

**STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH**

DOCKET NO. G-40, SUB 158

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

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

BEFORE: Commissioner Floyd B. McKissick, Jr., Presiding; and Commissioners
Kimberly W. Duffley and Jeffrey A. Hughes

BY THE COMMISSION: On December 1, 2020, pursuant to N.C. Gen. Stat. § 62-133.4(c) and Commission Rule R1-17(k)(6), Frontier Natural Gas Company (Frontier or Company) filed the public testimony and exhibits as well as the confidential exhibits of Taylor B. Younger, Regulatory Compliance Engineer, and the testimony and schedules of Nathan Bell, Controller, in connection with the annual review of Frontier's gas costs for the 12-month period ended September 30, 2020.

On December 9, 2020, the Commission issued its Order Scheduling Hearing, Requiring Filing of Testimony, Establishing Discovery Guidelines, and Requiring Public Notice (Scheduling Order). The Scheduling Order set the annual review of the Company's gas costs for hearing on March 2, 2021, set prefiled testimony dates, and required Frontier to publish notice of the hearing.

On February 15, 2021, the Public Staff filed the direct testimony of R. Tyler Allison, Staff Accountant, Accounting Division; Zarka H. Naba, Engineer, Natural Gas Section, Energy Division; and Julie G. Perry, Accounting Manager, Natural Gas & Transportation Section, Accounting Division.

On February 15, 2021, Frontier and the Public Staff each filed statements consenting to a remote hearing.

On February 16, 2021, Frontier and the Public Staff filed a joint motion for witnesses to be excused from attending the expert witness hearing and requested that the prefiled testimony and exhibits of all witnesses be received into the record without requiring the appearance of the witnesses.

On February 23, 2021, Frontier filed its affidavits of publication.

On February 23, 2021, the Public Staff filed a Motion to Cancel Public Witness Hearing.

On February 26, 2021, the Commission issued its Order Excusing Expert Witnesses, Accepting Testimony and Exhibits, Canceling Hearing, and Requiring Proposed Orders.

On April 1, 2021, the Joint Proposed Order of Frontier and the Public Staff was filed.

No other party intervened in this docket.

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 N.C.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 4,401 customers in North Carolina, as of September 30, 2020.

3. Frontier has filed with the Commission and submitted to the Public Staff all of the 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 September 30, 2020.

5. During the review period, Frontier incurred total gas costs of \$5,111,817, which was comprised of pipeline demand charges of \$1,550,119, gas supply costs of \$3,576,041, and other gas costs of (\$14,343).

6. The appropriate Deferred Gas Cost Account balance as of September 30, 2020, is a debit balance of \$43,062 owed to Frontier from its customers.

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

8. Frontier's hedging decisions during the review period were reasonable and prudent as part of the Company's overall Gas Supply Procurement Policy.

9. During the review period, Frontier purchased all of its gas supply under a full requirements gas supply contract.

10. Frontier entered into a new Asset Management Agreement (AMA) with UGI Energy Services, LLC (UGI), to provide for up to 20,000 dekatherms (dts) a day for additional gas supply requirements.

11. Frontier utilized interstate pipeline capacity from Transcontinental Gas Pipeline Company, LLC (Transco).

12. Frontier met its supply and capacity needs through a combination of the AMA with UGI, and Transco capacity.

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

14. The Company’s gas costs 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 or decrement in this docket.

16. For the current review period, it is appropriate for Frontier to continue to 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.

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 witnesses Younger and Bell, and the testimony of Public Staff witnesses Allison and Naba.

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

The evidence supporting these findings is contained in the testimony of Frontier witnesses Younger and Bell, the testimony of Public Staff witnesses Allison and Naba, and the provisions of N.C.G.S. § 62-133.4(c) and Commission Rule R1-17(k)(6).

North Carolina General Statute § 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 Bell testified that the Company is required to submit to the Commission, on or before December 1 of each year, certain information for the 12-month review period ended September 30 as required by Commission Rule R1-17(k). Public Staff witnesses Allison and Naba confirmed that the Public Staff has reviewed the monthly reports filed by Frontier. The Commission, therefore, concludes that Frontier has complied with all of the procedural requirements of N.C.G.S. § 62-133.4(c) and Commission Rule R1-17(k) for the review period.

