

**Before the
North Carolina Utilities Commission**

Docket No. G-9, Sub 837

GENERAL RATE CASE

**Direct Testimony and Exhibits
of
Pia K. Powers**

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

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

2 A. My name is Pia K. Powers. My business address is 525 South Tryon
3 Street, Charlotte, North Carolina.

4 **Q. By whom and in what capacity are you employed?**

5 A. I am the Managing Director – Gas Rates & Regulatory for Piedmont
6 Natural Gas Company, Inc. (“Piedmont” or the “Company”). In this
7 capacity, I am responsible for all regulatory matters pertaining to
8 Piedmont and its state economic regulators, including the
9 development and execution of rate requests, other petitions, and
10 report filings.

11 **Q. Please describe your educational and professional background.**

12 A. I have a Bachelor of Arts degree in economics from Fairfield
13 University and a Master of Science degree in environmental and
14 resource economics from the University College London. Between
15 earning my degrees, I undertook a year of research and study in
16 Malta on economic development under a grant awarded by the
17 Fulbright U.S. Student Program. From 1999 through 2003, I was
18 employed as an Economist with the Energy Information
19 Administration, the statistical agency of the U.S. Department of
20 Energy, where I primarily focused on international energy and
21 carbon emissions forecasting for the agency’s annual publication of
22 the *International Energy Outlook*. I have worked at Piedmont since
23 2003, first in Pipeline Services with primary responsibilities for the

1 Company's upstream pipeline and storage capacity planning and
2 relations along with oversight of Federal Energy Regulatory
3 Commission activities regarding interstate pipeline and storage
4 services that Piedmont utilizes and related policy matters. In the
5 time thereafter, I took on several roles of increasing responsibility
6 within the Company's Rates and Regulatory Affairs area. In 2019,
7 I assumed my current position as Managing Director – Gas Rates &
8 Regulatory.

9 **Q. Have you previously testified before the North Carolina Utilities**
10 **Commission (“Commission”) or any other regulatory**
11 **authority?**

12 A. Yes. I have testified on a number of occasions before the
13 Commission, the Public Service Commission of South Carolina, the
14 Tennessee Public Utility Commission, and its predecessor the
15 Tennessee Regulatory Authority.

16 **Q. What is the purpose of your testimony in this proceeding?**

17 A. The purpose of my testimony in this proceeding is to support
18 Piedmont's petition and the rate relief sought therein. Specifically,
19 my testimony addresses the following subjects: (1) the nature and
20 scope of Piedmont's revenue request in this proceeding; (2) the
21 impact of the revenue request on customers; (3) the update of the
22 factors applicable to the ongoing operation of the Integrity
23 Management Rider (“IMR”) mechanism, as shown in Appendix E

1 of Piedmont’s North Carolina Service Regulations; (4) the
2 clarification of the Company’s ability to include certain
3 transportation costs for recovery under the rider mechanism shown
4 in Appendix A of its North Carolina Service Regulations; and (5)
5 the request for regulatory asset accounting treatment for the
6 operation and maintenance (“O&M”) expenses being incurred by
7 the Company as part of its multi-year capital project (“Piedmont
8 Customer Connect Project” or “Project”) to replace its aged and
9 obsolete primary customer information system.

10 **Q. Do any exhibits accompany your testimony?**

11 A. Yes. The following exhibits are part of my testimony:

12 Exhibit__(PKP-1) Red-lined format of proposed
13 changes to Appendix E of Piedmont’s
14 North Carolina Service Regulations

15 Exhibit__(PKP-2) Clean format of proposed changes to
16 Appendix E of Piedmont’s North
17 Carolina Service Regulations

18 **Q. Were these exhibits prepared by you or under your direction?**

19 A. Yes.

20 **I. Piedmont’s Revenue Request**

21 **Q. What is Piedmont’s overall revenue request in this proceeding?**

22 A. Piedmont is requesting approval of revised rates in support of an
23 annual cost of service increase of approximately \$149 million. This

1 overall request is comprised of an adjustment to three distinct
2 revenue types: an increase in base margin revenues of
3 approximately \$202 million, offset by an approximate \$43 million
4 decrease in base demand cost of gas revenues, and further offset by
5 an approximate \$10 million revenue reduction for the proposed 12-
6 month extension of rider rates to flowback to customers the
7 remaining unprotected balance associated with excess deferred
8 income taxes (“EDIT”).

9 **Q. Can you provide some context for this overall level of revenue**
10 **request?**

11 A. Yes. Piedmont’s filed revenue request in this proceeding of \$149
12 million represents an overall 11.7% increase to operating revenues
13 needed to cover the Company’s current level of cost for the
14 provision of reliable, safe and adequate natural gas service to the
15 Company’s growing customer base throughout North Carolina,
16 including a return of and on its capital investments. Absent the
17 proposed rate adjustment, Piedmont would not have a reasonable
18 opportunity to achieve a sufficient and appropriate overall rate of
19 return and return on common equity; rather, Piedmont would
20 achieve an insufficient overall rate of return of 5.13% and
21 insufficient return on common equity of 5.93% absent the proposed

1 rate adjustment.¹ These returns are significantly lower than the
2 respective returns of 6.90% and 9.60% upon which rates were
3 established in Piedmont's last general rate case. More germane,
4 however, is that these low returns are materially insufficient to
5 support the return of and on Piedmont's rate base at this time.
6 Piedmont's rate base has significantly increased since the last rate
7 case, and an overall rate of return of 7.55% and return on equity of
8 10.50% is now warranted to support the Company's current rate
9 base.

10 Piedmont's total rate base, now at \$6.4 billion, is and will
11 continue to be vital to Piedmont's ongoing ability to accomplish its
12 central purpose in North Carolina -- to provide reliable, safe and
13 adequate year-round natural gas utility service to its customers, even
14 on the coldest of days and hours when aggregate customer demand
15 for natural gas it at its highest and most critical for supporting human
16 needs and viable, thriving communities. Piedmont's gross utility
17 plant in service investment, which continues to be the largest
18 component of Piedmont's utility rate base, grew from \$7.1 billion to
19 \$9.2 billion since the Company's last rate case. That \$2.1 billion of
20 incremental utility plant investment was and is needed for the
21 ongoing provision of reliable, safe and adequate natural gas service

¹ The calculation of these pro forma returns is discussed in the direct testimony of Piedmont witness Brad Evans, and shown in Exhibit __ (WBE-7), page 2 of 5.

1 to Piedmont's growing customer base throughout North Carolina.
2 Less than 40% of the \$2.1 billion of incremental gas plant
3 investment since the last rate case is eligible for recovery through
4 Piedmont's IMR mechanism. In other words, over 60% of the \$2.1
5 billion of incremental plant since the last rate case is not being
6 recovered through Piedmont's current customer rates and charges,
7 and now needs to be incorporated into Piedmont's base rates.² A
8 fair, reasonable and necessary return of and on Piedmont's current
9 rate base warrants the proposed base margin revenue increase of
10 \$202 million, as proposed by the Company in this proceeding based
11 on an overall rate of return of 7.55% and a return on common equity
12 of 10.50%.

