RECEIVED
2006 JAN 20 PM 2 10
TRA DOCKET ROOM

Moore&VanAllen

James H Jeffries IV
Attorney at Law

T 704 331 1079
F 704 339 5879
jimjeffries@mvalaw com

Moore & Van Allen PLLC

Suite 4700
100 North Tryon Street
Charlotte NC 28202 4003

January 20, 2006

VIA HAND DELIVERY

The Honorable Ron Jones
Chairman
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, Tennessee 37243-0505

Re Nashville Gas Company, A Division of Piedmont Natural Gas Company, Inc –
Docket No 05-00165

Dear Chairman Jones

Pursuant to the procedural schedule established in this proceeding and Tenn Comp R and Reg 1220-1-1-2- 11, Nashville Gas Company respectfully submits a copy of the Responses of Nashville Gas Company to the Consumer Advocate and Protection Division's Second Requests for Admission

Please accept these Responses for filing and return on filed-stamped copy of this letter to me in the enclosed self-addressed and stamped envelope

Thank you for your assistance with this matter If you have any questions regarding these comments you may reach me at the number shown above

Sincerely,

James H Jeffries IV

JHJ/bao

Enclosure

c All Parties of Record

BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE

January 20, 2006

IN RE	)	
	)	
REVIEW OF NASHVILLE GAS COMPANY'S	)	**DOCKET NO 05-00165**
IPA RELATING TO ASSET MANAGEMENT	)	
FEES	)	

RESPONSES OF NASHVILLE GAS COMPANY,
A DIVISION OF PIEDMONT NATURAL GAS COMPANY, INC ,
TO THE CONSUMER ADVOCATE AND PROTECTION DIVISION'S
SECOND REQUESTS FOR ADMISSION

Nashville Gas Company, a Division of Piedmont Natural Gas Company, Inc ("Nashville Gas" or "Company"), pursuant to the Tennessee Regulatory Authority's November 28, 2005, *Order Establishing Procedural Schedule* and Tenn Comp R and Reg 1220-1-1-2- 11, respectfully submits the following responses to the Consumer Advocate and Protection Division's Second Requests for Admission

NASHVILLE GAS COMPANY
REVIEW OF NASHVILLE GAS COMPANY'S IPA
RELATING TO ASSET MANAGEMENT FEES
DOCKET NO 05-00165
CONSUMER ADVOCATE AND PROTECTION DIVISION
SECOND REQUESTS FOR ADMISSION
January 3, 2006

REQUESTS FOR ADMISSION

1 Please admit the genuineness of the document attached to this request, which is entitled "Initial Comments and Proposed Framework of Piedmont Natural Gas Company, Inc and UGI Utilities, Inc Regarding the Interstate Natural Gas Transportation Market"

RESPONSE Admitted

STATE OF NORTH CAROLINA

VERIFICATION

COUNTY OF MECKLENBURG

Bill R Morris, being duly sworn, deposes and says that he is Director of Financial Planning and Rates of Piedmont Natural Gas Company, Inc , that as such, he has read the foregoing Responses and knows the contents thereof, that the same are true of his own knowledge except as to those matters stated on information and belief and as to those he believes them to be true

Bill R. Morris

Bill R Morris

Sworn to and subscribed before me
this the 19 day of
January, 2006

Lee E. Howard

Notary Public

My Commission Expires

MY COMMISSION EXPIRES 10-29-10

CERTIFICATE OF SERVICE

The undersigned hereby certifies that a copy of the Responses of Nashville Gas Company, a Division of Piedmont Natural Gas Company, Inc , to the Consumer Advocate and Protection Division's Second Requests for Admission is being served upon the parties in this action either by hand delivery or by UPS overnight delivery addressed as follows

Bill R Morris
Director of Financial Planning and Rates
Piedmont Natural Gas Company, Inc
P O Box 33068
Charlotte, NC 28233

David Carpenter
Director – Rates
Piedmont Natural Gas Company, Inc
P O Box 33068
Charlotte, NC 28233

Aaron Rochelle, Esq
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, Tennessee 37243-0505

Joe Shirley
Assistant Attorney General
Office of the Tennessee Attorney General
Consumer Advocate and Protection Division
425 Fifth Avenue North
Nashville, Tennessee 37243

R Dale Grimes, Esq
Bass, Berry & Sims PLC
AmSouth Center
315 Deaderick Street, Suite 2700
Nashville, Tennessee 37238

This the 20th day of January, 2006

James H Jeffries IV

BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE

January 20, 2006

IN RE	)	
	)	
REVIEW OF NASHVILLE GAS COMPANY'S IPA RELATING TO ASSET MANAGEMENT FEES	)	**DOCKET NO 05-00165**

RESPONSES OF NASHVILLE GAS COMPANY, A DIVISION OF PIEDMONT NATURAL GAS COMPANY, INC , TO THE CONSUMER ADVOCATE AND PROTECTION DIVISION'S SECOND SET OF DISCOVERY REQUESTS

Nashville Gas Company, a Division of Piedmont Natural Gas Company, Inc ("Nashville Gas" or "Company"), pursuant to the Tennessee Regulatory Authority's November 28, 2005, *Order Establishing Procedural Schedule* and Tenn Comp R and Reg 1220-1-1-2- 11, respectfully submits the following responses to the Consumer Advocate and Protection Division's Second Set of Discovery Requests

General Objections

Nashville Gas objects to the Consumer Advocate and Protection Division's Second Set of Discovery Requests to Nashville Gas Company to the extent that they seek the disclosure of information or documents

1 Beyond the scope of legitimate discovery in this proceeding,

2 Subject to the attorney-client privilege,

3 Constituting attorney work product, or

4 Prepared in anticipation of litigation

NASHVILLE GAS COMPANY
REVIEW OF NASHVILLE GAS COMPANY'S IPA
RELATING TO ASSET MANAGEMENT FEES
DOCKET NO 05-00165
CONSUMER ADVOCATE AND PROTECTION DIVISION
SECOND SET OF DISCOVERY REQUESTS
January 3, 2006

DISCOVERY REQUEST NO 1

In response to Discovery Request No 6 of the Consumer Advocate's First Set of Discovery Requests, Piedmont stated that it would use "the values bid to help determine the winning bidder " Identify all other criteria, if any, besides "values bid" that Nashville Gas uses to determine the winning bidder

RESPONSE Beside "values bid", the Company evaluates several other criteria before selecting an asset manager First and foremost is the potential asset manager's reliability Regardless of the dollar amount bid, if the asset manager's reliability is in question, their bid would be rejected The Company's first responsibility is to provide safe, reliable service to its customers The Company cannot afford to have its assets in the hands of an asset manger if their reliability is in question The Company typically evaluates the potential asset manager's reliability by assessing their performance in previous business arrangements with the Company, their reputation in the industry and their experience in asset management The other major criteria evaluated by the Company is the credit status of the potential asset manager In the event of non-performance by the asset manager, contractual damages could be in the millions of dollars Asset managers selected by the Company must have the financial ability to fulfill their contractual monetary obligations in the event of non-performance The Company also considers other less critical items such as billing accuracy, nomination experience on the pipelines the Company utilizes, and the willingness to work with the Company on unexpected issues

NASHVILLE GAS COMPANY
REVIEW OF NASHVILLE GAS COMPANY'S IPA
RELATING TO ASSET MANAGEMENT FEES
DOCKET NO 05-00165
CONSUMER ADVOCATE AND PROTECTION DIVISION
SECOND SET OF DISCOVERY REQUESTS
January 3, 2006

DISCOVERY REQUEST NO 2

Has Nashville Gas Company ever rejected the highest bidder as the winning bid in the RFP process that is used to select an asset manager? If so, identify the name of the highest bidder, the date and amount of the highest bid, and all reasons why Nashville Gas did not select the highest bidder as the winning bid for its asset manager

RESPONSE No

NASHVILLE GAS COMPANY
REVIEW OF NASHVILLE GAS COMPANY'S IPA
RELATING TO ASSET MANAGEMENT FEES
DOCKET NO 05-00165
CONSUMER ADVOCATE AND PROTECTION DIVISION
SECOND SET OF DISCOVERY REQUESTS
January 3, 2006

DISCOVERY REOUEST NO 3

In response to Discovery Request No 10 of the Consumer Advocate's First Set of Discovery Requests, Nashville Gas Company stated that "[o]ther reasons justifying the inclusions of the asset management fees are set forth in the proceedings in which the asset management fees were approved' Please identify all proceedings in which Nashville Gas contends that the asset management fees were approved, including, but not limited to, the particular documents from such proceedings that demonstrate the approval of asset management fees

RESPONSE TRA Docket Nos 96-00805, 00-00759, 01-00776, 02-00933, 03-00489, and 04-00290 Documents filed in these proceedings responsive to this request are as follows

1) Docket No 96-00805 Order Approving the Application of Nashville Gas Company to Establish a Performance Incentive Plan (dated May 31, 1996)

2) Docket No 96-000805 Order Approving Performance Incentive (Plan dated March 11, 1999)

3) Docket No 00-00759 Notice of Filing by Energy and Water Division of the Tennessee Regulatory Authority (dated April 4, 2001)

4) Docket No 00-00759 Order Adopting IPA Compliance Audit Report of Authority's Staff (dated June 12 2001)

5) Docket No 01-00776 Notice of Filing by Energy and Water Division of the TRA (dated February 11, 2002)

6) Docket No 02-00933 Order Adopting IPA Compliance Audit Report of Tennessee Regulatory Authority's Energy and Water Division (dated March 26, 2003)

7) Docket No 03-00489 Transcript of excerpt of Authority Conference held on Monday, September 13, 2004

8) Docket No 03-00489 Order Adopting, In Part, IPA Compliance Audit Report of Tennessee Regulatory Authority's Energy and Water Division (dated October 1, 2004)

9) Docket No 03-00489 Order Accepting Company's Proposed Improvements to Company s IPA (dated February 4, 2005)

10) Docket No 04-00290 Order Adopting Incentive Plan Account Filing of Nashville Gas Company for Year Ended June 30, 2004 (dated September 6, 2005)

B-FORE THE TENNESSEE PUBLIC SERVICE COMMISSION
Nashville, Tennessee

May 31, 1996

IN RE APPLICATION OF NASHVILLE GAS COMPANY, A DIVISION OF PIEDMONT NATURAL GAS COMPANY TO ESTABLISH A PERFORMANCE INCENTIVE PLAN

DOCKET NO 96-00805

This matter came on to be heard on May 9, 1996 upon the application of Nashville Gas Company (Nashville or Company), a division of Piedmont Natural Gas Company, Inc , to establish a performance incentive plan (Incentive Plan) At the hearing the following appearances were entered

FOR NASHVILLE GAS COMPANY

Joseph F Welborn
Bass, Berry & Sims
2700 First American Center
Nashville, TN 37238-2700

Jerry W Amos
Amos & Jeffries, LLP
P O Box 787
Greensboro NC 27402

FOR ASSOCIATED VALLEY INDUSTRIES

Henry Walker
Boult, Cummings, Conners & Berry, PLC
414 Union Street, Suite 1600
P O Box 198062
Nashville, TN 37219

FOR THE CONSUMER ADVOCATE DIVISION OF
THE STATE OF TENNESSEE ATTORNEY GENERAL'S OFFICE

Vincent Williams
Consumer Advocate
450 James Robertson Parkway
Nashville, TN 37243-0485

FOR UNITED CITIES GAS COMPANY

Mark G Thessin
5300 Maryland Way
Brentwood, TN 37027

On April 22, 1996, Nashville filed an application for approval of the Incentive Plan According to the Company, the Incentive Plan will provide Nashville with incentives to acquire gas at the lowest reasonable cost consistent with a secure gas supply, eliminate the need for time consuming and costly prudence reviews and reduce consumer gas rates

The Incentive Plan as originally filed may be summarized as follows

Effect on Existing Ratemaking Procedures Under the Incentive Plan, Nashville will be permitted to increase or required to decrease the margin component of its rates to reflect its performance gains or losses No other changes would be required in existing ratemaking procedures Nashville's base rates and base margin would continue to be established in general rate case filings Nashville would continue to recover its gas costs under the existing PGA procedures and its GSR costs under the existing approved procedures Nashville would also continue to adjust its rates as permitted by the WNA procedures

General Description of Incentive Plan The Incentive Plan is comprised of two interrelated components--a Gas Procurement Incentive Mechanism and a Capacity Management Incentive Mechanism The Gas Procurement Incentive Mechanism establishes a predefined benchmark index to which Nashville's city gate commodity cost of gas is compared, and also addresses the recovery of gas supply reservation fees the treatment of offsystem sales and wholesale interstate sale for resale transactions, and the use of financial or private contracts in managing gas costs The Capacity Management Incentive Mechanism is designed to encourage Nashville to actively market offpeak unutilized transportation and storage capacity on pipelines in the secondary market

General Description of the Gas Procurement Incentive Mechanism The Gas Procurement Incentive Mechanism establishes a monthly benchmark dollar amount to which Nashville's actual city gate commodity gas costs are compared If the total commodity gas purchase costs for a given month vary from the benchmark dollar amount by more than one percent (the monthly deadband), the variance or excess from the one percent deadband will be considered incentive gains or losses These incentive gains or losses will be shared on a 50/50 basis between the company and its ratepayers subject to an overall annual cap of $1 6 million on gains or losses for Nashville under the plan The benchmark dollar amount is established by multiplying total actual purchase quantities each month by a monthly price index The monthly price index is a composite price referencing monthly index prices published by *Inside FERC* weighted by location according to Nashville's firm capacity rights each month on upstream pipelines for gas supplies purchased by Nashville in the first-of-the-month market and transported under Nashville's firm transportation (FT) contracts monthly index prices published by *Inside FERC* for spot supplies purchased in the first of the month market and delivered to the city gate using transportation arrangements other than Nashville's FT contracts, and the weighted average daily index prices published by *Gas Daily* for Nashville's daily spot purchases

Reservation Fees Nashville would continue to pass through reservation fees paid to gas suppliers on a dollar for dollar basis (with no profit or loss potential) With respect to new or replacement supply arrangements or price renegotiations under existing arrangements, Nashville would solicit bids or proposals for service and choose the best bid for the firm service Nashville requires consistent with its "best cost" gas procurement strategy Nashville would continue to reserve the right to offer existing suppliers (who have performed well under expiring contracts) a right of first refusal to match the best bid

Offsystem Sales and Wholesale Sale for Resale Transactions Any margin generated as the result of offsystem sales or wholesale sale for resale transactions using Nashville's firm transportation or storage capacity entitlements (the costs of which are recovered from Nashville's ratepayers) would be credited to gas costs and would be shared with ratepayers under the Gas Procurement Incentive Mechanism Margin would 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 would 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 already taken into account under the plan As to transportation costs Nashville would impute such costs up to the transporting pipeline's maximum interruptible transportation (IT) rate The difference between the maximum IT rate and Nashville's actual transportation commodity costs would be treated as capacity release margin under the Capacity Management Incentive Mechanism After deducting the total transaction costs from the sales proceeds, any remaining margin would be credited to commodity gas costs and shared on a 50/50 basis with ratepayers

Financial and Other Private Contracts To the extent Nashville uses futures contracts, other financial derivative products, storage swap arrangements or other private contractual arrangements to hedge, manage or reduce gas costs, it would flow through any gains or losses through the commodity cost component of the Gas Procurement Incentive Mechanism

Capacity Management Incentive Mechanism The Capacity Management Incentive Mechanism is designed to provide Nashville an incentive to release unutilized offpeak firm transportation or storage capacity in the secondary interstate market and reduce Nashville's demand charges paid under those contracts to pipelines The plan would flow back to Nashville's ratepayers 75% of the resulting cost savings and credit Nashville with 25% of the savings Transportation or storage margin embedded in offsystem sales or wholesale interstate sale for resale transactions (as described above) would also be subject to the same variable sharing formula Like the other components of Nashville's incentive plan, the Capacity Management Incentive Mechanism would be subject to the $1 6 million overall annual cap on gains and losses for Nashville established for the plan

New Pipeline Capacity Demand Costs and Gas Supply Reservation Fees New pipeline capacity demand costs and/or gas supply reservation fees would be recovered through the PGA on a dollar for dollar basis (with no profit or loss potential) Nashville would solicit bids and will choose the bid which best matches Nashville's requirements As new firm transportation capacity or supply services are added to Nashville's portfolio, Nashville would amend the monthly price index formula set forth in the Gas Procurement

Incentive Mechanism to take into account any new weighting of capacity entitlements within the supply zones

Cap on Gain and Losses Nashville would be limited to overall gains or losses totaling $1 6 million under the Incentive Plan in any plan year Such gains or losses would 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

Accounting Procedures Each month during the term of plan, Nashville would compute any gains or losses under the Incentive Plan If Nashville earns a gain, a separate non-interest bearing Incentive Plan Account (IPA) would be debited with such gain If Nashville incurs a loss, that same IPA would be credited with such loss The offsetting entries to IPA gains or losses would 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 Each year, effective November 1, the rates for all customers, excluding interruptible transportation customers who receive no direct benefits from any gas cost reductions resulting from the plan, would 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 would 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 would be computed by multiplying the billed volumetric determinants for such month by the increment or decrement as applicable The product would be credited or debited to the IPA as appropriate The balance in the IPA would be tracked as a separate collection mechanism

Reports Nashville would file interim quarterly reports of the IPA account with the Commission not later than 60 days following the end of each fiscal quarter and would file an annual report of IPA activity not later than 60 days following the end of each plan year

Proposed Effective Date Nashville requests an effective date of July 1 1996, with the first plan year continuing through June 30 1997 The plan would rollover into a second year commencing July 1, 1997 and ending June 30, 1998 with the agreement of Nashville and the approval of the Commission Nashville would inform the Commission of

its intention to roll over the plan for a second year no later than April 1, 1997

In conunction with the proposed Incentive Plan, Nashville also proposed to establish a five percent "reserve margin "

On Apr l 30, 1996, the Commission gave notice that it had scheduled a hearing in this matter for May 9, 1996 at 9 00 a m in the Commission Hearing Room on the Ground Floor at 460 James Robertson Parkway, Nashville, Tennessee

On May 2, 1996, the Consumer Advocate filed a Petition to Intervene, suspend Tariff, and Continue On April 30, 1996, United Cities Gas Company (United Cities) filed a Petition to Intervene On May 7, 1996, Associated Valley Industries Group (AVI) filed a Petition to Intervene On May 9 1996 the Consumer Advocate filed a motion to withdraw

On May 9, 1996, the hearing was held as scheduled At the start of the hearing counsel for Nashville announced that as a result of discussions with representatives of the Consumer Advocate the Company had agreed to make the following modifications to the Incentive Plan

a Interest will be computed on the average monthly balance of the Incentive Plan Account (IPA) at the same interest rate and in the same manner as used to compute interest on the "Refund Due Customers' Account" of the Company's Purchased Gas Adjustment (PGA)

b 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 would modify the monthly commodity price index to reflect such discount

c 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 shall be shared by Nashville and customers according to the following sharing formula

Capacity Management Incentive cost savings as a percent of Nashville's annual transportation and storage demand costs	Sharing percentages Nashville/Customers (Percent)
Up to and including 1 percent	0/100
Greater than 1 percent but less than or equal to 2 percent	10/90
Greater than 2 percent but less than or equal to 3 percent	25/75
Greater than 3 percent	50/50

The sharing percentages shall be determined based on the actual demand costs incurred by Nashville (exclusive of credits for capacity release) for transportation and storage capacity during the plan year, as such costs may be adjusted due to refunds or surcharges from pipeline and storage suppliers Any incentive gains or losses resulting from adjustments to the sharing percentages caused by refunds or surcharges shall be recorded in the current Incentive Plan Account (IPA)

A copy of the tariff containing the modified Incentive Plan was received in evidence along with the prefiled direct and supplemental direct testimony of the Company The Company's witnesses were made available for cross examination

At the conclusion of the hearing, Commissioner Hewlett made a motion to approve the proposed Incentive Plan as modified by

the agreement between Nashville and the Consumer Advocate and to direct the Company and the Commission Staff to recommend a qualified independent consultant to review the progress of this mechanism and to annually report their findings to the Commission The motion was seconded by Commissioner Kyle and unanimously adopted

IT IS THEREFORE ORDERED

1 That Nashville Gas Company's Service Schedule No 14, Performance Incentive Plan as attached to this Order is approved effective July 1 1996

2 That the first plan year shall begin on July 1, 1996 and end on June 30, 1997 The Incentive plan will rollover into a second year commencing July 1, 1997 and ending June 30, 1998 upon the request of the Company and the approval of the Commission

3 That Nashville Gas Company is relieved of any responsibility for prudence reviews during the initial term of the Incentive Plan and any extension thereof

4 That the Company and the Commission Staff recommend a qualified independent consultant to review the progress of the approved Incentive Plan and to annually report their findings to the Commission

5 That the five percent (5%) reserve margin proposed by Nashville as part of the Incentive Plan is approved

6 That any party aggrieved with the Commission's decision in this matter may file a Petition for Reconsideration with the

Commission within the (10) days from and after the date of this order

7. That any party aggrieved with the Commission's decision in this matter has the right of judicial review by filing a Petition for Review in the Tennessee Court of Appeals, Middle Division within sixty (60) days from and after the date of this order

**

CHAIRMAN

COMMISSIONER

COMMISSIONER

ATTEST:

EXECUTIVE DIRECTOR

** Chairman Bissell voted in favor of this petition as reflected in the transcript in this docket

SERVICE SCHEDULE NO 14
Performance Incentive Plan

APPLICABILITY

The Performance Incentive Plan replaces the current reasonableness or prudence review of Nashville Gas Company's (Nashville) gas purchasing activities overseen by the Commission. The plan is designed to provide incentives to Nashville in a manner that will produce rewards for its customers and its shareholders and improvements in Nashville's gas procurement activities Each plan year will begin July 1 The annual provision and filings herein would apply to this annual period

OVERVIEW OF STRUCTURE

Nashville s Performance Incentive Plan is comprised of two interrelated components

- Gas Procurement Incentive Mechanism
- Capacity Management Incentive Mechanism

The Gas Procurement Incentive Mechanism 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 the treatment of off-system sales and wholesale interstate sale for resale transactions, and the use of financial or private contracts in managing gas costs The net incentive benefits or costs will be shared between the Company's customers and the Company on a 50% / 50% basis

The Capacity Management Incentive Mechanism is designed to encourage Nashville to actively market off-peak unutilized transportation and storage capacity on upstream pipelines in the secondary market The net incentive benefits or costs will be shared between the Company s customers and the Company utilizing a graduated sharing formula with sharing percentages for Nashville ranging between zero and fifty percent

The Company will have a cap on incentive gains and losses During the initial plan year, Nashville s overall gains or losses cannot exceed $1 6 million annually Also as a part of the Performance Incentive Plan, Nashville submitted a Three Year Supply Plan and will obtain additional firm gas supply related thereto Included in the Three Year Supply Plan is support for a capacity reserve margin

GAS PROCUREMENT INCENTIVE MECHANISM

The Gas Procurement Incentive Mechanism addresses the following areas

- Commodity Costs
  Gas Supply Reservation Fees

NASHVILLE GAS C)MPANY
665 Mainstream Drive
Nashville Tennessee 37228
A Division of Piedmont Natural Gas Company
TPSC Service Schedule No 14

• Off-System Sales and Sale for Resale Transactions
Use of Financial Instruments or Other Private Contracts

COMMODITY COSTS

Each month Nashville will compare its *total city gate commodity 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

$$I = F_f(P_0K_0+P_1K_1+P_cK_c+ \quad P_nK_n)+F_oO+F_dD, \text{ where}$$

$$F_f+F_o+F_d= 1, \text{ and}$$

I = the monthly city gate commodity gas cost index

F = 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 (~~TPG~~ 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

[1] Gas purchases under Nashville s existing supply contract on the Tetco system are 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, Nashville s gas procurement incentive mechanism 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

subscript ∝ denotes new incremental firm services to which Nashville may subscribe in the future [2] 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

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 [3]

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 maximum 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

---

[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 would modify the monthly commodity price index to reflect such discount

[3] Because the aggregate maximum daily contract quantities in Nashville s FT contract portfolio vary by month over the course of the year the weights would be recalculated each month to reflect actual contract demand quantities for such month The contract weights and potentially the price indices used, would also vary as Nashville renegotiates existing or adds new FT contracts As new contracts are negotiated, Nashville would modify the index to reflect actual contract demand quantities and the commodity price indices appropriate for the supply regions reached by such FT agreements

NASHVILLE GAS COMPANY
665 Mainstream Drive
Nashville Tennessee 37228
A Division of Piedmont Natural Gas Company
TPSC Service Schedule No 14

commodity index prices will be adjusted to include the appropriate maximum transportation commodity charges and fuel retention to the city gate

If the actual total commodity gas purchase cost in a month is within one percent of the benchmark dollar amount then there will be no incentive gains or losses If the actual total commodity gas purchase cost varies from the benchmark dollar allowance by more than one percent, then the variance in excess of the one percent threshold shall be deemed incentive gains or losses under the plan Such gains or losses will be shared 50/50 between the Company and the ratepayers

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 commodity gas cost component of the Gas Procurement Incentive Mechanism 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 elsewhere under the plan As to transportation costs, Nashville will impute such costs up to the transporting pipeline's maximum interruptible transportation (IT) rate The difference between the maximum IT rate and Nashville's actual transportation commodity costs will be treated as capacity release margin under the Capacity Management Incentive Mechanism After deducting the total transaction costs from the sales proceeds, any remaining margin will be credited to commodity gas costs and shared on a 50/50 basis with ratepayers

Use Of Financial Instruments Or Other Private Contracts

To the extent Nashville uses futures contracts, financial derivative products, storage swap arrangements, or other private agreements to hedge, manage or reduce gas costs it will flow through gains or losses through the commodity cost component of the Gas Procurement Incentive Mechanism

CAPACITY MANAGEMENT INCENTIVE MECHANISM

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 shall be shared by Nashville and customers according to the following sharing formula

Capacity Management Incentive cost savings as a percent of Nashville's annual transportation and storage demand costs	Sharing percentages Nashville/Customers (Percent)
Less than or equal to 1 percent	0/100
Greater than 1 percent but less than or equal to 2 percent	10/90
Greater than 2 percent but less than or equal to 3 percent	25/75
Greater than 3 percent	50/50

The sharing percentages shall be determined based on the actual demand costs incurred by Nashville (exclusive of credits for capacity release) for transportation and storage capacity during the plan year, as such costs may be adjusted due to refunds or surcharges from pipeline and storage suppliers Any incentive gains or losses resulting from adjustments to the sharing percentages caused by refunds or surcharges shall be recorded in the current Incentive Plan Account (IPA)

DETERMINATION OF SHARED SAVINGS

The calculations and recording of incentive gains or losses under the various elements of the Gas Procurement Incentive Mechanism and the Capacity Management Incentive Mechanism shall be performed in accordance with the benchmark formulas approved by the Commission in Docket No 96-00805 Nashville will compute the gain or loss using the approved formulas monthly

During the plan year, Nashville will be limited to overall gains or losses totaling $1 6 million Such gains or losses 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

Each month during the term of plan, Nashville will compute any gains or losses under 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 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

NASHVILLE GAS COMPANY
665 Mainstream Drive
Nashville, Tennessee 37228
A Division of Piedmont Natural Gas Company
TPSC Service Schedule No 14

gains in a non-regulatory deferred credit balance sheet account until results for the entire plan year are available

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

FILING WITH THE COMMISSION

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

PERIODIC REVIEW

Because of the experimental nature of the Performance Incentive Plan, it is anticipated that the indices utilized, and the composition of the utility s purchased gas portfolio may change The Company shall within 30 days of identifying a change to a significant component of the mechanism provide notice of such change to the Commission Staff

BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE

March 11, 1999

IN RE	)	
	)	
APPLICATION OF NASHVILLE GAS COMPANY,	)	
A DIVISION OF PIEDMONT NATURAL GAS	)	**DOCKET NO 96-00805**
COMPANY, TO ESTABLISH A PERFORMANCE	)	
INCENTIVE PLAN	)	

ORDER APPROVING PERFORMANCE INCENTIVE PLAN

On August 18, 1998, this matter came before the Tennessee Regulatory Authority (hereafter the "Authority" or "TRA") for consideration of the Application of Nashville Gas Company (hereafter "Nashville" or "Company"), a division of Piedmont Natural Gas Company, to extend its previously-approved Performance Incentive Plan (hereafter the "Incentive Plan") on a permanent basis or until further order of the Authority The Company also proposed to revise the Incentive Plan to clarify and/or simplify certain language in a manner that does not change any of its substantive or material provisions In addition, the Company proposed to eliminate the requirement for an independent annual review

I BACKGROUND

On May 31, 1996, the Tennessee Public Service Commission (hereafter the "TPSC"), the predecessor to the Authority, issued an order approving the Incentive Plan for an experimental two-year period, beginning July 1, 1996 The Incentive Plan replaces the reasonableness or prudence review of Nashville's gas purchasing activities overseen by the Authority and is

designed to produce rewards for Nashville's customers and its shareholders and to produce improvements in Nashville's gas procurement activities The Incentive Plan approved by the TPSC was the result of an agreement between Nashville and the Consumer Advocate Division of the Office of the Tennessee Attorney General (hereafter "Consumer Advocate") and was not opposed by any party The TPSC's order approving the Incentive Plan required Nashville and the TPSC's Staff to recommend a qualified independent consultant to review the progress of the Incentive Plan and to annually report the independent consultant's findings to the TPSC The order also required Nashville to inform the TPSC by April 1, 1997, if it wished to continue the Incentive Plan for a second year

On November 27, 1996, Nashville and the Authority's Staff submitted for the Authority's approval a contract for Andersen Consulting to perform annual reviews regarding the progress of the Incentive Plan By Order dated January 2, 1997, the Authority determined that it was appropriate to accept the recommendation of the Company and the TRA's Staff that Andersen Consulting be employed as the independent consultant The Authority approved the Andersen Consulting contract dated November 21, 1996

By letter dated March 31, 1997, Nashville informed the Authority that it proposed to continue the plan for a second year, without modification By letter dated April 7, 1997, Associated Valley Industries notified the Authority that it did not object to the Company's request No party filed an objection to the Company's request In accordance with its contract, Andersen Consulting filed its First Year Review of Performance Incentive Plan dated May 1, 1997, (hereafter the "First Report") and recommended that the Incentive Plan be continued for

another year without modification By Order dated June 30, 1997, the Authority authorized Nashville to continue the Incentive Plan for a second year, commencing July 1, 1997

Andersen Consulting completed its Second Year Review of Performance Incentive Plan (hereafter the "Second Report") on March 23, 1998 By its Application dated March 31, 1998, Nashville requested that the Authority approve the Incentive Plan on a permanent basis, relying in large part upon the recommendations made by Andersen Consulting in its Second Report

In the Second Report, Andersen Consulting found that

I Based upon a review of Nashville's workpapers that were available following the publication of the First Report, the Incentive Plan's performance during the period July 1, 1996, through June 30, 1997, the first year of the Incentive Plan, was as follows

1 Net savings totaled $1,379,000, the amount available to be split between the ratepayers and Nashville, subject to the 1% deadband

2 Ratepayers "earned" $925,000 in savings during the first full year of the plan or about 67% of the amount available from the sharing mechanism and the amount within the 1% deadband

3 Nashville "earned" $455,000 during the first full year of the plan or about 33% of the amount available from the sharing mechanism and the amount within the 1% deadband

4 Nashville's share of gains/losses for the first full year of the plan was approximately 1/3 of the $1 6 million gains/losses cap

II Based upon a review of Nashville's workpapers, the Incentive Plan's performance during the period July 1, 1997, through December 31, 1997, a period of six months into the second year of the Incentive Plan, was as follows

1 Net savings for the first six months of the second year of the Incentive Plan totaled $769,000, the amount available

to be split between the ratepayers and Nashville, subject to the 1% deadband

2 Ratepayers "earned" $598,000 in savings during the first six months of the second year of the Incentive Plan or about 78% of the amount available from the sharing mechanism and the amount within the 1% deadband

3 Nashville "earned" $171,000 during the first six months of the second year of the Incentive Plan or about 22% of the amount available from the sharing mechanism and the amount within the 1% deadband

4 Nashville's share of gains/losses for the first six months of the second year of the Incentive Plan was less than 11% of the $1 6 million gains/losses cap

5 Nashville's net gains during the first six months of the second year of the Incentive Plan was largely attributable to the Incentive Plan's Gas Procurement Mechanism, a reversal from the first year of the Incentive Plan

After summarizing the activity in the Gas Procurement Incentive Mechanism and Capacity Management Incentive Mechanism for the period July 1, 1997, through December 31, 1997, as well as evaluating Nashville's organizational policies and practices, Andersen Consulting made the following recommendations in the Second Report [1]