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

The evidence supporting these findings of fact is contained in the testimony and schedules of Frontier witness Bell and the testimony of Public Staff witness Allison.

Public Staff witness Allison testified that Frontier's total gas costs for the review period were \$5,111,817. Public Staff witness Allison testified that this amount was comprised of pipeline demand charges of \$1,550,119, gas supply costs of \$3,576,041 and other gas costs of (\$14,343).

Public Staff witness Allison also testified that he had reviewed the testimony and exhibits of the Company witnesses, the Company's monthly Deferred Gas Cost Account reports, monthly financial and operating reports, the gas supply and pipeline transportation contracts, and the Company's responses to Public Staff data requests.

Company witness Bell testified that as of September 30, 2020, Frontier's Deferred Gas Cost Account had an ending debit balance of \$43,061.86, owed to Frontier from customers, as shown on Company witness Bell's Schedule 8. Public Staff witness Allison testified that he agreed with the Company's Deferred Gas Cost Account balance. Public Staff witness Allison also noted in his analysis that he reclassified certain amounts in the Company's schedules based on the Public Staff's analysis of Company's deferred account although the total gas costs amounts did not change. Public Staff witness Allison further testified that the Company properly accounted for its gas costs during the review period.

Based on the foregoing, the Commission concludes that the appropriate Deferred Gas Cost Account balance as of September 30, 2020, is a debit balance of \$43,062, owed to Frontier by its customers, and that Frontier has properly accounted for its gas costs incurred during the review period.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 8

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

Witness Younger explained that Frontier had sought to seek outside expertise for all gas supply endeavors by utilizing the Hearthstone's gas supply consultants, Al Harms and Len Gilmore. The consultants are now included in all gas supply meetings. The

consultants gave insight in revising Frontier's Gas Supply Procurement Plan and helped guide the Company through the process of rationalizing and choosing the Gas Supply Asset Manager for the period of April 1, 2020, through March 31, 2023. Frontier utilized its current AMA to make sure it was not subject to the volatile Zone 5 daily gas market.

Public Staff witness Perry testified that the appropriate standard for the review of hedging decisions by LDCs is set forth in the Commission's February 26, 2002, Order on Hedging in Docket No. G-100, Sub 84 (Hedging Order). She stated that in the Hedging Order, the Commission concluded that the purpose of hedging is to reduce the volatility of commodity costs.

Public Staff witness Perry testified that the primary difference between Frontier's hedging approach and the approach of the other LDCs is that Frontier uses physical hedges exclusively and does not use financial hedges, such as options, futures, or swaps. She 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. Public Staff witness Perry further stated that Frontier's hedges are considered part of the Company's overall gas supply procurement policy since these typically include the physical purchase of fixed price gas supplies for firm delivery at its city gate on a monthly basis to meet its customer demand.

Public Staff witness Perry further explained that Company witness Younger testified that Frontier made changes to its Gas Supply Procurement Policy during the review period. She stated that the three main changes involve (1) new tariff provisions that govern balancing priorities by Transco, which restricted the amount of swing flexibility that Frontier has at its city gate, (2) Frontier entering into a new three-year AMA with UGI that became effective April 1, 2020, which reflects the changes in Transco's tariffs, and (3) significant updates to the Company's hedging plan.

Public Staff witness Perry stated that in general, the primary reason for most of the changes to the Company's Gas Supply Procurement Policy were due to the new, more restrictive Transco tariff changes that impacted Frontier's flexibility to balance its daily gas supply nominations against actual deliveries to Frontier. Witness Perry explained that after discussions with Transco, Frontier found that only 3,613 dts of its Transco capacity was actually delivered directly to Frontier's city gate and, therefore, is the only capacity that can be used to cover any daily swings in winter usage above the daily nominations, whereas in the past Frontier could swing on the entire 8,613 dts per day of its Transco capacity. Witness Perry stated that due to this change Frontier revised its gas daily nomination strategy to begin nominating a base level of 5,000 dts per day of Transco capacity for each day of the winter months at Zone 3 pricing while procuring Zone 5 delivered gas supplies for the remaining daily winter nominations needed for each month of the winter period. Company witness Younger further explained that Frontier would subtract out current firm Zone 3 transportation capacity of 8,613 dts from the expected max daily flow to conclude how much Zone 5 gas should be purchased for that month. Witness Younger also stated the remaining Zone 5 purchases should be executed with

First of Month (FOM) nominations, to minimize the likelihood of the need to purchase gas from the volatile Zone 5 daily market.

