Before the
Tennessee Public Utility Commission

Docket No. 23-_00035_

2023 Annual ARM Filing

Direct Testimony
of
Kally Couzens

On Behalf Of
Piedmont Natural Gas Company, Inc.

Piedmont Natural Gas

May 19, 2023

Q. Please state your name and business address.

A. My name is Kally Couzens. My business address is 4720 Piedmont Row Drive, Charlotte, North Carolina.

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

A. I am employed by Piedmont Natural Gas Company, Inc. ("Piedmont" or the "Company") as the Manager of Rates & Regulatory Strategy. In this capacity, I am responsible for a variety of Piedmont regulatory matters including the development and execution of all rate requests, financial report filings, and other petitions.

Q. Please describe your educational and professional background.

A. I graduated from the University of South Florida in May 2001 with a bachelor's degree in Business Administration. I was employed by TECO Energy Inc. from 2001 to 2007 in the Strategic and Financial Analysis department. I was hired by Piedmont as a Business Development Analyst in December 2007. In 2009, I joined Regulatory Affairs, and in 2016, I was promoted to the position of Manager within the Gas Rates & Regulatory Strategy department.

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

A. Yes. I have presented testimony before the Tennessee Public Utility Commission ("TPUC" or "Commission") in Docket No. 20-00086, as well as the Public Service Commission of South Carolina and the North Carolina Utilities Commission on a number of occasions.

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

A. My direct testimony will (1) explain the calculation of the revenue requirement adjustments pursuant to the Company's first Annual Review Mechanism Tariff ("ARM") Filing ("2023 Annual ARM Filing") as shown on ARM Schedule No. 1; (2) explain the proposed changes to the Company's rates associated with these revenue requirement adjustments; and (3) address various other matters for the Commission's awareness in this proceeding.

Q. Do you have any exhibits to your testimony?

A. No, I do not have exhibits to my testimony. However, I am sponsoring and will refer to the Company's ARM Filing Schedules in Attachment No. 1 to the 2023 Annual ARM Filing. I will also refer to the proposed rate adjustments shown in certain ARM Filing Schedules, as well as in Attachment No. 5 to the 2023 Annual ARM Filing.

Q. What is the basis for the revenue requirement adjustments in the 2023 Annual ARM Filing?

A. The 2023 Annual ARM Filing utilizes calendar year 2022 as the Historic Base Period ("HBP") for the two revenue requirement adjustments and associated tariff rate changes. These two revenue requirement adjustments are defined in Section I of the Company's Commission-approved Service Schedule No. 318 ("ARM Tariff") as:

- the HBP Revenue Requirement Deficiency (Sufficiency), and
- the Annual Base Rate Reset Revenue Requirement Deficiency

(Sufficiency).

Section II of the ARM Tariff delineates the method for calculating the HBP Revenue Requirement Deficiency (Sufficiency) associated with the HBP Reconciliation and the resultant change to the Company's ARM Rider Rates. Section III of the ARM Tariff delineates the method for computing the Annual Base Rate Reset Revenue Requirement Deficiency (Sufficiency) and the resultant change to the Company's Base Margin Rates. My direct testimony, in conjunction with the direct testimony of Piedmont witness Keith Goley, explains how the Company adhered to the requirements of the ARM Tariff in computing these two revenue requirement adjustments and proposed rates for the 2023 Annual ARM Filing.

Q. Please summarize the results of the HBP Reconciliation for this 2023 Annual ARM Filing.

A. Column [A] in ARM Schedule No. 1 encapsulates the HBP Reconciliation and its resultant $10,832,930 HBP Revenue Requirement Deficiency. Piedmont experienced a 6.10% Earned Rate of Return for its Tennessee jurisdictional operations during the HBP, given its Rate Base of $1,067,764,143, which is the average rate base over the 13-months ending December 31, 2022, and its Net Operating Income for Return during the HBP of $65,166,327. The computed Fair Rate of Return pursuant to the ARM Tariff for the HBP Reconciliation is 6.88%, which incorporates the 9.80% Return on Equity authorized by the Commission in Piedmont's last general rate case proceeding in 2020 in Docket No. 20-00086,[1] along with the 13-month average capital structure and component debt cost rates during the HBP. The difference between the 6.10% Earned Rate of Return and the 6.88% Fair Rate of Return for the HBP Reconciliation is 78 basis points, which equates to a $8,280,961 Net Operating Income Deficiency. When grossed-up for taxes and the other components of the gross revenue conversion factor (each of which are delineated on ARM Schedule No. 11 utilizing the methodology required pursuant to the ARM Tariff), this $8,280,961 Net Operating Income Deficiency comports with an HBP Revenue Requirement Deficiency of $10,832,930.

