



Electronically Filed In TPUC Docket Room on July 29, 2019 at 1:29 P.m.

July 29, 2019

Via Hand-Delivery
and Email

The Honorable Earl Taylor
Executive Director
c/o Tory Lawless
Tennessee Regulatory Authority
502 Deaderick Street, Fourth Floor
Nashville, Tennessee 37243

Re: *Filing of Rebuttal Testimony of Pia K. Powers to the Direct Testimony of Consumer Advocate Witness David Dittmore filed in this proceeding on July 11, 2019; Docket No. 19-00007*

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 to the Direct Testimony of Consumer Advocate Witness David Dittmore in the above-captioned docket.

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

Thank you for your assistance with this matter. Should you have any questions concerning this matter, please do not hesitate to contact me at the email address or telephone number listed above.

Very truly yours,

A handwritten signature in blue ink that reads 'Paul S. Davidson /dg'.

Paul S. Davidson

Enclosure

**Before the
Tennessee Public Utility Commission**

Docket No. 19-00007

**Rebuttal Testimony of
Pia K. Powers
To The Direct Testimony of Consumer
Advocate Witness David Dittemore
On July 11, 2019**

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

Filed: July 29, 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
3 Drive, 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. What is the purpose of your Rebuttal Testimony in this proceeding?**

8 A. The purpose of my Rebuttal Testimony is to respond to the matters raised in
9 the Direct Testimony of Consumer Advocate Witness David Dittmore filed
10 in this proceeding on July 11, 2019. My Rebuttal Testimony addresses each
11 of Mr. Dittmore’s recommendations regarding the manner in which
12 Piedmont’s Integrity Management Rider (“IMR”) mechanism is structured
13 and operates.

14 **Q. What matters are raised by Mr. Dittmore in his filed testimony?**

15 A. In his Direct Testimony, Mr. Dittmore presents his recommended
16 modifications to Piedmont’s annual IMR. In his Direct testimony, Mr.
17 Dittmore makes eight recommendations concerning Piedmont’s IMR.
18 Specifically, Mr. Dittmore recommends that:

19 (1) **Five-Year IMR Window:** there should be a five-year window for
20 Piedmont’s IMR, at which time the Company would be required to file a
21 general rate case.

1 (2) **Near-Term IMR:** the Commission should permit Piedmont to
2 submit two additional IMR filings at which time the Company would be
3 required to submit a general rate case filing.

4 (3) **Prudence Review:** each IMR filing should include testimony and details
5 concerning IMR expenditures anticipated by the Company for the upcoming
6 year to allow evaluation of these costs prospectively rather than retroactively.

7 (4) **OASIS Cost Review:** the Commission should require Piedmont, in its
8 next IMR filing, to explain why the OASIS cost exclusions adopted by
9 North Carolina in Docket Nos. G-9, Sub 631 and G-9, Sub 642 should not
10 be adopted by this Commission.

11 (5) **Property Tax Expense:** Piedmont's inclusion of property tax expense
12 should be re-examined as a result of the growth in its tax-exempt property
13 since its last rate case.

14 (6) **OASIS O&M Savings:** the IMR revenue requirement should be reduced
15 by \$304,703 to account for the imputation of any operating and maintenance
16 (O&M) expense savings associated with the OASIS project. Mr. Dittmore
17 contends that since ratepayers are incurring the costs of the OASIS project,
18 they should likewise receive the benefit of any expense reductions associated
19 with the project.

20 (7) **Safety Metrics:** each of Piedmont's IMR filings should include safety
21 metrics in order to allow the Commission and intervenors to monitor quality

1 of service performance. Mr. Dittemore also recommends that the metrics be
2 verified by an officer of the Company.

3 **(8) Customer Rate Notification:** Piedmont should be required to annually
4 notify customers of the components of its charges through a separate bill insert
5 and the Commission should require that any future billing system, acquired
6 or designed by Piedmont, have the capability to separately identify the nature
7 of its charges on customer bills.

