waller

Waller Lansden Dortch & Davis, LLP
511 Union Street, Suite 2700
P.O. Box 198966
Nashville, TN 37219-8966

615.244.6380 main
615.244.6804 fax
wallerlaw.com

Paul S. Davidson
615.850.8942 direct
paul.davidson@wallerlaw.com

February 7, 2022

Via Email and U. S. Mail

Electronically Filed in TPUC Docket Room on February 7, 2022 at 12:00 p.m.

Executive Director Earl Taylor
c/o Ectory Lawless
Tennessee Public Utility Commission
502 Deaderick Street, Fourth Floor
Nashville, Tennessee 37243

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:

Enclosed please find an original and five (5) copies of the Rebuttal Testimony of Pia K. Powers in the above-referenced matter.

This material is also being filed today by way of email to the Tennessee Public Utility Commission docket manager, Ectory Lawless. Please file the original and provide a "filed" stamped copy of the same via my assistant's email, 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

Enclosure

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)

Rebuttal Testimony of
Pia K. Powers

On Behalf of
Piedmont Natural Gas Company, Inc.

Piedmont Natural Gas

February 7, 2022

Q. Please state your name and business address.

A. My name is Pia K. Powers. My business address is 4720 Piedmont Row Drive, Charlotte, North Carolina.

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

A. I am the Managing Director – Gas Rates & Regulatory for Piedmont Natural Gas Company, Inc., ("Piedmont" or the "Company").

Q. Have you previously testified in this proceeding?

A. Yes. I filed Direct Testimony in this proceeding on November 5, 2021.

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

A. The purpose of my Rebuttal Testimony is to respond to the matters raised in the Direct Testimony of Consumer Advocate witness David N. Dittemore filed in this proceeding on January 26, 2022.

Q. Do you have any exhibits attached to your Rebuttal Testimony?

A. Yes. Two exhibits are attached to my Rebuttal Testimony:

- Rebuttal Exhibit_(PKP-1), which contains Piedmont's Revised Proposed Service Schedule No. 318 in red-lined format; and
- Rebuttal Exhibit_(PKP-2), which contains Piedmont's Revised Proposed Service Schedule No. 318 in clean format.

These two exhibits reflect Piedmont's Annual Review Mechanism ("ARM") tariff as proposed in my direct filed testimony in this docket, amended to incorporate certain ARM modifications recommended by Mr. Dittemore in his filed testimony.

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

A. Yes.

Q. Does Mr. Dittemore recommend approval of the ARM filed by Piedmont in this docket?

A. Yes. In his Direct Testimony, Mr. Dittemore does recommend approval of an ARM for Piedmont, subject to certain recommended conditions.

Q. What are those conditions?

A. Mr. Dittemore's testimony lists seven conditions to his recommendation for approval of Piedmont's ARM. They include:

I. Use of 2022 as the initial Historic Base Period for the ARM;

II. Customer notice of the ARM provided through bill inserts;

III. Adoption of formal requirements to submit supporting schedules with the ARM filing;

IV. Specified modifications to the Company's ARM tariff;

V. Acknowledgement of unresolved revenue requirement issues from Piedmont's last general rate case;

VI. Acknowledgement that there are insufficient incentives for Piedmont to control costs under the ARM;

VII. Initiation of a generic proceeding to establish annual rate caps under the ARM for Piedmont and other utilities subject to the Commission's jurisdiction.

Q. What is the Company's reaction to the issues raised by and the proposed conditions and modifications proposed in Mr. Dittemore's testimony?

A. Piedmont does not object to several of Mr. Dittemore's proposed modifications and conditions, which are discussed later in this testimony. However, for the most part, Piedmont does not agree with his proposals and generally opposes them. Each subject area of Mr. Dittemore's testimony is addressed in order below.

I. Designation of CY 2022 as the Initial Historic Base Period

Q. What is Mr. Dittemore's position on the initial Historic Base Period ("HBP") to be utilized under Piedmont's ARM proposal?

A. Mr. Dittemore recommends that the Commission reject Piedmont's proposal to use 2021 as the initial HBP and instead order that calendar year 2022 be utilized for that purpose.

Q. Do you agree with this recommendation?

A. No. And I also do not agree that utilizing CY 2021 as the initial HBP for Piedmont's ARM creates issues around double-recovery, retroactive ratemaking, or violates the Filed-Rate doctrine.

Q. Please explain.

A. Piedmont's ARM proposal is modeled on the previously approved mechanisms for Atmos Energy and Chattanooga Gas Company. Both of these ARM mechanisms use actual results from a historical period in order to begin the evaluation process regarding the relative need for a prospective rate change under the ARM. This is exactly how Piedmont's proposed ARM would function as well. In Piedmont's case, based on a proposed first ARM evaluation to be filed on May 20, 2022, a HBP of the prior calendar year (2021) will be utilized to determine the need for rate adjustments going forward (beginning October 1, 2022). The actual financial and accounting information for 2021 is known and final at this point. and is capable of serving the necessary purpose for evaluating the need to change rates under Piedmont's proposed ARM. In addition, utilizing CY 2021 as the initial HBP is consistent with the ongoing need under Piedmont's proposed ARM to use the prior calendar year's data as the HBP upon which to perform the ARM rate update analysis.

Q. Is the use of a historical period common in the ratemaking process outside the context of an ARM?

A. Yes. That is how rates are set in general rate cases. The historical period in rate case proceedings is referred to as the Test Year and typically consists of the actual financial and accounting records for a recent twelve-month period as the starting point for calculating the Company's revenue requirement. For example, in Piedmont's 2020 general rate case in Docket No. 20-00086, Piedmont utilized a Test Year consisting of the 12 months ended March 31, 2020 in a rate case filing made on July 2, 2020. Under our ARM proposal, Piedmont would use a HBP of calendar year 2021 for an ARM filing to be made on May 20, 2022.

Q. Is the historical data definitive in the ratemaking process?

A. No. It provides a baseline of actual historical performance, to which certain accounting and ratemaking adjustments can be made where warranted. This is true for general rate cases and it is also true under Piedmont's ARM proposal.

Q. If the use of a historical period to evaluate the need to make rate adjustments is common in general rate cases and is also utilized in the ARM mechanisms for Atmos Energy and Chattanooga Gas, what is your understanding of Mr. Dittemore's issue of utilizing 2021 as the HBP for Piedmont's ARM?

A. My understanding is that because 2021 was the Attrition Period for Piedmont's last rate case that he feels like Piedmont would be in a position of double-recovering costs for 2021.

Q. Do you agree with that conclusion?

A. No, not at all. Our last rate case, which was resolved on the basis of a settlement with the Consumer Advocate, established new rates to be effective January 2, 2021. Those rates were approved by the Commission and were the rates actually charged to customers during 2021, as was appropriate. As is always the case, the results of our actual operations during the Attrition Period were somewhat different than what was jointly envisioned to reasonably occur during the forecasted Attrition Period, as memorialized in the Consumer Advocate settlement and approved by the Commission which established rates for the Attrition Period designed to yield the Authorized Return on Equity.

The fact that we are now proposing to utilize CY 2021 as the HBP for the purpose of calculating another entirely prospective rate adjustment to take effect for monthly cycle bills rendered on and after October 1, 2022 does not create a risk of double-recovery. Rather, it simply serves to adjust rates prospectively in the manner in which the ARM is intended to work. Customers will not be charged for service received in 2021 on any basis other than the Commission approved rates in effect during that time. This is the way our rates (and rate changes) have always worked. We propose new rates for prospective application, the Commission reviews and adjusts our proposals as necessary, and then those rates take effect prospectively for billing purposes. There is nothing retroactive about that process.

Q. What would be the impact of Mr. Dittemore's suggestion to move the initial HBP under Piedmont's ARM to 2022?

A. It would effectively create a one-year delay in the implementation of any customer billing rate adjustments under Piedmont's ARM.

Q. Do you have concerns about that?

A. Yes. While I am not overly concerned about the specific economic impact of that phenomenon, because as Mr. Dittemore indicates in his testimony any adjustment made effective during 2022 is expected to be relatively small, such a delay does not seem consistent with statutory processes laid out in the statute authorizing ARM mechanisms. Finally, the concern Mr. Dittemore has raised is inherent in the ARM process. Therefore, irrespective of when the ARM process is initiated, it will always be based on a revenue deficiency (or sufficiency) established using the prior year's data as a baseline. To the best of my knowledge, this is precisely how the ARM mechanisms for Chattanooga and Atmos work as well.

