BEFORE THE
NORTH CAROLINA UTILITIES COMMISSION
DOCKET G-9, SUB 781

PREPARED REBUTTAL TESTIMONY
OF
CYNTHIA A. MENHORN

ON BEHALF OF
PIEDMONT NATURAL GAS COMPANY, INC.

1

2 **INTRODUCTION**

3 **Q.** **Please state your name, address, and position.**

4 A.   My name is Cynthia A. Menhorn. I am Vice President for MCR Performance

5   Solutions ("MCR") and my business address is 155 Pfingsten Road, Suite 155

6   Deerfield, Illinois 60015.

7 **Q.** **Have you previously testified in this proceeding?**

8 A.   Yes, I submitted direct testimony in this proceeding on behalf of Piedmont Natural

9   Gas Company, Inc. ("Piedmont" or "the Company") on March 22, 2021.

10 **Q.** **What is the purpose of your rebuttal testimony?**

11 A.   The purpose of my rebuttal testimony is to respond to the direct testimony of

12   Carolina Utility Customer Association, Inc. ("CUCA") witness Kevin O'Donnell,

13   and Carolina Industrial Group for Fair Utility Rates IV ("CIGFUR IV") witness

14   Nicholas Phillips, in particular the appropriate cost of service study allocation

15   method for distribution mains. In addition, I would like to explain witness

16   O'Donnell's misunderstanding of my statement regarding rates of return and

17   movement in my direct testimony.

1   I will also be responding to the testimony of Nicholas Phillips, Jr. regarding

2   revenue allocation to classes and the Company's block rate design.

3   In addition, I will also be responding to the direct testimonies of the above

4   witnesses along with the direct testimony of Jack Floyd regarding the

5   appropriateness of moderate changes when allocating the revenue increase to rate

6   classes.

7   **COST OF SERVICE ALLOCATION METHODOLOGY**

8   **Q.   How do witnesses Phillips and O'Donnell propose allocating the costs for**

9   **distribution mains?**

10 A.   Witness O'Donnell, on pages 87-90 of his direct testimony, advances the use of

11   allocating distribution mains to rate classes solely using the class contribution to

12   the peak demand in any given year, referred to as the Peak methodology. Witness

13   Phillips proposes the same methodology on page 3 of his direct testimony. Under

14   this method, interruptible customers would be allocated little or, in the case of a

15   Peak Design Day methodology, none of the distribution mains costs.

16 **Q.   Should witnesses Phillips and O'Donnell's proposal be accepted by the**

17   **Commission?**

18 A.   No. Witness O'Donnell correctly states that Piedmont's system is designed on a

19   day where, when gas demand is at its highest, interruptible customers will be

20   interrupted and will not be using the system's distribution mains. However, this

21   contradicts the way that the system is in fact used every day. The simple truth is

22   that, almost every single day of a given year, interruptible customers make use of

23   the distribution mains on Piedmont's system. It is unreasonable to believe that a

1   part of the system used *almost* every day by a certain class should not have a portion

2   of its costs recovered by that class.

3   In fact, without the distribution mains, interruptible customers would not be

4   able to receive gas from Piedmont's system at all. There are systems that are

5   designed in a way where customers do not use a portion of the system. In certain

6   electric utilities, there are customers that receive electricity directly from a

7   company's transmission lines. In that instance, they do not use the electric

8   company's primary or secondary lines at all. In that example, those transmission

9   customers should not be assigned any of the primary or secondary costs in the cost

10   of service study. However, that is a far different scenario than we are discussing

11   here with Piedmont's system and interruptible customers, who need to use the

12   distribution mains to receive service.

13   This is not to say that the nature of interruptible customers should be ignored

14   either. It is, of course, true that interruptible customers can be asked to interrupt

15   their use of the system during extreme demand periods. Therefore, it is appropriate

16   that at least part of the allocation for distribution mains should be based on that

17   peak. This is the reason why I have proposed the allocation method outlined in my

18   direct testimony. It recognizes both the design of the system *and* its everyday

19   usage, which is the most reasonable and prudent method of assigning costs in this

20   instance.

21 **Q.**   **Has your methodology been accepted by the Commission before?**

22 A.   Yes. The Peak and Average allocation methodology for distribution mains has been

23   accepted by the Commission in prior cases. Additionally, as witness O'Donnell

1   says on page 86 of his direct testimony, it is also a methodology that has been used

2   by Public Staff for quite some time. The methodology in my direct testimony has

3   been tried and tested by this Commission and has previously been found to be the

4   most reasonable. It continues to be the most reasonable.

5   **REVENUE ALLOCATION TO RATE CLASSES**

6 **Q.   What does witness Phillips consider to be a reasonable method to allocate**

7 **revenue increases to rate classes?**

8 A.   On pages 12 and 13 of witness Phillips direct testimony, he references the testimony

9   of Michael Pirro in a prior Duke Energy Carolinas rate case. In that quote, Mr.

10   Pirro defines a range of reasonableness for where an individual class' rate of return

11   should fall compared to the total Company rate of return. Specifically, he defines

12   that range of reasonableness as being within 10 percent of the system average which

13   was the designated desire by the Company in that particular case for the revenue

14   allocation. That range of reasonableness is just that, a range of reasonableness not

15   an absolute.