8 **Q. Do you agree with Mr. Dittemore's recommendation that there should be**
9 **a five-year window for Piedmont's IMR, at which time the Company**
10 **would be required to file a general rate case?**

11 A. No. The explicit purpose of the IMR mechanism was to avoid the necessity
12 of filing regular and repeated general rate case proceedings as a result of
13 federally mandated integrity related activities. This mechanism has worked
14 well in this regard as evidenced by the fact that Piedmont has not made a
15 general rate case filing in the more than five years since the IMR mechanism
16 became effective on January 1, 2014. The mechanism is designed to operate
17 independently of all of Piedmont's other cost of service factors and to isolate
18 costs incurred to respond to federally mandated transmission and distribution
19 integrity management program requirements. By recommending general rate
20 case filings at regular intervals, all Mr. Dittemore is doing is ensuring that
21 additional categories of costs, including the substantial expense of preparing

1 and prosecuting the rate cases themselves, are absorbed by Piedmont's
2 customers on a more frequent basis than may otherwise be necessary. In fact,
3 this particular recommendation really has nothing at all to do with the IMR
4 mechanism. Instead, it simply is a recommendation that the Commission
5 mandate regular rate case filings by Piedmont. Leaving aside the issue of
6 whether the law of Tennessee allows the Commission to order a utility to
7 make a general rate case filing in the absence of an over-earnings/show cause
8 scenario, Piedmont believes that Mr. Dittmore's suggestion is not in the
9 public interest and is likely to increase costs to ratepayers. Because Piedmont
10 has historically experienced sustained customer growth in its service territory
11 in Tennessee (and elsewhere), it has never made a general rate case filing that
12 did not increase customer rates. We continue to experience growth in our
13 metropolitan Nashville service territory and it is inevitable that more frequent
14 rate cases will lead to higher customer rates. We oppose Mr. Dittmore's
15 mandatory rate case proposal on these grounds.

16 **Q. Do you think the Commission should adopt Mr. Dittmore's**
17 **recommendation to only permit Piedmont to make two additional IMR**
18 **filings?**

19 **A.** No. This is basically just a short-term modification of his 5-year rate case
20 plan to compel Piedmont to file a general rate case in the near future. We
21 disagree with this recommendation for the same reasons we disagree with his

1 5-year mandatory rate case recommendation. In addition, to the extent Mr.
2 Dittmore's concern is that the IMR mechanism will contribute to the
3 possibility of over-earning by Piedmont, we would point out several
4 mitigating factors. The first is that this Commission has visibility as to
5 Piedmont's earnings through the monthly observation reports filed by
6 Piedmont with TPUC Staff. To the extent those reports indicate an over-
7 earnings problem, the Commission retains the ability to bring the Company
8 before the Commission to "show cause" why its rates shouldn't be
9 involuntarily reduced. In this regard, I would note that no such over-earnings
10 problem has manifested itself during the period of over five years the IMR
11 has been in effect. Second, the IMR does not allow Piedmont to adjust its
12 rates to collect increases in its O&M expenses resulting from both system
13 growth and the effects of inflation over time. Similarly, the IMR does not
14 allow Piedmont to earn a return on capital invested in system growth which
15 has roughly matched the amount of capital invested in integrity management
16 over the past few years. Given the mitigating impacts of increasing O&M
17 expenses, increasing non-IMR capital investment, and the ability to monitor
18 and address any potential over-earnings issue relative to Piedmont's service,
19 we are unable to identify the "problem" that Mr. Dittmore's mandatory rate
20 case filing requirement seeks to cure.

1 **Q. Should each of Piedmont's IMR filings include testimony and details**
2 **concerning IMR expenditures anticipated by the Company for the**
3 **upcoming year?**

4 A. Piedmont has no objection to providing information on its integrity
5 management capital expenditures budget or proposed future IMR-related
6 projects on a periodic basis if the Commission Staff would find that helpful
7 in its administration of the IMR mechanism. We presume that the provision
8 of such information would be informational in nature and would not be
9 indicative of an intent for the Commission or the Consumer Advocate to
10 become directly or actively engaged in the Company's administration of its
11 transmission or distribution integrity management activities.

12 **Q. Do you agree that Mr. Dittmore has accurately represented the**
13 **Company's position concerning a review of actual costs after the**
14 **amounts have been expended?**

15 A. No, I do not. Mr. Dittmore references testimony from Piedmont witness
16 Victor Gaglio in Docket No. 17-00138 as support for Piedmont's alleged
17 aversion to hindsight reviews. Mr. Gaglio's comment should be placed in its
18 proper context. Mr. Gaglio correctly stated a long-standing regulatory
19 principle that prudence is based upon circumstances known at the time the
20 decisions are made. The direct quote from Lines 10, 11, and 12 of Page 10
21 of Mr. Gaglio's testimony is: "Regulatory prudence is generally based upon

1 reasoned decision-making based on facts and circumstances known at the
2 time, not upon a hindsight analysis.” Mr. Gaglio’s comment stands on its own
3 and does not require interpretation by Mr. Dittemore. It does not state that
4 hindsight reviews cannot be effectively undertaken by regulators, but rather
5 that such hindsight reviews should be fairly and properly conducted in concert
6 with established principles.

