

1 PLACE: Dobbs Building, Raleigh, North Carolina
2 DATE: Tuesday, November 4, 2019
3 TIME: 2:03 p.m. - 2:08 p.m.
4 DOCKET NO: G-41, Sub 54
5 BEFORE: Commissioner ToNola D. Brown-Bland, Presiding
6 Chairman Charlotte A. Mitchell
7 Commissioner Lyons Gray
8
9

10 **IN THE MATTER OF:**
11 Toccoa Natural Gas
12 Application for Annual Review of Gas Costs Pursuant to
13 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:

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3 FOR TOCCOA NATURAL GAS:

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7 Raleigh, North Carolina 27601-2943

8

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12 4326 Mail Service Center

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NORTH CAROLINA UTILITIES COMMISSION

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T A B L E O F C O N T E N T S

E X A M I N A T I O N S:

PREFILED DIRECT TESTIMONY OF
HARRY FRANKLIN SCOTT, JR..... 8

PREFILED DIRECT TESTIMONY OF RAI TRIPPE..... 13

PREFILED JOINT TESTIMONY AND APPENDICES OF
NEHA R. PATEL, IRIS MORGAN and JULIE G. PERRY.... 27

E X H I B I T S

IDENTIFIED / ADMITTED

Scott Exhibit 1..... 8/8

Trippe Exhibits 1, 2 and 3..... 13/13

P R O C E E D I N G S

1
2 COMMISSIONER BROWN-BLAND: Good afternoon.

3 Let's come to order and go on the record. I'm
4 Commissioner ToNola D. Brown-Bland with the North
5 Carolina Utilities Commission and the Presiding
6 Commissioner for this hearing. With me this afternoon
7 are Chair Charlotte A. Mitchell and Commissioner Lyons
8 Gray.

9 I now call for hearing Docket Number G-41,
10 Sub 54, In the Matter of, an Application of Toccoa
11 Natural Gas for Annual Review of Gas Costs Pursuant to
12 G.S. § 62-133.4(c) and Commission Rule R1-17(k)(6).

13 This proceeding is held annually pursuant to
14 G.S. § 133.4 to compare Toccoa's prudently incurred
15 costs with costs recovered from its customers served
16 during the test period.

17 In compliance with provisions of R -- of
18 Rule R1-17(k)(6), on August 30th, 2019, Toccoa Natural
19 Gas filed the direct testimony and exhibits of Harry
20 Franklin Scott, Jr., and Rai Trippe relating to this
21 annual review proceeding.

22 On September 5th, 2019, an Order Scheduling
23 Hearing and Requiring Filing of Testimony,
24 Establishing Discovery Guidelines and Requiring Public

1 Notice was issued. That Order scheduled this hearing
2 for today, November 4th, 2019, at 2:00 p.m.

3 On October 16, 2019, Toccoa filed the
4 Affidavits of Publication of public notice.

5 No Petitions to Intervene were filed in this
6 docket. And the intervention and participation of the
7 Public Staff is recognized pursuant to G.S. § 62-15(d)
8 and Commission Rule R1-19(e).

9 On October 18, 2019, the Public Staff filed
10 joint testimony of Neha R. Patel, Iris Morgan and
11 Julie G. Perry.

12 On October 18, 2019, Toccoa and the Public
13 Staff filed a Joint Motion to Excuse Appearance of
14 Witnesses and Accept Testimony.

15 On October 24th, 2019, the Commission issued
16 an Order granting the Motion to Excuse the parties'
17 witnesses from attending today's hearing and
18 permitting the parties' evidence to be moved and
19 admitted into evidence at today's hearing.

20 In compliance with the requirements of
21 Chapter 163A of the State Government Ethics Act, I
22 remind the members of the Commission of our
23 responsibility to avoid conflicts of interest, and I
24 inquire whether any member has a known conflict of

1 interest with respect to any matter before us this
2 morning, or this afternoon?

3 (No response)

4 The record will reflect that no conflicts
5 were identified.

6 I now call for appearances of counsel,
7 beginning with Toccoa.

8 MS. KEMERAIT: Good afternoon,
9 Commissioners. My name is Karen Kemerait with the Law
10 Firm of Fox Rothschild in Raleigh, and I'm here on
11 behalf of the Applicant, Toccoa Natural Gas Company.

12 COMMISSIONER BROWN-BLAND: All right. Thank
13 you, Ms. Kemerait.

14 MS. CULPEPPER: Elizabeth Culpepper with the
15 Public Staff appearing behalf of The Using and
16 Consuming Public.

17 COMMISSIONER BROWN-BLAND: Thank you.
18 Looking out in the hearing room, I see only Public
19 Staff personnel and Commission Staff personnel. I see
20 no public witnesses. And so let the record reflect
21 that no public witnesses appeared to give testimony in
22 this proceeding.

23 Are there any other preliminary matters?

24 MS. KEMERAIT: No preliminary matters but I

1 would move to introduce testimony, if it's appropriate
2 to do so at this time.

