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January 11, 2012

VIA HAND DELIVERY

Chairman Kenneth C. Hill
c/o Sharla Dillon
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, Tennessee 37243

Re: ***Petition of Piedmont Natural Gas Company, Inc. 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, Docket No. 11-00144***

Dear Chairman Hill:

Enclosed please find an original and five (5) copies of the Supplemental Testimony of David Carpenter on behalf of Piedmont Natural Gas Company, Inc.

This material is also being filed today by way of email to the Tennessee Regulatory Authority docket manager, Sharla Dillon. Please file the original and four copies of this material and stamp the additional copy as "filed." Then please return the stamped copy to me by way of our courier.

Should you have any questions concerning this matter, please do not hesitate to contact me at the email address or telephone number listed above.

Sincerely,



David Killion

Enclosures

Chairman Kenneth C. Hill
January 11, 2012
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cc: Mr. David Foster, Chief of Utilities Division (w/o enclosure)
Mr. Jerry Kettles, Chief of Economic Analysis & Policy Division (w/o enclosure)
Ryan McGehee, Esq. (via email w/ enclosure)
C. Scott Jackson, Esq. (via email w/ enclosure)

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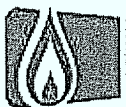
**Before the
Tennessee Regulatory Authority**

Docket No. 11-00144

**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.**

**Supplemental Testimony
of
David R. Carpenter**

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



**Piedmont
Natural Gas**

January 11, 2012

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

2 A. My name is David R. Carpenter. 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 employed by Piedmont Natural Gas Company, Inc. ("Piedmont" or the
6 "Company") as Vice President – Planning and Regulatory Affairs.

7 **Q. Are you the same David Carpenter who submitted prefiled direct**
8 **testimony in this proceeding?**

9 A. Yes, I am.

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

11 A. The purpose of my supplemental testimony in this proceeding is to explain
12 and support the Stipulation and Settlement Agreement ("settlement") filed in
13 this proceeding between Piedmont and the Consumer Advocate and the
14 process that led to that settlement.

15 **Q. Please explain the procedures that led to settlement negotiations**
16 **between Piedmont and the Consumer Advocate.**

17 A. On September 2, 2011, Piedmont made its rate case filing in this docket in
18 which, among other things, it proposed changes to its rates, revenues, and
19 tariffs and sought recovery of certain previously deferred regulatory assets.
20 The total annual revenue increase proposed by Piedmont in its initial filing
21 was \$16,712,711. This filing was the first general rate case filed by
22 Piedmont since 2003 and represented an 8.9% proposed increase in
23 revenues. Along with its rate filing, Piedmont submitted the justification

1 and workpapers for its revenue increase and other proposals in the form of
2 the Authority's Minimum Filing Requirements.

3 Shortly after making its rate case filing, Piedmont received 55 data
4 requests from the Consumer Advocate and 85 data requests from the TRA
5 Staff. Piedmont spent the next several months gathering information and
6 responding to these data requests and discussing the contents of its
7 responses with both Staff and the Consumer Advocate. These informal
8 discussions led, in a number of instances, to Piedmont's provision of
9 additional supplemental responses and/or further explanation of the
10 information provided in the original response.

11 These discovery responses by Piedmont were supplemented on a number
12 of occasions by in-depth discussions between Piedmont and representatives
13 of the Consumer Advocate and TRA Staff about various substantive aspects
14 of Piedmont's filing.

15 **Q. How were negotiations between Piedmont and the Consumer Advocate**
16 **initiated?**

17 A. In our informal discussions with the Consumer Advocate during the
18 discovery phase of this proceeding both parties indicated a willingness to
19 attempt to resolve as many issues as possible in this case through discussion
20 and negotiation following the Consumer Advocate's determination of its
21 litigation position in the case.

22 **Q. When did the Consumer Advocate determine its litigation position in**
23 **this proceeding?**

1 A. In its prefiled testimony, filed with the Authority on December 6, 2011, the
2 Consumer Advocate set forth its litigation position on the issues raised by
3 Piedmont's rate case filing.

4 **Q. What was that position?**

5 A. The details of the Consumer Advocate's litigation position are set forth in its
6 direct testimony but, in general, the Consumer Advocate proposed a very
7 significant reduction in Piedmont's proposed annual revenue increase of
8 approximately \$6.849 million.