13 **Q. Is Piedmont's proposed revenue adjustment by customer or rate**
14 **schedule identical to the overall proposed revenue adjustment**
15 **of 11.7%?**

16 A. The proposed revenue adjustment by customer classification and
17 rate schedule varies, and in aggregate would yield the overall 11.7%
18 revenue increase. The direct testimony of Piedmont witness Kally
19 Couzens explains the multi-faceted judicious considerations
20 informing the Company's proposal for a fair and reasonable revenue

² Taken together, Tables 1A & 1B in Piedmont witness Brian Weisker's direct testimony reveal that over 60% of the \$2.1 billion of incremental capital additions since the last rate case are from capital project categories other than Pipeline Integrity Management (which is the capital project category from which utility capital investment eligible for recovery through the IMR mechanism originates).

1 adjustment and rate design by customer rate schedule that does not
2 unduly burden any customer class. In summary³:

- 3 • Base Margin Revenues: Each main customer classification and rate
4 schedule was allocated a portion of the proposed \$202 million
5 increase in overall base margin revenues. In other words, no main
6 customer classification and rate schedule was shielded from the base
7 margin revenue increase, and no main customer classification and
8 rate schedule received a margin revenue decrease.
- 9 • Base Demand Cost of Gas Revenues: Each main customer
10 classification and rate schedule was allocated a portion of the
11 proposed \$43 million decrease in overall base demand cost of gas
12 revenues. In other words, no main customer classification and rate
13 schedule was shielded from the base demand cost of gas revenue
14 decrease, and no main customer classification and rate schedule
15 received a base demand cost of gas revenue increase.
- 16 • 12-month EDIT Rider Flowback: Each main customer
17 classification and rate schedule was allocated a portion of the
18 proposed \$10 million revenue reduction for the 12-month extension
19 for the EDIT Rider giveback to customers. In other words, no main
20 customer classification and rate schedule was shielded from the 12-

³ See the direct testimony of Piedmont witness Couzens, in Schedule 2 of Exhibit __ (KAC-2), which precisely delineates Piedmont's proposed revenue adjustment by rate schedule for each of the three revenue types (base margin revenue, base demand cost of gas revenue, EDIT Rider revenue).

1 month EDIT Rider revenue flowback or received a revenue increase
2 for associated with the 12-month EDIT Rider flowback).

3 **II. Impact of Revenue Request and Proposed Return on**

4 **Common Equity on Piedmont's Customers**

5 **Q. What will be the impact on residential customers of Piedmont's**
6 **revenue request and its proposed return on common equity in**
7 **this docket?**

8 A. Piedmont's revenue request in this docket, if granted without
9 modification, would increase Piedmont's annual revenue by
10 approximately \$143 per residential customer (which a levelized
11 average monthly increase of just under \$12).⁴ The Company
12 recognizes that this is a meaningful increase for residential
13 customers, and it is necessary in order to allow the Company to earn
14 a reasonable return on invested capital undertaken to continue
15 supporting the reliable, safe and adequate provision of gas service
16 to customers in North Carolina. In evaluating this increase, I think
17 it is important to put the Company's proposed revenue increase in
18 further context.

19 The costs to customers of natural gas service on Piedmont's

⁴ See the direct testimony of Piedmont witness Couzens. As shown in Table 5 of her testimony, Piedmont proposes in this proceeding to increase the annual revenue from the residential class of customers by approximately \$105.63 million (which equals the \$112,285,969 "Total Revenue Increase" shown in her Table 5, less the \$6,653,882 for the extended EDIT Rider giveback to customers shown in her Table 5). Piedmont has approximately 737,000 residential customers in North Carolina. Therefore, the requested revenue increase per residential customer is \$143 (= \$105.63 million ÷ 737,000 customers).

1 system previously peaked during the 2005 to 2008 timeframe, when
2 the commodity cost of natural gas was regularly above \$10.00 per
3 dekatherm (“per/Dth”). In the Fall of 2008, the impact of
4 dramatically lower natural gas costs began to be felt as a result of
5 natural gas production from shale being delivered into the eastern
6 United States. Since 2008 (with the exception of latter half of
7 2022)⁵, the price of natural gas has been dramatically lower than it
8 was prior to that time – mostly in the \$2.00 to \$4.00/Dth range. This
9 has allowed Piedmont to provide service to customers at total costs
10 below what they experienced in 2008 even after significant
11 additional plant investment by the Company. We are now
12 approaching total annual costs for gas service that approximate
13 those that were being incurred roughly 16 to 18 years ago. Thus,
14 while the revenue increase requested in this docket is meaningful,
15 the overall cost of natural gas service has been and continues to be
16 reasonable by historic standards and remains at levels
17 approximating service provided more than a decade ago.
18 Piedmont’s Commission-approved rates and charges for residential
19 customers in effect at November 1st of each year over the past 18
20 years clearly demonstrates this fact (see Table 1 below). I am not
21 familiar with any other essential utility service that can make a

⁵ Natural gas prices increased significantly in 2022 due to an increase in liquified natural gas (“LNG”) exports, a substantial storage deficit, an extremely limited inventory of usable coal, and natural gas production being relatively flat despite strong domestic demand.

1 comparable claim.

2 **TABLE 1**

Rate Schedule 101	Nov 2005	Nov 2006	Nov 2007	Nov 2008	Nov 2009
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Monthly Charge	10	10	10	10	10
Total Rate per Dth	18.15	13.79	13.58	15.11	12.26

Rate Schedule 101	Nov 2010	Nov 2011	Nov 2012	Nov 2013	Nov 2014
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Monthly Charge	10	10	10	10	10
Total Rate per Dth	9.83	9.78	10.15	10.25	9.68

Rate Schedule 101	Nov 2015	Nov 2016	Nov 2017	Nov 2018	Nov 2019
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Monthly Charge	10	10	10	10	10
Total Rate per Dth	8.39	10.10	11.41	10.25	9.55

Rate Schedule 101	Nov 2020	Nov 2021	Nov 2022	Nov 2023
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Monthly Charge	10	10	10	10
Total Rate per Dth	11.01	15.16	18.13	14.14

3

4 **Q. How will Piedmont address any negative impacts of the**
5 **requested rate increase on its customers?**

6 A. Some of Piedmont's customers struggle to pay their bills. Any
7 increase in rates makes that struggle even more difficult. With rate
8 relief properly aligned to the Company's actual cost of service,
9 Piedmont is able to maintain the flexibility and wherewithal to

1 continue to offer voluntary alternative payment arrangements such
2 as equal payment plan to residential and commercial customers, as
3 well as extended deferred payment options for customers who are
4 experiencing difficulty in meeting their payment obligations.
5 Piedmont also scrupulously abides by the Commission's billing
6 requirements, as well as its disconnection procedures in the small
7 number of cases where termination of service for non-payment
8 becomes necessary as a last resort measure.

