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February 6, 2019

Via Hand Delivery

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

Re: ***Petition of Piedmont Natural Gas Company, for Approval of an Integrity Management Rider to its Approved Rate Schedules and Service Regulations Docket No. 18-00126***

Dear Mr. Taylor:

Enclosed please find an original and five (5) copies of Piedmont Natural Gas Company, Inc.'s ("Piedmont") responses to the Consumer Protection and Advocate Division's second set of discovery requests dated January 28, 2019 in the above-captioned docket.

Please note that one narrative response and several of the attachments have been marked CONFIDENTIAL. We have provided an original and thirteen (13) copies of these documents. Piedmont requests that these be treated as such pursuant to the September 27, 2013 Protective Order filed in Docket No. 13-00118.

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

Sincerely,

Paul S. Davidson

Paul S. Davidson

PSD:cdg

PIEDMONT NATURAL GAS COMPANY, INC.
DOCKET NO. 18-00126
IMR Annual Report
SECOND DATA REQUEST
Issued: January 28, 2019

1. Regarding the payment of ad-valorem in the states of Tennessee and North Carolina, identify the due dates associated with the 2018 filing; i.e. Property valued as of December 31, 2018. If property is not valued annually as of December 31st, identify the date the ad-valorem valuation occurs along with the corresponding date(s) payment is due. Provide a separate response for each state.

Response: The Tennessee Ad-Valorem Tax Report that contains property valued as of December 31, 2018 is due April 1, 2019. The North Carolina Ad Valorem Valuation that contains property valued as of December 31, 2018 is due March 31, 2019.

Name and title of responsible person: John Panizza, Director Tax Operations

Name and title of preparer: Cindy Mobberley – Property Tax Manager

Response provided by Piedmont Natural Gas on February 4, 2019.

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3. Regarding Response 1-6, provide the portion of the Capital Expenditure forecast by category that is anticipated to be eligible for recovery under the IMR rider for each of the three identified years.

Response: See CONFIDENTIAL attachment.

Name and title of responsible person: John Robson, Director Gas Distribution Finance

Name and title of preparer: John Robson, Director Gas Distribution Finance

Response provided by Piedmont Natural Gas on February 4, 2019.

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4. Identify the total contract labor costs included within new projects included in the IMR for the twelve-month period ending October 2018. Provide a discussion of how overhead labor, both Tennessee based as well as corporate overhead is capitalized on IMR projects performed by Piedmont employees contrasted with those performed by contract labor.

Response: See CONFIDENTIAL attachment for contract labor costs incurred between 11/1/17 and 10/31/18 included in the new IMR projects that started during this time period.

When a Piedmont employee direct charges his or her time worked to a capital project, that project is also charged a labor loader charge to cover the cost of payroll taxes and employee benefits. When contract labor is direct charged to a capital project there is no labor loader applied to that charge.

Certain gas operations work groups provide overall support to both O&M and Capital work. The direct charging of their time and expenses is impractical or impossible. These gas operations employees charge their time and expenses to overhead pool accounts which then get allocated across capital projects as well as O&M accounts based on direct labor and contractor labor costs.

Name and title of responsible person: Melissa Abernathy, Manager Accounting II and John Robson, Director Gas Distribution Finance

Name and title of preparer: Dale Graham, Senior Accounting Analyst and John Robson, Director Gas Distribution Finance

Response provided by Piedmont Natural Gas on February 4, 2019.

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5. Please confirm whether Project FP 1734120 was complete and in-service as of October 31, 2018. If not, identify the date the project was completed, or is estimated to be complete. Provide any revisions to the initial estimated costs.

Response: FP1734120 is not yet in service. It is anticipated to be placed in-service in April 2019. The initial estimated cost for this project was $22,000,000. The current estimate of total project costs upon completion is $25,430,877.04.

