

August 16, 2021

**VIA Electronic Filing**

Ms. Shonta Dunston, Chief Clerk  
North Carolina Utilities Commission  
4325 Mail Service Center  
Raleigh, North Carolina 27699-4300

Re: Docket No. G-9, Subs 722 and 781  
CIGFUR IV Errata to Direct Testimony of Nicholas Phillips, Jr.

Dear Ms. Dunston:

On August 11, 2021, we filed the Direct Testimony and Exhibits of Nicholas Phillips, Jr., on behalf of CIGFUR IV. It has come to our attention that Mr. Phillips' testimony contained some incorrect information.

We hereby submit the Errata to Direct Testimony of Nicholas Phillips, Jr., on behalf of CIGFUR IV. No changes were needed or made to the Phillips' Exhibits filed on August 11, 2021.

Fourteen paper copies of Phillips' Errata Testimony will be delivered to the Chief Clerk's Office by close of business on August 17, 2021.

Copies of this filing are being provided to all parties of record in this proceeding via electronic mail.

Sincerely,

Electronically submitted  
/s/ Christina Cress, Counsel of Record  
CIGFUR IV

CDC:kac

Enclosures

cc: Parties of Record

STATE OF NORTH CAROLINA  
UTILITIES COMMISSION  
RALEIGH

DOCKET NO. G-9, SUB 722  
DOCKET NO. G-9, SUB 781

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. G-9, SUB 722

In the Matter of:  
Consolidated Natural Gas Construction and  
Redelivery Services Agreement Between Piedmont  
Natural Gas Company, Inc., and Duke Energy  
Carolinas, LLC

DOCKET NO. G-9, SUB 781

In the Matter of:  
Application of Piedmont Natural Gas Company,  
Inc., for an Adjustment of Rates, Charges, and  
Tariffs Applicable to Service in North Carolina

**CIGFUR IV’S ERRATA TO  
DIRECT TESTIMONY OF  
NICHOLAS PHILLIPS, JR.**

NOW COMES the Carolina Industrial Group for Fair Utility Rates IV (CIGFUR IV), and respectfully submits the following errata to the Direct Testimony of Nicholas Phillips, Jr.:

1. Page 4, Line 15 should be corrected to read “Piedmont’s request to earn a 10.25% ROE is excessive compared to the national”
2. Page 17, Line 15 should be corrected to read “**Q IS PIEDMONT’S PROPOSED 10.25% ROE REQUEST APPROPRIATE?**”
3. Page 17, line 16 should be corrected to read “**A No. Piedmont’s requested ROE of 10.25% is excessive and should be rejected. The**”

Certificate of Service

I hereby certify that a copy of the Errata to Direct Testimony and Exhibits of Nicholas Phillips, Jr., filed on behalf of CIGFUR IV has been served on all parties to these proceedings.

This the 16<sup>th</sup> of August, 2021.

/s/ Christina Cress  
Bailey & Dixon, LLP  
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Email: [ccress@bdixon.com](mailto:ccress@bdixon.com)  
ATTORNEY FOR CIGFUR IV

BEFORE THE  
NORTH CAROLINA UTILITIES COMMISSION

_____	)	
In the Matter of	)	
	)	
Application of Piedmont Natural Gas	)	Docket No. G-9, Sub 781
Company, Inc., for an Adjustment of	)	
Rates, Charges, and Tariffs Applicable	)	
to Service in North Carolina	)	
_____	)	

Errata to the Direct Testimony and Exhibits of  
**Nicholas Phillips, Jr.**

On behalf of  
**CIGFUR IV**

August 16, 2021



BEFORE THE  
NORTH CAROLINA UTILITIES COMMISSION

_____	)	
<b>In the Matter of</b>	)	
	)	
<b>Application of Piedmont Natural Gas</b>	)	<b>Docket No. G-9, Sub 781</b>
<b>Company, Inc., for an Adjustment of</b>	)	
<b>Rates, Charges, and Tariffs Applicable</b>	)	
<b>to Service in North Carolina</b>	)	
_____	)	

**Errata to the Direct Testimony of Nicholas Phillips, Jr.**

1    **Q     PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2    A     Nicholas Phillips, Jr. My business address is 16690 Swingley Ridge Road, Suite 140,  
3     Chesterfield, MO 63017.

4    **Q     WHAT IS YOUR OCCUPATION?**

5    A     I am a consultant in the field of public utility regulation of Brubaker & Associates, Inc.,  
6     energy, economic and regulatory consultants. Our firm and its predecessor firms have  
7     been in this field since 1937 and have participated in more than 1,000 proceedings in  
8     40 states and in various provinces in Canada. We have experience with more than  
9     350 utilities, including many electric utilities, gas pipelines, and local distribution  
10    companies. I have testified in many electric and gas rate proceedings on virtually all  
11    aspects of ratemaking. More details are provided in Appendix A of this testimony.