3 COMMISSIONER BROWN-BLAND: Now is the time.
4 Go right ahead.

5 MS. KEMERAIT: Okay. So I would move that
6 the direct testimony of Harry F. Scott, Jr., that
7 consists of three pages of testimony and one page of
8 an exhibit that was filed on August the 30th, 2019, be
9 copied into the record as if given orally from the
10 stand and received into evidence. I also move that
11 the direct testimony of Rai Trippe that consists of 12
12 pages of testimony and 25 pages of exhibits that was
13 filed on August the 30th, 2019, be copied into the
14 record as if given orally from the stand and received
15 into evidence.

16 COMMISSIONER BROWN-BLAND: There being no
17 objection, that motion will be allowed with respect to
18 the testimony of Harry Franklin Scott, Jr., and Rai
19 Trippe. And the exhibits that Ms. Kemerait moved will
20 be received into evidence and they will be identified
21 as they were marked when prefiled.

22 MS. KEMERAIT: Thank you.

23 (WHEREUPON, Scott Exhibit 1 is
24 marked for identification as

1 prefiled and received into
2 evidence.)

3 (WHEREUPON, the prefiled direct
4 testimony of HARRY FRANKLIN SCOTT,
5 JR., is copied into the record as
6 if given orally from the stand.)

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**BEFORE THE
NORTH CAROLINA UTILITIES COMMISSION
TOCCOA NATURAL GAS
DOCKET G-41, SUB 54**

DIRECT TESTIMONY

OF

Harry Franklin Scott, Jr

August 30, 2019

1 Q. Mr. Scott, please state your name, your employer and business address.

2 A. My name is Harry Scott. I am employed by the City of Toccoa, Georgia (the
3 "City"), and my business address is Post Office Box 579, 92 North Alexander
4 Street, Toccoa, Georgia 30577.

5
6 Q. In what capacity are you employed by the City?

7 A. My title is Utilities Director.

8
9 Q. What are your current responsibilities with the City?

10 A. My responsibilities, among others, include overseeing the operation of all the
11 utilities owned and operated by the City of Toccoa, including water, wastewater,
12 and Toccoa Natural Gas ("Toccoa" or the "Company") system. I am also
13 responsible for ensuring compliance with the statutes and regulations of the North
14 Carolina Utilities Commission, and the development and administration of all
15 components of firm and interruptible service.

16
17 Q. Please summarize your professional background.

18 A. Please see *Exhibit 1, Biographical Sketch*.

19
20 Q. Please describe generally Toccoa and its system.

21 A. Toccoa is a municipal gas system physically comprised of approximately 90 miles
22 of transmission line from the tap off Williams Pipeline in Elbert County, Georgia
23 to the city-gate at Franklin, North Carolina. The system contains approximately

1 90 miles of transmission main, 17 miles of which are in North Carolina, and 438
2 miles of distribution main, approximately 71 miles of which are in North
3 Carolina. Toccoa serves approximately 6,679 retail customers, of which
4 approximately 751 are in North Carolina, and has two offices in Toccoa, Georgia
5 and Franklin, North Carolina.

6
7 Q. What communities does Toccoa serve?

8 A. Toccoa serves Bowersville, Lavonia, Martin, Avalon, Toccoa, Tallulah Falls,
9 Tiger, Lakemont, Clayton, Mountain City, and Dillard in Georgia, and Otto and
10 Franklin in North Carolina.

11
12 Q. Please briefly describe Toccoa's business and markets.

13 A. Toccoa is in the business of providing natural gas to residential, commercial, and
14 industrial customers in Northeast Georgia (parts of Elbert, Hart, Franklin,
15 Stephens, Habersham, and Rabun counties) and Western North Carolina (Macon
16 County). Approximately 486 residential, 263 commercial and two industrial
17 customers are served in North Carolina.

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

20 A. Commission Rule R1-17(k)(6) requires Toccoa to submit to the Commission, on
21 or before September 1, 2019, Toccoa's actual gas costs and volumes of purchased
22 gas based on a twelve-month period ended June 30, 2019, and certain other
23 information as directed by the Commission. The Rule provides for a hearing on

1 the first Wednesday of November "in order to compare each LDC's prudently
2 incurred gas costs with gas costs recovered from all its customers that it served
3 during the test period." Toccoa is providing my testimony along with the
4 testimony and schedules of Mr. Trippe in compliance with this Rule. The primary
5 purpose of my testimony is to describe Toccoa's system in North Carolina.
6

7 Q. Does this conclude your testimony?

8 A. Yes.
9

1 (WHEREUPON, Trippe Exhibits 1, 2
2 and 3 are marked for
3 identification as prefiled and
4 received into evidence.)

5 (WHEREUPON, the prefiled direct
6 testimony of RAI TRIPPE is copied
7 into the record as if given orally
8 from the stand.)

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**BEFORE THE
NORTH CAROLINA UTILITIES COMMISSION
TOCCOA NATURAL GAS
DOCKET NO. G-41, SUB 54**

**DIRECT TESTIMONY
OF
Rai Trippe**

August 30, 2019

1 Q. Mr. Trippe, please state your name, your employer and business address.

2 A. My name is Rai Trippe. I am employed by Municipal Gas Authority of Georgia
3 (“Gas Authority”). My business address is 104 TownPark Drive, Kennesaw,
4 Georgia 30144.

5
6 Q. In what capacity are you employed by Toccoa?

7 A. I am employed by the Gas Authority as a Member Support Senior Business Analyst.
8 My duties include retail rate studies and design, budget forecasting, contract
9 administration and negotiation, and general activities in support of our members.
10 The Gas Authority serves the City of Toccoa.

