Before the
North Carolina Utilities Commission

Docket No. G-9, Sub 781

General Rate Case

Rebuttal Testimony
of
Quynh P. Bowman

On Behalf Of
Piedmont Natural Gas Company, Inc.

Piedmont Natural Gas

August 25, 2021

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

A. My name is Quynh Pham Bowman. My business address is 4720 Piedmont Row Drive, Charlotte, North Carolina.

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

A. I am the Director – Gas Rates & Regulatory Strategy for Piedmont Natural Gas Company, Inc. ("Piedmont" or the "Company"). In this capacity, I am responsible for a variety matters including supporting the development and execution of rate requests and financial report filings by Piedmont.

Q. Have you previously testified in this proceeding?

A. Yes. I previously submitted prefiled direct testimony in this proceeding on March 22, 2021 and supplemental testimony on July 28, 2021.

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is to respond to a number of accounting adjustments proposed by Public Staff – North Carolina Utilities Commission ("Public Staff"). Specifically, I will address the adjustments in the testimony of Public Staff witness Feasel, Public Staff witness Coleman, and in the testimony and exhibits of Public Staff witness Perry.

Q. In her direct testimony, Public Staff witness Feasel proposes that the Company absorb one full year of carrying costs associated with previously deferred assets under Piedmont's Distribution and Transmission Integrity Management Programs ("PIM-D" and "PIM-

T") and environmental compliance. What is your reaction to this proposal?

A. I disagree with this proposed reduction of working capital. These deferred expenses are currently afforded regulatory asset treatment under the Commission's order in Piedmont's last general rate case in Docket No. G-9, Sub 743. Under its Commission-approved deferral of expenses associated with its transmission integrity program, Piedmont seeks recovery in general rate cases of deferred expenses net of ongoing amortizations. These amortizations reduce Piedmont's regulatory asset on a monthly basis and serve to reduce the regulatory asset to an appropriate amount of working capital upon which Piedmont should be allowed to earn a return without the further reduction proposed by witness Feasel.

Q. Has Ms. Feasel offered a justification for this proposed absorption of 12 months of carrying costs on these established regulatory assets?

A. Not that I can see. Her absorption recommendation is simply embedded in her proposed amortization of such costs in this case without explanation or rationale. Ms. Feasel's recommendation would result in a reduction of Piedmont's rate base of $18,093,484.

Q. What was the Company's approach to this matter?

A. In the Company's filed case, Piedmont made an end-of-period adjustment to align the proposed annual amortization and the end-of-period balance of the regulatory assets. We accomplished this by removing the difference between the proposed annual amortization expense and the annual amortization expense for the Test Period for each of these regulatory assets, which was the appropriate way to handle this issue.

Q. In her Direct Testimony, Public Staff witness Coleman proposes to disallow fifty percent (50%) of the total compensation of the top five Duke Energy Executives which consists of total annual salary, Short-Term Incentive Plan, Long-Term Incentive Plan and Benefits. What is your reaction to this proposed adjustment?

A. First, I would like to acknowledge that the Company included an executive management compensation adjustment to remove 50% of the total compensation allocated to Piedmont for the top five Duke Energy Executives. As stated in my filed testimony on March 22, although we believe these costs are reasonable, prudent, and appropriate to recover from customers, we made this adjustment in good faith for purposes of streamlining this proceeding.

Ms. Coleman has replaced one of the top five Duke Energy executives of the holding company with the Senior Vice President - Natural Gas Business. In my opinion, the rationale for this disallowance – that the specified executives spend half of their time working for shareholders – is much less convincing when applied to an employee who spends the majority of his time managing and directing the operations of Piedmont and, as Ms. Coleman states, is "more closely aligned with Piedmont's efforts to minimize costs and maximize the reliability of Piedmont's service to customers."

My belief is that Ms. Coleman chose to update the Company's adjustment simply to further reduce our filed position by $250,246. This seems like a methodology driven to reduce the revenue requirement rather than one based on the professed concepts by Public Staff.

Q. In her direct testimony, Ms. Perry proposes to disallow Piedmont the ability to recover the unamortized portion of rate case expense for Piedmont's 2019 rate case and to reduce the projected rate case expense from this case by $237,030. What is your response to these proposals from Public Staff witness Perry?

A. I do not agree with Ms. Perry's proposals. The rate case expense from the 2019 rate case was agreed to as part of the settlement of that case, as was the four-year amortization of that expense. The settlement in that case was approved by a Commission order that approved the four-year amortization. The expense that will be outstanding as of October 31, 2021 is $654,931. Nothing in the prior settlement or the Commission's Order approving that settlement dictated that the rate case expense would become unrecoverable if Piedmont filed a rate case prior to the end of the four-year amortization period. Piedmont included the unamortized balance for its recovery in its revenue requirement in this case and continues to believe that it is entitled to recover these amounts.

