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March 7, 2018

Via Hand Delivery

The Honorable Earl Taylor
Tennessee Public Utility Commission
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" or "Company") Rebuttal Testimony of Pia K. Powers and Rebuttal Testimony and Exhibit of Victor M. Gaglio in the above-captioned docket.

This material is also being filed today by way of email to the Tennessee Public Utility Commission 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.

Very truly yours,

A handwritten signature in blue ink, appearing to read "Paul S. Davidson".

Paul S. Davidson

PSD:cdg
Enclosure

**Before the
Tennessee Public Utility Commission**

Docket No. 17-00138

**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 7, 2018

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 filed Direct testimony in this proceeding on January 17, 2018.

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 matters raised in the
11 Direct and Supplemental testimony of Consumer Advocate Witness David N.
12 Dittemore filed in this proceeding on February 22, 2018 and February 28, 2018,
13 respectively.

14 **Q. What matters are raised by Mr. Dittemore in his filed testimony?**

15 A. In his Direct testimony, Mr. Dittemore presents the results of his review of
16 Piedmont’s fifth annual Integrity Management Rider (“IMR”) report filing
17 made with the Commission on November 30, 2017 (“2017 IMR Annual
18 Report”). In his Direct testimony, Mr. Dittemore (i) recommends specific
19 adjustments and cost disallowances to the proposed IMR Revenue Requirement
20 (“IMRR”) reflected in Piedmont’s 2017 IMR Annual Report, (ii) recommends
21 several prospective changes to the calculation of the IMRR on a going forward
22 basis, (iii) recommends IMR rate design and billing changes effective for

1 January 2018 and on a going-forward basis, and (iv) offers other
2 recommendations including certain new operational performance reporting by
3 Piedmont and the development of a new depreciation study. In his
4 Supplemental testimony, Mr. Dittmore articulates what he finds to be
5 additional support for one of the cost disallowances recommended in his Direct
6 testimony.

7 **Q. Which of these matters do you address in your Rebuttal testimony?**

8 A. My Rebuttal testimony addresses each of Mr. Dittmore's recommendations
9 regarding the manner in which the IMR mechanism is structured and operates.
10 In terms of his specific recommendations for cost-recovery disallowance
11 related to the OASIS project, my testimony is supplemented by the Rebuttal
12 Testimony of Victor Gaglio, Piedmont's Senior Vice President and Chief
13 Natural Gas Operations Officer, which is being filed concurrently.

14 **Q. Can you please provide a summary of the context of this proceeding and**
15 **Mr. Dittmore's testimony?**

16 A. Yes. Piedmont's IMR mechanism is contained in its tariff Service Schedule
17 No. 317. This service schedule was approved by the Commission's
18 predecessor, the Tennessee Regulatory Authority ("TRA"), by order issued
19 May 13, 2014 in Docket No. 13-00118. Adoption of the IMR mechanism was
20 authorized pursuant to Tenn. Code. Ann. § 65-5-103 (2013). That order was, in
21 turn, supported by a Joint Stipulation between Piedmont and the Consumer

1 Advocate filed with the TRA in Docket No. 13-00118 on November 27, 2013.
2 Pursuant to the Joint Stipulation, the Consumer Advocate agreed not to oppose
3 Piedmont's petition in Docket No. 13-00118 for establishment of an IMR
4 mechanism if certain adjustments to Piedmont's as-filed version of Service
5 Schedule No. 317 were adopted. In the Joint Stipulation, Piedmont agreed to
6 the Consumer Advocate's adjustments to Service Schedule No. 317 and the
7 TRA ultimately approved the revised IMR tariff.

8 To date, Piedmont has made annual filings under its IMR tariff on five
9 occasions including the annual filing before the Commission in this proceeding.
10 In each case the Commission, after Staff review, determined that the
11 Company's proposed rate adjustments were in accordance with approved
12 Service Schedule No. 317 and were in the public interest. In other words, the
13 previously authorized rate adjustments based on Piedmont's filings did not
14 necessitate any of the adjustments that the Consumer Advocate now suggests.
15 Nor does Piedmont's presently proposed IMR rate adjustment, for the reasons I
16 will articulate below.