1 Implement a permanent performance based ratemaking mechanism, based upon the merits of the Incentive Plan [2]

2 Rollover the permanent plan automatically each year, unless Nashville gives advance notice of its need to either withdraw or change the Incentive Plan, or the Authority elects to modify, amend, or terminate the Incentive Plan

[1] The Second Report also pointed out that "[t]he existence or absence of an incentive plan similar to [Nashville] is not, in itself, a confirmation or an indictment of [Nashville s] plan. Instead the case studies demonstrated the various plans used by other utilities operating in other jurisdictions and that [Nashville s] performance incentive plan was generally consistent with those industry practices Second Year Review, dated March 23, 1998, at page 15

[2] This recommendation was based, in part, upon the judgment of Andersen Consulting that the objectives of the two year period of the Incentive Plan were satisfied and the Incentive Plan resulted in benefits to both the ratepayers and Nashville Id. at page 16

3 Retain the employee incentive compensation plan that links reward with performance to ensure alignment of behavior and risk-taking with results

4 Retain the primary features of the Incentive Plan, without modifications A summary of those features include

A Gas Procurement Mechanism [3] 50/50 sharing arrangement, with a performance indicator of 99% of Index for Gains, and 101% of Index for Penalties

B Capacity Management Mechanism [4] Sliding scale from 100/0 to 50/50 as the sharing arrangement,[5] using the demand costs for transportation and storage capacity as the performance indicator

5 Retain, without modifications, the "monthly price index" composite formula, as defined in the Appendix to the Second Report, that serves to compare Nashville's total city gate commodity cost of gas to a benchmark amount

6 Having concluded the experimental period, remove the need for the permanent plan to be independently reviewed by a consultant, consistent with the Incentive Plan's objective of streamlining regulation and lowering regulatory costs

At a regularly scheduled Authority Conference held on April 21, 1998, the Directors unanimously appointed the General Counsel or his designee to act as Hearing Officer to hear certain preliminary matters and to set a procedural schedule A Pre-Hearing Conference was publicly noticed on June 4, 1998, and held on June 15, 1998, at 10 00 a.m before Authority counsel, Dennis McNamee Prior to the Pre-Hearing Conference, no party sought intervention in

[3] The Gas Procurement Mechanism includes the primary elements of commodity costs, gas supply reservation fees, off-system sales and sale for resale transactions, use of financial instruments, both public and private contracts, hedges and swaps

[4] The Capacity Management Mechanism includes the primary elements of release of transportation capacity release of storage capacity, transportation of storage margin associated with off-system or wholesale sales-for-resale

[5] As outlined in the Second Report, Nashville s share of the associated cost savings is calculated based on the actual capacity demand charges incurred by Nashville Thus, the lower the demand charges and the greater the savings, the higher Nashville s sharing percentage Id

this proceeding No interested parties, other than Nashville, appeared at the Pre-Hearing Conference On June 15, 1998, the Hearing Officer filed his Report and Recommendation

At a regularly scheduled Authority Conference held on June 30, 1998, the Directors considered the Hearing Officer's Report and Recommendation which recommended that the Application of Nashville Gas be brought before the Directors for consideration without a hearing since no parties had intervened nor had any objections to the Application been filed with the Authority After reviewing the Report and Recommendation, and other relevant portions of the record, the Directors unanimously approved and adopted the Report and Recommendation of the Hearing Officer This matter was scheduled for the Directors' consideration in July and, since the experimental period of the Incentive Plan expired on June 30, 1998, the Directors unanimously voted to allow the Company to continue operating under the incentive plan as it existed on June 30, 1998, until such time as the Authority further deliberated upon the matter and rendered a final decision on Nashville's Application

On July 17, 1998, the Authority issued two Requests for Clarification to Nashville, the first of which outlined three (3) issues affecting Nashville's proposed Tariff Service Schedule No 14 The Company responded to this first request by submitting, on July 23, 1998, a revised proposed tariff which incorporated the following new language

1 Applicability Section 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

2 Filing with the Authority Section Unless the Authority provides written notification to the Company within 180 days of such reports, the Incentive Plan Account shall be deemed in compliance with the provisions of this Service Schedule

3 Periodic Index Revisions Section Unless the Authority provides written justification to the Company within 30 days of such notice, the price indices shall be deemed approved as proposed by the Company

The second clarification request inquired as to the status of the Company's "feedback and reward system" The Company responded to this request by letter dated July 23, 1998, which further detailed Nashville's "feedback and reward system" Company representative, Bill R. Morris, executed an affidavit on July 31, 1998, attesting to his responses to each of these clarification requests This affidavit, together with the clarification requests and responses thereto, was officially filed with the Authority and are part of the record considered in this matter

This matter came before the Authority again at the regularly scheduled Authority Conference held on August 18, 1998 Having considered the First Report,[6] the Second Report,[7] the verified responses of Nashville to the Requests for Clarification, and other relevant portions of the record, the Authority unanimously approved Nashville's Application to extend its Incentive Plan, and directed Nashville to file a revision to its Service Schedule No 14 Tariff, stating the following

1 Nashville will continue to have in place the Gas Supply Incentive Compensation Program, as detailed to the Authority in its letter dated July 23, 1998, and,

2 Nashville will submit to the Authority, in writing, any proposed changes to the Gas Supply Incentive Compensation Program and, if the Authority elects to take no action concerning such proposed changes

[6] On July 31, 1998 Frank H Creamer executed as affidavit, which is a part of the evidentiary record in this matter, stating that to the best of his knowledge his analysis conclusions and recommendations in his first and second year reports are true and accurate to the best of his knowledge and belief

[7] Id

> prior to the end of sixty (60) days after the same shall have been filed with the Authority, then such proposed changes shall become effective

The Authority unanimously agreed to allow the Incentive Plan, as revised, to be automatically renewed on July 1st of each year, beginning July 1, 1998, unless and until the Incentive Plan is either (a) terminated at the end of a plan year by not less than ninety (90) days notice by Nashville to the Authority or (b) the Incentive Plan is modified, amended or terminated by the Authority

The Authority also found it appropriate to eliminate the requirement for an independent review of the Incentive Plan Based upon the independent consultant's analysis, the benefits of the Incentive Plan have now been demonstrated Furthermore, Nashville will continue to submit quarterly and annual reports of the operations of the Incentive Plan and, if such reports or any other information should raise questions about the continued operations of the Incentive Plan, the Authority may take such action as it deems appropriate

It is the opinion of the Directors of the Authority that incentive plans such as that proposed by Nashville can satisfy the public interest by providing net benefits to both ratepayers and the Company[8] Such net benefits can be realized when an incentive plan is carefully evaluated and properly administered, consistent with state law In Nashville's case, the Authority concludes that the Incentive Plan satisfies the public interest The Authority further concludes that it is consistent with the goal of keeping expenses at a minimum to establish a Gas Supply Incentive Compensation Program to recognize selected Gas Supply non-executive employees

[8] In formulating its decision in this matter, the Authority is mindful of the dicta offered by the Court of Appeals in its March 5 1997, decision in Tennessee Consumer Advocate v Tennessee Regulatory Authority, 1997 WL 92079, *4 (Tenn Ct App) wherein the Court noted. "Of particular interest and concern are the propriety of rewarding' [a] utility for keeping its expenses at the minimum, and of utilizing the services of an expert employed by the utility

who are directly involved in managing such expenses The public interest is served by performance measures for the Incentive Plan being established on an annual basis and by employees receiving incentive compensation as recognition for their contribution to the ratepayers and Nashville's shareholders through lower gas costs and gains related thereto

IT IS THEREFORE ORDERED THAT

1 Consideration of Nashville Gas Company's application for the extension of the Incentive Plan on a permanent basis does not require a hearing because no parties have intervened and no objections to Nashville's Application have been filed with the Authority;

2 Nashville Gas Company is authorized to continue to operate under the Incentive Plan, as modified herein, in such a manner that the Incentive Plan will automatically rollover for an additional plan year on each July 1st, beginning July 1, 1998, and will continue until the Incentive 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 Incentive Plan is modified, amended or terminated by the Authority;

3 The requirement for an independent review of the Incentive Plan is eliminated,

4 The Company shall amend Service Schedule No 14 of its Tariff by inserting a section entitled "Gas Supply Incentive Compensation Program" which provides that while the plan is in effect the Company will continue to have in place its "Gas Supply Incentive Compensation Program" as detailed in the Company's July 23, 1998, response to the Authority's second clarification request of July 17, 1998 This section of the tariff shall further provide that

the Company is required to notify the Authority in writing of any changes to the Gas Supply Incentive Compensation Program and, unless the Company is otherwise notified by the Authority within sixty (60) days, said changes will become effective

5 Any party aggrieved with the Authority's decision in this matter may file a Petition for Reconsideration with the Authority within ten (10) days from the date of this Order, and

6 Any party aggrieved with the Authority's decision in this matter has the right of judicial review by filing a Petition for Review in the Tennessee Court of Appeals, Middle Section, within sixty (60) days from the date of this Order

Melvin J. Malone, Chairman

H. Lynn Greer, Jr., Director

Sara Kyle, Director

ATTEST

K. David Waddell, Executive Secretary

REC D TN
REGULATORY AUTH
01 APR 4 PM 12 00
OFFICE OF THE
EXECUTIVE SECRETARY

BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE

April 4, 2001

IN RE	)	
	)	
NASHVILLE GAS COMPANY, a Division of	)	**Docket No 00-00759**
PIEDMONT NATURAL GAS COMPANY	)	
INCENTIVE PLAN ACCOUNT (IPA) 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 Division of the Tennessee Regulatory Authority (hereafter 'Energy and Water) hereby gives notice of its filing of the Nashville Gas Company Incentive Plan Account (hereafter IPA) Audit Report 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 Nashville Gas Company's (hereafter the Company") IPA for the year ended June 30 2000

2 The Company's IPA filing was received on August 25 2000, and the Staff completed its audit of same on April 2, 2001

3 On April 3 2001 the Energy and Water Division issued its preliminary IPA audit findings to the Company, and on April 4 2001 the Company responded thereto

4 The preliminary IPA audit report was modified to reflect the Company s response and a final IPA audit report (the Report") resulted therefrom 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 Division, the Company response thereto and the recommendations of the Energy and Water Division in connection therewith

5 The Energy and Water Division hereby files its Report with the Tennessee Regulatory Authority for deposit as a public record and approval of the same

Respectfully Submitted

Pat Murphy
Energy and Water Division
Tennessee Regulatory Authority

CERTIFICATE OF SERVICE

I hereby certify that on this 4th day of April 2001 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

Mr K David Waddell
Executive Secretary
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville TN 37243

Mr Bill R Morris
Director - Rates
Piedmont Natural Gas Company
PO Box 33068
Charlotte NC 28233

Mr Paul C Gibson
Vice President - Rates
Piedmont Natural Gas Company
PO Box 33068
Charlotte NC 28233

Pat Murphy

COMPLIANCE AUDIT REPORT
OF

NASHVILLE GAS COMPANY'S
INCENTIVE PLAN ACCOUNT

Docket No 00-00759

PREPARED BY

TENNESSEE REGULATORY AUTHORITY

ENERGY AND WATER DIVISION

APRIL 2001

EXHIBIT A

TENNESSEE REGULATORY AUTHORITY'S
COMPLIANCE AUDIT
of
NASHVILLE GAS COMPANY'S
INCENTIVE PLAN ACCOUNT
Docket No 00-00759

TABLE OF CONTENTS

I	INTRODUCTION	1
II	BACKGROUND AND DESCRIPTION OF PERFORMANCE INCENTIVE PLAN	2
III	ACTUAL PLAN YEAR RESULTS	3
IV	IPA FINDINGS	5
V	JURISDICTION OF TENNESSEE REGULATORY AUTHORITY	6

I INTRODUCTION

The subject of this compliance audit is the Performance Incentive Plan (hereafter 'Incentive Plan or 'IPA) of Nashville Gas Company (hereafter "Nashville Gas or the "Company') a division of Piedmont Natural Gas Company The objective of the audit was to determine whether the balance in the Incentive Plan Account as of June 30, 2000 was calculated in conformance with the terms of the Incentive Plan and to verify that the factors utilized in the calculations were supported by appropriate source documentation The IPA consists of two mechanisms which are more fully described in Section II below

The following chart summarizes the results of the current period of the Incentive Plan, as presented in the Company's filing

		Year Ended 6/30/00
Total Actual City Gate Purchases	$	53,609,675
Total Annual Benchmark	$	53,828,287
Percentage Actual Purchases to Benchmark		99 59%
Total Incentive Savings from		
Gas Procurement	$	271,861
Capacity Management		1,950,692
Total Incentive Savings	$	2,223,553
Incentive Savings retained by Ratepayers		
Gas Procurement	$	152 088
Capacity Management		1,119,941
Total Incentive Savings to Ratepayers	$	1,272,029
Incentive Savings retained by Company		
Gas Procurement	$	120,772
Capacity Management		830,751
Total Incentive Savings to Company	$	951,523

The results of the audit indicate that during the plan year under review, the Company's calculations were in conformance with the terms of the Incentive Plan Section III of this report further describes the actual results of the plan year and Section IV details the Staff's findings

II BACKGROUND AND DESCRIPTION OF PERFORMANCE INCENTIVE PLAN

On May 31 1996 the Tennessee Public Service Commission (hereafter the "TPSC") the predecessor to the Tennessee Regulatory Authority (hereafter the "Authority or "TRA") issued an Order in Docket Number 96-00805 approving the Incentive Plan on an experimental basis for Nashville Gas The specific details of the Incentive Plan were included in Nashville Gas' Service Schedule No 14 tariff entitled Performance Incentive Plan which was issued on April 22, 1996, and was effective July 1 1996 A copy of this tariff is attached to the report as Attachment 1

The experimental period began July 1 1996, and ended June 30 1998 On March 31, 1998, the Company filed an Application for Extension of the Performance Incentive Plan, which would allow the plan to continue on an annual basis The Authority issued an Order on March 11, 1999, authorizing the Company to continue under a modified Incentive Plan The Incentive Plan automatically rolls over for an additional plan year on each July 1st, beginning July 1, 1998, and continues until the Incentive Plan is either (a) terminated at the end of a plan year by not less than 90 days notice by Nashville Gas to the Authority or (b) modified amended or terminated by the Authority

The Incentive Plan consists of two mechanisms (1) the Gas Procurement Mechanism and (2) the Capacity Management Mechanism Under the Gas Procurement Mechanism Nashville Gas retains 50% of the savings on gas purchased below 99% of a pre-determined index Should the Company purchase gas above 101% of the same pre-determined index, the Company is penalized for 50% of the excess The Capacity Management Mechanism is tied to the Company s total annual demand cost and the sharing ratio is a sliding scale with Nashville Gas earning a larger percentage with a higher level of cost savings Interest is accrued on the outstanding monthly balance in the account using the same computation as is provided for in the Authority's Purchased Gas Adjustment Rule 1220-4-7- 03(vii) A more detailed explanation of each mechanism can be found in Attachment 1 the Company's Service Schedule No 14

III ACTUAL PLAN YEAR RESULTS

On August 25, 2000, Nashville Gas submitted a rate adjustment to recover the balance in the Incentive Plan Account as of June 30 2000 According to the Company filing, the Incentive Plan generated $2 223 553 in total incentive savings Of this amount, $1,272 029 benefited the ratepayer and $951 523 was retained by Nashville Gas Adding the -$17,911 over-recovered balance from the prior year and $24 650 in calculated monthly interest due resulted in an **under-recovered balance** in the account at June 30, 2000 of **$958,231** To recover this balance the Company filed a PGA for the TRA Staff's approval to implement a $0 00580 per therm surcharge, effective November 1 2000

The Company was able to purchase gas at less than the benchmark during four (4) of the twelve- (12) months in the audit period However, in only two (2) of those months was the Company able to participate in the savings generated from the Gas Procurement Mechanism This was due to the total monthly purchases for one month being not only less than the benchmark, but also less than the lower limit of the deadband of 99% In the other month, the purchases were not below the lower limit of the deadband However, the Company was eligible to participate in the gain generated by Off System Sales as provided for in its Incentive Plan In none of the months did the Company s purchases exceed 101% of the benchmark so there were no losses to be shared Total actual city gate purchases for the year averaged 99 59% of the total annual benchmark Of the $272 861 in total savings under the Gas Procurement Mechanism the Company retained $120 772

The Capacity Management Mechanism generated a total of $1 950 692 in savings of which $300 692 was due to off system sales and $1 650 000 was due to capacity release The Company's total actual demand costs for the year were $12,573,481 Therefore the Company did not participate in any savings until the savings reached $125 735 (1% of the total demand costs) as provided for in the Incentive Plan Of the total savings the Company retained $830 751 and $1 119 941 benefited the ratepayers

The capacity release portion of the Capacity Management Mechanism generated significantly greater savings this plan year as compared to last year Last year s savings was $11,510 The $1 650 000 savings for this year was the result of Nashville Gas assigning its pipeline capacity to an asset manager" The Company provided the following summary of its Gas Asset Management Agreement to the TRA Staff

> "Under the Gas Asset Management agreement Nashville Gas assigns its firm pipeline transportation (capacity) storage (excluding local LNG) and supply rights to the "Asset Manager In return for this assignment Nashville Gas receives a lump-sum payment from the asset manager for the assignment of these rights
>
> Nashville Gas retains the right to call on supply from the asset manager for its city gate needs consistent with its rights as they existed prior to their

assignment to the asset manager The asset manager's lump-sum payment is for the value acquired for utilization of the released assets when they are not needed by Nashville Gas The lump-sum payment is considered a capacity release transaction and as such, is accounted for in the Performance Incentive Plan under the Capacity Management Incentive mechanism

In essence, Nashville Gas and its ratepayers are guaranteed the up-front lump-sum payment by the asset manager, as opposed to Nashville Gas releasing capacity and entering into off-system sales transactions with third parties "

IV IPA FINDINGS

After review of Company s filing, the Staff noted one finding

Exception

The Company **understated** its share of Capacity Release savings by **$4,866** It overstated the Ratepayer s share by the same amount

Discussion

The Incentive Plan provides for a sliding scale of the sharing percentages between the Company and the Ratepayer The sharing percentages are based on the Company's total actual demand costs for the plan year as adjusted by any refunds or surcharges from suppliers For this plan year the actual costs were $12,573,481 The Company based their sharing percentages on this amount (sharing began when savings reached 1% of the demand costs or $125,735)

However at the end of the last plan year a Tennessee Gas Pipeline GSR (Gas Supply Realignment) refund for June 1999 was received after the close of the Incentive Plan year and not known to the Company at the time of the IPA filing The $423,109 refund credit should have been a prior period adjustment to the total demand cost in this plan year The effect of the adjustment was to lower the demand costs by this amount Therefore, the 1% level at which the Company began sharing in the savings was lowered to $121,504 Total savings remained the same However the effect was to increase the Company s share by $4 866 and decrease the ratepayers share by the same amount

Company Response

The Company agrees with this finding

V JURISDICTION OF THE TENNESSEE REGULATORY AUTHORITY

Tennessee Code Annotated (hereafter 'T C A) gave jurisdiction and control over public utilities to the Tennessee Regulatory Authority T C A § 65-4-104 states

> The Authority 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 has 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 said power includes the right to audit

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

The Authority's Energy and Water Division is responsible for auditing those companies under the Division's jurisdiction to insure that each company is abiding by the rules and regulations of the TRA This audit was performed by Pat Murphy of the Energy and Water Division

ATTACHMENT 1

SERVICE SCHEDULE NO 14
Performance Incentive Plan

APPLICABILITY

The Performance Incentive Plan (the plan) replaces the reasonableness or prudence review of Nashville Gas Company's (Nashville or Company) gas purchasing activities overseen by the Tennessee Regulatory Authority (Authority) The plan is designed to provide incentives to Nashville in a manner that will produce rewards for its customers and its shareholders and improvements in Nashville's gas procurement 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

OVERVIEW OF STRUCTURE

Nashville's Performance Incentive Plan is comprised of two interrelated components

- Gas Procurement Incentive Mechanism
- Capacity Management Incentive Mechanism

The Gas Procurement Incentive Mechanism 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, the treatment of off-system sales and wholesale interstate sale for resale transactions, and the use of financial or private contracts in managing gas costs The net incentive benefits or costs will be shared between the Company's customers and the Company on a 50% / 50% basis

The Capacity Management Incentive Mechanism is designed to encourage Nashville to actively market off-peak unutilized transportation and storage capacity on upstream pipelines in the secondary market. The net incentive benefits or costs will be shared between the Company's customers and the Company utilizing a graduated sharing formula, with sharing percentages for Nashville ranging between zero and fifty percent

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 update each year a Three Year Supply Plan Nashville will obtain additional firm capacity and/or gas supply pursuant to such plan

GAS PROCUREMENT INCENTIVE MECHANISM

The Gas Procurement Incentive Mechanism addresses the following areas

- Commodity Costs
- Gas Supply Reservation Fees
- Off-System Sales and Sale for Resale Transactions
- Use of Financial Instruments or Other Private Contracts

COMMODITY COSTS

Each month Nashville will compare its *total city gate commodity 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

$$I = F_f(P_0K_0+P_1K_1+P_cK_c+\ P_\propto K_\propto)+F_oO+F_dD \text{ where}$$

$$F_f+F_o+F_d = 1, \text{ and}$$

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 $\propto$ denotes new incremental firm services to which Nashville may

---

1 Gas purchases under Nashville's existing supply contract on the Tetco system are 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, Nashville's gas procurement incentive mechanism 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

subscribe in the future [2] 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

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 [3]

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 maximum 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 maximum transportation commodity charges and fuel retention to the city gate

---

[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] 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

If the actual total commodity gas purchase cost in a month is within one percent of the benchmark dollar amount, there will be no incentive gains or losses If the actual total commodity gas purchase cost varies from the benchmark dollar allowance by more than one percent, the variance in excess of the one percent threshold shall be deemed incentive gains or losses under the plan. Such gains or losses will be shared 50/50 between the Company and the ratepayers

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 commodity gas cost component of the Gas Procurement Incentive Mechanism 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 Gas Procurement Incentive Mechanism As to transportation costs, Nashville will impute such costs up to the transporting pipeline's maximum interruptible transportation (IT) rate The difference between the maximum IT rate and Nashville's actual transportation commodity costs will be treated as capacity release margin under the Capacity Management Incentive Mechanism After deducting the total transaction costs from the sales proceeds, any remaining margin will be credited to commodity gas costs and shared on a 50/50 basis with ratepayers

Use Of Financial Instruments Or Other Private Contracts

To the extent Nashville uses futures contracts, financial derivative products storage swap arrangements, or other private agreements to hedge, manage or reduce gas costs, any gains or losses will flow through the commodity cost component of the Gas Procurement Incentive Mechanism

CAPACITY MANAGEMENT INCENTIVE MECHANISM

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 shall be shared by Nashville and customers according to the following sharing formula.

Capacity Management Incentive cost savings as a percent of Nashville's annual transportation and storage demand costs	Sharing percentages Nashville/Customers (Percent)
Less than or equal to 1 percent	0/100
Greater than 1 percent but less than or equal to 2 percent	10/90
Greater than 2 percent but less than or equal to 3 percent	25/75
Greater than 3 percent	50/50

The sharing percentages shall be determined based on the actual demand costs incurred by Nashville (exclusive of credits for capacity release) for transportation and storage capacity during the plan year, as such costs may be adjusted due to refunds or surcharges from pipeline and storage suppliers Any incentive gains or losses resulting from adjustments to the sharing percentages caused by refunds or surcharges shall be recorded in the current Incentive Plan Account (IPA)

DETERMINATION OF SHARED SAVINGS

Each month during the term of 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

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

NASHVILLE GAS COMPANY
665 Mainstream Drive
Nashville Tennessee 37228
A Division of Piedmont Natural Gas Company

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

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 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 such reports the Incentive Plan Account shall be deemed in compliance with the provisions of this Service Schedule

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 30 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 30 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 No filing for prior approval is required for changes in the performance measures

BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

JUNE 12, 2001

IN RE	)	
	)	
NASHVILLE GAS COMPANY, A DIVISION	)	**DOCKET NO**
OF PIEDMONT NATURAL GAS COMPANY,	)	**00-00759**
INCENTIVE PLAN ACCOUNT (IPA) AUDIT	)	

ORDER ADOPTING IPA COMPLIANCE AUDIT REPORT OF AUTHORITY'S STAFF

This matter came before the Tennessee Regulatory Authority (the "Authority" or 'TRA") at a regularly scheduled Authority Conference held on April 17, 2001 for consideration of the April 4, 2001 Report (the "Report") of the Authority's Energy and Water Division (the "Staff") The Report is the result of the Staff's Compliance Audit of the Incentive Plan Account ("IPA') filing of Nashville Gas Company (the "Company") for the year ended June 30, 2000 The IPA Compliance Audit was performed pursuant to Tenn Code Ann §§ 65-4-104 and 65-4-111, and in accordance with a Performance Incentive Plan (the 'Plan") adopted by the Company

The Report is included in Exhibit 1, which is attached hereto Exhibit 1 also contains the Staff's Notice of Filing the Report and the Company s TRA Service Schedule No 14, which outlines the Plan The actual results of the Compliance Audit are described in Sections III and IV of the Report As discussed in Section IV of the Report the Compliance Audit resulted in one (1) finding by the Staff, the net effect of which is that the Company understated its share of Capacity Release savings by $4,866 and overstated its ratepayers share by the same amount The Report states that this overstatement did not change the amount of total savings achieved by the Company The Report states that the Company agreed with this finding As further stated in

the Report, the Compliance Audit determined that during the Plan year under review the Company's calculations conformed to the terms of the Plan

After consideration of the Report, the Directors voted unanimously to approve and adopt the Report and the findings contained therein

IT IS THEREFORE ORDERED THAT

1 The April 4, 2001 Report of the Authority's Energy and Water Division regarding its Compliance Audit of the Incentive Plan Account filing of Nashville Gas Company for the year ended June 30, 2000, attached to this Order as part of Exhibit 1, is approved and adopted and is incorporated in this Order as if fully rewritten herein, and

2 Any party aggrieved by the Authority's decision in this matter may file a Petition for Reconsideration with the Authority within fifteen (15) days from the date of this Order

Sara Kyle, Chairman

H Lynn Greer, Jr , Director

Melvin J Malone, Director

ATTEST

K David Waddell, Executive Secretary

TENN REGULATORY AUTH
01 APR 4 AM 11 59
OFFICE OF
EXECUTIVE SECRETARY

BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE

April 4, 2001

IN RE	)	
	)	
NASHVILLE GAS COMPANY, a Division of PIEDMONT NATURAL GAS COMPANY INCENTIVE PLAN ACCOUNT (IPA) AUDIT	)	**Docket No 00-00759**

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 Division of the Tennessee Regulatory Authority (hereafter Energy and Water) hereby gives notice of its filing of the Nashville Gas Company Incentive Plan Account (hereafter IPA) Audit Report 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 Nashville Gas Company s (hereafter the Company) IPA for the year ended June 30 2000

2 The Company s IPA filing was received on August 25 2000 and the Staff completed its audit of same on April 2 2001

3 On April 3 2001 the Energy and Water Division issued its preliminary IPA audit findings to the Company and on April 4 2001 the Company responded thereto

4 The preliminary IPA audit report was modified to reflect the Company s response and a final IPA audit report (the Report) resulted therefrom 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 Division the Company response thereto and the recommendations of the Energy and Water Division in connection therewith

5 The Energy and Water Division hereby files its Report with the Tennessee Regulatory Authority for deposit as a public record and approval of the same

Respectfully Submitted

Pat Murphy
Energy and Water Division
Tennessee Regulatory Authority

CERTIFICATE OF SERVICE

I hereby certify that on this 4th day of April 2001 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

Mr K David Waddell
Executive Secretary
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville TN 37243

Mr Bill R Morris
Director - Rates
Piedmont Natural Gas Company
PO Box 33068
Charlotte NC 28233

Mr Paul C Gibson
Vice President - Rates
Piedmont Natural Gas Company
PO Box 33068
Charlotte NC 28233

Pat Murphy

COMPLIANCE AUDIT REPORT
OF

NASHVILLE GAS COMPANY'S
INCENTIVE PLAN ACCOUNT

Docket No 00-00759

PREPARED BY

TENNESSEE REGULATORY AUTHORITY

ENERGY AND WATER DIVISION

APRIL 2001

EXHIBIT A

TENNESSEE REGULATORY AUTHORITY'S
COMPLIANCE AUDIT
of
NASHVILLE GAS COMPANY'S
INCENTIVE PLAN ACCOUNT
Docket No 00-00759

TABLE OF CONTENTS

I	INTRODUCTION	1
II	BACKGROUND AND DESCRIPTION OF PERFORMANCE INCENTIVE PLAN	2
III	ACTUAL PLAN YEAR RESULTS	3
IV	IPA FINDINGS	5
V	JURISDICTION OF TENNESSEE REGULATORY AUTHORITY	6

I INTRODUCTION

The subject of this compliance audit is the Performance Incentive Plan (hereafter Incentive Plan or IPA) of Nashville Gas Company (hereafter Nashville Gas or the Company) a division of Piedmont Natural Gas Company The objective of the audit was to determine whether the balance in the Incentive Plan Account as of June 30 2000 was calculated in conformance with the terms of the Incentive Plan and to verify that the factors utilized in the calculations were supported by appropriate source documentation The IPA consists of two mechanisms, which are more fully described in Section II below

The following chart summarizes the results of the current period of the Incentive Plan as presented in the Company s filing

		Year Ended 6/30/00
Total Actual City Gate Purchases	$	53,609,675
Total Annual Benchmark	$	53 828,287
Percentage Actual Purchases to Benchmark		99 59%
Total Incentive Savings from		
Gas Procurement	$	271 861
Capacity Management		1,950,692
Total Incentive Savings	$	2,223,553
Incentive Savings retained by Ratepayers		
Gas Procurement	$	152 088
Capacity Management		1,119,941
Total Incentive Savings to Ratepayers	$	1 272 029
Incentive Savings retained by Company		
Gas Procurement	$	120 772
Capacity Management		830,751
Total Incentive Savings to Company	$	951 523

The results of the audit indicate that during the plan year under review, the Company's calculations were in conformance with the terms of the Incentive Plan Section III of this report further describes the actual results of the plan year and Section IV details the Staff's findings

II BACKGROUND AND DESCRIPTION OF PERFORMANCE INCENTIVE PLAN

On May 31 1996 the Tennessee Public Service Commission (hereafter the TPSC) the predecessor to the Tennessee Regulatory Authority (hereafter the Authority or 'TRA) issued an Order in Docket Number 96-00805 approving the Incentive Plan on an experimental basis for Nashville Gas The specific details of the Incentive Plan were included in Nashville Gas Service Schedule No 14 tariff entitled Performance Incentive Plan which was issued on April 22 1996 and was effective July 1 1996 A copy of this tariff is attached to the report as Attachment 1

The experimental period began July 1 1996 and ended June 30 1998 On March 31 1998 the Company filed an Application for Extension of the Performance Incentive Plan which would allow the plan to continue on an annual basis The Authority issued an Order on March 11 1999 authorizing the Company to continue under a modified Incentive Plan The Incentive Plan automatically rolls over for an additional plan year on each July 1 st beginning July 1 1998 and continues until the Incentive Plan is either (a) terminated at the end of a plan year by not less than 90 days notice by Nashville Gas to the Authority or (b) modified amended or terminated by the Authority

The Incentive Plan consists of two mechanisms (1) the Gas Procurement Mechanism and (2) the Capacity Management Mechanism Under the Gas Procurement Mechanism Nashville Gas retains 50% of the savings on gas purchased below 99% of a pre-determined index Should the Company purchase gas above 101% of the same pre-determined index the Company is penalized for 50% of the excess The Capacity Management Mechanism is tied to the Company s total annual demand cost and the sharing ratio is a sliding scale with Nashville Gas earning a larger percentage with a higher level of cost savings Interest is accrued on the outstanding monthly balance in the account using the same computation as is provided for in the Authority s Purchased Gas Adjustment Rule 1220-4-7- 03(vii) A more detailed explanation of each mechanism can be found in Attachment 1 the Company s Service Schedule No 14

III ACTUAL PLAN YEAR RESULTS

On August 25 2000 Nashville Gas submitted a rate adjustment to recover the balance in the Incentive Plan Account as of June 30 2000 According to the Company filing the Incentive Plan generated $2 223 553 in total incentive savings Of this amount $1 272 029 benefited the ratepayer and $951 523 was retained by Nashville Gas Adding the -$17 941 over-recovered balance from the prior year and $24 650 in calculated monthly interest due resulted in an **under-recovered balance** in the account at June 30 2000 of **$958,231** To recover this balance the Company filed a PGA for the TRA Staff's approval to implement a $0 00580 per therm surcharge effective November 1 2000

