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January 25, 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, a Division of Piedmont Natural Gas Company, Inc , to the Audit Staff's Second Discovery Requests

Please accept these Responses for filing and return a 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 25, 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 AUDIT STAFF'S SECOND DISCOVERY REQUESTS

Nashville Gas Company, a Division of Piedmont Natural Gas Company, Inc ("Nashville Gas", or "Company"), pursuant to the Tenn Comp R and Reg 1220-1-1-2- 11, respectfully submits the following responses to the Audit Staff's Second Discovery Requests

General Objections

Nashville Gas objects to Audit Staff's Second 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

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INTERROGATORIES

Interrogatory No 1

Refer to the Company's response to the TRA Staff First Discovery Requests, Request for Production No 5 The request did not ask for asset management contracts between Piedmont and its regulated affiliate companies Provide a copy of all asset management contracts, agreements or arrangements between Piedmont's regulated affiliate companies and their selected asset managers in North Carolina and South Carolina from the first such agreement or arrangement to the present

Response We currently have an asset management agreement in place with Sempra Energy Trading for the Carolina's Columbia Gulf and Columbia Gas Transmission assets However, we currently do not have a fully executed contract and are waiting to receive that from Sempra All other requested agreements are attached

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__Interrogatory No 2__

Refer to the Company's response to TRA Staff First Discovery Requests, Request for Admission No 1 State all evidence, facts, bases, grounds, and reasons that the Company believes supports its denial

Response Please see attached letter from Merrill Lynch

Merrill Lynch

Global Markets & Investment Banking

January 17, 2006

Keith Maust
Piedmont Natural Gas
4720 Piedmont Row Drive
Charlotte, NC 28210
(via e-mail)

Subject   Merrill Lynch's Natural Gas Asset Management History

Dear Keith,

Per your request, I am providing to you background information regarding Merrill Lynch's experience in natural gas asset management

Merrill Lynch's asset management history dates back to 1994 when a company named IMD was formed to provide utility asset optimization services to the market place   In 1998, IMD entered into a trading joint venture with Koch Energy Trading (KET)   KET purchased IMD outright in 2000   KET later entered into a joint venture with the New Orleans based power utility Entergy, and in 2001 Entergy-Koch Trading, LP (EKT) was formed   The asset management capabilities that KET acquired via the IMD acquisition went with the newly formed joint venture   Merrill Lynch acquired EKT in November of 2004 and has continued to provide asset management services

In 1994, IMD entered into it's first deal with a major mid-west gas LDC   IMD managed the utility's production area storage on a released basis under a profits sharing arrangement   The utility added more assets and eventually invested in IMD   In 1995, IMD began optimizing the storage assets of three northeast gas and power utilities These agreements were also pure sharing arrangements

In 1996 IMD began introducing guaranteed payment structures   In 1996, IMD also entered into its first total asset management agreement with a Midwest Utility   Merrill Lynch has continuously managed this portfolio through the present

In 1998, IMD added another Midwest total asset management deal while continuing to service all prior agreements   IMD also entered into a total asset management agreement with a northeast utility around 60% of their portfolio   This utility invested in IMD but sold their interest in 2000 at which time KET purchased 100% of IMD

In 2001, KET entered into a total asset management agreement with a major northwest LDC and in 2002 added a major New England total asset management deal which continues today under Merrill Lynch's management

Presently, Merrill Lynch has asset management deals in place with 17 gas and power utilities throughout the United States

Hopefully this provides you with the background information you are looking for Please feel free to contact me at 713-544-4907 if I can provide any additional information

Sincerely,

Steve Hanan
Merrill Lynch Commodities, Inc

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Interrogatory No 3

If the Company was aware of the practice of using outside asset managers at the time it filed its Application to Establish a Performance Incentive Plan in Docket No 96-00805, explain its reasons for not including language in its capacity release mechanism describing the third party asset management option available to the Company

Response Based on its investigation to date, Nashville Gas does not believe that its employees were consciously aware of asset management practices that may have existed in the industry at the time it filed its Performance Incentive Plan

Interrogatory No 4

Cite any specific situation, published trade article, or other facts which the Company is aware of that demonstrate that an outside asset manager was utilized by any regulated natural gas company as of April 1996

Response Please see Response to Interrogatory No 2

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Interrogatory No 5

When did the Company first become aware that any other regulated natural gas company had a contractual relationship with an outside asset manager? Provide any written documentation evidencing this awareness

Response Nashville Gas has been unable to determine exactly when its employees first became aware of asset management practices in the industry, although based on the best recollection of its employees, that awareness occurred within approximately a year prior to Nashville Gas' entry into its first such arrangement (which occurred in July, 1999) At or about the time that it entered into this agreement, representatives of Nashville Gas Company met with members of the TRA Staff to discuss this contract The Company is in the process of attempting to identify the exact date upon which this meeting occurred but believes that it occurred during mid to late summer of 1999

Interrogatory No 6

When dıd the Company fırst consıder retaınıng the servıces of an outsıde asset manager? Provıde any wrıtten documentatıon evıdencıng thıs consıderatıon

Response Nashvılle Gas has been unable to determıne exactly when ıt fırst consıdered retaınıng the servıces of an outsıde asset manager but belıeves that thıs occurred wıthın sıx to eıght months before ıts meetıng wıth the TRA Staff referenced ın response to Interrogatory No 5 above

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Interrogatory No 7

Has Piedmont ever considered or pursued, either formally or informally, the filing of any type of incentive plan or mechanism for any of its regulated affiliate companies in North Carolina or South Carolina? If so, provide the docket number(s), a copy of the application(s) including any supporting documentation filed under seal, and a copy of the commission order(s) In addition, provide any written proposals, drafts, and correspondence (including e-mails) produced during the informal process of developing such plan or mechanism whether or not the plan or mechanism was filed with the state commission(s)