Q. Please summarize the results of the Annual Base Rate Reset for this 2023 Annual ARM Filing.

A. Column [B] in ARM Schedule No. 1 encapsulates the Annual Base Rate Reset calculation and its resultant $29,861,596 Revenue Requirement Deficiency. The ARM Tariff prescribes that Rate Base utilized for the Annual Base Rate Reset calculation is $1,143,947,445. The Net Operating Income for Return for the Annual Base Rate Reset is $56,697,580. The quotient of these yields a 4.96% Earned Rate of Return, whereas the computed Fair Rate of Return is 6.95%, which incorporates the 9.80% Return on Equity authorized by the Commission

[1] By contrast, note that the realized Return on Equity for HBP Reconciliation purposes was 8.25% as shown on ARM Schedule No. 10A.

in Piedmont's last general rate case[2] along with the capital structure and component debt cost rates at the end of the HBP (meaning, at December 31, 2022). The difference between the 4.96% Earned Rate of Return and the 6.95% Fair Rate of Return for the Annual Base Rate Reset is 199 basis points, otherwise expressed as a $22,826,947 Net Operating Income Deficiency. When grossed-up for taxes and the other components of the gross revenue conversion factor (each of which are delineated on ARM Schedule No. 11 utilizing the methodology required pursuant to the ARM Tariff), this $22,826,947 Net Operating Income Deficiency results in an Annual Base Rate Reset Revenue Requirement Deficiency of $29,861,596.

Q. Please explain how Piedmont will recover the HBP Revenue Requirement Deficiency of $10,832,930.

A. Through its 2023 Annual ARM Filing, Piedmont proposes to recover the HBP Revenue Requirement Deficiency of $10,832,930, plus applicable Carrying Costs as prescribed by the ARM Tariff, through the initial establishment of proposed ARM Rider Rates. When adjusted for Carrying Costs, utilizing the Net of Tax Overall Cost of Capital rate for the HBP, the total amount to be collected from customers through the new ARM Rider Rates is $11,699,131, as delineated on ARM Schedule No. 12.

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[2] By contrast, note that the Return on Equity for the Annual Base Rate Reset is 5.70%, as shown on ARM Schedule No. 10B.

Q. Please describe how the Company allocated the $11,699,131 among the Applicable Rate Schedules for the development of the ARM Rider Rates.

A. To allocate the $11,699,131 among the Applicable Rate Schedules, the Company used the same margin apportionment percentages by customer class that it used to establish the Base Margin Rates in the Annual Base Rate Reset. The Company then computed the ARM Rider Rates for each customer class by dividing the margin apportioned to each customer class by the respective billing determinants used in the computation of the Gas Sales and Transportation Revenues under the Annual Base Rate Reset. ARM Schedule No. 26.5 shows the detailed derivation of the ARM Rider Rides.

Q. What rate design is Piedmont proposing for the Annual Base Rate Reset?

A. Piedmont is proposing the same overall rate design, which includes fixed monthly charges, demand charges, and volumetric rates, for each rate schedule, including step rates for Large General Service, which underlies its existing rates. This is the same rate design methodology that the TPUC approved in Piedmont's last general rate case proceeding.

Q. What rates have been adjusted for the Annual Base Rate Reset?

A. In order to effectuate the proposed increase of $29,861,596 for the Annual Base Rate Reset Revenue Requirement Deficiency, Piedmont proposes to change the volumetric billing rates (the rates per therm) for each Applicable Rate Schedule with the exception of Rate Schedule 310 – Resale Service due to absence of active customers on this Rate Schedule since February 2023.

Q. How did Piedmont determine its approach to the rate design for the Annual Base Rate Reset?

A. Piedmont's main objective is to design rates that compensate the utility for the cost of the services that it provides to all customer classes while also providing the Company with a reasonable rate of return. It is also critical to design rates that are reflective of conditions in the marketplace, and which also send the correct market signals. Piedmont's fundamental goal is to remain consistent with the existing rate structure. In looking at this approach, however, the Company also had to be mindful of not disproportionately or unfairly burdening one class of customers versus another in allocating the proposed rate increase. Generally, the Company seeks to mitigate subsidization of customer classes by moving each customer class toward parity with the overall jurisdictional rate of return, while at the same time doing this gradually to avoid volatility on customer bills.