Q. Please summarize the Company's position on using 2021 as the initial HBP under the ARM.

A. Piedmont continues to support utilizing 2021 as the HBP for the first Annual ARM filing computing the initial ARM rate adjustments to be effective October 1, 2022. We do not believe that Mr. Dittemore has provided any legitimate reason to delay implementation of rate adjustments under the Company's ARM for an additional year.

II. <u>Adjustment of Customer Notice Requirements</u>

Q. What suggestion does Mr. Dittemore make with regard to customer notice of ARM procedures?

A. Mr. Dittemore recommends that the Commission order Piedmont to provide notice to customers of ARM filings through an insert to customer bills.

Q. What is Piedmont's position on Mr. Dittemore's recommendation?

A. As an initial matter, I would like to state that Piedmont is perfectly willing to provide notice to its customers in the manner and by the means preferred by the Commission. And we will, of course, comply with any resolution of this issue adopted by the Commission. Having made these statements, I would simply point out that the current mechanisms used to notify customers of prospective rate changes are embedded in Commission rules, and additional notice measures like bill inserts will be more expensive and relatively more time-consuming to implement, thereby adding costs to the process of implementing our ARM mechanism. I would also note the lack of compelling evidence in Mr. Dittemore's testimony that Piedmont's customers are dissatisfied with the level of notice historically provided by the Company utilizing the Commission's current notice procedures. To the best of my knowledge, neither Atmos nor Chattanooga are subject to the proposed bill insert requirement in regard to their respective ARM mechanisms. Finally, I would note that the Commission already has an open generic docket on this matter, which Mr. Dittemore cites as an opportunity to address customer notice issues generically, and dealing with this issue in this proceeding seems somewhat redundant.

Q. What is Piedmont's position on the issue of customer notice?

A. As I indicated, we will conform our practices with whatever guidance is provided by the Commission but it seems logical to deal with this issue in the separate Commission docket already created to address such procedural matters, if the Commission feels the need to examine the potential for enhanced customer notices for ARM procedures.

III. Requirement to Provide Supporting Schedules

Q. In his Direct Testimony, Mr. Dittemore suggests that Piedmont be required to provide certain additional operational and accounting

schedules in conjunction with the Company's Annual ARM Filings. What is Piedmont's response to this recommendation?

A. We do not object to providing the six additional schedules recommended by Mr. Dittemore in conjunction with the operation of our proposed ARM. For ongoing ease, clarity and transparency in the Commission's record, these six schedules are delineated in my Rebuttal Exhibit_(PKP-1) and (PKP-2) as a conciliatory revision to Piedmont's proposed ARM Tariff.

IV. Modifications to ARM Tariff

Q. Does Piedmont have concern with any of the modifications to the ARM Tariff that Mr. Dittemore recommends?

A. Mr. Dittemore recommends numerous specific modifications to Piedmont's proposed ARM Tariff. Many of his recommended modifications are mentioned in his testimony but many are not and are only evident by examining the proposed textual changes to our proposed ARM tariff reflected in his Exhibit DND-5. The next several pages of my Rebuttal Testimony will address Piedmont's concerns with those ARM Tariff recommendations of Mr. Dittemore that are unwarranted, unnecessary, without merit and/or unsubstantiated. For ease of reference, I will conclude this section of my Rebuttal Testimony indicating which of Mr. Dittemore's ARM Tariff recommendations Piedmont does not find objectionable, which are those that are delineated in my Rebuttal Exhibit_(PKP-1) and (PKP-2) as conciliatory revisions to Piedmont's proposed ARM Tariff.

Q. Mr. Dittemore's first recommended ARM Tariff modification is briefly mentioned in Q&A 49 of his testimony, where he proposes modifying the ARM Tariff by inserting the phrase "(n)othing in this [ARM] tariff shall preclude intervenors or the Commission from identifying errors, omissions or inconsistencies in the Company's ARM calculation, including adjusting such items within the determination of HBP results." Do you agree with this modification?

A. No. There is no language in the Company's proposal that diminishes the discretion and authority of this Commission to modify the Company's ARM Tariff. Similarly, there is no language proposed within the Company's ARM Tariff, nor existing elsewhere in Piedmont's current approved Tennessee Tariff and Service Regulations, that diminishes the discretion of the Consumer Advocate to seek to petition the Commission to modify any aspect of the Company's ARM Tariff once approved. Therefore, the Consumer Advocate's recommended insertion of this statement into the ARM Tariff is not necessary to preserve any aspect of the Commission's existing rights or authority, or that of the Consumer Advocate. The benefit of utilizing a tariff to memorialize the Commission-approved operational terms and conditions of the ARM is for clarity and transparency, now and going forward, on how the ARM is intended to operate.

Q. Do you agree with Mr. Dittemore's suggestion in Q&A 51 of his testimony that the ARM Tariff be modified to require Piedmont to set forth ARM Rider Rates separately on customer bills?

A. No. Piedmont's current billing system, which works well for many purposes, is limited in the amount of detail it can provide directly on-bill regarding various billing rate and charge components. However, Piedmont intends to address this limitation with the development of its next generation billing system, which is currently expected to be developed and implemented within the next three years. Nevertheless, Mr. Dittemore's recommendation here appears to be driven out of a desire to promote additional clarity around customer rates and bills. I contend, however, that his recommendation does not support such clarity. The reason is because the ARM Rider Rates are likely to be a relatively small portion of the customer's total rate and bill.

Q. Do you agree with Mr. Dittemore's proposed modification mentioned in Q&A 52 of his testimony, to delineate calendar year 2022 as the initial HBP for the ARM?

A. No, I do not. This recommended modification is unwarranted and unsubstantiated, as explained earlier in my Rebuttal Testimony.

Q. What about Mr. Dittemore's recommended ARM Tariff changes related to Interest Deferrals, which he discusses within Q&A 53 of his testimony?

A. The main modification that Mr. Dittemore recommends is to require that Interest Deferrals to the ARM Regulatory Asset during the HBP be treated as

Operating Revenue for the purposes of the HBP Reconciliation. Mr. Dittemore suggests that this requirement be inserted into the definition of Interest Deferrals to the ARM Regulatory Asset in the Global Definitions Section on page 3 of the ARM Tariff. Later in his testimony, in Q&A 54, he also recommends similar language for this same requirement be inserted into the definition of Other Revenues on page 5 of the ARM Tariff. Mr. Dittemore contends that this modification is necessary to ensure that the Company does not over-earn in the HBP. Yet there is no conceivable way for the Company to over-earn in the HBP. This is because the HBP Reconciliation component of the ARM, by design, ensures that the Company's earnings are no greater or no less that the Company's Commission Authorized Return on Equity. For this reason, this recommended ARM Tariff modification is not needed.

Furthermore, Mr. Dittemore's recommendation here is actually contrary to the goal of reducing regulatory lag, which is one of the primary purposes of the ARM. My Direct Testimony explained this principle and how the proposed Interest Deferrals to the ARM Regulatory Asset support the goal of reducing regulatory lag.[1] The purpose of recording Interest Deferrals to the ARM Regulatory Asset is solely to reduce regulatory lag. Mr. Dittemore's recommendation to treat the Interest Deferrals during the HBP as Operating Revenue for the HBP Reconciliation has the effect of completely counteracting the purpose of recording the Interest Deferrals in the first place. In fact, the

1 See pp. 6-7 and pp. 16-20 of my Direct Testimony filed on November 5, 2021 in this docket.

Commission has found it reasonable and in the public interest to record this type of Interest Deferral under Atmos' approved ARM, which does not require the amount of the Interest Deferrals to be treated as operating revenue for their ARM's historic period reconciliation computations.

Lastly, Mr. Dittemore contends that his recommended treatment for the Interest Deferrals is consistent conceptually with the treatment of Allowance for Funds used During Construction ("AFUDC") in ratemaking. This statement is without merit because the purpose of AFUDC is not to counter the effect of regulatory lag. Rather, the purpose of AFUDC is to compensate the utility for the financing costs of its assets when they are under construction. Given that AFUDC and Interest Deferrals under the ARM serve two entirely different purposes, there is no basis for claiming that these two distinct matters be treated consistently under an ARM nor under traditional ratemaking.

Q. Does Mr. Dittemore have any other suggested modifications to the ARM Tariff relating to the treatment of Interest Deferrals?

