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BEFORE THE TENNESSEE REGULATORY AUTHORITY
T.R.A. DOCKET ROOM
NASHVILLE, TENNESSEE

September 28, 2007

IN RE:

NASHVILLE GAS COMPANY, a Division of
PIEDMONT NATURAL GAS COMPANY
WEATHER NORMALIZATION ADJ. (WNA) AUDIT)

)
)
) Docket No. 07-00186
)
)

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, 2006, through March 31, 2007, and the Staff completed its audit of same on September 19, 2007.
3. On September 20, 2007, the Utilities Division issued its preliminary WNA audit findings to the Company, and on September 26, 2007, the Company responded thereto.
4. The preliminary WNA audit report was modified to reflect the Company's responses and a final WNA 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 Utilities Division, the Company's responses thereto and the recommendation of the Utilities Division in connection therewith.

5. The Utilities 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:

A handwritten signature in cursive script that reads "Ron Graham". The signature is written in black ink and is positioned above a horizontal line.

Ron Graham
Utilities Division
Tennessee Regulatory Authority

CERTIFICATE OF SERVICE

I hereby certify that on this 28th day of September 2007, 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:

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Tennessee Regulatory Authority
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Ron Graham

EXHIBIT A

COMPLIANCE AUDIT REPORT

OF

NASHVILLE GAS COMPANY

WEATHER NORMALIZATION ADJUSTMENT (WNA) RIDER

DOCKET NO. 07-00186

PREPARED BY:

RON GRAHAM

TENNESSEE REGULATORY AUTHORITY

UTILITIES DIVISION

September 2007

**COMPLIANCE AUDIT OF
NASHVILLE GAS COMPANY
WEATHER NORMALIZATION ADJUSTMENT (WNA) RIDER
Docket No. 07-00186**

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COMPLIANCE AUDIT
NASHVILLE GAS COMPANY
WEATHER NORMALIZATION ADJUSTMENT (WNA) RIDER
DOCKET NO. 07-00186

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 was to determine if the WNA adjustments were calculated correctly and applied to customers' bills appropriately between November 1, 2006 and March 31, 2007. As a result of the WNA Rider, the Company surcharged a net \$1,516,798 and \$839,820 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 (“Staff”) audit results produced two findings for the audit period under review. Except for the findings reported in Section VI, 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 Staff compared the following on a daily basis:

- (1) The Company's actual heating degree days (ADD) to National Oceanic and Atmospheric Administration (“NOAA”) actual heating degree days;
- (2) The Company's normal heating degree days (NDD) 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.

The Staff selected a sample of customer bills to verify that the WNA factor had been correctly applied to the bills. The Staff also examined each sample bill to determine whether the Base Rates and Purchased Gas Adjustments were billed correctly.

Ron Graham 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 4720 Piedmont Row Drive, Charlotte, North Carolina. NGC is a natural gas distributor that provides service to Nashville and several other 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

On September 26, 1991, the Tennessee Public Service Commission¹ ("TPSC") approved a three-year experimental Weather Normalization Adjustment Rider² to the tariffs of Chattanooga Gas Company, Nashville Gas Company, a division of Piedmont Gas Company, Inc. and United Cities Gas Company.³ The WNA Rider was to be applied to residential and commercial customers' bills during the months of October through May of each year (See Attachment 1). On June 21, 1994, the TPSC issued an Order authorizing the above mentioned gas companies to permanently implement an amended version⁴ of the WNA Rider. Nashville Gas is authorized to calculate WNA adjustments during the months of November through March of each year. The TRA Staff audits these calculations annually.

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.

¹ By legislative action, the Tennessee Public Service Commission was replaced on July 1, 1996 by the Tennessee Regulatory Authority. See Act of May 24, 1995, ch. 305, 1995 Tenn. Pub. Acts 450. The TRA retains jurisdiction over the above named gas companies. See Tenn. Code Ann. § 65-4-104; see also Tenn. Code Ann. § 65-4-101 (a) (defining public utility).

² See petition of Chattanooga Gas Company, Nashville Gas Company, a Division of Piedmont Natural Gas Company, Inc. and United Cities Gas Company for a Rulemaking Hearing to Adopt a Weather Normalization Adjustment (WNA) Rider, Docket No. 91-01712, *Order* (September 26, 1991).

