**McGuireWoods LLP**
201 North Tryon Street
Suite 3000
Charlotte, NC 28202-2146
Phone: 704.343.2000
Fax: 704.343.2300
www.mcguirewoods.com

**James H. Jeffries IV**
Direct: 704.343.2348



MCGUIREWOODS

jjeffries@mcguirewoods.com

January 12, 2022

**VIA E-MAIL & 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.'s Petition to Adopt an Annual Review of Rates Mechanism Pursuant to Tenn. Code Ann.§ 65-5-103(d)(6), Docket No. 21-00135**

Dear Mr. Taylor:

Enclosed for filing are Piedmont Natural Gas Company's ("Piedmont") responses to the Consumer Advocate's *Second Discovery Request* in the above-referenced docket. In addition to the tabbed and bound copy of the responses, you will find 2 flash drives, one of which contains all public responses and attachments in native format. The second flash drive contains the confidential response and is to be filed under seal.

Some of the materials provided are marked as confidential and Piedmont respectfully requests that the Tennessee Public Utility Commission treat those materials in a manner consistent with that designation.

Thank you for your assistance with this matter. If you have any questions about this filing, you may reach me at the number shown above.

Sincerely,

/s/ James H. Jeffries IV
James H. Jeffries IV

JHJ/sko

Enclosures

cc: Paul Davidson
Consumer Advocate
Bruce Barkley
Pia Powers
Brian S. Heslin

REDACTED

**Piedmont Natural Gas Company, Inc.**
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2-1. Refer to the Company's Response to Consumer Advocate DR No. 1-5, Attachment 2 of 2 (CONFIDENITAL). Distribution Integrity was projected/presented as $5.2 million in the initial budget, but the January - October 2021 actual expenditures were $27.6 million. Provide a comprehensive explanation identifying the reason for the significant increase in Distribution Integrity expenditures.

**Response:** Five (5) Distribution Integrity construction projects account for the actual-to-budget variance and was largely outside of the Company's ability to control. See details of the 5 projects below.

**CONFIDENTIAL Response:**

- [redacted]

[redacted]

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- [redacted]

[redacted]

[redacted]

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[redacted]

**Name and title of responsible person:** Bryan Manges, Director – Gas Util & Infrastructure

**Name and title of preparer:** John Robson, Director – Gas Distribution Finance

Response provided by Piedmont Natural Gas Company, Inc. on January 7, 2022.

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2-2. Refer to the Company's Response to Consumer Advocate DR No. 1-5, Attachment 2 of 2 (CONFIDENTIAL). Replacement Services was projected/presented to be $308,000 but actuals from January - October 2021 was $2.25 million. Provide a comprehensive explanation supporting the significant increase in actual expenditures from those initially forecast.

**Response:** The 2021 budget for the Replacement Services category was set at $308,000 in error. The annual budget for this project category is set based on actual historical spend in this category. Actual capital expenditures in the Replacement Services category in Nashville were $3.4M in 2018; $3.3M in 2019 and $3.6M in 2020. The Company is projecting $3.0 million in actual expenditures for 2021.

The replacement services category mainly consists of projects to tie over existing services when new main is installed, generally under the DIMP, System Infrastructure and Government Relocation capital categories.

**Name and title of responsible person:** Bryan Manges, Director – Gas Util & Infrastructure

**Name and title of preparer:** John Robson, Director – Gas Distribution Finance

Response provided by Piedmont Natural Gas Company, Inc. on January 7, 2022.

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2-3. Refer to the Company's Response to Consumer Advocate DR No. 1-5, Attachment 2 of 2 (CONFIDENTIAL). LNG Plant was projected/presented to be $0 but actuals from January - October 2021 were nearly $2.4 million. Provide a comprehensive explanation supporting the significant increase in actual expenditures from those initially forecast.

**Response:** [redacted]

**Name and title of responsible person:** Adam Long, VP – Gas Pipeline Operations

**Name and title of preparer:** John Robson, Director – Gas Distribution Finance

Response provided by Piedmont Natural Gas Company, Inc. on January 7, 2022.

