

**IN THE TENNESSEE PUBLIC UTILITY COMMISSION
AT NASHVILLE, TENNESSEE**

IN RE:)	
)	
INVESTIGATION INTO PIEDMONT)	
NATURAL GAS COMPANY, INC'S)	
INTEGRITY MANAGEMENT RIDER)	DOCKET NO. 19-00007
)	
)	

DIRECT TESTIMONY

OF

DAVID N. DITTEMORE

July 11, 2019

IN THE TENNESSEE PUBLIC UTILITY COMMISSION
AT NASHVILLE, TENNESSEE

IN RE:

INVESTIGATION INTO PIEDMONT
NATURAL GAS COMPANY, INC'S
INTEGRITY MANAGEMENT RIDER

DOCKET NO. 19-00007

AFFIDAVIT

I, David N. Dittmore, on behalf of the Consumer Advocate Unit of the Attorney General's Office, hereby certify that the attached Direct Testimony represents my opinion in the above-referenced case and the opinion of the Consumer Advocate Unit.

David N. Dittmore
DAVID N. DITTEMORE

Sworn to and subscribed before me
this 11 day of July, 2019.

Terra Allen
NOTARY PUBLIC



My commission expires: September 28, 2022.

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

3 **A1.** My name is David N. Dittemore. My business address is Office of the Tennessee Attorney
4 General, War Memorial Building, 301 6th Ave. North, Nashville, TN 37243. I am a
5 Financial Analyst employed by the Consumer Advocate Unit in the Financial Division of
6 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 of
13 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 electricity
16 and telecommunications regulatory matters. Additionally, I performed a consulting
17 engagement for Kansas Gas Service (KGS), my subsequent employer during this time
18 frame. For eleven years I served as Manager and subsequently Director of Regulatory
19 Affairs for KGS, the largest natural gas utility in Kansas serving approximately 625,000
20 customers. KGS is a division of One Gas, a natural gas utility serving approximately two
21 million customers in Kansas, Oklahoma and Texas. I joined the Tennessee Attorney
22 General's Office in September 2017 as a Financial Analyst. Overall, I have thirty years'

1 experience in the field of public utility regulation. I have presented testimony as an expert
2 witness on many occasions. Attached as Exhibit DND-1 is a detailed overview of my
3 background.

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

6 **A3.** Yes, I have testified before the Commission on a number of occasions, including three
7 dockets relating to Piedmont Natural Gas Company, Inc. (Piedmont or Company).

8 **Q4. WHAT IS THE PURPOSE OF THIS DOCKET?**

9 **A4.** This Docket originated as a result of the Commissions' decision in Docket No. 17-00138
10 to establish a proceeding for further evaluation and recommendations concerning
11 Piedmont's Integrity Management Rider (IMR).

12 **Q5. PLEASE SUMMARIZE YOUR RECOMMENDATIONS REGARDING**
13 **MODIFICATIONS RELATED TO PIEDMONT'S IMR.**

14 **A5.** My recommendations in this docket are summarized below:

- 15 1. The applicability of the IMR should not extend indefinitely. There should be a
16 five-year window for Piedmont's IMR at which time the Company should file
17 a general rate case. **FIVE-YEAR IMR WINDOW**
- 18 2. The Commission should permit two additional IMR filings at which time the
19 Company would be required to submit a base rate case filing. **NEAR-TERM**
20 **IMR**
- 21 3. Each IMR filing should include testimony and details concerning IMR
22 expenditures anticipated by the Company for the upcoming year to allow
23 evaluation of these costs prospectively rather than in a "hindsight" review. The
24 magnitude of customer impact from the IMR necessitates an increase in
25 regulatory review. **PRUDENCE REVIEW**

1 4. The Commission should require Piedmont, in its next IMR filing, to provide
2 rationale for why the OASIS cost exclusions adopted by North Carolina in
3 Docket G-9, Sub 631 and G-9, Sub 642 should not be adopted by this
4 Commission. **OASIS COST REVIEW**

5 5. Piedmont's inclusion of Property Tax Expense should be re-examined as a
6 result of the growth in its tax-exempt property since its last rate case.
7 **PROPERTY TAX EXPENSE**

8 6. The IMR revenue requirement should be reduced by \$304,703 to account for
9 the imputation of Operating and Maintenance (O&M) expense cost savings
10 associated with the OASIS project. The imputation of O&M expense savings
11 is necessary to match the O&M impacts of the OASIS project with the cost of
12 the project. Since ratepayers are incurring the costs of the OASIS project, they
13 should likewise receive the benefit of the expense reductions associated with
14 the project. **OASIS O&M SAVINGS**

15 7. Safety Metrics should be included in each Piedmont IMR filing allowing the
16 Commission and intervenors to monitor quality of service performance. Such
17 metrics should be verified by an officer of the Company. This accountability
18 standard is necessary in light of the significant safety expenditures incurred by
19 ratepayers through the IMR surcharge. **SAFETY METRICS**

20 8. Piedmont should be required to annually notify customers of the components
21 of its charges through a separate bill insert. Further, the Commission should
22 require that any future billing system, acquired or designed by Piedmont, have
23 the capability to separately identify the nature of its charges on customer bills.
24 **CUSTOMER RATE NOTIFICATION**

25 **BACKGROUND INFORMATION**

26 **Q6. WHAT BACKGROUND INFORMATION DO YOU BELIEVE IS RELEVANT**
27 **FOR THE COMMISSION TO CONSIDER IN ITS EVALUATION OF**
28 **PIEDMONT'S IMR AND YOUR RECOMMENDATIONS SUMMARIZED**
29 **ABOVE?**

30 **A6.** The following points provide context for the recommendations identified above:

31 1. As identified above, the Piedmont surcharge, in effect since 2014, has grown to
32 become a very substantial portion of customers' bills. (**Recommendations 1,**
33 **2, 3, and 4**)

- 1 2. The IMR expenditures incurred by Piedmont have been significantly greater
2 than those expenditures originally forecast by Piedmont when the mechanism
3 was first approved, producing rates significantly higher than anticipated.
4 **(Recommendations 1, 2, 3, and 4)**
- 5 3. Piedmont has not had a base rate case in Tennessee since 2011. The
6 Commissions' written order in Docket No. 11-00144 was issued on April 18,
7 2012. **(Recommendations 1, 2, 3, and 5)**
- 8 4. Piedmont was acquired by Duke Energy on October 3, 2016, subsequent to the
9 Company's last base rate case. Thus, the cost impact of the Duke acquisition
10 on Piedmont's reported financial results is unknown by its Tennessee
11 regulators. **(Recommendations 1 and 2)**
- 12 5. While helpful, the monthly financial information provided by Piedmont should
13 not be exclusively relied upon to determine that existing rates are just and
14 reasonable. **(Recommendations 1 and 2)**
- 15 6. In its rebuttal testimony in Docket No. 17-00138, Piedmont argued that a
16 prudence review should not be conducted in hindsight; accordingly, Piedmont
17 should provide sufficient information and testimony to allow a front-end
18 review. ¹**(Recommendation 3)**
- 19 7. North Carolina has a statutory provision permitting the implementation of a rate
20 adjustment mechanism to recover capital investment associated with
21 compliance of federal pipeline safety rules. The OASIS asset was implemented
22 (as stated by Piedmont) to comply with such pipeline safety requirements. The
23 Company entered into a Stipulation and Agreement with the North Carolina
24 Utilities Commission-Public Staff in which the parties agree to exclude a
25 portion of OASIS costs incurred from October 2013 through the end of
26 Piedmont's 2015 fiscal year. **(Recommendation 4)**
- 27 8. The regulatory principle of "Matching" suggests that savings associated with
28 significant one-off projects such as the OASIS project should be flowed to
29 ratepayers. **(Recommendation 6)**
- 30 9. The IMR was implemented in order to allow the company to more rapidly
31 recover its costs associated with federal safety requirements; however, there is
32 no corresponding measurement of the effectiveness on safety performance
33 associated with these investments. **(Recommendation 7)**
- 34 10. Piedmont's customer bills are not transparent as rate components are not
35 separately identified. **(Recommendation 8)**

¹ Rebuttal Testimony of Victor Gaglio, page 10, Docket 17-00138, (March 7, 2018).

FIVE-YEAR IMR WINDOW

Q7. TURN TO THE POINTS YOU BELIEVE ARE RELEVANT TO THE COMMISSION'S CONSIDERATION IN THIS DOCKET AND BEGIN BY IDENTIFYING THE AVERAGE ANNUAL COST TO CONSUMERS ASSOCIATED WITH THE COMPANY'S IMR RATES.

A7. The table below identifies the average annual IMR cost per customer.

	Table 1 IMR Cost Responsibility by Class				Total
	Residential (301)	Small/Medium General (302,352)	Large General - Firm (303,313,310)	Large General - Interruptible (304,314)	
IMR Revenue Requirement - Piedmont IMR Report Schedule 3, Docket 18- 000126	\$ 16,255,550	\$ 8,503,515	\$ 1,348,091	\$ 1,147,173	\$ 27,254,329
Divided By: Bills Issued, December, 2018, Piedmont's 3.03 Report	168,925	18,126	52	131	187,234
Average Annual Cost per Customer	\$ 96	\$ 469	\$ 25,925	\$ 8,757	\$ 146

It is clear from the information above that the IMR surcharge represents a substantial cost to Piedmont customers across all customer classes. These average costs are significantly less than those incurred in 2017 due to the reduction in the federal income tax rate incorporated into the Tax Cuts and Jobs Act.

Q8. HOW IS THE IMR SURCHARGE SPREAD ACROSS CUSTOMER CLASSES?

A8. The IMR revenue requirement is spread across customer classes on a pro-rata basis based upon the approved revenue for each class identified in the last rate case.

Q9. WHEN WAS THE IMR FIRST IMPLEMENTED?

A9. Piedmont's first IMR became effective in January 2014. With rates effective in 2019 as identified above, the growth in IMR costs has occurred over a six-year period.

Q10. IS THE IMR GREATER THAN THAT ORIGINALLY ENVISIONED BY THE COMPANY WHEN THE INITIAL APPLICATION WAS SUBMITTED IN DOCKET NO. 13-00118?

A10. Yes. The IMR qualifying expenditures are significantly higher than those initially presented by the Company in Docket No. 13-00118, and therefore the IMR charge itself is significantly greater than anticipated.

Q11. CAN YOU COMPARE THE ESTIMATED CAPITAL EXPENDITURES FOR THE 2013 – 2016 AND 2018 TIME FRAME AS INCLUDED IN THE INITIAL APPLICATION WITH THE ACTUAL IMR CAPITAL EXPENDITURES FOR THAT SAME PERIOD?

