Electronically Filed in TPUC Docket Room on May 20, 2024 at 11:12 a.m.

Before the Tennessee Public Utility Commission

Docket No. 24-00036

2024 Annual ARM Filing

Direct Testimony of Misty Lyons

On Behalf Of Piedmont Natural Gas Company, Inc.

Piedmont Natural Gas

May 20, 2024

Q. Ms. Lyons, please state your name and business address.

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

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

A. I am a Rates and Regulatory Strategy Manager for Piedmont Natural Gas Company, Inc. ("Piedmont" or the "Company").

Q. Please describe your educational and professional background.

A. I graduated from the North Carolina Agricultural and Technical State University in 1995, earning a Bachelor of Science degree in Accounting. I worked as auditor for both Deloitte and Ingersoll Rand for several years before joining Duke Energy. I was hired by Duke Energy Corporation, the parent company of Piedmont, in July 1999 as a Business Analyst in the Corporate External Reporting department. Since then, I have worked in various accounting roles including within Duke Energy's FERC Reporting department and Duke Energy Carolinas, LLC's Rates and Regulatory department. I joined Piedmont's Rates and Regulatory team in October 2022.

Q. Have you previously testified before the Tennessee Public Utility Commission ("TPUC" or the "Commission") or any other regulatory authority?

A. No.

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

A. My direct testimony is in support of Piedmont's annual filing under the

Annual Review Mechanism ("2024 Annual ARM Filing"). The 2024 Annual ARM Filing is submitted by the Company in fulfillment of the requirements of Piedmont's Commission-approved Service Schedule No. 318, Annual Review Mechanism ("ARM" or "ARM Tariff"). The 2024 Annual ARM Filing addresses the results for the initial Historic Base Period ("HBP") of calendar year 2023. My testimony specifically walks through the various ratemaking adjustments to Piedmont's actual 2023 per book amounts to support the appropriate representation of Rate Base and Net Operating Income for Return under the ARM, all of which is summarized on ARM Schedule Nos. 2 through 11. Each of these ratemaking adjustments is prescribed by the Company's ARM Tariff. The appropriate representation of Rate Base and Net Operating Income for Return under the ARM is then utilized to calculate the HBP Revenue Requirement Deficiency, the Annual Base Rate Reset Revenue Requirement Deficiency, and the associated adjustments to Piedmont's billing rates – each of which is discussed in Piedmont witness Keith Goley's pre-filed direct testimony.

Q. Do you have any exhibits to your testimony?

A. No, I do not have any exhibits to my testimony. However, throughout my testimony I will refer to the Company's 2024 ARM Filing Schedules shown in Attachment Nos. 1 and 1A to the 2024 Annual ARM Filing.

I. Ratemaking Adjustments to Represent Rate Base and Net Operating Income for Return for the HBP Revenue Requirement Deficiency Computation

Q. What is the amount of Rate Base utilized for the HBP Revenue Requirement Deficiency computation?

A. The amount of Rate Base utilized for the Proposed Modified ARM HBP Revenue Requirement Deficiency computation is $1,167,427,975, as shown in Column C of Proposed Modified ARM Schedule No.2. Piedmont calculated this amount using the 13-month average of the actual per books balances shown in Column A of Proposed Modified ARM Schedule No. 2, coupled with certain ratemaking adjustments shown in Column B of Proposed Modified ARM Schedule No. 2. Each of the ratemaking adjustments shown in Column B of Proposed Modified ARM Schedule No. 2 are prescribed by the Company's proposed modified ARM Tariff. Specifically, Piedmont made three ratemaking adjustments to the actual per book 13-month balances for Construction Work in Progress ("CWIP"), Accumulated Deferred Income Taxes ("ADIT"), and the ARM Regulatory Asset components of Rate Base, shown on Lines 2, 5, and 21 of Column B of Proposed Modified ARM Schedule No. 2, totaling ($2,495,532). In comparison to Piedmont's current authorized ARM Tariff, the amount of Rate Base utilized for the HBP Revenue Requirement Deficiency computation is $1,194,026,196, as shown in Column C of ARM Schedule No. 2, and

Piedmont made three ratemaking adjustments to the actual per book 13-month balances, as shown on Lines 2, 5, and 21 of Column B of ARM Schedule No. 2, totaling ($2,959,482).

