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February 15, 2018

Via Hand-Delivery

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

***Re: Petition of Piedmont Natural Gas Company, Inc. for Approval of an Integrity Management Rider to its Approved Rate Schedules and Service Regulations
Docket No. 17-00138***

Dear Mr. Taylor:

Enclosed please find an original and five (5) copies of Piedmont Natural Gas Company, Inc.'s ("Piedmont") remaining responses to the Consumer Protection and Advocate Division's Supplemental Discovery Requests dated February 1, 2018 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 additional stamped copy to me by way of our courier.

Please note that the attachments and one narrative response have been marked CONFIDENTIAL. Piedmont requests that these be treated as such pursuant to the September 27, 2013 Protective Order filed in Docket No. 13-00118.

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,



Paul S. Davidson

Enclosure

cc: Bruce Barkley
Pia Powers
Jim Jeffries, IV

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1. Confidential Attachment 1-3 contains internal reports to management providing status updates on the implementation of OASIS. The dates of the reports cover the period May 11, 2017 – November 16, 2017. Either confirm that the initial internal management report providing status updates to management regarding the implementation of the OASIS project was in fact the May 11, 2017 report, or provide copies of such reports prior to the May 11, 2017 date.

Response: See CONFIDENTIAL attachment.

Response provided by Piedmont Natural Gas on February 14, 2018.

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2. The Company's Confidential Attachment 1-3 does not contain any information tracking the cost of the OASIS project. Provide all such reports provided to executive management tracking such costs along with narrative explanations supporting the costs incurred, including any variance analysis between actual and budgeted costs, or confirm that such reports were not provided to management on a periodic basis.

Response: See CONFIDENTIAL attachment.

Response provided by Piedmont Natural Gas on February 14, 2018.

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5. Refer to the “Confidential 1-47” Attachment. With respect to the claims listed below, provide all supporting documentation supporting the payments:

a. DAMAGES081417

b. DAMAGES072717

Response: See CONFIDENTIAL attachments.

Response provided by Piedmont Natural Gas on February 14, 2018.

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6. The testimony and supporting workpapers submitted on January 17, 2018, seemingly did not modify either the ADIT liability or the NOL asset from the original IMR proposal. Regarding these two items, provide the following:

- a. A detailed narrative supporting the lack of modification to the ADIT and NOL balances contained in the initial IMR filing in light of the provisions of the federal tax legislation signed into law in December 2017, and how just and reasonable rates can result if the Company does not reflect such changes in this IMR proceeding.
- b. Provide modifications to i) the ADIT balance, with the corresponding amortization of excess reserve in accordance with the provisions contained in the federal tax legislation and ii) the modification to the NOL attributed to the IMR as a result of the rate change.
- c. Provide supporting calculations and identify all assumptions underlying the calculation of the amortization of the excess tax reserve. If Piedmont does not believe any modification of its NOL balance is necessary as a result of the new federal tax provisions, refer to the appropriate section of the new tax law or relevant Private Letter Rulings supporting this conclusion.
- d. Provide a detailed narrative concerning Piedmont's position on the appropriate time to reflect the impact of the IMR ADIT/NOL in rates charged to customers.

Response:

6(a)-6(c) The computation proposed by Piedmont provides the customer the most favorable rates without resulting in a normalization violation. Adjusting the ADIT balances for excess deferred taxes in this IMR filing will result in a normalization violation that will adversely affect Piedmont and its customers by increasing Piedmont's tax liability due to the loss of accelerated depreciation and the tax imposed by Section 13001.21(d)(4) of the Tax Cuts and Jobs Act (the Act). Adjusting the NOL will result in higher rates due to the consistency requirement in the normalization rules in IRC 168(i)(9). By not adjusting the ADIT or the NOL balance, Piedmont has provided the customer the most favorable rates available without resulting in a normalization violation.

