

TOCCOA NATURAL GAS
DOCKET NO. G-41, SUB 55
TESTIMONY OF IRIS MORGAN
ON BEHALF OF
THE PUBLIC STAFF – NORTH CAROLINA UTILITIES COMMISSION
OCTOBER 20, 2020

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 an Accountant in the
5 Accounting Division of the Public Staff. My qualifications and
6 experience are provided in Appendix B.

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

9 A. The purpose of my testimony is (1) to present the results of my
10 review of the gas cost information filed by Toccoa Natural Gas
11 (Toccoa or Company) in accordance with N.C. Gen. Stat. § 62-
12 133.4(c) and Commission Rule R1-17(k)(6), and (2) to provide my
13 conclusions regarding whether the gas costs incurred by Toccoa
14 during the 12-month review period ended June 30, 2020, were
15 properly accounted for, (3) discuss any changes to the Company's
16 deferred account reporting during the review period, and (4) report

1 the prudence of Toccoa's hedging activities during the review
2 period.

3 **Q. PLEASE EXPLAIN HOW THE PUBLIC STAFF CONDUCTED ITS**
4 **REVIEW.**

5 A. I reviewed the testimony and exhibits of the Company's witnesses,
6 the Company's monthly Deferred Gas Cost Account reports,
7 monthly financial and operating reports, the gas supply, pipeline
8 transportation and storage contracts, and the Company's
9 responses to Public Staff data requests. The responses to the
10 Public Staff's data requests contained information related to
11 Toccoa's gas purchasing philosophies, customer requirements, and
12 gas portfolio mixes.

13 **Q. HAS THE COMPANY PROPERLY ACCOUNTED FOR ITS GAS**
14 **COSTS DURING THE REVIEW PERIOD?**

15 A. Yes.

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

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

20 A. Each month the Public Staff's Accounting Division reviews the
21 Deferred Gas Cost Account reports filed by the Company for

1 accuracy and reasonableness, and performs many audit
2 procedures on the calculations, including the following:

3 (1) **Gas Cost True-Up** - The actual commodity and
4 demand gas costs are verified, calculations and data
5 supporting the gas costs collected are checked, invoices are
6 reviewed, and the overall calculation is checked for
7 mathematical accuracy.

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

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

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

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

6 **Q. HOW DO THE COMPANY’S FILED GAS COSTS FOR THE**
7 **CURRENT REVIEW PERIOD COMPARE WITH THOSE FOR THE**
8 **PRIOR REVIEW PERIOD?**

9 A. Toccoa’s total company gas costs for the current review period
10 were \$3,962,652, compared to the prior year’s costs of \$5,407,265.
11 The North Carolina portion of gas costs incurred during the current
12 review period was \$326,621, compared with \$428,903 for the prior
13 period. The components of gas costs incurred for the two periods
14 are as follows:

	12 Months Ended		Increase	%
	June 30, 2020	June 30, 2019	(Decrease)	Change
Transco Pipeline Charges:				
Cherokee - FT	\$215,245	\$213,100	\$2,145	1.01%
Converted Firm Transp. - CFT	178,591	145,436	33,155	22.80%
South Coast - FT Mainline	120,087	123,161	(3,074)	-2.50%
Sunbelt 1997 - FT	36,169	38,327	(2,158)	-5.63%
Capacity Release Credits	(14,582)	(14,780)	198	-1.34%
Total Transco Pipeline Charges	\$535,510	\$505,244	\$30,266	5.99%
Storage/Peaking Services:				
LNG Capacity	12,493	8,919	3,574	40.07%
LNG Daily Demand	21,617	15,436	6,181	40.04%
Pine Needle Capacity	94,423	97,189	(2,766)	-2.85%
Total Storage/Peaking Services	\$94,423	\$97,189	(\$2,766)	-2.85%
Total Demand and Storage Costs	\$629,933	\$602,433	\$27,500	4.56%
Gas Supply Costs:				
Authority Gas Supply FT	\$2,817,231	\$4,400,536	(\$1,583,305)	-35.98%
Supply Charge-meters and throughput	113,411	113,981	(570)	-0.50%
Pine Needle Supply	31,127	41,195	(10,068)	-24.44%
LNG Withdrawal	3,615	16,714	(13,099)	-78.37%
FT Released Capacity Supply	15,328	60,226	(44,898)	-74.55%
Authority G&A Charges	141,356	144,241	(2,885)	-2.00%
Swing Supply Charges	68,858	64,610	4,248	6.57%
Total Gas Supply Costs	\$3,190,926	\$4,841,503	(\$1,650,577)	-34.09%
Total Other Gas Costs	\$141,792	(\$61,027)	\$202,819	-332.34%
Total Company Gas Costs	\$3,962,652	\$5,382,910	(\$1,420,258)	-26.38%
NC Portion of Total Gas Costs	\$326,621	\$428,903	(\$102,282)	-23.85%

