. Witness Perry testified that based on the template that Frontier and the Public Staff previously agreed that the Company would use (in compliance with Ordering Paragraph 6 of the 2015 Annual Review Order), Frontier filed its February and August 2017 monthly deferred account reports with proration adjustments. Prior to the filing of Frontier's annual gas costs, the Company informed the Public Staff that they had a potential issue with the proration adjustments filed during the review period that impacted Frontier's annual review filing. The Company subsequently provided supporting calculations for the Public Staff's review related to the proposed adjustments.

Public Staff witness Perry testified that once the Public Staff was able to review the Company's proposed proration adjustment, as well as similar calculations of other LDCs, the Public Staff determined that the proration adjustment needed to be revised to reflect the actual unbilled volumes as compared to the estimated unbilled volumes when prorating a benchmark change. Based on the volume and revenue billing data provided by Frontier, witness Perry testified that the proration adjustment correction should be a debit entry of $98,159, including interest, instead of the $104,724 as proposed by Frontier, which is shown on Public Staff Panel Exhibit II. Witness Perry recommended that witness Dorgan update the Company's deferred account balance as of September 30, 2017, for this adjustment.

Public Staff witness Dorgan testified that based on (1) his review of the gas costs in this proceeding, (2) witness Perry's recommended proration adjustment to the deferred gas cost account, and (3) witness Larsen's opinion that the Company's gas costs were prudently incurred – that the appropriate balance in Frontier's Deferred Gas Cost Account at September 30, 2017, is a $251,005[2] debit balance, owed to Frontier from customers. Witness Dorgan further testifed that the activity consisted of a beginning balance of ($7,899), a commodity gas cost true-up of $249,206, commodity true-up adjustments of ($71,406), transportation customer balancing true-up of ($33,169), transportation customer balancing true-up adjustment of $5,150, a Transco refund of ($15), accrued interest of $10,982, and a rounding adjustment of ($4). Winess Dorgan testified that the balance also included a Public Staff adjustment to the benchmark proration of $98,159, including interest.

Company witness Steele filed rebuttal testimony, in which he testified that Frontier agreed with the Public Staff's proration adjustment.

Based on the foregoing, the Commission concludes that Frontier has properly accounted for its gas costs incurred during the review period. The Commission further concludes that the Public Staff's proration adjustment, with interest, as well as the debit Deferred Gas Cost Account balance of $251,005, owed from customers to Frontier, are appropriate and should be approved.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 9-10

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

Company witness Steele testified that the Company continually monitors the NYMEX natural gas commodity market and associated hedging developments, trends, activity and costs. Witness Steele further testified that Frontier did not engage in hedging activity during the current review period of October 2016 to September 2017.

Public Staff witness Perry testified that Frontier's hedging program is an integral part of an overall gas purchasing strategy that attempts to establish price stability, utilize cost efficient purchasing, and reduce the risk of price increases to customers. Witness Perry testified that Frontier uses a weighted average, three-part approach in purchasing

[2] Due to rounding of the numbers on the Public Staff Joint Testimony, page 20, the Public Staff Recommended Deferred Account Balance totals $251,005 instead of $251,004.

its physical gas supplies: first-of-the-month baseload; hedging; and daily swing. Furthermore, Public Staff witness Perry testified that a core part of Frontier's strategy is to obtain reliability and price stability by fixing components of its gas costs, primarily commodity costs, through hedging.

Public Staff witness Perry further testified that the primary difference in Frontier's hedging approach compared to other LDCs is that Frontier uses physical hedges exclusively and does not use financial hedges, such as options, futures, or swaps, which are typically used by the other North Carolina LDCs. Witness Perry explained that a physical hedge is a fixed price contract between two parties to buy or sell physical natural gas supplies at a certain future time, at a specific price, which is agreed upon at the time the deal is executed. She testified that Frontier's gas supply portfolio includes the physical purchase of fixed price gas supplies for delivery at its city gate on a monthly basis.

With respect to the company's hedging activities during the review period, Public Staff witness Perry cited witness Steele's pre-filed testimony as follows:

> Q. Did Frontier investigate hedging during the test year and, if so, what were the findings and conclusions?
>
> A. Frontier continually monitors the NYMEX natural gas commodity market and associated hedging developments, trends, activity and costs. Frontier did not engage in hedging activity during the current review period of October 2016 to September 2017. Additionally, Frontier evaluated a peak day proposal from UGI.

