

IN THE TENNESSEE PUBLIC UTILITY COMMISSION
AT NASHVILLE, TENNESSEE

IN RE:

PETITION OF PIEDMONT NATURAL GAS
COMPANY, INC. FOR APPROVAL OF AN
INTEGRITY MANAGEMENT RIDER TO ITS
APPROVED RATE SCHEDULES AND
SERVICE REGULATIONS

DOCKET NO. 19-00107

DIRECT TESTIMONY OF
WILLIAM H. NOVAK

MARCH 6, 2020

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

3 ***A1.*** My name is William H. Novak. My business address is 19 Morning Arbor Place,
4 The Woodlands, TX, 77381. I am the President of WHN Consulting, a utility
5 consulting and expert witness services company.¹
6

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

9 ***A2.*** A detailed description of my educational and professional background is provided
10 in Attachment WHN-1 to my testimony. Briefly, I have both a Bachelor's degree
11 in Business Administration with a major in Accounting, and a Master's degree in
12 Business Administration from Middle Tennessee State University. I am a Certified
13 Management Accountant, and am also licensed to practice as a Certified Public
14 Accountant.
15

16 My work experience has centered on regulated utilities for over 35 years. Before
17 establishing WHN Consulting, I was Chief of the Energy & Water Division of the
18 Tennessee Public Utility Commission (the Commission) where I had either
19 presented testimony or advised the Commission on a host of regulatory issues for
20 over 19 years. In addition, I was previously the Director of Rates & Regulatory
21 Analysis for two years with Atlanta Gas Light Company, a natural gas distribution
22 utility with operations in Georgia and Tennessee. I also served for two years as the

¹ State of Tennessee, Registered Accounting Firm ID 3682.

1 Vice President of Regulatory Compliance for Sequent Energy Management, a
2 natural gas trading and optimization entity in Texas, where I was responsible for
3 ensuring the firm's compliance with state and federal regulatory requirements.
4

5 In 2004, I established WHN Consulting as a utility consulting and expert witness
6 services company. Since 2004, WHN Consulting has provided testimony or
7 consulting services to state public utility commissions and state consumer
8 advocates in at least ten state jurisdictions.
9

10 ***Q3. ON WHOSE BEHALF ARE YOU TESTIFYING?***

11 ***A3.*** I am testifying on behalf of the Consumer Advocate Unit of the Financial Division
12 of the Office of the Tennessee Attorney General (Consumer Advocate).
13

14 ***Q4. HAVE YOU PRESENTED TESTIMONY IN ANY PREVIOUS PIEDMONT***
15 ***CASES?***

16 ***A4.*** Yes. I presented testimony in Docket Nos. U-85-7355, U-87-7499, 89-10491, 91-
17 02636, and 11-00144 concerning either Nashville Gas Company or Piedmont
18 Natural Gas Company (Piedmont) rate cases. I also presented testimony in Docket
19 No. 14-00086 related to Piedmont's CNG Infrastructure Rider and in Docket No.
20 14-00017 related to Piedmont's Deferred Income Tax Reconciliation. In addition,
21 I previously presented testimony concerning Piedmont's Integrity Management
22 Rider (IMR) that is the subject of this proceeding in TPUC Docket No. 16-00140.
23

1 ***Q5. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?***

2 ***A5.*** My testimony will address the Consumer Advocate's issues and concerns with
3 respect to Piedmont's proposed IMR reconciliation in this Docket, including the
4 calculations supporting that reconciliation and the resulting IMR surcharge rate. I
5 will also address the implementation of new rates resulting from the IMR
6 reconciliation.

7
8 ***Q6. WHAT DOCUMENTS HAVE YOU REVIEWED IN PREPARATION OF***
9 ***YOUR TESTIMONY FOR THIS CASE?***

10 ***A6.*** I have reviewed Piedmont's Petition filed on November 27, 2019, along with the
11 accompanying annual report. I have also reviewed Piedmont's testimony
12 supporting its filing that was filed on December 11, 2019. Finally, I have reviewed
13 Piedmont's responses to the data requests submitted by the Consumer Advocate.

