

**Before the  
Tennessee Regulatory Authority**

**Docket No. 11-\_\_\_\_\_**

**Petition of Piedmont Natural Gas Company, Inc. for an  
Adjustment to its Rates, Approval of Changes to Its Rate Design,  
Amortization of Certain Deferred Assets, Approval of New  
Depreciation Rates, Approval of Revised Tariffs and Service  
Regulations, and Approval of a New Energy Efficiency Program  
and GTI Funding.**

**Testimony  
of  
Thomas E. Skains**

**On Behalf Of  
Piedmont Natural Gas Company, Inc.**



**September 2, 2011**

1 **Q. Please state your name and business address.**

2 A. My name is Thomas E. Skains and my business address is 4720 Piedmont  
3 Row Drive, Charlotte, North Carolina.

4 **Q. By whom and in what capacity are you employed?**

5 A. I am Chairman, President and Chief Executive Officer of Piedmont  
6 Natural Gas Company ("Piedmont" or "the Company").

7 **Q. Please describe your educational and professional background.**

8 A. I graduated from Sam Houston State University in 1978 with a Bachelor's  
9 Degree in Business Administration. In 1981, I received a Doctor of  
10 Jurisprudence Degree from the University of Houston Law School, and I  
11 was admitted to the State Bar of Texas. I joined the legal department of  
12 Transcontinental Gas Pipe Line Corporation ("Transco") in 1981 and  
13 practiced law in the areas of natural gas supply, rate and federal energy  
14 regulatory matters until 1986. In 1986, I was elected a Vice President of  
15 Transco and was responsible for marketing, transportation and customer  
16 service. I was promoted to Senior Vice President in 1989 and was  
17 responsible for the marketing and administration of Transco's  
18 transportation and storage services, including project development  
19 activities, until I left Transco in 1995 to join Piedmont as Senior Vice  
20 President - Gas Supply. In 2000, I was named Piedmont's Senior Vice  
21 President - Marketing and Supply Services. I later was named President  
22 and Chief Operating Officer in 2002 and Chairman, President and Chief  
23 Executive Officer in 2003.

1   **Q.   Mr. Skains, have you previously testified before the Tennessee**  
2       **Regulatory Authority (“TRA”) or any other regulatory authority?**

3   A.   Yes. I have presented testimony and appeared as a witness before the  
4       TRA. I have also previously testified before the North Carolina Utilities  
5       Commission, the Public Service Commission of South Carolina, and the  
6       Federal Energy Regulatory Commission.

7   **Q.   Have you held any positions in natural gas trade associations?**

8   A.   Yes. I served as Chairman of the American Gas Association in 2009, as  
9       Chairman of the Southern Gas Association (“SGA”) in 2006 and remain  
10      on the Board of both of those associations. I am a former Board member  
11      of the Southeastern Gas Association (now part of the SGA) and the  
12      Natural Gas Transportation Association (now known as the National  
13      Energy Services Association). I also currently serve on the Boards of the  
14      American Gas Foundation and the Gas Technology Institute (“GTI”).

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

16   A.   My testimony supports the Petition filed by Piedmont seeking the  
17      establishment of a general rate proceeding in this docket. In this  
18      testimony, I will provide a brief description of Piedmont and its business,  
19      summarize our request for rate relief, and provide an overview of the  
20      other significant aspects of our filing.

21   **Q.   Please describe Piedmont and its business.**

22   A.   Piedmont is a North Carolina corporation with its headquarters in  
23      Charlotte, North Carolina. The Company is principally engaged in the

1 natural gas distribution business and, as of the end of July, 2011, served  
2 over one million customers, including 164,662 in Tennessee, 716,050 in  
3 North Carolina (approximately 52,000 of which are served by municipal  
4 gas systems that are our wholesale customers), and 131,103 in South  
5 Carolina.

6 **Q. Please describe your gas distribution business in Tennessee.**

7 A. Piedmont provides natural gas sales and transportation service to  
8 residential, commercial, and industrial customers in the greater Nashville  
9 metropolitan area of Davidson County and portions of the adjoining  
10 counties of Cheatham, Dickson, Robertson, Rutherford, Sumner,  
11 Trousdale, Williamson, and Wilson.

