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**Before the
Tennessee Public Utility
Commission**

Docket No. 24-00036

2024 Annual ARM Filing

**Direct Testimony
of
Kally Couzens**

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



May 20, 2024

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

2 A. My name is Kally Couzens. 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 employed by Piedmont Natural Gas Company, Inc. (“Piedmont” or
6 the “Company”) as the Director of Gas Rates & Regulatory Strategy. In
7 this capacity, I am responsible for a variety of Piedmont regulatory matters
8 including the development and execution of rate requests, financial report
9 filings, and other petitions.

10 **Q. Please describe your educational and professional background.**

11 A. I graduated from the University of South Florida in May 2001 with a
12 Bachelor of Science degree in Business Administration. I was employed by
13 TECO Energy, Inc. from 2001 to 2007 in the Strategic and Financial
14 Analysis department. I was hired by Piedmont as a Business Development
15 Analyst in December 2007. In 2009, I joined Piedmont’s Rates and
16 Regulatory Affairs department where I have held various roles with
17 increasing responsibility and oversight. In 2023, I assumed my current
18 position as the Director of Gas Rates & Regulatory Strategy.

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

21 A. Yes. I have presented testimony before the Tennessee Public Utility
22 Commission (“TPUC” or “Commission”) in Docket Nos. 20-00086 and 23-
23 00035. I have also presented testimony before the Public Service

1 Commission of South Carolina and the North Carolina Utilities
2 Commission on several occasions.

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

4 A. My testimony supports Piedmont's 2024 Annual ARM Filing seeking the
5 adjustment of rates in this docket effective October 1, 2024, pursuant to the
6 operation of Service Schedule No. 318 – Annual Review Mechanism
7 ("ARM" or "ARM Tariff").

8 In this testimony, I will summarize the main drivers for the revenue
9 deficiencies computed in the Company's 2024 Annual ARM Filing. These
10 revenue deficiencies are presented in two ways – first, based on Piedmont's
11 proposal to modify its ARM Tariff for certain components used in the
12 computation of the revenue requirements as discussed in the pre-filed direct
13 testimony of Piedmont witness Pia Powers; and second, based on the
14 revenue requirements computed in accordance with Piedmont's current
15 authorized ARM Tariff. Furthermore, I will present the revenue percentage
16 increases resulting from these revenue deficiencies. Finally, I will quantify
17 the annualized level and timing of revenue generated in association with
18 capital expenditures related to customer growth in 2023, which is the
19 Historic Base Period ("HBP") for this proceeding.

20 **Q. Please summarize the Company's quantification of the revenue**
21 **deficiencies in the Company's 2024 Annual ARM Filing.**

22 A. The 2024 Annual ARM Filing adheres to Piedmont's ARM Tariff by
23 reconciling, in a two-step process, Piedmont's actual 2023 performance

1 with its authorized rate of return on equity from its last general rate case
2 proceeding. Piedmont's earned return on equity for 2023 was significantly
3 less than its authorized return on equity from its last general rate case
4 proceeding, primarily due to the necessary gas infrastructure investments in
5 Tennessee that the Company completed and placed into service during
6 2023.

7 In this proceeding, Piedmont is seeking the Commission's approval
8 to modify the Company's ARM Tariff for certain components used in the
9 computation of the revenue requirements. Consistent with the proposed
10 modification to the ARM Tariff, Piedmont is seeking authorization in this
11 proceeding to update ARM Rider Rates to recover the computed
12 \$13,492,350 million HBP Revenue Requirement Deficiency plus
13 \$1,087,586 in carrying costs, as shown on Proposed Modified ARM
14 Schedule No. 12 (provided in Attachment No. 1A in the Company's 2024
15 Annual ARM Filing). Also consistent with the proposed modification to the
16 ARM Tariff, Piedmont is seeking to increase its existing Base Margin Rates
17 (which were reset in the 2023 ARM proceeding in Docket No. 23-00035)
18 for the computed \$10,794,329 million Annual Base Rate Reset Revenue
19 Requirement Deficiency. The direct pre-filed testimonies of Piedmont
20 witnesses Misty Lyons and Keith Goley will walk through the specific cost
21 of service component adjustments, revenue requirement deficiency
22 computations, and proposed rate changes that adhere to the Company's

1 proposed modified ARM Tariff as well as the Company's current
2 authorized ARM Tariff.

