

**STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH**

DOCKET NO. G-41, SUB 55

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of
Application of Toccoa Natural Gas for Annual)
Review of Gas Costs Pursuant to N.C. Gen.) ORDER ON ANNUAL REVIEW
Stat. § 62-133.4(c) and Commission Rule) OF GAS COSTS
R1-17(k)(6))

HEARD: Wednesday, November 4, 2020, at 10:00 am via Webex

BEFORE: Commissioner Floyd B. McKissick, Jr., Presiding; Commissioner ToNola D. Brown-Bland, and Commissioner Jeffrey A. Hughes

APPEARANCES:

For Toccoa Natural Gas:

Karen M. Kemerait, Fox Rothschild, LLP, 434 Fayetteville Street,
Suite 2800, Raleigh, North Carolina 27601

For the Using and Consuming Public:

Gina C. Holt, Staff Attorney, Public Staff – North Carolina Utilities
Commission, 4326 Mail Service Center, Raleigh, North Carolina 27699

BY THE COMMISSION: On September 1, 2020, pursuant to N.C. Gen. Stat. § 62-133.4(c) and Commission Rule R1-17(k)(6), Toccoa Natural Gas (Toccoa or Company), filed the direct testimony and exhibits of Rai Trippe, Member Support Senior Business Analyst for the Municipal Gas Authority of Georgia (Gas Authority), and Harry Franklin Scott, Jr., Utilities Director for the City of Toccoa, Georgia, in connection with the annual review of Toccoa's gas costs for the 12-month period ended June 30, 2020.

On September 8, 2020, the Commission issued its Order Scheduling Hearing, Requiring Filing of Testimony, Establishing Discovery Guidelines, and Requiring Public Notice (Scheduling Order). The Scheduling Order established a hearing date of November 4, 2020, with a public witness hearing at 10:00 a.m., followed by an expert witness hearing at 11:00 a.m. Further, the Scheduling Order set prefiled testimony dates, and required Toccoa to give at least 30 days prior notice to its customers of the hearing on this matter. The Scheduling Order also established, upon stated consent of the parties, that the expert witness portion of the hearing would be held by remote means on Webex,

and established procedures for prefiling cross-examination exhibits and redirect examination exhibits for the expert witness hearing.

On September 21, 2020, Toccoa filed a notice of consent to a remote expert witness hearing in this docket.

On October 14, 2020, Toccoa filed its affidavit of publication.

On October 20, 2020, the Public Staff filed the testimonies of Zarka H. Naba, Utilities Engineer, Energy Division; and Iris Morgan, Staff Accountant, Accounting Division.

On October 20, 2020, Toccoa filed a motion to excuse the appearance of all expert witnesses at the remote hearing scheduled in this proceeding for November 4, 2020, at 11:00 a.m., and to allow all prefiled testimony and exhibits to be entered into the record. The Company stated that it consulted with the Public Staff, and both parties agreed to waive cross-examination of each other's witnesses, and did not object to the witnesses' prefiled testimony and exhibits being received into evidence.

On October 22, 2020, the Public Staff filed a notice of consent to a remote expert witness hearing in this docket.

On October 26, 2020, the Commission issued its Order Excusing Expert Witnesses, Accepting Testimony and Exhibits, and Canceling Expert Witness Hearing. In addition to granting Toccoa's motion to excuse the expert witnesses and to accept all testimony and exhibits into evidence, the Commission canceled the expert witness hearing, and ordered the parties to file proposed orders, or a joint proposed order, on or before December 4, 2020.

This matter came on for public hearing as scheduled on November 4, 2020, via Webex, before Chair Charlotte A. Mitchell, Presiding. No public witnesses appeared at the hearing.

On December 3, 2020, the Joint Proposed Order of Toccoa and the Public Staff was filed.

