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21-00135

August 26, 2022

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

Electronically Filed in TPUC Docket Room
on August 26, 2022 at 11:07 a.m.

Re: Petition of Piedmont Natural Gas Company, Inc. to Adopt an Annual Review of Rates Mechanism Pursuant to Tenn. Code Ann. § 65-5-103(d)(6)

Dear Mr. Taylor:

Pursuant to the Commission's *Order Denying Proposed Annual Review of Rates Mechanism* issued on July 25, 2022 ("July 25 Order"), Piedmont Natural Gas Company, Inc. ("Piedmont" or the "Company") hereby submits the following documents for filing in the above-referenced docket:

1. Amended ARM Tariff filing (including an amended Service Schedule No. 318); and
2. Second Supplemental Testimony and Exhibit of Bruce P. Barkley.

Together, these documents constitute the Company's Amended ARM proposal to address the findings and conclusions of the Commission in its July 25 Order.

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 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: Consumer Advocate
Bruce Barkley
Pia Powers
James Jeffries IV

**Before the
Tennessee Public Utility Commission**

Docket No. 21-00135

**Petition of Piedmont Natural Gas Company, Inc.
to Adopt an Annual Review of Rates Mechanism
Pursuant to Tenn. Code. Ann. § 65-5-103(d)(6)**

**Second Supplemental Testimony
of
Bruce P. Barkley**

**On Behalf Of
Piedmont Natural Gas Company, Inc.**



August 26, 2022

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

2 A. My name is Bruce P. Barkley. My business address is 4720 Piedmont
3 Row Drive, Charlotte, North Carolina.

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

5 A. I am the Vice President – Rates and Natural Gas Supply for Piedmont
6 Natural Gas Company, Inc. (“Piedmont” or the “Company”).

7 **Q. Have you previously testified in this proceeding?**

8 A. Yes. Pursuant to the Order Granting Motion for Substitution issued by
9 Tennessee Public Utility Commission (“Commission” or “TPUC”) on
10 May 12, 2022, I was authorized to adopt the prefiled direct testimony,
11 rebuttal testimony and supplemental testimony of Company witness Pia
12 Powers in this proceeding. Such testimonies, as revised to reflect my
13 adoption of them, were filed in this docket on May 3, 2022.

14 **Q. What is the purpose of your Second Supplemental Testimony in this**
15 **proceeding?**

16 A. The purpose of my Second Supplemental Testimony in this proceeding
17 is to support Piedmont’s filing of an amended proposed Service
18 Schedule No. 318 (“Amended ARM Tariff”) made in this docket on
19 August 26, 2022.

20 **Q. Please explain the purpose of the Company’s Amended ARM Tariff**
21 **filing.**

22 A. The Company’s Amended ARM Tariff filing presents a modified
23 Annual Review Mechanism (“ARM”) proposal to address the findings

1 and conclusions of the Commission in its July 25, 2022 Order Denying
2 Proposed Annual Review of Rates Mechanism (“July 25 Order”). In
3 the July 25 Order, the Commission denied approval of the version of the
4 Company’s proposed ARM tariff that was filed in this docket on
5 February 18, 2022. That version of the Company’s proposed ARM
6 tariff was the product of substantive discussions and an agreement
7 between Piedmont and the Consumer Advocate Unit in the Financial
8 Division of the Office of the Tennessee Attorney General (“Consumer
9 Advocate”) resolving all issues between the parties in the docket. The
10 July 25 Order details the Commission’s determination that the proposed
11 ARM Tariff filed on February 18, 2022 is not in the public interest. The
12 July 25 Order indicated that should Piedmont decide to amend its
13 proposed ARM Tariff, consistent with Tenn. Code Ann. §§ 65-5-103(d)(1)
14 and (d)(6), the Commission finds that certain specific modifications must
15 be made as a condition of approval. The July 25 Order also indicated that
16 the Commission found reasonable and agreed with many elements of the
17 version of the proposed ARM filed on February 18, 2022 that resolved
18 issues between the Company and the Consumer Advocate, and that the
19 Commission “voted unanimously to adopt the same for inclusion in any
20 refiled [ARM] by the Company in addition to the modifications ordered
21 herein.”¹ Accordingly, Piedmont’s Amended ARM Tariff filing
22 incorporates each and every modification indicated in the July 25 Order

¹ July 25 Order, pg. 54.

1 while preserving the elements of the ARM tariff filed on February 18,
2 2022 which the Commission found reasonable and in the public interest.

3 **Q. Do you have any exhibits to your Second Supplemental Testimony**
4 **in this proceeding?**

5 A. Yes, I have one exhibit labeled Second Supplemental Exhibit_(BPB-1).
6 This exhibit presents the Company's Amended ARM Tariff in red-lined
7 format to the version of the Company's ARM proposal that was rejected
8 in the July 25 Order.

9 **Q. Please provide an overview of the necessary modifications indicated**
10 **by the Commission in its July 25 Order.**

11 A. The necessary modifications are related to the following areas, noted
12 below by item number in alignment with the listing on page 4 of the July
13 25 Order:

- 14 • Item 1: The methodology used by Piedmont in its Weather
15 Normalization Adjustment ("WNA");
- 16 • Item 2: The ratemaking treatment of net margins from the
17 HomeServe Warranty Program;
- 18 • Items 3 through 5: The ratemaking treatment of Pension and Other
19 Post-Employment Benefits ("OPEB") costs as expensed, as
20 capitalized to Construction Work in Progress ("CWIP"), and as
21 deferred and amortized for recovery by Piedmont;
- 22 • Item 6: The exclusion of lobbying and promotional and advertising
23 expenses in accordance with the Commission's rules; and

- Item 7: Reasonable discretion in the design of customer rates based on attendant circumstances.

Q. Please elaborate on the modifications related to item 1, concerning the WNA methodology.

A. The July 25 Order indicates that “the WNA methodology for computing and updating base load and heat sensitive factors shall be the simple linear regression analysis methodology ordered by the Commission for Atmos Energy Corporation in Docket No. 14-00146 and Chattanooga Gas Company in Docket No. 18-00017.”² The July 25 Order also states that the Commission finds “the simple linear regression analysis methodology approved for Atmos Energy Corporation and Chattanooga Gas Company should be used to update the base load and heat sensitive factors in Piedmont’s [ARM] filings. This methodology is transparent, can be audited with ease, provides the Commission and the parties more administrative efficiency, and has been the primary WNA methodology used by similarly situated utilities for three decades. As such, if Piedmont updates the base load and heat sensitive WNA factors that were approved in its last rate case, then it shall use the Commission-approved simple linear regression analysis to compute the new factors. Accordingly, approval of Piedmont’s [ARM] should be conditioned upon use of the Commission-approved simple linear regression analysis methodology to update its WNA

² July 25 Order, pg. 4.

factors.”³

Q. Does the Amended ARM Tariff address all of the TPUC’s findings and conclusions pertaining to item 1, WNA methodology?

A. Yes, it does. This matter is addressed with full and clear transparency in the Annual Base Rate Reset section of Piedmont’s Amended ARM Tariff. Specifically, the description of Gas Sales and Transportation Revenues under the Annual Base Rate Reset section of the Amended ARM Tariff now points to the requirement to utilize a simple linear regression analysis, and also now indicates that the methodology for computing and updating the base load and heat sensitivity factor for Piedmont’s WNA shall be that methodology ordered by the Commission in the cited Atmos and Chattanooga dockets.

Q. Please elaborate on the ARM modifications related to item 2, concerning the HomeServe Warranty Program.

A. The July 25 Order indicates that “[t]he HomeServe Warranty Program net margins shall be included as other regulated revenues for computing the Historical Base Period (“HBP”) Reconciliation and Annual Base Rate Reset.”⁴

Q. Does the Amended ARM Tariff address the TPUC’s findings and conclusions pertaining to item 2, HomeServe Warranty Program?

A. Yes, it does. For the HBP Reconciliation, the Amended ARM Tariff

³ July 25 Order, pg. 40.