9 **Q. Does the Company offer other support to its low-income and**
10 **otherwise vulnerable customers and communities in North**
11 **Carolina?**

12 A. Yes. Piedmont also works to connect qualifying customers
13 struggling to pay their Piedmont bills with assistance from various
14 government and nonprofit programs for utility bill expenses.
15 Additional customer bill support is available through the Share the
16 Warmth Fund, a Piedmont program that provides energy assistance
17 to customers. Since 2021, Piedmont's Share the Warmth program
18 has provided nearly \$0.65 million in energy assistance to North
19 Carolina communities, and Piedmont's voluntary bill round-up
20 program enables Piedmont's customers to make a direct impact to
21 Piedmont's Share the Warmth program.

22 Piedmont offers energy conservation and efficiency
23 programs and resources to help customers manage their gas usage

1 to exercise more control over their usage to lower their bills, which
2 helps to minimize the impact of rate increases. Among the suite of
3 Piedmont's energy efficiency program offerings is a residential low-
4 income program. Pursuant to this program, Piedmont works
5 through a third-party energy contractor within North Carolina
6 communities to provide energy efficiency measures and
7 weatherization assistance to low-income residential customers. The
8 primary energy efficiency measures provided to each low-income
9 program participant are customized based on a comprehensive in-
10 home energy audit.

11 **Q. Is Piedmont proposing any additional programs or measures**
12 **supporting low-income customers as part of this proceeding?**

13 A. No, not at this time. As authorized in Docket No. G-9, Sub 786,
14 Piedmont is currently operating its suite of energy efficiency
15 programs in North Carolina on a three-year pilot basis, including the
16 low-income residential program discussed earlier in my testimony.
17 The three-year pilot period commenced August 22, 2022, and
18 accordingly is still in progress.⁶ The potential for extending the low-

⁶ Piedmont's *Motion for Extension of Time* filed in Docket No. G-9, Sub 786 on June 24, 2022 requested that the commencement of Piedmont's three-year pilot Energy Efficiency program portfolio begin August 31, 2022, in order to allow for the time needed to complete the remaining work to launch key components of certain programs within the portfolio. As noted in the Company's filed motion, the Public Staff - North Carolina Utilities Commission did not object to the Company's pilot commencement extension request. The Commission did not render an order or otherwise take any action on the Company's June 24, 2022 motion. Nevertheless, Piedmont was able to complete all the key components and had a successful launch of all the EE programs on August 22, 2022, as indicated in the Company's 2022 Annual Energy Efficiency Program Filing dated September 16, 2022 in Docket No. G-9, Sub 814.

1 income program at the end of the pilot period, as well as program
2 changes and other measures and programs, remain under the
3 Company's consideration at this time.

4 It also bears mentioning here that Piedmont is not proposing
5 in this proceeding any change in its rate design for residential
6 customer rates. Even with the significant cost of service increases
7 that the Company incurs, which are largely fixed in nature,
8 Piedmont continues to advocate for maintaining stability of the
9 residential customer monthly charge at \$10. Piedmont finds that any
10 increases to the residential monthly charge, while may be
11 appropriate from traditional cost causation and rate theory
12 perspectives, would be duly burdensome on many low and fixed-
13 income residential customers.

14 **Q. What is the overall economic context to Piedmont's revenue**
15 **request and requested rate of return on common equity?**

16 A . Piedmont's requested rate of return on common equity is relatively
17 low by long-term historical standards. Piedmont witness James
18 Coyne considered the economic conditions in North Carolina in
19 arriving at this return on equity recommendation of 10.50%. Based
20 on the economic indicators discussed in Mr. Coyne's testimony,
21 North Carolina and the many counties in which Piedmont provides
22 natural gas utility service as part of its certificated service territory

1 have experienced economic improvement since the Company's last
2 rate case and that improvement is projected to continue.

3 **Q. Based on this context, do you believe that economic conditions**
4 **support Piedmont's requested rate of return on common equity**
5 **and its requested rate increase?**

6 A. Yes, I do. Piedmont witness Coyne reached the same conclusion in
7 Section VIII of his direct testimony. Having said that, I would be
8 remiss not to emphasize the dependency of economic growth and
9 viability in North Carolina on the gas utility's steadfast provision of
10 reliable, safe and adequate gas service throughout its certificated
11 service territory (during and through all weather conditions, as well
12 as during and through all evolving economic conditions facing
13 North Carolina and its various diverse regions and communities).
14 Piedmont has fully met this challenge for decades, and most notably
15 so in the last few years along with an unwavering care for its
16 customers and their satisfaction being and remaining a Piedmont
17 customer. The requested overall rate of return of 7.55% and return
18 on common equity of 10.50%, upon which the proposed rates and
19 margin revenue increase of \$202 million is based, provides
20 Piedmont the reasonable opportunity to continue meeting this
21 challenge with continuing, excellent customer care and service.

1 **III. Continuation of Piedmont’s IMR Mechanism and Update of**

2 **Factors in IMR Tariff (Appendix F of Service Regulations)**

3 **Q. What is the status of Piedmont’s IMR mechanism?**

4 A. The IMR mechanism, is set forth in Piedmont’s Tariff, specifically
5 in Appendix E of Piedmont’s North Carolina Service Regulations.
6 Paragraph 11 of Appendix E states that the terms and conditions of
7 the IMR mechanism shall be reviewed, and prospective
8 modifications considered by the Commission in Company’s next
9 general rate case, or at the end of four years from the effective date
10 of the revised rider, whichever occurs first. The IMR Tariff was
11 most recently revised in Piedmont’s last general rate case, effective
12 November 1, 2021 in Docket No. G-9, Sub 781. Piedmont is
13 requesting as part of this general rate case that it be allowed to
14 continue operation of the IMR mechanism, and presents updates to
15 the factors shown within Appendix E in order to appropriately
16 effectuate continuation of the IMR mechanism.

17 **Q. Can you provide an overview of why you believe that a**
18 **continuation of the IMR mechanism is in the public interest?**

19 A. Yes. As the Commission is well aware and as discussed in the direct
20 testimony of Piedmont witness Brian Weisker in this proceeding,
21 Piedmont has made capital investments in its system of more than a

1 \$0.55 billion⁷ since its last general rate case (from July 1, 2021 to
2 December 31, 2023) in its efforts to comply with the federal Pipeline
3 and Hazardous Materials Safety Administration (“PHMSA”) and
4 Transportation Integrity Management Plan (“TIMP”) and
5 Distribution Integrity Management Plan (“DIMP”) requirements.
6 Piedmont has also needed to make extraordinary system
7 strengthening and growth-driven capital investments in its system
8 over this same period of time, which are investments other than
9 those driven by compliance with PHMSA’s federal safety and
10 system integrity requirements. These other capital investments,
11 which were not eligible for recovery through the IMR mechanism,
12 ultimately gave rise to the Company’s need to request rate relief
13 three years after the Company’s last general rate case. Nevertheless,
14 the Company’s PHMSA compliance-related capital investment
15 were necessary and significant, and will continue to be so over the
16 next several years. The continued operation of the IMR mechanism
17 permits Piedmont an opportunity to begin recovering and earning a
18 return on most of its PHMSA compliance-related capital
19 investment, and will mitigate the financial pressure on the Company
20 to file for general rate relief with frequency going forward. General
21 rate cases come at a significant cost, in excess of \$1 million dollars

⁷ Amount also reported in Schedule 1 of the Company’s IMR Monthly Report for December 2023 filed in Docket No. G-9, Sub 642 on February 15, 2024.

