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April 2, 2018

The Honorable Earl Taylor
Tennessee Public Utility Commission
c/o Sharla Dillon
502 Deaderick Street, Fourth Floor
Nashville, Tennessee 37423

Re: ***Tennessee Public Utility Commission Investigation of Impacts of Federal Tax Reform on the Public Utility Revenue Requirements***
Docket No. 18-00040

Dear Mr. Taylor:

Please see the attached compliance filing filed by Piedmont Natural Gas Company, Inc. in response to the February 6, 2018 Order Opening an Investigation and Requiring Deferred Accounting Treatment issued by the Tennessee Public Utility Commission in Docket No. 18-0001.

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,

Paul S. Davidson

Paul S. Davidson

PSD:cdg
Enclosure

cc: Bruce Barkley
Pia Powers
Jim Jeffries, IV

4845-0795-7088.1

BEFORE THE TENNESSEE PUBLIC UTILITY COMMISSION
NASHVILLE, TENNESSEE

IN RE:	)	
	)	
COMPLIANCE FILING OF PIEDMONT NATURAL GAS COMPANY, INC. REGARDING THE IMPACT OF FEDERAL TAX REFORM ON PUBLIC UTILITY REVENUE REQUIREMENTS	)	**DOCKET NO. 18-**
	)	
	)	

COMPLIANCE FILING OF PIEDMONT NATURAL GAS COMPANY, INC.

Piedmont Gas Company, Inc. ("Piedmont" or the "Company"), through counsel and in response to the February 6, 2018 *Order Opening an Investigation and Requiring Deferred Accounting Treatment* ("February 6, 2018 Order") issued by the Tennessee Public Utility Commission ("TPUC" or the "Commission") in Docket No. 18-0001, hereby submits its Compliance Filing and proposals in this docket.[1]

INTRODUCTION

In the February 6, 2018 Order, the Commission Ordered Piedmont to: (i) track and accumulate monthly in a deferred account the portion of its revenue representing the difference between the cost of service approved by the Commission in its most recent rate case and the cost of service that would have resulted had the provision for federal income taxes been based on 21% rather than 35%; (ii) calculate the excess deferred tax reserve caused by the reduction in the corporate federal income tax rate and recognize as a deferred liability the estimated reduction of the utilities' revenue requirement resulting from the 2017 Tax Cuts and Jobs Act ("Tax Act"); and (iii) calculate and defer any other tax effects resulting from the Tax Act on revenue requirement that are not included in the preceding calculations. The Commission directed Piedmont to file these calculations with the Commission by March 31, 2018, along with

[1] In the February 6, 2018 Order, the Commission directed that Piedmont's compliance filing be made in a new Company specific docket.

any proposals to reduce rates or make other ratemaking adjustments to account for the tax benefits resulting from the Tax Act.

COMPLIANCE FILING

I. Accounting Data.

Accounting reports containing the data the Commission directed Piedmont to file in ordering paragraph number 1 of its February 6, 2018 Order are attached hereto as Exhibits 1 through 3.

II. Rate Adjustment Comments and Proposals.

Piedmont intends to pass the benefits of tax reform back to all customers served pursuant to Piedmont's Commission approved rate schedules. Piedmont proposes to effectuate that intent through solutions that will lower customer bills in the near-term, help mitigate volatility due to future rate increases, and protect the Company's current credit quality for the benefit of customers. Piedmont has worked diligently and successfully over the years to provide high-quality service to its customers while maintaining a strong balance sheet in order to support and fund its ongoing operations. A solid financial foundation has helped the Company keep customer rates for natural gas service at reasonable levels while providing safe, reliable and environmentally friendly energy for the State of Tennessee. This Commission has played a critical role in Piedmont's ability to achieve these goals.

As this Commission is aware, natural gas utilities are very capital intensive operations, which is part of the reason they are structured as regulated monopolies. Piedmont makes capital investments in new infrastructure because they are necessary to provide critical energy services to the State, and to ensure that its natural gas transmission and distribution systems continue to maintain the highest level of safety, not because of federal tax policy. Piedmont's obligation to serve the public requires that Piedmont maintain the financial wherewithal to support such service at all times. As is explained more fully below, some aspects of the Tax Act will disrupt Piedmont's cash flows and have negatively impacted its credit ratings. Inasmuch as credit quality drives access to affordable capital, it is important, and in the best interest of customers, to prevent a weakening of the Company's cash flow and reverse the degradation of its credit quality.

