

**BEFORE
THE TENNESSEE REGULATORY AUTHORITY**

PETITION OF PIEDMONT NATURAL)
GAS COMPANY, INC. FOR)
AUTHORIZATION TO AMORTIZE)
AND REFUND TO CUSTOMERS)
EXCESS ACCUMULATION)
DEFERRED INCOME TAXES)

Docket No. 14-00017

**DIRECT TESTIMONY
of
WILLIAM H. NOVAK**

**ON BEHALF OF
THE CONSUMER PROTECTION AND ADVOCATE DIVISION
OF THE
TENNESSEE ATTORNEY GENERAL'S OFFICE**

November 30, 2015

ATTACHMENTS

Attachment WHN-1

William H. Novak Vitae

1 ***Q1. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND***
2 ***OCCUPATION FOR THE RECORD.***

3 ***A1.*** My name is William H. Novak. My business address is 19 Morning Arbor Place,
4 The Woodlands, TX, 77381. I am the President of WHN Consulting, a utility
5 consulting and expert witness services company.¹

6
7 ***Q2. PLEASE PROVIDE A SUMMARY OF YOUR BACKGROUND AND***
8 ***PROFESSIONAL RT EXPERIENCE.***

9 ***A2.*** A detailed description of my educational and professional background is provided
10 in Attachment WHN-1 to my testimony. Briefly, I have both a Bachelors degree
11 in Business Administration with a major in Accounting, and a Masters degree in
12 Business Administration from Middle Tennessee State University. I am a
13 Certified Management Accountant, and am also licensed to practice as a Certified
14 Public Accountant.

15 My work experience has centered on regulated utilities for over 30 years. Before
16 establishing WHN Consulting, I was Chief of the Energy & Water Division of the
17 Tennessee Regulatory Authority where I had either presented testimony or
18 advised the Authority on a host of regulatory issues for over 19 years. In
19 addition, I was previously the Director of Rates & Regulatory Analysis for two
20 years with Atlanta Gas Light Company, a natural gas distribution utility with
21 operations in Georgia and Tennessee. I also served for two years as the Vice
22 President of Regulatory Compliance for Sequent Energy Management, a natural

¹ State of Tennessee, Registered Accounting Firm ID 3682.

1 gas trading and optimization entity in Texas, where I was responsible for ensuring
2 the firm's compliance with state and federal regulatory requirements.
3

4 ***Q3. ON WHOSE BEHALF ARE YOU TESTIFYING?***

5 ***A3.*** I am testifying on behalf of the Consumer Protection and Advocate Division
6 ("CPAD" or "the Consumer Advocate") of the Tennessee Attorney General's
7 Office.
8

9 ***Q4. HAVE YOU PRESENTED TESTIMONY IN ANY PREVIOUS CASES***
10 ***CONCERNING PIEDMONT NATURAL GAS COMPANY?***

11 ***A4.*** Yes. I presented testimony in Dockets U-85-7355, U-87-7499, 89-10491, 91-
12 02636 and 11-00144 concerning either Nashville Gas Company or Piedmont
13 Natural Gas Company ("Piedmont" or "the Company") rate cases as well as
14 testimony concerning Piedmont in other generic tariff and rulemaking dockets.
15 In addition, I previously advised the TRA on issues in other Piedmont dockets
16 where I did not present testimony.
17

18 ***Q5. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS***
19 ***PROCEEDING?***

20 ***A5.*** My testimony will address the Company's Petition and support the settlement
21 reached by the parties, as set out in the Stipulation and Settlement Agreement that
22 has been filed in this Docket.
23

1 **Q6. WHAT DOCUMENTS HAVE YOU REVIEWED IN PREPARATION OF**
2 **YOUR TESTIMONY?**

3 **A6.** I have reviewed the Company's Petition filed on February 21, 2014, along with
4 the exhibits presented with their filing. In addition, I have reviewed the
5 Company's workpapers supporting their filing. I have also reviewed the
6 Company's responses to the extensive informal and formal data requests
7 submitted by the CPAD and the pre-filed direct testimony of Lynn Boyette, the
8 Company's Director of Tax Management and Planning, as well as participated in
9 meetings with the Company and CPAD concerning this docket. Finally, I have
10 reviewed the pre-filed direct testimony filed by Dr. Chris Klein and the
11 Stipulation and Settlement Agreement filed by the parties in this Docket.

