

STATE OF TENNESSEE

Office of the Attorney General



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February 27, 2019

Hon. Robin L. Morrison, Chairman
c/o Sharla Dillon
Tennessee Public Utility Commission
502 Deaderick Street, 4th Floor
Nashville, TN 37243

RE: Docket No. 18-00040, Stipulation and Partial Settlement Agreement

Dear Chairman Morrison:

When the Consumer Advocate filed the Parties' Stipulation and Partial Settlement Agreement in the above-referenced Docket, **Exhibit A** to the Agreement was not included by accident. Please find attached the Stipulation and Partial Settlement Agreement as well as **Exhibit A**.

I am sorry for the inconvenience.

Sincerely,

A handwritten signature in blue ink, appearing to read "D. Whitaker, III".

Daniel P. Whitaker, III
Assistant Attorney General

cc: James H. Jeffries, Esq. (by email)
Paul Davidson, Esq. (by email).

**BEFORE THE TENNESSEE PUBLIC UTILITY COMMISSION
AT 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. 18-00040

**STIPULATION AND PARTIAL SETTLEMENT AGREEMENT BETWEEN
PIEDMONT NATURAL GAS COMPANY, INC. AND THE CONSUMER
ADVOCATE UNIT OF THE ATTORNEY GENERAL**

Piedmont Natural Gas Company, Inc. ("Piedmont" or "Company") and the Consumer Advocate Unit of the Financial Division of the Office of the Tennessee Attorney General ("Consumer Advocate") (collectively the "Parties"), constituting all of the parties of record to the above-captioned docket and in partial settlement of the matters at issue in this proceeding, do hereby stipulate and agree as follows:

BACKGROUND

1. Piedmont is a subsidiary of Duke Energy Corporation and is engaged in the business of transporting, distributing and selling natural gas in the States of Tennessee, North Carolina and South Carolina. Piedmont's principal office and place of business is located at 4720 Piedmont Row Drive, Charlotte, North Carolina.

2. Piedmont is a public utility in Tennessee and its natural gas distribution business is subject to regulation and supervision by the Tennessee Public Utility Commission ("TPUC" or "Commission") pursuant to Chapter 4 of Title 65 of the Tennessee Code Annotated.

3. On April 2, 2018, pursuant to the Commission's *Order Opening an Investigation and Requiring Deferred Accounting Treatment* in Docket No. 18-00001 ("Investigation and Deferral Order"), Piedmont made its compliance filing ("April 2 Filing") in the above-captioned docket showing the Commission its accounting data and providing Piedmont's comments and proposals related to the impacts of the 2017 Tax Cuts and Jobs Act ("Tax Act").

4. On April 24, 2018, the Consumer Advocate filed a Petition to Intervene in this proceeding which was granted by the Commission's June 11, 2018 Order Granting the Petition to Intervene Filed by the Consumer Advocate.

5. On May 18, 2018, the Commission issued an Order Convening a Contested Case Proceeding and Appointing a Hearing Officer in this proceeding.

6. On October 5, 2018, Piedmont filed the Testimony and Exhibits of Pia K. Powers in support of Piedmont's April 2, 2018 Filing.

7. On October 25, 2018, the Commission issued its Order Establishing Procedural Schedule in this proceeding.

8. Throughout the months of October and November 2018, the Consumer Advocate engaged in discovery regarding the matters at issue in this docket as provided in the procedural schedule.

9. On January 15, 2019, the Consumer Advocate filed the testimony of David Dittmore in this proceeding in which the Consumer Advocate took issue with Piedmont's proposed response to the Tax Act, as set forth in Piedmont's April 2, 2018 Filing and the Direct Testimony of Pia K. Powers.

10. Following the filing of Mr. Dittmore's testimony, the Parties have engaged in substantive discussions regarding the differences in their respective positions on the impacts of

the Tax Act and whether those differences, in whole or in part, might be resolvable through a settlement.

11. As a result of such discussions, Piedmont and the Consumer Advocate have reached a proposed resolution of all but two issues in this docket which they now recommend to the Commission in partial but substantial resolution of this proceeding as set forth herein ("Stipulation and Partial Settlement Agreement"), leaving only two issues to be decided by the Commission.