9 **Q. What was Piedmont's reaction to the Consumer Advocate's prefiled**
10 **testimony position?**

11 A. We believed that it was aggressive and understated our true attrition period
12 revenue deficiency but we were encouraged in some respects in that there
13 was agreement or near agreement on many individual aspects of Piedmont's
14 cost-of-service calculation.

15 **Q. What happened next?**

16 A. We contacted the Consumer Advocate in order to explore whether there
17 might be room for a compromise overall settlement of the case or, if not, at
18 least the chance to reduce the number of issues that would require litigation
19 before the Authority.

20 **Q. Did the Consumer Advocate indicate a continued willingness to pursue**
21 **the possibility of settling some or all of the issues in the case?**

22 A. Yes, they did. As a result, we collectively participated in several telephone
23 conferences and a face-to-face negotiating session where the details of the
24 settlement that was filed on December 22, 2011 were worked out.

25 **Q. Did either party get all that they wanted in these negotiations?**

1 A. No. The litigation positions of the parties with respect to Piedmont's
2 revenue deficiency were roughly \$6.849 million dollars apart. We
3 ultimately settled at a point - \$11.9 million - that was well below the
4 midpoint of that range. And while there was an overall compromise reached
5 between Piedmont and the Consumer Advocate (the components of which
6 are set out in the Stipulation and Settlement Agreement), the parties did not
7 adopt, either individually or in the aggregate, each of the individual aspects
8 of the settlement. In other words, while the parties were able to agree to the
9 individual components reflected in the Settlement Agreement for purposes
10 of resolving this case, those agreements are not intended to be precedential
11 or binding in nature with respect to any future rate proceedings or
12 representative of either party's litigation position in this case.

13 **Q. Is the settlement limited only to Piedmont's attrition period revenue**
14 **deficiency?**

15 A. No. The settlement also addresses a variety of issues involving rate design,
16 cost allocation, capital structure, depreciation, and proposed tariff changes.

17 **Q. What are the major cost-of-service components of the settlement?**

18 A. The major components of the settlement cost-of-service involve agreements
19 on: (1) an attrition period revenue deficiency of \$11,900,000; (2) required
20 operating income of \$27,824,920; (3) a rate base of \$348,872,819; (4) an
21 overall rate of return of 7.98%; (5) a rate of return on common equity of
22 10.2%; (6) a capital structure consisting of 5.87% short-term debt, 41.42%
23 long-term debt, and 52.71% common equity; (7) a cost of short-term debt of
24 1.59%; and (8) a cost of long-term debt of 6.05%.

25 **Q. What other agreements were included in the settlement?**

1 A. The settlement also includes agreements between the Consumer Advocate
2 and Piedmont as to: (1) attrition period throughput of 28,816,792
3 dekatherms allocated as described on Attachment B to the settlement; (2) the
4 amortization and collection over an 8 year period of amounts previously
5 deferred by Piedmont related to defined benefit pension costs,
6 environmental clean-up costs, and flood relief costs; (3) the amortization
7 and collection of rate case expense over an 8 year period; (4) changes to
8 Piedmont's rate design intended to more closely match fixed-cost incurrence
9 with fixed-cost recovery; (5) expansion of the WNA period to include
10 October and April of each year and the establishment of updated WNA
11 factors; (6) updated depreciation rates; (7) a continuation of Authority
12 approved deferral mechanisms for defined benefit pension expense and
13 environmental clean-up costs; (8) the establishment of an AFUDC rate
14 pending Piedmont's next general rate proceeding equal to Piedmont's
15 agreed overall rate of return in the settlement; and (9) various changes to
16 Piedmont's rate schedules and service regulations designed to bring those
17 tariffs up to date with Piedmont's current operating practices and
18 procedures.

19 **Q. Did Piedmont reach any other agreements with the Consumer**
20 **Advocate?**

21 A. Yes. Piedmont also agreed to reduce the commodity cost component of its
22 PGA mechanism in conjunction with this settlement.