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

3 A. The increases in **Converted Firm Transportation (CFT)** are
4 primarily due to changes in Transco's rates pursuant to Federal
5 Energy Regulatory Commission (FERC) Docket Nos. RP18-1126-
6 000 and RP20-575-000, effective March 1, 2019, and April 1, 2020,
7 respectively.

1 The decreases in **South Coast – FT Mainline and Sunbelt 1997 –**
2 **FT** are primarily due to changes in Transco’s rates pursuant to FERC
3 Docket No. RP18-1126-005, which became effective June 1, 2020.

4 **Capacity Release Credits** are margins earned by Toccoa for the
5 release of unutilized pipeline capacity. These credits decreased
6 during the current review period primarily due to the Gas Authority
7 releasing less of Toccoa’s unutilized capacity during the period.
8 Toccoa’s policy has always been to flow through 100% of its
9 capacity release credits to ratepayers.

10 The increase in **LNG Capacity and LNG Daily Demand** is primarily
11 due to changes in Transco’s rates pursuant to FERC Docket No.
12 RP18-1126-000, which became effective March 1, 2019.

13 The decrease in **Pine Needle Capacity** is primarily due to changes
14 in Transco’s rates pursuant to FERC Docket Nos. RP20-720-000
15 and RP20-780-001, which became effective May 1, 2020, and June
16 1, 2020, respectively.

17 **Authority Gas Supply FT** charges decreased primarily due to
18 lower wellhead gas prices during this review period compared with
19 the prior review period. This decrease is generally consistent with
20 the changes in market indices experienced between the two
21 periods.

1 The **Supply Charge – meters and throughput** is a charge based
2 on the number of meters on Toccoa's system and its monthly
3 pipeline throughput. These charges represent additional gas supply
4 costs incurred in order to provide gas service to its customers.

5 The decrease in **Pine Needle Supply** is primarily due to a
6 decrease in the level of volumes during the current review period as
7 compared to the prior period.

8 The decrease in **LNG Withdrawal** is due to the fact that there was
9 a decrease in LNG Withdrawals during the current review period as
10 compared to the prior period.

11 **FT Released Capacity Supply** is excess supply available from
12 other members of the Gas Authority that is used to meet Toccoa's
13 needs. During the review period, these charges decreased primarily
14 due to Toccoa requiring less gas supply from the other Gas
15 Authority members than in the prior review period, as well as lower
16 gas prices during the review period.

17 **Authority G&A Charges** include items for general and
18 administrative costs based on the number of meters and
19 throughput. These charges decreased due to a lower level of
20 volumes during the current review period as compared to the prior
21 review period.

1 **Swing Supply Charges** are charges assessed by the Gas
2 Authority to its members for additional daily supply requirements,
3 primarily during the winter months. The increase is primarily due to
4 higher seasonal contract volumes during the current review period
5 as compared to the prior period.