11

12 Q. Please summarize your professional background.

13 A. See Exhibit 1, Biographical Sketch.

14

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

16 A. Commission Rule R1-17(k)(6) requires Toccoa to submit to the Commission, on or
17 before September 1, 2019, Toccoa’s actual gas costs and volumes of purchased gas
18 for the twelve-month period ended June 30, 2019, and certain other information as
19 directed by the Commission. This information is contained in this direct testimony
20 and the accompanying exhibits. The Rule provides for a hearing on the first
21 Wednesday of November “in order to compare each LDC’s prudently incurred gas
22 costs with gas costs recovered from all its customers that it served during the test

1 period.” Toccoa is providing my testimony and schedules in compliance with this
2 Rule. My testimony demonstrates that Toccoa’s gas costs during the test period
3 were prudently incurred and therefore meet the requirement for recovery under the
4 Commission Rule. This is Toccoa’s seventeenth proceeding under Commission
5 Rule R1-17(k)(6) since it began gas operations.
6

7 Q. Please describe Toccoa’s gas supply policy.

8 A. Toccoa is a charter member of the Municipal Gas Authority of Georgia, the largest
9 non-profit joint action natural gas agency in the nation. As a member of the Gas
10 Authority, Toccoa receives all its gas supply at very competitive rates. The Gas
11 Authority uses a portfolio approach to supply its 79 member cities’ needs, relying
12 on a combination of long-term firm supply arrangements, short-term spot market
13 purchases, seasonal peaking and contract storage services. Specifically, the Gas
14 Authority bills its Williams Transco supplied members at the first-of-the-month
15 spot market index price for gas delivered into Transco at 50% of Transco Zone 3
16 index + 50% of Transco Zone 4 index. In addition, Toccoa participates in the Gas
17 Authority’s “Winter Hedge Program” under the Authority’s *Option 2*; that is,
18 Toccoa relies on the Gas Authority’s advisement in locking-in future prices for a
19 portion of their firm load (*Option 3* members make their own decisions, and *Option*
20 *1* members do not hedge prices). The Gas Authority’s objective in hedging prices
21 is to achieve price stability at a reasonable level for its members’ retail customers.
22 This was accomplished by locking-in futures prices on approximately 20.3 % of

1 their forecasted firm Georgia residential gas sales and all firm North Carolina gas
2 sales for November 2018 – March 2019. See Exhibit 2 for monthly hedge volumes
3 during the current review period. At the time that these hedge volume decisions
4 were made, Toccoa chose to adopt more conservative hedge volumes for their
5 participation in the Winter Hedge Program because market and future pricing was
6 significantly less than it had been at the time the previous Winter Hedge Program
7 volumes were put in place. Large industrial customers may make their own
8 hedging decisions if they choose to do so. Because of its participation in Gas
9 Authority, Toccoa's "gas supply policy" is the same as that of the Gas Authority.

10

11 Q. What are some of the challenges in the development and implementation of
12 Toccoa's gas supply strategy, if any?

13 A. Because of the experience, expertise, and resources of the Gas Authority, gas
14 supply is not a problem for Toccoa. Through the Gas Authority's efforts, Toccoa
15 is assured adequate, dependable, and economical gas supplies. One of the
16 challenges for Toccoa is explaining to customers swings and spikes in the
17 wholesale cost of natural gas. Although hedging helps manage this volatility, it can
18 create its own challenges. Some customers have unrealistic expectations of the
19 benefits of hedging, because a common benchmark for evaluating hedged prices is
20 the actual spot market price. This can be an unfair measure because it is only
21 available after the fact and assumes the goal of hedging is "to beat the market." In
22 reality, the principal goal of hedging is to achieve price stability, at a reasonable

1 level, for the consuming public. The Gas Authority's "Winter Hedge Program"
2 helps achieve this goal.

3

4 Q. Has there been any significant change to Toccoa's gas supply strategy or source
5 during the test year?

6 A. No.

7

8 Q. Please describe Toccoa's interstate capacity.

9 A. Toccoa currently contracts for firm transportation (FT) capacity on
10 Transcontinental Gas Pipeline/Williams (Transco), as well as an additional
11 liquefied natural gas storage service. In addition, Toccoa has storage service
12 agreements with Pine Needle LNG Company, LLC. Further, through participation
13 in the Gas Authority, Toccoa has access to other members' available pipeline
14 capacity.

15

16 Q. With this approach, does Toccoa have the flexibility to meet its market
17 requirements?

18 A. Absolutely.

19

20 Q. How does Toccoa participate in and communicate with the Gas Authority regarding
21 gas supply purchases?

1 A. Toccoa is an active Member of the Gas Authority; therefore, no specific initiative
2 is necessary. Toccoa's management meets with the Gas Authority's staff on a
3 regular and frequent basis.

4
5 Q. Did Toccoa pursue capacity release options to mitigate the cost of extra demand
6 capacity?

7 A. Yes. On behalf of Toccoa, the Gas Authority released a portion of Toccoa's
8 unutilized capacity each month of the fiscal period. Total demand cost savings
9 generated during the period of July 2018 – June 2019 totaled \$14,780. This
10 released capacity that generated the demand savings encompassed production area
11 and market area FT capacity contracted by Toccoa on Transco.

