BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. G-9, SUB 743

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, Continuation of its IMR Mechanism, Adoption of an EDIT Rider, and Other Relief	)))))))	TESTIMONY OF JULIE G. PERRY PUBLIC STAFF – NORTH CAROLINA UTILITIES COMMISSION

PIEDMONT NATURAL GAS COMPANY, INC.
DOCKET NO. G-9, SUB 743

TESTIMONY OF JULIE G. PERRY
ON BEHALF OF THE PUBLIC STAFF –
NORTH CAROLINA UTILITIES COMMISSION

JULY 19, 2019

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND PRESENT POSITION.

A. My name is Julie G. Perry. My business address is 430 North Salisbury Street, Dobbs Building, Raleigh, North Carolina. I am the Accounting Manager for Natural Gas and Transportation with the Accounting Division of the Public Staff – North Carolina Utilities Commission (Public Staff).

Q. PLEASE BRIEFLY STATE YOUR QUALIFICATIONS AND DUTIES.

A. My qualifications and duties are set forth in Appendix A.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. The purpose of my testimony is to present the accounting and ratemaking adjustments I am recommending regarding state Excess Deferred Income Taxes (EDIT), federal protected EDIT, federal unprotected EDIT, and the deferred revenues associated with the overcollection of taxes since January 1, 2018, due to changes in the federal tax rate applicable to Piedmont Natural Gas Company, Inc. (Piedmont or the Company).

I am also providing testimony regarding plant investment related to the Atlantic Coast Pipeline project (ACP), the Integrity Management Rider (IMR) mechanism and tariff, a special contract adjustment, the non-utility adjustment in this case, and my concerns regarding service company cost allocations.

Q. PLEASE DESCRIBE THE SCOPE OF YOUR INVESTIGATION INTO THE COMPANY'S FILING.

A. My investigation included a review of the application, testimony, exhibits, and other data filed by Piedmont. The Public Staff has also conducted extensive discovery in this matter, performed an on-site audit, reviewed responses provided by the Company in response to the Public Staff's numerous data requests, and participated in conference calls with the Company.

Q. PLEASE DESCRIBE YOUR EXHIBITS.

A. My exhibits are as follows:

- Perry Exhibit I, Schedule 1 presents the tax adjustments to rate base for treatment as a Rider.

- Perry Exhibit I, Schedule 2 presents the calculation of the effects of federal protected EDIT on the Company's rate base and income statement.

- Perry Exhibit I, Schedule 3 sets forth the calculation of the federal unprotected EDIT Rider to be in effect for five years.

- Perry Exhibit I, Schedule 3(a) sets forth the calculation of the unprotected EDIT Rider annuity factor.

- Perry Exhibit I, Schedule 4 sets forth the calculation of the state EDIT Rider, which the Public Staff recommends be refunded in two years.

- Perry Exhibit I, Schedule 4(a) sets forth the calculation of the state EDIT Rider annuity factor.

- Perry Exhibit II, Schedule 1 sets forth the calculation of the non-utility adjustment for O&M expenses and general plant items.

- Perry Exhibit II, Schedule 2 sets forth the calculation of the Atlantic Coast Pipeline plant regulatory asset rate base and O&M expense impact.

TAX CUTS AND JOBS ACT EFFECTS

Q. HAVE YOU REVIEWED THE COMPANY'S PROPOSAL TO ADDRESS THE EFFECTS OF THE TAX CUTS AND JOBS ACT (TAX ACT)?

A. Yes.

Q. WHAT IS YOUR UNDERSTANDING OF THE COMPANY'S PROPOSAL?

A. The Company has proposed an EDIT Rider to return to ratepayers (1) federal EDIT and (2) overcollected revenues that have accrued since January 1, 2018, both of which are related to the federal tax rate decrease provision of the Tax Act, and state EDIT resulting from various state income tax changes.

Q. WHAT ARE THE DIFFERENCES BETWEEN THE COMPANY'S AND THE PUBLIC STAFF'S PROPOSALS TO ADDRESS THE EFFECTS OF THE TAX ACT AND THE STATE TAX CHANGES?

A. The Company and the Public Staff differ as to (1) whether to remove protected federal EDIT from base rates and include them in a rider, (2) the rate at which unprotected federal EDIT should be flowed back to ratepayers, (3) the rate at which the overcollection (since January 1, 2018) of federal taxes due to the decrease in federal tax rates should be flowed back to ratepayers, (4) the rate at which state EDIT should be flowed back to ratepayers, and (5) which proposed federal EDIT Rider mechanism is appropriate.