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2-4. Refer to the Company's Response to Consumer Advocate DR No. 1-5, Attachment 1 of 2 (CONFIDENTIAL). [redacted]

**Response:** [redacted]

**Name and title of responsible person:** Bryan Manges, Director – Gas Util & Infrastructure

**Name and title of preparer:** John Robson, Director – Gas Distribution Finance

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2-5. Refer to the Company's Response to Consumer Advocate DR No. 1-5, Attachment 1 of 2 (CONFIDENTIAL). Provide a definition for the following categories contained within this Company Response, which clearly differentiate expenditures within the category from those incurred in other categories:

a. Distribution Integrity;

b. System infrastructure;

c. Casing and Remediation;

d. Replacement Services; and

**Response:**

a. Distribution Integrity: Distribution Integrity (DIMP) means the regimen referred to as the distribution integrity management planning under Subpart P of Part 192 of the United States Department of Transportation regulations. Distribution integrity threats are typically mitigated through pipeline replacement. DIMP activities include replacement programs for leak prone plastic pipe such as Aldyl-A and other vintage plastic materials in addition to a variety of activities for replacement of isolated steel sections, poorly coated steel segments, mechanical fittings and other non-standard materials.

b. System infrastructure: System Infrastructure projects are identified as being required to ensure design requirements for pressure and flow within the pipeline system are maintained during design day (highest customer demand) conditions, which are typically the coldest anticipated weather conditions. Within this capital classification, examples of projects include those needed to increase pressure on existing infrastructure, and those needed to upgrade pressure and flow control components to increase throughput, etc.

c. Casing and Remediation: Casing Remediation is performed pursuant to either Subpart O (transmission pipeline) or Subpart P (distribution pipeline) of Part 192 of the United States Department of Transportation regulations. When casings are shorted (carrier pipe mechanically or electrolytically shorted to casing), cathodic protection cannot be achieved. To correct this issue, the casing is eliminated by replacing the carrier by either drilling the road/railroad/etc. or rerouting. Additionally, for transmission pipelines, if integrity assessments cannot be accomplished by pigging the pipeline, the casing is replaced as discussed earlier.

b. Replacement Services: Replacement Services involve the removal and replacement of existing service lines. Reasons for replacement could include operational needs such as leak history or material type (bare/poorly coated steel, copper, vintage plastic, etc). Replacement could be the request of the property owner due to new construction or potential conflict.

c. Corrosion Control: Corrosion Control is performed pursuant to either Subpart O (transmission pipeline) or Subpart P (distribution pipeline) of Part 192 of the United States Department of Transportation regulations. Corrosion control involves activities designed to protect our steel pipelines. For steel pipelines, cathodic protection is required per CFR 49 Part 192 to mitigate corrosion. This can be accomplished by any of the following concepts and, at times, may require a combination of these options: groundbed/rectifier replacement, anode replacement, installation of linear anodes, Alternating Corrosion mitigation, coating replacement, and pipeline replacement (which will still require cathodic protection).

**Name and title of responsible person:** Neil Moser, Director – Gas Engineering and Asset Planning

**Name and title of preparer:** Melton Huey, Director – Gas Asset Risk Management

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2-6. Refer to the Company's Response to Consumer Advocate DR No. 1-3b. With respect to the statement that Piedmont's proposal provides more transparency, confirm that this transparency is limited to the review of the ARM transaction by the Commission and intervenors and does not extend to customers. If this is not confirmed, provide an explanation of how the Company's proposal increases transparency for ratepayers.

**Response:** Confirmed.

**Name and title of responsible person:** Pia Powers, Managing Director – Gas Rates & Regulatory

**Name and title of preparer:** Laura Hager, Rates & Regulatory Strategy Manager

Response provided by Piedmont Natural Gas Company, Inc. on January 7, 2022.

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2-7. Refer to the Company's Response to Consumer Advocate DR No. 1-4. Provide a copy of all studies in Piedmont's possession which in any way address the competitive position of the Company in the provision of space heating and/or water heating with alternative energy sources.

**Response:** The Company does not possess any such studies.

**Name and title of responsible person:** Ron Mays, VP – Gas Sales & Delivery

**Name and title of preparer:** Laura Hager, Rates & Regulatory Strategy Manager

Response provided by Piedmont Natural Gas Company, Inc. on January 7, 2022.

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2-8. Refer to <Exhibit PKP-1>. Provide a comprehensive explanation justifying the use of a net of tax overall cost of capital for computing carrying costs on the Historic Base Period ("HBP") Revenue Requirement Deficiency (Sufficiency), contrasted with the use of the pretax cost of capital applied to Interest Deferrals.