⁴ July 25 Order, pg. 4.

1 explicitly includes HomeServe Warranty Program revenues as a type of
2 regulated revenue that shall be included in the category of Other
3 Revenues; the Amended ARM Tariff also explicitly includes
4 HomeServe Warranty Program expenses as a type of Other O&M
5 Expense. Taken together, the impact is that HomeServe Warranty
6 Program net margins will be included in the HBP Reconciliation under
7 the Amended ARM Tariff. For the Annual Base Rate Reset under the
8 Amended ARM Tariff, the treatment of HomeServe Warranty Program
9 revenues and expenses mirrors such treatment in the HBP
10 Reconciliation. Accordingly, the Commission's recommended
11 modifications to item 2 are fully and appropriately addressed in the
12 Amended ARM Tariff.

13 **Q. Does the Amended ARM Tariff include any other required**
14 **modifications pertaining to the HomeServe Warranty Program?**

15 A. Yes, it does. The July 25 Order also states that "Piedmont shall file an
16 income statement detailing all revenues and expenses for the program in
17 any future [ARM] filing."⁵ To explicitly address this additional
18 requirement for the Company's Annual ARM Filing, the Amended ARM
19 Tariff delineates that ARM Filing Schedule No. 39, which is one of several
20 schedules to be submitted by the Company in its Annual ARM Filing, is an
21 income statement that includes the details of all revenues and expenses for
22 the HomeServe Warranty Program.

⁵ July 25 Order, pg. 34.

1 Also note that Page 35 of the July 25 Order included four
2 directives related to the HomeServe Warranty Program that are
3 incumbent upon the Company to address pertaining to customer
4 communications, billing and per books accounting for the HomeServe
5 Warranty Program. I acknowledge that these are requirements that the
6 Company must and shall comply with, although they are unrelated to
7 the Company's operation of the ARM and therefore were not addressed
8 within the language of the Amended ARM Tariff.

9 **Q. Please elaborate on the modifications related to items 3 through 5,**
10 **concerning Pension and OPEB.**

11 A. For item 3, the July 25 Order states that pension and OPEB expenses
12 included in the HBP Reconciliation and Annual Base Rate Reset "shall
13 be based on the Tennessee jurisdictional portion of the actuarially-
14 determined minimum contribution requirement."⁶ The Commission
15 elaborates on this modification in order that it be recognized "that
16 minimum cash contributions, as opposed to accrued costs pursuant to
17 generally accepted accounting principles, are to be used to determine
18 recovery of pension and OPEB costs for ratemaking purposes,
19 consistent with the Commission's long-standing policy."⁷ The
20 Commission also cites that "Chattanooga Gas Company's ARRM plainly
21 provides that it shall compute its earnings deficiency or sufficiency by

⁶ July 25 Order, pg. 4.

⁷ July 25 Order, pg. 31.

1 “Excluding Pension and Other Post-Employment Benefits computed in
2 accordance with GAAP and including actual contributions.” It is therefore
3 clear that the regulatory accounting for pension and OPEB costs for
4 Chattanooga Gas Company is consistent with the Commission’s
5 longstanding pension and OPEB ratemaking precedents.”⁸ Furthermore
6 regarding item 3, the July 25 Order states that a condition of approving
7 any future ARM filing is that “[a] copy of the pension/OPEB actuarial
8 reports covering the results associated with the historic base period shall be
9 included in the [ARM] filing.”⁹

10 For item 4, the July 25 Order states that pension and OPEB
11 loadings to construction projects accounted for in CWIP “shall be
12 accounted for consistent with how such expenses are recoverable in the
13 Historic Base Period as previously set forth [in item 3].”¹⁰ The
14 Commission elaborates on this modification in order that it be
15 recognized that, “just as pension and OPEB expenses, the capitalized
16 portion of pension and OPEB costs shall be determined in accordance
17 with the Commission’s general pension and OPEB regulatory
18 accounting policies for ratemaking rather than generally accepted
19 accounting principles.”¹¹

⁸ July 25 Order, pg. 30.

⁹ July 25 Order, pg. 31.

¹⁰ July 25 Order, pg. 4.

¹¹ July 25 Order, pgs. 31-32.

1 For item 5, the July 25 Order states that the “unamortized portion
2 of previously-approved deferred pension contributions and
3 environmental costs shall be recoverable under the [ARM] through
4 amortization expense in accordance with the previously-approved
5 amortization period. Notwithstanding any prior rate or accounting
6 orders issued by the Commission or its predecessor agencies, Piedmont
7 must seek and obtain express approval to defer pension contributions,
8 environmental costs, or any other deferred debit into a regulatory asset
9 for ratemaking purposes.”¹² The Commission elaborates on this
10 modification by stating that “Piedmont shall be allowed to recover
11 through the [ARM] the unamortized balance of the pension regulatory asset
12 included in the agreed-upon rate base in the Company’s last rate case in
13 Docket No. 20-00086 through annual expense amortizations over the
14 remaining portion of the authorized eight-year amortization period. No
15 additional regulatory asset for pensions or OPEBs above the amount that
16 was authorized in Piedmont’s last rate case shall be established for
17 ratemaking purposes unless the Company first obtains express approval
18 from the Commission.”¹³

19 **Q. Does the Amended ARM Tariff address the TPUC’s findings and**
20 **conclusions pertaining to items 3 through 5, Pension and OPEB?**

21 **A. Yes, it does. Regarding Item 3, for both the HBP Reconciliation and**

¹² July 25 Order, pg. 4.

¹³ July 25 Order, pg. 32.

1 the Annual Base Rate Reset, the Amended ARM Tariff now states that
2 Other Pension Expenses and OPEB Expenses shall be the Company's
3 Tennessee jurisdictional portion of the actuarially-determined minimum
4 contribution requirement and that any Pension and OPEB expenses
5 computed and recorded in accordance with GAAP (including actual
6 contributions) during the HBP shall be excluded. This addresses the
7 Commission's concerns regarding item 3. Also note that the Amended
8 ARM Tariff delineates that ARM Filing Schedule No. 49, which is one of
9 several schedules to be submitted by the Company in its Annual ARM
10 Filing, provides the pension and OPEB actuarial reports.

11 Regarding item 4, for both the HBP Reconciliation and the
12 Annual Base Rate Reset, the Amended ARM Tariff now states that
13 pension and OPEB cost loadings to construction projects and accounted
14 for in CWIP shall be accounted for consistent with how such expenses
15 are recoverable in the HBP. This addresses the Commission's concern
16 regarding item 4.

17 Regarding item 5, for the purposes of both the HBP
18 Reconciliation and the Annual Base Rate Reset, the Amended ARM
19 Tariff now clarifies that Amortization Expenses for Deferred Pension
20 Costs shall reflect the annual expense for the unamortized balance of the
21 pension regulatory asset included in the agreed-upon rate base in the
22 Company's last rate case in accordance with the approved amortization
23 period from the Company's last rate case. The Other Working Capital

1 component of Rate Base for the HBP Reconciliation and the Annual
2 Base Rate Reset of the ARM also clarifies that Piedmont shall be allowed
3 to recover through the ARM the unamortized balance of the pension
4 regulatory asset included in the agreed-upon rate base in the Company's
5 last rate case in Docket No. 20-00086 through annual expense
6 amortizations over the remaining portion of the authorized eight-year
7 amortization period, and that no additional regulatory asset for pensions or
8 OPEBs above the amount that was authorized in Piedmont's last rate case
9 shall be established for ratemaking purposes unless the Company first
10 obtains express approval from the Commission.