7 **Q. Do you agree with Mr. Dittemore’s recommendation that the**
8 **Commission should require Piedmont, in its next IMR filing, to explain**
9 **why the OASIS cost exclusions adopted by North Carolina in Docket**
10 **Nos. G-9, Sub 631 and G-9, Sub 642 should not be adopted by this**
11 **Commission?**

12 **A.** We do not need to wait until our next filing to do that. We are happy to
13 provide that explanation now. Piedmont has an IMR mechanism in place in
14 Tennessee and in North Carolina. The mechanisms are not identical. For
15 example, the North Carolina mechanism provides for the adjustment of rates
16 twice a year whereas the Tennessee mechanism provides for rate adjustments
17 only once a year. From a practical perspective, this means that the North
18 Carolina mechanism is more advantageous to Piedmont because it reduces
19 regulatory lag associated with capital investment in integrity management
20 related projects to a greater degree than the Tennessee IMR does. It also
21 means that the Public Staff in North Carolina has more accelerated audit

1 responsibilities for the IMR expenditures than is the case in IMR report filings
2 before the TPUC (which occur only once a year).

3 The existing IMR mechanisms in Tennessee and North Carolina
4 each came about as a result of settlement with the other parties in the
5 jurisdiction. In Tennessee, the IMR mechanism in its existing form is the
6 product of mutually agreed upon terms between Piedmont and the Consumer
7 Advocate and Protection Division of the Office of the Attorney General, as
8 formalized in a commission-approved Joint Stipulation in Docket No. 13-
9 00118. In North Carolina, the IMR mechanism in its existing form is the
10 product of mutually agreed upon terms between Piedmont and Public Staff,
11 as formalized in a commission-approved settlement agreement. Three
12 particular elements included in the IMR settlement in North Carolina were
13 that: 1) Piedmont would make semi-annual IMR rate adjustments in lieu of
14 annual rate adjustments; 2) that a small percentage of select categories of
15 IMR-related capital investment from Piedmont's semi-annual rate update
16 filings would be excluded as a mitigation measure that helped provide some
17 assurance of reasonableness of the Piedmont's rate updates in a situation
18 where the Public Staff was having difficulties adequately auditing Piedmont's
19 expenses in a timely manner; and 3) that the excluded portions of Piedmont's
20 integrity spending remained in rate base and contributed to the need for
21 Piedmont to file a general rate case in North Carolina (which is currently

1 ongoing). In testimony filed in North Carolina by Public Staff and other
2 intervenors on July 19, 2019, no party questioned the prudence of any portion
3 of the OASIS project cost. Overall, it is not a straightforward process to
4 categorically compare and contrast each of the elements of the TN and NC
5 IMR settlements which took place in the context of two very
6 jurisdictions/service territories, among many other differing circumstances
7 and context. And certainly the limited cost exclusions in the North Carolina
8 IMR settlement (which was not a “pro” element for the Company in that
9 settlement) does not have singular relevance in Tennessee without at least due
10 consideration of other elements of the North Carolina IMR settlement that
11 were “pro” elements for the Company. To Piedmont’s knowledge, neither
12 the TPUC Staff nor the Consumer Advocate have indicated that the annual
13 IMR filing process in Tennessee does not provide an opportunity for an
14 adequate audit of Piedmont’s IMR investment. Overall, we do not believe
15 that a compelling case exists for making the same exclusions from our annual
16 filings in Tennessee as are made semi-annually in North Carolina.

17 **Q. Could you describe Mr. Dittmore’s concern with Piedmont’s property**
18 **tax expense calculation in the IMR?**

19 A. Yes. Mr. Dittmore is concerned with Piedmont’s computation of the
20 property tax expense component of the IMR Revenue Requirement as shown
21 in the 2018 IMR Annual Report. Mr. Dittmore believes that it was

1 inappropriate for Piedmont to have computed property tax expense for the
2 IMR on the basis of its Integrity Management Investment Amount without
3 excluding certain joint property that under North Carolina law was allegedly
4 exempt from ad valorem tax.