17 **Q. Do you think this context is important for the Commission to consider**
18 **when deliberating on Piedmont's current annual IMR report filing?**

19 A. Yes. I believe that it is appropriate to recognize that the Commission's
20 deliberations in this proceeding are and should be informed by the substantial
21 history surrounding the adoption of Piedmont's Service Schedule No. 317,

1 including the Consumer Advocate's express assent to many of the mechanisms
2 and calculations that Mr. Dittmore now seeks to modify. And while I respect
3 Mr. Dittmore's significant experience in natural gas regulatory matters, his
4 experience has not been in Tennessee nor has it involved Piedmont's Service
5 Schedule No. 317. In many respects, I perceive Mr. Dittmore's suggestions to
6 reflect his own preferences over how an IMR-type mechanism could be
7 structured, but do not reflect flaws in Piedmont's IMR mechanism that require
8 correction in this docket.

9 Having said that, some of his prospective procedural suggestions may
10 be worthy of additional discussion in a process outside of this annual IMR
11 report proceeding. It is also worth noting that approved Service Schedule No.
12 317, in Paragraph 11, lays out a specific process for interested parties including
13 the Consumer Advocate to raise concerns over whether the IMR mechanism, at
14 least in its current form, remains in the public interest. Mr. Dittmore
15 summarizes his Direct testimony on page 2, lines 15 – 17, with a statement that
16 his recommended modifications to subsequent IMR filings are necessary "to
17 protect the public interest." Consistent with Paragraph 11 in the Company's
18 approved IMR tariff, I believe that Mr. Dittmore's proposed prospective
19 modifications to the IMR mechanism are supposed to be addressed in a
20 separately filed petition by the Consumer Advocate rather than, as done in this
21 docket, slipped into the Consumer Advocate's filed testimony on the

1 Company's annual fulfilment of the IMR filing and notice obligations laid out
2 in Paragraphs 8 and 9 of the approved IMR tariff. I also believe that Mr.
3 Dittmore's recommended changes to the current methodology for calculating
4 the IMRR and associated IMR billing rates effective January 1, 2018 reflect, in
5 essence, an objection by the Consumer Advocate to the currently approved
6 IMR tariff. Akin to his recommended prospective IMR changes, Mr.
7 Dittmore's recommended changes to the current methodology used to
8 calculate the proposed IMRR and proposed IMR billing rates beginning
9 January 2018 should also be addressed in a separate proceeding.

10 **Q. Why do you believe that is important for all parties to follow the**
11 **regulatory process laid out in Paragraph 11 of the approved IMR Tariff?**

12 A. The Company has and continues to believe that all Commission orders,
13 including those approving specific tariffs and provisions of such, are
14 requirements that must be adhered to.

15 **Q. Nevertheless, what's the harm in implementing changes to the IMR**
16 **calculations outside of the regulatory process laid out in Paragraph 11 of**
17 **the approved IMR Tariff?**

18 A. One significant harm I perceive is that changes to the IMR
19 methodology/calculations implemented outside of the regulatory process
20 prescribed in Paragraph 11 would be inconsistent with and would erode the
21 meaningfulness of the approved Joint Stipulation that underpins the adoption of

1 the IMR mechanism in Docket No. 13-00118. That Joint Stipulation was
2 offered by the parties and subsequently approved by the TRA on a holistic
3 basis. It was not meant to be picked apart and nullified gradually over time,
4 without giving the parties the appropriate and due regulatory forum for
5 revisiting and effectually amending the Joint Stipulation. I believe that,
6 absent the offering by the parties to the Commission for its consideration an
7 agreed-upon amendment or revision to the original Joint Stipulation on the
8 IMR, granting approval of changes to the IMR methodology/calculations
9 outside of the regulatory process prescribed in Paragraph 11 would have a
10 deterring effect on the confidence of either party to enter into any future joint
11 stipulations or agreements.