The Company was able to purchase gas at less than the benchmark during four (4) of the twelve- (12) months in the audit period However in only two (2) of those months was the Company able to participate in the savings generated from the Gas Procurement Mechanism This was due to the total monthly purchases for one month being not only less than the benchmark but also less than the lower limit of the deadband of 99% In the other month the purchases were not below the lower limit of the deadband However the Company was eligible to participate in the gain generated by Off System Sales as provided for in its Incentive Plan In none of the months did the Company s purchases exceed 101% of the benchmark so there were no losses to be shared Total actual city gate purchases for the year averaged 99 59% of the total annual benchmark Of the $272 861 in total savings under the Gas Procurement Mechanism the Company retained $120 772

The Capacity Management Mechanism generated a total of $1 950 692 in savings of which $300 692 was due to off system sales and $1 650 000 was due to capacity release The Company s total actual demand costs for the year were $12 573 481 Therefore the Company did not participate in any savings until the savings reached $125 735 (1% of the total demand costs) as provided for in the Incentive Plan Of the total savings the Company retained $830 751 and $1 119 941 benefited the ratepayers

The capacity release portion of the Capacity Management Mechanism generated significantly greater savings this plan year as compared to last year Last year s savings was $11 510 The $1 650 000 savings for this year was the result of Nashville Gas assigning its pipeline capacity to an asset manager The Company provided the following summary of its Gas Asset Management Agreement to the TRA Staff

> Under the Gas Asset Management agreement Nashville Gas assigns its firm pipeline transportation (capacity) storage (excluding local LNG) and supply rights to the Asset Manager In return for this assignment Nashville Gas receives a lump-sum payment from the asset manager for the assignment of these rights
>
> Nashville Gas retains the right to call on supply from the asset manager for its city gate needs consistent with its rights as they existed prior to their

assignment to the asset manager The asset manager's lump-sum payment is for the value acquired for utilization of the released assets when they are not needed by Nashville Gas The lump-sum payment is considered a capacity release transaction and as such is accounted for in the Performance Incentive Plan under the Capacity Management Incentive mechanism

In essence Nashville Gas and its ratepayers are guaranteed the up-front lump-sum payment by the asset manager as opposed to Nashville Gas releasing capacity and entering into off system sales transactions with third parties

IV IPA FINDINGS

After review of Company s filing the Staff noted one finding

Exception

The Company **understated** its share of Capacity Release savings by **$4,866** It overstated the Ratepayer s share by the same amount

Discussion

The Incentive Plan provides for a sliding scale of the sharing percentages between the Company and the Ratepayer The sharing percentages are based on the Company s total actual demand costs for the plan year as adjusted by any refunds or surcharges from suppliers For this plan year the actual costs were $12 573 481 The Company based their sharing percentages on this amount (sharing began when savings reached 1% of the demand costs or $125 735)

However at the end of the last plan year a Tennessee Gas Pipeline GSR (Gas Supply Realignment) refund for June 1999 was received after the close of the Incentive Plan year and not known to the Company at the time of the IPA filing The $423 109 refund credit should have been a prior period adjustment to the total demand cost in this plan year The effect of the adjustment was to lower the demand costs by this amount Therefore the 1% level at which the Company began sharing in the savings was lowered to $121 504 Total savings remained the same However the effect was to increase the Company s share by $4 866 and decrease the ratepayers share by the same amount

Company Response

The Company agrees with this finding

V JURISDICTION OF THE TENNESSEE REGULATORY AUTHORITY

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

> The Authority 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 has 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 said power includes the right to audit

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

The Authority s Energy and Water Division is responsible for auditing those companies under the Division s jurisdiction to insure that each company is abiding by the rules and regulations of the TRA This audit was performed by Pat Murphy of the Energy and Water Division

ATTACHMENT 1

NASHVILLE GAS COMPANY
665 Mainstream Drive
Nashville Tennessee 37228
A Division of Piedmont Natural Gas Company
TRA Service Schedule No 14

SERVICE SCHEDULE NO 14
Performance Incentive Plan

APPLICABILITY

The Performance Incentive Plan (the plan) replaces the reasonableness or prudence review of Nashville Gas Company's (Nashville or Company) gas purchasing activities overseen by the Tennessee Regulatory Authority (Authority) The plan is designed to provide incentives to Nashville in a manner that will produce rewards for its customers and its shareholders and improvements in Nashville's gas procurement 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

OVERVIEW OF STRUCTURE

Nashville s Performance Incentive Plan is comprised of two interrelated components

- Gas Procurement Incentive Mechanism
- Capacity Management Incentive Mechanism

The Gas Procurement Incentive Mechanism 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 the treatment of off-system sales and wholesale interstate sale for resale transactions, and the use of financial or private contracts in managing gas costs The net incentive benefits or costs will be shared between the Company s customers and the Company on a 50% / 50% basis

The Capacity Management Incentive Mechanism is designed to encourage Nashville to actively market off-peak unutilized transportation and storage capacity on upstream pipelines in the secondary market The net incentive benefits or costs will be shared between the Company's customers and the Company utilizing a graduated sharing formula, with sharing percentages for Nashville ranging between zero and fifty percent

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 update each year a Three Year Supply Plan Nashville will obtain additional firm capacity and/or gas supply pursuant to such plan

GAS PROCUREMENT INCENTIVE MECHANISM

The Gas Procurement Incentive Mechanism addresses the following areas

- Commodity Costs
- Gas Supply Reservation Fees
- Off-System Sales and Sale for Resale Transactions
- Use of Financial Instruments or Other Private Contracts

COMMODITY COSTS

Each month Nashville will compare its *total city gate commodity 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

$$I = F_f(P_0K_0+P_1K_1+P_cK_c+ \quad P_\propto K_\propto)+F_oO+F_dD, \text{ where}$$

$$F_f+F_o+F_d= 1, \text{ and}$$

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 $\propto$ denotes new incremental firm services to which Nashville may

---

[1] Gas purchases under Nashville's existing supply contract on the Tetco system are 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, Nashville's gas procurement incentive mechanism 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.

subscribe in the future [2] 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

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 [3]

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 maximum 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 maximum transportation commodity charges and fuel retention to the city gate

---

[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] 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

If the actual total commodity gas purchase cost in a month is within one percent of the benchmark dollar amount, there will be no incentive gains or losses If the actual total commodity gas purchase cost varies from the benchmark dollar allowance by more than one percent, the variance in excess of the one percent threshold shall be deemed incentive gains or losses under the plan. Such gains or losses will be shared 50/50 between the Company and the ratepayers

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 commodity gas cost component of the Gas Procurement Incentive Mechanism 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 Gas Procurement Incentive Mechanism As to transportation costs, Nashville will impute such costs up to the transporting pipeline's maximum interruptible transportation (IT) rate The difference between the maximum IT rate and Nashville's actual transportation commodity costs will be treated as capacity release margin under the Capacity Management Incentive Mechanism After deducting the total transaction costs from the sales proceeds, any remaining margin will be credited to commodity gas costs and shared on a 50/50 basis with ratepayers

Use Of Financial Instruments Or Other Private Contracts

To the extent Nashville uses futures contracts financial derivative products, storage swap arrangements, or other private agreements to hedge, manage or reduce gas costs any gains or losses will flow through the commodity cost component of the Gas Procurement Incentive Mechanism

CAPACITY MANAGEMENT INCENTIVE MECHANISM

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 shall be shared by Nashville and customers according to the following sharing formula

Capacity Management Incentive cost savings as a percent of Nashville's annual transportation and storage demand costs	Sharing percentages Nashville/Customers (Percent)
Less than or equal to 1 percent	0/100
Greater than 1 percent but less than or equal to 2 percent	10/90
Greater than 2 percent but less than or equal to 3 percent	25/75
Greater than 3 percent	50/50

The sharing percentages shall be determined based on the actual demand costs incurred by Nashville (exclusive of credits for capacity release) for transportation and storage capacity during the plan year, as such costs may be adjusted due to refunds or surcharges from pipeline and storage suppliers Any incentive gains or losses resulting from adjustments to the sharing percentages caused by refunds or surcharges shall be recorded in the current Incentive Plan Account (IPA)

DETERMINATION OF SHARED SAVINGS

Each month during the term of 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

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

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 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 such reports the Incentive Plan Account shall be deemed in compliance with the provisions of this Service Schedule

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 30 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 30 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 No filing for prior approval is required for changes in the performance measures

BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

March 26, 2003

IN RE	)	
	)	
NASHVILLE GAS COMPANY, A DIVISION	)	**DOCKET NO**
OF PIEDMONT NATURAL GAS COMPANY,	)	**02-00933**
INCENTIVE PLAN ACCOUNT (IPA) AUDIT	)	

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

This matter came before Chairman Sara Kyle, Director Deborah Taylor Tate, and Director Pat Miller of Tennessee Regulatory Authority (the "Authority" or "TRA"), the voting panel assigned to this docket, at a regularly scheduled Authority Conference held on February 18, 2003 for consideration of the February 3, 2003 Report (the "Report") of the Authority's Energy and Water Division (the "Staff") The Report results from the Staff's Compliance Audit of the Incentive Plan Account ("IPA") filing of Nashville Gas Company (the "Company") for the year ended June 30, 2002 The IPA Compliance Audit was performed pursuant to Tenn Code Ann §§ 65-3-108, 65-4-104 and 65-4-111, and in accordance with the Performance Incentive Plan (the "Plan") previously adopted by the Company

The Report is included in Exhibit 1, which is attached hereto and incorporated by this reference Exhibit 1 also contains the Staff's Notice of Filing the Report and the Company's TRA Service Schedule No 14, which outlines the Plan The actual results of the Compliance Audit are described in Sections III and IV of the Report As stated in Section IV of the

Report, the Compliance Audit resulted in no material findings by the Staff As further stated in the Report, the Compliance Audit determined that during the Plan year under review, the Company's calculations conformed to the terms of the Plan

After consideration of the Report, the panel voted unanimously to approve and adopt the Report and the findings contained therein

IT IS THEREFORE ORDERED THAT

1 The February 3, 2003 Report of the Authority's Energy and Water Division regarding its Compliance Audit of the Incentive Plan Account filing of Nashville Gas Company for the year ended June 30, 2002, attached to this Order as part of Exhibit 1, is approved and adopted and is incorporated in this Order as if fully rewritten herein, and

2 Any party aggrieved by the Authority's decision in this matter may file a Petition for Reconsideration with the Authority within fifteen (15) days from the date of this Order

Sara Kyle, Chairman

Deborah Taylor Tate, Director

Pat Miller, Director

BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE

February 3, 2003

IN RE	)	
	)	
NASHVILLE GAS COMPANY, a Division of	)	**Docket No 02-00933**
PIEDMONT NATURAL GAS COMPANY	)	
INCENTIVE PLAN ACCOUNT (IPA) 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 Division of the Tennessee Regulatory Authority (hereafter "Energy and Water") hereby gives notice of its filing of the Nashville Gas Company Incentive Plan Account (hereafter "IPA") Audit Report 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 Nashville Gas Company's (hereafter the "Company") IPA for the year ended June 30, 2002

2 The Company's IPA filing was received on August 30, 2002, and the Staff completed its audit of same on January 30, 2003

3 The Staff's audit revealed no material findings The Report is attached hereto as Exhibit A and is fully incorporated herein by this reference

EXHIBIT 1

4 The Energy and Water Division hereby files its Report with the Tennessee Regulatory Authority for deposit as a public record and approval of the same

Respectfully Submitted

Pat Murphy
Energy and Water Division
Tennessee Regulatory Authority

CERTIFICATE OF SERVICE

I hereby certify that on this 3rd day of February 2003, 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

Sara Kyle
Chairman
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37243

Mr Bill R Morris
Director - Rates
Piedmont Natural Gas Company
PO Box 33068
Charlotte, NC 28233

Pat Murphy

COMPLIANCE AUDIT REPORT
OF

NASHVILLE GAS COMPANY'S
INCENTIVE PLAN ACCOUNT

Docket No 02-00933

PREPARED BY

TENNESSEE REGULATORY AUTHORITY

ENERGY AND WATER DIVISION

FEBRUARY 2003

EXHIBIT A

TENNESSEE REGULATORY AUTHORITY'S
COMPLIANCE AUDIT
of
NASHVILLE GAS COMPANY'S
INCENTIVE PLAN ACCOUNT
Docket No 02-00933

TABLE OF CONTENTS

I.	INTRODUCTION	1
II	BACKGROUND AND DESCRIPTION OF PERFORMANCE INCENTIVE PLAN	2
III.	ACTUAL PLAN YEAR RESULTS	3
IV	IPA FINDINGS	4
V	JURISDICTION OF TENNESSEE REGULATORY AUTHORITY	5

I INTRODUCTION

The subject of this compliance audit is the Performance Incentive Plan (hereafter "Incentive Plan" or "IPA") of Nashville Gas Company (hereafter "Nashville Gas" or the "Company"), a division of Piedmont Natural Gas Company The objective of the audit was to determine whether the balance in the Incentive Plan Account as of June 30, 2002 was calculated in conformance with the terms of the Incentive Plan and to verify that the factors utilized in the calculations were supported by appropriate source documentation The IPA consists of two mechanisms, which are more fully described in Section II below

The following chart summarizes the results of the current period of the Incentive Plan, as presented in the Company's filing

		Year Ended 6/30/02
Total Actual City Gate Purchases	$	54,282,563
Total Annual Benchmark	$	53,769,019
Percentage Actual Purchases to Benchmark	$	100 96%
Total Incentive Savings (Losses) from		
Gas Procurement	$	(423,920)
Capacity Management		3,016,497
Total Incentive Savings	$	2,592,577
Incentive Savings (Losses) Retained by Ratepayers		
Gas Procurement	$	(410,388)
Capacity Management		1,617,881
Total Incentive Savings to Ratepayers	$	1,207,493
Incentive Savings (Losses) Retained by Company		
Gas Procurement	$	(13,532)
Capacity Management		1,398,616
Total Incentive Savings to Company		1,385,084

The results of the audit indicate that during the plan year under review, the Company's calculations were in conformance with the terms of the Incentive Plan Section III of this report further describes the actual results of the plan year and Section IV details the Staff's findings

II. BACKGROUND AND DESCRIPTION OF PERFORMANCE INCENTIVE PLAN

On May 31, 1996, the Tennessee Public Service Commission (hereafter the "TPSC"), the predecessor to the Tennessee Regulatory Authority (hereafter the "Authority" or "TRA"), issued an Order in Docket Number 96-00805 approving the Incentive Plan on an experimental basis for Nashville Gas The specific details of the Incentive Plan were included in Nashville Gas' Service Schedule No 14 tariff entitled Performance Incentive Plan, which was issued on April 22, 1996, and was effective July 1, 1996 A copy of this tariff is attached to the report as Attachment 1

The experimental period began July 1, 1996, and ended June 30, 1998 On March 31, 1998 the Company filed an Application for Extension of the Performance Incentive Plan, which would allow the plan to continue on an annual basis The Authority issued an Order on March 11, 1999, authorizing the Company to continue under a modified Incentive Plan The Incentive Plan automatically rolls over for an additional plan year on each July 1st, beginning July 1, 1998, and continues until the Incentive Plan is either (a) terminated at the end of a plan year by not less than 90 days notice by Nashville Gas to the Authority or (b) modified, amended or terminated by the Authority

The Incentive Plan consists of two mechanisms (1) the Gas Procurement Mechanism, and (2) the Capacity Management Mechanism Under the Gas Procurement Mechanism, Nashville Gas retains 50% of the savings on gas purchased below 99% of a pre-determined index Should the Company purchase gas above 101% of the same pre-determined index the Company is penalized for 50% of the excess The Capacity Management Mechanism is tied to the Company's total annual demand cost and the sharing ratio is a sliding scale, with Nashville Gas earning a larger percentage with a higher level of cost savings Interest is accrued on the outstanding monthly balance in the account using the same computation as is provided for in the Authority's Purchased Gas Adjustment Rule 1220-4-7- 03(vii) A more detailed explanation of each mechanism can be found in Attachment 1, the Company's Service Schedule No 14

III ACTUAL PLAN YEAR RESULTS

On August 30, 2002, Nashville Gas submitted a rate adjustment to recover the balance in the Incentive Plan Account as of June 30, 2002 According to the Company filing the Incentive Plan generated $2,592,577 in total incentive savings Of this amount, $1,207,493 benefited the ratepayer and $1,385,084 was retained by Nashville Gas Adding the over-recovered balance from the previous period and accrued interest on the monthly balances, resulted in an **under-recovered balance** in the account at June 30, 2002 of **$1,741,051** To recover this balance, the Company filed a PGA with the TRA Staff seeking approval to implement a $0 01042 per therm surcharge, effective November 1, 2002

The Company was able to purchase gas at less than the benchmark in only one (1) month of the twelve (12) months in the audit period Since these purchases fell within the 1% deadband, the Company could not share in any savings In the remaining eleven (11) months, the actual purchases exceeded the benchmark, resulting in an overall loss for the period In one (1) of those months, the purchases also exceeded the 1% upper limit of the deadband Therefore, the Company shared 50/50 with the ratepayers the portion of losses exceeding the 1% Total actual city gate purchases for the year averaged 100 96% of the total annual benchmark Of the $423,920 total net loss under the Gas Procurement Mechanism, the Company absorbed $13 532

The Capacity Management Mechanism generated a total of $3,016,497 in savings, of which $516,497 was due to off system sales and $2,500,000 was due to capacity release The capacity release savings resulted from payment the Company received from its Asset Manager [1] The Company's total actual demand costs for the year were $9,533,304 Therefore the Company did not participate in any savings until the savings reached $95,333 (1% of the total demand costs), as provided for in the Incentive Plan Of the total savings, the Company retained $1,398,616 and $1,617,881 benefited the ratepayers

[1] Under the Gas Asset Management agreement, Nashville Gas assigns its firm pipeline transportation (capacity), storage (excluding local LNG) and supply rights to the Asset Manager" In return for this assignment Nashville Gas receives a lump-sum payment from the asset manager for the assignment of these rights. (Taken from the Company s description of its agreement)

IV IPA FINDINGS

After reviewing the Company's filing, the Staff concluded that there were no material findings [2]

[2] Staff utilizes a sampling technique where appropriate in auditing compliance filings

V JURISDICTION OF THE TENNESSEE REGULATORY AUTHORITY

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

> The Authority 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. has 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, said power includes the right to audit

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

The Authority's Energy and Water Division is responsible for auditing those companies under the Division's jurisdiction to insure that each company is abiding by the rules and regulations of the TRA This audit was performed by Pat Murphy of the Energy and Water Division

ATTACHMENT 1

SERVICE SCHEDULE NO 14
Performance Incentive Plan

APPLICABILITY

The Performance Incentive Plan (the plan) replaces the reasonableness or prudence review of Nashville Gas Company's (Nashville or Company) gas purchasing activities overseen by the Tennessee Regulatory Authority (Authority) The plan is designed to provide incentives to Nashville in a manner that will produce rewards for its customers and its shareholders and improvements in Nashville's gas procurement 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

OVERVIEW OF STRUCTURE

Nashville's Performance Incentive Plan is comprised of two interrelated components

- Gas Procurement Incentive Mechanism
- Capacity Management Incentive Mechanism

The Gas Procurement Incentive Mechanism 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, the treatment of off-system sales and wholesale interstate sale for resale transactions, and the use of financial or private contracts in managing gas costs The net incentive benefits or costs will be shared between the Company's customers and the Company on a 50% / 50% basis

The Capacity Management Incentive Mechanism is designed to encourage Nashville to actively market off-peak unutilized transportation and storage capacity on upstream pipelines in the secondary market The net incentive benefits or costs will be shared between the Company's customers and the Company utilizing a graduated sharing formula, with sharing percentages for Nashville ranging between zero and fifty percent.

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 update each year a Three Year Supply Plan Nashville will obtain additional firm capacity and/or gas supply pursuant to such plan

GAS PROCUREMENT INCENTIVE MECHANISM

The Gas Procurement Incentive Mechanism addresses the following areas

- Commodity Costs
- Gas Supply Reservation Fees
- Off-System Sales and Sale for Resale Transactions
- Use of Financial Instruments or Other Private Contracts

COMMODITY COSTS

Each month Nashville will compare its *total city gate commodity 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

$$I = F_f(P_0K_0+P_1K_1+P_cK_c+ \quad P_\propto K_\propto)+F_oO+F_dD, \text{ where}$$

$$F_f+F_o+F_d= 1, \text{ and}$$

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 $\propto$ denotes new incremental firm services to which Nashville may

---

[1] Gas purchases under Nashville's existing supply contract on the Tetco system are 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, Nashville's gas procurement incentive mechanism 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

subscribe in the future [2] 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

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 [3]

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 maximum 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 maximum transportation commodity charges and fuel retention to the city gate

---

[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] 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

If the actual total commodity gas purchase cost in a month is within one percent of the benchmark dollar amount, there will be no incentive gains or losses If the actual total commodity gas purchase cost varies from the benchmark dollar allowance by more than one percent, the variance in excess of the one percent threshold shall be deemed incentive gains or losses under the plan Such gains or losses will be shared 50/50 between the Company and the ratepayers

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 commodity gas cost component of the Gas Procurement Incentive Mechanism 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 Gas Procurement Incentive Mechanism As to transportation costs, Nashville will impute such costs up to the transporting pipeline's maximum interruptible transportation (IT) rate The difference between the maximum IT rate and Nashville's actual transportation commodity costs will be treated as capacity release margin under the Capacity Management Incentive Mechanism After deducting the total transaction costs from the sales proceeds, any remaining margin will be credited to commodity gas costs and shared on a 50/50 basis with ratepayers

Use Of Financial Instruments Or Other Private Contracts

To the extent Nashville uses futures contracts, financial derivative products, storage swap arrangements, or other private agreements to hedge, manage or reduce gas costs, any gains or losses will flow through the commodity cost component of the Gas Procurement Incentive Mechanism

CAPACITY MANAGEMENT INCENTIVE MECHANISM

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 shall be shared by Nashville and customers according to the following sharing formula

Capacity Management Incentive cost savings as a percent of Nashville's annual transportation and storage demand costs	Sharing percentages Nashville/Customers (Percent)
Less than or equal to 1 percent	0/100
Greater than 1 percent but less than or equal to 2 percent	10/90
Greater than 2 percent but less than or equal to 3 percent	25/75
Greater than 3 percent	50/50

The sharing percentages shall be determined based on the actual demand costs incurred by Nashville (exclusive of credits for capacity release) for transportation and storage capacity during the plan year, as such costs may be adjusted due to refunds or surcharges from pipeline and storage suppliers Any incentive gains or losses resulting from adjustments to the sharing percentages caused by refunds or surcharges shall be recorded in the current Incentive Plan Account (IPA)

DETERMINATION OF SHARED SAVINGS

Each month during the term of 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.

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

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 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 such reports the Incentive Plan Account shall be deemed in compliance with the provisions of this Service Schedule

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 30 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 30 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 No filing for prior approval is required for changes in the performance measures

BEFORE THE TENNESSEE REGULATORY AUTHORITY

CERTIFIED COPY

EXCERPT OF TRANSCRIPT OF AUTHORITY CONFERENCE

Monday, September 13, 2004

APPEARANCES

For TRA Staff Ms Sharla Dillon

Reported By
Christina M Rhodes, RPR, CCR

NASHVILLE COURT REPORTERS
PO Box 290903
Nashville TN 37229 0903
(615) 885-5798 (800) 552 DEPO
Fax (615) 885 2621

(The aforementioned Authority conference came on to be heard on Monday, September 13, 2004, beginning at approximately 1 00 p m , before Chairman Pat Miller, Director Sara Kyle, Director Deborah Taylor Tate, Director Pat Miller, and Director Ron Jones The following is an excerpt of the proceedings that were had, to-wit)

MS DILLON Next we have Docket No 03-00489, Tennessee Regulatory Authority, audit of Nashville Gas Company's incentive plan account for the plan year ended June 30th, 2003

DIRECTOR KYLE I guess this was mine that I had asked about in the last meeting, and I just want to say I really appreciate Nashville Gas Company responding to concerns, and I find that your response is fair and represents a good faith attempt by you, the company, to work with our staff in a reasonable and very professional manner And I would ask that we accept all improvements to the company's IPA and amend the IPA to include the changes agreed to by the company

DIRECTOR TATE Director Kyle, are you -- you're not suggesting that we would include those weaknesses that I think you and I didn't agree

were findings? So you're not wanting to include any of those items in their IPA?

DIRECTOR KYLE That is correct

DIRECTOR TATE Okay Thank you

DIRECTOR KYLE Thank you

DIRECTOR TATE I'm glad that Director Kyle knew why this was on the docket because I wasn't exactly sure why it had been placed on the docket since at least in my comments from the previous hearing I had just thought that the company and staff were going to have some informal discussions But I, like Director Kyle, would like to thank the company and our staff and accept the responses to the weaknesses that were noted by the staff and in my mind that there is nothing further to be required of the company, notwithstanding if there are any problems in the future that certainly we can visit them at that time

And, just once again to reiterate, that the general assembly was careful not to endow the TRA with management of day-to-day operations of the utility companies that we regulate, and that the -- this particular IPA has resulted in millions of dollars in savings to the company and consumers, and we should always try to encourage these creative and good business practices which result in savings to

customers

DIRECTOR JONES There are three outstanding items that staff was not able to negotiate with the company So I was wondering how the directors or if in the motion somewhere there was some direction as to how the Authority would go forward to resolve those remaining outstanding issues?

DIRECTOR KYLE Those were the weaknesses that we were just aware of, right?

DIRECTOR JONES There were five originally, and two were resolved --

DIRECTOR KYLE That were not material

DIRECTOR JONES -- and three of them remain outstanding

DIRECTOR TATE I think in our previous discussions perhaps Director Kyle and I noted that they were weaknesses and didn't rise to the level of findings and, therefore, were allowing the staff to talk with the company about that So I think we may just have a difference of opinion regarding those particular weaknesses

DIRECTOR JONES Give me just one moment here, please

(Off the record)

DIRECTOR JONES Thank you I appreciate that

I think these were the concerns for which a notice went out, so to be consistent with my position when this docket first came before this panel I would -- my position would be that we go forward to convene a contested case to resolve these disputed issues as was indicated in the -- I guess I will stop there

(End of requested transcript)

REPORTER'S CERTIFICATE

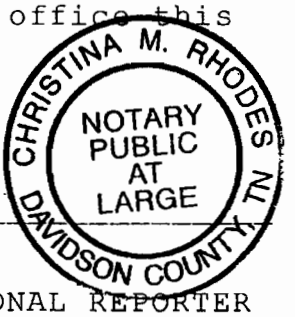
STATE OF TENNESSEE)

COUNTY OF DAVIDSON)

I, Christina M. Rhodes, Registered Professional Reporter, Certified Court Reporter, and Notary Public for the State of Tennessee at Large, hereby certify that I reported the foregoing proceedings at the time and place set forth in the caption thereof; that the proceedings were stenographically reported by me; and that the foregoing proceedings constitute a true and correct transcript of said proceedings to the best of my ability.

I FURTHER CERTIFY that I am not related to any of the parties named herein, nor their counsel, and have no interest, financial or otherwise, in the outcome or events of this action.

IN WITNESS WHEREOF, I have hereunto affixed my official signature and seal of office this 25th day of September, 2004.



CHRISTINA M. RHODES
REGISTERED PROFESSIONAL REPORTER
AND NOTARY PUBLIC FOR THE STATE
OF TENNESSEE AT LARGE

My Commission Expires
January 28, 2006

BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

October 1, 2004

IN RE:	)	
	)	
NASHVILLE GAS COMPANY, A DIVISION OF PIEDMONT NATURAL GAS COMPANY, INCENTIVE PLAN ACCOUNT (IPA) AUDIT	)	**DOCKET NO. 03-00489**

ORDER ADOPTING, IN PART, IPA COMPLIANCE AUDIT REPORT OF TENNESSEE REGULATORY AUTHORITY'S ENERGY AND WATER DIVISION

This matter came before Chairman Deborah Taylor Tate, Director Sara Kyle, and Director Ron Jones of the Tennessee Regulatory Authority (the "Authority" or "TRA"), the voting panel assigned to this docket, at a regularly scheduled Authority Conference held on April 26, 2004 for consideration of the March 29, 2004 Report (the "Report") of the Authority's Energy and Water Division (the "Staff"). The Report results from the Staff's Compliance Audit of the Incentive Plan Account ("IPA") filing of Nashville Gas Company (the "Company") for the year ended June 30, 2003. The IPA Compliance Audit was performed pursuant to Tenn. Code Ann. §§ 65-3-108, 65-4-104 and 65-4-111 and in accordance with the Performance Incentive Plan (the "Plan") previously adopted by the Company.

The Report is included in Exhibit 1, which is attached hereto and incorporated by this reference. Exhibit 1 also contains the Staff's Notice of Filing the Report and the Company's TRA Service Schedule No. 14, which outlines the Plan. The actual results of

the Compliance Audit are described in Section III of the Report. As stated in Section V of the Report, the Compliance Audit resulted in five findings by the Staff. As further stated in Section VI of the Report, the Compliance Audit identified areas of concern regarding IPA practices.

After consideration of the Report, a majority of the panel voted to approve and adopt the Report only as to Finding Nos. 3, 4 and 5 contained therein. A majority of the panel voted to direct the Company to file with the Authority a proposal to remedy the areas of concern identified in Section VI of the Report, Audit Conclusions and Recommendations.[1] These areas of concern were identified as: 1) the inclusion of the asset management fee; 2) the validity of the indexes used; 3) the reasonable level of excess capacity; 4) Staff oversight of the RFP process; and 5) the engagement of a consultant paid for by the Company to assist Staff with the audit process going forward. The panel unanimously voted not to suspend the Incentive Plan while these issues are being addressed.

IT IS THEREFORE ORDERED THAT:

1. With the exceptions noted in this Order, the March 29, 2004 Report of the Authority's Energy and Water Division regarding its Compliance Audit of the Incentive Plan Account filing of Nashville Gas Company for the year ended June 30, 2003, attached to this Order as part of Exhibit 1, is approved, adopted and incorporated in this Order as if fully rewritten herein.

[1] Director Jones did not vote with the majority in favor of accepting only Finding Nos 3, 4 and 5 Instead, he concluded that Finding Nos. 1 and 2 also are relevant and should be accepted It was Director Jones's opinion that a hearing officer should be appointed to develop an issues list with respect to the areas of concern identified by Staff and to prepare the matter for a hearing before the Panel Director Jones voted with the majority not to suspend the Incentive Plan while these issues are being addressed

2. The Company shall file with the Authority a proposal to remedy Finding Nos. 1 and 2 and the areas of concern identified in Section VI of the Report.

3. Any party aggrieved by the Authority's decision in this matter may file a Petition for Reconsideration with the Authority within fifteen (15) days from the date of this Order.

Deborah Taylor Tate, Chairman

Sara Kyle, Director

Ron Jones, Director

RECEIVED
2004 MAR 29 PM 3:06
T.R.A. DOCKET ROOM

BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE

March 29, 2004

IN RE:	)	
	)	
NASHVILLE GAS COMPANY, a Division of	)	**Docket No. 03-00489**
PIEDMONT NATURAL GAS COMPANY	)	
INCENTIVE PLAN ACCOUNT (IPA) 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 Division of the Tennessee Regulatory Authority (hereafter "Energy and Water") hereby gives notice of its filing of the Nashville Gas Company Incentive Plan Account (hereafter "IPA") Audit Report 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 Nashville Gas Company's (hereafter the "Company") IPA for the year ended June 30, 2003.

2. The Company's IPA filing was received on August 22, 2003, and the Staff completed its audit of same on March 5, 2004

3 On March 11, 2004, the Energy and Water Division issued its preliminary IPA audit findings to the Company, and on March 18, 2004, the Company responded

EXHIBIT
1

thereto. Further communications ensued regarding the preliminary findings and the Company's final response was received on March 22, 2004.

4. The preliminary IPA audit report was modified to reflect the Company's responses and a final IPA audit report (the "Report") resulted therefrom 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 Division, the Company's responses thereto and the recommendations of the Energy and Water Division in connection therewith.

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

Respectfully Submitted.

