

1 PLACE: Dobbs Building

2 Raleigh, North Carolina

3 DATE: Tuesday, March 3, 2020

4 TIME: 10:00 a.m. - 10:23 a.m.

5 DOCKET NO: G-40, Sub 153

6 BEFORE: Commissioner Daniel G. Clodfelter, Presiding

7 Commissioner Kimberly W. Duffley

8 Commissioner Jeffrey A. Hughes

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IN THE MATTER OF:

14 Application of Frontier Natural Gas Company, LLC,

15 Annual Review of Gas Costs Pursuant to

16 G.S. 62-133.4(c) and Commission Rule R1-17(k)(6).

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1 A P P E A R A N C E S:

2
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P R O C E E D I N G S

COMMISSIONER CLODFELTER: Good morning.

We'll come to order and go on the record now, please.

Ms. Mitchell, if you're ready. Okay.

My name is Dan Clodfelter and I have been assigned to preside over the panel for this hearing. With me on this panel are Commissioner Kim Duffley and Commissioner Jeff Hughes.

So we'll call for hearing Docket G-40, Sub 153, which is the Application of Frontier Natural Gas Company, LLC, for Annual Review of Gas Costs Pursuant to G.S. 62-133.4(c) and Commission Rule R1-17(k) (6).

The purpose of the annual review is to compare Frontier's prudently incurred gas costs with costs recovered from customers served in a 12-month test period that ended September 30, 2019.

On December 2nd, Frontier -- of 2019, Frontier filed the direct testimony and the exhibits of Fred Steele, that's 19 pages and six exhibits of which Exhibits A and B are confidential and have been so marked; and the direct testimony and exhibits of Taylor Younger consisting of six pages with seven exhibits of which Exhibits E and F have been marked as confidential and filed accordingly.

1 On December 11, the Commission issued an
2 Order Scheduling this Hearing, Requiring the Filing of
3 Testimony, Establishing Discovery Guidelines and
4 Requiring Public Notice, and the Order scheduled the
5 hearing for today at this time and place.

6 On February 14th, 2020, the Public Staff
7 filed the joint testimony of Neha Patel, Shawn Dorgan
8 and Julie Perry consisting of 21 pages with three
9 Appendices, A, B and C.

10 On February 18th of this year, Frontier and
11 the Public Staff filed a Joint Motion to Excuse the
12 Appearance of Witnesses.

13 On February 25th, Frontier filed Affidavits
14 of Publication of public notice.

15 And on February 26th, the Commission issued
16 an Order Denying the Motion to Excuse Witnesses and
17 providing advance notice of topics for today's
18 hearing.

19 The intervention and participation of the
20 Public Staff is recognized pursuant to General
21 Statutes and Commission Rules. And as far as I'm
22 aware, unless the parties correct me on it, there are
23 no other intervenors or parties in the docket.

24 MS. CULPEPPER: That's correct.

1 MR. JEFFRIES: Right.

2 COMMISSIONER CLODFELTER: At this point, in
3 compliance with the requirements of Chapter 163A of
4 the State Government Ethics Act, I remind the members
5 of the panel of our responsibility to avoid conflicts
6 of interest, and inquire whether any of the panel
7 members has a known conflict of interest with respect
8 to any matter this morning?

9 (No response)

10 Madam Court Reporter, let the record reflect
11 that there are no conflicts identified.

12 So let me call on counsel now to announce
13 their appearances, beginning with the Company.

14 MR. JEFFRIES: Thank you. Mr. Chairman,
15 Commissioner Hughes, Commissioner Duffley, my name is
16 Jim Jeffries. I'm with the Law Firm of McGuireWoods
17 and I'm here on behalf of Frontier Natural Gas Company
18 today.

19 COMMISSIONER CLODFELTER: Thank you. Good
20 morning.

21 MS. CULPEPPER: Elizabeth Culpepper with the
22 Public Staff appearing on behalf of the Using and
23 Consuming Public.

24 COMMISSIONER CLODFELTER: Great. Let me ask

1 first, before we turn the matter over to the
2 Applicant, are there any persons who are here, present
3 this morning, who wish to offer public witness
4 testimony?

5 (No response)

6 Ms. Culpepper, have you identified or know
7 of any individuals who wish to offer public witness
8 testimony?

9 MS. CULPEPPER: I'm not aware of any.

10 COMMISSIONER CLODFELTER: Okay. If not
11 then, Mr. Jeffries, the matter is with you.

12 MR. JEFFRIES: Thank you, Mr. Chairman. If
13 I could, with leave of the Commission, I'd like to
14 address one preliminary matter first. As the Chairman
15 is aware we filed, Frontier filed written responses to
16 the questions that were enumerated in the Commission's
17 Order Denying Excusal of Witnesses. And with leave of
18 the Commission, and without objection from
19 Ms. Culpepper, we would move that those answers be
20 entered into the record as a supplement to
21 Ms. Younger's prefiled testimony?

22 COMMISSIONER CLODFELTER: Without
23 objection --

24 MS. CULPEPPER: No objection.

1 COMMISSIONER CLODFELTER: -- the filing made
2 on March 2nd, 2020, in response to the Commission's
3 Order Denying the Motion to Excuse Witnesses will be
4 received into the record as supplemental prefiled
5 testimony by Ms. Younger.

6 (WHEREUPON, Frontier's written
7 responses filed in the docket on
8 March 2, 2020, are received into
9 evidence as Ms. Younger's prefiled
10 supplemental testimony, as if
11 given orally from the stand.)
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**STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH**

DOCKET NO. G-40, SUB 153

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of Application of Frontier Natural Gas Company for Annual Review of Gas Costs Pursuant to N.C.G.S. § 62-133.4(c) and Commission Rule R1-17(k)(6)))))))	RESPONSE TO COMMISSION QUESTIONS
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On February 26, 2020, in the above-referenced docket, the North Carolina Utilities Commission (“Commission”) issued its *Order Denying Motion to Excuse Witnesses and Providing Notice of Hearing Topics* (“Order”). In that Order, the Commission indicated that, after reviewing the application of Frontier Natural Gas Company (“Frontier”) in this matter, it required additional information and enumerated a number of questions the Commission intended to ask of Frontier and the Public Staff at the hearing of this matter. In order to facilitate the hearing, Frontier has provided below, the responses of Taylor Younger to the Commission questions directed at Frontier:

RESPONSES TO COMMISSION QUESTIONS

1. The responsibilities of the Frontier natural gas supply group, and the support and assistance that Frontier is currently receiving from its parent company.

Response: The FNGC supply group consists of me (Taylor Younger), Ted Gambill, and Fred Steele. Ted has over ten years of experience working with multiple asset managers and he assists me with decision making and can step in during my absence to perform the daily and monthly supply duties I will describe. Daily supply duties include oversight of natural gas supply planning and purchases. All balancing and scheduling is completed for

us by our Asset Manager, making our daily supply duties routine and efficient. Daily duties include managing how much gas comes through our Transco City Gate, and how much of this gas our Transportation customers used. The Transco website keeps up with what is delivered through the City Gate hourly while Telemeters keep up with transportation usage hourly, and we can easily download this information daily. This is uploaded into a spreadsheet where we subtract out transportation usage from our daily City Gate Usage to calculate daily bundled usage. We also keep up with marketer's nominations for the transportation customers they supply gas for, and we send marketers an update for how much their transportation customers have used daily to help them with their daily nominations. Marketers are required to be within 5% or 1,000 dths of their nominations by the end of the month or they receive penalty. We cash-out with Marketers monthly, which is taken care of by our Billing Department, not the supply group.

Monthly, the supply group forecasts daily usage for the upcoming month using historical usage and forecasted weather to run a regression analysis to predict how to set our FOM nominations. We have the ability to lock in daily usage below our Transco owned capacity at Z3 and daily usage above our capacity at Z5 FOM prices, comprised of NYMEX settlement plus Basis, fuel, commodity. We do receive assistance and expertise from our parent company's preferred gas cost consultants before setting our FOM nominations.

Annually, the supply group participates in the Annual Review of Gas Costs. We help answer data requests and prepare supporting data analysis for systematical questions relating to supply or procurement. Our gas cost consultants provide input to answering data requests. All budgeting and financial schedules included in the Annual Review are prepared by the Frontier Controller.

This past year, the supply group developed a RFP for an AMA since our current agreement ends in March, 2020. We ran analysis on the top 3 competing proposals and ultimately decided to award the Asset Management Agreement to UGI. We utilized the assistance and expertise from our gas cost consultants to make this decision.

Over the course of the last year, the supply group helped develop an updated procurement policy. Because of their expertise, we significantly relied on our gas cost consultants to develop this policy for hedging.

2. The weekly risk call meetings between Frontier and its parent company.

Response: The weekly meetings between the risk committee, which consists of our parent company and all other entities allows for each entity to describe how much they paid for gas, how much they hedged, future plans for procurement, plans for locking in asset managers, weather discussions, and discussions on whether or not we anticipate meeting budgeted usage.

3. The percentage of witness Younger's work that is split between compliance, gas planning, and other responsibilities.

Response: As I have previously described, daily supply duties are routine and typically take up 1 to 1.5 hours of my time daily. During annual reviews, I am able to set aside enough time to prepare testimony and help prepare answers to data requests by focusing on each to be completed within 1 to 2 work days. Monthly analysis for FOM nominations typically take me a couple hours to complete. The percentage of my work is split evenly between supply planning, compliance, and other responsibilities. Engineering school taught me very valuable time management skills and the ability to prioritize efficiently.

4. Details of the steps that Frontier has taken during the last year to bolster its gas supply planning, as outlined in the letter filed in Docket No. G-40, Sub 149 on December 16, 2019.

Response: I have taken the lead on gas supply planning over the course of the year, streamlining the daily processes and acting as a liaison between Frontier and our Asset Manager. Over the past year, Frontier has also used our gas cost consultant's expertise extensively for assistance with decision making as previously described. We are also seeking the expertise of a recently hired Hearthstone Utilities employee who worked for the Ohio Public Utilities Commission.

5. An update on the potential natural gas suppliers for April 1, 2020 through March 31, 2023.

Response: As previously described, Frontier has chosen to award the Asset Management Agreement to UGI. The supply contract is similar to the one Frontier has utilized over the past 3 years, but with negotiated lower fees per dth.

6. Details of recent Design Day studies.

Response: Dr. Ronald H. Brown, professor at Marquette University, performed a 1 in 20 DDS in November 2017. This means that the peak days he predicted throughout winter of 2021-2022 would only happen every 1 in 20 years based on customer growth, historical weather patterns, and statistical analysis through modeling software. 2.5 standard deviations were also added to estimated peak days to be over 95% confident that the peak day could happen every 1 in 20 years. The HDD used for this analysis are based on historical temperature and wind factors since year 1973. Ronald Brown, who is head over what is now called Marquette Energy Analytics, also performs an annual analysis for us

with actual expected max flow and expected average flow for every month in the upcoming year that is used for FOM nomination and procurement purposes. Because of this, the annual report is more useful to us than the in-depth design day report, which we only use to make sure we are prepared to serve our customers if this unlikely 1 in 20 year peak day happened. To put it in perspective, the 2019 predicted 1 in 20 year Design Day Study was 15,597 dth, and the actual peak day for 2019 was 12,195 dth. Frontier has determined that it will prepare design day studies annually by utilizing its Engineering Department or the use of a consultant such as Dr. Brown with Marquette Energy Analytics.