**Response:** It is an appropriate pairing to use the net-of-tax Overall Cost of Capital rate as the interest rate to compute the Carrying Costs since it is to be applied to a net-of-tax amount, i.e. the amount of the HBP Revenue Requirement Deficiency (or Sufficiency).

In contrast, it is an appropriate pairing to use the pretax Overall Cost of Capital rate as the interest rate to compute the Interest Deferrals recorded to the ARM Regulatory Asset since it is to be applied to a pretax amount, i.e. the amount of plant placed into service that is not yet included in rate base.

**Name and title of responsible person:** Pia Powers, Managing Director – Gas Rates & Regulatory

**Name and title of preparer:** Pia Powers, Managing Director – Gas Rates & Regulatory

Response provided by Piedmont Natural Gas Company, Inc. on January 7, 2022.

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2-9. Refer to the Direct Testimony of Pia K. Powers, <Exhibit_(PKP-1)>. Confirm that with respect to the Depreciation Expense Deferral, it is the Company's position that there would be no reduction in the deferral associated with the reduction in depreciation expense associated with retired plant:

a. If this is confirmed, provide the justification for the lack of recognition of depreciation on retired plant within the ARM asset.

b. If this is not confirmed, provide the reference to <Exhibit_(PKP-1)> where this offset is identified.

**Response:** The purpose of the Depreciation Expense Deferral component of the ARM is to minimize regulatory lag. Actual depreciation expense recorded to Piedmont's books in any HBP, including any and all credits to per book depreciation expense recorded Piedmont's books during the HBP as a result of Depreciation Expense Deferrals pursuant to the ARM, is used in the computation of the HBP Revenue Requirement Deficiency (Sufficiency). This is explicitly addressed in Section II.20 of the Company's proposed ARM Tariff. Furthermore, any and all plant retirements recorded to Piedmont's books are captured in the ARM by virtue of the fact that the ARM incorporates all actual, known and prudent per book costs experienced during the HBP, not projected costs. Hence, all actual per book activity related to plant, including plant retirements, is appropriately included in the Company's proposed ARM.

Also note that the operation of the Depreciation Expense Deferral under Piedmont's proposed ARM Tariff is no different than the way Depreciation Expense Deferrals are addressed in Atmos' current approved ARM Tariff.

**Name and title of responsible person:** Pia Powers, Managing Director – Gas Rates & Regulatory

**Name and title of preparer:** Pia Powers, Managing Director – Gas Rates & Regulatory

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2-10. Refer to the Direct Testimony of Pia K. Powers, <Exhibit_(PKP-1)>, p. 3, Part I. Overview, Section "Global Definitions", Subsection L. ARM Reconciliation Deferred Accounts. Confirm that the interest applied to such balances will not begin until October 1st following the end of the HBP. If this is not confirmed, explain how the application of carrying charges within the definition of "Carrying Costs" in item K is not a double count with respect to the application of interest to the ARM reconciliation deferred account.

**Response:** Confirmed.

**Name and title of responsible person:** Pia Powers, Managing Director – Gas Rates & Regulatory

**Name and title of preparer:** Laura Hager, Rates & Regulatory Strategy Manager

Response provided by Piedmont Natural Gas Company, Inc. on January 7, 2022.

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2-11. Refer to the Company's Response to Consumer Advocate DR No. 1-6. Confirm the following:

a. Under the Company's proposal carrying charges (identified as interest deferrals) are to be accumulated and recovered on incremental plant in service that is not otherwise included in rate base <u>and</u> carrying charges are to be applied to the HBP deficiency (sufficiency) from the midpoint of the HBP through the period new base rates are to be effective. Under the Company's proposal the HBP would be based upon average actual rate base of the company, inclusive of new plant additions. If this summary is incorrect, please clarify.

b. If the above summary is accurate, provide a comprehensive explanation identifying how the application of interest deferrals on new plant in service is not duplicative with the application of carrying charges on the HBP revenue deficiency (assuming for purposes of this question that the HBP results in a revenue deficiency).

**Response:** To clarify, Carrying Costs and Interest Deferrals are defined terms in Section I of Piedmont's proposed ARM Tariff. Carrying Costs and Interest Deferrals are two separate and distinct matters within the operation of Piedmont's ARM. Also note that Atmos' approved ARM Tariff for Tennessee contains these two defined and distinct components of Carrying Costs and Interest Deferrals that operate in a near identical manner to that proposed in Piedmont's ARM Tariff.

