



1 **Q1. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION**
2 **FOR THE RECORD.**

3 **A1.** My name is David N. Dittmore. My business address is Office of the Tennessee
4 Attorney General, War Memorial Building, 301 6th Ave. North, Nashville, TN 37243. I
5 am a Financial Analyst employed by the Consumer Advocate Unit in the Financial
6 Division of the Tennessee Attorney General's Office (Consumer Advocate).

7 **Q2. PLEASE PROVIDE A SUMMARY OF YOUR BACKGROUND AND**
8 **PROFESSIONAL EXPERIENCE.**

9 **A2.** I received a Bachelor of Science Degree in Business Administration from the University
10 of Central Missouri in 1982. I am a Certified Public Accountant licensed in the state of
11 Oklahoma (#7562). I was previously employed by the Kansas Corporation Commission
12 (KCC) in various capacities, including Managing Auditor, Chief Auditor and Director
13 of the Utilities Division. For approximately four years, I was self-employed as a Utility
14 Regulatory Consultant representing primarily the KCC Staff in regulatory issues. I also
15 participated in proceedings in Georgia and Vermont, evaluating issues involving
16 electricity and telecommunications regulatory matters. Additionally, I performed a
17 consulting engagement for Kansas Gas Service (KGS), my subsequent employer during
18 this time frame. For eleven years I served as Manager and subsequently Director of
19 Regulatory Affairs for KGS, the largest natural gas utility in Kansas serving
20 approximately 625,000 customers. KGS is a division of One Gas, a natural gas utility
21 serving approximately two million customers in Kansas, Oklahoma and Texas. I joined
22 the Tennessee Attorney General's Office in September 2017 as a Financial Analyst.
23 Overall, I have thirty years' experience in the field of public utility regulation. I have
24 presented testimony as an expert witness on many occasions. Attached as Exhibit DND-
25 1 is a detailed overview of my background.

**Q3. HAVE YOU PREVIOUSLY PROVIDED TESTIMONY BEFORE THE
TENNESSEE PUBLIC UTILITY COMMISSION (TPUC)?**

A3. Yes. I have submitted testimony in TPUC Docket Nos. 17-00014, 17-00108, 17-00138, 17-00124, 17-00143, 18-00017, 18-00022, 18-00034, 18-00038, 18-00040, 18-00067, and 18-00097.

Q4. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A4. The purpose of my testimony is to present the Consumer Advocate's recommendations on Piedmont's proposed Integrity Management Rider (IMR).

**Q5. WHAT IS THE AVERAGE COST PER RESIDENTIAL CUSTOMER FROM
THE IMR RIDER?**

A5. The average annual cost per residential customer is \$107.35 based upon the typical residential consumption of 735 therms¹ per year. Thus, the IMR remains a very significant charge to customers and it deserves significant regulatory oversight given both the size of the charge as well as the facts surrounding the level of capital expenditures incurred by Piedmont and passed on to ratepayers.

**Q6. PLEASE PROVIDE A HISTORY OF THE IMR CHARGES SINCE THE DATE OF
INITIAL IMPLEMENTATION.**

A6. The table below tracks the IMR rates since the implementation of the IMR rider.

¹ Pia K. Powers Direct Testimony, p. 9, lines 1-2, Docket No. 18-000126.

PIEDMONT NATURAL GAS COMPANY					
CUMULATIVE RATE IMPACT FROM IMR RIDER FILINGS					
COSTS PER THERM					
Effective Date	Docket No.	Residential	Commercial	LGS Firm	LGS Interruptible
1/1/2014	13-00118	\$ 0.07018	\$ 0.06130	\$ 0.02723	\$ 0.00681
2/1/2015	14-00147	0.09285	0.08111	0.03603	0.00901
1/1/2016	15-00116	0.10144	0.88610	0.03936	0.00984
5/1/2017	16-00140	0.13124	0.11465	0.05092	0.01273
5/1/2018	17-00138	0.16057	0.14027	0.06230	0.01557
Proposed	18-00126	0.14605	0.12759	0.05667	0.01417

Q7. PLEASE IDENTIFY THE TOPICS YOU WILL ADDRESS IN YOUR TESTIMONY.

A7. My testimony covers two issues, the recommendation to reject the inclusion of a property tax charge attributed to tax exempt property located in North Carolina, and my concerns about Piedmont's lack of focus related to distribution mains included in IMR rates. I also support Exhibit DND-2 which recalculates the Piedmont IMR revenue requirement as well as proposed IMR rates.

