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January 30, 2017

Via Hand-Delivery

The Honorable Earl Taylor
Executive Director
Tennessee Regulatory Authority
c/o Sharla Dillon
502 Deaderick Street, Fourth Floor
Nashville, Tennessee 37243

**Re: *Petition of Piedmont Natural Gas Company for Approval of an Integrity
Management Rider to its Approved Rate Schedules and Service Regulations*
Docket No. 16-00140**

Dear Mr. Taylor:

Enclosed please find an original and five (5) copies of Piedmont Natural Gas Company Inc.'s ("Piedmont" or "Company") Testimony of Pia K. Powers in the above-captioned docket.

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

Enclosures

cc: Wayne Irvin (CAPD)
 Bruce Barkley
 Pia Powers
 Jim Jeffries, IV
 Brian Franklin

**Before the
Tennessee Regulatory Authority**

Docket No. 16-00140

**Petition of Piedmont Natural Gas Company, Inc.
for Approval of an Integrity Management Rider to its
Approved Rate Schedules and Service Regulations**

**Testimony
of
Pia K. Powers**

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



January 30, 2017

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

2 A. My name is Pia K. Powers. My business address is 4720 Piedmont Row Drive,
3 Charlotte, North Carolina.

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

5 A. I am the Director – Gas Rates & Regulatory Affairs for Piedmont Natural Gas
6 Company, Inc., (“Piedmont” or “the Company”).

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

8 A. I have a Bachelor of Arts degree in economics from Fairfield University and a
9 Master of Science degree in environmental and resource economics from the
10 University College London. From 1999 through 2003, I was employed as an
11 Economist with the Energy Information Administration, the statistical agency
12 of the U.S. Department of Energy, where I focused on international energy
13 forecasting and environmental issues. I was hired by Piedmont as a Regulatory
14 Analyst in 2003, promoted to Supervisor – Federal Regulatory in 2005, and
15 promoted to Manager of Regulatory Affairs in 2006. In 2013, I was promoted
16 to my current position as a Director.

17 **Q. Have you previously testified before the Tennessee Regulatory Authority**
18 **or any other regulatory authority?**

19 A. Yes. I have presented testimony before the Tennessee Regulatory Authority
20 (“TRA” or “Authority”), the Public Service Commission of South Carolina,
21 and the North Carolina Utilities Commission on a number of occasions.

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

1 A. The purpose of my testimony in this proceeding is to support Piedmont's 2016
2 annual filing with the Authority under its previously approved Integrity
3 Management Rider ("IMR") mechanism set forth in Service Schedule 317 of its
4 Tennessee Tariffs. This annual filing was made by Piedmont on November 30,
5 2016 in Docket No. 16-00140.

6 **Q. Could you please explain the purpose of the IMR mechanism?**

7 A. Yes. The IMR mechanism is designed to provide a reasonable and effective
8 means for Piedmont to begin recovering the costs associated with its integrity
9 management capital investment since its most recent rate case. These costs are
10 being incurred by the Company as a result of compliance with regulations for
11 pipeline integrity and safety, namely transmission integrity management
12 planning ("TIMP") and distribution integrity management planning ("DIMP")
13 standards under Subparts O & P of Part 192 of the United States Department of
14 Transportation regulations. The costs eligible for recovery through the IMR
15 mechanism are costs that are not already included in the Company's current
16 base rates, and therefore, absent the IMR mechanism, would not otherwise be
17 eligible for recovery until the Company's next general rate case.

18 **Q. When and how was the IMR mechanism approved by the Authority?**

19 A. The IMR mechanism was initially approved by the Authority in Docket No. 13-
20 00118 at the Authority Conference on December 18, 2013, with the written
21 Order issued on May 13, 2014.