12 **Q. In light of the Consumer Advocate's Direct and Supplement testimony, do**
13 **you still believe that the IMR mechanism remains in the public interest,**
14 **and that Piedmont's proposed IMRR and IMR customer billing rates for**
15 **2018 are consistent with the approved IMR tariff?**

16 A. Yes, I do. To the extent that the Consumer Advocate or any other interested
17 party believes that Piedmont's calculation of the IMRR proposed effective for
18 January 1, 2018 and the proposed revised IMR billing rates are inconsistent
19 with the currently approved IMR tariff, it is Piedmont's understanding that only
20 those types of matters/issues were meant to be addressed in this annual IMR
21 report proceeding. That has been the Company's interpretation of the purpose

1 of each of these annual proceedings triggered by Piedmont's annual IMR report
2 filings made pursuant to approved Service Schedule No. 317. Piedmont's
3 understanding will remain as such until otherwise directed, corrected or
4 clarified by this Commission. For this reason, I believe that the only issues
5 raised in Mr. Dittmore's testimony that have relevance to *this* proceeding are
6 his three recommended cost disallowances.

7
8 **I. REBUTTAL TO ITEMS OF PROPOSED COST DISALLOWANCE**

9 **Q. Could you please describe the specific items of cost disallowance that Mr.**
10 **Dittmore is proposing in this docket?**

11 A. Yes. Mr. Dittmore recommends three specific cost adjustments (cost
12 disallowances) to the proposed IMRR reflected in Piedmont's 2017 IMR
13 Annual Report. His first recommended disallowance is to remove \$1,698,962
14 from the Company's proposed IMRR.¹ This recommended adjustment is meant
15 to represent the elimination of a return on investment to Piedmont for the
16 portion of OASIS project costs that exceeds the original project cost estimate.
17 Mr. Dittmore's second recommended cost adjustment is to remove \$314,345
18 from the Company's proposed IMRR. This recommended adjustment is meant
19 to represent his estimate of future O&M expense savings resulting from the
20 Company's OASIS capital project. Mr. Dittmore's third recommended cost

1 adjustment is to remove \$135,908 from the Company's proposed IMRR. This
2 recommended adjustment is meant to represent the elimination of certain
3 property tax expense from the Company's proposed IMRR for property he
4 contends is tax exempt. The sum of Mr. Dittmore's three recommended
5 IMRR adjustments totals \$2,149,215 (and \$2,149,877 after consideration of the
6 uncollectibles gross up factor used in the approved IMRR calculation).

7 **Q. Can you provide a response to these proposed disallowances?**

8 A. Yes. Piedmont strongly objects to Mr. Dittmore's three proposed cost
9 adjustments to the IMRR, each of which is related to a single capital project --
10 the OASIS capital project -- undertaken by the Company for compliance with
11 federal regulations on pipeline safety and integrity.

12 **Q. Specifically, how do you respond to the Consumer Advocate's**
13 **recommended \$1,698,962 downward adjustment to the IMRR related to**
14 **the return on investment for certain OASIS project costs?**

15 A. We strongly disagree with this recommended adjustment. First, note that the
16 Consumer Advocate does not take the position that the OASIS capital project
17 be excluded from the IMR mechanism.² Nor does the Consumer Advocate take

1/ In Mr. Dittmore's filed Workpaper 3.1, his schedule indicates this proposed reduction to be \$1,698,970, a difference of \$8 from the amount cited on page 3 of his Direct Testimony. We presume this difference to be due to rounding.

2/ The Consumer Advocate and Piedmont continue to remain in agreement on this point, consistent with prior IMR annual rate filings and consistent with the Commission's findings to date.