11 **Q. Please elaborate on the modifications related to item 6, concerning**
12 **expenses for Lobbying, Advertising and Promotions.**

13 A. For item 6, the July 25 Order states that the Commission has been very
14 clear on what constitutes a recoverable "advertising expense" and cites
15 the Commission rules for the Regulation for Gas Companies,
16 particularly 1220-04-05-.45 ADVERTISING. The July 25 Order also
17 states that "promotional and advertising expenses that are not authorized
18 by this rule must be excluded from recovery."¹⁴ The July 25 Order did
19 not elaborate on lobbying expenses, presumably because the
20 Company's ARM tariff proposal already indicated that lobbying costs
21 were to be excluded from recovery.

¹⁴ July 25 Order, pg. 41.

1 **Q. Does the Amended ARM Tariff address the TPUC's findings and**
2 **conclusions pertaining to item 6, Lobbying, Advertising and**
3 **Promotional Expenses?**

4 A. Yes, it does. For both the HBP Reconciliation and the Annual Base Rate
5 Reset, the Amended ARM Tariff maintains the provision under the
6 subsection of Other O&M Expenses calling for the exclusion of such
7 expenses related to lobbying activities. This subsection now also
8 expressly indicates that recoverable promotional and advertising
9 expenses are limited to those consistent with Commission Rule 1220-
10 04-05-.47. Furthermore, the Amended ARM Tariff now specifically
11 delineates that ARM Filing Schedule No. 38, which is one of several
12 schedules to be submitted by the Company in its Annual ARM Filing,
13 provide the advertising and promotional expenses consistent with
14 Commission Rule 1220-04-05-.47.

15 **Q. Please elaborate on the modifications related to item 7, concerning**
16 **Rate Design.**

17 A. For item 7, the July 25 Order states that the hearing panel found the initial
18 rate design presented in the Company's ARM tariff to be reasonable.
19 Nevertheless, the July 25 Order indicates the need for a modification of
20 annual rate review mechanism to "contain a provision providing for the
21 reasonable exercise of discretion in designing customer rates in each annual
22 filing based on attendant circumstances. The provision shall authorize
23 Piedmont to make a proposal for how to allocate any revenue excess or
24 deficiency among rate classes and the specific design for how rates are to

1 be decreased or increased for each class. The provision shall also authorize
2 any intervenor party to make its own alternative rate design proposal.
3 Based upon a final determination that rates need to be increased or
4 decreased, the Commission shall order such rate adjustments based upon
5 the proposals of the parties or such other revenue allocation and rate design
6 decision as the Commission may find to be in the public interest.”¹⁵ Further
7 elaborating, the July 25 Order states that “there is a matter of rate design
8 pragmatism that must be addressed in any future [ARM] proposal. Over
9 time a utility’s mix of customers between rate classes and associated cost
10 of service may change necessitating the Commission to review how
11 revenue is collected from the different customer classes. Also, issues such
12 as affordability of residential rates may arise that need review and analysis.
13 For these reasons, there is a practical need for regulatory flexibility in
14 establishing customer rates related to the [ARM]. As such, the following
15 rate design language, which is similar to that adopted and approved for
16 Chattanooga Gas Company’s ARRM in Docket No. 19-00047, shall be
17 applied to any future [ARM] tariff filing:

18 In its annual rate filing, Piedmont shall make a proposal for
19 how to allocate any revenue excess/deficiency among rate
20 classes and the specific design for how rates are to be
21 decreased/increased for each class in accordance with the
22 approved methodologies. Any intervenor party may make its
23 own proposal for how the revenue excess/ deficiency should
24 be allocated to the classes and the rate design for any
25 decrease/increase in rates for the annual base reset. Based
26 upon a final determination that rates need to be decreased/
27 increased, the Commission shall order such decrease/increase
28 in rates be based upon the proposals of the parties or such

¹⁵ July 25 Order, pgs. 4-5.

1 other rate allocation and rate design decision as it may find to
2 be in the public interest.”¹⁶

3 **Q. Does the Amended ARM Tariff address the TPUC’s findings and**
4 **conclusions pertaining to item 7, Rate Design?**

5 A. Yes, it does. For both the HBP Reconciliation and the Annual Base
6 Rate Reset, the Amended ARM Tariff adopts the specific rate design
7 language provision shown on Page 38 of the July 25 Order.

8 **Q. Are there any other aspects of the Amended ARM Tariff that**
9 **should be identified?**

10 A. Yes, there is one other matter. Item 5 identified by the Commission on
11 page 4 of the July 25 Order, while largely focused on pension
12 contributions, also briefly makes mention of previously-deferred
13 environmental costs. Specifically, the July 25 Order states that “[t]he
14 unamortized portion of previously-approved deferred...environmental
15 costs shall be recoverable under the annual rate review mechanism
16 (“ARRM”) through amortization expense in accordance with the
17 previously-approved amortization period.”¹⁷ Notwithstanding this
18 mention, the July 25 Order accepts the treatment of deferred environmental
19 costs under the proposed ARM as a Resolved Issue that is reasonable and
20 in the public interest. Therefore, the July 25 Order does not specifically
21 indicate that a modification is needed to the Company’s ARM on this issue.

¹⁶ July 25 Order, pgs. 37-38.

¹⁷ July 25 Order, pg. 4.

1 Out of an abundance of caution pertaining to clarity of the Company's
2 ARM proposal and consistency with the July 25 Order, the Amended ARM
3 Tariff now includes additional language in both the HBP Reconciliation
4 and the Annual Base Rate Reset indicating that the amortization of
5 deferred environmental expenses shall be in accordance with the
6 previously-approved amortization period. This insertion is proposed to add
7 clarity around the length of the amortization period and in no way alters the
8 agreement with the Consumer Advocate on the matter of recovery of
9 deferred environmental expenses under the ARM as filed on February 18,
10 2022 in this docket.

11 **Q. Do you believe that the Amended ARM Tariff complies with all of**
12 **the modifications required by the Commission in its July 25 Order?**

13 A. Yes, I do.

14 **Q. Does the Amended ARM Tariff meet the public interest standard?**

15 A. Yes, I believe that it does. Approval of the Amended ARM Tariff will
16 benefit Piedmont, its customers, and the Commission, and will generally
17 result in rates that are more reflective of the actual costs incurred by
18 Piedmont and the current revenues being recovered from its customers.
19 Such advantages support the public interest standard. The Amended
20 ARM Tariff also adopts every modification ordered by the Commission
21 in its July 25 Order. These directives were provided by the Commission
22 to resolve each concern that prevented the Commission from finding the
23 prior version of Piedmont's proposed ARM to be in the public interest.

1 **Q. What are you asking the Commission to do?**

2 A. Piedmont is asking the Commission to approve the Amended ARM
3 Tariff, finding that it is in the public interest.

4 **Q. Do you have anything further to add to your testimony?**

5 A. No, not at this time.

Docket No. 21-00135

Second Supplemental Exhibit_(BPB-1)

SERVICE SCHEDULE NO. 318

Annual Review Mechanism (ARM)

I. OVERVIEW

Applicable

To service provided to customers under all Rate Schedules, including service provided to customers under approved special contracts.

Purpose

This Annual Review Mechanism (“ARM”) is implemented under the provisions of Tennessee Code Annotated Section 65-5-103(d)(6), which authorizes the Company to elect to opt into an annual review of the Company's rates. Pursuant to this ARM and the annual filings described herein, the Company's rates shall be adjusted to provide that the Company earns its Authorized Return on Equity on prudently incurred costs as defined by the Tennessee Public Utility Commission (“TPUC” or the “Commission”). The rate adjustments implemented under the ARM, which are to the Company's Base Margin Rates and its ARM Rider Rates, will reflect changes in the Company's jurisdictional operating revenues, cost of service, and rate base. Jurisdictional operating revenues and expenses exclude gains or losses related to gas supply hedging activities, off system sales, other gas supply and capacity secondary marketing activities, and other non-jurisdictional transactions as determined by the Commission. The ARM may be terminated or modified as provided under of Tennessee Code Annotated Section 65-5-103(d)(6)(D).

Piedmont's Base Margin Rates and ARM Rider Rates shall be reset on an annual basis pursuant to the procedures and information specified in this Tariff.

