

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. G-9, SUB 743

In the Matter of)	TESTIMONY OF
Application of Piedmont Natural Gas)	MARY A. COLEMAN
Company, Inc., for an Adjustment of)	PUBLIC STAFF – NORTH
Rates, Charges, and Tariffs Applicable)	CAROLINA UTILITIES
to Service in North Carolina,)	COMMISSION
Continuation of its IMR Mechanism,)	
Adoption of an EDIT Rider, and Other)	
Relief)	

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

**TESTIMONY OF MARY A. COLEMAN
ON BEHALF OF THE PUBLIC STAFF –
NORTH CAROLINA UTILITIES COMMISSION**

JULY 19, 2019

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

3 A. My name is Mary A. Coleman. My business address is 430 North
4 Salisbury Street, Dobbs Building, Raleigh, North Carolina. I am a
5 Staff Accountant in the Accounting Division of the Public Staff – North
6 Carolina Utilities Commission.

7 **Q. BRIEFLY STATE YOUR QUALIFICATIONS AND DUTIES.**

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

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

11 A. The purpose of my testimony is to present the accounting and
12 ratemaking adjustments I am recommending regarding the Payroll,
13 Employee Benefits, Executive Compensation, and Board of
14 Directors (BOD) expenses in support of the application of Piedmont
15 Natural Gas Company, Inc. (Piedmont or Company) for a rate
16 increase.

1 **Q. MS. COLEMAN, PLEASE DESCRIBE THE SCOPE OF YOUR**
2 **INVESTIGATION INTO THE COMPANY'S FILING.**

3 A. My investigation included a review of the application, testimony,
4 exhibits, and other data filed by Piedmont. I have also conducted
5 extensive discovery in this matter, including the review of numerous
6 responses provided by the Company in response to Public Staff data
7 requests, participation in conference calls with the Company, and an
8 on-site visit to review information and obtain answers to additional
9 questions regarding overtime, North Carolina (NC) allocations,
10 executive compensation, BOD expenses, and employee benefits.

11 **Q. MS. COLEMAN, WHAT ADJUSTMENTS TO THE COMPANY'S**
12 **COST OF SERVICE DO YOU RECOMMEND?**

13 A. I am recommending adjustments in the following areas:

- 14 (1) Payroll Expense
- 15 (2) Overtime Expense
- 16 (3) Payroll Taxes
- 17 (4) Employee Benefits
- 18 (5) Executive Compensation
- 19 (6) Board of Directors' Expenses

20 **Q. PLEASE DESCRIBE YOUR RECOMMENDED ADJUSTMENTS.**

21 A. My adjustments are described below.

22 **PAYROLL EXPENSE**

23 **Q. PLEASE EXPLAIN YOUR PROPOSED PAYROLL EXPENSE**
24 **ADJUSTMENT.**

1 A. I updated the annualized payroll expense to a level that reflects pay
2 rates and employees as of May 31, 2019, which resulted in an
3 adjustment of \$298,058 to increase Piedmont NC-allocated Straight
4 Time Payroll Expenses, an adjustment of (\$85,524) to decrease
5 Duke Energy Business Services (DEBS) Straight Time Payroll
6 allocations to Piedmont (as allocated to NC), and an adjustment of
7 (\$22,102) to decrease the Other Duke Companies Straight Time
8 Payroll allocation to Piedmont NC jurisdictional operations. As
9 reflected in Coleman Exhibit I, Schedule 1, these adjustments
10 resulted in a total increase to the Company's payroll expense of
11 \$190,432.

12 **OVERTIME EXPENSE**

13 **Q. PLEASE EXPLAIN YOUR OVERTIME EXPENSE ADJUSTMENT.**

14 A. I am recommending a \$680,698 decrease to the Company's
15 overtime expense. My investigation revealed that the test year
16 overtime expense was unusually high compared to prior years'
17 overtime charges. Therefore, I determined a reasonable ongoing
18 overtime amount by computing a three-year average of overtime
19 charged to Piedmont's NC jurisdiction, and comparing that to the
20 amount proposed by Piedmont. Coleman Exhibit I, Schedule 2
21 presents the calculation of this adjustment.