Pat Murphy
Energy and Water Division of the
Tennessee Regulatory Authority

CERTIFICATE OF SERVICE

I hereby certify that on this 29th day of March 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:

Deborah Taylor Tate
Chairman
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37243

Mr Bill R Morris
Director of Corporate Planning and Development Services
Piedmont Natural Gas Company
P.O. Box 33068
Charlotte, NC 28233

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

Pat Murphy /blp
Pat Murphy

COMPLIANCE AUDIT REPORT
OF

NASHVILLE GAS COMPANY'S
INCENTIVE PLAN ACCOUNT

Docket No. 03-00489

PREPARED BY

TENNESSEE REGULATORY AUTHORITY

ENERGY AND WATER DIVISION

MARCH 2004

EXHIBIT A

TENNESSEE REGULATORY AUTHORITY'S
COMPLIANCE AUDIT
of
NASHVILLE GAS COMPANY'S
INCENTIVE PLAN ACCOUNT
Docket No. 03-00489

TABLE OF CONTENTS

I.	INTRODUCTION	1
II.	BACKGROUND AND DESCRIPTION OF PERFORMANCE INCENTIVE PLAN	2
III.	ACTUAL PLAN YEAR RESULTS	3
IV.	AUDIT SCOPE	4
V.	INCENTIVE PLAN (IPA) FINDINGS	5
VI.	AUDIT CONCLUSIONS AND RECOMMENDATIONS	12
VII.	JURISDICTION OF TENNESSEE REGULATORY AUTHORITY	14

I. INTRODUCTION

The subject of this compliance audit is the Performance Incentive Plan (hereafter "Incentive Plan" or "IPA") of Nashville Gas Company (hereafter "Nashville Gas," "Nashville" or the "Company"), a division of Piedmont Natural Gas Company. The objective of the audit was to determine whether the balance in the Incentive Plan Account as of June 30, 2003 was calculated in conformance with the terms of the Incentive Plan and to verify that the factors utilized in the calculations were supported by appropriate source documentation. The IPA consists of two mechanisms, which are more fully described in *Section II.*

The following chart summarizes the results of the current period of the Incentive Plan, as presented in the Company's filing:

		Plan Year Ended 6/30/03
Total Actual City Gate Purchases	$	107,496,621
Total Annual Benchmark	$	108,374,618
Percentage Actual Purchases to Benchmark	$	99.19%
Total Incentive Savings (Losses) from:		
Gas Procurement	$	1,288,018
Capacity Management		2,201,654
Total Incentive Savings	$	3,489,672
Incentive Savings (Losses) Retained by Ratepayers:		
Gas Procurement	$	654,443
Capacity Management		1,235,229
Total Incentive Savings to Ratepayers	$	1,889,672
Incentive Savings (Losses) Retained by Company:		
Gas Procurement	$	633,575
Capacity Management		966,425
Total Incentive Savings to Company	$	1,600,000

Section III of this report further describes the actual results of the plan year and *Section V* details the Staff's findings.

II. BACKGROUND AND DESCRIPTION OF PERFORMANCE INCENTIVE PLAN

On May 31, 1996, the Tennessee Public Service Commission (hereafter the "TPSC"), the predecessor to the Tennessee Regulatory Authority (hereafter the "Authority" or "TRA"), issued an Order in Docket 96-00805 approving the Incentive Plan on an experimental basis for Nashville Gas The specific details of the Incentive Plan were included in Nashville Gas' Service Schedule No. 14 tariff entitled Performance Incentive Plan, which was issued on April 22, 1996, and was effective July 1, 1996. A copy of this tariff is attached to the report as Attachment 1.

The experimental period began July 1, 1996, and ended June 30, 1998. On March 31, 1998, the Company filed an Application for Extension of the Performance Incentive Plan, which would allow the plan to continue on an annual basis. The Authority issued an Order on March 11, 1999, authorizing the Company to continue under a modified Incentive Plan. The Incentive Plan automatically rolls over for an additional plan year on each July 1st, beginning July 1, 1998, and continues until the Incentive Plan is either (a) terminated at the end of a plan year by not less than 90 days notice by Nashville Gas to the Authority or (b) modified, amended or terminated by the Authority

The Incentive Plan consists of two mechanisms: (1) the Gas Procurement Mechanism, and (2) the Capacity Management Mechanism. Under the Gas Procurement Mechanism, Nashville Gas retains 50% of the savings on gas purchased below 99% of a pre-determined benchmark. Should the Company purchase gas above 101% of the same pre-determined benchmark, the Company is penalized for 50% of the excess. The Capacity Management Mechanism is tied to the Company's total annual demand cost and the sharing ratio is a sliding scale, with Nashville Gas earning a larger percentage with a higher level of cost savings. Interest is accrued on the outstanding monthly balance in the IPA account using the same computation as is provided for in the Authority's Purchased Gas Adjustment Rule 1220-4-7-.03(vii). A more detailed explanation of each mechanism can be found in Attachment 1

III. ACTUAL PLAN YEAR RESULTS

On August 22, 2003, Nashville Gas submitted its annual report to the TRA Staff, showing its calculation of the balance in the Incentive Plan Account as of June 30, 2003 According to the Company filing, the Incentive Plan generated $3,489,672 in total incentive savings. Of this amount, $1,889,672 benefited the ratepayer and $1,600,000 was retained by Nashville Gas.[1] Adding the under-recovered balance from the previous period and accrued interest on the monthly balances, and subtracting the surcharges recovered from customers, resulted in an **under-recovered balance** in the account at June 30, 2003 of **$1,438,294.** To recover this balance, the Company filed a PGA (tariff filing 03-00563) with the TRA Staff seeking approval to discontinue the previous year's surcharge and to implement a $0.00718 per therm surcharge, effective November 1, 2003.

The Company was able to purchase gas at less than the benchmark in only six (6) months of the twelve (12) months in the audit period. In three (3) of these months, purchases fell within the 1% deadband, and the Company could not share in the savings. In three (3) months, the Company shared in that portion of the savings that fell below the 1% lower limit of the deadband.[2] Purchases for the remaining six (6) months of the plan year were higher than the calculated benchmark. In two (2) of those months, the purchases also exceeded the 1% upper limit of the deadband Therefore, the Company should have shared 50/50 with the ratepayers the portion of losses exceeding the 1%. Nashville Gas reflected its share of losses for one of those months. In the other month Nashville allocated the total loss to the ratepayers.[3] Total actual city gate purchases for the year averaged 99.19% of the total annual benchmark. Of the $1,288,018 total net gain reported under the Gas Procurement Mechanism, the Company retained $633,575 and $654,443 benefited the ratepayers.

Nashville reported savings under the Capacity Management Mechanism of $2,201,654, of which $607,767 was the result of off system sales and capacity release and $1,593,887 was the payment received from its Asset Manager.[4] The Company's total actual demand costs for the year were $9,391,980. Therefore, the Company did not participate in any savings until the savings reach $93,920 (1% of the total demand costs), as provided for in the Incentive Plan. Of the total savings achieved, the Company retained $966,425 and $1,235,229 benefited the ratepayers [5]

---

[1] Nashville has a cap on overall incentive gains and losses of $1 6 million (Service Schedule No 14, Performance Incentive Plan, page 1)

[2] The deadband is the 1 % range on either side of the benchmark, in which there is no sharing of incentive gains or losses

[3] See Staff Finding #1, in Section V of this report

[4] Under the Gas Asset Management agreement, Nashville Gas assigns its firm pipeline transportation (capacity), storage (excluding local LNG) and supply rights to the "Asset Manager " In return for this assignment, Nashville Gas receives a lump-sum payment from the asset manager for the assignment of these rights (Taken from the Company's description of its agreement)

[5] The Company's share was reduced by $26,396 because of the $1 6 million cap

IV. AUDIT SCOPE

The IPA audit is a limited compliance audit of the Company's Incentive Plan account. The audit goal was to verify that the Company's calculations of incentive gains and losses were materially correct,[6] and that the Company is following all Authority orders and directives with respect to its calculation of the IPA account balance. Also included in this audit is the Company's PGA filing implementing a customer surcharge of the IPA account balance, effective November 1, 2003 [7]

To accomplish the audit goal, Staff reviewed gas supply invoices, as well as supplemental schedules and other source documentation provided by Nashville. Where needed, Staff issued data requests to the Company to obtain additional information to clarify the filing.

The Authority's Energy and Water Division is responsible for auditing those companies under the Division's jurisdiction to insure that each company is abiding by the rules and regulations of the TRA. This audit was performed by Pat Murphy of the Energy and Water Division.

[6] 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

[7] PGA/Tariff filing 03-00563

V. INCENTIVE PLAN (IPA) FINDINGS

Staff reviewed the purchasing activities of Nashville Gas to determine whether the Company correctly calculated the amount of gains and losses under its Incentive Plan. Below is a summary of the IPA account as filed by Nashville and as adjusted by Staff. A description of findings follows.

SUMMARY OF THE IPA ACCOUNT:

	Company Filing	Staff Audit Results	Difference (Findings)
IPA Account Balance at 6/30/02	$ 1,741,051	$ 1,741,051	$ 0
Plus Gas Procurement Savings	633,575	616,529	-17,046
Plus Off-System Sales Margin	195,877	195,877	0
Plus Capacity Release Savings	770,548	787,594	17,046
Subtract Customer Surcharges	1,973,027	1,973,027	0
Plus Interest on Account Balance	70,270	70,209	-61
Equals IPA Account Balance at 6/30/03	$ 1,438,294	$ 1,438,233	$ -61

SUMMARY OF FINDINGS:

				Page No.
FINDING #1	Retention of Records	$ 0	No effect	6
FINDING #2	Request for Proposal (RFP) Process	0	No effect	7
FINDING #3	Gas Procurement Savings Overstated	-17,046	Over-recovery	9
FINDING #4	Capacity Release Savings Understated	17,046	Under-recovery	10
FINDING #5	Interest on Account Balance Overstated	-61	Over-recovery	11
	Net Result	**$ -61**	**Over-recovery**	

FINDING #1:

Exception

The Company failed to retain complete records (documentation) of its RFP process in the selection of an Asset Manager.

Discussion

The asset management fee has been included in the Incentive Plan filing for sharing between Nashville and its ratepayers. Staff asked Nashville Gas (through data requests) to provide copies of the winning bids submitted by the two asset managers who ultimately were selected to manage Nashville's assets during the plan year under review. Staff also asked Nashville for a copy of the complete list of companies to which it emailed the RFP. The Company responded that the bids requested were provided verbally and that the list of RFP recipients is no longer available.

In order to audit Nashville's compliance with its Incentive Plan tariff, Staff must have access to all documentation needed to support savings claimed by the Company for sharing between the Company and its ratepayers. In the case of the Asset Management payment, the Company should be able to provide complete documentation of the RFP process [8]

Company Response

Nashville was unable to provide a copy of the winning bidder's response to the Company's RFP because the various bidders responses were provided to the Company verbally; however, Nashville did provide Staff copies of contracts that were executed by both asset managers that detail the terms under which they agreed to provide their asset management service and the compensation provided to Nashville for such service. In essence, the contracts are the written confirmation of the asset manager's response to the RFP.

Staff did ask Nashville for a copy of the complete list of the companies to which it E-Mailed the RFP. Nashville did provide a copy of the E-Mail sent out to potential asset managers. The E-mail references the RFP list kept by the Company. Nashville continuously updates its RFP list as new suppliers are used by the Company and the Company establishes a record of the potential asset manager's reliability, credit and trustworthiness. In the past, Nashville has not archived its RFP list as it is updated but will do so going forward. Nashville did send the RFP to all suppliers that were on the supplier list at the time the RFP was sent.

Staff Response

The Company states in its response, "In essence, the contracts are the written confirmation of the asset manager's response to the RFP." Staff agrees that the contract reflects

[8] TRA Rule 1220-4-5- 05 Retention of Records The NARUC publication referenced states that the minimum retention period for contracts for services, including supporting documentation, is six (6) years (pages 38-39)

the final agreement between the parties. However, without written documentation, Staff has no assurance that the winning bid was not manipulated by the parties.

FINDING #2:

Exception

The Company cannot provide a clear audit trail for its RFP process used in the selection of an Asset Manager.

Discussion

As stated in Finding #1, Staff attempted to review Nashville Gas's RFP process used in the selection of the asset managers during the audit period under review. Staff identified several issues that are cause for concern. One, the Company does not retain a copy of its email list of RFP recipients Therefore, the Company could only report to Staff the companies that responded in some manner to the RFP. Two, the RFP was not publicly published. The Company determined which companies it wanted to consider and other potentially qualified companies were not given the opportunity to bid. Three, in the cases of Dynegy and Sempra, the winning bidders, Nashville could not produce a copy of their original bids . Nashville's response to Staff's inquiry was that these bids were provided "verbally." When asked for copies of the follow-up bids from the two highest bidders, again the Company said the bids (Sempra and Entergy Koch) were provided verbally.

It is obvious from the Company's responses that there is no clear audit trail for Staff to determine whether or not preference was given to any bidder in the RFP process At the time Dynegy was selected as asset manager, Piedmont was involved in the SouthStar joint venture with Dynegy and a third party. Piedmont states, "In all of its dealings with Dynegy as a supplier or asset manager, Piedmont treated Dynegy the same as it did all other suppliers/asset managers with which it had similar experience."[9] However, based on the information provided by Piedmont, Staff cannot provide assurance to the Authority that the selection process was transparent and unbiased.

Company Response

The Company responded to the first of Staff's issues in response to finding number one.

In response to issue number two, the Company, by publicly publishing its RFP, would disclose information regarding its business, which Piedmont considers to be competitively sensitive Secondly, Piedmont typically sends its RFP's to suppliers that have established a reliable relationship with Piedmont through previous supply and/or sales arrangements or an asset manager that has acquired the same reputation through dealings with others known to Piedmont. Piedmont would only engage in an asset management arrangement with an entity that has satisfactory credit sufficient to pay damages in the event of non-performance. For the period that Dynegy was selected as the asset manager, six companies responded to Nashville's RFP, with Dynegy out bidding the next highest bidder by $1,399,000. Lastly, the Company also incurs no cost in E-mailing the RFP to suppliers that meet its reliability and credit requirements. Publicly publishing an RFP would result in considerable cost given the length

[9] Company's response to Staff's February 10, 2004 data request, question 4 (b)

and detail of an asset management RFP. The Company is also not aware of any publication or company that publicly publishes RFP's for asset management.

FINDING #3:

Exception

The Company understated its share of calculated losses under the Gas Procurement Mechanism for the month of May 2003 by $17,046. This represents a **$17,046 over-recovery** from customers.

Discussion

The Incentive Plan tariff under the Gas Procurement Mechanism provides for 50/50 sharing of any gains that occur below 99 per cent of the calculated benchmark and losses that occur above 101 percent of the same benchmark. In May 2003, the actual gas purchases were $4,452,632. The calculated benchmark for that month was $4,374,792. Since actual gas purchase costs were greater than the benchmark, a loss of $77,840 occurred, of which $34,092 was above the 101 percent ceiling. According to the terms of the tariff, Nashville should absorb $17,046 of this loss.

Company Response

Nashville agrees with the conclusions of Staff in Finding #3. The deadband was miscalculated by the Company by the amount stated by Staff.

FINDING #4:

Exception

The Company understated its share of savings under the Capacity Release Mechanism by $17,046 This represents a **$17,046 under-recovery** from customers.

Discussion

Nashville had two asset managers during the audit period. Dynegy managed Nashville's assets July through October 2002 and Sempra managed the assets April through June 2003. Sempra made a payment to Nashville in April 2003 for the use of these assets during periods of time when Nashville did not need them. The payment agreed upon in the contract dated January 28, 2003 was $1 1 million plus an additional amount depending on the ending storage balances at March 31, 2003 The total amount Nashville received was $1,593,887.

Based on the sliding scale outlined in the Capacity Management mechanism, the sharing percentage for this amount is 50/50. While the Company did calculate its share as $796,944, it reduced its share by $26,396, since its total calculated savings exceeded the $1.6 million cap[10] by this amount. Staff's total calculated savings exceeded the cap by $9,350, due to the reduction in Gas Procurement savings as shown in Finding #4. Therefore, Staff increased the Capacity Release savings by the difference between the $26,396 (Company) and $9,350 (Staff) or $17,046.

Company Response

Nashville agrees with the conclusions of Staff in Finding #4.

[10] Nashville Gas Service Schedule No 14 (Performance Incentive Plan), Overview of Structure, page 1

FINDING #5:

Exception

The Company overstated the amount of interest owed by ratepayers by $61. This represents a **$61 over-recovery** from customers.

Discussion

Staff recalculated the amount of interest on monthly account balance after making adjustments for Findings #3 and #4.

Company Response

Nashville agrees with the conclusions of Staff in Finding #5.

VI. AUDIT CONCLUSIONS AND RECOMMENDATIONS

Conclusions

Nashville Gas, except for the findings noted, has correctly calculated its share of savings under its Service Schedule No. 14, Performance Incentive Plan, for the plan year ended June 30, 2003. The net findings are immaterial to the Company's filing. However, Staff has identified issues pertaining to the Incentive Plan tariff that need to be addressed going forward The following concerns came to light during this audit

The first concern is the asset management payment. Staff now believes that it was in error in allowing the inclusion of this payment for sharing under the Incentive Plan. The Company acted in good faith by including this payment for the current year under audit, based on past decisions of this Authority Going forward, however, Staff believes this payment should be excluded from the Incentive Plan. The tariff reads:

> "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 shall be shared by Nashville and customers according to the following sharing formula."[11]

The tariff, as written, does not provide for an asset management fee. The only transactions included in the plan under the Capacity Management Incentive Mechanism are the Company's release of excess capacity and off-system sales. The engagement of an asset manager by Nashville to manage its assets is not a transaction covered by the tariff.

Also, the goal of an incentive plan is to encourage or "incent" companies to actively engage in purchase activities that generate approved gas cost savings for consumers. These activities should go beyond the normal prudent gas purchasing that is expected of a regulated utility Engaging an asset manager to perform the activities on behalf of the company, does not demonstrate additional effort on the part of the company. As described in Finding #2, Nashville's RFP process consists primarily of emails to prospective asset managers and email or verbal responses. This process takes place typically once a year.

Additionally, Nashville is not able to provide Staff with a basis for the amount of the fee paid by the asset manager The assets committed to the asset manager have been paid for by the consumer and therefore the consumer is entitled to a fair return on those assets. Logic dictates that the asset manager is making profits well in excess of the payment made to Nashville. Due to the complexity of this issue, Staff does not have the ability to determine whether or not the payments are fair and reasonable.

The second concern is the RFP process. The selection process should be transparent and fair to all parties. Failure to retain documentation, restricting RFP recipients and verbal bids that are not documented are all red flags to auditors In the current accounting environment,

[11] Service Schedule No 14, Performance Incentive Plan, page 4

following the collapse of such companies as Enron and WorldCom, financial transactions must be transparent and able to be audited. The federal government responded to these high-profile business failures with the Sarbanes-Oxley Act of 2002. This legislation has significant impact on the standards to which the accounting profession is held.

The third concern is the use of nationally published indexes in the Incentive Plan. There have been recent reports of flaws in the price indexes that are compiled by trade magazines. They include allegations of false reporting and manipulation of the indexes. The Commodity Future Trading Commission (CFTC) has imposed civil penalties against a number of energy companies. Reporting of prices is voluntary and the number of companies participating has declined As an example, the following gas companies do not report their trades to a national index service: Nashville Gas, Piedmont Natural Gas, Atmos Energy and Woodward Marketing.[12] With a smaller sample population, there is more likelihood that market prices could be manipulated.

The final concern is the level of excess capacity maintained by Nashville Gas A certain amount of excess capacity on the pipeline is necessary to guarantee delivery of gas to the firm residential customers on the projected coldest day of the year What this level reasonably needs to be has not been addressed in Nashville's Incentive Plan During the remainder of the year, excess capacity can be released to third parties to generate additional savings under the Incentive Plan that will benefit the Company's shareholders. Staff needs assurance that the level of capacity is reasonable and that the customers are not paying for capacity they don't need

Recommendations

1 The Authority should suspend the Incentive Plan[13] going forward and address the following issues:

   a. Inclusion of the Asset Management Fee
   b Validity of the indexes used
   c. Reasonable level of excess capacity

2. The Authority should instruct Staff to oversee the RFP process.

3. The Authority should engage a consultant (paid for by the Company) to assist Staff with the audit process going forward. The complexity of the issues identified in this audit requires expert knowledge of the industry.

[12] Atmos response to Staff DR dated March 1, 2004, #7 (Docket 03-00515) and Piedmont response to Staff DR dated December 17, 2003, #4 (Docket 03-00489)

[13] Service Schedule No 14, Performance Incentive Plan, page 1 states, "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 "

V. JURISDICTION OF THE TENNESSEE REGULATORY AUTHORITY

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

> The Authority 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. has 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, said power includes the right to audit.

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

ATTACHMENT 1

SERVICE SCHEDULE NO. 14
Performance Incentive Plan

APPLICABILITY

The Performance Incentive Plan (the plan) replaces the reasonableness or prudence review of Nashville Gas Company's (Nashville or Company) gas purchasing activities overseen by the Tennessee Regulatory Authority (Authority). The plan is designed to provide incentives to Nashville in a manner that will produce rewards for its customers and its shareholders and improvements in Nashville's gas procurement 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.

OVERVIEW OF STRUCTURE

Nashville's Performance Incentive Plan is comprised of two interrelated components

- Gas Procurement Incentive Mechanism
- Capacity Management Incentive Mechanism

The Gas Procurement Incentive Mechanism 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, the treatment of off-system sales and wholesale interstate sale for resale transactions, and the use of financial or private contracts in managing gas costs. The net incentive benefits or costs will be shared between the Company's customers and the Company on a 50% / 50% basis.

The Capacity Management Incentive Mechanism is designed to encourage Nashville to actively market off-peak unutilized transportation and storage capacity on upstream pipelines in the secondary market. The net incentive benefits or costs will be shared between the Company's customers and the Company utilizing a graduated sharing formula, with sharing percentages for Nashville ranging between zero and fifty percent.

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 update each year a Three Year Supply Plan. Nashville will obtain additional firm capacity and/or gas supply pursuant to such plan.

GAS PROCUREMENT INCENTIVE MECHANISM

The Gas Procurement Incentive Mechanism addresses the following areas·

- Commodity Costs
- Gas Supply Reservation Fees
- Off-System Sales and Sale for Resale Transactions
- Use of Financial Instruments or Other Private Contracts

COMMODITY COSTS

Each month Nashville will compare its *total city gate commodity 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

$$I = F_f(P_0K_0+P_1K_1+P_cK_c+...P_\propto K_\propto)+F_oO+F_dD; \text{ where}$$

$$F_f+F_o+F_d= 1; \text{ and}$$

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 $\propto$ denotes new incremental firm services to which Nashville may

---

1 Gas purchases under Nashville's existing supply contract on the Tetco system are 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, Nashville's gas procurement incentive mechanism 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.

subscribe in the future.[2] 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.

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.[3]

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 maximum 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 maximum transportation commodity charges and fuel retention to the city gate.

---

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 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

If the actual total commodity gas purchase cost in a month is within one percent of the benchmark dollar amount, there will be no incentive gains or losses. If the actual total commodity gas purchase cost varies from the benchmark dollar allowance by more than one percent, the variance in excess of the one percent threshold shall be deemed incentive gains or losses under the plan. Such gains or losses will be shared 50/50 between the Company and the ratepayers.

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 commodity gas cost component of the Gas Procurement Incentive Mechanism 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 Gas Procurement Incentive Mechanism As to transportation costs, Nashville will impute such costs up to the transporting pipeline's maximum interruptible transportation (IT) rate. The difference between the maximum IT rate and Nashville's actual transportation commodity costs will be treated as capacity release margin under the Capacity Management Incentive Mechanism. After deducting the total transaction costs from the sales proceeds, any remaining margin will be credited to commodity gas costs and shared on a 50/50 basis with ratepayers.

Use Of Financial Instruments Or Other Private Contracts

To the extent Nashville uses futures contracts, financial derivative products, storage swap arrangements, or other private agreements to hedge, manage or reduce gas costs, any gains or losses will flow through the commodity cost component of the Gas Procurement Incentive Mechanism.

CAPACITY MANAGEMENT INCENTIVE MECHANISM

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 shall be shared by Nashville and customers according to the following sharing formula:

Capacity Management Incentive cost savings as a percent of Nashville's annual transportation and storage demand costs.	Sharing percentages Nashville/Customers. (Percent)
Less than or equal to 1 percent	0/100
Greater than 1 percent but less than or equal to 2 percent	10/90
Greater than 2 percent but less than or equal to 3 percent	25/75
Greater than 3 percent	50/50

The sharing percentages shall be determined based on the actual demand costs incurred by Nashville (exclusive of credits for capacity release) for transportation and storage capacity during the plan year, as such costs may be adjusted due to refunds or surcharges from pipeline and storage suppliers. Any incentive gains or losses resulting from adjustments to the sharing percentages caused by refunds or surcharges shall be recorded in the current Incentive Plan Account (IPA).

DETERMINATION OF SHARED SAVINGS

Each month during the term of 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.

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

BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

February 4, 2005

IN RE:	)	
	)	
AUDIT OF NASHVILLE GAS COMPANY'S	)	**DOCKET NO.**
INCENTIVE PLAN ACCOUNT FOR THE PLAN	)	**03-00489**
YEAR ENDED JUNE 30, 2003	)	

ORDER ACCEPTING COMPANY'S PROPOSED IMPROVEMENTS TO COMPANY'S IPA

This matter came before Director Deborah Taylor Tate, Director Sara Kyle and Director Ron Jones of the Tennessee Regulatory Authority (the "Authority" or "TRA"), the voting panel assigned to this docket, at a regularly scheduled Authority Conference held on September 13, 2004 for consideration of proposed revisions to the Incentive Plan Account ("IPA") of Nashville Gas Company ("Company").

Background

On August 22, 2003, Company submitted an annual IPA report to the TRA for the twelve months ended June 30, 2003. The Authority's Energy and Water Division ("Staff") completed a compliance audit of the IPA report and filed its Audit Report on March 29, 2004

At a regularly scheduled Authority Conference on April 26, 2004, the panel considered the Audit Report. A majority of the panel voted to approve and adopt Finding Nos. 3, 4, and 5 of the Audit Report, as reflected in the order dated October 1, 2004 The majority also voted to direct Company to file proposals to remedy the weaknesses in IPA practices, which were identified as Finding Nos. 1 and 2 and as the areas of concern in Section VI of the Audit Report.

On May 5 and May 17, 2004, the TRA issued Notices of Filing memorializing the panel's directive to Company to submit proposals On June 17, 2004, Company filed a letter including the requested proposals. Staff submitted a *Staff Reply to Nashville Gas Company's Proposals* ("*Staff Reply*") on August 5, 2004. On August 13, 2004, Company filed a response setting forth its disagreement with Staff's position on several issues and providing a summary of Company's position on the remaining disputed issues.

Proposed Improvements to IPA Processes

As reflected in Company's submissions and the *Staff Reply,* Company and Staff reached agreement on several issues related to Finding Nos. 1 and 2 and the areas of concern identified in the Audit Report. They concluded that the IPA processes could be improved, and Company proposed modifications to the way in which it executes its Incentive Plan. Company and Staff proposed that the IPA processes be clarified and improved as follows for Company's ongoing and future execution of the Incentive Plan:

1 Asset Management Request for Proposal (RFP) Process: Company will:

   a implement an archival process to maintain lists of RFP recipients for audit purposes.

   b. require that all Asset Management bids are documented in writing, either before or after they are made, to ensure that Staff has a complete audit trail of the RFP bid process.

   c. publish an annual notice in Gas Daily, or a similar national industry publication, informing the public of the fact that Nashville Gas periodically engages in Asset Management transactions for its Tennessee capacity, pursuant to an RFP process, and providing notice of whom to contact at Company to seek participation in that process.

2. Records Retention: Company will comply with NARUC document retention standards.

3. Wholesale Price Index: Company will continue reporting its prices to Gas Daily and Inside FERC, with sufficient documentation to allow verification by Staff during future audits.

4 Reserve Capacity Margin: Company will share with Staff the information utilized by Company to determine its current and future needs in conjunction with its annual three-year supply plan review process.

Remaining Unresolved Issues

Company and Staff were not able to reach agreement on three other pending issues· whether Staff should have additional oversight of Company's RFP bid process, whether the asset management fees should be included in Company's Incentive Plan tariff, and whether Staff should be permitted to utilize an outside consultant to assist in future IPA audits, the costs to be recovered through Company's Actual Cost Adjustment account

September 13, 2004 Authority Conference

At the September 13, 2004 Authority Conference, the panel voted to accept the proposed improvements and amend Company's IPA to include the changes agreed to by Company and Staff. The majority declined to make a determination regarding the remaining unresolved issues [1]

IT IS THEREFORE ORDERED THAT:

Company shall modify the way it executes its IPA in accordance with the proposed improvements to the IPA processes set forth herein.

Deborah Taylor Tate, Director

Sara Kyle, Director

Ron Jones, Director

[1] Director Jones did not vote with the majority Although he agrees that the Incentive Plan Account should be amended to reflect agreements between Nashville Gas Company and the Authority Audit Staff, consistent with his position expressed during the April 26, 2004 Authority Conference, he explained that the three unresolved issues related to Audit Staff oversight of the RFP process, the inclusion of asset management fees in the Incentive Plan Account, and payment for the use of a consultant should be considered further in a contested case

BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

September 6, 2005

IN RE:	)	
	)	
AUDIT OF NASHVILLE GAS COMPANY'S	)	DOCKET NO.
INCENTIVE PLAN ACCOUNT FOR THE PLAN	)	04-00290
YEAR ENDED JUNE 30, 2004	)	

ORDER ADOPTING INCENTIVE PLAN ACCOUNT FILING OF NASHVILLE GAS COMPANY FOR YEAR ENDED JUNE 30, 2004

This matter came before Chairman Pat Miller, Director Sara Kyle and Director Ron Jones and of Tennessee Regulatory Authority (the "Authority" or "TRA"), the voting panel assigned to this Docket, at a regularly scheduled Authority Conference held on June 13, 2005 for consideration of the September 1, 2004 Incentive Plan Account filing (the "IPA filing") of Nashville Gas Company ("Nashville Gas" or the "Company") for the year ended June 30, 2004. The Compliance Audit Report ("Report") by TRA Utilities Division ("Audit Staff") regarding the IPA filing is included as Exhibit A, which is attached hereto and incorporated into this document as if fully rewritten herein.

On September 1, 2004, Nashville Gas made its IPA filing for the year ended June 30, 2004. On March 4, 2005, the Audit Staff filed its Report of the Company's IPA filing. Audit Staff made two findings based on its audit. The first finding was that Nashville Gas over-stated the amount available for sharing between the Company and its ratepayers under the Capacity Release Incentive Mechanism, because the Company included $1,987,437 in asset management fees. Thus, Audit Staff found that the Company's share of "savings" was over-stated by $600,400. The inclusion of asset management fees into the Company's Incentive Plan Account

("IPA") was also an issue in the Company's IPA filing for the year ended June 30, 2003.[1] Audit Staff's second finding was that Nashville Gas over-stated the amount of interest owed by ratepayers by $20,002, which represents an over-recovery from customers. Audit Staff explained that the second finding was a result of the first finding. Based on the foregoing, Audit Staff concluded that, except for the findings noted, the Company had correctly calculated its share of savings under its IPA.

Audit Staff issued two recommendations with regard to the Company's IPA filing. First, Audit Staff recommended that the Authority suspend the Company's Incentive Plan ("Plan") pending the outcome of a separate docket opened to address the inclusion of asset management fees in the Company's tariff. Second, Audit Staff recommended that the Authority consider engaging a consultant (paid for by the Company) to assist Audit Staff with the audit process going forward.

On April 19, 2005, the Company filed *Nashville Gas Company's Response to the Utilities Division's Incentive Plan Account Audit Report* ("*Response*"). In its *Response*, the Company urged the Authority to authorize it to continue to operate under its approved Plan, including the incorporation of fees from asset management arrangements in the IPA. The Company argued that inclusion of those fees is authorized by the plain language of the Company's Plan and inclusion of such fees is supported by a number of prior recommendations by Audit Staff and rulings by the Authority. Additionally, the Company asserted that the Audit Staff's Report was based on several misperceptions of the character of asset management arrangements and the proper scope of the Audit Staff's audit authority.[2] The Company argued that the Audit Staff was

[1] *See In re Audit of Nashville Gas Company's Incentive Plan Account for the Plan Year Ended June 30, 2003*, Docket No 03-00489, *Notice of Filing by Energy and Water Division of the Tennessee Regulatory Authority*, p 13 (March 29, 2004)

[2] *Nashville Gas Company's Response to the Utilities Division's Incentive Plan Account Report*, p 10 (April 19, 2005)

inappropriately questioning the provisions within the Plan, rather than limiting the audit to testing compliance with those provisions.

On May 18, 2005, the Audit Staff filed the *Staff Reply to Nashville Gas Company's Response to the Utility Division's Incentive Plan Account Audit Report* ("*Staff Reply*"). In the *Staff Reply,* Audit Staff addressed the Company's arguments contained in the *Response.* The Audit Staff argued that, even if inclusion of asset management fees into the Company's IPA is authorized by the plain language of the Company's Plan, the Authority has reserved the right to "modify, extend or terminate" the Company's Plan at any time it deems necessary.[3] Additionally, the Audit Staff maintained that the objective of the audit is to determine if the balance in the Company's IPA is in conformance with the Company's Plan. Audit Staff asserted that this objective includes determining whether a transaction should be covered under the terms of the Plan.