Nothing in this Tariff shall preclude intervenors or the Commission from identifying errors, omissions, or inconsistencies in the Company's ARM calculations, including adjusting such items within the determination of HBP results.

Global Definitions

- A. **Annual ARM Filing** shall consist of the components described below. The Company will simultaneously copy the Consumer Advocate on all Annual ARM Filings.
- B. **Annual ARM Filing Date** shall be the date the Company submits its Annual ARM Filing to the TPUC. The Annual ARM Filing Date shall be no later than May 20 of each year. The initial Annual ARM Filing shall be submitted by May 20, 2023 and shall include results for the Historical Base Period of calendar year 2022.

- C. **Annual ARM Proceeding** refers to the annual docketed proceedings in which the Company's Annual ARM Filings shall be reviewed.
- D. **Historic Base Period ("HBP")** is defined as the Company's most recently completed 12-month fiscal year ended December 31 prior to each ARM Annual Filing Date. The initial HBP shall be the 12-month fiscal year ended December 31, 2022.
- E. **Effective Date of ARM Rates** refers to the date that new ARM Rider Rates and new Base Margin Rates take effect. The Effective Date of ARM Rates shall be October 1 of each year pursuant to the Annual ARM Filing. As such, all bills rendered starting with October cycle 1 each year shall be billed under the new ARM Rider Rates and new Base Margin Rates.
- F. **2020 Rate Case Settlement** refers to the Stipulation and Settlement Agreement between Piedmont and the Consumer Advocate filed with the TPUC on February 2, 2021 in Docket No. 20-00086, which was subsequently approved by the TPUC.
- G. **Authorized Return on Equity** is defined as the 9.80% return on equity established in Docket No. 20-00086, or that which is established by the TPUC in any subsequent general rate case for the Company.
- H. **Overall Cost of Capital** is defined as the overall cost of capital for the applicable period, as stated on ARM Filing Schedule 10.
- I. **HBP Net Operating Income Deficiency (Sufficiency)** shall be computed as the difference between the net operating income for return in the HBP and the net operating income for return in the HBP that is required to produce the Authorized Return on Equity.
- J. **HBP Revenue Requirement Deficiency (Sufficiency)** shall be the HBP Net Operating Income Deficiency (Sufficiency) multiplied by the Revenue Conversion Factor.
- K. **Carrying Costs** are computed by applying an interest rate to the HBP Revenue Requirement Deficiency (Sufficiency) from the midpoint date of the HBP to the effective date of the ARM Rider Rates, which reflects a total of 15 months from July 1 of the HBP thru Sept 30 of the following year. The interest rate used shall be the net-of-tax Overall Cost of Capital rate including the Authorized Return on Equity, for the HBP.
- L. **ARM Reconciliation Deferred Account** shall be the interest-bearing regulatory asset or liability account to which the approved HBP Revenue Requirement Deficiency (Sufficiency) and Carrying Costs are recorded each October. The actual collections from customers (or refunds to customers) arising from the ARM Rider Rates shall be applied to the ARM Reconciliation Deferred Account each month in order to relieve its balance. Interest shall be accrued monthly to the ARM Reconciliation Deferred Account at a rate equivalent to the Company's net-of-tax Overall Cost of Capital under which Base Margin Rates were last established. Interest shall be applied to the average of the beginning and ending monthly balances. The ARM Reconciliation Deferred Account shall not be included in rate base for purposes of determining the HBP Net Operating Income Deficiency (Sufficiency) or the Annual Base Rate Reset Net Operating Income Deficiency (Sufficiency).
- M. **ARM Regulatory Asset** shall be the account(s) to which the Company records Interest Deferrals and Depreciation Expense Deferrals associated with plant in service that has not

yet been included in rate base. The Company shall be authorized to establish and include in rate base this ARM Regulatory Asset. The Company shall segregate its deferrals to the ARM Regulatory Asset by HBP. Upon the effective date of new Base Margin Rates each year, the Dec 31 balance of the ARM Regulatory Asset for the most recent HBP shall begin to be amortized evenly over a period of time equivalent to the depreciable life of its underlying plant assets.

- i. **Interest Deferrals:** On a monthly basis, the Company shall record deferred interest to the ARM Regulatory Asset. The rate for such deferred interest shall be the pretax Overall Cost of Capital under which Base Margin Rates were last established. Such deferred interest shall be calculated on all plant placed into service that is not yet included in rate base, and shall continue to accrue and be added to balance of the ARM Regulatory Asset during and after the HBP until such time that the underlying plant is included in rate base. The Company shall take care not to double count the application of Interest Deferrals and the recording of Allowance for Funds Used During Construction (AFUDC). The plant balance upon which the interest deferrals are calculated shall account for incremental plant additions net of a) incremental plant retirements; b) a provision adding or subtracting incremental deferred income taxes on plant assets not yet in rate base; c) a provision subtracting the increase in accumulated depreciation on assets already included in rate base; and d) a provision adding the depreciation expense deferred on assets not yet included in rate base.
 - ii. **Depreciation Expense Deferrals:** On a monthly basis, the Company shall record deferred depreciation expense to the ARM Regulatory Asset on plant not yet included in rate base. This accounting will result in a credit to depreciation expense and a debit to the ARM Regulatory Asset. The deferred depreciation expense shall be calculated on all plant placed into service that is not yet included in rate base, and shall continue to be added to the balance of the ARM Regulatory Asset during and after the HBP until such time that the underlying plant is included in rate base.
- N. **Annual Base Rate Reset Net Operating Income Deficiency (Sufficiency)** shall be computed as the difference in the net operating income for return for the Annual Base Rate Reset period under present Base Rates less the net operating income for return for the Annual Base Rate Reset period that is required to produce the Authorized Return on Equity.
- O. **Annual Base Rate Reset Revenue Requirement Deficiency (Sufficiency)** shall be the Annual Base Rate Reset Net Operating Income Deficiency (Sufficiency) multiplied by the Revenue Conversion Factor.
- P. **New Matters** refers to any issue, adjustment and/or ambiguity in or for any account, method of accounting or estimation, or ratemaking topic that would directly or indirectly affect the Annual ARM Filing for which there is no explicit prior determination by the TPUC regarding the Company since the 2020 Rate Case Settlement.
- Q. **ARM Rider Rates** refer to the customer billing rates per therm intended to relieve the ARM Reconciliation Deferred Account Balance over a 12-month period. The ARM Rider Rates will be updated each year on the Effective Date of ARM Rates. In each Annual ARM Filing, the Company shall propose new ARM Rider Rates based on the ARM

Deferred Account Balance at March 31 of the year after the HBP plus the current Annual ARM Proceeding's HBP Revenue Requirement Deficiency (Sufficiency) and Carrying Costs.

- R. **Base Rates** refer to those base rates per therm shown in Columns <1>, <2> and <3> of the Company's Tariff Sheet No. 1.
- i. **Base Margin Rates** refer to those base rates per therm shown in Column <1> of the Company's Tariff Sheet No. 1. The Base Margin Rates will be adjusted each year on the Effective Date of ARM Rates in accordance with the approved Annual Base Rate Reset Revenue Requirement Deficiency (Sufficiency).
 - ii. **Base PGA Rates** refer to those base rates per therm shown in Columns <2> and <3> of the Company's Tariff Sheet No. 1, which are subject to adjustment caused by changes in the cost of purchased gas in accordance with Service Schedule No. 311, "Purchased Gas Adjustment (PGA) Rider".
- S. **Applicable Rate Schedules** are the Rate Schedules for which the ARM Rider Rates and the Base Margin Rates as updated under the ARM shall apply. The Applicable Rate Schedules are Rate Schedules 301, 302, 343, 352, 303, 304, 310, 313 and 314, which represent all of Piedmont's Rate Schedules.
- T. **Revenue Conversion** Factor shall be computed consistent with the paragraph 14.m. of the 2020 Rate Case Settlement.