12   **Q     ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?**

13   A     I am testifying on behalf of a group of intervenors designated as the Carolina Industrial  
14    Group for Fair Utility Rates IV ("CIGFUR"), a group of large industrial customers that

1 purchase gas delivery and associated service from Piedmont Natural Gas Company,  
2 Inc. (“Piedmont” or “Company”). CIGFUR’s members consist of customers served  
3 principally under Schedule 114 Large Interruptible Transportation Service and also  
4 under Schedule 113 Large General Transportation Service. Each CIGFUR member is  
5 a major employer in the county where it has a manufacturing plant, providing hundreds  
6 if not thousands of full-time jobs that are vital to the local economies in the Piedmont  
7 service area.

8 **Q HAVE YOU PRESENTED TESTIMONY IN PRIOR PROCEEDINGS BEFORE THE**  
9 **NORTH CAROLINA UTILITIES COMMISSION (“COMMISSION”)?**

10 A Yes. I have been involved in many prior proceedings before this Commission and have  
11 presented testimony in many of those proceedings. I have been involved with matters  
12 involving ratemaking issues in North Carolina for decades, including many cases  
13 involving Piedmont’s parent Company, Duke Energy Corporation. I also presented  
14 testimony in the most recent Piedmont general rate case, Docket No. G-9, Sub 743.

15 **Q WHAT IS THE SUBJECT MATTER OF YOUR TESTIMONY?**

16 A My testimony is directed toward Piedmont’s natural gas cost of service study and the  
17 allocation of any allowed gas distribution rate increase to rate classes. I have examined  
18 the testimony and exhibits presented by Piedmont in this case with respect to cost of  
19 service, revenue allocation and rate design, and I will comment on the propriety of these  
20 proposals. I also comment on Piedmont’s Integrity Management Rider (“IMR”) and the  
21 proposed charges associated with the IMR to Piedmont customers. I also comment on  
22 Piedmont’s proposed treatment of the Special Contract segment including the affiliate

1 category within the Power Generation Contract class. Finally, I review Piedmont's  
2 requested rate of return on equity ("ROE").

3 **Q DOES YOUR TESTIMONY ADDRESS PIEDMONT'S NEED FOR AN OVERALL**  
4 **INCREASE IN GAS SERVICE RATES?**

5 A In order to make my presentation consistent with the revenue levels requested by  
6 Piedmont, I have, in many instances, used its proposed figures for rate base, operating  
7 income and rate of return. Use of these numbers should not be interpreted as an  
8 endorsement of them for purposes of determining the total dollar amount of rate  
9 increase to which Piedmont may be entitled. I focus my recommendations instead on  
10 the appropriate distribution to classes of any amount of rate increase allowed by the  
11 Commission.

12 **Summary of Conclusions and Recommendations**

13 **Q PLEASE BRIEFLY SUMMARIZE YOUR CONCLUSIONS AND**  
14 **RECOMMENDATIONS IN THIS PROCEEDING?**

15 A The summary of my position and recommendations is listed below:

- 16 1. Piedmont's gas rates should be based on the cost of providing service to each  
17 customer class. They are not.
- 18 2. Piedmont's gas cost of service study is a form of a peak and average method and  
19 allocates excessive cost to high load factor customers on a throughput weighted  
20 allocation as compared to a peak demand cost of service study, which would more  
21 accurately reflect cost causation.
- 22 3. Piedmont's cost of service study shows extreme variances in class rates of return.  
23 Interruptible service rates currently provide a rate of return of 20.79% and the rate  
24 of return under Piedmont's proposed rates would increase to 23.40%. In contrast,  
25 Piedmont's request is to earn an allowed overall rate of return of 7.27%.
- 26 4. Piedmont's proposed method of distributing the requested increase to non-contract  
27 classes makes some movement toward cost of service, but increases the subsidy  
28 provided by non-contract customers to special contract customers.

