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July 2, 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:

1. Petition;
2. Direct testimony and exhibits of:
   a. Sasha Weintraub
   b. John Sullivan
   c. Brian Weisker
   d. Pia Powers
   e. Kally Couzens
   f. Quynh Bowman
   g. Dylan D'Ascendis
   h. Dane Watson
   i. Paul Normand (Cash Working Capital)
   j. Paul Normand (Cost of Service)
3. Redline of Revised Tariff included as Exhibit_(PKP-2) to the testimony of Pia K. Powers;
4. Minimum Filing Guidelines (some of which are being filed under seal); and
5. Proposed Procedural Schedule.

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 our office courier.

A courtesy copy of this filing is being provided to the Consumer Advocate and Protection Division of the Office of the Attorney General and Reporter. Please be advised that Piedmont has reached out to the Consumer Advocate's representatives and is working collaboratively with them on a proposed Protective Order for this proceeding which we hope to file with the Commission shortly.

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

Very truly yours,

Paul S. Davidson

PSD:cdg
Enclosures

cc: David Foster
Michelle Mairs
Vance Broemel
Daniel Whitaker
Bruce Barkley
Pia Powers
James Jeffries
Melinda McGrath

Before the
Tennessee Public Utility Commission

Docket No. 20-00086

General Rate Case

Direct Testimony & Exhibits
of
Quynh Pham Bowman

On Behalf Of
Piedmont Natural Gas Company, Inc.

Piedmont Natural Gas

July 2, 2020

Q. Ms. Bowman, 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. Please describe your educational and professional background.

A. I graduated from Furman University in 2006 with a Bachelor of Arts degree in Accounting and subsequently earned a Master of Accounting from North Carolina State University. I received my Certified Public Accountant license in 2009. I am currently pursuing a Master of Business Administration with an Energy Concentration from the University of North Carolina Charlotte.

From 2007 through 2010, I was employed at McGladrey & Pullen, LLP (now RSM) to perform external financial audits for manufacturing, retail, and sports clients. Since 2010, I have worked at Piedmont and Duke Energy in various roles pertaining to Internal Audit, SOX Compliance, Enterprise Risk Management, and, now currently, Gas Rates & Regulatory Strategy.

Q. Have you previously testified before this Commission or any other regulatory authority?

A. No. I have not presented testimony before this or any Commission.

Q. What is the Test Period and Attrition Period for this proceeding?

A. The Test Period is defined as the twelve months ended March 31, 2020 and the Attrition Period is defined as the twelve months ending December 31, 2021.

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

A. My testimony is filed in support of Piedmont's petition filed in this docket. Specifically, the purpose of my testimony is to explain and support: (1) the computation of Piedmont's rate base for the Attrition Period; (2) the computation of Piedmont's operating expenses for the Attrition Period; (3) the additional revenue required to appropriately support Piedmont's Attrition Period cost of service; and (4) the amortization of certain deferred expenses that have been previously granted regulatory asset treatment by the Commission.

Q. Do you have any exhibits supporting your testimony?

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

Exhibit_(QPB-1) Summary of Rate Base

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

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

Exhibit_(QPB-4) Allowance for Working Capital

Exhibit_(QPB-5) Accumulated Deferred Income Taxes

Exhibit_(QPB-6) Depreciation Policy and Rates

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

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

Q. Were these exhibits prepared by you or under your direction and

supervision?

A. Yes.

Q. Are you familiar with the accounting procedures and books of account of Piedmont?

A. Yes. The books of account of Piedmont follow the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission. The Test Period amounts shown on my exhibits are those represented on Piedmont's books of account, and the Attrition Period adjustments shown on my exhibits conform to the Company's accounting procedures.

Q. What steps does the Company take to ensure that its books and records are accurate and complete?

A. Piedmont maintains and relies upon an extensive system of internal accounting controls and audits by both internal and external auditors. The system of internal accounting controls provides reasonable assurance that transactions are executed in accordance with management's authorization and are recorded properly. The system of internal accounting controls is reviewed annually, tested and documented by the Company to provide reasonable assurance that amounts recorded on the books and records of the Company are accurate and proper. In addition, independent certified public accountants perform an annual audit to provide assurance that internal accounting controls are operating effectively and that the Company's financial statements are materially accurate.