A11. Yes. The table below compares 2013 – 2016 as well as 2018 IMR budgeted capital expenditures with actual data. Budgeted data for 2017 was not available so neither budgeted nor actual data is shown for 2017.

Table 2
Comparison of Budgeted to Actual Piedmont IMR Expenditures
Note: 2017 budgeted data is not available, so 2017 is excluded in this comparison

	FY 13	FY 14	FY 15	FY 16	FY 18	Total	Average
A/ Budgeted	89,629,291	41,051,342	5,702,129	3,682,828	41,360,980	181,426,570	36,285,314
B/ Actual	100,306,283	53,974,676	18,441,896	20,076,718	27,564,238	220,363,811	44,072,762
Difference	10,676,992	12,923,334	12,739,767	16,393,890	(13,796,741)	38,937,242	

A/ For FY 13- FY 16:TPUC Docket No. 14-00118, Direct Testimony of Victor Gaglio, Page 20; FY 18- Response to Consumer Advocate 1-52 in Docket No. 17-0038.

B/ TPUC Docket No. 18-00126, 2018 TN IMR_Annual Report_PNG.xlsx, Schedules 6 - 11

Q12. WHAT CONCLUSIONS CAN YOU DRAW FROM THIS INFORMATION?

A12. The 2013 – 2016 actual expenditures prove to be significantly greater than originally forecast, while the 2018 actual expenditures were significantly less than forecast. In total, actual capital expenditures have exceeded budgeted capital expenditures by just over 20%. This level of IMR qualifying capital expenditures has a direct impact on resulting IMR surcharge rates.

Q13. WHAT IS THE FORECAST OF IMR CAPITAL EXPENDITURES IN THE COMING YEARS?

A13. The IMR capital expenditure forecast is shown below.

Table 3						
Budgeted IMR Expenditures						
Expenditure Type	A/ FY 19	B/ FY 20	B/ FY 21	B/ FY 22	Total	Average
Distribution Integrity	19,536,346	21,896,856	15,963,061	17,726,825	75,123,088	18,780,772
Transmission Integrity	21,930,909	28,324,267	14,481,604	11,882,165	76,618,945	19,154,736
Corrosion Control	3,476,049	690,270	718,272	652,643	5,537,234	1,384,308
Casing & Remediation	370,231	1,356,807	846,476	-	2,573,514	643,378
Total	45,313,534	52,268,200	32,009,413	30,261,633	159,852,780	39,963,195

A/ TPUC Docket No. 17-00138, Response to Consumer Advocate Discovery Request 1-52, 1-52 Attachment.xlsx
B/ TPUC Docket No. 19-0007, Response to Consumer Advocate Discovery Request 1-3, 1-3

Q14. WHAT CONCLUSIONS CAN YOU DRAW FROM THE LEVEL OF EXPECTED IMR CAPITAL EXPENDITURES GOING FORWARD?

A14. Based upon the budgeted IMR expenditures identified above, IMR charges to ratepayers will continue to grow at a very rapid rate consistent with the historic growth since implementation of the mechanism. As identified in the table above, the four-year total of IMR qualifying capital expenditures is nearly \$160 million. This compares with a current

1 IMR rate base of approximately \$205 million for six years of IMR investment as adopted
2 in Docket No. 18-00126. The IMR surcharge has no cap; therefore, the more qualifying
3 IMR capital expenditures Piedmont incurs, the greater its earnings. There is no financial
4 incentive within the IMR mechanism to moderate expenditures.

5 **Q15. WHEN WAS THE DATE OF THE LAST PIEDMONT GENERAL RATE CASE?**

6 **A15.** Piedmont's last rate case before TPUC was in 2011 in Docket No. 11-00144. The
7 Commission's Order in that Docket was issued in April of 2012.

8 **Q16. DOES PIEDMONT HAVE ANY PLANS TO SUBMIT A RATE CASE FILING IN**
9 **THE NEAR FUTURE?**

10 **A16.** No. Piedmont has not determined when it will seek to increase base rates.²

11 **Q17. HAVE THERE BEEN ANY SIGNIFICANT CORPORATE EVENTS OCCURING**
12 **SINCE THE LAST PIEDMONT RATE CASE?**

13 **A17.** Yes. Duke Energy acquired Piedmont Natural Gas on October 3, 2016, subsequent to the
14 Company's last rate case.

15 **Q18. ARE YOU AWARE OF ANY REVIEW PERFORMED TO DETERMINE THE**
16 **IMPACT OF THIS TRANSACTION ON THE TENNESSEE JURISDICTIONAL**
17 **COSTS OF PIEDMONT?**

18 **A18.** No.

² Piedmont Response to Consumer Advocate Discovery Request No. 1-12, Docket No. 18-00040 (October 29, 2018).

1 **Q19. DOES THE COMPANY SUBMIT MONTHLY FINANCIAL INFORMATION TO**
2 **THE COMMISSION?**

3 **A19.** Yes.

4 **Q20. IS THIS INFORMATION HELPFUL IN MONITORING THE FINANCIAL**
5 **PERFORMANCE OF THE COMPANY AND EVALUATING WHETHER THE**
6 **RATES ESTABLISHED IN 2011 REMAIN JUST AND REASONABLE?**

7 **A20.** The financial information is a starting point by which a utility's earnings can be evaluated;
8 however, it is just that, a starting point. Absent a thorough review of the regulatory
9 operations of Piedmont, the regulatory return on equity (ROE) cannot be accurately
10 determined. The regulatory ROE is used to assess the reasonableness of rates and is
11 determined based upon appropriate adjustments to the ROE calculated from the financial
12 statement information.

13 **Q21. WHAT IS THE RETURN ON EQUITY EARNED BY PIEDMONT BASED UPON**
14 **ITS FINANCIAL INFORMATION SUPPLIED TO THE COMMISSION?**

15 **A21.** As shown in Table 4, the calculated financial ROE based upon 2018 financial information
16 was 6.23%.

Table 4
Piedmont Return on Equity Calculation

Line		Year Ending: 2018	Source:
A	Rate Base (13 m avg)	620,243,422	Dec 18 3.03 Page 4/5
B	Common Equity	52.71%	From 2011 rate order
C	Estimated Equity	326,930,308	C=AxB
D	Net Operating Income (NOI)	36,804,012	Dec 18 3.03 page 2/5
E	Interest Expense	16,439,146	Dec 18 3.03 page 2/5
F	Adjusted Net Operating Income	20,364,866	F=D-E
G	Return on Equity	6.23%	G=F/C

Q22. BASED UPON YOUR PREVIOUS POSITION AS DIRECTOR OF REGULATORY AFFAIRS AND CHIEF OF ACCOUNTING FOR A STATE REGULATORY COMMISSION, IS IT COMMON FOR A UTILITY TO CLOSELY MONITOR ITS REGULATORY RETURN ON EQUITY TO DETERMINE THE NEED FOR A RATE CASE FILING?

A22. Yes. Consistent monitoring of the regulatory ROE is a standard business practice within a Regulatory Department of an investor owned utility.

Q23. IF A UTILITY HAS NOT PETITIONED FOR AN INCREASE IN RATES FOR A PROLONGED PERIOD OF TIME, IS IT SAFE TO CONCLUDE THAT THE COMPANY BELIEVES ITS EARNINGS ARE AT LEAST SUFFICIENT?

A23. Yes, absent some compelling unique circumstances.

Q24. IF A UTILITY BELIEVES ITS REGULATORY EARNINGS ARE IN EXCESS OF ITS AUTHORIZED RETURN ON EQUITY, IS IT SAFE TO ASSUME THAT IT WILL NOT SUBMIT A PETITION TO CHANGE RATES?

before being required to submit a general rate case. After that rate case, the five-year IMR cycle can begin.

Q28. IF ONE OF THE GOALS OF AN INFRASTRUCTURE RIDER IS TO REDUCE THE NEED FOR RATE CASE FILINGS, WHY ARE YOU RECOMMENDING IMR RATES BE RESET VIA A RATE CASE EVERY FIVE YEARS?

A28. While there are certainly some benefits to avoiding rate cases, there are also some negative implications from the absence of rate cases over a prolonged time period. The lack of a rate case results in less familiarity with the Company and its operations. Second, there is a risk that the Company's regulatory earnings are excessive, translating to rates for monopoly service that are unjust and unreasonable. Third, the IMR surcharge rate increases represent 21% of Piedmont's approved revenue requirement as shown in the following Table 5. The IMR rate increases have been spread across customer classes on a pro-rata basis during this time without any consideration to other revenue assignment methodologies. Given the size of the increase (unforeseen six years ago), it may be appropriate to re-examine and change the assignment of revenue across customer classes.

Table 5			
Percentage of IMR Revenue Requirement to total Revenue Requirement			
	Amount	Percentage	
Revenue Requirement from Docket 18-00126	\$ 27,254,329	21% A/	
Revenue Requirement from Docket 11-00144	104,033,947	79% B/	
Total	\$ 131,288,276	100%	
A/ TPUC Docket No. 18-00126, 2018 TN IMR_Annual Report_PNG.xlsx, Annual Rpt-Im Adjust-Sch3, Line 4.			
B/ TPUC Docket No. 18-00126, 2018 TN IMR_Annual Report_PNG.xlsx, Annual Rpt-Allocators-Sch4.			

1 **PRUDENCE REVIEWS**

2 **Q29. HOW SHOULD IMR PRUDENCE REVIEWS BE CONDUCTED ACCORDING**
3 **TO PIEDMONT?**

4 **A29.** Piedmont suggests that prudency evaluations should be similar to those conducted in
5 general rate cases and not via a hindsight review.³

6 **Q30. GIVEN THE IMPACT OF THE IMR ON CUSTOMERS, COUPLED WITH THE**
7 **COMPANY'S VIEW ON PRUDENCE REVIEWS, DO YOU HAVE A**
8 **RECOMMENDATION FOR HOW THE COMMISSION SHOULD EVALUATE**
9 **QUALIFYING IMR EXPENDITURES?**

10 **A30.** Yes. The Company's annual IMR filing should include testimony and details concerning
11 the following year's anticipated IMR expenditures so parties can evaluate such costs. This
12 will allow at least some review of upcoming expenditures and general assessment of the
13 need for such investment prior to their expenditure by the Company. Further, the budget
14 submitted by Piedmont should be the same the Company uses internally and should be
15 reviewed and signed by an officer of the Company to verify the accuracy of the submission.

