

IN THE TENNESSEE REGULATORY AUTHORITY

AT NASHVILLE, TENNESSEE

December 14, 2007

IN RE:

REVIEW OF NASHVILLE GAS COMPANY'S
INCENTIVE PLAN ACCOUNT RELATING TO
ASSET MANAGEMENT FEES

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DOCKET NO.
05-00165

ORDER APPROVING SETTLEMENT

This matter came before Chairman Eddie Roberson, Director Sara Kyle, and Director Ron Jones of the Tennessee Regulatory Authority ("Authority" or "TRA"), the voting panel assigned to this docket, at a regularly scheduled Authority Conference held on October 22, 2007, to consider a settlement reached by the parties to this case. The *Proposed Settlement Agreement* is attached hereto as Exhibit 1.

Background

At the Authority Conference held on June 13, 2005, in Docket No. 04-00290,¹ the Authority decided to establish a contested case proceeding to address issues related to the inclusion of asset management fees in Nashville Gas Company's Incentive Plan Account ("IPA"). This decision was reflected in the Authority's September 6, 2005 *Order Adopting Incentive Plan Account Filing of Nashville Gas Company for Year Ended June 30, 2004* in which the Authority directed that a separate proceeding be established "to resolve the issue regarding the inclusion of the asset management fees into the

¹ *In re: Audit of Nashville Gas Company's Incentive Plan Account for the Plan Year Ended June 30, 2004*, Docket No. 04-00290 (September 1, 2004).

Company's IPA, including shared savings." At the Authority Conference held on June 27, 2005, the Authority formally convened a contested case proceeding for this purpose in the instant docket.

On July 7, 2005, the Consumer Advocate and Protection Division of the Office of the Attorney General ("Consumer Advocate") filed a petition to intervene. The Consumer Advocate's petition was granted by the Hearing Officer's July 19, 2005 *Order Granting Petition to Intervene*. On November 28, 2005, the Hearing Officer issued an *Order Establishing Procedural Schedule* in which the Hearing Officer established a schedule for the taking of discovery and filing of testimony and tentatively scheduled a hearing for the week of May 15, 2006. The procedural schedule established by the Hearing Officer was subsequently amended on several occasions and ultimately stayed upon the unanimous request of the parties in order to permit the parties to pursue settlement discussions. This decision was reflected in the Hearing Officer's March 27, 2006 *Order Granting Agreed Motion to Stay Proceedings*.

On June 5, 2007, Nashville Gas Company, the Consumer Advocate, and the Audit Staff of the Authority submitted a *Proposed Settlement Agreement* and a request to the Authority for approval of such. The parties represented that the primary attributes of the *Proposed Settlement Agreement* include the following modifications and improvements to Nashville Gas Company's IPA tariff and the procedures utilized in administering that tariff:

- 1) Elimination of varying sharing bands under the commodity and capacity management mechanisms in favor of a straight 75%-customer/25%-company sharing ratio to be effective July 1, 2006;

- 2) Maintenance of Nashville Gas Company's overall annual incentive cap of \$1.6 million;
- 3) Expansion of the existing tariff language to expressly include asset management fees and other forms of compensation received for capacity management activities;
- 4) Adoption of more explicit RFP procedures for non-affiliate asset management transactions, effective upon approval of the Proposed Settlement Agreement;
- 5) Adoption of a triennial review procedure of IPA operations by an outside consultant beginning in the fall of 2008;
- 6) Clarification of the benchmark formula for commodity management activities to accommodate new deliveries from the Chicago hub; and
- 7) Modification and clarification of provisions governing the manner in which hedging is conducted under the IPA, including a cap on recoverable hedging costs equal to 1% of total annual gas costs and the recording of hedging gains and losses in the Actual Cost Adjustment account.

On August 8, 2007, the Hearing Officer issued a *Notice of Oral Presentation Regarding Proposed Settlement Agreement* ("Notice") scheduling oral presentations by the parties to be heard by the voting panel at a regularly scheduled Authority Conference on August 20, 2007. This *Notice* informed the parties to be prepared to discuss the *Proposed Settlement Agreement* and "respond to questions, including addressing the issue of retroactive ratemaking as it applies to the effective date of the proposed tariff." At the Authority Conference held on August 20, 2007, the Consumer Advocate cited the case of

South Central Bell Telephone Company v. Tennessee Public Service Commission, 675 S.W.2d 718 (Tenn. Ct. App. 1984), for the proposition that parties to a case may enter into an agreed order that otherwise would be retroactive ratemaking and that the Authority has the authority to legally enter and enforce that order. The parties did not express any positions regarding the merits of the retroactive ratemaking issue outside the context of a settlement.