The recent Federal tax reform provides both Piedmont and the Commission with an opportunity to reduce customer rates and smooth rate volatility over both the short- and long-term, while also preserving Piedmont's ability to provide safe, reliable and affordable energy without endangering its credit quality. The Commission has substantial discretion in its ratemaking treatment of these tax changes. Adjusting utility rates solely to account for the impact of the reduction in the federal corporate tax rate and the flow back of excess accumulated deferred income tax ("ADIT") should not be automatic, rather the Commission should consider all matters that could affect rates. The Tax Act represents a unique opportunity to deliver savings to customers, but as with all ratemaking actions, the long term and short term interests of customers must be balanced.

As discussed more fully below, Piedmont proposes to reduce customer bills through the flow-through of tax rate reductions under its Integrity Management Rider ("IMR") mechanism while deferring tax rate reductions on its base rates until its next general rate case proceeding where such deferral can be amortized and used to offset any requested base rate increase in that docket. For excess deferred income taxes, Piedmont will establish a regulatory liability and, similar to the Commission's treatment of excess deferred income taxes in Docket No. 14-00017, would propose that these liabilities be addressed in the Company's next general rate proceeding.[2]

If approved, Piedmont's proposals will provide customers with the benefit of savings under the Tax Act through rate reductions which will commence pursuant to Commission decision in Piedmont's pending IMR Docket No. 17-00138 and minimization of rate volatility

[2] Importantly, a significant portion of the excess deferred income taxes resulting from the Federal income tax rate change will be subject to normalization restrictions.

over both the short and long term, while sparing Piedmont (and ultimately customers) from the undesirable impacts of the Tax Act on Piedmont's cash flows and credit quality. Piedmont respectfully submits that its proposals, which represent a balanced approach that benefits customers while minimizing any weakening of credit quality, should be approved by the Commission.

A. Background on the Federal Tax Act.

On December 22, 2017, President Donald Trump signed the Tax Act into law. This legislation represents the most significant revision to the Federal tax code in the last thirty years, bringing comprehensive change to individual, corporate and international tax law. The headline change to the corporate tax code is a reduction of the statutory corporate tax rate from 35% to 21%, but this reduction in rate is accompanied by many other provisions that serve to broaden the tax base and to "pay for" the effect of the reduction to a 21% corporate tax rate. Most provisions of the Tax Act were effective beginning January 1, 2018.

Most changes to the corporate tax code apply to all U.S. corporations equally, while a limited set of others affect regulated utilities uniquely. For utilities in general, and Piedmont in particular, the key provisions of the Tax Act that will affect customer rates are as follows: (1) reduction of the corporate tax rate from 35 percent to 21 percent; (2) retention of net interest expense deductibility; (3) elimination of bonus depreciation; and (4) normalization of excess ADITs resulting from the Tax Act.

The purpose of the Tax Act was to stimulate business investments, create jobs and grow the economy. An expectation that the financial health of Piedmont not be harmed by tax reform is consistent with these policy objectives and serves as a theme of this filing.

B. Key Provisions of the Tax Act.

The Tax Act makes four principal changes to the tax code that affect regulated natural gas utilities. The changes include:

Reduction in Corporate Tax Rate: The new statutory income tax rate of 21% represents a 40% reduction from the previous rate of 35%. This will lower a key component of cost of service, i.e., income taxes. In combination with the elimination of bonus depreciation (see below), a lower corporate tax rate will slow the accumulation of deferred income taxes and have the effect of increasing Piedmont's rate base over time, thereby causing an effect that is opposite to the lower cost of service impact of lower tax rates.

Interest Expense Deductibility: The Tax Act generally provides that net interest expense is deductible only to the extent it does not exceed a stated percentage of an adjusted taxable income calculation, a calculation that becomes even more restrictive four years hence. However, regulated utilities are exempt from this limitation provision and may deduct their interest expense without limitation.

Depreciation and Expensing of Capital: The Tax Act generally provides that corporations may immediately expense capital as it is placed in service, akin to 100% bonus depreciation. However, the Tax Act specifically prohibits the immediate expensing of capital by regulated utilities. Instead, utilities are directed to use MACRS (modified accelerated cost recovery system) depreciation for capital investment placed in service. Though no longer accompanied by "bonus" depreciation, MACRS still represents a significantly accelerated rate of depreciation compared to book depreciation. As a result, deferred taxes will continue to accrue under MACRS, but will do so at a slower rate when not augmented by bonus depreciation and at a much slower rate under the lower 21% corporate tax rate (see above)—this will cause a more rapid increase to rate base relative to pre-Tax Act.