3 **Q. Why did Piedmont underearn its authorized rate of return on equity in**
4 **2023?**

5 A. Although the ARM Tariff incorporates all annual cost of service changes
6 (some components increased while others decreased), the main driver
7 behind the Company underearning its authorized rate of return on equity in
8 2023 is its continued significant rate base growth beyond that upon which
9 Piedmont's existing rates were established. Specifically, I am referring to
10 the capital investments that the Company needed to make for the purpose
11 of maintaining and expanding its gas distribution system for the benefit of
12 customers in order to accommodate system growth, service reliability, and
13 for the purpose of complying with ongoing federal pipeline safety and
14 integrity requirements. The rates in effect from January 2023 to September
15 2023 were those established in the Company's last general rate case
16 proceeding, which were based on an attrition period ended December 31,
17 2021, and utilized a 13-month average forecasted rate base of
18 approximately \$897 million. The rates in effect from October 2023 to
19 December 2023, subsequent to the Commission's authorization of rates in
20 the 2023 Annual ARM proceeding, were those established utilizing a
21 December 31, 2022, rate base of \$1,141 million. As shown in Proposed

1 Modified ARM Schedule No. 2,¹ the actual 13-month average rate base for
2 2023, the HBP, is \$1,167 million and the actual rate base as of the end of
3 the HBP is \$1,250 million.

4 Piedmont's utility plant in service balance is the component
5 comprising the majority of the change in Piedmont's rate base since the
6 2023 Annual ARM proceeding. On a 13-month average comparative basis,
7 Piedmont's utility plant in service balance grew from approximately \$1,678
8 million in the 2023 Annual ARM proceeding to \$1,836 million in the HBP.
9 Piedmont's actual utility plant in service balance at end of the HBP was
10 \$1,920 million compared to \$1,774 at the start of the HBP, reflecting an
11 increase of \$146 million over calendar year 2023.²

12 **Q. What was the nature of Piedmont's capital investments in 2023 and**
13 **why were they necessary?**

14 A. Piedmont's completed projects that were placed into service during 2023
15 resulted in utility plant asset additions during 2023 totaling nearly \$148
16 million. These utility plant additions came from 153 distinct capital funding
17 projects supporting the Company's natural gas operations in Tennessee.
18 Most of these projects were undertaken in support of the Company's
19 continuing ability to (1) maintain and expand its gas distribution system in
20 Tennessee for the benefit of its customers in order to accommodate system

¹ Proposed Modified ARM Schedule No. 2 is provided in Attachment 1A of the Company's 2024 Annual ARM Filing.

² This approximate \$146 million increase in Piedmont's Tennessee utility plant in service balance during 2023 is comprised of approximately \$148 million in utility plant additions during 2023, less approximately \$2 million in utility plant retirements during 2023.

1 growth and service reliability; and (2) comply with ongoing federal pipeline
2 safety and integrity requirements.

3 With respect to the former factor, Piedmont's total completed capital
4 investments in 2023 to accommodate system growth and continuing service
5 reliability in Tennessee constituted approximately \$70 million (47%) of the
6 \$148 million in utility plant additions during 2023.

7 With respect to the latter factor, Piedmont's total completed capital
8 investments in 2023 to comply with federal pipeline safety and integrity
9 requirements in Tennessee constituted approximately \$57 million (38%) of
10 the \$148 million in utility plant additions during 2023. Piedmont's largest
11 capital project completed in 2023 was the Trinity to Cowan Street Main
12 Replacement Project, undertaken as part of Piedmont's Distribution
13 Integrity Management Program. The utility plant addition in 2023 from this
14 project alone was approximately \$31 million. The project was undertaken
15 to remedy operational issues related to age and cathodic protection.
16 Additionally, the project allowed for the opportunity to increase supply and
17 system pressure to support the fast-growing area located in greater
18 downtown Nashville.

19 The completion of these projects, and other such projects in 2023
20 aggregately comprising approximately \$127 million (86%) of the \$148
21 million in utility plant additions during 2023, supported the delivery of
22 adequate system pressures and the Company's continued provision of safe
23 and reliable natural gas service. The remaining approximate \$21 million

(14%) of the \$148 million in utility plant additions during 2023 resulted from the Company's need to relocate certain existing Piedmont assets in Tennessee pursuant to government projects in the area (e.g., government road widening activities in Piedmont's service territory) and other drivers.

