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Electronically Filed in TPUC Docket
Room on August 21, 2024 at 12:28 p.m.

August 21, 2024

VIA ELECTRONIC MAIL

Mr. David Jones, Chairman
c/o Ectory Lawless
Tennessee Public Utility Commission
502 Deaderick Street, Fourth Floor
Nashville, Tennessee 37243

**Re: Petition of Piedmont Natural Gas Company, Inc. For Approval of its
2024 Annual Review of Rates Mechanism Pursuant to Tenn. Code
Ann. § 65-5-103(d)(6)
Docket No. 24-00036**

Dear Chairman Jones:

Pursuant to the Joint Procedural Schedule in the above-referenced docket, enclosed please find for filing the original and four copies of Piedmont Natural Gas Company, Inc.'s ("Piedmont" or the "Company") Settlement Testimony of Misty Lyons in support of the Stipulation and Settlement Agreement filed yesterday on August 20, 2024, by the Consumer Advocate Division, Office of Tennessee Attorney General.

This material is also being filed today by way of email to the Commission's docket manager, Ectory Lawless. Please file the original and provide a "filed" stamped copy of same via email. As per TPUC's request, we will also file via U.S. mail the original and four copies to TPUC's office for filing of same.

If you have any questions regarding this letter, you may reach me at the number shown above.

Sincerely yours,

HOLLAND & KNIGHT LLP



Paul S. Davidson
Equity Partner

Atlanta | Austin | Birmingham | Boston | Century City | Charlotte | Chattanooga | Chicago | Dallas | Denver | Fort Lauderdale
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PSD:jv

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**Before the
Tennessee Public Utility Commission**

Docket No. 24-00036

2024 Annual ARM Filing

**Settlement Testimony
of
Misty Lyons**

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



August 21, 2024

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

2 A. My name is Misty Lyons. My business address is 525 S. Tryon Street,
3 Charlotte, North Carolina.

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

5 A. I am a Rates & Regulatory Strategy Manager for Piedmont Natural Gas
6 Company, Inc. (“Piedmont” or the “Company”).

7 **Q. Are you the same Misty Lyons that filed direct testimony in support**
8 **of Piedmont’s position in this proceeding?**

9 A. Yes.

10 **Q. What is the purpose of your Settlement Testimony in this**
11 **proceeding?**

12 A. The purpose of my Settlement Testimony is to describe and support the
13 Stipulation and Settlement Agreement (“Settlement Agreement”)
14 between Piedmont and the Consumer Advocate Division of the Office
15 of the Tennessee Attorney General (“Consumer Advocate”),
16 (hereinafter, individually, “Party” and collectively, “Parties”) in
17 Tennessee Public Utility Commission (“TPUC” or the “Commission”)
18 Docket No. 24-00036 (“Present Docket”) pertaining to Piedmont’s 2024
19 Annual Rate Review Mechanism (“ARRM” or “ARM”) Filing and rate
20 increase filed by the Company on May 20, 2024 (“2024 Annual ARM
21 Filing”).

1 **Q. Were there any notable differences when comparing the**
2 **methodological aspects of the 2024 Piedmont ARM filing with that**
3 **of its 2023 ARM filing in Docket No. 23-00035?**

4 A. Yes. Piedmont's 2024 Annual ARM Filing included an updated
5 depreciation study of all of Piedmont's utility plant assets supporting its
6 utility operations in Tennessee and proposed new depreciation rates
7 based on the updated depreciation study. Additionally, the Company
8 proposed to use the Tennessee Statutory Income Tax Rate to quantify
9 Piedmont's Income Tax Expense and Accumulated Deferred Income
10 Taxes ("ADIT") balances for ratemaking purposes under the proposed
11 modified ARM tariff ("Proposed Methodology") versus using the
12 Composite State Income Tax Rate to quantify Income Tax Expense and
13 ADIT balances for ratemaking purposes, as prescribed in the current
14 ARM tariff ("Prescribed Methodology").¹ As discussed further below,
15 the Settlement Agreement addresses and resolves these methodological
16 differences.

17 **Q. How did this Settlement Agreement come about?**

18 A. In the Present Docket, Piedmont and the Consumer Advocate engaged
19 in extensive formal and informal discovery and met multiple times by
20 video conference and phone call to discuss the calculations and
21 documentation presented in the Company's May 20, 2024, filing in the

¹ See Direct Testimony of Piedmont witness Pia Powers, at 9-12.

1 Present Docket. As detailed by the Settlement Agreement, the Present
2 Docket is Piedmont's second annual rate review filing, and the
3 Consumer Advocate diligently investigated the underlying
4 documentation supporting the Company's request. Collaboratively,
5 Piedmont agreed, without hesitation, to informal discovery from the
6 Consumer Advocate, as well as an amount of formal discovery requests
7 that were over and above that authorized by the Commission's
8 Procedural Schedule in order for the Consumer Advocate to complete
9 its investigation.

