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Aug 16 2019

August 16, 2019

Ms. M. Lynn Jarvis
Chief Clerk
North Carolina Utilities Commission
430 N. Salisbury Street, Dobbs Building
Raleigh, North Carolina 27603

Re: Docket No. G-9, Sub 752

Dear Ms. Jarvis:

In accordance with the Commission's Order in the above-referenced docket, I have enclosed the *Supplemental Testimony and Exhibit of MaryBeth Tomlinson*.

The required fifteen copies of these documents are being sent to the Commission's office via FedEx Overnight.

If you have any questions regarding this filing, you may reach me at the number shown above.

Sincerely,

/s/ James H. Jeffries IV
James H. Jeffries IV

JHJ/sko

Enclosures

cc: Bruce Barkley
Pia Powers
Beth Culpepper

**Before the
North Carolina Utilities Commission**

Docket No. G-9, Sub 752

**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.**



August 16, 2019

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

2 A. My name is MaryBeth Tomlinson. My business address is 4720 Piedmont
3 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 August 1, 2019.

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

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

19 **Q. What are the current requirements for the interest rates applied to**
20 **these account balances?**

21 A. The current requirements are set forth in various commission orders and in
22 the Company’s commission-approved North Carolina Service Regulations.
23 For the COG deferred accounts, the current requirement regarding the

1 applicable interest rate was established pursuant to the Commission’s
2 September 29, 2016 Order (“2016 Merger Order”) in Docket No. G-9, Sub
3 682. Specifically, ordering Paragraph 9 in the 2016 Merger Order states that
4 “Piedmont shall use the net-of-tax overall rate of return from its last general
5 rate case as the applicable interest rate on all amounts over-collected or
6 under-collected from customers reflected in its Sales Customers Only, All
7 Customers, and Hedging Deferred Gas Cost Accounts.”

8 For the MDT deferred account, the current requirement regarding the
9 applicable interest rate was established pursuant to the Commission’s
10 October 24, 2008 Order (“2008 Rate Case Order”) in Docket No. G-9, Sub
11 550. The 2008 Rate Case Order approved the MDT mechanism as Appendix
12 C of the Company’s North Carolina Service Regulations. Specifically,
13 Section 6 of Appendix C states “[i]nterest will be applied to the Margin
14 Decoupling Deferred Account at the Company’s authorized overall rate of
15 return.”¹

16 For the IMR deferred account, the current requirement regarding the
17 applicable interest rate was established pursuant to the Commission’s
18 December 17, 2013 Order (“2013 Rate Case Order”) in Docket No. G-9, Sub
19 631. The 2013 Rate Case Order approved the IMR mechanism as Appendix

¹ The predecessor mechanism to the MDT was Piedmont’s Customer Utilization Tracker (“CUT”) mechanism. The CUT was established in 2005 pursuant to the Commission’s orders in Docket No. G-9, Sub 499. The requirements for the interest rate for the CUT deferred account were identical to the interest rate requirements for the MDT deferred account.

1 E of the Company's North Carolina Service Regulations. Specifically,
2 Section 6 of Appendix E states "[i]nterest will be applied to the Integrity
3 Management Deferred Account at the Company's authorized net-of-tax
4 overall rate of return."

5 For the regulatory liability account holding the over-collected tax
6 revenues associated with the federal tax reform changes effective January 1,
7 2018, the current requirement regarding the applicable interest rate was
8 established pursuant to the Commission's October 5, 2018 Order ("2018
9 Tax Reform Order") in Docket No. M-100, Sub 148. Regarding the
10 amounts in this regulatory liability account, the 2018 Tax Reform Order
11 stated in ordering paragraph 5 that "[t]hese amounts will ultimately be
12 returned to customers with interest reflected at the overall weighted cost of
13 capital approved in each Company's last general rate case proceeding."

14 **Q. So, is it appropriate to conclude that Piedmont is currently required to**
15 **use its overall allowed rate of return on a net-of-tax basis as the interest**
16 **rate for each of its deferred accounts?**

17 A. Yes, that is Piedmont's understanding of the Commission's current interest
18 rate requirements for these deferred accounts, and the Company has
19 followed these requirements.

