

BASS BERRY ♦ SIMS PLC

R. DALE GRIMES

TEL: (615) 742-6244
FAX: (615) 742-2744
dgrimes@bassberry.com

A PROFESSIONAL LIMITED LIABILITY COMPANY
ATTORNEYS AT LAW

150 THIRD AVENUE SOUTH, SUITE 2800
NASHVILLE, TN 37201
(615) 742-6200

www.bassberry.com

OTHER OFFICES:

KNOXVILLE
MEMPHIS
WASHINGTON, D.C.

March 20, 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") Rebuttal Testimony of Pia K. Powers.

This material also is 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: Bruce Barkley
 Pia Powers

**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**

**Rebuttal Testimony
of
Pia K. Powers**

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



March 20, 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. What is your position with Piedmont Natural Gas Company, Inc.**
5 **(“Piedmont”)?**

6 A. I am the Director of Gas Rates & Regulatory Affairs.

7 **Q. Have you previously testified in this proceeding?**

8 A. Yes. I prefiled testimony in this proceeding on January 30, 2017.

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

10 A. The purpose of my rebuttal testimony is to respond to the issues raised in the
11 testimony of Witness William H. Novak for the Consumer Advocate in this
12 docket.

13 **Q. What are the issues raised by Mr. Novak you would like to address?**

14 A. In his prefiled testimony, Mr. Novak presented the results of his review of
15 Piedmont’s November 30, 2016 IMR annual report (“2016 IMR Annual
16 Report”), Piedmont’s fourth annual filing under this rate adjustment
17 mechanism approved by the Authority in Docket No. 13-00168. Mr. Novak’s
18 review found that Piedmont’s 2016 IMR Annual Report appropriately recorded
19 the Company’s actual Integrity Management revenues, expenses, and net
20 investment. Mr. Novak also found that the filing “generally reflected the
21 methodologies established in Docket No. 13-00118, with the exception of

1 Piedmont's proposed adjustment to include bonus depreciation, with which
2 [he] does not dispute."¹

3 **Q. Do you concur with Mr. Novak's finding that Piedmont's 2016 IMR**
4 **Annual Report generally reflected the methodologies established by this**
5 **Authority in Docket No. 13-00118?**

6 A. Yes, I do. I am also in agreement with Mr. Novak's recognition of the
7 necessity for the singular modification (adjustment) made to the established
8 methodology -- the bonus deprecation adjustment made in order for the
9 Company to comply with federal tax normalization requirements.

10 **Q. What other issues raised by Mr. Novak would you like to address?**

11 A. Mr. Novak also identified four areas of concern to him regarding Piedmont's
12 IMR filing. These were that (1) some of Piedmont's capitalized expenditures
13 for the OASIS project might represent costs that were already provided for in
14 base rates in Piedmont's last general rate case and could, therefore, result in a
15 double-recovery of these costs; (2) Piedmont classified certain pipeline
16 infrastructure as having a 15-year tax depreciation life in the IMR filing while
17 employing a 20-year life for actual tax depreciation purposes; (3) some rate
18 schedules are excluded from the IMR recovery charge; and (4) there may be no
19 opportunity for a prudence review of Piedmont's IMR capital expenditures. I
20 will discuss each of Mr. Novak's concerns in turn.

¹ Novak Direct Testimony at p. 6.

1 **Q. Do you have any preliminary comments before discussing each of these**
2 **concerns?**

3 A. Yes. My general comment is that although I understand Mr. Novak's
4 articulation of his concerns, I don't believe they are justified on the facts of
5 either this IMR proceeding or any past IMR proceeding.

6 **Q. What do you say regarding the first of Mr. Novak's areas of concern?**

7 A. With respect to Mr. Novak's double-recovery concern, i.e., the idea that
8 Piedmont might be recovering through IMR rates some labor and other O&M
9 expenses that are already covered by base rates established in Piedmont's last
10 rate case, in my view that is not possible due to the manner in which Piedmont
11 accounts for such costs on its books and in the ratemaking process.
12 Furthermore, even if it were possible, objective facts demonstrate that it is not
13 occurring.

14 **Q. Please explain.**

15 A. For accounting purposes, Piedmont treats its labor costs in one of two ways.
16 Labor costs (salaries and wages) can be recorded as items of expense on
17 Piedmont's books or, where appropriate, can be capitalized, which results in
18 their inclusion in Piedmont's rate base. The determination of whether any
19 specific cost should be recorded as expense or capitalized is determined by
20 long-standing principles of utility accounting.