Section 13001.21(d) of the Act provides a public utility will not be treated as using a normalization method of accounting with respect to IRC Section 167 or 168 if the taxpayer reduces the excess tax reserve more rapidly or to a greater extent than such reserve would be reduced under the average rate assumption method (ARAM). Section 13001.21(d)(3) of the Act further defines under ARAM that no adjustment is made to the ADIT reserve until the timing difference for the property reverses. If the reserve is reduced more rapidly than under the ARAM method, the Act provides that the normalization rules of IRC Section 167 and 168 are violated. Section 13001.21(d)(4) provides an additional tax equal to the

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amount the ADIT reserve was reduced than permitted under a normalization method of accounting.

In Piedmont's IMR filing, no timing differences are reversing. Under the ARAM method, no adjustments should be made to the ADIT balances for the excess deferred taxes. The timing differences for all vintages of property in the IMR filing are building. When the timing differences begin to reverse, under the ARAM method, the ADIT reserve (or a regulatory liability if so ordered by the TPUC) will be adjusted by multiplying the timing difference reversing during the period by the ratio of the aggregate deferred taxes for the property to the aggregate timing difference for the property as of the beginning of the period by the amount of the timing difference which reverse during such period. For an example ARAM calculation, see attachment.

Piedmont did not adjust the NOL due to the consistency requirement of the normalization rules in IRC Section 168(i)(9) and the rules regarding NOLs in Treas. Reg Section 1.167(l)-1(h). IRC Section 168(i)(9) provides that, in order to use a normalization method of accounting, if a taxpayer claims a depreciation deduction that differs from its regulatory depreciation, the taxpayer must make an adjustment to a reserve to reflect the deferral of taxes resulting from such difference. It further provides that any procedure or adjustment that is used for tax expense, depreciation expense or the reserve for deferred taxes must be used with respect to the other two and with respect to rate base. Treas. Reg. §1.167(l)-1(h)(1)(iii) provides that, if, in respect of any year, the use of other than regulatory depreciation for tax purposes results in a net operating loss carryover to a succeeding tax year (or an increase in a net operating loss carryforward which would not have arisen had the taxpayer claimed only regulatory depreciation for tax purposes), then the amount and time of the deferral of tax liability shall be taken into account in such appropriate time and manner as is satisfactory to the district director. Treas. Reg. §1.167(l)-1(h)(6)(i) provides that a taxpayer does not use a normalization method of accounting if the reserve by which rate base is reduced exceeds the amount of such reserve used in determining the taxpayer's expense in computing cost of service in such ratemaking.

The NOL benefit reflected in the IMR calculation is subject to the normalization rules as it relates to a net operating loss carryforward, which would not have arisen if Piedmont only claimed regulatory depreciation for tax purposes. Under the consistency rules, an adjustment in ADIT must also be reflected in tax expense thereby increasing cost of service. If the NOL tax benefit was reduced from \$21,449,590 (TN allocated NOL carryforward of \$61,284,542 x 35%) to \$12,869,754 (TN allocated NOL carryforward of \$61,284,542 x 21%) to reflect the reduction in the Federal tax rate from 35% to 21%, tax expense would increase \$8,579,836 and rate base would increase \$8,579,836 resulting in an increase in the IMR revenue requirement of \$7,734,706 (see table 1). The revenue requirement to cover the increase in tax expense is only partially offset by the reduction in the revenue requirement for the return on rate base. By not reducing NOL ADIT benefit for "excess deferred tax benefit" in the IMR calculation, the NOL ADIT excess deferred tax benefit offsets the excess deferred taxes related to the accelerated depreciation. As no

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timing differences are reversing as of this filing, no excess deferred taxes associated with the accelerated depreciation can be reversed under the ARAM method in the Act. This treatment of ADIT/NOL provides the lowest rates.