Name and title of responsible person: John Robson, Director Gas Distribution Finance

Name and title of preparer: John Robson, Director Gas Distribution Finance

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6. Response 11-e references the retirement of (presumably) 1950's main. A review of the response to Consumer Advocate request 5, indicates retirements related to IMR capital expenditures totaled $7,100, none of which related to the FP 1733763 project referenced in response 11-e. With respect to the retirements associated with Project FP 1733763, provide the following:

a. Identify the date the retirement has been recorded.

b. If the retirement has not been recorded, identify the estimated date it will be recorded.

c. Identify or estimate the amount of retirement that will be recorded.

d. Provide an explanation of why an April 2018 retirement was not recorded by October 2018. Provide a thorough explanation of the process used to identify and eventually record plant retirements.

e. Hypothetically, if a retirement is recorded in November associated with a retirement that occurred in April, does Piedmont reverse the depreciation expense recorded in the intervening months of April - November?

Response:

a. The retirement has not yet been recorded.

b. This project is not yet in service. It is estimated to be placed into service in March 2019. Once the new main has been placed in service, the old main will be taken out of service and retired. Retirements are typically recorded within 12 months of the associated project in-service date.

c. $9,209.50

d. This project started in July of 2016. Construction is ongoing. The retirement will be recorded once the asset is taken out of service.

The process to record plant retirements is as follows:

In the case of non-high pressure distribution projects, project managers enter key information (project number, asset location, vintage year and quantities) into the Distribution Crew Management System (DCMS) which interfaces with Power Plan (asset accounting system) each month to initiate the asset retirement process. DCMS feeds the required information into Power Plan in order to record the asset retirement. Project

managers submit information to the asset accounting group such as as-built drawings to substantiate the information that has been entered into DCMS. The asset accounting group verifies all information provided and processes the journal entry to record the retirements.

In the case of high-pressure distribution and transmission projects, the retirement process is manual. Project managers provide the required information to the asset accounting group when this type of asset is taken out of service and needs to be removed from the asset accounting records. The asset accounting group verifies all information provided and processes the journal entry to record the retirements.

The valuation of the retired asset is determined using one of the following methods:

1) Curve method: Primarily used on mass assets such as distribution/transmission pipe. The curve method uses a mortality curve to determine the average price per vintage. The curve allows the user to identify the quantity and location of the pipe, but the vintage is determined using a curve and the dollars are then determined at an average price per vintage.

2) Specific: Primarily used to retire an entire asset cost, such as M&R Stations, Meter Sets, and most General Plant assets. However, Replacement Projects relating to M&R Stations, Meter Sets, and most General Plant assets will sometimes utilize a cost trending method, Handy Whitman, to determine the retirement cost of the asset which is derived by trending back the current cost of the asset (Addition) by the retirement vintage.

3) Auto Retirements: Asset Accounting will perform an analysis annually on assets that meet the criteria to be automatically retired per the Duke Energy U.S. Regulated Electric & Gas Capitalization Guidelines. This analysis will compare the average service life of the assets per the current depreciation study for each jurisdiction against the vintage year of the asset record in Power Plan. Assets that have reached their average service life during the year of the analysis will be retired as fully depreciated.

e. No.