³ Effective October 1, 2002, Atmos Energy Corporation announced that all divisions of the Company would start doing business as Atmos Energy™.

⁴ The amendment directed Chattanooga Gas Company and United Cities Gas Company to eliminate from their WNA Rider the shoulder months of October and May, and Nashville Gas Company to eliminate the shoulder months of October, April and May.

Since 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.

V. IMPACT OF WNA RIDER

The graph (found at the end of this section) compares the actual heating degree days to normal heating degree days for Nashville Gas during the 2006 - 2007 heating season. It shows that in all months, except October 2006 and February 2007, the weather (overall) was warmer than normal, resulting in a net surcharge from Nashville Gas to its customers for the period. The table below quantifies the number of actual heating degree days by month as compared to the normal heating degree days for that month.

Month	Actual Heating Degree Days	Normal Heating Degree Days	Warmer/Colder than Normal	Percentage Change
October 2006	222	187.6	Colder	18.3%
November 2006	407	447.0	Warmer	-8.9%
December 2006	568	738.3	Warmer	-23.1%
January 2007	714	849.6	Warmer	-16.0%
February 2007	774	639.3	Colder	21.1%
March 2007	255	452.8	Warmer	-43.7%
Total	2940	3314.6	Warmer	-11.3%

Since the overall weather during the November 1, 2006 through March 31, 2007 period was warmer than normal, the net impact of the WNA Rider was that residential and commercial customers were **surcharged** \$1,516,798 and \$839,820 respectively. This equates to increases in revenues from residential and commercial sales of 1.51% and 1.55% respectively (See Table 1). This is an increase from the previous year when the

residential and commercial customers were **surcharged** \$1,297,189 and \$679,375 respectively (See Table 2).

Table 1

**Impact of WNA Rider on Residential & Commercial Revenues
November 1, 2006 - March 31, 2007**

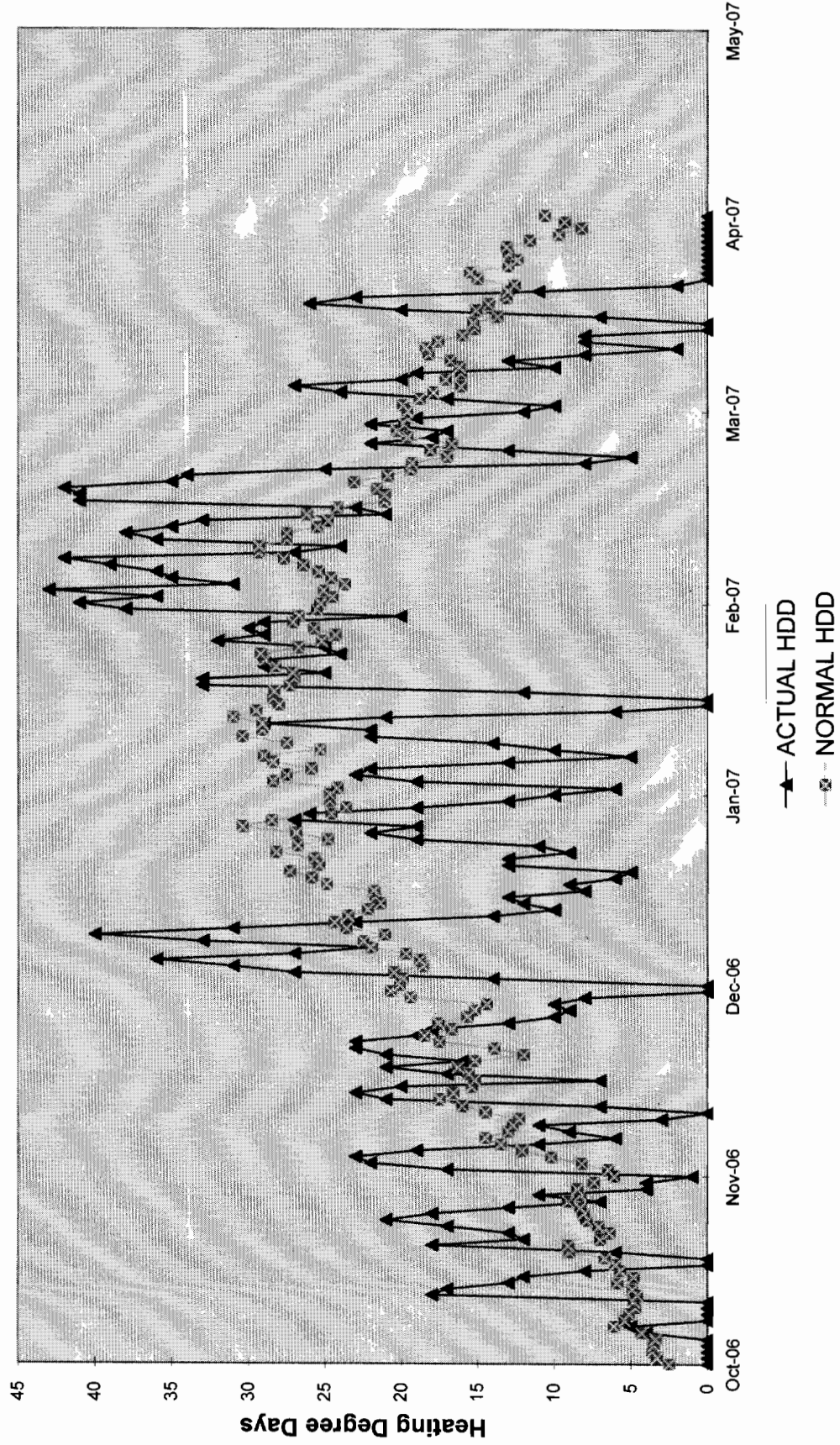
	<u>WNA Rider Revenues</u>	<u>Total Revenues</u>	<u>Percentage Impact of WNA Rider On Revenue</u>
Residential Sales	\$1,516,798	\$100,233,465	1.51%
Commercial Sales	<u>839,820</u>	<u>54,186,015</u>	1.55%
Total	<u>\$2,356,619</u>	<u>\$154,419,479</u>	1.53%