At the Authority Conference held on September 24, 2007, the voting panel heard further oral presentations by the parties regarding the *Proposed Settlement Agreement*. The Consumer Advocate stated its agreement with the *Proposed Settlement Agreement* and opined that the Authority may legally approve it. The Audit Staff of the Authority agreed with the Consumer Advocate's position. Nashville Gas Company stated its belief that the *Proposed Settlement Agreement* is legally enforceable in accordance with its terms and did not disagree with the position of the Consumer Advocate or the Audit Staff of the Authority.

October 22, 2007 Authority Conference

At a regularly scheduled Authority Conference held on October 22, 2007, the voting panel considered the *Proposed Settlement Agreement*. A majority of the panel found: that the parties agreed with the *Proposed Settlement Agreement*; that the parties agreed that the Authority has the legal authority to approve the *Proposed Settlement Agreement*; that the *Proposed Settlement Agreement* is in the public interest; that Nashville Gas Company is not harmed by approval of the *Proposed Settlement*

Agreement; and that consumers will benefit by approval of the *Proposed Settlement Agreement*. For these reasons, the majority of the panel voted to approve the *Proposed Settlement Agreement*.

IT IS THEREFORE ORDERED THAT:

1. The *Proposed Settlement Agreement* attached hereto as Exhibit 1 is accepted and approved, and is incorporated into this Order as if fully rewritten herein.

2. Nashville Gas Company's Incentive Plan Account tariff, Service Schedule No. 316, set forth in Exhibit A of the attached *Proposed Settlement Agreement* is accepted and approved.


Eddie Roberson, Chairman


Sara Kyle, Director

* * *

Ron Jones, Director²

² Director Jones dissented from the decision to approve the settlement agreement and filed a separate opinion explaining his analysis.

**BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE**

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IN RE:)
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REVIEW OF NASHVILLE GAS)
COMPANY'S IPA RELATING TO)
ASSET MANAGEMENT FEES)

DOCKET NO. 05-00165

PROPOSED SETTLEMENT AGREEMENT

Nashville Gas Company (Nashville Gas), a division of Piedmont Natural Gas Company, Inc. (Piedmont or Company), the Audit Staff of the Tennessee Regulatory Authority (TRA Audit Staff), and Robert E. Cooper, Jr., the Tennessee Attorney General and Reporter, through the Consumer Advocate and Protection Division (Consumer Advocate or CAD) (collectively, the "Parties") hereby stipulate and agree as follows:

1. The Company conducts its natural gas distribution business in the State of Tennessee through its operating division, Nashville Gas. Nashville Gas' natural gas distribution business is subject to regulation and supervision by the Tennessee Regulatory Authority (Authority) pursuant to Chapters 4 and 5 of Title 65 of the Tennessee Code Annotated.

2. Nashville Gas has its principal offices at 665 Mainstream Drive, Nashville, Tennessee, and it is engaged in the business of furnishing natural gas to customers located in Davidson County and portions of the counties of Cheatham, Dickson, Robertson, Rutherford, Sumner, Trousdale, Williamson and Wilson and in certain incorporated towns and cities located therein.

3. On June 13, 2005, the panel of Directors assigned to TRA Docket No. 04-00290, *In re: Audit of Nashville Gas Company's Incentive Plan Account for the Plan Year Ended June 30, 2004*, ordered a new docket to be opened to consider issues associated with the Company's inclusion of asset management fees in the Incentive Plan Account (IPA). As a result, this Docket was opened on June 27, 2005, and the panel of Directors assigned to this Docket voted to convene a contested case proceeding.

4. On July 7, 2005, the CAD filed a Petition to Intervene in this Docket. By order entered on July 19, 2005, the CAD's intervention was granted.

5. The Parties have engaged in substantial discovery and have undertaken extensive discussions to resolve the disputed issues in this Docket. As a result of the information obtained during discovery and discussions among the Parties, the Parties have agreed to settle the issues pending in this Docket by stipulating to the following:

A. Effective as of July 1, 2006, the Company's Performance Incentive Plan (Service Schedule No. 316) presently in effect will be withdrawn in its entirety and replaced with the Performance Incentive Plan provided in the attached Exhibit A, which is incorporated fully herein by reference.

B. Beginning in 2008, triennial reviews will be conducted by an independent consultant pursuant to the provisions provided in the attached Exhibit B, which is incorporated fully herein by reference.

C. Effective upon approval of the Proposed Settlement Agreement by the Authority, the Company's selection of asset managers will be governed by the procedures set forth in the attached Exhibit C, which is incorporated fully herein by reference.

6. The Parties jointly recommend to the Authority that the Authority issue an order adopting this stipulation in its entirety without modification.

7. It is expressly agreed by the Parties that this stipulation shall be void and of no effect whatsoever if the Authority does not accept this Proposed Settlement Agreement in its exact form as the full and final settlement of the issues in this Docket. Any proposed modifications by the Authority shall require the written approval of the Parties before becoming effective and binding on the Parties.

