

BEFORE THE TENNESSEE PUBLIC UTILITY COMMISSION

NASHVILLE, TENNESSEE

June 29, 2020

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**

ORDER

This matter came before Vice Chair Kenneth C. Hill, Commissioner Herbert H. Hilliard, and Commissioner John Hie of the Tennessee Public Utility Commission (the “Commission” or “TPUC”), the voting panel assigned to this docket, during the regularly scheduled Commission Conference held on May 11, 2020,¹ for hearing and consideration of the 2019 Annual Report for the Integrity Management Rider (“IMR”) and revised tariff filed by Piedmont Natural Gas Company, Inc. (“Piedmont” or the “Company”) on November 27, 2019 and revised by Piedmont’s filing on December 11, 2019.

¹ Due to the state of emergency declared by Governor Bill Lee relative to the Coronavirus Disease 2019 (“COVID-19”) pandemic in Tenn. Exec. Order No. 14 on March 12, 2020, (superseded by Tenn. Exec. Order No. 15 on March 19, 2020 which was extended until June 30, 2020 in Tenn. Exec. Order No. 36 on May 12, 2020), the Commission Conference was held electronically via WebEx. The public health emergency places limitations on public gatherings and meetings in order to prevent the spread of COVID-19. In convening the Commission Conference electronically, the Commission relied upon Tenn. Exec. Order No. 16 (March 20, 2020), which was extended until June 30, 2020 by Tenn. Exec. Order No. 34 (May 6, 2020), and affirmed on the record that the electronic meeting was necessary to conduct the essential business of the agency and to protect the health, safety, and welfare of Tennesseans.

BACKGROUND

Pursuant to Tenn. Code Ann. § 65-5-103(d),² in TPUC Docket No. 13-00118, the Commission previously approved Piedmont’s 2013 Annual Report and IMR, as amended by the *Stipulation of Piedmont Natural Gas Company* entered into by Piedmont and the Consumer Advocate Unit in the Financial Division of the Office of the Tennessee Attorney General³ (“Consumer Advocate”), and its associated tariff with an effective date of January 1, 2014.⁴ The IMR requires monthly reports outlining capital expenses resulting from compliance with state and federal pipeline safety requirements⁵ and annual filings⁶ that contain information to assist the TPUC in determining the prudence and necessity of the costs submitted for recovery.⁷

On December 13, 2019, the Commission entered an order resolving issues that the Consumer Advocate raised during consideration of the 2017 Annual IMR Filing, as well as other issues relative to Piedmont’s IMR Tariff.⁸ The Commission approved three (3) of eight (8) proposed modifications to Piedmont’s IMR Tariff, including: inclusion of safety metrics concerning response time to emergency odor calls and identification of the number and age of leaks within the system sorted by grade; provision of detail on the individual components of

² Tenn. Code Ann. § 65-5-103(d) went into effect April 19, 2013 and authorizes the Commission to implement alternative regulatory methods. Specifically, the section provides: “A public utility may request and the commission may authorize a mechanism to recover the operational expenses, capital costs or both, if such expenses or costs are found by the commission to be in the public interest, related to ... [s]afety requirements imposed by the state or federal government....” Tenn. Code Ann. § 65-5-103(d)(2)(A) (Supp. 2019).

³ The Consumer Advocate was known as the Consumer Protection and Advocate Division of the Office of the Tennessee Attorney General at the time of the *Stipulation of Piedmont Natural Gas Company*.

⁴ See *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. 13-00118, *Order Granting Petition*, p. 10 (May 13, 2014) (“2013 IMR Order”).

⁵ The IMR Monthly Reports are filed by Piedmont in TPUC Docket No. 13-00118.

⁶ Piedmont has submitted previous Annual Report Filings in TPUC Docket Nos. 14-00147, 15-00116, 16-00140, 17-00138, and 18-00126.

⁷ 2013 IMR Order, pp. 4-5 (May 13, 2014).

⁸ *In Re: Docket to Examine Proposals Made by the Consumer Advocate to Modify Piedmont Natural Gas Company’s Integrity Management Rider Tariff and Other Potential Issues Related to the IMR Tariff*, Docket No. 19-00007 (December 13, 2019).

charges to customers in an annual bill insert; and provision of information on Budgeted IMR Expenditures along with its annual IMR filing.⁹

The Consumer Advocate filed a *Petition to Intervene* on December 18, 2019, which the Hearing Officer granted by an order entered on January 8, 2020. The parties exchanged discovery in accordance with an *Order Establishing Procedural Schedule* entered by the Hearing Officer on February 27, 2020, providing for the orderly administration of proceedings in this docket. Piedmont submitted the Pre-Filed Direct Testimony of Pia K. Powers, Managing Director of Gas Rates & Regulatory, along with its 2019 Annual IMR Filing. Upon completion of the exchange of discovery requests and responses, the Consumer Advocate submitted the Pre-Filed Direct Testimony of its witness, William H. Novak, on March 6, 2020. Piedmont filed the Pre-Filed Rebuttal Testimony of Pia K. Powers on March 24, 2020.

