

PUBLIC SERVICE COMPANY OF NORTH CAROLINA, INC.

DOCKET NO. G-5, SUB 635

TESTIMONY OF JULIE G. PERRY

ON BEHALF OF

THE PUBLIC STAFF – NORTH CAROLINA UTILITIES COMMISSION

July 26, 2021

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

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

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

10 The purpose of my testimony is to provide my conclusions regarding
11 the prudence of Public Service Company of North Carolina, Inc.'s
12 (PSNC) hedging decisions during the review period.

13 **Q. PLEASE EXPLAIN HOW YOU CONDUCTED YOUR REVIEW.**

14 A. I reviewed the testimony and exhibits of the Company's witnesses,
15 the Company's monthly Deferred Gas Cost Account reports, monthly
16 financial and operating reports, the gas supply and pipeline

1 transportation contracts, and the Company's responses to Public
2 Staff data requests. The responses to the Public Staff data requests
3 contained information related to PSNC's gas purchasing
4 philosophies, customer requirements, and gas portfolio mixes.

5 **HEDGING ACTIVITIES**

6 **Q. PLEASE EXPLAIN HOW THE PUBLIC STAFF CONDUCTED ITS**
7 **REVIEW OF THE COMPANY'S HEDGING ACTIVITIES.**

8 A. The Public Staff's review of the Company's hedging activities is
9 performed on an ongoing basis and includes the analysis and
10 evaluation of the following information:

11 1. The Company's monthly hedging deferred account
12 reports;

13 2. Detailed source documentation, such as broker
14 statements, which provide support for the amounts spent and
15 received by the Company for financial instruments;

16 3. Workpapers supporting the derivation of the maximum
17 hedge volumes targeted for each month;

18 4. Periodic reports on the status of hedge coverage for
19 each month;

20 5. Periodic reports on the market values of the various
21 financial instruments used by the Company to hedge;

22 6. The monthly Hedging Program Status Report;

1 7. The monthly report reconciling the Hedging Program
2 Status Report and the Hedging Deferred Account Report;

3 8. Minutes from meetings of Service Company risk
4 management personnel;

5 9. Minutes from meetings of Service Company risk
6 management personnel and its committees that pertain to hedging
7 activities;

8 10. Reports and correspondence from the Company's
9 external and internal auditors that pertain to hedging activities;

10 11. Hedging plan documents that set forth the Company's
11 gas price risk management policy, hedge strategy, and gas price risk
12 management operations;

13 12. Communications with Company personnel regarding
14 key hedging events and plan modifications under consideration by
15 Service Company risk management personnel; and

16 13. Testimony and exhibits of the Company's witnesses in
17 the annual review proceeding.

18 **Q. WHAT IS THE STANDARD SET FORTH BY THE COMMISSION**
19 **FOR EVALUATING THE PRUDENCE OF A COMPANY'S**
20 **HEDGING DECISIONS?**

21 **A.** In its February 26, 2002, Order on Hedging in Docket No. G-100,
22 Sub 84 (Hedging Order), the Commission stated that the standard
23 for reviewing the prudence of hedging decisions is that the decision

1 “must have been made in a reasonable manner and at an
 2 appropriate time on the basis of what was reasonably known or
 3 should have been known at that time.” Hedging Order, 92 NCUC 4,
 4 11-12 (2002).

5 **Q. PLEASE DESCRIBE THE ACTIVITY REPORTED IN THE**
 6 **COMPANY’S HEDGING DEFERRED ACCOUNT DURING THE**
 7 **REVIEW PERIOD.**

8 A. The Company experienced a net debit of \$2,959,771 in its Hedging
 9 Deferred Account during the review period. This net debit amount at
 10 March 31, 2021, is composed of the following items:

| | |
|---|--------------------|
| Economic (Gain)/Loss - Closed Positions | (\$1,282,338) |
| Premiums Paid | 670,730 |
| Brokerage Fees & Commissions | 23,120 |
| Interest on Hedging Deferred Account | <u>151,986</u> |
| Hedging Deferred Account Balance | <u>(\$436,502)</u> |

11 The first item shown in the chart above, Economic (Gain)/Loss –
 12 Closed Positions, is the gain on hedging positions that the Company
 13 realized during the review period. Premiums Paid is the amount
 14 spent by the Company on futures and options positions during the
 15 current review period. As of March 31, 2021, this amount includes
 16 call options purchased by PSNC for the March 2022 contract period,
 17 a contract period, which is 12 months beyond the end of the current

1 review period and 11 months beyond the April 2021 prompt month.¹
2 Brokerage Fees and Commissions are the amounts paid to brokers
3 to complete the transactions. The Interest on Brokerage Account
4 amount is the interest earned by the Company on amounts deposited
5 with its broker, and the Interest on Hedging Deferred Account is the
6 amount accrued by the Company on its Hedging Deferred Account
7 in accordance with N. C. Gen. Stat. § 62-130(e).

8 The Company proposed that the \$436,502 credit balance in the
9 Hedging Deferred Account as of the end of the review period be
10 transferred to its Sales Customers' Only Deferred Account. The
11 hedging charges result in an annual credit of \$0.54 for the average
12 residential customer, which equates to approximately \$0.04 per
13 month. PSNC's weighted average hedged cost of gas for the review
14 period was \$3.01 per dt.

15 **Q. WHAT IS YOUR CONCLUSION REGARDING THE PRUDENCE**
16 **OF THE COMPANY'S HEDGING ACTIVITIES?**

17 A. Based on what was reasonably known or should have been known
18 at the time the Company made its hedging decisions affecting the
19 review period, as opposed to the outcome of those decisions, our
20 analysis leads us to the conclusion that the decisions were prudent.
21 I recommend that the \$436,502 credit balance in the Hedging

¹ Prompt month refers to the futures contract that is closest to expiration and is usually for delivery in the next calendar month (e.g., prompt month contracts traded in February are typically for delivery in March).

1 Deferred Account as of the end of the review period be transferred
2 to the Company's Sales Customers' Only Deferred Account.

3 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

4 **A. Yes, it does.**

APPENDIX A

QUALIFICATIONS AND EXPERIENCE

JULIE G. PERRY

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.