Q8. TURN TO THE FIRST ISSUE REGARDING THE EXCLUSION OF CERTAIN AD-VALOREM TAXES. IDENTIFY THE AMOUNT OF THE PROPOSED ADJUSTMENT AND EXPLAIN HOW IT WAS CALCULATED.

A8. The adjustment I am sponsoring would reduce Piedmont's IMR revenue requirement \$171,809 to eliminate calculated Ad-valorem taxes on property that is in fact, tax exempt. This adjustment is reflected on Exhibit DND-2. The resulting rates associated with this adjustment are calculated on Exhibit DND-3. The calculated Ad-valorem taxes included by Piedmont in the IMR request are not owed to any government entity. The calculated taxes are associated with the OASIS asset, which is exempt from North Carolina Ad-valorem tax. The Consumer Advocate believes it is inappropriate to include this hypothetical expense within the IMR calculation.

1 The adjustment was calculated based upon information provided within the Piedmont
2 filing, namely the Tennessee jurisdictional portion of OASIS property included within the
3 filing multiplied by the composite tax rate (.0073%).

4 **Q9. WAS THE OASIS PROJECT IN SERVICE AT THE DATE IN WHICH THE**
5 **.73% AD-VALOREM RATE WAS DEVELOPED?**

6 **A9.** No.

7 **Q10. DOES THE INCLUSION OF ASSETS THAT ARE TAX-EXEMPT FOR**
8 **PURPOSES OF CALCULATING IMR AD-VALOREM EXPENSE RESULT IN**
9 **EXCESSIVE IMR COLLECTIONS FOR PIEDMONT?**

10 **A10.** Yes.

11 **Q11. DOES PIEDMONT'S IMR SERVICE SCHEDULE REQUIRE THE**
12 **CALCULATION OF AD-VALOREM TAX EXPENSE ON TAX EXEMPT**
13 **PLANT?**

14 **A11.** No. While the tariff permits such a calculation, it is not a violation of the tariff itself to
15 calculate the appropriate IMR Ad-valorem expense.

16 **Q12. DO YOU BELIEVE THE INTENTION OF THE IMR WHEN IT WAS**
17 **INITIATED WAS TO ALLOW FOR AN OVER-COLLECTION OF AD-**
18 **VALOREM TAX EXPENSE?**

19 **A12.** No. I believe the spirit of the IMR is to permit Piedmont to recover a return on its IMR
20 assets as well as its incremental costs associated with those expenditures. Permitting
21 collection of hypothetical Ad-valorem costs goes beyond the objective of infrastructure
22 mechanisms such as the IMR.

23 **Q13. DID YOU RECOMMEND THIS SAME ADJUSTMENT IN PIEDMONT'S MOST**
24 **RECENT IMR REQUEST, DOCKET NO. 17-00138?**

25 **A13.** Yes. The Commission did not accept the proposed adjustment.

1 **Q14. IF THE COMMISSION REJECTED THIS SAME ADJUSTMENT IN THE LAST**
2 **PROCEEDING, WHY ARE YOU PROPOSING THE ADJUSTMENT IN THE**
3 **PRESENT DOCKET?**

4 **A14.** I recognize that the Commission previously rejected this adjustment. However, I
5 continue to believe Tennessee ratepayers should not compensate Piedmont for a tax they
6 will never have to pay.

7 **Q15. IN DOCKET 17-00138, YOU HIGHLIGHTED THAT THE OASIS PROJECT**
8 **WAS OVERBUDGET BY APPROXIMATELY \$95 MILLION.² DOES THE**
9 **FACT THAT THE OASIS PROJECT IS SO COSTLY IMPACT THE AD-**
10 **VALOREM COLLECTIONS?**

11 **A15.** Yes. The increased OASIS costs, though resulting in zero actual Ad-valorem tax
12 increases to Piedmont, increases Piedmont's Ad-valorem taxes charged to ratepayers.
13 Therefore, Piedmont's bottom line is enhanced by the magnitude of the OASIS project.
14 To be clear, there are no Ad-valorem taxes incurred by Piedmont associated with the
15 OASIS project. However, Piedmont proposes that ratepayers incur \$171,809 in rates
16 associated with a calculated Ad-valorem tax that it will never owe.