Based on the testimony, exhibits, and the entire record in this proceeding, the Commission makes the following:

FINDINGS OF FACT

1. Toccoa, a division of the City of Toccoa, Georgia, is a public utility as defined by N.C. Gen. Stat. § 62-3(23) and is subject to the jurisdiction of the Commission.

2. Toccoa is primarily engaged in the business of purchasing, transporting, distributing, and selling natural gas to approximately 6,709 retail customers of which approximately 767 are in North Carolina.

3. The Company has filed with the Commission and submitted to the Public Staff all information required by N.C.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 June 30, 2020.

5. During the review period, Toccoa incurred total North Carolina gas costs of \$326,621, which was comprised of demand and storage costs of \$90,831, commodity costs of \$232,362, and other gas costs of \$3,428.

6. At June 30, 2020, Toccoa had a credit balance of \$26,478, owed by Toccoa to customers, in its Deferred Gas Cost Account.

7. Toccoa properly accounted for its gas costs during the review period.

8. Toccoa's hedging activities during the review period were reasonable and prudent.

9. Toccoa has transportation and storage contracts with interstate pipelines that provide for the transportation of gas to Toccoa's system, and a gas supply arrangement with the Gas Authority.

10. Toccoa released unutilized capacity during the review period to mitigate the cost of demand capacity, and all capacity release credits earned were flowed through to ratepayers.

11. Toccoa has adopted a "portfolio approach" gas purchasing policy that consists of four main components: long-term firm supply arrangements, short-term spot market purchases, seasonal peaking, and contract storage services.

12. Toccoa's gas purchasing policy and practices during the review period were prudent, and its gas costs during the review period were prudently incurred.

13. Toccoa should be permitted to recover 100% of its prudently incurred gas costs.

14. As a result of this proceeding, Toccoa should continue the current temporary rate decrement of \$0.4397 per dekatherm (dt) as recommended by Public Staff Witness Naba and not opposed by Toccoa.

15. It is appropriate for Toccoa to continue to apply an interest rate of 5.83% to its Deferred Gas Cost Account for the review period, and it is appropriate that Toccoa not

adjust its Deferred Gas Cost Account interest rate for known tax changes, because it is exempt from federal income tax and it does not pay income taxes in North Carolina since Toccoa is a municipality.

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

The evidence supporting these findings is contained in the official files and records of the Commission, the testimony and schedules and exhibit of Toccoa witness Trippe, and the testimony of Toccoa witness Scott. These findings are essentially informational, procedural, or jurisdictional and are not contested by any party.

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

The evidence supporting these findings of fact is contained in the testimony, schedules and exhibit of Toccoa witness Trippe, and the testimonies of Public Staff witnesses Morgan and Naba. These findings are based on N.C.G.S. § 62-133.4(c), and Commission Rule R1-17(k)(6).

Pursuant to N.C.G.S. § 62-133.4(c), Toccoa is required to submit to the Commission information and data for a historical 12-month review period including its actual cost of gas, volumes of purchased gas, sales volumes, negotiated sales volumes, and transportation volumes. Commission Rule R1-17(k)(6)(a) establishes June 30, 2020, as the end date of the annual review period for the Company in this proceeding. Commission Rule R1-17(k)(6)(c) requires that Toccoa file certain information and data showing weather-normalized sales volumes, supporting work papers, and direct testimony and exhibits.

Toccoa witness Trippe testified that he was not aware of any outstanding issues regarding the reporting requirements of Commission Rule R1-17(k)(5)(c), which requires the Company to file a complete monthly accounting of computations under the provisions of the Rule for gas costs and deferred account activity. Public Staff witness Morgan confirmed that she had reviewed the filings and monthly reports filed by Toccoa.

Based on the foregoing, the Commission concludes that Toccoa has complied with all procedural requirements of N.C.G.S. § 62-133.4(c) and Commission Rule R1-17(k) for the 12-month review period ended June 30, 2020.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 5-7

The evidence supporting these findings of fact is contained in the testimony, schedules and exhibits of Toccoa witness Trippe, and the testimony of Public Staff witness Morgan.

