BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

June 15, 2009

IN RE:	)	
	)	
PIEDMONT NATURAL GAS COMPANY, INC.	)	**DOCKET NO.**
ACTUAL COST ADJUSTMENT (ACA) AUDIT	)	**08-00227**
FOR THE TWELVE MONTHS ENDED	)	
DECEMBER 31, 2007	)	

ORDER ADOPTING ACA AUDIT REPORT OF TENNESSEE REGULATORY AUTHORITY'S UTILITIES DIVISION

This matter came before Chairman Eddie Roberson, Director Sara Kyle, and Director Mary W. Freeman of the Tennessee Regulatory Authority (the "Authority" or "TRA"), the voting panel assigned to this Docket, at a regularly scheduled Authority Conference held on May 18, 2009 for consideration of the report of the Authority's Utilities Division (the "Audit Staff") resulting from the Audit Staff's audit of Piedmont Natural Gas Company Inc.'s ("Piedmont" or the "Company") annual deferred gas cost account filing for the year ended December 31, 2007. The Actual Cost Adjustment ("ACA") Compliance Audit Report (the "Report"), attached hereto as Exhibit A and incorporated by this reference, contains the audit findings of the Audit Staff, and the responses thereto of the Company.

The Company submitted its ACA filing on December 19, 2008, and the Audit Staff completed its audit of the Company's filing on April 22, 2009. On April 23, 2009, the Audit Staff issued its preliminary ACA audit findings to the Company, and the Company responded to these findings on April 28, 2009. The Audit Staff filed the Report on April 29, 2009. The Report contains seven findings which result in the net under-recovery of $1,171,630.01.

After consideration of the entire record, the panel voted unanimously to approve and adopt the findings and Actual Cost Adjustment account balances contained in the April 29, 2009 Report.

IT IS THEREFORE ORDERED THAT:

The Actual Cost Adjustment Compliance Audit Report of Piedmont Natural Gas Company Inc.'s annual deferred gas cost account filing for the year ended December 31, 2007, a copy of which is attached to this Order as Exhibit A, is approved and adopted and the findings and recommendations contained therein are incorporated in this Order as if fully rewritten herein.

Eddie Roberson

Eddie Roberson, Chairman

Sara Kyle

Sara Kyle, Director

Mary W. Freeman

Mary W. Freeman, Director

BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

April 29, 2009

IN RE:	)
	)
PIEDMONT NATURAL GAS COMPANY ACTUAL COST ADJUSTMENT (ACA) AUDIT	**) Docket No. 08-00227**
	)

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 hereby gives notice of its filing of the Compliance Audit Report of the Actual Cost Adjustment (hereafter "ACA") Component of the Purchased Gas Adjustment Rule ("PGA Rule") for Piedmont Natural Gas Company (hereafter the "Company") 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 the Company's ACA filing for the period January 2007 through December 2007.

2. The Company's ACA filing was received on December 19, 2008, and Audit Staff ("Staff") completed its audit of same on April 22, 2009.

3. On April 23, 2009, the Utilities Division submitted its preliminary ACA audit findings to the Company via e-mail. The Company responded on April 28, 2009 via e-mail and this response has been incorporated into the final report. The Report is attached hereto as Exhibit A and is fully incorporated herein by this reference.

EXHIBIT
1

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

Respectfully Submitted:

Michelle Ramsey

Michelle Ramsey
Utilities Division
Tennessee Regulatory Authority

CERTIFICATE OF SERVICE

I hereby certify that on this 29th day of April, 2009, 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:

Eddie Roberson
Chairman
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37243

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

Ms. Jenny Furr
Manager – Regulatory Reporting
Piedmont Natural Gas Company
PO Box 33068
Charlotte, NC 28233

Ms. Kelly Choate
Piedmont Natural Gas Company
4720 Piedmont Row Drive
Charlotte, NC 28210

James H. Jefferies, IV Esq.
Moore & Van Allen, PLLC
100 North Tryon Street, Suite 4700
Charlotte, NC 28202