5 **Q. Do you agree with his analysis and recommendation to re-examine**
6 **inclusion of Property Tax Expense?**

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

9 **Q. Please explain.**

10 The concept of excluding from the computation of property tax expense in the
11 IMR of any portion of property that is tax exempt -- which is what Mr.
12 Dittmore is recommending in this docket -- is not necessary and is redundant.
13 Under the IMR mechanism, Piedmont computes property tax expense as the
14 product of the Integrity Management Investment Amount and the "composite
15 property tax rate" from the last rate order issued by the Commission for
16 Piedmont. That "composite property tax rate", which is 0.73%, is simply the
17 ratio of the amount of annual property tax expense approved by the
18 Commission in Piedmont's last general rate case to the amount of gross plant
19 investment approved by the Commission in Piedmont's last general rate case.
20 Such ratio already reflects the fact that not all property in Piedmont's rate
21 base is subject to ad valorem tax. Therefore, to exclude some property from

1 the IMR computation of property tax expense would be inappropriate as it
2 would circumvent the theoretical purpose behind using the “composite
3 property tax rate” in this calculation.

4 **Q. Was Piedmont’s computation of property taxes in its most recent IMR**
5 **Annual Report proceeding consistent with the requirements of Service**
6 **Schedule No. 317?**

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

18 **Q. Do you think the Commission should adopt Mr. Dittmore’s**
19 **recommendation and re-examine this methodology in this docket?**

1 A. No. Piedmont's methodology is required by the IMR tariff, is consistent with
2 all prior IMR orders issued by this Commission, as well as with the
3 methodology used in Piedmont's last general rate case in Tennessee.

4 **Q. Do you agree with Mr. Dittemore's recommendation to reduce the IMR**
5 **revenue requirement by \$304,703 to account for the imputation of**
6 **Operating and Maintenance (O&M) expense cost savings associated with**
7 **the OASIS project?**

8 A. No. Mr. Dittemore contends that since ratepayers are incurring the costs of
9 the OASIS project, they should likewise receive the benefit of the expense
10 reductions associated with the project. Piedmont disagrees with Mr.
11 Dittemore's proposed cost adjustment to the IMR for O&M savings on
12 several grounds.

13 As we improve our system in response to state and federal integrity
14 management requirements, it is not unreasonable to believe that O&M
15 savings may be ultimately realized from those efforts. Those savings are not
16 individually and discretely identifiable, however, since they are not directly
17 reflected in Piedmont's books as individual items of cost (or cost-savings).
18 Mr. Dittemore recognizes this fact in his testimony yet contends that
19 "regulatory symmetry" requires that customers receive the net benefit of
20 O&M savings from IMR investments. Attempting to calculate monies that
21 Piedmont did not spend that they would have spent had its system been

1 differently configured is just not reasonably possible. I would also point out
2 that the IMR mechanism does not address O&M expenses in any respect and
3 is designed by its very terms (consistent with the Joint Stipulation between
4 Piedmont and the Consumer Advocate) to allow accelerated recovery on
5 capital investment related to federally mandated integrity management
6 projects. Attaching an O&M crediting mechanism to Service Schedule No.
7 317 is not contemplated within the Service Schedule itself, or by the
8 Commission's prior orders, or by the Joint Stipulation. I also do not believe
9 that it serves regulatory symmetry to adopt an O&M crediting mechanism
10 where there is no O&M recovery mechanism in the IMR or any other
11 regulatory mechanism under which Piedmont operates in Tennessee. Finally,
12 I would point out that Customers will receive the benefit of any and all O&M
13 savings resulting from integrity management capital investment in
14 Piedmont's next general rate case filing, where all aspects of Piedmont's
15 ongoing O&M expense level will be addressed. Based on these factors,
16 Piedmont contends that Mr. Dittmore's O&M cost savings credit in the
17 IMRR calculation should be rejected.

