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Aug 10 2020

August 10, 2020

VIA ELECTRONIC FILING

Ms. Kimberley A. Campbell
Chief Clerk
North Carolina Utilities Commission
430 N. Salisbury Street, Dobbs Building
Raleigh, North Carolina 27603

Re: Docket No. G-9, Sub 771

Dear Ms. Campbell:

Pursuant to the Commission's *Order Scheduling Hearing, Requiring Filing of Testimony, Establishing Discovery Guidelines and Requiring Public Notice*, which was issued on August 4, 2020 in the above-referenced docket, enclosed for filing is the *Supplemental Testimony and Exhibit of MaryBeth Tomlinson* addressing the interest rate presently being applied to Piedmont's deferred accounts, including deferred income tax accounts, and whether a change in the interest rate is warranted.

Thank you for your assistance with this matter. If you have any questions regarding this filing, you may reach me at the number shown above.

Sincerely,

/s/ Melinda L. McGrath
Melinda L. McGrath

MLM/sko

cc: Elizabeth Culpepper
Bruce Barkley
Pia Powers

CERTIFICATE OF SERVICE

The undersigned hereby certifies that a copy of the attached is being served this date upon all of the parties to this docket electronically or by depositing a copy of the same in the United States Mail, First Class Postage Prepaid, at the addresses contained in the official service list in this proceeding.

This the 10st day of August, 2020.

/s/ Sloane K. O'Hare

Sloane K. O'Hare

**Before the
North Carolina Utilities Commission**

Docket No. G-9, Sub 771

**Annual Review of Gas Costs Pursuant to G.S. 62-133.4(c) and
Commission Rule R1-17(k)(6)**

**Supplemental Testimony and Exhibit of
MaryBeth Tomlinson**

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

**Before the
North Carolina Utilities Commission**

Docket No. G-9, Sub 771

**Annual Review of Gas Costs Pursuant to G.S. 62-133.4(c) and
Commission Rule R1-17(k)(6)**

**Supplemental Testimony and Exhibit of
MaryBeth Tomlinson**

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

1 **Q. Please state your name and your business address.**

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

4 **Q. What is your position with Piedmont Natural Gas Company**
5 **(“Piedmont”)?**

6 A. I am employed as the Manager of Gas Accounting.

7 **Q. Have you previously filed testimony in this proceeding?**

8 A. Yes. I prefiled Direct Testimony in this proceeding on July 31, 2020.

9 **Q. What is the purpose of your Supplemental Testimony?**

10 A. The purpose of my Supplemental Testimony is to explain the interest rate
11 presently being applied to the Company’s Cost of Gas (“COG”) deferred
12 accounts, which are the Sales Customers Only Deferred Account, the All
13 Customers Deferred Account, the Hedging Deferred Account, and the
14 NCUC Legal Fund Account. I will also explain the interest rate presently
15 being applied to the deferred accounts for the Margin Decoupling Tracker
16 (“MDT”) mechanism, the Integrity Management Rider (“IMR”)
17 mechanism, and the regulatory liability account holding the over-collected
18 tax revenues associated with the federal tax reform changes effective
19 January 1, 2018.

20 **Q. What interest rate is the Company presently applying to the balances**
21 **for these deferred accounts?**

22 A. Piedmont applies to each of these deferred account balances an interest
23 rate equivalent to its overall allowed rate of return on a net-of-tax basis.

1 The Company's current overall allowed rate of return on a net-of-tax basis
2 is 6.66%, which was set in Piedmont's last general rate case -- its 2019
3 rate case in Docket No. G-9, Sub 743. See the attached Supplemental
4 Exhibit A for support of the computation of 6.66% as the Company's
5 current overall allowed rate of return on a net-of-tax basis.

6 **Q. Was 6.66% the Company's overall authorized rate of return on a net-**
7 **of-tax basis throughout the entire 12-month Review Period of this**
8 **proceeding?**

9 A. No. The Review Period for this proceeding is June 1, 2019 through May
10 31, 2020. The Company's overall authorized rate of return on a net-of-tax
11 basis was 6.95% for the first five months of the Review Period. The
12 6.95% rate is the weighted cost of capital approved by the Commission in
13 Piedmont's penultimate rate case (its 2013 general rate case), expressed
14 on a net-of-tax basis per the 21% federal corporate income tax rate and
15 2.5% state corporate income tax rate in effect for these first five months of
16 the Review Period. The rates set in Piedmont's 2019 rate case became
17 effective November 1, 2019. Accordingly, starting in November 2019,
18 the Company's net-of-tax overall authorized rate of return became 6.66%
19 and the Company began applying that rate to its deferred accounts.

20 **Q. Why does the Company apply to its deferred accounts an interest rate**
21 **equivalent to its overall authorized rate of return on a net-of-tax**
22 **basis?**

1 A. Piedmont applies this interest rate to its deferred accounts in compliance
2 with various Commission orders and the Company's Commission-
3 approved North Carolina Service Regulations. I cited the history and
4 specific requirements in my Supplemental Testimony filed with the
5 Commission on August 16, 2019 in Docket No. G-9, Sub 752, and
6 identified that the interest rate being applied to the deferred accounts at
7 that time was 6.95%. In the Commission's January 31, 2020 order in
8 Docket No. G-9, Sub 752, the Commission found that it was appropriate
9 for the Company to apply this rate to its deferred accounts until further
10 order of the Commission. Such further order of the Commission was the
11 Commission's October 31, 2019 order in Piedmont's 2019 rate case,
12 which among other matters, revised the Company's overall authorized
13 rate of return on a net-of-tax basis to 6.66%.

14 **Q. Do you believe a change to the interest rate applicable to the**
15 **Company's deferred accounts is warranted at this time?**

16 A. No, I do not. The Company is currently using the Commission-authorized
17 interest rate for these deferred accounts. The Company will continue to
18 apply the Commission-authorized interest rate to these deferred account
19 balances until otherwise ordered by this Commission.

20 **Q. Does this conclude your Supplemental Testimony?**

21 A. Yes.

Supplemental Exhibit A

Supplemental Exhibit A

Piedmont Natural Gas Company, Inc.
 Calculation of the Net-of-Tax Overall Rate of Return Established in Piedmont's 2019 Rate Case
 Effective November 1, 2019

<u>Line No.</u>	<u>Item</u>	<u>Capital Structure</u> (a)	<u>Cost Rates</u> (b)	<u>Tax Factors</u> (c)	<u>Net of Tax Overall Rate of Return</u> (d)
1	Long-term debt	47.15%	4.41%	0.7702500	1.60%
2	Short-term debt	0.85%	2.72%	0.7702500	0.02%
3	Common equity	52.00%	9.70%	1.0000000	5.04%
4	Total	<u>100.00%</u>			<u>6.66%</u>
<u>Tax Factors</u>					
5	State income tax rate			0.0250000	
6	Federal Income Tax Rate			<u>0.2100000</u>	
7	Composite income tax rate			<u>0.2297500</u>	
8	Tax Factor For Debt Component			<u>0.7702500</u>	