8. This stipulation is the product of compromise negotiations, and no provision of this stipulation shall be binding on the Parties unless the Authority accepts the entire stipulation without modification.

9. By agreeing to this stipulation, no Party waives any right to continue litigating this matter should the stipulation be rejected, in whole or in part.

10. No provision of this stipulation shall be deemed an admission of any Party.

11. The Parties agree to support this stipulation in any proceeding before the Authority in this Docket; however, the Parties further agree and request the Authority to order that the settlement of any issue pursuant to this stipulation shall not be cited by the Parties or any other entity as binding precedent in any other proceeding before the Authority.

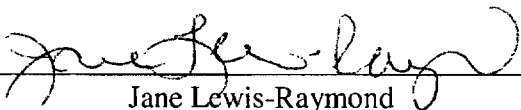
12. The provisions of this stipulation do not necessarily reflect the positions asserted by any Party, and no Party to this stipulation waives the right to assert any position in any future proceeding.

13. This stipulation is contingent upon implementation effective as of July 1, 2006.

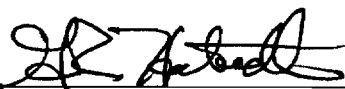
14. The Parties agree to implement this stipulation in good faith and with due diligence.

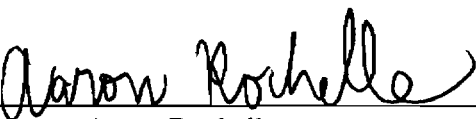
The foregoing is agreed and stipulated to this 31st day of May, 2007.

PIEDMONT NATURAL GAS COMPANY, INC.

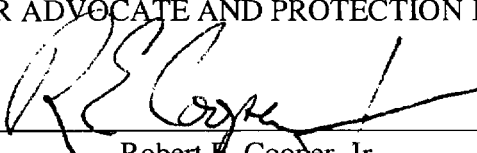
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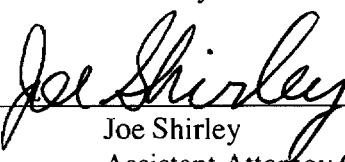
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EXHIBIT A

SERVICE SCHEDULE NO. 316

Performance Incentive Plan

Applicability

The Performance Incentive Plan (the Plan) replaces the annual reasonableness or prudence review of Nashville Gas Company's (Nashville or Company) gas purchasing activities overseen by the Tennessee Regulatory Authority (Authority or TRA). The Plan does not preclude the Authority from conducting an independent investigation into or examination of any aspect of the Plan or Nashville's conduct thereunder. The Plan is designed to provide incentives to Nashville in a manner that will produce rewards for its customers and its stockholders and improvements in the Company's gas procurement and capacity management activities. Each plan year will begin July 1. The annual provisions and filings herein would apply to this annual period. The Plan will continue until the Plan is either (a) terminated at the end of a plan year by not less than 90 days notice by Nashville to the Authority or (b) the Plan is modified, amended or terminated by the Authority on a prospective basis.

Overview of Structure

The Plan establishes a predefined benchmark index to which Nashville's commodity cost of gas is compared. It also addresses the recovery of gas supply reservation fees and the treatment of off-system sales and wholesale interstate sale for resale transactions. The net incentive benefits or costs will be shared between the Company's customers and the Company on a 75%-customers / 25%- stockholders basis for the Plan year commencing on July 1, 2006.

The Plan also is designed to encourage Nashville to actively market off-peak unutilized transportation and storage capacity on pipelines in the secondary market. It also addresses the sharing of asset management fees paid by asset managers, and other forms of compensation received by the Company for the release and/or utilization of Nashville's transportation and storage assets by third-parties. Nashville shall notify the TRA Staff and the Consumer Advocate and Protection Division of the Office of the Attorney General (CAD) of all "other forms of compensation" prior to inclusion of such compensation in the Plan. The net incentive benefits or costs of such activities will be shared between the Company's customers and the Company utilizing a 75%-customers / 25%-stockholders formula commencing on July 1, 2006.

Every three years the Company's activities under the Plan will be reviewed comprehensively by an independent consultant. The first triennial review shall occur in the autumn of 2008. The scope of the review may include all transactions and activities related to the Performance Incentive Plan, including, but not limited to, natural gas procurement, capacity management, storage, hedging, reserve margins, and off-system sales.

The Company is subject to a cap on overall incentive gains or losses of \$1.6 million annually. In connection with the Performance Incentive Plan, Nashville shall file with the Authority Staff, and supply a copy to the Consumer Advocate and Protection Division of the Tennessee Attorney General (CAD), and update each year, a Three Year Supply Plan. Nashville will obtain firm capacity and/or gas supply pursuant to such plan.