1 **Q. Is the IMR mechanism still in the public interest?**

2 A. Yes. This mechanism continues to create a partial and interim bridge between
3 rate cases to recover the costs of new capital investment by the Company for
4 compliance with mandatory federal pipeline safety and reliability regulations.
5 In approving the IMR mechanism, the Authority stated on page 9 of its May 13,
6 2014 Order that the IMR mechanism was in the public interest because 1) “it
7 should eliminate the need for rate case filings in order to recover the costs
8 associated with federal safety requirements”; 2) “it will also eliminate the
9 recovery of the associated rate case legal expenses from ratepayers, thereby
10 lessening the financial burden to ratepayers”; and 3) “the IMR mechanism will
11 allow Piedmont to recover the funds necessary to repair and replace necessary
12 plant in a timely manner which will result in a safe and reliable service to
13 customers.” I do not believe any circumstances to this effect have changed
14 since that Authority ruling. Indeed, having the IMR mechanism in place since
15 January 1, 2014 has enabled Piedmont to avoid general rate cases that would
16 otherwise have been necessary to place these critical system integrity
17 management investments into rate base for recovery.

18 **Q. Can you provide a general description of the IMR mechanism and how it**
19 **works?**

20 A. Yes. Under this mechanism, as is set forth in Service Schedule 317, the
21 Company calculates an annual integrity management revenue requirement

1 based upon its actual amount of integrity management capital investment
2 through the applicable period and then allocates that annual revenue
3 requirement (plus the balance in the Company's integrity management deferred
4 account) across Piedmont's customer classes using allocation factors and
5 throughput levels established in Piedmont's most recent rate case¹. This
6 calculation, which is performed once each year and reflected in Piedmont's
7 annual IMR report filing, results in a volumetric (i.e., per therm) customer
8 surcharge referred to in the tariff as the "Integrity Management Adjustment."
9 This customer surcharge is effective for a twelve-month billing period
10 beginning each January, then refreshed for the next twelve-month period based
11 upon an updated calculation of the annual integrity management revenue
12 requirement (and the updated integrity management deferred account balance).
13 At the time of Piedmont's next general rate case, the Company's net integrity
14 management capital investment will be included in the calculation of base rates
15 and the IMR mechanism will be accordingly reset to zero.²

16 **Q. Has Piedmont made any previous annual report filings under this IMR**
17 **mechanism?**

1 Pursuant to the IMR mechanism, Piedmont tracks the under-collection or over-collection of its annual integrity management revenue requirement, by month, through its integrity management deferred account. Therefore, the actual balance in the integrity management deferred account is incorporated into the calculation of the IMR customer surcharge.

2 In the Company's next general rate case application, the net integrity management capital investment will be included in rate base. Any remaining balance in the Company's integrity management deferred account at that time shall be included in the proposed cost of service, amortized for refund or recovery as applicable.

1 A. Yes. Piedmont has filed three previous IMR annual reports. Piedmont filed its
2 first annual report on December 2, 2013, and it was approved by the TRA in
3 Docket No. 13-00118. Piedmont filed its second annual report on December 1,
4 2014, and it was approved by the TRA in Docket No. 14-00147. Finally,
5 Piedmont filed its third annual report on November 30, 2015 and it was
6 approved by the TRA in Docket No. 15-00116.

7 **Q. Does Piedmont provide any additional information to the Authority about**
8 **its Integrity Management investments other than the annual report?**

9 A. Yes. In addition to the three previously filed annual reports and consistent with
10 its tariff, Piedmont files ongoing monthly reports with the TRA Staff regarding
11 its actual integrity management investments and actual monthly integrity
12 management deferred account activity and balance. The Company's annual
13 IMR report filing simply aggregates the data provided in its monthly reports
14 and, using that aggregated monthly data, shows the exact computation of the
15 annual integrity management revenue requirement and proposed rate
16 adjustments. The Consumer Advocate also receives copies of these monthly
17 and annual reports.

