BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

May 25, 2006

IN RE:	)	
	)	
NASHVILLE GAS COMPANY, a Division of PIEDMONT NATURAL GAS COMPANY WEATHER NORMALIZATION ADJ. (WNA) AUDIT	)	**Docket No. 06-00147**

NOTICE OF FILING BY THE UTILITIES DIVISION OF THE TENNESSEE REGULATORY AUTHORITY

Pursuant to Tenn. Code Ann. §§65-4-104, 65-4-111 and 65-3-108, the Utilities Division of the Tennessee Regulatory Authority (the "Utilities Division") hereby gives notice of its filing of the Nashville Gas Company WNA 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 (the "Company").

2. The Company's WNA filings were received November 1, 2005, through March 31, 2006, and the Staff completed its audit of same on May 19, 2006.

3. The Staff Audit produced no findings.

4. The Report is attached hereto as Exhibit A and is fully incorporated herein by this reference.

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

Respectfully Submitted:

Paul D. Greene

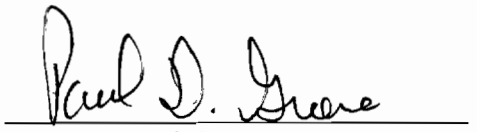
Paul Greene
Utilities Division of the
Tennessee Regulatory Authority

CERTIFICATE OF SERVICE

I hereby certify that on this 25th day of May 2006, 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:

Ron Jones
Chairman
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37243

David R. Carpenter
Director – Regulatory Affairs
Piedmont Natural Gas Company
P.O. Box 33068
Charlotte, North Carolina 28233



Paul Greene

COMPLIANCE AUDIT REPORT

OF

NASHVILLE GAS COMPANY

WEATHER NORMALIZATION ADJUSTMENT (WNA) RIDER

DOCKET NO. 06-00147

PREPARED BY

TENNESSEE REGULATORY AUTHORITY

UTILITIES DIVISION

MAY 2006

COMPLIANCE AUDIT OF

NASHVILLE GAS COMPANY

WEATHER NORMALIZATION ADJUSTMENT (WNA) RIDER

Docket No. 06-00147

TABLE OF CONTENTS

COMPLIANCE AUDIT OF

NASHVILLE GAS COMPANY'S

WEATHER NORMALIZATION ADJUSTMENT (WNA) RIDER

I. INTRODUCTION AND AUDIT OPINION

The subject of this compliance audit is the Weather Normalization Adjustment (WNA) Rider of Nashville Gas Company (hereafter "NGC" or the "Company"), a division of Piedmont Natural Gas Company. The objective of this audit is to determine if the WNA adjustments were calculated correctly and applied to customers' bills appropriately between November 1, 2005 and March 31, 2006. As a result of the WNA Rider, the Company surcharged a net $1,297,189 and $679,375 to the residential and commercial customers respectively during the period. The impact of WNA revenues on the Company's total revenues is detailed in Section V.

The Audit Staff's audit results produced no findings for the audit period. Staff concludes that the Company is correctly implementing the mechanics of the WNA Rider as specified by the Tennessee Regulatory Authority ("TRA" or the "Authority") and included in the Company's tariff (See Attachment 1).

II. SCOPE OF AUDIT

In meeting the objective of the audit, the Audit Staff compared the following on a daily basis: (1) the Company's actual heating degree days to National Oceanic and Atmospheric Administration (NOAA) actual heating degree days; (2) the Company's normal heating degree days to the normal heating degree days calculated in the last rate case; and (3) the Company's calculation of the WNA factor to Staff's calculation. In addition, the Audit Staff audited a sample of customers' bills during the WNA period to verify that the WNA factor had been correctly applied to the customer bills. The Audit Staff also examined each sample bill to determine if the correct Base Rates and Purchased Gas Adjustments were billed. Only one minor discrepancy was discovered; therefore, the Audit Staff concludes that Nashville is correctly billing its customers.