12 **Q. What is Piedmont seeking in this application?**

13 A. In this proceeding, Piedmont seeks TRA authorization to: (1) update and  
14 increase its rates and charges to account for changes in its rate base,  
15 operating expenses and capital structure since its last general rate case;  
16 (2) update the customer usage factors underlying Piedmont's base rates;  
17 (3) amortize and collect certain environmental clean-up, pension, and  
18 flood-related expenditures that have been deferred in the interim period  
19 since Piedmont's last general rate case proceeding in 2003; (4) modify the  
20 existing rate design methodology for commercial and residential  
21 customers in order to more closely match cost incurrence with cost  
22 recovery and to align rate structures with Piedmont's promotion of energy  
23 efficiency and conservation; (5) establish new depreciation rates to

1 amortize the cost of assets, net of salvage value, over the estimated useful  
2 life of the assets in a systematic and rational manner; (6) recover the  
3 substantial and ongoing projected costs associated with installing and  
4 maintaining system integrity and safety related facilities and programs on  
5 Piedmont's system; (7) update and revise Piedmont's existing service  
6 regulations and tariffs; (8) establish a new cost-effective "School Energy  
7 Pledge" program to promote more efficient utilization of energy by our  
8 Tennessee customers; and (9) provide for annual contributions to the Gas  
9 Technology Institute ("GTI") for natural gas distribution and transmission  
10 research and development efforts.

11 The Petition filed by the Company proposes rate changes that, in  
12 the aggregate, would produce an overall increase in annual revenues of  
13 approximately \$16.7 million. This 8.9% increase in annual revenues is  
14 necessary to cover the costs (including a reasonable return on investment)  
15 to provide adequate and reliable natural gas service to the Company's  
16 customers in Tennessee and reflects an annual average increase of only  
17 1.1% since Piedmont's last general rate proceeding in 2003. Even with  
18 this increase, Piedmont's request in this case, adjusted for inflation,  
19 represents a net reduction in the costs paid by an average Tennessee  
20 residential natural gas customer for the services provided by Piedmont  
21 compared to the rates approved in Piedmont's last general rate proceeding  
22 in 2003.

23 **Q. Please explain why it was necessary to file this rate case.**

1 A. There are several factors that prompted this rate filing. First, since our  
2 last rate case in 2003 we have made substantial capital investments to  
3 maintain and expand our gas distribution system, liquefied natural gas  
4 (“LNG”) storage facility, and operations facility for the benefit of current  
5 and future Tennessee customers. During this same period, we have also  
6 experienced changes in the Company’s operating costs and capital  
7 structure. As a result, we are in need of general rate relief to recover our  
8 prudently incurred costs and to generate a fair rate of return on invested  
9 capital.

10 Second, due to a heightened national focus on natural gas safety  
11 and integrity Piedmont will incur significant levels of new investment and  
12 expense related to natural gas transmission and distribution integrity and  
13 safety programs scheduled for implementation during the attrition period  
14 and beyond.

15 Third, since our last rate case we have experienced changes in  
16 average customer usage from the assumed usage levels underlying our  
17 existing base rates. In this case, we are proposing several rate design  
18 modifications that will help mitigate the impact of these types of changes  
19 to customer usage profiles and align the interests of Piedmont with its  
20 customers on energy conservation and efficiency programs consistent  
21 with the stated public policy of Tennessee.

22 Fourth, since our last rate case we have deferred, pursuant to prior  
23 TRA orders, significant environmental clean-up costs, pension funding

1 costs, and flood-related costs that need to be amortized and collected over  
2 future periods.

3 Fifth, we are also seeking to implement new depreciation rates  
4 based on a current study. These new rates will more properly align the  
5 Company's recovery of its invested capital with the useful life of its  
6 underlying physical plant and will benefit customers through reduced  
7 depreciation expense.