18 **Q. Has Mr. Dittmore previously testified as to the viability of an O&M**
19 **crediting mechanism associated with integrity management cost-**
20 **recovery mechanisms?**

1 A. Yes. In testimony filed on October 9, 2015, in Kansas Corporation
2 Commission Docket No. 15-GMG-343-GIG, Mr. Dittmore provided
3 testimony on behalf of Kansas Gas Service which addressed a KCC Staff
4 proposal to utilize O&M savings resulting from system integrity management
5 projects designed to replace obsolete pipe and then to credit those savings
6 against the cost of such projects. With regard to this issue, he testified:

7
8 *“Q. SHOULD A UTILITY APPLYING FOR ALTERNATIVE RATEMAKING*
9 *TREATMENT BE REQUIRED TO COMMIT TO TRACKING DIRECTLY*
10 *IDENTIFIABLE REDUCTIONS IN OPERATING AND MAINTENANCE*
11 *EXPENSES (“O&M”), AND SHOULD SUCH EXPENSE REDUCTIONS BE*
12 *USED TO OFFSET THE INCREASED REVENUE REQUIREMENT*
13 *ASSOCIATED WITH THE REPLACEMENT PROGRAM?*

14
15 *A. No. There are a number of factors that impact on-going operating and*
16 *maintenance costs beyond the quantity of vintage pipe replaced each year.*
17 *Isolating the impact on O&M associated with replacement of vintage assets*
18 *separate from all other issues that impact those same costs is a virtually*
19 *impossible task. . . . it’s not clear from Staff’s memorandum whether such*
20 *alleged decreases in operating and maintenance costs would be applied after*
21 *they were achieved or whether they would be applied prospectively. Neither*
22 *is [it] practical.”*
23

24 **Q. Mr. Dittmore attempts to distinguish his Kansas testimony in this**
25 **docket and contends that testimony is consistent with his O&M proposal**
26 **in this case. Is his explanation convincing to you?**

27 A. No, it is not. In this docket, he suggests such a credit, but in Kansas he testified
28 that calculating such a credit is “virtually impossible” and not “practical.”
29 Both testimonies occur in the context of a proposed rider for accelerating
30 recovery of pipeline integrity management expense and in both cases the topic

1 was recovery of O&M cost savings. I see no logical distinction between the
2 Kansas case and this one.

3 **Q. What about Mr. Dittmore's contention that the O&M savings are not**
4 **speculative because they were provided by Piedmont?**

5 A. The data provided by Piedmont upon which he relies was itself a budgeted
6 projection of the impacts of the OASIS system. Piedmont believes that
7 budget projections are part of the prudent development of major capital
8 projects like OASIS but cannot reliably or appropriately be used to allocate
9 costs and cost savings for revenue and rate purposes.

10 **Q. Do you agree with Mr. Dittmore's seventh recommendation, which is**
11 **that each of Piedmont's IMR filings include verified safety metrics in**
12 **order to allow the Commission and intervenors to monitor quality of**
13 **service performance?**

14 A. Piedmont is willing to share any safety metrics in its possession with the
15 Commission's Gas Pipeline Safety Division. Piedmont would note, however,
16 that there is no rational nexus between Piedmont's IMR-related activities and
17 the safety metrics requested in this docket as the requested metrics relate to
18 reactive Company responses to emergencies and/or physical system failures
19 which are not directly addressed or impacted by the proactive system integrity
20 projects recovered under the IMR mechanism.

1 **Q. What is your response to Mr. Dittimore's eighth recommendation, that**
2 **Piedmont should be required to annually notify customers of the**
3 **components of its charges through a separate bill insert and the**
4 **Commission should require that any future billing system, acquired or**
5 **designed by Piedmont, have the capability to separately identify the**
6 **nature of its charges on customer bills?**

7 A. Piedmont has no objection to the annual bill insert suggestion other than to
8 note that it will increase Piedmont's costs and eventually its rates. With
9 respect to the rest of Mr. Dittimore's suggestion, Piedmont will commit to
10 full consideration of all costs and benefits in development of its next
11 generation billing system. Piedmont is somewhat wary about trying to define
12 the parameters of such a system in discrete detail at this point in time but
13 understands that its current billing system, which works well for many
14 purposes, is limited in the amount of detail it can provide regarding various
15 billing rates and components. Piedmont intends to address that when it
16 develops its next generation billing system.

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

19 A. Yes. The current IMR mechanism, which resulted from a settlement with the
20 Consumer Advocate approved by the Commission, has been in effect for five
21 years and has operated effectively and efficiently. We see nothing in Mr.

1 Dittemore's suggestions that will improve the mechanism. Instead, his
2 suggestions seem to be preferences he has that differ from the ideas of the
3 Consumer Advocate at the time they agreed to the current mechanism per the
4 Joint Stipulation in Docket No. 13-00118. The fact that Mr. Dittemore prefers
5 changes to the IMR mechanism from what was originally agreed to does not
6 constitute a compelling reason to make any changes to the IMR mechanism
7 at this time.

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

9 A. Yes, it does.