Michelle Ramsey

Michelle Ramsey

EXHIBIT A

COMPLIANCE AUDIT REPORT

OF

<u>Piedmont Natural Gas Company</u>

<u>ACTUAL COST ADJUSTMENT</u>

DOCKET NO. 08-00227

PREPARED BY

<u>TENNESSEE REGULATORY AUTHORITY</u>

UTILITIES DIVISION

April 2009

Company (parent company), which has its headquarters at 4720 Piedmont Row Drive, Charlotte, North Carolina. On February 12, 2008, the Company notified the Authority of its intent to change the name under which it operates in Tennessee from Nashville Gas Company to its corporate name of Piedmont Natural Gas Company, Inc. The Authority issued an order on March 31, 2008 in Docket No. 08-00028 approving the change. Piedmont is a 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 Piedmont's city gate through the interstate transmission facilities of Tennessee Gas Pipeline ("TGP"), Columbia Gas Transmission Corporation ("CGTC"), Texas Eastern Gas Pipeline ("TETCO") and Midwestern Gas Transmission Company ("MGT").

IV. JURISDICTION OF THE TENNESSEE REGULATORY AUTHORITY

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

> The [A]uthority 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. have 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, this power includes the right to audit:

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

The Utilities Division Staff of the TRA is responsible for auditing those energy, water and wastewater utilities under the Authority's jurisdiction to ensure that each company is abiding by Tennessee statute as well as the Rules and Regulations of the Authority. Michelle Ramsey and Paul Greene conducted this audit.

V. DESCRIPTION OF PURCHASED GAS ADJUSTMENT RULE

Actual Cost Adjustment Audits:

The PGA Rule can be found in Chapter 1220-4-7 of the Rules of the Tennessee Regulatory Authority. The PGA Rule permits a gas company to recover, in a timely fashion, the total cost of gas purchased for delivery to its customers and to assure that a company does not over-collect or under-collect gas costs from its customers. The PGA consists of three major components:

1. **The Actual Cost Adjustment ("ACA")**
2. **The Gas Charge Adjustment ("GCA")**
3. **The Refund Adjustment ("RA")**

The ACA is the difference between the revenues billed customers by means of the GCA and the cost of gas invoiced the Company by suppliers plus margin loss (if allowed by order of the TRA in another docket) as reflected in the Deferred Gas Cost account. The ACA then "trues-up" the difference between the actual gas costs and the gas costs recovered from customers through a surcharge or a refund. The RA refunds the "true-up" along with other supplier refunds. For a more complete definition of the GCA and RA, please see the PGA Formula in Appendix A.

Section 1220-4-7-.03(2) of the PGA Rule requires:

> Each year, the Company shall file with the [Authority] an annual report reflecting the transactions in the Deferred Gas Cost Account. Unless the [Authority] provides written notification to the Company within one hundred eighty (180) days from the date of filing the report, the Deferred Gas Cost Adjustment Account shall be deemed in compliance with the provisions of these Rules. This 180-day notification period may be extended by mutual consent of the Company and the [Authority] Staff or by order of the [Authority].

Prudence Audit of Gas Purchases:

Section 1220-4-7-.05 of the PGA Rule requires, unless otherwise ordered by the Authority, an "Audit of Prudence of Gas Purchases" by a qualified consultant. This specialized audit evaluates and reports annually on the prudence of any gas costs included in the PGA. In Docket 96-00805, Nashville Gas was authorized to operate under a Performance-Based Ratemaking Mechanism ("PBR" or "Incentive Plan"), beginning July 1, 1998, and continuing each year unless terminated by the Company or the Authority. For each year that the mechanism was in effect, the requirements of Section 1220-4-7-.05 of the PGA Rule was waived. On December 14, 2007, the TRA issued an order in Docket 05-00165 approving a revised Incentive Plan for Nashville Gas, effective July 1, 2006. This revised Incentive Plan replaces the annual prudence review of the Company's gas purchasing activities.

VI. SCOPE OF ACTUAL COST ADJUSTMENT AUDIT

The ACA audit is a limited compliance audit of PNG's ACA Account. The audit goal is to verify that the Company's calculations of gas costs incurred and recovered are materially correct,[4] and that the Company is following all Authority orders and directives with respect to its calculation of the ACA Account balance. Also included in this audit is the Company's PGA filing implementing a customer surcharge of the unaudited February 28, 2007 ACA Account balance filed May 31, 2007, effective July 1, 2007, and its PGA filing implementing a customer refund of the unaudited October 31, 2008 balance filed November 26, 2008, effective January 1, 2009.

