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November 30, 2015

Filled Electronically TRA Docket Office  
11/30/15

**Via Hand-Delivery**

Executive Director Earl Taylor  
c/o Sharla Dillon  
Tennessee Regulatory Authority  
502 Deaderick Street, Fourth Floor  
Nashville, Tennessee 37423

**Re: *Piedmont Natural Gas Company, Inc. for Authorization to Amortize  
and Refund to Customers Excess Accumulated Deferred Income Taxes  
Docket No. 14-00017***

Dear Mr. Taylor:

Enclosed please find an original and five (5) copies of Piedmont Natural Gas Company Inc.'s ("Piedmont" or "Company") Settlement Testimony of Lynn Boyette.

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 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.

With kindest regards, I remain

Very truly yours,



R. Dale Grimes

RDG:lgb  
Enclosures

cc: Pia Powers (Piedmont)  
Sharla Dillon (via email)  
Wayne Irvin (CAD)

**Before the  
Tennessee Regulatory Authority**

**Docket No. 14-00017**

**Petition of Piedmont Natural Gas Company, Inc.  
for Authorization to Amortize and Refund to Customers  
Excess Accumulated Deferred Income Taxes**

**Testimony  
of  
Lynn Boyette**

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



**November 30, 2015**

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

2 A. My name is Lynn Boyette. My business address is 4720 Piedmont Row,  
3 Charlotte, NC 28210

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

5 A. I am employed by Piedmont Natural Gas Company, Inc. ("Piedmont" or  
6 "Company") as the Director of Tax Management and Planning.

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

8 A. I graduated from the University of North Carolina at Chapel Hill with a  
9 Bachelor of Science degree in Business Administration in 1979. I  
10 received a Master's degree in Business Administration from McColl  
11 School of Business, Queens College in 1992. I have been a Certified  
12 Public Accountant since 1982. I was employed by Deloitte and Touche,  
13 (formerly Deloitte Haskins & Sells) from 1980 to 1987 on their audit staff.  
14 I was promoted to audit manager in 1986. In 1987 I joined the tax  
15 department at Duke Energy Company (formerly Duke Power Company)  
16 as a senior tax analyst. I was promoted to various positions within the tax  
17 department and served as in role of Director of Taxes from 1993 to 1998.  
18 In 1998, I joined Safety-Kleen Corporation as the Director of Taxes and  
19 was promoted to Vice-President of Taxation in 1999. In 2003 I joined  
20 Piedmont as Manager of Tax Services and was promoted to my current  
21 position in 2009.

22 **Q. Have you previously testified before this Authority or any other**  
23 **regulatory authority?**

1   **A.**   No, I have not previously testified before this Authority or any other  
2           regulatory authority.

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

4   **A.**   The purpose of my testimony is to support the Stipulation of Settlement  
5           between Piedmont and the Consumer Advocate ("Stipulation") filed in  
6           this proceeding concurrent with the filing of this testimony.

7   **Q.**   **Can you please describe the nature of this proceeding and Piedmont's**  
8           **request for relief?**

9   **A.**   Yes. In its Petition, Piedmont seeks Authority authorization to refund to  
10          customers \$4,667,413 in order to facilitate the reversal of \$2,836,620 of  
11          excess accumulated deferred income taxes ("ADIT") currently being  
12          carried on Piedmont's books. This excess ADIT is the amount of ADIT  
13          currently recorded on Piedmont's books that will not be reversed through  
14          the normal operation of its accounting for and collection of taxes.  
15          Piedmont requests a special refund mechanism to return these dollars to  
16          customers. Piedmont originally proposed a three year amortization of  
17          these amounts and utilization of a decrement to customer rates, with a  
18          final true-up through Piedmont's ACA account, to refund excess ADIT  
19          amounts.

20   **Q.**   **What is ADIT and how does it reverse through the normal operation**  
21          **of its accounting for and collection of taxes?**

22   **A.**   ADIT represents the tax effect of the cumulative timing differences of  
23          income and expense items recognized differently for accounting and for

1 tax purposes. A common example of an item that is recognized differently  
2 for accounting and tax purposes is depreciation of capital assets.  
3 Piedmont's capital assets utilized for ratemaking purposes are depreciated  
4 for book purposes ratably over their estimated useful life. For tax  
5 purposes, the same assets are depreciated using an accelerated depreciation  
6 method over a period prescribed by tax regulations. The prescribed tax  
7 period is usually much shorter than the book life. This results in capital  
8 assets being depreciated more quickly for tax purposes than they are for  
9 book purposes. Piedmont records income tax expense based on the book  
10 depreciation expense. In the early years during an asset's useful life, the  
11 amount of tax depreciation is greater than the amount of book  
12 depreciation. The larger tax deduction reduces the amount of tax payable  
13 to the taxing authorities. The difference in the amount of income tax  
14 expense recorded on the books and the amount of tax payable to the taxing  
15 authorities is recorded as ADIT. In later years during an asset's useful  
16 life, the book depreciation amount is greater than the tax depreciation  
17 amount, resulting in income tax expense recorded on the books being less  
18 than the amount of tax due to the taxing authorities. Through this process,  
19 the ADIT reverses as the amount of tax amount due to the taxing  
20 authorities is paid.