Q. What is your response to Ms. Perry's reduction in current rate case expense in this case?

A. I disagree with that adjustment. Our proposed rate case expense in this docket is approximately $73,000 (6%) more than actual rate case expense incurred in our 2019 rate case. Further, Ms. Perry relied on a "run rate" calculation in making her reduction which ignored the fact that the period utilized for calculating that run rate included only preparation of the initial filing and discovery. This calculation does not include review and analysis of intervenor testimony, preparation of rebuttal testimony, settlement negotiations, preparation for hearing, the conduct of the hearing itself, and briefing/drafting of proposed orders.

In short, I find Ms. Perry's adjustment to be arbitrary and not representative of the actual costs of prosecuting this case. Adoption of this adjustment by the Commission will prevent Piedmont from being able to collect its actual rate case expense in this proceeding.

Q. In her direct testimony, Ms. Perry utilizes a five-year average of uncollectibles expense to reduce the Company's pro forma level of uncollectibles in its revenue requirement. Do you agree with Ms. Perry's adjustment?

A. No. The rate of uncollectibles experienced by Piedmont over the five-year period used by Public Staff (and in particular the early years of that five-year period) are not representative of the level of uncollectibles Piedmont has experienced during the more recent past. And while we agree with Ms. Perry that 2020 is not a reasonable year to solely rely on for uncollectibles experience, her selection of a five-year average includes outdated data and understates the Company's recent experience with uncollectibles expense. We believe the most accurate measure of future uncollectible expense is an average of the two years prior to 2020 which should be excluded due to the impacts of the pandemic.

Q. What is your response to the Public Staff's adjustment to remove an additional $821,959 for Pension, OPEB and long-term disability expenses?

A. I do not agree with the approach used by Public Staff. Ms. Perry proposes to use a 12-month period ending May 31, 2021 as a suitable ongoing level of expense for pension, OPEB, and long-term disability. This methodology uses historical balances and does not reflect an ongoing level. The Company's pension and OPEB adjustments are supported by third-party valuation reports. Of the $821,959 reduction proposed by Public Staff, $552,226 is related to the difference in long-term disability expense. The Company's proposed adjustment is based on a three-year average of participant counts and applies a 6.25% medical inflation rate, again supported by third party valuation reports, to actual costs per participant during 2020. This methodology is consistent with the three-year average employed by the Public Staff in determining the medical and dental expenses in their proposed adjustment.

Q. In her direct testimony, Ms. Perry removes $28,024,252 of Customer Growth Expenses from the balance of expenses adjusted for inflation. What is your reaction to this adjustment?

A. I disagree with it because the result of Ms. Perry's adjustment yields an insufficient pro forma level of expense due to its failure to address the fact that some expenses increase because of inflation <u>and</u> an increase in customer count.

Q. Do you have other disagreements with Ms. Perry's adjustment for inflation?

A. Yes, I do. To align with Public Staff's adjustments for various items, Ms. Perry removes an additional $4,724,920 from the Test Period basis used to calculate the inflation adjustment. However, the amounts do not reflect the Test Period amounts that the Public Staff excluded from the cost of service. The amounts included in the inflation adjustment should exactly reflect the Test Period amounts that have been excluded by Public Staff. For example, Public Staff witness Coleman proposes to remove $360,740 from the revenue requirement yet in Ms. Perry's adjustment, $721,478 is removed from the basis for inflation. Even if we agreed to Ms. Coleman's adjustment to remove $360,740, the remaining amount is still included in the cost of service and should be included in the inflation adjustment.

Finally, no support was provided for the calculation of an inflation factor of 1.93% used in the Public Staff adjustment, whereas our inflation factor is based on growth during 2021 as applied to 2020 Test Period as supported in electronic workpaper filed with the application on March 22, 2021.

Q. Ms. Perry proposes to reduce Piedmont's COVID 19 expense by $953,096. What is your response to her proposed adjustment?

A. First, the Public Staff has acknowledged to Piedmont that $74,446 of their proposed disallowance was not included in Piedmont's proposed revenue requirement and additional removal is unwarranted. Nevertheless, there are several critical flaws in the remainder of the Public Staff's proposed adjustment. The Public Staff removed $878,650 of expenses out of a belief that these costs were not ongoing expenses. That belief is misguided. These costs relate to employee expenses for personal protective equipment such as masks, gloves, coveralls; increased cleaning of shared spaces and equipment; and proactive testing for critical employees that are required to interact with customers and other employees. The Company believes these costs can be reasonably expected to be incurred in the future especially in light of the ongoing pandemic and increasing levels of infections throughout North Carolina. I am not aware of any information that reliably predicts an end to this pandemic or a return to pre-pandemic handling of personal protection and sanitation. It is Piedmont's responsibility to protect our customers, the general public, and our employees from possible infection at any point in the reasonably foreseeable future.