On May 26, 2005, the Company filed *Nashville Gas Company's Response to the Staff's Reply.* Nashville Gas filed this document to address a new assertion contained in the *Staff's Reply.* The new assertion was that the maximum ratepayer/shareholder sharing ratio applicable to capacity management savings under the Company's approved Plan is not in conformance with capacity release sharing ratios in effect in the other two states where Piedmont Natural Gas Company, Inc.[4] provides regulated natural gas service. The Company stated that, while Audit Staff's assertion is correct, the gas cost recovery mechanisms in those two states justify the differential.

On May 31, 2005, Audit Staff filed the *Staff Reply to Nashville Gas Company's Response to the Staff's Reply.* There, Audit Staff asserted that, in addressing the discrepancy between the maximum ratepayer/shareholder sharing ratios in Tennessee and other states, they were merely

[3] Nashville Gas Company, Service Schedule No 316, *Performance Incentive Plan,* p 1
[4] Nashville Gas Company is a division of Piedmont Natural Gas Company

pointing out an omission made by the Company when referencing its asset management agreements in other states as support for including the agreement in Tennessee under the current Plan terms.[5]

At a regularly scheduled Authority Conference held on June 13, 2005 the panel considered the Report. The Directors noted that, in TRA Docket No. 03-00489, the panel voted to allow the continuation of the Company's IPA while both the Audit Staff and the Company worked together to resolve the issue regarding inclusion of asset management fees in the IPA.[6] Based on that ruling and the fact that Audit Staff and the Company have been unable to reach an agreement with regard to that issue, the panel determined that it would be improper to disallow the inclusion of asset management fees in this IPA filing. Thus, the panel voted unanimously to approve the Company's IPA filing in its entirety. However, the panel also voted unanimously to open a separate docket to resolve the issue regarding the inclusion of the asset management fees into the Company's IPA, including the structure of shared savings. Further, the panel ordered that the issue regarding whether the Authority should consider engaging a consultant (paid for by the Company) to assist Staff with the audit process be deferred until determinations are made regarding the inclusion of the asset management fee into the Company's IPA.

IT IS THEREFORE ORDERED THAT:

1. The September 1, 2004 Incentive Plan Account filing by Nashville Gas Company for the year ended June 30, 2004 is approved and adopted and is incorporated in this Order as if fully rewritten herein.

---

[5] *Staff Reply to Nashville Gas Company's Response to the Staff's Reply*, pp 1-2 (May 31, 2005)

[6] *See In re Audit of Nashville Gas Company's Incentive Plan Account for the Plan Year Ended June 30, 2003.* TRA Docket No 03-00489, *See Order Accepting Company's Proposed Improvements to Company's IPA* (February 4, 2005), *Order Adopting, In Part, IPA Compliance Audit Report of Tennessee Regulatory Authority's Energy and Water Division* (October 1, 2004)

2. A new docket will be opened to resolve the issue regarding the inclusion of the asset management fees into Nashville Gas Company's Incentive Plan Account.

3. The issue regarding whether the Authority should consider engaging a consultant (paid for by the Company) to assist Staff with the audit process is deferred until determinations are made regarding the inclusion of the asset management fee into Nashville Gas Company's Incentive Plan Account.

4. Any party aggrieved by the Authority's decision in this matter may file a Petition for Reconsideration with the Authority within fifteen (15) days from the date of this Order.

Pat Miller, Chairman

Sara Kyle, Director

Ron Jones, Director

NASHVILLE GAS COMPANY
REVIEW OF NASHVILLE GAS COMPANY'S IPA
RELATING TO ASSET MANAGEMENT FEES
DOCKET NO. 05-00165
CONSUMER ADVOCATE AND PROTECTION DIVISION
SECOND SET OF DISCOVERY REQUESTS
January 3, 2006

DISCOVERY REQUEST NO. 4

In response to Discovery Request No. 10 of the Consumer Advocate's First Set of Discovery Requests, Nashville Gas Company stated that "[o]ther reasons justifying the inclusions of the asset management fees are set forth in the proceedings in which the asset management fees were approved." Please identify all orders entered by the Tennessee Public Service Commission and/or the Tennessee Regulatory Authority, including the particular language contained therein, that approve asset management fees for inclusion in the performance incentive plan.

RESPONSE: See response to Discovery Request No. 3.

NASHVILLE GAS COMPANY
REVIEW OF NASHVILLE GAS COMPANY'S IPA
RELATING TO ASSET MANAGEMENT FEES
DOCKET NO. 05-00165
CONSUMER ADVOCATE AND PROTECTION DIVISION
SECOND SET OF DISCOVERY REQUESTS
January 3, 2006

DISCOVERY REQUEST NO. 5

In response to Discovery Request No. 13 of the Consumer Advocate's First Set of Discovery Requests, Nashville Gas Company stated that "[t]here is also an additional level of risk to the Company associated with the Asset Manager's level of performance." Please identify and explain the additional level of risk to the Company associated with the Asset Manager's level of performance.

RESPONSE: As is the case with any contractual arrangement, there is risk associated with the performance or non-performance of counter-party obligations set forth in the contract. The additional level of risk identified by Nashville Gas Company in response to Discovery Request No. 13 of the Consumer Advocate's First Set of Discovery Requests is the performance risk of asset managers under the asset management agreements entered into by Nashville Gas Company.

NASHVILLE GAS COMPANY
REVIEW OF NASHVILLE GAS COMPANY'S IPA
RELATING TO ASSET MANAGEMENT FEES
DOCKET NO. 05-00165
CONSUMER ADVOCATE AND PROTECTION DIVISION
SECOND SET OF DISCOVERY REQUESTS
January 3, 2006

DISCOVERY REOUEST NO. 6

Without referencing or discussing the risks of monetary loss associated with commodity side transactions under the performance incentive plan, please identify and explain each risk of monetary loss borne by Nashville Gas Company, if any, that is associated solely with capacity release transactions between Nashville Gas Company and its asset manager.

RESPONSE: To the extent that Nashville Gas Company (releasing shipper) releases capacity to an asset manager (replacement shipper), and the replacement shipper does not pay the pipeline for the demand cost agreed upon in the release, the releasing shipper (Nashville Gas Company) would be responsible for all demand charges for the released capacity.

NASHVILLE GAS COMPANY
REVIEW OF NASHVILLE GAS COMPANY'S IPA
RELATING TO ASSET MANAGEMENT FEES
DOCKET NO. 05-00165
CONSUMER ADVOCATE AND PROTECTION DIVISION
SECOND SET OF DISCOVERY REQUESTS
January 3, 2006

DISCOVERY REQUEST NO. 7

In response to Discovery Request No. 17 of the Consumer Advocate's First Set of Discovery Requests, Nashville Gas Company identified total amounts expended for "Area Code 3400" for the twelve months ended June 30, 2003, June 30, 2004, and June 30, 2005. Please identify specifically the amount of money expended by Nashville Gas Company for salaries and other expenses that is attributable solely to implementing, managing and monitoring the capacity management portion of the performance incentive plan for these plan years. Please exclude all expenses attributable to the commodity side of the performance incentive plan or any other unrelated activity. If the totals expended for Area Code 3400 include amounts that are not attributable solely to the capacity management portion of the performance incentive plan, please exclude such amounts from your response.

RESPONSE: Piedmont does not maintain accounting records in a manner that will provide the information requested. The amounts provided in response to Discovery Request No. 17 of the Consumer Advocate's First Set of Discovery Requests for expenses charged to Area Code 3400 were on a total company basis. These amounts are allocated to Tennessee on the basis of the net plant percentage as approved in Nashville Gas' last litigated rate case in Docket No. 96-00977. Aside from this allocation, no identification of these expenses "that is attributable solely to implementing, managing and monitoring the capacity management portion of the performance incentive plan" for the years requested, is available.

NASHVILLE GAS COMPANY
REVIEW OF NASHVILLE GAS COMPANY'S IPA
RELATING TO ASSET MANAGEMENT FEES
DOCKET NO. 05-00165
CONSUMER ADVOCATE AND PROTECTION DIVISION
SECOND SET OF DISCOVERY REQUESTS
January 3, 2006

DISCOVERY REQUEST NO. 8

Identify the source and/or reporting entity of the "monthly index price" and the "daily index price" referenced in Nashville Gas Company's response to Discovery Request No. 22 of the Consumer Advocate's First Set of Discovery Requests. Explain how the "monthly index price" and the "daily index price" are calculated for a supply location. -

RESPONSE: Please refer to the attached Methodology and Specifications Guide for North American Natural Gas provided by Platts, which publishes both the monthly (Inside FERC's Gas Market Report) and daily (Gas Daily) indices utilized by Nashville Gas Company in compliance with the incentive plan.

platts

Methodology and Specifications Guide

North American Natural Gas

Introduction	**2**
How this methodology statement is organized	2
Part I: Data quality and submission	**2**
What to report	2
How to report	3
Part II: Security and confidentiality	**4**
Part III: Calculating indexes and making assessments	**4**
Daily market	5
Monthly market	5
Forwards market	9
Outliers	11
Part IV: Verification and corrections	**11**
Part V: Platts editorial standards	**12**
Appendix: Definitions of trading locations	

LATEST UPDATE: AUGUST 2004

[illegible]

This statement of methodology for Platts' North American natural gas price surveys incorporates price reporting standards that went into effect July 1, 2003, as well as other changes in the way Platts presents information on its price indexes. The statement also takes into consideration standards for price reporting stated in the Federal Energy Regulatory Commission's July 24, 2003, policy statement on U.S. gas and electricity markets (PL03-3).

While this methodology reflects core principles that long have provided the foundation for Platts' price reporting in North American gas markets, it will continue to evolve as those markets change.

If you have questions concerning reporting to Platts or our statement of methodology, or would like to discuss any gas price reporting issues, please call or e-mail one of our editors: Brian Jordan, editorial director for North American natural gas and electricity markets, 202-383-2181 (brian_jordan@platts.com); Tom Castleman, daily markets editor, 713-658-3263 (tom_castleman@platts.com); Kelley Doolan, monthly markets editor, 202-383-2145 (kelley_doolan@platts.com); and Alan Lammey, forwards markets editor, 713-658-3265 (alan_lammey@platts.com).

Platts also has a compliance staff independent of the editorial group. For more information, contact compliance director Nina Antony, 212-904-3609 (nina_antony@platts.com).

HOW THIS METHODOLOGY STATEMENT IS ORGANIZED

This description of methodology for daily natural gas indexes in North America is divided into five sections (I-V) that parallel the entire process of producing the benchmarks. A separate appendix is a list of definitions of the trading locations for which Platts publishes daily, monthly and/or forward indexes and assessments.

- Part I describes what data goes into Platts' natural gas indexes and assessments, including details on what market participants are expected to submit, and the process for submitting data as well as the components of published data.
- Part II describes the security and confidentiality practices that Platts uses in handling and treating data.
- Part III is a detailed account of what Platts does with the data to formulate its daily, monthly and forward natural gas indexes and assessments, and includes descriptions of the statistical and editorial tools Platts uses to convert raw data into indexes and assessments. This section also describes the process for screening outliers.
- Part IV lays out the verification and correction process for revising published prices and the criteria Platts uses to determine when it publishes a correction.
- Part V explains the process for verifying that published prices comply with Platts' standards.

[illegible]

Platts' standards for data quality are at the heart of its process to produce reliable indexes and assessments and are designed to ensure that market participants provide complete and accurate information.

To that end, Platts' standards call for formalized reporting relationships with market participants in which data is submitted from a central point in the mid- or back office (a segment of the reporting entity that does not have a commercial interest in the reported prices). The reporting entity must certify that it is making a good-faith effort to report completely and accurately and will have staff assigned to respond to questions concerning data submittals. The entity also is obligated to make reasonable efforts to inform Platts in the case of any errors or omissions. If the entity so chooses, Platts will sign a standard confidentiality agreement protecting the submitted data. A copy of the standard agreement is available upon request.

Price indexes are based on original reporting and do not incorporate publicly available price surveys. Prices are collected firsthand by Platts from actual buyers and sellers.

Data submitted to Platts must be detailed, transaction-level data. Below is a summary of what should be reported. (A Data Submission Guide that explains what to report for Platts natural gas indexes and assessments is also available upon request).

WHAT TO REPORT

- For the daily price survey, report each business day all fixed-price physical deals completed prior to the NAESB nomination deadline (11:30 a.m. Central Prevailing Time) for next-day delivery in North America. Transactions done on Friday usually are for flow on Saturday, Sunday and Monday inclusive. Trading patterns may vary in the case of holidays or the end of a month that occurs on a weekend.
- For the monthly price survey, bidweek is defined as the last five business days of each month. For each day of bidweek, report all fixed-price physical deals negotiated that day for delivery throughout the next month. Also report all physical basis deals in which the basis value is negotiated on one of the first three days of bidweek and the price is

set by the final closing value of the near-month NYMEX futures contract plus or minus the negotiated basis. Platts' current policy is to use physical basis deals only for points east of the Rocky Mountains.

- For the forwards price survey, report each business day all transactions completed that day for the defined forward periods. Due to the different nature of the forwards market, Platts also collects bid/ask spreads for use in assessments.
- Platts expects reported data to include all transactions done by the entity at all locations reported by Platts, not a selective subset of those locations.
- Report prices for deliveries into the pipeline, on a dry basis, and specify the point of delivery. For locations other than delivered-to-pipeline points, see point descriptions in the appendix. Platts also requests reports for points that it does not currently report. For those locations, use either the point's common name or the meter designation. If sufficient trading develops at a location and is sustained, Platts would consider adding that pricing point to its list of reported points. In addition, information on deals at those points adds to Platts' understanding of the market.
- List all transactions individually. In addition to the delivery point, specify the price ($/MMBtu or, inside Canada, C$/gigajoule), volume (MMBtu/day or gigajoule/day), source (company name), buy/sell indicator, trade date, start flow date, end flow date, counterparty name and intermediary name (broker or trading platform). Because the gas industry currently lacks consensus on the issue of counterparties, Platts for now will accept and use data that does not include counterparty information. However, Platts firmly believes that counterparty data is the best single way to verify and quantify reported transactions, and Platts encourages market participants that are not already reporting counterparties to initiate changes to agreements that may currently prevent them from doing so. Platts reserves its right to refuse in the future to use data that lacks counterparties.
- For the daily and monthly price surveys, do not report financial deals.
- Platts requests daily time stamps where possible, because they provide Platts with a clearer picture of the movement of prices through the trading period and provide another tool for evaluating the quality of the data. However, Platts understands that many market participants are currently unable to provide time stamps because deals are entered into trading systems in bulk after trading is completed rather than as each transaction occurs.
- In the event that a data provider has no trade information to submit, a blank notification stating that fact should be sent in.

HOW TO REPORT

- Reports should be compiled and sent to Platts by a noncommercial department of the company. Even in the case of small entities, FERC's standards state that prices should be provided by individuals "separate from trading activities" such as accounting or bookkeeping staff. Platts values the participation in its surveys of smaller market participants that may not have formal back-office or risk-management groups and will discuss with them ways to meet Platts and FERC standards for assuring the quality of data provided to Platts.
- Platts should be provided at least two contacts (with phone numbers and e-mail addresses for both) who are responsible for submissions and can answer questions about reported transactions.
- Reports should be sent electronically in either Excel or CSV (comma separated values) formats. Platts can provide reporting entities with a sample Excel sheet showing the preferred format and the information needed for each transaction.
- While electronic submission of data is the standard, Platts will accept faxed reports in circumstances where e-mail transmission fails or is unavailable. Reporting entities should be prepared in the rare cases of e-mail malfunctions to fax submissions to Platts. The fax numbers are 713-658-3290 for the daily price survey and 202-383-2109 for the monthly price survey.
- Because of the different nature of the gas forwards price assessments (see Part III), forwards prices may be collected by telephone from market participants.
- Reports for the daily price survey should be sent to gasprice_daily@platts.com each day by 3:00 p.m. CPT. Reports for the monthly price survey should be sent to gasprice_monthly@platts.com by 6:00 p.m. EPT on each of the first four days of bidweek and by 2 p.m. EPT on the final day of bidweek.
- If reporting entities are unable to compile the needed information by the Platts deadline on a given day, they should notify Platts editors of the delay and the length of the delay by either e-mail or phone. This will help Platts editors decide whether to wait for the submission.

Platts has a long history of ensuring the security and confidentiality of price data, through both its information technology systems and its policies on access to the data. Following is a description of Platts' processes.

- Price data is e-mailed to specific Platts e-mail addresses. E-mails to those addresses enter a secure network protected by firewalls and are accessible only by market editors. Encryption is available upon request of the reporting company. In the case of faxes, documents are stored and saved in compliance with Platts' record retention policies.
- Data is entered into a proprietary software system designed specifically to store and analyze trade data or into customized Excel spreadsheets accessible only by designated market editors.
- Data is stored in a secure network, and under internal procedures audited and enforced by the Platts compliance staff, is kept for a period of at least three years.
- The compliance audit checks for adherence to the parameters set forth in the Platts Compliance Plan, which seeks to ensure that accurate records are kept, in order to document a market reporter's research. All North American natural gas market reporters undergo audits at least twice a year.
- Data is protected under formal confidentiality agreements signed by data providers and Platts.
- Price data is used only for constructing indexes and assessments. Platts has a strict internal policy, reflected in its confidentiality agreements, of never using individual price data for news reporting purposes. Nor do Platts news reporters have access to individual entities' transaction reports. Data aggregated from all reporting sources — *e.g.*, changes in prices and trading volumes over time — may be used as the basis for news stories.

For North American gas, Platts publishes prices in three discrete markets: the day-ahead, monthly and forwards markets. Prices are published in several ways, ranging from a daily data feed to a biweekly newsletter. Platts' prices are available to any party who subscribes to the publication or news service in which those prices are published. Platts' prices are copyrighted and may not be distributed or used for commercial gain by any third party without an explicit agreement with Platts.

For the daily market, Platts publishes three price components: the midpoint, the common range and the absolute range. The daily midpoint is the average of the low and high of the common range, commonly called the GDA (*Gas Daily* average), which is always within a half-cent of the volume-weighted average of all the deals reported to Platts for each point, excepting any outliers that are not used. The absolute range shows the absolute low and high of deals reported, excluding outliers that are not used.

Midpoints for points for which no new data is received are not carried over from the previous day; when no data is received, the survey shows only dashes in the columns for midpoint, absolute and common ranges, and volumes. The daily survey relies solely on a volume-weighted average of reported transactions; no assessments using other factors are included.

Platts for years has published electronically the daily volume at each reported point and since May 2003 has published those volumes in the newsletter version of *Gas Daily*. Beginning Aug. 1, 2004, Platts also is publishing daily the number of transactions at each point to increase transparency on the amount of trading activity.

A monthly average of the daily midpoints for each location is published in the next month's *Gas Daily Price Guide*, a monthly supplement to *Gas Daily*.

For the monthly market, Platts publishes a range of reported prices, excluding outliers, and either an index or an assessment, as explained below. Prices are published on the first business day of the month in which the gas will flow.

Beginning in July 2003, Platts added a three-tier system grouping points in its monthly survey by the reported volumes and number of trades. The top tier includes points with volumes of at least 100,000 MMBtu/day and at least 10 trades; the middle tier includes points with volumes of 25,000 to 99,999 MMBtu/day and at least five trades; and the third includes points with volumes below 25,000 MMBtu/day and/or fewer than five trades.

For the top two tiers, Platts relies on straightforward quantitative analysis of the data in calculating indexes. For the third tier, where few or, in some cases, no transactions are being done, Platts may perform assessments. Those prices are clearly marked with an asterisk (*) to make clear an assessment process has been used. If insufficient market information is available at a point, Platts does not publish a price (N.A.).

Beginning Aug. 1, 2004, Platts is publishing volumes and the number of transactions for points in tiers 1 and 2. Volumes and transactions are not published for tier 3 points because those points by definition are locations with marginal levels of trading reported. In addition, publishing details for those bottom-tier monthly locations could have a detrimental effect on survey participation because companies that are known to transact at these less liquid points may fear they are exposing their positions. In providing this additional transparency, Platts is not

attempting to define which points are liquid and which are not. By informing users of the relative depth of trading at points, Platts is enabling them to form their own opinions about liquidity.

For the daily forwards market, Platts publishes a daily range of assessed prices. Transactions are currently too few to rely solely upon volume-weighted averages of actual deals.

DAILY MARKET

A formula is used to calculate the common range. In most markets, the formula establishes the common range at 50% of the absolute range and builds the range around the volume-weighted average price (the midpoint). Beginning Aug. 1, 2004, in the case of a point where a single price is reported and therefore there is no absolute range, a common range is not constructed. A volume-weighted price located more toward either end of the range, however, may narrow the range further (as explained below).

The common range represents the same ranges published in the daily price survey prior to adoption of the current format on July 1, 1996. There is no minimum number of trades or volume required to establish a daily price. If no prices are collected for a point, no price will be reported for that day.

An example of a common range calculation: On a given day, the lowest price, or absolute low, reported at a point was $5.70 and the high was $5.92. The actual volume-weighted average was $5.843. The calculation follows this sequence:

— The volume-weighted average is rounded to the nearest half-cent, so $5.843 becomes $5.845 (the midpoint).

— The width of the absolute range is calculated, so $5.92-$5.70= .22; that figure is divided by 4, which produces an increment of .055.

— That increment is subtracted and added to the rounded volume-weighted average to produce a common low and high; so, $5.845-.055= $5.79, and $5.845+.055= $5.90.

This procedure can be further refined by Platts editors to prevent calculations that might place the common low or high below or above the absolute range.

MONTHLY MARKET

The current format for the monthly survey has been in place since March 1986. Platts has reported monthly index prices since January 1988. Beginning in October 2002, when liquidity in the monthly market dropped dramatically, Platts adopted an assessment methodology for points too thinly traded to permit use of the traditional index, which is a single benchmark price designed to represent a central or average value for dealmaking during the bidweek period.

A number of data sorts, statistical calculations and tests are performed on the collected transactional data. These routinely include an analysis of the quality and completeness of each pricing point's survey sample, the identification and consideration of anomalous or outlying deals, a comparison of volume-weighted average prices for each data submitter and the calculation of a number of overall measures of central tendency, including the volume-weighted average, the median, the simple average, the mode and the midpoint.

Other statistical and analytical tools are also used to examine the reported data, including identification and consideration of the price series' skew, its standard deviation, distribution, the relationship between series data and that of related trading points, and the quality or track record of the survey participants reporting prices at the point.

In the absence of sufficient trade data to calculate a representative monthly index, Platts will examine other market information to determine whether it can publish an assessment. If that is not possible, Platts will publish no index price for the month, designated as "N.A." Except in the case of corrections (see Part IV), Platts does not revise prices after the fact — once an N.A. is published for a month, no price will be published even if additional information is subsequently provided.

The adoption of new standards for data providers in July 2003 has enabled Platts to place more confidence in the reliability of data it receives. To derive the index, Platts editors use volume-weighted averages as the foundation. At pricing points with robust dealmaking and a generally normal distribution curve, the index is the simple volume-weighted average (*see Bidweek Example 1, p. 6-7*). This applies to the large majority of bidweek indexes.

Because survey samples of reported trading at any individual pricing point can vary under different market conditions, the volume-weighted average alone is not always an adequate indicator of average dealmaking over the five-day bidweek period. Survey samples can vary with participation levels and the completeness of data elements reported. In a thinner and/or very volatile market, a single party with one or two large-volume deals reported at an extreme end of the market's price range can significantly move a volume-weighted average away from the average value at which most parties traded. In these situations, Platts editors also consider the median of the price series, which tends to better represent the centerpoint of trading as opposed to volume.

At points where trading is robust and the distribution of reported transactions is generally normal, the volume-weighted average and the median are usually aligned with each other. When the two measures significantly diverge, an analysis of the data set typically is performed to determine why. If the analysis finds that the characteristics of the survey sample are creating an

Bidweek Example 1*

Bidweek= 4/24, 4/25, 4/28, 4/29, 4/30

	price	vol	date	source
One discarded trade (timing outside of bidweek)	$4.43	20	4/23	Co. J

ANALYSIS: This data is from a relatively volatile bidweek when trading at this point ranged 33 cents and the NYMEX near-month contract ranged 39 cents on the final three trading days. Despite the data series' 1.34 skew to the high side, the volume-weighted average was used as the index. The sample was deep and represented observed basis relationships to NYMEX and related physical trading points during bidweek. Though one deal fell more than three standard deviations to the high side, it was reported with counterparty by a certified and otherwise compliant price source, and was within the range of reported basis plus the NYMEX high price for the period. Additionally, its removal has no significant impact on the volume-weighted average.

Published Range and Index		
Low	High	Index
$4.15	$4.48	$4.28

Frequency of occurrence		
price	# trades @ price	
4.15	1	O
4.2	2	OO
4.21	2	OO
4.22	10	OOOOOOOOOO
4.225	4	OOOO
4.23	5	OOOOO
4.24	9	OOOOOOOOO
4.25	20	OOOOOOOOOOOOOOOOOOOO
4.255	3	OOO
4.26	14	OOOOOOOOOOOOOO
4.265	1	O
4.27	3	OOO
4.28	1	O
4.29	5	OOOOO
4.3	10	OOOOOOOOOO
4.305	2	OO
4.31	3	OOO
4.32	4	OOOO
4.34	4	OOOO
4.36	1	O
4.37	2	OO
4.4	2	OO
4.41	2	OO
4.42	2	OO
4.43	1	O
4.45	3	OOO
4.48	1	O

$4.269	Avg. of median and vol. weighted avg.		
663	total volume (000)	**NYMEX close**	**$4.053**
117	price count	NYMEX low	$3.901
$4.278	**vol. weighted avg.**	NYMEX high	$4.290
$4.279	simple average		
$4.260	**median**		
$4.250	mode	Standard dev.	$0.06
$4.315	midpoint	3 STDEV +	$4.464
0.330	low/high spread	2 STDEV +	$4.402
0.225	NYMEX basis	2 STDEV -	$4.155
1.34	Skew	3 STDEV -	$4.093

* Example data based on actual survey, modified to protect participants' identities, other confidential information.

Bidweek Example 1 (continued from previous page)

REPORTED DEAL DATA

Price	Volume	Date	Source	Co.'s vol.-weighted avg.
$4.450	5	4/24	**Co. A**	**$4.29@195k**
$4.430	5	4/24	Co. A	
$4.420	5	4/24	Co. A	
$4.410	5	4/24	Co. A	
$4.370	5	4/24	Co. A	
$4.340	10	4/28	Co. A	
$4.340	5	4/28	Co. A	
$4.320	5	4/28	Co. A	
$4.320	5	4/28	Co. A	
$4.310	5	4/28	Co. A	
$4.310	5	4/28	Co. A	
$4.305	5	4/28	Co. A	
$4.300	5	4/28	Co. A	
$4.300	5	4/25	Co. A	
$4.300	5	4/24	Co. A	
$4.290	10	4/25	Co. A	
$4.290	5	4/28	Co. A	
$4.290	5	4/24	Co. A	
$4.280	5	4/28	Co. A	
$4.260	5	4/25	Co. A	
$4.260	5	4/25	Co. A	
$4.260	5	4/25	Co. A	
$4.250	5	4/29	Co. A	
$4.250	5	4/29	Co. A	
$4.250	5	4/28	Co. A	
$4.250	5	4/25	Co. A	
$4.250	5	4/24	Co. A	
$4.250	5	4/24	Co. A	
$4.240	5	4/25	Co. A	
$4.240	5	4/25	Co. A	
$4.240	5	4/25	Co. A	
$4.240	5	4/24	Co. A	
$4.230	5	4/24	Co. A	
$4.220	5	4/30	Co. A	
$4.220	5	4/29	Co. A	
$4.220	5	4/28	Co. A	
$4.220	5	4/24	Co. A	
$4.200	5	4/28	Co. A	
$4.260	5	4/25	**Co. B**	**$4.26@10k**
$4.250	5	4/24	Co. B	
$4.270	5	4/25	**Co. C**	**$4.26@10k**
$4.250	5	4/25	Co. C	
$4.410	5	4/24	**Co. D**	**$4.33@15k**
$4.310	5	4/28	Co. D	
$4.260	5	4/25	Co. D	
$4.260	5	4/29	**Co. E**	**$4.24@35k**
$4.260	5	4/25	Co. E	
$4.255	5	4/24	Co. E	
$4.240	5	4/25	Co. E	
$4.225	5	4/24	Co. E	
$4.220	5	4/29	Co. E	
$4.220	5	4/29	Co. E	
$4.230	10	4/29	**Co. F**	**$4.23@20k**
$4.225	10	4/29	Co. F	
$4.450	5	4/24	**Co. G**	**$4.28@25k**
$4.250	10	4/24	Co. G	
$4.220	5	4/24	Co. G	
$4.210	5	4/24	Co. G	
$4.400	5	4/24	**Co. H**	**$4.28@85k**

REPORTED DEAL DATA

Price	Volume	Date	Source	Co.'s vol.-weighted avg.
$4.340	10	4/28	Co. H	
$4.340	5	4/28	Co. H	
$4.320	5	4/28	Co. H	
$4.320	5	4/28	Co. H	
$4.305	5	4/28	Co. H	
$4.300	5	4/28	Co. H	
$4.300	5	4/28	Co. H	
$4.260	5	4/25	Co. H	
$4.260	5	4/25	Co. H	
$4.255	10	4/25	Co. H	
$4.250	5	4/25	Co. H	
$4.230	5	4/28	Co. H	
$4.210	5	4/24	Co. H	
$4.150	5	4/24	Co. H	
$4.480	5	4/24	**Co. J**	**$4.27@248k**
$4.420	5	4/24	Co. J	
$4.400	5	4/24	Co. J	
$4.370	5	4/24	Co. J	
$4.360	5	4/24	Co. J	
$4.300	5	4/28	Co. J	
$4.300	5	4/25	Co. J	
$4.300	5	4/24	Co. J	
$4.300	5	4/24	Co. J	
$4.300	5	4/24	Co. J	
$4.290	5	4/28	Co. J	
$4.290	5	4/24	Co. J	
$4.270	5	4/28	Co. J	
$4.270	5	4/25	Co. J	
$4.265	10	4/25	Co. J	
$4.260	5	4/29	Co. J	
$4.260	5	4/25	Co. J	
$4.260	5	4/25	Co. J	
$4.260	5	4/25	Co. J	
$4.260	5	4/25	Co. J	
$4.255	10	4/25	Co. J	
$4.250	10	4/25	Co. J	
$4.250	10	4/24	Co. J	
$4.250	8	4/24	Co. J	
$4.250	5	4/29	Co. J	
$4.250	5	4/29	Co. J	
$4.250	5	4/28	Co. J	
$4.250	5	4/25	Co. J	
$4.250	5	4/24	Co. J	
$4.250	5	4/24	Co. J	
$4.250	5	4/24	Co. J	
$4.240	5	4/25	Co. J	
$4.240	5	4/25	Co. J	
$4.240	5	4/24	Co. J	
$4.240	5	4/24	Co. J	
$4.230	10	4/28	Co. J	
$4.230	5	4/28	Co. J	
$4.225	10	4/29	Co. J	
$4.225	5	4/24	Co. J	
$4.220	10	4/29	Co. J	
$4.220	5	4/29	Co. J	
$4.200	5	4/28	Co. J	
$4.450	10	4/24	**Co. K**	**$4.37@15k**
$4.220	5	4/30	Co. K	

Bidweek Example 2*

Bidweek= 4/24, 4/25, 4/28, 4/29, 4/30

	price	vol	date	source
One discarded trade (timing outside of bidweek)	$4.43	20	4/23	Co. R

ANALYSIS: This data is from a volatile bidweek. The NYMEX and physical market swung 59 cents steadily upward over five days. Bidweek pricing at this trading point averaged 5 cents ***below*** Henry Hub and tended to track the NYMEX contract. The median was used because the median value reflected where the majority of trading was done (34 deals on first three days of bidweek) and the predominant basis to NYMEX close. Six last-day, big-volume deals pulling up the volume-weighted average represented dealmaking by just three players in a short squeeze. One of those three players (Co. N) reported counterparties on its deals, one (Co. J) didn't and the third was not a survey participant but was named as counterparty.

Published Range and Index

Low	High	Index
$3.85	$4.36	$4.01

$4.055	Avg. of median and vol.weighted avg.