Q. PLEASE EXPLAIN THE PUBLIC STAFF'S GENERAL CONCERNS REGARDING PIEDMONT'S PROPOSED EDIT RIDER.

A. Piedmont has proposed an EDIT Rider that contains the following categories of refunds for customers:

(1) Federal EDIT – Protected

(2) Federal EDIT – Unprotected (PP&E and non PP&E related)

(3) State EDIT

(4) Deferred Revenue from Tax Act Overcollections

The Public Staff notes that Piedmont has not made an adjustment to exclude any EDIT from rate base, but instead proposes to handle each of the categories above in one, single Rider with rate changes occurring each year based on the proposed amortizations for these categories, which range from 52.9 years to 3 years. The Public Staff believes that the four categories of refunds listed above should be handled in separate Riders due to the differing natures of the amounts and the amortization periods. We believe that this provides a more transparent means of tracking the Tax Act and state tax-related refunds to customers for each year.

<u>FEDERAL EDIT</u>:

Q. PLEASE EXPLAIN WHAT IS MEANT BY PROTECTED AND UNPROTECTED FEDERAL EDIT.

A. The federal EDIT consist of two categories, protected and unprotected EDIT. The protected EDIT are deferred taxes related to timing differences arising from the utilization of accelerated depreciation for tax purposes and another depreciation method for book purposes. These deferred taxes are deemed protected because the IRS does not permit regulators to flow back the excess to ratepayers immediately, but instead requires that the excess be flowed back to ratepayers ratably over the life of the timing difference that gave rise to the excess, per IRC Section 203(e).

Q. WHAT IS THE COMPANY'S PROPOSAL WITH RESPECT TO PROTECTED FEDERAL EDIT?

A. The Company has calculated the known and measurable refund of protected EDIT based on Internal Revenue Service (IRS) normalization rules, as required by the Tax Act. The Company's proposed EDIT Rider would amortize its protected EDIT balance over a period of 52.9 years.

Q. PLEASE DESCRIBE YOUR PROPOSED ADJUSTMENT TO PROTECTED FEDERAL EDIT.

A. I have made an adjustment to remove the protected federal EDIT from the EDIT Rider proposed by the Company and to instead leave the amount in base rates. I did this because the Company's calculation of the net remaining life of the timing differences results in an extremely long life due to the timing differences that gave rise to the excess. The Public Staff proposes to amortize the protected EDIT balance over 52.91 years in base rates and to remove the first year of amortization from the deferral amount for purposes of this proceeding. Perry Exhibit I presents the impacts of including the protected federal EDIT in rate base and the income statement. Public Staff witness Jayasheela's Exhibit I depicts the impact of the adjusted protected federal EDIT as shown on Perry Exhibit I.

Q. WHAT IS THE COMPANY'S PROPOSAL WITH RESPECT TO UNPROTECTED FEDERAL EDIT?

A. The Company artificially created two categories of unprotected federal EDIT, namely, "unprotected, PP&E [Property, Plant, and Equipment] related" and "unprotected, non PP&E related." The Company asserts that because the "unprotected PP&E related" EDIT is similar in nature to protected EDIT (which is also related to PP&E), it is reasonable to return it to ratepayers over the same time period that it would have been paid to the IRS had the Tax Act not been enacted.

In its proposed EDIT Rider, the Company seeks to amortize its “unprotected, PP&E related” EDIT balance over 20 years, and its “unprotected, non PP&E related” balance over 5 years. The Company acknowledges, however, that the Commission has the discretion to flow back all of the unprotected EDIT over any time period it deems appropriate.

Q. DO YOU AGREE WITH THE COMPANY’S CHARACTERIZATION OF UNPROTECTED FEDERAL EDIT AND ITS PROPOSAL TO FLOW BACK THOSE FUNDS TO RATEPAYERS?

A. I do not agree with the Company’s characterization of its unprotected federal EDIT as “unprotected, PP&E related” and “unprotected, non PP&E related.” The IRS tax normalization rules are very clear – EDIT is either protected, or it is not. The EDIT that the Company designates as “unprotected, PP&E related” is clearly still unprotected under IRS rules, a fact conceded by the Company. The Company’s assertion that it should return this “unprotected, PP&E related” EDIT over the same period of time it would have paid the funds to the IRS had the Tax Act not been passed is not supported by any accounting or ratemaking principle, and should not dictate the Commission’s decision as to what is a reasonable amount of time over which to return these funds to ratepayers. These funds rightfully belong to the ratepayers and should be returned to them as soon as reasonably possible. It should be noted that the Company will continue to collect accumulated deferred income taxes (ADIT) at a tax rate sufficient to meet its tax obligations.

Q. PLEASE DESCRIBE YOUR PROPOSED ADJUSTMENT TO UNPROTECTED FEDERAL EDIT.

A. I recommend removing the entire EDIT regulatory liability associated with the unprotected differences from rate base and placing it in a rider to be refunded to ratepayers over five years on a levelized basis, with carrying costs.

The immediate removal of unprotected federal EDIT from rate base increases the Company's rate base and mitigates regulatory lag that might result from refunds of unprotected EDIT not being contemporaneously reflected in rate base. Furthermore, removing the total amount of the unprotected federal EDIT credit from rate base in the current case provides the Company with an increase in rates to moderate any cash flow issues that arise. The financing cost to the Company will be imposed ratably over the period that the EDIT is returned through the levelized rider.