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

9 **HEDGING ACTIVITIES**

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

13 A. In its February 26, 2002, Order on Hedging in Docket No. G-100,
14 Sub 84 (Hedging Order), the Commission stated that the standard
15 for reviewing the prudence of hedging decisions is that the decision
16 "must have been made in a reasonable manner and at an
17 appropriate time on the basis of what was reasonably known or
18 should have been known at that time." Hedging Order, 92 NCUC 4,
19 11-12 (2002).

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

21 A. Toccoa participates in the "Winter Hedge Program," which is
22 managed by the Gas Authority for its members, including Toccoa.

1 The Gas Authority is the largest non-profit joint action natural gas
2 agency in the nation and supplies the natural gas needs of 80
3 member cities. The goal of the "Winter Hedge Program" is to
4 achieve price stability at a reasonable price for its customers by
5 locking-in futures prices for a portion of the anticipated winter firm
6 load. Under the Gas Authority's "Winter Hedge Program," a
7 member enters into hedging arrangements with the Gas Authority
8 specifying the targeted level of volumes to hedge. These hedging
9 arrangements typically span two years.

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

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

20 **Q. PLEASE DESCRIBE THE HEDGING ACTIVITY OF THE GAS**
21 **AUTHORITY DURING THE REVIEW PERIOD.**

1 A. During the current review period, the hedging program resulted in a
2 \$3,428 charge to Toccoa's gas supply costs for North Carolina
3 customers.

4 **Q. HAS TOCCOA MADE ANY CHANGES TO ITS HEDGING**
5 **ARRANGEMENTS WITH THE GAS AUTHORITY?**

6 A. Yes. Toccoa's current hedge plan spans the maximum hedging
7 program term offered by the Gas Authority for two winter periods
8 that began November 1, 2019 and continues through March 2021.
9 Toccoa's current Winter Hedge Program participation reflects
10 winter hedge volumes at approximately 22.2% of all firm North
11 Carolina forecasted gas sales for the two-year period as compared
12 to the 20% from the prior year winter hedge program. Toccoa
13 continued to adopt the more conservative hedge participation in the
14 Winter Hedge Program, because market and future pricing has
15 been significantly lower than in prior years.

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

18 A. Based on what was reasonably known or should have been known
19 by Toccoa at the time the Company made its hedging decisions
20 affecting the review period, as opposed to the outcome of those
21 decisions, my analysis leads me to the conclusion that the
22 Company's decisions were prudent.

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DEFERRED ACCOUNT REPORTING

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**Q. BASED ON YOUR REVIEW OF GAS COSTS IN THIS
PROCEEDING, WHAT IS THE APPROPRIATE DEFERRED
ACCOUNT BALANCE AS OF JUNE 30, 2020?**

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A. The balance in Toccoa's Deferred Gas Cost Account at June 30,
2020, is a \$26,478 credit balance, owed to customers. The
following chart summarizes Toccoa's Deferred Gas Cost Account
activity for the current review period:

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Deferred Account Balance - July 1, 2019	(\$22,850)
Commodity True-up	12,370
Demand True-Up	(59,575)
Firm Hedges	3,428
(Increment) Decrement	41,854
Prior period adjustment	(324)
Interest	<u>(1,381)</u>
Deferred Account Balance - June 30, 2020	<u>(\$26,478)</u>

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

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A. No. The Public Staff reviewed the Company's interest rate
calculations and found that Toccoa is continuing to use the 5.83%
interest rate and determined no changes were needed. The current
interest rate applied to the deferred account is the overall rate of
return, not the net-of-tax overall rate of return. The Company's
interest rate has remained unchanged, because Toccoa is exempt

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1 from federal income tax, and it does not pay income taxes in North
2 Carolina as Toccoa is a municipality. The calculations of the
3 interest accrued on the account balance during the month are
4 verified in accordance with N.C.G.S. § 62-130 (e). The Public Staff
5 will continue to review the interest rate each month to determine if
6 an adjustment is needed.

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

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

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.