1 the position that the OASIS project costs were imprudently incurred.³ Rather,
2 the Consumer Advocate's current position is that a portion of the OASIS
3 capital costs incurred by the Company should be disallowed for recovery in the
4 IMR. The portion that the Consumer Advocates selects for disallowance is the
5 portion representing the return on investment to Piedmont for the OASIS
6 project costs in excess of the Company's original project cost estimate. Mr.
7 Dittmore repeatedly refers in his testimony to the OASIS project expenditures
8 in excess of the Company's original project cost estimate as a "cost over-run."
9 Certainly, disallowing cost recovery of qualified integrity management capital
10 investment represents a significant departure from the operation of Service
11 Schedule No. 317 as agreed to by the Consumer Advocate and approved by the
12 Commission. Service Schedule No. 317 provides for the calculation of an
13 IMRR based upon an annual Integrity Management Investment Amount which
14 is defined as "the approved amount of actual capital investment of the
15 Company resulting from prevailing state and federal standards for pipeline
16 integrity and safety for complying with DIMP and TIMP regulations and not
17 otherwise included in rate base." See Service Schedule No. 317 at Para. 2. And
18 while we agree that imprudent costs should be excluded from the IMRR, there
19 simply is no mention in the tariff of the possibility of an adjustment based on
20 purported cost over-runs for individual projects, where the underlying

3/ The Consumer Advocate and Piedmont continue to remain in agreement on this point, consistent with prior IMR annual rate filings and consistent with the Commission's findings to date.

1 investment is not challenged as imprudent and there is no contention of
2 imprudence in cost incurrence in this docket.

3 Second, we strongly disagree with Mr. Dittmore's apparent
4 conclusion that the fact that final costs for the OASIS project varied materially
5 from the Company's initial project cost estimate represents evidence of
6 mismanagement or negligence on Piedmont's part justifying a disallowance.
7 Included in this disagreement are the contentions set forth in Mr. Dittmore's
8 Supplemental Testimony where he attempts to tie management concerns with
9 the adequacy of risk analysis and adoption of mitigation measures (which itself
10 demonstrates proper management supervision) with purported cost over-runs.
11 Mr. Dittmore implies impropriety in the occurrence of OASIS costs prior to
12 November of 2015 (which is outside the period of the current annual IMR
13 report filing), yet he completely fails to provide evidence that management
14 concerns with the adequacy of risk analysis was causally related in any way
15 with cost incurrence under the project. This is an important point, since it is
16 the job of management to discern and correct perceived deficiencies in the
17 operation of the Company. The fact that the Company's management has
18 occasion to discern and correct perceived deficiencies in the operation of the
19 Company from time-to-time does not constitute evidence of either imprudence
20 or excess cost incurrence.

1 As is described in detail in Mr. Gaglio's Rebuttal Testimony, the
2 OASIS project significantly changed in scope from that initially envisioned by
3 the Company and in response to directives and desires expressed by State and
4 federal authorities, among others. In short, the OASIS project fundamentally
5 changed in scope after the initial cost estimate was established, and the
6 purported "cost over-runs" cited by Mr. Dittmore in reality represented the
7 increased costs associated with those scope changes. This is not an uncommon
8 occurrence with respect to this type of capital project, nor does it represent
9 malfeasance on Piedmont's part, and it certainly does not justify a disallowance
10 of cost recovery by Piedmont in this case. To the extent Mr. Dittmore's
11 Supplemental Testimony suggests that cost disallowances should be ordered
12 because Piedmont has not "proven" the prudence of its investments, we believe
13 that Mr. Gaglio's testimony resolves that purported deficiency.

14 **Q. What about the recommended credit to the IMRR for O&M savings?**

15 A. As we improve our system in response to state and federal integrity
16 management requirements, it is not unreasonable to believe that O&M savings
17 may be realized. Those savings are not individually and discretely identifiable
18 since they are not directly reflected in our books as individual items of cost (or
19 cost-savings). Mr. Dittmore recognizes this fact in his testimony yet contends
20 that "regulatory symmetry" requires that customers receive the net benefit of
21 O&M savings from IMR investments. With regard to this proposal, I would

