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December 16, 2020

Via Email and U.S. Mail

Executive Director Earl Taylor
c/o Ectory Lawless
Tennessee Public Utility Commission
502 Deaderick Street, Fourth Floor
Nashville, Tennessee 37243

Re: Piedmont Natural Gas Company, Inc. Petition for an Adjustment of Rates, Charges, and Tariffs Applicable to Service in Tennessee; Docket No.: 20-00086

Dear Mr. Taylor:

Enclosed please find for filing the original and four copies of the following documents:

Rebuttal testimony and exhibits of:

a. Pia Powers
b. Kally Couzens
c. Quynh Bowman
d. Dylan D'Ascendis
e. Paul Normand

This material is also being filed today by way of email to the Tennessee Public Utility Commission docket manager, Ectory Lawless. Please file the original and provide a "filed" stamped copy of the same via email to my assistant, at denise.guye@wallerlaw.com.

Please do not hesitate to call me if you have any questions.

Very truly yours,

Paul S. Davidson

PSD:cdg
Enclosures
cc: Daniel Whitaker
Bruce Barkley
Pia Powers
James Jeffries

Before the
Tennessee Public Utility Commission

Docket No. 20-00086

Piedmont Natural Gas Company, Inc. Petition for an Adjustment of Rates, Charges, and Tariffs Applicable to Service in Tennessee

Rebuttal Testimony of
Quynh P. Bowman

On Behalf of
Piedmont Natural Gas Company, Inc.

Piedmont Natural Gas

December 16, 2020

Q. Please state your name and business address.

A. My name is Quynh Pham Bowman. My business address is 4720 Piedmont Row Drive, Charlotte, North Carolina.

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

A. I am the Director – Gas Rates & Regulatory Strategy for Piedmont Natural Gas Company, Inc. ("Piedmont" or "the Company"). In this capacity, I am responsible for a variety matters including supporting the development and execution of rate requests and financial report filings by Piedmont.

Q. Have you previously testified in this proceeding?

A. Yes. I filed Direct Testimony in this proceeding on July 2, 2020.

Q. What is the purpose of your Rebuttal Testimony in this proceeding?

A. The purpose of my Rebuttal Testimony is to respond to various matters raised in the Direct Testimonies of Consumer Advocate Witnesses Novak, Dittemore, and Bradley filed in this proceeding on November 30, 2020.

Q. What topics does your Rebuttal Testimony address?

A. My Rebuttal Testimony generally addresses issues raised by the Consumer Advocate's witnesses related to Attrition Period Operating Expenses, Attrition Period Other Operating Income, and Attrition Period Rate Base.

Q. Do you have any exhibits supporting your rebuttal testimony?

A. Yes. The following updated exhibits are included with my rebuttal testimony:

Rebuttal Exhibit_(QPB-1) Summary of Rate Base

Rebuttal Exhibit_(QPB-2) Original Cost of Property Used and Useful

Rebuttal Exhibit_(QPB-3) Accumulated Depreciation of Property Used and Useful

Rebuttal Exhibit_(QPB-4) Allowance for Working Capital

Rebuttal Exhibit_(QPB-5) Accumulated Deferred Income Taxes

Rebuttal Exhibit_(QPB-6) Depreciation Policy and Rates

Rebuttal Exhibit_(QPB-7) Net Operating Income and Rates of Return

Rebuttal Exhibit_(QPB-8) Piedmont Balance Sheet and Income Statement

Rebuttal Exhibit_(QPB-9) DEBS Depreciation Expense

Q. What do these updated exhibits reflect?

A. The updated exhibits reflect the impact of adjustments to Piedmont's original filing position based on the Consumer Advocate's proposed changes that we do not reject. Our updated revenue requirement is $25,802,067.

Q. Do you agree with all of the Consume Advocates proposed changes to the Company's filed case related to these matters?

A. No. I agree with several of the Consumer Advocate's proposed adjustments, but I also disagree with quite a few of their proposed changes as well. My position on each of these matters is set out below.

Q. Are there any other Consumer Advocate adjustments which the Company accepts?

A. Yes. I agree with witness Dittemore's proposed adjustment to remove amortization expense for the return of Unprotected Excess ADIT to customers shown in his Direct Testimony on Page 19, Line 4 and following. As discussed in the Rebuttal Testimony of Piedmont witness Couzens, because we are agreeable to removing the reduction of revenues associated with the

Unprotected Excess ADIT Rider from the revenue requirement computation in this rate case, it is also appropriate to remove amortization expense for the return of Unprotected Excess ADIT from income tax expense in this rate case. In agreeing to this adjustment, Piedmont is not agreeing or proposing to eliminate the Unprotected Excess ADIT Rider as the vehicle for returning to customers the Unprotected Excess ADIT balance during the Attrition Period and thereafter – we are simply removing the effect upon revenues and expenses associated with that rider from the Attrition Period revenue requirement. Piedmont's 7/2/2020 filing recognized that the existing TPUC-approved Unprotected Excess ADIT Rider Rates would remain in place throughout the Attrition Period.

Q. Are there any other areas where the Company is agreeable to a proposed adjustment raised by the Consumer Advocate?

A. Yes. We agree with witness Novak's proposed inclusion of a forfeited discounts factor in the development of the revenue requirement retention factor to be used in the revenue deficiency computation for this case (Novak Direct Testimony p. 49, line 1). We also agree with the CAD's proposed exclusion of the Commission fee factor and gross receipts factor from the retention factor for this case also presented on p. 49 of witness Novak's Direct Testimony. Other minor items that the Company has chosen to accept in order to promote the economy of this proceeding are reflected in footnotes on my Rebuttal Exhibit__(QPB-7), pp. 3-5.

Q. What is your position on Consumer Advocate witness Dittemore's proposal to eliminate certain A&G expenses on Table 1 of his Direct Testimony?

A. While I do not agree with all of the proposed adjustments reflected in Table 1 on page 21 of witness Dittemore's Direct Testimony, after further review and consideration, I do not contest Adjustments 2-6 for severance costs, employee transition costs, out-of-period costs (CA2-16 and 2-22), and costs improperly allocated to Tennessee.

Q. Does the Company concede that witness Dittemore is correct in every respect with regard to these adjustments?

A. No, I do not concede in every respect but in the interest of streamlining the large number of matters at issue in this case, I believe that there is enough merit in witness Dittemore's arguments about these adjustments that the Company is willing to eliminate them from the list of disputed issues by accepting the Consumer Advocate's proposed adjustments on these matters.

Q. Before we move on to a discussion of the proposed adjustments with which you disagree, do you have any general comments about witness Dittemore's Table 1?

A. Yes. Table 1 begins with a listing of "Attrition Period Forecast Before Adjustment" amount of $23,100,623 which forms the base amount of A&G costs from which the enumerated adjustments reflected on Table 1 are subtracted. It is important to recognize, however, that the base number provided in this table is not Piedmont's proposed Attrition Period A&G costs nor does it reflect test period costs but, instead, is a revised baseline number that reflects five additional adjustments made by Consumer Advocate witness Novak, most of which are not discussed in his testimony and are only identifiable by conducting an extensive review of witness Dittemore's and witness Novak's workpapers. These proposed adjustments in Table 1 below are only identified in witness Novak's workpapers (WHN Rate Base Workpapers – FINAL tab DD-Summary-1) and not addressed in the Direct Testimony of either witness Dittemore or witness Novak.

Table 1 – Witness Novak Summary of A&G Proposed Adjustments

Unadjusted Test Period Balance	**$24,996,652**
CAD Adjustment 1: Attrition Growth Rate	1.04646
CAD Attrition Period Forecast	26,158,217
CAD Adjustment 2: Pension Amortization	(2,756,998)
CAD Adjustment 3: Rate Case Amortization	(82,485)
CAD Adjustment 4: Environmental Amortization	(108,144)
CAD Adjustment 5: Flood Amortization	(109,966)

Attrition Period Forecast Before Adjustment per Dittemore Direct Testimony Table 1	**23,100,623**

Q. **Having discovered the bases of witness Novak's additional adjustment to Attrition Period A&G expense, what is the Company's position on those adjustments?**

A. With regard the first three adjustments, which include (i) an overall growth adjustment to test period A&G expense, (ii) an adjustment for deferred pension expense amortization, and (iii) an adjustment for deferred rate case expense amortization, I disagree with those adjustments for the reasons discussed later in my Rebuttal Testimony.

Q. **What about witness Novak's fourth and fifth adjustments to Attrition Period A&G expense?**

A. I do not challenge those adjustments because they are consistent with our initial rate case filing (i.e. the exact adjustments were excluded in Piedmont's initial filing for the Attrition Period). The same is also true of witness Dittemore's first adjustment on Table 1 for lobbying expense. This specific amount was identified and removed by the Company. None of these amounts were included in the Company's proposed Attrition Period expenses.

Q. **What is the first adjustment you disagree with as proposed in the Customer Advocate's testimony?**

A. The first proposed adjustment with which I disagree is the growth adjustment to test period A&G expense reflected in witness Novak's workpapers (WHN Expense Workpapers – FINAL tab A&G Analysis-5). This adjustment can be found embedded in witness Novak's workpapers but is not discussed within his Direct Testimony. His adjustment involves applying an inflation factor to all Test Period A&G expense to account for growth in those expenses.