16 **Q31. IS YOUR RECOMMENDATION THAT A REVIEW OF UPCOMING PROPOSED**
17 **CAPITAL EXPENDITURES IN ADVANCE OF CONSTRUCTION CONSISTENT**
18 **WITH PIEDMONT'S CONCERNS REGARDING A HINDSIGHT REVIEW?**

19 **A31.** Yes. A prospective view of anticipated expenditures is the opposite of the hindsight review
20 to which the Company objects. Therefore, the Company should not have an objection to

³ Piedmont Response to Consumer Advocate Discovery Request No. 1-7, Docket No. 18-00126 (January 18, 2019).

1 the review of planned expenditures in advance, since it objects to a review of expenditures
2 after the fact.

3 **Q32. ARE THERE ANY RECENT REGULATORY PAPERS WHICH ADDRESS THE**
4 **IMPORTANCE OF PRUDENCE REVIEWS WITHIN THE CONTEXT OF**
5 **CAPITAL SURCHARGE RIDERS?**

6 **A32.** Yes. In a paper issued by the National Regulatory Research Institute in April of 2014⁴,
7 Ken Costello, after identifying positive aspects of infrastructure surcharges such as
8 delaying rate cases, avoiding drastic one-time rate increases, mitigating cash flow issues of
9 the utility, and reducing regulatory lag, then writes:

10 On the downside, infrastructure surcharges have the potential for less-than-
11 satisfactory cost performance by utility management when the commission
12 exercises inadequate oversight. To elaborate, an important incentive for
13 utility cost efficiency is the threat of cost disallowance from retrospective
14 reviews. To the extent that infrastructure surcharges reduce the
15 effectiveness of these reviews, they further erode incentive for cost
16 management.

17 OASIS COST REVIEW

18 **Q33. HAVE YOU PREVIOUSLY EXPRESSED CONCERNS WITH THE LEVEL OF**
19 **OASIS COSTS INCURRED BY PIEDMONT AND REQUESTED WITHIN THE**
20 **IMR MECHANISM?**

21 **A33.** Yes. My testimony submitted in Docket No. 17-00138 outlines the Consumer Advocate's
22 concerns with the recovery of the Company's OASIS costs.

⁴ ALTERNATIVE RATE MECHANISMS AND THEIR COMPATIBILITY WITH STATE UTILITY COMMISSION OBJECTIVES, Ken Costello, Principal Researcher, National Regulatory Research Institute, Report No. 14-03 (April 2014).

1 **Q34. DOES NORTH CAROLINA HAVE A SIMILAR COST RECOVERY**
2 **MECHANISM TO THE IMR IN TENNESSEE?**

3 **A34.** Yes. The IMR surcharge exists by the same name in North Carolina. The statutory
4 provisions underling the North Carolina IMR are identified on the second page of Exhibit
5 DND-2, the Stipulation and Agreement dated September 4, 2015, within North Carolina
6 Docket No-G-9, Sub 631 and G-9, Sub 642 and permit the recovery of costs associated
7 with federally-required pipeline safety costs. Therefore, the North Carolina and Tennessee
8 IMR both permit the recovery of federal pipeline safety costs.

9 **Q35. IS THE OASIS ASSET AT ISSUE IN TENNESSEE ALSO UTILIZED IN NORTH**
10 **CAROLINA?**

11 **A35.** Yes. The OASIS asset is one asset that is used throughout Piedmont's jurisdictions of
12 North Carolina, South Carolina, and Tennessee. The OASIS asset's costs are allocated
13 among the three state jurisdictions for ratemaking purposes.

14 **Q36. HAS THE NORTH CAROLINA COMMISSION ADDRESSED COST RECOVERY**
15 **ISSUES ASSOCIATED WITH THE OASIS ASSET WITHIN PIEDMONT'S**
16 **NORTH CAROLINA IMR MECHANISM?**

17 **A36.** Yes. The Commission, in an Order⁵ dated November 23, 2015, adopted the provisions of
18 a September 4, 2015 Settlement Agreement between the North Carolina Public Staff and
19 Piedmont which excluded approximately 30% of OASIS costs from the IMR mechanism
20 incurred from October 2013 through the Company's 2015 fiscal period. There are

⁵ See North Carolina Utilities Commission Order dated November 23, 2015 in Docket No G-9 Sub 631 and G-9, Sub 642; <https://starw1.ncuc.net/NCUC/ViewFile.aspx?Id=36de615a-2406-4249-b5a0-034705d72144>

1 additional IMR cost exclusions identified in the Settlement Agreement, as well as the
2 ability of Piedmont to submit bi-annual IMR filings.

3 **Q37. GIVEN THE NORTH CAROLINA SETTLEMENT AGREEMENT, AS WELL AS**
4 **THE SIGNIFICANT COST OVER-RUNS IDENTIFIED IN DOCKET NO. 17-**
5 **00138, WHAT IS YOUR RECOMMENDATION REGARDING ONGOING OASIS**
6 **COST RECOVERY?**

7 **A37.** I recommend the Commission require Piedmont to demonstrate why the application of the
8 OASIS cost exclusions in North Carolina should not be adopted within the Tennessee IMR.
9 This investigation should occur in a separate docket to allow intervenors to have an
10 opportunity to respond to the Company's testimony.

11 **PROPERTY TAXES**

12 **Q38. IN DOCKET NO. 17-00138, YOU RAISED CONCERNS WITH THE**
13 **CALCULATION OF AD-VALOREM TAXES WITHIN THE IMR**
14 **CALCULATION. PLEASE SUMMARIZE YOUR EARLIER TESTIMONY ON**
15 **THIS ISSUE.**

16 **A38.** In Docket No. 17-00138 I proposed an adjustment of \$135,980 to eliminate ad-valorem
17 taxes associated with assets that are not subject to ad-valorem tax. The IMR tariff permits
18 the application of a tax rate on all property regardless of whether the property is actually
19 subject to the tax. This Commission rejected the adjustment in its Order; however, it did
20 permit this issue and others to be further evaluated in this Docket.

1 **Q39. PLEASE SUMMARIZE YOUR RECOMMENDATION REGARDING THE**
2 **APPROPRIATE CALCULATION OF AD-VALOREM TAX EXPENSE FOR IMR**
3 **PURPOSES.**

4 **A39.** The tax-exempt property (currently limited to the Oasis project costs) of Piedmont has
5 grown substantially since Piedmont's last rate case. Further, it has been quite some time
6 since the property tax ratio used in the IMR was developed. Due to the passage of time
7 and the growth of Piedmont's tax-exempt property, I recommend the mechanics of the ad-
8 valorem calculation be updated in the next Piedmont IMR filing.

9 **OASIS COST SAVINGS**

10 **Q40. IN DOCKET NO. 17-00138, YOU SUPPORTED AN OFFSET TO THE IMR FOR**
11 **O&M SAVINGS ASSOCIATED WITH THE OASIS PROJECT. DO YOU**
12 **CONTINUE TO SUPPORT A REDUCTION TO THE IMR REVENUE**
13 **REQUIREMENT FOR OASIS SAVINGS?**

14 **A40.** Yes.

15 **Q41. DOES REGULATORY THEORY SUPPORT SUCH AN ADJUSTMENT?**

16 **A41.** Yes. As a matter of equity when setting rates, all impacts of a particular investment or event
17 should be considered, both those that increase and decrease the revenue requirement,
18 subject to materiality considerations and the ability to reasonably identify or estimate such
19 impacts. There are many examples of synchronization within the revenue requirement
20 calculation and IMR calculation, including annualizing depreciation expense associated
21 with Plant in Service and reflecting pro-forma property taxes associated with IMR

1 investment. The current IMR permits the Company to earn a return on OASIS and recover
2 depreciation and property tax expenses associated with OASIS, yet also retain the
3 Operating and Expense savings associated with OASIS. This is not an equitable result for
4 ratepayers.

5 **Q42. IS AN ADJUSTMENT SUCH AS THIS TO PROPERLY MATCH COSTS WITH**
6 **BENEFITS CONSISTENT WITH STANDARD RATEMAKING PRINCIPLES?**

7 **A42.** Yes. This recommendation is consistent with the “matching principle” of ratemaking.

8 This issue is set out in Leonard Saul Goodman’s book, The Process of Ratemaking:

9 From the broadest perspective, the ‘matching principle’ in ratemaking
10 requires that all related revenue and expenses shall be considered in the
11 same proceeding. Consistent with this principle, an increase in revenue
12 implies an increase in taxes, and a decrease in revenue implies a decrease
13 in taxes.

14 In other formulations of the principle, it is a commonly followed ratemaking
15 principle that costs, including deferred costs, should be matched with
16 benefits. Otherwise, a substantial non-recurring net expense will be
17 embedded in rates; and all future benefit will rebound to shareholders.⁶

18 In this same fashion, the matching concept is the rationale for annualizing Depreciation
19 Expense on IMR plant based upon its test period-end balance. Just as the matching
20 principle appropriately annualizes Depreciation Expense to match test period-end IMR
21 plant balances (for Plant-In-Service), this concept also requires the recognition of O&M
22 savings arising as a result of the OASIS asset be included as a reduction in the IMR
23 revenue requirement.

⁶ LEONARD SAUL GOODMAN, THE PROCESS OF RATEMAKING, 285 (Vol. 1 1998)

1 **Q43. DO YOU SUPPORT A COMPREHENSIVE ATTEMPT TO QUANTIFY SAVINGS**
2 **ASSOCIATED WITH ALL IMR QUALIFYING INVESTMENT?**

3 **A43.** No. The adjustment I supported in the Docket No. 17-00138, and which I continue to
4 support, is to reflect estimated O&M savings within the IMR associated with the OASIS
5 project. I am not supporting an attempt to quantify savings associated with other IMR
6 qualifying investment.

7 **Q44. WHY ARE YOU LIMITING IMR RECOGNITION OF THE SAVINGS**
8 **ASSOCIATED WITH OASIS EXCLUDING POTENTIAL SAVINGS**
9 **ASSOCIATED WITH OTHER IMR QUALIFYING PROJECTS?**

10 **A44.** The OASIS project was unique in that it was a software system and is very distinct from
11 other IMR qualifying investment that is generally represented by “pipe in the ground.”
12 These tangible assets may produce some O&M savings for the Company, but such savings
13 on any given project are likely small and challenging to estimate. The OASIS project on
14 the other hand was undertaken with the expectation it would produce significant cost
15 savings.⁷

16 **Q45. WHAT IS YOUR POSITION WITH REGARD TO THE ESTIMATED NET**
17 **SAVINGS FROM THE OASIS PROJECT?**

18 **A45.** The Piedmont IMR revenue requirement should be reduced by \$304,703 to reflect the net
19 savings forecasted by Piedmont at the initiation of the OASIS project. This amount is the

⁷ See Piedmont’s Response to Consumer Advocate Request No. 1-14, Docket No. 16-00140. While this discovery response was initially marked as confidential, during the Hearing on the merits in Docket No. 17-00138, the amount of O&M savings was offered by Piedmont’s counsel during cross-examination. As this was a public hearing, the amount has become part of the public record.