7. The potential for Frontier's development of a liquified natural gas facility.

Response: Frontier had initial LNG facility discussion with North Star, Thig Pen and UGI. Currently Frontier is pursuing LNG as an option with UGI. UGI has indicated that they are interested in owning and operating the LNG facility. UGI found parcels of land near our pipeline facilities and obtained signed letters of intent to sell. UGI has laid out plans for owning and operating a storage facility and injection site for Frontier use on peak days and to truck to other potential customers. Liquefaction possibilities at the proposed site do not seem economically feasible at this time. UGI is currently working on a cost structure for Frontier to review. Once Frontier obtains cost estimates on the proposed LNG facilities Frontier will prepare an analysis of an LNG facility verses constructing additional transmission lines to an alternative natural gas supply source. This analysis will be shared with the NC Staff upon completion.

Respectfully submitted, this the 2nd day of March, 2020.

Frontier Natural Gas Company

/s/ James H. Jeffries IV
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Mar 09 2020

CERTIFICATE OF SERVICE

The undersigned hereby certifies that a copy of the attached is being served this date upon all of the parties to this docket electronically or by depositing a copy of the same in the United States Mail, First Class Postage Prepaid, at the addresses contained in the official service list in this proceeding.

This, the 2nd day of March, 2020.

/s/Sloane K. O'Hare
Sloane K. O'Hare

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1 MR. JEFFRIES: Thank you.

2 Frontier would call Mr. Fred Steele and Ms.
3 Taylor Younger to the stand, please.

4 COMMISSIONER CLODFELTER: Good morning.

5 MR. STEELE: Good morning.

6 FRED A. STEELE and TAYLOR B. YOUNGER;

7 having been duly sworn,

8 testified as follows:

9 MR. JEFFRIES: Thank you.

10 DIRECT EXAMINATION BY MR. JEFFRIES:

11 Q Mr. Steele, we'll start with you, if that's all
12 right.

13 A Yes, sir. Thank you.

14 Q Could you please state your full name and
15 business address for the record, please?

16 A My name is Fred Steele. Business address is 110
17 PGW Drive, Elkin, North Carolina.

18 Q And where do you work, Mr. Steele?

19 A I work for Frontier Natural Gas Company. I'm the
20 President and General Manager.

21 Q Okay. Thank you. Are you the same Fred Steele
22 that prefiled testimony and exhibits as
23 identified by Chairman Clodfelter a few moments
24 ago?

1 A Yes, I am.

2 Q And that was filed on December 3rd, 2019; is that
3 correct?

4 A Yes, sir. That's correct.

5 Q And was that testimony and those exhibits
6 prepared by you or under your direction?

7 A Yes, they were.

8 Q Do you have any corrections to your prefiled
9 testimony?

10 A I do not.

11 Q All right. Mr. Steele, if I asked you the same
12 questions that are set forth in your prefiled
13 testimony while you are on the stand today, would
14 your responses be the same as indicated in your
15 prefiled testimony?

16 A Yes, they would.

17 Q Thank you.

18 MR. JEFFRIES: Mr. Chairman, Frontier would
19 move that Mr. Steele's prefiled testimony be entered
20 into the record as if given orally from the stand, and
21 would also move that Mr. Steele's exhibits be moved
22 into evidence as marked.

23 COMMISSIONER CLODFELTER: Without objection,
24 the motion will be allowed and, of course, the marking

1 of the exhibits will maintain the confidentiality of
2 those so designated.

3 MR. JEFFRIES: Thank you, Mr. Chairman.

4 (WHEREUPON, Steele Schedules 1-4,
5 8, 10 and 11, and Steele
6 Confidential Exhibits A and B are
7 marked for identification as
8 prefiled and received into
9 evidence. Confidential filed
10 under seal.)

11 (WHEREUPON, the prefiled direct
12 testimony of FRED A. STEELE is
13 copied into the record as if given
14 orally from the stand.)
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State of North Carolina
North Carolina Utilities Commission
Raleigh

Docket No. G-40, Sub 150

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))

DIRECT TESTIMONY

OF

FRED A. STEELE

December 2, 2019

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Mar 09 2020

1 Q. Please state your name, business address, by whom you are employed, and in
2 what capacity.

3 A. My name is Fred A. Steele. My business address is 110 PGW Drive, Elkin
4 North Carolina, North Carolina, 28621. I am employed by Frontier Natural
5 Gas Company ("Frontier"), as President/General Manager.

6 Q. Mr. Steele, how long have you been associated with Frontier?

7 A. I began working with Frontier in March 2014.

8 Q. Mr. Steele, what are your current responsibilities with Frontier?

9 A. I am responsible for the management and oversight of the natural gas supply
10 group which supports the gas supply and capacity management functions for
11 Frontier. Frontier's gas supply department's specific responsibilities include
12 procurement and optimization of pipeline transportation, storage, and supply
13 assets, system demand forecasting, administration of Frontier's hedging plans,
14 gas cost accounting, state and federal regulatory issues concerning supply and
15 capacity, asset and risk management, and transportation administration.

16 Q. Mr. Steele, please summarize your educational and professional background.

17 A. I am a graduate of Ohio University with a degree in accounting. I am a licensed
18 Certified Public Accountant in the States of North Carolina and Ohio. I began
19 working in the oil and gas industry in 1975. Initially I worked as an accountant
20 for an oil and gas exploration and development company. Building upon that
21 experience, I then became the Controller of another oil and gas exploration and
22 development company. Later, I formed and developed an accounting practice
23 primarily serving oil and gas clients. Upon selling the practice in 1986, I
24 became the Chief Financial Officer of an oil and gas exploration and

1 development company and natural gas distribution company. I served in this
2 capacity for ten years. I became the Chief Executive Officer of this company
3 after ten years and then served in that position for an additional thirteen years.
4 The company operated in five states. The company's primary focus was natural
5 gas distribution. Upon sale of the company I worked as a consultant with
6 clients in the energy industry for almost three years prior to accepting the
7 position with Frontier in March 2014. I became the General Manager of
8 Frontier on September 9, 2014. Over the years I have held various positions of
9 management and oversight related to gas procurement, interstate pipeline and
10 local distribution company scheduling, and preparation of gas accounting
11 information.

12 Q. Please describe Frontier and its system.

13 A. Frontier is headquartered in Elkin, North Carolina and is a utility subsidiary of
14 Hearthstone Utilities, Inc. The Frontier natural gas system is physically
15 comprised of approximately 139 miles of transmission line with two Transco
16 take off points located in Warren County and Rowan County. Frontier is
17 engaged in the business of transporting and selling natural gas in North
18 Carolina as a local distribution company, subject to regulation by the North
19 Carolina Utilities Commission. Frontier has transmission and distribution
20 lines that serve customers in Yadkin, Surry, Wilkes, Warren, Watauga, and
21 Ashe Counties. Distribution pipeline construction and the provision of service
22 to existing and additional customers is evaluated on an ongoing basis in all six
23 franchised counties based on the economic feasibility of serving the customer.

1 Q. Please briefly describe Frontier and the composition of its market.

2 A. Frontier is a local distribution company primarily engaged in the purchase,
3 transportation, distribution, and sale of natural gas to approximately 4,137
4 customers in and/or near Wilkesboro, North Wilkesboro, Elkin, Dobson, Mt.
5 Airy, Yadkinville, Hays, Roaring River, Manson, Warrenton, Norlina, Boone,
6 Jefferson, and West Jefferson.

7 Approximately 71 percent of Frontier's throughput during the review
8 period was comprised of deliveries to industrial or large commercial customers
9 that either purchased natural gas from Frontier or transported gas on Frontier's
10 system. The majority of these customers were and are currently served under
11 interruptible rate schedules. These large customers have the ability to use an
12 alternative fuel other than natural gas (e.g., #2 fuel oil, or propane) and can
13 make the switch to an alternative fuel when its price is less than natural gas.
14 The remainder of Frontier's sales are to residential and small commercial
15 customers served under firm rate schedules. Frontier's primary competition for
16 residential and small commercial customers is electricity, propane, and fuel oil
17 and varies according to geographic area.

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

19 A. The purpose of my testimony is to demonstrate that all of Frontier's gas costs
20 were prudently incurred during the review period ended September 30, 2019,
21 and therefore meet the requirement for recovery. North Carolina General
22 Statute § 62-133.4 allows Frontier to track and recover from its customers the
23 cost of natural gas supply and transportation and to adjust customer charges to

1 reflect changes in those costs. Under subsection (c) of the statute, the
2 Commission must conduct an annual review of Frontier's gas costs, comparing
3 Frontier's prudently incurred costs with costs recovered from customers during
4 a twelve month test period. To facilitate this review, Commission Rule R1-
5 17(k)(6) requires Frontier to submit to the Commission, on or before December
6 1 of each year, certain information for the twelve month test period ended
7 September 30. In addition to my testimony, Frontier is submitting schedules
8 contained in the accompanying exhibits for the purpose of providing the
9 Commission with the data necessary to true-up Frontier's gas costs during the
10 review period. This is Frontier's 21st proceeding under Commission Rule R1-
11 17(k)(6) since we began operations.

12 Q. Please describe Frontier's gas supply policy.

13 A. Frontier's system and gas supply procurement policy are designed to serve firm
14 customers reliably year-round and on a peak day at a reasonable cost to our
15 customers. The purpose of this policy is to provide direction for the
16 procurement of natural gas for resale and to establish financially sound,
17 responsible, and prudent guidelines for the procurement of natural gas from
18 available sources for the operation of the natural gas utility system. The gas
19 supply procurement policy of Frontier seeks supply adequacy, reliability,
20 diversity and minimization of the associated costs. This begins with accurate
21 estimation of the customer usage requirements and how to meet them in an
22 efficient manner. This is accomplished through a diligent effort to assess
23 available supply options to meet system and customer requirements in an

1 organized approach. It is Frontier's policy that the gas supply group is
2 established and maintained to pursue this mission. The gas supply group is
3 comprised of company staff which can draw on support from affiliated entities,
4 consultants, and gas marketers as necessary. The information the gas supply
5 group will use includes, but is not limited to, market indicators, seasonal
6 weather forecasts, periodicals and forecast in pricing to gather intelligence on
7 the direction of natural gas and pipeline capacity prices. Frontier's gas supply
8 policy continues to be best described as a best evaluated cost supply strategy.
9 This gas supply strategy is based upon several criteria: operational flexibility,
10 supply security, creditworthiness, reliability of supply, the cost of the gas, and
11 quality of supplier customer service. The foremost criterion for Frontier is the
12 security of gas supply, which refers to the assurance that the supply of gas will
13 be available when needed. This criterion is required for Frontier's firm sales
14 customers, who have no alternate fuel source, due to the daily changes in
15 Frontier's supply requirements caused by the unpredictable nature of weather,
16 and the production levels/operating schedules of Frontier's industrial
17 customers, combined with their abilities to switch to alternate fuels, and the
18 growth of customers during the test period. While Frontier's gas supply
19 agreements have ability to adjust purchase volumes within the contract
20 volume, the gas supply portfolio as a whole must also be capable of handling
21 the seasonal, monthly, daily and hourly changes in Frontier's market
22 requirements. Frontier is still in a growth mode and the variation in bundled
23 load and the need to cover marketer imbalances is important. Frontier

1 understands the necessity of having security of supply to provide reliable,
2 dependable natural gas service and has demonstrated its ability to do so.
3 Frontier's supply strategy and its contracts with its suppliers implementing this
4 strategy have allowed Frontier to accomplish this objective. The other primary
5 criterion is the cost of gas. Frontier is committed to acquiring the most cost
6 effective supplies of natural gas available for its customers while maintaining
7 the necessary operational flexibility, security and reliability to serve their
8 needs.