To accomplish the audit goal, Staff reviewed gas supply invoices, as well as supplemental schedules and other source documentation provided by the Company. Where appropriate, Staff requested additional information to clarify the filing.

[4] 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.

VII. ACA AUDIT FINDINGS

The result of the Staff's audit was a **net under-recovery of $1,171,630.01** which has the effect of decreasing the Company's over-recovered balance at December 31, 2007 by this amount. A summary of the account as filed by the Company and as adjusted by the Staff is shown below, followed by a detailed description of each finding.

SUMMARY OF THE ACA ACCOUNT:

	Company	Staff	Difference (Findings)
Commodity Balance at 1/1/07	$ 1,248,383.23	$ 1,248,383.23	$ 0.00
Plus Gas Costs	122,520,734.25	122,593,515.60	72,781.35
Minus Recoveries	127,700,446.77	127,192,961.70	-507,485.07
Ending Balance before Interest	$ -3,931,329.29	$ -3,351,062.87	$ 580,266.42
Plus Interest	259,885.88	307,043.29	47,157.41
Commodity Balance at 12/31/07	$ -3,671,443.42	$ -3,044,019.59	$ 627,423.83
Demand Balance at 1/1/07	$ 3,733,926.39	$ 3,733,926.39	$ 0.00
Plus Gas Costs	8,044,985.66	8,044,985.66	0.00
Minus Recoveries	10,221,402.53	9,711,492.42	-509,910.11
Ending Balance before Interest	$ 1,557,509.52	$ 2,067,419.63	$ 509,910.11
Plus Interest	71,068.59	105,364.66	34,296.07
Demand Balance at 12/31/07	$ 1,628,578.11	$ 2,172,784.29	$ 544,206.18
Total ACA Ending Balance at 12/31/07	$ -2,042,865.31	$ -871,235.30	$ 1,171,630.01

Note: A negative number indicates an over-recovery of gas costs.

SUMMARY OF FINDINGS: <u>See page</u>

<u>COMMODITY:</u>

FINDING #1	Commodity Recoveries	$ 465,576.95	Under-recovery	7
FINDING #2	Banked Gas Adjustment	167,350.34	Under-recovery	8
FINDING #3	Storage Costs	-2,439.09	Over-recovery	9
FINDING #4	Miscellaneous Adjustment	-50,221.78	Over-recovery	10
FINDING #5	Interest – Commodity.	47,157.41	Under-recovery	11
FINDING #6	Demand Recoveries	509,910.11	Under-recovery	12
FINDING #7	Interest – Demand	34,296.07	Under-recovery	13
	Net Result	**$ 1,171,630.01**	**Under-recovery**	

FINDING #1:

Exception

The Company overstated its Commodity gas cost recoveries.

Discussion

When comparing the Company's reported Transportation Short recoveries against the 301-C Reports, Staff noted that the Company did not include the adjustment amount of $19,701.20 for the month of March 2007 in the ACA account. The result is an **over- recovery** of Commodity Costs.

Recoveries from sales customers of $19,275,808.18 for March 2007 included $509,760.00 of Off-System sales recoveries. Staff eliminated the Off-System sales recoveries from the recoveries from sales customers, since Off-System sales are a separate line item in the filing. Including it in recoveries from sales customers is duplication. The result is an **under-recovery** of Commodity Costs.

The Commodity ACA Surcharge is calculated by multiplying the sales volumes by the Commodity ACA Surcharge rate. When the Company calculated the amount of the surcharge for Industrial Firm (Tariff Rate 303), they used a rate of 0, instead of negative 0.03940 for the months of February, April, May, and June of 2007. In addition, they used a rate of 0 instead of positive 0.02185 for July through December of 2007. The result of this error is $17,426.27 in **under-recovered** gas costs.

Off-System Sales Margin should be recorded as a credit in the ACA Account. For the months of March 2007 and May 2007, the Company incorrectly debited the ACA account $7,096.78 and $13,857.28 respectively. The result is a $14,193.56 over recovery for March 2007 and a $27,714.56 **over-recovery** for May 2007.