1 point out that the IMR mechanism does not address O&M expenses in any
2 respect and is designed by its very terms (consistent with the Joint Stipulation
3 between Piedmont and the Consumer Advocate) to allow accelerated recovery
4 on capital investment for mandatory integrity related projects. Attaching an
5 O&M crediting mechanism to Service Schedule No. 317 is not contemplated
6 within the Service Schedule itself, or by the Commission's prior orders, or by
7 the Joint Stipulation. In short, Mr. Dittmore seeks to inject a wholly new
8 provision into the existing and approved mechanisms. I also do not believe that
9 it serves regulatory symmetry to adopt an O&M crediting mechanism where
10 there is no O&M recovery mechanism in the IMR mechanism, particularly
11 where the amount of such proposed credit is not calculable. Finally, I would
12 point out that Customers will receive the benefit of any and all O&M savings
13 resulting from integrity management capital investment in Piedmont's next
14 general rate case filing, where all aspects of Piedmont's ongoing O&M expense
15 level will be addressed. Based on these factors, Piedmont contends that Mr.
16 Dittmore's O&M cost savings credit in the IMRR calculation should be
17 rejected.

18 **Q. Are you aware as to whether Mr. Dittmore has previously testified as to**
19 **the viability of an O&M crediting mechanism associated with integrity**
20 **management cost-recovery mechanisms?**

1 A. Yes. In testimony filed on October 9, 2015, in Kansas Corporation
2 Commission Docket No. 15-GMG-343-GIG, Mr. Dittmore provided
3 testimony on behalf of Kansas Gas Service which addressed a KCC Staff
4 proposal to utilize O&M savings resulting from system integrity management
5 projects designed to replace obsolete pipe and then to credit those savings
6 against the cost of such projects. With regard to this issue, he testified:

7 *“Q. SHOULD A UTILITY APPLYING FOR ALTERNATIVE*
8 *RATEMAKING TREATMENT BE REQUIRED TO COMMIT TO TRACKING*
9 *DIRECTLY IDENTIFIABLE REDUCTIONS IN OPERATING AND*
10 *MAINTENANCE EXPENSES (“O&M”), AND SHOULD SUCH EXPENSE*
11 *REDUCTIONS BE USED TO OFFSET THE INCREASED REVENUE*
12 *REQUIREMENT ASSOCIATED WITH THE REPLACEMENT PROGRAM?”*

13
14 A. *No. There are a number of factors that impact on-going operating*
15 *and maintenance costs beyond the quantity of vintage pipe replaced each year.*
16 *Isolating the impact on O&M associated with replacement of vintage assets*
17 *separate from all other issues that impact those same costs is a virtually*
18 *impossible task. . . . it’s not clear from Staff’s memorandum whether such*
19 *alleged decreases in operating and maintenance costs would be applied after*
20 *they were achieved or whether they would be applied prospectively. Neither is*
21 *[it] practical.”*
22

23 **Q. Is Mr. Dittmore’s Kansas testimony consistent with his testimony in this**
24 **docket regarding O&M credits for estimated future savings that may**
25 **result from integrity-related capital investments?**

26 A. No, it is not. In this docket, he suggests such a credit, but in Kansas he testified
27 that calculating such a credit is “virtually impossible” and not “practical.”

1 **Q. In Mr. Dittmore's Kansas testimony, was he supportive of alternative**
2 **ratemaking mechanisms designed to accelerate recovery of costs on**
3 **integrity management type capital investments?**

4 A. Yes, he was.

5 **Q. What is your response to Mr. Dittmore's proposal to disallow \$135,908**
6 **from Piedmont's revenue request in this docket on the basis of Mr.**
7 **Dittmore's conclusion that this amount represents property taxes on non-**
8 **taxable property?**

9 A. We do not agree with this recommendation. For purposes of Service Schedule
10 No. 317, we calculate property taxes on IMR investment based upon the ratio
11 of property tax expense to gross plant investment as approved by the
12 Commission in Piedmont's last general rate case. We believe that this is
13 prudent and proper. It is also consistent with the express provisions of Service
14 Schedule No. 317 which provides that property taxes included in the IMRR
15 shall be calculated using the relevant rates from Piedmont's last general rate
16 case and which generally refers to the most recent general rate case order in
17 determining various cost components under the mechanism. And while it may
18 be possible to make a more detailed calculation of property tax expense based
19 upon a discrete analysis of the mix of types of Integrity Management
20 investments in each year along with prevailing tax rates, that approach would
21 yield varying results during each annual period and may not be beneficial to

1 customers. Based on these uncertainties and the incremental labor involved in
2 making such an annual calculation, Piedmont does not believe that Mr.
3 Dittmore's recommendation to change the way property tax expenses are
4 calculated in the IMR mechanism (which drives his disallowance proposal)
5 should be adopted.

