

**Before the
North Carolina Utilities Commission**

Docket No. G-9, Sub 781

General Rate Case

**Rebuttal Testimony
of
Kally A. Couzens**

**On Behalf Of
Piedmont Natural Gas Company, Inc.**

1 **Q. Ms. Couzens, please state your name and business address.**

2 A. My name is Kally Couzens. My business address is 4720 Piedmont Row
3 Drive, Charlotte, North Carolina.

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

5 A. I am employed by Piedmont Natural Gas Company, Inc., (“Piedmont” or
6 the “Company”) as the Manager of Rates & Regulatory Strategy.

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

8 A. Yes. I previously submitted prefiled direct testimony in this proceeding
9 on March 22, 2021.

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

11 A. The purpose of my testimony is to respond to various matters raised in the
12 direct testimony of the Public Staff - North Carolina Utilities Commission
13 (“Public Staff”) witnesses and intervenor witnesses.

14 **Q. What topics does your rebuttal testimony address?**

15 A. Specifically, I would like to respond to concerns and recommendations
16 related to the following topics raised by Public Staff witnesses Dustin
17 Metz, Julie Perry, and John Hinton, by Carolina Utility Customer
18 Association, Inc. (“CUCA”) witness Kevin O’Donnell, and by Carolina
19 Industrial Group for Fair Utility Rates IV (“CIGFUR IV”) witness
20 Nicholas Phillips:

21 (1) Piedmont’s design day allocation of system costs;

22 (2) Rate increases on special contract customers;

23 (3) Piedmont’s computation of certain operating revenues;

1 (4) Revisions to Piedmont’s gas extension feasibility model.

2 **Q. What is Piedmont’s position on the issue of demand allocation**
3 **reflected in Mr. Metz’s prefiled testimony?**

4 A. I reviewed Mr. Metz’s supplemental testimony, which recommends the
5 use of the Company’s proposed North Carolina demand allocation of
6 85.39%. Therefore, I believe that Piedmont and the Public Staff are now
7 aligned on this issue.

8 **Q. What is your position on Mr. Metz’s proposals to study the allocation**
9 **of transmission assets and the regression analyses utilized to calculate**
10 **the design day demand allocation factor?**

11 A. Mr. Metz recommends two studies. First, Mr. Metz recommends that the
12 Commission order the Company, the Public Staff, and any other interested
13 parties, to initiate, report on the status of, and complete a study of an
14 updated regression analysis to determine a more accurate breakdown of
15 system usage among Piedmont’s customer classes and its North Carolina
16 and South Carolina jurisdictions. Second, Mr. Metz proposes a similar
17 study of the jurisdictional allocation of transmission costs on Piedmont’s
18 system. We are confident that Piedmont’s existing allocation
19 methodologies for each of these matters, which have been consistently
20 used and accepted by this Commission and also by the Public Service
21 Commission of South Carolina for many years, continue to be reasonable
22 and appropriate. Nevertheless, Piedmont is not opposed to the concept of

1 either study and will fully participate if one or both studies are ordered by
2 this Commission.

3 **Q. What concerns have been raised in this proceeding related to**
4 **Piedmont's Special Contract customers?**

5 A. CIGFUR IV witness Phillips alleges that Piedmont's proposed distribution
6 of the revenue requirement increase results in an increase provided by
7 non-contract customers to subsidize Special Contract customers. As a
8 result, witness Phillips recommends that the Commission not allow
9 Piedmont to increase the rates of non-contract customers to make-up the
10 revenue requirement. Additionally, witness Phillips raises concerns that
11 Piedmont's proposal is problematic and self-serving because its largest
12 Special Contract class, which represents Special Contracts to Power
13 Generation providers in North Carolina, involves contracts with
14 Piedmont's affiliates.

15 **Q. What is Piedmont's response to these concerns?**

16 A. The terms and conditions of each Special Contract are individually
17 reviewed and approved by the Commission. Piedmont performs a project-
18 specific analysis of the incremental costs needed to provide service to any
19 new Special Contract customer. The model Piedmont uses for this
20 analysis accurately analyzes the contributions needed from the customer to
21 fully compensate Piedmont for the costs of serving that specific customer
22 over the life of the Special Contract. As in prior general rate cases for
23 Piedmont, all of the revenue and costs associated with the provision of

1 natural gas service to customers served under Special Contracts is
2 included in the Company's cost of service computation in this rate
3 proceeding. The net effect of including the costs and revenues of these
4 contracts is a reduction of the revenue requirement for Piedmont's other
5 customers. In short, the subsidization concerns that witness Phillips raises
6 in his testimony do not exist in this case.

7 **Q. Why then does the Allocated Cost of Service Study prepared by**
8 **Piedmont witness Ms. Cynthia Menhorn show lower than average**
9 **rates of return for certain classes of Special Contracts as pointed out**
10 **by witness Phillips?**

11 A. Ms. Menhorn's Allocated Cost of Service Study results are derived to
12 determine how total revenues and costs are allocated to all rate classes
13 regardless of whether the classes will be allocated any component of a
14 requested increase. The cost model utilized by Piedmont for individual
15 projects performs a project-specific analysis of the incremental costs
16 needed to provide service. That model accurately analyzes the
17 contributions needed from the new customer to fully compensate
18 Piedmont for the costs of serving that customer during the term of the
19 contract. Ms. Menhorn engages in an entirely different analysis. She
20 allocates total North Carolina rate base, expenses and revenues across all
21 customer classes and then uses the resulting return analysis to inform
22 decisions about how to allocate any revenue requirement increases across
23 Piedmont's rate classes. Importantly, this analysis was never intended to

1 inform the design of existing special contract rates because those
2 Commission-approved rates are fixed and will not change as a result of
3 this rate case. Ms. Menhorn could have excluded all rate base, expenses,
4 and revenues associated with fixed price contracts from her cost of service
5 study. However, such exclusion would have likely required multiple
6 reconciliations throughout this proceeding as totals per the cost of service
7 study would not have been in agreement with total North Carolina rate
8 base, expenses and revenues shown in the G-1 data request response and
9 the testimony and exhibits of Piedmont witness Bowman.