A. Yes. In the ARM Tariff definition of Interest Deferrals to the ARM Regulatory Asset, he also recommends the insertion of a sentence specifying that Piedmont take care not to double count the application of Interest Deferrals and the recording of AFUDC.

Q. What is your response to this suggested modification to the ARM tariff?

A. This modification is not needed due to the fact that this section of the ARM Tariff already plainly requires the Interest Deferrals to be calculated on plant in service (i.e. used and useful assets), and therefore is not applicable to be calculated on the amount of assets under construction/not yet in service. Assets under construction are held in the account for construction work in progress ("CWIP"); AFUDC is calculated on CWIP, not on plant in service amounts.

Q. In Q&A 54 and 55 of Mr. Dittemore's direct testimony, he discusses a proposed modification to the ARM Tariff that would require the net margins from HomeServe to be included in "Other Revenues" for purposes of determining the HBP revenue requirement. Do you agree with this position?

A. No. Piedmont has always recorded the revenues and the expenses for the HomeServe Warranty program to accounts that do not impact utility rates due to their non-jurisdictional nature. For this reason, such net margins are not appropriate for inclusion as operating revenues in ratemaking for Piedmont. This matter was explicitly discussed in the Rebuttal Testimony of Piedmont witness Kally Couzens in the Company's last rate case.[2] The crux of the Consumer Advocate's contention, now and in the Company's last rate case, that warranty revenues should be included in operating revenues for ratemaking purposes is their claim that "[t]hese revenues would not be generated without

2 See page 16 of the Rebuttal Testimony of Kally Couzens filed on December 16, 2020 in Docket No. 20-00086.

Piedmont transferring personal customer information to a third party in their solicitation of warranty services."[3] In the last general rate case, the Consumer Advocate recommended that the Commission initiate a separate generic proceeding on this matter of such information sharing. In the settlement of that last rate case, Piedmont committed to not object to such a future generic proceeding. Nothing has changed with respect to Piedmont's position on this ratemaking matter since Docket No. 20-00086, and apparently likewise for the Consumer Advocate. Piedmont recommends that the treatment of HomeServe revenues (and expenses) for the purposes of ratemaking for Piedmont be addressed by the Commission in the next rate proceeding for Piedmont, which will presumably be Piedmont's first Annual ARM Filing, or a separate future generic proceeding designated for this specific purpose.

Q. In Q&A 56 in Mr. Dittemore's testimony, he recommends modifications to certain pension costs. Do you agree with these modifications?

A. No. In Piedmont's last general rate case, Piedmont and the Consumer Advocate had differing perspectives on the appropriate ratemaking treatment for pension costs incurred and deferred by Piedmont. Ultimately, the parties agreed in settlement to allow Piedmont to amortize the Company's unamortized deferred pension expense balance of $11,862,981 over 8 years and recover these costs

3 Direct Testimony of David Dittemore in this docket, p. 24, lines 5 through 6.

through the Company's base rates.[4] The parties also agreed in settlement to an Attrition Period deferred debits balance for pension in rate base that is aligned with the 8-year amortization of the $11,862,981 unamortized pension balance, as further reduced by an amount equivalent to one year's deferred pension expense amortization.[5] The parties also agreed that the deferral of future pension contributions does not limit the right of the Consumer Advocate or other parties to contest the amount of incremental deferred pension expenses that the Company seeks to recover in future rate proceeding.[6] The parties further agreed that in future rate adjustment applications, the Company shall provide explanation and support to demonstrate its position that such incremental pension deferral amounts were prudently incurred to meet the Company's obligation to qualified employees and retirees and shall bear the burden of rate recovery in future rate proceedings.[7] Finally, the parties agreed that going forward Piedmont would preserve all relevant documents pertaining to incremental deferred pension costs necessary to justify cost recovery,

4 See Paragraph 14.i. of the Stipulation And Settlement Agreement filed on February 2, 2021 in Docket No. 20-00086.

5 See Paragraph 14.i. of the Stipulation And Settlement Agreement filed on February 2, 2021 in Docket No. 20-00086.

6 See Paragraph 17.b. of the Stipulation And Settlement Agreement filed on February 2, 2021 in Docket No. 20-00086.

7 See Paragraph 17.b. of the Stipulation And Settlement Agreement filed on February 2, 2021 in Docket No. 20-00086.

including but not limited to actuarial reports, for use by the parties and the Commission in evaluating the Company's pension contributions.[8]

Based on the foregoing, it is clear that Piedmont should be able to include in the ARM computations and recover through rates any remaining amortization of the $11,862,981 deferred pension balance resolved in the Company's last rate case.[9] Regarding the Company's ability to recover incremental pension deferrals, the parties have already agreed to address this matter in future rate proceeding, by way of Piedmont presenting a proposal in its direct testimony in such future rate proceedings. This current proceeding is not a rate proceeding. Therefore, the Mr. Dittemore's recommended ARM Tariff language on pension should be rejected at this time. The Company's proposed ARM Tariff language on pension, however, preserves the letter and spirit of the approved 2020 rate case settlement agreement in this regard.

Q. In Q&A 56 and 59 in Mr. Dittemore's testimony, he proposes modified language relating to the recovery of OPEB expenses under the ARM. What is your reaction to Mr. Dittemore's recommendation on this issue?

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8 See Paragraph 17.b. of the Stipulation And Settlement Agreement filed on February 2, 2021 in Docket No. 20-00086.

9 To this point, my rebuttal exhibits include the insertion of a clarifying phrase to the proposed ARM Tariff. Specifically, on page 6 of the ARM Tariff which pertains to the HBP Reconciliation, the insertion states that the "Amortization Expenses for Deferred Pension Costs shall reflect such actual expenses recorded during the HBP <u>to the extent that the specific underlying deferred pension costs expensed during the HBP were previously approved by the TPUC for recovery</u>." [insertion in underline here for emphasis] I also inserted a specific reference to "prudently incurred" pension costs in the explanation of Amortization Expenses for Deferred Pension Costs under the Annual Base Rate Reset section of the ARM Tariff.

A. The Company's OPEB costs are not the subject of any special or unique ratemaking orders by the Commission. Accordingly, Mr. Dittemore's proposed wording change, which is to strike the term "actual expenses" and replace it with "actual payments" is needlessly confusing as well as arbitrary. Mr. Dittemore has not provided any support for why this recommendation is reasonable or appropriate. Furthermore, his recommendation here is inconsistent in multiple ways: it is not consistent with the ratemaking treatment for OPEB costs in Piedmont's last rate case; it is also not consistent with the purpose of the HBP Reconciliation, which is to represent the Company's actual financial performance in the HBP, which would otherwise be accomplished by having the ARM Tariff reference "actual expenses" not "actual payments". For these reasons, Mr. Dittemore's recommendation should be rejected.

Q. Also in Q&A 56 in Mr. Dittemore's testimony, he recommends a modification that expands the definition of lobbying expenses to be excluded from ratemaking under the ARM. Do you have any concerns with his proposal?

A. Yes, Mr. Dittemore inserted language in the ARM tariff that broadens the definition of lobbying expenses to be inclusive of indirect costs to support and supervise the direct labor costs incurred in the Piedmont-Tennessee lobbying function. Under Tennessee law, pursuant to T.C.A. § 3-6-301(15) and (17), a lobbyist is a person who communicates, directly or indirectly, with state government officials for the purpose of influencing action by the official for compensation. Lobbying Expenditures are transparent to the public and reported biannually to the Tennessee Ethics Commission pursuant to T.C.A. § 3-6-303. Piedmont will exclude all lobbying expenses from ratemaking under the ARM consistent with the amounts reported to the Tennessee Ethics Commission. The Consumer Advocate's recommendation to broaden the definition of lobbying expenses to encompass other personnel and support solely for the purposes of ratemaking applicable to Piedmont is neither reasonable, appropriate nor consistent with the application of law and oversights of lobbying in the state of Tennessee. For these reasons, his recommendation should be rejected.

Q. In Q&A 57 and 59 in his Direct Testimony, Mr. Dittemore attempts to resurrect and modify a previously resolved point of contention between Piedmont and the Consumer Advocate before this Commission relating to Piedmont's use of its composite state tax rate versus the statutory state tax rate for ratemaking. What is Piedmont's response to the Consumer Advocate's attempt to re-litigate this matter of the appropriate state tax rate for Piedmont to use in ratemaking under the ARM?