17 **Q16. PLEASE DESCRIBE THE EXHIBITS YOU HAVE PREPARED IN SUPPORT OF**
18 **THE ELIMINATION OF AD-VALOREM TAXES ASSOCIATED WITH TAX-**
19 **EXEMPT PROPERTY.**

20 **A16.** Exhibit DND-2 calculates the Ad-valorem Tax Expense associated with the OASIS asset,
21 resulting in an adjustment to reduce the Piedmont IMR revenue requirement by the
22 \$171,809 generated by the claimed tax charge on the OASIS project. Exhibit DND-3
23 calculates the Consumer Advocate proposed revenue requirement and calculates the
24 resulting IMR rate by customer class using the same information and format provided by
25 Piedmont within their application just without the hypothetical tax charge.³

² Testimony of David Dittmore, page 9, lines 10-12.

³ See 2018 IMR Annual Report, Schedule 3 submitted by Piedmont in Docket No. 18-00126.

As shown on line 4, Piedmont has proposed an IMR surcharge of \$27,254,329, compared with the Consumer Advocate proposed IMR surcharge of \$27,082,520.

Q17. EARLIER YOU INDICATED YOU HAD CONCERNS WITH THE LACK OF FOCUS REGARDING DISTRIBUTION MAINS INCLUDED IN THE IMR. ARE DISTRIBUTION MAINS A MATERIAL CAPITAL EXPENDITURE FOR A REGULATED NATURAL GAS UTILITY?

A17. Yes. Total amounts spent on Distribution mains included in the IMR have ranged from \$4.8 million to \$15.1 million annually since the IMR has been implemented.⁴ Therefore, the cost of mains is a very large component of the IMR surcharge and the overall rate base of natural gas utilities in general.

Q18. IS THERE A METRIC THAT MAY BE USED TO CONSIDER THE MAGNITUDE OF ANNUAL COSTS OF DISTRIBUTION MAINS?

A18. Yes. The cost of Distribution main per mile is a typical metric that may be used to track costs on a general basis.

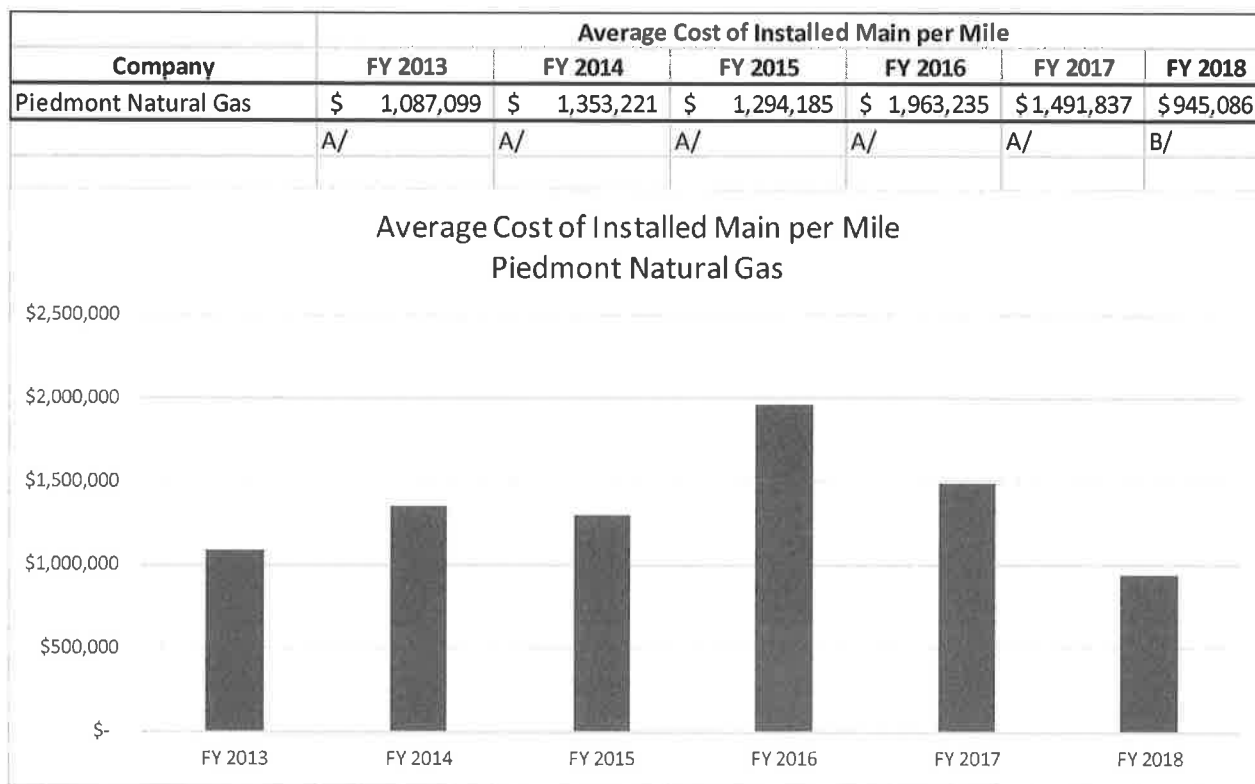
Q19. DID YOU REQUEST INFORMATION NECESSARY TO IDENTIFY THE ANNUAL COST OF NEWLY INSTALLED DISTRIBUTION MAINS PER MILE?