Commodity Costs

Each month Nashville will compare its *total city gate commodity and cost of gas*¹ to a benchmark dollar amount. The benchmark gas cost will be computed by multiplying total actual purchase quantities for the month by a price index. The monthly price index is defined as:

$$I = F_f(P_0K_0 + P_1K_1 + P_cK_c + \dots + P_\alpha K_\alpha) + F_oO + F_dD; \text{ where} \\ F_f + F_o + F_d = 1; \text{ and}$$

I = the monthly city gate commodity gas cost index.

F_f = the fraction of gas supplies purchased in the first-of-the-month market which are transported to the city gate under Nashville's FT service agreements.

P = the Inside FERC Gas Market Report price index for the first-of-the-month edition for a geographic pricing region, where subscript 0 denotes Tennessee Gas Pipeline (TGP) Rate Zone 0; subscript 1 denotes TGP Rate Zone 1; subscript C denotes Columbia Gas Transmission (CGT), Louisiana, plus applicable transportation and fuel charges in CGT's FT tariff to Rayne, and subscript α denotes new incremental firm services to which Nashville may subscribe in the future.² The indices used for calculating Midwestern capacity shall be those produced by Natural Gas Intelligence for monthly purchases and Gas Daily for daily purchases. The commodity index prices will be adjusted to include the appropriate pipeline maximum firm transportation (FT) commodity transportation charges and fuel retention to the city gate under Nashville's FT service agreements.³

K = the fraction (relative to total maximum daily contract entitlement) of Nashville's total firm transportation capacity under contract in a geographic pricing region, where the subscripts are as above.⁴

¹ Gas purchases associated with service provided under Texas Eastern Transmission Company Rate Schedule SCT shall be excluded from the incentive mechanism. Nashville will continue to recover 100 percent of these costs through its PGA with no profit or loss potential. Extension or replacement of such contract shall be subject to the same competitive bidding procedures that will apply to other firm gas supply agreements. In addition, the Plan will measure storage gas supplies against the benchmark index during the months such quantities are purchased for injection. For purposes of comparing such gas purchase costs against the monthly city gate index price, Nashville will exclude any commodity costs incurred downstream of the city gate to storage so that Nashville's actual costs and the benchmark index are calculated on the same basis.

² To the extent that Nashville renegotiates existing reservation fee supply contracts or executes new reservation fee supply contracts with commodity pricing provisions at a discount to the first-of-the-month price index, Nashville shall modify the monthly commodity price index to reflect such discount.

³ Capacity released for a month shall be excluded from the benchmark calculation for that month, excluding capacity released under an agreement where the Company maintains city gate delivery rights for the released capacity during such month.

⁴ Because the aggregate maximum daily contract quantities in Nashville's FT contract portfolio vary by month over the course of the year, the weights will be recalculated each month to reflect actual contract demand quantities for such month. The contract weights, and potentially the price indices used, will also vary as Nashville renegotiates existing or adds new FT contracts. As new contracts are negotiated, Nashville shall modify the index to reflect actual contract demand quantities and the commodity price indices appropriate for the supply regions reached by such FT agreements. Citygate benchmark calculations shall be computed utilizing Nashville's Design Day delivery requirements (deliveries required on a peak day).

F_o = the fraction of gas supplies purchased in the first-of-the-month spot market which are delivered to Nashville's system using transportation arrangements other than Nashville's FT contracts.

O = the weighted average of Inside FERC Gas Market Report first-of-the-month price indices, plus applicable IT rates and fuel retention, from the source of the gas to the city gate, where the weights are computed based on actual purchases of gas supplies purchased by Nashville and delivered to Nashville's system using transportation arrangements other than Nashville's FT contracts.

F_d = the fraction of gas supplies purchased in the daily spot market.

D = the weighted average of daily average index commodity prices taken from Gas Daily for the appropriate geographic pricing regions, where the weights are computed based on actual purchases made during the month. The commodity index prices will be adjusted to include the appropriate transportation commodity charges and fuel retention to the city gate.

Gas Supply Reservation Fees

Nashville will continue to recover 100% of gas supply reservation fee costs through its PGA with no profit or loss potential. For new contracts and/or contracts subject to renegotiation during the Plan year, Nashville will solicit bids for gas supply contracts containing a reservation fee.

Off-System Sales And Sale For Resale Transactions

Margin on off-system sales and wholesale sale-for-resale transactions using Nashville's firm transportation and capacity entitlements (the costs of which are recovered from Nashville's ratepayers) shall be credited to the Plan and will be shared with ratepayers. Margin on such sales will be defined as the difference between the sales proceeds and the total variable costs incurred by Nashville in connection with the transaction, including transportation and gas costs, taxes, fuel, or other costs. For purposes of gas costs, Nashville will impute such costs for its related supply purchases at the benchmark first-of-the-month or daily index, as appropriate, on the pipeline and in the zone in which the sale takes place. The difference between Nashville's actual costs and such index price is taken into account under the Plan. After deducting the total transaction costs from the sales proceeds, any remaining margin will be credited to commodity gas costs and shared with customers on a 75%- customer / 25%-stockholders basis.

