BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

December 1, 2004

IN RE:	)	
	)	
NASHVILLE GAS COMPANY	)	**DOCKET NO.**
ACTUAL COST ADJUSTMENT (ACA) AUDIT	)	**04-00135**

ORDER ADOPTING ACA AUDIT REPORT OF TENNESSEE REGULATORY AUTHORITY'S ENERGY AND WATER DIVISION

This matter came before Chairman Pat Miller, Director Deborah Taylor Tate, and Director Sara Kyle of the Tennessee Regulatory Authority (the "Authority"), the voting panel assigned to this docket, at a regularly scheduled Authority Conference held on October 11, 2004, for consideration of the report of the Authority's Energy and Water Division (the "Staff") resulting from the Staff's audit of Nashville Gas Company's (the "Company") annual deferred gas cost account filing for the year ended December 31, 2003. The Actual Cost Adjustment ("ACA") Audit Report (the "Report"), attached hereto as Exhibit 1 and incorporated by this reference, contains the audit findings of the Staff, the responses thereto of the Company, and the recommendations of the Staff to the Company in addressing the findings.

The Company submitted its ACA filing on April 13, 2004, and the Staff completed its audit of the Company's filing on September 16, 2004 The Staff issued its preliminary ACA audit findings to the Company, and the Company responded to these findings on September 22, 2004. The Company has agreed to all of the Staff's findings contained in the audit report with no further disputes in this audit period.

After consideration of the Report, the voting panel unanimously approved and adopted the findings and recommendations contained therein.

IT IS THEREFORE ORDERED THAT:

The Actual Cost Adjustment Audit Report of Nashville Gas Company's annual deferred gas cost account filing for the year ended December, 31 2003, a copy of which is attached to this Order as Exhibit 1, is approved and adopted, and the findings and recommendations contained therein are incorporated in this Order as if fully rewritten herein.

Pat Miller

Pat Miller, Chairman

Deborah Taylor Tate

Deborah Taylor Tate, Director

Sara Kyle

Sara Kyle, Director

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BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

September 28, 2004

IN RE:	)
	)
NASHVILLE GAS COMPANY	) **Docket No. 04-00135**
ACTUAL COST ADJUSTMENT (ACA) AUDIT	)

NOTICE OF FILING BY ENERGY AND WATER DIVISION OF THE TENNESSEE REGULATORY AUTHORITY

Pursuant to Tenn. Code Ann. §§ 65-4-104, 65-4-111 and 65-3-108, the Energy and Water Section of the Tennessee Regulatory Authority hereby gives notice of its filing of the Compliance Audit Report of the Actual Cost Adjustment (hereafter "ACA") Component of the Purchased Gas Adjustment Rule for Nashville Gas Company (hereafter the "Company") in this docket and would respectfully state as follows:

1. The present docket was opened by the Authority to hear matters arising out of the audit of the Company's ACA filing for the period January 2003 through December 2003.

2. The Company's ACA filing was received on April 13, 2004, and the TRA Staff completed its audit of same on September 16, 2004.

3. On September 17, 2004, the Energy and Water Section issued its preliminary ACA audit findings to the Company and on September 22, 2004, the Company responded thereto.

EXHIBIT

4. The preliminary ACA audit report was modified to reflect the Company's responses and a final ACA audit report (the "Report") resulted there from. The Report is attached hereto as Exhibit A and is fully incorporated herein by this reference. The Report contains the audit findings of the Energy and Water Section, the Company's responses thereto and the recommendations of the Energy and Water Section in connection therewith..

5. The Energy and Water Section hereby files its Report with the Tennessee Regulatory Authority for deposit as a public record and approval of the recommendations and findings contained therein.

Respectfully Submitted:

Pat Murphy

Pat Murphy, Manager
Utilities Division - Energy and Water Section
Tennessee Regulatory Authority

CERTIFICATE OF SERVICE

I hereby certify that on this 28th day of September, 2004, a true and exact copy of the foregoing has been either hand-delivered or delivered via U.S. Mail, postage pre-paid, to the following persons:

Pat Miller
Chairman
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37243

Mr. David Carpenter
Director-Rates
Piedmont Natural Gas Company
P.O. Box 33068
Charlotte, NC 28233

Ms. Ann Boggs
Director of Gas Accounting
Piedmont Natural Gas Company
P.O. Box 33068
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Dan McCormac
Coordinator of Analysts
Consumer Advocate Division
Office of the Attorney General
425 5th Ave.
Nashville, TN 37243