Excess Deferred Income Taxes: At the end of 2017, Piedmont had a significant net deferred tax liability, booked at a 35% corporate tax rate and driven overwhelmingly by accelerated and bonus depreciation of fixed assets for tax purposes. Because a deferred tax liability represents taxes collected from customers, but not yet paid to taxing authorities, and because the ultimate payment of these taxes will now occur at a 21% corporate tax rate (down from 35%), the balance of deferred tax liability must be re-measured. The resulting "excess" deferred tax balance becomes a regulatory liability. The Tax Act requires that excess deferred taxes generally associated with property, and specifically connected to the accelerated depreciation of property, must be normalized into customers rates in a highly-prescribed manner that mimics the remaining life of the underlying assets. These are known as "protected" excess deferred taxes. All other excess deferred taxes may be treated by the commission like any other regulatory liability in the rate-setting process. If *all* excess deferred tax liability balances are normalized for rate-setting purposes, the impact to Piedmont from a return of the excess ADIT to customers would be neutral to pre-Tax Act cash flow <u>even as</u> customers will realize a rate benefit over time.

C. <u>Impact of the Tax Act on Piedmont</u>.

The implementation of the Tax Act has the potential to adversely affect Piedmont's cash flows needed to fund ongoing operations and new infrastructure investments. A cash flow shortfall resulting from the immediate flow-through of tax rate reductions and the excess ADITs could force Piedmont to rely, to a much larger extent, on third-party capital to fund its operations to the ultimate detriment of Piedmont's financial condition and the public interest inherent in maintaining low debt costs. Evidence of this detrimental impact from the Tax Act has already arrived in the form of a downgrade to the ratings outlook maintained by Moody's Investors Services for Piedmont and other public utilities issued on January 19, 2018. A copy of this downgrade notice is attached hereto as Exhibit 1. These ratings outlook downgrades are driven by the negative cash-flow consequences of a reduction in corporate tax rates in combination with a reduction in tax deferrals resulting from the loss of bonus depreciation. In its revised ratings outlook, Moody's downgraded Piedmont from stable to negative. In the discussion of its downgrades, Moody's makes clear that it expects the downgraded utilities to attempt to manage the negative impacts of the Tax Act through regulatory mechanisms and holds out some hope that ratings outlooks could return to stable for some of the downgraded utilities if effective regulatory relief is granted.

Stand-alone utility and consolidated financing structures are based on *pre*-tax reform capital flows and were formed to support significant investments to benefit customers. An immediate flow back resulting from tax reform would significantly lower Piedmont's cash recovery creating pressure to incur additional debt to fund operations. Both of these actions will affect Piedmont's credit metrics and ability to continue to issue debt at the cost embedded in current customer rates. Customers benefit directly from a strong balance sheet and strong investment grade credit ratings through low cost of capital and strong access to capital during all market conditions. This was particularly evident during the recent Great Recession. Conversely, a decrease in incoming cash flows both increases risk and increases debt costs over time. The Commission should consider these very real consequences of the Tax Act when determining how to adopt appropriate regulatory requirements for Piedmont in this circumstance. As discussed below, Piedmont's proposals avoid these results while still providing a meaningful degree of immediate rate relief to customers and ensuring that customers ultimately receive the full benefit of the Tax Act.

D. The Estimated Cost of Service Effect of the Act.

Please see attached Exhibit 2 for the estimated impact of the Tax Act on Piedmont's cost of service. This amount, $4,121,460, is based on the Commission-approved Stipulation from Piedmont's most recent general rate case filing in Docket No. 11-00144 and does not include the income tax gross-up that would be applied prior to refunding amounts to Piedmont's customers. Piedmont would propose to provide customers with the benefits of its reduced cost of service in two ways. First, Piedmont would propose to implement the new reduced corporate tax rate in calculating surcharges due under its IMR mechanism. Piedmont estimates the impact on its most recent IMR rate change to be approximately $2.9 million. This amount is in addition to the $4,121,460 annual amount due customers pertaining to base rates provided above. Second, Piedmont would seek continued deferral of any "excess" income tax collections resulting from continuing to charge its current base rates until Piedmont's next general rate case – which Piedmont anticipates filing in the next 24 months. This deferred liability could then be amortized and used to offset any rate increase sought in that general rate proceeding.[3] As noted above, Piedmont also proposes to defer action to address any return of excess ADIT resulting from the Tax Act until Piedmont's next general rate case. This approach to adjusting for excess deferred income taxes would also have a smoothing effect on rates going forward. The amount of excess ADIT allocable to Piedmont's Tennessee customers is $64.6 million as presented in Exhibit 3.