12
13 Q. Did Toccoa follow the gas cost accounting procedures prescribed by Rule R1-17(k)
14 for the year ended June 30, 2019?

15 A. Yes.

16
17 Q. In following Section (5)(c) of the Rule, Toccoa was responsible for reporting gas
18 costs and deferred account activity to the Commission and the Public Staff on a
19 monthly basis. Are you aware of any outstanding issues regarding these reports?

20 A. No.

21

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

1 A. Exhibit 2 and Schedules 1 – 10 which includes the Deferred Account Summary.

2

3 Q. What activity occurred in the deferred account during the twelve months ended
4 June 30, 2019?

5 A. Toccoa began the review period with a balance of (\$7,261) owed to firm customers.
6 On January 8, 2019, the Commission issued ORDER ON ANNUAL REVIEW OF
7 GAS COSTS in Docket No. G-41 Sub 53 authorizing Toccoa to retain the rate
8 decrement of \$0.4397 per dth in the North Carolina firm service rates that
9 previously were approved by Order in G-41 Sub 50. Toccoa desired to rely on the
10 Deferred Account process and tracking method such that the forecasted Deferred
11 Account balance at the end of the current review period would be as close to zero
12 as practical. The Deferred Account balance was closely monitored as each monthly
13 Deferred Account update was filed in anticipation that the effective rate decrement
14 would decrease the balance owed to customers without causing a swing to a balance
15 owed to Toccoa. However, the balance owed to customers increased. The Deferred
16 Account Balance ending June 30, 2019 was (\$22,850). I refer you to Schedule 8
17 for specific tracking.

18

19 Q. The attached schedules show the gas costs incurred by Toccoa and billed to
20 customers during the period July 1, 2018 through June 30, 2019. In your opinion,
21 were all these gas costs prudently incurred?

22 A. Yes.

1

2 Q. What action does Toccoa request the Commission take regarding the deferred
3 accounts?

4 A. Toccoa requests that the Commission approve the June 30, 2019 balances and find
5 that Toccoa's gas purchases were prudent during the relevant twelve-month period.
6

7 Q. Has Toccoa taken any steps recently to enable it to more effectively manage its
8 deferred account?

9 A. Toccoa has effectively managed the Deferred Account and filed monthly Deferred
10 Account Summary reports in a timely manner as required. No new steps or actions
11 were undertaken.
12

13 Q. Please describe the current requirement for the interest rate applied to Toccoa's
14 Deferred Gas Cost Account.

15 A. On October 1, 2016, Toccoa began calculating interest on its Deferred Gas Cost
16 Account (Deferred Account). The interest rate applied to Toccoa's Deferred
17 Account for amounts over-collected or under-collected from the North Carolina
18 firm sales customers was established in G-41 Sub 0, and approved by the December
19 8, 1998 Order granting Toccoa and the Municipal Gas Authority of Georgia a
20 Certificate of Public Convenience and Necessity (CPCN). Toccoa's Deferred
21 Account interest rate proposed by Public Staff is the overall rate of return. Toccoa
22 has not adjusted its Deferred Account interest rate for known tax changes because

1 it is exempt from federal income tax and it does not pay income taxes in North
2 Carolina since Toccoa is a municipality.

3

4 Q. What is the Company's authorized overall rate of return?

5 A. The rate is presently 5.83%. The interest rate has been applied to Toccoa's Deferred
6 Account during the full twelve months of the review period.

7

8 Q. Do you believe a change to the interest rate applicable to the company's Deferred
9 Account is warranted at this time?

10 A. No.

11

12 Q. Does Toccoa have additional comments or information to provide?

13

14 A. Yes. Per Order Requiring Reporting Issued in Docket G-100 Sub 91, Toccoa submits
15 the following responses.

16

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

20

21 Response 1-1: We do not forecast a significant change in Toccoa's customer mix
22 over the next ten years; however, Toccoa's gas system may experience incremental growth

1 The general condition of the economy and more recent economic trends will impact the
2 rate at which Toccoa actually connects customers. Any additional growth may create a
3 need for additional firm capacity. At the appropriate time, the Gas Authority will assist
4 Toccoa in acquiring the most cost-effective combination of pipeline, storage, and peaking
5 capacity on Transco as needed.
6

7 **2.** Please identify the rate schedules and special contracts that the Company uses to
8 determine peak day demand requirements for planning purposes.
9

10 **Response 1-2:** The Gas Authority evaluates all firm customer classes that are part
11 of Toccoa's total firm load in planning for peak day demand requirements. The Gas
12 Authority's planning is based on the number of customers within each firm rate schedule,
13 and we consider all customer requirements with the exception of alternate fuel customers.
14

15 **3.** Please provide the base load demand requirements of the firm market estimated for
16 the review period and forecasted for each of the next five (5) years.
17

18 **Response 1-3:** Response 1-3: We expect that Toccoa's base load demand
19 requirements for the next five years will be sufficiently served under the demand
20 contract, LNG contract, and Pine Needle contract volumes shown in this summary. No
21 Demand or Storage service changes occurred during the review period ending June 30,
22 2019. Volumes shown are Dth.

