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NASHVILLE, TENNESSEE

August 22, 2008

IN RE:)
)
PIEDMONT NATURAL GAS) Docket No. 08-00123
WEATHER NORMALIZATION ADJ. (WNA) AUDIT)

**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 Piedmont Natural Gas 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 Piedmont Natural Gas (the "Company").
2. The Company's WNA filings were received November 1, 2007, through March 31, 2008, and the Staff completed its audit of same on July 21, 2008.
3. On July 24, 2008, the Utilities Division issued its preliminary WNA audit findings to the Company, and on July 31, 2008, 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:



Pat Murphy
Utilities Division
Tennessee Regulatory Authority

EXHIBIT A

COMPLIANCE AUDIT REPORT

OF

PIEDMONT NATURAL GAS

WEATHER NORMALIZATION ADJUSTMENT (WNA) RIDER

DOCKET NO. 08-00123

PREPARED BY:

PAT MURPHY

TENNESSEE REGULATORY AUTHORITY

UTILITIES DIVISION

August 2008

**COMPLIANCE AUDIT OF
PIEDMONT NATURAL GAS
WEATHER NORMALIZATION ADJUSTMENT (WNA) RIDER
Docket No. 08-00123**

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COMPLIANCE AUDIT
PIEDMONT NATURAL GAS
WEATHER NORMALIZATION ADJUSTMENT (WNA) RIDER
DOCKET NO. 08-00123

I. INTRODUCTION AND AUDIT OPINION

The subject of this compliance audit is the Weather Normalization Adjustment (WNA) Rider of Piedmont Natural Gas (hereafter “PNG,” “Piedmont” or the “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, 2007 and March 31, 2008. As a result of the WNA Rider, the Company surcharged a net \$1,663,456 and \$787,629 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 one finding for the audit period under review. Except for the finding 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.

Pat Murphy and Michelle Ramsey of the Utilities Division conducted this audit.

III. BACKGROUND INFORMATION ON PIEDMONT NATURAL GAS CO.

Piedmont Natural Gas Company corporate headquarters are located at 4720 Piedmont Row Drive, Charlotte, North Carolina. Local offices are located at 665 Mainstream Drive, Nashville, Tennessee. PNG is a natural gas distributor that provides service to Nashville and several other communities in the Middle Tennessee area, as well as service areas in North and South Carolina. The natural gas used to serve Tennessee 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 Company³, a division of Piedmont Gas Company, Inc. and United Cities Gas Company.⁴ 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 version⁵ 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

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 In January 2008, Piedmont notified the Authority that beginning in March 2008, Nashville Gas' name would be changed to Piedmont Natural Gas.

⁴ Effective October 1, 2002, Atmos Energy Corporation announced that all divisions of the Company would start doing business as Atmos Energy™.

⁵ 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.

temperature constitutes normal weather and is determined based on the previous thirty years weather data.

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 Piedmont during the 2007 - 2008 heating season. It shows that in all months, except November 2007 and January 2008, the weather (overall) was warmer than normal, resulting in a net surcharge from PNG 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 2007	102	188	Warmer	45.6%
November 2007	451	447	Colder	-0.9%
December 2007	571	738	Warmer	22.7%
January 2008	861	850	Colder	-1.3%
February 2008	636	660	Warmer	3.6%
March 2008	453	453	Normal	0%
Total	3074	3335	Warmer	7.83%

Since the overall weather during the November 1, 2007 through March 31, 2008 period was warmer than normal, the net impact of the WNA Rider was that residential and

commercial customers were **surcharged** \$1,663,456 and \$787,629 respectively. This equates to increases in revenues from residential and commercial sales of 1.43% and 1.22% respectively (See Table 1). This is an increase from the previous year when the residential and commercial customers were **surcharged** \$1,516,798 and \$839,820 respectively (See Table 2).