By returning a portion of the benefit of the Tax Act to customers through near-term rate decreases in the IMR mechanism and a portion through an amortized offset to any rate increase request in Piedmont's next general rate case proceeding, Piedmont believes that its proposals will achieve an appropriate balance of passing through the benefits of the Tax Act to customers while protecting Piedmont from the negative effects of an immediate flow-through on its credit metrics and financing structures to the ultimate benefit of its customers.

[3] In Piedmont's view, this deferral should not have a carrying charge or interest component associated with it, consistent with the notion of balancing the positive and negative effects of the tax legislation.

CONCLUSION

For all the foregoing reasons, Piedmont respectfully requests that the Commission approve and adopt the recommendations contained in these Initial Comments.

Respectfully submitted, this the 2nd day of April, 2018.

Piedmont Natural Gas Company, Inc.

By: ______________________________
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By: ______________________________
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EXHIBIT 1

Exhibit 1

Moody's
INVESTORS SERVICE

Rating Action: Moody's changes outlooks on 25 US regulated utilities primarily impacted by tax reform

Global Credit Research - 19 Jan 2018

New York, January 19, 2018 -- Moody's Investors Service, ("Moody's") has changed the rating outlooks to negative from stable for 24 regulated utilities and utility holding companies; and to stable from positive for one utility holding company in the United States. The short-term and long-term ratings for all 25 companies were affirmed.

RATINGS RATIONALE

"Today's action primarily applies to companies that already had limited cushion in their rating for deterioration in financial performance, will be incrementally impacted by changes in the tax law and where we now expect key credit metrics to be lower for longer," said Jim Hempstead, a Managing Director at Moody's. "Utilities will work closely with state regulators to try to mitigate the negative impact of tax reform and in some cases they may seek to refine their corporate financial policies. Where successful, their rating outlooks could revert to stable."

Tax reform is credit negative for US regulated utilities because the lower 21% statutory tax rate reduces cash collected from customers, while the loss of bonus depreciation reduces tax deferrals, all else being equal. Moody's calculates that the recent changes in tax laws will dilute a utility's ratio of cash flow before changes in working capital to debt by approximately 150 - 250 basis points on average, depending to some degree on the size of the company's capital expenditure programs. From a leverage perspective, Moody's estimates that debt to total capitalization ratios will increase, based on the lower value of deferred tax liabilities.

The change in outlook to negative from stable for the 24 companies affected in this rating action primarily reflects the incremental cash flow shortfall caused by tax reform on projected financial metrics that were already weak, or were expected to become weak, given the existing rating for those companies. The negative outlook also considers the uncertainty over the timing of any regulatory actions or other changes to corporate finance polices made to offset the financial impact.

The change in outlook to stable from positive for American Electric Power Company, Inc. (AEP, Baa1 stable) reflects Moody's calculations that the projected ratio of cash flow before changes in working capital to debt, incorporating the effects of tax reform, will remain in the mid-teens range. At this level, Moody's believes AEP's Baa1 rating is appropriate.

The vast majority of US regulated utilities, however, continue to maintain stable rating outlooks. We do not expect the cash flow reduction associated with tax reform to materially impact their credit profiles because sufficient cushion exists within projected financial metrics for their current ratings. Nonetheless, further actions could occur on a company specific basis.

Over the next 12 to 18 months, Moody's will continue to monitor the financial impact of tax reform on each company, including its regulatory approach to rate treatment and any changes to corporate finance strategies. This will include balance sheet changes due to the reclassification of excess deferred tax liabilities as a regulatory liability and the magnitude of any amounts to be refunded to customers. If the financial impact of tax reform is more severe than Moody's initial estimates or the companies fail to materially mitigate any weaknesses in their financial profiles, the ratings could be downgraded.

That said, Moody's expects that most utilities will attempt to manage any negative financial implications of tax reform through regulatory channels. Corporate financial policies could also change. The actions taken by utilities will be incorporated into the credit analysis on a prospective basis. As a result, it is conceivable that some companies will sufficiently defend their credit profiles. For these companies, it is possible for the outlook to return to stable.

Potential regulatory offsets to tax-related cash leakage could include: accelerated cost recovery of certain regulatory assets or future investment; changes to the equity layer or allowed ROEs in rates, and other actions. Changes to corporate financial policies could include changes to capitalization, the financing of future investments, dividend growth, or others. Some of these corporate measures could have a more immediate boost to projected metrics than certain regulatory provisions, which may take time to approve and implement.

Outlook Actions:

..Issuer: American Electric Power Company, Inc.

....Outlook, Changed To Stable From Positive

..Issuer: Avista Corp.