Q. WHY DOES THE PUBLIC STAFF RECOMMEND A FIVE-YEAR AMORTIZATION FOR UNPROTECTED EDIT?

A. The Public Staff believes that a five-year period would increase rate stability for ratepayers during the flowback period. While a shorter rider would flow the money back to ratepayers more quickly, it would also result in a larger de facto rate increase when the rider expired at the end of the amortization period. A five-year rider would smooth the rate impact and result in a significantly smaller increase after the rider expires. Additionally, the levelized rider would include a return, thus ensuring that ratepayers are made whole.

The Company has raised concerns regarding impact of the flowback on its cash flow, which it speculates could negatively impact its credit metrics. While the Public Staff does not agree that the Commission should allow those concerns to determine its actions in this case, given the lack of specific evidence of likely harm to the ratepayers presented by the Company, a five-year rider would give the Company additional time over which to manage any cash flow issues. This amortization period is consistent with the amortization period approved by the Commission in the most recent Carolina Water Service general rate case in Docket No. W-354, Sub 360.

<u>OVERCOLLECTION OF FEDERAL TAXES</u>:

Q. WHAT IS THE COMPANY'S PROPOSAL WITH RESPECT TO ITS OVERCOLLECTION OF FEDERAL INCOME TAXES SINCE JANUARY 1, 2018?

A. The Company proposes to refund to ratepayers the overcollection of federal taxes (from January 1, 2018, through March 31, 2019), which resulted from the Tax Act's reduction of federal tax rates, over a three-year period. Piedmont has been accruing interest on these funds calculated at the net of tax overall rate of return since January 1, 2018.

Q. WHAT IS YOUR RECOMMENDATION REGARDING HOW THE COMPANY SHOULD REFUND THE OVERCOLLECTION OF FEDERAL TAXES DUE TO THE TAX ACT?

A. I recommend that Piedmont refund the amount plus interest as of November 1, 2018, the proposed effective date of rates in the current docket, over a one year period. The Public Staff has removed the Company's credit balance from the working capital schedules because we are recommending that the amount be refunded over one year.

Q. WHY DOES THE PUBLIC STAFF RECOMMEND A ONE YEAR AMORTIZATION PERIOD FOR THE OVERCOLLECTION OF REVENUE DUE TO THE FEDERAL INCOME TAX CHANGE?

A. The Public Staff's recommended amortization period is consistent with Commission Orders in both Cardinal Pipeline, Docket No. G-39, Sub 42, and Dominion Energy North Carolina, Docket No. E-22, Sub 560, [tax dockets], in which the Commission approved a one-year time period or a one-time bill credit over which to flow back the overcollection of revenues to ratepayers due to the federal income tax change. We believe that this amortization period represents a reasonable and consistent methodology and should be approved for Piedmont as well.

STATE EDIT:

Q. WHAT IS THE COMPANY'S PROPOSAL WITH RESPECT TO STATE EDIT?

A. Piedmont has proposed to refund the state EDIT resulting from the various state income tax changes to ratepayers over a five-year period.

Q. PLEASE EXPLAIN THE PUBLIC STAFF'S ADJUSTMENT TO STATE EDIT.

A. I am recommending an adjustment to the amortization period proposed for the state EDIT in this case. Specifically, I recommend removing the entire EDIT regulatory liability associated with the state EDIT differences from rate base, and placing it in a rider to be refunded to ratepayers over a two- year period on a levelized basis, with carrying costs. The immediate removal of state EDIT from rate base increases the Company's rate base, and mitigates regulatory lag that might occur from refunds of state EDIT not being contemporaneously reflected in rate base. As with my proposed adjustment to unprotected federal EDIT, removing the total amount of the state EDIT credit from rate base in the current case provides the Company with an increase in rates to moderate any cash flow issues that may occur.

Q. WHY DID THE PUBLIC STAFF RECOMMEND A TWO-YEAR AMORTIZATION PERIOD FOR STATE EDIT?

A. The Public Staff's recommended amortization period is consistent the Commission orders in the most recent general rate case for both Public Service Company of North Carolina, Inc. (PSNC), Docket No. G-5, Sub 565 and Dominion Energy North Carolina, Docket No. E-22, Sub 532, in which the Commission approved a one year flowback and a two-year flowback of State EDIT to ratepayers, respectively. We believe that this amortization period represents a reasonable and consistent methodology and should be approved for Piedmont as well.

Q. DO YOU HAVE ANY ADDITIONAL RECOMMENDATIONS REGARDING THE DEFERRED REVENUES WORKING CAPITAL ADJUSTMENT?

A. Yes. On March 25, 2019, the Commission issued its Order Approving Proposal and Application and Requiring Filing of Revised Tariffs in Docket Nos. M-100, Sub 148, G-9, Sub 731, and G-9, Sub 737 (Sub

148 Order). Regarding the deferral and refunding of the overcollection of revenues from the federal tax change. In the Sub 148 Order, the Commission stated:

> The Commission agrees with Piedmont that no legal justification has been presented to allow the Commission to require Piedmont to allocate tax savings attributable to special contract customer revenues to Piedmont's base rate customers. As Piedmont noted, the rates set for the special contracts are fixed and cannot be adjusted to reflect the tax savings attributable to the special contract revenues. Further as noted by Piedmont, under its proposal, its base rate customers will receive <u>all</u> of the tax savings associated with the revenues those customers generate but will not receive the tax savings associated with the revenues generated by special contracts.