9 Q. What are the greatest challenges in the development and implementation of
10 Frontier's gas supply strategy?

11 A. A significant challenge is to accurately forecast Frontier's gas supply needs.
12 There are several factors that make this difficult. First, Frontier is a growing
13 LDC. The number of customers increased from 3,853 on October 1, 2018 to
14 4,137 as of September 30, 2019, an increase of approximately 7.3%. Second,
15 Frontier continues to add new customers with undocumented natural gas needs
16 and winter consumption patterns. It is extremely difficult to forecast winter
17 peak load requirements for new industrial/commercial customers that Frontier
18 did not serve the previous winter. Third, most of Frontier's throughput serves
19 large industrial customers, some of whom have alternative fuel supplies. These
20 large industrial/commercial customers can change procurement strategies and
21 secure their commodity needs from other sources. Fourth, Frontier has a
22 disparity in climate in the territory that is accentuated by the small size of our
23 company, therefore making it difficult to project the load. Frontier has

1 experienced substantial climate variations between the mountains in Boone
2 and the valleys around Yadkinville. We also have a significant residential load
3 in Warren County, with usage characteristics, based on temperature that can
4 vary from those in Surry or Yadkin County. Finally, and perhaps most
5 importantly, is unpredictable, extreme weather patterns. A number of our new
6 customers are poultry hatcheries and grow-out houses, which require fairly
7 constant temperatures for their chickens to survive and thrive. Most of their
8 facilities are not well insulated, and many of them do not have alternative fuels.
9 Many of these poultry operations are family-owned and highly leveraged (i.e.
10 the families rely upon the revenue from the sale of fully-grown chickens to
11 meat processors to pay off their loans procured to cover the expenses to raise
12 the chickens and have enough left over to live off of). Extremely cold ambient
13 temperatures greatly increase the natural gas demand for heating these
14 facilities. All of these factors create additional challenges in predicting needs.

15 Q. Please describe Frontier's interstate capacity.

16 A. Frontier has contracted for 8,613 DTH per day of firm capacity on the Transco
17 interstate pipeline. This capacity accesses supply in Transco Zones 3 and 4
18 with delivery to the Frontier system in Zone 5. The quantities purchased were
19 based on availability, cost, and projected need. Frontier's needs exceed its
20 purchased capacity during the winter and has acquired supplemental swing and
21 peaking contracts to offset the additional needs. This additional supply is
22 purchased pursuant to an Asset Management Agreement with UGI Energy
23 Services, as described in greater detail below.

1 Q. What efforts has Frontier undertaken in the past to purchase additional
2 interstate pipeline capacity?

3 A. In an effort to increase its firm capacity on Transco over the last four years
4 Frontier has submitted several bids for available capacity. The most recent
5 acquisition of capacity was a bid at the maximum rate possible for 2,663 DTHs
6 on August 18, 2016 for an eighty-seven year term. This capacity became
7 available on January 14, 2017, increasing the total capacity held by Frontier to
8 the current total of 8,613 DTHs
9 Frontier continues to seek capacity on Transco and review any potential means
10 of expanding and diversifying its access to supplies.

11 Q. Has there been any significant change to Frontier's gas supply strategy during
12 the test year?

13 A. Frontier is committed to achieving price stability, at a reasonable level, while
14 continuing to provide safe, and reliable natural gas service that is in balance
15 with the requirements of its firm sale customers. Frontier continues to annually
16 review and update policies related to gas planning, system operations and
17 procurement, including Design Day Demand Requirements, Gas Procurement,
18 including Capacity Planning and Resources, and Commodity Planning and
19 Resources, Curtailment Policy and Technical Training. Frontier has retained
20 Kan Huston as an independent, unbiased third party consultant to assist in our
21 planning. We also have appropriate internal controls between the
22 Controller/accounting functions and Frontier's gas purchasing agent and
23 designated a specific, qualified employee responsible for the implementation

1 of these policies. Taylor Younger, an engineer, has been designated as the
2 qualified employee. Frontier finished revising and updating our Gas Supply
3 Procurement Policy in June of the review period. More details will be provided
4 in the testimony of Taylor Younger.

5 Q. Based upon the development of new policies, and the review and evaluation of
6 Frontier's policies, what is Frontier's current practice?

7 A. Frontier currently contracts with UGI Energy Services, LLC ("UGI") to
8 centralize purchasing and reliability of gas deliveries under a full requirements
9 contract.

10 The core of Frontier's current strategy is to obtain reliability and price stability
11 by fixing components of the gas cost, including fixing commodity costs and/or
12 transportation costs of the commodity under the terms of the Asset
13 Management Agreement with UGI. Under the terms of the UGI Asset
14 Management Agreement the first 8,613 MMbtu/d of daily requirements is the
15 first through the Transco meter, priced at Zone 3 First of Month (FOM) index
16 if scheduled on a month ahead basis or Zone 3 Daily (GDD) index if scheduled
17 on a day ahead basis. Zone 3 pricing is generally less volatile than Zone 5
18 pricing.

19 The UGI Asset Management Agreement further provides for additional daily
20 or monthly gas requirements above the 8,613 up to 20,000 MMbtu/d (DTHs/d).
21 If scheduled on a month ahead basis it is priced at Zone 5 FOM. Frontier has
22 the additional contractual right under the agreement to purchase all other daily

1 gas supply requirements at Zone 5 GDD. This additional supply is available on
2 a no-notice basis, up to 20,000 DTHs/s.

3 Q. Does this portfolio contribute to Frontier's goal of price stability and supply
4 reliability?

5 A. Yes. In my opinion Frontier has a diversified gas purchase portfolio priced
6 at a mix of Transco Zone 3 FOM index, Transco Zone 3 GD index, Transco
7 Zone 5 FOM index and Transco Zone 5 GD index. I would note that the
8 published indexes are reflective of the market prices for natural gas. Further,
9 while Frontier is physically located in Transco's Zone 5, the acquisition of
10 Transco Firm Transportation has permitted Frontier to significantly diversify
11 its gas supply purchases, providing the opportunity to stabilize price and
12 increase reliability.

13 Q. Does Frontier periodically evaluate suppliers in the marketplace to ensure the
14 most reasonable and prudent terms, conditions and price for its ratepayers?

15 A. Yes. Frontier's current AMA expires in April, 2020. Frontier has issued
16 requests for proposals to six potential natural gas suppliers. Frontier is
17 evaluating the proposals from each of the suppliers using the criteria of our gas
18 supply policy: flexibility, security/creditworthiness, price,
19 performance/reliability, and quality of supplier customer service for the period
20 of April 1, 2020 to March 31, 2023.

21 Q. Under this approach, does Frontier have the flexibility to meet its market
22 requirements?

1 A. Yes. The gas supply contracts that Frontier has negotiated, including the
2 current one with UGI, have the flexibility and reliability to meet its market
3 requirements in a secure and cost effective manner. Frontier evaluates and
4 plans to meet all short- and long-term requirements on an ongoing basis.

5 Q. What actions have been taken by Frontier to accomplish its purchasing policy
6 during this review period?

7 A. Frontier has taken the following steps to keep its gas costs as low as reasonably
8 practical while accomplishing its stated policies of maintaining security of
9 supply and delivery flexibility:

10 (1) Frontier has continued to work with its industrial customers to facilitate
11 the transportation of customer-owned gas. Frontier's transportation
12 service allows these customers to manage their energy supply in a way
13 that ensures that natural gas remains as competitive as possible with
14 alternative fuels and also maintains throughput on Frontier's system.
15 This also enables Frontier to focus more on accurately predicting and
16 meeting demand/capacity for its bundled full service customers.

17 (2) Frontier routinely communicates directly with customers, numerous
18 supply sources, and other industry participants, and actively researches
19 and monitors the industry and gas markets by using a variety of sources,
20 including industry contacts, consultants, industry trade periodicals and
21 the internet.

1 (3) Frontier has internal discussions when necessary among various senior
2 level personnel concerning gas supply policy and major purchasing
3 decisions.

4 (4) Frontier evaluates various other capacity and supply options.

5 (5) Frontier's asset management agreements ("AMA") during the review
6 period with UGI Energy Services allowed Frontier to maximize the
7 capabilities of the Transco firm pipeline capacity purchased and
8 manage its supply portfolio in the most cost and operationally effective
9 manner. Frontier continues to adjust its monthly Maximum Daily
10 Quantity ("MDQ") and carefully evaluates forecasted loads prior to
11 each month and makes prudent adjustments to its MDQ.

12 (6) Frontier's AMA with UGI provides a high degree of operational and
13 supply flexibility.

14 Q. Does Frontier have plans to obtain any additional pipeline capacity in the
15 future?

16 A. Frontier will evaluate the need to obtain additional capacity on Transco as it
17 becomes available in relationship to its system growth.

18 Q. Did Frontier have sufficient daily capacity reserved during the months of
19 January and February 2019, during the test period?

20 A. Yes, Frontier did have sufficient capacity reserved through a combination of
21 its AMA with UGI, its Transco capacity, and a peaking contract, fully
22 explained in the testimony of Taylor Younger. Frontier was required to buy
23 additional natural gas and utilized its rights under the UGI AMA on the gas

1 daily market to meet customers demand in December, January and February
2 for those quantities of gas purchased over Frontier's firm Transco capacity of
3 8,613 dth on peak days for Zone 5. Even with the additional peak day
4 purchases Frontier sold gas back to UGI (78,973 dth, 73,307dth, and 74,971
5 dth for December 2018, and January and February 2019 respectively). The
6 MDQ for the months of December, January, and February were determined
7 prior to the start of each month using the best information available at that time.
8 We believed the monthly MDQs were appropriate, in light of the needs of our
9 customers based on the historical and forecasted information that Frontier
10 reviewed when determining what the MDQ for each of these months should be
11 while also keeping in mind the accepted peaking contract in order to ensure
12 security of supply and delivery flexibility. We were particularly cognizant of
13 the potential impact to our poultry grow-out customers.

14 Q. What is Frontier's uncollected deferred account balance at September 30,
15 2019?

16 A. Frontier strategically tries to minimize adjustments in pricing. However, we
17 had to institute an increase in our benchmark city gate delivered cost on. We
18 anticipate that the current balance owed to the Company of \$410,265 will be
19 moving back toward \$0.00 over the winter months.

20 Q. Did Frontier follow the gas cost accounting procedures prescribed by Rule R1-
21 17(k) for the year ended September 30, 2019?

22 A. Yes. All accounting was done in accordance with Sections (4) and (5) of Rule
23 R1-17(k) as applied to Frontier in previous Commission prudency review

1 orders. In following Section (5)(c) of the Rule, Frontier is responsible for
2 reporting gas costs and deferred account activity to the Commission and the
3 Public Staff on a monthly basis.

4 Q. What schedules have you caused to be prepared?

5 A. The following schedules were prepared under my supervision and are attached
6 to this testimony:

7 Schedule 1 - Summary of Cost of Gas Expense

8 Schedule 2 - Summary of Demand and Storage Charges

9 Schedule 3 - Summary of Commodity Gas Costs

10 Schedule 4 - Summary of Other cost of Gas Charges (Credits)

11 Schedule 8 – Summary of Deferred Account Activity

12 Schedule 10 - Summary of Gas Supply

13 Schedule 11 – Summary of Natural Gas Hedge Transactions

14 Q. What activity occurred in the deferred account during the twelve months ended
15 September 30, 2019?

16 A. The activity can be summarized as follows:

17	Beginning balance, October 1, 2018	\$ - 330,127
18	Commodity Cost vs Collections	\$ - 333,832
19	Accrued interest	\$ - 345
20	Transport Balancing	\$ - (22,378)
21	Adjustments	\$ - (231,661)
22	Ending balance, September 30, 2019	\$ - 410,265

1 Q. The attached schedules show the gas costs incurred by Frontier and billed to
2 customers during the period October 1, 2018 through September 30, 2019. In
3 your opinion, were all these gas costs prudently incurred?

