

BEFORE THE TENNESSEE PUBLIC UTILITY COMMISSION

NASHVILLE, TENNESSEE

May 6, 2021

IN RE:

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

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**DOCKET NO.
20-00086**

**ORDER APPROVING SETTLEMENT AGREEMENT SETTING RATES AND APPROVING
THE PROCEDURES FOR REFUNDS TO CUSTOMERS**

This matter came before Commissioner Robin L. Morrison, Commissioner John Hie, and Commissioner David F. Jones of the Tennessee Public Utility Commission (the “Commission” or “TPUC”), the voting panel assigned to this docket, during a regularly scheduled Commission Conference held on February 16, 2021, to consider the *Stipulation and Settlement Agreement* (“*Settlement Agreement*”) filed on February 3, 2021, by Piedmont Natural Gas Company, Inc. (“Piedmont” or “Company”) and the Tennessee Attorney General and Reporter, through the Consumer Advocate Unit of the Financial Division (“Consumer Advocate”) (collectively, the “Parties”) to resolve this docket and set just and reasonable rates. In a unanimous decision, the Commission approved the *Settlement Agreement* attached herein as Exhibit A.

PROCEDURAL BACKGROUND

Piedmont is a subsidiary of Duke Energy Corporation and is incorporated under the laws of Tennessee. Piedmont is a public utility under the jurisdiction of the Commission and is in the business of transporting, distributing, and selling natural gas to approximately 191,000 residential,

commercial, and industrial customers in the State of Tennessee.¹ On July 2, 2020, Piedmont filed the *Piedmont Natural Gas Company Inc. Petition for an Adjustment of Rates, Charges, and Tariffs Applicable to Service in Tennessee* (“*Petition*”) seeking an increase in rates; revisions to rate and service schedules, service regulations, and depreciation rates; and amortization of certain deferred regulatory assets.

The *Petition* sought to increase base service rates, inclusive of certain Integrity Management Rider (“IMR”) charges, by \$29.9 million annually.² The proposed base rates represented an increase of 23.9% to the current base rates of residential customers, as well as increases ranging from 11.6% to 19.9% for other customer classes.³

The Consumer Advocate filed a petition to intervene in the docket on July 30, 2020, which was subsequently granted by the Hearing Officer.⁴ Thereafter, the parties were unable to come to an agreement upon a procedural schedule. The Company sought to have its rates implemented before the end of the calendar year and the Consumer Advocate asserted a need for more time to investigate the new rates sought by Piedmont.⁵ Taking into account the preferences of the parties, the challenges of scheduling around holidays, the impact of the COVID-19 pandemic on the investigation of the proposed rates, and the need for sufficient time to test the veracity of the requested rate increase, the Hearing Officer issued a procedural schedule with a target date for a hearing on the merits during the week of January 11-15, 2021.⁶

¹ *Piedmont Natural Gas Company, Inc. Petition for an Adjustment of Rates, Charges, and Tariffs Applicable to Service in Tennessee*, p. 2 (July 2, 2020).

² Paul M. Normand, Pre-Filed Direct Testimony Re: Embedded Cost of Service Rate Design Recommendations, Exh. PMN-4-COS (July 2, 2020).

³ *Id.*; Kally Couzens, Pre-Filed Direct Testimony, Exhibit KAC-4 (July 2, 2020).

⁴ *Order Granting the Petition to Intervene Filed by the Consumer Advocate* (August 24, 2020).

⁵ *Piedmont Natural Gas Company’s Letter to the Hearing Officer Regarding Revised Procedural Schedule* (August 6, 2020); *Letter of the Consumer Advocate to the Hearing Officer Regarding Procedural Schedule* (August 12, 2020).

⁶ *Order Establishing Procedural Schedule* (August 25, 2020).