1 each in total rate case expense – not to mention the time and
2 administrative burden on all parties (including the Commission)
3 associated with preparing, prosecuting, and resolving each such
4 case. I believe that the public interest inherent in the reduced
5 frequency of general rate cases is compelling.

6 **Q. Does Piedmont expect to continue to experience significant**
7 **amounts of capital investment in PHMSA compliance going**
8 **forward?**

9 A. Yes. As is reflected in Table 2 of Piedmont witness Weisker’s
10 testimony, the ongoing level of integrity management capital
11 investment is expected to vary between approximately \$102 million
12 and \$385 million per year over the next three years. Based upon
13 these projections, I believe that the same factors that supported the
14 operation of the IMR over the last ten years continue to support its
15 operation over the next four years and we respectfully request that
16 the Commission approve such continuation in this docket.

17 **IV. Recovery of Certain Transportation Costs Pursuant to**
18 **Appendix A of Piedmont’s Service Regulations**

19 **Q. What is the purpose of Appendix A of Piedmont’s North**
20 **Carolina Service Regulations?**

21 A. The purpose of Appendix A is to set forth the procedures by which
22 Piedmont can file to adjust its rates pursuant to G.S. 62-133.4 and
23 Commission Rule R6-17(k). The intent of these procedures is to

1 permit Piedmont to recover 100% of its prudently incurred gas costs
2 applicable to its North Carolina operations.

3 **Q. What sections of Appendix A is Piedmont seeking clarification**
4 **from the Commission?**

5 A. It pertains to two sections: Section 2(b) of Appendix A, which
6 defines Gas Costs; and Section 2(g) of Appendix A, which defines
7 Demand Charges and Storage Charges. The definition of Gas Costs
8 is lengthy, and includes “any other similar charges in connection
9 with the purchase, storage or transportation of gas for the LDC’s
10 system supply.” Demand Charges and Storage Charges are defined
11 as “all Gas Costs which are not based on the volume of gas actually
12 purchased or transported by the LDC and any other gas costs
13 determined by the Commission to be properly recoverable from
14 applicable sales and transportation Customers.”

15 **Q. Please explain the clarification that Piedmont is seeking with**
16 **respect to these sections of Appendix A, and why.**

17 A. Piedmont is seeking clarification that it can recover from its
18 customers, through the procedures in Appendix A, the billed electric
19 service costs associated with the operation of its Energy Reliability
20 Centers (“ERC”) in connection with the transportation of gas for
21 Piedmont’s system supply.

22 The purpose of an ERC is to augment the hydraulic
23 conditions of the pipeline system in support of the transportation of

1 gas across the system to serve customer demand. Pursuant to the
2 Eastern Carolina Economic Expansion Project (“ECEEP”), which is
3 explained in the direct testimony of Piedmont witness Weisker,
4 Piedmont will soon begin operating new ERCs on its system in
5 North Carolina in order to support overall system reliability and
6 system growth that benefits all classes of customers. The new ERCs
7 will utilize electric-powered compressor motors, and Piedmont will
8 accordingly receive monthly electric bills from the local electric
9 service provider associated with the electricity used by Piedmont to
10 operate each ERCs. Had Piedmont instead designed the new ERCs
11 to utilize gas-powered compression in lieu of electric-powered
12 compression, the natural gas usage for the ERCs would have come
13 from Piedmont’s general system gas supply and, as a result,
14 Piedmont’s recovery of the cost of the natural gas used at the ERCs
15 would have clearly been accomplished through the procedures of
16 Appendix A. Piedmont seeks the Commission’s clarification that
17 recovery of the billed electric service costs to be incurred to operate
18 the ERCs transporting Piedmont’s system supply meets the Gas
19 Cost definition of Demand Charges and Storage Charges under
20 Appendix A.

21 **Q. Is there precedent for electric utility service costs to be**
22 **recovered under Appendix A?**

23 **A.** Yes, there is. For many years, the electric service costs that

1 Piedmont incurs for the liquefaction function of its on-system LNG
2 facilities (i.e. LNG processing) has been recovered under the routine
3 operation of Appendix A as a Demand and Storage Charge.

4 **Q. What is the estimated annual electricity service cost for the new**
5 **ERCs, and is recovery of the cost included in the rates proposed**
6 **by Piedmont in this proceeding?**

7 A. Piedmont anticipates the annual electric service cost to be billed to
8 Piedmont for each of the two new ERC from ECEEP during their
9 first year of operation to be around \$1 million. Piedmont has not
10 included a pro forma, going level annual electric service cost
11 associated with the two new ERCs from ECEEP in the overall
12 revenue and rates adjustment proposed in this proceeding.

13 **V. Request for Regulatory Asset Accounting Treatment for the O&M**

14 **Expenses for the Piedmont Customer Connect Project**

15 **Q. Is Piedmont’s request in this proceeding for regulatory asset**
16 **accounting treatment of the O&M expenses associated with the**
17 **Piedmont Customer Connect Project similar to the request that**
18 **Piedmont made pursuant to its December 16, 2022 petition in**
19 **Docket G-9, Sub 821?**

20 A. Yes, it is. The Commission’s January 4, 2024 *Order Denying*
21 *Petition for Deferral Accounting* in that docket (“Deferral Order”) *stated*
22 *“that nothing in this Order precludes Piedmont from making*
23 *the request again in the context of on in conjunction with a future*

1 general rate case proceeding.”⁸

2 **Q. Please summarize the Company’s current request for**
3 **accounting deferral treatment on this matter.**

4 A. Piedmont is requesting authorization from the Commission to be
5 granted regulatory asset accounting treatment (deferral treatment)
6 for the O&M expenses being incurred by the Company in
7 connection with the Project. The purpose of this capital Project is
8 the replacement of Piedmont’s current end-of-life primary customer
9 information system (“Legacy CIS”) with a new primary customer
10 information system (“New CIS”). Piedmont’s Legacy CIS is well
11 over 25-years old, fully-depreciated, and further investments in
12 maintaining or upgrading it would not constitute reasonable or
13 prudent expenditures based on its technological obsolescence, and
14 its inability to provide an adequate customer experience based on
15 current industry standards, customer expectations and best practices.

16 Piedmont began working on and incurring expenses for the
17 Project in 2022. The Project is scheduled to conclude in April 2025
18 with the retirement of the Legacy CIS. Because the New CIS (akin
19 to the Legacy CIS) will serve Piedmont’s operations and customers
20 in three states, the Project O&M expenses are being allocated across
21 Piedmont’s three state jurisdictions. The Project O&M expenses for

⁸ Page 6 of Deferral Order

1 which the Company seeks deferral treatment are North Carolina
2 allocated portion of the total O&M expenses incurred from 2022
3 through to the conclusion of the Project in April 2025. Piedmont
4 estimates the total Project O&M costs to be approximately \$47
5 million, with the allocated North Carolina portion of that total
6 amount being approximately \$34 million.