4 A. Yes. All of these gas costs were incurred under Frontier's best evaluated cost
5 supply strategy and are the result of reasonable business judgments considering
6 the conditions and information available at the time the gas purchasing
7 decisions were made.

8 Q. In reviewing the monthly schedules that have been filed throughout the current
9 review period and the attached annual Prudency Review Schedules do you
10 believe that there are any additional adjustments that may be required in the
11 Deferred Account in order for Frontier to recover all of its natural gas costs
12 incurred as of September 30, 2019?

13 A. No.

14 Q. Please describe any changes in the Company's customer mix or customer
15 market profiles that it forecasts for the next ten (10) years and explain how the
16 changes will impact the Company's gas supply transportation and storage
17 requirements

18 A. Frontier continues to focus on expanding its system to new customers. The 6"
19 and 10" Steel Transmission (backbone) pipeline system for the Company's
20 franchised area was completed in 2002. Significant PE pipeline construction
21 has occurred since then throughout Frontier's franchised area and will continue
22 wherever economically feasible to extend natural gas service to additional
23 customers. Frontier's market mix will also continue to evolve and change as it

1 matures. Several of Frontier's larger customers have transportation-only
2 service. While service switching has stabilized (because of the relatively low
3 cost of natural gas), fuel switching is still a potential risk if natural gas prices
4 increase relative to alternative fuels. During the test period, natural gas
5 enjoyed a more competitive pricing than alternative fuels.

6 Over the next five years, the annual forecasted growth is approximately
7 10.0% annually. Frontier is expecting this rate of growth to remain at this level
8 over the next five years, with an increased focus on residential and small
9 commercial customers. Sales loads are gradually increasing as more people
10 have access to natural gas due to system expansion. Infill customers are slowly
11 converting as current appliances need to be replaced and they become more
12 aware of the benefits and lower prices of natural gas.

13 Frontier intends to meet its gas supply needs through its current
14 capacity on Transco, and by acquiring additional capacity as it becomes
15 available at reasonable terms, and by buying from wholesale suppliers utilizing
16 an AMA with a third-party wholesale supplier, as needed. Frontier has
17 determined that its current level of purchased capacity is not sufficient for its
18 future, long-term needs -- based on historical winter needs and projected load
19 growth in the future. As Frontier continues to grow, it will look for incremental
20 pipeline capacity on Transco. In addition, Frontier will continue to evaluate
21 storage, LNG, and other opportunities as they arise. Frontier continues to bid
22 on additional pipeline capacity as opportunities present themselves on the
23 Transco system. Frontier evaluates cooperative participation with other

1 companies or municipalities when bidding on the additional capacity, and it
2 plans to meet with other natural gas producers who have purchased capacity
3 on the Transco system – all in an effort to increase its available capacity to
4 accommodate its anticipated growth and improve reliability.

5 Q. Please provide the base load demand requirements estimated for the review
6 period and forecasted for each of the next four years. Please provide the one-
7 day design peak demand requirements used by the Company for planning
8 purposes for the review period and forecasted for each of the next four winter
9 seasons. The peak demand requirement amounts should set forth the estimated
10 demand for each rate schedule or priority with peak day demand. All
11 assumptions, such as heating degree days, dekatherms per heating degree day,
12 customer growth rates and supporting calculations used to determine the peak
13 day requirement amounts should be provided.

14 A. Exhibit “B,” report on Design Day Study prepared by Dr. Ronald H. Brown,
15 Ph.D. utilizing the Marquette University GasDay, filed confidentially
16 concurrently herewith, shows the projected capacity growth requirements for
17 the 2018-2019 winter. Confidential Exhibit “A” prepared by Frontier shows
18 the projected capacity growth requirements for the next five years.

19 Q. Please explain how the Company determines which type of resource should be
20 acquired or developed for meeting the Company’s deliverability needs, and
21 describe the factors evaluated in deciding whether the Company should acquire
22 a storage service, or develop additional on-system storage deliverability.

1 A. Frontier has historically relied on its gas supplier to provide the commodity
2 and the capacity requirements to deliver its needs. This was an appropriate
3 approach when Frontier was smaller, and its mix of customers and load was
4 less predictable. Frontier currently has long-term firm pipeline capacity, but
5 not enough to cover the full winter designed peak day needs. Frontier
6 continues to acquire its own capacity on the Transco System in an effort to
7 reduce reliance upon a third-party gas supplier for its capacity needs. Frontier
8 has addressed the shortage of capacity by buying additional capacity from its
9 wholesale supply contractors, UGI, and on the market.

10 Frontier acquired a long-term commitment for pipeline capacity to handle the
11 projected gas supply needs for the review period. Frontier's need for additional
12 capacity continues to grow. Over the next five years Frontier is projecting that
13 this need for capacity will continue to increase.

14 When Frontier initially purchased capacity, Transco had available incremental
15 capacity. This availability, however, did not always align with Frontier's needs
16 to buy the desired increments that strategically correspond with Company
17 growth and meet forecasted daily peak day requirements. To more efficiently
18 manage this process, Frontier entered into an AMA to minimize potential
19 stranded gas costs, lower the demand fees, and enable it to meet the supply
20 needs of its growing customer base.

21 Q. Please describe any significant storage, transmission, and distribution upgrades
22 required for the Company to fulfill its peak day requirements during the next
23 five years.

1 A. As discussed above in greater detail, the issue is available capacity on Transco,
2 not infrastructure. At this time, Frontier's system has sufficient infrastructure
3 to handle forecasted gas supply needs for the next five years. Frontier will
4 continue to assess its needs on an ongoing basis.

5 Q. What action does Frontier request the Commission to take regarding these
6 deferred accounts?

7 A. Frontier requests that the Commission approve the September 30, 2019
8 balances and find that the costs incurred by Frontier's gas purchases were
9 prudent during the relevant twelve-month period.

10 Q. Does Frontier have other components of this filing that it would like to bring
11 to the Commission's attention?

12 A. Yes. Frontier would like to make the Commission aware of an anticipated
13 change to its tariffs as it relates to Lost and Unaccounted for Gas ("LAUF")
14 that it intends to file in order to comply with NCUC R1-17(k). Frontier and the
15 Staff have been discussing the proposed change to the tariff. The change will
16 conform Frontier's recovery of LAUF and Company Use to those of other gas
17 companies in the State by allocating a portion of the LAUF and Company Use
18 to transportation customers. This change in allocation would decrease the cost
19 responsibility currently borne by firm sales customers.

20 Q. Does that conclude your testimony?

21 A. Yes, at this time.

1 BY MR. JEFFRIES:

2 Q Mr. Steele, I've got one supplemental question
3 for you. The Public Staff -- now, the Public
4 Staff recommended an adjustment to the deferred
5 account that you testified to in your prefiled
6 testimony; is that correct?

7 A That is correct.

8 Q And I just want to make clear on the record, does
9 the Company agree with that adjustment?

10 A The Company does agree with that. That is
11 correct; yes.

12 Q Thank you. Have you prepared a summary of your
13 testimony?

14 A I have.

15 Q Could you provide that for the Commission,
16 please?

17 COMMISSIONER CLODFELTER: Mr. Jeffries,
18 unless one of my colleagues wants the summary read, we
19 will receive the summary for informational purposes,
20 but it's not necessary to read it out loud.

21 MR. JEFFRIES: We are happy to skip that,
22 Your Honor.

23 COMMISSIONER CLODFELTER: Well, if you are
24 and, unless there's some objection from someone else,

1 we can dispense with the reading of the summary.

2 MR. JEFFRIES: I was aware of your
3 predilection for that but I did not want to presume.

4 COMMISSIONER CLODFELTER: You may have heard
5 that somewhere I take it.

6 MR. JEFFRIES: Thank you.

7 BY MR. JEFFRIES:

8 Q Then, Ms. Younger, could you state your name and
9 business address for the record, please?

10 A My name is Taylor Badgett Younger. I'm employed
11 by Frontier Natural Gas Company at 110 PGW Drive,
12 Elkin, North Carolina.

13 Q Could you do me a favor? Could you pull that mic
14 just a little bit closer to you?

15 A I didn't know that it would move. It does.

16 Q Okay. Thank you.

17 COMMISSIONER CLODFELTER: And Mr. Jeffries
18 is substituting for Commissioner Gray this morning.

19 MR. JEFFRIES: We suffer from the same
20 malady that's why.

21 BY MR. JEFFRIES:

22 Q You're the same Taylor Younger that prefiled
23 testimony in this docket on December 3rd, 2019;
24 is that correct?

1 A That's correct.

2 Q And that -- there were also six, seven exhibits
3 filed with that testimony; is that correct?

4 A I believe there were seven.

5 Q A through G?

6 A Yes.

7 Q And several of those were confidential as
8 Commissioner Clodfelter indicated?

9 A That's correct.

10 Q Okay. And was that testimony and were those
11 exhibits prepared by you or under your direction?

12 A They were.

13 Q Do you have any corrections to your prefiled
14 testimony?

15 A I do not.

16 Q Ms. Younger, if I asked you the same questions
17 that are set forth in your prefiled testimony,
18 would your answers be the same today?

19 A They would.

20 MR. JEFFRIES: Mr. Chairman, we'd move
21 Ms. Younger's prefiled testimony into the record as if
22 given orally from the stand, and would move that her
23 exhibits be moved into -- or accepted into evidence as
24 marked, including the confidential designations?

1 COMMISSIONER CLODFELTER: Without objection,
2 so ordered.

3 (WHEREUPON, Younger Exhibits A-D
4 and G, and Younger Confidential
5 Exhibits E and F are marked for
6 identification as prefiled and
7 received into evidence.

8 Confidential filed under seal.)

9 (WHEREUPON, the prefiled direct
10 testimony of TAYLOR B. YOUNGER is
11 copied into the record as if given
12 orally from the stand.)
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State of North Carolina
North Carolina Utilities Commission
Raleigh

Docket No. G-40, Sub 150

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))

DIRECT TESTIMONY

OF

Taylor Younger

December 2, 2019

Q. Please state your name, business address, by whom you are employed, and in what capacity.

A. My name is Taylor B. Younger. My business address is 110 PGW Drive, Elkin North Carolina, North Carolina, 28621. I am employed by Frontier Natural Gas Company ("Frontier"), as Regulatory Compliance Engineer.

Q. Mrs. Younger, how long have you been associated with Frontier?

A. I began working with Frontier in August 2017.

Q. Mrs. Younger, what are your current responsibilities with Frontier related to gas supply planning?

A. I am responsible for the management and oversight of natural gas supply planning and purchases for Frontier. Specifically, my responsibilities include oversight of procurement and optimization of pipeline transportation, and supply assets, system demand forecasting, administration of Frontier's hedging plans, state and federal regulatory issues concerning supply and capacity, asset and risk management, and transportation administration.

Q. Mrs. Younger, please summarize your educational and professional background.

A. I am a graduate of North Carolina State University with a B.S. degree in Industrial and Systems Engineering and a minor in Business Administration. I have also been accepted into NC State's Jenkins MBA program, where I will begin classes with a focus on financial management in January 2020. Since beginning my career at Frontier, I have had the opportunity to attend various training sessions to enhance my professional development. I have obtained certifications focused around leadership, system design and modeling, and pipeline integrity.