Components of the Annual ARM Filing

On the Annual ARM Filing Date each year, the Company shall file with the TPUC schedules and workpapers that calculate the HBP Revenue Requirement Deficiency (Sufficiency) and the Annual Base Rate Reset Revenue Requirement Deficiency (Sufficiency) in accordance with this tariff. The Company's Annual ARM Filing shall specifically include the following:

1. ARM Filing Schedules, described in Section IV herein.
2. Workpapers supporting the ARM Filing Schedules (in electronic, native format with formulas intact).
3. Direct Testimony supporting the ARM Filing Schedules and requested rate adjustments, and also specifically including:
 - a. An explanation of the nature and extent of incremental deferred environmental expenses, pursuant to the requirements of para. 17.i. of the 2020 Rate Case Settlement; and
 - b. An explanation and support to demonstrate that incremental pension deferral amounts were prudently incurred to meet the Company's obligation to qualified employees and retirees, pursuant to the requirements of para. 17.eb. of the 2020 Rate Case Settlement.¹

¹ Pursuant to Commission Order issued July 25, 2022 in Docket No. 21-00135, no additional regulatory asset for pension or OPEB above the amount that was authorized for recovery in Piedmont's last rate case shall be established for ratemaking purposes unless the Company first obtains express approval from the Commission.

4. Attestation from a Company officer, signed and notarized.
5. Proposed Tariff Changes.
6. Proposed Procedural Schedule.

II. HBP RECONCILIATION

The following methodologies shall be used in the ARM Filing Schedules, supporting workpapers and computations necessary to calculate the Company's HBP Revenue Requirement Deficiency (Sufficiency).

The HBP Revenue Requirement Deficiency (Sufficiency) and Carrying Costs shall be recovered through the ARM Rider Rates. The ARM Rider Rates shall be established for the Applicable Rate Schedules ~~based on, across which a pro-rata allocation of~~ the amount of the ARM Reconciliation Deferred Account balance at March 31 of the year after the HBP plus the current Annual ARM Proceeding's HBP Revenue Requirement Deficiency (Sufficiency) and Carrying Costs ~~is applied~~.

The ARM Rider Rates shall be developed for each Applicable Rate Schedule based upon the respective customer billing determinants used in the computation of the Gas Sales and Transportation Revenues under Section III of this Tariff. In its Annual ARM Filing, Piedmont shall make a proposal for how to allocate any amount of HBP Revenue Requirement Deficiency (Sufficiency) among the Applicable Rate Schedules and the specific design for how the ARM Rider Rates are to be increased (decreased) for each Applicable Rate Schedule in accordance with the approved methodologies. Any intervenor party may make its own proposal for how the revenue deficiency (sufficiency) should be allocated to the Applicable Rate Schedules and the rate design for any increase (decrease) in the ARM Rider Rates. Based upon a final determination that the ARM Rider Rates need to be increased (decreased), the Commission shall order such increase (decrease) in the ARM Rider Rates be based upon the proposals of the parties or such other revenue allocation and rate design decision as it may find to be in the public interest.

Operating Revenues

- 1) **Gas Sales and Transportation Revenues** shall reflect such actual revenues from Base Rates billed for service provided to customers pursuant to the provisions of the Company's TPUC-approved rates and charges (including special contracts) and recorded during the HBP.
- 2) **Forfeited Discount Revenues** shall reflect such actual revenues related to service provided to customers pursuant to the provisions of Company's TPUC-approved rates and charges (including special contracts) and recorded during the HBP.
- 3) **Other Revenues** shall reflect such actual revenues ~~including those~~ related to service provided to customers pursuant to the provisions of Company's TPUC-approved rates and charges (including special contracts) and HomeServe Warranty Program revenues as

recorded during the HBP, exclusive of revenues related to off system sales, other gas supply and capacity secondary marketing activities, and customer cash-out activities.

- 4) **Margin Revenues** shall reflect the sum of the Gas Sales and Transportation Revenues, Forfeited Discount Revenues and Other Revenues described herein, less Purchased Gas Expenses [Cost of Gas].

Operating Expenses

- 5) **Purchased Gas Expenses [Cost of Gas]** shall be set equivalent to the PGA portion of the actual Gas Sales and Transportation Revenues during the HBP. Note that the actual purchased gas expenses are recorded to general ledger account 804, and are recovered by the Company through the PGA mechanism.
- 6) **Other Purchased Gas Expenses** shall reflect such actual expenses recorded during the HBP. Note that these are expenses not eligible for recovery by the Company through the PGA mechanism.
- 7) **Uncollectible & Bad Debt Expenses** shall reflect such actual expenses recorded during the HBP.
- 8) **Lobbying Expenses** recorded during the HBP shall be entirely excluded from the computation of Operating Expense.
- 9) **Employee Salaries & Wages Expenses** shall reflect such actual expenses recorded during the HBP, exclusive of any such expenses related to lobbying activities and any such costs deemed excessive or not otherwise in the public interest.
- 10) **Employee Incentive Compensation Expenses** shall reflect such actual expenses recorded during the HBP, exclusive of any such expenses related to lobbying activities. Also, fifty percent of the STIP expenses recorded during the HBP and one hundred percent of the LTIP expenses recorded during the HBP shall be excluded from the computation of Operating Expenses, consistent with paragraph 14.h. of the 2020 Rate Case Settlement.
- 11) **Amortization Expenses for Deferred Rate Case Expenses for Docket No. 20-00086** recorded during the HBP shall be entirely excluded from the computation of Operating Expense, consistent with paragraphs 14.k. and 17.f. of the 2020 Rate Case Settlement.
- 12) **Amortization Expenses for Deferred Environmental Costs:** shall reflect the unamortized portion of previously-approved deferred environmental costs in accordance with the previously-approved amortization period. The Company may seek recovery of Environmental Costs incurred during the HBP, in accordance with Section III. Annual Base Rate Reset of this Tariff, upon a showing of prudence and that such costs are not recoverable through insurance policies.
- 13) **Amortization Expenses for Deferred Pension Costs** shall reflect the annual expense for unamortized balance of the pension regulatory asset included in the agreed-upon rate base in the Company's last rate case in accordance with the approved amortization period from the Company's last rate case. ~~such actual expenses recorded during the HBP to the extent that the specific underlying deferred pension costs expensed during the HBP were previously approved by the TPUC for recovery.~~

- 14) **Other Pension Expenses and OPEB Expenses** shall be the Tennessee jurisdictional portion of the actuarially-determined minimum contribution requirement. Any Pension and OPEB expenses computed and recorded in accordance with GAAP, including actual contributions, during the HBP shall be excluded. ~~reflect such actual expenses recorded during the HBP, exclusive of the ASC 2017 expenses (formerly FAS 87) recorded during the HBP.~~
- 15) **Expense for Allocated Return on DEBS Assets** shall reflect such actual expenses properly incurred, and charged to the Company's Tennessee jurisdiction during the HBP, adjusted to reflect a return based on the Authorized Return on Equity, and exclusive of any such expense related to return on DEBS pension assets. Such return shall be applied to the balance of DEBS assets net of Accumulated Depreciation and Accumulated Deferred Income Taxes (ADIT). Recoverable expenses shall exclude any such expense related to the return on DEBS pension assets.
- 16) **Expense for TPUC Fee** shall reflect such actual expenses recorded during the HBP.
- 17) **Other O&M Expenses** shall reflect such actual expenses recorded during the HBP including HomeServe Warranty Program expenses, as well as recoverable promotional and advertising expenses consistent with Commission Rule 1220-04-05-.47, exclusive of any such expenses related to lobbying activities, and shall reflect costs necessary in the provision of natural gas service.
- 18) **Other Expense Adjustments** shall reflect adjustments made by the Company to exclude any known expenses improperly recorded as an Operating Expense during the HBP.
- 19) **Depreciation Expenses** shall reflect such actual expenses recorded during the HBP, net of credits recorded during the HBP related to Depreciation Expense Deferrals.
- 20) **Amortization Expenses for ARM Regulatory Asset** shall reflect such actual expenses recorded during the HBP related to relieving the ARM Regulatory Asset pursuant to approvals granted in prior Annual ARM Proceedings.
- 21) **Payroll Tax Expenses** shall reflect such actual expenses recorded during HBP, adjusted to comport with the labor and other compensation expense adjustments described herein.
- 22) **Property Tax Expenses** shall reflect such actual expenses recorded during the HBP.
- 23) **Other General Tax Expense** shall reflect such actual expenses recorded during the HBP.
- 24) **Amortization of Investment Tax Credit** shall reflect such actual expenses recorded during the HBP.
- 25) **State Excise Tax Expense** shall be computed using the Company's composite state tax rate in effect December 31 of the HBP, and in alignment with the representation of the adjusted revenues and expenses herein including synchronized interest on debt. The Company shall notify the Commission and the Consumer Advocate of any change in the state tax rates which comprise the Company's composite state tax rate.
- 26) **Federal Income Tax Expense** shall be computed using the statutory federal tax rate in effect as of December 31 of the HBP, and in alignment with the representation of the adjusted revenues and expenses herein including synchronized interest on debt. Federal Income Tax Expense shall be further adjusted for the amortized return of protected federal excess accumulated deferred income taxes ("EDIT") resulting from the 2017 Tax Act.