(Sub 148 Order, p 9) (emphasis in original).

The Commission stated that its decision should not be considered precedential in any way, and that its decision was based solely on the comments filed by the parties in these specific dockets. The Commission found it appropriate to direct Piedmont to preserve any EDIT created by the reduction in the North Carolina corporate income tax rate in a regulatory liability account for disposition in this general rate case proceeding. Piedmont was, therefore, allowed to retain approximately $4.9 million of the overcollection from the federal income tax change attributable to the special contract customers. I have made an adjustment to reflect this amount as a cost-free capital item in working capital because Piedmont collected this money from ratepayers and has not been ordered to refund it.

<u>IMR MECHANISM AND TARIFF</u>

Q. WHAT IS YOUR RECOMMENDATION REGARDING THE IMR MECHANISM?

A. In its 2018 Annual IMR Report in Docket No. G-9, Sub 734, the Public Staff stated that the spreadsheet model used to calculate the Integrity Management Revenue Requirement (IMRR) is unnecessarily complex, that further changes to the IMRR model may be advisable, and that any necessary changes should be addressed in Piedmont's next general rate case.

As discussed in both its 2017 and its 2018 Annual IMR Reports, the Public Staff stated that it had ongoing concerns about the Company's calculation of its IMR rate base components and the degree to which application of these methodologies may result in an overstatement of the Company's IMRR. The Public Staff stated that it intended to work with Piedmont to address the following areas during its upcoming general rate case:

(a) Accumulated Depreciation: The current model uses average balances, versus end-of-period balances, to calculate the rate base offset against IMR assets.

(b) Deferred Tax Liabilities: The current model uses average balances, versus end-of-period balances, to calculate the ADIT impact on IMR rate base. Furthermore, the Public Staff noted its continuing concern that the current model may not incorporate all integrity management-related ADIT that should be included in the Company's IMRR calculations.

(c) The Public Staff recommends that revisions be made to the IMR spreadsheet model so that it more closely mirrors the way plant, accumulated depreciation, and ADIT are handled in a general rate case, and is also consistent with the Integrity Management Tracker mechanism approved for PSNC in its last general rate case, Docket No. G-5, Sub 565. The Public Staff sent to Piedmont a template of our proposed modifications to the mechanism and plans to continue to work with the Company to implement these changes.

Q. WHAT IS YOUR RECOMMENDATION REGARDING THE IMR TARIFF CHANGES PROPOSED BY THE COMPANY?

A. Company witness Barkley states that Piedmont is proposing to modify Appendix E to the Service Regulations to include updated percentages and throughput and eliminate the special contract credit provisions to the calculation of the annual IMRR. Company witness Barkley states that this crediting mechanism, which was agreed to by Piedmont and the Public Staff and approved by the Commission in Docket No. G-9, Sub 631, Piedmont's last general rate case, is not applicable subsequent to the effective date of rate changes approved by the Commission in this general rate case proceeding because Piedmont is including all special contract revenues in its revenue request.

The Public Staff disagrees with Company witness Barkley's statement concerning special contract credits because all special contract revenues were reflected in Piedmont's revenue request in the last proceeding when these credits were approved and therefore nothing has changed in the current rate case except that the Company does not want to implement the special contract credits in its tariffs in this proceeding. The special contract credits represent an amount attributable to special contract customers that should be contributing to the IMR for pipeline safety-related costs on the system as a whole. Because these special contracts are fixed in nature and cannot be re-opened for surcharges such as the IMR or a tax rate change as mentioned earlier in testimony, as was done when this IMR was implemented, we compute a credit amount to apply to the IMR revenues being surcharged to customers equal to the revenue requirement impact of the declining book value of the special contract investment included in the last rate case beginning a year after the new rates are put into effect. This credit reduces the amount of IMR revenues surcharged to all customers in order to recognize that all customers should be contributing to the pipeline safety costs on the system. Since these calculations are based on final returns and plant from the rate case order, the Public Staff proposes to provide the final special contract credits once the final order is out since we propose to add the special contract credits back into the IMR tariffs. This is consistent with the initial order approving the mechanism as well as the Revised IMR mechanism approved in 2015 by this Commission.

