

**STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH**

DOCKET NO. G-9, SUB 697
DOCKET NO. G-9, SUB 642

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of	
Annual Integrity Management Rider Report)
of Piedmont Natural Gas Company, Inc.,)
Pursuant to Appendix E of Its Service)
Regulations)
	PUBLIC STAFF 2016
	ANNUAL IMR REPORT

NOW COMES THE PUBLIC STAFF – North Carolina Utilities Commission (Public Staff), by and through its Executive Director, Christopher J. Ayers, and, respectfully submits its report regarding the Annual Integrity Management Rider (IMR) Report filed by Piedmont Natural Gas Company, Inc. (Piedmont or Company), on October 31, 2016 (Piedmont 2016 Annual IMR Report), in accordance with the Company's IMR mechanism, which is Appendix E of Piedmont's Service Regulations.

1. The Integrity Management Revenue Requirement (IMRR) used to determine rates implemented on December 1, 2016, was based on Integrity Management (IM) Plant Investment completed through September 30, 2016. The Public Staff has determined that the IMRR has been properly accounted for.

2. After reviewing Piedmont's 2015 Annual IMR Report, filed on November 2, 2015, in Docket No. G-9, Sub 680, the Public Staff determined, in its report filed on February 29, 2016 (Public Staff 2015 Annual IMR Report), that Piedmont should make the following adjustments:

- a. Minor corrections to the IMRR calculation related to depreciation expense and accumulated depreciation;
- b. Correction of the tax rates used in the IMRR calculation to reflect the reduction of the state corporate income tax rate; and
- c. Correction of right-of-way (ROW) clearing costs.

Piedmont agreed with the adjustments, which resulted in a decrease in the IMRR of \$1,273,352 plus interest, and were reflected in Piedmont's 2016 Annual IMR Report.

3. The Public Staff 2015 Annual IMR Report stated that Piedmont should make the necessary adjustments in its next biannual IMR filing. On May 2, 2016, in Docket No. G-9, Sub 689, Piedmont filed its first IMRR biannual rate adjustment, effective June 1, 2016, based on the Company's IM Plant Investment through March 31, 2016. In the filing, the Company also proposed a true-up adjustment for the IM Deferred Account based on the actual account balance at March 31, 2016. The computation for the proposed IMRR adjustment and IM Deferred Account true-up adjustment incorporated the adjustments contained in the Public Staff 2015 Annual IMR Report. The Public Staff determined that these adjustments were properly recorded, and they were approved by the Commission.

4. The Public Staff 2015 Annual IMR Report stated that Piedmont should record an adjustment to change the net of tax overall return in its interest rate calculation in its IM Deferred Account, effective November 1, 2015. The Public Staff has determined that Piedmont made this adjustment.

5. The Public Staff 2015 Annual IMR Report stated that the Public Staff had concerns regarding the Company's plant closing process and would continue its investigation. The Public Staff reviewed changes Piedmont has made to its internal plant closing procedures, including process changes designed to shorten the timeline for closing plant projects.¹ Piedmont anticipates implementing the new procedures during the 2016-2017 IMR annual review period. During its monthly IMR audits, the Public Staff will continue to closely monitor the Company's plant closing process to verify the proper recognition of depreciation and plant retirements associated with IMR projects on the Company's books. The Public Staff will report on Piedmont's progress in its next annual IMR report.

6. As stated in the Public Staff 2015 Annual IMR Report, the spreadsheet model used to compute the IMRR is very complex. Piedmont and the Public Staff worked together to utilize the spreadsheet model and synchronize the timing of the vintage years with the biannual IMR rate filing made on May 2, 2016, and referenced above. The Public Staff will continue to monitor the model and report to the Commission of any concerns or if changes to the model need to be addressed.

¹ Ordering paragraph 10 of the Commission's *Order Approving Merger Subject to Regulatory Conditions and Code of Conduct* in Docket Nos. E-2, Sub 1095, E-7, Sub 1100, and G-9, Sub 682, issued September 29, 2016, provides "[t]hat within 180 days after the close of the merger, Piedmont shall begin to implement procedures to ensure that project unitization and plant retirements are finalized within 180 days of project completion. Piedmont shall file semi-annual status reports with the Commission detailing its progress in implementing these practices, with the first report due twelve months from the close of the merger." The Public Staff will review these reports in conjunction with its IMR audits.

7. The Public Staff 2015 Annual IMR Report stated that the monthly IMR reporting filing requirements should include ROW amounts applicable to the 85% exclusion percentage. During the current IMR review period, Piedmont began including the ROW amounts related to the exclusion percentage in the monthly IMR filings in order that the Public Staff could perform a timelier audit of these costs.

8. The Public Staff 2015 Annual IMR Report stated that Piedmont should be required to provide monthly reporting updates on its Private Letter Ruling (PLR) request from the Internal Revenue Service (IRS) to determine the appropriate tax-related rate base adjustments for computing the IMRR consistent with tax normalization requirements. On July 26, 2016, Piedmont and the Public Staff filed an Amendment to Stipulation and Settlement Agreement (Amendment) in Docket Nos. G-9, Sub 631 and 642, eliminating the PLR requirement and clarifying the treatment of accumulated deferred income taxes in establishing the rate base used to calculate Piedmont's annual IMR revenue requirement. By order issued October 4, 2016, the Commission approved the Amendment.

9. The Public Staff is authorized to state that Piedmont does not object to the Public Staff's continued monitoring as discussed in this report.

This concludes the Public Staff's report of its review of Piedmont's 2016 Annual IMR Report.

Respectfully submitted, this the 1st day of March, 2017.

PUBLIC STAFF
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Electronically submitted
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CERTIFICATE OF SERVICE

I do hereby certify that I have this day served a copy of the foregoing upon each of the parties of record in this proceeding or their attorneys of record by emailing them an electronic copy or by causing a paper copy of the same to be hand-delivered or deposited in the United States Mail, postage prepaid, properly addressed to each.

This the 1st day of March, 2017.

Electronically submitted
/s/ Elizabeth D. Culpepper
Elizabeth D. Culpepper