Public Staff witness Perry testified that by purchasing winter hedges for each month of April to September for each upcoming winter period November through March, using FOM pricing for the remaining expected daily nominations at Zone 3 and Zone 5, as well as utilizing the 3,613 dts at Zone 3 pricing for swing volumes needed above the daily nominations, should greatly help mitigate the risk of price spikes to customers due to large temperature fluctuations and price volatility during the winter period..

Public Staff witness Perry explained that Frontier complied with Ordering Paragraph 4 of the Commission's Order on Annual Review of Gas Costs issued June 30, 2020, in Docket No. G-40, Sub 153, Frontier's prior annual review proceeding, which states that "Frontier and the Public Staff shall continue to work together to discuss Frontier's Gas Supply Procurement Policy, including hedging and other price mitigation strategies, as changes to the policy are contemplated". She confirmed that Frontier and the Public Staff had conference calls, as well as met virtually in April and May 2020, to discuss Frontier's new Gas Supply Procurement Policy and to share how the Company planned to utilize its new Gas Supply Procurement Policy in preparation for the 2020-2021 winter period. This included discussions on hedging and other price mitigation strategies to protect customers from possible gas cost volatility.

Public Staff witness Perry further testified that the revisions to Gas Supply Procurement Policy provided a reasonable level of price mitigation during the winter months and should reduce the Zone 5 daily pricing exposure to Frontier, which has had a history of extremely volatile peaks during the heating season. Witness Perry further recommended that Frontier continue to work with the Public Staff to discuss its Gas Supply Procurement Policy, including hedging and other price mitigation strategies, as changes to the policy are contemplated. Public Staff witness Perry concluded that Frontier's hedging decisions were prudent since they were 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.

Based on the Public Staff's investigation and the review of the data filed in this docket, the Commission concludes that Frontier's hedging decisions during the review period were reasonable and prudent. The Commission further agrees that Frontier should continue to work with the Public Staff to discuss its Gas Supply Procurement Policy, including hedging and other price mitigation strategies, as changes to the policy are contemplated.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 9-14

The evidence for these findings of fact is contained in the testimony and exhibits of Company witness Younger, and the testimony of Public Staff witness Naba.

Public Staff witness Naba stated that Frontier has made some changes to its Gas Supply Procurement Policy during the review period. Frontier's prior AMA with UGI, which provided up to 20,000 dts per day of additional gas supply to serve its firm market on a peak day delivered to Zone 5, was set to expire on March 31, 2020. Witness Naba testified that in Frontier's filed response to Commission questions in Frontier's prior annual review proceeding, the Company stated that Frontier had chosen to award its new AMA contract to UGI since this contract was similar to the one Frontier had utilized over the past three years, but with negotiated lower volumetric fees per dt starting April 1, 2020 through March 31, 2023.

Public Staff witness Naba stated that Frontier currently has a total of 8,613 dts per day of pipeline capacity on the Transco interstate pipeline. Witness Naba further testified that the Company indicated in a data request response that it was comfortable with its current capacity of 8,613 dts because this amount covered Frontier's expected daily average usage for all months, including winter months. Frontier informed the Public Staff that it has continued to evaluate additional interstate pipeline connections and LNG options since its last review period.

Witness Naba testified that Frontier has provided the Design Day study prepared by Marquette Energy Analytics (Marquette) in 2017¹ which projects out 5 years and focuses on a 1-in-30 year occurrence. She testified that she has evaluated this report and found that it provides a reasonable forecast of Frontier's peak day demand using reasonable assumptions, such as Heating Degree Days and frequency of occurrence of such cold weather events. Witness Naba explained that in response to a Public Staff data request the Company stated that, pursuant to its contract with Marquette, it is provided with an annual report showing a monthly forecast for the upcoming year, and an expected daily average flow and the expected daily maximum flow for each month of the upcoming year. She further stated that for the current review period Frontier used Marquette's annual expected maximum projections with a growth factor added based on an historical five-year average in order to project out the peak day for the next five years. Based on Frontier's application and the Marquette report, Public Staff witness Naba believes that Frontier has adequate capacity to serve its firm market on peak days.