Q. WHAT IS YOUR RECOMMENDATION REGARDING THE NON-UTILITY ADJUSTMENT?

A. The Company did not allocate a proportionate share of its general administrative costs to its merchandising and jobbing (M&J) operations and none to its equity investment affiliates. The Public Staff applied revised non-utility factors to certain A&G senior level salaries, other corporate O&M expense accounts, and general plant accounts. The revised factors incorporate investment, revenues, and payroll in equity companies at December 31, 2018. Based on data request responses, the Public Staff had a difficult time determining how certain charges from the service company were being handled as far as the equity investments owned by Piedmont. The Public Staff therefore included some but not all of the equity investments companies in my calculation of the non-utility factors.

The Company did not allocate any portion of its plant, accumulated depreciation, and depreciation expense to its M&J operations, nor did it allocate any portion of these items to its equity investment affiliates. The Public Staff has allocated a portion of the Company's plant, accumulated depreciation, and depreciation expense to the M&J operations using the revised three-factor formula method that was determined based on investment, revenues, and payroll.

Q. WHAT IS YOUR RECOMMENDATION REGARDING ATLANTIC COAST PIPELINE PLANT IN SERVICE AND RELATED ACCOUNTS THAT HAVE BEEN INCLUDED IN RATE BASE?

A. Piedmont had existing approved natural gas transportation/redelivery agreements in place with Duke Energy Progress, LLC (DEP) for the transportation/redelivery of natural gas from Piedmont's city gate receipt points on Transcontinental Gas Pipeline Company, LLC (Transco) to the following electric generation plants operated by DEP: Wayne/HF Lee (Docket No. G-9, Sub 572), Richmond/Sherwood Smith Energy Complex (Docket No. G-21, Sub 417), and Sutton (Docket No. G-9, Sub 579).

On September 8, 2014, Piedmont filed a petition in Docket No. G-9, Sub 655 (Petition), requesting that the Commission issue an order authorizing Piedmont to enter into and perform in accordance with the following: (1) a Precedent Agreement, Service Agreement, and Negotiated Rate Agreement (collectively, the Precedent Agreement) related to firm natural gas pipeline capacity on the Atlantic Coast Pipeline project (ACP), (2) amendments to the three preexisting transportation/redelivery agreements identified above (collectively, the DEP Amendments), and (3) a Transmission Capacity Lease between Piedmont and Atlantic Coast Pipeline, LLC.

The Petition stated that Duke Energy Carolinas, LLC (DEC) and DEP together are subscribing to 725,000 dekatherms per day of natural gas transportation capacity on ACP in order to provide service to existing and potential expanded gas-fired generation at their facilities. In order to allow for the redelivery of these volumes from ACP, all of which will be delivered by ACP to interconnect points between Piedmont and ACP in the eastern part of Piedmont's system, DEP requires additional transportation/redelivery rights from Piedmont. In order to provide these additional transportation/redelivery rights to DEP, Piedmont will be required to reconfigure portions of its system and in some cases construct limited new facilities. According to the Petition, DEP and Piedmont negotiated the DEP Amendments to enable Piedmont to provide the additional delivery rights requested by DEP at a reasonable cost.

On October 28, 2014, the Commission authorized Piedmont to enter into the Precedent Agreement and the Transmission Capacity Agreement and operate pursuant to their terms. The Commission also authorized Piedmont to provide natural gas service to DEP pursuant to the DEP Amendments.

ACP has met with major delays, and Piedmont stated in response to a Public Staff data request that ACP is targeting a partial in-service date of late 2020 and a full in-service date of late 2021. Based on data request responses provided by the Company, Piedmont completed a large majority of the planned plant enhancements and the project was closed to plant in service in 2018. Because our analysis indicates that the plant is used and useful for providing service, I have left the plant in rate base. However, as stated in the DEP Amendments, the cost of most of these assets will be paid by DEP, beginning as soon as ACP is in service and, therefore, in order to recognize that current ratepayers should not be paying for assets that will be paid for by DEP, I recommend crediting the revenue requirement in this case to remove the cost of a portion of the ACP-related facilities constructed by the Company, and establishing a regulatory asset to provide for the future collection of these costs from DEP. This regulatory asset should act like a receivable account from DEP. Once ACP comes online and DEP begins making payments to Piedmont, a portion of the revenue received should reduce the regulatory asset, which can be amortized over the life of the three transportation/redelivery agreements with DEP. In this manner, current ratepayers are insulated from paying for plant that will ultimately be paid for by DEP.

Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO SPECIAL CONTRACTS.

A. I have removed the estimated plant, accumulated depreciation, depreciation expense, and ADIT associated with the Duke Lincoln contract because Duke previously paid Piedmont for the cost of the pipeline serving the Duke Lincoln plant. I have made this adjustment using prior rate case data but estimated the Duke Lincoln investment amounts since the Company stated the information was not available. In a data request, the Public Staff asked Piedmont to provide "[t]he amount of plant in service, accumulated depreciation, accumulated deferred income taxes, and depreciation expense as of December 31, 2018, that are included in rate base plant amounts" associated with each electric generation contract, each special contract (other than electric generation), and each minimum margin agreement. In response to the Public Staff's data request, Piedmont replied stating:

> Plant in service and depreciation expense details for certain projects are not available due to the age of the projects and/or limited system information.

