

**TOCCOA NATURAL GAS**  
**DOCKET NO. G-41, SUB 56**  
**TESTIMONY OF IRIS MORGAN**  
**ON BEHALF OF**  
**THE PUBLIC STAFF – NORTH CAROLINA UTILITIES COMMISSION**  
**OCTOBER 18, 2021**

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

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

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

9   A.   The purpose of my testimony is to (1) present the results of my  
10       review of the gas cost information filed by Toccoa Natural Gas  
11       (Toccoa or the Company) in accordance with N.C. Gen. Stat. §  
12       62-133.4(c) and Commission Rule R1-17(k)(6), (2) provide my  
13       conclusions regarding whether the gas costs incurred by Toccoa  
14       during the 12-month review period ended June 30, 2021, were  
15       properly accounted for, (3) discuss any changes to the deferred  
16       account reporting during the review period, and (4) report the  
17       prudence of Toccoa's hedging activities during the review period.

1 Q. PLEASE EXPLAIN HOW THE PUBLIC STAFF CONDUCTED ITS  
2 REVIEW.

3 A. I reviewed the following: the testimony and exhibits of the  
4 Company's witnesses; the Company's monthly Deferred Gas Cost  
5 Account reports, monthly financial and operating reports; the gas  
6 supply, pipeline transportation and storage contract;, and the  
7 Company's responses to Public Staff data requests.

8 Q. HAS THE COMPANY PROPERLY ACCOUNTED FOR ITS GAS  
9 COSTS DURING THE REVIEW PERIOD?

10 A. Yes.

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

12 Q. HOW DOES THE ACCOUNTING DIVISION GO ABOUT  
13 CONDUCTING ITS REVIEW OF THE COMPANY'S  
14 ACCOUNTING FOR GAS COSTS?

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

19 (1) **Gas Cost True-Up** - The actual commodity and  
20 demand gas costs are verified, calculations and data  
21 supporting the gas costs collected are checked, invoices are

1 reviewed, and the overall calculation is checked for  
2 mathematical accuracy.

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

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

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

17 (5) **Interest Accrual** - Toccoa began calculating interest  
18 on its Deferred Gas Cost Account in October 2016.  
19 Calculations of the interest accrued on the account balance  
20 during the month are verified in accordance with N.C.G.S. §  
21 62-130(e).

1 Q. HOW DO THE COMPANY'S FILED GAS COSTS FOR THE  
 2 CURRENT REVIEW PERIOD COMPARE WITH THOSE FOR THE  
 3 PRIOR REVIEW PERIOD?

4 A. Toccoa's total company gas costs for the current review period  
 5 were \$4,659,894, compared to the prior year's costs of \$3,759,943.  
 6 The North Carolina portion of gas costs incurred during the current  
 7 review period was \$394,529, compared with \$326,621, for the prior  
 8 period. The components of gas costs incurred for the two periods  
 9 are as follows:

	12 Months Ended		Increase	%
	June 30, 2021	June 30, 2020	(Decrease)	Change
<b>Transco Pipeline Charges:</b>				
Cherokee - FT	\$216,150	\$215,245	\$905	0.42%
Converted Firm Transp. - CFT	139,516	178,591	(39,075)	-21.88%
South Coast - FT Mainline	107,082	120,087	(13,005)	-10.83%
Sunbelt 1997 - FT	34,239	36,169	(1,930)	-5.34%
Capacity Release Credits	(22,063)	(14,582)	(7,481)	51.30%
<b>Total Transco Pipeline Charges</b>	<b>\$474,924</b>	<b>\$535,510</b>	<b>(\$60,586)</b>	<b>-11.31%</b>
<b>Storage/Peaking Services:</b>				
LNG Capacity	22,531	12,493	10,038	80.35%
LNG Daily Demand	38,971	21,617	17,354	80.28%
Pine Needle Capacity	80,597	94,423	(13,826)	-14.64%
<b>Total Storage/Peaking Services</b>	<b>\$142,099</b>	<b>\$128,533</b>	<b>\$13,566</b>	<b>10.55%</b>
<b>Total Demand and Storage Costs</b>	<b>\$617,023</b>	<b>\$664,043</b>	<b>(\$47,020)</b>	<b>-7.08%</b>
<b>Gas Supply Costs:</b>				
Authority Gas Supply FT	\$3,604,269	\$2,817,231	\$787,038	27.94%
Supply Charge-meters and throughput	115,534	113,411	2,123	1.87%
Pine Needle Supply	49,645	31,127	18,518	59.49%
LNG Withdrawal	6,073	3,615	2,458	67.99%
FT Released Capacity Supply	49,587	15,328	34,259	223.51%
Authority G&A Charges	146,921	141,356	5,565	3.94%
Swing Supply Charges	68,135	68,858	(723)	-1.05%
<b>Total Gas Supply Costs</b>	<b>\$4,040,163</b>	<b>\$3,190,926</b>	<b>\$849,238</b>	<b>26.61%</b>
<b>Total Other Gas Costs</b>	<b>\$2,709</b>	<b>(\$61,027)</b>	<b>\$63,736</b>	<b>-104.44%</b>
<b>Total Company Gas Costs</b>	<b>\$4,659,894</b>	<b>\$3,793,943</b>	<b>\$865,951</b>	<b>22.82%</b>
<b>NC Portion of Total Gas Costs</b>	<b>\$394,529</b>	<b>\$326,621</b>	<b>\$67,908</b>	<b>20.79%</b>