Q. Do you disagree with the need to grow test period A&G expense in this case for use as Attrition Period expense?

A. No. I agree that Test Period A&G expenses, like all Test Period expenses, should be adjusted for expected changes to render them suitable for use in the Attrition Period. Applying growth factors to Test Period balances to adjust historical levels of expense for application on a prospective basis is a normal part of the ratemaking process.

Q. Then what is your issue with witness Novak's approach to adjusting A&G expense for inflation?

A. Witness Novak's approach to making such an adjustment is too simplistic and ignores a myriad of factors other than inflation that should be considered when making pro forma adjustments to Test Period expense levels. By using his simplistic inflation factor adjustment, witness Novak effectively reduces Piedmont's pro forma growth adjustments for A&G expense by over $6.0 million and totally ignores the merits of Piedmont's methodologies, which identify more specific measures that impact Attrition Period A&G. In my opinion, witness Novak's approach is deficient because it provides no justification for rejecting Piedmont's approach for adjusting A&G expense that utilizes specific knowledge to project Attrition Period expenses.

Q. What approach did Piedmont use to adjust Test Period A&G expense for growth?

A. In examining and calculating adjustments for Test Period A&G expense, Piedmont first divided A&G into various cost categories of rent, payroll, insurance, employee benefits and incentive compensation. We then made specific adjustments for each cost category based on cost drivers which represents a zero-based budgeting approach. The adjusted expense amounts were then included in Attrition Period A&G. At times, this approach yielded lower Attrition Period costs than were incurred during the Test Period. In every case, this approach was more thoughtfully considered to lead to more accurate Attrition Period A&G expense levels than the blanket application of a simple inflation factor as utilized by Witness Novak. For example, payroll expenses were grown by a factor based on historical wage increases and incentive compensation actually decreased based on an expected reduction of incentive compensation for the Attrition Period. The generic application of an inflationary factor forgoes the opportunity to use readily available and more directly relevant information that was provided in Piedmont's initial filing.

Q. Did Piedmont utilize a simple growth factor for any part of its Attrition Period A&G expense calculations?

A. Yes, but we applied a growth factor for less than a third of total A&G expenses. Where a cost causation or zero-based budgeting method was not reasonable to apply for expenses such as employee expense and office supplies & expenses, we applied a growth factor. The growth factor is applied after direct and relevant information is considered not as the default position. Our approach is superior to just applying an inflation factor to all Test Period A&G expense.

Q. What is the second adjustment made by witness Novak with which you take issue?

A. The second disagreement I have with witness Novak involves his calculation of deferred pension amortization expense. This adjustment, like the previous one, is not explicitly set out in his Direct Testimony but is embedded in his workpapers (WHN Rate Base Workpapers – FINAL tab DD-Summary-1). This adjustment is also one of the adjustments, mentioned above in Table 1, that was made to arrive at the "Attrition Period Forecast Before Adjustment" figure used as the starting point for witness Dittemore's Table 1.

Q. What is your disagreement with witness Novak on this adjustment?

A. Piedmont's Attrition Period deferred pension amortization expense calculation yielded an expense level of $3,954,327, which consisted of a Test Period actual expense level of $2,686,243 and a proforma adjustment of an additional

$1,267,984. Witness Novak proposes an Attrition Period figure of ($70,655) for this expense, which is inadequate to cover this annual expense of the Company.

Q. Do you have any other objection to this adjustment by witness Novak other than the fact that it will cause Piedmont to significantly under-recover this particular expense during the Attrition Period?

A. Yes. The methodology utilized by Piedmont to calculate this item of expense is in exact conformance with deferral and amortization procedures established by the Commission in prior orders issued in Docket No. 96-00977 (on February 17, 1997 and June 9, 1997)[1] as consistently implemented in Piedmont's prior general rate case proceedings in Docket Nos. 99-00994, 03-00313, and 11-00144. Witness Novak's proposal in this case, is directly in conflict with this precedent and constitutes a collateral attack on the Commission's prior orders and Piedmont's consistent practices regarding accounting and recovery for deferred pension expense. I would respectfully request that the Commission reject this unjustified proposed adjustment to Piedmont's Attrition Period deferred pension expense.

Q. What is your next disagreement with witness Novak?

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[1] In its June 9, 1997 Order in Docket No. 96-00977 the Commission stated: "the Authority will permit the Company to establish a deferred asset for the difference between the amount of funded pension expense recognized in the Company's last rate case . . . and the amount of pension expense funded in the future. In future cases, the amount of funded expense that has been deferred will be recognized and rates awarded to recover it."

A. I disagree with witness Novak's adjustment for deferred rate case expense. This adjustment and the rationale for Piedmont's opposition to it, is discussed in the rebuttal testimony of witness Powers. Consistent with Piedmont witness Powers' Direct Testimony, we removed the $60,000 related to the ARM consultant.

Q. What is your next area of disagreement with the Consumer Advocate witnesses?

A. My next area of disagreement relates to witness Dittemore's adjustment to deferred pension amortization expense of $4,024,982 reflected on Table 1 of his testimony. As I indicated above, witness Novak made a substantial adjustment to Attrition Period deferred pension amortization expense in his workpapers, and that adjustment is reflected in the "Attrition Period Forecast Before Adjustment" starting point on Table 1 of Witness Dittemore's testimony. The Company strongly disagrees with Witness Novak's initial adjustment for this expense for the reasons discussed previously. Witness Dittemore compounds the Consumer Advocate's mistaken adjustment, however, by including the same adjustment again on his Table 1. The Consumer Advocate's deferred pension amortization adjustment is no more valid the second time it was made by witness Dittemore than it was the first time it was made by witness Novak.

Q. Do you agree with witness Dittemore's elimination of DEBs asset allocation allocated to Tennessee?

A. Witness Dittemore's ($134,558) adjustment to DEBS allocations consists of two adjustments. There is a ($81,313) adjustment to remove the return on pension assets and an adjustment of ($53,245) to decrease the rate of return developed by DEBS for DEBS assets. The $134,558 total adjustment included on p.27, line 6 of witness Dittemore's testimony contains a growth factor whereas the components listed by Mr. Dittemore on lines 7 and 8 do not and, therefore, do not add up to the total proposed adjustment. Witness Dittemore recalculated the actual expense allocated from DEBS using a 9.30% proposed rate of return and adjusted for the return on all asset categories. Piedmont believes this adjustment should be calculated using a 10.30% proposed rate of return and only the portion attributable to DEBS pension assets should be adjusted out of Attrition Period A&G expense. The DEBS pension assets should be removed to reflect consistent treatment of Piedmont pension assets. Piedmont calculates an adjustment amount of ($81,313) based on acceptance of the DEBS pension cost exclusion and application of a growth factor of 1.04646.

Q. Do you agree with the adjustment in the elimination of DEBs depreciation expense allocated to Tennessee of $1,803,342 as shown in witness Dittemore's Table 1?

A. No, I do not. Witness Novak sponsored this adjustment and provided support on pages 29 and 30 of his Direct Testimony. I will address his 3 reasons individually. His first reason is that the Company has no authorized depreciation rates for the DEBS indirect plant in service that is allocated to Tennessee. To clarify this point, DEBS indirect plant in service is not allocated to Tennessee, the depreciation expense that is recorded on DEBS books related to DEBS assets is allocated to Piedmont (then further allocated to Tennessee operations) as an A&G expense. There is no DEBS plant in service included in Piedmont's rate base.

I also note that, DEBS is categorized as a Service Company. DEBS is not a regulated utility therefore not required to conduct a depreciation study on its assets. According to FERC guidelines 18 C.F.R § 267.20, service companies must use a method of depreciation that allocates in a systematic and rational manner the service value of depreciable property over the service life of the property. As stated in Piedmont's response to CA DR 3-8h, DEBS assets are depreciated on an individual asset basis based on the useful life of that asset. His second reason is that the Company is unable to provide any calculations to substantiate the DEBS depreciation expense allocated to Tennessee. During the discovery process when asked by the Consumer Advocate to produce the calculation to substantiate the amount of DEBS depreciation expense allocated to Tennessee by month during the test period, the Company was unable to do so at that time in the form that was requested. The Company has since obtained the requested support for the calculation by combining several queries and reports to further support the balance of depreciation expense recorded on DEBS books during the test period. See Rebuttal Exhibit_(QPB-9) DEBS Depreciation Expense.