21 **Q. How did Piedmont conclude that it had excess ADIT on its books?**

22 A. ADIT is a "rolling" figure on Piedmont's books which is impacted by both  
23 the collection and payment of its tax liabilities. As a component of

1 Piedmont's books, ADIT is regularly reviewed for reasonableness and  
2 appropriateness. As a result of that review process, Piedmont concluded  
3 that its level of ADIT associated with its Tennessee plant in service is too  
4 high and should be reduced because it will not end up being reversed  
5 through the normal operation of Piedmont's accounting for and collection  
6 of taxes.

7 **Q. How was the excess ADIT calculated in this case?**

8 A. Normal income tax accounting will result in ADIT balances reversing as  
9 the timing difference between income and expense amounts recognized  
10 differently for book and tax reverse. Piedmont identified the amount  
11 ADIT that should reverse with the normal income tax accounting process  
12 for known timing differences between book and tax items. This amount  
13 was compared to the balance of ADIT on the books. As a result of this  
14 comparison Piedmont concluded that it had excess ADIT that would not  
15 reverse under the normal accounting for income taxes.

16 **Q. What will be the effect of the proposed refund in this docket?**

17 A. It will reduce customer rates through a rate decrement mechanism. As  
18 amounts are refunded through this rate decrement mechanism, Piedmont  
19 will reverse the associated excess ADIT recorded on its books.

20 **Q. What will be the effect of this refund in Piedmont's next general rate  
21 proceeding?**

22 A. It will reduce the amount of ADIT going into Piedmont's next general rate  
23 proceeding, resulting in a nominally smaller ADIT credit against rate base

1 in that next general rate proceeding. What is important to understand  
2 though is that the customers will receive the benefit of the refund now for  
3 the reduction in the ADIT rate base credit that will occur later (in  
4 Piedmont's next general rate proceeding). So, the real question is whether  
5 it is better to refund the excess ADIT amounts to customers now or later.  
6 In Piedmont's view, the answer to that question is that it is better to refund  
7 those amounts now for two reasons.

8 **Q. What are those reasons?**

9 A. The first is that given the time value of money it is always better for  
10 customers to receive a refund sooner rather than later. The second is that  
11 under Generally Accepted Accounting Procedures ("GAAP"), Piedmont  
12 must remove the excess ADIT recorded on its books unless it is probable  
13 that the amount will be refunded to customers. Piedmont is requesting an  
14 order to refund these amounts to customers to demonstrate that it is  
15 probable the amounts will be refunded to customers.

16 **Q. How did the Company and the Consumer Advocate reach a**  
17 **settlement in this docket?**

18 A. The Consumer Advocate first engaged in an in-depth analysis of the  
19 nature and calculation of the excess ADIT amounts proposed for return to  
20 customers in this proceeding. This process was facilitated by written  
21 discovery and several in-person meetings between the Consumer  
22 Advocate and Piedmont. This process ultimately led to the Stipulation of  
23 Settlement which modifies Piedmont's original refund proposal slightly.

1   **Q.   How does the Stipulation compare to Piedmont's original request in**  
2   **this docket?**

3   A.   Like Piedmont's petition, the Stipulation provides for the refund to  
4       Piedmont's customers of \$4,667,413 in order to facilitate the reversal of  
5       the excess ADIT held by Piedmont on its books. The Stipulation,  
6       however, provides for the amortization of this refund amount over a 12  
7       month period and the return of these dollars to customers through a rate  
8       decrement mechanism. Like the Petition, the Stipulation also provides for  
9       a true-up of these refunds at the end of the 12 month rate decrement period  
10      through a one-time adjustment to Piedmont's ACA account.

11   **Q.   Does Piedmont support the Stipulation?**

12   A.   Yes. We believe that the Stipulation is a reasonable resolution of the  
13       matters raised in this docket and will result in the expeditious refund of  
14       excess ADIT amounts currently held on Piedmont's books to its customers  
15       through a rate decrement mechanism with an ultimate true-up to  
16       Piedmont's ACA account.

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

18   A.   Yes it does.

**CERTIFICATE OF SERVICE**

The undersigned hereby certifies that a copy of the attached was served upon the parties in this action by depositing a copy of the same in the United States Mail, First Class Postage Prepaid, addressed as follows:

Wayne M. Irvin  
Assistant Attorney General  
Consumer Advocate and Protection Division  
Post Office Box 20207  
Nashville, Tennessee 37202

This the 30th day of November, 2015.

R. D. Irvin