- Q. In Docket No. G-40, Sub 149 the North Carolina Utilities Commission Ordered “That Frontier and the Public Staff shall work together collaboratively to address future gas purchasing practices by Frontier, including hedging and other price mitigation practices, in order to reduce or eliminate concerns over customer exposure to potential gas cost volatility while maintaining reasonable up-front charges to customers for the right to call on gas under high demand scenarios. Please summarize the steps taken by Frontier to address this point in the order.
- A. The most significant updates to Frontier’s Gas Supply Procurement Policy are under guidelines for hedging. FNGC may procure hedges in winter strips being any period within the months of November through March. On June 4, 2019, Frontier Natural Gas Company met with NC Public Staff and NCUC Pipeline Safety Section to discuss with them Frontier’s updated Gas Supply Procurement Policy. The main purpose of this meeting was to share how we plan to utilize our revised Procurement Policy to prepare for winter 2019-2020. The PowerPoint shared on June 4 is included in Exhibit A. The revised Gas Supply Procurement Policy is included in Exhibit B.
- Briefly summarizing our policy, under a contract with Marquette Energy Analytics, Frontier will be provided with an annual report updating a monthly forecast for the upcoming year. This forecast includes an expected daily average flow and an expected daily maximum flow for each month of the upcoming year. This report provided by Marquette is derived from actual historical usage, historical weather patterns, and projected customer growth. We receive this report each March to help us make hedging decisions throughout the months of April to September for the upcoming winter.

FNGC anticipates it will hedge 50% of expected average daily flow for each winter month. Frontier will subtract out current capacity of 8,613dth from the expected max daily flow for each month to conclude how much of the forecasted Zone 5 purchase gas should be hedged for that month. A reasonable percentage of this amount shall be hedged, while the rest of Zone 5 purchases shall be executed with FOM pricing, to minimize the likelihood of the need to purchase volatile Zone 5 daily priced gas. Exhibit C provides an analysis showing the hedge amounts that were determined for each upcoming winter month. This sheet also shows Marquette's expected average and max daily flows for the year.

As stated above, Frontier revised and updated its Gas Supply Procurement Policy during the review period and met with Public Staff as required in the Order. Frontier did not utilize the policy for this review period, but has initiated hedges for the 2019 – 2020 winter. Exhibit C is attached to quantify how we will utilize this updated policy going forward.

- Q. In Docket No. G-40, Sub 149 the North Carolina Utilities Commission concluded that Frontier should examine options for bolstering its gas supply planning. Please summarize the steps taken by Frontier to address this point in the order.
- A. Frontier has made a conscious effort to engage the Hearthstone Utilities Risk and Supply Committee in all aspects of our gas supply planning by providing committee members with not only our weekly usage updates, but also more insight into our hedging plan and purchases. Exhibit D details the Risk and Supply Committee Meeting minutes. This creates a more collaborative approach to gas supply planning by giving committee members a chance to offer their opinions. Additionally, Frontier has sought to seek outside expertise for all gas supply endeavors by utilizing Hearthstone's gas supply consultants, Al Harms and Len Gilmore. Frontier now includes Mr. Harms and Mr. Gilmore in all internal gas

supply planning meetings. These consultants gave insight in revising our Gas Supply Procurement Plan. They are also helping guide us through the process of rationalizing and choosing our Gas Supply Asset Manager for the period of April 1, 2020 - March 31, 2023.

Q. It is known that Frontier does not have firm transportation capacity sufficient to cover winter peak days. How did Frontier handle this during the review period?

A. Frontier reached out to our Gas Supply Asset Manager, UGI, to talk through the best strategy to make sure we were not subject to the volatile Z5 daily market. It was concluded that we would enter into a peaking supply contract to protect ourselves. The peaking contract is shown in Exhibit E. Frontier had several meetings and conversations with UGI to tailor the peaking contract to meet our exact needs. It was determined that the contract offered 3232 dth a day for any 20 days throughout January or February and the contract would work as no notice supply, meaning anything over and above our nominated FOM quantity would automatically be classified as peaking supply, and as soon as the seasonal quantity for peaking service had expired, any additional supply would be priced at GDA Transco Zone 5 South. Exhibit F shows meeting minutes summarizing this information. Frontier locked in a strike price of \$3.072 for all peaking contract gas used. Analysis attached in Exhibit G was completed to prove the peaking contract offering coverage of 3232 dth a day for 20 days throughout January and February was sufficient for coverage. It is shown that using January 2018 bundled usage with an additional allowance for growth and marketer shortages, our peaking contract of 3232 dth a day would cover us on days where we were expected to use above our January FOM nomination of 10,000 dth a day. This analysis also shows that we anticipated only using the peaking service on 11 days in January, for a total of 20,184 dth of the available 64,640. From this information and the

fact that historical and anticipated weather forecast for February indicated it would be a warmer month than January, we were able to conclude the peaking service would be sufficient for both January and February 2019.

Q. Does that conclude your testimony?

A. Yes, at this time.

1 MR. JEFFRIES: And we will dispense with
2 your summary which I believe --

3 COMMISSIONER CLODFELTER: We will receive
4 the summary for informational purposes. It will not
5 be formal evidence in the proceeding but can be used
6 to aid the recollection of the panel. So we thank you
7 for that.

8 MR. JEFFRIES: Thank you, Mr. Chairman.

9 In that case, I believe Mr. Steele and
10 Ms. Younger are available for cross examination and
11 questions from the Commission.

12 COMMISSIONER CLODFELTER: Any questions?

13 MS. CULPEPPER: None from us.

14 COMMISSIONER CLODFELTER: Okay. I want
15 to -- we may have just a couple here from the panel.
16 Let me first see if my colleagues have any questions
17 they want to pursue.

18 Mr. Jeffries, Mr. Steele, and Ms. Younger,
19 thank you very much for the written filing you made
20 yesterday. That has substantially shortened the
21 hearing this morning. And we apologize for bringing
22 you in but we weren't aware you were going to be
23 filing the written answers.

24 Let me try to just address a couple of

1 things. And again, thank you for the filing. You
2 responded to most of the things that we were going to
3 inquire about this morning, but let me ask you about
4 just a couple of things from the filing.

5 EXAMINATION BY COMMISSIONER CLODFELTER:

6 Q A Mr. Ted Gambill, what is his position and role
7 in the gas supply group.

8 A (Mr. Steele) Go ahead.

9 Q Either one of you.

10 A (Ms. Younger) He has over 10 years of experience
11 working with multiple asset managers, and he has
12 the knowledge to assist me if needed and in my
13 absence.

14 Q So he's on call essentially for you?

15 A He is.

16 A (Mr. Steele) He is actually a full-time
17 employee.

18 Q He is a full-time employee?

19 A He is a full-time employee. He has an
20 engineering background as well.

21 Q But he's not -- do his job duties encompass more
22 than the gas supply planning?

23 A Yes, they do.

24 Q Okay. What portion of his time is spent

1 assisting Ms. Younger?

2 A (Ms. Younger) I would say probably 20 percent of
3 his time.

4 Q Thank you for that. In the answer, very thorough
5 answer, about how you conduct your daily work you
6 refer to Hearthstone's preferred gas consultants.

7 A Uh-huh (yes).

8 Q Who is that? Is that Marquette that you refer to
9 later in the filing? Is that --

10 A It is not.

11 Q Who are the preferred gas consultants that you
12 call upon?

13 A (Mr. Steele) Hearthstone Utilities is --
14 actually our senior management consists of former
15 Nycor employees and two of those employees have
16 probably 40 plus years of experience in natural
17 gas procurement. Mr. Al Harms and Mr. Lynn
18 Gilmore, they work with us on a regular basis and
19 have over the last 24 months.

20 Q Do they participate in the weekly calls?

21 A They participate in some of those weekly calls,
22 but we have weekly calls with them.

23 Q You do?

24 A Frontier does, yes.

1 Q Frontier does?

2 A Yes.

3 Q And so they're available to you on call --

4 A Yes, they are.

5 Q -- as you need them?

6 A Yes.

7 Q Great. Okay, thank you. There is a reference in
8 response number four on topic number four that
9 you are -- Frontier is seeking the expertise of a
10 new Hearthstone employee who worked for the Ohio
11 Public Utilities Commission, and I was really
12 interested in the seeking. Where are you in that
13 process and how is that developing?

14 A Our sister company in Ohio has hired Mr. Roger
15 Sarver, who is with us here today in the room.
16 He was a former staff employee of the Ohio Public
17 Utility Commission. I believe he has 31 years of
18 experience with the staff in Ohio. He is --
19 Hearthstone is no longer seeking. They have
20 employed him at our sister company.

21 Q So that's no longer in process? That's done?

22 A That's a done deal.

23 Q And he's on board this morning as --

24 A He came -- yes.

1 Q He's the gentlemen in the audience to my right?

2 A Yes.

3 Q Great. Thank you. Welcome. We're glad to have
4 you.

5 Again, just a few minor things,
6 because again I appreciate very much the written
7 responses. They've saved us a lot of time this
8 morning. On the design-day studies you indicate
9 in the written filing that you will be preparing
10 annual design-day studies utilizing your
11 engineering department of the use of Dr. Brown
12 and Marquette. The annual study, is that --
13 how -- what's the look-ahead period of each
14 annual update? Let's look -- how far ahead are
15 you looking with each annual update of your
16 design-day study?

17 A (Ms. Younger) It could go out five years.

18 Q That's the anticipation is that it could go out
19 five years.

20 A (Mr. Steele) Yes.

21 Q And you'll update that on an annual basis?

22 A Right.

23 Q Okay. Great. Thank you. On the LNG
24 possibility -- again, thank you for the good

1 answer on that. And I understand where you are
2 in the process of -- this morning, we don't have
3 a lot yet to talk about in concrete detail, but
4 one of the things I did want to ask you to
5 elaborate on, probably Mr. Steele a little bit,
6 is that you say that liquefaction possibilities
7 at the site that you're exploring do not seem
8 economically feasible at this time. Can you say
9 more about what you are comparing that to?

10 What's your alternative that you're comparing
11 liquefaction at the site to?

12 A Well, currently what we're looking at is we've
13 actually looked at several interconnects because
14 currently Frontier only has the two city gates
15 for off of Transco. So we are exploring multiple
16 interconnects along with the LNG possibility.
17 That particular statement or answer is directly
18 from UGI, who we've been working with, that they
19 do not believe that it would -- that they could
20 justify the cost of building. Currently, in the
21 proposals or high level discussions we've had,
22 everything revolves around just a facility to
23 supplement Frontier's system at this point and
24 time. Now, that's not to say that we won't get

1 to that point, but currently everything they've
2 given us there is no liquefaction involved.

3 Q But that's not, I understand it, a closed topic.
4 It's just that --

5 A It's not a closed --

6 Q -- they don't --

7 A -- at this point.

8 Q -- they don't think it --

9 A Not --

10 Q -- right now but --

11 A Not to this state and not to this point.

12 Q Okay. They're still --

13 A They're still on the table.

14 Q Still on the table. Got it.

15 (WHEREUPON, the Court Reporter
16 requested the witness to not
17 interrupt.)

18 COMMISSIONER CLODFELTER: I think that we
19 got that. I think you've covered everything else that
20 we were going to ask you about this morning. And
21 again, greatly appreciate your doing the written
22 submission on that.

23 Ms. Burns, you're good to go?

24 MS. BURNS: (Nods head in agreement).

1 COMMISSIONER CLODFELTER: All right. I
2 think we've covered it. So are there any questions on
3 the Commission's questions?

4 MR. JEFFRIES: No questions.

5 COMMISSIONER CLODFELTER: If not, we thank
6 you for being with us.

7 And welcome, Ms. Younger, we're glad to have
8 you on the team.

9 THE WITNESS: (Ms. Younger) Thank you.

10 THE WITNESS: (Mr. Steele) Thank you very
11 much.

12 (The witnesses are excused)

13 COMMISSIONER CLODFELTER: Mr. Jeffries,
14 anything further?

15 MR. JEFFRIES: No. That concludes
16 Frontier's presentation of evidence, Your Honor.

17 COMMISSIONER CLODFELTER: Okay.

18 MS. CULPEPPER: The Public Staff calls Neha
19 Patel, Shawn Dorgan and Julie Perry to the stand.

20 NEHA PATEL, SHAWN L. DORGAN and JULIE G. PERRY;

21 having been duly sworn,

22 testified as follows:

23 COMMISSIONER CLODFELTER: Ms. Culpepper.

24 DIRECT EXAMINATION BY MS. CULPEPPER:

1 Q Mr. Dorgan, please state your name, business
2 address and present position.

3 A Yes. Shawn Dorgan. My business address is 430
4 North Salisbury Street, Raleigh, North Carolina.
5 I'm a Staff Accountant attached to the Natural
6 Gas Section, Public Staff Accounting Division.