Following discovery pursuant to the procedural schedule, the Consumer Advocate submitted pre-filed direct testimony on November 30, 2020, contesting several aspects of the *Petition*. The contested issues covered a range of accounting adjustments and methodologies for revenues, operating expenses, rate base and the Company's proposed capital structure and rate of return for rate-making purposes.⁷ In rebuttal testimony filed by the Company, Piedmont revised its requested rate increase from \$29,919,130.00 to \$25,802,068.00, reflecting agreement with the Consumer Advocate regarding certain adjustments.⁸

Following a correction submitted in revised pre-filed testimony, the Consumer Advocate proposed a rate increase of \$244,888.00, an amount considerably less than the \$25,802,067.00 sought by Piedmont.⁹

PIEDMONT'S NOTICE OF INTENT TO IMPLEMENT NEW RATES ON JANUARY 2, 2021

Prior to the filing of the Consumer Advocate's pre-filed direct testimony, on November 6, 2020, Piedmont filed the *Notice of Intent to Implement Rates Subject to Refund Pursuant to Tenn. Code Ann. § 65-5-103(b)(1) of Piedmont Natural Gas Company, Inc.* ("Notice of Intent") informing the Commission that, in accordance with its statutory right to do so, it would place the proposed base rates into effect on January 2, 2021.¹⁰ In response, the Consumer Advocate sought "safeguards" to be implemented, including the requirement that the IMR filing, submitted in Commission Docket No. 20-00130, should be implemented at the same time as the interim rates.¹¹

⁷ See generally, David Dittmore, Pre-Filed Direct Testimony, (November 30, 2020); Alex Bradley, Pre-Filed Direct Testimony, (November 30, 2020); William H. Novak, Pre-Filed Direct Testimony, (November 30, 2020); Dr. Christopher Klein, Pre-Filed Direct Testimony, (November 30, 2020).

⁸ *Stipulation and Settlement Agreement* ("Settlement Agreement"), p. 3 (February 3, 2021).

⁹ *Consumer Advocate's Response to The Tennessee Public Utility Commission Staff First Data Request*, Schedule 1, (January 6, 2021); Quynh Pham Bowman, Pre-Filed Direct Testimony, p. 2 (December 16, 2020).

¹⁰ *Notice of Intent to Implement Rates Subject to Refund Pursuant to Tenn. Code Ann. § 65-5-103(b)(1) of Piedmont Natural Gas Company, Inc.* ("Notice of Intent"), p. 3 (November 6, 2020).

¹¹ *Consumer Advocate's Response to Piedmont's Notice of Intent to Implement Rates Subject to Refund*, pp. 2-6 (December 3, 2020).

Following the filing of the Consumer Advocate's pre-filed testimony, Piedmont revised and lowered the amount of new rates it sought to implement on January 2, 2021 by 10% to recognize adjustments made by the Consumer Advocate with which the Company did not object.¹² Pursuant to the requirements of Tenn. Code Ann. § 65-5-103(b), the Commission imposed conditions on Piedmont's implementation of new rates, including requirements for refunds to customers for any amount of the new rates disallowed at the conclusion of this rate case.¹³

SETTLEMENT AGREEMENT

As publicly noticed on January 8, 2021, a hearing on the merits of the *Petition* was convened on January 19, 2021. At the hearing, the parties informed the Commission that on the eve of the hearing a settlement in principle had been reached to resolve the case.¹⁴ The parties jointly requested a continuance to allow the explicit agreed upon terms to be reduced to writing and allow for time for review and approval prior to filing with the Commission. The Hearing Panel set a deadline of February 3, 2021 for the filing of any settlement document to allow adequate time for Commission review and to allow for scheduling the evidentiary hearing should the settlement be rejected by the Commission.

On February 3, 2021, the parties submitted the *Settlement Agreement* which included a recommended annual revenue increase of \$16,250,000 for the attrition period ending December 31, 2021. This revenue requirement consists of:

1. Required net operating income for return of \$61,451,135;
2. A rate base of \$897,267,145;
3. An overall return of 6.85%
4. A return on common equity of 9.80%;
5. A capital structure consisting of 50.5% common equity, 4% short-term debt, and 45.5% long-term debt;

¹² *Order Imposing Conditions and Refund Requirements Regarding Piedmont Natural Gas Company, Inc's Intention to Implement New and Temporary Rates Pursuant to Tenn. Code Ann. § 65-5-103(b)*, p. 10 (February 26, 2021).

¹³ *Id.* at 12-14.

¹⁴ Transcript of Hearing, pp. 7-9 (January 19, 2021).

