TENNESSEE REGULATORY AUTHORITY

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Nashville, Tennessee 37243-0505

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April 27, 2010

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

RE: DOCKET NO. 09-00093 - PIEDMONT NATURAL GAS COMPANY, INC.'S ACTUAL COST ADJUSTMENT ACCOUNT FILING FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2008.

Dear Ms. Standley:

This letter is in response to your second data request dated April 20, 2010. Please find Audit Staff's responses below.

1) Restate findings #2 and #5 of the 2008 ACA Audit assuming the TRA adopts and applies Piedmont's interpretation of Service Schedule 316.

Audit Staff prepared a schedule (Attachment 1) showing the calculation of Audit Staff's original Finding #2 and the restated Finding #2 (using Piedmont's proposed interpretation of Service Schedule No. 316 Performance Incentive Plan). Simply stated, the sum of the cap amount and the net gains and losses compared to the total amount of hedging costs booked to the ACA Account equals the finding amount. In the "Restated Finding" column Audit Staff did not change the amount of hedging costs (line 2) to match the restated hedging costs in the Company's reply to Audit Finding #2, since it had no impact on the restated result.[1] Audit Staff did change the calculated 1% cap amount from Audit Staff's \$2,205,630 to \$5,152,167 as calculated by the Company.[2] The resulting restated finding is \$2,223,616.78 over-recovery.

Audit Staff recalculated the amount of interest in Finding #5 based on the restated Finding #2. The restated interest finding is \$36,042.71 over-recovery.

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[1] See table presented in the Conclusion by Piedmont in its "Company Response" found on page 12 of the Audit Report. The Company changed Hedging Costs from \$3,170,424 to \$1,595,660.

[2] In Piedmont's Conclusion, found on page 12 of the Audit Report, the Company inexplicably uses Audit Staff's 1% cap amount of \$2,205,630 to restate the appropriate amount of recovery. This would imply that the Company decided to use Audit Staff's 1% cap for the 2008 audit. However, on page 10 of the Audit Report in the table labeled IPA Period Methodology, Piedmont presents the total "Hedging Target Cap" rounded to millions as \$5.15 million. In its response to a Staff data request during the course of the audit, the Company provided the calculation of its proposed cap, based on 3 years of gas costs covering the IPA periods from July 2005 to June 2008. That total was \$5,152,167.

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As the schedule on Attachment 1 shows, the bottom line difference between Audit Staff's recommended finding amount and the restated finding amount using the Company's proposed methodology is the calculation of the 1% cap. Audit Staff is basing the calculation on **one year's** total gas costs, which we believe is clearly supported by the language of the tariff.[3] It reads "Costs related to hedging transactions may be recovered through the ACA account; provided, however, that such costs recovered through the ACA account shall not exceed one (1%) of total **annual** gas costs." [Emphasis added] Piedmont is proposing to base the calculation on **three (3) years**.[4] And it is Audit Staff's understanding that it could be greater if the underlying hedges cover a longer period. Clearly the language of the current tariff does not support the Company's proposal. At this point, the Company simply cannot indisputably support their proffered intent of the tariff, without the agreement of the other parties to the settlement agreement. Audit Staff contends that the proposed intent offered by Piedmont must be approved by the Authority going forward.

2) Discuss the feasibility of filing the 2009 ACA for the 18 month period from January 1, 2009 to June 20, 2010 [sic] (one time only) to align the IPA and ACA audit periods going forward.

Audit Staff put forth this recommendation in the Audit Report (page 19). If the Audit Report can be considered by the Authority in May, Audit Staff believes it is possible to make the transition to a July – June audit period for the ACA audits in the next ACA filing. As stated previously, the filing for the 2009 calendar year is currently due. If the audit review period was extended to June 30, 2010 (an additional 6 months), that would necessarily require a one-time 18-month review. Going forward, the IPA and ACA audit periods would be aligned. Audit Staff is confident that with the cooperation of the Company, that transition could occur in the next audit. If so, filing for the 18-month period should occur in September 2010 concurrent with the filing of the IPA.

Sincerely,

Pat Murphy

Pat Murphy
Utilities Division Manager

Cc: Jim Jeffries
David Carpenter
Frank Yoho
Pia Powers
Kally Couzens
Gary Hotvedt

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[3] Service Schedule No. 316 Performance Incentive Plan, page 4 of 8.
[4] This is a sum of 3 years, not a 3-year average.

ATTACHMENT 1

STAFF FINDING #2

Line #		Original Finding		Restated Finding	
1	Hedging Costs Booked to ACA Account	9,552,373.78	(1)	9,552,373.78	
2	Hedging Costs	(3,170,424.78)	(2)(3)	(3,170,424.78)	
3	Margin Requirement (Paid)/Received	(4,170,214.00)	(3)	(4,170,214.00)	
4	Total hedging related costs subject to cap (line 2 + line 3)	(7,340,638.78)		(7,340,638.78)	
5	Cap (1% of Gas Costs)	2,205,630.13	(4)	5,152,167.00	(5)
6	Amount over Cap (line 4 - line 5)	(5,135,008.65)		(2,188,471.78)	
7	Net Gains and Losses on Closed Positions	2,176,590.00	(3)(6)	2,176,590.00	
8	Total Costs Allowed to be Recovered (line 5 + line 7)	4,382,220.13		7,328,757.00	
9	Audit Finding #2 (Over-recovery of Hedging Costs) (line 8 - line 1)	(5,170,153.65)		(2,223,616.78)	

(1) All costs booked to the ACA Account were initially labelled as "ADM Investor" under Commodity Costs.
(2) Costs subsequently referred to as Hedging Costs Includes Option Premiums (Paid)/Received, Fees & Commissions, and Interest on Account Balance.
(3) In a response to Staff Data Request, the Company provided a schedule breaking the total costs down into costs subject to the 1% cap and costs recoverable at 100%.
(4) Staff based cap on one year of gas costs using the ACA period January 2008-December 2008.
(5) The Company based their cap on three (3) years of gas costs using the IPA periods July 2005 -June 2008.
(6) Gains and losses on closed positions are recoverable at 100%.