Witness Novak's third reason to exclude this amount is that the Company has not demonstrated any incremental benefit to Tennessee customers through the allocation of DEBS indirect assets that were previously fully allocated to the Duke Energy's electric utilities prior to its acquisition of Piedmont. To clarify this point, prior to Duke Energy's acquisition of Piedmont, Duke Energy Corporation allocated these assets to electric utilities as well as gas utilities and other lines of business. To say that prior to Duke Energy's acquisition of Piedmont, DEBS depreciation expense was fully allocated to only electric utilities is not accurate. In addition, the Consumer Advocate did not request that the Company demonstrate any incremental benefit to Tennessee customers with regard to this or any other Service Company expense allocated to Piedmont, then further allocated to Tennessee in this proceeding. The Consumer Advocate simply made that assumption. With regard to depreciation expense specifically, the majority of DEBS assets are related to Information Technology, computer hardware, telecommunications equipment and capitalized software supporting service company (DEBS) functions. These are common systems and assets used for the benefit of all affiliates, therefore the cost of these assets, including depreciation, is allocated to all affiliates. If DEBS did not own these systems, equipment and software, for example the general ledger accounting system, the asset accounting system and cyber security software, Piedmont would need to secure these assets as it did prior to the merger with Duke Energy, and the cost of these assets would be included in Tennessee's rate base as well as operating expenses at full costs instead of allocated costs. Finally, I would point out that the benefits related to the Duke Energy merger have been provided to the TPUC in the Duke/Piedmont merger docket (16-00006) and in Piedmont witness Weintraub's Direct Testimony filed in this docket on July 2, 2020 at pages 9 and 10. Concerning the merger docket, quantified benefits of $9.45 million were identified on Exhibit E of the Company's Application filed on January 15, 2016 along with a lengthy list of benefits that were not quantifiable at that time. None of the corporate services efficiencies listed in Mr. Weintraub's testimony were captured in the benefits quantified in 2016. In addition to the savings associated with Piedmont no longer having a CEO as listed on Exhibit E, the Company no longer has its own executives or employees dedicated to the many services provided by DEBS including human resources, information technology, treasury, fleet services, real estate services, and supply chain. Mr. Weintraub testified to the fact that Piedmont's O&M expenses have grown by less than the rate of inflation since the merger. I do not believe that it is fair or reasonable for the Consumer Advocate to request disallowance of DEBS expenses when customers are reaping significant benefits associated with Piedmont's merger with Duke Energy.

Q. Do you agree with witness Bradley's elimination of certain incentive compensation expenses attributable to Tennessee?

A. No. I am unclear as to how witness Bradley arrived at the 75% factor used to eliminate certain short-term incentive compensation which he states in his testimony on page 4 is related to shareholder returns. As seen in the confidential attachment provided in Consumer Advocate Data Request 2, Item 209, 40% of non-executive short-term incentive compensation and 50% of executive short-term compensation is tied to achieving an EPS goal. This means that the remaining 60% for non-executives and 50% for executives is tied to safety, system reliability, customer satisfaction, controlling O&M expenses and departmental/team goals. A safe and reliable system and high customer satisfaction goals directly benefit the customer and O&M cost control also certainly minimizes customer rate increases. Furthermore, the EPS metric is simply used as a proxy to measure the Company's financial discipline, efficient operations, and prudent use of resources—all of which are vital to the health and stability necessary to serve our customers.

With regard to the Company's LTIP program, it appears witness Bradley has misinterpreted the information provided by the Company in MFR 46 attachment 4. He states on page 5 of his testimony that 75% of the Executive LTIP program is paid out based on the results of duke's EPS and TSR. Seventy percent (70%) of the Company's LTIP program is based on achieving performance goals-- only 2 of which are EPS and Total Shareholder Return. The third performance goal is Total Incident Case Rate, a measurement of employee and contractor occupational injuries and illnesses. The other 30% of LTIP is awarded as restricted stock units which are earned based on continuous years of service and are not tied in any way to the company's financial performance.

Duke Energy's compensation programs consist of a base pay component and incentive pay components that together provide a market-competitive total compensation package for all employees. The short-term incentive pay component is variable based on performance and is at risk to the employees. Incentive pay is linked to the accomplishment of specific goals established in advance for the individual employee, his or her business unit, one or more of the Companies, and/or Duke Energy. The purpose of incentive pay is: (1) to encourage employees to perform at a high level in order to accomplish specific objectives intended to ensure safe, reliable and economical utility service to our customers; (2) to ensure their business unit's and Duke

Energy's overall success; and (3) to constitute a component of a compensation package that is competitive with the market.

The long-term incentive plans round out a competitive total compensation package for certain employees in leadership positions. The purpose of carving out a portion of total compensation and delivering it through LTI programs is to reflect the market for human capital, which in turn is necessary to attract and retain high-caliber leaders needed to ensure safe, reliable and economical utility service to our customers. Simply put, competent management is beneficial to customers.

Q. Do you agree with witness Bradley's adjustment to remove 75% of certain employee salary expense from Attrition Period A&G costs on the basis that such percentage represents the designated employees time spent on lobbying?

A. No. We are cognizant that the Commission routinely rejects lobbying expense from recovery from customers in general rate case proceeding, and we proactively made the appropriate adjustment to remove these costs from our calculation of Attrition Period expense in our rate filing. The employee in question does engage in lobbying activities on behalf of the Company but his responsibilities are much broader than just lobbying. This employee also performs duties such as policy formation and monitoring, constituent services for elected officials, and as the chief liaison between the Company and local governments. Additional responsibilities for this employee include regulatory strategy and serving as a liaison to affected entities and spokesperson for the Company in times of critical events such as the tornado that occurred in March 2020.

Witness Bradley provides no basis for his proposed adjustment other than the entirely subjective conclusion that this employee spends approximately 75% of his time on activities witness Bradley considers to be "lobbying." Piedmont rejects the lack of mathematical or accounting support for his conclusion, as well as the fact that many of the categories of supposed "lobbying" activity that are used as the basis for witness Bradley's adjustment clearly do not meet the definition of lobbying provided by Tennessee Code Annotated § 3-1-301(15) which defines lobbying as "to communicate, directly or indirectly, with any official in the legislative branch or executive branch for the purpose of influencing any legislative action or administrative action." As such, the activities of monitoring legislation, policy formation, liaison responsibilities, and the other duties described above are not lobbying as it is defined by statute. In making its rate case filing, Piedmont examined the time spent by such employee on lobbying and reduced our Attrition Period salary expense, employee benefit costs, and other employee expenses such as travel, accordingly. Therefore, no further adjustment is appropriate nor was any support for such recommendation provided by witness Bradley.

Q. Do you agree with witness Novak's proposal on page 47 of his Direct Testimony to eliminate GTI funding from Piedmont's revenue requirement in this case?

A. I do not for the reasons discussed in the Rebuttal Testimony of witness Powers.

Q. Do you agree with witness Novak's proposed adjustments to other Attrition Period Operating and Maintenance expenses?

A. No, I have a number of issues with these proposed adjustments. First, like a number of his adjustments, these recommended reductions in Attrition Period expense are not clearly discussed in his testimony but are only discernible upon a fairly extensive analysis and review of witness Novak's workpapers. As such, while they are included in the Consumer Advocate's proposed adjustments, they are not supported by testimony in any meaningful way.

Q. Please explain your concerns with the Consumer Advocate's methodology for calculating its adjustments to other Attrition Period O&M expenses?

A. As was the case with the adjustments for Attrition Period A&G expense, Piedmont calculated its other Attrition Period O&M expenses by using, to the extent possible, actual cost-drivers for each category of expense and applying it Test Period actuals. Witness Novak, on the other hand, identified four broad categories of O&M expense (other purchased gas, storage, transmission and distribution) and inconsistently applied growth factors for the four categories. For instance, in the Transmission category (workpapers Transmission Analysis

1 – 6) witness Novak uses a trending analysis to forecast direct labor and non-labor expenses and then applies a payroll growth factor to Test Year allocated labor. Yet at the same time, for the Other Purchased Gas expenses (workpaper OG Analysis-1), he applies a Test Period growth factor to all direct labor, allocated labor, and non-labor expenses. Witness Novak does not provide any rationale as to why he has selects one method over the other. His analysis produces a wide range of results, and he typically selects a result in the lower range. In other words, the selection of growth method appears to have been driven by the results produced. This is not a valid method for adjusting Test Period O&M expenses. In Piedmont's opinion, it is irrational to utilize different growth factors for labor in different O&M categories in the absence of some justification for the varying approaches. Piedmont's approach is much more rational, granular, and appropriate for calculating Attrition Period O&M expenses.

In addition, witness Novak deducted the Test Period balance in Account 0889001, Maintenance of CNG facilities, in developing his attrition period Distribution Expense amount. Witness Novak does not discuss the reason for doing so in his Direct Testimony. In his workpaper E-25-6.00, he includes a note that states this account is a non-regulated account. This is simply not true. As discussed in the Company's response to CA DR 3-24, Account 0889001contains costs related to maintaining the Company's CNG fleet assets as well as costs related to maintaining the Company's Spence Lane CNG station and the CNG station at the Piedmont Resource Center in Nashville. These CNG stations are included in the Company's regulated rate base pursuant to the Commission's Order in Docket No. 14-00086 issued October 5, 2015. Costs related to non-regulated CNG assets are recorded to non-regulated accounts.

Q. What is your next area of disagreement with the Consumer Advocate's proposed adjustments?

A. Witness Novak proposes adjustments to the growth of Customer Accounts expense. As was the case with a number of prior adjustments, this does not appear in his testimony but is only contained in his workpapers (WHN Expense Workpapers – Final tab CA Analysis-5 and tab CA Analysis-6). And as is also the case with a number of prior proposed adjustments, his adjustment for Customer Accounts Expense is overly simplistic and not appropriate for use in this proceeding.