18 **Q. Is that statement true with respect to the Company's 2016 IMR annual**
19 **report filed November 30, 2016?**

20 A. Yes.

1 **Q. Are the proposed rate adjustments shown in Piedmont’s 2016 IMR annual**
2 **report calculated in a manner consistent with Piedmont’s Service Schedule**
3 **317?**

4 A. Yes. We utilized the methodology set forth in our approved tariff to calculate
5 the updated IMR surcharges (i.e., the updated Integrity Management
6 Adjustment, by rate schedule) shown in our most recent annual report for the
7 IMR mechanism.

8 **Q. Did Piedmont make any change in methodology in calculating its Integrity**
9 **Management Revenue Requirement for this year?**

10 A. Yes, Piedmont made one modification to the methodology used in the
11 computation of the Integrity Management Revenue Requirement (“IMRR”) in
12 order to comply with IRS tax normalization requirements. That modification
13 was to the calculation of the accumulated deferred income tax (“ADIT”) rate
14 base deduction. Specifically, Piedmont included the use of 50% bonus
15 depreciation for the computation of ADIT and took into account the Company’s
16 Tennessee’s jurisdictional net operating loss (“NOL”) carryover. In the
17 calculation of the IMRR, the NOL offsets some of the ADIT rate base
18 deduction, limited to the lesser of the total ADIT benefit calculated on IMR
19 property or the amount of the Tennessee jurisdictional NOL. This limitation
20 assures that the benefit from the NOL offset only includes the benefit from the

1 accelerated depreciation on the IMR property, thus avoiding a violation of IRS
2 tax normalization requirements.

3 **Q. What was the impact of this change in methodology in the calculation of**
4 **the Integrity Management Revenue Requirement?**

5 A. The computed total IMRR for the annual period beginning January 1, 2017 is
6 \$23,047,956, as detailed in Piedmont's 2016 IMR annual report filing.
7 However, had Piedmont not revised its methodology for calculating the ADIT
8 rate base deduction, the computed total IMRR for the annual period beginning
9 January 1, 2017 would have been \$23,174,328. In other words, the Company's
10 implementation of the modified methodology (driven by the need to remain in
11 compliance with IRS tax normalization requirements) results in a \$126,372
12 annual savings to customers.

13 **Q. What methodologies did Piedmont use in calculating its IMRR this year?**

14 A. With the exception of the ADIT adjustment discussed above, Piedmont used
15 the same accounting methodologies and allocations that were used in all prior
16 IMR annual reports which are consistent with Piedmont's standard capital cost
17 accounting methods and allocation factors (as also used in Piedmont's general
18 rate case filings).

19 **Q. Can you briefly summarize what is reflected in the 2016 IMR annual**
20 **report filing with the Authority?**

1 A. Yes. The 2016 IMR annual report reflects updated customer surcharges based
2 upon a total of \$192.8 million in integrity management capital investment by
3 the Company. Of this amount, \$20.1 million is integrity management capital
4 investment by the Company during the most recent annual investment period,
5 which is the twelve-months ended October 31, 2016. None of this integrity
6 management capital investment is reflected in Piedmont's current base rates.
7 The updated customer surcharges shown in the 2016 IMR annual report were
8 calculated in accordance with the procedures set forth in Piedmont's Service
9 Schedule 317. Specifically, in following the methodology shown in the
10 Company's IMR tariff, the \$192.8 million of integrity management capital
11 investment yielded a cumulative annual integrity management revenue
12 requirement (taking into account all capital invested during the four years in
13 which the mechanism has been in place) of \$23.0 million for the annual rate
14 period beginning January 1, 2017. The actual balance in the integrity
15 management deferred account as of October 31, 2016 reflected a cumulative
16 under-collection of \$1.4 million. Since this deferred account balance is an
17 amount due the Company, the \$1.4 million is combined with the annual
18 integrity management revenue requirement of \$23.0 million for the purposes of
19 computing the proposed IMR surcharges. Therefore, the proposed IMR
20 surcharges were calculated upon an allocation of \$24.5 million across the
21 various customer classes.