There is nothing duplicative between Carrying Costs and Interest Deferrals under the ARM. The Interest Deferrals, as well as the Depreciation Expense Deferrals, under the ARM mitigate the effect of regulatory lag associated with incremental plant investment that is not yet in rate base underlying existing rates. The operation of the Interest Deferrals, as well as the Depreciation Expense Deferrals, under the ARM does not wholly preclude the opportunity for an HBP Revenue

Requirement Deficiency (or Sufficiency) to arise. The reason is because other prudent costs incurred by the Company during the HBP (i.e. actual costs other than the cost associated with incremental plant additions) as well as actual revenue-related/customer-related matters experienced during the HBP will also effect whether or not the Company's actual per book results of yield an HBP Revenue Requirement Deficiency (or Sufficiency).

**Name and title of responsible person:** Pia Powers, Managing Director – Gas Rates & Regulatory

**Name and title of preparer:** Pia Powers, Managing Director – Gas Rates & Regulatory

Response provided by Piedmont Natural Gas Company, Inc. on January 7, 2022.

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2-12. Refer to the Company's Response to Consumer Advocate DR No. 1-23. Explain whether the Net Operating Losses reflected on the books of Piedmont reflect such balances on a stand-alone basis or whether they reflect an assignment of consolidated company results.

**Response:** The Net Operating Losses ("NOL") available to Piedmont is pursuant to Tax Sharing Agreement ("TSA") in place at the time the NOL originated. Legacy Piedmont had a TSA and currently participates in Duke's TSA. The consolidated NOL is allocated pro-rata to all loss companies based on their separate company losses. A portion of a separate company loss will be deemed to offset the positive taxable income of other parties to the TSA. To the extent a separate company loss offsets positive taxable income of other companies, the company with the loss will receive settlement for the use of their NOL.

**Name and title of responsible person:** John Panizza, Director – Tax Operations

**Name and title of preparer:** Chris Nelson, Tax Manager; Brian Neiheisel, Senior Tax Manager

Response provided by Piedmont Natural Gas Company, Inc. on January 7, 2022.

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2-13. Refer to the Company's Response to Consumer Advocate DR No. 1-24, file <Attachment 1-24.xlsx>. Using Tab 24.2 as the example year, answer the following with respect to the 190xx and 2xxx series accounts:

a. Identify all accounts the Company believes should be excluded from inclusion in Rate Base within the HBP calculations.

b. For any excluded account, provide a full explanation indicating why such account balance should be excluded from the HBP calculation.

c. Does the Company believe there are any timing issues reflecting these true-up balances in the September – December time-period for commercial activity that occurred in the prior calendar year? Provide a comprehensive explanation supporting this response.

**Response:**

a. & b. None would be excluded from rate base under the Company's proposed ARM Tariff. This approach is consistent with the composition of rate base used in the approved rate case settlement from the Company's last rate case (Docket No. 20-00086). Accordingly, all but two of these accounts would be included in the actual ADIT balances used for the ARM. The two exceptions are account #0236965 Accrued SIT - Prior year, and account #0236981 - Federal Income Tax Payable Previous Year. These two accounts would be included in the lead lag component of working capital used for the ARM.

c. The Company does not believe that there are any timing issues with booking return-to provision entries in the following year. This is a standard practice for tax accounting entries. This timing is also consistent with how accumulated deferred income taxes would be captured in general rate cases. The deferred federal income taxes recorded on the books of the Company available at each year-end are the best available balances to be incorporated into the ARM for the HBP. There will always be a return to provision true-up the following year as the base year's tax return must be filed before the return-to-provision adjustment amounts are known and able to be recorded.

**Name and title of responsible person:**

a. Pia Powers, Managing Director – Gas Rates & Regulatory
b. Pia Powers, Managing Director – Gas Rates & Regulatory
c. John Panizza, Director – Tax Operations

**Name and title of preparer:**

a. Laura Hager Rates & Regulatory Strategy Manager
b. Laura Hager Rates & Regulatory Strategy Manager
c. Chris Nelson, Tax Manager; Brian Neiheisel, Senior Tax Manager

Response provided by Piedmont Natural Gas Company, Inc. on January 7, 2022.