SETTLEMENT

12. In partial settlement of this proceeding, Piedmont and the Consumer Advocate hereby agree to, and ask the Commission to approve, the following proposed resolutions of pending issues in this proceeding:

a. Piedmont's base rates shall be adjusted to incorporate the impact of the reduction in the federal corporate income tax rate from 35% to 21% under the Tax Act effective as of the date of customer billing rate changes approved by the Commission in pending TPUC Docket No. 18-00126. Rate reductions are based upon \$5,581,438, which is the pre-tax annual tax savings arising from the revenue requirement adopted in Piedmont's most recent base rate proceeding. The calculation of the per therm adjustment to base rates, by rate schedule, is shown on Settlement Exhibit A attached hereto;

b. The balance of previously deferred base rate revenues, ordered by the Commission in its Investigation and Deferral Order and reflecting the difference between a 35% and 21% federal corporate income tax rate from January 1, 2018 through the effective date of rate changes under Paragraph 12.a. above, shall be amortized and returned to customers over a period of three (3) years beginning with the effective date of rate changes under Paragraph 12.a.

above. Supplemental Exhibit B shall be added to this Agreement demonstrating the calculation of the deferral through the effective date of the new rates described in 12.a. as soon as reasonably possible once the deferral period has ceased. Exhibit B shall be filed with the Commission and submitted to the Consumer Advocate contemporaneously. A temporary decrement to customer usage rates, calculated on the basis of the margin allocations and billing determinants by rate schedule approved in Piedmont's last general rate case proceeding, will be utilized by the Company to effectuate the return of the balance to customers over this three-year period. The Parties agree that it is the intent of this Stipulation and Partial Settlement Agreement that the cumulative amount refunded to customers over this three-year period be exactly the amount of previously deferred base rate revenues as of the effective date of rate changes under Paragraph 12a above. This rate decrement shall remain in place during the three-year period notwithstanding whether new base rates are approved by the Commission within this period as a result of a base rate proceeding. The Parties also recognize that the actual amount refunded to customers over this period is subject to variations in actual customer usage compared to the billing determinants used to establish the decrement. In order to ensure that the appropriate refund amount is returned to customers, the Parties agree that any under-payment or over-payment of this refund amount that exists at the end of the three-year period shall be credited or debited to Piedmont's Annual Cost Adjustment account, as appropriate;

c. Piedmont will provide a bill message to its customers, during the first month of the effective date of rate changes under paragraph 12.a. above, explaining the basis and impact of the rate changes agreed to in this Stipulation and Partial Settlement Agreement;

13. The Parties further agree that the only issues remaining to be determined by the Commission in this proceeding, and upon which the Parties were unable to reach agreement are as follows: the appropriate treatment for return of unprotected Excess Accumulated Deferred Income Taxes to Piedmont's customers, and the appropriate state income tax rate for use in the computation of Piedmont's Tennessee ADIT balance in this and future proceedings. The relative positions of the Parties with respect to these issues are as set forth in the respective testimonies of Pia K. Powers and David Dittmore, as may be amplified or explained at the hearing of this matter.

14. The settlement terms reflected in Paragraph 12 above represent a comprehensive and complete resolution of the issues set forth therein and all claims or defenses raised or that could have been raised by the Parties in this proceeding relative to such issues and represent a good faith compromise and settlement between the Parties resolving all such issues in this Docket subject to the approval by the Commission of this Stipulation and Partial Settlement Agreement and the terms and conditions of this Stipulation and Partial Settlement Agreement.

15. The Parties agree to support this Stipulation and Partial Settlement Agreement before the Commission and in any hearing, proposed order, or brief conducted or filed in this proceeding. The resolution of issues reflected herein is the result of give and take negotiations between the Parties and does not necessarily reflect the position of any single Party on any discrete issue. None of the signatories hereto shall be deemed to have acquiesced in any ratemaking or procedural principle, including without limitation, any cost of service determination or cost allocation or revenue related methodology, and none of the Parties waives its right to take other positions with respect to matters similar to those settled herein in future proceedings before the Commission. This Stipulation and Partial Settlement Agreement shall

not have any precedential effect in any future proceeding or be binding upon either of the Parties in this or any other jurisdiction, except to the extent necessary to implement the provisions hereof and as expressly contemplated herein.

16. The provisions of this Stipulation and Partial Settlement Agreement are agreements reached in compromise and settlement and solely for the purpose of resolving this docket without the need for further litigation.

17. The stipulations agreed to in this Stipulation and Partial Settlement Agreement, which are the product of negotiations and substantial communication and compromise between the Parties, are just and reasonable and in the public interest. The Parties jointly recommend that the Commission issue an order adopting this Stipulation and Partial Settlement Agreement in its entirety without modification.

18. In the event that the Commission does not approve this Stipulation and Partial Settlement Agreement in its entirety, each of the signatories to this Stipulation and Partial Settlement Agreement will retain the right to terminate this Stipulation and Partial Settlement Agreement by written notice to the Commission and other Party within ten (10) business days of the issuance of an order by the Commission not approving this Stipulation and Partial Settlement Agreement in its entirety. Should this Stipulation and Partial Settlement Agreement terminate, it would be considered void and have no binding effect, and the signatories to this Stipulation and Partial Settlement Agreement would reserve their rights to fully participate in all relevant proceedings notwithstanding their agreement to the terms and conditions of this Stipulation and Partial Settlement Agreement.