2019 IMR ANNUAL REPORT

The Revised Annual Report filed by Piedmont on December 11, 2019, included the monthly IMR filing for October 2019, a schedule of all journal entries specifically related to the IMR for the previous twelve (12) months, billing determinants used to compute the Integrity Management Deferred Account Adjustment, the capitalization policy effective for the previous twelve (12) months, the computations calculating the IMR with supporting schedules, a schedule of any proposed prior period adjustments, and a statement concerning whether the Company is aware of any changing conditions that may affect whether the IMR is still in the public interest and any identified factors. The Revised Annual Report also included the three (3) items ordered by the Commission to be included in Docket No. 19-00007.

The filing also included a revised tariff reflecting the proposed billing rates effective

⁹ *IMR Modification Order*, p. 19 (December 13, 2019).

January 1, 2020¹⁰ and the Direct Testimony of Pia K. Powers in support of Piedmont's 2019 annual filing. Ms. Powers, in her Pre-Filed Testimony, stated that all calculations resulting in Piedmont's proposed customer rates were made using the methodologies set forth in the Company's approved tariff.¹¹

If approved as filed by the Company, the IMR rate will be billed to customers during 2020 and will decrease from the current \$0.14605 per therm to \$0.11730 per therm for the typical residential customer using approximately 735 therms of natural gas per year. This equates to a decrease in a residential customer's bill of approximately \$21 per year (\$1.75 per month).¹² Ms. Powers also asserts in her testimony that circumstances have not changed and the IMR tariff continues to be in the public interest in line with the reasons the Commission outlined in its order approving the IMR mechanism.¹³

POSITION OF THE CONSUMER ADVOCATE

The Consumer Advocate raised two concerns, along with recommendations to address those concerns, in the Pre-Filed Testimony of its witness, William H. Novak. Mr. Novak testified that Piedmont did not allocate the surcharge to Rate Schedules 360 (Secondary Market Transactions), 362 (Standby Sales Service), and 365 (Imbalance Cash Out). Mr. Novak stated that, "[a]lthough 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."¹⁴ Mr. Novak further recommended that the Commission specifically state its intent as to the application of the IMR to these rate schedules and that

¹⁰ The Hearing Officer suspended the tariff through April 1, 2020 in an Order entered January 7, 2020 and re-suspended the tariff through June 15, 2020 in an Order entered April 8, 2020.

¹¹ Pia K. Powers, Pre-Filed Revised Direct Testimony, p. 6 (December 11, 2019).

¹² *Id.* at 9.

¹³ *Id.* at 3.

¹⁴ William H. Novak, Pre-Filed Direct Testimony, p. 8 (March 6, 2020).

Piedmont should be required to recalculate the IMR surcharge if the Commission determines that the IMR is applicable to these rate schedules.¹⁵

Mr. Novak also asserted that Piedmont implemented two modifications to the calculation of the Tennessee allocation factor applied to joint plant in service without notice to the Commission or the Consumer Advocate.¹⁶ First, Piedmont changed the period for calculating the Tennessee allocation factor from the twelve months ended October 31st to the twelve months ended December 31st. In addition, Mr. Novak asserted that Piedmont began including the impact of Contributions in Aid of Construction (“CIAC”) in the calculation of the Tennessee allocation factor. Mr. Novak recommended that the Commission direct Piedmont to disclose and present any proposed changes to the IMR calculation methodology for Commission approval prior to implementation.¹⁷

PIEDMONT’S REBUTTAL

Piedmont submitted the Pre-Filed Rebuttal Testimony of Pia K. Powers on March 24, 2020. With regard to the Consumer Advocate’s first concern, Ms. Powers testified that the IMR specifically states the methodology of allocating the IMR surcharge and the rate schedules to which the IMR is to be allocated. Further, she stated that the agreement between Piedmont and the Consumer Advocate in Docket No. 13-00118 contained language concerning the exclusivity of rate schedules that are to be included in the IMR allocation. In addition, Ms. Powers clarified that the secondary market transactions and imbalance cash outs are transactions that are not gas sales or redelivery services to ratepayers, but are instead

¹⁵ *Id.*

¹⁶ *Id.* at 9.