10 **Q. Does Piedmont follow the same process and use the same model to**
11 **generate proposed revenues regardless of whether the counterparty to**
12 **these contracts is an affiliate?**

13 A. Yes.

14 **Q. Does witness Phillips raise any other concerns related to Piedmont's**
15 **Special Contract customers?**

16 A. Yes. In his direct testimony, witness Phillips also alleges that Piedmont
17 has not demonstrated that the Special Contract Credit included in the
18 Company's Integrity Management Rider ("IMR") mechanism is
19 appropriate to cover the level of IMR costs for its Special Contract
20 customers.

21 **Q. Do you agree with this concern?**

22 A. No. As Mr. Phillips notes, the Special Contract Credit portion of
23 Piedmont's IMR represents an amount provided by the Special Contract

1 customers towards the integrity management plant investment. This credit
2 has been consistently approved by the Commission since the inception of
3 Piedmont's IMR. The continuation of this credit was included in the
4 Settlement Agreement approved by the Commission in Piedmont's 2019
5 general rate case proceeding in Docket No. G-9, Sub 743.

6 **Q. Are there any other recommendations in this proceeding related to**
7 **Special Contracts that Piedmont disagrees with?**

8 A. Yes. In this case, CUCA witness O'Donnell recommends rate increases
9 for Piedmont's Municipal and Power Generation Special Contracts.
10 Additionally, because these contract rates are fixed he suggests that if
11 these contracts extend out for two years beyond the implementation of the
12 new rates in this case, the revenue deficiency caused by these Special
13 Contract customers should be spread to remaining non-contract customers
14 for a period not to exceed two-years. After the two-year period, witness
15 O'Donnell suggests Piedmont should absorb the rate increase or re-
16 negotiate the contracts.

17 **Q. Do you agree with this recommendation?**

18 A. No, I do not.

19 **Q. Please explain.**

20 A. As previously discussed, each special contract is approved by the
21 Commission and the full revenues and costs associated with service
22 provided to customers served under Special Contracts is included in the
23 Company's cost of service computation. The net effect of this is full

1 recovery of the costs incurred to serve Special Contract customers and a
2 reduction of the revenue requirement for Piedmont's other customers.

3 **Q. Were there any recommendations raised in this proceeding regarding**
4 **revenues that you disagree with?**

5 A. Yes. Public Staff witness Perry recommends an ongoing level of Late
6 Payment Revenues, Miscellaneous Service Revenues, and Rent from Gas
7 Properties by utilizing a five-year historical average of these other
8 operating revenues.

9 **Q. Please explain your concerns with this recommendation.**

10 A. Piedmont disagrees with witness Perry's methodology of using a five-year
11 historical average to determine the ongoing level for all categories of
12 Other Revenues. Specifically, regarding Late Payment Revenues, the
13 Company continues to be subject to the Commission's requirement in
14 Docket No. M-100, Sub 158 to forgo assessing late payment charges on
15 customer accounts and it is uncertain when this requirement will be lifted.
16 Therefore, it is uncertain when Piedmont will even begin recording late
17 payment charge revenues again. Accordingly, it is inappropriate to use a
18 methodology for these revenues in the rate case that essentially imputes
19 phantom revenues to the Company for late payment charges that we have
20 no basis to believe under the current circumstances will be recovered.
21 Piedmont also disagrees with using a historical five-year average for the
22 on-going level of Rent from Gas Properties. In its filing, Piedmont made a
23 pro forma adjustment to Rent from Gas Properties to reflect the revenue

1 associated with the current rental rates from the rental contracts.
2 Therefore, the use of a historical trend is not an accurate representation of
3 ongoing Rent from Gas Properties revenues, nor is it necessary to estimate
4 such revenues given the known rental contract rates for the term of each
5 contract. Finally, for Miscellaneous Revenues, which consist primarily of
6 reconnection revenues and non-sufficient funds revenues, the Company
7 disagrees with witness Perry's recommendation to use a five-year
8 historical average. The Company did not charge these fees for many
9 months in 2020 due to the COVID-19 pandemic. Although the Company
10 has resumed assessing reconnection charges and non-sufficient fund
11 charges, there is no indication when, or if, such revenues will return to
12 levels reflected in prior years due to the fact that many customers were
13 placed on extended payment arrangements as a result of the pandemic. In
14 short, the five-year average methodology overstates the Company's ability
15 to recover these charges.

16 **Q. Are there any other topics raised in this proceeding that you would**
17 **like to address?**

18 A. Yes. Public Staff witness John Hinton recommends in his testimony three
19 revisions to Piedmont's gas extension feasibility model used to calculate
20 the feasibility of extending natural gas service to its residential and
21 commercial customers. These revisions include the use of an investment
22 horizon of forty years or an appropriate length of time that matches the
23 book lives of the gas plant, the use of the Company's approved net of tax

1 discount rate employed for the net present value analysis, and the
2 adjustment of all future cash flows by a long-term inflation rate of 2%.

3 **Q. Do you have any concerns with this recommendation?**

4 A. No. As mentioned in witness Hinton's testimony, the Company has
5 reviewed these proposed changes and supports these adjustments.

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

7 A. Yes, it does.