7 Q Ms. Perry, please state your name, business
8 address and present position.

9 A My name is Julie G. Perry. My business address
10 is 430 North Salisbury Street, Raleigh, North
11 Carolina. My position is Accounting Manager of
12 the Natural Gas and Transportation Section in the
13 Accounting Division of the Public Staff.

14 Q Ms. Patel, please state your name, business
15 address and present position.

16 A My name is Neha Patel with the Public Staff,
17 Natural Gas Division. And my business address is
18 430 North Salisbury Street, Raleigh, North
19 Carolina 27603.

20 Q Did you state your position already?

21 A Yes, Public Staff.

22 (Laughter)

23 Q Okay. Ms. Patel, speaking on behalf of the
24 entire panel, did the panel prepare and cause to

1 be filed in this docket joint testimony
2 consisting of 21 pages and three appendices on
3 April 14, 2020?

4 A (Ms. Patel) Yes.

5 Q Do you have any corrections to that testimony?

6 A Yes, I do.

7 Q Would you describe them for us?

8 A Sure. Page 16, line 17, should read through the
9 2020 -- 2021-2022 winter period instead of until
10 the 2021-2022 winter period.

11 Q So you're revising the word "until", changing
12 that to "through".

13 A Yes, ma'am.

14 Q If each of you were asked these same questions
15 today, would your answers as corrected be the
16 same?

17 A Yes.

18 A (Ms. Perry) Yes.

19 A (Mr. Dorgan) Yes.

20 MS. CULPEPPER: I move that the prefilled
21 joint testimony consisting of 21 pages and three
22 appendices, as corrected, be copied into the record as
23 if given orally from the stand.

24 COMMISSIONER CLODFELTER: Without objection,

1 the motion is allowed.

2 MR. JEFFRIES: No objection.

3 COMMISSIONER CLODFELTER: Great.

4 (WHEREUPON, the prefiled joint
5 testimony, as corrected, and
6 Appendices A, B and C of NEHA
7 PATEL, SHAWN L. DORGAN and JULIE
8 G. PERRY is copied into the record
9 as if given orally from the
10 stand.)
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FRONTIER NATURAL GAS COMPANY
DOCKET NO. G-40, SUB 153
JOINT TESTIMONY OF
NEHA R. PATEL, SHAWN L. DORGAN, AND JULIE G. PERRY
ON BEHALF OF
THE PUBLIC STAFF – NORTH CAROLINA UTILITIES COMMISSION
February 14, 2020

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

3 A. My name is Neha R. Patel and my business address is 430 North
4 Salisbury Street, Raleigh, North Carolina. I am an engineer with the
5 Natural Gas Division of the Public Staff. My qualifications and
6 experience are provided in Appendix A.

7 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND**
8 **PRESENT POSITION.**

9 A. My name is Shawn L. Dorgan and my business address is 430 North
10 Salisbury Street, Raleigh, North Carolina. I am a Staff Accountant in
11 the Accounting Division of the Public Staff. My qualifications and
12 experience are provided in Appendix B.

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

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

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

8 The purpose of our testimony is to (1) present the results of our
9 review of the gas cost information filed by Frontier Natural Gas
10 Company (Frontier or Company) in accordance with N.C. Gen. Stat.
11 § 62-133.4(c) and Commission Rule R1-17(k)(6), (2) to evaluate the
12 prudence of the natural gas purchases made by Frontier, (3) to
13 provide our conclusions regarding whether the gas costs incurred by
14 Frontier during the 12-month review period ended September 30,
15 2019, were properly accounted for, and (4) to discuss the prudence
16 of Frontier's hedging decisions during the review period.

17 **Q. PLEASE EXPLAIN HOW THE PUBLIC STAFF CONDUCTED ITS**
18 **REVIEW.**

19 A. We reviewed the testimony and exhibits of the Company's
20 witnesses, the Company's monthly Deferred Gas Cost Account
21 reports, monthly financial and operating reports, the gas supply and
22 pipeline transportation contracts, and the Company's responses to
23 Public Staff data requests. The responses to the Public Staff data

1 requests contained information related to Frontier's gas purchasing
2 philosophies, customer requirements, and gas portfolio mixes.

3 **Q. WHAT IS THE RESULT OF YOUR EVALUATION OF FRONTIER'S**
4 **GAS COSTS?**

5 A. Based on the Public Staff's investigation and its review of the data in
6 this docket, we believe that Frontier's gas costs were prudently
7 incurred.

8 **CUSTOMER GROWTH**

9 **Q. HOW HAVE FRONTIER'S CUSTOMERS AND THROUGHPUT**
10 **CHANGED SINCE THE COMPANY'S LAST ANNUAL REVIEW OF**
11 **GAS COSTS PROCEEDING?**

12 A. The table below reflects Frontier's customer growth rate of 7.3%
13 during the current review period, which is approximately four times
14 the growth rate of legacy local distribution companies (LDCs) in
15 North Carolina. There was a slight decrease in Frontier's sales and
16 transportation volumes (expressed in dekatherms or dts) from what
17 was experienced in the prior review period. Since Frontier's winter
18 throughput is largely dependent on weather due to space heating
19 load, the volume change is correspondingly affected by a change in
20 Heating Degree Days (HDDs) as compared to prior periods.

	<u>2018 Review</u>	<u>2019 Review</u>	<u>Change</u>
Number Of Customers (at September 30)	3,853	4,137	7.4%
Sales Volume (dts)	1,311,863	1,279,751	-2.4%
Transportation Volume (dts)	2,956,643	2,909,813	-1.6%
Total Sales & Transportation Volumes (dts)	4,268,506	4,189,564	-1.8%

Table 1: Frontier Natural Gas Company – Customer Growth

1 **Q. DID FRONTIER ACQUIRE ADDITIONAL PIPELINE CAPACITY**
2 **DURING THE REVIEW PERIOD?**

3 A. Although Frontier has acquired additional capacity in the past few
4 years, the Company did not acquire any additional capacity during
5 this review period. Frontier currently has a total of 8,613 dts per day
6 of pipeline capacity on the Transcontinental Gas Pipeline Company,
7 LLC (Transco) interstate pipeline.

8 Frontier states that it will continue to seek incremental pipeline
9 capacity and evaluate storage, liquefied natural gas (LNG), and other
10 opportunities as they arise in order to serve its customers. Frontier
11 also states that it plans to meet with other natural gas producers who
12 have purchased capacity on the Transco system in an effort to
13 increase its available capacity to accommodate its anticipated
14 growth and improve reliability. Frontier indicated in a data request
15 response that it was focusing more effort on LNG options as they
16 may prove to be more prudent compared to the cost of acquiring
17 additional pipeline and capacity.

1 Q. HAS THE COMPANY PROPERLY ACCOUNTED FOR ITS GAS
2 COSTS DURING THE REVIEW PERIOD?

3 A. Yes. However, as discussed in greater detail later in our testimony,
4 we have reclassified certain costs represented by the Company as
5 Demand and Storage Costs on Schedule 2 to the testimony of
6 Company witness Steele, and made a limited number of adjustments
7 stemming from timing differences, including an adjustment to the
8 transportation customer balancing true-up entry.

9 Q. WHAT OTHER ITEMS DID THE NATURAL GAS DIVISION
10 REVIEW?

11 A. Even though the scope of Commission Rule R1-17(k) is limited to a
12 historical review period, the Public Staff's Natural Gas Division also
13 considers other information received pursuant to the Public Staff's
14 data requests in order to anticipate the Company's requirements for
15 future needs, including design day estimates, forecasted gas supply
16 needs, projection of capacity additions and supply changes, and
17 customer load profile changes.

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

19 Q. HOW DOES THE ACCOUNTING DIVISION GO ABOUT
20 CONDUCTING ITS REVIEW OF THE COMPANY'S ACCOUNTING
21 FOR GAS COSTS?

1 A. The Public Staff's Accounting Division reviews the Company's
2 monthly Deferred Account reports (together with all supporting
3 documentation), its monthly financial and other operating reports,
4 and all executed gas supply and transportation contracts. In
5 addition, we review the schedules attached to the Company's
6 testimony, as well as the Company's responses to all Public Staff
7 data requests submitted in this proceeding.

8 Each month we review the Deferred Account reports filed by the
9 Company for accuracy and completeness, and perform certain
10 review procedures on the calculations, including the following:

11 (1) **Gas Cost True-Up** – The actual commodity and demand
12 costs are verified, calculations and data supporting gas cost
13 collections are checked, invoices are reviewed, and the
14 Company's overall gas cost calculations at benchmark are
15 checked for mathematical accuracy.

16 (2) **Transportation Customer Balancing True-Up** – The
17 monthly Cash-Out Report for each marketer is reviewed and
18 all calculations for cash-out amounts are verified.

19 (3) **Interest Accrual** – Interest accrual calculations on the
20 outstanding Deferred Gas Cost Account balances are verified.

4 (5) **Temporary Increments and/or Decrements** – All
5 calculations and supporting data regarding amounts due to or
6 from customers as recorded in the Deferred Gas Cost
7 Account are verified, and supporting data and schedules are
8 reviewed.

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?

7

Line		12 Months Ended		Increase	%
		Sept. 30, 2019	Sept. 30, 2018	(Decrease)	Change
Demand Charges					
1	Transco FT	\$1,465,925 [1]	\$1,202,629 [1]	\$263,296	21.89%
2	Other	455,000 [2]	-0-	455,000	N/A
3	Total Demand Charges	\$1,920,925	\$1,202,629	\$718,296	59.73%
Gas Supply Costs					
4	Baseload Purchases	\$4,291,818	\$3,628,681	\$663,137	18.27%
5	Delivered Purchases	440,206	1,288,203	(847,997)	-65.83%
6	Hedge and/or Peaking Service Purchases	166,613 [3]	-0-	166,613	N/A
7	Other	4,325	(106,873)	111,198	-104.05%
8	Total Gas Supply Costs	\$4,902,962	\$4,810,011	\$92,951	1.93%
Other Gas Costs					
9	True-up Entries per Monthly Deferred Account Filings	(\$189,271)	(\$248,262)	\$58,991	-23.76%
10	Other Deferred Account Related Gas Costs	117,508 [4]	96,931	20,577	21.23%
11	Other Gas Costs & Adjustments	24,657 [5]	(46,931)	71,588	-152.54%
12	Total Other Gas Costs	(\$47,106)	(\$198,262)	\$151,156	-76.24%
13	Total Gas Costs	\$6,776,781 [6]	\$5,814,378	\$962,403	16.55%
14	Gas Supply for Delivery (dts)	1,395,416	1,366,150	29,266	2.14%
15	Total Gas Costs per Dt	\$4.8565	\$4.2560	\$0.60	14.11%

Notes:

[1] - Excludes reclassified commodity gas costs per Public Staff analysis of the Company's monthly deferred account reports.

[2] - Fixed Charges per Frontier's peaking service contract with UGI.

[3] - Volumetric Charges per Frontier's peaking service contract with UGI.

[4] - Deferred Account Adjustment per Settlement Agreement in G-40, Sub 149.

