Before the Tennessee Public Utility Commission

Docket No. 24-00036

2024 Annual ARM Filing

Direct Testimony of Keith Goley

On Behalf Of Piedmont Natural Gas Company, Inc.

Piedmont Natural Gas

May 20, 2024

Q. Mr. Goley, please state your name and business address.

A. My name is Keith Goley. 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 Senior Rates and Regulatory Strategy Analyst for Piedmont Natural Gas Company, Inc. ("Piedmont" or the "Company").

Q. Please describe your educational and professional background.

A. I graduated from the University of North Carolina at Charlotte in 2013, earning a Bachelor's degree in Political Science and Criminal Justice. I am currently pursuing a Master of Business Administration degree at the University of North Carolina at Charlotte. From 2014 to 2018, I was employed by Moore & Van Allen, PLLC as an Energy Regulatory Paralegal. From 2018 to 2022, I held the same position at McGuireWoods, LLP. I joined Piedmont in 2022 in my current role as a Senior Rates and Regulatory Strategy Analyst.

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

A. Yes. I presented testimony before this Commission on behalf of Piedmont in Docket Nos. 22-00130 and 23-00035 (the "2023 Annual ARM Proceeding").

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 Annual Review Mechanism Tariff ("ARM") Filing ("2024 Annual ARM Filing") as shown on ARM Schedule Nos. 1 and 1A; and (2) explain the proposed changes to the Company's rates associated with these revenue requirement adjustments.

Q. Do you have any exhibits to your testimony?

A. No, I do not have exhibits to my testimony. However, I will refer to the Company's ARM Filing Schedules in Attachment No. 1 and Attachment No. 1A, to the 2024 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 and Attachment No. 5A to the 2024 Annual ARM Filing.

Q. What is the basis for the revenue requirement adjustments in the 2024 Annual ARM Filing?

A. The 2024 Annual ARM Filing utilizes calendar year 2023 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 (which were reset in the 2023 Annual ARM proceeding). My direct testimony, in conjunction with the pre-filed direct testimony of Piedmont witness Misty Lyons, explains how the Company adhered to the requirements of the ARM Tariff in computing these two revenue requirement adjustments and proposed rates for the 2024 Annual ARM Filing.

Q. Does Piedmont propose any revisions to the ARM tariff in this proceeding?

A. Yes. Piedmont witness Pia Powers discusses the proposed revisions to the ARM tariff in her direct testimony.

Q. Do the proposed ARM tariff revisions change the method for computing the HBP Revenue Requirement Deficiency (Sufficiency) or Annual Base Rate Reset Revenue Requirement Deficiency (Sufficiency)?

A. No, the ARM tariff revisions proposed in this proceeding do not alter the methodology for calculating these revenue requirement adjustments. However, the proposed ARM Tariff revisions will change how the

Company calculates some components of the revenue requirements.

Q. Will the proposed tariff revisions impact the revenues and rate design discussed in your testimony?

A. Yes. Piedmont has included Proposed Modified ARM Schedule Nos. 24, 25, 26, and 28 in Attachment No. 1A to this filing to present rates and revenues using the methodology resulting from the tariff revisions proposed in this proceeding.

Q. Please summarize the results of the HBP Reconciliation for the 2024 Annual ARM Filing, incorporating the impacts of the tariff revisions proposed in this proceeding.

A. Column [A] in Proposed Modified ARM Schedule No. 1 shows the HBP Reconciliation and its resultant $13,492,350 HBP Revenue Requirement Deficiency. Piedmont experienced a 6.18% Earned Rate of Return for its Tennessee jurisdictional operations during the HBP, given its Rate Base of $1,167,427,975, which is the average rate base over the 13 months ending December 31, 2023, and its Net Operating Income for Return during the HBP of $72,167,481. The computed Fair Rate of Return pursuant to the ARM Tariff for the HBP Reconciliation is 7.04%, 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, along with the 13-month average capital structure and component debt cost rates during the HBP. The difference between the 6.18% Earned Rate of Return and the 7.04% Fair Rate of

Return for the HBP Reconciliation is 86 basis points, which equates to a $9,985,938 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 Proposed Modified ARM Schedule No. 11), this $9,985,938 Net Operating Income Deficiency comports with an HBP Revenue Requirement Deficiency of $13,492,350.