Pat Murphy

Pat Murphy

EXHIBIT A

COMPLIANCE AUDIT REPORT

OF

Nashville Gas Company

ACTUAL COST ADJUSTMENT

DOCKET NO. 04-00135

PREPARED BY

TENNESSEE REGULATORY AUTHORITY

ENERGY AND WATER SECTION

September 2004

COMPLIANCE AUDIT

NASHVILLE GAS COMPANY

ACTUAL COST ADJUSTMENT

DOCKET NO. 04-00135

TABLE OF CONTENTS

I. INTRODUCTION

The subject of this audit is Nashville Gas Company's ("Company" or "NGC") compliance with the Actual Cost Adjustment and Refund Adjustment of the Purchased Gas Adjustment Rule ("PGA Rule") of the Tennessee Regulatory Authority ("TRA" or the "Authority"). The objective of the audit was to determine whether the Purchased Gas Adjustments, which are encompassed by the Actual Cost Adjustment ("ACA")[1], for the twelve (12) months ended December 31, 2003, were calculated correctly and were supported by appropriate source documentation.

II. AUDIT OPINION

On Aprl 13, 2004, Staff received NGC's ACA filing supporting the activity in its deferred gas cost account ("ACA account") for the period January 1, 2003 through December 31, 2003. The Company filed a PGA on May 31, 2004, effective July 1, 2004, implementing a rate adjustment to distribute the balance reflected in the ACA account at March 31, 2004 to the various rate classes. This ACA filing however only accounts for the Company's ACA balance at December 31, 2003. The filing showed $126,781,895 in total gas costs, with $130,637,620 being recovered from customers through rates. Adding a beginning balance in the ACA account of $4,798,466 in over-collected gas costs from the preceding ACA period and interest due to customers for the current period of $228,036 resulted in an ACA balance at December 31, 2003 of **$8,882,229 in over-recovered gas costs.**[2] Normally the Company would refund this amount to its customers through a PGA adjustment to its tariff. However, since the balance in the ACA account changed materially from December 2003 to April 2004 at the time of the filing, the Company chose their March 31, 2004 ACA balance of **1,681,513 in under-collected gas costs** to surcharge its customers beginning July 1, 2004.

Staff's audit resulted in nine (9) findings.[3] The net amount of these findings is **$125,340 in additional over-recovered gas costs**. Therefore, the Company's reported December 31, 2003 balance of $8,882,229 in over-collected gas costs is increased by this amount. The corrected balance in the ACA account at December 31, 2003 is **$9,007,569 in over-recovered gas costs.** The amount of the Company's errors represent less than one percent of its total gas invoices, and is therefore immaterial by comparison. Therefore, Staff concludes that except for the findings noted in this report, NGC is correctly implementing its Purchased Gas Adjustment Rider as calculated in the Actual Cost Adjustment, in accordance with the TRA rules for Nashville Gas Company.

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[1] The ACA is more fully described in Section V

[2] A summary of the ACA account can be found in Section VII

[3] Refer to Section VII for a description of the findings

III. BACKGROUND INFORMATION ON COMPANY AND GAS SUPPLIERS

Nashville Gas Company, with headquarters at 665 Mainstream Drive, Nashville, Tennessee, is an operating division of Piedmont Natural Gas Company, which has its headquarters at 1915 Rexford Road, Charlotte, North Carolina. NGC is a gas distributor that provides service to several communities in the Middle Tennessee area. The natural gas used to serve these areas is purchased from producers and marketers and transported to Nashville's city gate through the interstate transmission facilities of Tennessee Gas Pipeline (TGP), Columbia Gas Transmission Corporation (CGTC), and Texas Eastern Gas Pipeline (TETCO).

IV. JURISDICTION OF THE TENNESSEE REGULATORY AUTHORITY

Tennessee Code Annotated (T.C.A.) gave jurisdiction and control over public utilities to the Tennessee Regulatory Authority. T.C.A. §65-4-104 states that:

> The [A]uthority has general supervisory and regulatory power, jurisdiction, and control over all public utilities, and also over their property, property rights, facilities, and franchises, so far as may be necessary for the purpose of carrying out the provisions of this chapter.

Further, T.C.A. §65-4-105 grants the same power to the Authority with reference to all public utilities within its jurisdiction as chapters 3 and 5 of Title 65 of the T.C.A. have conferred on the Department of Transportation's oversight of the railroads or the Department of Safety's oversight of transportation companies. By virtue of T.C.A. §65-3-108, this power includes the right to audit:

> The department is given full power to examine the books and papers of the companies, and to examine, under oath, the officers, agents, and employees of the companies and any other persons, to procure the necessary information to intelligently and justly discharge its duties and carry out the provisions of this chapter and chapter 5 of this title.