7 The expenses associated with the North Carolina allocated
8 portion of the Project are readily identifiable from Piedmont's other
9 O&M expenses and are separately recorded on Piedmont's books
10 and records. These expenses are incremental because they are not
11 provided for in Piedmont's current customer rates and charges. The
12 expenses are extraordinary in nature as they involve a significant
13 economic investment for replacement of critical customer service
14 functionality. Furthermore, if not authorized for deferral treatment
15 or otherwise able to be recovered through Piedmont's rates, the
16 expenses will have a material adverse impact on Piedmont's
17 financial condition; my calculations at this time indicate that the \$34
18 million of Project expenses would result in an approximate 77 basis
19 point degradation of Piedmont's return on equity, which would
20 constitute a material adverse impact on Piedmont's financial
21 position.

1 **Q. If the requested regulatory asset treatment is granted in this**
2 **proceeding, what is the process by which Piedmont anticipates**
3 **recovering the deferred O&M expenses?**

4 A. The Company's proposed margin revenue adjustment in this
5 proceeding includes amortized recovery over a six-year period of
6 the actual deferred Project expenses through the update period for
7 this proceeding (representing approximately \$23 million of the total
8 estimated \$34 million). Project expenses incurred and deferred after
9 the update period of this proceeding through the Project conclusion
10 date would be amortized for recovery in a future Piedmont rate
11 proceeding.⁹ The amortized recovery of the Project expenses is
12 included in the Company's proposed cost of service as pro forma
13 O&M expense adjustment 4P, which is identified on Page 3 of
14 Exhibit__(WBE-7) in the direct testimony of Piedmont witness Brad
15 Evans.

16 **Q. Does Piedmont acknowledge that the Commission has**
17 **historically treated deferral accounting as a tool to be allowed**
18 **only as an exception to the general rule, and understand why it**
19 **has historically treated deferral accounting as so?**

20 A. Yes. I recognize and understand this to be the case, due in part to
21 "the fact that deferral accounting *typically provides for the future*

⁹ Alternatively, the Commission could at its discretion authorize that the entirety of the North Carolina allocation of projected O&M expenses for the Project be amortized for recovery in rates established in this proceeding, followed by a true-up to actuals at a future date.

1 *recovery of costs for utility services provided to ratepayers in the*
2 *past, and the longer the deferral period, the more likely it is that the*
3 *ratepayers who ultimately pay the rates that include the deferred*
4 *charges, which are related to resources consumed by the utility in*
5 *providing services in earlier periods, may not be the same ratepayers*
6 *who received the services [emphasis added].”¹⁰ This rationale is a*
7 *familiar, core guiding principle of utility ratemaking (and other*
8 *disciplines), commonly referred to as the matching principle. The*
9 *most theoretically ideal application of the matching principle for a*
10 *regulated utility would be when (a) the timing of the regulated*
11 *utility’s incurrence of the expense aligns with (b) the timing of the*
12 *recovery of the expense through customer rates and billings, and*
13 *also aligns with (c) the timing of when customers are receiving*
14 *benefit/deriving utility from the provision of the service or good*
15 *underlying the expense.*

16 **Q. Given the rationale, in part, for the general rule being guided by**
17 **the matching principle, why should the Commission consider**
18 **granting deferral treatment for the Project’s O&M expenses?**

19 **A.** I find that the matching principle on the matter of Piedmont’s O&M
20 expenses for the Project is, in fact, best accomplished with the
21 authorization of deferral treatment in this docket. The O&M
22 expenses supporting the Project ultimately serve the purpose of

¹⁰ Page 5 of Deferral Order.

1 achieving the complete, timely and appropriate development and
2 deployment of the New CIS. Piedmont and its customers will begin
3 deriving utility/benefit from the operation of the New CIS starting
4 in July 2024 and for many years thereafter. In other words, the
5 expenses for which the Company is seeking deferral treatment
6 herein are providing for utility services that customers are going to
7 begin receiving in July 2024 and for many years thereafter.
8 Coupled with Piedmont's proposed recovery through rates in this
9 proceeding of the Project expenses incurred to date on an amortized
10 basis, granting Piedmont's request for regulatory asset treatment of
11 the Project O&M expenses in this proceeding most closely
12 facilitates the alignment of (a) the timing of Piedmont's incurrence
13 of the Project expenses, with (b) the timing of the recovery of the
14 Project expense through customer rates and billings, with (c) the
15 timing of when customers (and Piedmont) are receiving
16 benefit/deriving utility from the New CIS (the development of
17 which the underlying deferred costs was supporting).

18 **Q. Could the approval of deferral accounting in this proceeding be**
19 **equated to or otherwise considered single-issue ratemaking?**

20 A. No. I understand that the "Commission has been reluctant to allow
21 deferral accounting between general rate cases because it typically
22 equates to single-issue ratemaking."¹¹ I see no plausible way that

¹¹ Page 5 of Deferral Order.

1 the Commission's approval of deferral accounting treatment to
2 Piedmont in this general rate case proceeding could be considered
3 single-issue ratemaking under any interpretation or circumstance.
4 In fact, a general rate case such as this proceeding affords the
5 Commission, the Public Staff and intervenors the most
6 comprehensive opportunity to vet and consider the deferral request
7 along with any and all other impacts to the Company and its
8 customers.

9 **Q. Are there additional reasons why deferral treatment is**
10 **warranted in this instance?**

11 A. Yes. It bears repeating that the costs for which Piedmont seeks
12 deferral treatment in this instance are unusual and extraordinary in
13 nature because they represent major, non-routine, infrequent, non-
14 regularly occurring investment of considerable complexity and
15 significance. Piedmont thoughtfully, prudently anticipated the need
16 and undertaking of this Project. Because of the extraordinary and
17 unusual nature of this kind of investment and its cost, Piedmont
18 undertook lengthy and careful consideration at various points in
19 time before fully engaging in this Project in Fall 2022. The impact
20 of Piedmont's judicious capital planning and fiscal responsibility in
21 anticipation of engaging in this Project at the right time and in a
22 comprehensively prudent matter ultimately well served and
23 benefited Piedmont's customers to date and will continue to do so

1 going forward.

2 The materiality of the Project O&M expenses at issue, from
3 a relative standing, is another reason that warrants approval of the
4 requested deferral treatment as part of this proceeding. The
5 Commission approved in general rate case proceedings similar
6 expense deferral treatment requested by Duke Energy Progress,
7 LLC (“DEP”) and Duke Energy Carolinas, LLC (“DEC”) for their
8 respective implementation of a separate, similar new customer
9 information systems. Whereas Piedmont’s total estimated deferral
10 amount is approximately \$34 million, it was approximately \$32
11 million and \$45 million for DEP and DEC, respectively, at the time
12 of their deferral requests. The economic impact on Piedmont for
13 comparable costs is around three times the impact of DEP or DEC
14 given that they each have significantly greater annual operating
15 revenues than Piedmont.