1 **Q. What is the impact to customer bills due to the proposed rate adjustments**
2 **shown in the 2016 IMR annual report?**

3 A. The current IMR surcharges, as approved by the Authority in Docket No. 15-
4 00116, were calculated upon an allocation of \$18.9 million across the various
5 customer classes.³ Accordingly, the approved IMR rate for residential
6 customers was set at \$0.10144 per therm. In the Company's 2016 IMR annual
7 report, the proposed IMR rate for residential customers is \$0.13124 per therm,
8 reflecting a proposed increase of \$0.0298 per therm. This proposed increase in
9 the residential IMR rate will result in a monthly bill increase of \$1.83 on
10 average for our typical residential customer, who uses approximately 735
11 therms of natural gas per year.

12 **Q. How does Piedmont propose to recover its IMRR from customers this**
13 **year?**

14 A. Piedmont proposes to recover its IMRR this year in a manner consistent with
15 how the TRA granted Piedmont recovery of its IMRR in Docket No. 14-00147.
16 In that docket, the Company's 2014 IMR annual report was approved at the
17 January 12, 2015 Authority Conference. The Authority granted amortization of
18 the IMRR beginning January 2015, consistent with the accounting process set
19 forth in Service Schedule 317. The Authority approved the proposed IMR rate

³ The Company's 2015 IMR annual report showed an annual integrity management revenue requirement of \$21.3 million for the annual period beginning January 1, 2016. This revenue requirement was offset by an integrity management deferred account balance at October 31, 2015 of \$2.4 million due customers, yielding a total annual IMR amount for recovery of \$18.9 million.

1 change effective February 1, 2015, which avoided a mid-month disruption to
2 Piedmont's regular, monthly customer billing cycles. The updated IMRR
3 proposed by the Company in its 2016 IMR annual report was to be effective for
4 accounting and rate adjustment purposes on January 1, 2017. As in 2015,
5 Piedmont proposes to maintain the amortization of the updated IMRR for
6 accounting purposes effective January 2017, consistent with the process set
7 forth in Service Schedule 317. Piedmont proposes that the rate adjustments
8 shown in its 2016 IMR annual report be allowed to take effect for customer
9 billing purposes starting April 1, 2017. Accordingly, see Exhibit A for the
10 Company's proposed Fifty-Fourth Revised Sheet No. 1 effective April 1, 2017;
11 the IMR rates therein are identical to those in the Company's 2016 IMR annual
12 report filing.

13 **Q. In summary, what are you asking the Authority to do in this proceeding?**

14 A. We are asking the Authority to take two actions. First, we request that the
15 Authority accept and approve the 2016 IMR annual report filed by the
16 Company on November 1, 2016, which includes the proposed amortization of
17 the updated IMRR effective January 1, 2017. Second, we request that the
18 proposed 2016 IMR rates, as set forth in Fifty-Fourth Revised Sheet No. 1, be
19 approved effective April 1, 2017.

20 **Q. Does this conclude your pre-filed direct testimony?**

21 A. Yes.

EXHIBIT A

EXHIBIT A

Fifty-Fourth Revised Sheet No. 1

PIEDMONT NATURAL GAS COMPANY, INC.
Tennessee Service Territory
Billing Rates Effective: April 1, 2017