Company witness Trippe testified that Toccoa incurred total North Carolina gas costs of \$326,621 during the review period, which was comprised of demand and storage costs of \$90,831, commodity costs of \$232,362, and other gas costs of \$3,428.

Public Staff witness Morgan testified that as of June 30, 2020, the balance in Toccoa's Deferred Gas Cost Account was a credit balance of \$26,478, owed by Toccoa to customers. Witness Morgan also testified that Toccoa's Deferred Gas Cost Account consisted of the following activity: Commodity True-up of \$12,370, Demand True-up of (\$59,575), Firm Hedges of \$3,428, Decrement of \$41,854, Prior period adjustment of (\$324), and Interest of (\$1,381). Witness Morgan stated that every month the Public Staff reviews the Deferred Gas Cost Account reports filed by Toccoa for accuracy and reasonableness, and performs audit procedures on the calculations. Public Staff witness Morgan also testified that Toccoa had properly accounted for its gas costs during the review period.

Based on the foregoing, the monthly filings by Toccoa pursuant to Commission Rule R1-17(k)(5)(c), and the findings and conclusions set forth above, the Commission concludes that Toccoa has properly accounted for its gas costs incurred during the review period and that Toccoa's Deferred Gas Cost Account balance reflected in the Company's schedules and exhibits are correct.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 8

The evidence supporting this finding of fact is contained in the testimony and exhibit of Toccoa witness Trippe, and the testimony of Public Staff witness Morgan.

Company witness Trippe testified that Toccoa participates in the Gas Authority's "Winter Hedge Program" under the Authority's Option 2 which allows Toccoa to rely on the Gas Authority's advice on locking in future prices for a portion of the Company's firm load. Witness Trippe stated that the Gas Authority's objective in hedging prices is to achieve price stability at a reasonable level for its members' retail customers, and that this objective was accomplished by locking in futures prices on approximately 22.2% of its forecasted firm gas sales for November 2019 through March 2020.

Company witness Trippe also testified that although hedging helps manage volatility in the wholesale cost of gas, it can create its own challenges. He explained that some customers have unrealistic expectations of the benefits of hedging because a common benchmark for evaluating hedged prices is the actual spot market price. Witness Trippe further testified that this can be an unfair measure because it is only available after the fact, and incorrectly assumes that the goal of hedging is "to beat the market." He also testified that the principal goal of hedging is to achieve price stability at a reasonable level for the consuming public.

Public Staff witness Morgan testified that when a Gas Authority member enters into hedging arrangements with the Gas Authority, the member specifies the targeted level of volumes to hedge and that these arrangements typically span two years. Witness Morgan further testified that the Gas Authority used fixed price swaps and call options as financial instruments in its hedging program during the current review period.

Public Staff witness Morgan testified that Toccoa's current hedge plan spans the maximum hedging program term offered by the Gas Authority for two winter periods that began November 1, 2019, and continues through March 2021. She also stated that Toccoa's current Winter Hedge Program participation reflects winter hedge volumes at approximately 22.2% of all firm North Carolina forecasted gas sales for the two-year period as compared to the 20% from the prior year winter hedge program. Witness Morgan further stated that Toccoa continues to adopt the more conservative hedge volumes for their participation in the Winter Hedge Program because market and futures pricing has been significantly lower than in prior years.

Public Staff witness Morgan stated that during the current review period, Toccoa's hedging program resulted in a \$3,428 charge to its gas supply cost for North Carolina customers. Witness Morgan further testified that based on what was reasonably known or should have been known by Toccoa at the time the Company made its hedging decisions affecting the review period, as opposed to the outcome of those decisions, the Company's hedging decisions were prudent.