<u>Piedmont's Attrition Period Rate Base</u>

Q. Please explain the computation of rate base reflected in your exhibits.

A. Exhibit_(QPB-1) is a summary of Piedmont's Test Period and Attrition Period rate base amounts ($742 million and $918 million, respectively) applicable to its utility operations in Tennessee. These amounts reflect the 13-month averages at March 31, 2020 and December 31, 2021. Rate base is calculated as utility plant in service, plus rate base additions for construction work in progress (CWIP) and allowance for working capital, less rate base deductions for accumulated depreciation, contributions in aid of construction, and accumulated deferred income taxes ("ADIT"). The largest component of Piedmont's Tennessee rate base is utility plant in service, which is approximately $1.3 billion and $1.5 billion for the Test Period and Attrition Period, respectively, computed at the original cost of such used and useful property. Exhibit_(QPB-2) identifies utility plant in service by major plant category for the Test Period and Attrition Period, with 88% and 89%, respectively, of those assets being transmission and distribution plant (predominantly consisting of pipe in the ground, classified as either mains or service lines). Exhibit_(QPB-3) identifies accumulated depreciation by major plant categories for the Test Period and Attrition Period, which are deductions to rate base of approximately $463 million and $506 million, respectively. The Test Period and Attrition Period allowances for working capital are delineated in Exhibit_(QPB-4) totaling approximately $30 million and $33 million, respectively. Allowance for working capital represents the amount of capital that is provided by the Company over and above the investment in plant on behalf of the customers. The allowance for working capital includes the results of the cash working capital lead-lag study reflected in the direct testimony of Piedmont witness Paul Normand. Exhibit_(QPB-5) identifies ADIT balances for the Test Period and Attrition Period, which are deductions to rate base of approximately $191 million for both periods. Exhibit_(QPB-6) describes Piedmont's depreciation policy and rates, and the effect of adopting the depreciation study recommendations on the Attrition Period depreciation expense if approved by the Commission as proposed. The depreciation study recommendations are reflected in the direct testimony of Piedmont witness Dane Watson.

Q. How has Piedmont's rate base changed since its last general rate case?

A. Piedmont's last general rate case was filed in 2011 and reflected an approved rate base of $349 million, compared to the proposed $918 million for the Attrition Period, which is an increase of approximately 163%. Utility plant in service, which is the largest component of rate base, increased by more than $831 million, representing approximately 116% growth since the prior rate case. In addition, allowance for working capital increased by $2.3 million. The ADIT deduction to rate base increased from $87 million to $191 million, or 119% from the prior rate case to the Attrition Period.

Q. What factors have contributed to the increase in utility plant in service since the last rate case?

A. All utility plant in service categories experienced significant growth since Piedmont's last rate case, most notably in the Transmission Plant and Distribution Plant categories. See Table 1 as follows for growth by major plant asset category.

Table 1

Plant Asset Category	**As Approved In Docket No. 11-00144**	**Attrition Period**	**% Increase**
Storage Plant	$43,735,553	$66,186,730	51%
Transmission Plant	$41,443,325	$369,786,759	792%
Distribution Plant	$560,791,790	$1,005,444,553	79%
Intangibles & General Plant	$67,882,313	$104,036,134	53%
Total Utility Plant	$713,852,981	$1,545,454,176	116%

Piedmont's utility plant in service growth is the result of several factors. First, Piedmont has been aggressively pursuing compliance with federal pipeline safety and integrity obligations created by the Pipeline and Hazardous Materials Safety Administration ("PHMSA") and much of that compliance work has involved capital projects. This work is explained in greater detail in the direct testimony of Piedmont witness Brian Weisker. Another significant driver for the increase in rate base is the capital investments undertaken to support system infrastructure upgrades. These upgrades have been needed to support Piedmont's continued provision of reliable firm natural gas service in light of increasing system demands, largely driven by customer growth and the associated increase in natural gas throughput.

Piedmont's utility plant in service growth is the result of several factors. First, Piedmont has bee

Q. What factors have contributed to the increase in the allowance for working capital since Piedmont's last rate case?

A. The increase to allowance for working capital is comprised of offsetting increases and decreases that net to a $2.3 million increase from the last rate case. Natural gas inventory balances have decreased by $6.3 million due to the decreased commodity price of natural gas. Accounts payable related to CWIP and materials & supplies, a deduction to rate base, increased by $8.8 million in line with increased expenditures for plant investment. The cash requirement computed through the lead-lag study discussed in the direct testimony of Piedmont witness Paul Normand increased by $6 million. Regulatory assets for deferred expenses balance decreased by $12 million and pension and other post-employment benefits ("OPEB") balance increased by $22 million.