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2-14. Refer to the Company's Response to Consumer Advocate DR No. 1-24, file <Attachment 1-24.xlsx>. Using Tab 24.2 as the example year, and answer the following with respect to the 400 series accounts:

a. Identify all accounts the Company believes should be excluded from inclusion in operations within the HBP calculations.

b. For all excluded accounts, provide a full explanation indicating why such account balance should be excluded from the HBP calculation.

c. Does the Company believe there are any timing issues reflecting these true-up balances in the September – December time-period for commercial activity that occurred in the prior calendar year? Provide a comprehensive explanation supporting this response.

d. Provide a comprehensive explanation supporting the nature of activity recorded to 409191 and why such account balance is appropriately included in HBP results.

**Response:**

a. For the purpose of the HBP Reconciliation and Annual Base Reset in Piedmont's ARM, the actual per book amounts for these income tax expense accounts would be adjusted in accordance with the procedures described in Section II.26&27 and Section III.26&27 of the Company's ARM Tariff.

b. It is appropriate for the representation of state and federal income tax expense for ratemaking in a general rate case, and as mirrored in Piedmont's ARM, to be in alignment with the representation of the adjusted revenues and expenses used for ratemaking as well as the synchronized interest on debt used in ratemaking. In other words, it is appropriate for ratemaking to adjust actual per book federal and state income (TN excise) tax expense in this manner. This is a long-standing approached used and approved in Piedmont rate cases in Tennessee, and also consistent with the approach used in the Atmos' and Chattanooga Gas' approved ARM mechanisms.

c. The Company does not believe that there are any timing issues with booking return-to provision entries in the following year. The actual federal income tax expense recorded on the books of the Company and the return to provision adjustment entries related to federal tax expense will not impact the federal tax expense represented in the ARM.

d. Account 0409191 represents the Current Federal Income Tax related to prior years. This would be the Current Federal Income Tax recorded as part of the return-to-provision process. As discussed in 2-14c, account 0409191 will not impact HBP results under the ARM.

**Name and title of responsible person:**

a. Pia Powers, Managing Director – Gas Rates & Regulatory
b. Pia Powers, Managing Director – Gas Rates & Regulatory
c. John Panizza, Director – Tax Operations
d. John Panizza, Director – Tax Operations

**Name and title of preparer:**

a. Laura Hager, Rates & Regulatory Strategy Manager
b. Laura Hager, Rates & Regulatory Strategy Manager
c. Chris Nelson, Tax Manager; Brian Neiheisel, Senior Tax Manager
d. Chris Nelson, Tax Manager; Brian Neiheisel, Senior Tax Manager

Response provided by Piedmont Natural Gas Company, Inc. on January 7, 2022.

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2-15. Refer to the Company's Response to Consumer Advocate DR No. 1-24, file <Attachment 1-24.xlsx>. Specifically, refer to Tab 1-24.2. Provide the supporting calculations underlying entries made regarding the Company's Response to Consumer Advocate DR No. 1-24, representing the complete set of entries for 2019.

**Response:** Please see the attachment.

**Name and title of responsible person:** John Panizza, Director – Tax Operations

**Name and title of preparer:** Chris Nelson, Tax Manager; Brian Neiheisel, Senior Tax Manager

Response provided by Piedmont Natural Gas Company, Inc. on January 7, 2022.

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2-15 Attachment:

# Attachment Provided on USB

**Piedmont Natural Gas Company, Inc.**
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2-16. Refer to the Company's Response to the Consumer Advocate DR No. 1-35. With respect to accounting for plant retirements, respond to the following:

a. Provide a general discussion on the delay in recording plant retirements relative to recording the new plant that replaces the retired plant. For all retirements recorded during the period January 1, 2021, through June 30, 2021, identify the date the plant retirement was recorded matched with the date in service of the corresponding newly installed plant to which the retirement relates.

b. Is the Company willing to commit to adjust interest deferrals on retired plant to the date such plant was actually (physically) retired rather than the date the retirement was recorded on the books of the Company?

c. Provide a comprehensive discussion of the process and documentation that is accumulated in the process of recording plant retirements.

**Response:**

a. See the Company's response to subpart c to this data request item for a discussion of the plant retirement process and timing. See attachment herein for a list of plant retirements recorded between January 1, 2021 and June 30, 2021 matched with the in-service date of the related new asset/project.

b. The Company's asset accounting system of record, which is Power Plan, only allows for the input of one retirement date on plant assets. The Company must track within PowerPlan the date that the retirement is recorded.

c. The Company's process is documented in Duke Energy's "Regulated Electric & Gas Capitalization Guidelines" document. The process is summarized, as follows.