Capacity Management

To the extent Nashville is able to release transportation or storage capacity, or generate transportation or storage margin associated with off-system or wholesale sales-for-resale, the associated cost savings and/or asset management fees, or other forms of compensation associated with such activities, shall be shared by Nashville and customers according to the following sharing formula: 75%-customers / 25%-stockholders. Nashville shall notify the TRA Staff and the Consumer Advocate and Protection Division of the Office of the Attorney General (CAD) of all "other forms of compensation" prior to inclusion of such compensation in the Plan.

Hedging Activities

The Company may engage in hedging transactions⁵ within the PGA/ACA mechanism. Costs related to hedging transactions may be recovered through the ACA account; provided, however, that such costs recovered through the ACA account shall not exceed one percent (1%) of total annual gas costs. Costs related to hedging transactions recoverable through the ACA account shall be defined as all direct, transaction related costs arising from Nashville's prudent efforts to stabilize or hedge its commodity gas costs including, without limitation, brokerage fees, margin requirements, and the costs of financial instruments. All monthly gains and losses shall be (credited)/debited to the ACA account.

Determination of Shared Savings

Each month during the term of the Plan, Nashville will compute any gains or losses in accordance with the Plan. If Nashville earns a gain, a separate Incentive Plan Account (IPA) will be debited with such gain. If Nashville incurs a loss, that same IPA will be credited with such loss. During a Plan year, Nashville will be limited to overall gains or losses totaling \$1.6 million. Interest shall be computed on balances in the IPA using the same interest rate and methods as used in Nashville's Actual Cost Adjustment (ACA) account. The offsetting entries to IPA gains or losses will be recorded to income or expense, as appropriate. At its option, however, Nashville may temporarily record any monthly gains in a non-regulatory deferred credit balance sheet account until results for the entire plan year are available.

Gains or losses accruing to the Company under the Plan will form the basis for a rate increment or decrement to be filed and placed into effect separate from any other rate adjustments to recover or refund such amount over a prospective twelve-month period. The Company is subject to a cap on overall incentive gains or losses of \$1.6 million annually.

Each year, effective November 1, the rates for all customers, excluding interruptible transportation customers who receive no direct benefit from any gas cost reductions resulting from the plan, will be increased or decreased by a separate rate increment or decrement designed to amortize the collection or refund of the June 30 IPA balance over the succeeding twelve month period. The increment or decrement will be established by dividing the June 30 IPA balance by the appropriate volumetric billing determinants for the twelve months ended June 30. During the twelve month amortization period, the amount collected or refunded each month will be computed by multiplying the billed volumetric determinants for such month by the increment or decrement, as applicable. The product will be credited or debited to the IPA, as appropriate. The balance in the IPA will be tracked as a separate collection mechanism. Subject to approval by the TRA, the Company may also propose to refund positive IPA balances on an intra-year basis by making direct bill credits to all customers (except interruptible transportation customers) where such direct bill credit would be beneficial to customers.

Filing with the Authority

The Company will file calculations of shared savings and shared costs quarterly with the Authority not later than 60 days after the end of each interim fiscal quarter and will file an annual

⁵ Hedging transactions, as used herein, shall include but not be limited to futures contracts, financial derivative products, storage swap arrangements, or other private agreements to hedge, manage or reduce gas costs.

report not later than 60 days following the end of each plan year. Unless the Authority provides written notification to the Company within 180 days of the annual reports, the Incentive Plan Account shall be deemed in compliance with the provisions of this Service Schedule. The Authority Staff may expand the time for consideration of the annual reports by up to an additional sixty (60) days upon written notification to the Company or longer by mutual agreement or upon a showing of good cause.

Periodic Index Revisions

Because of changes in the natural gas marketplace, the price indices utilized by the Company, and the composition of the Company's purchased gas portfolio may change. The Company shall, within sixty (60) days of identifying a change to a significant component of the mechanism, provide notice of such change to the Authority. Unless the Authority provides written justification to the Company within sixty (60) days of such notice, the price indices shall be deemed approved as proposed by the Company.

Gas Supply Incentive Compensation Program

The Company has in place a Gas Supply Incentive Compensation Program (the Program) designed to provide incentive compensation to selected Gas Supply non-executive employees involved in the implementation of the Nashville Incentive Plan and Secondary Marketing Programs in a manner consistent with the benefits achieved for customers and shareholders through improvements in gas procurement and secondary marketing activities. Participants in the program receive incentive compensation as recognition for their contribution to the customers and shareholders of the Company through lower gas costs and gains related thereto. Performance measures are established for the Program each year.