The increase in lead-lag cash requirement is largely attributable to the proposed change in the Company's Service Regulations to add thirteen days in the bill collection cycle discussed in the testimony of Piedmont witness Pia Powers, and in alignment with the pro forma adjustment to other revenues discussed in the testimony of Piedmont witness Kally Couzens As such, to adjust for the extended payment period, thirteen days was added to the calculated collection lag for sales and transportation revenues and late payment charge revenues. The adjustment increased revenue lag for sales and transportation revenues and late payment charge revenues from 17.59 days to 30.59 days and from 30.88 days to 43.88 days, respectively. The decreased balance in deferred expenses mostly represents changes in regulatory assets which are discussed in further detail later in my testimony.

Q. What factors have contributed to this increase in ADIT since the last rate case?

A. The increase in ADIT is attributed to the significant increase in plant over this period of time.

Piedmont's Attrition Period Operating Expenses

Q. Please describe the results of Piedmont's computation of Attrition Period operations.

A. Column 3 on page 1 of Exhibit_(QPB-7) summarizes the results of Piedmont's computation of the Attrition Period operations absent a base rate adjustment from this general rate case. Overall, the combined effect of the Attrition Period Adjustments yields a 4.67% overall rate of return on rate base as shown in Column 3, Line 25 on page 1 of Exhibit_(QPB-7), and a return on equity of 5.48% as shown in Column 3, Line 3 on page 2 of Exhibit_(QPB-7).

Q. Please explain the Attrition Period Adjustments to revenues and operating expenses used to compute Piedmont's Attrition Period cost of service.

A. Each Attrition Period adjustment is numbered and shown alongside Column 2 on page 1 of Exhibit_(QPB-7). A description of each adjustment is also provided on pages 3, 4 and 5 of Exhibit_(QPB-7). Adjustment 1 is performed for the purpose of normalizing annual revenues for the sale and transportation of gas to present billing rates and current customer throughput levels under normal weather conditions. Adjustments 2 and 3 are performed for the purpose of bringing other operating revenues, which largely consist of revenue from late payment charges, rental of gas property and other miscellaneous revenue, to the Attrition Period level annual amount. The specific computation of these Attrition Period revenue adjustments is discussed in the direct testimony of Piedmont witness Kally Couzens.

Adjustments 4 through 10 are performed for the purpose of bringing annual operating expenses to the Attrition Period level amount. Attrition Period O&M adjustments were made using two methodologies that the Commission has previously accepted: 1) calculating the Attrition Period expense from a zero-base, or 2) applying growth factors to the Test Period expense where a zero-base procedure was not practicable. Growth factors were applied in Adjustments 5F, 5G, 5J, 5K, 5L, and 5M to calculate the Attrition Period expense. These O&M expense adjustments total $1.6 million. All other O&M expense adjustments utilized the zero-base methodology.

Lastly, Adjustments 11 and 12 are to adjust net operating income for changes in interest on customer deposits and AFUDC to calculate the net operating income for return.

Q. How were the Attrition Period growth factors calculated?

A. Growth factors were applied to operations and maintenance ("O&M") expense based on the cost driver of the expense. Three Attrition Period growth factors were calculated and applied as appropriate to Test Period expenses. A compound customer growth factor was calculated based on customer growth trends from December 2019 to December 2021. A compound inflation factor was calculated based on forecasted GDP growth for 2020 and 2021 from The State's Economic Outlook: January 2020 "An Economic Report to the Governor of the State of Tennessee." A compound salaries and wage rate change factor was calculated based on the historical trend of salary and wage increases from 2013-2019.

Q. What are jurisdictional allocation factors and how are they calculated?

A. Assets and liabilities that cannot be directly assigned to Piedmont's Tennessee, North Carolina, or South Carolina operations are charged to either a 2-state Piedmont business unit (for Piedmont's NC and SC joint assets only) or a Piedmont 3-state business unit (for Piedmont's NC, SC and TN joint assets only), and then allocated using the "Net Plant Allocation Factors" for jurisdictional financial reporting purposes. The Net Plant Allocation Factors are updated for each fiscal year and utilized throughout that fiscal year. The calculation of the Net Plant Factors for any given fiscal year relies upon actual direct property balances as of the last day of the prior fiscal year.

Likewise, income statement items that cannot be directly assigned to a jurisdiction are charged to a 2-state Piedmont business unit (for Piedmont's NC and SC shared expenses only) or a 3-state Piedmont business unit (for Piedmont's NC, SC and TN shared expenses only), and then allocated using the "Composite Allocation Factors" for jurisdictional financial reporting purposes. The Composite Allocation Factors are updated for each fiscal year and utilized throughout that fiscal year. The calculation of the Composite Allocation Factors for any given fiscal year relies upon three operating statistics: actual annual direct labor expense for the prior fiscal year, actual year-end gross plant balances including CWIP as of the end of the prior fiscal year, and actual customer count as of March of the prior year. In general, income statement items that are recorded to a Piedmont 2-state business unit are allocated using the 2-state Composite Allocation Factor and Piedmont 3-state business unit expenses are allocated using the 3-state Composite Allocation Factor.