Adjustments to Net Operating Income

- 27) **AFUDC** shall reflect the 13-month average CWIP balance during the HBP multiplied by the Overall Cost of Capital in the HBP including the Authorized Return on Equity.
- 28) **Interest on Customer Deposits** shall reflect such actuals recorded during the HBP.

Rate Base

- 29) **Utility Plant in Service** shall reflect the 13-month average of the actual end-of-month (“EOM”) balances for the HBP and the month prior to the HBP. Any amount recorded to plant in service that is not truly used in providing service to customers should be removed from general ledger account 101 and either written off or reclassified to an appropriate general ledger account. The Company has the burden to demonstrate the accuracy of recordings to plant in service.
- 30) **Accumulated Depreciation** shall reflect the 13-month average of the actual EOM balances for the HBP and the month prior to the HBP.
- 31) **CWIP** shall reflect the 13-month average of the actual EOM balances, exclusive of fifty percent of STIP costs and one hundred percent of LTIP costs recorded to CWIP during the HBP and the month prior to the HBP, consistent with paragraph 14.h. of the 2020 Rate Case Settlement. [Pension and OPEB cost loadings to construction projects and accounted for in CWIP shall be accounted for consistent with how such expenses are recoverable in the HBP \(see above item 14 – Other Pension and OPEB expenses\).](#)
- 32) **ARM Regulatory Asset** shall reflect the 13-month average of the actual EOM balances for the HBP, excluding the components of such balance associated with the Interest Deferrals.
- 33) **ADIT** shall reflect the 13-month average of the actual EOM balances for the HBP and the month prior to the HBP, exclusive of any amounts related to unprotected federal EDIT subject to refund to customers pursuant to the TPUC's August 6, 2019 Order in Docket No. 18-00040. Items included in ADIT should be determined consistent with the inclusion/exclusion of revenue and expense items represented in the HBP. The Company shall notify the Commission and the Consumer Advocate of any change in the state tax rates which comprise the Company's composite state tax rate. Any state tax rate change will result in an excess or deficient ADIT balance and that such excess or deficiency should be preserved on the Company's books for appropriate regulatory treatment within subsequent ARM filings.
- 34) **Cash Working Capital (Lead-Lag)** shall be computed in conformity with the lag days and categories of revenue and expense in the 2020 Rate Case Settlement.
- 35) **Other Working Capital** shall reflect the 13-month average of the actual EOM balances for the HBP and the month prior to the HBP, for the following:
- a. Material and Supplies
 - b. Gas Inventory
 - c. Prepaid Insurance

- d. Fleets & Overheads
- e. Accounts Payables applicable to CWIP
- f. Accounts Payables applicable to Materials and Supplies
- g. Customer Deposits
- h. Interest on Customer Deposits
- i. Accrued Vacation
- j. The Company may request recovery of any Deferred Debits for Environmental Costs ~~and Pension Costs~~. The Company shall bear the burden of proof that such costs are appropriately included in rate base.
- k. Pension Costs: Piedmont shall be allowed to recover through the ARM the unamortized balance of the pension regulatory asset included in the agreed-upon rate base in the Company's last rate case in Docket No. 20-00086 through annual expense amortizations over the remaining portion of the authorized eight-year amortization period. No additional regulatory asset for pensions or OPEBs above the amount that was authorized in Piedmont's last rate case shall be established for ratemaking purposes unless the Company first obtains express approval from the Commission.

Capitalization

- 36) **Capital Structure** shall reflect the actual long-term debt, short-term-debt and common equity (not including the impact of goodwill) each as a percentage of total average capitalization for the 13-month period ending December 31 of the HBP.
- 37) **Long Term Debt Cost** shall reflect the actual average embedded cost of long-term debt for the 13-month period ending December 31 of the HBP. The computation of the embedded cost of long-term debt shall include an adjustment for unamortized loss on reacquired debt and credit facility fees.
- 38) **Short Term Debt Cost** shall reflect the actual average cost rate of short-term debt borrowings (Piedmont's intercompany money pool borrowings) for the 13-month period ending December 31 of the HBP.
- 39) **Authorized Return on Equity** as defined in Section I of this Tariff.

III. ANNUAL BASE RATE RESET

The following methodologies shall be used in the ARM Filing Schedules, supporting workpapers and computations necessary to calculate the Company's Annual Base Rate Reset Revenue Requirement Deficiency (Sufficiency).

~~A pro-rata allocation of the amount of the Annual Base Rate Reset Revenue Requirement Deficiency (Sufficiency) shall be applied to each Applicable Rate Schedule.~~ The updated Base Rates for each Applicable Rate Schedule shall be developed based upon the respective customer billing determinants the used in the computation of the Gas Sales and Transportation Revenues as

set forth in Section III of this ~~Tariff~~ herein. In its Annual ARM Filing, Piedmont shall make a proposal for how to allocate any amount of Annual Base Rate Reset Revenue Requirement Deficiency (Sufficiency) among the Applicable Rate Schedules and the specific design for how the updated Base Rates are to be increased (decreased) for each Applicable Rate Schedule in accordance with the approved methodologies. Any intervenor party may make its own proposal for how the revenue deficiency (sufficiency) should be allocated to the Applicable Rate Schedules and the rate design for any increase (decrease) in the Base Rates for the Annual Base Rate Reset. Based upon a final determination that the Base Rates need to be increased (decreased), the Commission shall order such increase (decrease) in the Base Rates be based upon the proposals of the parties or such other revenue allocation and rate design decision as it may find to be in the public interest. ~~below.~~

Operating Revenues

- 1) **Gas Sales and Transportation Revenues** shall be computed, as follows:
 - a. For service rendered under Rate Schedules 301 (Residential), 302 (Small General) and 352 (Medium General) respectively, the actual usage during the 12-month period comprising the HBP shall be normalized for weather. For this purpose, Normal Heating Degree Days (NHDD) shall be the average of the actual daily heating degree days experienced in the 30-year period ending December 31 of each HBP. A simple linear regression analysis² using actual heating degree days for each month of the HBP, actual usage by rate schedule for each month of the HBP, and the monthly NHDD will be performed to derive the normalized base load usage and heat-sensitive usage per customer for each rate schedule. Such normalized base load usage and heat-sensitive usage per customer for each rate schedule shall then be aligned with the monthly NHDD and actual number of bills rendered each month of the HBP to establish the total normalized customer usage by month by rate schedule. Normalized revenues shall then be computed by applying the present Base Rates (clean rates, which are the rate components shown in columns <1>, <2> and <3> on the Company's Tariff Sheet No. 1, and excluding ARM Rider Rates and all other non-base rates) to the derived normalized monthly customer usage and associated monthly customer count for each rate schedule.
 - b. For service rendered under Rate Schedules 303 (Large General Sales - Firm), 304 (Large General Sales - Interruptible), 310 (Resale Service), 313 (Large General Transportation - Firm), 314 (Large General Transportation - Interruptible) and 343 (Motor Vehicle Fuel Service), revenues shall be computed by applying the present Base Rates (clean rates, which are the rate components shown in columns <1>, <2>

² The methodology for computing and updating base load and heat sensitivity factors shall be the simple linear regression analysis methodology ordered by the Commission for Atmos Energy Corporation in Docket No. 14-00146 and Chattanooga Gas Company in Docket No. 18-00017. The updated base load and heat sensitivity factors shall be utilized for the Company's WNA for the applicable period of time immediately following the TPUC's decision on the Company's Annual ARM Filing.

and <3> on the Company's Tariff Sheet No. 1, and excluding ARM Rider Rates and all other non-base rates to the actual monthly customer usage and customer count for each rate schedule during the HBP.