8 Finally, we believe it is in the best interests of Piedmont and its  
9 customers to make a number of modifications and additions to our  
10 Tennessee tariffs and service regulations in order to promote energy  
11 efficiency and conservation, system integrity and safety and to conform  
12 them to a new market and operating environment.

13 **Q. Will other witnesses offer testimony on behalf of the Petition in this**  
14 **proceeding?**

15 A. Yes. Pia Powers will testify in support of our cost of service exhibits, our  
16 proposed amortization and recovery of deferred environmental and flood  
17 remediation costs, our proposed energy efficiency and conservation  
18 program, and annual GTI funding. David Carpenter will testify in  
19 support of our rate base, proposed revenues and our proposed changes in  
20 rates, tariffs and service regulations. Rodney Myers and David Carpenter  
21 will testify in support of our proposals regarding the recovery of  
22 substantial and ongoing system integrity and safety costs. Dave Dzuricky  
23 will testify in support of our capital structure and the amortization of

1 deferred pension expenses. Dan Yardley will present the results of his  
2 class cost of service study and testify in support of that study and our  
3 proposed rate design. Rhonda Watts will testify in support of our  
4 proposed depreciation rates to be utilized in this case. Finally, Dr.  
5 Donald Murry will provide testimony in support of the Company's cost of  
6 capital and our requested rate of return on common equity.

7 **Q. Please discuss the Company's utility capital investments since the last**  
8 **rate case and how those investments have been financed?**

9 A. Since its 2003 rate case, Piedmont has added approximately 13,278 new  
10 customers to its Tennessee distribution system. This growth, along with  
11 the need to upgrade and replace aging distribution and transmission  
12 facilities, LNG facilities, and our Nashville operations center, has  
13 necessitated significant capital investments by the Company. In  
14 Tennessee, these investments have totaled more than \$272 million since  
15 Piedmont's last rate case. The Company has financed these capital  
16 investments through a combination of internally generated cash, short-  
17 term and long-term debt, and equity.

18 **Q. How have the Company's operating expenses, customer service and**  
19 **capital structure changed since its last rate case?**

20 A. Since its 2003 rate case, Piedmont has implemented operational and  
21 organizational improvements which have improved the Company's cost  
22 structures in a manner that will benefit customers in this case. The  
23 Company has also engaged in a common stock repurchase program over



1 the last several years that has stabilized the equity component of the  
2 Company's capital structure. In addition, the Company has and continues  
3 to restructure its short- and long-term debt in order to take advantage of  
4 lower rates of interest.

5 **Q. Why is the Company making significant investments in new integrity**  
6 **and safety measures?**

7 A. We are currently making significant investments in integrity and safety  
8 related improvements to Piedmont's natural gas transmission facilities  
9 and have budgeted approximately \$33 million in such investment during  
10 the attrition period in this case. This investment is being driven primarily  
11 by the requirements of Part 192 of the United States Department of  
12 Transportation pipeline integrity management regulations that were  
13 adopted several years ago. These regulations require Piedmont to  
14 undertake significant assessment programs with respect to its  
15 transmission facilities and to remediate or repair any anomalous  
16 conditions discovered through those programs.

17 **Q. How has customer usage changed since Piedmont's last rate case?**

18 A. As is reflected in Mr. Carpenter's testimony and consistent with national  
19 trends in natural gas consumption, the average annual usage of natural  
20 gas by Piedmont's residential and commercial customers has declined  
21 since our last rate case. In 2003, our residential customers consumed a  
22 normalized average of 78.1 dekatherms per year. That average usage has  
23 now declined to 73.6 dekatherms per year, a reduction of 5.8% over 8

1 years. In light of this trend, it is important for Piedmont's rates to be  
2 properly designed to preserve the Company's ability to earn its allowed  
3 return.

4 **Q. Is the Company proposing to make any changes that promote more**  
5 **efficient usage of natural gas by its customers?**

6 A. Yes. Piedmont is proposing several changes that would serve to promote  
7 better cost transparency and increased energy efficiency. We propose a  
8 restructuring of commercial and residential rates to better align cost  
9 incurrence with cost recovery, allowing customers to better see the cost  
10 effects of their energy decisions. We are also proposing a new energy  
11 efficiency and conservation program to assist our customers in conserving  
12 energy, using energy more efficiently, and realizing the economic  
13 benefits of lower energy consumption.