Q. Please explain each of the ratemaking adjustments to Rate Base utilized for the HBP Revenue Requirement Deficiency computation.

A. As summarized on Line 2, Column B of Proposed Modified ARM Schedule No. 2, and as detailed in ARM Schedule No. 15, Piedmont adjusted the 13-month average of actual per books CWIP balances over the period ended December 31, 2023, by ($558,224) to exclude 50% of actual short-term incentive plan ("STIP") costs, 100% of actual long-term incentive plan ("LTIP") costs, and 100% of actual pension/other post-employment benefits ("OPEB") costs recorded to CWIP during the HBP.

Q. Can you please describe the ratemaking adjustment made to the ADIT component of Rate Base for the HBP Revenue Requirement Deficiency computation?

A. As shown on Line 5, Column B of Proposed Modified ARM Schedule No. 2, Piedmont adjusted the 13-month average actual per books ADIT balance for the period ended December 31, 2023, by $5,068,777 to remove ADIT related to pension/OPEB and incentive compensation to be consistent with the exclusion of expense items in the HBP. For comparison to Piedmont's current authorized ARM Tariff, as shown on

Line 5, Column B of ARM Schedule No. 2, Piedmont adjusted the 13-month average actual per books ADIT balance for the period ended December 31, 2023, by $4,604,827.

Q. Describe the components of Cash Working Capital ("CWC") reflected in Rate Base utilized for the HBP Revenue Requirement Deficiency computation.

A. Piedmont computed the CWC component, shown as the Lead/Lag Study Requirement on Line 19 Column C +of Proposed Modified ARM Schedule No. 2, and on Proposed Modified ARM Schedule Nos. 3 and 4A. The CWC component excludes the impacts of Return on Equity and Depreciation Expenses pursuant to the Commission-authorized Settlement Agreement in Docket No. 23-00035. The Other Working Capital component reflects the 13-month average of the actual end-of-month balances for the period ended December 31, 2023, for the various balance sheet accounts categorically summarized on Lines 7 through 18 of Column C on Proposed Modified ARM Schedule No. 2.

Q. What ratemaking adjustments did the Company make to the ARM Regulatory Asset component of Rate Base for the HBP Revenue Requirement Deficiency computation?

A. As shown on Line 21, Column A of Proposed Modified ARM Schedule No. 2, the average balance of the ARM Regulatory Asset over the 13-month period ended December 31, 2023, is $10,419,994. This 13-month balance was adjusted by ($7,006,085) to exclude the deferred interest expense portion of the average monthly balance of the ARM Regulatory Asset. This adjustment results in an ARM Regulatory Asset Balance of $3,413,909 to be utilized in the HBP Revenue Requirement Deficiency computation.

Q. Did the Company make any other ratemaking adjustments to Rate Base for the HBP Revenue Requirement Deficiency derivation?

A. No, the Company did not make any other adjustments to Rate Base to conform with the ARM Tariff for the purpose of computing the HBP Revenue Requirement Deficiency.

Q. What is the amount of Operating Revenues utilized for the derivation of the HBP Revenue Requirement Deficiency?

A. The amount of Operating Revenues utilized is $268,698,048, as shown in Column C of Proposed Modified ARM Schedule No. 6A. Piedmont calculated this amount using the actual per books balances for the 12-month period ended December 31, 2023, shown in Column A of Proposed Modified ARM Schedule No. 6A coupled with the ARM-required ratemaking adjustments summarized in Column B of Proposed Modified ARM Schedule No. 6A. Specifically, Piedmont made five ratemaking adjustments to the actual per book balances for the Sales and Transportation Revenues and Other Revenues components of Operating Revenues, shown on Lines 1, 4, 6, 9, and 10 of Column B of Proposed Modified ARM Schedule No. 6A, totaling ($1,980,919).