Further, Piedmont has not proposed to include pre-pandemic levels of avoided employee costs in this case for the exactly the same reason that it has proposed to recover these employee costs. Any attempt to normalize incremental expenses due to COVID should reasonably be balanced with normalizing avoided expenses due to COVID. Just as the pandemic dictates certain employee costs like business travel must be curtailed, it also dictates that responsible companies must protect their employees through the types of expenditures that the Public Staff proposes to disallow. By way of illustration, employee expenses decreased from approximately $4.1M in 2019 to $1.8M in 2020. The Public Staff does not appropriately balance these two factors, however, and seeks to disallow recovery of certain prudently incurred costs while simultaneously accepting the benefits of reduced levels of employee expenses experienced during the test period. Piedmont's position is a reasonable middle ground which still reduces employee expenses below pre-pandemic "normal" levels.

Q. In her direct testimony, Ms. Perry proposes to disallow recovery of per transaction charges under arrangements for customers to pay their bills through Speedpay to the extent they exceed similar charges incurred by Duke Energy Carolinas, LLC and Duke Energy Progress, LLC. What is your reaction to this proposed adjustment?

A. I do not agree. The Public Staff seeks to limits Piedmont's cost recovery to a lower level than exists in Piedmont's existing contract with Speedpay. Piedmont is bound under its existing contract for an additional two years, and the Public Staff has made no showing that Piedmont was imprudent in entering into the existing contract. As such, we believe that we are entitled to recover the per transaction charges under the Speedpay contract but certainly would hope to reduce those charges when the contract is renegotiated to a level commensurate with the lower transaction fees contained in the Public Staff's proposed adjustment.

Q. If the Commission does not approve full cost recovery, does that Company have an alternative request?

A. Yes. The Company requests complete removal of this from its revenue requirement. Under this circumstance, the Company requests it be allowed to continue collecting these fees from specific customers as they are incurred. This will reduce the Company's requested revenue requirement in this proceeding by $1,475,923.

Q. In her direct testimony, Public Staff witness Perry proposes an adjustment to amortization of protected EDIT. What is your response to Ms. Perry's proposal?

A. I would like to acknowledge here the Company's recent identification that its application inadvertently represented the amortization of protected EDIT in base rate in a way that does not conform with IRS tax normalization requirements. To comply with such IRS tax normalization requirements, the Company's annual amortization expense of protected EDIT adopted in this proceeding needs to be no greater than $(2,795,775). Since Ms. Perry's proposed amortization to protected EDIT is in excess of this amount, it should be rejected. Further details on this matter pertaining will be included in my forthcoming supplemental testimony to specifically address this issue.

Q. What is your position on the Public Staff's proposed removal from rate base of the amounts associated with the assets that the Company uses to provide natural gas service to Duke Lincoln?

A. The Public Staff presented no legitimate evidence to support the net $2,120,901 adjustment to rate base, only citing a reference to a vague footnote indicating the amount came from a prior general rate case. Piedmont does not currently possess granular records of individual additions to utility plant in service for assets of this vintage as requested by the Public Staff during discovery. Given the lack of information, the Public Staff used a number that had a very unclear origin to make an adjustment that does not meet any reasonable standard for support and should be rejected in its entirety.

Q. Ms. Perry also proposes to remove certain O&M and A&G expenses associated with the Robeson LNG plant on the basis of Mr. Metz's removal of Robeson plant from rate base. Do you agree with that adjustment?

A. I do not. Piedmont witness Adam Long's rebuttal testimony explains the status of the Robeson LNG facilities and supports Piedmont's expectation that they will qualify for rate base treatment in this proceeding. Mr. Long will provide supplemental testimony to inform the Commission after key milestones have been achieved and the facility has been closed to utility plant on Piedmont's books. Accordingly, the expenses removed by Ms. Perry should not be removed from our proposed revenue requirement in this case subsequent to Mr. Long's pending update.

Q. Did you discover any mathematical errors in the Public Staff's direct Testimony?

A. Yes, we discovered such errors and have discussed them with the Public Staff and understand they plan to correct these errors in an updated filing.

Q. Are there other areas of adjusted expense from the Public Staff testimony that you disagree with?

A. Yes, but they are fundamentally flow-through impacts of the contested adjustments discussed above and involve the following areas:

- Depreciation and Accumulated Depreciation
- Property Tax Expense
- Payroll Tax Expense
- Deferred Eastern NCNG Amortization Expense
- Regulatory Fee
- All components of rate base

Q. Do you have any further comments on the Public Staff's accounting adjustments?

A. Not on their direct testimony, but I understand the Public Staff intends to file supplemental testimony concerning our update filing made July 28, 2021 and the correction of certain errors. I would respectfully reserve the right to respond to any supplemental testimony that may be filed in this proceeding.

Q. Does this conclude your rebuttal testimony?

A. Yes, it does.