1 Q. PLEASE EXPLAIN ANY SIGNIFICANT INCREASES OR  
2 DECREASES IN DEMAND AND STORAGE CHARGES.

3 A. The decreases in **Converted Firm Transportation (CFT)** and  
4 **South Coast – FT Mainline** are primarily due to the general rate  
5 case and fuel tracker filings of Transcontinental Gas Pipe Line  
6 Company, LLC (Transco) pursuant to FERC Docket Nos.  
7 RP20-575-000, RP18-1126-004 and RP21-579-000, effective, April  
8 1, 2020, June 1, 2020 and April 1, 2021, respectively, which were in  
9 effect during the current review period.

10 **Capacity Release Credits** are margins earned by Toccoa for the  
11 release of unutilized pipeline capacity. These credits increased  
12 during the current review period primarily due to the Municipal Gas  
13 Authority of Georgia (Gas Authority) releasing more of Toccoa's  
14 unutilized capacity during the period. Toccoa's policy has always  
15 been to flow through 100% of its capacity release credits to  
16 ratepayers.

17 The increases in **LNG Capacity and LNG Daily Demand** are  
18 primarily due to rate changes pursuant to FERC Docket No.  
19 RP20-948-000, which became effective May 1, 2020.

20 The decrease in **Pine Needle Capacity charges** is primarily due to  
21 changes resulting from the Pine Needle LNG, LLC general rate  
22 case, Docket No. RP20-780-000 and pursuant to FERC Docket No.

1 RP20-720-000, which became effective June 1, 2020 and  
2 May 1, 2020, respectively.

3 **Authority Gas Supply FT** charges increased due to both higher  
4 wellhead gas prices and an increase in volumes during this review  
5 period as compared with the prior review period. This increase is  
6 generally consistent with the changes in market indices  
7 experienced between the two periods.

8 The **Supply Charge – meters and throughput** are a charge  
9 based on the number of meters on Toccoa's system and its  
10 monthly pipeline throughput. These charges represent additional  
11 gas supply costs incurred in order to provide gas service to its  
12 customers.

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

16 The increase in **LNG Withdrawal** is due to the fact that there was  
17 an increase in the level of volumes during the current review period  
18 as compared to the prior period.

19 **FT Released Capacity Supply** is excess supply available from  
20 other members of the Gas Authority that is used to meet Toccoa's  
21 needs. During the review period, these charges increased due to

1 Toccoa requiring more gas supply from the other Gas Authority  
2 members than in the prior review period, as well as higher gas  
3 prices during the current review period.

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

7 **HEDGING ACTIVITIES**

8 **Q. WHAT IS THE STANDARD SET FORTH BY THE COMMISSION**  
9 **FOR EVALUATING THE PRUDENCE OF A COMPANY'S**  
10 **HEDGING DECISIONS?**

11 A. In its February 26, 2002, Order on Hedging in Docket No. G-100,  
12 Sub 84 (Hedging Order), the Commission stated that the standard  
13 for reviewing the prudence of hedging decisions is that the decision  
14 "must have been made in a reasonable manner and at an  
15 appropriate time on the basis of what was reasonably known or  
16 should have been known at that time." Hedging Order, 92 NCUC 4,  
17 11-12 (2002).