19. The provisions of this Stipulation and Partial Settlement Agreement are not severable.

20. By agreeing to this Stipulation and Partial Settlement Agreement, no Party waives any right to continue litigating this matter should the Stipulation and Partial Settlement Agreement be rejected by the Commission in whole or in part.

21. No provision of this Stipulation and Partial Settlement Agreement shall be deemed an admission of any Party.

22. The provisions of this Stipulation and Partial Settlement Agreement do not necessarily reflect the positions asserted by any Party, and no Party waives the right to assert any position in this Docket, or in any future proceeding, except as expressly stipulated and agreed herein.

23. The acceptance of this Stipulation and Partial Settlement Agreement by the Consumer Advocate shall not be deemed approval by the Consumer Advocate of any of the Company's practices.

24. This Stipulation and Partial Settlement Agreement may only be enforced by the Parties or the Commission.

25. The Consumer Advocate's agreement to this Stipulation and Partial Settlement Agreement is expressly premised upon the truthfulness, accuracy and completeness of the information provided by the Company to the Consumer Advocate throughout the course of this docket, which information was relied upon by the Consumer Advocate in negotiating and agreeing to the terms and conditions of this Stipulation and Partial Settlement Agreement.

26. This Stipulation and Partial Settlement Agreement shall be governed by and construed under the laws of the State of Tennessee, notwithstanding the conflict of law provisions thereof.

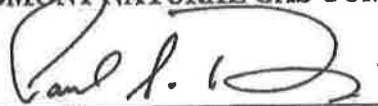
27. The Parties agree that this Stipulation and Partial Settlement Agreement constitutes the complete understanding between the Parties concerning the resolution of issues and matters under this Docket No. 18-00040 and any oral statements, representations or agreements concerning such issues and matters made prior to the execution of this Stipulation and Partial Settlement Agreement have been merged into this Stipulation and Partial Settlement Agreement.

28. Each signatory to this Stipulation and Partial Settlement Agreement represents and warrants that it/he/she has informed, advised and otherwise consulted with the Party for whom it/he/she signs regarding the contents and significance of this Stipulation and Partial Settlement Agreement and has obtained authority to sign on behalf of such Party, and based upon those communications, each signatory represents and warrants that it/he/she is authorized to execute this Stipulation and Partial Settlement Agreement on behalf of its/his/her respective Party.

29. The Parties agree that this Stipulation and Partial Settlement Agreement may be executed in multiple counterparts and by copies provided by facsimile or in .pdf format.

The foregoing is agreed and stipulated to this 19th day of February, 2019.

PIEDMONT NATURAL GAS COMPANY, INC.

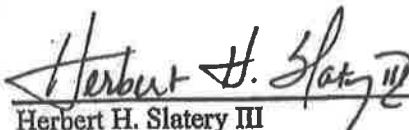


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EXHIBIT A

Exhibit A

Piedmont Natural Gas Company, Inc.
Base Rate Adjustment for Cost of Service Impact due to Decrease in FIT Rate (35% to 21%)
 State of Tennessee
 Docket No. 18-00040

| Line No. | | Notes | Residential (301) | Small & Medium General (302, 352) | Large General (303, 304, 313, 314) | Resale Service (310) | Total |
|----------|---|-----------------------|----------------------|---|---------------------------------------|-------------------------|----------------|
| 1 | Customer Class Apportionment Percent | see table below | 59.64% | 31.20% | 9.13% | 0.03% | 100.00% |
| 2 | Base Rate Adjustment for Recovery (Refund) | see table below | \$ (3,328,988) | \$ (1,741,442) | \$ (509,479) | \$ (1,528) | \$ (5,581,438) |
| 3 | Annualized Throughput from 2011 Rate Case (DTs) | Docket No. 11-00144 | 11,130,214 | 6,664,958 | 10,466,595 | 10,312 | 28,272,079 |
| 4 | Base Rate Adjustment Per DT | [= Line 2 / Line 3] | (0.2991) | (0.2613) | (0.0487) | (0.1482) | |
| 5 | Base Rate Adjustment Per Therm | [= Line 4 / 10] | (0.02991) | (0.02613) | (0.00487) | (0.01482) | |

Derivation of Customer Class Apportionment Percentage

| Docket No. 11-00144: 2011 Rate Case | Annual Total | Allocation % |
|--|-----------------|--------------|
| Margin Revenues | | |
| Residential (301) | \$ 62,049,925 | 59.64% |
| Sm & Med General Service (302, 352) | \$ 32,459,219 | 31.20% |
| Large General Service (303, 304, 313, 314) | \$ 9,496,322 | 9.13% |
| Resale Service (310) | \$ 28,481 | 0.03% |
| Total | \$ 104,033,947 | 100.00% |

| | |
|--|---|
| | Annual Revenue Requirement Adjustment |
| 2018 Federal Tax Reform, FIT rate of 21% | \$ (5,581,438) |

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