- c. For service rendered under special contracts, revenues shall be the actuals recorded during the HBP. Should a special contract customer move to a tariff rate during or after the completion of the HBP, the revenue for that customer shall instead be computed pursuant to subpart a or b above, as warranted.
- 2) **Forfeited Discount Revenues** shall reflect such actual revenues related to service provided to customers pursuant to the provisions of Company's TPUC-approved rates and charges (including special contracts) and recorded during the HBP.
- 3) **Other Revenues** shall reflect such actual revenues ~~including those~~ related to service provided to customers pursuant to the provisions of Company's TPUC-approved rates and charges (including special contracts) and HomeServe Warranty revenues as recorded during the HBP, exclusive of revenues related to off system sales, other gas supply and capacity secondary marketing activities, and customer cash-out activities.
- 4) **Margin Revenues** shall reflect the sum of the Gas Sales and Transportation Revenues, Forfeited Discount Revenues and Other Revenues, net of the amount of Purchased Gas Expenses.

Operating Expenses

- 5) **Purchased Gas Expenses [Cost of Gas]** shall be set equivalent to the computed PGA portion of Gas Sales and Transportation Revenues.
- 6) **Other Purchased Gas Expenses** shall reflect such actual expenses recorded during the HBP. Note that these are expenses not recovered by the Company through the PGA mechanism.
- 7) **Uncollectible & Bad Debt Expenses** shall reflect such actual expenses recorded during the HBP.
- 8) **Lobbying Expenses** recorded during the HBP shall be entirely excluded from the computation of Operating Expense.
- 9) **Employee Salaries & Wages Expenses** shall reflect such actual expenses recorded during the HBP, exclusive of any such expenses related to lobbying activities and any such costs deemed excessive or not otherwise in the public interest.
- 10) **Employee Incentive Compensation Expenses** shall reflect such actual expenses recorded during the HBP, exclusive of any such expenses related to lobbying activities. Also, fifty percent of the STIP expenses recorded during the HBP and one hundred percent of the LTIP expenses recorded during the HBP shall be excluded from Operating Expenses, consistent with paragraph 14.h. of the 2020 Rate Case Settlement.
- 11) **Amortization Expenses for Deferred Rate Case Expenses for Docket No. 20-00086** recorded during the HBP shall be entirely excluded from the computation of

Operating Expense, consistent with paragraphs 14.k. and 17.f. of the 2020 Rate Case Settlement.

- 12) **Amortization Expenses for Deferred Environmental Costs:** shall reflect the unamortized portion of previously-approved deferred environmental costs in accordance with the previously-approved amortization period. The Company may also herein seek recovery of Environmental Costs incurred during the HBP upon a showing of prudence and that such costs are not recoverable through insurance policies, and such Environmental Costs shall be represented herein in accordance with the previously-approved amortization period.
- 13) **Amortization Expenses for Deferred Pension Costs** shall reflect the unamortized balance of the pension regulatory asset included in the agreed-upon rate base in the Company's last rate case in accordance with the approved amortization period from the Company's last rate case.~~the amount of such prudently incurred expenses to be recorded during the 12-month period in which the prompt Annual Base Rate Reset rates are to be effective. Incremental deferred pension costs for which the Company seeks recovery through the Annual Base Rate Reset shall be amortized over a one-year period.~~
- 14) **Other Pension Expenses and OPEB Expenses** shall be the Tennessee jurisdictional portion of the actuarially-determined minimum contribution requirement. Any Pension and OPEB expenses computed and recorded in accordance with GAAP, including actual contributions, during the HBP shall be excluded.~~reflect such actual expenses recorded during the HBP, exclusive of the ASC 2017 expenses (formerly FAS 87) recorded during the HBP.~~
- 15) **Expense for Allocated Return on DEBS Assets** shall reflect such actual expenses properly incurred, and charges to the Company's Tennessee jurisdiction during the HBP, adjusted to reflect a return based on the Authorized Return on Equity, and exclusive of any such expense related to return on DEBS pension assets. Such return shall apply to the balance of DEBS assets net of Accumulated Depreciation and Accumulated Deferred Income Taxes (ADIT). Recoverable expenses shall exclude any such expense related to the return on DEBS pension assets.
- 16) **Expense for TPUC Fee** shall reflect such actual expenses recorded during the HBP.
- 17) **Other O&M Expenses** shall reflect such actual expenses recorded during the HBP including HomeServe Warranty Program expenses, as well as recoverable promotional and advertising expenses consistent with Commission Rule 1220-04-05-.47, exclusive of any such expenses related to lobbying activities, and shall reflect costs necessary in the provision of natural gas service.
- 18) **Other Expense Adjustments** shall reflect adjustments made by the Company to exclude any known expenses improperly recorded as an Operating Expense during the HBP.
- 19) **Depreciation Expenses** shall be computed as annualized depreciation expense aligned with the actual December 31 HBP balance of Utility Plant in Service. Depreciation expenses shall be computed using the depreciation rates approved by the

Commission in the Company's most recent general rate case or any subsequent approval.

- 20) **Amortization Expenses for ARM Regulatory Asset** shall be computed as annualized amortization expense aligned with the actual December 31 HBP balance of the ARM Regulatory Asset pursuant to approvals granted in prior Annual ARM Proceedings.
- 21) **Payroll Tax Expenses** shall reflect such actual expenses recorded during HBP, adjusted to comport with the labor and other compensation expense adjustments.
- 22) **Property Tax Expenses** shall reflect such actual expenses recorded during the HBP.
- 23) **Other General Tax Expense** shall reflect such actual expenses recorded during the HBP.
- 24) **Amortization of Investment Tax Credit** shall reflect such actual expenses recorded during the HBP.
- 25) **State Excise Tax Expense** shall be computed using the Company's composite state tax rate in effect as of December 31 of the HBP, and in alignment with the representation of the adjusted revenues and expenses as described including synchronized interest on debt. The Company shall notify the Commission and the Consumer Advocate of any change in the state tax rates which comprise the Company's composite state tax rate.
- 26) **Federal Income Tax Expense** shall be computed using the statutory federal tax rate in effect as of December 31 of the HBP, and in alignment with the representation of the adjusted revenues and expenses herein including synchronized interest on debt. Federal Income Tax Expense shall be further adjusted for the amortized return of protected federal excess accumulated deferred income taxes ("EDIT") resulting from the 2017 Tax Cuts and Jobs Act.

Adjustments to Net Operating Income

- 27) **AFUDC** shall be represented as the CWIP balance at December 31st of the HBP multiplied by the Overall Cost of Capital at December 31st of the HBP including the Authorized Return on Equity.
- 28) **Interest on Customer Deposits** shall reflect such actuals recorded during the HBP.