16 **Q. Do you have anything further to add to your testimony at this**
17 **time?**

18 A. Yes. In conclusion, based on the foregoing, I believe that use of
19 deferral accounting is warranted is for Piedmont in this instance
20 from the standpoint of fairness and equity to both consumers and
21 shareholders.

22 **Q. Does this conclude your direct testimony?**

23 A. Yes, it does. Thank you.

Piedmont Natural Gas Company, Inc.
General Rate Case
Docket No. G-9, Sub 781

EXHIBIT_(PKP-1)

**PIEDMONT NATURAL GAS COMPANY, INC.
NORTH CAROLINA SERVICE REGULATIONS**

APPENDIX E

Integrity Management Rider

Pursuant to G.S. 62-133.7A, “[i]n setting rates for a natural gas local distribution company in a general rate case proceeding under G.S. 62-133, the Commission may adopt, implement, modify, or eliminate a rate adjustment mechanism to enable the company to recover the prudently incurred capital investment and associated costs of complying with federal gas pipeline safety requirements, including a return based on the company's then authorized return.” These capital investment and associated costs are required in order to comply with federal laws and regulations, will generate no additional revenue for Piedmont Natural Gas Company, Inc. (Company), and vary significantly in nature, scope, and scale from prior system reinforcement/maintenance projects and also from the Company’s more usual system expansion projects.

1. Provision for Adjustment

The base rates per therm (100,000 Btu) for gas service set forth in Rate Schedules 101, 102, 152, 142, 144, 103, 104, 113, 114 and T-10 of the Company shall be adjusted by an amount hereinafter described which amount is referred to as the “Integrity Management Adjustment.” The Integrity Management Adjustment shall be calculated as an increment and applied to Applicable Rate Schedules to recover the Integrity Management Revenue Requirement (IMRR). The Integrity Management Adjustment shall be implemented on a biannual basis subject to an audit and adjustment process as described herein. The Integrity Management Deferred Account shall be established to track the Company’s recovery of the IMRR.

2. Definitions

For the purposes of this revised Rider:

“Applicable Rate Schedules” means Rate Schedules 101, 102, 152, 142, 144, 103, 104, 113, 114 and T-10.

“Commission” means the North Carolina Utilities Commission.

“Relevant Rate Order” means the final order of the Commission in the most recent litigated rate case of the Company fixing the rates of the Company or the most recent final order of the Commission specifically prescribing or fixing the factors and procedures to be used in the application of this revised Rider.

“Integrity Management Plant Investment” means the gross plant and associated costs incurred by the Company resulting from prevailing federal standards for pipeline integrity and safety and not otherwise included in current base rates. At the time of the Company’s next general rate case proceeding, all prudently incurred Integrity Management Plant Investment associated with this revised Rider shall be included in base rates.

Issued by Piedmont Natural Gas Company, Inc.
Issued to comply with authority granted by the
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Docket Nos. G-9, Sub 837781

Issue Date: ~~11-01-2021~~ _____
Effective Date: ~~11-01-2021~~ _____

**PIEDMONT NATURAL GAS COMPANY, INC.
NORTH CAROLINA SERVICE REGULATIONS**

APPENDIX E

Integrity Management Rider

“Special Contracts” has the same meaning as set forth in Section 2(cc) of the Company’s Service Regulations and includes electric generation contracts.

“Vintage Period” means the period of time during which the Integrity Management Plant Investment is made.

3. Computation of Integrity Management Revenue Requirement (IMRR)

The Company shall file by October 31st and April 30th of each year information showing the computation of the IMRR that forms the basis of the next biannual Integrity Management Adjustment. The total annual revenue requirement will be calculated for each Vintage Period of Integrity Management Plant Investment, as follows:

Integrity Management Plant Investment	\$X,XXX,XXX
Less: Accumulated Depreciation	XXX,XXX
Less: Accumulated Deferred Income Taxes	<u>XXX,XXX</u>
Net Plant Investment	\$X,XXX,XXX
Pre-Tax ROR set forth in the Relevant Rate Order	X.XX%
Allowed Pre-Tax Return	\$X,XXX,XXX
Plus: Depreciation Expense	XXX,XXX
Total	\$X,XXX,XXX

The total of the annual revenue requirements for each Vintage Period of Integrity Management Plant Investment is the annual IMRR. The IMRR shall be reduced by a Special Contract Credit to compute the Net IMRR that forms the basis for determining the Integrity Management Adjustment. The Special Contract Credit represents the amount provided by the Special Contracts towards the Integrity Management Plant Investment. The Special Contract Credit applicable to each twelve-month period beginning December 1 are as follows:

December 1, 202 4	\$ 0
December 1, 202 5	\$ 1, 419 <u>546,347</u> 23 <u>1</u>
December 1, 202 6	\$ 23,808 <u>067,913</u> 63 <u>1</u>
December 1, 202 7	\$ 4, 182 <u>553,933</u> 87 <u>1</u>
December 1, 202 8	\$ 5, 544 <u>937,806</u> 32 <u>5</u>
December 1, 202 9	\$ 67,883 <u>030,935</u> 01 <u>5</u>

For the purposes of determining the Net IMRR on a biannual basis, the Special Contract Credit shall be prorated by month using the Integrity Management Month Factors shown below in this Section 3.

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**PIEDMONT NATURAL GAS COMPANY, INC.
NORTH CAROLINA SERVICE REGULATIONS**

APPENDIX E

Integrity Management Rider

Each month the Company shall charge its Integrity Management Deferred Account for the portion of the Net IMRR (the IMRR as reduced by the Special Contract Credit), that corresponds to that month. The monthly IMRR is the product of the annual Net IMRR and the Integrity Management Month Factor. The Integrity Management Month Factor represents the percentage of annualized and normalized therms as set forth in the Relevant Rate Order by month for the Applicable Rate Schedules. The Integrity Management Month Factors for each month are as follows:

January	13. 8563 %
February	13. 6945 %
March	10. 7975 %
April	8. 2044 %
May	56.9534 %
June	5. 0818 %
July	4. 8290 %
August	5. 0614 %
September	5. 0804 %
October	6. 4014 %
November	9. 0811 %
December	1211.3088 %
	<u>100.00%</u>

4. Computation of Biannual Integrity Management Adjustment

The Company will file for Commission approval by November 15th and May 15th of each year information showing the computation of the Integrity Management Adjustment for each rate schedule and the revised tariffs that it proposes to charge customers during the six month period beginning the following December 1st and June 1st, respectively. To compute the Integrity Management Adjustment, the Net IMRR shall first be apportioned to each customer class based on margin apportionment established in the Relevant Rate Order. The customer class apportionment percentages are as follows:

