waller

Waller Lansden Dortch & Davis, LLP
511 Union Street, Suite 2700
P.O. Box 198966
Nashville, TN 37219-8966

615.244.6380 main
615.244.6804 fax
wallerlaw.com

Paul S. Davidson
615.850.8942 direct
paul.davidson@wallerlaw.com

Filed Electronically in TPUC Docket Room on March 5, 2019 at 11:09 a.m.

March 5, 2019

Via Hand Delivery and Email

Executive Director Earl Taylor
c/o Tory Lawless
Tennessee Public Utility Commission
502 Deaderick Street, Fourth Floor
Nashville, Tennessee 37243

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*

Dear Mr. Taylor:

Enclosed please find an original and five (5) copies of Piedmont Natural Gas Company, Inc.'s ("Piedmont") responses to the TPUC Staff Discovery Request No. 1 in the above-captioned docket.

This material is also being filed by way of email to the Tennessee Public Utility Commission Docket Manager, Tory Lawless. Please file the original and four copies of this filing and stamp the additional copy as "filed." Then please return the stamped copies to me by way of our courier.

Thank you for your assistance with this matter. 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

Paul S. Davidson

PSD/ss
Enclosures

4818-6226-5225.1

PIEDMONT NATURAL GAS COMPANY, INC.
DOCKET NO. 18-00040
FEDERAL TAX CUT AND JOBS ACT
FIRST DATA REQUEST – TPUC STAFF
Issued: February 27, 2019

1. Based upon the closing of the Company's books, what is the final amount of protected and unprotected excess ADIT?

Response: The Company's current calculation of excess ADIT for Tennessee resulting from the Tax Act is as follows:

Protected	$46,585,754.42
Unprotected	$17,406,054.76
Total Excess ADIT	**$63,991,809.18**

Of the $17,406,054.76 total amount of Unprotected Excess ADIT, the portion of related to non-accelerated book tax depreciation differences on property, plant and equipment ("Unprotected Plant-Related Excess ADIT") is $11,716,053.83. The remaining $5,690,000.93 is the portion of Unprotected Excess ADIT related to other book tax depreciation differences ("Unprotected Non-Plant Related Excess ADIT").

These amounts reflect Piedmont's recent true-up to its 2017 income tax return.

Name and title of responsible person: John Panizza, Director Tax Operations; Pia Powers, Director – Gas Rates & Regulatory Affairs

Name and title of preparer: Chris Nelson, Tax Manager and Brian Neiheisel, Senior Tax Manager; Pia Powers, Director – Gas Rates & Regulatory Affairs

2. What is the appropriate amortization treatment for the return of unprotected excess ADIT including the time frame and amount? Provide rationale for an immediate amortization of the unprotected amount or postponement until the Company's next rate case.

Response: The amortization of Unprotected Excess ADIT should be postponed until the next general rate case. At such time, Unprotected Plant-Related Excess ADIT should be amortized over twenty years and Unprotected Non-Plant Related Excess ADIT should be amortized over five years. In order to provide an additional degree of ratemaking certainty, Piedmont recommends the Commission begin the refund process for Unprotected Excess ADIT at the sooner of three years from its order in this docket or at the effective date of the Company's next general rates.

There are several factors supporting Piedmont's proposal. First, there are negative consequences to Piedmont (and other utilities) from the Tax Act particularly associated with the reduction in cash-flow associated with the Tax Act changes. Taking a "go slower" approach to the amortization of unprotected excess ADIT will help mitigate the negative cash flow impacts of the Tax Act and will also help to avoid the need to access more costly debt or equity to maintain cash flow requirements. Second, a significant percentage of the Unprotected Excess ADIT at issue in this docket (the Unprotected Plant-Related Excess ADIT) is associated with property with a useful remaining life of more than twenty years – which suggests that a longer amortization period is appropriate for the return of those funds to customers. Third, addressing the amortization of Unprotected Excess ADIT in Piedmont's next rate proceeding (or three years from the effective date of the Commission's order in this docket, whichever occurs first) will provide a form of hedge against future rate increases. If Unprotected Excess ADIT is amortized before that period in time, then the future rate increases will be higher and overall rate stability in Tennessee will be negatively impacted. Finally, the amount of Unprotected Excess ADIT will not decrease over time – i.e. the benefits to customers from the Unprotected Excess ADIT will be preserved. For all of these reasons, Piedmont believes that Unprotected Excess ADIT should be preserved as a hedge against future rate increases and potentially increased costs of capital and addressed at the sooner of Piedmont's next general rate case or three years.

Piedmont is proposing a balanced solution to the Tax Act issues. The Company is currently flowing the income tax reduction benefit of the Tax Act to customers via reduced rates in its Integrity Management Rider. Additionally, the Company has agreed in this docket to lower its base rates for the income tax reduction concurrent with the commencement of revised rates in its currently pending IMR rate adjustment docket. These rate reductions should be balanced with Piedmont's need 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 a safe, reliable and environmentally responsible energy choice for the State of Tennessee. 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.