....Outlook, Changed To Negative From Stable

..Issuer: Avista Corp. Capital II

....Outlook, Changed To Negative From Stable

..Issuer: Duke Energy Corporation

....Outlook, Changed To Negative From Stable

..Issuer: Entergy Corporation

....Outlook, Changed To Negative From Stable

..Issuer: New Jersey Natural Gas Company

....Outlook, Changed To Negative From Stable

..Issuer: Northwest Natural Gas Company

....Outlook, Changed To Negative From Stable

..Issuer: ONE Gas, Inc

....Outlook, Changed To Negative From Stable

..Issuer: Piedmont Natural Gas Company, Inc.

....Outlook, Changed To Negative From Stable

..Issuer: Public Service Company of Oklahoma

....Outlook, Changed To Negative From Stable

..Issuer: Questar Gas Company

....Outlook, Changed To Negative From Stable

..Issuer: South Jersey Gas Company

....Outlook, Changed To Negative From Stable

..Issuer: Alabama Power Capital Trust V

....Outlook, Changed To Negative From Stable

..Issuer: Alabama Power Company

....Outlook, Changed To Negative From Stable

..Issuer: Southern Company (The)

....Outlook, Changed To Negative From Stable

..Issuer: Southern Elect Generating Co

Exhibit 1

....Outlook, Changed To Negative From Stable

..Issuer: Southwestern Public Service Company

....Outlook, Changed To Negative From Stable

..Issuer: Wisconsin Gas LLC

....Outlook, Changed To Negative From Stable

..Issuer: American Water Capital Corp.

....Outlook, Changed To Negative From Stable

Issuer: American Water Works Company, Inc.

....Outlook, Changed To Negative From Stable

Outlook Actions:

..Issuer: Consolidated Edison Company of New York, Inc.

....Outlook, Changed To Negative From Stable

..Issuer: Consolidated Edison, Inc.

....Outlook, Changed To Negative From Stable

..Issuer: Orange and Rockland Utilities, Inc.

....Outlook, Changed To Negative From Stable

..Issuer: Brooklyn Union Gas Company, The

....Outlook, Changed To Negative From Stable

..Issuer: KeySpan Gas East Corporation

....Outlook, Changed To Negative From Stable

Affirmations:

..Issuer: American Electric Power Company, Inc.

.... Commercial Paper, Affirmed P-2

....Senior Unsecured Shelf, Affirmed (P)Baa1

....Junior Subordinated Shelf, Affirmed (P)Baa2

....Senior Unsecured Regular Bond/Debenture, Affirmed Baa1

..Issuer: Avista Corp.

.... Issuer Rating, Affirmed Baa1

....Senior Secured First Mortgage Bonds, Affirmed A2

....Underlying Senior Secured First Mortgage Bonds, Affirmed A2

....Senior Secured Medium-Term Note Program, Affirmed (P)A2

....Senior Secured Regular Bond/Debenture, Affirmed A2

....Senior Unsecured Medium-Term Note Program, Affirmed (P)Baa1

..Issuer: Avista Corp. Capital II

Exhibit 1

....Pref. Stock Preferred Stock, Affirmed Baa2

..Issuer: Duke Energy Corporation

.... Issuer Rating, Affirmed Baa1

....Junior Subordinated Regular Bond/Debenture, Affirmed Baa2

....Senior Unsecured Shelf, Affirmed (P)Baa1

....Senior Unsecured Bank Credit Facility, Affirmed Baa1

....Senior Unsecured Commercial Paper, Affirmed P-2

....Senior Unsecured Regular Bond/Debenture, Affirmed Baa1

..Issuer: Entergy Corporation

.... Issuer Rating, Affirmed Baa2

....Senior Unsecured Commercial Paper, Affirmed P-2

....Senior Unsecured Regular Bond/Debenture, Affirmed Baa2

....Senior Unsecured Shelf, Affirmed (P)Baa2

..Issuer: New Jersey Natural Gas Company

.... Commercial Paper, Affirmed P-1

..Issuer: Northwest Natural Gas Company

.... Commercial Paper, Affirmed P-2

....Senior Secured Medium-Term Note Program, Affirmed (P)A1

....Senior Unsecured Medium-Term Note Program, Affirmed (P)A3

....Senior Secured Shelf, Affirmed (P)A1

....Senior Unsecured Shelf, Affirmed (P)A3

....Preferred Shelf, Affirmed (P)Baa2

....Senior Secured First Mortgage Bonds, Affirmed A1

....Senior Secured Regular Bond/Debenture, Affirmed A1

..Issuer: ONE Gas, Inc

....Senior Unsecured Commercial Paper, Affirmed P-1

....Senior Unsecured Regular Bond/Debenture, Affirmed A2

..Issuer: Piedmont Natural Gas Company, Inc.