1 net of forecasted savings and incremental costs associated with the OASIS project. This
2 IMR credit should be reflected until such time as new base rates are adopted and IMR
3 investment and Income Statement impacts are incorporated into the underlying revenue
4 requirement. The calculation supporting this credit is attached as Exhibit DND-3.

5 **Q46. IN DOCKET NO. 17-00138, THE COMPANY CLAIMED THE CONSUMER**
6 **ADVOCATE'S RECOMMENDATION TO RETURN OASIS SAVINGS TO**
7 **RATEPAYERS AS A CREDIT TO THE IMR CONTRADICTED YOUR**
8 **POSITION IN KANSAS CORPORATION COMMISSION DOCKET 15-GMG-343-**
9 **GIG.⁸ DO YOU AGREE WITH THE COMPANY'S ARGUMENT?**

10 **A46.** No, not at all.

11 **Q47. PLEASE EXPLAIN THE DISTINCTION BETWEEN YOUR POSITION**
12 **REGARDING OASIS O&M SAVINGS AND THAT RECOMMENDED IN THE**
13 **KANSAS CASE.**

14 **A47.** The savings at issue in the Kansas case involved the impacts on O&M associated with pipe
15 in the ground. As expressed above, I am not proposing that these theoretical savings be
16 estimated for purposes of offsetting the IMR revenue requirement. Therefore, my position
17 in this case as well as the position I took in Docket No. 17-00138 is consistent with the
18 position I took in Kansas Docket 15-GMG-343-GIG. In the Kansas case, the OASIS-type
19 asset of Kansas Gas Service was not incorporated into the Kansas equivalent of the IMR,
20 the Gas Safety and Reliability Surcharge (GSRS). Indeed, Kansas Gas Service developed
21 a system like the OASIS asset, but the asset was never requested to be incorporated into

⁸ Rebuttal Testimony of Pia Powers, page 13, Docket 17-00138, (March 7, 2018).

1 the GSRS mechanism. The implication that I have not been consistent between the
2 Tennessee and Kansas dockets is simply not accurate.

3 **Q48. ARE THERE DISTINCTIONS BETWEEN THE GSRS MECHANISM IN KANSAS**
4 **AND THE IMR MECHANISM IN TENNESSEE?**

5 **A48.** Yes. There are two important distinctions. First, the GSRS mechanism has an annual cap
6 which limits the annual rate increases which may be levied upon residential ratepayers.
7 There is no such cap regarding the IMR mechanism under which Piedmont operates.
8 Second, the mechanism can be charged for 60 months unless it has a rate case pending.
9 There is no prohibition within the GSRS mechanism for filing a rate case within the give-
10 year GSRS term. Further, the GSRS limits surcharges to no more than 20 of the amount
11 of base rate revenue approved in the utility's last rate case.

12 PIPELINE SAFETY METRICS

13 **Q49. GIVEN THE IMR WAS IMPLEMENTED TO PERMIT THE COMPANY TO**
14 **RECOVER PIPELINE SAFETY EXPENDITURES, DO YOU BELIEVE IT**
15 **IMPORTANT TO MONITOR SAFETY PERFORMANCE WITHIN IMR**
16 **FILINGS?**

17 **A49.** Yes.

18 **Q50. DOES THE SIZE OF IMR CHARGES IMPACT THE NEED FOR A GREATER**
19 **EVALUATION OF THE SAFETY IMPACT OF THE UNDERLYING IMR**
20 **EXPENDITURES ON SAFETY?**

1 **A50.** Ratepayers are incurring significant costs associated with IMR investment. The IMR
2 mechanism is very favorable to the Company in that it greatly reduces the regulatory lag
3 associated with its IMR investment and provides a significant revenue stream for the
4 Company. The Consumer Advocate believes it is important to measure operating
5 performance of the utility to ensure ratepayers are receiving the quality of service they
6 deserve from their monopoly service provider. Accountability is also important to evaluate
7 the effectiveness of safety performance in light of the IMR mechanism. Currently, there
8 is no accountability linkage between the Company's safety performance and its IMR
9 revenue stream.

10 **Q51. WHAT TYPE OF MONITORING PROCESS DO YOU PROPOSE?**

11 **A51.** I propose the same type of monitoring process that was contained in my testimony in
12 Docket No. 17-00138. The two safety metrics I recommend are the response time to
13 emergency odor calls and a report identifying the number and age of leaks identified by
14 grade and class. The response time to emergency odor calls (emergency response time)
15 can be measured by the time between a customer contacting Piedmont with an odor
16 report or reporting a potential leak, and the time the Piedmont employee or contractor
17 arrives at the scene. This metric is an indication of the responsiveness of Piedmont to
18 incidents that could possibly impact customer safety.

19 The second metric requires the reporting of the number of leaks identified within the
20 system (leak inventory) at the end of a twelve-month reporting period by grade and

1 class.⁹ The report should also identify the overall average age of leaks in inventory on
2 a comprehensive basis. The grade of leak is in accordance with measurement guidelines
3 used within the natural gas industry.¹⁰ As of December 31, 2016, the number of known
4 leaks scheduled for repair was 861¹¹, while the number of known leaks at December 31,
5 2018, was 1,505¹², representing a significant increase in the number of known leaks.
6 The report submitted with the IMR should further identify these leaks by class location
7 (Class 1 to 4), which is an identifier related to population density.¹³

8 **Q52. HOW WILL PERFORMANCE BE MEASURED OR EVALUATED WITH THE**
9 **SUBMISSION OF THESE METRICS?**

10 **A52.** I recommend focusing on ensuring there are no major changes in performance from year
11 to year. Hypothetically, if emergency response times increase significantly within a
12 given year compared to prior period performance, TPUC and the Consumer Advocate
13 would have an opportunity to make an inquiry as to the cause of the decrease in
14 performance.

15 **Q53. WHAT IS YOUR RECOMMENDATION REGARDING THE TIMING OF THE**
16 **SUBMISSION OF THE METRICS?**

⁹ Leak definitions used herein are from the Gas Piping and Technology Committee of the American Gas Association.

¹⁰ Grade 1 leaks are those that pose an existing or probable hazard to persons or property and require immediate repair, while Grade 2 leaks are deemed non-hazardous at the time of detection, but justify a scheduled repair based upon the likelihood that it could turn hazardous in the future. Grade 3 leaks are non-hazardous and are expected to remain non-hazardous.

¹¹ Piedmont's Department of Transportation Report (TN), for the year ended 2016.

¹² Piedmont's Department of Transportation Report (TN), for the year ended 2018, supplied in response to Consumer Advocate Request No. 1-9, Attachment 3, Docket No. 19-00007 (May 30, 2019).

¹³ Class Locations, 49 CFR § 192.5 (1998). Class 1 is a measure of the least density and increases to a Class 4 identifier based on population density.

1 **A53.** I recommend the reports be filed within the annual IMR docket and verified by an officer
2 of Piedmont. If Piedmont is submitting an annual IMR filing, the metrics should be
3 incorporated within the initial filing. If Piedmont is not submitting an annual IMR
4 filing, the metrics should be submitted within the previous IMR docket and made part
5 of the record in that docket.

6 **Q54. DO YOU HAVE ANY OTHER CONCERNS REGARDING THE IMR?**

7 **A54.** Yes. Piedmont's billing format does not provide customers with a desirable level of
8 information about the nature of Piedmont's charges. I have attached two of my personal
9 natural gas bills, one from Kansas Gas Service, the other from Piedmont Natural Gas,
10 identified as Exhibits DND-4 and -5 respectively. From the perspective of customer
11 transparency, the difference in the bills is striking. While Piedmont would have similar
12 charges to that of Kansas Gas Service, the various components are not separately
13 identified within the Piedmont bill.

14 **Q55. HAVE YOU INQUIRED WHETHER THE COMPANY IS CONSIDERING**
15 **MODIFYING ITS SYSTEM TO ALLOW FOR GREATER INFORMATION TO**
16 **BE PROVIDED ON CUSTOMERS' BILLS?**

17 **A55.** Yes. In response to Consumer Advocate Request No. 1-4, Piedmont indicates that the
18 Company has not prepared any specific cost estimates necessary to provide increased
19 information on customer bills. This response suggests that there are no current plans to
20 make billing system modifications. Further, the response indicates that the Company's
21 billing system has been developed in-house over the past twenty-five years, relying

1 upon Cobol coding. The response concludes by indicating that code changes necessary
2 to identify components of customers' bills are "cumbersome and costly" due to the
3 system's older, original design and complex architecture.

4 **Q56. DO YOU RECOMMEND REQUIRING THE REPLACEMENT OF THE**
5 **BILLING SYSTEM WHICH WOULD ALLOW GREATER DETAILED**
6 **BILLING INFORMATION BE PROVIDED TO CUSTOMERS?**

7 **A56.** No. Without having further information concerning the cost of replacing the system, it
8 would not be appropriate to request replacement of the existing system.

9 **Q57. WHAT IS YOUR RECOMMENDATION REGARDING THE LACK OF**
10 **CUSTOMER TRANSPARENCY ON PIEDMONT'S CUSTOMER BILLS,**
11 **INCLUDING THE IMR CHARGE?**

12 **A57.** I recommend that the Commission require Piedmont to include a bill insert once a year
13 that identifies and defines the current TPUC-approved rates by component that
14 comprises each customer's bill. The insert should also reference the various tax types
15 that are incorporated within the bill indicating that such taxes vary by taxing jurisdiction.
16 Further, the Commission in this order should require that any future billing system
17 acquired or developed by Piedmont allow for the components of its charges to be
18 separately identified on customer bills.

19 **Q58. DOES THIS CONCLUDE YOUR TESTIMONY?**

20 **A58.** Yes. I reserve the right, however, to supplement my testimony as new information
21 becomes available.

David Dittmore

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

Utilities Division Director - 1997 - 1999; Responsible for managing employees with the goal of providing timely, quality recommendations to the Commission covering all aspects of natural gas, telecommunications and electric utility regulation; respond to legislative inquiries as requested; sponsor expert witness testimony before the Commission on selected key regulatory issues; provide testimony before the Kansas legislature on behalf of the KCC regarding proposed utility legislation; manage a budget in excess of \$2 Million; recruit professional staff; monitor trends, current issues and new legislation in all three major industries; address personnel issues as necessary to ensure that the goals of the agency are being met; negotiate and reach agreement where possible with utility personnel on major issues pending before the Commission including mergers and acquisitions; consult with attorneys on a daily basis to ensure that Utilities Division objectives are being met.