Q. Did the Company perform an Allocated Cost of Service Study for its 2023 Annual ARM Filing?

A. Yes, Piedmont performed an Allocated Cost of Service Study ("ACOSS") as shown in ARM Schedule No. 26A. The study generally shows that for the Annual Base Rate Reset at existing billing rates, there are customer class inequities primarily related to residential service revenue deficiencies with resulting revenue subsidies being provided by the remaining rate classes. In other words, the rate of return for Piedmont's residential service rate schedule is below the overall system rate of return of 4.96% for the Annual Base Rate Reset at existing rates. The remaining customer classes are above the overall system rate of return with the exception of Rate Schedule 310 – Resale Service.[3] Table 1 below summarizes the results.

Table 1

Rate Schedule	Description	Annual Base Rate Reset Existing Rates ROR	ROR Index
301	Residential Service	2.14%	0.43
302	Small General Service	10.56%	2.13
352	Medium General Service	12.88%	2.60
303	Large General Sales Service Firm	9.46%	1.91
313	Large General Transportation Service Firm	13.84%	2.79
303/313	*Large General Service Firm Combined*	*12.02%*	*2.43*
304	Large General Sales Service Interruptible	39.09%	7.89
314	Large General Transportation Service Interruptible	12.86%	2.60
304/314	*Large General Service Interruptible Combined*	*12.96%*	*2.61*
303/313/304/314	*Large General Service Combined*	*12.42%*	*2.50*
310	Resale Service	*4.61%*	0.93
Overall System Rate of Return		**4.96%**	1.00

[3] As of February 2023, Piedmont no longer has active customers under Rate Schedule 310 – Resale Service. Actual usage for this rate schedule during the Historic Base Period was only 2.1 dekatherms.

Q. Based on Piedmont's rate design objectives and the results of the ACOSS, how does the Company propose to allocate the $29,861,596 for the Annual Base Rate Reset Revenue Requirement Deficiency?

A. As shown in ARM Schedule No. 26, Piedmont proposes to allocate the margin revenue increase of $29,861,596 evenly across all of the Applicable Rate Schedules, with the exception of Rate Schedule 310, such that the margin revenue percentage increase is the same for all the customer classes. This approach aligns with Piedmont's rate design objectives and results in rates of return that move gradually toward the overall system rate of return. Table 2 below shows a comparison of rates of return between Piedmont's existing rates and the proposed rates. The ROR Index in the Table 2 reflects how the rates of return are moving closer to system parity "1.00".

Table 2

Rate Schedule	Description	Annual Base Rate Reset Existing Rates		Annual Base Rate Reset Proposed Rates	
		ROR	ROR Index	ROR	ROR Index
301	Residential Service	2.14%	0.43	3.75%	0.54
302	Small General Service	10.56%	2.13	13.45%	1.94
352	Medium General Service	12.88%	2.60	15.81%	2.27
303	Large General Sales Service Firm	9.46%	1.91	11.70%	1.68
313	Large General Transportation Service Firm	13.84%	2.79	16.79%	2.41
303/313	*Large General Service Firm Combined*	*12.02%*	*2.43*	*14.68%*	*2.11*
304	Large General Sales Service Interruptible	39.09%	7.89	47.28%	6.80
314	Large General Transportation Service Interruptible	12.86%	2.60	15.83%	2.28
304/314	*Large General Service Interruptible Combined*	*12.96%*	*2.61*	*12.96%*	*1.86*
303/313/304/314	*Large General Service Combined*	*12.42%*	*2.50*	*15.21%*	*2.19*
310	Resale Service	*4.61%*	0.93	*4.05%*	0.58
Overall System Rate of Return		**4.96%**	1.00	**6.95%**	1.00

Q. Is Piedmont seeking Commission approval for any other billing components?

A. Yes. Piedmont's Weather Normalization Adjustment ("WNA") requires a recalculation of the "R" Values, Base Load Factors, Heat Sensitive Factors, and Normal Heating Degree Days with each Annual ARM Filing or general rate case proceeding. In its 2023 Annual ARM Filing, the Company proposes to update all of these WNA components as shown in ARM Schedule No. 28. The proposed Base Load Factors and Heat Sensitive Factors are the same as those used to perform the normalization adjustment, employing a simple linear regression analysis methodology, for the Annual Base Rate Reset as prescribed by the ARM Tariff. The "R" Values reflect the applicable seasonal proposed Base Margin Rate for the Annual Base Rate Reset for Rate Schedule 301 – Residential Service, Rate Schedule 302 – Small General Service, and Rate Schedule 352 – Medium General Service. Finally, the Normal Heating Degree Day values, as shown in greater detail on ARM Schedule No. 27, reflect the 30-year average degree days for the period ended December 31, 2022.