- 1 5. The Interruptible service class is paying rates far in excess of cost of service, and  
2 rates should actually be reduced. Certainly no rate increase is warranted for the  
3 Interruptible service rate.
- 4 6. Approximately 22% of Piedmont's rate base (investment) is dedicated to serving  
5 the Special Contract classes which do not receive any rate increase under  
6 Piedmont's structure. The largest Special Contract class is Power Generation  
7 which is almost entirely comprised of Piedmont affiliates. The second largest class  
8 is Municipal Contracts, which according to Piedmont's cost of service produces a  
9 negative rate of return. Any revenue loss due to these contracts should not be  
10 borne by Piedmont's other customers.
- 11 7. The Special Contract customers are also not directly included in the Infrastructure  
12 Management Recovery Rider ("IMR") mechanism, but provide a credit to the IMR.  
13 There is no showing regarding the adequacy of the credit. The IMR should be  
14 borne by all customers.
- 15 8. Piedmont's request to earn a 10.25% ROE is excessive compared to the national  
16 average of authorized returns, which is approximately 9.56%. Since Piedmont has  
17 rider mechanisms in place, the national average ROE of 9.56% should be  
18 considered as an upper limit on the ROE approved in this proceeding.
- 19 9. Piedmont proposes significant increases to higher usage blocks of Rate Schedules  
20 113 and 114, which is inappropriate. Rate Schedule 114 should be reduced, not  
21 increased. A declining block rate should be designed to collect fixed costs in the  
22 initial usage blocks and, once fixed costs are recovered, the higher usage blocks  
23 only need to recover variable costs. To the extent the Commission approves a  
24 lower increase than the \$109 million requested by Piedmont, I recommend that the  
25 higher usage blocks be lowered below current levels to reflect only variable costs.
- 26 10. Piedmont's parent company and affiliates have testified consistently before this and  
27 other commissions that rates should be within a 10 percent index band of the  
28 system average rate of return and that subsidies/excess rate levels should be  
29 decreased by 25% in distributing any allowed increase. Piedmont's existing rates  
30 deviate significantly from cost and many rate classes are hundreds of points outside  
31 the 10 percent band. It is recommended that Piedmont be ordered to follow the  
32 approach of Duke Energy, and move rates closer to cost in a meaningful manner.

33 **Cost of Service and Rate Design Principles**

34 **Q** **COULD YOU PLEASE EXPLAIN THE RATEMAKING PROCESS AND THE DESIGN**  
35 **OF RATES?**

36 **A** The ratemaking process has three steps. First, we must determine the utility's total  
37 revenue requirement and whether an increase or decrease in revenues is necessary.

38 Second, we must determine how any alterations in the utility's costs and/or revenues

1 should be distributed among the major customer classes. A determination of how many  
2 dollars of revenue should be produced by each class is essential for obtaining the  
3 appropriate level of rates. Finally, individual tariffs must be designed to produce the  
4 required amount of revenues for each class of service and to reflect the cost of serving  
5 customers within that class.

6 The guiding principle at each step should be cost of service. In the first step –  
7 determining revenue requirements – it is universally agreed that the utility is entitled to  
8 an increase only to the extent that its actual cost of service has increased. If current  
9 rate levels exceed the utility's revenue requirement, a rate reduction is required. In  
10 short, overall rate revenues should equal actual cost of service. The same principle  
11 should apply in the next two steps. Each major customer class should produce  
12 revenues equal to the cost of serving that particular class, no more and no less. This  
13 may require a rate increase for some classes and a rate decrease for other classes.  
14 The standard tool for making this determination is a class cost of service study which  
15 shows the rates of return for each class of service. Rate levels should be modified so  
16 that each major class of service provides approximately the same rate of return.  
17 Finally, in designing individual tariffs, the goal should also be to relate the rate design  
18 of each class to the cost of service so that each customer's rate tracks, to the extent  
19 practicable, the utility's cost of providing service to that customer.

20 **Q WHY IS IT IMPORTANT TO ADHERE TO BASIC COST OF SERVICE PRINCIPLES**  
21 **IN THE RATEMAKING PROCESS?**

22 **A** The basic reasons for using cost of service as the primary factor in the ratemaking  
23 process are equity and stability.

1    **Q        HOW IS THE EQUITY PRINCIPLE ACHIEVED BY BASING RATES ON COSTS?**

2    A        When rates are based on cost, each customer (to the extent practicable) pays what it  
3            costs the utility to serve that customer, no more and no less. If rates are not based on  
4            cost of service, then some customers contribute disproportionately to the utility's  
5            revenues by subsidizing service provided to other customers. This is inherently  
6            inequitable.

7    **Q        PLEASE DISCUSS THE STABILITY CONSIDERATION.**

8    A        When rates are closely tied to costs, the earnings impact on the utility associated with  
9            changes in customer usage patterns will be minimized as a result of rates being  
10           designed in the first instance to track changes in the level of costs. Thus, cost-based  
11           rates provide an important enhancement to a utility's earnings stability, reducing its  
12           need to file for future rate increases.

13                From the perspective of the customer, cost-based rates provide a more reliable  
14                means of determining future levels of costs and also provide more accurate price  
15                signals. If rates are based on factors other than costs, it becomes much more difficult  
16                for customers to translate expected utility-wide cost changes (i.e., expected increases  
17                in overall revenue requirements) into changes in the rates charged to particular  
18                customer classes (and to customers within each class). Again, from the industrial  
19                customer's perspective, this situation reduces the attractiveness of expansion, as well  
20                as of continued operations, because of the lessened ability to plan or predict future  
21                levels of costs or effectively respond to price signals.

1 Q **WHEN YOU SAY "COST," TO WHAT TYPE OF COST ARE YOU REFERRING?**

2 A I am referring to the utility's "embedded" or actual accounting costs of rendering service;  
3 that is, those costs which are used by the Commission in establishing the utility's overall  
4 revenue requirement.