Q. Can you please describe the ratemaking adjustments made to the Sales and Transportation component of Operating Revenues for the HBP Revenue Requirement Deficiency calculation?

A. Yes. As shown on Line 1, Column B of Proposed Modified ARM Schedule No. 6A, the per books Sales and Transportation Margin Revenue Excluding Special Contracts was adjusted by ($10,996,205) to exclude the 2022 HBP Revenue Requirement Deficiency approved in Docket No. 23-00035. As shown on Line 4, Column B, the per books Purchased Gas Revenue balance for the 12-month period ended December 31, 2023, was adjusted by $7,184,627 to exclude gas cost-related revenues recorded during the HBP that were not associated with customer usage during the HBP and Base PGA Rates in effect during the HBP.

Q. Please explain the ratemaking adjustments made to the Other Revenues component of Operating Revenues for the HBP Revenue Requirement Deficiency calculation.

A. As shown on Line 6, Column B of Proposed Modified ARM Schedule No. 6A, Piedmont adjusted the per books balances for the 12-month period ended December 31, 2023, by $2,287,315 to include Home Protection Plan (formerly called HomeServe Warranty Program) revenues recorded during the period. On Lines 9 and 10, Column B of Proposed Modified ARM Schedule No. 6A, Piedmont further adjusted the actual per books balances to make various miscellaneous adjustments and to exclude off-system sales, secondary marketing activities, and customer cash-out activities. These adjustments result in a total adjustment of $1,830,659 in Other Revenues, as shown on Line 11, Column B of Proposed Modified ARM Schedule 6A.

Q. What is the amount of Operating and Maintenance ("O&M") Expense utilized for the derivation of the HBP Revenue Requirement Deficiency?

A. The amount of O&M Expense utilized for the derivation of the HBP Revenue Requirement Deficiency is $51,747,581, as shown in Column C of Proposed Modified ARM Schedule No. 5. Piedmont calculated this amount using the actual per books balances for the 12-month period ended December 31, 2023, shown in Column A of Proposed Modified ARM Schedule No. 5, coupled with the ARM-required ratemaking adjustments summarized in Column B of Proposed Modified ARM Schedule No. 5.

Q. Please explain each of the ratemaking adjustments to O&M Expense utilized for the HBP Revenue Requirement Deficiency computation.

A. Piedmont made the following adjustments to O&M expense components for the HBP Revenue Requirement Deficiency calculation:

(1) Uncollectible and Bad Debt Expense – The per book O&M expense reflects the Company's bad debt provision for Tennessee operations, which is a projection of bad debt write-offs, not the margin

portion of the actual write-offs during the HBP. As shown on Line 5, Column B of Proposed Modified ARM Schedule No. 5, Piedmont adjusted the per book expense by ($575,465) to accomplish having the amount utilized for the HBP Reconciliation only reflect the margin portion of the <u>actual</u> write off during the HBP.

(2) Employee Incentive Compensation Expenses – As shown on Lines 10 and 11, Column B of Proposed Modified ARM Schedule No. 5, Piedmont adjusted Employee Incentive Compensation Expenses for the period ended December 31, 2023, by ($1,298,322) to exclude 50% of actual STIP expenses and 100% of actual LTIP expenses.

(3) Expense for Allocated Return on Duke Energy Business Services, LLC ("DEBS") Assets – As shown on Line 14, Column B of Proposed Modified ARM Schedule No. 5, Piedmont adjusted Expense for Allocated Return on DEBS Assets balances for the period ended December 31, 2023, by ($194,648) to reflect a return based on the Authorized Return on Equity, and to exclude of any such expense related to return on DEBS pension assets.