Q. Is the rate design proposed by Piedmont in its 2023 Annual ARM Filing just and reasonable?

A. Yes. The proposed rate design is incorporated into the Eighty-Fifth Revised Sheet No. 1, which is included as part of Attachment No. 5 of Piedmont's 2023 ARM Filing. This proposed rate design meets

Piedmont's rate design objectives and will gradually lead to more equalized rates of return across the customer classes. The rate design also complies with Piedmont's ARM Tariff and is consistent with previous rate designs approved in prior proceedings before this Commission.

Q. Are there any other matters that you would like to discuss in your testimony?

A. Yes. I would like to share changes to the Company's participation in the third-party HomeServe Warranty Program since Piedmont's last general rate case proceeding, as well as discuss the completion of Piedmont's refund to customers of deferred base revenues and excess Unprotected Accumulated Deferred Income Taxes ("excess Unprotected ADIT") pursuant to the TPUC's August 6, 2019, Order in Docket No. 18-00040.

Q. Please elaborate on the changes to the HomeServe Warranty Program since the Company's last general rate case proceeding.

A. Piedmont no longer offers the warranty plans administered by HomeServe and supported by National Home Warranty Repair, Inc. as the obligor. Instead, the Company now offers warranty plans, referred to as Home Protections Plans ("HPP"), that are directly administered by Piedmont and supported by TWG Home Warranty Service, Inc. effective December 6, 2021.

Piedmont started offering the HPP warranty plans on December 6, 2021, and maintained the HomeServe warranty plans until the transition from HomeServe was complete on April 18, 2022. The Company converted the HomeServe warranty plans in two waves in March and April 2022.

Q. What warranty plans are currently available to Piedmont's customers, and how have those plans benefited customers?

A. Piedmont currently offers a variety of warranty plans including gas line repair, heating and cooling repair, water heater repair, appliance repair, home wiring repair, sewer line repair, water line repair, and surge coverage and grounding. In 2022, the HPP plans covered over $383,000 in actual repairs, which have protected Tennessee customers directly participating in the HPP from unexpected repair bills. Furthermore, no aspect of Piedmont's operation of the HPP burdens Piedmont's Tennessee customers that do not participate in the HPP. As shown in ARM Schedule No. 6A, the Company's revenue of $2,238,287 from the HPP exceeds the costs incurred of $1,718,788 as shown in ARM Schedule No. 52P. Accordingly, the HPP is not subsidized by Piedmont's non-participating customers.

Q. Has the Company included the revenues and expenses associated with these warranty programs in the HBP Reconciliation and the Annual Base Rate Reset of Piedmont's 2023 Annual ARM Filing?

A. Yes. The Company has included warranty program revenues and expenses in the HBP Reconciliation and the Annual Base Rate Reset as prescribed by Piedmont's ARM Tariff. These adjustments are discussed in the direct testimony of Piedmont witness Keith Goley.

Q. Please discuss the completion of Piedmont's refund to customers of deferred base revenues and excess Unprotected ADIT in Docket No. 18-00040.

A. On August 6, 2019, the Commission ordered Piedmont to return to customers over a period of three years actual deferred base revenues of $10,989,898 resulting from the change in the federal income tax rate from 35% to 21% under the 2017 Tax Cuts and Jobs Act. On October 21, 2022, Piedmont filed a report notifying the Commission of the completion of the refund. In addition, the Company also reported to the Commission in the same October 21, 2022, filing that Piedmont had completed the three-year refund of $23,571,958 of excess Unprotected ADIT.

Q. Did the Company's refund to customers of such deferred base revenues or excess Unprotected ADIT in any way influence the HBP Reconciliation or the Annual Base Rate Reset performed in Piedmont's 2023 Annual ARM Filing?

A. No. As prescribed by Piedmont's ARM Tariff, the HBP Reconciliation and the Annual Base Rate Reset exclude any activity from the riders designed to refund the deferred base revenues or the excess Unprotected ADIT.

Q. What is Piedmont specifically requesting that the Commission do in this proceeding?

A. Piedmont is specifically requesting that the Commission do three things: (1) accept and approve Piedmont's 2023 Annual ARM Filing; (2) authorize the proposed billing rates in the Eighty-Fifth Revised Sheet No. 1 included in Attachment No. 5 of Piedmont's 2023 Annual ARM Filing; and (3) authorize the WNA billing components as shown in ARM Schedule No. 28, concurrent with the effective date of the new rates in this proceeding.

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

A. No, not at this time. Thank you.