6 **Q. Do you have any final thoughts on Mr. Dittmore's recommended items of**
7 **cost disallowance in this proceeding?**

8 A. Yes. The primary rationale for adopting Service Schedule No. 317 was to
9 avoid the need to file regular and recurring general rate cases before the
10 Commission as related to cost recovery for integrity management capital
11 investments. The Tennessee Regulatory Authority expressly acknowledged
12 this rationale in its May 13, 2014 *Order Granting Petition* in Docket No. 13-
13 00118. These general rate case proceedings involve significant administrative
14 burdens on the Commission and its Staff. They also invariably involve
15 significant rate case expense to the utility, which the utility is entitled to
16 recover as part of the rate case process. In Piedmont's recent experience, rate
17 case expense is on the order of \$1,000,000 per rate case. Piedmont has not
18 filed a rate case in Tennessee since before Service Schedule No. 317 was
19 approved by the Commission, which was roughly four years ago. This would
20 not have been the case had the Commission rejected Service Schedule No. 317,
21 because the amount of capital investment committed by Piedmont to safety and

1 integrity management compliance since the period of time covered by its last
2 general rate case has been significant. During this period, Piedmont's
3 Customers did not have to pay for the cost of general rate cases that would have
4 otherwise been necessary for the Company. Also during this period,
5 Piedmont's Customers have enjoyed the benefits of receiving service pursuant
6 to the level of annual operating expense that was established in Piedmont's
7 most recent general rate case (Docket No. 11-00144) based upon an attrition
8 period ended February 28, 2013. In short, Service Schedule No. 317 has
9 worked exactly as hoped and Piedmont's Customers have reaped the benefits of
10 it in the form of lower overall costs for natural gas service. Making
11 disallowances in Piedmont's current filing for investments that are not asserted
12 to be imprudent and which are calculated on a consistent basis using
13 mechanisms expressly anticipated by Service Schedule No. 317 and the Joint
14 Stipulation will diminish the benefits of Service Schedule No. 317 and will add
15 to pressure to file a general rate case. In the absence of imprudence or a
16 showing that costs sought to be recovered are improper, Piedmont respectfully
17 suggests that the IMR is not broken and does not need to be fixed.

18
19 **II. REBUTTAL TO PROPOSED PROSPECTIVE CHANGES TO THE**
20 **IMRR CALCULATIONS**

21
22 **Q. Could you please summarize the prospective changes Mr. Dittmore**
23 **suggests with respect to the IMRR calculations going forward?**

1 A. Yes. Mr. Dittmore proposes four prospective changes to the method used to
2 calculate the IMRR. First he suggests using a more granular depreciation
3 analysis for IMR-eligible capital investments in lieu of the relatively high-level
4 approach currently embedded in Piedmont's IMRR computations under Service
5 Schedule No. 317. Second, he suggests that we address whether Piedmont's
6 capitalization of pension costs for IMR investments is compliant with the
7 Commission's approved methodology for capitalization of those costs
8 generally. Third, he suggests that the method for allocating OASIS costs to
9 Tennessee should conform to standard rate case cost allocation methodologies.
10 Finally, he suggests that CWIP costs be eliminated from the calculation of
11 depreciation expense associated with IMR investments.

12 **Q. What is your reaction to Mr. Dittmore's four recommendations for**
13 **prospective modification of the IMRR computation?**

14 A. My general response is that these suggestions would each represent a departure
15 from the manner in which the IMR mechanism has operated in all previous
16 annual filings and, therefore, a departure from the manner in which Piedmont
17 and the Commission have administered Service Schedule No. 317 since the
18 adoption of the Joint Stipulation in Docket No. 13-00118.