Testimony of Rai Trippe
Docket G-41, Sub 54
Page 10

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AUG-30-2019

Description of Service	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19
Cherokee - FT	2,070	2,070	2,070	2,070	2,070	2,070	2,070	2,070	2,070	2,070	2,070	2,070
Sunbelt 1997 - FT	518	518	518	518	518	518	518	518	518	518	518	518
SouthCoast - FT Mainline	2,105	2,105	2,105	2,105	2,105	2,105	2,105	2,105	2,105	2,105	2,105	2,105
Converted Firm Trans. - CFT	294	290	346	1,381	1,898	2,300	2,300	2,300	1,898	1,381	346	346
LNG Capacity	3,105	3,105	3,105	3,105	3,105	3,105	3,105	3,105	3,105	3,105	3,105	3,105
LNG Daily Demand	1,035	1,035	1,035	1,035	1,035	1,035	1,035	1,035	1,035	1,035	1,035	1,035
Pine Needle Capacity	2,898	2,898	2,898	2,898	2,898	2,898	2,898	2,898	2,898	2,898	2,898	2,898

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4. Please provide the one-day design peak demand requirements used by the Company for planning purposes for the review period and forecasted for each of the next five (5) winter seasons. The peak demand requirement amounts should set forth the estimated demand for each rate schedule or priority with peak day demand. All assumptions, such as heating degree-days, dekatherms per heating degree-day, customer growth rates, and supporting calculations used to determine the peak day requirement amounts should be provided.

Response 1-4: Toccoa's peak day and peak demand requirements are evaluated annually by the Municipal Gas Authority of GA staff, and an updated Winter Service Plan is produced and submitted to Toccoa each year prior to the winter season. Please see Exhibit 3, "Municipal Gas Authority of Georgia Winter Service Plan -2018 - 2019". Gas Authority analysis uses 51 HDD's to forecast design day usage.

1 5. Please describe how Toccoa determines which type of resources should be acquired
2 or developed for meeting the Company's deliverability needs. Also, please describe the
3 factors evaluated in deciding whether the Company should acquire pipeline transportation
4 capacity, acquire a storage service, or develop additional on-system storage deliverability.

5

6 **Response 1-5:** The Gas Authority makes these determinations based on least cost
7 and operational flexibility of the options available at the time new pipeline, storage, or
8 peaking capacity is forecasted to be necessary to meet TNG's firm needs. No new,
9 additional capacity or storage opportunities are being considered at this time.

10

11 6. Please describe how the Company determines the amount of pipeline capacity that
12 should be acquired for (a) the whole year, (b) the full winter season, and (c) less than the
13 full winter season. Also, please describe the factors evaluated in determining the
14 appropriate amount and mix of service period options.

15

16 **Response 1-6:** Each year Toccoa's capacity needs are met by their existing
17 capacity agreements. Most of these contracts are in place for 15 years or more. If Toccoa
18 exceeds their contract, the least expensive option will be chosen to cover that particular
19 period. Options include shifting capacity from another MGAG Member city, acquiring a
20 delivered service, incurring "penalty gas" charges, etc. However, Toccoa has the ability to
21 interrupt several large gas users to prevent the potential cost of exceeding their contract.

1 No additional capacity needs are anticipated, and no new capacity opportunities are being
2 considered at this time.

3

4 7. Please describe each new capacity and storage opportunity that the Company is
5 contemplating entering into during the next five (5) year period beginning with the -2019
6 - 2020 winter season.

7

8 **Response 1-7:** No new, additional capacity or storage opportunities are being
9 considered at this time.

10

11 8. Please provide a computation of the reserve or excess capacity estimated for the
12 review period and forecasted for each of the next five (5) winter seasons.

13

14 **Response 1-8:** Please see Exhibit 3, "Municipal Gas Authority of Georgia Winter
15 Service Plan -2018 - 2019".

16

17 9., Please describe any significant storage, transmission, and distribution upgrades
18 required for the Company to fulfill its peak day requirements during the next five (5) years.

19 **Response 1-9:** No upgrades are anticipated at this time.

20

21 Q. Does that conclude your testimony?

22 A. Yes.

1 MS. CULPEPPER: I move that the prefilled
2 joint testimony of Neha R. Patel, Iris Morgan and
3 Julie G. Perry filed on October 18, 2019, consisting
4 of 16 pages and three appendices be copied into the
5 record as if given orally from the stand.

6 COMMISSIONER BROWN-BLAND: And without
7 objection, that motion will be allowed.

8 (WHEREUPON, the prefilled joint
9 testimony and Appendices A, B and
10 C of NEHA R. PATEL, IRIS MORGAN
11 and JULIE G. PERRY is copied into
12 the record as if given orally from
13 the stand.)
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TOCCOA NATURAL GAS
DOCKET NO. G-41, SUB 54
JOINT TESTIMONY OF
NEHA R. PATEL, IRIS MORGAN, AND JULIE G. PERRY
ON BEHALF OF
THE PUBLIC STAFF – NORTH CAROLINA UTILITIES COMMISSION
OCTOBER 18, 2019

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 a Utilities Engineer
5 with the Natural Gas Division of the Public Staff. My qualifications
6 and 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 (1) to evaluate the prudence of the
10 natural gas purchases made by Toccoa Natural Gas (Toccoa or
11 Company), and (2) to discuss my recommendation regarding any
12 temporary rate increments or decrements.