10 Following this process, and up to and including the Consumer
11 Advocate's submission of the Direct Testimony of David N. Dittmore
12 and William H. Novak on August 9, 2024, the Consumer Advocate and
13 Piedmont have engaged in discussions regarding the possible
14 parameters of a settlement of this matter. Those discussions involved
15 the examination, discussion and ultimate resolution, as between the
16 Parties, of all the issues raised in the Direct Testimonies of Consumer
17 Advocate witnesses Dittmore and Novak.

18 **Q. Can you describe the terms of the Settlement Agreement reached**
19 **with the Consumer Advocate?**

20 A. Yes. Following the Company's approved ARM Tariff, the 2024 Annual
21 ARM Filing requested an increase in rates effective October 1, 2024,
22 for the Historic Base Period ("HBP") Reconciliation, which reflected a
23 revenue deficiency under the Prescribed Methodology, including

1 carrying costs, of \$14,694,288. It also requested an increase in rates
2 effective October 1, 2024, for the Annual Base Rate Reset (“ABRR”)
3 Revenue Requirement Deficiency, under the Prescribed Methodology,
4 of \$10,865,219. Under the Proposed Methodology, the HBP revenue
5 deficiency, including carrying costs, totaled \$14,579,936, while the
6 ABRR Revenue Requirement Deficiency, under the Proposed
7 Methodology, totaled \$10,794,329. Taken together, these deficiencies
8 under the Prescribed Methodology total \$25,559,507, which, if fully
9 recovered, would represent an increase of 4.9% in Piedmont’s rates over
10 the next year, while under the Proposed Methodology, the deficiencies
11 total \$25,374,265, which would represent a potential increase of 4.8%
12 in Piedmont’s rates over the next year.

13 In Consumer Advocate witness Novak’s Direct Testimony, he
14 recommended the Commission approve a smaller revenue deficiency of
15 \$14,902,652, for the HBP Reconciliation, including carrying costs,
16 along with a smaller base rate increase of \$5,506,939 for the ABRR. In
17 Consumer Advocate witness Dittmore’s Direct Testimony, he opposed
18 the Company’s Proposed Methodology’s use of the Tennessee Statutory
19 Income Tax Rate in favor of the Composite State Income Tax Rate for
20 the HBP due to retroactive ratemaking concerns.² Additionally, through
21 the course of discovery, the Parties agreed that the Company would

² See Direct Testimony of Consumer Advocate witness Dittmore, at 8.

1 exclude the impact of the proposed new depreciation rates incorporated
2 in its initial 2024 Annual ARM Filing, and that consideration of the
3 depreciation study and updated depreciation rates should not be
4 considered as part of this proceeding.

5 As a result, the Settlement Agreement, as detailed below,
6 resolves witnesses Novak's and Dittmore's concerns and calls for
7 recovery through ARM Rider Rates of the HBP Revenue Requirement
8 Deficiency, including carrying costs, of \$14,877,598, and an increase in
9 base rates of \$5,451,474 for the ABRR. Taken together, this results in
10 a total increase of \$20,329,072, which is \$5,045,193 less than
11 Piedmont's proposed total increase of \$25,374,265.

12 The terms of the Settlement Agreement reflect the Parties'
13 agreement as to the following³:

- 14 • A \$722,315 Construction Work in Progress ("CWIP") adjustment
15 recommended by Consumer Advocate witness Novak, resulting in
16 HBP CWIP of \$84,500,478.
- 17 • A \$14,573 depreciation expense adjustment recommended by
18 Consumer Advocate witness Novak, resulting in HBP depreciation
19 expense of \$36,444,862.

³ For a more detailed recounting of the terms of the Settlement Agreement, please refer to the actual Settlement Agreement itself, including but not limited to, any attachments and exhibits, or any prior testimony, attachments, exhibits or other related proceedings incorporated by reference.

- 1 • An agreement by the Parties to accept Piedmont's filed position of
2 the HBP ADIT in the amount of (\$197,577,700).
- 3 • The Company accepts Consumer Advocate witness Dittmore's
4 proposed utilization of the Composite State Income Tax Rate for
5 Income Tax Expense and ADIT used for the computation of the
6 2023 HBP Revenue Requirement Deficiency.
- 7 • The Consumer Advocate accepts Piedmont's proposed utilization in
8 this proceeding of the Tennessee Statutory Income Tax Rate for
9 Income Tax Expense and ADIT for the computation of the ABRR
10 Revenue Requirement Deficiency, the amount of which shall be
11 \$5,451,474. Furthermore, the Company will not seek recovery from
12 ratepayers from any claim that its ADIT balance is deficient due to
13 the transition from using the Composite State Income Tax Rate to
14 the Tennessee Statutory Income Tax Rate for its revenue deficiency
15 calculations.
- 16 • The Parties agree that the HBP Revenue Requirement Deficiency
17 amount (before Carrying Costs), consistent with the above agreed
18 upon changes, shall be \$13,755,717.
- 19 • The Parties agree that the ARM Tariff language for the ARM
20 Reconciliation Deferred Account Balance for use in the computation
21 of the ARM Rider Rates shall be amended to include the bold and
22 italicized change: "...In each Annual ARM Filing, the Company
23 shall propose new ARM Rider Rates based on the current Annual