Q. Please explain your rationale.

A. Customer Accounts Expense consists of a number of subcategories of expense including payroll expense, uncollectibles expense, and allowance for bad debt expense. Of these categories, approximately 44% of the total expense is payroll and another 29% is uncollectibles and bad debt expense. These categories of expense have clear drivers that impact how they should be adjusted for Attrition Period purposes and in each case Piedmont relied on those drivers in making its adjustments to Test Period actuals. More specifically, Piedmont's adjustment for payroll applies a specific payroll factor and its adjusted bad debt expense recognizes actual write-offs instead of GAAP recorded bad debt expense as approved by the TPUC in Piedmont's most recent general rate case. In addition, customer growth is taken into consideration in the Company's Attrition Period adjustment.

Witness Novak ignores the specific factors that drive changes in these categories of expense and instead uses an inflation factor to grow Test Period actuals including payroll expense and uncollectibles expense. For these reasons, Piedmont's approach to adjusting Test Period actuals for Customer Accounts Expense is more appropriate for ratemaking than the methodologies adopted by witness Novak.

Q. What is your position on witness Novak's adjustment for sales expense?

A. I disagree with his proposed adjustment. As was the case with a number of prior adjustments, this proposed adjustment is not discussed in the Consumer Advocate's testimony but, instead, is buried in Witness Novak's workpapers (WHN Expense Workpapers – FINAL tab Sales Analysis-6).

Q. Why do you disagree with this adjustment?

A. Approximately 69% of Test Period sales Expense is payroll related yet witness Novak again relies on a blanket application of an inflation factor to grow the expense from Test Period actuals which is inappropriate when more precise factors can be easily applied. Again, Piedmont utilized specific appropriate growth factors for the various categories of expense such as payroll that is included in sales expense. The Company's methodology is more granular, rational and appropriate for use in setting rates in this proceeding.

Q. Do you agree with witness Novak's depreciation expense adjustments?

A. No. This amount is also buried within Mr. Novak's supporting exhibits and is presented at Workpaper E045-1.00. First, we disagree with the Consumer Advocate's proposal to remove $30 million in Attrition Period plant from rate base. This is addressed in detail later in my testimony in the discussion regarding witness Novak's computation of attrition period Utility Plant in Service balance.

Additionally, witness Novak calculated current monthly depreciation expense by applying the proposed depreciation rates by plant utility account to the average of the current month and previous month balance by plant utility account. Mr. Novak's calculation is inconsistent Piedmont's practice of recording depreciation expense on end-of-month plant balance and the calculation of depreciation expense approved by the Commission in prior Piedmont rate cases in Tennessee.

Q. Do you agree with the Consumer Advocate's approach to calculating Attrition Period General Tax Expense as shown on page 46 of witness Novak's Direct Testimony?

A. No. There are three categories of General Tax expense which include Property Tax Expense, Franchise and Gross Receipts Tax expense, and Payroll Tax Expense. We disagree with the way in which the Consumer Advocate has adjusted each category of Tax Expense.

First, Property Tax Expense is clearly driven by property owned by the Company during the taxable period (i.e. utility plant) and applicable property tax rates. The calculation of Attrition Period expense in this category should be calculated based on these two numbers as Piedmont performed it. We calculated property tax based on our forecasted net plant balance and our current property tax rate. The Consumer Advocate again utilized an inflation factor to grow these amounts which is oversimplified. The Consumer Advocate's method of applying an inflation factor does not consider plant additions during the Attrition Period or the new depreciation rates proposed in this proceeding. In short, the Consumer Advocate's analysis is severely incomplete and should not be used to set rates in this proceeding.

For Franchise and Gross Receipts Tax Expense, we agree with the Consumer Advocate's methodology for calculating this expense because it is consistent with the Company's methodology. However, we disagree with the

Attrition Period revenues underlying the Consumer Advocate's analysis as is discussed further in the Rebuttal Testimony of witness Couzens.

For Payroll Tax Expense, Piedmont utilized its Attrition Period payroll expense to calculate Attrition Period Payroll Taxes. The Consumer Advocate applied a payroll growth factor to Test Period Payroll Tax Expense. We believe that our method is more appropriate and reflects a more accurate and reasonable adjustment for Attrition Period Payroll Tax Expense.

Q. Do you agree with the Consumer Advocate's proposed Income Tax Expense?

A. No. I disagree with that adjustment for two reasons. First, the Consumer Advocate's proposed Attrition Period Income Tax Expense is understated due to the flow-through impact of a number of its other proposed adjustment with which the Company disagrees. Second, the Consumer Advocate has not properly accounted for the impact of AFUDC in calculating Income Tax Expense. The portion of AFUDC that is related to debt financing is considered taxable income and the portion of AFUDC that is considered to come from equity financing is not taxable. The Consumer Advocate removes the all AFUDC from its income tax calculation which is inappropriate because it does not reflect the true taxable income base. The inclusion of AFUDC related to debt financing in the taxable income base is appropriate. This adjustment is properly reflected in the exhibits attached to my Rebuttal Testimony and increases taxable income by $2,677,500.

Q. Do you agree with the Consumer Advocate's computation of Attrition Period AFUDC?

A. No. Witness Novak computes Attrition period AFUDC by applying the test period average ratio of AFUDC to CWIP to the Consumer Advocate's Attrition Period CWIP balance. This computation ignores the impacts of updates for capital structure, debt rates and ROE. Piedmont's method of taking Attrition Period CWIP balance and applying the proposed rate of return is standard and accepted practice by this commission whereas the Consumer Advocate's position is not.2

Q. Do you agree with witness Novak's computation of Utility Plant in Service?

A. No. In evaluating Attrition Period UPIS, witness Novak utilized a 3-yr history of Piedmont UPIS additions by month and plant account (Novak Direct Testimony at page 25, line 3), and a 3-yr history of Piedmont UPIS retirements by month and plant account. From that, witness Novak calculated the average monthly UPIS addition amount and the average monthly UPIS retirement amount, by plant account. Witness Novak then computed the Attrition Period UPIS balance for this proceeding under the premise that in each month since

[2] *See* Commission Order in Docket No. 18-00017 at p. 17.

the end of the Test Period, Piedmont's UPIS additions and UPIS retirements are equal to the historical monthly averages calculated by witness Novak. This approach of using historical averages to make Attrition Period adjustments, as is discussed above, is pervasive throughout the Consumer Advocate's analyses of Piedmont's filing in this case. Regarding the issue of adjusting UPIS for Attrition Period purposes (and for many other Attrition Period adjustments), Piedmont believes that its approach is far more granular, focused, and accurate than the Consumer Advocate's historical average approach.

For example, with regard to the Attrition Period UPIS, Piedmont developed our forecast by evaluating, on a project-by-project basis, the anticipated plant additions through the end of the Attrition Period. This approach was granular, detailed, and resulted in a zero-based forecast, whereas CAD's approach was simply a high-level historical average. A historical average forecasting approach is sufficient when there is no specific or more discrete information available to guide an adjustment but when there is such information available, Piedmont believes it is far more appropriate and yields a more accurate result to use the specific information to make Attrition Period adjustments. In this case, witness Novak was in possession of the granular information about projected UPIS, including information about the amounts and timing on a project-by-project and account specific basis of Piedmont's UPIS forecast for the Attrition Period. Despite the fact that this information was reflected in Piedmont's MFR filing, witness Novak chose to utilize an historical average approach, presumably because it resulted in lower projected levels of Attrition Period UPIS.

Significantly, witness Novak has not indicated in this proceeding that any of Piedmont's capital plans – neither the capital projects that are currently in progress, nor those that will begin during the attrition period – are imprudent and not in the public interest or that they will not be pursued and closed to plant as projected. Instead, witness Novak simply ignores all the detail that Piedmont provided about its capital projects currently in progress or those that will begin during the Attrition Period.

Based on the foregoing, Piedmont submits that its computation of Attrition Period UPIS is based on superior information and should be utilized by the Commission in setting rates in this proceeding.

Q. Has Mr. Novak recommended that a similar approach be used to calculate Utility Plant in Service in any of his prior testimonies before the Commission?

A. Yes. In Chattanooga Gas Company's ("CGC") 2018 rate case in Docket No. 18-00017, Mr. Novak recommended that Utility Plant in Service be calculated using the test period balance for direct and indirect plant, increased by the five-year historical average of net plant additions.

Q. Did the Commission adopt Mr. Novak's methodology for determining Utility Plant in Service in Docket No. 18-00017?

A. No. The Commission rejected Mr. Novak's use of historical averages because it found that this approach did not take into account planned major projects.[3] The Commission explained that in traditional rate cases, "known and measurable changes should be applied to normalized test year amounts to determine [U]tility [P]lant [in Service]."[4] As such, the Commission adopted CGC's capital budgeting approach for determining Utility Plant in Service. The Commission explained that CGC's budget-based approach was "a reasonable, forward-looking procedure for calculating service rates" that was consistent with the methodologies for determining Utility Plant in Service approved by the Commission in prior rate cases.[5]

Q. What is the Company's position on the Consumer Advocate's position on Attrition Period Construction Work In Process ("CWIP")?

