

# BASS

BERRY • SIMS<sup>PC</sup>

A PROFESSIONAL LIMITED LIABILITY COMPANY  
ATTORNEYS AT LAW

150 THIRD AVENUE SOUTH, SUITE 2800  
NASHVILLE, TN 37201  
(615) 742-6200  
[www.bassberry.com](http://www.bassberry.com)

ERIN M. EVERITT  
TEL: (615) 742-7997  
[everitt@bassberry.com](mailto:everitt@bassberry.com)

OTHER OFFICES

KNOXVILLE  
MEMPHIS

April 16, 2010

Via Hand Delivery

Ms. Sharla Dillon  
Tennessee Regulatory Authority  
460 James Robertson Parkway  
Nashville, Tennessee 37243

filed electronically in docket office on 04/16/10

*In Re: Piedmont Natural Gas, Inc.*  
*Docket No. 09-00093*

Dear Ms. Dillon:

Enclosed please find an original and five (5) copies of a letter from Piedmont Natural Gas Company, David Carpenter Managing Director, with regard to the above matter

This document also is being filed electronically today with your office.

Please stamp two (2) copies of this document as "filed" and return them to me by way of our courier.

Should you have any questions concerning any of the enclosed, please do not hesitate to contact me.

With kindest regards, I remain

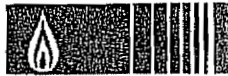
Very truly yours,



Erin M. Everitt

EME/lfr  
Enclosures

8559947.1



**Piedmont  
Natural Gas**

April 16, 2010

Ms. Darlene Standley  
Utilities Division Chief  
Tennessee Regulatory Authority  
460 James Robertson Parkway  
Nashville, Tennessee 37243-0505

Dear Ms. Standley:

This letter is in response to your correspondence of April 15, 2010 in Piedmont's 2008 Annual Cost Adjustment proceeding. In that correspondence you inquire as to Piedmont's position on whether the declaratory relief sought by Piedmont in its April 6, 2010 Request for Declaratory Interpretation should be applied to Piedmont's 2008 Annual Cost Adjustment filing. The answer to your question, which is discussed in more detail below, is that the declaratory interpretation sought by Piedmont in its April 6, 2010 filing should be applied to Piedmont's 2008 Annual Cost Adjustment filing.

In its Request for Declaratory Interpretation, Piedmont seeks confirmation that its interpretation of the provisions of Service Schedule No. 316 is reasonable and appropriate for application to Piedmont's hedging activities under that tariff. As is explained in its Request, Piedmont's application of the terms of Service Schedule No. 316 allows for the practical and efficient implementation of hedging activities, for the benefit of Piedmont's customers, and is consistent with the intent of the parties who negotiated that tariff and with the language of the tariff itself. It is also completely consistent with the manner in which Piedmont interpreted the tariff and applied it during the period subject to Piedmont's 2008 Annual Cost Adjustment filing.

In the 2008 Annual Cost Adjustment audit process, it became apparent that Audit Staff interpreted and applied the language of Service Schedule No. 316 in a different manner than Piedmont. Specifically, Audit Staff calculated the 1% cost cap on hedging costs based on the current ACA period and allocated the costs of hedges to the period in which those costs were incurred. Piedmont's methodology involves the use of a prior audited Performance Incentive Plan period for calculation of the 1% cap and an allocation of costs to the target period for which the underlying hedges provide protection. Both methodologies are consistent with the literal language of Service Schedule No. 316 but Audit Staff's interpretation makes the hedging activities anticipated under the tariff impossible to implement from a practical perspective.

Given that Piedmont's position on the interpretation and implementation of Service Schedule No. 316 is identical in both its response to Staff's audit report and its Request for Declaratory Interpretation, it is Piedmont's position that an order approving Piedmont's interpretation and implementation of Service Schedule No. 316 should be fully applicable to Piedmont's 2008 Annual Cost Adjustment filing.

Sincerely,

David Carpenter  
Managing Director – Regulatory Affairs