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Electronically Filed in TPUC Docket Room on December 16, 2020 at 12: 40 p.m.

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 UTILITIES COMMISSION
NASHVILLE, TENNESSEE**

December 16, 2020

IN RE:

**PETITION OF PIEDMONT NATURAL
GAS COMPANY, INC. FOR APPROVAL
OF AN ADJUSTMENT OF RATES, CHARGES,
AND TARIFFS APPLICABLE TO SERVICE
IN TENNESSEE**

Docket No.
20-00086

REBUTTAL TESTIMONY OF

PAUL M. NORMAND

ON BEHALF OF

PIEDMONT NATURAL GAS COMPANY, INC.

1 **Q. Please state your name, affiliation, and business address.**

2 A. My name is Paul M. Normand. I am a management consultant and president with the
3 firm of Management Applications Consulting, Inc., 1103 Rocky Drive, Suite 201,
4 Reading, PA 19609.

5 **Q. On whose behalf are you testifying?**

6 A. I am testifying on behalf of Piedmont Natural Gas Company, Inc. (“Piedmont” or “the
7 Company”).

8 **Q. Are you the same Paul Normand who provided prepared direct testimony in this**
9 **proceeding?**

10 A. Yes, I am.

11 **Q. What is the purpose of your rebuttal testimony?**

12 A. My Rebuttal Testimony responds to the matters raised concerning class cost of service
13 and rate design in the Direct Testimony of Consumer Advocate witness Novak filed in
14 this proceeding on November 30, 2020.

15 **Q. Did you prepare a cost of service study (“COSS”) to support the Company’s rate**
16 **design proposal in this proceeding?**

17 A. Yes. The development of the COSS prepared for the Company was described in my
18 Direct Testimony on pages 6 through 18. Detailed COSS results and workpapers were
19 provided with the Company’s base rate filing as Exhibits PMN-2 through PMN-9,
20 which fully support the allocation factors of the study. The primary principle that
21 guides the COSS process is that of cost causation, the underlying drivers of costs.
22 Each step in the development of the COSS is consistent with the factors that drive
23 or contribute to the incurrence of costs on Piedmont’s system. The COSS follows the

1 general guidelines of the National Association of Regulatory Commissioners (NARUC)
2 as well as standardized industry practices. As a result, the COSS prepared for Piedmont
3 provides an important reference point or guide as to the reasonableness of the
4 Company's existing approved rates and should be considered along with other
5 generally recognized factors such as customer impacts in the design of new base rates
6 in this proceeding.

7 **Q. Would you briefly define the purpose of a COSS?**

8 **A.** The cost to serve the customers of any utility company consists generally of allowable
9 investments, operating expenses and a return. For a historical test period, these costs are
10 a matter of record and the overall cost to serve the collective customers of the utility may
11 be readily established. On the other hand, the unique cost to serve customers of the
12 various service classifications is much less apparent. Costs can vary significantly
13 between customer classes depending upon the nature of their demands (load) upon the
14 system and the facilities required to serve them. These costs are fixed in nature and have
15 no relationship to volumetric consumption, contrary to Witness Novak's understanding.
16 The purpose of a COSS is to directly assign these costs based on Company records or
17 allocate each relevant and identifiable component of cost on an appropriate basis in order
18 to determine the proper cost to serve the respective classes under study.

19 The COSS result provides a benchmark to compare existing rates and revenue
20 levels by class with respect to their underlying costs. It is a point estimate in time and not
21 intended to exactly mirror the pricing in rate design proposals, but simply to be used as a
22 guide or direction for the proposed rate proposals.

23 **Q. Please summarize Witness Novak's Direct Testimony concerning your COSS.**

1 A. Witness Novak, who uses the terminology “Class Cost of Service Study” or “CCOSS,”
2 asserts that the allocation of “each element of the Company’s cost of service is
3 inherently judgmental, and that the Company has not introduced any evidence to fully
4 explain its rationale for each individual allocation assignment.” (Novak Direct
5 Testimony, page 51, Lines 6-9). Repeating this claim, Mr. Novak states: “Since
6 the Company has not provided any rationale for its individual allocation choices it is
7 impossible to determine its rationale for cost allocation.” (Novak Direct Testimony, Page
8 51, Lines 15-17). Witness Novak goes so far as to suggest that it was imprudent for the
9 Company to undertake an allocated cost of service study stating that “To my
10 knowledge, the Commission has never adopted a CCOSS for any of the utilities that it
11 regulates.” (Novak Direct Testimony, page 52, Lines 7-8).