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

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

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

7 A. The purpose of my testimony is (1) to present the results of my
8 review of the gas cost information filed by Toccoa in accordance
9 with N.C. Gen. Stat. § 62-133.4(c) and Commission Rule R1-
10 17(k)(6), and (2) to provide my conclusions regarding whether the
11 gas costs incurred by Toccoa during the 12-month review period
12 ended June 30, 2019, were properly accounted for, and (3) discuss
13 any changes to the deferred account reporting during the review
14 period.

15 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND**
16 **PRESENT POSITION.**

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

1 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
2 **PROCEEDING?**

3 A. The purpose of my testimony is to discuss my investigation and
4 conclusions regarding the prudence of Toccoa's hedging activities
5 during the review period.

6 **Q. PLEASE EXPLAIN HOW THE PUBLIC STAFF CONDUCTED ITS**
7 **REVIEW.**

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

16 **Q. MS. PATEL, WHAT IS THE RESULT OF YOUR EVALUATION OF**
17 **TOCCOA'S GAS COSTS?**

18 A. Based on my investigation and review of the data in this docket, I
19 believe that Toccoa's gas costs were prudently incurred.

20 **Q. MS. PATEL, PLEASE DESCRIBE TOCCOA AND ITS**
21 **OPERATIONS IN NORTH CAROLINA.**

1 A. Toccoa is a municipal corporation created by the laws of the State
2 of Georgia. It has been providing natural gas service in Georgia
3 since 1952, and in Macon County, North Carolina since 1998. It is
4 a full requirements wholesale customer of the Municipal Gas
5 Authority of Georgia (Gas Authority), which manages its capacity,
6 storage, and supply contracts.

7 Toccoa's total sales volume for the annual review year ended
8 June 30, 2019, was 1,378,123 dekatherms (dts), of which 140,688
9 dts (10.2%) were sold in North Carolina.

10 It is expected that Toccoa will experience incremental growth over
11 the next five years as the expansion of its system continues. As
12 necessary, the Gas Authority assists Toccoa in acquiring the most
13 cost effective combination of pipeline, storage, and peaking
14 capacities on the system of Transcontinental Gas Pipe Line
15 Company, LLC (Transco), based on least cost and operational
16 flexibility.

17 **Q. MS. MORGAN, HAS THE COMPANY PROPERLY ACCOUNTED**
18 **FOR ITS GAS COSTS DURING THE REVIEW PERIOD?**

19 A. Yes.

20 **Q. MS. PATEL, WHAT OTHER ITEMS DID THE NATURAL GAS**
21 **DIVISION REVIEW?**

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

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

9 **Q. MS. MORGAN, HOW DOES THE ACCOUNTING DIVISION GO**
10 **ABOUT CONDUCTING ITS REVIEW OF THE COMPANY'S**
11 **ACCOUNTING FOR GAS COSTS?**

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

16 (1) **Gas Cost True-Up** - The actual commodity and
17 demand gas costs are verified, calculations and data
18 supporting the gas costs collected are checked, invoices are
19 reviewed, and the overall calculation is checked for
20 mathematical accuracy.

21 (2) **Temporary Increments and/or Decrements** -
22 Calculations and supporting data are verified regarding the

1 collections from and/or refunds to customers that have
2 occurred through the Deferred Gas Cost Account.

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

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

13 (5) **Interest Accrual** - Toccoa began calculating interest
14 on its Deferred Gas Cost Account in October 2016.
15 Calculations of the interest accrued on the account balance
16 during the month are verified in accordance with N.C. Gen.
17 Stat. § 62-130 (e).

18 **Q. HOW DO THE COMPANY'S FILED GAS COSTS FOR THE**
19 **CURRENT REVIEW PERIOD COMPARE WITH THOSE FOR THE**
20 **PRIOR REVIEW PERIOD?**

21 **A.** Toccoa's total company gas costs for the current review period
22 were \$5,407,265, compared to the prior year's costs of \$4,893,027.

1 The North Carolina portion of gas costs incurred during the current
 2 review period was \$428,903, compared with \$411,310 for the prior
 3 period. The components of gas costs incurred for the two periods
 4 are as follows:

	12 Months Ended		Increase (Decrease)	% Change
	June 30, 2019	June 30, 2018		
Transco Pipeline Charges:				
Cherokee - FT	\$213,100	\$212,882	\$218	0.10%
Converted Firm Transp. - CFT	145,436	133,163	12,273	9.22%
South Coast - FT Mainline	123,161	124,598	(1,437)	-1.15%
Sunbelt 1997 - FT	38,327	39,451	(1,124)	-2.85%
Capacity Release Credits	(14,780)	(14,033)	(747)	5.32%
Total Transco Pipeline Charges	\$505,244	\$496,061	\$9,183	1.85%
Storage/Peaking Services:				
Transco LGA	\$24,355	\$20,736	\$3,619	17.45%
Pine Needle Capacity	97,189	88,868	8,321	9.36%
Total Storage/Peaking Services	\$121,544	\$88,868	\$32,676	36.77%
Total Demand and Storage Costs	\$626,788	\$584,929	\$41,859	7.16%
Gas Supply Costs:				
Authority Gas Supply FT	\$4,400,536	\$3,867,571	\$532,965	13.78%
Supply Charge-meters and throughput	113,981	112,939	1,042	0.92%
Pine Needle Supply	41,195	87,765	(46,570)	-53.06%
LNG Withdrawal	16,714	17,484	(770)	-4.40%
FT Released Capacity Supply	60,226	51,052	9,174	17.97%
Authority G&A Charges	144,241	141,791	2,450	1.73%
Swing Supply Charges ¹	64,610	54,178	10,432	19.26%
Total Gas Supply Costs	\$4,841,503	\$4,332,780	\$508,723	11.74%
Total Other Gas Costs	(\$61,027)	(\$24,682)	(\$36,345)	147.25%
Total Company Gas Costs	\$5,407,265	\$4,893,027	\$514,238	10.51%
NC Portion of Total Gas Costs	\$428,903	\$411,310	\$17,593	4.28%