....Senior Unsecured Commercial Paper, Affirmed P-1

....Senior Unsecured Regular Bond/Debenture, Affirmed A2

..Issuer: Public Service Company of Oklahoma

.... Issuer Rating, Affirmed A3

....Senior Unsecured Regular Bond/Debenture, Affirmed A3

Exhibit 1

..Issuer: Questar Gas Company

....Senior Unsecured Commercial Paper, Affirmed P-1

....Senior Unsecured Medium-Term Note Program, Affirmed (P)A2

....Senior Unsecured Regular Bond/Debenture, Affirmed A2

..Issuer: Alabama Power Capital Trust V

....Pref. Stock Preferred Stock, Affirmed A2

..Issuer: Alabama Power Company

.... Commercial Paper, Affirmed P-1

.... Issuer Rating, Affirmed A1

....Senior Unsecured Shelf, Affirmed (P)A1

....Preferred Shelf, Affirmed (P)A3

....Preference Shelf, Affirmed (P)A3

....Pref. Stock Preferred Stock, Affirmed A3

....Senior Unsecured Bank Credit Facility, Affirmed A1

....Senior Unsecured Commercial Paper, Affirmed P-1

....Senior Unsecured Regular Bond/Debenture, Affirmed A1

..Issuer: Columbia (Town of) AL, Industrial Dev. Board

....Senior Unsecured Revenue Bonds, Affirmed A1

....Senior Unsecured Revenue Bonds, Affirmed VMIG 1

..Issuer: Eutaw (City of) AL, Industrial Dev. Board

....Senior Unsecured Revenue Bonds, Affirmed A1

....Senior Unsecured Revenue Bonds, Affirmed VMIG 1

..Issuer: Mobile (City of) AL, I.D.B.

....Senior Unsecured Revenue Bonds, Affirmed A1

....Senior Unsecured Revenue Bonds, Affirmed VMIG 1

..Issuer: Walker County Econ & Ind Dev Authority

....Senior Unsecured Revenue Bonds, Affirmed A1

....Senior Unsecured Revenue Bonds, Affirmed VMIG 1

..Issuer: West Jefferson (Town of) AL, Ind. Devel. Bd.

....Senior Unsecured Revenue Bonds, Affirmed A1

....Senior Unsecured Revenue Bonds, Affirmed VMIG 1

..Issuer: Wilsonville (Town of) AL, I.D.B.

....Senior Unsecured Revenue Bonds, Affirmed A1

....Senior Unsecured Revenue Bonds, Affirmed VMIG 1

Exhibit 1

....Underlying Senior Unsecured Revenue Bonds, Affirmed A1

..Issuer: South Jersey Gas Company

.... Issuer Rating, Affirmed A2

....Senior Secured First Mortgage Bonds, Affirmed Aa3

....Senior Secured Medium-Term Note Program, Affirmed (P)Aa3

....Senior Secured Regular Bond/Debenture, Affirmed Aa3

....Senior Unsecured Commercial Paper, Affirmed P-1

..Issuer: New Jersey Economic Development Authority

....Senior Secured Revenue Bonds, Affirmed Aa3

....Underlying Senior Secured Revenue Bonds, Affirmed Aa3

....Senior Secured Revenue Bonds, Affirmed Aa2

....Underlying Senior Secured Revenue Bonds, Affirmed Aa2

..Issuer: Southern Company (The)

.... Commercial Paper, Affirmed P-2

....Junior Subordinated Regular Bond/Debenture, Affirmed Baa3

....Senior Unsecured Shelf, Affirmed (P)Baa2

....Junior Subordinated Shelf, Affirmed (P)Baa3

....Senior Unsecured Bank Credit Facility, Affirmed Baa2

....Senior Unsecured Regular Bond/Debenture, Affirmed Baa2

..Issuer: Southern Elect Generating Co

.... Issuer Rating, Affirmed A2

....Senior Unsecured Regular Bond/Debenture, Affirmed A1

..Issuer: Southwestern Public Service Company

.... Issuer Rating, Affirmed Baa1

....Senior Secured Shelf, Affirmed (P)A2

....Senior Unsecured Shelf, Affirmed (P)Baa1

....Senior Secured First Mortgage Bonds, Affirmed A2

....Senior Unsecured Bank Credit Facility, Affirmed Baa1

....Senior Unsecured Commercial Paper, Affirmed P-2

....Senior Unsecured Regular Bond/Debenture, Affirmed Baa1

..Issuer: Wisconsin Gas LLC

.... Commercial Paper, Affirmed P-1

....Senior Unsecured Regular Bond/Debenture, Affirmed A2

Exhibit 1

..Issuer: American Water Capital Corp.