23 **Q. Was the commodity cost component of Piedmont's PGA mechanism a**
24 **matter at issue in this proceeding?**

25 A. Not directly. Piedmont's rate case filing is focused on establishing base
26 margin rates for the Company but the commodity cost component of the

1 PGA is an additional component of the aggregate billing rates ultimately
2 paid by customers and is additive to Piedmont's base margin rates. In
3 conjunction with the settlement, Piedmont is reducing the commodity cost
4 of gas component of its rates by \$1.3603 per dekatherm, from the current
5 cost of \$4.7660 per dekatherm to a cost of \$3.4057 per dekatherm.

6 **Q. What impact does the agreed reduction in the commodity cost of**
7 **Piedmont's PGA mechanism have on the base margin rate increase**
8 **provided for in the settlement?**

9 A. The commodity decrease more than offsets the base margin increase. For
10 residential customers the proposed cost-of-service settlement will add
11 approximately \$3.83 to their average monthly bill. The commodity cost
12 decrease, however, will reduce average monthly residential bills by
13 approximately \$8.33. On a net basis, the aggregate effect of these two
14 changes in rates will be a reduction in monthly residential bills of
15 approximately \$4.50.

16 **Q. Does the settlement with the Consumer Advocate resolve all matters in**
17 **dispute in this proceeding?**

18 A. Yes. The settlement is comprehensive in nature and resolves all matters in
19 dispute between Piedmont and the Consumer Advocate - who are the only
20 two parties to this docket.

21 **Q. Is the settlement fair and reasonable in your judgment?**

22 A. Yes, we believe that the settlement is just and reasonable and consistent with
23 the public interest.

24 **Q. What is the basis for that conclusion?**

25 A. Piedmont's initial proposed rate increase in this proceeding was relatively
26 modest in our view. Prior to this case, we had not filed for a base margin

1 rate increase since 2003. That means that customers have enjoyed a steady
2 base margin rate for the gas service they received for the better part of a
3 decade. When we did file, we sought only an 8.9% increase in rates which
4 translates into an increase that is lower than the inflation rate for the period
5 between rate cases. As a practical matter, this means that even if we had
6 received our entire requested increase of \$16.7 million, our customers would
7 be paying less for gas service, on an apples-to-apples basis, than they were
8 in 2003. The settlement results in a substantial reduction to our requested
9 increase and a concurrent reduction in commodity costs the net effect of
10 which will be to substantially reduce customer rates. In addition, the
11 settlement establishes rates at which the Company believes it can operate
12 efficiently and which will allow it to compete for funds in the capital
13 markets on a reasonable basis and ensure that its operations in Tennessee are
14 safe, efficient and consistent with industry best practices. The settlement
15 also avoids the need for further costly litigation and preserves the assets of
16 both the Consumer Advocate and the Authority. All of these benefits
17 demonstrate that the settlement is in the public interest and just and
18 reasonable.

19 **Q. What is your recommendation regarding the settlement?**

20 A. Piedmont recommends that the settlement be approved without
21 modification.

22 **Q. Do you have anything to add to your supplemental testimony?**

23 A. Yes. As a final note, I would like to express our appreciation for the very
24 professional and cooperative administration of this case by the Consumer
25 Advocate and the TRA Staff. These types of proceedings have sometimes
26 been contentious in the past but that was not the case here. Piedmont

1 recognizes that the Consumer Advocate and the TRA Staff have a legitimate
2 and critical role to play in the regulatory ratemaking process. It was our
3 intent to try to recognize and facilitate that role in this proceeding without
4 becoming bogged down in procedural disputes and disagreements or by
5 attempts at "hiding the ball." It is clear from the record of this case, that the
6 Consumer Advocate and the TRA Staff undertook a professional and non-
7 litigious approach to this docket in an effort to facilitate an efficient process
8 and reach a fair result. Our procedural and substantive interactions with the
9 Consumer Advocate and the TRA Staff bore this out and we are
10 appreciative of the cooperation and professionalism displayed in the attempt
11 to reach a common goal – the establishment of just and reasonable rates for
12 Piedmont consistent with the balancing of Piedmont's and customers'
13 interests required by Tennessee law.

14 **Q. Does this conclude your settlement testimony?**

15 **A. Yes it does.**

CERTIFICATE OF SERVICE

The undersigned hereby certifies that a copy of the foregoing document is being served this date
via U.S. Mail or electronic mail upon:

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This the 11th day of January, 2012.



C. David Killion