Asst. Division Director - 1996 - 1997; Perform duties as assigned by Division Director.

Chief of Accounting 1990 - 1995; Responsible for the direct supervision of 9 employees within the accounting section; areas of responsibility included providing expert witness testimony on a variety of revenue requirement topics; hired and provided hands-on training for new employees; coordinated and managed consulting contracts on major staff projects such as merger requests and rate increase proposals;

Managing Regulatory Auditor, Senior Auditor, Regulatory Auditor 1984 - 1990; Performed audits and analysis as directed; provided expert witness testimony on numerous occasions before the KCC; trained and directed less experienced auditors on-site during regulatory reviews.

Amoco Production Company 1982 - 1984

Accountant Responsible for revenue reporting and royalty payments for natural gas liquids at several large processing plants.

Education

- B.S.B.A. (Accounting) Central Missouri State University
- Passed CPA exam; (Oklahoma certificate # 7562) – Not a license to practice

Board Member, Financial Research Institute – 2007 - 2017

September 4, 2015

Moore & Van Allen

James H. Jeffries IV
Attorney at Law

T 704 331 1079
F 704 339 6879
jimjeffries@mvalaw.com

Moore & Van Allen PLLC

Suite 4700
100 North Tryon Street
Charlotte, NC 28202-4003

VIA ELECTRONIC FILING

Ms. Gail Mount
Chief Clerk
North Carolina Utilities Commission
430 North Salisbury Street, Dobbs Building, Suite #5063
Raleigh, NC 27603-5918

Re: Docket Nos. G-9 Sub 631, G-9 Sub 642

Dear Ms. Mount:

Attached please find a Stipulation and Settlement Agreement between Piedmont Natural Gas Company, Inc. and the Public Staff - North Carolina Utilities Commission in the above-captioned dockets. Piedmont would respectfully request that the Commission consider and approve the attached settlement at its earliest convenience.

Thank you for your assistance with this matter. If you have any questions regarding this filing, you may reach me at the number shown above.

Sincerely,

/s/ James H. Jeffries IV
James H. Jeffries IV

JHJ/ren

Enclosures

c: Bruce Barkley
Pia Powers
Elizabeth Denning

DOCKET NO. G-9, SUB 631
DOCKET NO. G-9, SUB 642

STIPULATION AND SETTLEMENT AGREEMENT

Piedmont Natural Gas Company, Inc.
Integrity Management Rider ("IMR")

This Stipulation and Settlement Agreement ("the IMR Stipulation") is entered into this 4th day of September, 2015, between Piedmont Natural Gas Company, Inc. ("Piedmont" or "Company"), and the Public Staff – North Carolina Utilities Commission ("Public Staff") (together, "the Parties").

WHEREAS, N.C. Gen. Stat. § 62-133.7A provides:

[I]n setting rates for a natural gas local distribution company in a general rate case proceeding under G.S. 62-133, the Commission may adopt, implement, modify, or eliminate a rate adjustment mechanism to enable the company to recover the prudently incurred capital investment and associated costs of complying with federal gas pipeline safety requirements, including a return based on the company's then authorized return. The Commission shall adopt, implement, modify, or eliminate a rate adjustment mechanism authorized under this section only upon a finding by the Commission that the mechanism is in the public interest.

WHEREAS, Piedmont, in its most recent general rate case, Docket No. G-9, Sub 631, requested approval of an IMR mechanism pursuant to N.C. Gen. Stat. § 62-133.7A.

WHEREAS, by Order Approving Partial Rate Increase and Allowing Integrity Management Rider issued December 17, 2013, in Docket No. G-9, Sub 631, the Commission approved in its entirety a Stipulation and Exhibits ("the Rate Case Stipulation") between Piedmont, the Public Staff, and Carolina Utility Customers Association, Inc. ("CUCA"), settling all issues between them in the case.

WHEREAS, the Rate Case Stipulation included an IMR mechanism, which is incorporated into Piedmont's approved tariff as Appendix E to its Service Regulations.

WHEREAS, the approved IMR mechanism provides for rate adjustments every February 1st based upon qualifying capital investments in integrity management and pipeline safety projects as of October 31st of the preceding year as reported by Piedmont to the Commission in an annual report filing.

WHEREAS, the annual rate adjustments under the IMR mechanism are composed of the Integrity Management Revenue Requirement ("IMRR"), net of the Special Contract Credit, and the Integrity Management Deferred Account True-Up Adjustment.

WHEREAS, Piedmont's evidence in Docket No. G-9, Sub 631, in support of an IMR mechanism indicated that Piedmont expected to make North Carolina capital investments of approximately \$450 million (an average of \$150 million a year) for fiscal years 2014-2016 in the following categories to comply with federal pipeline safety and integrity management regulations: Corrosion Control, Casing Remediation, Distribution Integrity Management Planning ("DIMP"), Transmission Integrity Management Planning ("TIMP"), and Piedmont's Operations Assets and System Integrity Solutions ("OASIS") work and asset management system.

WHEREAS, initial estimated North Carolina annual capital investments for integrity management have been modified and in some cases increased from those estimates provided in the Company's last general rate case.

WHEREAS, Piedmont's February 1, 2015, rate adjustment filing under the IMR mechanism reflected Integrity Management Plant Investment totaling \$241,908,708 for the year ended October 31, 2014.

Category	Actual Fiscal Yr Ended Oct 31, 2014
Corrosion Control	\$20,360,550
Casing Remediation	11,041,669
DIMP	4,866,102
TIMP	158,296,083
OASIS	47,344,304
Total	<u>\$241,908,708</u>

WHEREAS, Piedmont's practice is to assign or allocate capital expenditures on integrity management or pipeline safety for purposes of recovery through the IMR mechanism based on its determination that those activities were the "primary driver" of the expenditures.

WHEREAS, the Public Staff believes that capital expenditures that are related to or benefit other aspects of Piedmont's operations should be excluded from cost recovery under the IMR mechanism.

WHEREAS, the Public Staff has expressed concerns about the difficulty of identifying costs that are properly recoverable under the current IMR mechanism in its audits of Piedmont's annual IMR reports, and Piedmont has expressed concerns about the cash flow impact of the interval between cost incurrence and cost recovery under the IMR mechanism.

WHEREAS, Internal Revenue Code Section 168(i)(9) provides that a public utility may not use accelerated (Modified Accelerated Cost Recovery System and bonus) depreciation for tax purposes unless the normalization method of accounting is used by the public utility for ratemaking purposes, as is done under traditional utility ratemaking for Piedmont and other utilities in North Carolina.

WHEREAS, the IMR mechanism provides Piedmont with incremental revenues related to plant added since its last general rate case.

WHEREAS, Piedmont has not been able to realize the full current income tax benefits of accelerated depreciation tax deductions since its last general rate case, because accelerated depreciation including bonus tax depreciation have increased Piedmont's net operating loss carryforwards.

WHEREAS, approximately sixty percent (60%) of the North Carolina jurisdictional plant added by Piedmont after the last rate case through October 31, 2014, is composed of Integrity Management Plant Investment proposed by the Company for recovery through the IMR, and the remainder consists of other plant additions that will be eligible for inclusion in rate base in the Company's next general rate case.

WHEREAS, there is an unresolved issue between the Parties concerning the maximum amount of the rate base deduction that may be reflected in the computation of the IMRR for benefits received by Piedmont related to accelerated depreciation tax deductions on Integrity Management Plant Investment to the extent allowable under current tax law.

WHEREAS, neither the Rate Case Stipulation nor Piedmont's tariff sets forth a procedural mechanism for Commission approval of Piedmont's IMR rate and the Public Staff has not yet completed its audit of Piedmont's Integrity Management Plant Investment for the thirteen month period October 2013 through October 2014, the rates for which went into effect pursuant to the Commission's Order Approving Rate Adjustments Effective February 1, 2014, issued February 5, 2014, in Docket No. G-9, Sub 641, and Order Approving Rate Adjustments Effective February 1, 2015, issued January 26, 2015, in Docket No. G-9, Subs 642 and 659 ("January 26, 2015 Order").

WHEREAS, Piedmont and the Public Staff desire to resolve all issues between them resulting from the Public Staff's audit of Piedmont's Integrity Management Plant Investment for the thirteen months ended October 31, 2014, as well as all known issues between them related to the IMR mechanism for fiscal year 2015.

WHEREAS, after extensive discussions, Piedmont and the Public Staff have come to agreement on an administrative solution to their respective concerns and the issues between them regarding implementation of the IMR mechanism beginning with recovery of capital expenditures incurred during the month of October 2013, through Piedmont's fiscal year ended October 31, 2014.

NOW, THEREFORE, Piedmont and the Public Staff agree as follows:

1. The Parties agree that certain costs associated with the Company's Integrity Management Plant Investment under the Company's "primary driver" test shall be excluded from recovery through the IMR mechanism ("Excluded Costs"). Those Excluded Costs shall be calculated by the following fixed percentages:

- 30% of OASIS project costs allocated to North Carolina;
- 3% of OASIS project costs allocated to North Carolina net of Excluded Costs from the previous bullet;
- 85% of right-of-way clearing costs in TIMP and DIMP projects;
- 10% of DIMP project costs net of Excluded Costs related to right-of-way clearing ("Net DIMP Excluded Costs"); and
- 15% of TIMP project costs net of Excluded Costs related to right-of-way clearing ("Net TIMP Excluded Costs").

The Excluded Costs shall be computed upon the Company's Integrity Management Plant Investment since October 1, 2013. For the purpose of setting prospective rates under the IMR mechanism, implementation of these Excluded Costs shall begin with the next IMR rates adjustment which is scheduled to occur following the Company's fall 2015 IMR annual report. The Excluded Costs shall be eligible for inclusion in recoverable rate base

in Piedmont's next general rate case proceeding. It is the intent of Piedmont and the Public Staff that this agreement resolve all of the issues between them related to the IMR mechanism for the thirteen months ended October 31, 2014, and most, if not all, of the significant issues between them for fiscal year 2015. Provided that Piedmont continues to utilize its "primary driver" test, consistently applied, and consistent with the provisions in paragraph 2 below, the Public Staff agrees that it will not raise the same or similar IMR mechanism issues in any future period so long as this IMR Stipulation remains in effect.

2. The Parties agree, subject to paragraph 1 above, that costs incurred for system expansion/improvement or routine maintenance, repair and replacement of system components that are not primarily required to comply with federal gas pipeline safety requirements shall not be included in amounts recovered under the IMR mechanism.