For this rate case, we applied the same methodology for calculating the Attrition Period allocation factors. Specifically, Piedmont computed the Net Plant Factors for the Attrition Period based upon the actual direct property balances as of the last day of the Test Period (March 31, 2020). Piedmont computed the Composite Allocation Factors for the Attrition Period using the actual annual direct labor expense for the Test Period, actual year-end gross plant balances including CWIP as of the end of the Test Period (March 31, 2020), and actual customer count as of March of the Test Period.

Q. Please explain in further detail Adjustments 4 through 10.

A. Adjustment 4 specifically aligns the Attrition Period cost of gas with Adjustment 1. As previously discussed, Adjustment 5 pertains to O&M expense adjustments to the Attrition Period level amount of $57.4 million. This adjustment was prepared by segregating the Test Period O&M expense into its major categories and analyzing the Test Period transactions and the specific cost drivers to appropriately develop the going level expense amount for each major category. Page 3 of Exhibit_(QPB-7) lists each O&M expense category and the adjustment amount. I will discuss Attrition

Period adjustments made to O&M by applying the zero-base methodology in detail below.

First, Adjustment 5A seeks to remove expenses from the Test Period due to the effects of recognizing certain expenses on an accrual basis and removing expenses that were erroneously charged to the Test Period that were discovered in the course of preparing other adjustments. Adjustment 5B is a refresh of Piedmont's regulatory amortization expense, which allows the Company to expense costs granted regulatory asset treatment by this Commission. This unique category of O&M expense is discussed in more detail later in my testimony. Adjustment 5C is an adjustment for other pension expense of administrative fees based on the most recent actuarial report. Adjustment 5D is intended to update salaries and wage expense to an Attrition Period level using current salary and wage rates as of March 31, 2020 and applying the Test Period O&M ratio to capture only the O&M portion of salary and wages. Adjustment 5E reduced the Attrition Period incentive compensation expense relative to the Test Period amount based on current expectations of incentive plans compensation in light of current economic conditions. Adjustment 5H brings uncollectible expense to an Attrition Period level by applying the actual charge off ratios for the margin portion of revenues billed during the Test Period to the Attrition Period revenues. Adjustment 5I is to adjust insurance expense to Attrition Period level based on insurance premium projections. Insurance premiums for natural gas local distribution companies have increased due to recent industry incidents. The Company is proposing the addition of GTI expenses in Adjustment 5N as discussed in the direct testimony of Piedmont witness Pia Powers. Adjustment 5O is to update the regulatory commission fee expense consistent with the adjustment in Attrition Period revenues in Adjustment 1.

Adjustment 6 is to update annual depreciation expense to align with the new depreciation rates proposed by Piedmont witness Dane Watson and to align with the Attrition Period amount of plant in service per Adjustment 13. Adjustment 7 is to annualize general tax expense (which is predominantly comprised of property tax expense, payroll tax expense and Tennessee utility tax expense) consistent with the other related Attrition Period adjustments in this proceeding. Adjustments 8 and 9 provide an update of annual state and federal income tax expense (at Piedmont's Composite state income tax rate of 3.46% and 21%, respectively) consistent with the other related Attrition Period adjustments in this proceeding. Adjustment 10 brings forward the annual amortized expense level for federal investment tax credits.

Q. Why is the Company's composite state income tax rate used instead of the statutory rate for Attrition Period state excise tax expense?

A. Per the TPUC's August 6, 2019 *Order Approving Stipulation and Partial Settlement Agreement and Adjudicating Contested Issues Presented by the Parties* in Docket No. 18-00040, the Commission determined that "Piedmont's use of a composite state tax rate is appropriate in determining excess ADIT amounts to be refunded to taxpayers."[1] As such, and for consistency among the components used in the Company's cost of service computation in this rate case, the underlying state tax rate used for the computation of Attrition Period ADIT in this proceeding (which is the Company's composite state tax rate of 3.46%) was also used to compute Piedmont's Attrition Period state income tax expense in this rate case.