The Energy and Water Staff of the TRA is responsible for auditing those energy and water utilities under the Authority's jurisdiction to ensure that each company is abiding by Tennessee statute as well as the Rules and Regulations of the Authority. Pat Murphy and Gary Lamb conducted this audit.

V. DESCRIPTION OF PURCHASED GAS ADJUSTMENT RULE

Actual Cost Adjustment Audits:

The PGA Rule can be found in Chapter 1220-4-7 of the Rules of the Tennessee Regulatory Authority. The PGA Rule permits a gas company to recover, in a timely fashion, the total cost of gas purchased for delivery to its customers and to assure that a company does not over-collect or under-collect gas costs from its customers. The PGA consists of three major components:

1. **The Actual Cost Adjustment (ACA)**
2. **The Gas Charge Adjustment (GCA)**
3. **The Refund Adjustment (RA)**

The ACA is the difference between the revenues billed customers by means of the GCA and the cost of gas invoiced the Company by suppliers plus margin loss (if allowed by order of the TRA in another docket) as reflected in the Deferred Gas Cost account. The ACA then "trues-up" the difference between the actual gas costs and the gas costs recovered from customers through a surcharge or a refund. The RA refunds the "true-up" along with other supplier refunds. For a more complete definition of the GCA and RA, please see the PGA Formula in Appendix A.

Section 1220-4-7-.03(2) of the PGA Rule requires:

> Each year, the Company shall file with the [Authority] an annual report reflecting the transactions in the Deferred Gas Cost Account. Unless the [Authority] provides written notification to the Company within one hundred eighty (180) days from the date of filing the report, the Deferred Gas Cost Adjustment Account shall be deemed in compliance with the provisions of these Rules. This 180-day notification period may be extended by mutual consent of the Company and the [Authority] Staff or by order of the [Authority].

Prudence Audit of Gas Purchases:

Section 1220-4-7-.05 of the PGA Rule requires, unless otherwise ordered by the Authority, an "Audit of Prudence of Gas Purchases" by a qualified consultant. This specialized audit evaluates and reports annually on the prudence of any gas costs included in the PGA. In Docket 96-00805, Nashville Gas was authorized to operate under a Performance-Based Ratemaking Mechanism ("PBR"), beginning July 1, 1998, and continuing each year unless terminated by the Company or the Authority. For each year that the mechanism is in effect, the requirements of Section 1220-4-7-.05 of the PGA Rule is waived.

VI. SCOPE OF ACTUAL COST ADJUSTMENT AUDIT

The ACA audit is a limited compliance audit of NGC's ACA account. The audit goal was to verify that the Company's calculations of gas costs incurred and recovered were materially correct,[4] and that the Company is following all Authority orders and directives with respect to its calculation of the ACA account balance. Also included in this audit is the Company's PGA filing implementing a customer surcharge of the ACA account balance at March 31, 2004, effective July 1, 2004. Refer to the ACA Account detail provided in Section VII Summary of ACA Account.

To accomplish the audit goal, Staff reviewed gas supply invoices, as well as supplemental schedules and other source documentation provided by the Company. Where appropriate, Staff requested additional information to clarify the filing.

[4] The audit goal is not to guarantee that the Company's results are 100% correct. Where it is appropriate, Staff utilizes sampling techniques to determine whether the Company's calculations are materially correct Material discrepancies would dictate a broadening of the scope of Staff's review

VII. ACA FINDINGS

As outlined in Section II above, the result of the Staff's audit was a **net over-recovery of $125,340** which has the effect of increasing the Company's over-recovery balance in the ACA account by this amount. A summary of the account as filed by the Company and as adjusted by the Staff is shown below, followed by a detail of each finding.