5 Q **WOULD YOU PLEASE COMMENT ON THE BASIC PURPOSE OF A COST OF  
6 SERVICE STUDY?**

7 A After determining the overall cost of service or revenue requirement, a cost of service  
8 study is used to allocate the cost of service among customer classes. A cost of service  
9 study shows how each major customer class contributes to the total system cost. For  
10 example, when a class produces the same rate of return as the total system, it is  
11 returning to the utility revenues just sufficient to cover the costs incurred in serving it  
12 (including a reasonable return on investment). If a class produces a below-average  
13 rate of return, then the revenues are insufficient to cover all relevant costs. On the  
14 other hand, if a major class produces an above-average rate of return, it is paying  
15 revenues beyond sufficient to cover the cost attributable to it. In addition, it is  
16 subsidizing part of the cost attributable to other classes which produce a below-average  
17 rate of return. The class cost of service study is important because it demonstrates the  
18 various class revenue requirements, as well as the rates of return under current and  
19 proposed rates.

20 Q **WOULD YOU PLEASE COMMENT ON THE PROPER FUNDAMENTALS OF A  
21 COST OF SERVICE STUDY?**

22 A Yes. Cost of service is a basic and fundamental ingredient to proper ratemaking. In  
23 all class cost of service studies, certain fundamental concepts must be recognized. Of

1 primary importance among these concepts is the functionalization, classification, and  
2 allocation of costs. Functionalization is the determination and arrangement of costs  
3 according to major functions, such as transmission, distribution and storage of gas.  
4 Classification involves identifying the nature of these costs as to whether they vary with  
5 the quantity of gas consumed, the demand placed upon the system, or the number of  
6 customers being served.

7 Fixed costs are those costs which tend to remain constant over the short run  
8 irrespective of changes in gas deliveries and are generally considered to be  
9 demand-related. Fixed costs include those costs which are a function of the size of the  
10 investment in utility facilities and those costs necessary to keep the facilities "on-line."  
11 Variable costs, on the other hand, are basically those costs which tend to vary with  
12 throughput and are generally considered to be commodity-related. Customer-related  
13 costs are those which are closely related to the number of customers served, rather  
14 than the quantity of gas consumed or the demands placed upon the system. A correct  
15 application of these concepts is essential to the proper development of a cost of service  
16 study, as well as appropriate rate design within each customer class.

17 With respect to allocation, fixed costs should be allocated on a peak demand  
18 factor, variable costs should be allocated on a throughput factor, and customer-related  
19 costs should be allocated on a per customer allocation factor.

1 **Piedmont's Gas Cost of Service Study**

2 **Q HAVE YOU REVIEWED THE GAS COST OF SERVICE STUDIES PERFORMED BY**  
3 **PIEDMONT IN THIS PROCEEDING?**

4 A Yes. Piedmont witness Cynthia A. Menhorn submitted 2020 cost of service studies  
5 based on per book results, present rate-adjusted results, and under Piedmont's  
6 proposed rates. I will focus on the present rates adjusted for test year study.

7 **Q DO YOU AGREE WITH THE ALLOCATION METHODS UTILIZED BY PIEDMONT IN**  
8 **ITS TEST YEAR 2020 GAS COST OF SERVICE STUDY?**

9 A With the exception of the peak and average allocation method which allocates more  
10 cost to high load factor customers, I basically agree with the Piedmont cost of service  
11 study. However, the 50% throughput weighting in the peak and average allocator is  
12 unsupported, arbitrary, and inconsistent with system design. The peak day demand  
13 method is more reflective of cost causation and system design.

14 Piedmont states that its system is designed to meet all firm customer demands  
15 under design day conditions. The allocation of costs should follow system design to  
16 reflect cost-causation. Average demand (throughput) is not relevant and the 50%  
17 weighting is unsupported by study or fact.

18 **Q IS THE ALLOCATION OF FIXED DELIVERY COSTS BASED ON DESIGN DAY**  
19 **DEMAND DISCUSSED IN THE NATIONAL ASSOCIATION OF REGULATORY**  
20 **COMMISSIONERS ("NARUC") GAS DISTRIBUTION RATE DESIGN MANUAL?**

21 A Yes. NARUC recognizes that distribution mains should be allocated to customer  
22 classes based on: (1) design peak day demands for the demand component; and

1 (2) the number of customers for the customer component. In that regard, the NARUC  
2 Gas Distribution Rate Design Manual states the following:

3 Demand or capacity costs vary with the size of plant and equipment.  
4 They are related to maximum system requirements which the system is  
5 designed to serve during short intervals and do not directly vary with the  
6 number of customers **or their annual usage**. Included in these costs  
7 are: the capital costs associated with production, transmission and  
8 storage plant and their related expenses; the demand cost of gas; and  
9 most of the capital costs and expenses associated with that part of the  
10 distribution plant not allocated to customer costs, such as the costs  
11 associated with distribution mains in excess of the minimum size.  
12 (NARUC Manual, Gas Distribution Rate Design, June 1989, pp. 23-24;  
13 emphasis added)