332	total volume (000)	**NYMEX close**	**$4.053**
43	price count	**NYMEX low**	$3.901
$4.100	**vol. weighted avg.**	**NYMEX high**	$4.491
$4.026	simple average		
$4.010	**median**		
$4.020	mode	Standard dev.	$0.13
$4.106	midpoint	3 STDEV +	$4.409
0.509	low/high spread	2 STDEV +	$4.281
0.047	NYMEX basis	2 STDEV -	$3.771
1.15	Skew	3 STDEV -	$3.644

Daily Trading Summary

(vol. weighted price, Total vol./day, # trades, # reporting)

Day 1	$3.87 @ 30k/day, 6 trades, five parties
Day 2	$3.89 @ 13k/day, 3 trades, three parties
Day 3	$4.01 @ 134k/day, 25 trades, 14 reporting parties
Day 4	$4.16 @ 30k/day, 4 trades, three reporting parties
Day 5	$4.25 @ 125k/day, 5 trades, two reporting parties

Frequency of occurrence

price	# trades @ price
$3.851	1 O
$3.863	1 O
$3.870	2 OO
$3.881	2 OO
$3.890	3 OOO
$3.940	2 OO
$3.980	2 OO
$3.990	2 OO
$4.000	2 OO
$4.003	3 OOO
$4.005	1 O
$4.010	4 OOOO
$4.020	5 OOOOO
$4.040	1 O
$4.070	2 OO
$4.090	2 OO
$4.100	1 O
$4.110	1 O
$4.190	2 OO
$4.255	1 O
$4.340	1 O
$4.360	2 OO

REPORTED DEAL DATA

Price	Volume	Date	Source
$3.851	5	4/24	Co. C
$3.863	5	4/24	Co. A
$3.870	5	4/24	Co. R
$3.870	5	4/24	Co. K
$3.881	5	4/24	Co. A
$3.881	5	4/24	Co. E
$3.890	4	4/25	Co. F
$3.890	4	4/25	Co. L
$3.890	5	4/25	Co. C
$3.940	4	4/28	Co. L
$3.940	4	4/28	Co. H
$3.980	5	4/28	Co. K
$3.980	5	4/28	Co. M
$3.990	8	4/28	Co. E
$3.990	8	4/28	Co. D
$4.000	4	4/28	Co. F
$4.000	4	4/28	Co. S
$4.003	6	4/28	Co. B
$4.003	6	4/28	Co. R
$4.003	6	4/28	Co. Q
$4.005	6	4/28	Co. K
$4.010	5	4/28	Co. A

REPORTED DEAL DATA

Price	Volume	Date	Source
$4.010	5	4/28	Co. E
$4.010	5	4/28	Co. H
$4.010	5	4/28	Co. K
$4.020	5	4/28	Co. L
$4.020	5	4/28	Co. F
$4.020	5	4/28	Co. A
$4.020	5	4/28	Co. D
$4.020	7	4/28	Co. K
$4.070	5	4/28	Co. P
$4.070	7	4/28	Co. K
$4.10	5	4/28	Co. G
$4.110	5	4/28	Co. H
$4.090	5	4/29	Co. K
$4.090	5	4/29	Co. J
$4.190	10	4/29	Co. B
$4.190	10	4/29	Co. J
$4.040	30	4/30	Co. J
$4.255	30	4/30	Co. N
$4.340	20	4/30	Co. J
$4.360	15	4/30	Co. J
$4.360	30	4/30	Co. N

* Example data based on actual survey, modified to protect participants' identities, other confidential information.

Bidweek Example 3*

Price	Volume	Date
$4.92	10	Day 5
$4.90	10	Day 3
$4.86	<1	Day 3
$4.83	1	Day 1
$4.82	10	Day 1
$4.82	1	Day 3
$4.82	<1	Day 3
$4.82	10	Day 2
$4.82	2	Day 1
$4.80	1	Day 3
$4.80	<1	Day 3

The data at left represents an actual data set from a recent survey. The following points were considered during the analysis process:

- Basis differentials ranged from minus 10 to minus 11, providing a basis range of $4.82 to $4.83.
- All deals except one were done during the three-day close.
- Four deals were basis deals; seven were fixed-price deals.
- Seven separate sources reported deals at this point.
- Both top deals, while verified, were done by the same party and represented 44% of the total volume.
- The high deal, $4.92, was two standard deviations away from the rest of the data set.
- The market ran up after the NYMEX futures contract rolled off the board.

The weighted average was $4.861. The median was $4.82. The average of the weighted average and median was $4.84. The index was set at $4.84.

ANALYSIS:
While the median represented the majority of deals that took place over bidweek, it failed to reflect the market's run-up and the relatively high-volume deals done at the top of the range. The weighted average, on the other hand, did not represent the point at which the majority of dealmaking occurred. The data indicated that the average between the weighted average and the median best represented dealmaking at this point.

* Example data based on actual survey, modified to protect participants' identities, other confidential information.

unrepresentative skew of the volume-weighted average, either the median is used as the index or the average of the median and the volume-weighted average is used (*see Bidweek Examples 2 and 3, p. 8-9*).

In thin, illiquid markets, the use of volume-weighted indexes may not be possible. Platts believes that price assessments using available information other than reported transactions help provide market transparency. In October 2002, Platts began designating assessments at a limited number of pricing points where the amount of transactional data gathered was nonexistent or so limited that that it did not adequately represent bidweek market value as demonstrated in the values at related, more liquid pricing points and/or in financial markets.

At thinly traded or thinly reported tier 3 points, Platts editors make a determination whether the reported transactions reflect a representative central value for the bidweek time period based on current market conditions at the trading point and a comparison with other related and more deeply traded locations. If the reported data for such a point produces an average that substantially correlates with those of other related and more deeply traded points, Platts will establish its index using just the reported data.

If, however, the reported transactions at the illiquid tier 3 point do not produce an average that substantially correlates with those at more liquid related points, then Platts will make an assessment if adequate alternate market information is available on which to base an assessment. If insufficient other market information is available, Platts editors may elect to publish no price for that point.

Assessments, which are clearly designated by asterisks in price tables, may incorporate any transactional data reported or may be based solely on other information, including an analysis of bid/ask spreads, basis relationships to values at related liquid pricing points, implied physical values derived from financial swaps and derivative index deals, and daily market trading at the point during bidweek (*see Bidweek Example 4, p. 10*). Assessments are based on objective factual information in addition to actual transactions, not on editors' subjective judgments of where markets would have traded or industry participants' opinions on prices.

FORWARDS MARKET

Platts gas forwards prices provide the market with a daily assessment of financial basis differentials at major pricing points in North America for future time periods. Trading generally is done by the month, for nearby months, and by the season. Standard products traded are for two seasons — summer (April through October) and winter (November through March). Trades also are done for the balance of the current season.

Forwards prices are traded and reported as a basis differential to the corresponding NYMEX Henry Hub futures contract — *i.e.*, the closing price of that month's futures contract for a specified month, or the average of the months that comprise a seasonal strip of futures contracts. Depending on the location, the differential price may be a plus or minus to Henry Hub. Prices are reported in US cents/MMBtu.

Daily forward assessments are based on a confidential market survey of active buyers and sellers and reflect actual transactions as well as bids and offers. Sources include brokers, marketers, financial institutions, utilities and other parties involved in forward trading. Surveys are designed to capture as wide a sample of dealmaking as possible.

Data used to compile the assessments may include both consummated transactions and other information on prices at which deals could be transacted, including bids, asks, spread relationships between points and historical relationships. Because the forwards market is not as deep and liquid as the daily or monthly physical gas markets, at least at this time prices

Bidweek Example 4*

Oneok Gas Transportation LLC, Okla.

Bidweek= 11/21, 11/22, 11/25, 11/26, 11/27

ANALYSIS:	This example came from the December bidweek at the heart of the 2002 liquidity crunch. Very little dealmaking was reported in the Midcontinent. Only one trade was reported for Oneok. No reliable information was available on monthly financial swaps, index premiums or bid/asks for Oneok. Of the previous 36 months, Oneok averaged -1 cent to Panhandle Eastern Pipe Line, a nearby point that traded relatively deeply in this bidweek. Basis in the daily market during bidweek between Oneok and Panhandle averaged -2 cents. The bottom of the Oneok range was set at the Panhandle low -2 cents and the one transaction reported for Oneok set the top of the range. In an assessment, the Oneok index was set at $3.96, 1 cent below the Panhandle index, which was based on more robust trading.

Published Range and Index		
Low	**High**	**Index**
$3.90	$3.99	$3.96

Reported Oneok deal data

Price	Volume	Date	Source
$3.99	1	11/26	Company A

Panhandle Eastern Pipe Line, Tex.-Okla.

Low	High	Index
$3.92	$4.02	$3.97

80.10	total volume (000)	**NYMEX close**	**4.140**
10	price count		
3.973	**weighted average**	basis high	(0.1400)
3.985	simple average	basis low	(0.2200)
3.995	**median**		
4.020	mode	Standard deviation	0.03778595
3.970	midpoint		
0.100	range spread		
-0.167	Index basis to NYMEX settle		

Price	Volume	Date	Source
$3.99	5.00	11/25	Co. A
$3.94	1.10	11/27	Co. A
$3.94	24.00	11/21	Co. B
$4.02	6.00	11/22	Co. C
$4.02	2.50	11/25	Co. D
$4.01	10.00	11/21	Co. E
$4.00	1.00	11/26	Co. F
$3.92	12.00	11/26	Co. F
$3.99	9.50	11/24	Co. G
$4.02	9.00	11/24	Co. G

* Example data based on actual survey, modified to protect participants' identities, other confidential information.

are likely to reflect both actual transactions and editorial assessments of transactable values.

For consummated deals, Platts seeks transaction-level data from a back office (noncommercial) segment of the company, with the accuracy and completeness of the report certified by a senior officer. Platts seeks counterparties for transactions and, upon request, will sign a confidentiality agreement. However, due to the relatively sparse trading in the forwards market, Platts also currently uses market information obtained from traders.

OUTLIERS

To identify non-applicable outliers, transactions greater than two and three standard deviations from the data series' mean are routinely flagged by Platts' technology systems. (Standard deviation is a statistic that describes how tightly all data points are clustered around the mean in a set of data.) Transactions that are outside what the editor has otherwise seen as the established range of trading also are flagged for additional examination.

Transactions at prices more than two standard deviations from the mean are not necessarily out-of-market, distressed or inaccurately reported deals. Platts often works with sets of data that are not normally distributed around the mean. This so-called "skew" of the normal distribution can reflect normal market activity in any given market, and prices of more than two standard deviations are not automatically discarded. When a transaction falls outside of three standard deviations from the price series' mean, it receives greater scrutiny. When such a deal has a significant impact on the volume-weighted average, or when it reflects a value significantly outside the range of values seen in related markets (*e.g.*, trading at nearby points or NYMEX values plus reported basis), Platts editors routinely attempt to contact the reporting party for more specifics on the transaction, as described below. If a satisfactory answer cannot be obtained, editors may elect not to include the price in calculations.

Among the tests used by Platts editors to determine whether to use an outlying price when calculating prices to be published are:

- The direction and magnitude of the skew for the set of data, compared with how far beyond two standard deviations the transaction is.
- The completeness of transaction-specific information reported for the deal, including time stamp, buy/sell indicator and counterparty name.
- Information from another party that verifies the deal, for example the reporting of the transaction by a named counterparty.
- An explanation by the data provider of the market fundamentals accounting for the "outlier" nature of the deal. The explanation must also hold for transactions other than the potential outlier.
- Information, or lack of information, demonstrating that the deal was distressed, such as credit issues for either counterparty, or completion of the deal after the expiration of daily options.
- The record of the entity submitting the data. Deals from reporting entities that consistently report fully and accurately may be given greater credence. The most credible data providers are those that: have contacts designated to answer questions and inquiries on data submissions who are readily accessible and responsive to inquiries by Platts editors; report every day or month and on time, and when problems arise that prevent reporting on time, notify Platts of the delay in a timely fashion; rarely make errors in data submissions and follow up quickly when errors are made; and submit reports that include few outliers, and provide explanations for the outliers at the time when the outliers are reported.

[redacted]

Platts editors make their best efforts to verify the accuracy of prices based on information they have in hand when they must meet daily or monthly price reporting deadlines. As described in Part III, Platts editors routinely contact data providers about transactions that appear questionable and may request supporting information, such as counterparty, to verify the deal.

In cases where editors cannot obtain a satisfactory answer to their questions about an individual or series of transactions, they may choose to take their concerns to the entity's chief risk officer or comparable senior official. If editors cannot resolve their concerns, they may opt to exclude the entity from participating in Platts' price surveys until senior company management provides sufficient reassurance that the entity is responsibly reporting accurate data.

Platts is committed to promptly correcting any material errors in published prices that result from human or computational mistakes. When corrections are made because of such errors, they are limited to corrections to data that was available when the index or assessment was calculated.

Because it is extremely important that Platts' reported prices provide certainty, after-the-fact revisions are not made for reasons other than human or computational errors. In particular, Platts cannot revise indexes or assessments in cases where market participants submit new, as opposed to corrected, information that they want included in the published prices. Allowing such revisions could open Platts to a never-ending revision process as market participants continually come forward with more data.

Errors found in a data submission should be brought to the attention of the appropriate Platts editor -- listed in the introduction of this methodology — as soon as possible.

If Platts is notified of an error in a submission after a price is calculated and published, editors will determine the nature of the error, whether the erroneous data was used in calculating an index or making an assessment, the impact of the erroneous data if it was used and whether Platts had in hand other data corroborating that the data should not have been included. The impact of the error also will be considered. If the removal of the data fails to make a material change in the index or assessment, no correction will be made.

In defining what constitutes a material change, in cases of computational and human errors on the part of Platts or data providers, Platts will consider three primary factors: the percentage change in the index or assessment; the number of business days since the price in question was published; and the liquidity of the trading point as reflected in the volumes reported to Platts.

For example, an error resulting in a change of greater than 2% that is discovered within five business days of publication of a price for a high-liquidity point would be deemed material; an error resulting in a change of less than 0.5% that is discovered more than 15 days after publication of a price for a low-liquidity point would be deemed immaterial.

In addition to the three principal factors used to determine materiality, Platts also will consider other measures of the magnitude of the error, including: the absolute change in the price; the change in the range (low trade and high trade); the change in an index as a percentage of the range; the number of sources represented by the published price; the volume represented by the published price and the volume affected by the error; and the number of transactions represented by the published price and the number of transactions affected by the error.

PART V: PLATTS EDITORIAL STANDARDS

Platts has in place a Code of Ethics with which all of its employees, including its editorial staff, must comply. Components of the code specifically address standards for market reporting.

In addition, all Platts employees must adhere to The McGraw-Hill Companies' Code of Business Ethics. Editors must re-sign each code annually. Company policies, among other things, prohibit editorial personnel and their spouses from trading in commodities or stocks, bonds or options of companies in the industry covered by their publication(s) and from dealing with outside parties in a manner that creates even an appearance of a conflict of interest. The McGraw-Hill Companies' Code of Business Ethics reflects McGraw-Hill's commitment to integrity, honesty and acting in good faith in all its dealings. The Platts Code of Ethics is designed to ensure that Platts information is the product of honest, fair and open reporting.

Platts has an independent compliance staff whose function is to ensure that Platts market editors follow the stated methodology, records retention policy and code of ethics. In addition, The McGraw-Hill Companies' internal auditor, an independent group that reports directly to the parent company's board of directors, will review the Platts compliance program.

APPENDIX: DEFINITIONS OF TRADING LOCATIONS

Platts recognizes the need for stability in the description and definition of its pricing point locations. At the same time, market dynamics warrant the periodic addition, deletion or change in pricing points. Platts generally will not delete or change the description of a pricing point with less than 60 days' notice, although it will consider adding or changing a point on shorter notice in special circumstances if market conditions require faster action.

Platts combined the *Gas Daily* and *Inside FERC's Gas Market Report* daily and monthly price surveys in July 2002. The most recent changes to the surveys took effect in August 2004, when a number of price points were discontinued, as noted in the descriptions for those points. Price points common to both surveys and any differences in daily and monthly pricing methodology are noted in the descriptions.

Points are arranged within three overall geographic regions – East, Central and West – and are alphabetical within each region and subregion.

EAST

NORTHEAST

Algonquin, receipts (daily survey only)

Deliveries into Algonquin Gas Transmission from Texas Eastern Transmission at the Lambertville and Hanover, N.J., interconnects; from Transcontinental Gas Pipe Line at the Centerville, N.J., interconnect; from Columbia Gas Transmission at the Hanover, N.J., and Ramapo, N.Y., interconnects; from Tennessee Gas Pipeline at the Mahwah, N.J., Cheshire, Conn., and Mendon, Mass., interconnects; from Iroquois Gas Transmission System at the Brookfield,Conn., interconnect; and from Maritimes & Northeast Pipeline at the Beverly, Mass., interconnect.

Algonquin, city-gates (daily and monthly survey)

Deliveries from Algonquin Gas Transmission to all distribution company city-gates in Connecticut, Massachusetts and Rhode Island.

Columbia Gas, Appalachia (daily and monthly survey)

Deliveries into Columbia Gas Transmission in eastern Kentucky, eastern Ohio, West Virginia, Pennsylvania, northern Virginia and western New York. The Appalachian pool for deliveries into Columbia begins downstream of the Leach, W.Va., interconnection with Columbia Gulf Transmission; deliveries at Leach are not included. Columbia Gas operates supply pool and market-area storage facilities within this northern Appalachia region, which also has local production. Prices include deliveries systemwide at pools, interconnects and on-system points.

Columbia Gas, delivered (daily survey only)

Deliveries from Columbia Gas Transmission to Mid-Atlantic city-gates in zones 1, 4 and 10, which extend from the southern tip of New York south to the Virginia/North Carolina border and encompass the western half of Pennsylvania, Maryland, New Jersey and the eastern two-thirds of Virginia. Zone 1 includes the eastern third of Virginia and southern Maryland; zone 4 includes eastern Pennsylvania, New Jersey, Delaware and the southern tip of New York (including New York City); and zone 10 includes central Virginia and northern Maryland. This point was discontinued on Aug. 1, 2004.

Dominion, North Point (daily survey only)

Deliveries into Dominion Transmission starting at the Valley Gate delivery point at the end of Dominion's South Point system, about 40 miles northeast of Pittsburgh in Armstrong County, Pa., and continuing north into New York and eastward across the state, crossing the Hudson River and terminating in Rensselaer County, near Albany, Troy and Schenectady, N.Y. Dominion North Point has major interconnects with Columbia Gas Transmission, National Fuel Gas Supply, Texas Eastern Transmission, Transcontinental Gas Pipe Line and Tennessee Gas Pipeline. Major compressor stations in the North Point system include Punxsutawney, Ardell, Finnefrock, Leidy, Greenlick, Ellisburg and Sabinsville, Pa.; and Harrison, Woodhall, Borger and Utica, N.Y.

Dominion, South Point (daily and monthly survey)

Deliveries into two Dominion Transmission main lines: One runs northeast from Warren County, Ohio, midway between Cincinnati and Dayton, and merges with the second line just northeast of Pittsburgh, Pa. The second line runs from Buchanan County, Va., on the Virginia/West Virginia border north to the end of the zone at Valley Gate in Armstrong County, Pa. Major stations in the South Point system include interconnections with ANR Pipeline (Lebanon station), Columbia Gas

Transmission (Windbridge and Loudoun stations), Tennessee Gas Pipeline (Cornwell station), Transcontinental Gas Pipe Line (Nokesville station) and Texas Eastern Transmission (Lebanon, Oakford, Chambersburg, Perulack and Windridge stations). Storage pools in the South Point system include South Bend, Murrysville, Oakford, Gamble, Hayden, Webster, Colvin, North Summit, Bridgeport, Lost Creek, Kennedy, Fink and Rocket Newberne.

Dominion, delivered (daily survey only)

Deliveries from Dominion Transmission to Mid-Atlantic city-gates located in east-central New York (Schenectady, Troy, Albany); southwestern Pennsylvania (Pittsburgh); and the Virginia suburbs outside Washington, D.C. This point was discontinued on Aug. 1, 2004.

Dracut, Mass. (daily survey only)

Deliveries into Tennessee Gas Pipeline at the Dracut interconnect with Maritimes & Northeast Pipeline near Middlesex, Mass. This is the primary delivery point for offshore Nova Scotia gas into the Northeast market area. Dracut also includes gas entering from Portland Natural Gas Transmission System.

Iroquois, receipts (daily survey only)

Deliveries into Iroquois Gas Transmission System at the U.S./Canadian border at the Waddington interconnect with TransCanada PipeLines.

Iroquois, zone 2 (daily survey only)

Deliveries into Iroquois Gas Transmission System starting at the Wright, N.Y., interconnection with Tennessee Gas Pipeline south to the Hunts Point interconnection with Consolidated Edison north of New York City.

Leidy Hub

Deliveries into and from Dominion Transmission, National Fuel Gas Supply, Columbia Gas Transmission, Texas Eastern Transmission and Transcontinental Gas Pipe Line in the vicinity of the Leidy storage facility in Clinton County, Pa.

Niagara (daily and monthly survey)

Deliveries into the Niagara Spur Loop Line from TransCanada PipeLines, a border-crossing point between eastern Canada and the northeastern United States, north of Niagara Falls, N.Y. Interconnects are with Tennessee Gas Pipeline, National Fuel Gas Supply, Dominion Transmission and Texas Eastern Transmission.

Tennessee, zone 5 delivered (daily survey only)

Deliveries from Tennessee Gas Pipeline on the 200 Leg in New York state and the 300 Leg in New Jersey. This point was discontinued on Aug. 1, 2004.

Tennessee, zone 6 delivered (daily and monthly survey)

Deliveries from Tennessee Gas Pipeline on the 200 and 300 Legs in Connecticut, Massachusetts, Rhode Island and New Hampshire.

Texas Eastern, M-3 (daily and monthly survey)

Deliveries into Texas Eastern Transmission on the 30-inch and 24-inch pipelines from the Delmont compressor station in Westmoreland County, Pa., east to the Hanover and Linden stations in Morris County, N.J. Included are deals delivered from Texas Eastern anywhere in zone M-3, including at interconnects with New York City distributors' city-gates and at interconnects with Algonquin Gas Transmission at Lambertville in Hunterdon County, N.J., and at the Hanover station.

Transco, zone 6 non-N.Y. (daily and monthly survey)

Deliveries from Transcontinental Gas Pipe Line from the start of zone 6 at the Virginia/Maryland border to the Linden, N.J., compressor station and on the 24-inch pipeline to the Wharton, Pa., station. The non-New York point does not include deliveries to Public Service Electric and Gas in New Jersey, whose supply is taken downstream of Linden.

Transco, zone 6 N.Y. (daily and monthly survey)

Deliveries from Transcontinental Gas Pipe Line at the end of zone 6 into city-gates downstream of Linden, N.J., for New York City area distributors – KeySpan Energy Delivery and Consolidated Edison Co. of New York — as well as Public Service Electric and Gas of New Jersey.

GULF COAST

Columbia Gulf, La. (daily and monthly survey)

Deliveries into Columbia Gulf Transmission on its onshore lateral pipeline system stretching across South Louisiana, upstream of Rayne, La. Columbia Gulf's East Lateral extends from Rayne to Venice, La. The West Lateral runs from Rayne to west of Cameron, La. Excluded are deals done in the offshore rate zone, at Rayne or elsewhere in the mainline rate zone.

Columbia Gulf, mainline (daily only)

Deliveries into Columbia Gulf Transmission's mainline at compressor station 10, at Rayne, La.

Florida Gas, zone 1 (daily and monthly survey)

Deliveries into Florida Gas Transmission beginning at compressor station 2 in Nueces County in South Texas to station 7 in Acadia Parish, La.

Florida Gas, zone 2 (daily and monthly survey)

Deliveries into Florida Gas Transmission downstream of station 7 in Acadia Parish, La., to station 8 in East Baton Rouge Parish. Included is supply into the mainline from the White Lake Lateral and from the Chacahoula Lateral, both of which extend south from the mainline into production areas.

Florida Gas, zone 3 (daily and monthly survey)

Deliveries into Florida Gas Transmission downstream of compressor station 8 to just upstream of station 12 in Santa Rosa County, Fla., the demarcation point with the market area. Platts' monthly bidweek survey for zone 3 includes deliveries between stations 8 and 12, including Mobile Bay deals into Florida Gas. However, Mobile Bay prices are tracked separately in the daily survey (see Mobile Bay listing).

Florida Gas, Mobile Bay (daily survey only)

Deliveries into Florida Gas Transmission from Transcontinental Gas Pipe Line's Mobile Bay Lateral at the Citronelle interconnection in northern Mobile County, Ala., just upstream of station 11.

Florida city-gates (daily survey only)

Deliveries from Florida Gas Transmission into all city-gates in the Florida market area, which begins in Santa Rosa County just west of station 12 in the extreme western Florida Panhandle and extends into southern Florida.

Southern Natural, La. (daily and monthly survey)

Deliveries into Southern Natural Gas' mainlines anywhere in Louisiana, including an eastern spur starting in Plaquemines Parish and a western spur starting in St. Mary Parish in South Louisiana, and a line that starts at the Texas/Louisiana border in DeSoto Parish and runs to the Louisiana/Mississippi border in East Carroll Parish in northern Louisiana.

Tennessee, zone 0 (daily and monthly survey)

Deliveries into Tennessee Gas Pipeline's 100 Leg from the Mexico/Texas border to the Texas/Louisiana border.

Tennessee, Louisiana, 500 Leg (daily and monthly survey)

Deliveries into Tennessee Gas Pipeline's 500 Leg in zone L in southeastern Louisiana, including deliveries into the 500 Leg from the offshore Blue Water Header system. The 500 Leg meets the boundary of the market area at station 542 in eastern Mississippi.

Tennessee, Louisiana, 800 Leg (daily and monthly survey)

Deliveries into Tennessee Gas Pipeline's 800 Leg in zone L in southeastern Louisiana, including deliveries from the offshore Blue Water Header system. The leg meets the boundary of the market area at station 834 at Winnsboro in central Louisiana.

Texas Eastern, East Texas (daily and monthly survey)

Deliveries into Texas Eastern Transmission on the 24-inch line from the Huntsville, Texas, compressor station to the Little Rock station in Arkansas, including the segment from Joaquin to Sharon.

Texas Eastern, South Texas (daily and monthly survey)

Deliveries into Texas Eastern Transmission on the 30-inch pipeline from the Mexico/Texas border to just upstream of the Vidor, Texas, compressor station; and deliveries into Texas Eastern on the 24-inch pipeline from the Hagist Ranch compressor station to just upstream of the Huntsville, Texas, station.

Texas Eastern, West Louisiana (daily and monthly survey)

Deliveries into Texas Eastern Transmission on the 30-inch line from the Vidor, La., compressor station to just upstream of the Opelousas, La., compressor station. Included are deliveries from Texas Eastern's offshore Cameron Line at the Gillis, La., compressor station.

Texas Eastern, East Louisiana (daily and monthly survey)

Deliveries into Texas Eastern Transmission on the 30-inch line from the Opelousas, La., compressor station to the Kosciusko, Miss., compressor station. Included are deliveries into the 30-inch pipeline from Texas Eastern's Venice Line at the New Roads, La., compressor station.

Texas Eastern, M-1 (Kosi) (daily survey only)

Deliveries into Texas Eastern Transmission on the 30-inch line at the Kosciusko, Miss., compressor station, which is the demarcation point between Texas Eastern's production and market zones. Deliveries into the 24-inch mainline are not included.

Transco, zone 1 (daily and monthly survey)

Deliveries into Transcontinental Gas Pipe Line on two 24-inch lines running from South Texas to compressor station 30 in Wharton County, Texas, which is Transco's pooling point for gas gathered on the Gulf Central Texas Lateral and for onshore coastal South Texas production.

Transco, zone 2 (daily and monthly survey)

Deliveries into Transcontinental Gas Pipe Line on the 30-inch line downstream of station 30 in Wharton County, Texas, to compressor station 45 in Beauregard Parish, La., the only pooling point in the zone.

Transco, zone 3 (daily and monthly survey)

Deliveries into Transcontinental Gas Pipe Line on the 30-inch, 36-inch and 42-inch lines downstream of compressor station 45 in Beauregard Parish, La., to station 65 on the Louisiana/Mississippi border in St. Helena Parish, La. Pooling points in the zone are at stations 50, 62 and 65.

Transco, zone 4 (daily and monthly survey)

Deliveries into Transcontinental Gas Pipe Line on the 30-inch, 36-inch and 42-inch lines downstream of compressor station 65 at the Louisiana/Mississippi border in St. Helena Parish, La., to the Georgia/South Carolina border. Gas enters the Transco mainline from the Mobile Bay Lateral at station 85 in Butler, Ala., the only zone 4 pooling point.

Transco, zone 5 delivered (daily survey only)

Deliveries from Transcontinental Gas Pipe Line on the 30-inch, 36-inch and 42-inch lines from the Georgia/South Carolina border to the Virginia/Maryland border. Deliveries into Transco at the Pleasant Valley receipt point near Fairfax, Va., from Dominion's Cove Point LNG terminal are not included.

CENTRAL

UPPER MIDWEST

Alliance, into interstates (daily survey only)

Deliveries from Alliance Pipeline into Vector Pipeline, Natural Gas Pipeline Co. of America, ANR Pipeline and Midwestern Gas Transmission at the tailgate of the Aux Sable plant in north-central Illinois at the terminus of Alliance. Deliveries into the Northern Indiana Public Service, Peoples Gas Light & Coke and Nicor Gas city-gates in the Chicago area are not included.

ANR, ML 7 (daily and monthly survey)

Deliveries into ANR Pipeline in its northern market zone starting at the Sandwich, Ill., compressor station at the terminus of the Southwest mainline north through Wisconsin to the Crystal Falls, Mich., interconnection with Great Lakes Gas Transmission. Also, deliveries into ANR east from Sandwich to the Defiance, Ohio, compressor station at the terminus of the Southeast mainline, and north from the Bridgman, Mich., station to the Orient, Mich., station.

Chicago city-gates (daily and monthly survey)

Deliveries into the Nicor Gas, Peoples Gas Light & Coke, North Shore Gas and Northern Indiana Public Service city-gates in the Chicago metropolitan area from Natural Gas Pipeline Co. of America, ANR Pipeline, Alliance Pipeline, Northern Border Pipeline and Midwestern Gas Transmission.

Consumers Energy city-gate (daily and monthly survey)

Deliveries into all city-gates of Consumers Energy, which serves most of central Michigan and the areas around Saginaw Bay.

Dawn, Ontario (daily and monthly survey)

Deliveries from Union Gas' Dawn Hub, a gathering point for 15 adjacent storage pools in Ontario near Port Huron, Mich., on the U.S./Canadian border. Included are deliveries into TransCanada PipeLines at Kirkwall, Ontario; deliveries into Great Lakes Gas Transmission at St. Clair, Mich.; deliveries into Consumers Energy at Bluewater, Mich.; deliveries into Panhandle Eastern Pipe Line at Ojibway, Mich.; and deliveries into Dawn storage. Deliveries from Union into TransCanada at Parkway, Ontario, are not included.

Emerson, Viking GL (daily survey only)

Deliveries into Great Lakes Gas Transmission from TransCanada PipeLines at the Emerson 2 compressor station at the U.S./Canadian border at Emerson, Manitoba, and deliveries into Viking Gas Transmission from TransCanada at the Emerson 1 station.

MichCon city-gate (daily and monthly survey)

Deliveries into all city-gates of Michigan Consolidated Gas, which serves the Detroit and Grand Rapids areas and much of north and northeast Michigan. The main MichCon city-gates are located at interconnects with ANR Pipeline at Willow Run and Wolkfork, Mich., Panhandle Eastern Pipe Line at River Rouge, Great Lakes Gas Transmission at Belle River, Union Gas at St. Clair Pipeline and Consumers Energy at Northville. MichCon also receives in-state production at Kalkaska.

GULF COAST

Agua Dulce Hub (daily only)

Deliveries into Kinder Morgan Texas Pipelines, Houston Pipe Line, Gulf South Pipeline, Natural Gas Pipeline Co. of America, Transcontinental Gas Pipe Line, Tennessee Gas Pipeline, TransTexas Gas and EPGT Texas at the Agua Dulce Hub in Nueces County, Texas, about 20 miles west-southwest of Corpus Christi. Deliveries from the ExxonMobil King Ranch plant are included.

ANR, La. (daily and monthly survey)

Deliveries into ANR Pipeline along the southeastern Louisiana lateral that starts offshore and runs to the Patterson, La., compressor station onshore and on to the Eunice, La., station, where ANR's Southeast mainline begins. Also, deliveries into ANR along a second lateral that runs from the HIOS system downstream of West Cameron 167 offshore to the Grand Chenier, La., station onshore and on to the Eunice station, as well as deals done at the Eunice pool.

Carthage Hub (daily only)

Deliveries into Reliant Energy Gas Transmission, Gulf South Pipeline, Lone Star Pipeline, Southern Natural Gas, Kinder Morgan Texas Pipelines, Tennessee Gas Pipeline, Texas Eastern Transmission and Texas Gas Transmission at the tailgate of the Carthage, Texas, processing plant in Panola County, Texas.