14 **Q. How is the Company proposing to restructure residential and**  
15 **commercial rates?**

16 A. We are proposing to increase the monthly charge component of our  
17 residential and commercial rates. This change, which is discussed more  
18 fully by Mr. Carpenter and Mr. Yardley, will better match the incurrence  
19 and recovery of fixed costs, will send more transparent price signals to  
20 our customers, and will better align the interests of Piedmont and its  
21 customers on energy conservation and efficiency programs.

22 **Q. Is the Company proposing other cost allocation and rate design**  
23 **changes for residential and commercial customers?**

1 A. Yes. We are proposing to eliminate the existing value/standard rate  
2 structure for residential and commercial customers. That structure has  
3 been in place for several years and generally provides lower volumetric  
4 rates for customers who use gas on a higher annual load factor basis and  
5 higher volumetric rates for lower load factor customers. While this rate  
6 structure makes sense from an economic cost allocation perspective, it  
7 does run counter to our goal of helping customers use energy efficiently.  
8 As discussed more fully by Mr. Carpenter and Mr. Yardley, we believe  
9 the move to recover more fixed costs through fixed charges is a better  
10 cost allocation and rate design methodology with that goal in mind.

11 **Q. Can you describe the Company's proposed energy efficiency and**  
12 **conservation program?**

13 A. Yes. In our filing, we propose to allocate \$500,000 a year, on a  
14 continuing basis, to a new energy efficiency and conservation program.  
15 This program would involve an energy education program for  
16 approximately 6,800 elementary school students within the greater  
17 Nashville metropolitan area served by Piedmont. The goal of the  
18 program is to educate elementary school students regarding the benefits  
19 and importance of using energy wisely and then obtain a pledge from  
20 them to encourage adoption of energy efficiency and conservation  
21 measures at home. This program is similar to programs implemented by  
22 other natural gas utilities across the country. The details of our proposed  
23 program are described by Ms. Powers.

1   **Q.    Is the Company proposing to change its depreciation rates?**

2    A.    Yes. We have recently retained Alliance Consulting Group to conduct an  
3       updated depreciation study regarding the useful life of our plant and the  
4       appropriate recovery of capital investment through depreciation expense.  
5       The results of that study, which benefit customers through lower  
6       depreciation rates, are contained in the testimony of Rhonda Watts.

7   **Q.    Is Piedmont proposing other changes to its Service Regulations and**  
8       **Tariffs?**

9    A.    Yes. We are proposing a number of other changes to our rate schedules  
10       and service regulations. These changes are discussed in the testimony of  
11       David Carpenter and are designed to accomplish several goals. First,  
12       Piedmont is proposing modifications to its tariffs to clarify the procedures  
13       for obtaining and changing service from Piedmont. Second, Piedmont is  
14       proposing to modify the period for the Company's seasonally  
15       differentiated rates and WNA rider in order to mitigate variability in  
16       customer usage during the months of October and April and to better  
17       conform Piedmont's WNA practices with those of the other distribution  
18       companies operating in Tennessee. Third, Piedmont is proposing to add a  
19       compressed natural gas vehicle fueling rate schedule to its tariff in order  
20       to provide for and promote the use of this abundant, domestic, and  
21       environmentally friendly energy source as a motor fuel.

22   **Q.    Is Piedmont proposing to provide natural gas distribution technology**  
23       **research and development funding for the Gas Technology Institute?**

1 A. Yes. As discussed by Ms. Powers, Piedmont proposes to fund natural gas  
2 distribution safety research and development programs sponsored by GTI  
3 in the amount of \$150,000 per year. This amounts to an average of \$0.08  
4 per month per customer and would allow Piedmont and its customers to  
5 participate in the funding of new technology to promote safe and reliable  
6 natural gas service for current and future customers.

7 **Q. Does this conclude your testimony?**

8 A. Yes it does.