14 **Q ARE YOU AWARE OF ANY OTHER AUTHORITATIVE AGENCY'S POSITION ON**  
15 **THE CLASSIFICATION AND ALLOCATION OF GAS DISTRIBUTION MAIN**  
16 **COSTS?**

17 A Yes. In Order 636, the Federal Energy Regulatory Commission ("FERC") endorsed  
18 the straight fixed-cost variable ("SFV") cost methodology, which allocates fixed pipeline  
19 cost 100% on a demand basis. In this regard, FERC states:

20 The Commission believes that requiring SFV comports with and  
21 promotes Congress' goal of a national gas market as discussed above  
22 and goes hand-in-hand with the equality principle.

23 \*\*\*\*\*

24 Moreover, the Commission's adoption of SFV should maximize pipeline  
25 throughput over time by allowing gas to compete with alternate fuels on  
26 a timely basis as the prices of alternate fuels change. The Commission  
27 believes it is beyond doubt that it is in the national interest to promote  
28 the use of clean and abundant natural gas over alternate fuels such as  
29 foreign oil. SFV is the best method for doing that. (FERC Order 636,  
30 Final Rule Issued April 8, 1992, pp. 127-129 [Footnote omitted.]

31 The FERC SFV allocation method appropriately treats fixed pipeline costs as demand-  
32 related costs. Similarly, transmission and distribution main costs not classified as  
33 customer-related on Piedmont's system should be treated as demand-related costs to

1 achieve the goals and benefits outlined by the FERC and which comport with NARUC  
2 guidance.

3 **Q TO YOUR KNOWLEDGE, HAVE ELECTRIC UTILITIES USED THE PEAK AND**  
4 **AVERAGE METHOD TO ALLOCATE TRANSMISSION OR DISTRIBUTION COSTS**  
5 **IN NORTH CAROLINA?**

6 A No. To my knowledge, the peak and average method has not been used to allocate  
7 transmission or distribution costs in North Carolina. I am not aware that it has ever  
8 been proposed. The peak and average method should not be used to allocate the  
9 delivery costs for gas.

10 **Q HAS PIEDMONT PERFORMED A STUDY USING THE PEAK DEMAND TO**  
11 **ALLOCATE FIXED COSTS TO CLASSES?**

12 A Yes. Piedmont performed a peak demand study in response to discovery from  
13 CIGFUR. In that study, peak demand data is used to allocate fixed demand-related  
14 delivery costs in place of the peak and average method. The results of the peak  
15 demand study are shown on Exhibit NP-2.

16 The peak demand study is a more correct representation of the actual cost of  
17 service associated with serving the various customer classes. The main issue is the  
18 amount of subsidy levels that currently exist in Piedmont's rates and how to correct the  
19 subsidies without harsh impacts or rate shock to subsidized classes. The peak demand  
20 shows that certain subsidies are larger and make any corrective distribution of the  
21 requested increase even more difficult to manage in this case.

1 Q HAS DUKE ENERGY PROGRESS LLC OFFERED TESTIMONY ON THIS SUBJECT  
2 BEFORE THE COMMISSION?

3 A Yes. Laura A. Bateman recently presented testimony on behalf of Duke Energy  
4 Progress, LLC which stated:

5 Q. HOW DO YOU PROPOSE TO ALLOCATE THIS ADDITIONAL  
6 REVENUE REQUIREMENT AMONG THE CLASSES?

7 A. Bateman Exhibit 2 shows how the additional revenue requirement is  
8 spread among the classes and how the target revenue requirements  
9 for rate design are established. The rate increase shown in the  
10 exhibit has been allocated to the rate classes on the basis of rate  
11 base, and then combined with an additional increase or decrease at  
12 the customer class level that results in a 25 percent reduction in  
13 each class's variance from the overall average rate of return. This  
14 additional increase or decrease at the customer class level nets to  
15 \$0 for the North Carolina retail jurisdiction in total, but brings the  
16 customer classes closer to the average rate of return, and is an  
17 appropriate way to gradually bring rate classes closer to rate parity  
18 over time. This approach is consistent with the approaches in the  
19 last general rate proceedings for both DE Carolinas and DE  
20 Progress. (Docket No. E-2, Sub 1142, Bateman Direct, page 10,  
21 lines 6-17)

22 Q HAS DUKE ENERGY CAROLINAS, LLC PRESENTED A CONSISTENT POSITION  
23 REGARDING RATE PARITY AMONG THE VARIOUS RATE CLASSES?