A. The Consumer Advocate's recommendation on this state tax matter for the ARM should be rejected by this Commission. Mr. Dittemore has provided no support or justification in this docket for this recommendation. In summary, his recommendation in this docket is two-fold: first, is to require Piedmont under the ARM to use the statutory Tennessee state income tax (excise tax) rate for the computation of synchronized state income tax (excise tax) expense in Piedmont's Annual ARM Filings; second, is to alter the actual per books balance for accumulated deferred income taxes ("ADIT"), which has always represented actual ADIT on the basis of the Company's overall composite state income tax rate, to instead represent on the basis of the statutory state tax rate in Tennessee for Piedmont's ARM Annual Filings.

This history on this matter before this Commission is important because this exact recommendation has already been litigated and resolved by this Commission in Docket No. 18-00040, and subsequently affirmed in the Company's 2020 general rate case.

Specifically, in Docket No. 18-00040, among other matters, the Consumer Advocate proposed to change the rate methodology used by Piedmont to calculate its ADIT balance as a part of that proceeding and for all future ratemaking proceedings. My Settlement and Rebuttal Testimony filed on February 18, 2019 in Docket No. 18-00040 explained the facts are that Piedmont's use of a composite tax rate for calculating ADIT in Tennessee has long historical precedent and that Piedmont has employed, and the Commission has approved this composite methodology to calculate its ADIT balances in multiple prior rate cases. I further explained that such ADIT calculations by Piedmont, which utilize the Company's overall effective state income tax rate (composite rate), are consistent with the standards required by GAAP accounting. I also explained that Piedmont's methodology for its computation of excess ADIT related to the Tax Act, which was the subject of Docket No. 18-00040, did not deviate in this regard. I also stated the Company's position at that time that the Company's next general rate case proceeding was the appropriate docket for all parties to pursue their positions on such ratemaking methodology changes. On March 11, 2019, the Commission rendered a decision in that docket. The Commission's written order was issued on August 6, 2019, stating that, at that time, <u>Piedmont's use of a composite state tax rate is appropriate in determining excess Accumulated Deferred Income Taxes amounts to be refunded to ratepayers</u>.

In the Company's general rate case application filed on July 2, 2020 in Docket No. 20-00086, the underlying state tax rate used to project the Attrition Period ADIT balance and to compute synchronized state income tax expense for the Attrition Period, as discussed in Piedmont witness Quynh Bowman's Direct Testimony, was the Company's composite state income tax rate of 3.46%. As a result, the Consumer Advocate did not raise this (or any) state income tax ratemaking methodology issues anywhere in their direct testimony and exhibits filed on November 30, 2020. This was clearly not an oversight by the Consumer Advocate, but rather indicative of their agreement with the Company's proposed state tax methodology in this docket because Consumer Advocate witness Hal Novak's direct testimony, in fact, presented in their proposed Revenue Conversion Factor the Company's composite state tax rate at that time of 3.46%[10], not the Tennessee state statutory tax rate of 6.5%. Given the fact that the Consumer Advocate did not take issue with the use of the Company's composite state tax rate in the Company's last general rate case and instead clearly supported the use of the Company's composite state tax rate, the settled and approved cost of service in that docket reflected the use of the Company's 3.46% composite rate for state income tax expense and for ADIT.

Given the foregoing precedent, and the fact that Mr. Dittemore provided no support or justification in this docket for this recommendation, Piedmont requests that the Commission reject this recommendation for the ARM.

Q. Also in Q&A 57 in Mr. Dittemore's testimony, he proposes to modify how the lead-lag study is used in rate base under the ARM. Do you agree with Mr. Dittemore's recommendation on this issue?

A. No. Mr. Dittemore made a cursory recommendation in his testimony that the ARM Tariff include a statement requiring the elimination of any non-cash items from the lead-lag study for purposes of determining the appropriate balance of Cash Working Capital to include in Rate Base. In response to a Piedmont discovery request, Mr. Dittemore identified Depreciation Expense and Income For Return as non-cash items that in his view should be eliminated from the lead-lag used in the ARM. However, in the Company's last rate case,

10 See Table 15 on page 48 of Mr. Novak's direct testimony filed on November 30, 2020 in Docket No. 20-00086.

the Consumer Advocate did not propose to remove either of these items from the lead-lag results for that rate proceeding. In fact, the Consumer Advocate's proposed working capital expense lag in that docket clearly included both of these items with 0.00 lag days.[11] Piedmont's filed application in that rate case also presented both of these items with 0.00 lag days. Therefore, there was no disagreement between the parties on this matter in the Company's last rate case, and ultimately the approved settlement agreement between the parties in that proceeding included both of these items in the lead-lag computation with 0.00 lag days.[12] Overall, Mr. Dittemore's recommendation to remove such non-cash items from the lead-lag used in the ARM does not appear to be an accepted ratemaking practice before this Commission nor reflected in prior Commission orders.

Given the foregoing, and most notably the fact that Mr. Dittemore provided no support or justification in this docket for this recommendation, Piedmont requests that it be rejected.

Q. Does Mr. Dittemore's testimony recommend any other concerning modifications to the ARM Tariff language regarding rate base?

A. Yes. In Q&A 57 in his testimony he recommends a change to pension and OPEB loadings to construction projects represented in rate base. However, he

11 See CA Exhibit Schedule 5 filed on November 30, 2020 in Docket No. 20-00086.

12 See Settlement Attachment B, Schedule 5 from the Stipulation And Settlement Agreement filed on February 2, 2021 in Docket No. 20-00086.

provides no rationale for this recommended modification. The Consumer Advocate did not propose this treatment nor even mention it in their direct testimony filed in our last general rate case. Since this was not a position taken in Piedmont's rate case application, there was no disagreement between Piedmont and the Consumer Advocate on this matter in the last rate case, and accordingly no adjustments for this matter were taken in the revenue requirement under the approved settlement agreement from the Company's 2020 rate case. This recommendation does not appear to be an accepted ratemaking practice before this Commission nor reflected in prior Commission orders. Given the foregoing, and most notably the fact that Mr. Dittemore provided no support or justification in this docket for this recommendation, Piedmont requests that it be rejected.

Q. Does Mr. Dittemore also make suggested changes to the manner in which the Company's capital structure and debt cost rates are calculated under the ARM?

A. Yes, he makes a recommendation on this matter in Q&A 58 and 59 in his testimony. His recommendation is to compute the actual capital structure of the Company, along with the debt cost rates, as a thirteen-month average. Mr. Dittemore's support for this recommendation is that the major rate base components are to be reflected as a thirteen-month average balance. In the context of the HBP Reconciliation under the ARM, Mr. Dittemore has represented the fact pattern correctly, because indeed the Company is proposing a 13-month average rate base for the purposes of the HBP Reconciliation computations under the ARM. Piedmont does not object to the underlying rationale for this recommendation for the ARM's HBP Reconciliation. Accordingly, we propose to adopt it with the following ARM Tariff language for the HBP Reconciliation Section of the ARM under the Section Capitalization Components:

- 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 as of 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 as of December 31 of the HBP. The computation 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.

Mr. Dittemore makes no distinction between the ARM's HBP Reconciliation and the Annual Base Rate Reset with respect to his capitalization recommendation. However, the major rate base components for the Annual Base Rate Reset under the ARM are not 13-months averages. Rather, they are to reflect the actual December 31 HBP balance. Therefore, it would not be appropriate to use Mr. Dittemore's recommended 13-month averages for the capitalization components in the Annual Base Rate Reset. Accordingly, his recommendations should be rejected for the Annual Base Rate Reset computations.

Q. Are there any other modifications recommended by Mr. Dittemore that you would like to address from his testimony?

A. Yes. At the end of Q&A 59 at lines 14 and 15 on page 27 of his testimony, Mr. Dittemore remarks on "[t]he final insertion" into the ARM Tariff that "clarifies that the Consumer Advocate has the right to file a petition with the Commission to terminate or modify the ARM tariff". The Consumer Advocate already has this right pursuant to state law. Nothing about Piedmont's ARM Tariff as proposed by the Company diminishes the Consumer Advocate's rights to file such a petition. Thus, the Consumer Advocate's proposed insertion here is not needed.