12
13 **Q7. PLEASE BRIEFLY EXPLAIN ACCUMULATED DEFERRED INCOME**
14 **TAX (ADIT) AND THE RELIEF THAT PIEDMONT IS ASKING FROM**
15 **THE TRA THROUGH ITS PETITION.**

16 **A7.** ADIT essentially reflects the tax effect of the cumulative timing differences of income
17 and expense items that are recognized differently for tax and accounting purposes. For
18 example, the depreciation of assets is often used to illustrate an item that is treated
19 differently for tax and accounting purposes. Assets generally are depreciated on a
20 straight-line basis for book (in this case, ratemaking) purposes, but are depreciated on an
21 accelerated basis for tax purposes. Income tax expense is booked based on the
22 ratemaking depreciation expense. Taxes are paid based on the larger tax deduction that
23 reduces the amount of tax payable. The difference in the amount of income tax expense
24 recorded on the books and the amount of tax payable is recorded as ADIT. In later years

1 during an asset's useful life, those amounts would reverse and theoretically the ADIT
2 reverses. In this Docket, the Company has identified ADIT that it states will not reverse.
3 As a result, the Company is asking the TRA for authority to refund to customers
4 \$4,667,413 in connection with the reversal of \$2,836,620 of excess ADIT that the
5 Company is currently carrying on its books. The Company is proposing to refund
6 this amount to customers over a three-year period.
7

8 ***Q8. PLEASE BRIEFLY OUTLINE THE STEPS THAT YOU TOOK IN YOUR***
9 ***REVIEW OF THE COMPANY'S PETITION AND THE OTHER***
10 ***MATERIALS THAT YOU DESCRIBE ABOVE.***
11

12 ***A8.*** I first recalculated each of the Company's exhibits and workpapers in order to
13 verify their accuracy. Next I traced the supporting information to the Company's
14 books and records. Where there was incomplete information or where I was
15 unable to clearly tie the amounts included in the Company's filing to their books
16 and records, I requested clarifying information either through data requests or
17 other means.
18

19 ***Q9. WOULD YOU AGREE THAT THE APPROACH USED BY THE***
20 ***COMPANY TO CALCULATE EXCESS ADIT HAS RESULTED IN A***
21 ***MATERIALLY ACCURATE DETERMINATION OF THE AMOUNT OF***
22 ***THE COMPANY'S ADIT?***
23

24 ***A9.*** Yes.

1

2 ***Q10. WHAT IS THE IMPACT OF THE PROPOSED REFUND FOR RATE***
3 ***SETTING PURPOSES?***

4

5 A10. The Company is proposing to refund this excess ADIT balance to its customers
6 through a credit on their bills over a three-year period. While this change will
7 result in an immediate reduction in gas bills, it will also mean that the Company's
8 rate base will be increased by the same amount in their next rate case. I would
9 refer you to Dr. Chris Klein's testimony filed in this Docket for an economic
10 analysis of this.

11

12 ***Q11. WHAT IS YOUR RECOMMENDATION CONCERNING THE TIME***
13 ***PERIOD OVER WHICH TO REFUND THE EXCESS ADIT BALANCE***
14 ***TO THE COMPANY'S CUSTOMERS THROUGH A CREDIT ON THEIR***
15 ***BILLS?***

16

17 A11. My recommendation would be that the Company refund the entire \$4,667,413
18 balance over a one-year period instead of the three-year period initially proposed
19 by the Company. Since these are excess funds paid in through prior rates by the
20 customers, I see no reason to extend the refund period beyond a one-year payout.
21 However, if the TRA does adopt a longer payout methodology, then I believe the
22 Company should be required to include interest in the payout from the date of the
23 TRA's order until the excess ADIT balance is completely refunded.

1

2 ***Q12. DO YOU RECOMMEND THAT THE AUTHORITY APPROVE THE***
3 ***STIPULATION AND SETTLEMENT AGREEMENT BETWEEN THE***
4 ***PARTIES?***

5

6 ***A12.*** Yes.

7

8 ***Q13. DOES THIS COMPLETE YOUR TESTIMONY?***

9

10 ***A13.*** Yes it does. However, I reserve the right to incorporate any new data that may
11 subsequently become available.