> Furthermore, Piedmont does not track accumulated deferred income taxes by project.

OTHER PUBLIC STAFF CONCERNS

Q. PLEASE DESCRIBE YOUR CONCERNS ABOUT THE COST ALLOCATIONS FROM DUKE ENERGY BUSINESS SERVICES, LLC (DEBS) TO PIEDMONT IN THIS CASE.

A. During the course of the Public Staff's review of the cost allocations from DEBS to Piedmont, the information provided by the Company was not transparent enough for the Public Staff to determine (1) whether those costs should be assigned to Piedmont, and (2) if the costs should be assigned to Piedmont, whether the costs are being properly allocated to Piedmont.

For example, the Public Staff reviewed information about aviation costs and legal fees that were allocated from DEBS to Piedmont. The Public Staff was unable to "peel back" the information that was provided by the Company to determine if those costs even relate to Piedmont operations, and, furthermore, whether those costs should be allocated to Piedmont.

Although we understand this is a challenging process, it is imperative that the information provided by the service company be transparent so that the Public Staff can readily determine whether it is properly charged to Piedmont's customers.

One solution to this problem could be that the Commission order the Company to work with the Public Staff to implement processes so that any costs that are allocated from the service company to Piedmont (and other Duke Energy regulated affiliates) be transparent enough so that it is easily ascertainable to determine whether it is appropriate to charge ratepayers.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.

APPENDIX A

QUALIFICATIONS AND EXPERIENCE

JULIE G. PERRY

I graduated from North Carolina State University in 1989 with a Bachelor of Arts degree in Accounting and I am a Certified Public Accountant.

Prior to joining the Public Staff, I was employed by the North Carolina State Auditor's Office. My duties there involved the performance of financial and operational audits of various state agencies, community colleges, and Clerks of Court.

I joined the Public Staff in September 1990, and was promoted to Supervisor of the Natural Gas Section in the Accounting Division in September 2000. I was promoted to Accounting Manager – Natural Gas & Transportation effective December 1, 2016. I have performed numerous audits and/or presented testimony and exhibits before the Commission addressing a wide range of natural gas topics.

Additionally, I have filed testimony and exhibits in numerous water rate cases and performed investigations and analyses addressing a wide range of topics and issues related to the water, electric, transportation, and telephone industries.

Perry Exhibit 1
Schedule 1

Piedmont Natural Gas Company
Docket No. G-9, Sub 743
ADJUSTMENT TO RATEBASE FOR TREATMENT AS A RIDER
For the Test Period Ended December 31, 2018

Line No.	Item	Amount	
1	Adjustments required to flow back refunds to customers through a Rider:		
2	Adjustment to remove federal unprotected EDIT from rate base	($76,220,289)	1/
3	Adjustment to remove state EDIT from rate base	(43,280,669)	1/
4	Adjustment to remove overcollection of revenues due to FIT rate change from rate base	(21,684,190)	2/
5	Public Staff Adjustments to rate base for tax changes (Line 2 +Line 3+Line 4)	($141,185,148)	

1/ Per Barkley Exhibit_(BPB-2), Page 1 of 4, Line 1 - net of gross-up.
2/ G-1, Item 4a, Deferred Revenue 13-Month Average, page 139.

Perry Exhibit I
Schedule 2

Piedmont Natural Gas Company
Docket No. G-9, Sub 743
ADJUSTMENT TO FLOWBACK PROTECTED EDIT DUE TO TAX CUTS AND JOBS ACT
For the Test Period Ended December 31, 2018

Line No.	Item	Amount	
	Income Statement		
1	Regulatory liability for federal tax change related to protected EDIT - NC	($214,876,299)	1/
2	Annual amortization percentage	1.89%	1/
3	Annual amortization of protected EDIT - NC (L2 x L3)	(4,061,162)	
4	Income tax impact	933,052	2/
5	Annual amortization of protected EDIT - NC, net of tax (L3 + L4)	($3,128,110)	
	Rate Base		
6	Adjustment to regulatory assets and liabilities (L3)	$4,061,162	
7	Composite income tax rate	22.9750%	3/
8	Impact to accumulated deferred income taxes (L6 x L7)	(933,052)	
9	Adjustment to rate base (L6 + L8)	$3,128,110	

1/ Per Barkley Exhibit_(BPB-2), Page 1 of 4, Column (A), Line 1 - net of gross-up.
2/ Line 4 times composite income tax rate on Line 9.
3/ Composite income tax rate at 21% FIT and 2.5% SIT.