What Mr. Dittemore does not mention here or elsewhere in his direct testimony is that this "final insertion" into the ARM Tariff also includes other statements. These other added statements, slipped into red-lined edits to the ARM Tariff via Exhibit DND-5, appear to be an attempt to impose conditions limiting the Company's right to take actions before this Commission. Specifically, it proposes: "[Piedmont] 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 [Piedmont] 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."[13]

No support was provided by the Mr. Dittemore in his testimony to justify this recommendation. Such a provision attempting to restrict the rights of the Company in a future proceeding is unwarranted. The proposed language inserted by the CAD should be rejected.

Q. Did Mr. Dittemore include proposed language changes to Piedmont's proposed ARM tariff in his Exhibit DND-5 that were not discussed in his testimony?

A. Yes. There are several. Two of these modifications are both substantive and concerning.

Q. What is your reaction to this approach in Mr. Dittemore's testimony?

A. I am a little perplexed in that neither the Company nor the Commission is able to understand the rationale behind his proposed edits when they are not supported by testimony.

Q. Please identify the concerning substantive modifications to the ARM Tariff that Mr. Dittemore proposes in Exhibit DND-5 that are not mentioned in his testimony.

13 See inserted numbered paragraph 41 on page 15 of Exhibit DND-5. Atoms Energy appears to be inadvertently referenced rather than Piedmont in this insertion.

A. The first one is in regard to AFUDC. Page 7 of Exhibit DND-5 shows the insertion of an additional statement to the treatment of AFUDC for the purposes of the ARM's HBP Reconciliation. This proposed red-line change is not explained or otherwise mentioned in Mr. Dittemore's testimony. The original text proposed by the Company prescribes, in one clear sentence, that AFUDC for ratemaking under the ARM's HBP Reconciliation "shall be computed as the CWIP balance described below [referring to the CWIP balance used in rate base for the HBP Reconciliation] multiplied by the last authorized Overall Cost of Capital for the Company." Mr. Dittemore did not strike the Company's proposed language in Exhibit DND-5. However, he did insert the following additional statement: "The AFUDC recorded as net operating income should be consistent with AFUDC charges recorded to Construction Work in Progress during the HBP."

Mr. Dittemore's inserted statement on page 7 of Exhibit DND-5 contradicts the original text, and thereby renders the ARM Tariff unclear and confusing on how AFUDC is to be treated in the computation of the HBP Reconciliation. The source of the contradiction is the fact that Company's original proposed text refers to a computed AFUDC amount for ratemaking for the HBP Reconciliation, exactly as has been done in every Piedmont rate proceeding before this Commission. In contrast, Mr. Dittemore's inserted text suggests the actual amount of AFUDC recorded to the Company's books during the HBP should be used for ratemaking for the HBP Reconciliation.

Those two amounts -- the computed AFUDC for ratemaking per the original text and the actual per book amount for the HBP per Mr. Dittemore's inserted text -- will never be identical due to inherent timing differences between these two different concepts.[14] Mr. Dittemore's proposed insertion on page 7 of Exhibit DND-5 should be rejected because he provided no explanation for it, and hence there is nothing in the record of this docket for which to identify and evaluate any merits to his proposal. Mr. Dittemore's inserted sentence on page 13 of Exhibit DND-5 creates a similar type of problem regarding the treatment of AFUDC under the ARM's Annual Base Rate Reset. Given this, Piedmont recommends that Mr. Dittemore's tariff changes for AFUDC shown on pages 7 and 13 of Exhibit DND-5 be rejected.

Q. What is the other concerning substantive modification to the ARM Tariff that Mr. Dittemore proposes in Exhibit DND-5 without mentioning in his testimony?

A. It concerns two wording changes that Mr. Dittemore made on page 2 of Exhibit DND-5. These two wording charges have to do with the impact of the ARM

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14 The inherent timing differences arise from the following circumstances: The ARM's HBP Reconciliation relies upon a 13-month average balance for the CWIP component of rate base, and according to the original text, a singular rate for the last authorized Overall Cost of Capital for the Company will be multiplied against this 13-month average CWIP balance in order to arrive at the amount of AFUDC to use as an adjustment to Net Operating Income for Return. In contrast, the actual per book AFUDC amount recorded each month is not based on a 13-month CWIP average; and furthermore, starting in 2022 the Company's authorized Overall Cost of Capital used to record AFUDC to the Company's general ledger for the first 9 months of the calendar year will be different than the rate used for the last 3 months of the calendar year due to the fact that the Company's authorized Overall Cost of Capital will change each October 1 as a result of the outcome of each Annual ARM Proceeding.

Rider Rates, approved and in effect, on the activity recorded to the ARM Reconciliation Deferred Account. In the first instance, Mr. Dittemore proposed to replace the phrase "actual collections from customers (or refunds to customer) arising from the ARM Rider Rates…" with the phrase "accrued revenue collections from customers (or refunds to customers) arising from the ARM Rider Rates…". In the second instance, Mr. Dittemore proposes the insertion of the following additional phrase: "recording receipts (revenue) on an accrual basis". These two wording modifications suggest that Mr. Dittemore is proposing that a new accounting requirement be inserted into the Piedmont's ARM tariff, namely a requirement for Piedmont to record revenues for the ARM Rider Rates on an accrual basis. Mr. Dittemore's proposed ARM Tariff modifications should be rejected because he provided no explanation, and hence there is nothing in the record of this docket for which to identify and evaluate any merits to his proposal. I will remark, however, that it is not appropriate for the Company to accrue revenue for collections associated with the ARM Rider Rates. Such revenue accruals are warranted when the Company is seeking to overcome a misalignment between the timing of revenue recorded to its books and the timing of related expenses recorded to its books. However, this revenue accrual matching concept has no bearing on revenues from the ARM Rider Rates. The reason is because the ARM Rider Rates are merely seeking to collect (or refund) the cumulative HBP Revenue Requirement Deficiency (or Sufficiency) from prior Annual ARM Proceedings that have been completed and resolved by Commission Order. In other words, the collections from the ARM Rider Rates are, by design, solely intended to relieve a balance sheet account; they are not revenues contributing to the relief of the Company's current operating expenses.

Q. Are there any modifications to the ARM Tariff that have been proposed by the Consumer Advocate in this proceeding that you think the Commission should approve/do not object to?

A. Yes. There are several suggested edits to the ARM tariff to which we do not object.

On page 1 of Exhibit DND-5, Piedmont does not object to the proposed clarification pertaining to Company's Authorized Return on Equity as defined by this Commission. This proposed additional sentence is accurate and represents a necessary point that we acknowledge is not otherwise clearly expressed elsewhere in the ARM Tariff.

On page 5 of Exhibit DND-5, Piedmont does not object to the proposed sentence inserted into the definition of Depreciation Expense Deferrals to the ARM Regulatory Asset because the proposed additional sentence is accurate and represents a necessary point that we acknowledge is not otherwise clearly expressed elsewhere in the ARM Tariff.

On pages 6 through 9 of Exhibit DND-5, Mr. Dittemore proposed additional terms pertaining to the Company's employee salaries and wages expenses, expense for allocated return on DEBS assets, other O&M expenses, depreciation expenses, utility plant in service, and other working capital. These recommended ARM Tariff modifications are consistent with the Company's original intent and convey helpful clarification and transparency to the ARM Tariff. Therefore, Piedmont does not object to these modifications.

On page 5 of Exhibit DND-5, Mr. Dittemore proposed to strike the sentence acknowledging that the methodologies are from the Company's 2020 Rate Case Settlement. Piedmont does not object to this modification.

On page 6 and page 11 of Exhibit DND-5, Mr. Dittemore proposed modified language pertaining to the Company's treatment under the ARM of environmental costs for which the Company's seeks recovery. Piedmont does not object to Mr. Dittemore's proposed revision here, subject to the following caveat: that any deferred environmental cost that was previously approved by the Commission for recovery through Piedmont's rates, either as part of rates established in a general rate case or in a prior Annual ARM Proceeding, would not be subject to recurring (duplicative) prudence showings in subsequent rate proceedings.

On pages 11 through 14 of Exhibit DND-5, Mr. Dittemore proposed additional terms pertaining to the Company's employee salaries and wages expenses, expense for allocated return on DEBS assets, other O&M expenses, utility plant in service, and other working capital. These recommended ARM Tariff modifications are consistent with the Company's original intent and convey helpful clarification and transparency to the ARM Tariff. Therefore, Piedmont does not object to these modifications.

On pages 8 and 13 of Exhibit DND-5, one of Mr. Dittemore proposed statements clarifies that items included in ADIT for ratemaking under this ARM Tariff should be determined consistent with the inclusion (or exclusion) of revenue and expense items represented in the HBP. This recommended ARM Tariff modification is consistent with the Company's original intent and conveys a helpful clarification and transparency to the ARM Tariff. Therefore, Piedmont does not object to this modification.