Table 2

**Amount Surcharged (Refunded)
2004 - 2007**

	<u>Residential</u>	<u>Commercial</u>	<u>Total Surcharge/Refund</u>
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
11/06-3/07	<u>1,516,798</u>	<u>839,820</u>	<u>2,356,618</u>
Total	<u>\$ 5,733,485</u>	<u>\$ 3,092,579</u>	<u>\$ 8,826,064</u>

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



VI. WNA FINDINGS AND CONCLUSIONS

As noted in Section I of this report, Staff's audit revealed two findings for the winter heating season of November 2006 through March 2007. The first finding identified that the Company did not bill a WNA factor to customers on certain bill cycles in November and December 2006. The second finding identified that the Company used incorrect actual heating degree days for four (4) days in the period, which resulted in inaccurate WNA factors billed in forty-six (46) billing cycles. The total amount of **under-collection** of WNA revenues is **\$511,576**.

While a \$511,576 under-collection of WNA dollars is not immaterial when compared to total WNA revenues of \$2,356,619, the largest part of the under-collection resulted from a Company billing error, which should not recur. Therefore, Staff believes that the Company is materially complying with the mechanics of the WNA Rider.

The two audit findings are described in more detail below.

FINDING #1:

Exception

The Company reported that a WNA factor was not billed to customers for cycle 21 in November 2006 and cycles 1 through 18 in December 2006.

Discussion

In January 2007, The Company self reported to Staff that the WNA factor was not billed to customers for cycle 21 in November 2006 and cycles 1 through 18 in December 2006. The Company provided a copy of a detailed internal report dated January 30, 2007 that calculated the amount of WNA revenues that should have been billed of \$467,252.33, which resulted in an under-collection from customers of this amount.

Based on the sales volumes for each customer class reported to Staff in the monthly WNA reports and the Staff's calculation of the WNA factors based on actual heating degree days published by NOAA, Staff determined that the **under-collection was \$425,057**. An undetermined portion of this amount is the result of Finding #2, since the cycles affected in this finding overlapped with the cycles involved in Finding #2.