Witness Perry also explained that in response to a Public Staff data request, the Company explained that "Frontier has determined not to utilize a physical hedge for any natural gas for the winter 2016-2017 because of its ability to purchase almost 70% of our gas supply needs at Zone 3 FOM [First of Month] prices as opposed to Zone 5 FOM prices."

Public Staff witness Perry testified that Frontier's decision not to hedge during the review period appears to have been influenced by the fact that Frontier had sufficient physical gas purchases to serve its market during the review period rather than implementing hedges in an effort to mitigate price spikes to customers.

Public Staff witness Perry further testified that while the Commission's prior hedging orders do not differentiate between financial hedges and physical hedges, the other LDCs in North Carolina all have the ability to purchase 100% of their gas supply needs at FOM prices as opposed to Zone 5 FOM prices, yet all the other LDCs are consistently hedging to avoid the risk of price spikes to the utilities' customers. Witness Perry testified that she believes Frontier's customers are similarly at risk of unforeseen price spikes in gas prices.

Witness Perry concluded from her analysis, based on what was reasonably known or should have been known at the time the Company made its hedging decisions affecting the review period, as opposed to the outcome of those decisions, that the Company's hedging decisions were prudent. However, the Public Staff recommended that the Commission remind Frontier that the purpose of hedging is to reduce price spikes to customers, not just to secure gas supply, and put Frontier on notice that the risk is on Frontier, not its ratepayers, if price spikes occur and no hedging strategies are in place in the future.

Based on the foregoing, the Commission concludes that Frontier's hedging activities during the review period were reasonable and prudent. However the Commission takes notice that its prior hedging orders provide the appropriate standard for the review of hedging decisions by LDCs and recognize that the purpose of hedging is to reduce the volatility of commodity costs. The Commission also notes that an LDC's decisions with respect to mitigation of the effects of price spikes will be subject to review in the LDC's annual gas cost prudency review proceeding and that includes both decisions to hedge and not to hedge. In addition, the Commission reiterates to Frontier that it should address its hedging policy and program in its testimony in each annual gas cost prudency review, explaining why and how it hedged or why it did not hedge during the test period.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 11-14

The evidence for these findings of fact is contained in the testimony of Company witness Steele and the testimony of Public Staff witnesses Larsen.

Company witness Steele testified that the Company's gas supply policy is best described as a "best evaluated costs" supply strategy. This strategy is based upon the following criteria: flexibility, security/creditworthiness, reliability of supply, the cost of the gas, and the quality of supplier customer service.

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

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

Company witness Steele testified that the Company continues to incorporate a three-part pricing strategy to help establish price stability and obtain the optimum opportunity in savings: hedging, first of the month index purchases, and daily purchases. He also observed that Frontier will adjust the weights of each component and incorporate the best pricing methodology to obtain the optimum opportunity in savings and price stability. Company witness Steele further testified that the goal of the weighted average approach is to take advantage of any market movements in pricing that may occur as a proactive measure and/or savings opportunity.

Company witness Steele testified that in January 2016, Frontier issued requests for proposals to four potential natural gas suppliers, including Frontier's supplier at that time. Company witness Steele explained that three companies responded with proposals for Frontier's consideration, and Frontier evaluated the proposals using the criteria of their best evaluated gas supply strategy. Company witness Steele observed that in March 2016, Frontier selected UGI Energy Services, LLC (UGI) to provide its gas supply needs for the next 12-months, based on their ability to satisfy these criteria and UGI began working as Frontier's new asset manager starting April 1, 2016. Finally, Company witness Steele testified that on March 31, 2017, Frontier exercised an option for the renewal of its contract with UGI until March 31, 2020.

Public Staff witness Larsen testified that during the review period of October 1, 2016, through September 30, 2017, Frontier experienced customer growth of 7.48%, which is very similar to the prior year growth rate of 7.39%. Company witness Steele cited a similar customer growth rate of 8.3%, from the period October 31, 2016, to October 31, 2017. Public Staff witness Larsen also testified that there was a slight decrease in both Frontier's sales and transportation volumes from the prior review period. Witness Larsen concluded that since Frontier's winter throughput is largely dependent on weather due to space heating load, the volume change is correspondingly affected by a change in Heating Degree Days (HDDs) as compared to the prior period.

Public Staff witness Larsen testified that Frontier acquired an additional 2,663 dekatherms (dts) per day of Transco year round pipeline capacity effective January 2017, which results in a total pipeline capacity for Frontier of 8,613 dts per day for the current review period. Company witness Steele testified that Frontier will continue to seek incremental pipeline capacity and evaluate storage opportunities in order to serve its customers. Public Staff witness Larsen testified that in a data request response, Frontier testified that it reached out to gas companies and municipalities in order to partner to obtain additional capacity on Transco and that Frontier did not encounter any storage opportunities.