(4) Other Pension and OPEB Expenses – Pursuant to the ARM Tariff, Other Pension and OPEB expenses shall include the Tennessee jurisdictional portion of the actuarily-determined minimum contribution requirement during the HBP and shall exclude Other Pension and OPEB Expenses computed in accordance with GAAP. During the HBP, the actuarily-determined minimum required contribution was zero.

Accordingly, as shown on Line 15, Column B of Proposed Modified ARM Schedule No. 5, Piedmont adjusted Other Pension and OPEB Expenses for the period ended December 31, 2023, by $3,173,527 to exclude Other Pension and OPEB Expenses computed in accordance with GAAP. Note that Line 13 of Proposed Modified ARM Schedule No. 5 represents the continuation of the amortization of pension deferrals approved in Piedmont's last general rate case. There were no incremental pension costs included in the HBP; therefore, no adjustment to amortization expense for deferred pension costs is necessary.

(5) Lobbying Expenses – As shown on Line 16, Column B of Proposed Modified ARM Schedule No. 5, Piedmont adjusted Lobbying Expenses, along with Charitable Contributions and Social Club Membership for the period ended December 31, 2023, by ($106,612) to exclude all of these expenses. The lobbying adjustment includes a 75% exclusion of both labor expenses and leased downtown costs and a 5% exclusion of indirect lobbying supervisory labor expenses allocated to Piedmont's Tennessee jurisdiction, pursuant to the Commission-authorized Settlement Agreement in Docket No. 23-00035.

Other O&M Expense:

(6) Advertising Expense – As shown on Line 17, Column B of Proposed Modified ARM Schedule No. 5, Piedmont adjusted Advertising Expense for the period ended December 31, 2023, by ($29,397) to exclude expenses related to political or promotional

advertising, as defined by TPUC Rule 1220-4-5-.45. The adjustment also includes an exclusion of indirect advertising labor expense associated with non-recoverable advertising, pursuant to the Commission-authorized Settlement Agreement in Docket No. 23-00035.

(7) Miscellaneous O&M Adjustments – As shown on Lines 1 through 4 and Lines 6 and 8, Column B of Proposed Modified ARM Schedule No. 5, Piedmont made various adjustments to exclude expenses improperly recorded as operating expenses during the HBP. In addition, on Line 18, Column B of Proposed Modified ARM Schedule No 5, the Company adjusted Other A&G Expense to include Home Protection Plan (formerly called the HomeServe Warranty Program) expenses pursuant to the ARM tariff.

Q. What is the amount of General Taxes utilized for the HBP Revenue Requirement Deficiency computation?

A. The amount of General Tax expense utilized for the derivation of the HBP Revenue Requirement Deficiency is $13,012,929, as shown in Column C of Proposed Modified ARM Schedule No. 7. The Company calculated this amount using the actual per books expense amount for the 12-month period ended December 31, 2023, shown in Column A of Proposed Modified ARM Schedule No. 7, coupled with the ARM-required ratemaking adjustments summarized in Column B of Proposed Modified ARM Schedule No. 7. Specifically, Piedmont made two ratemaking adjustments to the actual per book balances for Payroll Taxes and the Allocated & Other Taxes components of General Taxes, shown on Lines 4 and 5 of Column B of Proposed Modified ARM Schedule No. 7, totaling ($62,432).

Q. What is the nature of the ratemaking adjustment for Payroll Tax expense?

A. As shown on Line 4, Column B of Proposed Modified ARM Schedule No. 7, the per books Payroll Tax amount for the period ended December 31, 2023, was adjusted by ($95,946) to comport with the labor and other compensation expense ratemaking adjustments for the HBP Revenue Requirement Deficiency computation.[1]

Q. Please explain the ratemaking adjustment made to the Allocated & Other Taxes component of General Taxes for the HBP Revenue Requirement Deficiency computation.