1 **PAYROLL TAXES**

2 **Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO PAYROLL TAXES.**

3 A. After reviewing all payroll tax data provided by the Company in
4 response to Public Staff data requests, I found that during the test
5 year the Company used the IRS rate of 7.65%. However, the
6 Company used a Payroll tax rate of 8.62% in its payroll tax pro forma
7 adjustment. I determined that the appropriate Payroll tax rate to use
8 in my adjustment was 7.65%.

9 **EMPLOYEE BENEFITS**

10 **Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO EMPLOYEE**
11 **BENEFITS.**

12 A. I have made an adjustment of \$796,822 to decrease the Company's
13 proposed Employee Benefits. Coleman Exhibit I, Schedule 3
14 presents the calculation where I divided the total test year Piedmont
15 NC-allocated benefits incurred by the Company by the test year's
16 payroll to determine the Public Staff's benefit percentage. This
17 percentage was applied to the Public Staff's pro forma O&M payroll
18 amount to determine a reasonable ongoing level of Employee
19 Benefits.

EXECUTIVE COMPENSATION

1
2 **Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO EXECUTIVE**
3 **COMPENSATION.**

4 A. My adjustment to Executive Compensation includes the removal of
5 50% of the total compensation of the top five executives which is
6 comprised of total annual salary, Short Term Incentive Plan (STIP),
7 Long Term Incentive Plan (LTIP), and Benefits. The Public Staff has
8 identified the top five executives who have charged the highest
9 compensation to the Piedmont NC jurisdiction. In this case the top
10 five are the Chief Executive Officer (CEO) of Duke Energy
11 Corporation (Duke Energy) and four Piedmont executives,
12 specifically the President, Natural Gas Business; Sr. Vice President
13 and Chief Operations Officer, Natural Gas Business; Sr. Vice
14 President, Corporate Development and Treasurer; and the Vice
15 President, Regulatory and Community Relations. As presented on
16 Coleman Exhibit I, Schedule 4, this adjustment is used to reflect the
17 fact that the executives' duties and compensation encompass a
18 substantial amount of activities that are closely linked to shareholder
19 interests.

20 **Q. IS YOUR RECOMMENDATION BASED ON THE PREMISE THAT**
21 **THE COMPENSATION OF THE DUKE ENERGY CEO AND THE**

1 **PIEDMONT EXECUTIVE OFFICERS YOU HAVE SELECTED ARE**
2 **EXCESSIVE OR SHOULD BE REDUCED?**

3 A. No. This recommendation is based on the Public Staff's belief that it
4 is appropriate and reasonable for the shareholders of the very large
5 natural gas and electric utilities to bear some of the cost of
6 compensating those individuals who are most closely linked to
7 furthering shareholder interests, which are not always the same as
8 those of ratepayers.

9 **Q. WHAT IS THE PREMISE FOR REMOVING 50% OF THE TOP**
10 **EXECUTIVES' COMPENSATION?**

11 A. Officers have fiduciary duties of care and loyalty to shareholders, but
12 not to customers. Consequently, the Company's executive officers
13 are obligated to direct their efforts not only to minimizing the costs
14 and maximizing the reliability of Piedmont's service to customers, but
15 also to maximizing the Company's earnings and the value of its
16 shares. It is reasonable to expect that management will serve the
17 shareholders as well as the ratepayers; therefore, a portion of
18 management compensation and pension should be borne by the
19 shareholders.

20 The executive compensation for the four Piedmont executives and
21 Duke Energy CEO includes STIP payments which are 50% based
22 upon Duke Energy's earnings per share. The LTIP for Performance

1 Share Grants is based 50% on Duke Energy's cumulative adjusted
2 earnings per share and 25% based on Duke Energy's total
3 shareholder return, which consists of dividends to shareholders and
4 the increase in the price of Duke Energy common stock.