.... Issuer Rating, Affirmed A3

....Senior Unsecured Shelf, Affirmed (P)A3

....Senior Unsecured Commercial Paper, Affirmed P-2

....Senior Unsecured Regular Bond/Debenture, Affirmed A3

..Issuer: American Water Works Company, Inc.

.... Issuer Rating, Affirmed A3

..Issuer: Berks County Industrial Development Auth., PA

....Senior Unsecured Revenue Bonds, Affirmed A3

..Issuer: California Pollution Control Financing Auth.

....Senior Unsecured Revenue Bonds, Affirmed A3

..Issuer: Illinois Development Finance Authority

....Senior Unsecured Revenue Bonds, Affirmed A3

..Issuer: Illinois Finance Authority

....Senior Unsecured Revenue Bonds, Affirmed A3

..Issuer: Indiana Finance Authority

....Senior Unsecured Revenue Bonds, Affirmed A3

..Issuer: MARICOPA COUNTY INDUSTRIAL DEVELOPMENT AUTHORITY,

....Senior Unsecured Revenue Bonds, Affirmed A3

..Issuer: Northampton County I.D.A., PA

....Senior Unsecured Revenue Bonds, Affirmed A3

..Issuer: Owen (County of) KY

....Senior Unsecured Revenue Bonds, Affirmed A3

.Issuer: Consolidated Edison Company of New York, Inc.

.... Issuer Rating, Affirmed A2

....Senior Unsecured Shelf, Affirmed (P)A2

....Subordinate Shelf, Affirmed (P)A3

....Preferred Shelf, Affirmed (P)Baa1

....Senior Unsecured Commercial Paper, Affirmed P-1

....Senior Unsecured Regular Bond/Debenture, Affirmed A2

....Underlying Senior Unsecured Regular Bond/Debenture, Affirmed A2

..Issuer: New York State Energy Research & Dev. Auth.

....Senior Unsecured Revenue Bonds, Affirmed A2

....Underlying Senior Unsecured Revenue Bonds, Affirmed A2

Exhibit 1

..Issuer: New York State Research & Development Auth.

....Senior Unsecured Revenue Bonds, Affirmed A2

....Underlying Senior Unsecured Revenue Bonds, Affirmed A2

..Issuer: Consolidated Edison, Inc.

.... Issuer Rating, Affirmed A3

....Senior Unsecured Shelf, Affirmed (P)A3

....Senior Unsecured Commercial Paper, Affirmed P-2

....Senior Unsecured Regular Bond/Debenture, Affirmed A3

..Issuer: Orange and Rockland Utilities, Inc.

.... Issuer Rating, Affirmed A3

....Senior Unsecured Commercial Paper, Affirmed P-2

....Senior Unsecured Regular Bond/Debenture, Affirmed A3

..Issuer: Brooklyn Union Gas Company, The

....LT Issuer Rating, Affirmed A2

....Senior Unsecured Regular Bond/Debenture, Affirmed A2

..Issuer: New York State Energy Research & Dev. Auth.

....Backed LT IRB/PC Insured, Affirmed A2

...Underlying LT IRB/PC, Affirmed A2

Issuer: KeySpan Gas East Corporation

....LT Issuer Rating, Affirmed A2

....Senior Unsecured Regular Bond/Debenture, Affirmed A2

The principal methodology used in rating Public Service Company of Oklahoma, Southwestern Public Service Company, Southern Company (The), Alabama Power Company, Alabama Power Capital Trust V, Southern Elect Generating Co, South Jersey Gas Company, Wisconsin Gas LLC, American Electric Power Company, Inc., Duke Energy Corporation, Piedmont Natural Gas Company, Inc., Avista Corp., Avista Corp. Capital II, ONE Gas, Inc, New Jersey Natural Gas Company, Northwest Natural Gas Company, Questar Gas Company, Entergy Corporation, Consolidated Edison, Inc., Consolidated Edison Company of New York, Inc., Brooklyn Union Gas Company, The, KeySpan Gas East Corporation, and Orange and Rockland Utilities, Inc. was Regulated Electric and Gas Utilities published in June 2017. The principal methodology used in rating American Water Works Company, Inc. and American Water Capital Corp. was Regulated Water Utilities published in December 2015. Please see the Rating Methodologies page on www.moodys.com for a copy of these methodologies.