Q. Please summarize the results of the Annual Base Rate Reset for this 2024 Annual ARM Filing, incorporating the impacts of the tariff revisions proposed in this proceeding.

A. Column [B] in Proposed Modified ARM Schedule No. 1 shows the Annual Base Rate Reset calculation and its resultant $10,794,329 Revenue Requirement Deficiency. The Rate Base utilized for the Annual Base Proposed Modified ARM Rate Base Reset calculation is $1,250,354,721. The Net Operating Income for Return for the Annual Base Rate Reset is $80,423,796. The quotient of these yields a 6.43% Earned Rate of Return, whereas the computed Fair Rate of Return is 7.07%, which incorporates the 9.80% Return on Equity authorized by the Commission in Piedmont's last general rate case along with the capital structure and component debt cost rates at the end of the HBP (i.e., at December 31, 2023). The difference between the 6.42% Earned Rate of Return and the 7.07% Fair Rate of Return for the Annual Base Rate Reset is 65 basis points, otherwise expressed as a $7,989,082 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 Proposed Modified ARM Schedule No. 11), this $7,989,082 Net Operating Income Deficiency results in an Annual Base Rate Reset Revenue Requirement Deficiency of $10,794,329.

Q. Do the tariff revisions proposed in this proceeding impact how Piedmont will recover the HBP Revenue Requirement Deficiency?

A. No, the tariff revisions will not affect how Piedmont will recover the HBP Revenue Requirement Deficiency. Through its 2024 Annual ARM Filing, Piedmont proposes to recover the HBP Revenue Requirement Deficiency, plus applicable Carrying Costs as prescribed by the ARM Tariff, through the 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 $14,579,936, as delineated on Proposed Modified ARM Schedule No. 12.

Q. How will the proposed tariff revisions impact the allocation of the Annual Base Rate Reset Revenue Requirement Deficiency?

A. To allocate the $14,579,936 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. Proposed Modified 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. How did Piedmont determine its approach to the rate design for the Annual Base Rate Reset?

A. Piedmont's main objectives are to design rates that compensate the utility for the cost of the services that it provides to all customer classes, provide the Company with a reasonable rate of return, reflect market conditions and send the correct market signals, and which remain consistent with the existing rate structure. In evaluating its approach and allocating the proposed rate increase, however, the Company also took pains to avoid disproportionately or unfairly burdening one class of customers versus another, i.e., cross subsidization. Generally, the Company seeks to mitigate cross subsidization by gradually and simultaneously moving each customer class toward parity with the overall jurisdictional rate of return to avoid customer bill volatility.

Q. Did the Company perform an Allocated Cost of Service Study showing the impacts of the proposed ARM tariff revisions?

A. Yes, Piedmont performed an Allocated Cost of Service Study ("ACOSS") as shown in Proposed Modified ARM Schedule No. 26A. The study generally shows that for the Annual Base Rate Reset at existing billing rates, Piedmont's residential class rate schedule rate of return is below the overall system rate of return of 6.43% for the Annual Base Rate Reset at existing rates, while – with the exception of Rate Schedule 310 – Resale Service[1] – the remaining customer classes are above the overall system rate of return. Table 1 below summarizes the results.