20 **Q. Presently, what is the Company's overall authorized rate of return on a**
21 **net-of-tax basis?**

1 A. That rate is presently 6.95%, which is based on the weighted cost of capital
2 approved by the Commission in Piedmont's last general rate case (i.e. its
3 2013 general rate case), expressed on a net-of-tax basis under currently
4 applicable federal and state corporate income tax rates. Those current
5 federal and state corporate income tax rates are 21% and 2.5%, respectively.
6 At the time of the 2013 Rate Case Order, the applicable federal and state
7 corporate income tax rates were 35% and 6.9%, respectively. Supplemental
8 Exhibit A herein shows the computation of Piedmont's present 6.95%
9 overall authorized rate of return on a net-of-tax basis; much of the
10 information in this schedule was previously filed with the Commission,
11 labeled as "Schedule D" in Piedmont's April 4, 2019 compliance filing in
12 Docket No. M-100, Sub 148.

13 **Q. Was 6.95% the Company's overall authorized rate of return on a net-**
14 **of-tax basis throughout the entire 12-month review period of this**
15 **proceeding?**

16 A. No. The review period for this proceeding is June 1, 2018 through May 31,
17 2019. The Company's overall authorized rate of return on a net-of-tax basis
18 was 6.94% for the first seven months of the review period. The 6.94% rate
19 is based on the weighted cost of capital approved by the Commission in
20 Piedmont's 2013 general rate case, expressed on a net-of-tax basis per the
21 21% federal corporate income tax rate and 3.0% state corporate income tax

1 rate in effect for these first seven months of the review period. Starting
2 January 1, 2019, the applicable state corporate income tax rate for Piedmont
3 became 2.5%; accordingly, the Company's net-of-tax overall authorized
4 rate of return became 6.95% effective January 1, 2019.

5 **Q. What specific interest rates did the Company use for the deferred**
6 **accounts during the review period of this proceeding?**

7 A. For the first seven months of the review period, the Company used the
8 6.94% interest rate on its deferred accounts. For the latter five months of
9 the review period, the Company used the 6.95% interest rate on its deferred
10 accounts.

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

13 A. No, I do not. The Company is currently using the Commission-authorized
14 interest rate for these deferred accounts. The Company will continue to
15 apply the Commission-authorized interest rate to these deferred account
16 balances until otherwise ordered by this Commission. I will note, however,
17 that there is a Piedmont general rate case application presently pending
18 before this Commission in Docket No. G-9, Sub 743. The outcome of that
19 general rate case proceeding will ultimately establish a new overall
20 authorized rate of return for Piedmont. Upon the effective date of rates
21 established by this Commission in Docket No. G-9, Sub 743, the Company

1 shall apply the new overall authorized rate of return on a net-of-tax basis to
2 these deferred accounts.

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

4 A. Yes.

5

6

Supplemental Exhibit A

Piedmont Natural Gas Company, Inc.
Calculation of the Net-of-Tax Overall Rate of Return per 21% FIT Rate and 2.5% SIT Rate
Effective January 1, 2019

Supplemental Exhibit A

Line No.	Item	Capital Structure (a)	Cost Rates (b)	Retention Factors (c)	Gross Revenue Effect (d)	Overall Authorized Rate of Return (e)	Tax Factors (f)	Net of Tax Overall Rate of Return (g)
<u>Rate Base Factor:</u>								
1	Long-term debt	46.52%	5.23%	0.9916579	0.02453474	2.43%	0.7702500	1.87%
2	Short-term debt	2.82%	0.53%	0.9916579	0.00015048	0.01%	0.7702500	0.01%
3	Common equity	50.66%	10.00%	0.7638245	0.06632977	5.07%	1.0000000	5.07%
4	Total (Sum of L1 thru L3)	<u>100.00%</u>			<u>0.09101499</u>	<u>7.51%</u>		<u>6.95%</u>
<u>Net Income Factor: Revenue Retention Factor</u>								
5	Total revenue				1.0000000			
6	Uncollectibles				0.0070513			
7	Balance (L5 - L6)				<u>0.9929487</u>			
8	Regulatory fee (L7 x .13%)				0.0012908			
9	Balance (L7 - L8)				<u>0.9916579</u>			
10	Less: State income tax (L9 x 3%)				0.0247914			
11	Balance (L9 - L10)				<u>0.9668665</u>			
12	Less: Federal income tax (L11 x 21%)				0.2030420			
13	Gross up factor (L11 - L12)				<u>0.7638245</u>			
14	State income tax rate				0.0250000			
15	Federal income tax rate				<u>0.2100000</u>			
16	Composite income tax rate				<u>0.2297500</u>			
17	Tax Factor for Debt Component				<u>0.7702500</u>			