Q. How does the Company's computation of the revenue deficiencies for the HBP and the Annual Base Rate Reset under the proposed modified ARM Tariff compare to those computed under Piedmont's current authorized ARM Tariff?

A. As discussed in the pre-filed direct testimonies of Piedmont witnesses Pia Powers and John Panizza, Piedmont's 2024 Annual ARM Filing proposes to modify the ARM Tariff to address and resolve certain consequences of state tax rate changes to the composite state tax rate utilized in the Company's revenue requirement computations. In this proceeding, Piedmont requests authorization to recover the HBP and Annual Base Rate Reset revenue deficiencies as computed by the proposed modified ARM Tariff. To comply with Piedmont's current authorized ARM Tariff, the Company has also computed the HBP and Annual Base Rate Reset revenue deficiencies based on the methodologies authorized in Piedmont's current ARM Tariff. The table below shows revenue deficiencies computed for both versions of the ARM Tariff:

Table 1

	<u>HBP Ending 12/31/23</u>	<u>Annual Base Rate Reset</u>
Current ARM Tariff:		
Revenue Requirement Deficiency	\$ 13,588,147	\$ 10,865,219 1/
Proposed Modified ARM Tariff:		
Revenue Requirement Deficiency	\$ 13,492,350	\$ 10,794,329 2/
<i>Reduction in Revenue Deficiency</i>	<i>\$ (95,797)</i>	<i>\$ (70,890)</i>
1/ Amounts as shown on Line 8 in ARM Schedule No. 1 (provided in Attachment 1 of the 2024 Annual ARM Filing)		
2/ Amounts as shown on Line 8 in Proposed Modified ARM Schedule No. 1 (provided in Attachment 1A of the 2024 Annual ARM Filing)		

Q. Subsequent to Piedmont's 2023 Annual ARM proceeding, please address the additional provisions set forth in both the Settlement Agreement and the Commission's December 4, 2023, Order in Docket No. 23-00035.

A. The Settlement Agreement and the Commission's Order in Docket No. 23-00035 set forth four provisions.

The first provision required that if the Company should seek an overall revenue increase of 10% or more in its next filing, it will demonstrate specific steps it has taken to control costs. In Piedmont's 2024 Annual ARM Filing, the Company does not seek an overall revenue increase of 10% or more. The details of Piedmont's requested percentage increase in this proceeding are discussed later in this testimony.

1 The second provision required that as part of Piedmont's 2024
2 Annual ARM Filing, the Company should quantify the annualized level and
3 timing of revenue generated from capital expenditures related to growth
4 incurred in the 2023 Docket. This quantification of growth revenues for the
5 actual 2023 HBP is presented in detail later in this testimony.

6 The third provision required the Settlement Agreement parties from
7 the 2023 Annual ARM proceeding to meet within three months after
8 Commission approval of the Settlement Agreement to discuss the issue of
9 assigning a reasonable amount of pro-rata marketing labor costs associated
10 with non-recoverable advertising in the Company's future ARM filings.
11 Piedmont and the Consumer Advocate Division of the Tennessee Office of
12 the Attorney General met on December 11, 2023, to discuss the topic.
13 Further, Piedmont has made adjustments in its 2024 Annual ARM Filing to
14 reflect a reasonable amount of pro-rata marketing labor costs associated
15 with non-recoverable advertising. This is discussed in the pre-filed direct
16 testimony of Piedmont witness Misty Lyons. The adjustment is also
17 supported in the workpapers provided in Attachment 1 of the Company's
18 2024 Annual ARM Filing.³

19 The fourth and final provision required that in its 2024 Annual ARM
20 Filing, the Company will address the implications of state rate changes on
21 the Accumulated Deferred Income Tax balance assigned to Tennessee.

³ ARM Schedule No. 38 provided in Attachment 1 of Piedmont's 2024 Annual ARM Filing reflects the Company's advertising expense details and adjustments.

1 Further, the Parties specifically agreed that Tennessee customers shall be
2 held harmless from any related accounting entries made in 2022 and 2023
3 to date. Piedmont has addressed this matter in its 2024 Annual ARM Filing,
4 which is supported in detail in the pre-filed direct testimonies of Piedmont
5 witnesses Pia Powers and John Panizza.