Based on the testimony presented by the Company and the Public Staff, the Commission concludes that the Company's hedging activities during the review period were reasonable and prudent.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 9-13

The evidence for these findings of fact is contained in the testimony of Toccoa witness Trippe and Public Staff witnesses Naba and Morgan.

Company witness Trippe testified that Toccoa is a charter member of the Gas Authority, the largest non-profit joint action natural gas agency in the nation. Witness Trippe also testified that as a member of the Gas Authority Toccoa receives all of its gas supply at very competitive rates. He further explained that the Gas Authority uses a portfolio approach to supply its 80 member cities' needs, relying on a combination of long-term firm supply arrangements, short-term spot market purchases, seasonal peaking, and contract storage services. He also testified that Toccoa is assured adequate, dependable, and economical gas supplies through the Gas Authority's efforts.

Company witness Trippe further described Toccoa's interstate capacity and testified that Toccoa has contracts for firm transportation capacity with Transcontinental Gas Pipe Line Company, LLC, as well as an additional liquefied natural gas storage service and storage service agreements with Pine Needle LNG Company, LLC. He also testified that through participation in the Gas Authority, Toccoa has access to other members' available pipeline capacity.

Company witness Trippe testified that the Gas Authority, on behalf of Toccoa, was able to release a portion of Toccoa's unutilized capacity each month of the review period to mitigate the cost of extra demand capacity, generating \$14,582 in savings during the

current review period. Public Staff witness Morgan testified that Toccoa's policy has always been to flow through 100% of its capacity release credits to ratepayers.

Public Staff witness Naba testified that she reviewed the testimony and exhibits of the Company's witnesses, the Company's monthly Deferred Gas Cost Account reports, monthly operating reports, the gas supply, pipeline transportation and storage contracts, and the Company's responses to Public Staff data requests. She explained that the responses to the Public Staff's data requests contained information related to Toccoa's gas purchasing philosophies, customer requirements, design day analysis, and gas portfolio mixes.

Public Staff witness Naba stated that she also reviewed the Company's testimony and information submitted by the Company in response to data requests that dealt with how well the projected firm demand requirements aligned with the available capacity in the future. She further testified that she performed independent calculations utilizing the Company's assumptions and concluded that it appeared the Company had adequate capacity to meet firm demand for the next five winter seasons. Based upon the Public Staff's investigation and review of the data filed in this docket, Public Staff witness Naba concluded that Toccoa's gas costs during the review period were prudently incurred.

Based on the foregoing, the Commission concludes that the Company's gas purchasing policies and practices during the review period were reasonable and prudent, that its gas costs during the review period were 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. 14

The evidence for this finding of fact is contained in the testimony, schedule and exhibit of Toccoa witness Trippe, and the testimony of Public Staff witness Naba.

Toccoa witness Trippe testified that Toccoa desired to rely on the deferred account process and tracking method such that the forecasted deferred account balance at the end of the current review period would be as close to zero as practical. He further explained that the deferred account balance was closely monitored, as each monthly deferred account update was filed in anticipation that the effective rate decrement would decrease the balance owed to customers without causing a swing to a balance owed to Toccoa.

Public Staff witness Naba testified that the balance in Toccoa's Deferred Gas Cost Account at June 30, 2020, was a \$26,478 credit balance, owed to customers. Witness Naba stated, in general, temporary increments or decrements for a local distribution company (LDC) are calculated using the deferred account balance at the end of the review period divided by the volumes from the LDC's last general rate case. She further explained that since Toccoa has never had a general rate case, the Public Staff has previously recommended, and the Commission has previously approved, using the review period North Carolina firm sales volumes instead in this calculation.

Witness Naba stated that while the Public Staff would typically use this deferred account balance to recommend a new rate decrement to refund this credit balance, she determined that Toccoa has not been able to refund its deferred account balance for the prior two review periods, due to warmer winter weather. Public Staff witness Naba stated that at the end of August 2020, the over-collection in the deferred account balance had decreased to a credit balance of \$20,983, owed to customers.