During the time this tariff is in effect, the Company will continue to have in place the Gas Supply Incentive Compensation Program, as detailed to the Authority, as it relates to the Nashville Incentive Plan. The Company will advise the Authority in writing of any changes to the Program, and unless the Company is advised within 60 days, said changes will become effective. The Authority may expand the time for consideration of such changes upon written notification to the Company. No filing for prior approval is required for changes in the performance measures.

Triennial Review

A comprehensive review of the transactions and activities related to the Performance Incentive Plan shall be conducted by an independent consultant once every three years. The initial triennial review shall be conducted in the autumn of 2008 and subsequent triennial reviews shall be conducted every third year thereafter. The TRA Staff, the CAD, and Nashville shall make an effort to maintain a list of no less than five (5) mutually agreeable independent consultants or consulting firms qualified to conduct the aforementioned review. Any dispute concerning whether an independent consultant shall be added to the list shall be resolved by the TRA Staff, after consultation with Nashville and the CAD. For each review, the TRA Staff shall select three (3) prospective independent consultants from that list. Each such consultant shall possess the expertise necessary to conduct the review. The TRA Staff shall provide the list of prospective independent consultants to the Company and the CAD via e-mail. The Company and the CAD shall have the right, but not the obligation, to strike one (1) of the prospective

independent consultants from the list by identifying the stricken consultant in writing to the TRA Staff within thirty (30) days from the date the list is e-mailed. The TRA Staff shall select the independent consultant from those remaining on the list after the Company's and the CAD's rights to strike have expired. The cost of the review shall be reasonable in relation to its scope. Any and all relationships between the independent consultant and the Company, the TRA Staff, and/or the CAD shall be disclosed, and the independent consultant shall have had no prior relationship with either the Company, the TRA Staff, or the CAD for at least the preceding five (5) years unless the Company, the TRA Staff and the CAD agree in writing to waive this requirement. The TRA Staff, the CAD and the Company may consult amongst themselves during the selection process; provided, however, that all such communications between the parties shall be disclosed to any party not involved in such communication so that each party may participate fully in the selection process.

The scope of the triennial reviews may include all transactions and activities related either directly or indirectly to the Performance Incentive Plan as conducted by the Company or its affiliates, including, but not limited to, the following areas of transactions and activities: (a) natural gas procurement; (b) capacity management; (c) storage; (d) hedging; (e) reserve margins; and (f) off-system sales. The scope of each triennial review shall include a review of each of the foregoing matters as well as such additional matters as may be reasonably identified by the Company, the TRA Staff, or the CAD relative to the operation or results of the Performance Incentive Plan.

The Company, the TRA Staff, or the CAD may present documents and information to the independent consultant for the independent consultant's review and consideration. Copies of all such documents and information shall be presented simultaneously to the independent consultant and all other parties.

The independent consultant shall make findings of fact, as well as identify and describe areas of concern and improvement, if any, that in the consultant's opinion warrant further consideration; however, the independent consultant shall not propose changes to the structure of the Performance Incentive Plan itself. The independent consultant shall complete and issue a written report of its findings and conclusions by July 1 of the year immediately following the triennial review. The report deadline may be waived by the written consent of the TRA Staff, the Company, and the CAD.

The independent consultant shall not propose changes to the structure of the Performance Incentive Plan itself; however, the TRA Staff, the Company, or the CAD may use the report of the independent consultant as grounds for making recommendations or proposed changes to the Authority, and the TRA Staff, the Company, or the CAD may support or oppose such recommendations or proposed changes. Any proposed changes to the structure of the Performance Incentive Plan resulting from the initial triennial review or subsequent triennial reviews, whether adopted by agreement or pursuant to a ruling of the Authority, shall be implemented on a prospective basis only beginning with the incentive plan year immediately following such agreement or ruling.

The cost of the triennial reviews shall be paid initially by the Company and recovered through the ACA account. The TRA Staff may continue its annual audits of the IPA and the ACA account, and the triennial reviews shall not in any way limit the scope of such annual audits. The CAD retains all of its statutory rights, and the triennial reviews shall not in any way affect such rights.

EXHIBIT B

Independent Review of Performance Incentive Plan

The Company, the TRA Audit Staff, and the CAD stipulate and agree that a comprehensive review of the transactions and activities related to the Performance Incentive Plan shall be conducted by an independent consultant once every three years pursuant to the following provisions:

1. The initial triennial review shall be conducted in the autumn of 2008 and subsequent triennial reviews shall be conducted every third year thereafter.