¹⁷ *Id.* at 9-11.

ancillary transactions for the purpose of minimizing customer gas costs or to balance accounts for actual service provided.¹⁸

Ms. Power also responded to the Consumer Advocate's concern regarding modifications to the IMR mechanism identified by Mr. Novak, first stating that she generally did not object to a requirement that Piedmont provide disclosure of changes to the IMR structure and methodology. Concerning the change in the time period applied to joint property in calculating the Tennessee allocation factor, Ms. Powers stated that it was the Company's long-standing practice to use the ratio of direct property net plant balances by jurisdiction at the end of the prior fiscal year. Further, due to a change in the Company's fiscal year from October 31st to December 31st in 2017, Piedmont utilized the prior twelve (12) months ended December 31, 2016 in its calculation of the allocation factor. While the specific methodology for this calculation is not contained in the IMR, the change in fiscal year induced a one-time change in Piedmont's methodology that was disclosed in each of its monthly and annual reports.¹⁹ Ms. Powers also testified that Piedmont included, beginning in January of 2017, the Tennessee amounts recorded to the CIAC account in the computation of the joint property allocation factor, as the Company identified at that time that it would be appropriate to do so and that the joint property allocation factor is used broadly in the Company's jurisdictional financial reporting and not specific to the IMR mechanism.²⁰

¹⁸ Pia K. Powers, Pre-Filed Rebuttal Testimony, pp. 3-4 (March 24, 2020).

¹⁹ *Id.* at 5-6.

²⁰ *Id.* at 6.

MAY 11, 2020 HEARING AND APPEARANCES

A Hearing in this matter was held before the voting panel on May 11, 2020, as noticed by the Commission on May 1, 2020. Participating in the Hearing were the following parties and their respective counsel:

Piedmont – James H. Jefferies, IV, Esq., McGuireWoods LLP, 201 North Tyron Street, Suite 3000, Charlotte, North Carolina, 28202; Paul S. Davidson, Esq., Waller Lansden Dortch & Davis, LLP, 511 Union Street, Suite 2700, Nashville, Tennessee 37219.

Consumer Advocate – Daniel P. Whitaker, III, Esq., Office of the Tennessee Attorney General, P.O. Box 20207, Nashville, Tennessee 37202.

The voting panel heard testimony of both Ms. Pia Powers, on behalf of the Company, and Mr. William H. Novak, on behalf of the Consumer Advocate, both of which were subject to questions from the Commission. In addition, the public was given an opportunity to offer comment during the Hearing, but no member of the public sought to comment. Following the conclusion of the witness testimonies, cross-examinations, re-direct examinations, and the parties' closing statements, the voting panel deliberated and unanimously voted to approve the 2019 IMR annual filing and revised rates to become effective June 1, 2020.

FINDINGS AND CONCLUSIONS

Upon review and due consideration of the testimony of witnesses and the entire record, the panel unanimously found that the 2019 IMR filing of Piedmont Natural Gas Company, Inc. complied with the mechanism and methodologies approved by the Commission in Docket No. 13-00118.

The panel also considered the issues raised by the Consumer Advocate. The panel found that the IMR, as agreed upon by Piedmont and the Consumer Advocate and approved by the Commission in Docket No. 13-00118, specifically identifies the rate schedules that are subject to the IMR surcharge. Therefore, the panel voted unanimously to deny the Consumer

Advocate's request for the Commission to specifically state its intent as to whether the IMR surcharge should be applied to Rate Schedules, 360, 362, and 365.

Further, the panel found that without considering whether changes made to the computation of the Tennessee allocation factor applied to joint plant in service should have been submitted to the Commission for prior approval, the Consumer Advocate's recommendation on prior disclosure and approval of IMR changes, to which Piedmont agreed, should be implemented. Therefore, the panel unanimously voted to direct Piedmont to provide disclosure of any proposed changes to the IMR calculation methodology with the Commission for approval prior to implementing changes going forward.

Finally, the panel found that the IMR mechanism remains in the public interest by allowing Piedmont the ability to recover capital expenditures required under federal statutes, including a return on those investments, in a timely manner without the need for filing rate cases. Therefore, the panel voted unanimously to approve the 2019 IMR annual filing and revised rates to become effective June 1, 2020.

IT IS THEREFORE ORDERED THAT:

1. The 2019 Integrity Management Rider Annual Report and its associated tariff, filed by Piedmont Natural Gas Company Inc., as revised, on December 11, 2019, are accepted and approved.
2. The effective date of the 2019 Integrity Management Rider Annual Report and its associated tariff shall be June 1, 2020.
3. Piedmont Natural Gas Company, Inc. shall seek approval from the Tennessee Public Utility Commission prior to implementing any changes to the Integrity Management Rider calculation methodology.

4. Any person who is aggrieved by the Commission's decision in this matter may file a Petition for Reconsideration with the Commission within fifteen (15) days from the date of this Order.

5. Any person who is aggrieved by the Commission's decision in this matter has the right to judicial review by filing a Petition for Review in the Tennessee Court of Appeals, Middle Section, within sixty (60) days from the date of this Order.

Vice Chair Kenneth C. Hill, Commissioner Herbert H. Hilliard, and Commissioner John Hie concur. None dissent.



ATTEST: _____

Earl R. Taylor, Executive Director