Rate Base

- 29) **Utility Plant in Service** shall reflect the actual December 31 HBP balance. Any amount recorded to plant in service that is not truly used in providing service to customers should be removed from Account 101 and either written off or reclassified to an appropriate account. The Company has the burden to demonstrate the accuracy of recordings to Plant in Service.
- 30) **Accumulated Depreciation** shall reflect the actual December 31 HBP balance.
- 31) **CWIP** shall reflect the actual December 31 HBP balance, exclusive of fifty percent of STIP costs and one hundred percent of LTIP costs recorded to CWIP during the HBP, consistent with paragraph 14.h. of the 2020 Rate Case Settlement. [Pension and OPEB](#)

- cost loadings to construction projects and accounted for in CWIP shall be accounted for consistent with how such expenses are recoverable in the HBP (see above item 14 – Other Pension and OPEB expenses).
- 32) **ARM Regulatory Asset** shall reflect the actual unamortized December 31 HBP balance.
- 33) **ADIT** shall reflect the actual December 31 HBP balance, exclusive of any amounts related to the unprotected federal EDIT subject to refund to customers pursuant to the TPUC's August 6, 2019 Order in Docket No. 18-00040. Items included in ADIT should be determined consistent with the inclusion/exclusion of revenue and expense items reflected in the HBP.
- 34) **Cash Working Capital (Lead-Lag)** shall be computed in conformity with the lag days and categories of revenue and expense in the 2020 Rate Case Settlement.
- 35) **Other Working Capital** shall reflect the 13-month average of the actual EOM balances for the HBP and the month prior to the HBP, for the following:
- a. Material and Supplies
 - b. Gas Inventory
 - c. Prepaid Insurance
 - d. Fleets & Overheads
 - e. Accounts Payables applicable to CWIP
 - f. Accounts Payables applicable to Materials and Supplies
 - g. Customer Deposits
 - h. Interest on Customer Deposits
 - i. Accrued Vacation
 - j. The Company may request recovery of any Deferred Debits for Environmental Costs ~~and Pension Costs~~. It shall bear the burden of proof that such costs are appropriately included in Rate Base.
 - k. Pension Costs: Piedmont shall be allowed to recover through the ARM the unamortized balance of the pension regulatory asset included in the agreed-upon rate base in the Company's last rate case in Docket No. 20-00086 through annual expense amortizations over the remaining portion of the authorized eight-year amortization period. No additional regulatory asset for pensions or OPEBs above the amount that was authorized in Piedmont's last rate case shall be established for ratemaking purposes unless the Company first obtains express approval from the Commission.

Capitalization Components

- 36) **Capital Structure** shall reflect the long-term debt, short-term-debt and common equity (not including the impact of goodwill) each as a percentage of total capitalization as of December 31 of the HBP.
- 37) **Long Term Debt Cost** shall reflect the actual embedded cost of long-term debt as of December 31 of the HBP. The computation of the embedded cost of long-term best

shall include an adjustment for unamortized loss on reacquired debt and credit facility fees.

38) **Short Term Debt Cost** shall reflect the computed average cost rate of short-term debt borrowings (Piedmont's intercompany money pool borrowings) during the HBP.

39) **Authorized Return on Equity** as defined in Section I of this tariff

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UPIS – Monthly Activity by plant account, to provide support for ARM Schedule 13 and 14	
CWIP – Actual Capital Expenditures by Category and Project Number, to provide support for ARM Schedule 15	
ACC DEPR – Monthly Activity by plant account, to provide support for ARM Schedule 16	
WC – Calculation of 13 month average balance of Working Capital by category, to provide support for ARM Schedule 19	
ARM Reg Asset – Monthly activity, to provide support for ARM Schedule 20	
REVENUE WORKPAPERS	
Regression Analysis for the Computation of Base Rate Reset Billing Determinants, to provide support for ARM Schedules 22A, 22B & 28	
Calculation of 30-year Average Heating Degree Days, to provide support for ARM Schedule 27	
Per Books for the 12ME 12/31/20 Revenue Categories, to provide support for ARM Schedule 6A Column A	
ADIT Refund Elimination, to provide support for ARM Schedule 6A, Line 7, Column A	
O&M EXPENSE WORKPAPERS	
Other Purchased Gas Expense Excluding Payroll and Incentive Compensation, to provide support for ARM Schedule 5 Line 1	
Gas Storage Expense Excluding Payroll and Incentive Compensation, to provide support for ARM Schedule 5 Line 2	
Transmission Expense Excluding Payroll and Incentive Compensation, to provide support for ARM Schedule 5 Line 3	
Distribution Expense Excluding Payroll and Incentive Compensation, to provide support for ARM Schedule 5 Line 4	
Sales Expense Excluding Payroll and Incentive Compensation, to provide support for ARM Schedule 5 Line 8	
Other Admin & General Expense, to provide support for ARM Schedule 5 Line 18	
General Ledger transaction level detail for all O&M Charges	
General Ledger transaction level detail for all O&M Charges allocated to Tennessee operations from the Service Corporation (DEBS)	
Calculation of depreciation expense allocated to Tennessee operations from the Service Corporation (DEBS) pursuant to Section 17.m. of the 2020 Rate Case Settlement	
OTHER WORKPAPERS	
Calculation of O&M Expense for Lead/Lag to provide support for ARM Schedules 4A and 4B Lines 5 through 19	
Calculation of General Taxes, to provide support for ARM Schedule 7	
Calculation of Composite Excise Tax Rate, to provide support for ARM Schedule 11 Line 6 and 12	
Calculation of Annual EDIT Amortization for Protected PPE, to provide support for ARM Schedule 8 Line 21	
Capital Structure and Cost Rates, to provide support for ARM Schedule 10	
ARM Reconciliation Deferred Account Activity by month, to provide support for ARM Schedule 12	

Other Schedules

- 53) Variance Reporting: As part of its Annual ARM filing, Piedmont shall prepare and file with the TPUC, with a copy to the Consumer Advocate, a Variance Report that identifies and explains each and every Piedmont revenue and operating expense

- account and/or subaccount for which the Tennessee amount (including amounts allocated to Tennessee) either exceeds the prior year's amount (based on amounts either as filed by Piedmont in the Annual ARM Filing or as adjusted by the TPUC under Tennessee Code Annotated Section 65-5-103(d)(6)(C) by 5% and \$30,000.
- 54) The monthly balances of short-term debt, long-term debt and equity at December 31st of the month preceding the beginning of the HBP as well as month end balances throughout the HBP.
- 55) The amount of accrued expenses recorded in the HBP along with a full explanation identifying the nature of each accrual, further identified between direct and allocated charges.
- 56) If not in the Cost Allocation Manual, the Company shall supply a description of each 'Operating Unit', 'Allocation Pool ID', 'Resource Type ID', 'Source CD JD', and 'Project ID CB' included within its O&M Expense workpaper: General Ledger transaction level detail for all O&M Charges allocated to Tennessee operations from DEBS.
- 57) A description of each DEBS asset whose allocated costs to Piedmont-Tennessee operations is \$50,000 annually or more.
- 58) A schedule of the Company's HBP accounting entries made for the 'return to provision' transaction reflecting the impacts of its filed tax return made in the year subsequent to the HBP, along with an explanation of the impact of the transaction on the regulate return in the period the entry is made.
- 59) The following operating metrics for the HBP:
- a. Response Time to Emergency Calls
 - b. Age of Natural Gas Leaks
 - c. Number of Natural Gas Leaks by Grade.

V. OTHER

Consumer Advocate Authority to Petition

The Consumer Advocate shall have the right in its sole discretion to file a petition or complaint asking the Commission to terminate or modify any ARM Tariff resulting from Docket No. 21-00135 or any directly or indirectly related docket or to take any other action contemplated by Tennessee Code Annotated Section 65-5-103(d)(6). The Company shall not oppose the Consumer Advocate's petition or complaint filed under this Section on the grounds that such a proceeding is not statutorily authorized or that Consumer Advocate is not authorized to bring such a proceeding; provided, however, that the Company reserves all rights with regard to the merits of any termination or modification or other relief that the Consumer Advocate may request or position that the Consumer Advocate may assert in any such proceeding.