Q. Please explain the Attrition Period adjustments to rate base.

A. Adjustments 13 and 14 to utility plant in service and CWIP were built using forecasted net additions to calculate the Attrition Period balance rather than applying growth trends. As such, Adjustment 17 for ADIT reflected the zero-base adjustment calculated in alignment with the Attrition Period forecast of utility plant in service. Adjustment 13 to plant in service anticipates that additional plant assets totaling $228,619,971 will be placed in service between the Test Period and the Attrition Period. Adjustment 14 to CWIP anticipates net transfers to plant in service totaling $12,702,360 during the same timeframe. Adjustment 15 reflects the change in accumulated depreciation, an increase of $43,373,784 between the Test Period and the Attrition Period. The calculation for Adjustment 15 reflects changes in accumulated depreciation due to the estimated change to plant in service over this period of time and the impact of the depreciation study. Adjustment 17 reflects the change between the Test Period and the Attrition Period ADIT, a decrease of $420,222. Adjustment 16 similarly reflects anticipated changes for the asset and liability accounts included in allowance

1 Ordering Paragraph 4.

for working capital components through December 31, 2021. Adjustment 16 also includes the results of the cash working capital lead-lag study based on the Company's cost of service after adjustments for proposed rates.

Q. How has Piedmont considered the excess ADIT giveback in this general rate case?

A. On August 30, 2019, Piedmont made a compliance filing pursuant to ordering paragraph 3 of the TPUC's August 6, 2019 *Order Approving Stipulation and Partial Settlement Agreement and Adjudicating Contested Issues Present by the Parties* in Docket No. 18-00040. The Commission ordered that, at the earlier of the expiration of the amortization period for the Unprotected Excess ADIT (which should conclude on June 1, 2022) or Piedmont's next general rate case, Piedmont shall refund Protected Excess ADIT over a period consistent with the Average Rate Assumption Model ("ARAM"). As such, Piedmont's computation of federal income tax expense for the Attrition Period includes the amortization of Protected and Unprotected Excess ADIT.

<u>Piedmont's Attrition Period Revenue Requirement</u>

Q. Please explain the additional Attrition Period revenue necessary to appropriately support Piedmont's Tennessee utility operations.

A. Adjustment 18 shown in Column 4 on page 5 of Exhibit_(QPB-7) reflects the adjustment to the Company's Attrition Period base margin revenues needed to produce a 10.3% return on equity as recommended by Piedmont witness Dylan D'Ascendis in his direct testimony. To develop Adjustment 18, Piedmont's rate base was allocated to its capital source components of long-term debt, short-term debt and common equity. This allocation, as shown in Column 4 on page 2 of Exhibit_(QPB-7), is based on the proposed capitalization ratios of 45.50% long-term debt, 4.00% short-term debt and 50.50% common equity. This is the Company's targeted capital structure and is supported by the direct testimony of Company witness Jack Sullivan. Absent a base rate adjustment in this proceeding, Piedmont's Attrition Period operations will yield a 5.48% return on equity, as shown in Column 3 Line 3 on page 2 of Exhibit_(QPB-7).

Q. How does Adjustment 18 impact the revenue requirement adjustment being sought through proposed rates in this proceeding?

A. The additional Attrition Period revenue of $29,919,130 is reflected as the difference between $233,961,328 (representing the Attrition Period operating revenues after proposed increase), which is shown on Column 5 Line 4 on page 1 of Exhibit _(QPB-7)) and $204,042,198 (representing total operating revenues after Attrition Period adjustments), as shown on Column 3 Line 4 on page 1 of Exhibit _(QPB-7). It is important to note that the Company's Attrition Period pro forma revenues include a projected IMR revenue requirement for the Attrition Period, as explained in the testimony of Piedmont witness Kally Couzens. Specifically, the Attrition Period pro forma revenues included an imputation of 2021 IMR revenues of approximately $7.7 million that is not reflected in current approved billing.[2]

2 As explained in the direct testimony and exhibits of Piedmont witness Kally Couzens, the Attrition Period pro forma revenues include $35,853,030 of IMR margin revenues. Currently, the IMR revenue requirement, as approved by the Commission in Docket No. 19-00107, is $28,137,207. Therefore, the Attrition Period pro forma revenues include $7,715,823 of IMR margin not currently reflected in the current IMR billing rates.

For this reason, the most relevant number in terms of evaluating the Company's requested revenue increase in this case is the Attrition Period operating revenue requirement of $233,961,328.

<u>Amortization of Deferred Expenses</u>

Q. Is Piedmont proposing to amortize and recover any deferred expenses in this proceeding?

A. Yes. Piedmont proposes to amortize expenses that have been previously deferred pursuant to Commission Order.

Q. What are the main categories of deferred expenses?

A. Piedmont has previously deferred and now seeks recovery of certain pension, environmental compliance and rate case costs. The pension and environmental costs have been deferred in accordance with prior Commission orders.