6 **Q. Please quantify the percentage increase in revenues Piedmont requests**
7 **in this proceeding.**

8 A. The Company has computed the percentage increase in revenues presented
9 in this proceeding for Base Margin Revenues (non-gas cost revenues) and
10 for Total Operating Revenues (Base Margin revenues plus gas cost
11 revenues). As illustrated in the table below, the Base Margin Revenue
12 percentage increase is 7.16%. The Total Operating Revenue percentage
13 increase is 4.83%. The results of these percentage computations
14 demonstrate that Piedmont does not seek an overall revenue increase of 10%
15 or more in its 2024 Annual ARM Filing.⁴

⁴ The Commission's December 4, 2023, Order in Docket No. 23-00035 required in the Findings and Conclusions that should the Company seek an overall increase of 10% or more in its next filing, it will demonstrate specific steps it has taken to control costs. Piedmont's requested revenue increase in its 2024 Annual ARM Filing does not meet or exceed 10% as demonstrated in Table 2.

1

Table 2

Line No.	Reference	Base Margin Revenues
1 Sales & Transportation Base Rate Margin	Schedule 22A&B.0, Line 125	\$ 200,881,269
2 Annual Base Rate Reset Increase in Revenue	Proposed Modified ARM Schedule No. 1, Line 8	10,794,329
3 Incremental HBP Change in Revenue (including carrying costs)	Proposed Modified ARM Schedule No. 12, Line 6 <u>less</u> \$10,996,205 authorized in current ARM Rider Rates	3,583,731
4 Total Proposed Base Rate S&T Margin Revenue	Line 1 + Line 2 + Line 3	\$ 215,259,329
5 Revenue Increase	Line 2 + Line 3	14,378,060
6 Sales & Transportation Base Rate Margin	Line 1	\$ 200,881,269
7 Percentage Change	Line 5 / Line 6	7.16%
		Total Revenues
8 Total Operating Revenue	Proposed Modified ARM Schedule 6A, Line 12	\$ 297,910,607
9 Annual Base Rate Reset Increase in Revenue	Proposed Modified ARM Schedule No. 1, Line 8	10,794,329
10 Incremental HBP Change in Revenue (including carrying costs)	Proposed Modified ARM Schedule No. 12, Line 6 <u>less</u> \$10,996,205 authorized in current ARM Rider Rates	3,583,731
11 Total Proposed Operating Revenue	Line 8 + Line 9 + Line 10	\$ 312,288,667
12 Revenue Increase	Line 9 + Line 10	14,378,060
13 Total Operating Revenue	Line 8	\$ 297,910,607
14 Percentage Change	Line 12 / Line 14	4.83%

2 **Q. Please quantify the annualized level and timing of revenue generated**
3 **in association with capital expenditures related to customer growth in**
4 **the Company's 2023 HBP.⁵**

5 **A.** Piedmont cultivates and maintains relationships with top builders and
6 developers to stay abreast of new construction activity. With respect to

⁵ The Commission's December 4, 2023, Order in Docket No. 23-00035 required in the Findings and Conclusions that Company should quantify the annualized level and timing of revenue generated associated with capital expenditures related to "growth" incurred in the 2023 Docket in its next ARM filing.

1 conversions, the Company conducts marketing campaigns to generate
2 interest in natural gas conversions. During the HBP, Piedmont recognized
3 residential customer additions of 3,606. Specifically, 3,118 of the
4 residential customer additions were related to new construction, and the
5 remaining 198 were attributable to residential natural gas conversions. On
6 the commercial side, Piedmont recognized 290 Small General Service
7 customer additions.

8 To determine the annualized level of revenue generated from the
9 residential customer additions, the Company applied the annual average
10 usage per residential customer of 701.7 therms, established in its 2023 ARM
11 proceeding, to the number residential customer additions. The volumes
12 were then priced out at Piedmont's current authorized Base Margin rates
13 resulting in annual Base Margin revenues of \$1.5 million. The annualized
14 level of revenue generated from commercial customer additions was
15 determined in the same manner utilizing annual average usage per Small
16 General Service customer of 3,492.3 therms. The commercial volumes
17 priced out at Piedmont's current authorized Base Margin rates result in
18 annual Base Margin revenues of \$0.7 million.

19 **Q. Does this conclude your pre-filed direct testimony?**

20 **A.** Yes, thank you.