24 A Yes. Mr. Michael J. Pirro presented testimony on behalf of Duke Energy Carolinas  
25 LLC, which stated:

26 This historical subsidy has, in the past, been beyond the range of  
27 reasonableness, which we define as class rates of return within 10  
28 percent of the total Company rate of return. The updated comparison  
29 through the test period year now shows significant convergence of the  
30 class rate of return over all classes towards the band of reasonableness  
31 demonstrating the success of the strategy of gradually reducing the  
32 subsidy/excess by 25 percent. Continuation of this trend would be  
33 encouraging and desirable.

34 The Company remains committed to monitoring subsidy / excess levels  
35 and making improvements to ensure its rates are fair across the classes  
36 of customers served. (Docket No. E-7, Sub 1146, Pirro Direct, page 21,  
37 lines 12-22)

1 Duke witness Pirro presented similar testimony in the most recent Duke Energy  
2 Progress, LLC and Duke Energy Carolinas, LLC general rate cases as well. (Docket  
3 No. E-7, Sub 1214, Pirro Direct, p. 20, lines 9-18)

4 **Q HAVE YOU EXAMINED THE CLASS RATES OF RETURN, INDEXES AND**  
5 **SUBSIDIES PRESENTED BY PIEDMONT?**

6 A Yes. Exhibit NP-1 shows the results of Piedmont's peak and average cost of service,  
7 indexes and subsidies at both current rates and rates proposed by Piedmont. Exhibit  
8 NP-2 shows similar information based on the peak demand method.

9 **Q WHAT DO YOU CONCLUDE?**

10 A Piedmont's rates are not adequately based on cost of service, and Piedmont's  
11 proposed distribution of the increase only to non-contract customers results in an  
12 increase in the subsidy provided by non-contract customers to special contract  
13 customers as shown on Exhibits NP-1 and NP-2.

14 **Q WHY ARE CONTRACT CLASSES NOT INCLUDED IN PIEDMONT'S REVENUE**  
15 **DISTRIBUTION?**

16 A Piedmont has apparently entered into contracts that do not provide for increases in rate  
17 levels to the contract classes. This is problematic because Piedmont proposes to  
18 collect the entire claimed increase in system revenue requirement from all non-contract  
19 customer classes. The contract classes represent approximately 22% of Piedmont's  
20 rate base (investment), and the return associated for this rate base investment  
21 requested by Piedmont in this proceeding would be borne by all other non-contract  
22 customers, based on the rates and class increases proposed by Piedmont.

1    **Q     IS THIS APPROACH REASONABLE?**

2    A     No. If Piedmont will not or cannot raise the rates to earn its requested return on 22%  
3         of its investment attributable to the special contract class of customers, the Commission  
4         should not allow Piedmont to increase the rates of other non-contract customers to  
5         make up the shortfall. Additionally, the Commission should be aware that the largest  
6         Special Contract class, Power Generation, involves contracts with affiliates of  
7         Piedmont, making the Company's proposal even more problematic and self-serving.  
8         Certainly, affiliate transactions require additional scrutiny by the Commission.

9    **Q     WHAT OTHER CONTRACT CLASSES WOULD RECEIVE NO INCREASE UNDER**  
10        **PIEDMONT'S PROPOSAL?**

11   A     The Municipal Contract class is the second largest Special Contract class and shown  
12         to produce a negative rate of return. If Piedmont chooses to earn a negative return on  
13         this class, other ratepayers should not make up the difference. The smallest Special  
14         Contract class, Special Contracts, does provide an above average return and under  
15         cost based ratemaking should not be increased, but the same is true of certain other  
16         non-contract classes, such as the Interruptible service class.

17   **Q     WHAT RATE OF RETURN IS PRODUCED BY THE INTERRUPTIBLE SERVICE**  
18        **CLASS?**

19   A     The Interruptible service class is shown to provide Piedmont a rate of return of 20.79%  
20         under current rates and that excessive return would increase to 23.40% under rates  
21         proposed by Piedmont based on the peak and average method. This is in contrast to  
22         Piedmont's request to earn a return of 7.27% on its entire rate base in this proceeding.

1 The Commission should not approve any increase to a class that currently produces a  
2 rate of return of 20.79%. Using the more cost-based peak demand method, the return  
3 for the interruptible service class is even higher.

4 **Distribution of Increase**

5 **Q HAVE YOU REVIEWED PIEDMONT'S PROPOSED DISTRIBUTION OF ITS**  
6 **REQUESTED BASE RATE INCREASE?**

7 A Yes. Piedmont's proposed distribution of its base rate increase is shown on Exhibit  
8 NP-3. Piedmont's proposed distribution increases base rates to all non-contract  
9 classes by 11.9% and proposes no increase in rates to Special Contract classes.  
10 Piedmont's proposal is not adequately cost based, fair or reasonable and should be  
11 modified.