Perry Exhibit I
Schedule 3

Piedmont Natural Gas Company
Docket No. G-9, Sub 743
CALCULATION OF LEVELIZED FEDERAL
UNPROTECTED EDIT RIDER CREDIT
For the Test Period Ended December 31, 2018

Line No.	Item	Year 1 Revenue Requirement		Year 2 Revenue Requirement		Year 3 Revenue Requirement		Year 4 Revenue Requirement		Year 5 Revenue Requirement		Total Revenue Requirement	
		(a)		(b)		(c)		(d)		(e)		(f)	
	Annuity Factor												
1	Number of years	5	1/										
2	Payment per period	1											
3	After tax rate of return	6.217%	2/										
4	Present value of 1 dollar over number of years with												
5	with 1 payment per year	4.1876											
6	1 plus (interest rate divided by two)	1.0311											
7	Annuity factor (L4 x L5)	4.3178											
8	Total NC retail regulatory liability to be amortized	($76,220,289)	3/	($76,220,289)	3/	($76,220,289)	3/	($76,220,289)	3/	($76,220,289)	3/		
9	Based on Company Response to Public Staff Data Reques	4.3178		4.3178		4.3178		4.3178		4.3178			
10	Levelized rider federal EDIT regulatory liability (L8 / L9)	(17,652,575)		(17,652,575)		(17,652,575)		(17,652,575)		(17,652,575)		(88,262,875)	6/
11	One minus composite income tax rate	77.0250%	4/	77.0250%	4/	77.0250%	4/	77.0250%	4/	77.0250%	4/	77.0250%	4/
12	Net operating income effect (L10 x L11)	(13,596,896)		(13,596,896)		(13,596,896)		(13,596,896)		(13,596,896)		(67,984,479)	
13	Retention factor	0.7655014	5/	0.7655014	5/	0.7655014	5/	0.7655014	5/	0.7655014	5/	0.7655014	5/
14	Levelized rider federal EDIT credit (L5 / L6)	($17,762,079)		($17,762,079)		($17,762,079)		($17,762,079)		($17,762,079)		($88,810,393)	

1/ Rider period recommended by Public Staff.
2/ Perry Exhibit I, Schedule 3(a), Line 3.
3/ Barkely Exhibit _(BPB-2), page 1 of 4, Line, Column B + Column C, Line 1, before gross-up amount.
4/ One minus composite income tax rate of 22.975%.
5/ Jayasheela Exhibit I, Schedule 5(a), Line 13.
6/ Column (a) plus Column (b).

Perry Exhibit I
Schedule 3(a)

Piedmont Natural Gas Company
Docket No. G-9, Sub 743
CALCULATION OF ANNUITY FACTOR FOR EDIT LIABILITY RIDER
For the Test Period Ended December 31, 2018

Line No.	Item	Amount	
	Annuity Factor		
1	Number of years	5	1/
2	Payment per period	1	
3	After tax rate of return (L9)	6.217%	
4	Present value of 1 dollar over number of years with with 1 payment per year	4.1876	
5	1 plus (interest rate divided by two)	1.0311	
6	Annuity factor (L4 x L5)	4.3178	

Line No.	Item	Capital Structure (a)		Cost Rates (b)		Overall Rate of Return (c)	8/	Net of Tax Rate (d)	
	After Tax Rate of Return								
7	Long-term debt	49.94%	2/	4.41%	5/	2.202%		1.696%	9/
8	Short-term debt	0.85%	3/	2.73%	6/	0.023%		0.018%	9/
9	Common equity	49.21%	4/	9.15%	7/	4.503%		4.503%	10/
10	Total	100.00%				6.728%		6.217%	

1/ Rider period per the Public Staff.
2/ Jayasheela Exhibit I, Schedule 5(a), Column (a), Line 1.
3/ Jayasheela Exhibit I, Schedule 5(a), Column (a), Line 2.
4/ Jayasheela Exhibit I, Schedule 5(a), Column (a), Line 3.
5/ Jayasheela Exhibit I, Schedule 5(a), Column (b), Line 1.
6/ Jayasheela Exhibit I, Schedule 5(a), Column (b), Line 2.
7/ Jayasheela Exhibit I, Schedule 5(a), Column (b), Line 3.
8/ Column (a) times Column (b).
9/ Column (c) times (1 minus combined income tax rate of 22.975%)
10/ Amount from Column (c).

Piedmont Natural Gas Company
Docket No. G-9, Sub 743
CALCULATION OF LEVELIZED STATE EDIT RIDER CREDIT
For the Test Period Ended December 31, 2018

Perry Exhibit I
Schedule 4

Line No.	Item	Year 1 Revenue Requirement (a)		Year 2 Revenue Requirement (b)		Total Revenue Requirement (c)	
1	Total NC retail regulatory liability to be amortized	($43,280,669)	1/	($43,280,669)	1/		
2	Annuity factor	1.8846	2/	1.8846	2/		
3	Levelized rider EDIT regulatory liability (L1 / L2)	(22,965,440)		(22,965,440)		($45,930,880)	6/
4	One minus composite income tax rate	77.0250%	3/	77.0250%	3/	77.0250%	4/
5	Net operating income effect (L3 x L4)	(17,689,130)		(17,689,130)		(35,378,260)	
6	Retention factor	0.7655014	4/	0.7655014	4/	0.7655014	5/
7	Levelized rider EDIT credit (L5 / L6)	($23,107,901)		($23,107,901)		($46,215,801)	

1/ Based on Company Response to Public Staff Data Request No. .
2/ Perry Exhibit I, Schedule 4(a), Line 3.
3/ Barkely Exhibit _(BPB-2), page 1 of 4, Line, Column B + Column C, Line 1, before gross-up amount.
4/ One minus composite income tax rate of 22.975%.
5/ Jayasheela Exhibit I, Schedule 5(a), Line 13.
6/ Column (a) plus Column (b).