Public Staff witness Larsen's testimony cited Ordering Paragraph 6 of the Commission's Order on Annual Review of Gas Costs issued on June 13, 2017, in Docket No. G-40, Sub 135 (2016 Annual Review Order) which required: "[t]hat before the filing of Frontier's next annual review proceeding, Frontier shall have a study performed, similar to the consultant report attached to Company witness Steele's testimony as

Exhibit FAS-1, discussing, among other things, peak day forecasts and determination of contract demand policy, and make it available to the Public Staff for its review.“

Public Staff witness Larsen testified that attached to Company witness Steele’s testimony as CONFIDENTIAL Exhibit B was a report on Design Day Study prepared by Dr. Ronald H. Brown, PhD, who utilized the Marquette University GasDay program in evaluating Frontier’s projected peak day demand. Public Staff witness Larsen testified that he had evaluated the report and concluded that it complies with the 2016 Annual Review Order and accurately calculates Frontier’s peak day using reasonable assumptions, such as HDDs and frequency of occurrence of such cold weather events. Public Staff witness Larsen concluded that based on the report, it appears that Frontier has adequate capacity in order to serve its firm market on peak days until the 2021-2022 winter period.

Based upon the Public Staff's investigation and review of the data filed in this docket, and the adjustment to Frontier’s deferred gas cost account, witness Larsen testified that Frontier’s gas costs during the review period were prudently incurred.

Based on the foregoing, the Commission concludes that the Company’s gas costs incurred during the review period were reasonable and prudently incurred and that the Company should be permitted to recover 100% of its prudently incurred gas costs.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 15

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

Company witness Steele testified that Frontier anticipated that the current deferred account balance will be moving back toward $0.00 over the winter months. Public Staff witness Larsen noted that Frontier did not propose any temporaries in this proceeding and further testified that Public Staff witness Dorgan determined the appropriate deferred account balance owed from customers to Frontier is a debit balance of $251,005. Public Staff witness Larsen testified that normally the Public Staff would recommend a temporary rate increment in order to collect this debit balance from customers, but that the Panel’s investigation led them to conclude that Frontier’s deferred account has changed significantly since the end of the review period. Consequently, Public Staff witness Larsen recommended that Frontier file for a Purchased Gas Adjustment (PGA) in mid-March for an effective date of April 1, 2018. Finally, witness Larsen testified that he believed this course of action would more quickly and accurately resolve the under-collection of gas costs and would take effect April 1, 2018, which he testified is two or more months earlier than an order would typically be issued in Frontier’s annual review proceeding. Public Staff witness Larsen testified that he does not recommend any temporary rate increments or decrements at this time.

The Commission agrees with the recommendation of Public Staff witness Larsen and concludes that it is not appropriate to require Frontier to implement a temporary rate increment at this time. The Commission also takes judicial notice that on March 16, 2018, in Docket No. G-40, Sub 147, Frontier filed a PGA to increase its benchmark from $4.00 per dt to $6.00 per dt, an increase of by $2.00 per dt. On March 27, 2018, the Commission issued an Order Approving Rate Changes effective April 1, 2018.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 16

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

Public Staff witness Perry testified that in Docket No. G-40, Sub 135, Frontier's prior annual review of gas costs proceeding, the Public Staff recommended and the Commission approved in its Order on Annual Review of Gas Costs issued June 13, 2017, that Frontier should begin calculating interest on its deferred account using the net-of-tax overall rate of return approved by the Commission in its Order Approving Use of Natural Gas Bond Funds issued March 12, 2000, in Docket No. G-40, Sub 2, adjusted for any known corporate income tax rate changes, as the applicable interest rate on all amounts over-collected or under-collected from customers reflected in its Deferred Gas Cost Account.

Witness Perry further testified that in 2017 the Public Staff investigated a merger application filed by Frontier in November 2016 (Docket No. G-40, Sub 136), which caused the Public Staff to further evaluate the appropriate determinants to be used to calculate the earnings of Frontier in order to determine a reasonable overall rate of return applicable to Frontier. She explained that this review included the capital structure, debt cost from Frontier's most recent financing docket (Docket No. G-40, Sub 133), and a reasonable return on equity.

Witness Perry also noted that the 2017 Federal Tax Cuts and Jobs Act has reduced the corporate federal income tax rate from 35% to 21%, effective January 1, 2018.