[5] - Marketer cash-outs, less reclassifications and other miscellaneous adjustments.

[6] - Ties to the Company's 2019 Q3 GS-1 Report, and Cost of Gas Sold amounts recorded in Frontier's monthly earnings reports.

Table 2: Frontier Natural Gas Company – Comparison of Total Gas Costs

1 As will be discussed in further detail later in our testimony, **Demand**
2 **Charges** increased during the current review period predominately
3 due to the Company's utilization of a peaking supply contract entered
4 into with UGI Energy Services, LLC (UGI) for the winter period.
5 During January and February 2019, the peaking service agreement
6 resulted in demand charges in the amount of \$455,000, payable in
7 two equal monthly installments of \$227,500.

1 **Baseload Purchases** increased primarily due to a higher average
2 total cost of gas of \$4.8565 per dt for the current review period. This
3 represented a 14.11% increase over the average total cost of gas for
4 the prior review period of \$4.2560 per dt. In addition, total purchased
5 gas supply volumes increased by 29,266 dts, or 2.14%.

6 The decrease in **Delivered Purchases** is due to a sizable decrease
7 in volumes purchased at Zone 5 Delivered prices during the current
8 review period as compared to the prior review period.

9 **Hedging/Peaking Service Purchases** increased in the current
10 review period due to volumes acquired under a peaking service
11 contract with UGI at a locked-in strike price for the winter period.

12 The change in **Total Other Gas Costs** relates primarily to activity in
13 Frontier's Deferred Account. These totals reflect: (1) the offsetting
14 true-up entries recorded in the Company's Deferred Gas Cost
15 Account during the review period; (2) a \$117,508 adjustment to
16 Frontier's deferred account pursuant to a settlement agreement
17 entered into by Frontier and the Public Staff in Docket No. G-40, Sub
18 149, Frontier's prior annual review proceeding (Settlement
19 Agreement); and (3) marketer net cash-outs and other
20 miscellaneous adjustments.

1 **Q. ARE YOUR GAS COST COMPUTATIONS IN AGREEMENT WITH**
2 **THE COMPANY'S SCHEDULES AS FILED IN THIS**
3 **PROCEEDING?**

4 A. Yes, with two exceptions. First, in the case of gas costs labeled by
5 the Company as "Other Capacity Charges" (Schedule 2) we have
6 reclassified these costs as Commodity Charges (Schedule 3). We
7 have done so because these costs are, in fact, volumetric
8 transportation surcharges billed by UGI and are properly classifiable
9 as supply-related costs, not pipeline charges. The Public Staff has
10 routinely reclassified these costs as commodity charges in prior
11 annual review proceedings.

12 Second, the Company recognized the effect of transportation
13 customer balancing billing adjustments for the months of May and
14 June 2019, in the August 2019 Deferred Gas Cost Account. Based
15 on our review of these billing adjustments, the Public Staff
16 recommends a correction to a transportation customer balancing
17 true-up entry in the amount of \$1,734.

18 **HEDGING AND OTHER RISK MITIGATION STRATEGIES**

19 **Q. PLEASE EXPLAIN HOW THE PUBLIC STAFF TYPICALLY**
20 **CONDUCTS ITS REVIEW OF HEDGING ACTIVITIES.**

- 1 A. The Public Staff's review of the Company's hedging activities
2 typically includes an analysis and evaluation of the following
3 information:
- 4 1. The Company's monthly hedging costs, as reflected on the
5 invoices of UGI;
- 6 2. Detailed source documentation, such as physical gas
7 confirmations, that support the amount of gas hedged and the
8 strike prices;
- 9 3. Workpapers supporting the derivation of the maximum hedge
10 volumes targeted;
- 11 4. The monthly summary of hedging costs (benefits);
- 12 5. Hedging plan documents that set forth the Company's gas
13 price risk management policy, hedge strategy, and gas price
14 risk management operations;
- 15 6. Documentation from meetings of Frontier's Supply Team and
16 the Risk Committee of its parent company, Hearthstone
17 Utilities, Inc.;
- 18 7. Testimony and exhibits of the Company's witnesses in the
19 annual review of gas costs proceeding; and
- 20 8. Company responses to the Public Staff's data requests.

1 Q. PLEASE EXPLAIN YOUR UNDERSTANDING OF THE
2 STANDARD SET FORTH BY THE COMMISSION FOR
3 EVALUATING THE COMPANY'S HEDGING DECISIONS?

4 A. The appropriate standard for the review of hedging decisions by
5 LDCs is set forth in the Commission's February 26, 2002, Order on
6 Hedging in Docket No. G-100, Sub 84 (Hedging Order). In the
7 Hedging Order, the Commission concluded that the purpose of
8 hedging is to reduce the volatility of commodity costs. The
9 Commission noted that hedging involves costs and risks and that it
10 is possible that the long term cost of hedged gas will be higher than
11 gas bought at market prices. The Commission stated it understands
12 that with the use of hedging mechanisms, costs and risks are
13 accepted in exchange for reduced volatility.

14 The Commission concluded that hedging is an option that must be
15 considered in connection with an LDC's gas purchasing practices.
16 The Commission stated that an LDC's decision to make no effort to
17 mitigate price spikes – including a decision not to hedge – would be
18 a decision subject to review in the LDC's annual gas cost prudence
19 review proceeding just as much as a decision to hedge.

20 The Commission further concluded that if an LDC decides to hedge
21 in some fashion, prudently incurred costs in connection with hedging
22 should be treated as gas costs under N.C.G.S. § 62-133.4. The
23 Commission stated that while such costs cannot be pre-approved

1 within the context of the annual gas cost prudence review, the
2 Commission recognized that the review of the prudence of a decision
3 to hedge or not to hedge should be made on the basis of the
4 information available at the time each decision is made, not on the
5 basis of the information available at the time of the prudence review
6 proceeding.

7 The Commission ordered that each LDC should address its current
8 hedging policy and program in its testimony in each annual gas cost
9 prudence review, explaining why and how it hedged or why it did not
10 hedge during the test period.

11 **Q. PLEASE DESCRIBE FRONTIER'S HEDGING PROGRAM.**

12 A. Company witness Younger testified that Frontier revised and
13 updated its Gas Supply Procurement Policy during the review period
14 and the most significant updates to the policy were under the
15 guidelines for hedging. Company witness Younger summarized
16 Frontier's hedging policy in her testimony by stating that Frontier
17 anticipates it will hedge 50% of expected average daily flow for each
18 winter month. She further explains that Frontier will subtract out
19 current capacity of 8,613dth from the expected max daily flow for
20 each month to conclude how much of the forecasted Zone 5
21 purchase gas should be hedged for that month. Witness Younger
22 also states the remaining Zone 5 purchases shall be executed with

1 FOM pricing, to minimize the likelihood of the need to purchase
2 volatile Zone 5 daily priced gas.

3 The primary difference between Frontier's hedging approach and the
4 approach of the other LDCs is that Frontier uses physical hedges
5 exclusively and does not use financial hedges, such as options,
6 futures, or swaps. A physical hedge is a fixed price contract between
7 two parties to buy or sell physical natural gas supplies at a certain
8 future time, at a specific price, which is agreed upon at the time the
9 deal is executed. If Frontier hedges, its gas supply portfolio typically
10 includes the physical purchase of fixed price gas supplies for delivery
11 at its city gate on a monthly basis.

12 **Q. PLEASE DESCRIBE YOUR UNDERSTANDING OF THE**
13 **COMPANY'S HEDGING PROGRAM DURING THE REVIEW**
14 **PERIOD.**

15 A. Although Frontier did not utilize the updated Gas Supply
16 Procurement Policy for this review period, Frontier reached out to its
17 Gas Supply Asset Manager, UGI, to discuss the best strategy for to
18 address the volatile Zone 5 daily market for the review period. The
19 Company entered into a peaking supply contract for 3,232 dts per
20 day for 20 days throughout January and February 2019, which
21 resulted in a maximum contract quantity of 64,640 dts. The peaking
22 supply contract also enabled the Company to lock-in a \$3.072 strike
23 price for all peaking contract gas used. In Exhibit B to Company

1 witness Younger's testimony, it stated that the peaking supply
2 contract also provided the flexibility for Frontier to use the maximum
3 contract quantity of 64,640 dts over any number of days in January
4 and February 2019, if it preferred that option instead of only being
5 able to nominate 3,232 dts per day for 20 days.

6 The Public Staff believes that entering into the peak day arrangement
7 with UGI helped mitigate the risk of price spikes to customers during
8 the winter period that might involve large temperature fluctuations
9 and price volatility. Therefore, the Public Staff believes that even
10 though Frontier did not utilize its hedging strategy during the current
11 review period, the peak day service with the locked-in pricing
12 provided a reasonable level of price mitigation during January and
13 February 2019.

14 The Public Staff recommends that Frontier continue to work with the
15 Public Staff to discuss its Gas Supply Procurement Policy, including
16 hedging and other price mitigation strategies, as changes to the
17 policy are contemplated.

18 **Q. BASED ON YOUR REVIEW AND ANALYSIS, WERE THE**
19 **COMPANY'S HEDGING DECISIONS DURING THE REVIEW**
20 **PERIOD PRUDENT?**

21 In our opinion, based on what was reasonably known or should have
22 been known at the time the Company made its hedging decisions

1 affecting the review period, as opposed to the outcome of those
2 decisions, our analysis leads me to the conclusion that the decisions
3 were prudent.

4 **DESIGN DAY REQUIREMENTS**

5 **Q. DO YOU HAVE ANY RECOMMENDATIONS REGARDING HOW**
6 **FRONTIER IS PLANNING TO MEET FUTURE SYSTEM**
7 **DEMAND?**

8 A. Attached to Company witness Steele's testimony as
9 CONFIDENTIAL Exhibit B is a report on Design Day Study prepared
10 by Dr. Ronald H. Brown, PhD, who utilized the Marquette University
11 GasDay program in evaluating Frontier's projected peak day
12 demand. We have evaluated this report and have concluded that it
13 accurately calculates Frontier's peak day using reasonable
14 assumptions, such as HDDs and frequency of occurrence of such
15 cold weather events. Based on this report, it appears that Frontier
16 has adequate capacity in order to serve its firm market on peak days
17 until the 2021-2022 winter period. Due to the confidential nature of
18 this document, we will not discuss any specifics of the report's
19 findings in this testimony.

20 **DEFERRED ACCOUNT BALANCE**

21 **Q. WHAT IS THE APPROPRIATE DEFERRED ACCOUNT BALANCE**
22 **AS OF SEPTEMBER 30, 2019?**

1 A. Based on our review of the Company's monthly deferred account
 2 filings and our conclusion that the gas costs were prudently incurred,
 3 the Public Staff has determined that the appropriate balance in
 4 Frontier's Deferred Gas Cost Account at September 30, 2019, is
 5 \$417,132, debit balance owed to Frontier. The following table
 6 summarizes activity in Frontier's Deferred Gas Cost Account for the
 7 current review period:

Filed Deferred Account Balance - October 1, 2018	\$330,127
Gas Cost True-up	211,649
Transportation Customer Balancing True-up	(20,645)
Deferred Account Adjustment, plus interest, per Settlement Agreement - G-40, Sub 149	(117,508)
Transco Refund	(113)
Interest (Includes interest effect of benchmark proration adjustment - G-40, Sub 151)	13,579
Rounding	43
Public Staff Recommended Deferred Account Balance -September 30, 2019	\$417,132

Table 3: Frontier Natural Gas Company – Deferred Gas Cost Account at September 30, 2019

8 Frontier filed a Deferred Gas Cost Account debit balance, owed from
 9 customers to Frontier, of \$410,265, as shown on Schedule 8 of
 10 Company witness Steele's testimony. Based on timing differences
 11 associated with an estimated settlement adjustment made by the
 12 Company related to the Settlement Agreement, which impacted
 13 accrued interest, and the correction of a transportation customer
 14 balancing true-up entry mentioned earlier in testimony, the Public
 15 Staff recommends a debit adjustment to Frontier's deferred account

1 balance at September 30, 2019 in the amount of \$6,867.