18 **Q. PLEASE DESCRIBE THE COMPANY'S HEDGING PROGRAM.**

19 A. Toccoa participates in the "Winter Hedge Program," which is  
20 managed by the Gas Authority for its members, including Toccoa.  
21 The Gas Authority is the largest non-profit joint action natural gas  
22 agency in the nation and supplies the natural gas needs of

1 81 member cities. The goal of the Winter Hedge Program is to  
2 achieve price stability at a reasonable price for its customers by  
3 locking-in futures prices for a portion of the anticipated winter firm  
4 load. Under the Gas Authority's Winter Hedge Program, a member  
5 enters into hedging arrangements with the Gas Authority specifying  
6 the targeted level of volumes to hedge. These hedging  
7 arrangements typically span two years.

8 **Q. PLEASE COMMENT ON THE TYPES OF FINANCIAL**  
9 **INSTRUMENTS THAT THE GAS AUTHORITY USED IN ITS**  
10 **HEDGING PROGRAM.**

11 A. The Gas Authority typically uses financial instruments that offer the  
12 most benefit at the time the hedge trades are executed. The  
13 current hedging plan included approximately 80% fixed price swaps  
14 and 20% call options. The Gas Authority determined that using  
15 these instruments was the most beneficial strategy to protect  
16 Toccoa against higher prices, while allowing some downside  
17 participation as prices fall.

18 **Q. PLEASE DESCRIBE THE HEDGING ACTIVITY OF THE GAS**  
19 **AUTHORITY DURING THE REVIEW PERIOD.**

20 A. During the current review period, the hedging program resulted in a  
21 \$341 charge to Toccoa's gas supply costs for North Carolina  
22 customers.

23



1    **Q.    HAS TOCCOA MADE ANY CHANGES TO ITS HEDGING**  
2           **ARRANGEMENTS WITH THE GAS AUTHORITY DURING THE**  
3           **CURRENT REVIEW PERIOD?**

4    A.    No. Toccoa has not made changes to its hedging arrangements for  
5           the current review period. During the current review period, Toccoa  
6           continued to elect to hedge its winter hedge volumes at  
7           approximately 20.2% of all firm North Carolina gas sales through  
8           March 2021.

9           Although no changes to its hedging arrangements program were  
10          made during the current review period, Toccoa has made changes  
11          beginning with the upcoming winter period. Every two years  
12          Toccoa reviews its current Winter Hedge Program participation with  
13          the Gas Authority. Toccoa elected to continue its winter hedge  
14          volumes at approximately 20.2% of all firm North Carolina  
15          forecasted gas sales. Toccoa continued to adopt the more  
16          conservative hedge participation in the Winter Hedge Program  
17          because market and future pricing has been significantly lower than  
18          in prior years. Toccoa's upcoming hedge plan spans the maximum  
19          hedging program term offered by the Gas Authority for two winter  
20          periods that begins November 1, 2021 and continues through  
21          March 2023.

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

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

8 **DEFERRED ACCOUNT REPORTING**

9 Q. BASED ON YOUR REVIEW OF GAS COSTS IN THIS  
10 PROCEEDING, WHAT IS THE APPROPRIATE DEFERRED  
11 ACCOUNT BALANCE AS OF JUNE 30, 2021?

12 A. The balance in Toccoa's Deferred Gas Cost Account at June 30,  
13 2021, is a \$46,680 credit balance, owed to customers. The  
14 following chart summarizes Toccoa's Deferred Gas Cost Account  
15 activity for the current review period:

Deferred Account Balance - July 1, 2020	(\$26,478)
Commodity True-up	14,121
Demand True-Up	(78,643)
Firm Hedges	341
(Increment) Decrement	45,922
Interest	(1,943)
Deferred Account Balance - June 30, 2021	<u>(\$46,680)</u>

1    **Q.    DID TOCCOA HAVE ANY CHANGES TO ITS DEFERRED**  
2           **ACCOUNT INTEREST RATE REPORTING DURING THE**  
3           **REVIEW PERIOD?**

4    A.    No.    The Public Staff reviewed the Company's interest rate  
5           calculations, found that Toccoa is continuing to use an interest rate  
6           of 5.83%, interest rate, and determined that no changes were  
7           needed. The current interest rate applied to the deferred account is  
8           the overall rate of return, not the net-of-tax overall rate of return,  
9           and has remained unchanged because Toccoa is exempt from  
10          federal income tax and it does not pay income taxes in North  
11          Carolina as Toccoa is a municipality. The calculations of the  
12          interest accrued on the account balance during the month are  
13          verified in accordance with N.C.G.S. § 62-130(e). The Public Staff  
14          will continue to review the interest rate each month to determine if  
15          an adjustment is needed.

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

17   A.    Yes, it does.

**APPENDIX A****QUALIFICATIONS AND EXPERIENCE**  
**IRIS MORGAN**

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

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

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

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