12 In my 40 years of experience in preparing such studies and presenting them
13 before regulatory agencies, the results are considered as a part of the final decision
14 where customer impacts oftentimes mitigate change. In most cases, however, class
15 rate/revenue increases also consider moderation guided by studies such as we have
16 proposed whereby certain classes receive a limited increase while the remaining
17 customer classes are assigned this resulting revenue deficiency. (Normand Direct, pages
18 20-22). I believe that cost-based pricing leads to more efficient pricing, a goal that
19 should be pursued on behalf of customers.

20 **Q. Please respond to Witness Novak’s claims that you did not provide any rationale**
21 **for the allocations in the COSS accompanying your Direct Testimony.**

22 A. All elements of the COSS are explained in my Direct Testimony (pages 9-18) and
23 Exhibits 2 through 9 including the general approach to the COSS, data sources,

1 classification of costs, allocation of costs, supporting analyses of investments in mains,
2 services and meters, and COSS results. Additionally, a description of each allocator has
3 been provided in PMN-8-COS and the detailed workpapers are provided in Exhibit
4 PMN-9-COS. Witness Novak's assertions are simply incorrect and misleading.

5 **Q. Do you agree that there is judgment involved in the preparation of a COSS**
6 **for a Local Distribution Company ("LDC")?**

7 A. Yes. It is necessary to apply expert judgment that reflects a number of factors
8 including the nature of services the LDC provides, the demographics of its
9 customers, the design of the LDC's facilities and guidance from the regulatory
10 commission concerning allocation approaches. Appropriate cost allocation methods,
11 such as those utilized in my study, take into account the factors noted above and yield a
12 range of results that are within reasonable bounds to be used as a guide for rate design.

13 **Q. Does Witness Novak present an alternative COSS?**

14 A. No, he does not offer any COSS to guide the rate design process. In fact, the only
15 statement Witness Novak offers regarding an alternative methodology is with respect to
16 costs that are allocated on the basis of design day in the Company's COSS
17 claiming: "I could easily justify allocating many of these same costs based upon the
18 total throughput of each customer class which would then allocate a majority of the
19 costs to industrial customers." (Novak Direct Testimony, Page 51, Lines 12-15). But
20 use of a class annual throughput for the allocation for demand-related costs is nonsensical
21 for a gas LDC where usage is highly seasonal and even higher for the design day load
22 requirement for the Company's expected coldest day.

1 **Q. Why do you disagree with the simplistic “throughput” allocation of fixed costs**
2 **instead of Design Day as you have proposed in your COSS study?**

3 A. Witness Novak’s use of class throughput is misleading and somewhat illogical as it
4 completely ignores the planning process which is the major driver of distribution fixed
5 costs based on design day delivery requirements for any gas utility. Specifically, the
6 design day is the expected coldest day load requirement of any gas utility where the
7 maximum demand (load) level of gas delivery to customers would occur, which typically
8 occurs in the coldest month of the year. As a result, utilities plan for this very large load
9 requirement by installing facilities (compressors, mains, etc.) that will provide the
10 capability for all firm customers. For Piedmont, this is a -5 degree day which is obviously
11 a very cold day where load (demands) on the Company’s infrastructure is at a maximum
12 (reference Exhibit PMN-9-COS, pages 13 and 17). As a result, design day consideration
13 is the most important consideration in the underlying cost driver for distribution planning,
14 a fact that was totally ignored and overlooked by Witness Novak’s misleading comment
15 relating to throughput (volumetric consumption).

16 **Q. Do you agree with Witness Novak’s attempt to remove the cost of the COSS**
17 **performed in this proceeding? (Novak Direct Testimony, Page 38, Lines 8-11).**

18 A. No, I do not. The results presented in my direct testimony with the underlying support in
19 my exhibits, which provide all the detail support, are an excellent reference or guide in
20 assisting the Commission in arriving at its final determination. Mr. Novak provides no
21 alternative and, in fact, attempts to incorrectly indicate a throughput volume allocation
22 for cost, which as I discussed earlier, is virtually impossible as a driver of costs for a gas
23 utility.