14
15 ***Q7. PLEASE SUMMARIZE YOUR RECOMMENDATIONS AND CONCERNS IN***
16 ***THIS DOCKET.***

17 ***A7.*** My recommendations and concerns are summarized as follows:

- 18 • I recommend that the Commission specifically address whether or not certain
19 customer rate schedules are either included or excluded from the IMR
20 calculation.
21
22 • I recommend that the Commission direct the Company to present any proposed
23 changes to the IMR calculation methodology to the Commission for approval
24 before their implementation.
25

1 I. INTEGRITY MANAGEMENT RIDER BACKGROUND

2

3 ***Q8. PLEASE EXPLAIN THE OVERALL STRUCTURE OF THE IMR AND THE***

4 ***RELIEF THAT PIEDMONT IS ASKING FROM THE COMMISSION***

5 ***THROUGH ITS PETITION.***

6 A8. The initial overall structure for the IMR was agreed to by Piedmont and the

7 Consumer Advocate in Docket No. 13-00118 and incorporated into the

8 Commission's Order in that Docket. The IMR structure provides for an annual

9 adjustment to rates by allowing Piedmont "...to recover, on an intra-rate case basis,

10 the costs associated with significant levels of capital expenditures incurred as the

11 direct result of compliance with federal and state pipeline safety requirements and

12 needed to insure the continuing reliability of its existing natural gas plant service in

13 Tennessee."²

14

15 Essentially, the IMR Rider structure allows Piedmont to defer its incremental

16 capital investment in utility plant infrastructure and then recover this cost through

17 the IMR Rider surcharge until Piedmont's next rate case. In this current filing,

18 Piedmont is asking the Commission to implement the new IMR Rider surcharges

19 (shown in Table 1 on the following page) that are based on the incremental capital

20 infrastructure investment since its last rate case in accordance with the overall

21 structure approved by the then-named Tennessee Regulatory Authority in Docket

22 No. 13-00118. Piedmont's proposed change in IMR rates for 2020 are designed to

² Commission Order in Docket No. 13-00118, May 13, 2014, Page Nos. 2-4.

1 reduce the existing IMR annual revenues by approximately \$-5.4 million by
2 bringing the total projected annual IMR surcharge down to \$21.9 million.³

3

TABLE 1 - PIEDMONT NATURAL GAS COMPANY CUMULATIVE RATE/THERM IMPACT FROM IMR RIDER FILINGS					
Effective Date	Docket No.	Residential	Commercial	LGS Firm	LGS Interruptible
01/01/14	13-00118	\$0.07018	\$0.06130	\$0.02723	\$0.00681
02/01/15	14-00147	0.09285	0.08111	0.03603	0.00901
01/01/16	15-00116	0.10144	0.08861	0.03936	0.00984
05/01/17	16-00140	0.13124	0.11465	0.05092	0.01273
06/01/18	17-00138	0.16057	0.14027	0.06230	0.01557
06/01/19	18-00126	0.14605	0.12759	0.05667	0.01417
Proposed	19-00107	0.11730	0.10247	0.04551	0.01138

4
5 ***Q9. HOW MUCH INCREMENTAL CAPITAL INVESTMENT HAS PIEDMONT***
6 ***INVESTED ON NEW PIPELINE INFRASTRUCTURE SINCE THE LAST***
7 ***RATE CASE?***

8 A9. As shown in Table 2 on the following page, Piedmont has invested approximately
9 \$296.6 million in direct and allocated indirect pipeline infrastructure beyond what
10 was provided for in the last rate case in Docket No. 11-00144.⁴ The recovery of
11 the costs and return associated with this incremental plant investment is then
12 allowed through the IMR surcharges shown above in Table 1.

13
³ Piedmont Revised IMR Annual Report, Schedule 3. The \$5.4 million IMR net reduction consists of a of \$2.2 million increase in the IMR recovery account adjustment and a \$-7.6 million reduction in the deferred account adjustment.

⁴ Piedmont Revised Annual Report, October 2019, Schedule 1. By way of comparison, Piedmont's net plant recognized by the Commission in the 2011 rate case was \$377,444,089 (Gross Plant of \$713,852,981 less Accumulated Depreciation of \$336,408,892).