Lastly, on pages 14 to 15 of Exhibit DND-5, Mr. Dittemore proposed specific variance reporting as a part of the Company's Annual ARM Filing. The Company does not object to this additional reporting. I have incorporated the proposed variance reporting into my rebuttal exhibits herein, placed in Section IV of the ARM Tariff alongside the other additional annual reporting requirements.

V. <u>Allegedly Unresolved Rate Case Issues</u>

Q. What is Mr. Dittemore's position regarding allegedly unresolved rate case issues?

A. As I understand his testimony, he seems to be arguing that the rate case settlement is not binding on the parties or the Commission with respect to nine identified accounting or implementation issues related to Piedmont's ARM proposal.

Q. Does Piedmont agree with his position?

A. Partially. I agree that the Settlement stipulation from the last rate case, along with the Commission's order in that docket contain the language he cites. I would not agree that the issues he cites were or are "unresolved" in the rate case in any meaningful sense.

Q. Please explain.

A. In his testimony, Mr. Dittemore makes recommendations regarding nine distinct accounting issues inherent in the application of Piedmont's ARM and in this section of his testimony argues that they were unresolved in the rate case. I disagree. Each of these substantive accounting issues were specifically resolved in the rate case as was necessary to compute the final agreed revenue requirement. It may be true that the Commission has the authority to review these issues anew in this case to determine whether they should be brought forward and incorporated into the ARM, and I address the substantive propriety of each of these issues elsewhere in this Rebuttal Testimony, but it is not true that they were left unresolved in the last general rate case.

VI. Incentives to Control Costs

Q. What is Mr. Dittemore's position on incentives to control costs under Piedmont's proposed ARM?

A. He contends that Piedmont has insufficient incentives to control costs under the ARM. I do not agree with his conclusion for several reasons. First, it is noteworthy that all costs incurred by Piedmont in the provision of natural gas service are subject to an ongoing prudence review by the Commission, its Staff, and the Consumer Advocate. This review can take place in the context of a general rate case or in other proceedings and will continue to be a facet of rate updates under the proposed ARM procedures. Thus, Piedmont faces the prospect of an imprudence finding and denial of cost-recovery for improperly incurred costs under the ARM, just as it does currently. Second, increased costs incurred by Piedmont in providing service to its customers in between rate cases effectively erode the Company's return in a way that is detrimental to the Company's economic performance. This will still be true under the ARM, it is simply the case that rates will be adjusted more frequently under the ARM. Third, increased costs are detrimental to Piedmont's ability to compete with other energy providers and higher rates for Piedmont's customers comes with negative consequences to the Company in this regard. These significant incentives for prudent cost management exist today and will not change if an ARM mechanism is approved by the Commission.

Q. Do you have any other concerns with Mr. Dittemore's recommendation that the Commission find that the ARM does not provide adequate incentives to the Company to be control or even be mindful of costs?

A. I am troubled by the fact that Mr. Dittemore would take such a position (and ask the Commission to affirm it) in the complete absence of any evidence to support his argument. I am also somewhat perplexed by the fact that this particular proposal, if adopted by the Commission, would seem to put the

Commission in the position of challenging the legitimacy of the underlying Tennessee statute.

VII. Proposal to Initiate Generic Rate Cap Proceeding

Q. What is Mr. Dittemore's position on this subject?

A. Mr. Dittemore proposes that the Commission initiate a generic proceeding to establish annual rate caps for Atmos' and Chattanooga's respective ARMs and for the ARM proposed by Piedmont.

Q. What is Piedmont's position on this proposal?

A. We disagree with it. First, Mr. Dittemore has provided no evidence of excessive rate adjustments under the ARMs approved by the Commission for Atmos and Chattanooga, and he has provided no forecast of excessive adjustments by Piedmont. In the absence of such evidence, it is not clear to me what "problem" Mr. Dittemore is attempting to solve with his rate cap recommendation, although it is clear that he has not supported his recommendation with evidence. Second, the presumptive problem his recommendation might guard against is unlikely to occur in any event because there are limited opportunities for a gas utility to invest enough capital or incur enough expenses, both of which would be subject to a prudence review in the Annual ARM Proceeding, to actually change rates to the degree that might warrant consideration of a rate cap. Third, the Commission has the inherent ability to limit rate increases on the basis of potential rate shock and that ability is not impaired under Piedmont's ARM proposal. Finally, there is no statutory support for such a cap mechanism and it would seem counter to the intent of the existing statutory authorizations to artificially and arbitrarily cap ARM rate adjustments in the complete absence of evidence that such restrictions on operation of the mechanism is needed.

Q. Does this conclude your Rebuttal Testimony?

A. Yes, it does. Thank you.

Docket No. 21-00135

Rebuttal Exhibit_(PKP-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 operation under 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 as defined by the Tennessee Public Utility Commission ("TPUC"). 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 marking 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.

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.
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.

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 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.c. of the 2020 Rate Case Settlement.
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). ~~These methodologies incorporate the approved methodologies underlying the revenue requirement from the 2020 Rate Case Settlement.~~

The HBP Revenue Requirement Deficiency (Sufficiency) and Carrying Costs shall be recovered though the ARM Rider Rates. The ARM Rider rates shall be established for the Applicable Rate Schedules, 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.

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 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**: The Company may seek recovery of Environmental Costs incurred during the HBP upon a showing of prudence and that such costs are not recoverable through insurance policies ~~shall reflect such actual expenses recorded during the HBP~~.
13) **Amortization Expenses for Deferred Pension Costs** shall reflect 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** shall reflect such actual expenses recorded during the HBP, exclusive of the ASC 2017 expenses (formerly FAS 87) recorded during the HBP.
15) **Other Employee Benefit Expenses, including OPEB** shall reflect such actual expenses recorded during the HBP, exclusive of any such expenses related to lobbying activities.
16) **Expense for Allocated Return on DEBS Assets** shall reflect such actual expenses properly incurred, and charged to the Company's Tennessee jurisdiction~~recorded~~ 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.
17) **Expense for TPUC Fee** shall reflect such actual expenses recorded during the HBP.
18) **Other O&M Expenses** shall reflect such actual expenses recorded during the HBP, exclusive of any such expenses related to lobbying activities, and shall reflect costs necessary in the provision of natural gas service.
19) **Other Expense Adjustments** shall reflect adjustments made by the Company to exclude any known expenses improperly recorded as an Operating Expense during the HBP.

20) **Depreciation Expenses** shall reflect such actual expenses recorded during the HBP, ~~including~~ net of ~~any~~ credits recorded during the HBP related to Depreciation Expense Deferrals.
21) **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.
22) **Payroll Tax Expenses** shall reflect such actual expenses recorded during HBP, adjusted to comport with the labor and other compensation expense adjustments described herein.
23) **Property Tax Expenses** shall reflect such actual expenses recorded during the HBP.
24) **Other General Tax Expense** shall reflect such actual expenses recorded during the HBP.
25) **Amortization of Investment Tax Credit** shall reflect such actual expenses recorded during the HBP.
26) **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.
27) **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

28) **AFUDC** shall be computed as the CWIP balance described below multiplied by the last authorized Overall Cost of Capital for the Company.
29) **Interest on Customer Deposits** shall reflect such actuals recorded during the HBP.

Rate Base Components

30) **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 leger account. The Company has the burden to demonstrate the accuracy of recordings to plant in service.
31) **Accumulated Depreciation** shall reflect the 13-month average of the actual EOM balances for the HBP and the month prior to the HBP.
32) **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.
33) **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.

34) **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.
35) **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.
36) **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. ~~Deferred Debits for Environmental Costs~~
    ~~k. Deferred Debits for Pension Costs, reduced by an amount equivalent to the pension expense amortization during the period of time comprising the HBP.~~

Capitalization

37) **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 ~~as of~~ December 31 of the HBP.
38) **Long Term Debt Cost** shall reflect the actual average embedded cost of long-term debt for the 13-month period ending ~~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.
39) **Short Term Debt Cost** shall reflect the ~~computed~~ actual average cost rate of short-term debt borrowings (Piedmont's intercompany money pool borrowings) ~~during the~~ for the 13-month period ending December 31 of the HBP.
40) **Authorized Return on Equity** as defined in Section I of this tariff**.**

III. ANNUAL BASE RATE RESET

Effective: ______________

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). These methodologies incorporate the approved methodologies underlying the revenue requirement from the 2020 Rate Case Settlement.