Q. Please describe Piedmont's request to amortize and recover previously deferred pension costs.

A. In Piedmont's 1996 rate case proceeding in Docket No. 96-00977, the Commission established a deferral mechanism for pension expenses incurred by Piedmont which allows the Company to create a deferred asset representing "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."[3] With respect to this deferred asset, the TPUC stated that "[i]n future rate cases, the amount of funded expense that

3 See *Order Clarifying "Order of February 19, 1997"; Denying Motions for Reconsideration; Dismissing Motion to Strike; and Denying Motion for Stay"* at Page 4] (June 9, 1997).

has been deferred will be recognized and rates awarded to recover it."[4] Piedmont has filed three general rate cases since this approach was adopted by the Tennessee Regulatory Authority, the Commission's predecessor.[5] In all cases, Piedmont was permitted to amortize the accrued balance of deferred pension costs in accordance with the mechanism established in Docket No. 96-00977.

Q. What is Piedmont proposing in this docket for deferred pension expenses?

A. Piedmont is proposing to amortize and recover the unamortized deferred pension expense balance of $11,862,981 over a period of 3 years at the rate of $3,954,327 per year.

Q. What is the basis for Piedmont's proposed amortization and recovery of deferred environmental compliance costs?

A. Piedmont's environmental cleanup deferred account was authorized by Commission Order dated December 21, 1992 in Docket No. 92-16160. This account contains expenses incurred by Piedmont since our last rate case in 2011 that are not otherwise recovered in Piedmont's rates. The environmental cleanup costs were incurred for two projects on Company property in Tennessee. Specifically, Piedmont performed environmental clean-up of a small property that formerly housed a manufactured gas plant ("MGP") gas holder. The other project is related to the actual site of the MGP that was subsequently sold to the city of Nashville. The unamortized

4 Page 4
5 *See* orders issued in Docket Nos. 99-00994, 03-00313 and 11-00144.

balance of this deferred environmental expense at the start of the Attrition Period is $406,812.

Q. What is Piedmont proposing in this docket for deferred environmental expenses?

A. Piedmont is proposing to amortize the deferred environmental expenses for a period of three years at a rate of $135,604 which is a reduction of annual amortization of $108,156.

Q. Were these environmental costs prudently incurred and have they been properly accounted for?

A. Yes, Piedmont's environmental compliance costs were incurred in compliance with federal laws and regulations and in the ordinary conduct of Piedmont's business.

Q. What level of rate case expense has Piedmont included in its rate filing?

A. Piedmont projects that it will incur expenses of $982,000 in the pursuit of this proceeding. This level of expense will be incurred in order to provide for experienced legal counsel as well as several outside consultants needed to support Piedmont's rate case petition. Piedmont believes that this level of rate case expense is reasonable and prudent and consistent with its experience in Tennessee and in other states. Piedmont proposes a 3-year amortization of these costs, or $327,333 per year.

Q. Does Piedmont find it appropriate to continue deferral treatment for pension and environmental expenses?

A. Yes. The circumstances that led to the deferral treatment have not changed, and Piedmont believes that deferral treatment is still appropriate.

Q. Please provide an update to the deferred expenses related to the flood response cost deferral granted in Docket No. 10-00185.

A. The deferred costs were incurred in response to the catastrophic flooding that occurred in the Nashville metropolitan area in May 2010. These costs have been fully amortized as of February 2019. Accordingly, the Attrition Period cost of service does not include any amortized expense for the 2010 flood.

Q. Does this complete the cost of service portion of your testimony?

A. Yes, it does. As stated in our petition, we plan to offer at the hearing such additional relevant, material and competent evidence as may be permitted under Tennessee statutes and the rules of this Commission. Except as shown in the exhibits, working papers and testimony filed with the petition, information is not currently available that would enable us to provide details of any actual changes in revenues, costs and rate base that may occur from the time of the filing of the petition and my testimony up to the time the hearing is closed. We reserve the right to file such updated information at or before the hearing in this docket to the extent such information is relevant to a determination of the matters at issue in this proceeding.

Minimum Filing Requirements Compliance

Q. Has Piedmont complied with the minimum filing requirements associated with the filing of this general rate case?

A. Yes. Piedmont's Minimum Filing Requirements were prepared and filed with the Commission concurrent with its petition and supporting testimony in this proceeding on July 2, 2020.