A. We disagree with the Consumer Advocate's calculation of Attrition Period CWIP as set forth in the Direct Testimony of witness Novak at page 27, lines 6-16.

Q. Please explain.

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3 *Petition of Chattanooga Gas Company for Approval of an Adjustment in Rates and Tariff; the Termination of the AUA Mechanism and the Related Tariff Changes and Revenue Deficiency Recovery; and an Annual Rate Review Mechanism*, Amended Order, Docket No. 18-00017, p. 44 (Jan. 15, 2019) ("CGC Amended Order").

4 *Id.* at p.43.

A. Piedmont's approach to calculating CWIP in its rate case filing is superior to witness Novak's approach because, as was the case with UPIS, Piedmont developed its CWIP forecast on a project-by-project basis using specific and directly relevant information whereas witness Novak used a high-level approach to forecasting CWIP. Witness Novak's high-level approach to forecasting CWIP assumed that the average CWIP balance for the Attrition Period would be the average CWIP balance for the Test Period. The changes Piedmont experiences over time to their CWIP and UPIS balances is attributable to the same driver – the Company's asset investment activities. Piedmont's CWIP forecast in its rate case filing is in synch with and tracks its UPIS forecast because they are both driven off the amounts and timing of Piedmont's capital investments during the Attrition Period. As construction on any given project is completed and the project assets become used and useful and are placed into service, the CWIP balance for that project is transferred to UPIS; this is the how the operations and accounting work in real-time for the Company, so accordingly Piedmont developed its Attrition Period forecast in this same manner using the most updated capital forecast plan. And in Piedmont's view, use of its actual project investment budget is the only credible way to estimate CWIP (and UPIS).

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5 *Id.* at pp.43-44.

On a more granular basis, witness Novak also miscalculated Test Period CWIP and then applied the incorrect number (using the Consumer Advocate's methodology) to Attrition Period CWIP. This further compounded the understatement of Attrition Period CWIP for Piedmont.

Q. Has Mr. Novak recommended that a similar approach be used to calculate CWIP in any of his prior testimonies before the Commission?

A. Yes. In CGC's 2018 rate case in Docket No. 18-00017, Mr. Novak recommended that CWIP be calculated using the five-year historical average of annual balances for direct and indirect plant.

Q. Did the Commission adopt Mr. Novak's methodology for determining CWIP in Docket No. 18-00017?

A. No. The Commission held that "because CWIP is determined by plant construction projects and activities, the CWIP forecast should be aligned with the capital expenditure projections used to compute [Utility Plant in Service]."[6] Accordingly, for the same reasons the Commission adopted CGC's forward-looking forecast of Utility Plant in Service, the Commission adopted CGC's thirteen-month average CWIP balance for the attrition year.[7]

Q. What is your position on witness Novak's and witness Dittemore's calculation of Attrition Period Accumulated Deferred Income Tax?

6 CGC Amended Order at p.45.

7 *Id.*

A. We take issue with several categories included within the computation of Attrition Period ADIT discussed on page 33, lines 4 through 18 of witness Novak's Direct Testimony. These are identified below:

- Reduction of Regulatory Liability for Unprotected EDIT Giveback
- ADIT Adjustments due to Plant Adjustments
- Specific ADIT Exclusions

Q. What is your position on the first bullet of the Consumer Advocate's reduction of ADIT regulatory liability?

A. We disagree with the Consumer Advocate's methodology to project the Attrition Period ADIT regulatory liability balance (WHN Rate Base Workpapers-FINAL tab ADIT-Analysis-4 and tab ADIT-Analysis-5). This adjustment is briefly discussed in witness Novak's direct testimony on page 33. Witness Novak applies the Test Period average monthly amortization to roll-forward the March 2020 ending balance to forecast the Attrition Period ending balance. First, the Test Period does not fully capture the annual amount of unprotected EDIT giveback which started in June 2019. Also, the Consumer Advocate's approach does not capture the protected EDIT giveback which is scheduled to start 1/1/21, effective with new rates. Last, this approach has potential tax normalization issues if the protected EDIT refund is not considered appropriately.

Q. What is your position on the second bullet of the Consumer Advocate's adjustment to ADIT due to Plant in Service adjustments?

A. Again, this adjustment is discussed within witness Novak's Direct Testimony on page 33 and in his workpapers (WHN Rate Base Workpapers-FINAL tab ADIT-Analysis-2). I disagree with the Consumer Advocate's attempt to capture the impact of Consumer Advocate's proposed adjustments to Plant in Service by calculating a ratio of ADIT to Plant in Service for the Test Period and applying the ratio to the Attrition Period balances. Not only do we disagree with the adjustment to Plant in Service, but witness Novak's methodology causes significant tax issues from a normalization and consistency perspective. Piedmont's approach to model and forecast ADIT addresses the tax issues and is aligned with budgeted plant activity.

Q. What is your position on the third bullet on the Consumer Advocate's exclusions to the ADIT balance?

A. I partially disagree with the Consumer Advocate's approach to adjust ADIT. On page 16 of witness Dittemore's Direct Testimony, he eliminates certain ADIT items because they are "either unrelated to the provision of Piedmont's Tennessee operations…or are not consistent with the regulatory treatment of that item in Rate Base or Operating Margin (accrued pension costs)." In witness Dittemore's workpapers (Dittemore Workpapers Final Confidential tab DND RB 2.2 and tab DND RB 2.3), he does not identify the reason for the exclusion for each eliminated item. In some cases, the Company is required to interpret why certain ADIT exclusions. I believe the Consumer Advocate has made some exclusions to the ADIT balance based on erroneous assumptions. The Consumer Advocate has excluded items with "NC" in the description title under the assumption that "NC" relates to "North Carolina"; however, these items are simply designated as "NonCurrent". Other ADIT items are already reflected in Piedmont's attrition period balance as zero (T11A01, T22A07, Federal NOL). The removal of offsets to ADIT from Attrition Period ADIT that were not included in Attrition Period ADIT is clearly unreasonable. Another set of ADIT items identified by witness Dittemore have net zero impact on ADIT because there is an offsetting amount in the regulatory liability A/C 0253602 and A/C 0182320. The Consumer Advocate only considered a portion of the schedule submitted in response to Consumer Advocate Data Request 2 Item 56. The entire schedule includes the offsetting amounts in the regulatory liability accounts. Furthermore, state depreciation and state NOLS are booked to three-state and then allocated to TN using an allocation factor. This is consistent with the historical treatment of state depreciation and state NOLs. For the reasons provided, all of these recommended adjustment should be rejected by the Commission.

Q. With which portion of the Consumer Advocate's exclusion from ADIT do you agree?

A. I agree that the Attrition Period ADIT balance should parallel the regulatory treatment of that item in Rate Base and Operating Margin. This is a reasonable position for ratemaking. As such, the Company has reflected a tax impact of removing accrued pension costs from Rate Base and severance expenses related to Piedmont acquisition as non-recurring costs. This adjustment decreases ADIT by $1,792,244 and reflects the tax effect of the amount shown in the first line of Mr. Novak's Table 13 on page 41 of his Direct Testimony.

Q. Please list disagreements that you have with the Consumer Advocate's calculation of working capital in this proceeding?

A. Table 9 – Attrition Period Rate Base on page 24 of witness Novak's Direct Testimony summarizes the Consumer Advocate's position on working capital items. Further discussion can be found in witness Novak's Direct Testimony on pages 33 – 45.

- <u>Deferred Debits for Pension</u>. As discussed previously in my Rebuttal Testimony, Piedmont has deferred its pension plan contributions in accordance with prior Commission orders. Additionally, the 3-year amortization period proposed by Piedmont is reasonable to reduce volatility of expenses from Piedmont's last rate case and reflects a reasonable time period over which the company should recover these previously incurred costs. Piedmont's balance of $9,885,818 should remain in working capital.

Furthermore, I have eliminated the accrued pension costs of $7,517,149 in Table 13 regarding witness Novak's recommendation on page 41 of his Direct Testimony. I do not agree that both balances should be removed as it is appropriate for the Company to earn on the cash contributions prudently made by the Company to fund the employee pension plan.

- Deferred Debits for Rate Case Expense. On page 37 of his Direct Testimony, witness Novak proposes to remove all Rate Case Expenses. As discussed in Piedmont witness Power's Direct Testimony, Piedmont disagrees with witness Novak's calculation of deferred rate case expense in this rate case including in this working capital item. In parallel with the adjustment to remove expenses related to ARM invoices, Piedmont recalculated an updated balance of $768,333 for Rate Case Expenses that should be included in working capital.
- OPEB. On page 40 of his Direct Testimony, witness Novak proposes to remove all of the deferred pension and OPEB balances from working capital. We removed deferred pension costs as discussed above. However, OPEB expenses are not covered by the deferral authority granted to the Company in Docket No. 96-00977 (orders dated 2/17/1997 and 6/9/1997) and upheld through TRA approval of deferred pension expense recovery ordered in all subsequent Piedmont general rates cases (Docket Nos. 99-00994, 03-

00313 and 11-00144). Inclusion of this item in Working Capital is consistent with ratemaking treatment granted to Piedmont in its prior rate case, which witness Novak acknowledges on page 41of his testimony. Absent permission to either defer and subsequently recover the cost of OPEB expenses (which Piedmont does not have) or approval to recover this amount recorded for OPEB as directed by the FASB ("Financial Accounting Standards Board"), Piedmont would have no possibility of recovering this prudently incurred cost. Therefore, as proposed by Piedmont in its calculation of the Attrition Period revenue requirement, OPEB expense should be included in Attrition Period expenses and the $12,028,380 deferred under FASB's accounting directives should be included in working capital as they were in Piedmont's previous general rate case proceeding.