3. The Parties agree that rates under the IMR mechanism be adjusted at six month intervals ("Biannual Rate Adjustments"). Biannual Rate Adjustments under the IMR mechanism shall begin in the fall of 2015, in accordance with the proposed procedural process and timeline set out on Attachment A and proposed revised IMR tariff set out on Attachment B hereto. There will be an eleven-month Integrity Management Plant Investment update period for the first Biannual Rate Adjustment that will occur effective December 1, 2015, based on Integrity Management Plant Investment through September 30, 2015. Each Biannual Rate Adjustment thereafter shall capture a six-month investment update period. Following completion of the procedures set forth in Attachment A with respect to each annual IMR period, IMR rates attributable to investments during such period shall be considered Commission approved rates.

4. The Parties agree that the amount of the Special Contract Credit shall be refreshed one year after the effective date of each new contract and contract amendment wherein Piedmont provides natural gas redelivery service to an electric generation customer at a levelized rate. Each new contract and contract amendment shall begin providing IMR ratepayer benefits one year after the counterparty begins making payments under the new contract or contract amendment. The Special Contract Credit is currently designed to be reset to zero in each rate case and does not provide benefits until one year after the effective date of new rates.

5. The Parties agree that the IMR mechanism shall be reviewed by the Commission at the earlier of four years from the date Piedmont's revised IMR tariff takes effect (which is November 1, 2015, as shown on Attachment A hereto) or the date of Piedmont's next general rate case filing, after which the IMR mechanism may be extended, modified, or terminated. Any Integrity Management Deferred Account balance carried on Piedmont books at the effective date of rates from a general rate case or upon termination of the IMR mechanism shall remain recoverable through an ongoing surcharge mechanism until such balance is fully recovered. The Parties agree that the amortization period for such balance shall be set in conformity with Generally Accepted Accounting Principles, subject to Commission approval. The Parties further agree that, unless otherwise ordered by the Commission, all Integrity Management Plant Investment made by Piedmont after the termination of the IMR mechanism shall be recoverable only through base rates.

6. The Parties agree that Piedmont shall seek a Private Letter Ruling ("PLR") from the Internal Revenue Service ("IRS") to determine the appropriate tax-related rate

base adjustments for computing the IMRR consistent with compliance with tax normalization requirements. Prior to its submission of the PLR request, Piedmont agrees to consult with the Public Staff regarding the form and content of such request. Any dispute between the Parties regarding the formal written request to the IRS for a PLR would be submitted to the Commission for resolution.

7. The Parties agree that until such time as the appropriate tax-related rate base adjustments for computing the IMRR consistent with compliance with tax normalization requirements is determined from the PLR, the amount of rate base used to determine the IMRR shall not reflect a deduction for Accumulated Deferred Income Tax ("ADIT").

8. The Parties agree that in order to hold ratepayers harmless in the event that it is determined at a later date that there is no tax normalization violation related to, including any portion of the Company's ADIT as a rate base deduction in the calculation of the IMRR, Piedmont shall make adjustments to the next annual IMRR through prospective rate adjustments at or after the time such adjustments are approved by the Commission. Such adjustments shall include the interest accrued on the revenue requirement on the IMR ADIT not previously included in the IMRR computations, at the net of tax overall rate of return.

9. The Parties agree that based on all of the aforementioned provisions, the IMRR for the first two rate periods, reflecting recovery of the Company's Integrity Management Plant Investment between October 1, 2013 and October 31, 2014 net of Excluded Costs, shall be revised to \$993,181 and \$25,404,737, respectively, as shown in Attachment C.

To effectuate these revised IMRR amounts, the Parties agree that a prospective adjustment to the annual IMRR to be recorded by the Company and recovered through rates is appropriate and consistent with the Commission's January 26, 2015 Order. The Company shall record a (\$1,397,710) adjustment to the IMRR for the 12-month period beginning December 1, 2015 in order to credit this amount to customers. The (\$1,397,710) adjustment shall be apportioned by month beginning in December 2015 in accordance with the Integrity Management Month Factors shown in Section 3 of Piedmont's IMR tariff.

10. The Parties agree that the foregoing provisions are fair and equitable to Piedmont and its ratepayers, are practical to administer, and are in the public interest.

11. The Parties agree to support and recommend that the Commission approve this IMR Stipulation and, after providing for notice and comment to the other parties to Docket No. G-9, Sub 631, adopt the IMR procedural process and timeline outlined in Attachment A hereto, adopt the revised IMR tariff in Attachment B hereto effective November 1, 2015, and approve the IMRR adjustments shown in Attachment C hereto.

12. The agreements reflected herein are based upon all the facts and circumstances surrounding Piedmont's IMR mechanism and its obligations to engage in integrity related activities under federal law as they now exist. The Parties agree that Piedmont may seek Commission approval for further modification to its revised IMR mechanism and/or modification of any of the terms and conditions outlined in this IMR Stipulation after issuance by the Pipeline and Hazardous Materials Safety Administration, the United States Department of Transportation or other federal agency of guidance or

requirements that strengthen, expand or otherwise modify existing federal regulations on pipeline integrity management or pipeline safety.

13. The provisions of this IMR Stipulation, upon approval by the Commission and subject to paragraph 12 above, shall govern the operation of Piedmont's IMR until the end of the period of effectiveness of the IMR mechanism specified in paragraph 5 above.

14. This IMR Stipulation is the product of give-and-take negotiations, and no portion of this IMR Stipulation shall be binding on the Parties unless the entire IMR Stipulation is accepted by the Commission. The terms and conditions set forth above represent, in full, the agreement of the Parties.

Piedmont Natural Gas Company, Inc.

By: Jim Jeffries up Seton ZL

Public Staff – North Carolina Utilities Commission

By: _____

requirements that strengthen, expand or otherwise modify existing federal regulations on pipeline integrity management or pipeline safety.

13. The provisions of this IMR Stipulation, upon approval by the Commission and subject to paragraph 12 above, shall govern the operation of Piedmont's IMR until the end of the period of effectiveness of the IMR mechanism specified in paragraph 5 above.

14. This IMR Stipulation is the product of give-and-take negotiations, and no portion of this IMR Stipulation shall be binding on the Parties unless the entire IMR Stipulation is accepted by the Commission. The terms and conditions set forth above represent, in full, the agreement of the Parties.

Piedmont Natural Gas Company, Inc.

By: _____

Public Staff – North Carolina Utilities Commission

By: Elizabeth L. Manning

Attachment A
Schedule 1
Summary Timeline for Revised IMR Tariff

File Annual IMR Report	October 31 (November 1, 2015, for the first time only)
Audit periods	April 1 - September 30 (November 1, 2014 through September 30, 2015, for the first time only)
File IMRR computation	With Annual IMR Report, and April 30
File proposed IMR rates	November 15 / May 15
Interim rates into effect	June 1 / December 1
File Public Staff Report/Testimony and Intervenor Testimony	February 15
File Company Responsive Testimony	March 1
Hearing (as needed)	2nd or 3rd week in March
Commission order	May 15
Rate adjustments based on order into effect	June 1

OFFICIAL COPY

Sep 04 2015

Attachment A
Schedule 2
Detailed Timeline for Revised IMR Tariff

Line No.		
1	Effective date	11/01/15
2	File Annual IMR Report (for audit period 11/1/2014-9/30/2015)	11/01/15
3	File proposed IMR rates (based on Integrity Management Plant Investment through 9/30/2015)	11/15/15
4	Interim rates into effect	12/01/15
5	File Public Staff Report/Testimony and Intervenor Testimony	02/15/16
6	File Company Responsive Testimony	03/01/16
7	Hearing (as needed)	2nd or 3rd week of March 2016
8	File IMRR computation (based on Integrity Management Plant Investment through 3/31/2016)	04/30/16
9	Commission order	05/15/16
10	File proposed IMR rates (based on Integrity Management Plant Investment through 3/31/2016)	05/15/16
11	Rate adjustments based on Commission order into effect	06/01/16
12	Interim rates into effect	06/01/16
13	File Annual IMR Report (for audit period 10/1/2015-9/30/2016)	10/31/16
14	File proposed IMR rates (based on Integrity Management Plant Investment through 9/30/2016)	11/15/16
15	Interim rates into effect	12/01/16
16	File Public Staff Report/Testimony and Intervenor Testimony	02/15/17
17	File Company Responsive Testimony	03/01/17
18	Hearing (as needed)	2nd or 3rd week of March 2017
19	File IMRR computation (based on Integrity Management Plant Investment through 3/31/2017)	04/30/17
20	Commission order	05/15/17
21	File proposed IMR rates (based on Integrity Management Plant Investment through 3/31/2017)	05/15/17
22	Interim rates into effect	06/01/17
23	Rate adjustments based on Commission order into effect	06/01/17
24	File Annual IMR Report (for audit period 10/1/2016-9/30/2017)	10/31/17
25	File proposed IMR rates (based on Integrity Management Plant Investment through 9/30/2017)	11/15/17
26	Interim rates into effect	12/01/17
27	File Public Staff Report/Testimony and Intervenor Testimony	02/15/18
28	File Company Responsive Testimony	03/01/18
29	Hearing (as needed)	2nd or 3rd week of March 2018
30	File IMRR computation (based on Integrity Management Plant Investment through 3/31/2018)	04/30/18
31	Commission order	05/15/18
32	File proposed IMR rates (based on Integrity Management Plant Investment through 3/31/2018)	05/15/18
33	Interim rates into effect	06/01/18
34	Rate adjustments based on Commission order into effect	06/01/18
35	File Annual IMR Report (for audit period 10/1/2017-9/30/2018)	10/31/18
36	File proposed IMR rates (based on Integrity Management Plant Investment through 9/30/2018)	11/15/18
37	Interim rates into effect	12/01/18
38	File Public Staff Report/Testimony and Intervenor Testimony	02/15/19
39	File Company Responsive Testimony	03/01/19
40	Hearing (as needed)	2nd or 3rd week of March 2019
41	File IMRR computation (based on Integrity Management Plant Investment through 3/31/2019)	04/30/19
42	Commission order	05/15/19
43	File proposed IMR rates (based on Integrity Management Plant Investment through 3/31/2019)	05/15/19
44	Interim rates into effect	06/01/19
45	Rate adjustments based on Commission order into effect	06/01/19
46	File Annual IMR Report (for audit period 10/1/2018-9/30/2019)	10/31/19
47	Commission review of IMR mechanism	11/01/19
48	File proposed IMR rates (based on Integrity Management Plant Investment through 9/30/2019)	11/15/19
49	Interim rates into effect	12/01/19
50	File Public Staff Report/Testimony and Intervenor Testimony	02/15/20
51	File Company Responsive Testimony	03/01/20
52	Hearing (as needed)	2nd or 3rd week of March 2020
53	File IMRR computation (based on Integrity Management Plant Investment through 3/31/2020)	04/30/20
54	Commission order	05/15/20
55	Rates based on Commission order go into effect	06/01/20

OFFICIAL COPY

Sep 04 2015

**PIEDMONT NATURAL GAS COMPANY, INC.
NORTH CAROLINA SERVICE REGULATIONS**

Page 1 of 6

APPENDIX E

Integrity Management Rider

Pursuant to G.S. 62-133.7A, "[i]n setting rates for a natural gas local distribution company in a general rate case proceeding under G.S. 62-133, the Commission may adopt, implement, modify, or eliminate a rate adjustment mechanism to enable the company to recover the prudently incurred capital investment and associated costs of complying with federal gas pipeline safety requirements, including a return based on the company's then authorized return." These capital investment and associated costs are required in order to comply with federal laws and regulations, will generate no additional revenue for Piedmont Natural Gas Company, Inc. (Company), and vary significantly in nature, scope, and scale from prior system reinforcement/maintenance projects and also from the Company's more usual system expansion projects.