6. A cost of short-term debt of 0.40%; and
7. A cost of long-term debt of 4.14%.¹⁵

With respect to refunds for customers for rates paid since January 2, 2021, beyond the rates authorized by the *Settlement Agreement*, the parties agreed to the following:

Piedmont shall fully credit its customer's accounts for refunds due and required by Tenn. Code Ann. § 65-5-103-(b)(1) no later than 90 days following the entry of a Commission order approving this Stipulation. Such refunds shall include interest accrued at the Company's overall rate of return, as shown in paragraph 14c herein and shall be calculated to ensure that the overcharge, calculated based upon specific customer usage, shall be the amount refunded to such customer.¹⁶

The parties made many stipulations as part of the *Settlement Agreement*. A number of agreements included in the *Settlement Agreement* went beyond the overall revenue deficiency and set forth matters the parties determined should be addressed in the future in other proceedings. Both parties agreed the *Settlement Agreement* has no precedential effect.

THE HEARING

The hearing on the *Settlement Agreement* was noticed by the Commission on February 5, 2021 and held during the regularly scheduled Commission Conference on February 16, 2021. The hearing was held electronically via WebEx pursuant to Executive Order No. 16 issued by Governor Bill Lee on March 20, 2020, and most recently extended by Executive Order No. 71 issued on December 22, 2020, which authorizes the Commission to meet electronically, without a physical quorum. Electronic access to the hearing was made available to the parties and the public. Appearances were made by the following:

Piedmont Natural Gas Company, Inc.— James H. Jeffries, IV Esq., McGuire Woods LLP, 201 North Tryon Street, Suite 3000, Charlotte, North Carolina, 28202; Paul S. Davidson, Esq., Waller Lansden Dortch & Davis, 511 Union Street, Suite 2700 Nashville, Tennessee 37219-2498.

¹⁵ *Settlement Agreement*, pp. 4-6 (February 3, 2021).

¹⁶ *Id.* at 11.

Consumer Advocate – Daniel P. Whitaker, III, Esq. Financial Division of the Office of the Tennessee Attorney General and Reporter, Post Office Box 20207, Nashville, Tennessee, 37219.

The *Settlement Agreement* was presented to the Hearing Panel and summarized by Piedmont witness Ms. Pia Powers. Witnesses for both parties were available for questions. Members of the public were given an opportunity to offer comments, but no one sought recognition to do so.

FINDINGS & CONCLUSIONS

The Commission commends the Parties for their hard work in developing a comprehensive evidentiary record in this proceeding, which could only contribute to the ability of the Parties to reach an overall settlement on the wide-ranging issues in this proceeding. The comprehensive record also provided the Commission with the requisite information to appropriately evaluate the reasonableness of the agreed-upon rate relief.

Settlements entail give-and-take negotiations, the end result of which may see a long-standing Commission precedent on a particular issue set aside by the parties for purposes of reaching an agreement. Approving such settlements is not a rejection of a Commission precedent, although parties should be mindful that abandoning long-standing Commission precedents and practices in the name of settlement will only court greater uncertainty and may result in modification or rejection of a proposed settlement.

While the Commission may not have ruled in the same manner or adopted the same methodology after a hearing on the merits, after careful consideration of the *Settlement Agreement* submitted on February 3, 2021, the Hearing Panel found the *Settlement Agreement*, when taken in its entirety, contains settled issues which lead to a revenue deficiency that falls within the zone of reasonableness. The Hearing Panel voted unanimously to approve the *Settlement Agreement*.

The resulting annual rate increase of \$16.25 million will provide Piedmont with sufficient funds to deliver quality service to its customers while also allowing Piedmont's shareholders a fair equity return. The Hearing Panel voted to adopt the following components of the calculated revenue deficiency of \$16.25 million:

1. An attrition period for the twelve months ending December 31, 2021;
2. Required net operating income for return of \$61,451,135;
3. A rate base of \$897,267,145;
4. Total operating revenues of \$216,896,951;
5. Total operation and maintenance expenses of \$51,816,193;
6. Total other expenses, including depreciation and taxes of \$54,724,811;
7. A return on equity of 9.80%; and
8. An overall rate of return of 6.85%.

The Hearing Panel further found the depreciation rates for Tennessee direct assets, set forth in the depreciation study filed by Piedmont witness Dane A. Watson, are reasonable and voted unanimously that they be approved. The Hearing Panel also found the rate design contained within the *Settlement Agreement*, which increases base rates by 10.7% across all classes, to be just and reasonable. The Hearing Panel also approved a separate rider mechanism to recover rate case expenses of up to \$900,000 over a three-year period following an opportunity for the review of invoices.