¹Reclassified Swing Supply Charges to Gas Supply Costs in prior period. Total Gas Supply Costs remain unchanged.

5 **Q. PLEASE EXPLAIN ANY SIGNIFICANT INCREASES OR**
 6 **DECREASES IN DEMAND AND STORAGE CHARGES.**

7 **A. The increases in Cherokee – FT and Converted Firm**
 8 **Transportation (CFT) are primarily due to changes in Transco's**

1 rates pursuant to Federal Energy Regulatory Commission (FERC)
2 Docket No. RP19-800-000 effective April 1, 2019.

3 The decreases in **South Coast – FT Mainline and Sunbelt 1997 –**
4 **FT** are primarily due to changes in Transco's rates pursuant to
5 FERC Docket No. RP18-1126-000, which became effective March
6 1, 2019.

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

13 The increase in **Transco LGA** is primarily due to changes in
14 Transco's rates pursuant to FERC Docket No. RP18-1126-000, and
15 Docket No. RP19-800-000, which became effective March 1, 2019
16 and April 1, 2019, respectively.

17 The increase in **Pine Needle Capacity** is primarily due to changes
18 in Transco's rates pursuant to FERC Docket No. RP19-945-000,
19 which became effective May 1, 2019.

20 **Authority Gas Supply FT** charges increased primarily due to
21 higher wellhead gas prices during this review period compared with

1 the prior review period. This increase is generally consistent with
2 the changes in market indices experienced between the two
3 periods.

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

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

12 The decrease in **LNG Withdrawal** is due to the fact that there was
13 a decrease in LNG Withdrawals during the current review period.

14 **FT Released Capacity Supply** is excess supply available from
15 other members of the Gas Authority that is used to meet Toccoa's
16 needs. During the review period, these charges increased primarily
17 due to higher gas prices during this review period as compared with
18 the prior review period.

19 **Authority G&A Charges** include items for general and
20 administrative costs based on the number of meters and
21 throughput. These charges increased due to an increase in the

1 Gas Authority's operating costs during the current review period as
2 compared to the prior review period.

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

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

11 **HEDGING ACTIVITIES**

12 **Q. MS. PERRY, WHAT IS THE STANDARD SET FORTH BY THE**
13 **COMMISSION FOR EVALUATING THE PRUDENCE OF A**
14 **COMPANY'S HEDGING DECISIONS?**

15 **A.** In its February 26, 2002, Order on Hedging in Docket No. G-100,
16 Sub 84 (Hedging Order), the Commission stated that the standard
17 for reviewing the prudence of hedging decisions is that the decision
18 "must have been made in a reasonable manner and at an
19 appropriate time on the basis of what was reasonably known or
20 should have been known at that time." Hedging Order, 92 NCUC 4,
21 11-12 (2002).

22

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

2 A. Toccoa participates in the "Winter Hedge Program," which is
3 managed by the Gas Authority for its members, including Toccoa.
4 The Gas Authority is the largest non-profit joint action natural gas
5 agency in the nation and supplies the natural gas needs of 78
6 member cities. The goal of the "Winter Hedge Program" is to
7 achieve price stability at a reasonable price for its customers by
8 locking-in futures prices for a portion of the anticipated winter firm
9 load. Under the Gas Authority's "Winter Hedge Program," a
10 member enters into hedging arrangements with the Gas Authority
11 specifying the targeted level of volumes to hedge. These hedging
12 arrangements typically span two to three years.

13 **Q. PLEASE COMMENT ON THE TYPES OF FINANCIAL**
14 **INSTRUMENTS THAT THE GAS AUTHORITY MAY USE IN ITS**
15 **HEDGING PROGRAM.**

16 A. The Gas Authority typically uses three-way options, basis swaps,
17 and fixed price swaps. A three-way option involves the purchase of
18 a call option, the sale of a put option, and the sale of a call option at
19 a strike price that is above the strike price of the purchased call
20 option. The three-way option offers upside protection over the
21 spread in the strike prices of the two call options, and allows
22 downside participation until prices drop below the strike price of the
23 put option. A basis swap is used to lock in the price difference

1 between a Transco pricing point and Henry Hub (NYMEX), the
2 pricing point typically used by the Gas Authority. Fixed price swaps
3 provide the most upside protection, effectively locking in a forward
4 purchase price, but offer no downside participation if prices drop.

5 **Q. PLEASE DESCRIBE THE HEDGING ACTIVITY OF THE GAS**
6 **AUTHORITY DURING THE REVIEW PERIOD.**

7 A. During the current review period, the hedging program resulted in a
8 (\$2,674) credit to Toccoa's gas supply costs for North Carolina
9 customers.