1. Provision for Adjustment

The base rates per therm (100,000 Btu) for gas service set forth in Rate Schedules 101, 102, 152, 142, 103, 104, 113, 114, T-10, 12, and T-12 of the Company shall be adjusted by an amount hereinafter described which amount is referred to as the "Integrity Management Adjustment." The Integrity Management Adjustment shall be calculated as an increment and applied to Applicable Rate Schedules to recover the Integrity Management Revenue Requirement (IMRR). The Integrity Management Adjustment shall be implemented on a biannual basis subject to an audit and adjustment process as described herein. The Integrity Management Deferred Account shall be established to track the Company's recovery of the IMRR.

2. Definitions

For the purposes of this revised Rider:

"Applicable Rate Schedules" means Rate Schedules 101, 102, 152, 142, 103, 104, 113, 114, T-10, 12, and T-12.

"Commission" means the North Carolina Utilities Commission.

"Relevant Rate Order" means the final order of the Commission in the most recent litigated rate case of the Company fixing the rates of the Company or the most recent final order of the Commission specifically prescribing or fixing the factors and procedures to be used in the application of this revised Rider.

"Integrity Management Plant Investment" means the gross plant and associated costs incurred by the Company resulting from prevailing federal standards for pipeline integrity and safety and not otherwise included in current base rates. At the time of the Company's next general rate case proceeding, all prudently incurred Integrity Management Plant Investment associated with this revised Rider shall be included in base rates.

**PIEDMONT NATURAL GAS COMPANY, INC.
NORTH CAROLINA SERVICE REGULATIONS**

Page 2 of 6

APPENDIX E

Integrity Management Rider

"Special Contracts" has the same meaning as set forth in Section 2(cc) of the Company's Service Regulations and includes electric generation contracts.

"Vintage Year" means the fiscal year during which the Integrity Management Plant Investment is made.

3. Computation of Integrity Management Revenue Requirement (IMRR)

The Company shall file by October 31st and April 30th of each year information showing the computation of the IMRR that forms the basis of the next biannual Integrity Management Adjustment.¹ The total annual revenue requirement will be calculated for each Vintage Year of Integrity Management Plant Investment, as follows:

Integrity Management Plant Investment	\$X,XXX,XXX
Less: Accumulated Depreciation	XXX,XXX
Less: Accumulated Deferred Income Taxes	XXX,XXX
Net Plant Investment	\$X,XXX,XXX
 Pre-Tax ROR set forth in the Relevant Rate Order	 X.XX%
Allowed Pre-Tax Return	\$X,XXX,XXX
Plus: Depreciation Expense	XXX,XXX
 Total	 \$X,XXX,XXX

The total of the annual revenue requirements for each Vintage Year of Integrity Management Plant Investment is the annual IMRR. The IMRR shall be reduced by a Special Contract Credit to compute the Net IMRR that forms the basis for determining the Integrity Management Adjustment. The Special Contract Credit represents the amount provided by the Special Contracts towards the Integrity Management Plant Investment. The Special Contract Credit applicable to each twelve-month period beginning February 1 are as follows:

February 1, 2015	\$2,232,000
February 1, 2016	\$4,605,000
February 1, 2017	\$6,821,000
February 1, 2018	\$8,889,000
February 1, 2019	\$11,685,000

The amount of the Special Contract Credit shall be amended one year after the effective date of any new contract or amendment, approved by the Commission after the effective date of

¹ The Company shall file by November 1, 2015 the computation of the Integrity Management Adjustment effective December 1, 2015, which is the first Integrity Management Adjustment under this revised Rider.

**PIEDMONT NATURAL GAS COMPANY, INC.
NORTH CAROLINA SERVICE REGULATIONS**

Page 3 of 6

APPENDIX E

Integrity Management Rider

this revised Rider, where the Company provides natural gas redelivery service to an electric generation customer at a levelized rate.

For the purposes of determining the Net IMRR on a biannual basis, the Special Contract Credit shall be prorated by month using the Integrity Management Month Factors shown below in this Section 3.

Each month the Company shall charge its Integrity Management Deferred Account for the portion of the Net IMRR (the IMRR as reduced by the Special Contract Credit), that corresponds to that month. The monthly IMRR is the product of the annual Net IMRR and the Integrity Management Month Factor. The Integrity Management Month Factor represents the percentage of annualized and normalized therms as set forth in the Relevant Rate Order by month for the Applicable Rate Schedules. The Integrity Management Month Factors for each month are as follows:

February	13.51%
March	10.54%
April	8.28%
May	6.21%
June	5.14%
July	4.92%
August	5.21%
September	5.13%
October	6.60%
November	9.09%
December	11.36%
January	14.01%

4. Computation of Biannual Integrity Management Adjustment

The Company will file for Commission approval by November 15th and May 15th of each year information showing the computation of the Integrity Management Adjustment for each rate schedule and the revised tariffs that it proposes to charge customers during the six month period beginning the following December 1st and June 1st, respectively. To compute the Integrity Management Adjustment, the Net IMRR shall first be apportioned to each customer class based on margin apportionment established in the Relevant Rate Order. The customer class apportionment percentages are as follows:

Residential	Rate Schedule 101	64.64%
Commercial	Rate Schedules 102, 142, 152	29.43%
Large General - Firm	Rate Schedules 103, 113, T-10, T-12, 12	2.67%
Large General - Interruptible	Rate Schedules 104, 114	3.26%

Issued by Thomas E. Skains, Chairman, President and CEO
Issued to comply with authority granted by the
North Carolina Utilities Commission in
Docket No. G-9, Sub 631

Issued: 09/ /2015
Effective: 11/01/2015

OFFICIAL COPY

Sep 04 2015

**PIEDMONT NATURAL GAS COMPANY, INC.
NORTH CAROLINA SERVICE REGULATIONS**

Page 4 of 6

APPENDIX E

Integrity Management Rider

The amount of the Net IMRR apportioned to each rate schedule shall then be divided by the annual therms as set forth in the Relevant Rate Order for each rate schedule to determine the Integrity Management Adjustment to the nearest one-thousandth cent per therm. The annual therms of throughput used in the computation of the Integrity Management Adjustment for each rate schedule are as follows:

Residential	Rate Schedule 101	365,047,510
Commercial	Rate Schedules 102, 142, 152	274,482,630
Large General - Firm	Rate Schedules 103, 113, T-10, T-12, 12	301,885,090
Large General - Interruptible	Rate Schedules 104, 114	346,693,780

Each month the Company shall credit the Integrity Management Deferred Account for the amount of the Integrity Management Adjustment collected from customers. The amount of the Integrity Management Adjustment collected from customers shall be computed by multiplying the Integrity Management Adjustment for each rate schedule by the corresponding actual therms of usage billed customers for the month.

5. Computation of Integrity Management Deferred Account True-Up Adjustment

The Company shall file with the Commission by November 15th to recover the balance in the Integrity Management Deferred Account as of October 31st. The Integrity Management Deferred Account True-Up Adjustment shall be computed by multiplying the balance of the Integrity Management Deferred Account as of October 31st, by the customer class apportionment percentages shown in Section 4 above. The Integrity Management Deferred Account balance apportioned to each customer class shall then be divided by the annual therms of throughput for each rate schedule shown in Section 4 above to determine the Integrity Management Deferred Account True-Up Adjustment applicable to each rate schedule for the following twelve-month period beginning December 1st. The Integrity Management Deferred Account True-Up Adjustment shall be computed to the nearest one-thousandth cent per therm. The Company may, at its discretion, file for further Integrity Management Deferred Account True-Up Adjustments throughout the year, upon 14 days notice to the Commission.

6. Interest

Interest will be applied to the Integrity Management Deferred Account at the Company's authorized net-of-tax overall rate of return.

7. Integrity Management Deferred Account

The Company shall maintain an Integrity Management Deferred Account for the purpose of recording the monthly (a) net IMRR, (b) Integrity Management Adjustment, (c) Integrity Management Deferred Account True-Up Adjustment, and (d) interest on the Integrity Management Deferred Account.

Issued by Thomas E. Skains, Chairman, President and CEO
Issued to comply with authority granted by the
North Carolina Utilities Commission in
Docket No. G-9, Sub 631

Issued: 09/ /2015
Effective: 11/01/2015

OFFICIAL COPY

Sep 04 2015

**PIEDMONT NATURAL GAS COMPANY, INC.
NORTH CAROLINA SERVICE REGULATIONS**

Page 5 of 6

APPENDIX E

Integrity Management Rider

8. Monthly Filing with Commission

The Company shall file monthly (a) detail of the current month's Integrity Management Plant Investment, including supporting documentation for the amount incurred, (b) the cumulative Integrity Management Plant Investment subject to this revised Rider, and (c) a report of the activity recorded for the month in the Integrity Management Deferred Account. Such reports will be filed within 45 days after the end of the month for which the report is being filed.

9. Annual Integrity Management Plant Investment Forecast

The Company shall file by October 31st its projected three-year plan of Integrity Management Plant Investment, which will encompass Integrity Management Plant Investment planned for its next three fiscal years.

10. Review and Approval of Annual IMR Report and Rates

The Company shall file the Annual IMR Report summarizing the Integrity Management Plant Investment for the prior 12-month period ending September 30th and the data substantiating and supporting its IMRR calculation for the next biannual Integrity Management Adjustment by October 31st.²

Upon the Annual IMR Report filing, the Public Staff and any other intervenors of record shall have until the following February 15th to review such filing and to prepare and file with the Commission a report of such review to include supporting testimony if disallowances or adjustments are proposed in such report. The Company shall have until March 1st to respond to any report or testimony filed with the Commission and, to the extent necessary to resolve disputes regarding the Company's Annual IMR Report, such disputes shall be promptly scheduled for hearing by the Commission with the goal of resolving such disputes by Commission order issued by May 15th with corresponding rate adjustments made on a prospective basis on June 1st.