When an asset is removed from service and replaced with a new asset, a journal entry is recorded to debit Accumulated Depreciation (account 108) and credit Completed Construction Unclassified (account 106) for the value of the retirement of the existing asset. The amount of the retirement is estimated at this time based on the information provided in the construction design estimate which is created at the time the project is first entered into the asset accounting system. When the final as-built documentation is received by Asset Accounting and the project is unitized meaning project costs are transferred from Completed Construction Unclassified (account 106) to Property Plant and Equipment (account 101), the estimated retirement entry is reversed and the actual retirement entry is recorded. This process can create a lag between the recording of new assets placed in service and the recording of the actual retirement if the estimated retirement amount is not the same as the actual retirement amount.

When an asset is removed from service and not replaced with a new asset, the retirement of the existing asset is recorded in the month the asset is removed from service.

There are instances in which an asset is removed from service and no entry is recorded on the Company's books to retire that asset. The Company has a process to review for such instances and subsequently record an entry for that retirement.

A Statement of Property Retired must be completed and submitted to Asset Accounting as support for asset retirements. The Statement of Property Retired provides the description of the asset that is being retired. The dollar value of the retirement is equal to the net book value (original cost less accumulated depreciation) of the asset at the time of retirement if this information is available. The Company retires mass assets such as transmission and distribution mains using the curve method, which considers a mortality curve to determine the average price per asset vintage year that is then applied to the quantity, which has been provided on the Statement of Property Retired, so as to compute the dollar amount of the retirement.

**Name and title of responsible person:**

a. David Doss, Director – Asset Accounting

b. Pia Powers, Managing Director - Gas Rates & Regulatory

c. David Doss, Director – Asset Accounting

**Name and title of preparer:**

a. Denise Lepisto, Lead Accounting Analyst

b. Laura Hager, Rates & Regulatory Strategy Manager

c. Sharif Mitchell, Supervisor - Project Accounting

Response provided by Piedmont Natural Gas Company, Inc. on January 7, 2022.

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2-16a Attachment:

Attachment Provided on USB

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2-17. Refer to the Company's Response to the Consumer Advocate DR No. 1-37 and respond to the following:

a. Provide a comprehensive discussion justifying the exclusion of i) Secondary Marketing Sales, ii) Commercial Sales to Transport Customers and iii) Industrial Sales to Transport Customers from the HBP.

b. Identify where the corresponding natural gas costs are recorded associated with the accounts above and confirm that such costs are not recoverable within the Company's PGA mechanism.

**Response:**

a. As noted in the Company's response to Consumer Advocate DR No. 1-37, the amounts in three general ledger accounts will be excluded from Operating Revenues for the HBP under the ARM.

Account #0495024 - Secondary Marketing Sales. The revenue recorded to this account reflects the Company's off-system sales to third parties, and broker cash-outs from short imbalances incurred by transportation customers. Neither of these revenue streams are derived from Piedmont's base rates. For this reason, these revenues are excluded from ratemaking in Piedmont's general rate cases and accordingly should be excluded from ratemaking under the ARM.

The revenue from off-system sales is handled separately on an annual basis through the Company's Performance Incentive Plan, Service Schedule No. 316. Broker cash-outs from short imbalances occur when the amount of gas nominated by the broker is exceeded by the amount of actual gas used by the Piedmont transportation customer(s) represented by the broker. The shorted gas amounts are supplied by Piedmont and the revenues from the cash-outs reflect Piedmont's recovery of the gas costs pursuant to the terms of Service Schedule No. 307 - Balancing, Cash-out and Agency Authorization.

The per book gas cost expense associated with the revenue recorded to account #0495024 is reflected in account 804. The Company's proposed HBP Reconciliation under the ARM prescribes the amount of HBP Purchased Gas Expenses [Cost of Gas] to be set equivalent to the PGA portion of the actual Gas Sales and Transportation Revenues during the HBP. The PGA portion of the actual Gas Sales and Transportation Revenues for the HBP shall reflect actual revenues from Base Rates billed during the HBP, and therefore will not include the off-system sales and cash-out revenues described above. This methodology of matching the amount of Purchased Gas Expense [Cost of Gas] to the PGA portion of revenues from Base Rates is consistent with the ratemaking methodology from the approved settlement in Docket No. 20-00086. This methodology ensures that the computed HBP Revenue Requirement Deficiency (Sufficiency) under the ARM is not conflated with the Company's recovery of the cost of gas.