- <u>Prepaid Insurance.</u> On page 40 of his Direct Testimony, witness Novak proposes to include $127,197 in working capital, but does not discuss the Consumer Advocate's adjustment to Piedmont's balance. In his workpapers (WHN Rate Base Workpapers-Final tab PP Ins-Analysis-2), witness Novak asserts that Piedmont was not responsive in our discovery responses as his justification to disagree with PNG's attrition period balance for Prepaid Insurance of $144,542. Piedmont provided support in its response to Consumer Advocate Data Request 2, Item 153 Supplemental Request file. The source documentation referenced in the Supplemental

Response to Consumer Data Request 2, Item 153 is found in the file submitted with Minimum Filing Requirement (MFR) 36. The file name is MFR 36 confidential attachment 2 of 2. The invoices referenced in our response to Consumer Advocate Data Request 2, Item 153 Supplemental Request are included in that confidential file. Therefore, Piedmont disagrees with witness Novak's purported rationale for rejecting Piedmont's prepaid insurance expense. The balance of $144,542 should remain in working capital.

- Lead-Lag. We disagree with the Consumer Advocate's conclusion that zero lag should be applied to federal income taxes as presented in workpaper 20-00086 CA Exhibits-FINAL. This adjustment is not addressed by any Consumer Advocate witness. The adjustment is embedded in the Consumer Advocate Exhibit 5. The Consumer Advocate justified the zero lag days based an erroneous assumption that federal taxes would be deferred by Piedmont. The Company's filed position indicating that federal income tax lag as 45 days is correct. Piedmont settles federal taxes on a quarterly basis with the consolidated Duke entity and the Company is projected to be in a taxable income position for 2021. In addition, because we disagree with several aspects of Consumer Advocate witnesses' recommended adjustment for this rate case regarding Attrition Period revenue, expenses, rate base and allowed ROE, Piedmont does not agree with the Consumer Advocate's quantification of Attrition Period lead/lag for Working Capital. The updated balance for lead lag requirement is $10,525,589 to be included in working capital is reflected in Rebuttal Exhibit_(QPB-4) Allowance for Working Capital.

- Fleets & Overheads. On page 43 of his Direct Testimony, witness Novak proposes an Attrition Period balance of $128,148 (WHN Rate Base Workpapers – FINAL tab F&O-Analysis-1). I disagree with witness Novak's forecasted balance for Fleets and Overheads because his computation does not use the proper Attrition Period Tennessee allocation factor for the Joint Property portion of this balance. Piedmont consistently applied an Attrition Period Tennessee allocation factor of 15.67% for Joint Property Balances, whether those balance be for UPIS, Accumulated Depreciation, or components of working capital. Witness Novak used Piedmont's Attrition Period Tennessee allocation factor for the Joint Property balances for UPIS, Accumulated Depreciation, and Material & Supplies, but not for Fleets and Overheads. Witness Novak does not offer explanation for this inconsistency. Piedmont maintains that our Attrition Period Fleets and Overheads balance of $127,993 is more appropriate, as there is no evidence provided that supports a different Joint Property allocation factor for this rate base item than that used for UPIS, Accumulated Depreciation, and Materials & Supplies.

- Accounts Payable Related to CWIP. I disagree with this calculation for same reason as Fleets & Overheads. Witness Novak uses an incorrect allocation factor in making his forecast on page 43 of his Direct Testimony (WHN Rate Base Workpapers -FINAL tab AP-CWIP-Analysis-1). The balance should remain $9,557,776 as a reduction to working capital.

- Accounts Payable Related to Materials & Supplies. I disagree with this calculation for same reason as Fleets & Overheads. The Consumer Advocate has used an incorrect allocation factor in making its calculation (WHN Rate Base Workpapers – FINAL tab AP-M&S-Analysis-1). The balance should remain $21,305 as a reduction to working capital.

- Accrued Vacation. I disagree with this calculation for same reason as Fleets & Overheads. The Consumer Advocate used an incorrect allocation factor in making its calculation (WHN Rate Base Workpapers – FINAL tab Vacation Analysis-1). The balance should remain $2,412,940 as a reduction to working capital.

- Gas Inventory. Witness Novak uses an Attrition Period balance for Gas Inventory that is equal to the Test Period balance rather than apply an inflation factor to the Test Period balance (WHN Rate Base Workpapers-FINAL tab GI Analysis-1). Piedmont finds this reasonable and agrees with this approach for this rate proceeding. However, witness Novak misstated the Test Period Gas Inventory balance in his workpapers and testimony. The 13-

month average Test Period gas inventory balance is $8,374,205, as shown in Piedmont's workpapers provided to the Consumer Advocate.

Q. What is the impact to the revenue deficiency as a result of adjustments?

A. Piedmont presents in this rebuttal testimony and accompanying exhibits a recalculation of the attrition period revenue requirement deficiency in light of the adjustments to revenues, operating expenses, and rate base it has accepted. Whereas Piedmont's 7/2/2020 filing represented the revenue deficiency as $29,919,130, Piedmont's recomputed rebuttal representation of the attrition period revenue requirement deficiency is $25,802,067. See Rebuttal Exhibit_(QPB-7) Net Operating Income and Rates of Return.

Q. Does this conclude your Rebuttal Testimony?

A. Yes, it does.

Rebuttal Exhibit_(QPB-1)

Piedmont Natural Gas Company, Inc.
Tennessee Operations
Test Period: 12-Months Ended March 31, 2020
Attrition Period: 12-Months Ending December 31, 2021

Summary of Rate Base
13-month Average

		Test Period March 31, 2020	Attrition Period December 31, 2021	Revised Attrition Period December 31, 2021
1	Utility Plant in Service	$ 1,316,834,205	$ 1,545,454,176	$ 1,541,613,842
2	Construction Work in Progress	54,974,331	42,271,971	42,271,971
3	Accumulated Depreciation	(462,673,218)	(506,047,002)	(501,525,429)
4	Contributions in Aid of Construction	(5,828,754)	(5,828,754)	(5,828,754)
5	Allowance for Working Capital	30,438,656	32,973,435	26,186,635
6	Accumulated Deferred Income Taxes	(191,462,556)	(191,042,334)	(192,834,578)
7	Rate Base	$ 742,282,663	$ 917,781,492	$ 909,883,687

Rebuttal Exhibit_(QPB-2)

Piedmont Natural Gas Company, Inc.
Tennessee Operations
Test Period: 12-Months Ended March 31, 2020
Attrition Period: 12-Months Ending December 31, 2021

Utility Plant in Service: Original Cost of Property Used and Useful by Major Plant Category
13-month average

		Test Period March 31, 2020		Attrition Period December 31, 2021		Revised Attrition Period December 31, 2021	
1	Intangible Plant	$ 10,266,536	0.78%	$ 27,104,691	1.75%	$ 27,104,691	1.76%
2	Storage Plant	64,033,535	4.86%	66,186,730	4.28%	65,186,276	4.23%
3	Transmission Plant	288,512,993	21.91%	369,786,759	23.93%	369,456,983	23.97%
4	Distribution Plant	864,947,721	65.68%	1,005,444,554	65.06%	1,005,634,037	65.23%
5	General Plant	89,073,418	6.76%	76,931,443	4.98%	74,231,855	4.82%
6	Total	$ 1,316,834,205	100.00%	$1,545,454,176	100.00%	$1,541,613,842	100.00%

Rebuttal Exhibit_(QPB-3)

Piedmont Natural Gas Company, Inc.
Tennessee Operations
Test Period: 12-Months Ended March 31, 2020
Attrition Period: 12-Months Ending December 31, 2021

Accumulated Depreciation of Property Used and Useful By Major Plant Category
13-month average

		Test Period March 31, 2020		Attrition Period December 31, 2021		Revised Attrition Period December 31, 2021	
1	Intangible Plant	$ 4,214,090	0.91%	$ 14,977,550	2.96%	$ 14,977,550	2.99%
2	Storage Plant	12,738,614	2.75%	13,498,899	2.67%	11,900,598	2.37%
3	Transmission Plant	21,675,316	4.68%	28,244,833	5.58%	27,736,745	5.53%
4	Distribution Plant	386,969,566	83.64%	414,777,673	81.96%	416,774,585	83.10%
5	General Plant	37,075,633	8.01%	34,548,048	6.83%	30,135,951	6.01%
6	Total	$ 462,673,218	100.00%	$ 506,047,002	100.00%	$ 501,525,429	100.00%