1 ARM Proceeding's HBP Revenue Requirement Deficiency
2 (Sufficiency) and Carrying Costs, *plus the maximum of the* ARM
3 Deferred Account Balance at March 31 of the year after the HBP or
4 any remaining ARM Deferred Account Balance, as appropriate.”

- 5 • The Parties agree on the ARM Rider Rates (HBP Surcharge) Rate
6 Design Methodology as described in Consumer Advocate witness
7 Novak’s Direct Testimony at 20:2-13 and shall be based on the
8 proposed settlement revenue requirement deficiency for the HBP
9 plus carrying costs.
- 10 • The Parties agree on the ABRR Rate Design Methodology as
11 described in Consumer Advocate witness Novak’s Direct
12 Testimony at 21-25 and shall be based on the proposed settlement
13 revenue requirement deficiency for the ABRR and reflect the
14 Consumer Advocate’s rate design approach including modifications
15 for industrial customers.
- 16 • The Parties agree that the use of the Tennessee Statutory Income
17 Tax Rates for the computation of the Income Tax Expense and
18 ADIT for the computation of the HBP Revenue Requirement
19 Deficiency (Sufficiency) and for the computation of the Annual
20 Base Rate Reset Revenue Requirement Deficiency (Sufficiency), as
21 well as the application of the “maximum of the ARM Deferred
22 Account Balance...as appropriate”, shall be effective for the
23 Company’s future Annual ARM Filings.

- The impact of the adjustments described above are reflected on the schedules constituting Exhibit B to the Settlement Agreement and are further reflected in the Eighty-Eighth Revised Sheet No. 1 attached to it as Exhibit C.

Q. What would have been the annual bill impact to customers from the ARM Petition as requested?

A. The annual average residential customer bill impact from Piedmont's 2024 Annual ARM Filing, as requested absent the Settlement Agreement, would have been an increase of approximately \$46.

Q. What will now be the annual bill impact to customers as a result of the Settlement Agreement, if approved by the Commission?

A. The Settlement Agreement, if approved by the Commission, yields an annual bill impact to the average residential customer of approximately \$29 (or an average levelized monthly increase of \$2.42), which is an annual savings of \$17.

Q. What are the drivers of the customer bill impact, and why did Piedmont believe it was necessary to undertake the activities that impacted the rate increase?

A. As stated in Piedmont witness Couzens' Direct Testimony, the main driver behind the Company underearning its authorized rate of return on equity in 2023 is its continued significant rate base growth beyond that upon which Piedmont's existing rates were established. As testified to in greater detail by witness Couzens, this includes, but is not limited to,

1 capital investments Piedmont needed to make to maintain and expand
2 its gas distribution system to benefit its customers and accommodate
3 system growth and service reliability, and to comply with ongoing
4 federal pipeline safety and integrity requirements.

5 **Q. Is Piedmont sensitive to the bill impact on its customers of the ARM**
6 **Petition, even as adjusted by the Settlement Agreement?**

7 A. Yes. We know that our customers continue to face increased financial
8 pressures from various economic stressors, and we are sensitive to the
9 bill impacts of rate increases. We will continue to prudently manage the
10 operation of our system, plan for future load growth, comply with
11 federal pipeline integrity and safety requirements, while also trying to
12 mitigate rate increases where possible on behalf of our customers.

13 **Q. Do you believe the Settlement Agreement meets the public interest**
14 **standard, and if so, what is Piedmont specifically asking the**
15 **Commission to do with respect to the Settlement Agreement?**

16 A. Yes, I believe that the Settlement Agreement meets the public interest
17 standard and Piedmont specifically requests that the Commission
18 approve the Settlement Agreement. Approval of the Settlement
19 Agreement will benefit Piedmont's customers, the Consumer Advocate,
20 Piedmont, and the Commission, and will generally result in rates that
21 are more reflective of the actual costs incurred by Piedmont and the
22 current revenues being recovered from its customers. Such advantages
23 support the public interest standard.

1 **Q. Does this conclude your Settlement Testimony?**

2 **A. Yes, it does. Thank you.**