A. As shown on Line 5, Column B of Proposed Modified ARM Schedule No. 7, the per books Allocated & Other Tax expense for the 12-month period ended December 31, 2023, was adjusted by $33,514 to remove certain tax expense erroneously recorded as a Piedmont three-state expense (of which Tennessee is allocated a portion). The details supporting this ratemaking adjustment are shown on ARM Schedule No. 52V.

[1] See ARM Schedule No. 52V.

Q. Did Piedmont make any other adjustments made to General Taxes for the HBP Revenue Requirement Deficiency calculation?

A. No, Piedmont did not make any other adjustments to General Taxes to conform with the ARM Tariff for the purpose of the HBP Revenue Requirement Deficiency calculation.

Q. Please explain the calculations for Allowance for Funds Used During Construction ("AFUDC") Debt and Equity for the HBP Revenue Requirement Deficiency derivation.

A. As shown on Line Nos. 17 and 18, Column B of Proposed Modified ARM Schedule No. 9, Piedmont adjusted the actual per books AFUDC amounts by $1,346,342 to reflect the 13-month average CWIP balance during the HBP, multiplied by the Overall Cost of Capital in the HBP including the Authorized Return on Equity.

Q. What is the cumulative effect of the ratemaking adjustments made in the calculation of the HBP Revenue Requirement Deficiency?

A. As shown on Line 21 of Proposed Modified ARM Schedule No. 9, the adjustments totaling ($12,790,213) in Column B result in a $72,167,481 Net Operating Income for Return utilized in the calculation of the HBP Revenue Requirement Deficiency. In comparison to Piedmont's current authorized ARM Tariff, as shown on Line 21 of ARM Schedule No. 9, the adjustments totaling ($11,309,877) in Column B result in a $73,647,817 Net Operating Income for Return utilized in the calculation of the HBP Revenue Requirement Deficiency.

II. Ratemaking Adjustments to Represent Rate Base and Net Operating Income for Return for the Annual Base Rate Reset Revenue Requirement Deficiency Computation

Q. What is the amount of Rate Base utilized for the Annual Base Rate Reset?

A. The amount of Rate Base utilized for the Annual Base Rate Reset is $1,250,354,721, as shown in Column E of Proposed Modified ARM Schedule No. 2. Piedmont calculated this amount by making certain adjustments to the HBP Rate Base Balance as shown in Column C of Proposed Modified ARM Schedule No. 2. Specifically, Piedmont made six adjustments as prescribed by the Company's proposed modified ARM Tariff to Utility Plant in Service, CWIP, Accumulated Depreciation, ADIT, CWC, and the ARM Regulatory Asset components of Rate Base, shown on Lines 1, 2, 3, 5, 19, and 21 of Column D of Proposed Modified ARM Schedule No. 2, totaling $82,926,746. In comparison to Piedmont's current authorized ARM Tariff, the amount of Rate Base utilized for the Annual Base Rate Reset is $1,278,113,637, as shown in Column E of ARM Schedule No. 2, and Piedmont made six adjustments totaling $84,087,441 as shown in Column of ARM Schedule No. 2.

Q. Please explain each of the ratemaking adjustments to Rate Base utilized for the Annual Base Rate Reset.

A. As shown on Line 1, Column D of Proposed Modified ARM Schedule

No. 2, Piedmont adjusted the HBP Balance of Utility Plant in Service by $84,208,632 to reflect the Utility Plant in Service Balance at the end of the HBP on December 31, 2023.

Q. Can you please describe the ratemaking adjustment made to the CWIP component of Rate Base for the Annual Base Rate Reset?

A. Yes. As shown on Line 2, Column D of Proposed Modified ARM Schedule No. 2, Piedmont adjusted the HBP Balance of CWIP by $807,069 to reflect the CWIP Balance on December 31, 2023, excluding 50% of actual STIP costs, 100% of actual LTIP costs, and 100% of actual pension/OPEB costs recorded during the HBP.