Name and title of responsible person: Melissa Abernathy, Manager Accounting II

Name and title of preparer: Dale Graham, Senior Accounting Analyst

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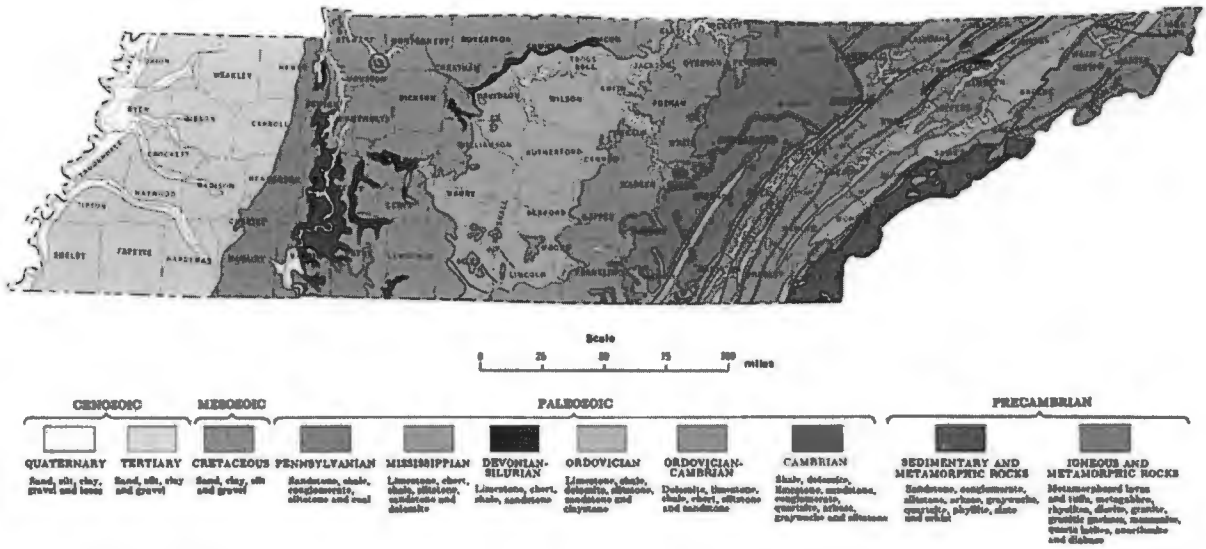
7. Response to Consumer Advocate request 1-7 indicated main replacement costs of $945 Thousand per mile. Of the 16 miles replaced, identify the number of miles in which rock was encountered.

Response: Rock is encountered on most construction digs in Nashville as the soil is very rocky and mainly made up of shale and limestone. The map below shows the geology of Tennessee. The Nashville metro area is mainly in the rockier formations which are designated with pinks and blues in the graphic below. The western part of the state has more silts, sands, and clays, while the mountains to the east and the central part of the state are made up of igneous and metamorphic rock.



GENERALIZED GEOLOGIC MAP OF TENNESSEE

This map was obtained from the TN Department of Environment and Conservation https://www.tn.gov/content/dam/tn/environment/geology/images/geology_geologic-map-lg.jpg

Name and title of responsible person: Melton Huey, Director Gas Asset Risk Management

Name and title of preparer: Melton Huey, Director Gas Asset Risk Management

Response provided by Piedmont Natural Gas on February 4, 2019.

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8. Provide a comprehensive explanation why the cost per mile of main declined significantly in 2018 compared with prior years.

Response: The Company does not have an explanation for the change in cost per mile of main for 2018 compared to the prior years referenced.

March 1, 2012 – October 31, 2013
$5,902,947.05 spent on distribution main replacement
5.43 miles replaced
$1,087,098.90 per mile of pipe replaced

November 1, 2013 – October 31, 2014
$4,763,337.76 spent on distribution main replacement
3.52 miles replaced
$1,353,220.95 per mile of pipe replaced

November 1, 2014 – October 31, 2015
$8,451,024.84 spent on main replacement
6.53 miles replaced
$1,294,184.51 per mile of pipe replaced

November 1, 2015 – October 31, 2016
$6,459,042.28 spent on distribution main replacement
3.29 miles replaced
$1,963,234.74 per mile of pipe replaced

November 1, 2016 – October 31, 2017
$15,067,551.93 spent on distribution main replacement
10.10 miles replaced
$1,491,836.82 per mile of pipe replaced

November 1, 2017 – October 31, 2018
$15,161,109.80 spent on distribution main replacement
16.04 miles replaced
$945,085.83 per mile of pipe replaced

Name and title of responsible person: Melton Huey, Director Gas Asset Risk Management

Name and title of preparer: Melton Huey, Director Gas Asset Risk Management

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9. Notwithstanding the decline in costs in 2018, a historic review of the installation costs per mile of main seems extremely high. Provide a comprehensive explanation identifying the challenges incurred by Piedmont in the installation of Main throughout its Tennessee system. To the extent there are geological differences within its Tennessee system, identify the areas that are more problematic from a cost perspective.