Pat Murphy and Paul Greene of the Utilities Division conducted this audit.

III. BACKGROUND INFORMATION ON NASHVILLE GAS COMPANY

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

IV. BACKGROUND ON WEATHER NORMALIZATION ADJUSTMENT (WNA) RIDER

In its September 26, 1991 Order in Docket 91-01712, the Tennessee Regulatory Authority, formerly the Tennessee Public Service Commission, approved a three year experimental Weather Normalization Adjustment (WNA) Rider to be applied to residential and commercial customers' bills during the months of October through May of each year (See Attachment 1). In its June 21, 1994 Order, the TRA adopted the WNA Rider as a permanent rule, to be applied November through March of each year for Nashville Gas Company.

In setting rates, the Tennessee Regulatory Authority uses a normalized level of revenues and expenses for a test year, which is designed to be the most reasonable estimate of the Company's operations during the time the rates are to be in effect. Use of normalized operating levels eliminates unusual fluctuations that may occur during the test period, which causes rates to be set too high or too low.

Specifically, one part of normalizing revenues consists of either increasing or decreasing the test year weather related sales volumes to reflect the difference between the normal and actual heating degree days. (A heating degree day is calculated as the difference in the average daily temperature and 65 degrees Fahrenheit.) This average daily temperature constitutes normal weather and is determined based on the previous thirty years weather data.

However, normal weather rarely occurs. This has two impacts:

(1) The customers' bills fluctuate dramatically due to changes in weather from month to month; and

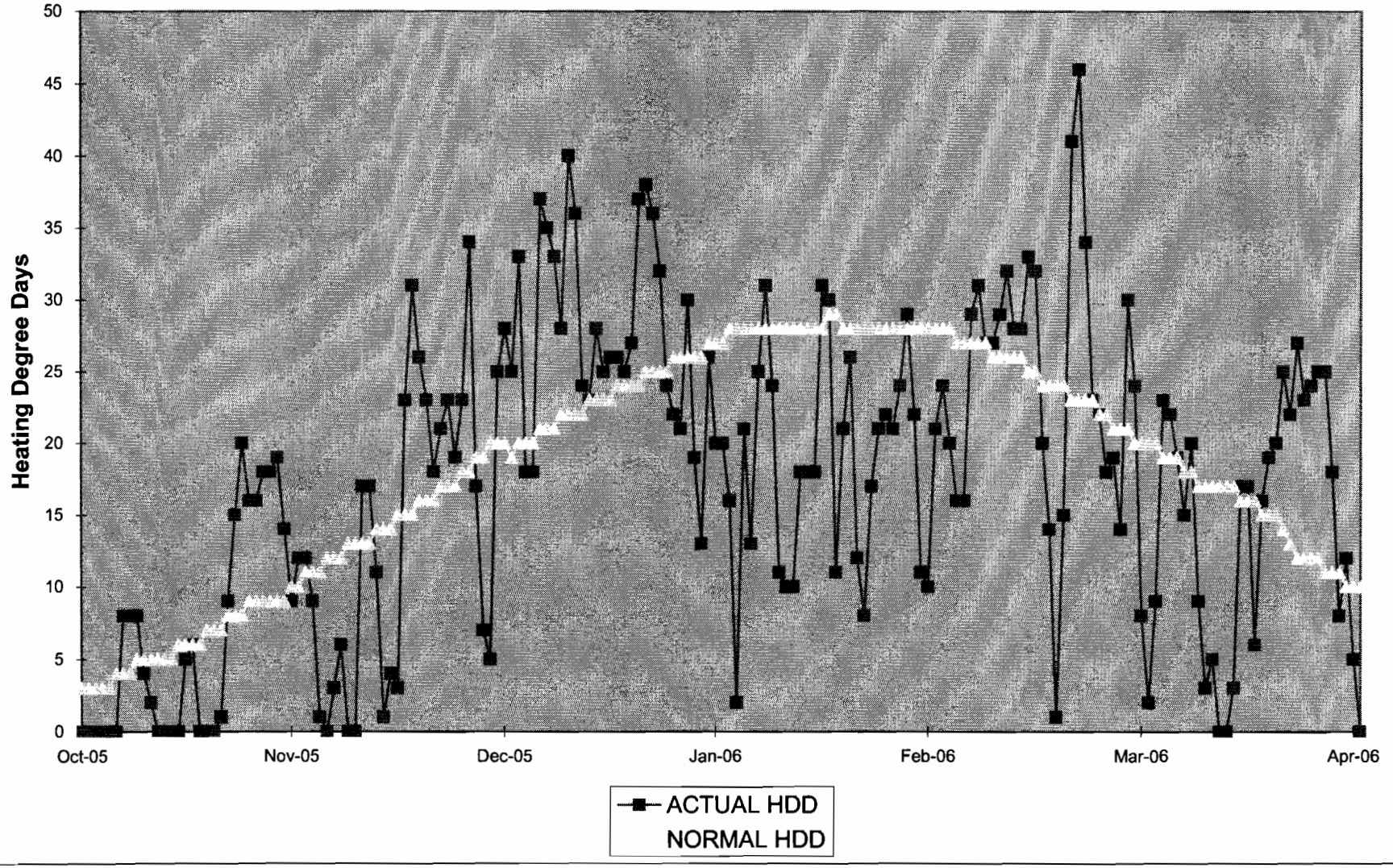
(2) The gas companies earn more or less than their authorized rate of return. For example, if weather is colder than normal, then more gas than anticipated in the rate case will be sold. This results in higher customer bills and overearnings for the company. On the other hand, if weather is warmer than normal, less gas than anticipated in the rate case will be sold, the customers' bills will be lower and the company will underearn.