Q. What ratemaking adjustments did Piedmont make to the Accumulated Depreciation component of Rate Base for the Annual Base Rate Reset?

A. As shown on Line 3, Column D of Proposed Modified ARM Schedule No. 2, Piedmont adjusted the HBP Balance of Accumulated Depreciation by ($10,788,618) to reflect the Accumulated Depreciation balance on December 31, 2023.

Q. Can you please describe the ratemaking adjustment made to the ADIT component of Rate Base for the Annual Rate Base Rate Reset?

A. Yes. As shown on Line 5, Column D of Proposed Modified ARM Schedule No. 2, Piedmont adjusted the HBP Balance of ADIT by ($4,893,541) to reflect the ADIT Balance on December 31, 2023, as adjusted to be consistent with the exclusion of expense items in the HBP.[2] In comparison to Piedmont's current authorized ARM Tariff, as shown on Line 5, Column D of ARM Schedule No. 2, Piedmont adjusted the HBP Balance of ADIT by ($3,737,120) to reflect the ADIT Balance on December 31, 2023, to be consistent with the exclusion of expense items in the HBP.

Q. What ratemaking adjustments did Piedmont make to the CWC component of Rate Base for the Annual Base Rate Reset?

A. As shown on Line 19, Column D of Proposed Modified ARM Schedule No. 2, Piedmont adjusted the HBP CWC Requirement by $445,911 to incorporate adjustments made to Revenues and Expenses in the Annual Base Rate Reset calculations. In comparison to Piedmont's current authorized ARM Tariff, as shown on Line 19, Column D of ARM Schedule No. 2, Piedmont adjusted the HBP CWC Requirement by $450,184.

Q. What ratemaking adjustments did Piedmont make to the ARM Regulatory Asset component of Rate Base for the Annual Base Rate Reset?

A. As shown on Line 21, Column D of Proposed Modified ARM Schedule No. 2, Piedmont adjusted the HBP balance of the ARM Regulatory Asset by $13,147,294 to reflect the actual unamortized ARM

---

[2] See Proposed Modified ARM Schedule No. 18.

Regulatory Asset balance on December 31, 2023.

Q. What is the amount of Operating Revenues utilized for the Annual Base Rate Reset?

A. The amount of Operating Revenues utilized for the Annual Base Rate Reset is $297,910,607, as shown in Column E of Proposed Modified ARM Schedule No. 6A. Piedmont calculated this amount using the derived HBP balances for the 12-month period ended December 31, 2023, shown in Column C of Proposed Modified ARM Schedule No. 6A, coupled with the ratemaking adjustments in Column D of Proposed Modified ARM Schedule No. 6A, and as prescribed by the Company's ARM Tariff. Specifically, Piedmont made three ratemaking adjustments to Sales and Transportation Margin Revenue, Purchased Gas Revenue, and Other Revenue, shown on Lines 1, 4, and 9 of Column D of Proposed ARM Schedule No. 6A, totaling $29,212,559.

Q. Can you please describe the required ratemaking adjustment made to the Sales and Transportation Margin Revenue component of Operating Revenues for the Annual Base Rate Reset?

A, Yes. As shown on Line 1, Column D of Proposed Modified ARM Schedule No. 6A, Piedmont adjusted the per books Sales and Transportation Margin Revenues for the 12-month period ended December 31, 2023, by $23,107,707 to perform the ARM-required normalization adjustment to revenues. Specifically, Piedmont computed this ratemaking adjustment exactly as prescribed in the ARM

Tariff by (1) normalizing actual HBP usage for service rendered under Rate Schedules 301 (Residential), 302 (Small General) and 352 (Medium General) through the simple linear regression analysis methodology, and then pricing out this weather-normalized usage at the Company's existing TPUC-approved Base Margin Rates; and (2) pricing out the actual HBP usage 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) at the Company's existing TPUC-approved Base Margin Rates.

