Before the
Tennessee Public Utility Commission

Docket No. 24-00036

2024 Annual ARM Filing

Direct Testimony
of
John R. Panizza

On Behalf Of
Piedmont Natural Gas Company, Inc.

Piedmont Natural Gas

May 20, 2024

Q. Please state your name and business address.

A. My name is John R. Panizza, and my business address is 525 South Tryon Street, Charlotte, North Carolina 28202.

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

A. I am employed as Director, Tax Operations, by Duke Energy Business Services, LLC, a service company subsidiary of Duke Energy Corporation ("Duke Energy"), and a non-utility affiliate of Piedmont Natural Gas Company, Inc. ("Piedmont" or the "Company").

Q. Please describe your educational and professional background.

A. I have a Bachelor of Science degree in Accounting from Montclair State University and a Master's Degree in Taxation from Seton Hall University. I am a Certified Public Accountant in the state of New Jersey. My professional work experience began in 1989 as an auditor with KPMG. From 1993 to 2002, I held several financial positions primarily at two companies, AT&T Corporation and Collins & Aikman Inc., an automotive company, respectively. In 2002, I joined Duke Energy and have held a number of financial positions of increasing responsibilities, including various accounting and tax related positions. In March 2018, after a three-year rotation primarily in Corporate Accounting, I moved back into the role of Director, Tax Operations, a position that I had previously held. As Director, Tax Operations of Duke Energy's Tax Operations Department, I lead a group that is responsible for maintaining and reconciling Duke Energy's various tax accounts and for the reporting and disclosure of tax-related matters. As Director, Tax Operations, I have overall responsibility for corporate tax compliance and accounting. The Tax Operations Department is staffed by the public accounting firm Ernst & Young to provide efficient and technical tax services, and is responsible for all federal, state, and local income tax returns for Duke Energy, including its subsidiaries like Piedmont.

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

A. Although I have not testified before this Commission, I have previously testified before the Kentucky Public Service Commission, the Indiana Utility Regulatory Commission, the Florida Public Service Commission, the North Carolina Utilities Commission, and the Public Service Commission of South Carolina.

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

A. My direct testimony addresses the following topics. First, I will discuss the background for accounting for income taxes relevant to this filing. Second, I will provide tax support to Piedmont witness Pia Powers' pre-filed direct testimony on the proposal for Piedmont's federal and state income tax expense, specifically addressing the tax rates utilized in this filing and the proposed change to the tariff methodology of the statutory state income tax rate being applied instead of a composite tax rate. I will also explain the proforma calculation of the Accumulated Deferred Income Tax ("ADIT") balances used by the Company in this

Q. Can you please describe the accounting for income taxes required under generally accepted accounting principles ("GAAP")?

A. Yes, accounting for income taxes under GAAP is addressed in the accounting literature in section ASC 740 (formerly SFAS No. 109, Accounting for Income Taxes (SFAS 109)) of the accounting codification ("ASC 740"). In addition to GAAP, the Securities and Exchange Commission also requires ASC 740 to be followed as the income tax standard that must be used by all U. S. companies.

Q. What are the components used to determine income tax expense for ratemaking?

A. The components to the calculation of income tax expense for purposes of determining rates are current income taxes and deferred income taxes.

Q. How are the rates for calculating income tax expense determined for current tax expense?

A. For current tax expense, the Company compiles the statutory rates for Federal and State tax returns for the current tax year and then uses estimated apportionment factors for each state that are typically based on historic tax returns to calculate a composite current income tax rate.

Q. How are the rates for calculating income tax expense determined for deferred tax expense?

A. For deferred tax expense, the Company compiles the enacted statutory rates for Federal and State tax returns and then uses an estimated apportionment factor for each state that is typically based on historic returns to calculate a composite deferred income tax rate based on the rate that is anticipated to be in effect when a book-tax difference reverses.

Q. Please describe the first component of determining the total income tax expense, which is current income tax expense.

A. Current income tax expense represents the estimated amount of current year income taxes based on current year taxable income, determined in accordance with the Internal Revenue Code ("IRC"). For purposes of preparing an annual income tax return, the IRC contains procedures for determining if an item is "taxable" or "deductible." It should be noted that the IRC rules for determining what is taxable or deductible may differ from what is reportable as "revenue," "income" or "expense" under GAAP. Deferred income taxes are recorded for most differences between the IRC and GAAP treatment of revenue, income and expense. Each state starts with the determined taxable income following the IRC and may make additional state specific modifications.