Additionally, the Hearing Panel found that should the Company petition for an alternative regulatory mechanism, including annual rate review, the forward-looking methodologies adopted in the *Settlement Agreement* shall be reviewed for appropriateness in determining service rates pursuant to such an annual rate-setting mechanism. Finally, the Hearing Panel found that the

Settlement Agreement provision for refunds is consistent with the Commission's ruling that amounts shall be refunded to customers for the difference between the base rate increases placed into effect by Piedmont on January 2, 2021, and the base rates approved in a final decision by the Commission. The Hearing Panel directed Piedmont to file a full reconciliation of all calculated refunds by individual class with the Commission within thirty (30) days of issuing refunds.

IT IS THEREFORE ORDERED THAT:

1. The *Stipulation and Settlement Agreement* filed by Piedmont Natural Gas Company, Inc. and the Tennessee Attorney General and Reporter, through the Consumer Advocate Unit of the Financial Division on February 3, 2021, is approved, adopted, and incorporated herein as Exhibit A.

2. As set forth in the *Stipulation and Settlement Agreement*, the following components of the calculated revenue deficiency of \$16.25 million are as follows:

- a. An attrition period for the twelve months ending December 31, 2021;
- b. Required net operating income for return of \$61,451,135;
- c. A rate base of \$897,267,145;
- d. Total operating revenues of \$216,896,951;
- e. Total operation and maintenance expenses of \$51,816,193;
- f. Total other expenses, including depreciation and taxes of \$54,724,811;
- g. A return on equity of 9.80%; and
- h. An overall rate of return of 6.85%.

3. As set forth in the *Stipulation and Settlement Agreement*, refunds provided by the Piedmont Natural Gas Company, Inc. shall be given on an individual basis and interest shall be calculated at the authorized rate of return set at the conclusion of this rate case.

4. Piedmont Natural Gas Company, Inc. shall file a reconciliation of all calculated refunds by individual class with the Commission within thirty (30) days of issuing refunds.

5. Piedmont Natural Gas Company, Inc. shall file tariffs reflecting this decision.

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

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

FOR THE TENNESSEE PUBLIC UTILITY COMMISSION:

**Commissioner Robin L. Morrison
Commissioner John Hie, and
Commissioner David F. Jones concurring.**

None dissenting.

ATTEST:



Earl R. Taylor, Executive Director

EXHIBIT A

**BEFORE THE TENNESSEE PUBLIC UTILITY COMMISSION
NASHVILLE, TENNESSEE**

IN RE:)
)
PIEDMONT NATURAL GAS COMPANY,)
INC. PETITION FOR AN ADJUSTMENT)
OF RATES, CHARGES, AND TARIFFS) **Docket No. 20-00086**
APPLICABLE TO SERVICE IN)
TENNESSEE)
)

STIPULATION AND SETTLEMENT AGREEMENT

Piedmont Natural Gas Company, Inc. ("Piedmont" or "the Company") and Herbert H. Slatery III, the Tennessee Attorney General and Reporter, through the Consumer Advocate Unit in the Financial Division ("Consumer Advocate") (collectively, the "Parties") constituting all of the parties to the above-captioned general rate proceeding and in comprehensive settlement of the matters at issue therein, do hereby stipulate and agree as follows:

BACKGROUND

1. Piedmont is a subsidiary of Duke Energy Corporation and is incorporated under the laws of the State of North Carolina. Piedmont is engaged in the business of transporting, distributing, and selling natural gas in the states of Tennessee, North Carolina, and South Carolina. Piedmont's principal office and place of business is located at 4720 Piedmont Row Drive, Charlotte, North Carolina.

2. Piedmont is a public utility under the laws of Tennessee, and its public utility operations in Tennessee are subject to regulation and supervision by the Tennessee Public Utility Commission ("TPUC" or "Commission") pursuant to Chapter 4 of Title 65 of the Tennessee Code Annotated.

3. Piedmont is engaged in the business of distributing natural gas to customers located

in Nashville and the remainder of Davidson County as well as portions of the adjoining counties of Cheatham, Dickson, Robertson, Rutherford, Sumner, Trousdale, Williamson, and Wilson and in certain incorporated towns and cities located therein. Piedmont currently provides natural gas service to approximately 191,000 residential, commercial, and industrial customers in Tennessee.