19

20 **III. REBUTTAL TO IMR RATE DESIGN AND BILLING CHANGE**
21 **RECOMMENDATIONS**

1 **Q. Please summarize the modifications the Consumer Advocate is**
2 **recommending on IMR rate design and customer bills?**

3 A. Mr. Dittmore recommends that Piedmont recover the IMRR through a
4 separately stated fixed charge on customer bills each month, rather than a
5 volumetric rate as is currently utilized in conformity with approved Service
6 Schedule No. 317. It appears to me that his recommendation is to apply such
7 changes to the IMR rate adjustments under consideration in this docket (for
8 effect January 2018), and also to IMR rate changes in future years.

9 **Q. What is your response to these recommended modifications on IMR rate**
10 **design and billing?**

11 A. We do not agree with these recommendations inasmuch as they represent a
12 significant change to Service Schedule No. 317 which is completely
13 inconsistent with the manner in which Piedmont, the Consumer Advocate and
14 the Commission have previously agreed the IMR mechanism should work.

15
16 **IV. REBUTTAL TO OTHER RECOMMENDED IMR CHANGES AND**
17 **PROPOSALS**

18 **Q. What other changes to Service Schedule No. 317 is the Consumer**
19 **Advocate recommending in this docket?**

20 A. Mr. Dittmore proposes that the Company (i) make certain adjustments and
21 accounting entries to account for the recent changes in the federal corporate tax

1 rate effective January 1, 2018, (ii) provide in future IMR annual report filings
2 certain safety metrics related to actual leaks and emergency response times, (iii)
3 undertake a new depreciation study; and (iv) file its testimony in future annual
4 reports with its report.

5 **Q. What is your reaction to these proposals?**

6 A. We have no objection to items (i) and (iv) above, relating to adoption of the
7 new federal income tax rates effective January 1, 2018 and the filing of Direct
8 testimony with our IMR annual reports in future proceedings. In fact, we have
9 already implemented item (i) pursuant to the Commission's initial Order in
10 Docket No. 18-00001. With respect to item (ii), notwithstanding the relevancy
11 and appropriateness of this request in this docket, Piedmont is willing to share
12 any safety metrics in its possession with the Commission and does not object in
13 principle to filing the information suggested by Mr. Dittemore. Piedmont does
14 find this request somewhat puzzling given that the Commission's pipeline
15 safety jurisdiction is administered by a completely different part of its Staff
16 than is typically involved in these annual IMR report proceedings, as well as by
17 the fact that the requested metrics relate to reactive Company responses to
18 emergencies and/or physical system failures which are not directly addressed or
19 impacted by the proactive system integrity projects recovered under the IMR
20 mechanism. For item (iii), again notwithstanding the relevancy and
21 appropriateness of this request in *this* docket, we are not adverse to the idea of

1 conducting a new depreciation study, but would note that the results of such a
2 study could indicate the need for either decreased or increased depreciation
3 rates. In Piedmont's view, it would not be appropriate to implement any new
4 depreciation rates until the effective date of rates in Piedmont's next general
5 rate case.

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

8 A. Yes. In his Direct testimony, Mr. Dittmore insinuates that Piedmont is
9 incited to imprudently make excessive capital investments beyond those
10 necessary to provide safe and reliable service to its Customers. Piedmont
11 vigorously rejects the implication that Piedmont either has or would make
12 excessive capital investments beyond those necessary to provide safe and
13 reliable service to its Customers. Piedmont is acutely aware of its obligations
14 under Tennessee law to provide safe and reliable service at reasonable rates and
15 is aware of no evidence that suggests that it either has or would be willing to
16 incur excess capital costs in order to promote excess cost-recovery in violation
17 of its obligations. The use of natural gas by Piedmont's Customers in
18 Tennessee is a choice. Most end-use applications of natural gas by our
19 Customers is shadowed by a price-competitive alternative fuel option.
20 Piedmont constantly strives to attract new Customers and retain our existing
21 Customers by offering regulated utility service at affordable rates. Any actions

1 that could be taken by the Company to incur excess capital costs would directly
2 counter Piedmont's efforts to attract and retain Customers.

3 **Q. Does this conclude your Rebuttal testimony?**

4 A. Yes, it does.