Response: As discussed in Item 2-7 above, the ground in the Nashville metro area is very rocky. Pipe installation in rock is more challenging therefore more costly than pipe installation in silt/sand/clay soils. Installing pipe in urban areas is more costly due to the need for traffic control, paving, and restoration costs as examples. The use of horizontal directional drilling (HDD) is very common in an urban area such as Nashville as well. HDD is typically more costly than direct bore.

Name and title of responsible person: Melton Huey, Director Gas Asset Risk Management

Name and title of preparer: Melton Huey, Director Gas Asset Risk Management

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10. Provide the cost per installed mile of main in North Carolina for each year, 2016-2018.

Response:

2016 - $393,597
2017 - $409,472
2018 - $310,962

Name and title of responsible person: Melton Huey, Director Gas Asset Risk Management

Name and title of preparer: Melton Huey, Director Gas Asset Risk Management

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11. Provide a comprehensive explanation for the increase in labor capitalization rates in the current filing, contrasted with the Confidential response to Consumer Advocate 1-61 supplied in Docket No. 17-00138.

Response: Per the corrected and supplemental response to CPAD DR Item 1-8, the labor capitalization rate for the most recent 12 month period is actually comparable to that reported in Item 1-61 of the first Consumer Advocate data request under Docket 17-00138.

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

Name and title of preparer: Laura Hager, Senior Analyst - Rates & Regulatory Affairs

Response provided by Piedmont Natural Gas on February 4, 2019.

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12. Regarding re bills issued in the period November 2017 - October 2018 that corrected volumes billed prior to November 2017 respond to the following:

a. Confirm that the IMR charge included in the rebill incorporates the rate in effect during the original consumption month, and not the rate in effect within the current period. If this is not confirmed, provide a comprehensive explanation detailing the rebill process as it relates to IMR charges.

b. Indicate whether rebilled volumes billed in the current IMR period that relate to previous IMR periods are included within the current period IMR revenue.

c. Identify the net rebilled volumes by customer class billed within the November 2017 - October 2018 time period which relate to consumption occurring prior to November 1, 2017.

Response:

a. The IMR rate (the IM Adjustment as reflected in Piedmont's Service Schedule 317) is a component of Piedmont's total Tennessee customer billing rate. For any given month, a customer's bill is calculated using the total billing rate authorized by the Commission for the billing Revenue Month.

Piedmont rebills customers, as necessary, using the total billing rate authorized by the Commission at time of the original billing Revenue Month. For example, if a customer is rebilled by Piedmont in June 2018 for an original bill rendered in December 2017, the Company will credit the customer's account for the amount of the original bill and rebill using the rates authorized at the time of the original billing Revenue Month (December 2017).

b. Billed volumes, whether rebilled or original volumes, have no impact on the amount of IMR revenue that is recorded on the company's books. The IMR revenue that is recognized by the company is determined in the revenue requirement calculation as computed in the company's annual report filing each year. Piedmont is currently recording monthly IMR revenue as computed in Schedules 3 and 5 of the Revised Annual IMR Report filed November 30, 2017 in Docket 17-00138.

c. Rate Schedule 301 Residential – 5,285 therms
Rate Schedule 302 Small General Service – 13,849 therms
Rate Schedule 352 Medium General Service – 37,964 therms

There were no rebills of volumes originally billed prior to November 1, 2017 for the remaining rate schedules during this time period.

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

Name and title of preparer: Laura Hager, Senior Analyst - Rates & Regulatory Affairs

Response provided by Piedmont Natural Gas on February 4, 2019.