4. On July 2, 2020, Piedmont filed a Petition for an Adjustment of Rates, Charges, and Tariffs Applicable to Service in Tennessee ("Petition") in the instant docket. In its Petition, Piedmont sought an increase in its annual operating revenues of \$29,919,130, representing an increase of 14.7% to total operating revenues or alternatively viewed as an increase of 19.8% to margin operating revenues.

5. On July 30, 2020, the Consumer Advocate filed a Petition to Intervene in the instant proceeding. On August 24, 2020, the Commission issued an order granting the Consumer Advocate's request to intervene. No other entity has sought or been granted party status in this proceeding.

6. Since the filing of Piedmont's Petition, the Parties have engaged in substantial discovery, informal information exchanges, and extensive communication. In addition to the information provided pursuant to the Commission's Minimum Filing Requirements, Piedmont responded to one data request from Commission Staff and three sets of data requests, consisting of multiple items, from the Consumer Advocate. The Consumer Advocate responded to one data request from Commission Staff and a set of discovery requests from the Company. Piedmont representatives and representatives from the Consumer Advocate have also spent a significant amount of time discussing the various aspects of Piedmont's rate case.

7. On November 30, 2020, the Consumer Advocate filed direct testimony in this proceeding challenging numerous aspects of Piedmont's Petition, including the requested revenue

increase. In this testimony, witnesses for the Consumer Advocate recommended a number of changes to the relief sought by Piedmont, including a proposed reduction in Piedmont's attrition period revenue requirement. The Consumer Advocate initially proposed a revenue decrease of \$3,795,187.

8. On December 16, 2020, Piedmont filed rebuttal testimony addressing concerns raised in the direct testimony of the Consumer Advocate. In rebuttal testimony, the Company also revised its requested increase in this proceeding from \$29,919,130 (representing a 14.7% and 19.8% requested increase to total operating revenues and margin operating revenues, respectively) to \$25,802,067 (representing a 12.1% and 17.0% requested increase to total operating revenues and margin operating revenues, respectively) in agreement with certain findings of the Consumer Advocate. Such revised requested increase was explained in the rebuttal testimony of Piedmont witnesses Quynh Bowman and Kally Couzens.

9. On December 23, 2020, the Consumer Advocate filed its Updated Testimony of David N. Dittmore which included a correction to the Consumer Advocate's pre-filed direct testimony. The correction resulted in an updated proposed revenue requirement of \$244,888.

10. On November 6, 2020, Piedmont submitted its Notice of Intent to Implement Rates Subject to Refund Pursuant to Tenn. Code Ann. § 65-5-103(b)(1) ("Notice"), and the Consumer Advocate filed a response to Piedmont's Notice on December 3, 2020. The Commission held a hearing on Piedmont's Notice on December 14, 2020, and issued an oral decision based on the parties' arguments. On January 2, 2021, the Tariff Base Rates proposed by the Company and as reflected in column <1> on Rebuttal Exhibit_(KAC-4) of Piedmont witness Kally Couzens, which are designed to recover an additional \$25.8 million in revenue, took effect for customer billings. Pursuant to the TPUC's approved motion at its December 14, 2020 Remote Commission

Conference, this revenue increase is subject to refund based on the final rates approved by the Commission in this proceeding.

SETTLEMENT

11. Following Piedmont's review of the Consumer Advocate's testimony, representatives of Piedmont and the Consumer Advocate engaged in extensive discussions, by telephone and electronic mail, to discuss the differences in position reflected in their respective testimony filings and to explore the possibility of a settlement in this proceeding.

12. Based on the exchange of information and discussions described above, and in order to resolve all disputed issues in this case through settlement and avoid the need for further litigation, Piedmont and the Consumer Advocate have agreed to certain adjustments to Piedmont's Petition, including adjustments to its proposed revenues, expenses, net operating income, net operating income for return, rate base, and return on rate base, among others. Piedmont and the Consumer Advocate have also agreed to the disposition of a variety of non-rate matters at issue in this proceeding. Piedmont's and the Consumer Advocate's agreements encompass the matters discussed below.

13. **Attrition Period.** Piedmont and the Consumer Advocate agree that the appropriate attrition period for use in this proceeding is the 12 months ended December 31, 2021.