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

12 A. Yes. During the current review period, Toccoa continued to elect to
13 hedge its winter hedge volumes at approximately 20% of all firm
14 North Carolina gas sales of through March 2019.

15 Toccoa reviewed its current Winter Hedge Program participation
16 and elected to continue its winter hedge volumes at approximately
17 20% of all firm North Carolina gas sales for November 2019
18 through March 2021. Toccoa continued to adopt the more
19 conservative hedge volumes for its participation in the Winter
20 Hedge Program because market and future pricing has been
21 significantly lower than in prior years. Toccoa also elected to

1 continue the maximum hedging program term offered by the Gas
2 Authority of two years beginning November 1, 2019.

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

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

10 **DESIGN DAY REQUIREMENTS**

11 **Q. MS. PATEL, AS TO THE COMPANY'S FUTURE CAPACITY**
12 **REQUIREMENTS, WHAT DID YOU REVIEW AND HAVE YOU**
13 **DRAWN ANY CONCLUSION FROM YOUR REVIEW?**

14 A. I reviewed the Company's testimony and information submitted by
15 the Company in response to data requests that dealt with how well
16 the projected firm demand requirements aligned with the available
17 capacity in the future.

18 From my review, I concluded that it appears that the Company has
19 adequate capacity to meet firm demand for the next several winter
20 seasons.

21

1 **WHAT IS THE APPROPRIATE DEFERRED ACCOUNT**
 2 **BALANCE AS OF JUNE 30, 2019?**

3 A. The balance in Toccoa's Deferred Gas Cost Account at June 30,
 4 2018, is a \$22,850 credit balance, owed to customers. The
 5 following chart summarizes Toccoa's Deferred Gas Cost Account
 6 activity for the current review period:

Deferred Account Balance - July 1, 2018	(\$7,261)
Commodity True-up	9,557
Demand True-Up	(63,152)
Firm Hedges	(2,674)
(Increment) Decrement	41,833
Adjustment	(324)
Interest	(830)
Deferred Account Balance - June 30, 2019	<u>(\$22,850)</u>

7 **Q. MS. PATEL, WHAT IS YOUR RECOMMENDATION REGARDING**
 8 **ANY PROPOSED INCREMENTS/DECREMENTS?**

9 A. In general, temporary increments or decrements for a local
 10 distribution company (LDC) are calculated using the volumes from
 11 an LDC's last general rate case. As Toccoa has never had a
 12 general rate case, the Public Staff has previously recommended,
 13 and the Commission has previously approved, using the review
 14 period North Carolina firm sales volumes instead in this calculation.

15 Toccoa's Deferred Account balance as of June 30, 2019, is a credit
 16 balance of \$22,850, owed to customers from the Company. At the
 17 end of August 2019, the over-collection had decreased to credit
 18 balance of \$18,153, owed to customers. The Company estimates

1 that the balance will flip to an under-collection going into the 2019
2 winter period and then swing back to an over-collection as the
3 winter period progresses. It is my recommendation that the
4 Company leave the current decrement of \$0.4397 per dt that was
5 placed into rates effective January 1, 2018, in Docket No. G-41,
6 Sub 50. The Public Staff made the same recommendation in
7 Toccoa's prior annual review of gas costs proceeding in Docket No.
8 G-41, Sub 53, which was approved by the Commission. I further
9 recommend that Toccoa continue to monitor the balance in its
10 Deferred Account and file a request to implement new temporary
11 increments or decrements, as applicable, through the Purchased
12 Gas Cost Adjustment mechanism to avoid significant over-
13 collection of its fixed gas costs. It is my understanding that Toccoa
14 does not oppose these recommendations.

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

16 **A.** Yes, it does.

APPENDIX A

QUALIFICATIONS AND EXPERIENCE

OF

**NEHA R. PATEL
UTILITIES ENGINEER****PUBLIC STAFF – NORTH CAROLINA UTILITIES COMMISSION
NATURAL GAS DIVISION**

I graduated from the 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. Customer Complaint Resolutions;
7. Integrity Management Riders
8. Franchise Exchange Filings;
9. Annual Review of Gas Costs Proceedings;
10. Cost Of Service Study;
11. General Rate Case Proceedings;
12. Rate Design;
13. Compressed Natural Gas Special Contracts
14. Peak Day Demand and Capacity Calculations; and
15. Fuel and Electric Usage Trackers
16. Gas Resellers.

IRIS MORGAN

Qualifications and Experience

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.

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: That concludes our case.

2 COMMISSIONER BROWN-BLAND: All right. If
3 there's nothing else to come before the Commission,
4 how about the proposed orders? Is 30 days from today
5 acceptable to both parties?

6 MS. CULPEPPER: That's fine.

7 MS. KEMERAIT: That's acceptable.

8 COMMISSIONER BROWN-BLAND: Then so ordered.
9 And thank you for showing up to our hearing today.
10 Nothing else to come before the Commission, we will be
11 adjourned.

12 (The proceedings were adjourned)

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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

APR 17
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NORTH CAROLINA
UTILITIES COMMISSION

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NOV 07 2019

**Clerk's Office
N.C. Utilities Commission**