Residential	Rate Schedule 101	6465.7208 %
Small/Med General & NGV	Rate Schedules 102, 142, 144, 152	3029.3488 %
Large General - Firm	Rate Schedules 103, 113, T-10	23.9622 %
Large General - Interruptible	Rate Schedules 104, 114	1.9882%

The amount of the Net IMRR apportioned to each rate schedule shall then be divided by the annual therms as set forth in the Relevant Rate Order for each rate schedule to determine the Integrity Management Adjustment to the nearest one-thousandth cent per therm. The annual

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**PIEDMONT NATURAL GAS COMPANY, INC.
NORTH CAROLINA SERVICE REGULATIONS**

APPENDIX E

Integrity Management Rider

terms of throughput used in the computation of the Integrity Management Adjustment for each rate schedule are as follows:

Residential	Rate Schedule 101
392396,644773,495551	
Small/Med General & NGV	Rate Schedules 102, 142, 144, 152
300320,856088,437585	
Large General - Firm	Rate Schedules 103, 113, T-10
365358,693705,878502	
Large General - Interruptible	Rate Schedules 104, 114
294313,666969,516083	

Each month the Company shall credit the Integrity Management Deferred Account for the amount of the Integrity Management Adjustment collected from customers. The amount of the Integrity Management Adjustment collected from customers shall be computed by multiplying the Integrity Management Adjustment for each rate schedule by the corresponding actual terms of usage billed customers for the month.

5. Computation of Integrity Management Deferred Account True-Up Adjustment

The Company shall file with the Commission by November 15th to recover the balance in the Integrity Management Deferred Account as of October 31st. The Integrity Management Deferred Account True-Up Adjustment shall be computed by multiplying the balance of the Integrity Management Deferred Account as of October 31st, by the customer class apportionment percentages shown in Section 4 above. The Integrity Management Deferred Account balance apportioned to each customer class shall then be divided by the annual terms of throughput for each rate schedule shown in Section 4 above to determine the Integrity Management Deferred Account True-Up Adjustment applicable to each rate schedule for the following twelve-month period beginning December 1st. The Integrity Management Deferred Account True-Up Adjustment shall be computed to the nearest one-thousandth cent per therm. The Company may, at its discretion, file for further Integrity Management Deferred Account True-Up Adjustments throughout the year, upon 14 days notice to the Commission.

6. Interest

Interest will be applied to the Integrity Management Deferred Account at the Company's authorized net-of-tax overall rate of return.

7. Integrity Management Deferred Account

The Company shall maintain an Integrity Management Deferred Account for the purpose of recording the monthly (a) net IMRR, (b) Integrity Management Adjustment, (c) Integrity Management Deferred Account True-Up Adjustment, and (d) interest on the Integrity

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**PIEDMONT NATURAL GAS COMPANY, INC.
NORTH CAROLINA SERVICE REGULATIONS**

APPENDIX E

Integrity Management Rider

Management Deferred Account.

8. Monthly Filing with Commission

The Company shall file monthly (a) detail of the current month's Integrity Management Plant Investment, including supporting documentation for the amount incurred, (b) the cumulative Integrity Management Plant Investment subject to this revised Rider, and (c) a report of the activity recorded for the month in the Integrity Management Deferred Account. Such reports will be filed within 45 days after the end of the month for which the report is being filed.

9. Annual Integrity Management Plant Investment Forecast

The Company shall file by October 31st its projected three-year plan of Integrity Management Plant Investment, which will encompass Integrity Management Plant Investment planned for its next three fiscal years.

10. Review and Approval of Annual IMR Report and Rates

The Company shall file the Annual IMR Report summarizing the Integrity Management Plant Investment for the prior 12-month period ending September 30th and the data substantiating and supporting its IMRR calculation for the next biannual Integrity Management Adjustment by October 31st.

Upon the Annual IMR Report filing, the Public Staff and any other intervenors of record shall have until the following February 15th to review such filing and to prepare and file with the Commission a report of such review to include supporting testimony if disallowances or adjustments are proposed in such report. The Company shall have until March 1st to respond to any report or testimony filed with the Commission and, to the extent necessary to resolve disputes regarding the Company's Annual IMR Report, such disputes shall be promptly scheduled for hearing by the Commission with the goal of resolving such disputes by Commission order issued by May 15th with corresponding rate adjustments made on a prospective basis on June 1st.

11. Commission Review

The terms and conditions of this revised Rider shall be reviewed, and prospective modifications considered by the Commission: (1) in the Company's next general rate case; or (2) at the end of four years from the effective date of this revised Rider, whichever first occurs. Further any interested party may petition the Commission to modify or terminate the revised Rider on the grounds that the revised Rider, as approved, is no longer in the public interest.

Piedmont Natural Gas Company, Inc.
General Rate Case
Docket No. G-9, Sub 781

EXHIBIT_(PKP-2)

**PIEDMONT NATURAL GAS COMPANY, INC.
NORTH CAROLINA SERVICE REGULATIONS**

APPENDIX E

Integrity Management Rider

Pursuant to G.S. 62-133.7A, “[i]n setting rates for a natural gas local distribution company in a general rate case proceeding under G.S. 62-133, the Commission may adopt, implement, modify, or eliminate a rate adjustment mechanism to enable the company to recover the prudently incurred capital investment and associated costs of complying with federal gas pipeline safety requirements, including a return based on the company's then authorized return.” These capital investment and associated costs are required in order to comply with federal laws and regulations, will generate no additional revenue for Piedmont Natural Gas Company, Inc. (Company), and vary significantly in nature, scope, and scale from prior system reinforcement/maintenance projects and also from the Company’s more usual system expansion projects.

1. Provision for Adjustment

The base rates per therm (100,000 Btu) for gas service set forth in Rate Schedules 101, 102, 152, 142, 144, 103, 104, 113, 114 and T-10 of the Company shall be adjusted by an amount hereinafter described which amount is referred to as the “Integrity Management Adjustment.” The Integrity Management Adjustment shall be calculated as an increment and applied to Applicable Rate Schedules to recover the Integrity Management Revenue Requirement (IMRR). The Integrity Management Adjustment shall be implemented on a biannual basis subject to an audit and adjustment process as described herein. The Integrity Management Deferred Account shall be established to track the Company’s recovery of the IMRR.

2. Definitions

For the purposes of this revised Rider:

“Applicable Rate Schedules” means Rate Schedules 101, 102, 152, 142, 144, 103, 104, 113, 114 and T-10.

“Commission” means the North Carolina Utilities Commission.

“Relevant Rate Order” means the final order of the Commission in the most recent litigated rate case of the Company fixing the rates of the Company or the most recent final order of the Commission specifically prescribing or fixing the factors and procedures to be used in the application of this revised Rider.

“Integrity Management Plant Investment” means the gross plant and associated costs incurred by the Company resulting from prevailing federal standards for pipeline integrity and safety and not otherwise included in current base rates. At the time of the Company’s next general rate case proceeding, all prudently incurred Integrity Management Plant Investment associated with this revised Rider shall be included in base rates.