14. **Revenue Requirement.** Piedmont and the Consumer Advocate agree that Piedmont's attrition period cost of service should include the components set forth on Attachments A and B hereto, which the parties agree can be adopted by the Commission for purposes of settlement:

- a. Required Net Operating Income for Return of \$61,451,135;

- b. A rate base of \$897,267,145;
- c. An overall rate of return of 6.85%;
- d. A return on common equity of 9.80%;
- e. A capital structure consisting of 50.50% common equity, 4.00% short-term debt, and 45.50% long-term debt;
- f. A cost of short-term debt of 0.40%; and
- g. A cost of long-term debt of 4.14%.

The stipulated Revenue Requirement embeds the following matters that were specifically agreed to by the Parties:

- h. Employee Incentive Compensation. 50% of the incentive compensation costs for the Company's short-term incentive plan (STIP) and 100% of the incentive compensation costs for the Company's long-term incentive plan (LTIP) shall be removed from operating expense and rate base.
- i. Deferred Pension Expense. The Company's unamortized deferred pension expense balance of \$11,862,981 in this proceeding shall be amortized to operating expense over a period of 8 years and recovered from customers in base rates. The Attrition Period deferred debits balance for pension included in rate base shall be aligned with the stipulated amortization of the unamortized deferred pension balance, as further reduced by an amount equivalent to one year's deferred pension expense amortization.
- j. GTI Program Funding. No costs for funding of GTI programs shall be included in Piedmont's base rates agreed to herein.
- k. Rate Case Expense. No externally incurred costs related to the preparation

and litigation of this rate case proceeding (rate case expense) shall be included in Piedmont's base rates agreed to herein.

- l. Lead-Lag Study. The lead-lag value included in the rate base shall be calculated consistent with the manner supported by Piedmont witness Paul M. Normand.
- m. Revenue Conversion Factor. The revenue conversion factor shall be calculated consistent with the methodology advocated by Consumer Advocate witness Novak.
- n. HomeServe Revenues. Home Serve revenues and expenses shall be treated below the line for purposes of calculating Attrition Period Revenues in this proceeding.
- o. Forfeited Discount Revenue. The Consumer Advocate's level of Forfeited Discount revenue for the Attrition Period is appropriate for use in setting rates in this proceeding.
- p. Unless otherwise expressed in this Stipulation, all other components used in the computation of the stipulated Revenue Requirement for this proceeding shall reflect the amounts and/or methodologies supported by Company in its filed Rebuttal position.

15. **Revenue Deficiency**. The adjustments to Piedmont's filed case described in paragraph 14 above collectively reduce Piedmont's Attrition Period revenue deficiency from \$25,802,067¹ to \$16,250,000. Subject to Commission approval, Piedmont and the Consumer Advocate agree that this reduction in Piedmont's attrition period revenue deficiency is appropriate

¹ Per Piedmont's Rebuttal position.

for resolution of this case. The Company and Consumer Advocate agree that the methodologies used to reach this revenue deficiency, as reflected in this Agreement and the attachments hereto, are appropriate for use in this proceeding and should be approved.

16. **Rates.** Piedmont and the Consumer Advocate agree that the rates, billing determinants, WNA Factors, and HDDs reflected on Attachments D and C are appropriate for use in this proceeding. The Parties further agree that, subject to Commission approval, the proposed base tariff rates set forth on Attachment D shall be effective for bills rendered on and after the first day of the month following approval of such rates by the Commission and shall be used to calculate refunds due Piedmont's customers as provided in paragraph 17.p. below.

17. Piedmont and the Consumer Advocate further stipulate and agree as follows:

- a. Rate Design. The rate design underlying the rates set forth on Attachment B hereto, including the constituent components of rates for each of Piedmont's customer classes, which is based on a pro rata allocation of the agreed revenue deficiency between each of Piedmont's customer classes, is appropriate for use in this proceeding.
- b. Future Pension Deferrals. . The Company may capitalize future pension contributions as a deferred debit. The deferral of such contributions does not limit the right of the Consumer Advocate or other parties to contest the amount of incremental deferred pension costs that the Company seeks to recover in future rate proceedings. Furthermore, in future rate adjustment applications, the Company shall provide explanation and support to demonstrate its position that such incremental pension deferral amounts were prudently incurred to meet the Company's obligation to qualified

employees and retirees and shall bear the burden of rate recovery in future rate proceedings. Going forward, the Company will preserve all relevant documents pertaining to incremental deferred pension costs necessary to justify cost recovery, including but not limited to actuarial reports, for use by the parties and the Commission in evaluating the Company's pension contributions.