16 **Q.   Is that range of reasonableness an appropriate goal in revenue allocation?**

17 A.   Yes. One of the primary, if not *the* primary goal of revenue allocation, is to move

18   customer classes towards the system average rate of return. In this case, I

19   accomplish this, and showed this move by comparing the indexed rates of return

20   ("IROR") for each class to a system average of 1.00. In witness Phillips' example,

21   that would place the IROR band of reasonableness between 0.90 and 1.10 for any

22   individual class. It would be inappropriate to, without specific reasons, move a

23   customer class's IROR further from 1.00 than it already is. My proposed revenue

1   allocation moves every class's IROR closer towards that band of reasonableness.

2   My direct testimony shows this movement on CAM Table-1 on page 13.

3 **Q.**   **Why is your revenue allocation a more reasonable alternative than the**

4   **proposed revenue allocations of witnesses Phillips and O'Donnell?**

5 A.   Moving rates of return to the band of reasonableness is the goal of revenue

6   allocation, but it must be tempered by other rate design principles as well as other

7   prudent Company goals.   One of those principles, gradualism, encourages

8   moderation in shifts to the rates of return so that customers are not overly burdened

9   by a sudden change in rates. I have moved towards that band of reasonableness in

10   my revenue allocation, but in a more moderate and measured approach than that of

11   witnesses Phillips and O'Donnell. This moderated movement towards the system

12   average is the most reasonable proposal as it works to gradually move classes

13   towards the system average without making extreme class revenue changes causing

14   customers to experience rate shock. In addition, my proposed revenue allocation

15   takes into account all customer classes. This approach ensures that the revenue

16   allocation is not overly burdensome for one class of customers while working

17   towards the overall goal of moving customer classes closer to the overall IROR.

18 **Q.**   **Does witness O'Donnell mention anything else in his testimony that you wish**

19   **to comment on?**

20 A.   Yes, on pages 91 and 92 of his direct testimony he references my direct testimony

21   as being incorrect based upon his Table 12 on page 91 of his direct testimony.

1   **Q.**   **Is witness O'Donnell correct?**

2   A.   No, he is looking at the absolute class rate of return value and not the indexed value.

3   **Q.**   **Please explain.**

4   A.   What witness O'Donnell is misunderstanding is that it is possible to increase a

5   class' revenue while also bringing it closer to the total system rate of return. When

6   a class has an increase less than the average increase across all classes, that class'

7   IROR decreases. This is what occurred in my proposal. Again, upon examining

8   CAM Table-1 on page 13 of my direct testimony, no class has moved further from

9   the system average IROR of 1.00.

10   **Q.**   **Is there anything else that may be complicating the issue for witness**

11   **O'Donnell?**

12   A.   Yes, I believe the other factor that he is missing is that the revenues that are put

13   back into the COST^{TM} model to calculate the final rate of return and indexed rate

14   of return are based upon proforma billing determinants. So the original statement

15   in my direct testimony stating that the "IRRS of each rate schedule moves closer to

16   the system average or remains the same" is in fact correct.

17   <u>**DECLINING BLOCK RATE STRUCTURE DESIGN**</u>

18   **Q.**   **What does witness Phillips recommend regarding the declining block rate**

19   **structure design in classes 113 and 114?**

20   A.   On page 17 of his direct testimony, witness Phillips recommends that the initial

21   usage blocks in the declining block rate structure of rate classes 113 and 114 should

22   assume the full fixed costs allocated to those classes, with the remaining usage

23   blocks recovering only variable costs.

1   **Q.**   **Is this a reasonable recommendation?**

2   A.   The concept is reasonable, but witness Phillips does not make a specific proposal

3   that can be evaluated. It is the goal of rate design for the fixed (or customer) costs

4   assigned to a rate class be recovered by all customers in that class. One method to

5   accomplish that is to place these customer costs within the customer charge. In a

6   declining block rate structure, another method to accomplish this is by placing the

7   customer costs remaining (after assigning some to the customer charge) within the

8   initial few low-usage blocks. However, there is no way to say that these customer

9   costs are not recovered in these initial blocks in my proposed rate design. For

10   example, in the rate design for rate classes 103 and 113, the proposed revenue for

11   the initial two blocks for both summer and winter rates is $8,238,819. However,

12   the customer costs not recovered by the customer charges of rate classes 103 and

13   113 is only $4,315,587, far less than what is recovered in the initial two blocks.

14   If witness Phillips had proposed a different block proposal, I could offer a

15   recommendation on whether my rate design is more reasonable than his. However,

16   without a proposal to compare, I do not see how his proposal is not already being

17   accomplished in the rate design that I proposed.

18 **Q.**   **Do you wish to comment on witnesses Phillips and O'Donnell's**

19   **recommendations for the treatment of Special Contract revenues?**

20 A.   Yes, both witnesses Phillips and O'Donnell disagree with my treatment of Special

21   Contract revenues. It would be difficult to accept those recommendations of

22   witness Phillips and O'Donnell and the reasoning for that is addressed in the

23   rebuttal testimony of Company witness Couzens.

1   **CONCLUSION**

2   **Q.   What is your conclusion regarding this rebuttal testimony?**

3   A.   It is my belief that the revenue allocation and rate design proposed by the Company

4   have taken into consideration all customer classes and provided a revenue

5   allocation and rate design that moves all classes in a manner that is reasonable for

6   both the customers and the Company. My revenue allocation and rate design

7   proposal should be accepted as filed.

8   **Q.   Does this conclude your rebuttal testimony?**

9   A.   Yes.