1 In Piedmont's last general rate case, the actual amount of O&M labor
2 expense included in Piedmont's approved cost of service was \$18,068,459.²
3 That amount did not represent the entirety of Piedmont's annual labor costs
4 necessary to support the Company's provision of regulated natural gas utility
5 service in Tennessee during the Attrition Period. Rather, it represented only the
6 amount of Attrition Period labor cost that was expensed to O&M. The
7 remainder of the Attrition Period labor cost was capitalized consistent with
8 applicable utility accounting practices.

9 Historically, Piedmont begins its recovery of incremental capitalized
10 costs (i.e., costs incurred and capitalized after the Attrition Period of a general
11 rate case) with the new base rates established in the subsequent rate case. The
12 recovery of such capitalized costs occurs over a period of time equivalent to the
13 per books depreciable life of the capital asset to which it is associated.
14 Piedmont is also allowed to earn a return on the undepreciated amount of its
15 capitalized costs. Such earnings do not begin, however, until the capitalized
16 costs are rolled into base rates, historically as a result of a subsequent general
17 rate case proceeding.

18 As a result of the TRA's approval of the IMR mechanism, the TRA
19 authorizes Piedmont rate relief specific to the incremental capital costs
20 associated with the new integrity management capital projects undertaken since

² See Line No. 2 in approved Settlement Attachment A, Schedule 6 in Docket No. 11-00144.

1 the Attrition Period of the last rate case. These incremental capital costs
2 include new capitalized labor costs associated with new integrity management
3 investment.

4 These integrity management capital costs are not duplicative of costs
5 included in the last rate case because they are 100% attributable to, and result
6 from, capital investments made after the rate case Attrition Period and because
7 they are capitalized costs attributable *only to the specific project for which they*
8 *are included* as compared to the going level O&M payroll expense included in
9 Piedmont's base rates. Accordingly, as a matter of standard accounting
10 practice, they cannot represent duplicative costs.

11 Even if they could represent duplicative costs, macro indicators reveal
12 that Piedmont is not over-recovering its O&M expense. Overall, annual O&M
13 expense included in the Attrition Period, including the labor portion of total
14 O&M expense, falls short of the annual O&M expense level Piedmont has been
15 and is currently incurring. These facts should obviate any concern about
16 double-recovery of such O&M expense.

17 **Q. What about Mr. Novak's concerns about the use of a 15-year tax life for**
18 **IMR capital?**

19 A. The IMR mechanism is intended to be a bridge mechanism which facilitates
20 Piedmont's ability to recover and earn a return on certain expenses associated
21 with new capital investment necessitated by federal integrity management
22 requirements in-between general rate cases. The mechanism is designed to

1 allow for these earnings/cost-recovery without the filing of a general rate case.
2 This is beneficial to both Piedmont and to Piedmont's customers for the
3 reasons identified in TRA Docket 13-00118, which include avoidance of
4 repetitive and expensive general rate case proceedings and reduction of
5 regulatory lag resulting from capital investments Piedmont is required to make
6 to maintain compliance with federal pipeline safety regulations.

7 In administering the IMR mechanism, and for the sake of simplicity,
8 Piedmont uses a 15-year life in calculating tax depreciation for the revenue
9 requirement calculation even though some of the types of assets included in the
10 mechanism are subject to other tax depreciation lives. Piedmont could have
11 chosen to utilize three different tax depreciation calculations – a 20-year
12 MACRS life for distribution assets, a 15-year MACRS life for transmission
13 assets, and a three-year straight-line life for its OASIS assets. However, that
14 would have substantially complicated the calculations and resulted in only a
15 very minor impact on the resulting revenue requirement. Given the temporary
16 nature of the applicability of the IMR to these capital assets and given the small
17 impact that differentiating between these three property classes would have on
18 the IMR revenue requirement (because the majority of the investment
19 represented in the IMR are MACRS-15 transmission assets), Piedmont opted to
20 use a single MACRS-15 life in calculating tax depreciation under the IMR
21 mechanism for administrative ease. This practice has been consistent since the
22 inception of the IMR and no party has previously objected to this process.

1 **Q. What is your response to Mr. Novak's concern that not all Piedmont rate**
2 **schedules pay the IMR surcharge?**

3 A. Mr. Novak is correct when he states that customers receiving service under
4 special contract agreements (of which there is only one currently) are excluded
5 from the IMR rider. As a practical matter, special contracts were not included
6 in the provision for the adjustment under Service Schedule No. 317, nor were
7 their determinants used in any part of the IMR calculations authorized under
8 Service Schedule No. 317. Piedmont does not believe there is a compelling
9 reason to modify that approach in this proceeding. In our view, special
10 contracts were not appropriate for IMR surcharges because they are separately
11 negotiated either to avoid bypass or to compete with other fuels and are
12 specifically approved by the Authority for specified periods. Inasmuch as they
13 are periodically reviewed and approved by the TRA on a non-cost of service
14 basis, Piedmont does not believe they should be subject to additional charges
15 under Piedmont's tariffs which could render the economic assumptions upon
16 which they were based invalid.