The net effect (excluding interest) of Staff's adjustments is a **decrease in the Company reported Commodity gas cost recoveries of $465,576.95 (Under-recovery).**

Company Response

The Company is in agreement with the above Audit Staff findings in the amount of $465,576.95 and will adjust its records accordingly.

FINDING #2:

Exception

The Company understated its Banked Gas costs.

Discussion

The Current Month Banked Gas amount for December 2006 was a negative \$83,675.17. The Company should have reversed this amount in January 2007. However, the Company recorded the Prior Month Reversed amount in January 2007 as a negative \$83,675.17 instead of a positive \$83,675.17. The result of this error is \$167,350.34 in **under-recovered** gas costs.

The effect of this adjustment is an **increase in the Banked Gas of \$167,350.34 (Under-recovery).**

Company Response

The Company agrees with Audit Staff's finding that the Banked Gas Reversal should have been recorded in the ACA as a positive \$83,675.17.

FINDING #3:

Exception

The Company overstated its Storage Costs.

Discussion

In January 2007, the Company made an Injection adjustment in the amount of $2,439.09 for Bear Creek. The adjustment in the amount of $2,439.09 for Bear Creek should have been included in the ACA account. Injected amounts are a credit to the ACA Account.

The result of this finding is a **decrease in Storage Costs of $2,439.09 (Over-recovery).**

Company Response

The Company agrees with Audit Staff's finding that the FSMA storage injection adjustment in the amount of $2,439.09 should have been included in the ACA account.

FINDING #4:

Exception

The Company overstated its inventory withdrawals in December 2007.

Discussion

The Company made a withdrawal adjustment to an inventory schedule in December 2007 in order to true up the storage balance. However, after an inquiry by Staff and upon further review, the Company determined that the adjustment was not needed since the adjustment had already been made in February 2007. Staff removed this adjustment, which **reduced the ACA Commodity balance by $50,221.78 (Over-recovery).**

Company Response

The Company agrees with the Audit Staff's finding that the $50,221.78 adjustment to storage had already been accounted for and further adjustment was not necessary.

FINDING #5:

Exception

The Company understated the amount of interest due from customers in the Commodity component of the ACA filing.

Discussion

Staff adjusted the Company reported Commodity ACA interest due from adjustments #1 - #4 above. The result of this finding is an **increase to reported interest due from customers of $47,157.41(Under-recovery).**

Company Response

The Company agrees with Audit Staff's calculation of the increase in interest due from customers as a result of the commodity adjustments made in Audit Staff's Findings #1-#4.

FINDING #6:

Exception

The Company overstated its Demand gas cost recoveries.

Discussion

Recoveries from sales customers of $1,398,749.94 for March 2007 include $509,760.00 of Off-System sales recoveries. Staff eliminated the Off-System sales recoveries from the recoveries from sales customers, since Off-system sales recovery is a component of the Commodity ACA. The result of this error is an **under-recovery** of demand costs.

The Demand ACA refund for industrial customers is calculated by multiplying the volumes of tariff rates 303, 304, 313, and 314 by the Demand ACA refund rate. The tariff rates for the ACA refund for rate class 303, 313 and 314 are distributed over step levels for the first 15000, next 25000 etc. at 0.00144 per therm. The therms over 90,000, however, are given a tariff rate of 0.0000 per therm. For rate classes 303, 313 and 314 during the period, Staff noted that volumes over 90,000 were assigned a rate other than 0.0000 per therm. After an inquiry by Staff and upon further review, the Company determined that in the past, the therms had never reached that step rate (therms over 90,000) for these rate classes, therefore the formula was not set up to recognize them. The result of this error is $150.11 in **under-recovered** gas costs.

The net effect (excluding interest) of Staff's adjustments is a **decrease in the Company reported Commodity gas cost recoveries of $509,910.11(Under-recovery).**

Company Response

The Company agrees with the Audit Staff's findings above relating to the calculation of the Demand Cost Recovery and the ACA Demand Charge.

FINDING #7:

Exception

The Company understated the amount of interest due from customers in the Demand component of the ACA filing.

Discussion

Staff recalculated interest based upon the audit finding #6 above. Demand interest due from the customers was **understated by $34,296.07(Under-recovery)**. Staff made the adjustment to the ACA Account to reflect this amount.