2. The TRA Staff, the CAD, and the Company shall make an effort to maintain a list of no less than five (5) mutually agreeable independent consultants or consulting firms qualified to conduct the aforementioned review. Any dispute concerning whether an independent consultant shall be added to the list shall be resolved by the TRA Staff, after consultation with the Company and the CAD. For each review, the TRA Staff shall select three (3) prospective independent consultants from that list. Each such consultant shall possess the expertise necessary to conduct the review. The TRA Staff shall provide the list of prospective independent consultants to the Company and the CAD via e-mail. The Company and the CAD shall have the right, but not the obligation, to strike one (1) of the prospective independent consultants from the list by identifying the stricken consultant in writing to the TRA Staff within thirty (30) days from the date the list is e-mailed. The TRA Staff shall select the independent consultant from those remaining on the list after the Company's and the CAD's rights to strike have expired. The cost of the review shall be reasonable in relation to its scope. Any and all relationships between the independent consultant and the Company, the TRA Staff, and/or the CAD shall be disclosed, and the independent consultant shall have had no prior relationship with either the Company, the TRA Staff, or the CAD for at least the preceding five (5) years unless the Company, the TRA Staff and the CAD agree in writing to waive this requirement. The TRA Staff, the CAD and the Company may consult amongst themselves during the selection process; provided, however, that all such communications between the parties shall be disclosed to any party not involved in such communication so that each party may participate fully in the selection process.

3. The scope of the triennial reviews may include all transactions and activities related either directly or indirectly to the Performance Incentive Plan as conducted by the Company or its affiliates, including, but not limited to, the following areas of transactions and activities: (a) natural gas procurement; (b) capacity management; (c) storage; (d) hedging; (e) reserve margins; and (f) off-system sales. The scope of the triennial reviews may be comprehensive, including, but not limited to, review of the acquisition and utilization of all storage, capacity, transportation, and commodity assets and services.

4. The scope of each triennial review shall include a review of each of the foregoing matters, as well as such additional matters as may be reasonably identified by the Company, the TRA Staff, or the CAD relative to the operation or results of the Performance Incentive Plan.

5. Notwithstanding provision number 4, above, the scope of the initial triennial review shall include, but may not be limited to, the following:

A. The independent consultant shall identify Piedmont's city gates for Nashville (the points and measuring stations at which Piedmont receives natural gas from each pipeline transmission company) and identify the meters measuring the amount of gas flowing into Piedmont's system in Nashville.

B. For each day of the review period and for each city gate, Piedmont shall provide the independent consultant with records Piedmont has received from the pipeline, as well as records in Piedmont's possession, where such records identify and otherwise display the daily amount of gas flowing into each Piedmont city gate in Nashville. Within this amount, any gas flowing into Piedmont's system for firm transportation customers on Rate Schedule 313, interruptible transportation customers on Rate Schedule 314, and industrial interruptible customers on Rate Schedule 304 shall be identified so that the remaining amount shall be presumed to be the gas flowing to meet customers' needs in the following rate classes:

Residential Value Rate Schedule 301
Residential Standard Rate Schedule 321
Small General Standard Rate Schedule 302
Small General Value Rate Schedule 332
Medium General Standard Rate Schedule 352
Medium. General Value Rate Schedule 362
Industrial Firm Rate Schedule 303.

C. The independent consultant shall examine the levels of peak and non-peak, as well as design day and non-design day, firm capacity under Piedmont's pipeline contracts and assess whether such capacity levels are reasonably appropriate in light of both actual and projected demand requirements.

D. The independent consultant shall compare the transportation commodity costs charged to customers with such costs charged under Piedmont's pipeline contracts and report such costs charged to customers and such costs charged under Piedmont's pipeline contracts.

E. The independent consultant shall examine and report on (1) how Piedmont forecasts its design day demand and its peak day demand; (2) Piedmont's forecast of peak demand for Nashville; and (3) actual peak demand as metered at Nashville's city gates.

F. Where Piedmont has firm transportation contracts provided under different tariffs from the same pipeline, the independent consultant shall examine and report on the transportation commodity costs for each such tariff as well as the relationship between such tariff transportation commodity costs and the transportation commodity costs billed to Nashville ratepayers.

G. The independent consultant shall examine and report on:

- (1) The cost of year-round firm transportation and seasonal firm transportation that Piedmont is using to meet peak demand; and
- (2) The potential cost of meeting peak demand with more seasonal firm transportation and less year-round firm transportation; and
- (3) The potential cost of meeting peak demand with more year-round firm transportation and less seasonal firm transportation.

H. The independent consultant shall examine and report on how Piedmont's forecasts of peak demand include the effects of energy conservation and improved efficiency for natural gas appliances that are mandated by federal legislation.