1 **Q. Does Witness Novak recognize that the Company's rate design proposal in the**
2 **current case took into consideration other factors in addition to the COSS?**

3 A. I do not believe so. Mr. Novak either failed to understand the basis for the
4 Company's rate proposal or he mischaracterized it in his testimony as he responds to a
5 question regarding whether he reviewed the Company's cost allocation study with the
6 following: "[t]he results of the Company's CCOSS proposes an increase in base rates
7 of 23.9% for residential and 14.4% commercial customers while only proposing a
8 12.6% increase in base rates for industrial customers." (Novak Direct Testimony, Page
9 50, Lines 19-21 and Page 51, Lines 1-2). My Direct Testimony clearly explains on pages
10 20 and 21 that under the COSS, the residential class would require a major increase in
11 rates. However, I allocated a portion of the increase to all other classes as a means of
12 mitigating the increase to residential customers. I limited this increase to 120% of the
13 overall Company increase with the resulting revenue shortfall allocated to all other
14 classes (Normand COS, Direct Testimony, pages 20-22). The COSS is an important
15 factor, but not the only factor to be considered, in determining appropriate rates
16 for the Company.

17 **Q. Does Witness Novak offer a rate design proposal?**

18 A. Yes. Witness Novak recommends that the change in the Company revenues (a
19 revenue decrease) "be allocated evenly across-the-board to all customer classes,
20 including Special Contract customers, based on the ratio of each customer class'
21 attrition period margin to the total attrition period margin." (Novak Direct
22 Testimony, Page 52, Lines 13-20). In addition, Witness Novak implies that the
23 existing monthly customer charges remain at their current levels and that any revenue

1 change “be applied on a volumetric rate” (Novak Direct Testimony Page 53, Line 16-17
2 and Page 59, Lines5-7).

3 **Q. Does Witness Novak offer any evidence supporting the specific rate design**
4 **recommendations?**

5 A. According to Witness Novak, “[t]he Consumer Advocate believes that an across-the-
6 board change in rates to all customer classes more equitably spreads the benefit or
7 burden of any change in rates and is preferable to the Company’s CCOSS results.”
8 (Novak Direct Testimony Page 52, Lines 17-19). Witness Novak has substituted his
9 personal judgment, or that of the Consumer Advocate, in place of an empirical analysis
10 to assess the equity associated with the Company’s rates. A comparison of revenues to
11 costs through a COSS is the only appropriate means of assessing rate equity and
12 fairness.

13 **Q. Witness Novak proposes to assign a portion of the revenue change to special**
14 **contract customers. (Novak Direct Testimony Page 52, Lines13-16). Do you agree**
15 **with the assignment of a portion of the base revenue change to Special Contract**
16 **customers?**

17 A. No. The rates for special contract customers are governed by the terms of their contracts
18 and do not change when tariff rates are modified in a base rate case. Witness Novak’s
19 allocation of revenues to Special Contract customers would not lead to any change in
20 rates that these customers pay and the revenues collected, leading to a revenue
21 deficiency for the Company.

1 **Q. Do you have any comments with respect to Witness Novak's interpretation of the**
2 **Company's interruptible sales customers? (Novak Direct Testimony Page 12, Lines**
3 **2-7).**

4 A. Yes, I do. The term interruptible implies non-firm where the service for these customers
5 is subordinate to firm service. The fact that the Company has not interrupted them in
6 recent years is a misleading interpretation of this service. The expectation of interruption
7 is predicated on a myriad of causal relationships that have not recently presented
8 themselves on Piedmont's delivery system. More importantly, the extreme design day
9 temperature has not been prevalent in recent years, thereby reducing the possibility as can
10 easily be verified in the weather data provided in data responses. What is much more
11 important, however, is the very large revenue margins obtained from these customers
12 based on present rates. The Company's margins are therefore very important as it
13 benefits all customers in reducing their revenue requirements, and these sales should be
14 maximized within the interruptible conditions for the Company.

15 **Q. Does this conclude your rebuttal testimony?**

16 A. Yes, it does.