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**PIEDMONT NATURAL GAS COMPANY, INC.
NORTH CAROLINA SERVICE REGULATIONS**

APPENDIX E

Integrity Management Rider

“Special Contracts” has the same meaning as set forth in Section 2(cc) of the Company’s Service Regulations and includes electric generation contracts.

“Vintage Period” means the period of time during which the Integrity Management Plant Investment is made.

3. Computation of Integrity Management Revenue Requirement (IMRR)

The Company shall file by October 31st and April 30th of each year information showing the computation of the IMRR that forms the basis of the next biannual Integrity Management Adjustment. The total annual revenue requirement will be calculated for each Vintage Period of Integrity Management Plant Investment, as follows:

Integrity Management Plant Investment	\$X,XXX,XXX
Less: Accumulated Depreciation	XXX,XXX
Less: Accumulated Deferred Income Taxes	<u>XXX,XXX</u>
Net Plant Investment	\$X,XXX,XXX
Pre-Tax ROR set forth in the Relevant Rate Order	X.XX%
Allowed Pre-Tax Return	\$X,XXX,XXX
Plus: Depreciation Expense	<u>XXX,XXX</u>
Total	\$X,XXX,XXX

The total of the annual revenue requirements for each Vintage Period of Integrity Management Plant Investment is the annual IMRR. The IMRR shall be reduced by a Special Contract Credit to compute the Net IMRR that forms the basis for determining the Integrity Management Adjustment. The Special Contract Credit represents the amount provided by the Special Contracts towards the Integrity Management Plant Investment. The Special Contract Credit applicable to each twelve-month period beginning December 1 are as follows:

December 1, 2024	\$ 0
December 1, 2025	\$ 1,546,231
December 1, 2026	\$ 3,067,631
December 1, 2027	\$ 4,553,871
December 1, 2028	\$ 5,937,325
December 1, 2029	\$ 7,030,015

For the purposes of determining the Net IMRR on a biannual basis, the Special Contract Credit shall be prorated by month using the Integrity Management Month Factors shown below in this Section 3.

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**PIEDMONT NATURAL GAS COMPANY, INC.
NORTH CAROLINA SERVICE REGULATIONS**

APPENDIX E

Integrity Management Rider

Each month the Company shall charge its Integrity Management Deferred Account for the portion of the Net IMRR (the IMRR as reduced by the Special Contract Credit), that corresponds to that month. The monthly IMRR is the product of the annual Net IMRR and the Integrity Management Month Factor. The Integrity Management Month Factor represents the percentage of annualized and normalized therms as set forth in the Relevant Rate Order by month for the Applicable Rate Schedules. The Integrity Management Month Factors for each month are as follows:

January	13.63%
February	13.45%
March	10.75%
April	8.44%
May	6.34%
June	5.18%
July	4.90%
August	5.14%
September	5.04%
October	6.14%
November	9.11%
December	<u>11.88%</u>
	100.00%

4. Computation of Biannual Integrity Management Adjustment

The Company will file for Commission approval by November 15th and May 15th of each year information showing the computation of the Integrity Management Adjustment for each rate schedule and the revised tariffs that it proposes to charge customers during the six month period beginning the following December 1st and June 1st, respectively. To compute the Integrity Management Adjustment, the Net IMRR shall first be apportioned to each customer class based on margin apportionment established in the Relevant Rate Order. The customer class apportionment percentages are as follows:

Residential	Rate Schedule 101	65.08%
Small/Med General & NGV	Rate Schedules 102, 142, 144, 152	29.88%
Large General - Firm	Rate Schedules 103, 113, T-10	3.22%
Large General - Interruptible	Rate Schedules 104, 114	1.82%

The amount of the Net IMRR apportioned to each rate schedule shall then be divided by the annual therms as set forth in the Relevant Rate Order for each rate schedule to determine the Integrity Management Adjustment to the nearest one-thousandth cent per therm. The annual therms of throughput used in the computation of the Integrity Management Adjustment for each rate schedule are as follows:

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**PIEDMONT NATURAL GAS COMPANY, INC.
NORTH CAROLINA SERVICE REGULATIONS**

APPENDIX E

Integrity Management Rider

Residential	Rate Schedule 101	396,773,551
Small/Med General & NGV	Rate Schedules 102, 142, 144, 152	320,088,585
Large General - Firm	Rate Schedules 103, 113, T-10	358,705,502
Large General - Interruptible	Rate Schedules 104, 114	313,969,083

Each month the Company shall credit the Integrity Management Deferred Account for the amount of the Integrity Management Adjustment collected from customers. The amount of the Integrity Management Adjustment collected from customers shall be computed by multiplying the Integrity Management Adjustment for each rate schedule by the corresponding actual therms of usage billed customers for the month.

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6. Interest

Interest will be applied to the Integrity Management Deferred Account at the Company's authorized net-of-tax overall rate of return.

7. Integrity Management Deferred Account

The Company shall maintain an Integrity Management Deferred Account for the purpose of recording the monthly (a) net IMRR, (b) Integrity Management Adjustment, (c) Integrity Management Deferred Account True-Up Adjustment, and (d) interest on the Integrity Management Deferred Account.

8. Monthly Filing with Commission

The Company shall file monthly (a) detail of the current month's Integrity Management Plant Investment, including supporting documentation for the amount incurred, (b) the cumulative Integrity Management Plant Investment subject to this revised Rider, and (c) a report of the activity recorded for the month in the Integrity Management Deferred Account. Such

**PIEDMONT NATURAL GAS COMPANY, INC.
NORTH CAROLINA SERVICE REGULATIONS**

APPENDIX E

Integrity Management Rider

reports will be filed within 45 days after the end of the month for which the report is being filed.

9. Annual Integrity Management Plant Investment Forecast

The Company shall file by October 31st its projected three-year plan of Integrity Management Plant Investment, which will encompass Integrity Management Plant Investment planned for its next three fiscal years.

10. Review and Approval of Annual IMR Report and Rates

The Company shall file the Annual IMR Report summarizing the Integrity Management Plant Investment for the prior 12-month period ending September 30th and the data substantiating and supporting its IMRR calculation for the next biannual Integrity Management Adjustment by October 31st.

Upon the Annual IMR Report filing, the Public Staff and any other intervenors of record shall have until the following February 15th to review such filing and to prepare and file with the Commission a report of such review to include supporting testimony if disallowances or adjustments are proposed in such report. The Company shall have until March 1st to respond to any report or testimony filed with the Commission and, to the extent necessary to resolve disputes regarding the Company's Annual IMR Report, such disputes shall be promptly scheduled for hearing by the Commission with the goal of resolving such disputes by Commission order issued by May 15th with corresponding rate adjustments made on a prospective basis on June 1st.

11. Commission Review

The terms and conditions of this revised Rider shall be reviewed, and prospective modifications considered by the Commission: (1) in the Company's next general rate case; or (2) at the end of four years from the effective date of this revised Rider, whichever first occurs. Further any interested party may petition the Commission to modify or terminate the revised Rider on the grounds that the revised Rider, as approved, is no longer in the public interest.