SUMMARY OF THE ACA ACCOUNT:

	Company	Staff	Difference (Findings)
Beginning Balance at 1/1/03	$ -4,798,466	$-4,697,803	$ 100,663
Plus Gas Costs	126,781,895	126,553,397	-228,498
Minus Recoveries	130,637,620	130,638,373	753
Ending Balance before Interest	$ -8,654,191	$-8,782,779	$ -128,588
Plus Interest	-228,036	-224,789	3,247
Ending Balance at 12/31/03	$ -8,882,229	$ -9,007,569	$ -125,340

SUMMARY OF FINDINGS:

				See page
FINDING #1	Beginning Balance	$100,663	Under-recovery	6
FINDING #2	Misc Adjustment to Commodity	-240,625	Over-recovery	7
FINDING #3	Hattiesburg Withdrawals	17,532	Under-recovery	8
FINDING #4	Columbia WS/FSS Withdrawals	-6,355	Over-recovery	9
FINDING #5	Cost of Gas – Demand	919	Under-recovery	10
FINDING #6	Cost of Gas – Commodity	32	Under-recovery	11
FINDING #7	Duplicate Payment	0	N/A	12
FINDING #8	Recoveries – Demand	-753	Over-recovery	13
FINDING #9	Interest on Account Balance	3,247	Under-recovery	14
	Net Result	**$-125,340**	**Over-recovery**	

FINDING #1:

Exception

The Beginning ACA account balance was understated by $100,663.44.

Discussion

The ending ACA account balances at December 31, 2002 were $-1,992,929.10 and $-2,704,873.88 for commodity and demand portions respectively. In this filing, however, the Company reported January 1, 2003 beginning ACA Account balances as $-2,510,798.43 and $-2,287,668.00 for commodity and demand portions respectively. In addition, there is no indication the Company made the adjustments to the ACA account necessary to correct the findings reported in the Staff's last audit report and approved by the Tennessee Regulatory Authority. The result of this finding is that the Company under-recovered $100,663.44 during the period under audit.

Company Response

The Company agrees with this finding. Adjustments to account for the understated beginning balance will be made in the Company's September 2004 month-end closing.

FINDING #2:

Exception

A miscellaneous adjustment recorded in the commodity activity for November 2003 was overstated by $240,625.00.

Discussion

The Company recorded a miscellaneous adjustment of $86,128.55 in the November 2003 commodity portion of the ACA. This adjustment was based on a subsequent invoice for October showing the net of a $240,625.00 charge for October and a credit of $154,496 for October. However, the $240,625.00 portion of the invoice had already been charged to the ACA account in October and should not have been recorded again in November. Recording this cost twice in the ACA Account resulted in a $240,625.00 over-recovery.

Company Response

The Company agrees with this finding. The October 2003 accrual of $240,625.00 in commodity costs will be reversed in the Company's September 2004 month-end closing.

FINDING #3:

Exception

Hattiesburg Inventory withdrawals were understated by a net $17,532.28 for November and December 2003.

Discussion

In November and December 2003, the Company used the wrong inventory schedules to record Hattiesburg Inventory withdrawals in the commodity portion of the ACA Account. The correct schedule provided by the company listed the amount of withdrawals as $100,881.30 in November instead of the $83,668.70 reported by the Company in the ACA Account. In December 2003, the Company recorded Hattiesburg Inventory withdrawals as $151,526.78, while the correct inventory schedule listed the amount of withdrawals as $151,846.46. These net of these errors resulted in an under-recovery of $17,532.28 in the commodity portion of the ACA.

Company Response

The Company agrees with this finding. The understatement of Hattiesburg inventory withdrawals was accounted for within the Company's January 2004 month-end closing, in the amount of $17,212.60.

FINDING #4:

Exception

Columbia-WS/FSS withdrawals were overstated for November 2003 by $6,355.87.

Discussion

In November 2003, the Company recorded Columbia-WS/FSS Inventory withdrawals as $172,986.75 in the commodity portion of the ACA account, while the inventory schedule provided by the Company listed the amount of withdrawals as $166,630.88. This error resulted in a $6,355.87 over-recovery in the Commodity portion of the ACA account.

Company Response

The Company agrees with this finding. The overstatement of Columbia WS/FSS withdrawals for November 2003 was accounted for within the Company's January 2004 month-end closing.

FINDING #5:

Exception

The Company recorded a supplier credit of $918.80 in the September 2003 demand portion of the ACA Account, which the Company has not yet received.

Discussion

In the opinion of the Staff, the Company should not record the credit until it is actually received from the supplier. As a result, the Company under-recovered $918.80 in the demand portion of the ACA.

Company Response

The Supplier credit recorded in the Company's September 2003 month-end closing will be reversed. The $918.80 credit is pending resolution with Columbia Gas and the Asset Manager (Sempra).

FINDING #6:

Exception

The Company understated a supplier's November 2003 invoice by $32.21.

Discussion

The Company paid $106,725.37 in commodity charges on a supplier's November 2003 invoice. The Supplier and the Company agreed that the correct charge should have been $106,224.03. However, the Company recorded the cost as $106,191.82. This resulted in an under-recovery of $32.21 in the Commodity portion of the ACA account.