Company witness Younger testified that the Company's gas supply policy is best described as a "best evaluated cost" supply strategy. This strategy is based upon the following criteria: adequacy, flexibility, reliability/dependability of supply, cost of gas, stability of costs incurred and quality of supplier, including their creditworthiness and reliability.

Company Witness Younger stated that Frontier's goals not only include reliability and security of gas supply, but also to reduce or eliminate concerns over customer exposure to potential gas cost volatility.

Public Staff witness Naba testified that during the review period Frontier experienced customer growth of 6.38%, which is approximately four times the growth rate

¹ Attached as Confidential Exhibit B to Frontier witness Younger's testimony in this proceeding.

of other LDCs in North Carolina. Public Staff witness Naba also testified that there was a slight overall decrease of 4.37% in Frontier's sales and transportation volumes from what was experienced in the prior review period due to a milder 2020 winter.

Public Staff witness Naba further testified that, based on her investigation and the review of the data filed in this docket, she determined that the Company'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 prudent 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 Bell and the testimony of Public Staff witnesses Naba and Allison.

Public Staff witness Allison stated in his testimony that he agreed with Frontier's deferred account debit balance of \$43,062, owed to the Company by the customers. Public Staff witness Naba testified that the Public Staff acknowledged that the Company received a \$414,650 refund from Transco on July 1, 2020, pursuant to Article IV of the Stipulation and Agreement filed on December 31, 2019, in FERC Docket RP18-1126.

Company witness Bell stated in his testimony that Frontier anticipated the deferred account balance to remain consistent throughout the winter months.

Public Staff witness Naba further testified that Frontier did not propose any temporary rate increments or decrements (temporaries) in this proceeding. She recommended that Frontier monitor the deferred account balance and, if necessary, file an application for authority to adjust its benchmark delivered cost of gas through its Purchased Gas Adjustment (PGA) mechanism in order to keep the deferred account balance at a reasonable level.

Based on the foregoing, the Commission concludes that Frontier should not be required to implement a rate increment or decrement in this proceeding. The Commission agrees that Frontier should continue to monitor the deferred account balance and, if needed, file an application for authority to implement new temporary increments or decrements through the PGA mechanism in order to keep the deferred account balance at a reasonable level.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 16

The evidence for this finding of fact is contained in the testimony of Public Staff witness Allison.

Public Staff witness Allison testified that he reviewed the Company's interest rate calculations for all known corporate income tax rate changes and determined that no change was required. Therefore, he stated that it is appropriate that Frontier continue to 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. He further stated that the Public Staff will continue to review the interest rate each month to determine if an adjustment is warranted.

Based on the foregoing, the Commission concludes that it is appropriate for Frontier to continue to 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 as reflected in its Deferred Gas Cost Account. The Commission also concludes that it is appropriate for the Public Staff to continue to review the interest rate each month to determine if an adjustment is warranted.

IT IS, THEREFORE, ORDERED as follows:

1. That Frontier's accounting for gas costs during the 12-month review period ended September 30, 2020, is approved;
2. That the gas costs incurred by Frontier during the 12-month period ended September 30, 2020, were reasonably and prudently incurred, and Frontier is hereby authorized to recover 100% of its gas costs incurred during the review period;
3. That Frontier's hedging activities during the review period were reasonable and prudent;
4. That as proposed by Frontier and agreed to by the Public Staff, Frontier shall not implement any temporary rate changes in this docket;
5. That Frontier and the Public Staff shall continue to work together to discuss its Gas Supply Procurement Policy, including hedging and other price mitigation strategies, as changes to the policy are contemplated;
6. That Frontier shall continue to 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 as reflected in its Deferred Gas Cost Account; and

7. That the Public Staff shall continue to review the interest rate each month to determine if an adjustment is warranted.

ISSUED BY ORDER OF THE COMMISSION.

This the 28th day of April, 2021.

NORTH CAROLINA UTILITIES COMMISSION

A handwritten signature in black ink that reads "Kimberley A. Campbell". The signature is written in a cursive style with a large initial 'K'.

Kimberley A. Campbell, Chief Clerk