11. Commission Review

The terms and conditions of this revised Rider shall be reviewed, and prospective modifications considered by the Commission: (1) in the Company's next general rate case; or (2) at the end of four years from the effective date of this revised Rider, whichever first occurs. Further any interested party may petition the Commission to modify or terminate the revised Rider on the grounds that the revised Rider, as approved, is no longer in the public interest.

² The Company shall file by November 1, 2015 its first Annual IMR Report under this revised Rider.

ATTACHMENT C

SUMMARY OF NET IMRR COMPUTATION

Line No.	Vintage Year	AS FILED BY PIEDMONT		AS REVISED	
		(A)	(B)	(C)	(D)
		Rate Period Feb 1 2014 - Jan 31 2015	Rate Period Feb 1 2015 - Jan 31 2016	Rate Period Feb 1 2014 - Jan 31 2015	Rate Period Feb 1 2015 - Jan 31 2016
1	Vintage 1	\$ 837,690	\$ 799,176	\$ 993,181	\$ 956,871
2	Vintage 2	n/a	28,918,763	n/a	26,679,866
3	Total	837,690	29,717,939	993,181	27,636,737
4	Special Contract Adjustment	0	(2,232,000)	0	(2,232,000)
5	Net IMRR for Recovery	\$ 837,690	\$ 27,485,939	\$ 993,181	\$ 25,404,737

Spread of Net IMRR By Month

6	February	\$ 113,171.92	\$ 3,713,350.36	\$ 134,178.75	\$ 3,432,179.97
7	March	\$ 88,292.53	\$ 2,897,017.97	\$ 104,681.28	\$ 2,677,659.28
8	April	\$ 69,360.73	\$ 2,275,835.75	\$ 82,235.39	\$ 2,103,512.22
9	May	\$ 52,020.55	\$ 1,706,876.81	\$ 61,676.54	\$ 1,577,634.17
10	June	\$ 43,057.27	\$ 1,412,777.26	\$ 51,049.50	\$ 1,305,803.48
11	July	\$ 41,214.35	\$ 1,352,308.20	\$ 48,864.51	\$ 1,249,913.06
12	August	\$ 43,643.65	\$ 1,432,017.42	\$ 51,744.73	\$ 1,323,586.80
13	September	\$ 42,973.50	\$ 1,410,028.67	\$ 50,950.19	\$ 1,303,263.01
14	October	\$ 55,287.54	\$ 1,814,071.97	\$ 65,549.95	\$ 1,676,712.64
15	November	\$ 76,146.02	\$ 2,498,471.86	\$ 90,280.15	\$ 2,309,290.59
16	December	\$ 95,161.58	\$ 3,122,402.67	\$ 112,825.36	\$ 2,885,978.12
17	January	\$ 117,360.37	\$ 3,850,780.05	\$ 139,144.66	\$ 3,559,203.65
18	Total	\$ 837,690.00	\$ 27,485,939.00	\$ 993,181.00	\$ 25,404,737.00

19	Revised Net IMRR Amount for the Rate Periods covering February 1, 2014 through January 31, 2016	\$ 26,397,918.00
20	Original Net IMRR Amount for the Rate Periods covering February 1, 2014 through January 31, 2016	\$ 28,323,629.00
21	Total Adjustment for the Rate Periods covering February 1, 2014 through January 31, 2016	\$ (1,925,711.00)
22	Portion of the Adjustment for December 1, 2015 thru January 31, 2016 ¹	\$ 528,000.95
23	Portion of the Adjustment for February 1, 2014 thru November 30, 2015, to be credited to customers over the 12 Month period beginning December 1, 2015	\$ (1,397,710.05)

1/

Pursuant to this IMR Stipulation, the Integrity Management Adjustment billed to customers beginning December 1, 2015 shall incorporate the provisions of this IMR Settlement. Therefore, Piedmont will not need to credit customers for the difference between the "As Filed" and "As Revised" Net IMRR for Recovery amounts associated with December 2015 and January 2016.

Piedmont IMR
Docket No. 19-00007
Imputation of Net Oasis Savings

Initially considered Confidential by
Piedmont; confidentiality waived at hearing
in Docket 17-00138

Exhibit DND-3

FY Budgeted O&M Savings	\$	5,372,000	Pdf p. 20
FY Budgeted Ongoing O&M Costs	\$	<u>3,443,503</u>	Pdf p. 20
Net Forecasted Savings	\$	1,928,497	
Allocation of OASIS Plant to Tennessee Jurisdiction		<u>15.80%</u>	Per Piedmont Response 1-6
Imputed Tennessee Jurisdictional O&M Savings	\$	<u><u>304,703</u></u>	

Source: CPAD Request #1-14 (Confidential) in Docket No. 16-00140; PDF p. 20

For service, bill inquiries, or assistance, call

Phone: 1-800-794-4780

Gas leaks: 1-888-482-4950

www.kansasgasservice.com

Kansas Gas Service

PO Box 219046

Kansas City MO 64121-9046

Find important safety information about carbon monoxide in the enclosed newsletter.

Page 1 of 1

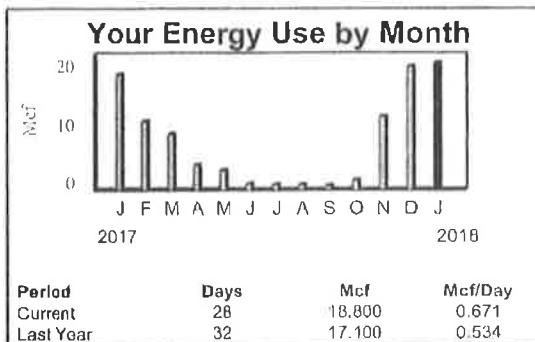
DAVE N. DITTEMORE

Amount Due		\$165.98
Current Charges Due		02-28-18
Amount Due After Due Date		\$169.36
Account Number		
Rate	Residential	
Active Deposit	NONE	Statement Date 02-02-18

Previous Balance \$157.50
Payments Received 160.00CR
Balance Forward \$2.50CR

Service Charge	\$16.70
Delivery Charge	41.98
Gas System Reliability Surcharge	0.29
Weather Normalization	8.55
Cost of Gas	91.33
Franchise Fee	4.77
City Tax	2.45
County Tax	2.41
Current Charges	168.48

Total Amount Due \$165.98



Meter Number	Service Period From To	Number of Days	Meter Readings Previous Present	Constant	Mcf Billed	WNA/Mcf	Cost of Gas/Mcf
0306B61804	01-02-18 01-30-18	28	9830 18	1.0000	18.800	\$0.4548	4.8579



Kansas Gas Service
A Division of ONE Gas

PO BOX 3535 • Topeka KS 66601-3535

ELECTRONIC SERVICE REQUESTED



1279 1 AV 0.375 *0001418 S1 YYNNNN 12

DAVE N. DITTEMORE



Please return this portion when paying by mail. When paying in person, please bring this entire bill with you.

Share the Warmth is designed to assist Kansas families with heating bills. To participate please check the box and include your Share the Warmth contribution. Thank you

Account Number	
Amount Due	\$165.98
Current Charges Due	02-28-18
Amount Due After Due Date	\$169.36
Total Enclosed	\$

A -20L

KANSAS GAS SERVICE
PO BOX 219046
KANSAS CITY MO 64121-9046



143A02 001 NG 01 00141



**Piedmont
Natural Gas**
Energy that shows.

piedmontng.com
1.800.752.7504



Message For DAVID DITTEMORE

Heating your home with natural gas

Natural gas furnaces are more affordable to operate than electric heat pumps. They last longer and provide heat that is up to 25 degrees warmer. Learn more at piedmontng.com

Account Number:
DAVID DITTEMORE

Exhibit DND - 5

Service Address:

Billing Date: 02/01/19

Net Amount Due By: 02/15/19

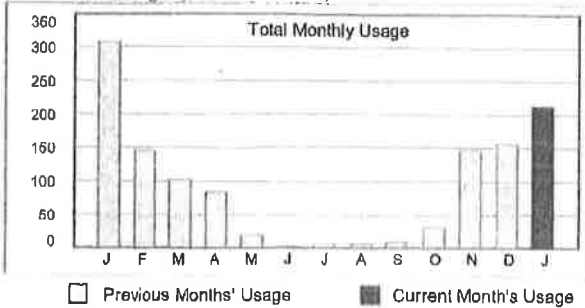
Rate Schedule*: 301 TN RESIDENTIAL RATE

*Rate schedule and calculation information is available on our website.

Page 1 of 1

Gas Usage History

13-Month Usage (Total Therms)



	01/18	01/19
Therms	309	214
Days	35	34
Avg Temp	35	44
Amount	\$285.05	\$226.49

Account Summary

Previous Bill Amount	\$164.10
Payment(s) Received through 1/31/19 - Thank you	\$164.10
Past Due Balance	\$0.00
Current Billing and Other Basic Charges	
Gas - Current Month Charges	\$215.70
Local Franchise Fee	\$10.79
Total Current Balance	\$226.49
Net Amount Due By 02/15/19	\$226.49

Gross Amount Due After 02/15/19	\$237.28
Purchase Gas Adjustment	.540600

All bills are payable by the due date. A late charge of 1.5% (.50 minimum) will be added to appropriate non-utility balances not paid by the due date.

Current Reading - based on actual read

Meter Number	Service Period From	To	Meter Reading Previous	Current	Reading Difference	Meter Multiplier	Gas Used (CCF)	Heat Factor	Number of Therms Used
T264787	12/21/18	01/24/19	215	416	201 X	1.000 =	201 X	1.06696 =	214
Total Therms Used		214							
Number of Days		34							

027058/007685 NCJW5A PNG00204 RTP 1234

▼ Please detach and return the bottom portion with your payment. When paying in person, please bring the entire bill. ▼



**Piedmont
Natural Gas**

PO BOX 937
TOLEDO, OH 43697-0937

Please check here and fill out reverse to enroll in *Share the Warmth Round Up*.



NCJW5A001 27058 1 AV 0.380 07064/027058/007685 0077 1
DAVID DITTEMORE

Account Number:

Net Amount Due By 02/15/19: \$226.49

Gross Amount Due After 02/15/19: \$237.28

Please make check payable to **Piedmont Natural Gas**.
Be sure to write your account number on your check.

Amount Enclosed \$

Send payment to:



PIEDMONT NATURAL GAS
PO BOX 1246
CHARLOTTE, NC 28201-1246

000NCJW5A000393100 171