12 If Piedmont refuses to or has agreed not to increase rates to contract classes  
13 that do not provide the requested rate of return, the solution should involve  
14 shareholders, not subsidies from all other ratepayers. Another alternative is to exclude  
15 the special contract classes and their associated revenue requirement from this  
16 proceeding, preventing harm to other classes

17 **Q HAVE YOU PERFORMED A DISTRIBUTION SIMILAR TO PIEDMONT'S, BUT WITH**  
18 **NO INCREASE TO INTERRUPTIBLE SERVICE AND REASONABLE**  
19 **PARTICIPATION BY THE SPECIAL CONTRACT CLASS?**

20 A Yes. Piedmont's approach modified to include Special Contract customers and  
21 eliminate the increase to Interruptible service due to the excessive return provided to  
22 Piedmont by that class is shown on Exhibit NP-4.

1    **Q     THE APPROACH BY DUKE ENERGY AND DUKE PROGRESS YOU REFERENCED**  
2           **PREVIOUSLY INDICATED A RATE BASE ALLOCATION OF THE INCREASE. DID**  
3           **YOU PERFORM A DISTRIBUTION TO CLASSES ON THAT BASIS?**

4    A     Yes. An allocation of Piedmont's requested increase using rate base from the  
5           Company's cost of service study to the special contract class with no increase to  
6           Interruptible service is shown on Exhibit NP-5. Of particular concern is that the  
7           combined Special Contract classes require a \$22.7 million, or approximately 17.9%,  
8           rate increase just to keep the subsidy it receives from getting larger. Reducing  
9           subsidies by 25% as recommended by Duke witnesses in other proceedings is  
10          problematic due to the extremely large imbalances that currently exist in Piedmont's  
11          rates. One solution is to use the difference between Piedmont's requested increase  
12          and the ultimate amount authorized to reduce subsidy/excess levels by lowering the  
13          proposed increases to those classes providing above system average returns.

14   **Q     HOW DOES PIEDMONT ALLOCATE THE IMR TO CLASSES?**

15   A     Piedmont allocates the IMR to classes on the basis of margin, and includes a Special  
16          Contract Credit representing the amount provided by Special Contract customers  
17          towards the IMR. As previously stated, Special Contract customers represent 22% of  
18          Piedmont's rate base investment and Piedmont has not demonstrated that the credits  
19          cover the appropriate level of IMR costs for those customers. Customers paying  
20          margins in excess of cost are overcharged by this approach, in addition to paying for  
21          any shortfall associated with the Special Contract classes.

1 Q HAVE YOU REVIEWED PIEDMONT'S PROPOSED RATE DESIGN FOR RATE  
2 SCHEDULES 113 AND 114?

3 A Yes. Piedmont's proposed rate design is shown on Exhibit NP-6. Piedmont is  
4 proposing significant increases to the higher usage blocks of Rate Schedules 113 and  
5 114, which is inappropriate and would result in harsh impacts or rate shock to higher  
6 usage customers. Rate Schedule 114 requires a reduction, not a harsh increase. A  
7 declining block rate structure should be designed to collect fixed costs in the initial  
8 usage blocks and, once fixed costs are recovered, the higher usage blocks should only  
9 be recovering variable costs. To the extent the Commission approves a lower increase  
10 than the \$109 million requested, I recommend that the higher usage blocks be lowered  
11 to reflect only variable costs. The significant overpayments by Interruptible  
12 Transportation customers will continue unless addressed in the distribution of the  
13 increase to classes and the rate design, as previously discussed.

14 **Return on Equity**

15 Q IS PIEDMONT'S PROPOSED 10.25% ROE REQUEST APPROPRIATE?

16 A No. Piedmont's requested ROE of 10.25% is excessive and should be rejected. The  
17 Company's current authorized ROE is 9.70%, which was authorized by approving a  
18 stipulation in the Commission's Final Order in Docket No. G-9, Sub 743, issued on  
19 October 31, 2019.

20 Every quarter, Regulatory Research Associates, an affiliate of SNL Financial,  
21 updates its *Major Rate Case Decisions* report that covers electric and natural gas utility  
22 rate case outcomes. Specifically, this report tracks the authorized ROEs resulting from  
23 utility rate cases around the country. The most recent report has been updated through  
24 March 31, 2021 and shows that the national average authorized ROE for gas utilities

1 for the 12 months ending March 31, 2021 was 9.56%. This is 14 basis points below  
2 Piedmont's currently authorized ROE. The Commission also should consider the IMR,  
3 and any other mechanisms which provide Piedmont with additional cost recovery  
4 outside of a base rate case in setting a reasonable ROE.

5 On that basis, the Company's current ROE, and definitely its requested ROE,  
6 are significantly above a reasonable cost of equity. I recommend that the Commission  
7 authorize a ROE that does not exceed the national average of 9.56%.

8 **Q DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

9 **A** Yes, it does.