Public Staff witness Naba further stated that even though the calculation of a new decrement in the instant docket would be smaller than the one currently in rates, she recommended that the Company leave in place the current decrement of \$0.4397 per dt that was placed into rates effective January 1, 2018, in Docket No. G-41, Sub 50, in order to refund the balance to customers in a more timely manner.

Furthermore, Public Staff witness Naba recommended that Toccoa continue to monitor the balance in its Deferred Gas Cost Account and file a request to implement new temporary increments or decrements, as applicable, through the Purchased Gas Adjustment (PGA) mechanism to avoid significant over-collections or under-collections of its gas costs. Public Staff witness Naba stated that she understood that Toccoa did not oppose these recommendations.

Based on the foregoing, the Commission concludes that the current rate decrement should remain in place as recommended by Public Staff witness Naba and not opposed by Toccoa.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 15

The evidence supporting this finding of fact is contained in the testimony and exhibit of Toccoa witness Trippe and the testimony of Public Staff witness Morgan.

Toccoa witness Trippe testified that the interest rate applied to Toccoa's deferred account for amounts over collected or under collected from the North Carolina firm sales customers was established in G-41 Sub 0, and approved by the December 8, 1998 Order, granting Toccoa and the Municipal Gas Authority of Georgia a Certificate of Public Convenience and Necessity. Witness Trippe further testified that Toccoa's deferred account interest rate as proposed by the Public Staff is the overall rate of return. He also explained that Toccoa has not adjusted its deferred account interest rate for known tax changes because it is exempt from federal income tax and it does not pay income taxes in North Carolina since Toccoa is a municipality. Witness Trippe stated that the present interest rate of 5.83% has been applied to Toccoa's deferred account during the full 12-months of the review period.

Public Staff witness Morgan testified that she reviewed the Company's interest rate calculations and found that Toccoa is continuing to use the 5.83% interest rate and determined no changes were needed. The current interest rate applied to the deferred account is the overall rate of return, not the net-of-tax overall rate of return. Public Staff witness Morgan stated that the calculations of the interest accrued on the account

balance during each month are verified in accordance with N.C.G.S. § 62-130(e). She also stated that the Public Staff will continue to review the interest rate each month to determine if an adjustment is needed.

Based on the foregoing, the Commission concludes that 5.83% is the appropriate interest rate to apply to Toccoa's Deferred Gas Cost Account for the period of July 1, 2019 through June 30, 2020. Furthermore, the Commission finds that it is appropriate that Toccoa not adjust its Deferred Gas Cost Account interest rate for known tax changes, because it is exempt from federal income tax and it does not pay income taxes in North Carolina since Toccoa is a municipality.

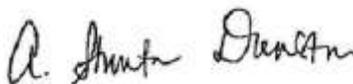
IT IS, THEREFORE, ORDERED as follows:

1. That Toccoa's accounting for gas costs for the 12-month period ended June 30, 2020, is approved;
2. That the gas costs incurred by Toccoa during the 12-month period ended June 30, 2020, including the Company's hedging costs, were reasonably and prudently incurred, and that Toccoa is authorized to recover 100% of its gas costs as provided herein;
3. That the existing temporary decrement of \$0.4397 per dt approved in Docket No. G-41, Sub 50 shall remain in rates;
4. That Toccoa shall continue to monitor the balance in its Deferred Gas Cost Account and file a request to implement new temporary increments or decrements, as applicable, through the Purchased Gas Adjustment mechanism to avoid significant over-collections or under-collections of its gas costs, and
5. That it is appropriate for Toccoa to continue calculating interest using a rate of 5.83% on its Deferred Gas Cost Account, not adjusted for inapplicable tax changes.

ISSUED BY ORDER OF THE COMMISSION.

This the 8th day of February, 2021.

NORTH CAROLINA UTILITIES COMMISSION



A. Shonta Dunston, Deputy Clerk