Evidence of the detrimental impact from the Tax Act is evidenced by the 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 was filed in this docket. 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.

Name and title of responsible person: Pia Powers, Director – Gas Rates & Regulatory Affairs

Name and title of preparer: Pia Powers, Director – Gas Rates & Regulatory Affairs

PIEDMONT NATURAL GAS COMPANY, INC.
DOCKET NO. 18-00040
FEDERAL TAX CUT AND JOBS ACT
FIRST DATA REQUEST – TPUC STAFF
Issued: February 27, 2019

3. What is the appropriate Tennessee state income tax rate to be used in the computation of Piedmont's excess ADIT?

Response: This appropriate rate for the computation of ADIT is the Company's composite state income tax rate. Piedmont's core business is conducted across three state jurisdictions – Tennessee, North Carolina and South Carolina. The tax return that Piedmont files with the Tennessee Department of Revenue each year requires that the Company's annual income subject to the state excise tax rate be based on a specified apportionment of the Company's total income, not just the income based on those Piedmont assets located in the state of Tennessee. The same is true for how Piedmont's state income tax return is required to be filed in each of its other jurisdictions. Given this common composite tax approach for multi-state businesses such as Piedmont, the Company's composite state income tax rate is used to record its ADIT on its general ledger.

The computation of ADIT for ratemaking purposes in Piedmont's prior general rate cases in Tennessee and its other states has stayed consistent with the approach used for recording ADIT on the Company's general ledger – this composite rate approach. This Commission approved ADIT represented in this manner in Piedmont's last general rate case and in multiple prior general rate cases. This method also has long standing commission precedence for Piedmont in each of its jurisdictions. Any changes in the methodology for calculating ADIT can be argued by any party in Piedmont's next general rate case. However, it is not appropriate to change this methodology as approved in the last general rate case without examining all cost allocation methodologies for consistency and fairness. The only appropriate venue for such a comprehensive review of allocations is a general rate case proceeding.

Name and title of responsible person: Pia Powers, Director – Gas Rates & Regulatory Affairs

Name and title of preparer: Pia Powers, Director – Gas Rates & Regulatory Affairs

4. Provide a specific recommendation on the amount of protected excess ADIT and the time frame in which it should be refunded to customers calculated consistent with the ARAM, including an option for the immediate amortization.

Response: For all of the reasons cited in Piedmont's response to item 2 of this data request, the Company's specific recommendation is to refund no Protected Excess ADIT until its next general rate case. Consumer Advocate Witness Dittemore's testimony likewise recommends no return of Protected Excess ADIT prior to the next general rate case.

At the next general rate case, Piedmont will propose refunds for Protected Excess ADIT consistent with ARAM. These will last for approximately 42 years. The amortized amount for Year One will be approximately $1.1 million.

An immediate refund of the protected excess ADIT (or any refund to customers that occurs faster than ARAM amortization) would represent a violation of IRS normalization requirements as codified in federal income tax code Section 168(f)(2). Such violation could lead to Piedmont's inability to utilize any form of accelerated depreciation methodology prospectively. Such a result would negatively impact Piedmont's cash flow to a significant degree and would lead to higher costs for its Tennessee customers.

Name and title of responsible person: Pia Powers, Director – Gas Rates & Regulatory Affairs

Name and title of preparer: Pia Powers, Director – Gas Rates & Regulatory Affairs

PIEDMONT NATURAL GAS COMPANY, INC.
DOCKET NO. 18-00040
FEDERAL TAX CUT AND JOBS ACT
FIRST DATA REQUEST – TPUC STAFF
Issued: February 27, 2019

5. If amortization of unprotected and/or protected excess ADIT is deferred until the Company's next rate case, should interest be applied to recognize the time delay? If so, what interest rate should be utilized?

Response: It is a generally accepted ratemaking principle that regulated liabilities on a utility's balance sheet should either reduce rate base or bear interest expense. Requiring both is not appropriate.

No interest to the Excess ADIT balance should be applied because Excess ADIT (all ADIT, for that matter) reduces rate base. As a rate base deduction, the interest impact of all ADIT is inherently recognized in Piedmont's monthly earnings surveillance reports (3.03 Report). This benefit will reduce rate base in Piedmont's next general rate case. At that time, the process of refunding amounts to customers should commence.

The North Carolina Utilities Commission recently clarified its guidance indicating that ADIT rate base deductions should not bear interest by order issued November 9, 2018 in Docket Number M-100, Sub 148.

Name and title of responsible person: Pia Powers, Director – Gas Rates & Regulatory Affairs

Name and title of preparer: Pia Powers, Director – Gas Rates & Regulatory Affairs