Q. Does this conclude your testimony?

A. Yes.

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

Exhibit_(QPB-1)

Summary of Rate Base
13-month Average

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

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	
1	Intangible Plant	$ 10,266,536	0.78%	$ 27,104,691	1.75%
2	Storage Plant	64,033,535	4.86%	66,186,730	4.28%
3	Transmission Plant	288,512,993	21.91%	369,786,759	23.93%
4	Distribution Plant	864,947,721	65.68%	1,005,444,554	65.06%
5	General Plant	89,073,418	6.76%	76,931,443	4.98%
6	Total	$ 1,316,834,205	100.00%	$1,545,454,176	100.00%

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

Exhibit_(QPB-3)

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

		Test Period March 31, 2020		Attrition Period December 31, 2021	
1	Intangible Plant	$ 4,214,090	0.91%	$ 14,977,550	2.96%
2	Storage Plant	12,738,614	2.75%	13,498,899	2.67%
3	Transmission Plant	21,675,316	4.68%	28,244,833	5.58%
4	Distribution Plant	386,969,566	83.64%	414,777,673	81.96%
5	General Plant	37,075,633	8.01%	34,548,048	6.83%
6	Total	$ 462,673,218	100.00%	$ 506,047,002	100.00%

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

Exhibit_(QPB-4)

Allowance for Working Capital
13-Month Average

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

Exhibit_(QPB-5)

Piedmont Natural Gas Company, Inc. Exhibit_(QPB-5)
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
1	Accumulated Deferred Income Taxes	$ (109,587,939)	$ (123,625,254)
2	Regulatory Liabilities Related to Income Taxes	(81,874,617)	(67,417,081)
3	Total Accumulated Deferred Income Taxes (ADIT)	$ (191,462,556)	$ (191,042,334)

Exhibit_(QPB-6)

Piedmont Natural Gas Company, Inc. Exhibit_(QPB-6)
Tennessee Operations
Test Period: 12-Months Ended March 31, 2020
Attrition Period: 12-Months Ending December 31, 2021

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 $35,000,905. Adopting the recommendations would decrease depreciation expense by $3,086,240 or 8%.

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	(1,579,355)	[1]	202,921,922	29,919,130	[18]	232,841,052
2	Other Operating Revenues	668,536	(365,242)	[2]	303,294	-		303,294
3	Forfeited Discounts	1,472,734	(655,752)	[3]	816,982	-		816,982
4	Total Operating Revenues	206,642,547	(2,600,349)		204,042,198	29,919,130		233,961,328
	Operating Expenses							
5	Cost of Gas	68,307,024	(6,834,763)	[4]	61,472,261	-		61,472,261
6	Operations and Maintenance	53,648,240	3,714,423	[5]	57,362,663	184,960	[19]	57,547,623
7	Depreciation	31,366,960	3,633,945	[6]	35,000,905	-		35,000,905
8	General Taxes	11,103,405	121,989	[7]	11,225,394	448,787	[20]	11,674,181
9	State Income Taxes	733,225	107,009	[8]	840,234	1,013,275	[21]	1,853,509
10	Federal Income Taxes	(1,580,594)	(373,775)	[9]	(1,954,368)	5,937,142	[22]	3,982,774
11	Amortization of Investment Tax Credits	(2,906)	(2,172)	[10]	(5,077)	-		(5,077)
12	Total Operating Expenses	163,575,353	366,658		163,942,011	7,584,164		171,526,175
13	Net Operating Income	43,067,194	(2,967,007)		40,100,186	22,334,966		62,435,152
14	Interest on Customers' Deposits	(254,689)	(8,268)	[11]	(262,957)	-		(262,957)
15	Allowance for Funds Used During Construction (AFDUC)	3,152,246	(150,942)	[12]	3,001,304	-		3,001,304
16	Net Operating Income for Return	45,964,751	(3,126,217)		42,838,533	22,334,966		65,173,499
	Original Cost Rate Base							
17	Utility Plant in Service	1,316,834,205	228,619,971	[13]	1,545,454,176			1,545,454,176
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)	(43,373,784)	[15]	(506,047,002)			(506,047,002)
20	Contribution in Aid of Construction	(5,828,754)	-		(5,828,754)			(5,828,754)
21	Net Plant in Service	903,306,563	172,543,828		1,075,850,391			1,075,850,391
22	Allowance For Working Capital	30,438,656	2,534,779	[16]	32,973,435			32,973,435
23	Accumulated Deferred Income Taxes	(191,462,556)	420,222	[17]	(191,042,334)			(191,042,334)
24	Original Cost Rate Base	742,282,663	175,498,829		917,781,492			917,781,492
	Rate of Return							
25	On Original Cost Rate Base	6.19%			4.67%			7.10%