Public Staff witness Perry testified that in light of the foregoing, the Public Staff recommended that Frontier begin using 6.50% as the interest rate on the deferred gas cost account effective January 1, 2018, as shown on Public Staff Panel Exhibit III.

Company witness Steele testified in rebuttal testimony that after discussions with the Public Staff, both parties had agreed to 6.60% as the interest rate on the deferred gas cost account effective January 1, 2018.

The Commission concludes that 6.60% is the appropriate interest rate to use in the deferred gas cost account effective January 1, 2018.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 17

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

Public Staff witness Perry testified that she was concerned that the amounts contained in the Company's filed annual review exhibits do not match the monthly deferred account reports filed with the Commission due to (1) the Company inserting proposed proration adjustments into the annual review exhibits that had not been filed with the Commission in the monthly deferred account reports for those months, and (2) the Company reclassifying demand and commodity charges reflected in the annual review exhibits, which do not correlate to charges reflected in the monthly deferred account reports and the invoices reviewed by the Public Staff.

Witness Perry testified that typically, if an LDC believes that a proposed adjustment is warranted, the adjustment is noted in testimony and possibly on Schedule 8 – Deferred Account with a footnote, but the LDC does not restate the total gas costs for the review period. She explained that the Public Staff's review procedures include tracing the Company's filed annual review exhibits to the monthly deferred account filings made each month during the review period. She further noted that another review procedure attempts to compare for agreement the total cost of gas reflected on Schedule 1 to the cost of gas reflected in the monthly financial statements. Witness Perry testified that by the Company inserting the proposed adjustments and restating Schedules 1 and 4, not only do the deferred account entries not agree to the filed deferred account reports, but Frontier's filed total cost of gas does not agree to the GS-1 Reports or the monthly financial reports filed by Frontier with the Public Staff and the Commission.

Public Staff witness Perry testified that she had a second issue related to Frontier's reclassifications of demand and commodity charges in the annual review exhibits as compared to the monthly deferred account reports. She explained that although the total demand and commodity charges reported in the annual review exhibits do agree to the filed monthly deferred account reports, the reclassification of the types of charges reflected in the annual review makes it virtually impossible for the Public Staff to trace specific charges into the monthly deferred account filings. She further explained that the Public Staff had a similar issue in Frontier's prior annual review of gas costs proceeding and recorded the unreconciled amounts in other supply costs. Witness Perry testified that for the current review period, the Public Staff has presented the demand and commodity charges in the Public Staff's testimony exactly as these charges were reflected on the invoices supporting the monthly deferred account entries that it audited. Witness Perry noted that the Public Staff reflected the Other Gas Costs just as these amounts were filed by the Company in the monthly deferred account filings along with entries that are recorded in other cost of gas but do not impact the Company's deferred account. She noted that in addition, the Public Staff excluded the Company's proposed proration adjustments from Other Gas Cost charges since these were not filed during the review period. Witness Perry testified that by reflecting the information in this manner the Public Staff was able to reconcile the total cost of gas to the financial statements and was also now able to state that these amounts agree to the Public Staff's audited monthly deferred account files. Frontier did not take issue with the Public Staff's expressed desire that in future annual review proceedings Frontier would file annual review schedules that present a summary of its gas costs that agree with its monthly deferred account reports.

The Commission concludes that Frontier shall file its annual review schedules in its annual review filings in such a manner that they present a summary of the gas costs that agree with Frontier's monthly deferred account reports.

IT IS, THEREFORE, ORDERED as follows:

1. That Frontier's accounting for gas costs during the 12-month period ended September 30, 2017, is approved.

2. That the gas costs incurred by Frontier during the 12-month period ended September 30, 2017, were reasonably and prudently incurred, and Frontier is hereby authorized to recover 100% of its gas costs incurred during the period of review.

3. That, Frontier's decisions regarding mitigation against price spikes are subject to Commission review annually in the Company's gas cost prudency review proceeding and the Commission has determined in this review proceeding that Frontier's hedging activities during the review period were reasonable and prudent.

4. That Frontier shall address its hedging policy and program in its testimony in its next annual gas cost prudency review, explaining why and how it hedged or why it did not hedge during the test period.

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

6. That Frontier shall file its annual review schedules in its annual review filings in such a manner that they present a summary of the gas costs that agree with Frontier's monthly deferred account reports.

ISSUED BY ORDER OF THE COMMISSION.

This the 8th day of June, 2018.

NORTH CAROLINA UTILITIES COMMISSION

Linnetta Threatt, Deputy Clerk