A19. Yes.

Q20. WHAT DID THOSE RESULTS INDICATE?

A20. The incurred Distribution Costs per main mile vary widely year to year. The magnitude of the variance by year was surprising as was the magnitude of the actual costs per mile. In fiscal year 2018 the cost per main mile is less than half of what it was in 2016, and fifty percent less than it was in 2017. The table demonstrating the costs per main mile for each IMR period is shown below.

⁴ Piedmont responses to CA 1-51, Docket 17-00138 and 1-7 Docket 18-00126.



A/ Docket No. 17-00138 Piedmont DR 1-51 (**Piedmont's Integrity Management Mains only**)

B/ Docket No. 18-00126 DR 1-7 (**Piedmont's Integrity Management Mains only**)

Q21. WERE YOU SURPRISED BY THE COST PER MAIN MILE?

A21. Yes. The cost per main mile seems very high. I understand that Middle Tennessee has rocky soil,⁵ which will increase main installation costs, however, the cost in fiscal year 2016 of nearly \$2 million per main mile is startling.

Q22. DID YOU INQUIRE ABOUT THE SIGNIFICANT COST REDUCTIONS OCCURING IN FISCAL YEAR 2018 COMPARED WITH THE COSTS INCURRED IN PRIOR YEARS?

⁵ This point was made by Piedmont response to CA Discovery 2-7 in Docket 18-00126.

A22. Yes. The company indicated it does not have an explanation for the change in cost per mile of main for 2018 compared to the prior years referenced.

Q23. WERE YOU SURPRISED BY THIS RESPONSE?

A23. Yes. I would expect that a gas utility focused on maintaining cost controls would monitor and evaluate its costs of mains on an annual basis and have information available to management (and regulators) to explain annual variances in costs, especially given the volatility of those annual costs.

Q24. DID YOU HAVE A SIMILAR CONCERN AS A RESULT OF YOUR REVIEW OF CAPITAL EXPENDITURES IN DOCKET 17-00138?

A24. Yes. In that docket, I identified the significant cost over runs of two projects. The OASIS⁶ project was initially forecast at \$36.3 million⁷, but the actual costs have risen to nearly \$134 million.⁸ Also, the South Nashville Transmission project had a budgeted cost of \$55 million, but the final actual cost was \$123.5 million.⁹

Q25. CAN YOU DRAW ANY CONCLUSIONS CONCERNING THE INABILITY TO EXPLAIN DISTRIBUTION MAIN COST DIFFERENCES YEAR OVER YEAR COUPLED WITH THE SIGNIFICANT COST OVERRUNS SEEN IN DOCKET 17-00138?

A25. No. There is not enough information available at this time to draw conclusions concerning Piedmont's oversight of Distribution main installations. However, the installation costs per Distribution main mile, coupled with the information cited above in Docket 17-00138 raises the question of whether Piedmont is exerting sufficient cost controls over its capital expenditures.

A26. DOES THIS CONCLUDE YOUR TESTIMONY?

A26. Yes.

⁶ The OASIS project was an IT project designed to meet PHMSA requirements and create operating efficiencies. Amounts of the OASIS project are stated on a total company basis.

⁷ Piedmont response to CA Discovery 1-14, Docket No. 16-00140.

⁸ October IMR Monthly Report, Schedule 1 filed in Docket No. 18-00126.

⁹ Piedmont response to CA Discovery 1-56, Docket 17-00138.