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%	417,590,579	4.14%	1.88%	17,288,250
2	Short-Term Debt	4.00%	36,711,260	0.40%	0.02%	146,845
3	Common Equity	50.50%	463,479,653	5.48%	2.77%	25,398,685
4	Total	100.00%	$ 917,781,492		4.67%	$ 42,833,780

After Proposed Increase

Line No.		Proposed Ratio	Cost Net Investment	Embedded Cost	Weighted Cost	Net Operating Income
5	Long-Term Debt	45.50%	417,590,579	4.14%	1.88%	17,288,250
6	Short-Term Debt	4.00%	36,711,260	0.40%	0.02%	146,845
7	Common Equity	50.50%	463,479,653	10.30%	5.20%	47,738,404
8	Total	100.00%	$ 917,781,492		7.10%	$ 65,173,499

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
Adjustment Summary

Adjustment No.		Description	Amount
1		Operating Revenues - Sale and Transportation of Gas	
		To adjust revenues to the Attrition Period level, before proprosed rates	(1,579,355)
		Operating Revenues - Other Revenues	
2		To adjust other revenues to the Attrition Period level.	(365,242)
3		Operating Revenues - Forfeited Discounts	
		To adjust late payment revenues in accordance with Adjustment 1	(655,752)
4		Cost of Gas	
		To adjust cost of gas to the Attrition Period level for cost of gas revenues.	(6,834,763)
5		Operations and Maintenance Expenses	
	A	To adjust test period for ratemaking and accounting adjustments	196,515
	B	To adjust regulatory amortization expense for deferred environmental, pension, and rate case costs.	1,274,397
	C	To adjust other pension expense to the Attrition Period level.	2,892
	D	To adjust salaries & wages expense to the Attrition Period level.	976,470
	E	To adjust incentive compensation expense to the Attrition Period level.	(343,165)
	F	To adjust employee benefits expense to the Attrition Period level.	100,717
	G	To adjust rents expense to the Attrition Period level.	239,858
	H	To adjust the provision of uncollectibles expense to the Attrition Period level.	12,045
	I	To adjust risk insurance expense to the Attrition Period level.	15,129
	J	To adjust transmission and distribution expenses to the Attrition Period level.	524,463
	K	To adjust other A&G expenses to the Attrition Period level.	483,392
	L	To adjust sales expenses to the Attrition Period level.	71,170
	M	To adjust other customer expenses to the Attrion Period level.	139,389
	N	To adjust research and development funding through GTI.	100,000
	O	To adjust regulatory commission fee to the Attrition Period level.	(78,847)
		Total	3,714,423
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).	3,633,945

Schedule of Net Operating Income and Rate of Return
Adjustment Summary

Adjustment No.			
7		General Taxes	
	A	To adjust payroll tax expense to the Attrition Period level in-line with Adjustment 5D.	695,661
	B	To adjust property tax expense to the Attrition Period level.	(622,102)
	C	To adjust TN utility tax expense to the Attrition Period level.	48,431
		Total	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.	107,009
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.	(373,775)
10		Investment Tax Credit Amortization To adjust investment tax credit amortization.	(2,172)
11		Interest on Customer Deposits To adjust interest on customer deposits expense to Attrition Period level.	8,268
12		Allowance for Funds Used During Construction (AFUDC) To adjust AFUDC in-line with Attrition Period CWIP balance (Adjustment 14).	(150,942)
13		Utility Plant in Service To adjust utility plant in service for Attrition Period net additions.	228,619,971
14		Construction Work in Progress (CWIP) To adjust CWIP to Attrition Period balance.	(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).	(43,373,784)
16		Allowance for Working Capital To adjust the allowance for working capital to Attrition Period balances.	2,534,779
17		Accumulated Deferred Income Taxes To adjust accumulated deferred income taxes for the Attrition Period level.	420,222

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
Adjustment Summary

Adjustment No.		Description	Amount
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.	29,919,130
19		Operations and Maintenance Expenses	
	A	To adjust the provision for uncollectible accounts following Adjustment 18 at 0.1932% rate.	57,804
	B	To adjust regulatory commission fee expense following Adjustment 18 at 0.425% rate.	127,156
		Total	184,960
20		General Taxes	
		To adjust TN utility tax expense following Adjustment 18 at 1.5% rate.	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
22		Federal Income Taxes	
		To adjust federal income tax expense (statutory rate of 21%) following Adjustment 18.	5,937,142

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

	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

	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