2 The Public Staff has discussed the above adjustment with the
3 Company, and it is our understanding that they are in agreement.

4 **Q. HAS THE COMPANY CONTINUED TO USE THE APPROPRIATE**
5 **INTEREST RATE IN THE DEFERRED ACCOUNT?**

6 A. Yes. In Docket No. G-40, Sub 135, the Public Staff recommended
7 and the Commission approved in its Order on Annual Review of Gas
8 Costs issued June 13, 2017, that Frontier shall begin calculating
9 interest on its deferred account using the net-of-tax overall rate of
10 return approved by the Commission in its Order Approving Use of
11 Natural Gas Bond Funds issued March 12, 2000, in Docket No. G-40,
12 Sub 2, adjusted for any known corporate income tax rate changes,
13 as the applicable interest rate on all amounts over-collected or under-
14 collected from customers reflected in its Deferred Gas Cost Account.

15 The Public Staff has reviewed the Company's interest rate
16 calculations for all known corporate income tax rate changes, and
17 determined that the decrease in North Carolina's corporate income
18 tax rate (from 3.00% to 2.50%, effective January 1, 2019) had no
19 effect on the calculation of the net-of-tax overall rate of return.
20 Therefore, the Public Staff believes that it is appropriate that Frontier
21 shall continue to use the net-of-tax overall rate of return of 6.60% as
22 the applicable interest rate on all amounts over-collected or under-

1 collected from customers reflected in its Deferred Gas Cost Account,
2 effective January 1, 2019.

3 **Q. WHAT IS YOUR RECOMMENDATION REGARDING ANY**
4 **PROPOSED INCREMENTS/DECREMENTS?**

5 A. Company witness Steele has stated that Frontier anticipates the
6 current deferred account balance moving back towards \$0 over the
7 winter months. Frontier did not propose any temporaries in this
8 proceeding. As shown in Table 3 above, the recommended deferred
9 account balance owed from customers to Frontier is a debit balance
10 of \$417,132. In a response to a Public Staff data request, the
11 Company stated that it anticipates a Transco refund in March 2020,
12 which will move its deferred account balance closer to \$0. We agree
13 with Frontier's proposal of not implementing any temporaries in this
14 proceeding. The Public Staff recommends that Frontier monitor the
15 deferred account balance and, if needed, file an application for
16 authority to implement new temporary increments or decrements
17 through the Purchased Gas Adjustment mechanism in order to keep
18 the deferred account balance at a reasonable level.

19 **Q. HAS THE COMPANY COMPLIED WITH THE ORDERING**
20 **PARAGRAPHS IN THE PRIOR ANNUAL REVIEW ORDER?**

21 A. Yes. Ordering Paragraph 5 of the Commission's *Order on Annual*
22 *Review of Gas Costs* issued June 11, 2019, in Docket No. G-40, Sub
23 149 (the Sub 149 Order), Frontier's prior annual review proceeding,

1 states that "Frontier and the Public Staff shall work together
2 collaboratively to address future gas purchasing practices by
3 Frontier, including hedging and other price mitigation practices, in
4 order to reduce or eliminate concerns over customer exposure to
5 potential gas cost volatility while maintaining reasonable up-front
6 charges to customers for the right to call on gas under high demand
7 scenarios."

8 On June 4, 2019, Frontier met with the Public Staff to discuss
9 Frontier's updated Gas Supply Procurement Policy and to share how
10 the Company planned to utilize its revised Procurement Policy in
11 preparation for the 2019-2020 winter period. This included
12 discussions on hedging and other price mitigation strategies to
13 protect customers from possible gas cost volatility.

14 Ordering Paragraph 6 of the Sub 149 Order, states that the Company
15 was required to report to the Commission within six months of the
16 date of the order detailing the steps taken and progress made by
17 Frontier on options to bolster its gas supply planning.

18 On December 9, 2019, Frontier filed a letter in Docket No. G-9, Sub
19 149 detailing the steps taken and progress made by the Company to
20 bolster its gas supply planning, which included designating a lead
21 gas supply planning person, utilizing the availability of two
22 consultants to assist in gas supply planning and purchasing

1 decisions, and providing additional personnel from other affiliated
2 regulated utilities to assist in evaluating the natural gas procurement
3 procedures and help with any engineering distribution needs. In
4 addition, Frontier stated that it is forging an excellent working
5 relationship and communicates regularly with UGI about its natural
6 gas supply needs.

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

8 **A.** Yes, it does.

Neha R. Patel**Qualifications and Experience**

I graduated from University Of Mumbai in 1995 with a Degree of Bachelor of Science in Electronic Engineering. I began working as a Utilities Engineer with the Natural Gas Division of the Public Staff in February of 2014.

My most current work experience with the Natural Gas Division includes the following topics:

1. Purchase Gas Cost Adjustment Procedures;
2. Tariff Filings;
3. Customer Utilization Trackers;
4. Special Contract Review and Analysis;
5. Weather Normalization Adjustments;
6. Franchise Exchange Filings;
7. Annual Review of Gas Costs;
8. Cost Of Service Studies;
9. Peak Day Demand and Capacity Calculations;
10. Fuel and Electric Usage Trackers; and
11. Natural Gas Rate Case Proceedings.

SHAWN L. DORGAN**Qualifications and Experience**

I am a two-time accounting graduate of Appalachian State University, having earned a B.S.B.A. in Accountancy in 1988 and a Master's of Science in Accountancy (concentration in taxation; functional equivalent of an MST) in 1997. After graduation in August of that year I entered the public accounting industry, working first at the Charlotte practice office of Deloitte & Touche LLP, and later for several local and regional accounting firms in the metro-Charlotte, metro-Raleigh, and metro-Atlanta areas. I am a Certified Public Accountant, licensed in the State of North Carolina. My license number is 27030.

I joined the Public Staff in May 2016 and since have specialized in providing accounting support in conjunction with rider rate proceedings in both the Natural Gas and Electric Divisions, focusing primarily on program cost reviews of energy efficiency programs authorized for the state's electric utilities under N.C.G.S. § 62-133.9. In addition, I have provided accounting and testimonial support in general rate cases involving North Carolina's largest investor-owned electric and natural gas utilities, support focused primarily on applicant rate-base requests in the area of cash working capital.

In addition to serving as a Public Staff panel witness in annual gas cost review proceedings for Frontier Natural Gas Company, currently I serve as the lead technical accountant in the Duke Energy Progress general rate case filed on October 30, 2019 (Docket No. E-2, Sub 1219).

Appendix C**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.

1 MS. CULPEPPER: I'm assuming you don't want
2 us to read the summary?

3 COMMISSIONER CLODFELTER: Unless one of my
4 colleagues wants the summary read, we will receive it
5 as information to aid our memory afterwards. And
6 thank you for it.

7 MS. CULPEPPER: Thank you.

8 COMMISSIONER CLODFELTER: Great.

9 MS. CULPEPPER: The witnesses are available
10 for Commission questions.

11 MR. JEFFRIES: No questions from Frontier.

12 COMMISSIONER CLODFELTER: Any questions from
13 my colleagues?

14 EXAMINATION BY COMMISSIONER CLODFELTER:

15 Q Let me ask you, generally, have all or some of
16 you had a chance to read the Company's submission
17 from yesterday afternoon?

18 A (Ms. Patel) Yes.

19 A (Ms. Perry) Yes, we have.

20 A (Mr. Dorgan) Yes.

21 Q Anything that you want to call the panel's
22 attention to in that filing? Anything you want
23 to comment on in that filing?

24 A (Ms. Perry) No, sir.

1 Q Let me ask you one question just to see where you
2 are. Has the Public Staff done any work to take
3 a look past the winter 2021-2022 period itself to
4 sort of determine whether you think the Company
5 is on track to have adequate capacity beyond that
6 time period?

7 A (Ms. Patel) The Company, as they mentioned, they
8 have contracted for additional capacity. So --
9 and even one of the data responses they provided,
10 they do have adequate capacity.

11 Q Beyond the twenty -- 2021 winter period?

12 A Yes, sir.

13 A (Ms. Perry) So if you look at their AMA, just to
14 add, their Asset Management Agreement, it goes up
15 to 20,000 dts a day.

16 Q Right.

17 A If you look out, and I think they provided four
18 years of data, we actually asked for a fifth year
19 of data in looking at the 2023 in our data
20 request responses. So for planning purposes they
21 may have to do something in that last year but
22 this is really just a plan for capacity. They
23 can amend their AMA agreement. They can get more
24 Transco capacity. There's lots of things. They

1 have time between now and then. But we've looked
2 at that and I think that the Agreement they have
3 with UGI will set them up to have enough capacity
4 until then.

5 Q Thank you. Are you -- you're satisfied with the
6 Company's plans for the updating of its
7 design-day studies on a rolling basis going
8 forward?

9 A Yes, sir.

10 Q That's also satisfactory?

11 A Yes, sir.

12 Q And do you have any comments at this point about
13 where the Company is in its expiration of the
14 possibility of an LNG facility? Any comments at
15 this point, understanding that we're --

16 A Yeah.

17 Q -- the Company is still at a very preliminary --

18 A I think what the engineering and accounting group
19 does once they look at a capacity, whether it be
20 Transco, an LNG, you know, we'll ask them for
21 their alternatives when they're looking at it to
22 see what the most cost-effective,
23 reliable approach is. And so as they get closer
24 to it I'm sure they will be coming to us anyway

1 to kind of show us what they've got and --

2 Q At this point your mind is open on the --

3 A Yeah. And I think with the liquefaction, just to
4 put in there, I think they can truck it in. So I
5 think that's the answer to your question with the
6 liquefaction is that we see a lot of these. Some
7 of these smaller LNG sites come up sometimes and
8 they're trucking in the LNG and then they can
9 withdraw it when they need it. So that's where
10 the liquefaction vocabulary kind of came into
11 play.

12 Q Okay.

13 COMMISSIONER CLODFELTER: Anything else?

14 Ms. Burns, good to go?

15 MS. BURNS: (Nods head in agreement).

16 COMMISSIONER CLODFELTER: All right. That's
17 all from the panel. Any questions on the Commission's
18 questions?

19 MS. CULPEPPER: No questions.

20 MR. JEFFRIES: No questions.

21 COMMISSIONER CLODFELTER: Thank you. You're
22 excused.

23 (The witnesses are excused)

24 COMMISSIONER CLODFELTER: Anything further

1 from the Public Staff?

2 MS. CULPEPPER: That's all.

3 COMMISSIONER CLODFELTER: Or from the
4 Company?

5 MR. JEFFRIES: (Shakes head no).

6 COMMISSIONER CLODFELTER: Thank you for
7 being very efficient this morning. We thank you all
8 for being very efficient this morning. And, with
9 that, we'll close the hearing.

10 MR. JEFFRIES: Thank you, Mr. Chairman.

11 COMMISSIONER CLODFELTER: Proposed orders,
12 when would you like --

13 MR. JEFFRIES: Thirty days.

14 COMMISSIONER CLODFELTER: Thirty days.

15 MR. JEFFRIES: Fine.

16 MS. CULPEPPER: That will be fine.

17 COMMISSIONER CLODFELTER: That's sufficient.
18 Very good. Thank you all for coming this morning.

19 (The proceedings were adjourned)
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24

C E R T I F I C A T E

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

Kim T. Mitchell

Kim T. Mitchell
Court Reporter