- c. HomeServe Revenues. The Parties reserve all rights in future rate proceedings to argue the extent to which HomeServe revenues and expenses should be considered above the line for ratemaking purposes.
- d. Information Sharing. Piedmont does not object to a future generic Commission proceeding to address policy issues raised by the Consumer Advocate in its testimony, including but not limited to whether it is appropriate to share customer information with third parties without customer consent, absent a legal requirement to do so.
- e. Minimum Margin Agreements. No refunds and/or penalties shall be made or imposed upon the Company related to service rendered under the two existing Minimum Margin Agreements. On a going forward basis, Piedmont shall be entitled to continue to operate under existing Minimum Margin Agreements but shall file any new proposed Minimum Margin Agreements with the Commission for review.
- f. Rate Case Expense. Rate Case expense shall be limited to no more than \$900,000 in actual rate case costs and shall be amortized over a three (3) year period and collected through a separate rider mechanism. The rates of

such rider mechanism shall be approved by the Commission upon the filing of invoices supporting such expense and the audit and approval thereof. At the conclusion of the three-year rider period, any amount that is over collected or under collected under this rider shall be refunded to or collected from customers by transferring such overcollection or under collection to Piedmont's Actual Cost Adjustment account. The Consumer Advocate reserves its right to review the rate case invoices provided by Piedmont and file comments concerning the information for consideration by the Commission.

- g. Tariff. Piedmont agrees to continue to publish its base rates in each of its Rate Schedules. All other tariff changes proposed by Piedmont in this case should be approved. Attachments F and G reflect all the tariff changes, as agreed to by the Parties.
- h. Annual Review Mechanism ("ARM"). The Consumer Advocate reserves its right to challenge whether any ARM filing made by Piedmont subsequent to this proceeding is in the public interest or otherwise should be approved by the Commission. Piedmont may identify and propose that the methodologies incorporated within the revenue requirement, if approved by the Commission, constitute the methodologies that should be utilized to implement any approved ARM mechanism for Piedmont. If Piedmont petitions for an alternative regulatory mechanism, the methodologies adopted in this case should be reviewed for appropriateness, and the Consumer Advocate reserves all rights in that future proceeding.

- i. Future Environmental Deferrals. Piedmont agrees that in future rate proceedings, to the extent its environmental expenses for which recovery is sought exceed \$100,000, it will submit testimony fully explaining the nature and extent of its request.
- j. Billing Determinants. The Parties agree that Piedmont's Attrition Period billing determinants are appropriate for use in setting rates in this proceeding. Such Attrition Period billing determinants are set forth in Attachment B hereto.
- k. PGA Billing Demand Rates. No changes to PGA billing demand rates shall be made in this proceeding. These charges are removed from base rates and instead are considered rates to be recovered within the PGA mechanism.
- l. Special Contract. The existing Bridgestone Special Contract shall expire at the end of its current renewal term.
- m. Depreciation Study on Piedmont common assets. Piedmont agrees to submit to the Commission a depreciation study of Piedmont common assets no later than December 31, 2022. In the event that this depreciation study is addressed by the Commission, Piedmont does not object to the Consumer Advocate's participation in the proceeding.
- n. Allocated Depreciation Expense from Service Company. Piedmont agrees that in future rate proceedings it will clearly and separately present detailed support for the underlying depreciation rates embedded in the depreciation expense allocated from the Service Company (Duke Energy Business Service – DEBS). Further the Company will provide support for the assets

whose depreciation expenses are allocated to Piedmont's Tennessee operations.

- o. Depreciation Rates on Piedmont Tennessee direct assets. The depreciation rates set forth in the depreciation study filed by Piedmont witness Dane A. Watson and applied to the Company's Tennessee direct property are appropriate for use in this proceeding and should be approved by the Commission.
- p. Refunds. Piedmont shall fully credit its customer's accounts for refunds due and required by Tenn. Code Ann. § 65-5-103-(b)(1) no later than 90 days following the entry of a Commission order approving this Stipulation. Such refunds shall include interest accrued at the Company's overall rate of return, as shown in paragraph 14c herein and shall be calculated to ensure that the overcharge, calculated based upon specific customer usage, shall be the amount refunded to such customer.