**Qualifications of Nicholas Phillips, Jr.**

1   **Q    PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2   A    Nicholas Phillips, Jr. My business address is 16690 Swingley Ridge Road, Suite 140,  
3        Chesterfield, MO 63017.

4   **Q    PLEASE STATE YOUR OCCUPATION.**

5   A    I am a consultant in the field of public utility regulation with the firm of Brubaker &  
6        Associates, Inc. ("BAI"), energy, economic and regulatory consultants.

7   **Q    PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL  
8        EMPLOYMENT EXPERIENCE.**

9   A    I graduated from Lawrence Institute of Technology in 1968 with a Bachelor of Science  
10       Degree in Electrical Engineering. I received a Master's of Business Administration  
11       Degree from Wayne State University in 1972. Since that time I have taken many  
12       Masters and Ph.D. level courses in the field of Economics at Wayne State University  
13       and the University of Missouri.

14        I was employed by The Detroit Edison Company in June of 1968 in its  
15       Professional Development Program. My initial assignments were in the engineering  
16       and operations divisions where my responsibilities included the overhead and  
17       underground design, construction, operation and specifications for transmission and  
18       distribution equipment; budgeting and cost control for operations and capital  
19       expenditures; equipment performance under field and laboratory conditions; and  
20       emergency service restoration. I also worked in various districts, planning system  
21       expansion and construction based on increased and changing loads.

1           Since 1973, I have been engaged in the preparation of studies involving  
2 revenue requirements based on the cost to serve electric, steam, water and other  
3 portions of utility operations.

4           Other responsibilities have included power plant studies; profitability of various  
5 segments of utility operations; administration and recovery of fuel and purchased power  
6 costs; sale of utility plant; rate investigations; depreciation accrual rates; economic  
7 investigations; the determination of rate base, operating income, rate of return; contract  
8 analysis; rate design and revenue requirements in general.

9           I held various positions at Detroit Edison, including Supervisor of Cost of  
10 Service, Supervisor of Economic studies and Depreciation, Assistant Director of Load  
11 Research, and was designated as Manager of various rate cases before the Michigan  
12 Public Service Commission and the Federal Energy Regulatory Commission. I was  
13 acting as Director of Revenue Requirements when I left Detroit Edison to accept a  
14 position at Drazen-Brubaker & Associates, Inc., in May of 1979.

15           The firm of Drazen-Brubaker & Associates, Inc. was incorporated in 1972 and  
16 has assumed the utility rate and economic consulting activities of Drazen Associates,  
17 Inc., active since 1937. In April 1995, the firm of Brubaker & Associates, Inc. was  
18 formed. It includes most of the former DBA principals and staff.

19           Our firm has prepared many studies involving original cost and annual  
20 depreciation accrual rates relating to electric, steam, gas and water properties, as well  
21 as cost of service studies in connection with rate cases and negotiation of contracts for  
22 substantial quantities of gas and electricity for industrial use. In these cases, it was  
23 necessary to analyze property records, depreciation accrual rates and reserves, rate  
24 base determinations, operating revenues, operating expenses, cost of capital and all  
25 other elements relating to cost of service.

1           In general, we are engaged in valuation and depreciation studies, rate work,  
2 feasibility, economic and cost of service studies and the design of rates for utility  
3 services. In addition to our main office in St. Louis, the firm also has branch offices in  
4 Phoenix, Arizona and Corpus Christi, Texas.

5 **Q    WHAT ADDITIONAL EDUCATIONAL, PROFESSIONAL EXPERIENCE AND**  
6 **AFFILIATIONS HAVE YOU HAD?**

7 A    I have completed various courses and attended many seminars concerned with rate  
8 design, load research, capital recovery, depreciation, and financial evaluation. I have  
9 served as an instructor of mathematics of finance at the Detroit College of Business  
10 located in Dearborn, Michigan. I have also lectured on rate and revenue requirement  
11 topics.

12 **Q    HAVE YOU PREVIOUSLY APPEARED BEFORE A REGULATORY COMMISSION?**

13 A    Yes. I have appeared before the public utility regulatory commissions of Arkansas,  
14 Delaware, Illinois, Indiana, Iowa, Kansas, Kentucky, Maryland, Michigan, Missouri,  
15 Montana, New Jersey, New York, North Carolina, Ohio, Pennsylvania, South Carolina,  
16 South Dakota, Virginia, West Virginia, and Wisconsin, the Lansing Board of Water and  
17 Light, the District of Columbia, and the Council of the City of New Orleans in numerous  
18 proceedings concerning cost of service, rate base, unit costs, pro forma operating  
19 income, appropriate class rates of return, adjustments to the income statement,  
20 revenue requirements, rate design, integrated resource planning, power plant  
21 operations, fuel cost recovery, regulatory issues, rate-making issues, environmental  
22 compliance, avoided costs, cogeneration, cost recovery, economic dispatch, rate of  
23 return, demand-side management, regulatory accounting and various other items.