Table 1

**Impact of WNA Rider on Residential & Commercial Revenues
November 1, 2007 - March 31, 2008**

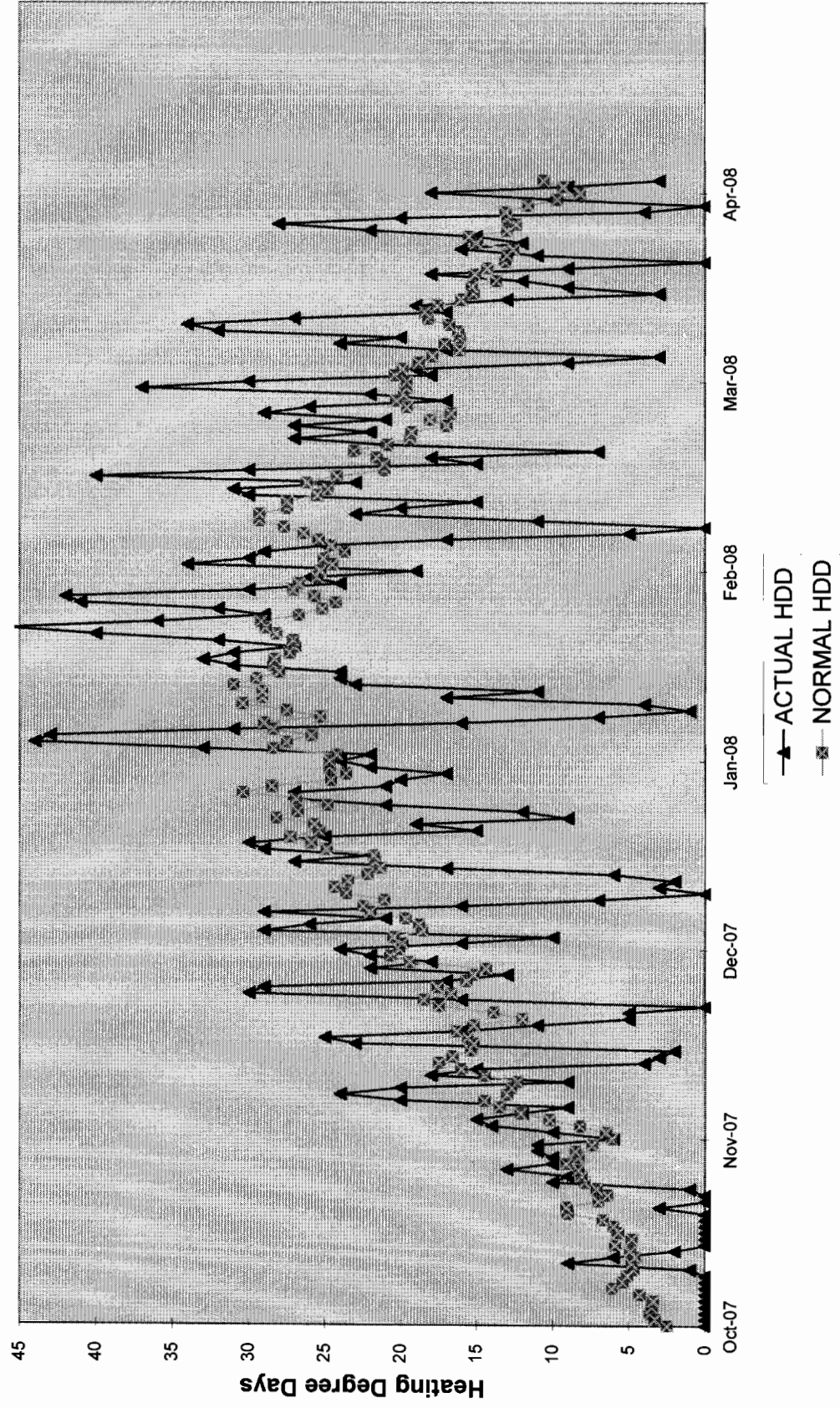
	<u>WNA Rider Revenues</u>	<u>Total Revenues</u>	<u>Percentage Impact of WNA Rider On Revenue</u>
Residential Sales	\$1,663,456	\$116,673,928	1.43%
Commercial Sales	<u>787,629</u>	<u>64,329,310</u>	1.22%
Total	<u>\$2,451,085</u>	<u>\$181,003,238</u>	1.35%

Table 2

**Amount Surcharged (Refunded)
2005 - 2008**

	<u>Residential</u>	<u>Commercial</u>	<u>Total Surcharge/Refund</u>
11/05-3/06	\$ 1,297,189	\$ 679,375	\$ 1,976,564
11/06-3/07	1,516,798	839,820	2,356,618
11/07-3/08	<u>1,663,456</u>	<u>787,629</u>	<u>2,451,085</u>
Total	<u>\$ 4,477,443</u>	<u>\$ 2,306,824</u>	<u>\$ 6,784,267</u>

Piedmont Natural 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 resulted in one finding for the winter heating season of November 2007 through March 2008. This finding is described in detail below.

FINDING #1:**Exception:**

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

Discussion:

On two (2) days of the WNA audit period, the Company reported actual heating degree days that differed from the actual heating degree days published by NOAA. In total, the heating degree days for the period were overstated by four (4) heating degree days. This resulted in incorrect WNA factors billed in thirty-two (32) billing cycles during the period.

The days involved were:

Date	Daily Heating Degree Days Used By Company	Daily Heating Degree Days As Published by NOAA	Degree Day Difference
10/13/07	4	2	-2
12/08/07	9	7	-2
		Net	-4

Due to the use of incorrect heating degree days, the Company **under-collected** WNA revenues from its customers in the amount of **\$28,433**.

Recommendation

Since the dollar amount of this finding is immaterial on a per customer basis, Staff recommends including the under-collection in the Company's next Actual Cost Adjustment filing.

Company Response

Piedmont does not object to Staff's recommendation that the under-collection amount of \$28,433 be included in the Company's next Actual Cost Adjustment Filing.

ATTACHMENT 1

NASHVILLE GAS COMPANY
665 Mainstream Drive
Nashville, Tennessee 37228
A Division of Piedmont Natural Gas Company
TRA Service Schedule No.315

Page 1 of 2

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