EPGT, Texas (daily and monthly survey)

Deliveries into EPGT Texas' gathering system east and south of Bandera County, Texas. Points in the West Texas portion of EPGT Texas, including the Waha header, are not included. In the past, the system was known as PG&E Gas Transmission-Texas and Valero Natural Gas. This point was discontinued on Aug. 1, 2004.

Gulf South, S. La./East Side (daily and monthly survey)

Deliveries into Gulf South Pipeline in capacity allocation area 2, which includes Santa Rosa County, Fla., southern Alabama and southeastern Mississippi; area 3, which includes southern Louisiana's Mississippi River Delta region; area 4, which covers the Baton Rouge, La., region; area 5, which includes south-central and central Louisiana; and area 6 in southwestern Louisiana. In the past, the system was known as Koch Gateway Pipeline and United Gas Pipe Line. This point was discontinued on Aug. 1, 2004.

Henry Hub (daily and monthly survey)

Deliveries into interstate and intrastate pipelines from the outlet of Henry Hub on Sabine Pipe Line in Vermilion Parish, La. Pipelines include Gulf South Pipeline, Southern Natural Gas, Natural Gas Pipeline Co. of America, Texas Gas Transmission, Sabine Pipe Line, Columbia Gulf Transmission, Transcontinental Gas Pipe Line, Trunkline Gas, Jefferson Island Pipeline and Acadian Gas.

Houston Pipe Line (daily only)

Deliveries into Houston Pipe Line's gathering system in South Texas starting at Falfurrios in Brooks County on the 8-inch lateral and at the Thompsonville compressor station in Jim Hogg County. The gathering system is generally demarcated by its Nueces compressor station near the Three Rivers plant in Live Oak County, and by the Refugio station in central Refugio County. This point was discontinued on Aug. 1, 2004.

Houston Ship Channel (daily and monthly survey)

Deliveries to end-users and pipelines that serve them in the Houston Ship Channel region, an industrial area extending from the east side of Houston to Galveston Bay and northeastward to the Port Arthur/Beaumont area. Gas is delivered in this area by numerous pipelines, including Kinder Morgan Texas Pipeline, Kinder Morgan Tejas Pipeline, Houston Pipe Line, and the former EPGT and Channel pipelines.

Katy (daily and monthly survey)

Deliveries into Oasis Pipeline, Lone Star Pipeline, Houston Pipe Line and Kinder Morgan Texas Pipelines in the Katy, Texas, area, including deliveries and receipts into and out of Katy storage.

Lone Star (daily only)

Deliveries into Lone Star Pipeline's S2 Lateral starting in Henderson County, Texas, east to the Carthage plant in Panola County, Texas. This point was discontinued on Aug. 1, 2004.

MRT, mainline (daily and monthly survey)

Deliveries into Mississippi River Transmission's mainline from the Perryville, La., compressor station north through Arkansas and Missouri to the St. Louis area. This point was discontinued on Aug. 1, 2004.

MRT, West Leg (daily and monthly survey)

Deliveries into Mississippi River Transmission's West Leg west of the Perryville, La., station to the terminus of the line at an interconnection with Natural Gas Pipeline Co. of America in Harrison County, Texas. This point was discontinued on Aug. 1, 2004.

NGPL, South Texas (daily and monthly survey)

Deliveries into Natural Gas Pipeline Co. of America at the beginning of the mainline at the Thompsonville receipt point in Jim Hogg County, Texas, north to compressor station 302 in Montgomery County, Texas.

NGPL, Texok zone (daily and monthly survey)

Deliveries into Natural Gas Pipeline Co. of America from (and including) compressor station 302 in Montgomery County, Texas, east to station 344 in Jefferson County, Texas; north to Cass County, Texas; and west to station 801 in Carter County, Okla.

NGPL, La. (daily and monthly survey)

Deliveries into Natural Gas Pipeline Co. of America from compressor station 344 in Jefferson County, Texas, to the terminus of the line in Vermilion Parish, La., at Erath and Henry Hub.

Texas Gas, zone 1 (daily and monthly survey)

Deliveries into Texas Gas Transmission starting just south of the Pineville, La., compressor station in Rapides Parish north to Crockett County, Tenn.

Texas Gas, zone SL (daily and monthly survey)

Deliveries into Texas Gas Transmission on two southeastern Louisiana laterals, including offshore segments. The southwest spur begins offshore at Grand Chenier and runs through Cameron Parish to the Eunice compressor station. The southeast spur begins offshore and runs through Terrebone Parish to Eunice. Zone SL extends to the vicinity where Texas Gas crosses the Red River in Rapides Parish.

Trunkline, Texas (daily and monthly survey)

Deliveries into Trunkline Gas in the Texas field zone starting at the Beeville compressor station in Bee County, Texas, north to the Longville, La., station in Beauregard Parish, La. This point was discontinued on Aug. 1, 2004.

Trunkline, W. La. (daily survey only)

Deliveries into Trunkline Gas along two laterals starting at an offshore Louisiana lateral leading to the Kaplan, La., station in Vermilion Parish, northwest to the Longville compressor station. Included are deliveries at the Kaplan compressor station, which demarcates the WLA and ELA zones.

Trunkline, E. La. (daily survey only)

Deliveries into Trunkline Gas on an offshore gathering system running from south of Terrebonne Parish west to the Kaplan station in Vermilion Parish, the boundary with the WLA zone.

Trunkline, La. (monthly survey only)

Deliveries into Trunkline Gas at points upstream of the Longville compressor station on the lines that do not extend to Texas.

MIDCONTINENT

ANR, Okla. (daily and monthly survey)

Deliveries into ANR Pipeline at the start of the Southwest mainline at the Custer, Okla., compressor station, into the Texas Panhandle north to the Greensburg, Kan., station.

CenterPoint, East (daily and monthly survey)

Deliveries into CenterPoint Energy Gas Transmission's north, south and neutral pooling areas in northeastern Texas, Arkansas and southeastern Oklahoma. The north pooling area is separated from the south pooling area at Polk County, Ark., in western Arkansas and Desha County on the east side. The north and south pooling areas are separated from Reliant's west pooling by a neutral pooling area in eastern Oklahoma. In the past, the system was known as NorAm Gas Transmission, Arkla Energy Resources and, prior to Aug. 1, 2004, Reliant Energy Gas Transmission.

NGPL, Amarillo receipt (daily survey only)

Deliveries into Natural Gas Pipeline Co. of America starting at the Trailblazer Pipeline interconnection in Gage County, Neb., on the Amarillo mainline at compressor station 106 east to NGPL's interconnection with Northern Border Pipeline at station 109 in Keokuk County, Iowa.

NGPL, Midcontinent (daily and monthly survey)

Deliveries into Natural Gas Pipeline Co. of America starting at compressor station 155 in Wise County, Texas, west to the Amarillo mainline at station 112 in Moore County in the Texas Panhandle, and then north to the Trailblazer Pipeline interconnection in Gage County, Neb. Included are deliveries into NGPL at all Oklahoma points west of station 801, as well as those in North Texas north and east of station 170 and in Kansas south of station 103.

NGPL, Iowa-Ill. receipt (daily survey only)

Deliveries into Natural Gas Pipeline Co. of America on the Amarillo mainline from the interconnection with Northern Border Pipeline at station 109 in Keokuk County, Iowa, east to the interconnection with Wisconsin Gas in Lake County, Ill. Also, deliveries into NGPL on the Gulf Coast mainline from the Missouri/Illinois border to compressor station 113 in Will County, Ill. This point was discontinued on Aug. 1, 2004.

Northern, MIDS 1-6 (daily survey only)

Deliveries into Northern Natural Gas' mileage indicator districts on the southern end of the system, in the Permian Basin from the El Dorado compressor station in MID 1 in Schleicher County, Texas, north to the Brownfield station in MID 6 in Terry County, Texas. This point was discontinued on Aug. 1, 2004.

Northern, Tx.-Okla.-Kan. (daily and monthly survey)

Deliveries into Northern Natural Gas' mileage indicator districts 7 through 16, from the Plainview compressor station in MID 7 in Hale County, Texas, north to the demarcation point between Northern Natural's production and market zones at the Clifton station in Clay County, Kan. Deliveries at the demarcation point are not included. This point was discontinued on Aug. 1, 2004.

Northern, demarcation (daily and monthly survey)

Deliveries into Northern Natural Gas at the demarcation point between its production (field) and market zones, at the Clifton station in Clay County, Kan.

Northern, Ventura (daily and monthly survey)

Deliveries into Northern Natural Gas from Northern Border Pipeline at the Ventura interconnection in Hancock County, Iowa.

Oneok, Okla. (daily and monthly survey)

Deliveries into Oneok Gas Transportation's mainline systems from several gathering systems, all of which are located in Oklahoma. One of the two largest is near the east-central part of the state in Pittsburg and Haskell counties. The second, in the west-central part of the state, extends from Blaine and Canadian counties southeast to Grady County. Oneok operates a single price pool for all gas coming into the system. In the past, Oneok was known as ONG Transmission.

Panhandle, Tx.-Okla. (daily and monthly survey)

Deliveries into Panhandle Eastern Pipe Line on two laterals running from the Texas and Oklahoma panhandles, southwestern Kansas and northwestern Oklahoma upstream of the Haven, Kan., compressor station. Deliveries to Panhandle at the Haven pooling point — the demarcation between Panhandle's field and market zones — are not included.

Reliant, West (daily and monthly survey)

Deliveries into Reliant Energy Gas Transmission's west pooling areas 1 and 2 from just east of the Chiles Dome storage facility west to the Texas Panhandle and north from the Custer, Okla., compressor station to Cowley County, Kan. Reliant is now named CenterPoint Energy Gas Transmission. In the past, the system was known as NorAm Gas Transmission and Arkla Energy Resources. This point was discontinued on Aug. 1, 2004.

Southern Star, Tx.-Okla.-Kan. (daily and monthly survey)

Deliveries into Southern Star Central Gas Pipeline's system from Hemphill County in the Texas Panhandle eastward, from Carter County in south-central Oklahoma northward and from Grant County in southwestern Kansas eastward. In the past, the system was known as Williams Natural Gas and, prior to Aug. 1, 2004, Williams Gas Pipelines Central.

WEST

CALIFORNIA

PG&E, Malin (daily and monthly survey)

Deliveries into Pacific Gas and Electric's Lines 400 and 401 from Gas Transmission Northwest (formerly PG&E Gas Transmission, Northwest) at the Oregon/California border at Malin, Ore.

PG&E, South (daily and monthly survey)

Deliveries into Pacific Gas and Electric in Southern California from El Paso Natural Gas and Transwestern Pipeline at Topock, Calif.; from Kern River Gas Transmission at Daggett, Calif., and the High Desert Lateral; from Southern California Gas at the Kern River station; and from Questar Southern Trails Pipeline at Essex, Calif.

PG&E, city-gate (daily and monthly survey)

Deliveries from Pacific Gas and Electric's intrastate transmission system to city-gates on PG&E's local distribution system in Northern California.

SoCal Gas (daily and monthly survey)

Deliveries into Southern California Gas from El Paso Natural Gas at Topock, Calif., and Blythe, Calif. (Ehrenberg, Ariz.); from Transwestern Pipeline at Topock/Needles, Calif.; from Kern River Gas Transmission at Wheeler Ridge and Kramer Junction, Calif.; and from Questar Southern Trails Pipeline at Needles. The point also includes deliveries out of SoCal Gas' storage facilities; deliveries from Pacific Gas and Electric at several points, including Kern River station and Pisgah/Daggett; and in-state production.

ROCKIES/NORTHWEST/CANADA

Cheyenne Hub (daily and monthly survey)

Deliveries into Trailblazer Pipeline, Public Service Co. of Colorado and Colorado Interstate Gas in the vicinity of the Cheyenne Hub in northeast Colorado.

CIG, Rocky Mountains (daily and monthly survey)

Deliveries into Colorado Interstate Gas' 20-inch, 22-inch and 24-inch mainlines in Wyoming and Colorado. Also included are deliveries into the Parachute to Natural Buttes segment in Uintah County, Utah, and deliveries into CIG's 16-inch lateral running from the Rawlins station in Carbon County, Wyo., to the Elk Basin station in Park County, Wyo. Not included are deliveries into CIG's system at points south of Cheyenne, Wyo.

El Paso, Bondad (daily survey only)

Deliveries into El Paso Natural Gas at the Bondad compressor station in the San Juan Basin. Bondad is located in the northern part of the San Juan Basin in La Plata County, Colo., south of the Ignacio plant on Northwest Pipeline and north of the Blanco plant on El Paso.

El Paso, San Juan Basin (daily and monthly survey)

Deliveries into El Paso Natural Gas south of the Bondad compressor station in the San Juan Basin, including gas from the Blanco, Chaco, Rio Vista, Milagro and Valverde plants in New Mexico.

GTN, Kingsgate (daily survey only)

Deliveries into Gas Transmission Northwest from Foothills Pipeline at the Kingsgate interconnection at the U.S./Canadian border in Boundary County, Idaho. Prior to Aug. 1, 2004, the system was known as PG&E Gas Transmission, Northwest.

Kern River/Opal plant (daily survey only)

Deliveries into Kern River Gas Transmission at the Opal, Wyo., processing plant and Muddy Creek compressor station in southwestern Wyoming where Kern River interconnects with Northwest Pipeline, Questar Pipeline and Colorado Interstate Gas. Gas traded at the Opal plant that isn't nominated into a specific pipeline is included in the daily Kern River/Opal plant pricing point.

Kern River, Wyoming (monthly survey only)

Deliveries into Kern River Gas Transmission anywhere in Wyoming. Transactions done at Opal, Wyo., and the Muddy Creek compressor station — where Kern River interconnects with Northwest Pipeline, Questar Pipeline and Colorado Interstate Gas — are used in both the Kern River, Wyoming, and Northwest Pipeline, Rocky Mountain, monthly postings because gas traded at those points often isn't for nomination into a specific pipeline.

Northwest, Wyoming pool (daily survey only)

Deliveries into Northwest Pipeline from the Green River, Wyo., compressor station to the Kemmerer, Wyo., station. Included are deliveries at the Opal, Wyo., plant as well as at the Painter, Anchutz, Muddy Creek, Granger, Shute Creek and Whitney stations.

Northwest, S. of Green River (daily survey only)

Deliveries into Northwest Pipeline from the Green River, Wyo., compressor station south to the La Plata interconnection with El Paso Natural Gas in the San Juan Basin in La Plata County, Colo. Included are deliveries from Clay Basin storage, the Piceance Basin and the Ignacio plant.

Northwest, Rocky Mountains (monthly survey only)

Deliveries into Northwest Pipeline's mainline in Wyoming, Utah and Colorado between the Kemmerer and Moab stations. Deliveries at Ignacio, Colo., and elsewhere in zone MO are excluded. Transactions done at Opal, Wyo., and the Muddy Creek compressor station — where Northwest interconnects with Kern River Gas Transmission, Questar Pipeline and Colorado Interstate Gas — are used in both the Kern River, Wyoming, and Northwest Pipeline, Rocky Mountain, monthly postings because gas traded at those points often isn't for nomination into a specific pipeline.

Northwest, Canadian border (Sumas) (daily and monthly survey)

Deliveries into Northwest Pipeline from Westcoast Energy at the Sumas, Wash./Huntington, British Columbia, interconnection at the U.S./Canadian border.

Northwest, all city-gates (daily survey only)

Deliveries from Northwest Pipeline into city-gates northwest of the Kemmerer, Wyo., compressor station in Idaho, Nevada, Oregon and Washington. This point was discontinued on Aug. 1, 2004.

Nova, same-day (daily survey only)

Deliveries for same-day flow into Nova Gas Transmission at the AECO-C, NIT hub in southeastern Alberta. AECO-C is the principal storage facility and hub on Nova; paying the rate for NIT service, or Nova Inventory Transfer, will cover transmission for delivery of gas to AECO-C and most other points. The price is reported in Canadian dollars per gigajoule. This point was discontinued on Aug. 1, 2004.

PSCo city-gate (daily survey only)

Deliveries into Public Service Co. of Colorado from Front Range points, primarily from Denver-Julesburg Basin production. Excluded is gas entering the system from the Chalk Bluffs Hub, which is priced at Cheyenne Hub, and gas entering the system at Fort Lupton, where gas competes with long-haul supply on Colorado Interstate Gas. This point was discontinued on Aug. 1, 2004.

Questar, Rocky Mountains (daily and monthly survey)

Deliveries into Questar Pipeline on its North system, which runs from northeastern Colorado through southern Wyoming to Salt Lake City, and on its South system, which runs from western Colorado to Payson, Utah, east of the Fidlar compressor station. A 20-inch line running parallel to the Utah/Colorado border connects the two systems.

Stanfield, Ore. (daily and monthly survey)

Deliveries into Northwest Pipeline from PG&E Gas Transmission, Northwest (now named Gas Transmission Northwest) at the Stanfield compressor station in Umatilla County, Ore., on the Oregon/Washington border.

TCPL Alberta, AECO-C (daily and monthly survey)

Deliveries into TransCanada's Alberta System at the AECO-C, NIT Hub in southeastern Alberta. AECO-C is the principal storage facility and hub on TCPL Alberta; paying the rate for NIT service, or Nova Inventory Transfer, will cover transmission for delivery of gas to AECO-C and most other points. The price is reported in Canadian dollars per gigajoule. Prior to Aug. 1, 2004, the system was known as Nova.

Westcoast, station 2 (daily survey only)

Deliveries into Westcoast Energy at compressor station 2 in north-central British Columbia, where much of northern British Columbia and Alberta production is pooled for shipment south and east. The price is reported in Canadian dollars per gigajoule.

WEST TEXAS

El Paso, Permian Basin (daily and monthly survey)

Deliveries into El Paso Natural Gas in the Permian Basin from three pools: the Waha plant south (Waha pool), the Keystone station south to Waha (Keystone pool) and the Plains station south to Keystone (Plains pool).

Transwestern, Permian Basin (daily and monthly survey)

Deliveries into Transwestern Pipeline from the West Texas zone located southeast and southwest of the WT-1 compressor station in Lea County, N.M., and the Central zone bordered by station 8 in Lincoln County, N.M., to the northwest, station P-1 in Roosevelt County, N.M., to the east and station WT-1 in Eddy County, N.M., to the south.

Waha (daily and monthly survey)

Deliveries into interstate and intrastate pipelines at the outlet of the Waha header system and in the Waha vicinity in the Permian Basin in West Texas. Pipelines include El Paso Natural Gas, Transwestern Pipeline, Natural Gas Pipeline Co. of America, Northern Natural Gas, Delhi Pipeline, Oasis Pipeline, EPGT Texas and Lone Star Pipeline.

NASHVILLE GAS COMPANY
REVIEW OF NASHVILLE GAS COMPANY'S IPA
RELATING TO ASSET MANAGEMENT FEES
DOCKET NO. 05-00165
CONSUMER ADVOCATE AND PROTECTION DIVISION
SECOND SET OF DISCOVERY REQUESTS
January 3, 2006

DISCOVERY REQUEST NO. 9

Are the "monthly price index" and the "daily price index" referenced in Nashville Gas Company's response to Discovery Request No. 22 of the Consumer Advocate's First Set of Discovery Requests the same as the indices reported in Nashville Gas Company's performance incentive plan? If not, explain any differences.

RESPONSE: Yes.

NASHVILLE GAS COMPANY
REVIEW OF NASHVILLE GAS COMPANY'S IPA
RELATING TO ASSET MANAGEMENT FEES
DOCKET NO. 05-00165
CONSUMER ADVOCATE AND PROTECTION DIVISION
SECOND SET OF DISCOVERY REQUESTS
January 3, 2006

DISCOVERY REOUEST NO. 10

In response to Discovery Request No. 15 of the Consumer Advocate's First Set of Discovery Requests, Nashville Gas Company identified Merrill Lynch as its asset manager for the period November 2004 through October 2005; however, in response to Discovery Request No. 12 of the Consumer Advocate's First Set of Discovery Requests, Nashville Gas Company does not identify Merrill Lynch as a company that submitted a bid for this period. Please answer the following:

(a) Why was Merrill Lynch not identified as a bidder for this period?

(b) Did Merrill Lynch submit a bid, for this period? If so, how much was the bid?

(c) Identify and explain all factors that Nashville Gas Company considered for selecting Merrill Lynch as its asset manager for this period.

(d) How much did Nashville Gas Company receive from Merrill Lynch for this period?

RESPONSE:

(a) In Data Request 12 of the Consumer Advocate's first Set of Discovery Request, Nashville Gas Company identified Entergy-Koch Trading LP as the highest bidder for the period of November 2004 through October 2005. After Entergy-Koch was awarded the asset management agreement as the highest bidder for the aforementioned period, they were acquired by Merrill Lynch and Merrill Lynch assumed all the asset management obligations acquired by Entergy-Koch Trading LP as the winning bidder.

(b) See response to (a).

(c) Entergy-Koch Trading LP (Merrill Lynch) was subject to the selection criteria described in the response to Discovery Request No. 1 of the Consumer Advocate's Second Set of Discovery Requests.

(d) Nashville Gas Company received $1,937,829.55 from Merrill Lynch for the right to be the Company's asset manager. This differs from the $2,100,000 listed under the amount bid by Energy-Koch Trading LP because Entergy Koch's bid included downward dollar adjustments based upon Nashville Gas Company's storage balances as of April 1, 2005, which account for the difference between the amount bid and the dollars received by the Company.

NASHVILLE GAS COMPANY
REVIEW OF NASHVILLE GAS COMPANY'S IPA
RELATING TO ASSET MANAGEMENT FEES
DOCKET NO. 05-00165
CONSUMER ADVOCATE AND PROTECTION DIVISION
SECOND SET OF DISCOVERY REQUESTS
January 3, 2006

DISCOVERY REOUEST NO. 11

In response to Discovery Request No. 16 of the Consumer Advocate's First Set of Discovery Requests, Nashville Gas Company identified Sarah Stabley, Scott Searcy, Jim Jessee, and Keith Maust as devoting part of their time to implementing, managing and monitoring capacity management as part of the incentive plan for the plan year that ended June 30, 2005. For each of these four individuals, please identify the following:

(a) The total salary, benefits, arid other compensation paid by Nashville Gas Company to the individual during the plan year that ended June 30, 2005;

(b) The specific activities that the individual performed in implementing, managing and monitoring capacity management as part of the incentive plan for the plan year that ended June 30, 2005; and

(c) The percentage of time that the individual spent on implementing, managing and monitoring capacity management as part of the incentive plan for the plan year that ended June 30, 2005.

RESPONSE:

(a) See attached schedule. (Confidential)

(b) Before asset management can be accomplished, an RFP (Request for Proposal) must be developed which details the asset manager's obligations, the assets involved in the asset management, and the cost associated with the asset management. This plan is developed primarily by Keith Maust and Jim Jessee, but is also reviewed by Sarah Stabley and Scott Searcy. Once completed, the RFP is sent to all prospective asset managers on the Company's bid list. Once responses to the RFP are received, bids are categorized based upon the dollars bid

and are reviewed to verify that the responses received from the bidder conform to the RFP's requests. This duty is performed primarily by Scott Searcy. Existing supply contracts must be either assigned to the asset manager or the asset manager must agree to act as the Company's agent. Written confirmation must be obtained from suppliers verifying their agreement of assignment of their supply contracts to the asset manager. Assignments are completed by all employees of Gas Supply. Releases of capacity to the asset manager are effectuated by Sarah Stabley, Scott Searcy and Jim Jessee. During the asset management period, total supply requirements are determined by the Gas Supply and Scheduling groups on a daily basis and communicated to the asset manager. Specific supply needs by supplier are determined by Gas Supply during the winter period and communicated to the asset manager. This duty is performed primarily by Scott Searcy and Sarah Stabley, with supervision provided by Jim Jessee and Keith Maust. Supply requirements during the summer are determined by the Gas Supply and Scheduling groups on a daily basis and communicated to the asset manager, with supply determined according to the Company's total firm capacity entitlements with the exception of Columbia storage fill, which is accomplished by the asset manager utilizing the Company's released Columbia firm transportation agreements and adhering to Columbia tariff storage injection ratchet requirements. When it is determined that excess supply is available and it is economically feasible, this supply will be sold back to the asset manager under the provisions of the asset management agreement. This function is also primarily performed by Scott Searcy andSarah Stabley under the supervision of Jim Jesse and Keith Maust. Also on a monthly basis,

these same individuals are involved in reconciling invoices from the asset manager including the verification of volumes purchased, volumes received, prices and storage inventory amounts.

(c) Nashville Gas Company does not maintain records that would permit it to provide the requested percentage although it believes that the net plant allocation factor currently utilized to allocate the costs of these employees to Tennessee is a reasonable proxy for such percentage. In further response, Nashville Gas Company would note that the amount of time spent by these individuals implementing, managing and monitoring capacity management under the Company's approved incentive plan can vary substantially from day-to-day or week-to-week.

NASHVILLE GAS COMPANY
REVIEW OF NASHVILLE GAS COMPANY'S IPA
RELATING TO ASSET MANAGEMENT FEES
DOCKET NO. 05-00165
CONSUMER ADVOCATE AND PROTECTION DIVISION
SECOND SET OF DISCOVERY REQUESTS
January 3, 2006

DISCOVERY REQUEST NO. 12

Please refer to Nashville Gas Company's response to Interrogatory No. 2 of Audit Staff First Discovery Requests and answer the following:

(a) How much of the total supply available to Nashville Gas was actually used by Nashville Gas for the periods indicated in the response?

(b) On the peak day of each year, how much capacity was not used by Nashville Gas Company?

(c) If the actual demand on the peak day were adjusted for projected needs on the peak day assuming "design day" temperatures were reached, what would the-actual peak day needs have been?

Provide all calculations and assumptions used in these calculations.

RESPONSE:

(a) Nashville Gas Company objects to this request on the grounds that it is unduly burdensome. Responding to this request would require Nashville Gas to calculate available daily capacity for a period of 9 years and research company usage of capacity for every day during the same 9 year period. Assuming that Nashville Gas even has the records available to conduct this calculation, which it doubts, the request seeks more than 3,000 separate calculations of available capacity and usage.

(b) For the period for which Piedmont has data (winter 1999-2000 through winter 2004- 2005), Nashville Gas had no unused capacity on the peak day of each year.

(c) Data for fiscal years 1997, 1998, and 1999 is not available.

We began by computing a usage volume for each increase in degree day. We went into our daily forecasting software, GASDAY, made sure that the day being tested was not a weekend day, and set the temperature to 65 degrees, which will give us a base load. We then continued this process in 5 degree increments down to 5 degrees, and then at our design day temperature of 4.3 degrees. We subtracted the base load volume from the total volume in each instance to get the heat sensitive volume and then divided this number by the number of degree days to give us a volume per degree day.

We then began our calculation for adjusting the actual usage on our peak day for a fiscal year by taking the total volume for the day, taking the average daily temperature for the day and determining the degree days, then subtracting the interruptible usage from the total volume giving us the firm amount.

We then calculated the difference of degree days from the actual temperature to the design day temperature. This was then multiplied by the volume (4,287 dts) to come up with the additional heat sensitive volume needed for the design day. This number was added to the previous number (total volume minus interruptible volume) which gave us out total firm demand volume for design day temperature.

Actual Fiscal Year Peak Day Adjusted To Design Day Temperature of 4.3°

	Actual Volume	Temp.	Adjusted Volume
FY 2000	268,452	21.5	296,815
FY 2001	284,185	15.8	287,864
FY 2002	248,334	23.2	288,243
FY 2003	324,717	7.1	290,862
FY 2004	236,594	24.9	283,050
FY 2005	257,573	20.5	287,138

Fiscal Year 2000		**Nashville**
Actual usage on 01/25/2000 @ 21.5° (43.5 DDD)		268,452
Less: interruptible usage		(45,367)
	Total Firm	223,085
The Nashville Design Day is 60.7 DDD or 4.3°		
Difference between Actual and Design Day (DDD)		17.2
Estimated increase in Firm Usage per degree day		4,287
Increase in Firm usage to arrive @ design day temperature		73,730
	Design Day Demand	296,815

Fiscal Year 2001		**Nashville**
Actual usage on 12/19/2000 @ 15.8° (49.2 DDD)		284,185
Less: interruptible usage		(45,617)
	Total Firm	238,568
The Nashville Design Day is 60.7 DDD or 4.3°		
Difference between Actual and Design Day (DDD)		11.5
Estimated increase in Firm Usage per degree day		4,287
Increase in Firm usage to arrive @ design day temperature		49,296
	Design Day Demand	287,864

Fiscal Year 2002		**Nashville**
Actual usage on 01/03/2002 @ 23.2° (41.8 DDD)		248,334
Less: interruptible usage		(41,108)
	Total Firm	207,226
The Nashville Design Day is 60.7 DDD or 4.3°		
Difference between Actual and Design Day (DDD)		18.9
Estimated increase in Firm Usage per degree day		4,287
Increase in Firm usage to arrive @ design day temperature		81,017
	Design Day Demand	288,243

Fiscal Year 2003		**Nashville**
Actual usage on 01/23/2003 @ 7.1° (57.9 DDD)		324,717
Less: interruptible usage		(45,857)
	Total Firm	278,860
The Nashville Design Day is 60.7 DDD or 4.3°		
Difference between Actual and Design Day (DDD)		2.8
Estimated increase in Firm Usage per degree day		4,287
Increase in Firm usage to arrive @ design day temperature		12,002
	Design Day Demand	290,862

Fiscal Year 2004		**Nashville**
Actual usage on 01/26/2004 @ 24.9° (40.1 DDD)		236,594
Less: interruptible usage		(41,848)
	Total Firm	194,746
The Nashville Design Day is 60.7 DDD or 4.3°		
Difference between Actual and Design Day (DDD)		20.6
Estimated increase in Firm Usage per degree day		4,287
Increase in Firm usage to arrive @ design day temperature		88,304
	Design Day Demand	283,050

Fiscal Year 2005		**Nashville**
Actual usage on 01/18/2005 @ 20.5° (44.5 DDD)		257,573
Less: interruptible usage		(39,878)
	Total Firm	217,695
The Nashville Design Day is 60.7 DDD or 4.3°		
Difference between Actual and Design Day (DDD)		16.2
Estimated increase in Firm Usage per degree day		4,287
Increase in Firm usage to arrive @ design day temperature		69,443
	Design Day Demand	287,138

GasYear Projections

Assume 65 = Base Load

Nashville

65	38,626	38,626	0	0
60	45,863	38,626	7,237	1,447
55	54,283	38,626	15,657	1,566
50	69,500	38,626	30,874	2,058
45	91,567	38,626	52,941	2,647
40	113,922	38,626	75,296	3,012
35	140,817	38,626	102,191	3,406
30	162,332	38,626	123,706	3,534
25	186,365	38,626	147,739	3,693
20	210,727	38,626	172,101	3,824
15	240,943	38,626	202,317	4,046
10	265,778	38,626	227,152	4,130
5	290,726	38,626	252,100	4,202
4.3	298,823	38,626	260,197	4,287

NASHVILLE GAS COMPANY
REVIEW OF NASHVILLE GAS COMPANY'S IPA
RELATING TO ASSET MANAGEMENT FEES
DOCKET NO. 05-00165
CONSUMER ADVOCATE AND PROTECTION DIVISION
SECOND SET OF DISCOVERY REQUESTS
January 3, 2006

DISCOVERY REQUEST NO. 13

Please refer to Nashville Gas Company's response to Interrogatory No. 1 of Audit Staff First Discovery Requests and answer the following:

(a) Did Nashville Gas consider alternative suppliers to provide the total supply to meet the projected total demand requirements for each of the years covered in the response? Please explain your answer.

(b) Were more peaking supplies considered to replace some of the firm supplies? Please explain your answer.

(c) What alternatives were considered for meeting the projected load requirements of Nashville Gas? Please, explain your answer.

RESPONSE:

(a) Yes. Nashville considers alternate suppliers through its supply RFP process.

(b) Nashville Gas Company considers all available supply alternatives at the time of contracting for new capacity. Short-term firm peaking supplies (citygate-delivered supply and firm capacity/supply) acquired by Nashville Gas Company are incremental to its long-term firm supplies. The sum of these short-term firm peaking and long-term firm supplies are required each year to cover design day demand projections.

(c) The short-term firm peaking supplies were acquired pursuant to an RFP. The RFP stipulated Nashville Gas' needs (i.e. delivery to the west-side of the distribution system via Tennessee Gas Pipeline or to the east-side of the distribution system via Columbia Gulf Transmission or Texas Eastern transmission) based on the projected load requirements of the Nashville distribution system.