5 For the four named Piedmont executives, the combined 2018 STIP
6 and LTIP payments totaled 49.4% of their 2018 total compensation,
7 including all benefits.

8 Duke Energy CEO's pay, as stated on page 40 of the Duke Energy
9 2019 Proxy Statement (Duke 19 Proxy), is

10 90% of CEO pay is performance and/or stock
11 based (both short term and long term) which
12 **creates strong alignment with our**
13 **shareholders** and reinforces our pay for
14 performance culture.

15 (emphasis added)

16 The Duke 19 Proxy describes on page 41 the overall design of Duke
17 Energy's executive compensation program

18 We design our program so that it motivates our
19 executives to focus on our core business
20 priorities **and aligns the interests of**
21 **executives and shareholders.**

22 (emphasis added)

23 On page 41 of the Duke 19 Proxy it states

24 In order to emphasize the importance of the
25 EPS objective, the Compensation Committee

1 established a performance floor or circuit-
2 breaker providing that if an adjusted diluted EPS
3 performance level of at least \$4.15 was not
4 achieved, our NEOs would not have received
5 any payout under the 2018 STI plan.

6 An "NEO" is defined on page 80 of the Duke 19 Proxy as "named
7 executive officers".

8 For the LTIP Compensation, the Duke 2018 Proxy states on page 44

9 Our LTI program is designed to provide our
10 NEOs with appropriate balance to the STI plan
11 **and to align executive and shareholder**
12 **interests in an effort to maximize**
13 **shareholder value.**

14 (emphasis added)

15 As shown on Duke 19 Proxy page 52, the Long Term Performance
16 Stock Awards for the Duke Energy CEO in 2018 were 71% of total
17 compensation and in 2017 were 81% of total compensation. The STI
18 Non-Equity Incentive Plan Compensation for the Duke Energy CEO
19 in 2018 was 16% of total compensation and in 2017 was 10% of total
20 compensation. For 2018 the combined performance percentage of
21 the Duke Energy CEO total compensation was 87%, consisting of
22 71% LTIP plus 16% STIP. For 2017 the combined performance
23 percentage of the Duke Energy CEO total compensation was 91%,
24 consisting of 81% LTIP plus 10% STIP.

25 The compensation paid to these five executives is heavily based
26 upon Duke Energy earnings per share and Duke Energy total

1 shareholder return. These performance measures heavily benefit the
2 Duke Energy shareholders. It is appropriate that 50% the total
3 compensation including benefits to the five executive officers should
4 be allocated to the Duke Energy shareholders.

5 Adjusting the compensation of the some of the top executives is
6 consistent with the positions taken by the Public Staff in past general
7 rate cases involving investor-owned utilities serving North Carolina
8 retail customers. Some of these cases include Duke Energy
9 Carolinas' (DEC) 2018 General Rate Case (Docket No. E-7, Sub
10 1146), Public Service Company of North Carolina's (PSNC) 2016
11 General Rate Case (Docket No. G-9, Sub 565), and Piedmont's 2013
12 General Rate Case (Docket No. G-9, Sub 631). DEC, DEP, and
13 Dominion Energy North Carolina have all made executive
14 compensation adjustments in their respective general rate cases to
15 remove a portion of their top executives' total compensation. The
16 Public Staff has consistently updated each utility's adjustments to
17 reflect a 50% reduction of the top executives' total compensation in
18 each of the general rate case proceedings.

19 The Public Staff has also consistently made executive compensation
20 adjustments in Piedmont's prior North Carolina general rate cases,
21 as well as in general rate cases of Public Service Company of North
22 Carolina, Inc., all of which have been approved by the Commission.

1 In addition, now that Piedmont is owned by Duke Energy and
2 receives service company expense allocations from Duke Energy's
3 officers, the Public Staff believes that the same executive
4 compensation adjustment is appropriate and consistent with how the
5 Commission would expect this process to continue.