In recognition of this fact, the TRA approved a WNA mechanism to reduce the impact abnormal weather has on the customers' bills and on the gas utilities' operations. In periods of weather colder than normal, the customer receives a credit (refund) on his bill, while in periods of warmer than normal weather, the customer is billed a surcharge. Thus, customers' monthly bills should not fluctuate as dramatically and the gas company should have a more stable rate of return.

The table and graph (found at the end of this section) compare the actual heating degree days to normal heating degree days for Nashville Gas during the 2005 - 2006 heating season. The table below shows that in total the weather during the months of October 2005 through March 2006 was warmer than normal, resulting in a net surcharge from Nashville Gas to its customers for the period. The table also quantifies the number of actual heating degree days by month as compared to the normal heating degree days for that month. Overall the weather was approximately 5 percent (5%) warmer than normal.

Month	Actual Heating Degree Days	Normal Heating Degree Days	Warmer/Colder than Normal	Percentage Change
October 2005	196	187.6	Colder	4.5%
November 2005	419	447.0	Warmer	-6.3%
December 2005	845	738.3	Colder	14.5%
January 2006	578	849.6	Warmer	-32.0%
February 2006	677	639.3	Colder	5.9%
March 2006	439	452.8	Warmer	-3.0%
Total	3,154	3,314.6	Warmer	-4.8%

Nashville Gas Company
Comparison of Actual to Normal Heating Degree Days
Nashville Weather Station



V. IMPACT OF WNA RIDER

Since the overall weather during the November 1, 2005 through March 31, 2006 period was warmer than normal, the net impact of the WNA Rider was that residential and commercial customers were **surcharged** $1,297,189 and $679,375 respectively. This equates to increases in revenues from residential and commercial sales of 1.10% and 0.99% respectively (See Table 1). This is a decrease from the previous year when the residential and commercial customers were **surcharged** $2,919,498 and $1,573,384 respectively (See Table 2).