NASHVILLE GAS COMPANY
REVIEW OF NASHVILLE GAS COMPANY'S IPA
RELATING TO ASSET MANAGEMENT FEES
DOCKET NO. 05-00165
CONSUMER ADVOCATE AND PROTECTION DIVISION
SECOND SET OF DISCOVERY REQUESTS
January 3, 2006

DISCOVERY REQUEST NO. 14

In Piedmont's SEC Form 10-K405 filed January 26, 1998 for the fiscal year ending October 31, 1998, Piedmont stated:

> In May 1996, the TRA approved a two-year experimental performance incentive plan effective July 1, 1996. The plan eliminates annual prudence reviews and establishes an incentive sharing mechanism based on differences -in the actual cost of gas purchased and benchmark rates, together with income from marketing transportation arid storage capacity in the secondary market, subject to an overall annual cap of $1,600,000 on gains or losses by the Company. Secondary market transactions include sales for resale, off-system sales, capacity release and other interstate transactions designed to reduce fixed gas costs during off-peak periods.

In TRA Docket No. 03-00313 Piedmont's witness Chuck Fleenor testified (direct) at page 5, line 17 to page 6, line 5:

> Nashville gas must pay a demand charge to reserve the right to purchase and transport gas, when the gas is needed by our customers. We generally pay this charge under our primary firm transportation contracts 365 days a year whether or not the gas is required year around to serve our core customers...rates for firm customers should reflect the fact that such customers have a "first call" on our gas and that we pay a demand charge to our capacity suppliers and incur other fixed expenses to ensure that sufficient volumes of gas will be available when needed...it is of benefit to all our ratepayers to increase utilization of the system and its capacities on a year round basis.

In TRA Docket No. 03-00313 Piedmont's witness David Carpenter testified (direct) at page 4, lines 3-5:

> Exhibit_(DRC-2) compares billing determinants by rate class used in this case with those filed in our last rate case. The conclusion reached from this comparison is that the usage per customer is declining in every market sector.

Piedmont's witness David Carpenter also testified (direct) from page 5 line 22 to page 6 line 7:

Q. What can Nashville Gas do to properly react to this trend?
A. Since the majority of our revenue is recovered through volumetric charges, it is obvious that declining usage trends place increased pressure on us to file for rate relief more frequently than would be necessary if this decline in usage was not occurring. In order to decrease the vulnerability of our earnings, to properly assign costs to causation, and to diminish the pressure for repeated rate cases, we are requesting that a greater portion of our revenue be recovered through fixed monthly charges, which are not subject to usage-based variations.

In FERC Docket Nos. RM98-10-000 & RM98-12-000, Order No. 637, Regulation of Short-Term Natural Gas Transportation Services, and Regulation of Interstate Natural Gas Transportation Services, issued February 9, 2000; at page 94 FERC stated:

> Peak And Off-Peak Rates
> Use of peak/off-peak, or seasonal, rates for pipeline services could improve efficiency in the market place by better accommodating regulation to seasonal demand for capacity, and at the same time could benefit long-term captive customers. Therefore, as discussed below, the Commission will permit pipelines to institute peak/off-peak rates for all short-term services, i.e., short-term firm and interruptible service and multi-year seasonal contracts, as one possible method of promoting allocative efficiency that is consistent with the goal of protecting customers from monopoly power.

In light of Mr. Carpenter's testimony that "usage per customer is declining in every market sector" in Nashville; Mr. Fleenor's testimony that "We generally pay this charge under our primary firm transportation contracts 365 days a year whether or not the gas is required year around;" Piedmont's statement in its SEC filing that "capacity release is...designed to reduce fixed gas costs during off-peak periods;" and FERC's approval of on-peak short-term firm capacity sales by pipelines; please respond to the following:

(a) Explain why Piedmont increased its supply of off-peak firm capacity by nearly 30 percent from the plan year 1998-1999 to the plan year 2004-2005 while at the same time reducing its peak-only capacity by nearly 6 percent from the plan year 1998-1999 to the plan year 2004-2005 (refer to Piedmont's response to the Audit Staff's Interrogatory No. 1).

(b) According to a Tennessee Gas Pipeline's Order No. 637 Compliance Tariff Filing of Sept 8, 2004 with FERC, Piedmont entered in a long-term discounted contract for 74,100 Dth effective from Nov. 1, 2004 to Oct 31, 2014. In light of the conditions described above, did Piedmont consider contracting for a smaller amount of long-term capacity and increasing short-term firm peaking capacity to meet Nashville's demand in the peak period? Please explain your answer.

(c) Do capacity release transactions occur during off-peak periods? Please explain your answer.

(d) If gas usage per customer declines in every market sector in Nashville, does increasing the amount of off-peak firm capacity also increase, on a per customer basis, the amount of capacity available for capacity-release by Piedmont or its asset manager in off-peak periods? Please explain your answer.

(e) Can Piedmont properly react to the trend of declining usage per customer in Nashville by reducing the amount of off-peak firm capacity that Piedmont contracts for Nashville? Please explain your answer.

(f) Can Piedmont decrease the vulnerability of its earnings in Nashville by reducing the amount of off-peak firm capacity that Piedmont contracts for Nashville? Please explain your answer.

(g) Does Piedmont have any records, correspondence, studies, or reports which indicate or prove that Piedmont intends, or has ever intended to reduce the amount of off-peak firm capacity contracted for Nashville? If so, please produce a copy of any such documents.

(h) Does Piedmont consider its off-peak capacity, when it is not needed to serve its customers in Nashville, as capacity that is available for capacity release transactions in the interstate natural gas transportation market? Please explain your answer.

RESPONSE:

(a) Piedmont does not subscribe to off-peak firm capacity. During this period, Piedmont increased its long term firm seasonal and year-round capacity in order to serve additional growth on Nashville's system. Short-term firm peaking supplies cannot be relied

upon each year to cover design day demand of the Nashville distribution system, since it is not known until immediately prior to the winter season, whether any short-term peaking supplies/capacity is available for that coming winter. Thus, the short-term firm peaking supplies used by Nashville Gas from plan years 1998-1999 through plan years 2004-2005, served as a bridge until Piedmont was able to contract for long-term, reliable capacity/supplies.

(b) Piedmont evaluates all capacity options available at the time a pipeline contract is due for renewal or when a new capacity contract is required to satisfy firm sales demand requirement.

(c) Yes, capacity release transactions occur during off-peak periods. To the extent that it is **known** that capacity will not be needed to fulfill the Company's firm requirements, capacity is available to be released into the secondary market. This occurs primarily during the summer period. The Company would be hesitant to release capacity during the winter period for an extended period of time even if weather forecasts indicate that capacity would not be needed due to the extent of weather variations and its firm delivery responsibility. The Company releases all of its capacity to the asset manager during the winter period, but maintains a city-gate delivery requirement from the asset manager for the released capacity.

(d) Assuming a decrease in customer usage per customer whether or not capacity would be available for capacity release would be a function of the number of customers additions to the system in any given time period, the load characteristic of any such new customers and the interruptible market demand during off-peak periods.

(e) No. While individual usage per customer is declining, total growth on the Nashville Gas system is increasing.

(f) Nashville Gas Company is unable to respond to this discovery request because it does not understand the question. As a general statement, Piedmont's earnings from the provision of natural gas local distribution service within the State of Tennessee are not impacted by the amount or form of capacity it holds on upstream pipelines or storage facilities.

(g) Due to growth, Nashville Gas Company has not reduced its capacity assets in the last 10 years. All capacity additions have been incremental in nature. When subscribing to capacity, NGC always considers all options available at that time to meet its system needs efficiently and economically.

(h) See response No. 14(c).

NASHVILLE GAS COMPANY
REVIEW OF NASHVILLE GAS COMPANY'S IPA
RELATING TO ASSET MANAGEMENT FEES
DOCKET NO. 05-00165
CONSUMER ADVOCATE AND PROTECTION DIVISION
SECOND SET OF DISCOVERY REQUESTS
January 3, 2006

DISCOVERY REQUEST NO. 15

In FERC's Order No. 637, FERC stated that the use of released capacity made possible the development of "virtual pipelines" that can be created when a marketer or other shipper acquires capacity on interconnecting pipelines and can schedule gas supplies across the interconnect -- thereby creating, in effect, a new pipeline between receipt and delivery points that are not physically connected under a single pipeline management. See Order No. 637 Final Rule at p. 18 issued on February 9, 2000 in FERC Docket Nos. RM98-10-000 (Regulation of Short-Term Natural Gas Transportation Services) and RM98-12-000 (Regulation of Interstate Natural Gas Transportation Services). Please answer the following:

(a) State whether you agree or disagree with FERC's statement and, if you disagree, please explain why you disagree.

(b) Has Piedmont ever created a "virtual pipeline" for itself through Piedmont's capacity release activities, whereby the virtual pipeline's source of capacity is Piedmont's released capacity from off-peak firm capacity contracted for Nashville Gas? Please explain your answer.

RESPONSE:

(a) Nashville Gas Company interpret's FERC's statement to be designed to illustrate some of the benefits of capacity release transactions whereby parties, such as marketers who subscribe to released capacity, may have the ability in some circumstances to combine two or more released capacity segments on two or more interstate pipelines to provide service to end users over multiple pipelines. Nashville Gas Company understands the analogy used by FERC but does not believe that these types of arrangements constitute the equivalent of fully functional

alternative pipelines. Primary considerations in this regard are the fact that capacity release transactions across multiple pipelines are subject to a variety of possible restrictions that transactions on a single physical pipeline would not experience. Prior to the implementation of capacity release, however, service provided over multiple pipelines could only be provided by those pipelines acting in concert.

(b) Nashville Gas Company is unable to respond to this discovery request because it does not understand the question.

NASHVILLE GAS COMPANY
REVIEW OF NASHVILLE GAS COMPANY'S IPA
RELATING TO ASSET MANAGEMENT FEES
DOCKET NO. 05-00165
CONSUMER ADVOCATE AND PROTECTION DIVISION
SECOND SET OF DISCOVERY REQUESTS
January 3, 2006

DISCOVERY REQUEST NO. 16

Does Piedmont have an ownership interest in the GreenBriar Pipeline? If so, please state the percentage of ownership interest that Piedmont holds in GreenBriar Pipeline.

RESPONSE: Piedmont has no ownership interest in the Greenbriar Pipeline.

NASHVILLE GAS COMPANY
REVIEW OF NASHVILLE GAS COMPANY'S IPA
RELATING TO ASSET MANAGEMENT FEES
DOCKET NO. 05-00165
CONSUMER ADVOCATE AND PROTECTION DIVISION
SECOND SET OF DISCOVERY REQUESTS
January 3, 2006

DISCOVERY REQUEST NO. 17

Please produce a copy of GreenBriar's business Plan.

RESPONSE: Piedmont Natural Gas does not have access to GreenBriar's business plan.

NASHVILLE GAS COMPANY
REVIEW OF NASHVILLE GAS COMPANY'S IPA
RELATING TO ASSET MANAGEMENT FEES
DOCKET NO. 05-00165
CONSUMER ADVOCATE AND PROTECTION DIVISION
SECOND SET OF DISCOVERY REQUESTS
January 3, 2006

DISCOVERY REOUEST NO. 18

Does Piedmont consider its capacity release transactions as a way for Piedmont to compete with pipelines in the interstate natural gas transportation market? Please explain your answer.

RESPONSE: Piedmont engages in capacity release transactions primarily to minimize costs and to provide offsetting savings for its ratepayers (and potentially the Company) associated with the productive use of interstate pipeline capacity that is not needed to serve its customers during the term of the release. As a practical matter, all capacity release transactions on a given pipeline compete to some degree or other (depending upon the specific circumstances of the release and the pipeline) with (1) other capacity release transactions, (2) pipeline short-term firm service, and (3) pipeline interruptible transportation service. Piedmont views this competition as an ancillary result of its capacity release transactions but not the primary purpose thereof.

NASHVILLE GAS COMPANY
REVIEW OF NASHVILLE GAS COMPANY'S IPA
RELATING TO ASSET MANAGEMENT FEES
DOCKET NO. 05-00165
CONSUMER ADVOCATE AND PROTECTION DIVISION
SECOND SET OF DISCOVERY REQUESTS
January 3, 2006

DISCOVERY REQUEST NO. 19

Does Piedmont consider capacity release transactions carried out by its asset manager as a way for Piedmont to compete with pipelines in the interstate natural gas transportation market? Please explain your answer.

RESPONSE: Piedmont has no specific intent to compete with interstate pipelines in releasing capacity, entering into asset management arrangements, or otherwise. Interstate pipelines are an integral component of the means by which Piedmont obtains receipt of the gas which it ultimately delivers to end-users. Further, Nashville Gas Company is not privy to the details of how its various asset managers have utilized Nashville Gas Company's capacity rights when they were not being used to serve the Company's Tennessee customers. Accordingly, Piedmont is not sure whether its asset managers compete in some way with interstate pipelines or not.

NASHVILLE GAS COMPANY
REVIEW OF NASHVILLE GAS COMPANY'S IPA
RELATING TO ASSET MANAGEMENT FEES
DOCKET NO. 05-00165
CONSUMER ADVOCATE AND PROTECTION DIVISION
SECOND SET OF DISCOVERY REQUESTS
January 3, 2006

DISCOVERY REOUEST NO. 20

Does Piedmont consider its asset manager a "replacement shipper," where the term "replacement shipper" has the same meaning as used by FERC's Order No. 637 and later orders implementing Order No. 637? See Order No. 637 Final Rule at p. 134 issued on February 9, 2000 in FERC Docket Nos. RM98-10-000 (Regulation of Short-Term Natural Gas Transportation Services) and RM98-12-000 (Regulation of Interstate Natural Gas Transportation Services). Please explain your answer.

RESPONSE: In instances where Piedmont has released capacity to the asset manager, the asset manager is a replacement shipper because FERC policies and regulations require them to be replacement shippers in order to utilize Piedmont's capacity rights.

NASHVILLE GAS COMPANY
REVIEW OF NASHVILLE GAS COMPANY'S IPA
RELATING TO ASSET MANAGEMENT FEES
DOCKET NO. 05-00165
CONSUMER ADVOCATE AND PROTECTION DIVISION
SECOND SET OF DISCOVERY REQUESTS
January 3, 2006

DISCOVERY REQUEST NO. 21

In FERC dockets PL03-3-000 (Price Discovery in Natural Gas and Electric Markets) and AD03-7-000 (Natural Gas Price Formation), Piedmont responded to a FERC inquiry by telling FERC on March 26, 2004 that "absent the safe harbor provision, it would have been difficult (or even unacceptable) for Piedmont to place itself and its employees engaged in reporting transactional information [to index developers] at the risk of sanctions, fines and other repercussions for inadvertent conveyance of incomplete or technically mistaken information." See Piedmont Natural Gas Company, Inc.'s Response to FERC Staff Request for Comments at p. 2 filed on March 26, 2004 in FERC Docket Nos. PL03-3-000 (Price Discovery in Natural Gas and Electric Markets) and AD03-7-000 (Natural Gas Price Formation). Why does Piedmont report transactions to index developers when all transactions are carried out by the asset manager, as Piedmont claims? Please explain your answer.

RESPONSE: First, the reporting requirement identified above is for the reporting of the sales price of gas delivered to certain points and is not a capacity release price reporting mechanism. Second, Piedmont does not agree that all transactions are carried out by its asset managers. Notwithstanding its asset management agreements, Piedmont retains the right to and actively engages in capacity release and other transactions utilizing its capacity rights in order to ensure service to its customers and maximize the value of its assets. Piedmont reports all appropriate transactions in which it engages but does not report sales transactions engaged in by its asset managers.

NASHVILLE GAS COMPANY
REVIEW OF NASHVILLE GAS COMPANY'S IPA
RELATING TO ASSET MANAGEMENT FEES
DOCKET NO. 05-00165
CONSUMER ADVOCATE AND PROTECTION DIVISION
SECOND SET OF DISCOVERY REQUESTS
January 3, 2006

DISCOVERY REOUEST NO. 22

In FERC dockets PL03-3-000 and AD03-7-000, Piedmont responded to a FERC inquiry by telling FERC on March 26, 2004 that "Piedmont engages in off-system sales and hedging activity to...minimize the cost paid by customers." See Piedmont Natural Gas Company, Inc.'s Response to FERC Staff Request for Comments at p. 1 filed on March 26, 2004 in FERC Docket Nos. PL03-3-000 (Price Discovery in Natural Gas and Electric Markets) and AD03-7-000 (Natural Gas Price Formation). Explain how Piedmont minimizes costs for its customers while Piedmont is "unaware of the actual source or cost of' gas supply from the asset manager, as Piedmont stated in response to Discovery Request No. 9 of the Consumer Advocate's First Set of Discovery Requests.

RESPONSE: Piedmont reduces costs for its customers because of the payment received from the asset manager for the right to utilize the Company's released assets when they are not needed to supply the Company's requirements. The Company does not know the actual source or cost of supply the asset manager utilizes to fulfill its supply obligations to the Company. The asset manager has a city-gate supply obligation. The asset manager can use any supply or transportation available to it to fulfill its supply commitment. The asset manager does have the commitment to bill the Company as if it did use the Company's assets as requested by the Company. Any cost savings or additional supply costs incurred by the asset manger in fulfilling its supply obligation to the Company are either kept or borne by the asset manager.

DISCOVERY REQUEST NO. 23

Does Piedmont consider its asset manager a least-cost supplier of gas? Please explain your answer.

RESPONSE: No, the Company has and continues to maintain a "best cost" gas purchasing policy. This policy consists of five main components -- the price of the gas, the security of the gas supply, the flexibility of the gas supply, gas deliverability and supplier relations. All of these components are interrelated, and we will continue to weigh the relative importance of each of these factors when developing an overall gas supply portfolio to meet the needs of our customers.

The "price of the gas" refers to the delivered cost of gas to Nashville's city gate. In order to properly judge prices at a comparable transaction point, the Company evaluates purchase prices at the pipeline city gate points of delivery into Nashville's distribution facilities. With the unbundling of the interstate pipeline industry, substantial flexibility exists in structuring gas supply arrangements. The majority of the Company's supply purchases take place at "pooling points" into the pipeline on which the Company holds firm transportation capacity rights. These "pooling point" supply purchases from producers and marketers include the commodity cost of gas at the pooling points and the fuel to be retained by the downstream pipeline transporter. Commodity transportation charges are also assessed separately by pipelines. Any "best cost" analysis that solely considered supply area or "pooling point" cost would fail to recognize the varying cost in fuel and commodity costs associated with transporting purchases from different

supply area locations to the Company's city gate. In the case of "bundled" city gate supply purchases, the Company may pay the gas supplier an all-inclusive price that covers the cost of gas, fuel and transportation charges. Of course, peaking and storage services may add additional injection, withdrawal, and related fuel charges to the city gate cost of gas. All of these cost components must be taken into account in evaluating the "price of the gas."

"Security of gas supply" refers to the assurances that the supply of gas will be available when needed. Obviously, it is important to maintain a high level of supply security for the Company's firm customers who have no alternate fuel capability. Security of gas supply is less important for our interruptible customers who have access to alternate fuels. In order to reserve firm gas supplies under contract, fixed reservation fees are generally required in addition to the commodity cost of gas. In addition, the geographic source of supply, the nature of the supplier's portfolio of gas supplies (especially during critical conditions) and negotiated contract terms must be considered when evaluating the level of supply security. Thus, the security of gas supply is interrelated with the price of gas and the other components of the Company's "best cost" purchasing policy.

"Flexibility of gas supply" refers to our ability to adjust the volume of a particular gas supply as operating and market conditions change from time to time. For example, firm heat sensitive customers will vary their consumption depending on the weather conditions in the Company's service areas. Interruptible customers will vary their level of purchase depending on the price of alternate fuels and the demand for product in their own industry. Thus, the Company must arrange a portfolio of gas supplies and storage service flexible enough to meet the daily and

monthly "swings" in the market place. Contractual gas supply "swing rights" are implemented through periodic renominations with gas suppliers and through injections into and withdrawals from storage.

"Gas deliverability" refers to the ability to obtain Piedmont's gas supplies at the city gate through reliable transportation and storage capacity arrangements. The unbundling of the interstate pipeline industry has created a complex system of multiple pipeline services and service combinations. Transportation arrangements can involve supply area gathering services, intrastate transportation, interstate lateral line and pooling services, multiple interstate pipeline transportation and storage arrangements, and balancing and peaking services. The marketplace for pipeline capacity service is dynamic, with supply and demand determining availability. It is important that we secure and maintain transportation and storage capacity rights to ensure the deliverability of our gas supplies to meet the peak day, seasonal, and annual needs of our customers. Of course, pipeline capacity contracts require the payment of fixed demand charges to reserve firm transportation or storage entitlements. The Company is active in proceedings at FERC not only with respect to the level of pipeline charges under these contracts, but also the tariff terms and conditions that apply to these pipeline services.

"Supplier relations" refers to the dependability, integrity and flexibility of a particular gas supplier. We contract with gas suppliers who have a reputation of honoring their contractual commitments and have proven themselves as reliable suppliers. Conversely, we avoid suppliers which have a reputation of defaulting on contract obligations or who unilaterally interpret

contracts to their advantage. We prefer to deal with suppliers who are constantly looking for ways to improve service and offer "win-win" solutions for meeting customer needs.

Because the asset manager bills the Company for city gate deliveries at a cost derived from the assets released to him and their requested usage, the Company would consider the asset manager a "best cost" supplier of gas.

NASHVILLE GAS COMPANY
REVIEW OF NASHVILLE GAS COMPANY'S IPA
RELATING TO ASSET MANAGEMENT FEES
DOCKET NO. 05-00165
CONSUMER ADVOCATE AND PROTECTION DIVISION
SECOND SET OF DISCOVERY REQUESTS
January 3, 2006

DISCOVERY REQUEST NO. 24

In response to Discovery Request No. 1, of the Consumer Advocate's First Set of Discovery Requests; Nashville Gas Company objected to the scope of the discovery request and stated that it has not yet determined whether to call any "independent expert witnesses." The Consumer Advocate propounds the following question:

Please identify each person whom you expect to call as an expert witness at any hearing in this docket -- regardless of whether such expert witness is hired as an "independent expert witness" or whether such expert witness is employed by Nashville Gas Company, Piedmont Natural Gas Company, or any other company -- and for each such expert witness:

(a) State the subject matter on which the expert witness is expected to testify;

(b) State the substance of the facts and opinions to which the expert witness is expected to testify;

(c) Provide the grounds (including any factual bases) for each opinion to which the expert witness is expected to testify;

(d) Provide complete background information, including the expert's current employer as well as his or her educational, professional and employment history, and qualifications within the field in which the witness is expected to testify, and identify all publications written or presentations presented in whole or in part by the witness;

(e) Identify any matter in which the expert has testified (through deposition or otherwise) by specifying the name, docket number and forum of each case, the dates of the prior testimony and the subject of the prior testimony, and identify the transcripts of any such testimony;

(f) Identify the terms of the retention or engagement of each expert including but not limited to the terms of any retention or engagement letters or agreements relating

to his/her engagement, testimony, and opinions as well as the compensation to be paid for the testimony and opinions; and

(g) Identify any exhibits to be used as a summary of or support for the testimony or opinions provided by the expert.

(h) Produce a copy of all documents (defined above) relied upon by the expert witness for the facts and opinions to which the expert witness is expected to testify.

If Nashville Gas objects to a particular subsection(s) of this interrogatory but not to other subsections, please provide a complete answer for each subsection for which there is no objection. If Nashville Gas objects to any subsection(s) of this interrogatory pursuant to the Tennessee Rules of Civil Procedure or any other rule of law, please state in detail the factual and legal bases for each such objection.

RESPONSE: Piedmont has not made a final determination as to which internal personnel (or outside experts) may testify at the hearing of this matter on matters within their respective expertise but is currently considering the following individuals to provide testimony in the described areas:

1. Keith Maust. Mr. Maust may testify as to the Company's natural gas commodity and supply arrangements and contracts as well as secondary market, gray market, capacity release, asset management, hedging and off-system sales activities, including those that impact Tennessee ratepayers. Mr. Maust may also testify as to the relationship between the Company's performance incentive plan and its various asset management

arrangements, as well as the cost-saving sharing mechanisms in place in North Carolina and South Carolina.

2. Jim Jessee. Mr. Jessee may testify to some or all of the subject matters identified for Mr. Maust.

3. Ken Valentine. Mr. Valentine may testify as to the Company's interstate pipeline capacity and storage arrangements and contracts as well as the planning for and acquisition for the Company's peak day needs and the capacity requirements needed to efficiently meet the Company's load profile. Mr. Valentine may also testify as to the Company's reserve margin requirements and satisfaction of those requirements.

4. Rich Flebbe. Mr. Flebbe may testify to some or all of the subjects identified for Mr. Valentine.

5. Chuck Fleenor. Mr. Fleenor may testify to the process, substance and procedures relating to the approval of the Company's performance incentive plan by the Tennessee Public Service Commission and then the Tennessee Regulatory Authority and the treatment of that plan during the period since it was approved, including multiple authorizations to treat asset management fees under the plan. Mr. Fleenor may also testify as to why it is appropriate to continue treating asset management fees under the plan.

6. Bill Morris. Mr. Morris may testify to some or all of the subjects identified for Mr. Fleenor.

Nashville Gas Company is also actively considering the retention Lukens Energy Group as outside experts to testify about the larger context of asset management, capacity release, and similar arrangements in the national wholesale markets for capacity and supply. No decision has been made to retain this firm at this time.

Based on the lack of determination at this time as to who will testify on behalf of Nashville Gas Company and the precise nature of what their testimony will be, Nashville Gas Company is not able to respond to the remaining questions in this request at this time. Nashville Gas Company will supplement its response to this data request upon reaching a final determination as to who will testify on its behalf.

NASHVILLE GAS COMPANY
REVIEW OF NASHVILLE GAS COMPANY'S IPA
RELATING TO ASSET MANAGEMENT FEES
DOCKET NO. 05-00165
CONSUMER ADVOCATE AND PROTECTION DIVISION
SECOND SET OF DISCOVERY REQUESTS
January 3, 2006

DISCOVERY REQUEST NO. 25

In response to Discovery Request No. 10 of the Consumer Advocate's First Set of Discovery Requests, Nashville Gas Company objected to the discovery request on the ground that the interrogatory was overbroad, unduly burdensome and seeks discovery of privileged information. The Consumer Advocate propounds the following question:

Please state all facts that Nashville Gas Company will rely upon to support any contention that asset management fees are properly included in the performance incentive plan.

RESPONSE: Nashville Gas Company objects to this request as overbroad and unduly burdensome to the extent that it seeks disclosure and recitation of each and every discrete fact upon which Nashville Gas Company may rely in presenting its case in this docket. Nashville Gas Company further objects to this request on the grounds that it seeks the disclosure of the mental impressions and evaluations of Nashville Gas Company's counsel to the extent that the requested identification necessarily and unavoidably discloses certain evaluations by such counsel regarding the relevance and probative value of individual facts. Further, Nashville Gas Company is in the continuing process of evaluating all facts and gathering all evidence that will support its position in this proceeding that asset management fees are properly included within its performance incentive plan and does not assert that it has complete knowledge of all such facts at this time. Nashville Gas Company expects that this process will continue at least through the filing of testimony in this proceeding and probably until the hearing is completed. Without waiving these objections, Nashville Gas Company identifies the following facts which it

presently contends support its position that asset management fees are and should be included within the terms of its performance incentive plan:

1. Asset management is a form of bulk capacity release.
2. Capacity release transactions are included under Nashville Gas Company's performance incentive plan.
3. Asset management has evolved into a relatively common place industry practice.
4. Asset management can, in certain circumstances, yield higher values for released capacity than single release transactions (even in the aggregate).
5. Asset management has yielded beneficial results for Tennessee ratepayers and Nashville Gas Company under the terms of Nashville Gas Company's approved performance incentive plan.
6. Nashville Gas Company's performance incentive plan has been reviewed and approved by both the Tennessee Public Service Commission and the Tennessee Regulatory Authority.
7. Asset management fees were included under Nashville Gas Company's incentive plan account without objection from the TRA Staff or CAD for several years.
8. Asset management fees have been included in Nashville Gas Company's Incentive plan account, with the approval of the Tennessee Regulatory Authority for at least the last 5 years.
9. The purpose of Nashville Gas Company's performance incentive plan is to align the interests of Nashville Gas Company and its customers such that both capacity

and supply assets are managed in a way that is economically beneficial to both customers and the company.

10. The efforts by Nashville Gas Company personnel to administer asset management arrangements are not materially different from the efforts necessary to engage in individual release transactions.

11. Nashville Gas Company continues to engage in individual capacity release and similar transactions.

12. The balance of risks and rewards under Nashville Gas Company's performance incentive plan are spread across all aspects and mechanisms of the plan.

13. The Tennessee Regulatory Authority has approved the balance of risks and rewards set forth in the plan.

14. All incentive plan savings attributable to asset management fees have, to date, been treated according to the plan.

15. The balance of risks and rewards contained in Nashville Gas performance incentive plan are different than those associated with capacity and supply management plans in other states.

16. There is no objective basis to change the decision made by the Tennessee Regulatory Authority in its prior orders regarding Nashville Gas Company's approved performance incentive plan.

DISCOVERY REQUEST N0. 26

If your response to any Request for Admission propounded in this docket is other than an unqualified admission, state for each such Request for Admission the following:

(a) all facts that you contend support in any manner your refusal to admit or your. qualification of your admission;

(b) the name and address of all persons, including, but not limited to, consultants purporting to have any knowledge or factual data upon which you base your refusal to admit or your qualification of your admission;

(c) the identity of all documents, or any tangible or intangible thing, that supports in any manner your lack of admission or your qualification of your admission;

(d) the name and address of the custodian of all documents and tangible things identified in response to subsection (c); and

(e) the correct information for any Request for Admission that you contend is incorrect or inaccurate.

RESPONSE: Request for Admission 1. Piedmont did not subscribe to the amount of capacity identified on the date specified in this request. Individuals who have knowledge of this matter include Ken Valentine, Rich Flebbe and Pia Powers, each of whom is an employee of Piedmont Natural Gas Company at its corporate headquarters in Charlotte, North Carolina. Documents reflecting this fact include Piedmont's capacity contracts and summaries of those contracts.

Request for Admission 2. Piedmont utilized an asset manager prior to the date specified in this request for admission. Keith Maust and Jim Jessee, each of whom are employees of Piedmont Natural Gas Company at its corporate headquarters in Charlotte, North Carolina, have

knowledge of this matter. Documents reflecting this fact include documents reflecting and recording asset management activity prior to April 21, 1999.

Request for Admission 4. Capacity release transactions are not automated and in Piedmont's opinion, inefficiencies in the wholesale market are not a function of the automation (or lack of automation) in effecting capacity release transactions. Keith Maust, an employee located at Piedmont's Charlotte, North Carolina corporate headquarters, has knowledge of this matter. Piedmont is not aware of any documents in its possession directly reflective of this conclusion.

NASHVILLE GAS COMPANY
REVIEW OF NASHVILLE GAS COMPANY'S IPA
RELATING TO ASSET MANAGEMENT FEES
DOCKET NO. 05-00165
CONSUMER ADVOCATE AND PROTECTION DIVISION
SECOND SET OF DISCOVERY REQUESTS
January 3, 2006

DISCOVERY REQUEST NO. 27

If you fail to admit or deny any Request for Admission propounded in this docket based on your asserted lack of information or knowledge, for each such Request for Admission describe your efforts toward satisfying the reasonable inquiry requirement of Rule 36 of the Tennessee Rules of Civil Procedure.

RESPONSE: Nashville Gas Company has admitted or denied each and every request for admission propounded to it in this docket.

STATE OF NORTH CAROLINA

VERIFICATION

COUNTY OF MECKLENBURG

Bill R. Morris, being duly sworn, deposes and says that he is Director of Financial Planning and Rates of Piedmont Natural Gas Company, Inc., that as such, he has read the foregoing Responses and knows the contents thereof; that the same are true of his own knowledge except as to those matters stated on information and belief and as to those he believes them to be true.

Bill R. Morris

Bill R. Morris

Sworn to and subscribed before me
this the 19 day of
January, 2006.

Notary Public

My Commission Expires:

MY COMMISSION EXPIRES 10-29-10

CERTIFICATE OF SERVICE

The undersigned hereby certifies that a copy of the Responses of Nashville Gas Company, a Division of Piedmont Natural Gas Company, Inc., to the Consumer Advocate and Protection Division's Second Set of Discovery Requests is being served upon the parties in this action either by hand delivery or by UPS overnight delivery addressed as follows:

Bill R. Morris
Director of Financial Planning and Rates
Piedmont Natural Gas Company, Inc.
P.O. Box 33068
Charlotte, NC 28233

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

Aaron Rochelle, Esq.
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, Tennessee 37243-0505

Joe Shirley
Assistant Attorney General
Office of the Tennessee Attorney General
Consumer Advocate and Protection Division
425 Fifth Avenue North
Nashville, Tennessee 37243

R. Dale Grimes, Esq.
Bass, Berry & Sims PLC
AmSouth Center
315 Deaderick Street, Suite 2700
Nashville, Tennessee 37238

This the 20th day of January, 2006.

James H. Jeffries IV