Response Nashville Gas has not considered or pursued, either formally or informally, the filing of any type of incentive plan for its regulated operations in North Carolina and South Carolina other than the approved 75/25 sharing mechanisms currently in place in those jurisdictions for secondary market sales and capacity release transactions These mechanisms do not, in Nashville Gas' view, constitute incentive plans inasmuch as Piedmont is still subject to full prudence type reviews in both of these jurisdictions and the Company is not at risk for recovery of its prudently incurred gas costs as it is in Tennessee

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Interrogatory No 8

List and explain any differences in level of risk to the regulated company between Nashville Gas asset management agreements and asset management agreements in place for affiliate companies in North Carolina and South Carolina

Response As a general statement, there is no substantive generic difference between the asset management plans entered into by the Company for its Tennessee capacity and those entered into with respect to its Carolinas capacity (although individual contracts may vary some) As such, there is no generic difference in substantive business risk to the Company between these jurisdictions with respect to the asset management agreements themselves There are, however, substantive differences in regulatory risk to the Company based upon the differing manners in which the Company recovers its gas costs in those jurisdictions

Interrogatory No 9

Descnbe in detail any additional nsk that exists in Tennessee that would justify a shanng percentage of almost twice the amount of the percentage approved in North Carolina and South Carolina for the shanng of asset management fees

Response Nashville Gas does not agree that the shanng percentage in Tennessee is twice as large as it is in the Carolinas Because of the structure of the Performance Incentive Plan, that percentage can vary For example, in the first three years of the plan, the aggregate shanng percentage was 67/33 and in the most recent year the percentage was 64/36 See Response to Interrogatory 8 of the TRA Staff's First Discovery Requests Under the Performance Incentive Plan, the Company bears substantial nsk on the commodity side if it fails to outperform the index commodity pnce This nsk does not exist in either North Carolina or South Carolina

Interrogatory No 10

Considering that all gas assets are paid for by consumers and the Company bears no risk of monetary loss, explain specifically what the Company is doing in releasing idle assets that goes beyond the duty and responsibility to consumers expected of a regulated public utility

Response Nashville Gas does not agree with the assumptions underlying this question First, Nashville Gas does bear substantial risk of monetary loss under the terms of its Performance Incentive Plan as is apparent from the structure and provisions thereof Second, Nashville Gas' duty and responsibility to consumers with respect to managing gas costs in Tennessee are defined by the terms of its TRA approved Performance Incentive Plan Nashville Gas' actions in Tennessee have been defined under and controlled by its Performance Incentive Plan which has resulted in substantial economic benefits for Tennessee ratepayers

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REQUESTS FOR ADMISSIONS

Request for Admission No 1

Nashville Gas' consumers own 100% of the assets subject to transactions negotiated by the Asset Manager

Response Denied Nashville Gas is the owner of all assets subject to asset management arrangements

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Request for Admission No 2

The actual operating cost to the Company of using an external asset manager is less than the cost of performing the asset management function internally

Response Denied

<u>Request for Admission No 3</u>

The use of an outside asset manager by Nashville Gas is intended to increase the Company's profits with no monetary risk

Response Denied The use of an outside asset manager is intended to extract the maximum value out of available unutilized assets for the benefit of the Company's ratepayers and the Company, whose interest are aligned under the Performance Incentive Plan

Request for Admission No 4

The percentage of asset management fees by the Company is in essence a commission or brokerage fee for arranging the deal

Response Denied Fees received by the Company (and its ratepayers) in relation to asset management arrangements represent the market value of the unutilized assets and the Company's share of those fees is determined under the terms of the Performance Incentive Plan and dependent upon the Company's performance under all aspects of that plan

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Request for Admission No 5

The Company's role in performing due diligence regarding the excess assets is no different than that of a broker leasing someone else's property

Response Denied

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Request for Admission No 6

The monetary benefit to consumers would increase with a lower-sharing percentage to the Company

Response Denied As a mathematical proposition in a net sum scenario where two parties share a fixed sum based on allocated sharing percentages, any change in the sharing percentage of one party will result in a corresponding change in the sharing percentage of the other party The Company does not view either its Performance Incentive Plan or its entry into asset management arrangements as net sum equations

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Request for Admission No 7

It would still be profitable for the Company to engage the services of an asset manager with a retention percentage of 5%

Response The Company is not able to admit or deny this Request for Admission because it has not performed (and does not have the data available to perform) an economic analysis to determine if the additional costs associated with conducting asset management arrangements would be offset by a five percent (5%) retention percentage

<u>Request for Admission No 8</u>

The Company would enter into asset management agreements with a lower-sharing percentage based on the fees paid by the asset manager

Response Denied In order to make this determination, individual analysis of specific asset management arrangements would be required as would an analysis of the overall relative risks/benefits of each such arrangement

Request for Admission No 9

The process of assigning certain rights to consumer-owned assets to an external asset manager in exchange for a fee is not a "savings" achieved by the Company in procuring those assets

Response Denied First, the Company does not agree that consumers own the Company's capacity and supply assets Second, fees paid by asset managers do constitute savings under the Performance Incentive Plan because they represent fees paid for capacity release transactions

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Request for Admission No 10

Given the regulated companies responsibility of due diligence, the retention of almost 50% of the proceeds from the use of consumer owned assets is a windfall profit for Nashville Gas

Response Denied

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

Sworn to and subscribed before me
this the 24 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 Audit Staff's Second Discovery Requests is being served upon the parties in this action either by hand delivery or by UPS overnight delivery addressed as follows

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This the 25th day of January, 2006

James H. Jeffries IV