6 **BOARD OF DIRECTORS EXPENSES**

7 **Q. PLEASE EXPLAIN YOUR PROPOSED ADJUSTMENT TO BOD**
8 **EXPENSES.**

9 A. I have made an adjustment to remove 50% of the expenses
10 associated with the Duke Energy BOD that have been allocated to
11 the Piedmont NC jurisdiction, as presented on Coleman Exhibit I,
12 Schedule 5. Piedmont does not have a separate BOD. The expenses
13 allocated to the Piedmont NC jurisdiction encompass the BOD's
14 compensation, Directors' and Officers' liability insurance, and other
15 miscellaneous expenses. The Duke Energy Principles for Corporate
16 Governance (Amended and Restated as of December 13, 2018), first
17 sentence states:

18 An effective Board of Directors (the "Board") **will**
19 **positively influence shareholder value** and
20 enhance the reputation of Duke Energy
21 Corporation (the "Corporation") as a
22 constructive resource in the communities where
23 it does business.

24 (emphasis added)

1 Under the heading Responsibilities of Directors, the first
2 responsibility stated is:

3 The basic responsibility of the directors is to
4 exercise their business judgment to act in what
5 they reasonably believe to be **in the best**
6 **interests of the Corporation and its**
7 **shareholders.**

8 (emphasis added)

9 Another responsibility stated on page 1 is:

10 A director should at all times discharge his or
11 her responsibilities with the highest standards of
12 ethical conduct, in conformity with applicable
13 laws and regulations, and **act solely in the best**
14 **interest of the Corporation's shareholders.**

15 (emphasis added)

16 Under the topic Director Nominations on page 2, it states that each
17 director nominee should

18 Have a genuine interest in the Corporation and
19 a recognition that, as a member of the Board,
20 **one is accountable to the shareholders of**
21 **the Corporation**, not to any particular interest
22 group.

23 (emphasis added)

24 The shareholders vote on the election of directors. The customers
25 do not have a vote. It is clear the BOD is responsible to act in the
26 best interests of the shareholders.

1 The average 2018 compensation to the 13 Duke Energy directors
2 was \$308,564 as shown on Duke 19 Proxy page 30. The CEO and
3 BOD Chairwoman did not receive a separate director compensation.
4 The test year BOD compensation allocation to Piedmont NC was
5 \$215,140 as shown on Coleman Exhibit 1 Schedule 5 Line 1.

6 The Public Staff believes that it is appropriate and reasonable for the
7 shareholders of the larger electric and natural gas utilities to bear a
8 reasonable share of the costs of compensating those individuals who
9 have a fiduciary duty to protect the interests of shareholders, which
10 may differ from the interests of ratepayers. The premise of this
11 adjustment is closely linked to the premise of the adjustment made
12 by the Public Staff related to executive compensation. Furthermore,
13 Directors' and Officers' liability insurance, while a necessary
14 expense for a corporation, has been utilized to defend the BOD in
15 lawsuits brought by shareholders regarding issues such as coal ash
16 in the electric industry and other types of lawsuits such as merger
17 claims and shareholders' derivatives. Therefore, the Public Staff
18 believes it is appropriate for both ratepayers and shareholders to
19 share the cost of BOD expenses.

20 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

21 A. Yes, it does.

APPENDIX A

Mary A. Coleman

I am a graduate of North Carolina State University with a Bachelor of Accountancy degree and a Bachelor of Arts degree in Business Management.

Prior to joining the Public Staff, I was a Financial Consultant focusing mainly on non-profit organizations from 2013 until 2017. I was employed as a Consultant in places such as UNC Chapel Hill, NC State University, City of Raleigh-Community Development Office, Neuro Community Care, and the Carolina Center for Medical Excellence. Before I became a Consultant, I was the Chief Financial Officer for several organizations including the North Carolina Justice Center where I worked for ten years.