Table 1

Impact of WNA Rider on Residential & Commercial Revenues
November 1, 2005 - March 31, 2006

	WNA Rider Revenues	Total Revenues	Percentage Impact of WNA Rider On Revenue
Residential Sales	$ 1,297,189	$117,987,393	1.10%
Commercial Sales	679,375	68,466,746	0.99%
Total	$ 1,976,564	$186,454,139	1.06%

Table 2

Amount Surcharged (Refunded)
2003 - 2006

	Residential	Commercial	Total Surcharge/Refund
11/03-3/04	1,135,064	636,702	1,771,766
11/04-3/05	2,919,498	1,573,384	4,492,882
11/05-3/06	1,297,189	679,375	1,976,564
Total	$5,351,751	$2,889,461	$8,241,212

VI. WNA FINDINGS AND CONCLUSIONS

As noted in Section I of this report, Staff had no findings for the audit of the period November 2005 through March 2006. Staff identified one minor discrepancy during the Bill Audit. The Company's franchise tax rate changed from 6.04% to 6.11% on February 1, 2006 for Davidson County. NGC has separate codes for each location (municipality) within Davidson County. When the Company updated the tax table only the code for Nashville was changed initially. The Company changed the other codes in March 2006 when they realized they had made a mistake.

The areas that were not coded correctly in February 2006 are: Antioch, Madison, Hermitage, Old Hickory, Joelton, White's Creek, Goodlettsville, and part of Brentwood. These areas continued to be billed the 6.04% rate that was in effect prior to February.

Beginning in March 2006 all of Metro Nashville (Davidson County) was billed at the approved rate of 6.11%. The Company makes an annual adjustment that "trues-up" any difference between the amounts collected from customers and the amount remitted to Metro Nashville under the Franchise agreement. Thus any under recovery resulting from an inaccurate franchise fee rate would be part of this "true-up" adjustment.

Staff believes that the Company is materially complying with the WNA Rider and billing customers accurately based upon the results of this audit. Staff acknowledges and appreciates the cooperation of NGC personnel during the course of this audit.

Attachment 1

SERVICE SCHEDULE NO. 315
Weather Normalization Adjustment (WNA) Rider

I. Provision for Adjustment

The base rates per therm (100,000 Btu) for gas service set forth in any rate schedules utilized by the Authority in determining normalized test period revenues shall be adjusted by an amount hereinafter described, which amount is referred to as the "Weather Normalization Adjustment".

The Weather Normalization Adjustment will be applicable for bills rendered on and after November 1 and continuing through the final billing cycle in March of each year.

II. Definitions

For the purposes of this Rider:

"Authority" means the Tennessee Regulatory Authority.

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

III. Computation of Weather Normalization Adjustment

The Weather Normalization Adjustment shall be computed to the nearest one-hundredth cent per therm by the following formula:

$$WNA_i = R_i \quad * \quad \frac{(HSF_i(NDD-ADD))}{(BL_i + (HSF_i \times ADD))}$$

Where:

I = any particular rate schedule or billing classification within any particular rate schedule that contains more than one billing classification.

WNA_i = Weather Normalization Adjustment Factor for the i^{th} rate schedule or classification expressed in cents per therm.

R_i = weighted average base rate (base rate less any embedded gas cost) of temperature sensitive sales for the i^{th} schedule or classification utilized by the Authority in the Relevant Rate Order for the purpose of determining normalized test year revenues.

HSF_i = heat sensitive factor for the i^{th} schedule or classification utilized by the Authority in the Relevant Rate Order for the purpose of determining normalized test year revenues.

NDD = normal billing cycle heating degree days utilized by the Authority in the Relevant Rate Order for the purpose of determining normalized test year revenues.

ADD = actual billing cycle heating degree days.

BL_i = base load sales for the i^{th} schedule or classification utilized by the Authority in the Relevant Rate Order for the purpose of determining normalized test year revenues.

IV. Filing with Authority

The Company will file as directed by the Authority (a) a copy of each computation of the Weather Normalization Adjustment, (b) a schedule showing the effective date of each such Weather Normalization Adjustment, and a schedule showing the factors or values derived from the Relevant Rate Order used in calculating such Weather Normalization Adjustment.