Q. What are income tax temporary differences and how do those differences affect taxable income?

A. A temporary difference refers to a difference between the periods in which transactions affect taxable income shown on the income tax return (based on the IRC rules) and the periods in which such transactions enter the determination of pre-tax accounting income (based on GAAP) as reported in the financial statements. A temporary difference originates in one period and reverses or "turns around" in one or more subsequent periods. Some differences reduce income tax that would otherwise be payable currently; others increase income taxes that would otherwise be payable currently. Temporary differences are an income statement and balance sheet concept. Temporary differences are an income statement concept as they can be determined by comparing items on a given period's income statement to the tax return for the same period. Temporary differences are a balance sheet concept representing the differences between the tax bases of assets/liabilities and the book bases of such assets/liabilities. Some temporary differences result in ADIT Liabilities and other temporary differences result in ADIT Assets. Temporary differences originating/reversing during a period impact temporary differences at the end of the period.

Q. Please describe the second component of determining income tax expense, which is deferred income tax expense.

A. Deferred income tax expense represents the income tax consequences of temporary differences, which, as I stated, are transactions occurring in the current period but, under the IRC rules, not included in the current year tax return and thus, not payable currently. However, such incurred amounts are expected to be paid in future periods and, therefore, under accrual accounting, are accrued as a deferred income tax. For example, the IRC permits the use of accelerated depreciation when computing each period's taxable income and current tax payment. The tax deduction for accelerated depreciation is contrasted with what occurs on the books where companies typically depreciate property, plant, and equipment ("PPE") on a straight-line basis over the estimated useful life of PPE. While in each year the PPE itself is subject to the separate calculation of book depreciation (using a straight-line methodology where amounts are consistent from year-to-year) and tax return depreciation (using an accelerated methodology permitted under the IRC where typically tax return depreciation deductions are greater in the early years and decline over the PPE's tax life), over the entire book and tax life, both calculations are limited to the cost of the fixed asset itself.

So, when tax depreciation exceeds book depreciation in the early years, at some point, the situation will reverse, and book depreciation will exceed tax depreciation. This is an example of a temporary difference—over time the cumulative amount of tax depreciation will equal the cumulative amount of book depreciation. Therefore, in the early years when accelerated tax depreciation is deducted in arriving at taxable income on the tax return, the resulting current income tax is reduced. However, this situation will reverse in the future as accelerated tax depreciation deductions are reduced or run out and, in such situations, taxable income and current taxes will increase. The ADIT recorded when the temporary difference arise, are available to cover the future higher income tax payments upon reversal.

Q. What rate is used for Piedmont's 'per books' ADIT balance?

A In accordance with GAAP accounting and ASC 740, a composite deferred tax rate is applied to calculate Piedmont's ADIT balance.

Q. Why hasn't the approach of using a statutory rate for ADIT's representation in Piedmont's rate base been used in the past for ratemaking purposes?

A. The Company's ability to prepare, produce and support a good-faith proforma ADIT rate base offset in alignment with the state statutory income tax rate was not previously feasible due to the systems in use, coupled with the capacity and skillsets of available resources relative to the time frame needed for ratemaking purposes.

Q. What has since changed that enables Piedmont to now be ready and able to produce a timely and supportable recalculation of ADIT for its representation in Piedmont's rate base for ratemaking purposes?

A. Technology advancements with the tax software as well as upskilling of the tax department has resulted in a better process to complete the calculation. This process now enables the Company to provide a reconcilable calculation that is traceable, transparent, and repeatable within a reasonable timeframe.

Q. Please describe Piedmont's calculation of the proforma ADIT balances using the statutory state income rate.

A. A table of all ADIT components is exported out of the software. This table is recreated for each state rate that is contributing to the composite tax rate. The logic and arithmetic that is used to calculate deferred taxes in the software is replicated to recalculate each line of each table set at the state statutory rate, with 100% apportionment, for each jurisdiction. These recalculated tables are then allocated using the net plant factor for each jurisdiction and then aggregated to provide a total for each jurisdiction based on the statutory rate for that jurisdiction. For Tennessee, for example, all ADIT items are recalculated using a 6.5% deferred state tax rate with a 100% apportionment factor and then all business units that have an allocable portion of Tennessee operations would receive their allocated portion of the recalculated Proforma Tennessee ADIT balance.

Q. What is the statutory state income tax rate applicable to Piedmont's operations in Tennessee?

A. That rate is 6.50%.

Q. Were the proforma ADIT balances used in rate base in this proceeding prepared by you or under your supervision?

A. Yes. They were prepared utilizing the longstanding Tennessee statutory income tax rate applicable to Piedmont's utility operations in Tennessee, which is the previously cited rate of 6.50%.

Q. Did you find the proforma ADIT balances used in rate base in this proceeding to be reasonable and accurate?

A. Yes.

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

A. Yes, it does.