17 **Q. Do you have any comments on Mr. Novak's understanding that Rate**
18 **Schedule 343 customers are currently excluded from the IMR surcharge?**

19 A. Yes. I would like to correct Mr. Novak and provide general clarification on
20 this matter. Piedmont's Rate Schedule 343 is for the provision of Motor
21 Vehicle Fuel Service. It is an experimental rate schedule that was approved by
22 the Authority effective February 2015. As stated in the tariff, "Gas Service

1 under this Rate Schedule is available, on an experimental basis, in the area
2 served by the Company in the State of Tennessee to all existing and qualified
3 potential Customers under Rate Schedule 301, 302, 303, 304 310, 313, 314,
4 and 352 seeking to purchase or transport Natural Gas for use as a motor fuel.”

5 Furthermore, “[T]he nature of Service provided by Company to Customer
6 under this Rate Schedule shall be commensurate with the nature of Service for
7 which Customer is qualified under the applicable Rate Schedule identified
8 above . . . The rates charged for Gas Service pursuant to this Rate Schedule 343
9 shall be those rates and charges (and components and riders thereof) applicable
10 to the corresponding individual Rate Schedule under which the Customer
11 qualifies for Service.”³ Given these TRA-approved terms of service, customers
12 receiving service under Rate Schedule 343 (of which there are currently three)
13 do indeed receive the IMR surcharge as part of bills rendered for service. The
14 revenue amounts collected from these customers are included in the calculation
15 of the actual IMR deferred account balance each month. Their actual usage and
16 IMR surcharge collections are included the Company’s filed IMR reports
17 within their applicable billing rate schedule category.

18 **Q. What is your response to Mr. Novak’s concern that there is no opportunity**
19 **for a prudence review in Piedmont’s annual prudence review proceeding?**

³ See First Page 1 of 3 of Piedmont’s TRA Rate Schedule No. 343 effective February 9, 2015.

1 A. I disagree with Mr. Novak's position. Piedmont files monthly reports of its
2 IMR activity and has historically responded to data requests on those reports
3 outside of annual review proceedings. Similarly, we file an annual report each
4 year and that report is subject to a formal proceeding before the TRA, which
5 includes the opportunity for discovery and an opportunity for any interested
6 party to evaluate the prudence of our investment in Integrity Management
7 related infrastructure. I am not aware of any impediment to such an evaluation
8 within the structure of our IMR mechanism so I am not sure why Mr. Novak
9 believes that such an opportunity doesn't exist within the procedural
10 parameters of the existing mechanism.

11 **Q. Do you have any other concerns with Mr. Novak's testimony?**

12 A. Yes. I find that Mr. Novak's customer impact assessment of the IMR as
13 described in his prefiled testimony as an 87% increase to be misleading.⁴ First,
14 it is important to recognize that the IMR rate as proposed represents only 15%
15 of the total residential per therm billing rate. Furthermore, customer impacts
16 are typically examined on the basis of bill-to-bill comparisons, considering that
17 the Company's revenues are partially recovered on a fixed charge basis. For
18 the average residential customer, a comparison of their annual bill based on
19 rates effective immediately prior to the first IMR adjustment versus the
20 presently proposed IMR rates, the bill increase is only 7.7% over the 3-year

⁴ Novak Direct Testimony at pp. 3-4.

1 period. Another way to look at this 7.7% increase is that the average residential
2 customer's bill increased \$1.60 per month over this 3-year period. I believe
3 that this customer impact is reasonable in light of the fact that it supports \$193
4 million of integrity management investment made by the Company for its
5 Tennessee natural gas operations since the last rate case.

6 **Q. Are there any additional points you would like to make before you**
7 **conclude your prefiled rebuttal testimony?**

8 A. Yes. Piedmont's request to the Authority in this proceeding has not changed
9 from that which I expressed in my prefiled direct testimony. We continue to
10 request that the Authority take two actions. First, we request that the Authority
11 accept and approve the 2016 IMR annual report filed by the Company on
12 November 30, 2016, which includes the proposed amortization of the updated
13 IMRR totaling \$23.0 million effective January 1, 2017. Second, we request
14 that the proposed IMR rates, as set forth in in Fifty-Fourth Revised Sheet No.1,
15 be approved effective with the first day of the bill cycle month following a
16 ruling from the Authority.

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

18 A. Yes.

CERTIFICATE OF SERVICE

The undersigned hereby certifies that on March 20, 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:

Dan Whittaker
Office of the Attorney General
Consumer Advocate and Protection Division
P. O. Box 20207
Nashville TN 37202

R. J. Minnis