Company Response

The Company agrees with this finding. A $32.21 adjustment was made within the Company's March 2004 month-end closing to account for the understatement.

FINDING #7:

Exception

The Company paid two suppliers for the same cost of gas charge of $1,361,536.80 for November 2003. This error did not monetarily affect the ACA balance as filed.

Discussion

A charge for gas purchases of $1,361,536.80 appeared on two separate supplier's November invoices. The Company actually paid each company this amount, thus paying twice for the same gas purchase. The Company, however, correctly included this charge only once in its ACA filing. Although the treatment of these costs in the ACA filing is correct, in the opinion of the Staff there may be an internal control weakness in the Company's accounting for volumes purchased that led to this error. To date, the Company has not recovered this over-payment from the suppliers.

Company Response

The Company agrees with this finding. Overpayment will be recovered from the appropriate supplier.

FINDING #8:

Exception

The Company understated its October 2003 gas cost recoveries by $753.00, due to an incorrect amount of Therms used to calculate recoveries for rate code 341.

Discussion

In calculating the second rate step of rate 341 volumes sold, the Company use 6,810 Therms sold instead of the correct amount of 36,810. This error resulted in an over-recovery of $743.00 in the demand portion of the ACA.

Company Response

The Company agrees with this finding. A gas cost recovery adjustment will be made within the Company's September 2004 month-end closing to account for the October 2003 understated therms.

FINDING #9:

Exception

The Company overstated the amount of interest due to customers in its ACA filing.

Discussion

The Company used the correct interest rates. However, based on a correction of the above findings, Staff recalculated a reduction of the amount of interest due to customers Of $3,247.29. This represents an under-recovery from the customers.

Company Response

The Company agrees with this finding.

APPENDIX A

PGA FORMULA

The computation of the GCA can be broken down into the following formulas:

$$\text{Firm GCA} = \frac{D + DACA}{SF} - DB + \frac{P + T + SR + CACA}{ST} - CB$$

$$\text{Non-Firm GCA} = \frac{P + T + SR\ \ CACA}{ST} - CB$$

where

GCA	=	The Gas Charge Adjustment in dollars per Ccf/Therm, rounded to no more than five decimal places.
D	=	The sum of all fixed Gas Costs.
DACA	=	The demand portion of the ACA.
P	=	The sum of all commodity/gas charges.
T	=	The sum of all transportation charges.
SR	=	The sum of all FERC approved surcharges.
CACA	=	The commodity portion of the ACA.
DB	=	The per unit rate of demand costs or other fixed charges included in base rates in the most recently completed general rate case (which may be zero if the Company so elects and the Commission so approves).
CB	=	The per unit rate of variable gas costs included in base rates in the most recently completed general rate case (which may be zero if the Company so elects and the Commission so approves).
SF	=	Firm Sales.
ST	=	Total Sales.

The computation of the RA can be computed using the following formulas:

$$\text{Firm RA} = \frac{DR1 - DR2}{SFR} + \frac{CR1 - CR2 + CR3 + i}{STR}$$

$$\text{Non-Firm RA} = \frac{CR1 - CR2 + CR3 + i}{STR}$$

where

RA	=	The Refund Adjustment in dollars per Ccf/Therm, rounded to no more than five decimal places.
DR1	=	Demand refund not included in a currently effective Refund Adjustment, and received from suppliers by check, wire transfer, or credit memo.
DR2	=	A demand surcharge from a supplier not includable in the GCA, and not included in a currently effective Refund Adjustment.
CR1	=	Commodity refund not included in a currently effective Refund Adjustment, and received from suppliers by check, wire transfer, or credit memo.
CR2	=	A commodity surcharge from a supplier not includable in the GCA, and not included in a currently effective Refund Adjustment.
CR3	=	The residual balance of an expired Refund Adjustment.

i	=	Interest on the "Refund Due Customers" account, using the average monthly balances based on the beginning and ending monthly balances. The interest rates for each calendar quarter used to compute such interest shall be the arithmetic mean (to the nearest one-hundredth of one percent) of the prime rate value published in the "Federal Reserve Bulletin" or in the Federal Reserve's "Selected Interest Rates" for the 4th, 3rd, and 2nd months preceding the 1st month of the calendar quarter.
SFR	=	Firm sales as defined in the GCA computation, less sales under a transportation or negotiated rate schedule.
STR	=	Total sales as defined in the GCA computation, less sales under a transportation or negotiated rate schedule.