Recommendation

Audit Staff acknowledges that the Company representatives timely reported the billing error after it was discovered. After reviewing the supporting documentation provided by the Company, Staff noted that for certain cycles, the total sales volumes for a customer class differed from the sales volumes reported in the monthly WNA reports. These sales volumes support the WNA revenue contained in that report. Therefore, Staff avers that the correct under-collection amount is \$425,057. The billing error covered essentially all billing cycles for a month. Therefore, Staff recommends that the under-collection should appropriately be recovered from all customers rather than customer specific surcharges,

and that the recovery should take place in the Company's next Actual Cost Adjustment filing as has been the practice in the past.

Company Response

Nashville Gas appreciates the time and effort that TRA Staff has taken to work with the Company on this issue. The Company's calculation of the under-collection amount of \$467,252.33 is based on actual account-specific billing data such as the number of days in the billing period (which can differ between customers assigned to the same billing cycle). The Company has discussed the methodology it used to arrive at its under-collected calculation of \$467,252.33, in comparison to the methodology used by the TRA Staff to arrive at its under-collected calculation of \$425,057.

The Company agrees with the TRA Staff's recommendation that the under-collection should appropriately be recovered from all customers rather than customer-specific surcharges, and that the recovery should take place in the Company's next Actual Cost Adjustment filing as has been the practice in the past. Recognizing that the issues in Finding #2 overlap with Finding #1, the Company does not object to the TRA Staff's calculation that the under-collection amount is \$425,057.

FINDING #2:

Exception:

The Company used incorrect actual heating degree days in its calculations of the WNA.

Discussion:

On four (4) days of the WNA period, the Company reported actual degree days that differed from the actual heating degree days published by NOAA. In total, the heating degree days were overstated by three (3) degree days. This resulted in incorrect WNA factors billed in forty-six (46) cycles during the period.

The days involved were:

Date	Daily Degree Days Used By Company	Daily Degree Days As Published by NOAA	Degree Day Difference
11/17/06	19	21	-2
11/18/06	17	16	+1
12/26/06	29	27	+2
1/25/07	34	30	+2
		Net	+3

Due to the use of incorrect heating degree days, the Company under-collected WNA revenues from its customers. The amount of **under-collection** totaled **\$86,519** plus a portion of the under-collection stated in Finding #1.

Recommendation

Since the dollar amount of this finding is immaterial on a per customer basis (approximately \$0.55 per year or \$0.05 per month), Staff recommends including the under-collection in the Company's next Actual Cost Adjustment filing as has been the Company's practice.

Company Response

Nashville Gas used preliminary actual heating degree days posted by NOAA on November 17-18, 2006, December 25, 2006 and January 25, 2007. The Company did not change the reported actual heating degree when they were subsequently changed by NOAA. Accordingly, the Company supports Staff's recommendation that the under-collection amount of \$86,519 should be included in the Company's next Actual Cost Adjustment Filing.

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 ith 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 ith 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.

Addendum to TRA Service Schedule No. 315

Piedmont Natural Gas Company, Inc. Calculation of Factors for WNA Computations DOCKET NO. 03-00313

	Base Rate (\$/therms)	Demand (\$/therms)	Commodity (\$/therms)	"R" Value (\$/therms)	Heat Factor (therms/DDD)	Base Factor (therms/mo.)
Residential						
Standard Rate	1.04802	0.05994	0.66808	0.32000	0.15957	3.91564
Value Rate	1.01008	0.02200	0.66808	0.32000	0.21337	23.08653
Commercial						
Rate 302	1.08202	0.05994	0.66808	0.35400	0.79247	0.675169
Rate 332						
first 2,000 therms	1.04408	0.02200	0.66808	0.35400	0.5184	486.2211
over 2,000 therms	1.03308	0.011	0.66808	0.35400	0.5184	486.2211
Rate 352	1.04408	0.02200	0.66808	0.35400	17.6718	2229.5876
Rate 362						
first 5,000 therms	1.04408	0.02200	0.66808	0.35400	5.36775	6229.7053
over 5,000 therms	1.03308	0.011	0.66808	0.35400	5.36775	6229.7053