REGULATORY DISCLOSURES

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EXHIBIT 2

Exhibit 2

PIEDMONT NATURAL GAS COMPANY
DOCKET NO 18-
STATEMENT OF CHANGE DUE TO FEDERAL TAX REDUCTION

	Column 1	Column 2	Column 3	Col 4 = Col 2 + 3	Column 5	Col 6 = Col 4 - 5
	Description	Docket No. 11-00144 Settlement Att. A, Sch. 6	Docket No. 11-00144 Increase Per Settlement Att. A, Sch. 1	Total Federal Taxes After Rate Increase (Docket No. 11-00144)	Total Federal Taxes After Reduction From Tax Act	Difference Due To Tax Act
1	Operating Revenues	$189,205,584	$11,900,000	$201,105,584	$201,105,584	
2	Cost of Gas	$94,601,622	$0	$94,601,622	$94,601,622	
3	Gross Margin	$94,603,962	$11,900,000	$106,503,962	$106,503,962	
4	Salaries and Wages	$18,068,459		$18,068,459	$18,068,459	
5	Transmission and Distribution Expense	$5,631,656		$5,631,656	$5,631,656	
6	Uncollectible Expense	$57,564	$3,665	$61,229	$61,229	
7	Other Customer Accounts Expense	$880,193		$880,193	$880,193	
8	Administrative and General	$15,358,729		$15,358,729	$15,358,729	
9	Sales Expense	$118,163		$118,163	$118,163	
10	Depreciation and Amortization Expense	$19,600,350		$19,600,350	$19,600,350	
11	Taxes Other Than Income	$9,048,687		$9,048,687	$9,048,687	
12	NOI Before Excise and Income Taxes	$25,840,160	[1] $11,896,335	$37,736,496	$37,736,496	
13	AFUDC	$2,817,115		$2,817,115	$2,817,115	
14	Interest Expense	($9,068,052)		($9,068,052)	($9,068,052)	
15	Pre-tax Book Income	$19,589,223	$11,896,335	$31,485,559	$31,485,559	
16	Schedule M Adjustments	$0	$0	$0	$0	
17	Excise Taxable Income	$19,589,223	$11,896,335	$31,485,559	$31,485,559	
18	Excise Tax Rate	6.50%	6.50%	6.50%	6.50%	
19	Excise Tax Expense	$1,273,299	$773,262	$2,046,561	$2,046,561	
20	Excise Tax NOL	$0	$0	$0	$0	
21	Excise Tax	$1,273,299	$773,262	$2,046,561	$2,046,561	
22	Schedule M Adjustments	$0	$0	$0	$0	
23	FIT Taxable Income	$18,315,923	[1] $11,123,073	$29,438,997	$29,438,997	
24	FIT Rate	35%	35%	35%	21%	14%
25	Federal Income Tax Expense	$6,410,573	$3,893,076	$10,303,649	$6,182,189	$4,121,460
26	ITC Amortization	($34,404)	($34,404)	($34,404)	($34,404)	
27	Federal Income Tax Expense	$6,376,169	$3,858,672	$10,269,245	$6,147,785	$4,121,460
28	Revenue Conversion Factor Per Line 37					1.354238
29	Annual Amount Due Customers					$5,581,438

Revenue Conversion Factor

30	Revenue		1.000000
31	Uncollectible Ratio	0.000308	
32	Balance		0.999692
33	State Excise Tax	0.065000	0.064980
34	Balance		0.934712
35	Federal Income Tax	0.210000	0.196290
36	Balance		0.738422
37	Revenue Conversion Factor (Line 30/ Line 36)		1.354238

Note 1 amount adjusted by $1 to match rounding from Settlement Attachment A, Schedule 6 in Docket No. 11-00144.

EXHIBIT 3

Exhibit 3

Piedmont Natural Gas Company
Docket No. 18-
Statement of Excess Accumulated Deferred Income Taxes Associated with 2017 Tax Act

	Amount	Allocation %	TN Allocation
Excess ADIT - TN Jurisdictional Assets	(64,397,124)	100.000%	($64,397,124)
Excess ADIT - Corporate Assets	(44,707,535)	16.300%	($7,287,328)
TN Specific Impact of Net Operating Losses	7,084,205	100.000%	$7,084,205
Total TN Excess ADIT			**($64,600,248)**

Notes:

With the exception of NOLs, corporate amounts were allocated by a 2017 Plant factor of 16.30%.
The NOL allocation is based upon Tennessee-specific income tax return information.
Amounts allocated to Tennessee are subject to change due to balance sheet reclassifications between business units.
Amounts calculated are subject to true-ups associated the 2017 income tax return.
Total TN Excess ADIT will be grossed up for income taxes in conjunction with future refund to customers.