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Electronically Filed in TPUC Docket Room on 2/25/2019 at 10:17 a.m.

February 25, 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: *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*

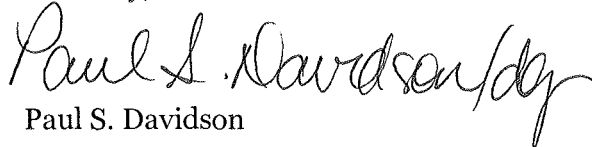
Dear Mr. Taylor:

Enclosed please find an original and five (5) copies of Piedmont Natural Gas Company, Inc.'s ("Piedmont") Rebuttal Testimony of Pia K. Powers 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.

Sincerely,



Paul S. Davidson

Enclosure

**Before the
Tennessee Public Utility Commission**

Docket No. 18-00126

**Petition of Piedmont Natural Gas Company, Inc.
for Approval of an Integrity Management Rider to its
Approved Rate Schedules and Service Regulations**

**Rebuttal Testimony of
Pia K. Powers**

**On Behalf of
Piedmont Natural Gas Company, Inc.**



February 25, 2019

1 **Q. Please state your name and business address.**

2 A. My name is Pia K. Powers. My business address is 4720 Piedmont Row Drive,
3 Charlotte, North Carolina.

4 **Q. By whom and in what capacity are you employed?**

5 A. I am the Director – Gas Rates & Regulatory Affairs for Piedmont Natural Gas
6 Company, Inc., (“Piedmont” or the “Company”).

7 **Q. Have you previously testified in this proceeding?**

8 A. Yes. I filed my Direct Testimony in this proceeding on November 30, 2018.

9 **Q. What is the purpose of your Rebuttal testimony in this proceeding?**

10 A. The purpose of my Rebuttal Testimony is to respond to the matters raised in the
11 Direct Testimony of Consumer Advocate Witness David Dittemore filed in this
12 proceeding on February 19, 2019.

13 **Q. What matters are raised by Mr. Dittemore in his filed testimony?**

14 A. In his Direct Testimony, Mr. Dittemore presents the results of his review of
15 Piedmont’s sixth annual Integrity Management Rider (“IMR”) report filing
16 made with the Commission on November 30, 2018 (“2018 IMR Annual
17 Report”). In his Direct testimony, Mr. Dittemore takes issue with two aspects
18 of Piedmont’s 2018 IMR Annual Report. The first issue is the inclusion in the
19 IMR of a property tax charge on what he deems to be tax exempt North
20 Carolina property which Mr. Dittemore contends is unjustified. The second
21 issue is his concern over Piedmont’s “lack of focus” relating to distribution
22 main costs recovered through the IMR mechanism.

1 **Q. Could you describe Mr. Dittmore's concern with Piedmont's property tax**
2 **expense calculation in the IMR?**

3 A. Yes. Mr. Dittmore is concerned with Piedmont's computation of the property
4 tax expense component of the IMR Revenue Requirement as shown in the 2018
5 IMR Annual Report. Mr. Dittmore believes that it was inappropriate for
6 Piedmont to have computed property tax expense for the IMR on the basis of
7 its Integrity Management Investment Amount without excluding certain joint
8 property that under North Carolina law was allegedly exempt from ad valorem
9 tax. He therefore proposes that this property be excluded from the property tax
10 component of the Piedmont's Tennessee IMR Revenue Requirement and that a
11 \$171,809 adjustment be made to the proposed IMR Revenue Requirement.

12 **Q. Do you agree with his analysis and recommendation?**

13 A. No, I do not. I believe that Mr. Dittmore's analysis is flawed, and therefore
14 his recommendation should not be adopted by this Commission.

15 **Q. Please explain.**

16 The concept of excluding from the computation of property tax expense in the
17 IMR of any portion of property that is tax exempt -- which is what Mr.
18 Dittmore is recommending in this docket -- is not necessary and is redundant.
19 Under the IMR mechanism, Piedmont computes property tax expense as the
20 product of the Integrity Management Investment Amount and the "composite
21 property tax rate" from the last rate order issued by the Commission for

1 Piedmont. That “composite property tax rate”, which is 0.73%, is simply the
2 ratio of the amount of annual property tax expense approved by the
3 Commission in Piedmont’s last general rate case to the amount of gross plant
4 investment approved by the Commission in Piedmont’s last general rate case.
5 Such ratio already reflects the fact that not all property in Piedmont’s rate base
6 is subject to ad valorem tax. Therefore, to exclude some property from the
7 IMR computation of property tax expense would be inappropriate as it would
8 circumvent the theoretical purpose behind using the “composite property tax
9 rate” in this calculation.

10 **Q. Is Piedmont’s computation of property taxes in the 2018 IMR Annual**
11 **Report consistent with the requirements of Service Schedule No. 317?**

12 A. Absolutely. In fact, Piedmont’s approach is required by Service Schedule No.
13 317. Piedmont has consistently followed this approach in each of its IMR
14 Annual Reports since inception of the mechanism. And while it may be
15 possible to make a more detailed calculation of property tax expense based
16 upon a discrete analysis of each unit of property comprising the Integrity
17 Management Investment Amount in each year along with prevailing property
18 tax rates, that approach would be more labor intensive and would produce
19 different results for each annual period and may not offer any benefits to
20 customers. For all these reasons, I believe that Piedmont’s computation of
21 property tax expense in the 2018 IMR Annual Report was prudent and proper.