Q. Can you please describe the ratemaking adjustment made to the Purchased Gas Revenue component of Operating Revenues for the Annual Base Rate Reset?

A. Yes. As shown on Line 4, Column D of Proposed Modified ARM Schedule No. 6A, Piedmont adjusted Purchased Gas Revenues for the 12-month period ended December 31, 2023, as adjusted on Line 4, Column C of Proposed Modified ARM Schedule No. 6A, by $6,364,593 to perform the ARM-required normalization adjustment to revenues. Specifically, Piedmont computed this ratemaking adjustment exactly as prescribed in the ARM Tariff by (1) normalizing actual HBP usage for service rendered under Rate Schedules 301 (Residential), 302 (Small General) and 352 (Medium General) through the simple linear regression analysis methodology, and then pricing out this weather-normalized usage at the Company's existing TPUC-approved Base PGA Rates; and (2) pricing out the actual HBP usage 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) at the Company's existing TPUC-approved Base PGA Rates.

Q. Please explain the ratemaking adjustments made to the Other Revenues component of Operating Revenues for the Annual Base Rate Reset.

A. As shown on Line 9, Column D of Proposed Modified ARM Schedule No. 6A, Piedmont adjusted Miscellaneous Other Revenues for the 12-month period ended December 31, 2023, as adjusted on Line 9, Column C of Proposed Modified ARM Schedule No. 6A, by ($259,741) to exclude actual HBP revenues primarily associated with a prior period Weather Normalization Adjustment audit adjustment recorded during the HBP.

Q. Did Piedmont make any ratemaking adjustments to O&M Expenses for the Annual Base Rate Reset?

A. Yes. As shown on Line 12, Column D of Proposed Modified ARM Schedule No. 5, Piedmont adjusted Amortization Expenses for Deferred Environmental Costs for the period ended December 31, 2023, by

$182,004. The adjustment reflects the following: (1) three-year amortization of $198,390 in incremental environmental costs incurred by the Company since the 2023 Annual ARM proceeding in accordance with the previously-approved amortization period; (2) the remaining annual amortization approved per the 2023 Annual ARM proceeding; and the (3) termination of the annual amortization of 2020 rate case vintage, since it was fully amortized as of December 31, 2023.

Q. Has Piedmont incurred and deferred environmental cleanup and remediation costs since the 2023 Annual ARM proceeding, pursuant to the authority granted to Piedmont in Commission Order dated December 21, 1992, in Docket No. 92-16160?

A. Yes. For many years, Piedmont has incurred and deferred costs related to the remediation of the former Nashville Gas Company manufactured gas plant located at 800 2nd Ave North in Nashville ("former Nashville MGP Site" or "Site"). These remediation costs continue to be ongoing. The former Nashville MGP Site was operated at that location from roughly 1851 through 1946. Piedmont understands past MGP operations there have impacted soil and groundwater quality at the Site based on findings from environmental investigations, and Piedmont has reported the findings to the Tennessee Department of Environment and Conservation's ("TDEC") Division of Remediation ("DOR"). The incremental environmental costs of $198,390 for which Piedmont seeks amortized recovery in this proceeding are comprised of the following:

- Regulatory fees associated with Piedmont's participation in the TDEC's Voluntary Cleanup, Oversight and Assistance Program ("VOAP"). Piedmont submitted an application to DOR requesting that the Site be entered into the VOAP with the goal of completing Site characterization, designing and implementing an appropriate and effective remedial strategy to address Site impacts, and ultimately achieving Site Closure and receiving a No Further Action Letter from TDEC. The DOR accepted the Site into the VOAP in May 2021. The DOR routinely submits invoices to Piedmont for performing its VOAP functions in accordance with a posted fee structure.
- Environmental consultant fees and costs for ongoing regulatory and technical support functions and performing remedial investigation ("RI") at the Site under the oversight of the DOR. The RI is being conducted by Piedmont's consultant, ERM of Nashville, TN. ERM's invoices include subcontractors utilized during the RI, such as a licensed environmental drilling company for maintaining groundwater monitoring wells and a certified asbestos contractor for testing onsite materials. ERM prepared reports that were submitted to the DOR, summarizing RI activities and results.
- Pace Analytical Services fees for certified-laboratory analysis of environmental samples collected during the RI.