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 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 regression analysis 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> 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 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**: The Company may seek recovery of Environmental Costs incurred during the HBP upon a showing of prudence and that such costs are not recoverable through insurance policies. ~~shall reflect the amount of such expenses to be recorded during the 12-month period in which the prompt Annual Base Rate Reset rates are to be effective. Incremental~~

~~deferred environmental costs for which the Company seeks recovery through the Annual Base Rate Reset shall be amortized over a one-year period.~~

13) **Amortization Expenses for Deferred Pension Costs** shall reflect 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** shall reflect such actual expenses recorded during the HBP, exclusive of the ASC 2017 expenses (formerly FAS 87) recorded during the HBP.
15) **Other Employee Benefit Expenses, including OPEB** shall reflect such actual expenses recorded during the HBP, exclusive of any such expenses related to lobbying activities.
16) **Expense for Allocated Return on DEBS Assets** shall reflect such actual expenses properly incurred, and charges to the Company's Tennessee jurisdiction~~recorded~~ during the HBP, adjusted to reflect a return based on the ~~allowed~~ Authorized ~~r~~Return on ~~e~~Equity ~~authorized in the Company's last general rate case~~, 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 DES pension assets.
17) **Expense for TPUC Fee** shall reflect such actual expenses recorded during the HBP.
18) **Other O&M Expenses** shall reflect such actual expenses recorded during the HBP, exclusive of any such expenses related to lobbying activities, and shall reflect costs necessary in the provision of natural gas service.
19) **Other Expense Adjustments** shall reflect adjustments made by the Company to exclude any known expenses improperly recorded as an Operating Expense during the HBP.
20) **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.
21) **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.
22) **Payroll Tax Expenses** shall reflect such actual expenses recorded during HBP, adjusted to comport with the labor and other compensation expense adjustments.
23) **Property Tax Expenses** shall reflect such actual expenses recorded during the HBP.
24) **Other General Tax Expense** shall reflect such actual expenses recorded during the HBP.
25) **Amortization of Investment Tax Credit** shall reflect such actual expenses recorded during the HBP.

26) **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.
27) **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

28) **AFUDC** shall be computed as the CWIP balance described below multiplied by the Overall Cost of Capital including the Authorized Return on Equity, for the HBP.
29) **Interest on Customer Deposits** shall reflect such actuals recorded during the HBP.

Rate Base

30) **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.
31) **Accumulated Depreciation** shall reflect the actual December 31 HBP balance.
32) **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.
33) **ARM Regulatory Asset** shall reflect the actual unamortized December 31 HBP balance.
34) **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.
35) **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.
36) **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.
~~i. Deferred Debits for Environmental Costs~~
~~j. Deferred Debits for Pension Costs, reduced by an amount equivalent to the pension expense amortization during the period of time comprising the HBP.~~

Capitalization Components

37) **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.
38) **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.
39) **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.
40) **Authorized Return on Equity** as defined in Section I of this tariff**.**

IV. ARM FILING SCHEDULES

LEAD SCHEDULES	
1	Results of Operations
2	Rate Base
3	Lead Lag Results
4A	Working Capital Expense Lag for HBP
4B	Working Capital Expense Lag for Annual Base Rate Reset
5	O&M Expense Summary
6A	Revenue Summary
6B	Revenue Detail
7	General Tax Summary
8	Excise and Income Tax Summary
9	Income Statement under Present Rates & Proposed Rates
10	Cost of Capital Summary
11	Revenue Conversion Factor & Tax Gross Up Factor
12	Carrying Costs and ARM Reconciliation Deferred Account Balance

RATE BASE SCHEDULES	
13	Utility Plant in Service - End of Month Balances, calculation of 13 month average balance
14	Depreciation Expense - Calculation of Depreciation and Amortization Expense based on HBP Utility Plant in Service
15	Construction Work in Progress - End of Month Balances, calculation of 13 month average balance
16	Accumulated Depreciation - End of Month Balances, calculation of 13 month average balance
17	Contributions in Aid of Construction - End of Month Balances, calculation of 13 month average balance
18	ADIT - End of Month Balances, calculation of 13 month average balance
19	Cash Working Capital - Summary of 13 month average balance
20	ARM Regulatory Asset Balances and Acitvity by Month

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21	Historic Base Period Revenue Components by Rate Schedule & Special Contract
22A	Annual Base Rate Reset Total Revenues by Rate Schedule and Special Contract
22B	Annual Base Rate Reset Revenue Components by Rate Schedule and Special Contract
23	Annual Base Rate Reset Other Revenues
24	Summary of Normalized Billing Determinants and Proposed Margin Revenues
25	Proof of Revenue at Proposed Rates
26	Revenue Changes by Rate Schedule
27	Normal Heating Degree Days
28	Factors for Weather Normalization Adjustment (WNA)

Effective: _______________

O&M EXPENSE SCHEDULES	
29	Customer Accounts & Service Expense, including uncollectible ratio calculation
30	Employee Salary and Wage Expense
31	Employee Short Term Compensation Expense
32	Employee Long Term Compensation Expense
33	Deferred Environmental Regulatory Amortization and Cost Support
34	Deferred Pension Regulatory Amortization and Pension Plan Contribution Support
35	Return on Service Company (DEBS) Assets
36	Other Pension Expense
37	Lobbying Expense, Charitable Contribution, Social Club Membership Adjustment
38	Advertising Expense

FINANCIAL REPORTS	
39	Tennessee Allocated Income Statement
40A	Total Piedmont Regulatory View Year End Income Statement
40B	Total Piedmont SEC View Year End Income Statement
40C	Parent (Duke Energy Corporation) Year End Income Statement
40D	Service Company (DEBS) Year End Income Statement
40E	Total Piedmont Regulatory View Year End Balance Sheet
40F	Total Piedmont SEC View Year End Balance Sheet
40G	Parent (Duke Energy Corporation) Year End Balance Sheet
40H	Service Company (DEBS) Year End Balance Sheet
41A	Total Piedmont Monthly Trial Balance Regulatory View
41B	Total Piedmont Monthly Trial Balance SEC View
41C	Parent (Duke Energy Corporation) Monthly Trial Balance Regulatory View
41D	Parent (Duke Energy Corporation) Monthly Trial Balance SEC View
41E	Service Company (DEBS) Monthly Trial Balance Regulatory View
41F	Service Company (DEBS) Monthly Trial Balance SEC View

OTHER INFORMATIONAL SCHEDULES	
42	Piedmont Capital Budget for Tennessee operations for year subsequent to HBP
43	Piedmont Operating Budget for the year subsequent to the HBP
44	Piedmont Jurisdictional Allocation Factors: Composite Factors
45	Piedmont Jurisdictional Allocation Factors: Net Plant Factors
46	Cost Allocation Manual
47	Corporate Organizational Structure
48	List of Company Officers
49	Pension and OPEB actuarial reports
50	Employee Incentive Compensation Plan documents
51	Impact of any new accounting pronouncements
52	Additional workpapers as required, and referenced to applicable ARM Filing Schedule

Schedule 52: List of Additional Workpapers
RATE BASE WORKPAPERS
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 Catagories, 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

53) Variance Reporting: As part of its Annual ARM filing, Piedmont shall prepare and filed with the TPUC, with a copy to the Consumer Advocate, a Variance Report that identified 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
    ~~a.~~c. Number of Natural Gas Leaks by Grade.

Docket No. 21-00135

Rebuttal Exhibit_(PKP-2)

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 operation under 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 as defined by the Tennessee Public Utility Commission ("TPUC"). 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 marking 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.

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.
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.

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 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.

<u>Components of the Annual ARM Filing</u>

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.c. of the 2020 Rate Case Settlement.
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 though the ARM Rider Rates. The ARM Rider rates shall be established for the Applicable Rate Schedules, 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.