18. The Parties hereby agree that the revised rates, tariffs, rate schedules, and service regulations agreed to herein, both individually and in the aggregate, are acceptable for purposes of settlement to all customer classes and will provide Piedmont with a reasonable opportunity to recover the agreed upon operating revenue requirement and a reasonable rate of return on investment.

19. The resolution of issues reflected herein is the result of give-and-take negotiations between the Parties and does not necessarily reflect the position of any single Party on any discrete issue, and no Party waives the right to assert any position in any future proceeding.

20. None of the Parties waives its right to take other positions with respect to matters

similar to those settled herein in future proceedings before the Commission.

21. Except to the limited extent necessary to allow the Commission to implement or evaluate whether an ARM pursuant to Tenn. Code Ann. § 65-5-103(d)(6) is appropriate, conforms with statutory requirements, and is in the public interest, the Parties acknowledge and agree as follows:

- a. This Settlement Agreement shall not have any precedential effect in any other proceeding or be binding upon any of the Parties in this or any other jurisdiction;
- b. None of the signatories hereto shall be deemed to have acquiesced in any ratemaking or procedural principle, including without limitation, any cost of service determination or cost allocation or revenue related methodology; and
- c. No provision of this Settlement Agreement shall be deemed an admission of any Party. Further, no provision of this Settlement Agreement shall be deemed a waiver of any position asserted by a Party in this Docket or any other docket.

22. The Parties agree that all pre-filed testimony and exhibits of the Parties may be admitted into evidence without objection and the Parties hereby waive their right to cross-examine all witnesses with respect to such pre-filed testimony and exhibits; provided, however, that should questions be asked of such witnesses by any person at the hearing of this matter (including any questions by Directors or Commission staff), the Parties may cross-examine any witness with respect to such questions consistent with the agreements set forth in this Stipulation and Agreement.

23. The Parties jointly agree that the provisions in this Stipulation and Settlement Agreement are appropriate for purposes of global resolution of this matter. The Parties jointly recommend that the Commission issue an order adopting this Stipulation and Settlement Agreement in its entirety without modification.

24. If the Commission does not accept the Stipulation and Settlement Agreement in whole and as full and final settlement of the issues in this Docket, this Stipulation and Settlement Agreement shall terminate and the Parties shall not be bound by any position set forth in this Stipulation and Settlement Agreement. Should this Stipulation and Settlement Agreement terminate, it will be considered void and have no binding effect, and the signatories to this Stipulation and Settlement Agreement reserve their rights to fully participate in all relevant proceedings notwithstanding their agreement to the terms of this Stipulation and Settlement Agreement. The provisions of this Stipulation and Settlement Agreement are not severable.

25. By agreeing to this Stipulation and Settlement Agreement, no Party waives any right to continue litigating this matter should the Stipulation and Settlement Agreement be rejected by the Commission in whole or in part.

26. The Parties agree to support this Stipulation and Settlement Agreement in any proceeding before the Commission in this Docket; however, the Parties further agree and request the Commission to order that the settlement of any issue pursuant to this Stipulation and Settlement Agreement shall not be cited by the Parties or any other entity as binding precedent in any other proceeding before the Commission or any court, state or federal.

27. The acceptance of this Settlement Agreement by the Attorney General shall not be deemed approval by the Attorney General of any of the Company's acts or practices.

28. This Stipulation and Settlement Agreement shall be governed by and construed

under the laws of the State of Tennessee, notwithstanding conflict of law provisions.

29. The Parties agree that this Stipulation and Settlement Agreement constitutes the complete understanding among the Parties and any and all oral statements, representations, or agreements made prior to the execution of this Stipulation and Settlement Agreement shall be null and void and shall be deemed to have been merged into this Stipulation and Settlement Agreement.

30. The signatories to this Stipulation and Settlement Agreement warrant that they have informed, advised, and otherwise consulted with the parties for whom they sign regarding the contents and significance of this Stipulation and Settlement Agreement, and, based upon those communications, the signatories represent they are authorized to execute this Stipulation and Settlement Agreement on behalf of the parties.

31. The date set forth immediately following shall be the Effective Date for purposes of this Settlement Agreement.

The foregoing is agreed and stipulated to this 2nd day of February, 2021.

**PIEDMONT NATURAL GAS
COMPANY, INC.**



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