- Waste Management fees for proper management of wastes generated during the RI, including transport to a permitted disposal facility.

Q. Did Piedmont make any ratemaking adjustments to Depreciation Expense for the Annual Base Rate Reset?

A. Yes. As shown on Line 8, Column D of Proposed Modified ARM Schedule No. 9, Piedmont adjusted the actual per books Depreciation Expense for the 12-month period ended December 31, 2023, by $12,368,509 to reflect the annualized depreciation expense aligned with the actual December 31, 2023, balance of Utility Plant in Service. The depreciation rates for Tennessee Direct Property and the Tennessee portion of three-state Joint Property utilized in this Annual Base Rate Reset calculation are those proposed by Piedmont in this ARM proceeding. Piedmont herein requests Commission approval to utilize these new Tennessee Direct Property and three-state Joint Property depreciation rates effective October 1, 2024, concurrent with the effective date of new Base Margin Rates proposed in this proceeding.

Q. Please explain the calculations for AFUDC Debt and Equity for the Annual Base Rate Reset.

A. As shown on Line Nos. 17 and 18, Column D of Proposed Modified ARM Schedule No. 9, Piedmont adjusted the actual per books AFUDC amounts by $82,626 to reflect the 13-month average CWIP balance during the HBP multiplied by the Overall Cost of Capital on December

31, 2023, including the Authorized Return on Equity.

Q. Are there any other adjustments to Net Operating Income for Return for the Annual Base Rate Reset calculation?

A. Yes. As seen on Line 9, Column D of Proposed Modified ARM Schedule No. 9, there is an adjustment of $348,501 of Amortization Expense for the ARM Regulatory Asset. The adjustment includes proposed annual amortization expense of the 2023 ARM Regulatory Asset and the previously approved annual amortization of the 2022 ARM Regulatory Asset. The Company has calculated a weighted average depreciable life of 44.76 years for the 2023 ARM Regulatory Asset property, subject to deferred interest and deferred depreciation, and is seeking to recover this expense in new Base Margin Rates with this Annual ARM Filing.

Q. What is the cumulative effect of the ratemaking adjustments made in the calculation of the Annual Base Rate Reset Revenue Requirement Deficiency?

A. As shown on Line 21 of Proposed Modified ARM Schedule No. 9, the adjustments totaling $8,256,314 in Column D result in a $80,423,796 Net Operating Income for Return utilized in the calculation of the Annual Base Rate Reset Revenue Requirement Deficiency. In comparison to Piedmont's current authorized ARM Tariff, as shown on Line 21 of ARM Schedule No. 9, the adjustments totaling $8,430,065 in Column D result in a $82,077,882 Net Operating Income for Return utilized in the calculation of the Annual Base Rate Reset Revenue Requirement Deficiency.

Q. What was Piedmont's capital structure during the HBP?

A. Piedmont's 13-month average capital structure for the period ended December 31, 2023, as shown in Column A of Proposed Modified ARM Schedule No. 10A, is 49.97% equity, 45.44% long-term debt, and 4.59% short-term debt.

Q. What does Piedmont specifically request of the Commission in this proceeding?

A. Piedmont respectfully requests three actions from the Commission: (1) accept and approve Piedmont's 2024 Annual ARM Filing with the proposed modifications to the current ARM Tariff; (2) allow Piedmont to utilize its proposed Tennessee direct and three-state joint property depreciation rates, effective with the effective date of rates in this proceeding; and (3) allow Piedmont to recover its incremental deferred environmental costs over a three-year amortization period.

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

A. Yes.