Table 1

Rate Schedule	Description	Annual Base Rate Reset Existing Rates		Annual Base Rate Reset Proposed Rates	
		ROR	**ROR Index**	**ROR**	**ROR Index**
301	Residential Service	3.41%	0.53	3.91%	0.55
302	Small General Service	12.85%	2.00	13.81%	1.95
352	Medium General Service	16.48%	2.56	17.54%	2.48
303	Large General Sales Service Firm	11.65%	1.81	12.43%	1.76
313	Large General Transportation Service Firm	17.58%	2.73	18.64%	2.64
303/313	*Large General Service Firm Combined*	*15.09%*	*2.35*	*16.03%*	*2.27*
304	Large General Sales Service Interruptible	40.99%	6.37	43.51%	6.15
314	Large General Transportation Service Interruptible	13.44%	2.09	14.32%	2.02
304/314	*Large General Service Interruptible Combined*	*13.55%*	*2.11*	*13.55%*	*1.92*
303/313/304/314	*Large General Service Combined*	*14.42%*	*2.24*	*15.33%*	*2.17*
310	Resale Service	*0.00%*	-	*0.00%*	-
Overall System Rate of Return		**6.43%**	1.00	**7.07%**	1.00

[1] As of February 2023, Piedmont no longer has active customers under Rate Schedule 310 – Resale Service.

Q. Based on Piedmont's rate design objectives and the results of the ACOSS, how does the Company propose to allocate the $10,794,329 for the Annual Base Rate Reset Revenue Requirement Deficiency?

A. As shown in Proposed Modified ARM Schedule No. 26 and with the exception of Rate Schedule 310, Piedmont proposes to allocate the margin revenue increase of $10,794,329 evenly across all applicable Rate Schedules 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 a gradual move toward parity.

Q. Did the Company also calculate the HBP and Annual Base Rate Reset revenue requirements using the ARM tariff as approved in Docket No. 21-00135?

A. Yes. The calculation of the HBP Revenue Requirement Deficiency and the Annual Base Rate Reset Revenue Requirement Deficiency using the ARM Tariff, as approved in Docket No. 21-00135, can be found in Attachment No. 1 of the 2024 Annual ARM Filing.

Q. What were the results of the HBP Reconciliation under the existing ARM Tariff?

A. The calculation under the existing ARM Tariff results in a Net Operating Income Deficiency of $10,377,353. 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 $10,377,353

Net Operating Income Deficiency comports with an HBP Revenue Requirement Deficiency of $13,588,147.

Q. Please summarize the results of the Annual Base Rate Reset for this 2024 Annual ARM Filing, using the existing ARM Tariff.

A. The calculation under the existing ARM Tariff results in a Net Operating Income Deficiency $8,297,835. 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), this results in an Annual Base Rate Reset Revenue Requirement Deficiency of $10,865,219.

Q. Did the Company perform an ACOSS using the existing ARM Tariff?

A. Yes. The results of the ACOSS using all methodologies prescribed in the existing ARM Tariff can be found in ARM Schedule No. 26A, in Attachment No. 1 of the 2024 Annual ARM Filing. The results of this study, which can be found in ARM Schedule No. 26A, are similar to the results of the ACOSS performed under the proposed ARM tariff revisions.

Q. Does Piedmont seek 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 2024 Annual ARM Filing, the Company proposes to update the WNA components as shown in Proposed Modified 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, 2023.

Q. Does the Company propose any changes to the methodology for calculating the WNA components in this proceeding?

A. No.

Q. Is the rate design proposed by Piedmont in its 2024 Annual ARM Filing just and reasonable?

A. Yes. The proposed rate design is incorporated into the Eighty-Eighth Revised Sheet No. 1, which is included as part of Attachment No. 5A of Piedmont's 2024 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. What does Piedmont specifically request of the Commission in this proceeding?

A. Piedmont respectfully requests three actions from the Commission: (1) modify the Company's ARM Tariff for certain components used in the computation of the revenue requirements; (2) authorize the establishment of updated ARM Rider Rates to recover the computed $13.5 million HBP ("Historic Base Period") Revenue Requirement Deficiency plus carrying costs,[2] based on the Company's proposed modified ARM Tariff; and (3) increase its existing Base Margin Rates for the computed $10.8 million Annual Base Rate Reset Revenue Requirement Deficiency based on the proposed modified ARM Tariff.

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

A. Yes.

[2] See Proposed Modified ARM Schedule No. 12 provided in Attachment 1A of the Company's 2024 Annual ARM Filing.