Company Response

The Company agrees with the Audit Staff's calculation of the increase in interest due to customers relating to the demand adjustments made in Audit Staff's finding #6.

VIII. CONCLUSIONS AND RECOMMENDATIONS

Staff reviewed the gas costs and recoveries of Piedmont Natural Gas Company for the 12-month period ended December 31, 2007. As reported in the body of this report, Staff concludes that the Purchased Gas Adjustment mechanism, as calculated in the Actual Cost Adjustment, appears to be working properly and in accordance with the TRA rules for PNG. Staff's audit procedures revealed seven monetary findings reported in Section VII, with which the Company concurs. Based on the Company's filing and the audit adjustments by Staff, the net balance in the ACA Account as of December 31, 2007 was a negative $871,235.30. This means that as of December 31, 2007 the Company had over-collected this amount from its customers. This balance will become the beginning balance at January 1, 2008 in the Company's next ACA filing, thereby correcting all error noted in this report. **Staff recommends approval of the Company's adjusted ACA Account balances.**

In the last audit, there were several errors and contested issues, which led to a meeting between Staff and the Company to discuss and remedy the deficiencies from that audit. Topics that were discussed included : (1) improper methods of reporting, (2) lack of sufficient supporting documentation, and (3) the use of untariffed rate schedules. Staff would like to thank the Company for the great improvements noted in this audit. Staff and Company will continue to work together to improve and streamline the audit process.

APPENDIX A

PGA FORMULA[5]

The computation of the GCA can be broken down into the following formulas:

$$\text{Firm GCA} = \frac{D + DACA}{SF} - DB + \frac{P + T + SR + CACA}{ST} - CB$$

$$\text{Non-Firm GCA} = \frac{P + T + SR\ CACA}{ST} - CB$$

where

GCA = The Gas Charge Adjustment in dollars per Ccf/Therm, rounded to no more than five decimal places.

D = The sum of all fixed Gas Costs.

DACA = The demand portion of the ACA.

P = The sum of all commodity/gas charges.

T = The sum of all transportation charges.

SR = The sum of all FERC approved surcharges.

CACA = The commodity portion of the ACA.

DB = The per unit rate of demand costs or other fixed charges included in base rates in the most recently completed general rate case (which may be zero if the Company so elects and the Commission so approves).

CB = The per unit rate of variable gas costs included in base rates in the most recently completed general rate case (which may be zero if the Company so elects and the Commission so approves).

SF = Firm Sales.

ST = Total Sales.

[5] Pursuant to Docket 03-00209, the PGA Formula has been amended to include the gas cost portion of uncollectible accounts.

The computation of the RA can be computed using the following formulas:

$$\text{Firm RA} = \frac{DR1 - DR2}{SFR} + \frac{CR1 - CR2 + CR3 + i}{STR}$$

$$\text{Non-Firm RA} = \frac{CR1 - CR2 + CR3 + i}{STR}$$

where

RA	=	The Refund Adjustment in dollars per Ccf/Therm, rounded to no more than five decimal places.
DR1	=	Demand refund not included in a currently effective Refund Adjustment, and received from suppliers by check, wire transfer, or credit memo.
DR2	=	A demand surcharge from a supplier not includable in the GCA, and not included in a currently effective Refund Adjustment.
CR1	=	Commodity refund not included in a currently effective Refund Adjustment, and received from suppliers by check, wire transfer, or credit memo.
CR2	=	A commodity surcharge from a supplier not includable in the GCA, and not included in a currently effective Refund Adjustment.
CR3	=	The residual balance of an expired Refund Adjustment.

i = Interest on the "Refund Due Customers" account, using the average monthly balances based on the beginning and ending monthly balances. The interest rates for each calendar quarter used to compute such interest shall be the arithmetic mean (to the nearest one-hundredth of one percent) of the prime rate value published in the "Federal Reserve Bulletin" or in the Federal Reserve's "Selected Interest Rates" for the 4th, 3rd, and 2nd months preceding the 1st month of the calendar quarter.

SFR = Firm sales as defined in the GCA computation, less sales under a transportation or negotiated rate schedule.

STR = Total sales as defined in the GCA computation, less sales under a transportation or negotiated rate schedule.