Account # 0495022 - Com Sales to Transport Cust), and account # 0495023 - Ind Sales to Transport Cust). The revenue recorded to both of these accounts is for cash-outs from short imbalances that are billed by Piedmont directly to transportation customers. The per book gas cost expense associated with the revenue recorded to accounts #0495022 & #0495023 is reflected in account 804. The Company's proposed HBP Reconciliation under the ARM prescribes the amount of HBP Purchased Gas Expenses [Cost of Gas] to be set equivalent to the PGA portion of the actual Gas Sales and Transportation Revenues during the HBP. The PGA portion of the actual Gas Sales and Transportation Revenues for the HBP shall reflect actual revenues from Base Rates billed during the HBP, and therefore will not include the off-system sales and cash-out revenues described above. This methodology of matching the amount of Purchased Gas Expense [Cost of Gas] to the PGA portion of revenues from Base Rates is consistent with the ratemaking methodology from the approved settlement in Docket

No. 20-00086. This methodology ensures that the computed HBP Revenue Requirement Deficiency (Sufficiency) under the ARM is not conflated with the Company's recovery of the cost of gas.

b. Please see the response to subpart a.

**Name and title of responsible person:** Pia Powers, Managing Director – Gas Rates & Regulatory

**Name and title of preparer:** Kally Couzens, Manager – Rates & Regulatory Strategy

Response provided by Piedmont Natural Gas Company, Inc. on January 7, 2022.

**Piedmont Natural Gas Company, Inc.**
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2-18. Refer to the Company's Response to the Consumer Advocate DR No. 1-40. With respect to construction accounting, do any of the capitalized costs associated with construction projects include indirect labor incurred by employees who manage either a) employees or b) contractors directly involved in the process of construction new plant in service? If so, identify how such indirect costs are identified and subsequently capitalized across construction work orders.

**Response:** Yes. The following is a description of how these costs are captured in the general ledger:

- Indirect Overhead Pool: Certain employees provide overall support to both O&M and Capital project work, but it is impractical for these individuals to direct charge their time and expenses to individual capital projects or specific O&M categories. These individuals charge their time and expenses to general ledger account 0186120 (a balance sheet account). These costs are then allocated each month to O&M and capital projects based on direct labor and contractor costs incurred in the same month.
- Capital Only Overheads: Certain employees provide overall support to capital project work, but it is impractical for these individuals to direct charge their time to individual capital projects. These individuals charge their time and expenses to a capital project within general ledger account 0107000 and these costs are allocated each month based on direct-charged field labor as charged to individual capital projects within the month.

All employees receive account coding guidance from the Financial Planning and Accounting area of the Company' with respect to how to code their labor (time) and other costs. The employee's manager must then approve timesheets and other charges submitted by the employee. The employees whose time and other charges are charged to the Indirect Overhead and Capital Only Overhead pools have received the appropriate approval and oversight to do so.

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The Company has only one employee who currently performs lobbying activities in the state of Tennessee. This employee's time and expenses are not recorded to the Indirect Overhead Pool or to Capital Only Overheads. There are also certain employees who, among other duties, engage in federal lobbying activities. These individuals are employees of the service company. Their lobbying-related time and charges as allocated to Piedmont does not get recorded to the Indirect Overhead Pool or to Capital Only Overheads. The Company has the ability to review each transaction recorded to the Indirect Overhead Pool and to Capital Only Overheads at any given time to determine which specific employees time and expenses are recorded there. Going forward, should any lobbying-related costs end up being recorded to the Indirect Overhead Pool or to Capital Only Overheads, it would be excluded from the HBP under the ARM.

**Name and title of responsible person:** Pia Powers, Managing Director – Gas Rates & Regulatory

**Name and title of preparer:** Laura Hager, Rates & Regulatory Strategy Manager

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2-19. Refer to the Company's Response to the Consumer Advocate DR No. 1-60. The response refers to rates of Atmos and Chattanooga Gas; however, the request was not intended to be limited to Piedmonts' knowledge of Tennessee jurisdictional utilities. Provide all documentation in the possession of Piedmont or any Piedmont affiliate which compares the rates of Piedmont's Tennessee jurisdiction to those of other natural gas utilities, regardless of jurisdiction.