David Dittimore

Experience

Areas of Specialization

Approximately thirty-year experience in evaluating and preparing regulatory analysis, including revenue requirements, mergers and acquisitions, utility accounting and finance issues and public policy aspects of utility regulation. Presented testimony on behalf of my employers and clients in natural gas, electric, telecommunication and transportation matters covering a variety of issues.

Tennessee Attorney General's Office; Financial Analyst September, 2017 – Current

Responsible for evaluation of utility proposals on behalf of the Attorney General's office including water, wastewater and natural gas utility filings. Prepare analysis and expert witness testimony documenting findings and recommendations.

Kansas Gas Service; Director Regulatory Affairs 2014 – 2017; Manager Regulatory Affairs, 2007 – 2014

Responsible for directing the regulatory activity of Kansas Gas Service (KGS), a division of ONE Gas, serving approximately 625,000 customers throughout central and eastern Kansas. In this capacity I have formulated strategic regulatory objectives for KGS, formulated strategic legislative options for KGS and led a Kansas inter-utility task force to discuss those options, participated in ONE Gas financial planning meetings, hired and trained new employees and provided recommendations on operational procedures designed to reduce regulatory risk. Responsible for the overall management and processing of base rate cases (2012 and 2016). I also played an active role, including leading negotiations on behalf of ONE Gas in its Separation application from its former parent, ONEOK, before the Kansas Corporation Commission. I have monitored regulatory earnings, and continually determine potential ratemaking outcomes in the event of a rate case filing. I ensure that all required regulatory filings, including surcharges are submitted on a timely and accurate basis. I also am responsible for monitoring all electric utility rate filings to evaluate competitive impacts from rate design proposals.

Strategic Regulatory Solutions; 2003 -2007

Principal; Serving clients regarding revenue requirement and regulatory policy issues in the natural gas, electric and telecommunication sectors

Williams Energy Marketing and Trading; 2000-2003

Manager Regulatory Affairs; Monitored and researched a variety of state and federal electric regulatory issues. Participated in due diligence efforts in targeting investor owned electric utilities for full requirement power contracts. Researched key state and federal rules to identify potential advantages/disadvantages of entering a given market.

MCI WorldCom; 1999 – 2000

Manager, Wholesale Billing Resolution; Manage a group of professionals responsible for resolving Wholesale Billing Disputes greater than \$50K. During my tenure, completed disputes increased by over 100%, rising to \$150M per year.

Kansas Corporation Commission; 1984- 1999

**Calculation of Ad-Valorem Taxes Included in IMR Revenue Requirement
Associated with Tax-Exempt Property
Piedmont Natural Gas
Docket No. 18-000126**

Exhibit DND-2

Oasis Property Included in IMR Application	\$ 23,535,435	Schedule 1, October 2018 Monthly Report
Property Tax Rate	<u>0.73%</u>	2018 IMR Annual Report - Any Vintage Tab
Calculated Ad-Valorem Tax on Tax Exempt Property	\$ 171,809	

Piedmont Natural Gas
Docket 18-00126
Calculation of Consumer Advocate Proposed
Revenue Requirement and Rates

Exhibit DND-3
From 2018 IMR Annual Report
Schedule 3

Line No.	Footnote	Reference	Residential (301)	Small/Medium General (302,352)	Large General - Firm (303,313,310)	Large General - Interruptible (304,314)	Total
1	A/	Customer Class Apportionment Percent	59.6439%	31.2006%	4.9463%	4.2091%	100.0000%
2	A/	IMRR for Recovery, excluding Refund Adjustment	[Piedmont Schedule 4]				
3	A/	Deferred Account Adjustment Due From (To) Customers	[= Total from Piedmont Schedule 5 x Line 1]				
4	A/	Total Piedmont Proposed IMR					
5	B/	Less: CA Adjustment to Ad-Valorem Tax	Actual Deferred Account Balance at Oct 31, 2018				
6	B/	CA Proposed IMR Revenue Requirement	[= Line 2 + Line 3]				
7	A/	Throughput from Relevant Rate Case Order (Dekatherms)	Exhibit DND-2				
8		Rate Per Dekatherm	[=Line 4 + Line 5]				
9		Proposed Integrity Management Rate per therm	[Schedule 4]				
			[= Line 6 / 10]				

A/ References are to Piedmont IMR Schedules
B/ Exhibit DND-2