Rate Schedule	Description	Tariff Rate Approved In Docket No. 11-00144	Cumulative PGA Demand	PGA Commodity	Current Refund	Current ACA Demand	Commodity	Current IPA	Current IM Adjustment	Deferred Tax Refund	Total Adj. Factor (Sum Col.2 thru Col.6)	Proposed Billing Rate (Col.1+Col.7)
		<1>	<2>	<3>	<4>	<5a>	<5b>	<6>	<7>	<8>	<9>	<10>
Residential	Monthly Charge-Nov.-Mar.	\$17.45										\$17.45
	Monthly Charge-Apr.-Oct.	\$13.45										\$13.45
	Nov.-Mar. per TH	0.32000	0.07577	0.30997	0.00000	(0.00673)	0.01095	0.00552	0.13124	0.00000	0.52672	0.84672
301	Apr.-Oct. per TH	0.27000	0.07577	0.30997	0.00000	(0.00673)	0.01095	0.00552	0.13124	0.00000	0.52672	0.79672
Small General	Monthly Charge	\$44.00										\$44.00
	Nov.-Mar. per TH	0.35400	0.07577	0.30997	0.00000	(0.00673)	0.01095	0.00552	0.11465	0.00000	0.51013	0.86413
	Apr.-Oct. per TH	0.30000	0.07577	0.30997	0.00000	(0.00673)	0.01095	0.00552	0.11465	0.00000	0.51013	0.81013
Medium General	Monthly Charge	\$225.00										\$225.00
	Nov.-Mar. per TH	0.35400	0.07577	0.30997	0.00000	(0.00673)	0.01095	0.00552	0.11465	0.00000	0.51013	0.86413
	Apr.-Oct. per TH	0.30000	0.07577	0.30997	0.00000	(0.00673)	0.01095	0.00552	0.11465	0.00000	0.51013	0.81013
Experimental Motor Vehicle Fuel	Monthly Charge											
	Nov.-Mar. per TH											
	Apr.-Oct. per TH											
303 Firm General Sales	Monthly Charge	\$800.00										\$800.00
	Demand Charge per TH	0.80000	0.82829	0.30997	0.00000	(0.09098)	0.01095	0.00552	0.05092	0.00000	0.73731	1.53731
	First 15,000 TH/TH	0.09682		0.30997	0.00000		0.01095	0.00552	0.05092	0.00000	0.37736	0.47418
304 Interruptible General Sales	Monthly Charge	\$800.00										\$800.00
	First 15,000 TH/TH	0.09682		0.30997	0.00000		0.01095	0.00552	0.05092	0.00000	0.37736	0.47418
	Next 25,000 TH/TH	0.08953		0.30997	0.00000		0.01095	0.00552	0.05092	0.00000	0.37736	0.46689
313 Firm Transportation	Monthly Charge	\$800.00										\$800.00
	First 15,000 TH/TH	0.09682		0.30997	0.00000		0.01095	0.00552	0.05092	0.00000	0.37736	0.47418
	Next 25,000 TH/TH	0.08953		0.30997	0.00000		0.01095	0.00552	0.05092	0.00000	0.37736	0.46689
314 Interruptible Transportation	Monthly Charge	\$800.00										\$800.00
	First 15,000 TH/TH	0.09682		0.30997	0.00000		0.01095	0.00552	0.05092	0.00000	0.37736	0.47418
	Next 25,000 TH/TH	0.08953		0.30997	0.00000		0.01095	0.00552	0.05092	0.00000	0.37736	0.46689
310 Resale Service	Monthly Charge	\$800.00										\$800.00
	First 15,000 TH/TH	0.09682		0.30997	0.00000		0.01095	0.00552	0.05092	0.00000	0.37736	0.47418
	Next 25,000 TH/TH	0.08953		0.30997	0.00000		0.01095	0.00552	0.05092	0.00000	0.37736	0.46689

NOTES:

1) In accordance with the Tennessee Public Service Commission order in Docket U-7074, customers metered inside Davidson County are required to pay an additional 6.20% for collection of the Metro Franchise Fee. Customers served by the Ashland City, Fairview, Greenbrier, Hartsville, Mt. Juliet and White House systems are required to pay 5.0%. Customers served by the Franklin and Nolensville systems are required to pay 3%.

CERTIFICATE OF SERVICE

The undersigned hereby certifies that on January 30, 2017, a copy of the attached was served on the following by electronic mail and by depositing a copy of the same in the United States Mail, First Class Postage Prepaid, addressed as follows:

Wayne Irvin
Emily Knight
Office of the Attorney General
Consumer Advocate and Protection Division
P. O. Box 20207
Nashville TN 37202

R. Irvin