I. For each month of the review period, Piedmont shall provide the independent consultant with the number of therms billed to each rate schedule:

Residential Value Rate Schedule 301
Residential Standard Rate Schedule 321
Small General Standard Rate Schedule 302
Small General Value Rate Schedule 332
Medium General Standard Rate Schedule 352
Medium. General Value Rate Schedule 362
Industrial Firm Rate Schedule 303
Firm Transportation Rate Schedule 313
Interruptible Transportation Rate Schedule 314
Industrial Interruptible Rate Schedule 304
Resale Service Rate Schedule 310

6. The Company, the TRA Staff, or the CAD may present documents and information to the independent consultant for the independent consultant's review and consideration. Copies of all such documents and information shall be presented simultaneously to the independent consultant and all other parties.

7. The independent consultant shall make findings of fact, as well as identify and describe areas of concern and improvement, if any, that in the consultant's opinion warrant further consideration; however, the independent consultant shall not propose changes to the structure of the Performance Incentive Plan itself.

8. The independent consultant shall complete and issue a written report of its findings and conclusions by July 1 of the year immediately following the triennial review. The report deadline may be waived by the written consent of all the Parties.

9. The independent consultant shall not propose changes to the structure of the Performance Incentive Plan itself; however, any Party may use the report of the independent consultant as grounds for making recommendations or proposed changes to the Authority, and any other Party may support or oppose such recommendations or proposed changes.

10. Any proposed changes to the structure of the Performance Incentive Plan resulting from the initial triennial review or subsequent triennial reviews, whether adopted by agreement of the Parties or pursuant to a ruling of the Authority, shall be implemented on a prospective basis only beginning with the incentive plan year immediately following such agreement or ruling.

11. The cost of the triennial reviews shall be paid initially by the Company and recovered through the ACA account.

12. The TRA Staff may continue its annual audits of the IPA and the ACA account and the triennial reviews shall not in any way limit the scope of such annual audits. The CAD retains all of its statutory rights, and the triennial reviews shall not in any way affect such rights.

EXHIBIT C

RFP Procedures for Selection of Non-affiliate Asset Managers

The Company, the TRA Audit Staff, and the CAD stipulate and agree that effective upon approval of the Proposed Settlement Agreement by the Authority, the Company's selection of non-affiliate asset managers shall be governed by the following procedures:

1. In each instance in which the Company intends to engage in asset management type transactions for assets regulated by the Tennessee Regulatory Authority, the Company shall develop a written request for proposal (RFP) defining the Company's assets to be managed and detailing the Company's minimum service requirements. The RFP shall also describe the content requirements of the bid proposals and shall include procedures for submission of the bid proposals, and evaluation of the bid proposals.

2. The RFP shall be noticed/advertised for a minimum period of thirty (30) days through a systematic notification process that may include contacting potential asset managers, including past bidders and other approved asset managers, and publication in trade journals as reasonably available. The thirty (30)-day minimum notice/advertisement period may be shortened by the written consent of the TRA Staff.

3. The procedures for submission of bid proposals shall require all initial and follow-up bid proposals to be submitted in writing. The Company shall not accept initial bid proposals that are not written. Following receipt of initial bid proposals, and on a non-discriminatory basis, the Company may solicit more favorable follow-up bid proposals from those submitting initial bid proposals in an effort to obtain the most favorable terms for the transaction consistent with the factors identified in paragraph 4 below.

4. All bid proposals shall be evaluated as they are received. The criteria for choosing the winning bid proposal, including any initial or follow-up bid proposals, shall include, at a minimum, the following categories: (a) the total value of the bid proposal; (b) the ability to perform the RFP requirements; (c) asset manager qualifications and experience; and (d) the financial stability and strength of the asset manager. The winning bid proposal shall be the one with the best combination of attributes based on the evaluation criteria; provided, however, that if the winning bid proposal is lower in amount than any other initial or follow-up bid proposal(s), the Company shall explain in writing why it rejected each higher bid proposal in favor of the lower winning bid proposal. The Company shall maintain records demonstrating its compliance with the evaluation and selection procedures.

5. Beginning with asset management agreements executed after approval of the Proposed Settlement Agreement by the Authority, the incumbent asset manager shall not be granted the right to match a winning bid proposal. In the absence of a currently existing contract right to match, if the incumbent asset manager desires to continue its asset management relationship with the Company after expiration of its asset management agreement, it shall submit a written bid proposal in accordance with the Company's RFP procedures and it shall be evaluated pursuant to the procedures for evaluation of the bid proposals.

6. The Company may develop additional procedures for selection of asset managers as it deems necessary and appropriate so long as such procedures are consistent with the agreed-upon procedures described herein.

7. The Company shall maintain all RFP documents and records for at least four years and such documents and records shall be subject to the review and examination of the TRA Staff, the CAD, and the independent consultant selected to conduct the triennial review set forth in Exhibit B of this stipulation.

8. The Company agrees to comply with all applicable anti-trust laws in its procurement of asset management services.