**Response:** The Company does not possess a document that presents Piedmont's Tennessee customer billing rates compared with the customer billing rates of any other natural gas utility(s). The rates and charges for Piedmont are shown on the Company's website:

https://www.piedmontng.com/home/our-rates

Piedmont's gas utility affiliates are Duke Energy Ohio and Duke Energy Kentucky. The customer billing rates for Duke Energy Ohio and Duke Energy Kentucky can be found on the Duke Energy website (https://www.duke-energy.com) by selecting the state, then selecting the link for "Billing and Payment", then selecting the link for "Rates".

**Name and title of responsible person:** Pia Powers, Managing Director – Gas Rates & Regulatory

**Name and title of preparer:** Laura Hager, Rates & Regulatory Strategy Manager

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2-20. Refer to the Direct Testimony of Pia Powers, <Exhibit_(PKP-1)>, pp. 6-7, Part II. HBP Reconciliation, Section "Operating Expenses", Subsection 27) Federal Income Tax Expense. Provide a comprehensive explanation on how (i) actual federal Income Tax recorded on the books of the Company, and (ii) return to provision adjustment entries related to federal tax expense, will impact the Federal Tax Expense proposed to be incorporated into the HBP as defined by the Company.

**Response:** Please see the Company's response to Consumer Advocate DR 2-14.

**Name and title of responsible person:** Pia Powers, Managing Director – Gas Rates & Regulatory

**Name and title of preparer:** Pia Powers, Managing Director – Gas Rates & Regulatory

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2-21. Refer to the Direct Testimony of Pia Powers, <Exhibit_(PKP-1)>, p. 6, Part II. HBP Reconciliation, Section "Operating Expenses", Subsection 26) State Excise Tax Expense. Provide a comprehensive explanation how (i) actual State Excise Tax expense recorded on the books of the Company, and (ii) return to provision adjustment entries, will impact the State Excise Tax Expense proposed to be incorporated into the HBP as defined by the Company.

**Response:** Please see the Company's response to DR 2-14.

**Name and title of responsible person:** Pia Powers, Managing Director – Gas Rates & Regulatory

**Name and title of preparer:** Pia Powers, Managing Director – Gas Rates & Regulatory

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2-22. Refer to the Direct Testimony of Pia Powers, <Exhibit_(PKP-1)>, pp. 6-7, Part II. HBP Reconciliation, Section "Operating Expenses", Subsections 26) State Excise Tax Expense and 27) Federal Income Tax Expense. Provide a comprehensive explanation explaining how ADIT balances will be synchronized with Federal and State Excise Tax expense given the definition of each.

**Response:** The Company's actual per book ADIT balances are aligned with the statutory federal corporate income tax rate and Piedmont's composite state income tax rate. The Company's actual ADIT balances are to be used for the HBP Reconciliation and Annual Base Rate Reset components of the ARM. The amount of federal income tax expense to be used for the HBP Reconciliation and Annual Base Rate Reset components of the ARM will computed using the statutory federal corporate income tax rate. The amount of state income tax expense to be used for the HBP Reconciliation and Annual Base Rate Reset components of the ARM will be computed using the Company's composite state income tax rate. Therefore, the ADIT balances used for the ARM will be synchronized with federal and state income tax expense used for the ARM.

**Name and title of responsible person:** Pia Powers, Managing Director – Gas Rates & Regulatory

**Name and title of preparer:** Pia Powers, Managing Director – Gas Rates & Regulatory

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2-23. Refer to the Direct Testimony of Pia Powers, <Exhibit_(PKP-1)>, p. 8, Part II. HBP Reconciliation, Section "Capitalization", Subsection 37) Federal Income Tax Expense. Confirm that the Company is not proposing to use the capitalization ratios adopted in its last rate case, but instead the balances of its various cost elements as of December 31st of the HBP. If this is not confirmed, provide a comprehensive explanation supporting the precise request as it relates to developing the capitalization ratios.

**Response:** Confirmed.

**Name and title of responsible person:** Pia Powers, Managing Director – Gas Rates & Regulatory

**Name and title of preparer:** Laura Hager, Rates & Regulatory Strategy Manager

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2-24. For all items of the revenue requirement in which the Company proposes a different methodology of measurement between the HBP and the annual base rate reset, provide the following:

a. Identify each item; and

b. Clearly indicate the distinction between how each item is identified in the HBP and within the annual base rate reset.

**Response:** Please see the attachment.

**Name and title of responsible person:** Pia Powers, Managing Director – Gas Rates & Regulatory

**Name and title of preparer:** Laura Hager, Rates & Regulatory Strategy Manager

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2-24 Attachment:

Attachment Provided on USB