1

TABLE 2 - PIEDMONT NATURAL GAS COMPANY CUMULATIVE TENNESSEE IMR CAPITAL EXPENDITURES			
12 Months Ended October 31	Tennessee Direct	Allocated Indirect	Total Tennessee
2013	\$92,925,524	\$7,380,758	\$100,306,282
2014	141,513,685	12,767,273	154,280,958
2015	156,537,790	16,185,065	172,722,855
2016	172,856,660	19,942,912	192,799,572
2017	207,924,333	23,119,493	231,043,826
2018	235,072,629	23,535,435	258,608,064
2019	273,105,552	23,535,435	296,640,987

2

3 ***Q10. HAVE YOU REVIEWED THE CALCULATIONS SUPPORTING THE***
4 ***PROPOSED IMR SURCHARGES IN PIEDMONT'S FILING?***

5 A10. Yes, I have reviewed Piedmont's filing. The specific purpose of my review was to
6 determine whether Piedmont's IMR filing was based on actual amounts recorded
7 on its books and records.

8

9 ***Q11. WHAT WERE THE RESULTS OF YOUR REVIEW?***

10 A11. Overall, I found that Piedmont's IMR filing appropriately recorded the actual
11 revenues, expenses and net investment to the amounts recorded on Piedmont's
12 ledger. I also found that the reconciliation generally reflected the methodologies
13 established in Docket No. 13-00118.

14

15 However, as discussed later in my testimony, I did discover that Piedmont does not
16 allocate the IMR surcharges to certain rate schedules. In addition, I found that

1 Piedmont has implemented certain changes to the IMR calculation structure
2 without providing notice to the Commission.
3

4 **II. RATE SCHEDULES EXCLUDED FROM IMR RIDER**
5

6 ***Q12. PLEASE EXPLAIN YOUR CONCERN OVER PIEDMONT'S EXCLUSION***
7 ***OF CERTAIN RATE CLASSES FROM THE IMR RIDER SURCHARGE.***

8 A12. As shown in Table 1 on page 5 of this testimony, Piedmont calculates rate specific
9 IMR Rider surcharges for the Residential, Commercial, LGS-Firm and LGS-
10 Interruptible rate classes. However, Piedmont specifically excludes the IMR Rider
11 surcharge to the following rate schedules:⁵

12 Rate Schedule 360 – Secondary Market Transactions

13 Rate Schedule 362 – Standby Sales Service

14 Rate Schedule 365 – Imbalance Cash Out

15 For example, as shown on Table 3 on the following page, Piedmont collected
16 \$943,637 in IMR surcharges for October 2019 by applying the Commission
17 approved IMR rate to the following rate schedules.
18

⁵ In addition, the Commission Order in Docket No. 16-00140 (Page Nos. 9-10) allows Piedmont to specifically exclude Rate Schedule 373-Special Contracts from the IMR filings. However, no mention of excluding other rate schedules from the IMR surcharge is mentioned in either Docket Nos. 13-00118 or 16-00140.

TABLE 3 – PIEDMONT NATURAL GAS COMPANY OCTOBER 2019 IMR SURCHARGE COLLECTION			
Rate Schedule	IMR Rate	Therms	IMR Surcharge
Residential (301)	\$0.14605	2,335,813	\$341,145
Small Commercial (302)	0.12759	2,141,128	273,187
Medium Commercial (352)	0.12759	773,300	98,665
Firm Large Sales (303)	0.05667	545,604	30,919
Firm Large Transportation (313)	0.05667	1,645,653	93,259
Firm Resale (310)	0.05667	1,449	82
Interruptible Sales (304)	0.01417	31,419	445
Interruptible Transportation (314)	0.01417	7,476,037	105,935
Secondary Market Transactions (360)	0.00000	0	0
Standby Sales Service (362)	0.00000	0	0
Imbalance Cash Out (365)	0.00000	158,255	0
Special Contracts (373)	0.00000	502,424	0
Total		15,611,082	\$943,637

As shown in Table 3 above, the Company does not apply any IMR surcharge to Rate Schedules 360, 362 or 365. Although the IMR Rider specifically states which rate schedules that it applies to, it is unclear whether the Commission intended to exclude Rate Schedules 360, 362 and 365 from the IMR surcharge.

Q13. HOW DO YOU RECOMMEND THAT THE COMMISSION ADDRESS THIS CONCERN OVER THE EXCLUSION OF RATES SCHEDULES 360, 362, AND 365 FROM THE IMR SURCHARGE?