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 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**: The Company may seek recovery of Environmental Costs incurred during the HBP upon a showing of prudence and that such costs are not recoverable through insurance policies.
13) **Amortization Expenses for Deferred Pension Costs** shall reflect 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** shall reflect such actual expenses recorded during the HBP, exclusive of the ASC 2017 expenses (formerly FAS 87) recorded during the HBP.
15) **Other Employee Benefit Expenses, including OPEB** shall reflect such actual expenses recorded during the HBP, exclusive of any such expenses related to lobbying activities.
16) **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.
17) **Expense for TPUC Fee** shall reflect such actual expenses recorded during the HBP.
18) **Other O&M Expenses** shall reflect such actual expenses recorded during the HBP, exclusive of any such expenses related to lobbying activities, and shall reflect costs necessary in the provision of natural gas service.
19) **Other Expense Adjustments** shall reflect adjustments made by the Company to exclude any known expenses improperly recorded as an Operating Expense during the HBP.
20) **Depreciation Expenses** shall reflect such actual expenses recorded during the HBP, net of credits recorded during the HBP related to Depreciation Expense Deferrals.
21) **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.

22) **Payroll Tax Expenses** shall reflect such actual expenses recorded during HBP, adjusted to comport with the labor and other compensation expense adjustments described herein.
23) **Property Tax Expenses** shall reflect such actual expenses recorded during the HBP.
24) **Other General Tax Expense** shall reflect such actual expenses recorded during the HBP.
25) **Amortization of Investment Tax Credit** shall reflect such actual expenses recorded during the HBP.
26) **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.
27) **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.

<u>Adjustments to Net Operating Income</u>

28) **AFUDC** shall be computed as the CWIP balance described below multiplied by the last authorized Overall Cost of Capital for the Company.
29) **Interest on Customer Deposits** shall reflect such actuals recorded during the HBP.

<u>Rate Base Components</u>

30) **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 leger account. The Company has the burden to demonstrate the accuracy of recordings to plant in service.
31) **Accumulated Depreciation** shall reflect the 13-month average of the actual EOM balances for the HBP and the month prior to the HBP.
32) **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.
33) **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.
34) **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.

35) **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.
36) **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

    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.

Capitalization

37) **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.
38) **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 best shall include an adjustment for unamortized loss on reacquired debt and credit facility fees.
39) **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.
40) **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). These methodologies incorporate the approved methodologies underlying the revenue requirement from the 2020 Rate Case Settlement.

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 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 regression analysis 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> 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 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**: The Company may seek recovery of Environmental Costs incurred during the HBP 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 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** shall reflect such actual expenses recorded during the HBP, exclusive of the ASC 2017 expenses (formerly FAS 87) recorded during the HBP.
15) **Other Employee Benefit Expenses, including OPEB** shall reflect such actual expenses recorded during the HBP, exclusive of any such expenses related to lobbying activities.

16) **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 DES pension assets.
17) **Expense for TPUC Fee** shall reflect such actual expenses recorded during the HBP.
18) **Other O&M Expenses** shall reflect such actual expenses recorded during the HBP, exclusive of any such expenses related to lobbying activities, and shall reflect costs necessary in the provision of natural gas service.
19) **Other Expense Adjustments** shall reflect adjustments made by the Company to exclude any known expenses improperly recorded as an Operating Expense during the HBP.
20) **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.
21) **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.
22) **Payroll Tax Expenses** shall reflect such actual expenses recorded during HBP, adjusted to comport with the labor and other compensation expense adjustments.
23) **Property Tax Expenses** shall reflect such actual expenses recorded during the HBP.
24) **Other General Tax Expense** shall reflect such actual expenses recorded during the HBP.
25) **Amortization of Investment Tax Credit** shall reflect such actual expenses recorded during the HBP.
26) **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.
27) **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

<u>Adjustments to Net Operating Income</u>

28) **AFUDC** shall be computed as the CWIP balance described below multiplied by the Overall Cost of Capital including the Authorized Return on Equity, for the HBP.
29) **Interest on Customer Deposits** shall reflect such actuals recorded during the HBP.

Rate Base

30) **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.
31) **Accumulated Depreciation** shall reflect the actual December 31 HBP balance.
32) **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.
33) **ARM Regulatory Asset** shall reflect the actual unamortized December 31 HBP balance.
34) **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.
35) **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.
36) **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.

Capitalization Components

37) **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.
38) **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.
39) **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.
40) **Authorized Return on Equity** as defined in Section I of this tariff**.**

IV. ARM FILING SCHEDULES

LEAD SCHEDULES	
1	Results of Operations
2	Rate Base
3	Lead Lag Results
4A	Working Capital Expense Lag for HBP
4B	Working Capital Expense Lag for Annual Base Rate Reset
5	O&M Expense Summary
6A	Revenue Summary
6B	Revenue Detail
7	General Tax Summary
8	Excise and Income Tax Summary
9	Income Statement under Present Rates & Proposed Rates
10	Cost of Capital Summary
11	Revenue Conversion Factor & Tax Gross Up Factor
12	Carrying Costs and ARM Reconciliation Deferred Account Balance

RATE BASE SCHEDULES	
13	Utility Plant in Service - End of Month Balances, calculation of 13 month average balance
14	Depreciation Expense - Calculation of Depreciation and Amortization Expense based on HBP Utility Plant in Service
15	Construction Work in Progress - End of Month Balances, calculation of 13 month average balance
16	Accumulated Depreciation - End of Month Balances, calculation of 13 month average balance
17	Contributions in Aid of Construction - End of Month Balances, calculation of 13 month average balance
18	ADIT - End of Month Balances, calculation of 13 month average balance
19	Cash Working Capital - Summary of 13 month average balance
20	ARM Regulatory Asset Balances and Acitvity by Month

REVENUE SCHEDULES	
21	Historic Base Period Revenue Components by Rate Schedule & Special Contract
22A	Annual Base Rate Reset Total Revenues by Rate Schedule and Special Contract
22B	Annual Base Rate Reset Revenue Components by Rate Schedule and Special Contract
23	Annual Base Rate Reset Other Revenues
24	Summary of Normalized Billing Determinants and Proposed Margin Revenues
25	Proof of Revenue at Proposed Rates
26	Revenue Changes by Rate Schedule
27	Normal Heating Degree Days
28	Factors for Weather Normalization Adjustment (WNA)

O&M EXPENSE SCHEDULES	
29	Customer Accounts & Service Expense, including uncollectible ratio calculation
30	Employee Salary and Wage Expense
31	Employee Short Term Compensation Expense
32	Employee Long Term Compensation Expense
33	Deferred Environmental Regulatory Amortization and Cost Support
34	Deferred Pension Regulatory Amortization and Pension Plan Contribution Support
35	Return on Service Company (DEBS) Assets
36	Other Pension Expense
37	Lobbying Expense, Charitable Contribution, Social Club Membership Adjustment
38	Advertising Expense

FINANCIAL REPORTS	
39	Tennessee Allocated Income Statement
40A	Total Piedmont Regulatory View Year End Income Statement
40B	Total Piedmont SEC View Year End Income Statement
40C	Parent (Duke Energy Corporation) Year End Income Statement
40D	Service Company (DEBS) Year End Income Statement
40E	Total Piedmont Regulatory View Year End Balance Sheet
40F	Total Piedmont SEC View Year End Balance Sheet
40G	Parent (Duke Energy Corporation) Year End Balance Sheet
40H	Service Company (DEBS) Year End Balance Sheet
41A	Total Piedmont Monthly Trial Balance Regulatory View
41B	Total Piedmont Monthly Trial Balance SEC View
41C	Parent (Duke Energy Corporation) Monthly Trial Balance Regulatory View
41D	Parent (Duke Energy Corporation) Monthly Trial Balance SEC View
41E	Service Company (DEBS) Monthly Trial Balance Regulatory View
41F	Service Company (DEBS) Monthly Trial Balance SEC View

OTHER INFORMATIONAL SCHEDULES	
42	Piedmont Capital Budget for Tennessee operations for year subsequent to HBP
43	Piedmont Operating Budget for the year subsequent to the HBP
44	Piedmont Jurisdictional Allocation Factors: Composite Factors
45	Piedmont Jurisdictional Allocation Factors: Net Plant Factors
46	Cost Allocation Manual
47	Corporate Organizational Structure
48	List of Company Officers
49	Pension and OPEB actuarial reports
50	Employee Incentive Compensation Plan documents
51	Impact of any new accounting pronouncements
52	Additional workpapers as required, and referenced to applicable ARM Filing Schedule

Schedule 52: List of Additional Workpapers
RATE BASE WORKPAPERS
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 Catagories, 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

53) Variance Reporting: As part of its Annual ARM filing, Piedmont shall prepare and filed with the TPUC, with a copy to the Consumer Advocate, a Variance Report that identified 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.

Effective: ______________