I joined the Public Staff as a Staff Accountant in December 2017. Since joining the Public Staff I have assisted on natural gas, electric, and water proceedings.

Coleman Exhibit I
Schedule 1

Piedmont Natural Gas Company
Docket No. G-9, Sub 743
ADJUSTMENT TO PAYROLL EXPENSES
For the Test Year Ended December 31, 2018

Line No.	Item	Amount (a)	Total (b)
1	Total Company Straight Time Payroll Expenses at May 31, 2019 (Excluding DEBS and Over ime)	\$ 119,470,104 [1]	
2	Piedmont NC O&M Expense %	51.04% [2]	
3	Total Piedmont NC Straight Time Payroll Expenses at May 31, 2019 (Excluding DEBS and Overtime)	60,977,541	
4	Pro Forma NC Straight Time Payroll Expense per Company	60,679,483 [3]	
5	Adjustment to Piedmont NC Straight Time Payroll Expenses per Public Staff (L3-L4)		298,058 [4]
6	Total DEBS Straight Time Payroll Expenses at May 31, 2019	769,099,535 [5]	
7	% of DEBS O&M Payroll Expense charged to Piedmont NC	2.08% [6]	
8	Annual DEBS Straight Time Payroll charged to Piedmont NC Public Staff (L6 x L7)	15,997,270	
9	Pro Forma DEBS NC Straight Time Payroll Expense per Company	16,082,795 [7]	
10	Adjustment to DEBS Straight Time Payroll Charged to Piedmont per Public Staff (L8 - L9)		(85,524) [8]
11	Total Other Duke Companies Straight Time Payroll Expenses at May 31, 2019	102,558,347 [9]	
12	% of Other Duke Companies Straight Time Expenses charged to Piedmont NC	0.70% [10]	
13	Annual Other Companies Straight Time Expenses charges to per Public Staff (L11 x L12)	717,908	
14	Pro Forma O her Duke Companies	740,010 [11]	
15	Adjustment to salaries and wages for DEBS employees per Public Staff (L13 - L14)		(22,102)
16	Adjustment for Overtime Charged to Piedmont O&M (+Over ime!E20)		(\$680,698) [12]
17	Total Public Staff Adjustment to O&M Payroll Expenses and Overtime (G5+G10+G15+G16)		(490,266)
18	Payroll tax percentage		7.65% [13]
19	Public Staff Adjustment to Payroll Taxes (L17 x L18)		(\$37,505) [14]

[1] Public Staff Data Request Response 13-1

[2] Company provided in response to Data Request 13 -7

[3] Company provided on Informal Data Request 1 update

[4] Line 3 minus Line 4

[5] Provided by Company on DR 1 update

[6] Company provided on Pro Forma 2019-04-04 File 4, Tab A, Line 28

[7] Informal DR 1 update, Tab A, Line 40 - Estimate of O her 2019 Payroll charged to Piedmont

[8] Line 10 minus Line 11

[9] Informal DR 1 update, Tab A, R19/S19 - Computation of Straight Time Pro Forma O&M Expense

[10] Informal DR 1 update, Tab A, Line 19 - Computa ion of Straight Time Pro Forma O&M Expense

[11] Informal DR 1 update, Tab A, Line 40 - Estimate of O her 2019 Payroll charged to Piedmont

[12] Public Staff Overtime 2 schedule, E9

[13] Company response to Data Request 55-7

Piedmont Natural Gas Company
Docket No. G-9, Sub 743
OVERTIME ADJUSTMENT
For the Test Year Ended December 31, 2018

<u>Line No.</u>	<u>Item</u>	<u>Amount</u>	
1	2016 Overtime per Company	4,615,967	[1]
2	2017 Overtime per Company	5,283,216	[1]
3	2018 Overtime per Company	5,691,994	[1]
4	Total Overtime for 2016-2018 (Sum of L1 through L3)	15,591,176	
5	Number of years	3	
6	3 Year Average for Overtime (L4 / L5)	5,197,059	[2]
7	Amount of Overtime Pay allowed per Public Staff	5,197,059	
8	Amount of Overtime per Company	5,877,757	[3]
9	Adjustment per Public Staff for Test Year Overtime	<u>(\$680,698)</u>	