Rebuttal Exhibit_(QPB-4)

Piedmont Natural Gas Company, Inc.
Tennessee Operations
Test Period: 12-Months Ended March 31, 2020
Attrition Period: 12-Months Ending December 31, 2021

Allowance for Working Capital
13-Month Average

		Test Period March 31, 2020	Attrition Period December 31, 2021	Revised Attrition Period December 31, 2021
1	Natural Gas Stored	$ 8,374,205	$ 8,763,271	$ 8,374,205
2	Cash Working Capital Per Lead-Lag Study	2,318,927	9,935,993	10,525,589
3	Materials and Supplies	166,593	168,196	176,859
4	Fleet and Other Overheads	122,544	127,993	127,993
5	Accrued Vacation Liability	(2,305,163)	(2,412,940)	(2,412,940)
6	Accrued Interest on Customer Deposits	(303,252)	(313,114)	(312,040)
7	Customer Deposits	(4,244,585)	(4,382,623)	(4,367,597)
8	Cash Working Funds	(559,657)	(555,056)	-
9	Prepaid Insurance	209,503	144,537	144,537
10	Accounts Payable applicable to CWIP and Materials & Supplies	(9,213,497)	(9,579,081)	(9,579,081)
11	Regulatory Assets for Deferred Expenses	16,209,584	11,530,731	11,480,731
12	Pension Accrual and OPEB	19,663,434	19,545,529	12,028,380
13	Total Allowance for Working Capital	$ 30,438,636	$ 32,973,435	$ 26,186,635

Rebuttal Exhibit_(QPB-5)

Piedmont Natural Gas Company, Inc.
Tennessee Operations
Test Period: 12-Months Ended March 31, 2020
Attrition Period: 12-Months Ended December 31, 2021

Accumulated Deferred Income Taxes
13-month average

		Test Period March 31, 2020	Attrition Period December 31, 2021	Revised Attrition Period December 31, 2021
1	Accumulated Deferred Income Taxes	$ (109,587,939)	$ (123,625,254)	$ (125,417,498)
2	Regulatory Liabilities Related to Income Taxes	(81,874,617)	(67,417,081)	(67,417,081)
3	Total Accumulated Deferred Income Taxes (ADIT)	$ (191,462,556)	$ (191,042,334)	$ (192,834,578)

Rebuttal Exhibit_(QPB-6)

Depreciation Policy & Rates

Depreciation expense is computed monthly using the straight-line method applied to end-of-the-month depreciable costs.

The depreciation rates currently in effect are from a study performed on the Company's depreciable Tennessee property at October 31, 2009. Piedmont adopted these rates effective March 1, 2012, as approved by the TRA in Docket No. 11-00144. In this current general rate case proceeding, Piedmont is requesting approval to adopt the recommendations included in the new depreciation study based on the Company's depreciable Tennessee property in service as of December 31, 2019. Piedmont is requesting approval from the Commission to adopt these recommendations on January 1, 2021.

Under our current depreciation rates, our Attrition Period depreciation expense would be $38,087,145. If Commission approves the Company's request to adopt the depreciation study recommendations, the Attrition Period depreciation expense would be $34,785,468. Adopting the recommendations would decrease depreciation expense by $3,301,677 or 9%.

Rebuttal Exhibit_(QPB-7)

Schedule of Net Operating Income and Rate of Return

Line No.		[1] Per Books Test Period	[2] Attrition Period Adjustments		[3] After Attrition Period Adjustments	[4] Proposed Increase		[5] After Proposed Increase
	Operating Revenues							
1	Sale and Transportation of Gas	204,501,277	7,343,878	[1]	211,845,155	25,548,992	[18]	237,394,147
2	Other Operating Revenues	668,536	(365,242)	[2]	303,294	-		303,294
3	Forfeited Discounts	1,472,734	(655,752)	[3]	816,982	253,075	[23]	1,070,057
4	Total Operating Revenues	206,642,547	6,322,884		212,965,431	25,802,067		238,767,498
	Operating Expenses							
5	Cost of Gas	68,307,024	(7,033,545)	[4]	61,273,479	-		61,273,479
6	Operations and Maintenance	53,648,240	2,702,021	[5]	56,350,261	49,463	[19]	56,399,724
7	Depreciation	31,366,960	3,418,508	[6]	34,785,468	-		34,785,468
8	General Taxes	11,103,405	121,989	[7]	11,225,394	0	[20]	11,225,394
9	State Income Taxes	733,225	459,133	[8]	1,192,358	891,027	[21]	2,083,385
10	Federal Income Taxes	(1,580,594)	7,491,463	[9]	5,910,869	5,220,850	[22]	11,131,719
11	Amortization of Investment Tax Credits	(2,906)	(2,172)	[10]	(5,077)	-		(5,077)
12	Total Operating Expenses	163,575,353	7,157,399		170,732,752	6,161,340		176,894,092
13	Net Operating Income	43,067,194	(834,515)		42,232,679	19,640,727		61,873,406
14	Interest on Customers' Deposits	(254,689)	(7,367)	[11]	(262,056)	-		(262,056)
15	Allowance for Funds Used During Construction (AFDUC)	3,152,246	(150,936)	[12]	3,001,310	-		3,001,310
16	Net Operating Income for Return	45,964,751	(992,817)		44,971,933	19,640,727		64,612,660
	Original Cost Rate Base							
17	Utility Plant in Service	1,316,834,205	224,779,637	[13]	1,541,613,842			1,541,613,842
18	Construction Work in Progress (CWIP)	54,974,331	(12,702,360)	[14]	42,271,971			42,271,971
19	Accumulated Depreciation	(462,673,218)	(38,852,211)	[15]	(501,525,429)			(501,525,429)
20	Contribution in Aid of Construction	(5,828,754)	-		(5,828,754)			(5,828,754)
21	Net Plant in Service	903,306,563	173,225,067		1,076,531,630			1,076,531,630
22	Allowance For Working Capital	30,438,656	(4,252,021)	[16]	26,186,635			26,186,635
23	Accumulated Deferred Income Taxes	(191,462,556)	(1,372,022)	[17]	(192,834,578)			(192,834,578)
24	Original Cost Rate Base	742,282,663	167,601,024		909,883,687			909,883,687
	Rate of Return							
25	On Original Cost Rate Base	6.19%			4.94%			7.10%

Piedmont Natural Gas Company, Inc.
Tennessee Operations
Test Period: 12-Months Ended March 31, 2020
Attrition Period: 12-Months Ending December 31, 2021

Schedule of Net Operating Income and Rate of Return

After Attrition Period Adjustments

Line No.		[1] Proposed Ratio	[2] Cost Net Investment	[3] Embedded Cost	[4] Weighted Cost	[5] Net Operating Income
1	Long-Term Debt	45.50%	413,997,078	4.14%	1.88%	17,139,479
2	Short-Term Debt	4.00%	36,395,347	0.40%	0.02%	145,581
3	Common Equity	50.50%	459,491,262	6.03%	3.04%	27,686,873
4	Total	100.00%	$ 909,883,687		4.94%	$ 44,971,933

After Proposed Increase

Line No.		Proposed Ratio	Cost Net Investment	Embedded Cost	Weighted Cost	Net Operating Income
5	Long-Term Debt	45.50%	413,997,078	4.14%	1.88%	17,139,479
6	Short-Term Debt	4.00%	36,395,347	0.40%	0.02%	145,581
7	Common Equity	50.50%	459,491,262	10.30%	5.20%	47,327,600
8	Total	100.00%	$ 909,883,687		7.10%	$ 64,612,660

Schedule of Net Operating Income and Rate of Return
Adjustment Summary

Adjustment No.		Description	As Filed Adjustment	Rebuttal Adjustment
1		Operating Revenues - Sale and Transportation of Gas To adjust revenues to the Attrition Period level, before proprosed rates. The Rebuttal Adjustment includes the removal of $9,333,186 of Unprotected Excess ADIT Giveback and $409,953 of lower revenues due to updated normalized customer usage.	(1,579,355)	7,343,878
2		Operating Revenues - Other Revenues To adjust other revenues to the Attrition Period level.	(365,242)	(365,242)
3		Operating Revenues - Forfeited Discounts To adjust late payment revenues in accordance with Adjustment 1	(655,752)	(655,752)
4		Cost of Gas To adjust cost of gas to the Attrition Period level for cost of gas revenues. The Rebuttal Adjustment includes $198,782 of lower cost of gas due to updated normalized customer usage.	(6,834,763)	(7,033,545)
5		Operations and Maintenance Expenses		
	A	To adjust test period for ratemaking and accounting adjustments	196,515	196,515
	B	To adjust regulatory amortization expense for deferred environmental, pension, and rate case costs. The Rebuttal Adjustment includes ($20,000) decrease related to rate case cost adjustment.	1,274,397	1,254,397
	C	To adjust other pension expense to the Attrition Period level.	2,892	2,892
	D	To adjust salaries & wages expense to the Attrition Period level.	976,470	976,470
	E	To adjust incentive compensation expense to the Attrition Period level.	(343,165)	(343,165)
	F	To adjust employee benefits expense to the Attrition Period level.	100,717	100,717
	G	To adjust rents expense to the Attrition Period level. The change for the Rebuttal Adjustment includes a ($81,313) decrease in rent expense related to DEBS pension assets.	239,858	158,542
	H	To adjust the provision of uncollectibles expense to the Attrition Period level.	12,045	12,045
	I	To adjust risk insurance expense to the Attrition Period level.	15,129	15,129
	J	To adjust transmission and distribution expenses to the Attrition Period level.	524,463	524,463
	K	To adjust other A&G expenses to the Attrition Period level. The change for the Rebuttal Adjustment includes a ($911,088) decrease in A&G for severance costs, out-of-period costs, employee transition costs, and improper allocation to TN.	483,392	(427,696)
	L	To adjust sales expenses to the Attrition Period level.	71,170	71,170
	M	To adjust other customer expenses to the Attrion Period level.	139,389	139,389
	N	To adjust research and development funding through GTI.	100,000	100,000
	O	To adjust regulatory commission fee to the Attrition Period level.	(78,847)	(78,847)
		Total	3,714,423	2,702,021
6		Depreciation and Amortization Expense To adjust depreciation and amortization expense to the Attrition Period level, based on new depreciation rates and in line with utility plant in service growth (Adjustment 13). The change for the Rebuttal Adjustment includes a ($215,437) decrease for retirements for common plant.	3,633,945	3,418,508