Perry Exhibit I
Schedule 4(a)

Piedmont Natural Gas Company
Docket No. G-9, Sub 743
CALCULATION OF ANNUITY FACTOR FOR EDIT LIABILITY RIDER
For the Test Period Ended December 31, 2018

Line No.	Item	Amount	
	Annuity Factor		
1	Number of years	2	1/
2	Payment per period	1	
3	After tax rate of return (L9)	6.217%	
4	Present value of 1 dollar over number of years with with 1 payment per year	1.8278	
5	1 plus (interest rate divided by two)	1.0311	
6	Annuity factor (L4 x L5)	1.8846	

Line No.	Item	Capital Structure (a)		Cost Rates (b)		Overall Rate of Return 8/ (c)	Net of Tax Rate (d)	
	After Tax Rate of Return							
7	Long-term debt	49.94%	2/	4.41%	5/	2.202%	1.696%	9/
8	Short-term debt	0.85%	3/	2.73%	6/	0.023%	0.018%	9/
9	Common equity	49.21%	4/	9.15%	7/	4.503%	4.503%	10/
10	Total	100.00%				6.728%	6.217%	

1/ Rider period per the Public Staff.
2/ Jayasheela Exhibit I, Schedule 5(a), Column (a), Line 1.
3/ Jayasheela Exhibit I, Schedule 5(a), Column (a), Line 2.
4/ Jayasheela Exhibit I, Schedule 5(a), Column (a), Line 3.
5/ Jayasheela Exhibit I, Schedule 5(a), Column (b), Line 1.
6/ Jayasheela Exhibit I, Schedule 5(a), Column (b), Line 2.
7/ Jayasheela Exhibit I, Schedule 5(a), Column (b), Line 3.
8/ Column (a) times Column (b).
9/ Column (c) times (1 minus combined income tax rate of 22.975%)
10/ Amount from Column (c).

Perry Exhibit II
Schedule 1

PIEDMONT NATURAL GAS COMPANY
Docket No. G-9, Sub 743
ADJUSTMENT TO RESIDUAL EXPENSE ADJUSTMENT
For The Test Year Ended December 31, 2018

Line No.	Account No.	Description	Merchandising, Jobbing and CNG		Nonutility Equity Investments	[1]	NC Total	[5]
	Expenses subject to allocation							
1.	90370	Postage	$2,073,541	[1]				
2.	90500	Misc. Customer Acctg. Exp	4,964	[1]				
3.	92000	Admin & General Salaries - officers	$8,107,997	[2]	$8,107,997	[2]		
4.		Corporate Office Rent	$9,736,978	[3]				
5.		Incentive Pay - LT P, ST P	8,677,857	[3]	$8,677,857	[3]		
6.	92110	Supplies and Expenses	8,778,454	[3]		[3]		
7.	9232000	Outside services	8,056,847	[3]		[3]		
8.	92320	Computer Services & rent	4,316,056	[3]	4,316,056	[3]		
9.	92510	Insurance Premiums	2,222,443	[3]	2,222,443	[3]		
10.	92520	Safety Programs, Materials	808,027	[1]				
11.	93230	Maintenance Other General Plant	585,658	[1]	585,658			
12.		Total (Sum of L1 thru L12)	$53,368,823		$23,910,012			
13.		Allocation factors	2.0867%		1.5148%			
14.		Public Staff Amount (L13 x L14)	1,113,276		362,267		$1,475,543	
15.		Company Amount	44,703		0		44,703	
16.		Public Staff adjustment (L15 - L16)	$1,068,573		$362,267		$1,430,840	

Plant-related nonutility adjustment

Decrease in Plant in Service	$8,856,378	[4]
Decrease in Accumulated Deprecation	(5,280,022)	[4]
Decrease Net Nonutility PIS	$3,576,356	
Decrease Depreciation Expense	($390,850)	[4]
Decrease Property Tax	($35,169)	[4]

Allocation Ratios:

	Revenues	Payroll	Property	Average
Utility	96.16%	98.05%	98.59%	146.40%
Merchandise and Jobbing	2.22%	1.95%	0.00%	2.09%
Other Non-Utility	1.62%	0.00%	1.41%	1.51%
Total	100.00%	100.00%	100.00%	150.00%
				3.60%

[1] Per Company's adjustment, G-1, Item 4a.
[2] Per Data Request Response 30-1
[3] Per Data Request Response 49-11
[4] Per Feasel Exhibit I.
[5] Column (a) + Column (b) + Column(c).