A13. It would be most helpful to the parties for the Commission to specifically state its intent as to whether the IMR surcharge is to be applied to Rate Schedules 360, 362 and 365. If the Commission determines that the IMR surcharge should be applied to these Rate Schedules, then Piedmont should be required to develop a new reconciliation in this Docket taking this determination into account.

1 **III. PIEDMONT'S CHANGES TO IMR CALCULATION STRUCTURE**

2

3 ***Q14. MR. NOVAK, PLEASE DISCUSS HOW PIEDMONT HAS CHANGED THE***

4 ***STRUCTURE OF THE IMR CALCULATIONS.***

5 A14. Beginning in January 2017, Piedmont changed the period for calculating the

6 Tennessee allocation factor applied to joint plant in service in the annual filing from

7 the twelve months ended October 31st to the twelve months ended December 31st.

8 In addition, and also beginning in January 2017, Piedmont began including the

9 impact of Contributions in Aid of Construction (CIAOC) when calculating the

10 Tennessee allocation factor applied to joint plant in service. No notice to the

11 Commission or the Consumer Advocate was provided by Piedmont related to either

12 of these changes in the IMR calculation structure.⁶

13

14 ***Q15. WHY WAS NO NOTICE PROVIDED BY THE COMPANY FOR THESE***

15 ***CHANGES?***

16 A15. In regard to the methodology change in the joint plant calculation period, Piedmont

17 provided the following response to the Consumer Advocate's discovery request:

18 *No advance notice was provided to the Commission regarding the Company's*

19 *computation of the joint property allocation factor in light of the change to the*

20 *Company's fiscal year period, nor is the Company aware of a requirement to make*

21 *such notification or request any Commission authorization concerning this matter.*⁷

22

⁶ Company response to Consumer Advocate Discovery Requests 2-1 and 2-4 in Docket No. 19-00107.

⁷ Company response to Consumer Advocate Discovery Request 2-1 in Docket No. 19-00107.

1 In regard to the methodology change for including CIAOC in the calculation of
2 joint plant in service, Piedmont provided the following response to the Consumer
3 Advocate's discovery request:

4 *No notice was provided to the Commission regarding this matter, nor is the*
5 *Company aware of a requirement to make such notification or request any*
6 *Commission authorization concerning this matter.*⁸
7

8 ***Q16. DO YOU AGREE WITH THE COMPANY'S ASSERTION THAT NO NOTICE***
9 ***WAS REQUIRED TO BE MADE FOR THESE CHANGES?***

10 A16. No. The development of the IMR was the result of give-and-take negotiations
11 between Piedmont and the Consumer Advocate in Docket No. 13-00118 that
12 resulted in a settlement agreement that was presented by the parties to the
13 Commission. After careful consideration, the Commission approved this
14 settlement agreement and found it to be in the public interest. For the Company to
15 now state that the components of the IMR calculation can be changed without
16 notice to any party violates the trust and cooperation that was essential in its
17 establishment.
18

19 ***Q17. WHAT ACTION ARE YOU ASKING THE COMMISSION TO TAKE***
20 ***REGARDING TO THE COMPANY'S CHANGES TO THE IMR***
21 ***CALCULATION THAT YOU HAVE DESCRIBED?***

22 A17. I would ask that the Commission require the Company to provide disclosure of any
23 changes that impact the component calculations IMR surcharge. Further, I would

⁸ Company response to Consumer Advocate Discovery Request 2-4 in Docket No. 19-00107.

1 ask that any proposed changes to the IMR surcharge be approved by the
2 Commission before such changes are allowed to be implemented.

3

4 ***Q18. DOES THIS COMPLETE YOUR TESTIMONY?***

5 ***A18.*** Yes, it does. However, I reserve the right to incorporate any new information that
6 may subsequently become available.

**IN THE TENNESSEE PUBLIC UTILITY COMMISSION
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IN RE:

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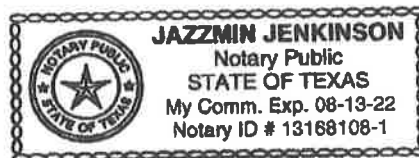
AFFIDAVIT

I, William H. Novak, 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.


WILLIAM H. NOVAK

Sworn to and subscribed before me
This 04 day of MARCH, 2020


NOTARY PUBLIC



My Commission Expires: 08/13/2022