Table 1

Rate Base Decrease	(8,579,836)
Pre-tax ROR%	<u>9.87795%</u>
Pre-tax Rate of Return	(847,512)
Income Tax Expense	<u>8,579,836</u>
Total, Excluding Uncollectibles	7,732,324
Uncollectibles Gross-up Factor	<u>1.000308</u>
Total Revenue Requirement	7,734,706

- 6(d) The appropriate docket for addressing ADIT and rates associated with the Act is the ongoing investigation instigated by the TPUC in Docket No. 18-00001. Specific to the NOL, as long as it exists, Piedmont will incorporate the deferred tax benefit of the NOL in the annual IMR filings to avoid normalization violations.

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9. Refer to CPAD Item #2-4 and to the corresponding confidential attachment. Provide invoice support and all other supporting documentation for the following OASIS costs:

- a. The May 2014 Contract Labor – General IT costs: \$2,496,028.43
- b. The February, 2016 Contract Labor General IT costs: \$3,590,442.20
- c. The May, 2015 Contract Labor – Other costs: \$1,756,375.38
- d. The September, 2013 Contract Labor – Other charges of \$423,359.56

Response: See CONFIDENTIAL attachments.

Response provided by Piedmont Natural Gas on February 14, 2018.

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11. CPAD Item #2-4 (Part b) requested identification of Contract Labor, further identified by vendor. The confidential response to this item did not contain the requested split of contract labor costs by vendor. Please provide the contract labor costs split by vendor for the OASIS costs incurred through October 31, 2017. The identification of vendor costs should tie to the totals for those categories as shown in Response #2-4. The three general categories shown are Contract labor – Consulting, Contract Labor – General IT, and Contract Labor – Other. For purposes of this request, disregard identifying the vendors associated with Contractor Meals and Entertainment.

Response: See CONFIDENTIAL attachment.

Response provided by Piedmont Natural Gas on February 14, 2018.

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14. Is the OASIS project being taxed for ad valorem purposes in any jurisdiction in which Piedmont operates?

- a. Provide documentation demonstrating Piedmont has included the OASIS project in submittals provided to taxing authorities.
- b. If this is not the case, provide the rationale for the inclusion of property tax expense on the OASIS project in the IMR Petition.

Response:

14(a) \$114.2 million of unallocated OASIS cost was treated as exempt property for ad valorem purposes in NC in the 2017 North Carolina Ad Valorem tax return. The remaining unallocated OASIS cost was treated as taxable property for ad valorem purposes in NC.

See CONFIDENTIAL attachments.

14(b) Piedmont performs the computation of the Annual Revenue Requirement under the IMR mechanism pursuant to the 11/27/2013 Joint Stipulation Agreement between Piedmont and the CAPD and as subsequently approved by the TPUC.

Piedmont addressed the computation of property tax expense in the Company's response to TPUC Data Request No. 2 filed in Docket No. 13-00118.

Response provided by Piedmont Natural Gas on February 14, 2018.

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15. Refer to the Company's response to CPAD Item #2-5. Confidential Attachment No. 13 (GE Small World Amendment) refers to the assignment of 30 percent of the two thousand licenses to electric affiliates of Piedmont. With regard to this transaction, respond to the following:

- a. What was the Total Cost incurred in the development of GSA Lite?
- b. Was reimbursement from the affiliates provide to Piedmont and if so, what was the reimbursement or cost allocation? How did the Company account for this?
- c. If such cost assignment or reimbursement is reflected within the IMR, provide a detailed narrative discussing how such cost assignment flows through to reduce the IMR.
- d. If such cost assignment/allocation or reimbursement has not occurred, or it is not netted against the IMR revenue requirement, provide the rationale for not reducing IMR costs for the use of the software licenses by Piedmont affiliates. To the extent Piedmont relies on prior TPUC determinations regarding the appropriate accounting for affiliate transactions, provide a copy of such regulatory orders.

Response: With regard to the subject transaction, none of the GSA Lite licensing costs have been accounted for under the OASIS capital projects. Therefore there is no need to net a reimbursement for the licenses granted to Piedmont affiliates against the Integrity Management revenue requirement.

Response provided by Piedmont Natural Gas on February 14, 2018.