Schedule of Net Operating Income and Rate of Return
Adjustment Summary

Adjustment No.		Description	As Filed Adjustment	Rebuttal Adjustment
7		General Taxes		
	A	To adjust payroll tax expense to the Attrition Period level in-line with Adjustment 5D.	695,661	695,661
	B	To adjust property tax expense to the Attrition Period level.	(622,102)	(622,102)
	C	To adjust TN utility tax expense to the Attrition Period level.	48,431	48,431
		Total	121,990	121,990
8		State Excise Taxes To adjust state excise tax expense (Piedmont composite state income tax rate of 3.46%) following all adjustments to operating revenues and expenses described previously.The change for the Rebuttal Adjustment includes the flow-through effect of net operating income adjustments and to exclude AFUDC related to equity financing from taxable income.	107,009	459,133
9		Federal Income Taxes To adjust federal income tax expense (rate of 21%) including EDIT amortization following all adjustments to operating revenues, expenses, and state income tax expense described previously. The change for the Rebuttal Adjustment includes a $5,802,018 EDIT adjustment, the flow-through effect of net operating income adjustments and to exclude AFUDC related to equity financing from taxable income.	(373,775)	7,491,463
10		Investment Tax Credit Amortization To adjust investment tax credit amortization.	(2,172)	(2,172)
11		Interest on Customer Deposits To adjust interest on customer deposits expense to Attrition Period level. The change for the Rebuttal Adjustment includes an adjustment for ($901) to accept the Consumer Advocate's adjustment.	8,268	7,367
12		Allowance for Funds Used During Construction (AFUDC) To adjust AFUDC in-line with Attrition Period CWIP balance (Adjustment 14).	(150,942)	(150,936)
13		Utility Plant in Service To adjust utility plant in service for Attrition Period net additions. The change for the Rebuttal Adjustment includes an adjustment for ($3,840,334) to reflect plant retirements for common plant.	228,619,971	224,779,637
14		Construction Work in Progress (CWIP) To adjust CWIP to Attrition Period balance.	(12,702,360)	(12,702,360)
15		Accumulated Depreciation To adjust accumulated depreciation balance to Attirion Period balance based on proposed depreciation study recommendations and net additions to utlity plant in service (Adjustment 13). The change for the Rebuttal Adjustment includes an adjustment for ($4,521,573) to reflect plant retirements for common plant.	(43,373,784)	(38,852,211)
16		Allowance for Working Capital To adjust the allowance for working capital to Attrition Period balances. The change for the Rebuttal Adjustment includes an adjustment for ($6,786,800) to reflect changes in the lead-lag requirement, cash working funds, materials and supplies, gas inventories, deferred rate case expenses, deferred pensions, customer deposits, and interest on customer deposits.	2,534,779	(4,252,021)
17		Accumulated Deferred Income Taxes To adjust accumulated deferred income taxes for the Attrition Period level. The change for the Rebuttal Adjustment includes an adjustment for ($951,800) to reflect changes in ADIT balances related to pension assets and severance amounts.	420,222	1,372,022

Schedule of Net Operating Income and Rate of Return
Adjustment Summary

Adjustment No.		Description	As Filed Adjustment	Rebuttal Adjustment
18		Operating Revenues - Sale and Transportation of Gas To adjust revenues for the sale and transportation of gas following all Attiriton Period adjustments previously described. The change for the Rebuttal Adjustment follows all the Rebuttal adjustments described.	29,919,130	25,802,067
19		Operations and Maintenance Expenses		
	A	To adjust the provision for uncollectible accounts following Adjustment 18 at 0.1932% rate.	57,804	49,463
	B	To adjust regulatory commission fee expense following Adjustment 18 at 0.425% rate. The change for the Rebuttal Adjustment removes this retention factor.	127,156	-
		Total	184,960	49,463
20		General Taxes To adjust TN utility tax expense following Adjustment 18 at 1.5% rate. The change for the Rebuttal Adjustment removes this retention factor.	448,787	-
21		State Income Taxes To adjust state excise tax expense (Piedmont composite State income tax rate of 3.46%) following Adjustment 18.	1,013,275	891,027
22		Federal Income Taxes To adjust federal income tax expense (statutory rate of 21%) following Adjustment 18.	5,937,142	5,220,850
23		Forfeited Discounts To adjust forfeited discounts following Adjustment 18 at 0.9905% rate.	-	253,075

Rebuttal Exhibit_(QPB-8)

Piedmont Natural Gas Company, Inc.
Tennessee Operations
Test Period: 12-Months Ended March 31, 2020
Attrition Period: 12-Months Ending December 31, 2021

Consolidated Income Statement for Total Company and TN Operations for 12-Months Ended March 31, 2020
Note: This Exhibit is unmodified from the initial filing

	Piedmont Natural Gas	Tennessee Operations
Utility Revenues	1,256,220,309	206,642,547
Cost of Gas	380,056,221	68,307,024
Margin	876,164,087	138,335,523
O&M Expense	300,735,278	53,648,240
Depr & Amort Expense	175,837,767	31,366,960
General Taxes	44,095,377	11,103,405
State Income Taxes	(7,623,053)	733,225
Federal Income Taxes	29,275,091	(1,583,499)
Total Operating Expenses	542,320,460	95,268,329
Net Utility Operating Income	333,843,627	43,067,194
Total Other Income	18,962,243	1,390,815
Total Other Income Deductions	3,445,563	1,065,574
General Taxes on Non-Utility	361,312	61,036
Income Taxes on Non-Utility	11,879,785	1,072,229
Net Other Income and Deductions	3,275,583	(808,024)
Gross Income	337,119,211	42,259,170
Interest Charges	114,997,733	19,342,198
AFUDC	(22,909,032)	(2,812,152)
Net Interest Charges	92,088,702	16,530,046
Income - Discontinued Operations	-	-
Net Income (Loss)	245,030,509	25,729,124

Piedmont Natural Gas Company, Inc.
Tennessee Operations
Test Period: 12-Months Ended March 31, 2020
Attrition Period: 12-Months Ending December 31, 2021

Total Company Consolidated Balance Sheet as of March 31, 2020

Note: This Exhibit is unmodified from the initial filing

	Piedmont Natural Gas
ASSETS	
Cash and Cash Equivalents	$ 3,709,691
Receivables	186,496,136
Receivables from affiliated companies	88,790,464
Inventory	38,702,705
Regulatory Assets	41,497,094
Other	11,431,017
Total Current Assets	370,627,107
Cost	8,721,288,127
Less Accumulated Depreciation and Amortization	(1,703,219,629)
Net Property Plant and Equipment	7,018,068,498
Goodwill	48,852,311
Regulatory Assets	263,321,012
Operating Lease Right-of-Use assets	23,337,787
Investment in Consolidated Subsidiaries	(8,262,460)
Other	56,018,765
Total Other Noncurrent Assets	383,267,415
Total Assets	$ 7,771,963,021
LIABILITIES AND EQUITY	
Accounts Payable	138,064,155
Accounts payable to affiliated companies	16,841,582
Notes payable to affiliated companies	485,898,000
Taxes Accrued	41,055,288
Interest Accrued	31,671,480
Regulatory Liabilities	(16,282,918)
Other	55,493,504
Total Current Liabilities	752,741,091
2507_LTD_UNSEC_FIX - Long-Term Debt	2,400,000,000
2520_UNAMT_DEBT_DISC - Unamortized Debt Discount	(2,184,052)
1812_UNAMORT_DEBT - Unamortized Debt Expense	(13,090,687)
Long-Term Debt	2,384,725,261
Total Other Noncurrent Liabilities	2,024,256,866
Equity	2,610,239,803
Total Liabilities and Common Stockholders' Equity	$ 7,771,963,021