1 **Q. What is your reaction to Mr. Dittimore's proposal to change this**
2 **methodology in this docket?**

3 A. First, I would note that Mr. Dittimore made exactly the same recommendation
4 in last year's annual IMR proceeding and that recommendation was not adopted
5 by the Commission. Second, I would observe that this recommendation is, in
6 essence, a proposal to change the methodology required by our IMR tariff to
7 calculate property taxes and in that regard seems more appropriately addressed
8 in Commission Docket No. 19-00007, which is a proceeding established
9 specifically for the purpose of addressing potential changes to the IMR.

10 **Q. What are you asking the Commission to do with respect to Mr.**
11 **Dittimore's property tax disallowance proposal?**

12 A. I am asking the Commission to reject it on the basis that it is inconsistent with
13 the IMR tariff, all prior IMR orders issued by this Commission, and the
14 methodology used in Piedmont's last general rate case in Tennessee and
15 because it does not represent a valid methodology for calculating recoverable
16 property tax expense.

17 **Q. What is Mr. Dittimore's concern with Piedmont's management of**
18 **integrity related capital investment in distribution mains?**

19 A. Mr. Dittimore appears to be concerned with the variance in the single metric
20 of "average cost per mile of distribution main installed" over the period of time
21 since the Company's last general rate case.

1 **Q. Does Mr. Dittmore propose any cost disallowance associated with**
2 **distribution mains installation?**

3 A. No. He just seems to have some concern that distribution main replacement
4 activity is not being managed appropriately by Piedmont.

5 **Q. Do you believe that concern is valid?**

6 A. No. I have investigated Mr. Dittmore's concerns about this matter with
7 Piedmont's engineers and while it is not possible to give a simple explanation
8 for each variation in average annual construction costs per mile, due to the
9 factors articulated below, I am confident that the Company is managing costs
10 this area professionally and properly.

11 **Q. What factors influence the average cost of construction of distribution**
12 **mains?**

13 A. The average cost of distribution mains installed during any specific year are a
14 collection of costs from individual distribution main replacement projects
15 undertaken during the applicable annual period. Each of these projects is
16 unique and involves a variety of variables that impact the relative difficulty of
17 the job and, therefore, its cost. For example, variables that can have a
18 significant impact on the cost per mile of installation of distribution main
19 include (i) the relative accessibility of the site of the work, (ii) underground
20 conditions (particularly the presence of large quantities of rock which is
21 prevalent throughout the greater Nashville Metro area, and the presence of

1 underground utilities in the immediate area); (iii) mitigation measures that may
2 need to be taken to preserve service to existing customers or to protect the
3 public from the excavation and installation activities, (iv) the size of the pipe
4 being installed, (v) weather, permitting, inspections, and other factors with the
5 potential to cause delays to the project, and (vi) whether the project is in an
6 urban, suburban, or rural environment. Because each of these factors impacts a
7 specific project in unique ways, it is simply not possible to give a single answer
8 to the question of why the average distribution main costs per mile may be
9 higher or lower in any particular year.

10 **Q. Can you provide an example of a project that might explain variations in**
11 **cost per mile of distribution main construction?**

12 A. Yes. In 2016, the metric of average cost per mile of pipe installed was
13 significantly impacted by a project that replaced a segment of distribution main
14 along a bridge over the Cumberland River with new distribution main that was
15 installed under the Cumberland River using horizontal directional drilling
16 technology, which is much more expensive compared to the more normal open-
17 ditch approach to distribution main installation or even compared to horizontal
18 directional drilling under a road or creek.

19 **Q. How does Piedmont perform distribution main replacement?**

20 A. Piedmont personnel supervise such projects but much of the work itself is often
21 performed by contractors following their selection through a Request For

1 Proposal (“RFP”) process. Piedmont utilizes a list of approved contractors and
2 then bids the work out through the RFP process. The best offer from among
3 the qualified firms is awarded the job.

4 **Q. Does this process allow for variations in project costs per mile?**

5 A. Yes. While this competitive bid process ensures that each project is executed
6 at the lowest cost, market demand for the qualified contractors can also impact
7 their bids and result in higher or lower costs based simply on how much
8 competing demand there is for the services of the qualified contractors.

9 **Q. Are there any additional points you would like to make before you**
10 **conclude your Rebuttal Testimony?**

11 A. Yes. In his testimony in this IMR proceeding and in last year’s proceeding, Mr.
12 Dittemore has implied that Piedmont has improperly managed a number of
13 projects that were undertaken to comply with federal pipeline integrity
14 regulations and included in the Company’s IMR Annual Report. Last year, Mr.
15 Dittemore focused on the OASIS project and South Nashville Transmission
16 Line project and cited purported cost over-runs in those projects. In response,
17 Piedmont filed the testimony of Victor Gaglio in which he explained that the
18 majority of “cost over-runs” cited by Mr. Dittemore were, in fact, the result of
19 significant scope changes to those projects and not the result of Piedmont’s
20 inability to control costs. Notwithstanding that testimony, Mr. Dittemore
21 continues to assert (without any supporting evidence) that Piedmont has failed

1 to exercise adequate cost controls with respect to its integrity management
2 spending. I want to be clear that Piedmont strongly rejects Mr. Dittimore's
3 insinuation that Piedmont does engage in effective project or cost management
4 of its integrity management related projects.

5 **Q. Does this conclude your Rebuttal testimony?**

6 A. Yes, it does.