- [1] Company response to Data Request Response 13-18
[2] Three Year Average to adjust Overtime to an ongoing level
[3] Informal Data Request 1, update provided by company

Piedmont Natural Gas Company
Docket No. G-9, Sub 743
PAYROLL BENEFITS PERCENTAGE ADJUSTMENT
For the Test Year Ended December 31, 2018

<u>Line No.</u>	<u>Item</u>	<u>Amount</u>
1	Total Benefits provided to Piedmont charged to Piedmont (NC Portion)	\$18,971,998 [1]
2	Total Piedmont NC Test Year Payroll	75,254,238 [2]
3	Benefits to Total Payroll Percentage (L1/ L2)	<u>25.21%</u>
4	Public Staff's Pro Forma Payroll (NC O&M)	77,692,720 [3]
5	Public Staff Proposed Benefits (L4 times L3)	19,586,752
6	Piedmont Pro Forma Benefits Amount	<u>20,383,574 [4]</u>
7	Public Staff Adjustment to Payroll (L5 minus L6)	<u>(\$796,822)</u>

[1] Company provided 2019-04-04 File 7 Line 24

[2] Company provided in response to Data Request 13-8

[3] Public Staff's Pro Forma Payroll amount

[4] Company provided 2019-04-04 File 7, Pro Forma Benefits

Coleman Exhibit I
Schedule 4

Piedmont Natural Gas Company
Docket No. G-9, Sub 743
Adjustment to Executive Compensation
For the Test Year Ended December 31, 2018

Line No.	Piedmont Executive	Annual Salary [1]	Short Term Incentive Plan [1]	Long Term Incentive Plan [1]	Benefits [1]	Total Compensation [2]	NC Allocation %	North Carolina Amount
1	Total	<u>\$1,094,797</u>	<u>\$651,673</u>	<u>\$1,617,493</u>	<u>\$461,886</u>	<u>\$3,825,850</u>		2,739,308
2	Portion of Executive Compensation Removed from Piedmont NC expenses							<u>50.00% [2]</u>
3	Executive Compensation per Public Staff							1,369,654
4	Company Adjustment to Executive Compensation							<u>0</u>
5	Public Staff Adjustment to O&M Executive Compensation							<u>\$1,369,654</u>

[1] Company Response to Public Staff Data Request 30-1

[2] Recommended by Public Staff

Piedmont Natural Gas Company
Docket No. G-9, Sub 743
ADJUSTMENT TO BOARD OF DIRECTORS EXPENSES
For the Test Year Ended December 31, 2018

Line No.	Item	Amount
1	Total Allocated Board of Directors (BOD) compensation	\$215,140 [1]
2	Percentage of exclusion per Public Staff	50% [2]
3	Public Staff adjustment to BOD compensation (L1 x L2)	(107,570)
4	Board of Directors insurance charged to Piedmont	589,451 [3]
5	Percentage of exclusion per Public Staff	50% [2]
6	Public Staff adjustment to BOD insurance (L4 x L5)	(294,726)
7	Board of Directors executive members expenses allocated to Piedmont	33,690 [4]
8	Percentage of exclusion per Public Staff	50% [2]
9	Public Staff adjustment to BOD and executive members expenses (L7 x L8)	(16,845)
10	Total Public Staff adjustment to BOD compensation and expenses (L3 + L6 + L9)	(419,141)
11	NC retail percentage	100.00% [5]
12	Public Staff adjustment to BOD expenses - NC retail (L10 x L11)	(\$419,141)

- [1] Company Response to Public Staff Data Request 34-1
[2] Recommended by Public Staff
[3] Company Response to Public Staff Data Request 34-6a
[4] Company Response to Public Staff Data Request 34-4