TENNESSEE REGULATORY AUTHORITY

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Nashville, Tennessee 37243-0505

May 11, 2010

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

RE: Docket # 09-00093 - PIEDMONT NATURAL GAS COMPANY, INC.'S ACTUAL COST ADJUSTMENT ACCOUNT FILING FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2008.

Dear Ms. Standley:

Audit Staff respectfully submits the following responses to Advisory Staff's data request dated April 29, 2010.

1) Please complete Attachment A with corrected amounts as requested on the schedule. Please note: the 1% cap should be one year of gas costs using the ACA period January 2008-December 2008; and the total hedging costs attributable to the 2009, 2010 and 2011 period should be the total of the monthly amounts for that period as completed on Attachment B.

See completed Attachment A. Audit Staff has included detailed footnotes to explain the approach taken by Audit Staff and why regardless of the interpretation of the tariff related to the appropriate periods in which to book hedging related costs to the ACA Account will not change the audit finding amount. To further clarify Audit Staff's position, we've provided Attachment 1 showing how the total recoverable hedging related costs are calculated using both total costs booked in 2008 <u>and</u> eliminating those costs related to a future period.

All of Audit Staff's numbers found on Attachment A and Attachment 1 come from the following:

Attachment 2 – Piedmont Natural Gas Co. – 2008 Analysis of TN ACA (Deferred) Account - #18650 filed in Docket file on July 1, 2009 (Company document).
Attachment 3 – Piedmont Natural Gas – Staff Data Request, Item #1 Follow Up, Hedging Activity (Company document).
Attachment 4 – Piedmont's response to Audit Staff's Finding #2 – Audit Report, page 12, <u>Conclusion</u>, April 1, 2010.
Attachment 5 – Audit Report, Finding #2, page 5.

2) Please complete Attachment B with the appropriate amounts based upon Piedmont's future benefit assertions. Please advise if additional time is needed to obtain information from the company.

See completed Attachment B. Audit Staff did not attempt to break down hedging costs related to future periods by month and year as requested. As footnote (1) on Attachment B explains, this exercise will not affect the results of the audit.

3) Please provide the amount of interest due to/from customers in the Commodity component of the ACA filing correlating with Attachment A provided with this request. Please provide supporting calculations.

The amount of additional interest due to customers of $79,616.71 (over-recovery) as stated in Audit Staff Finding #5 does not change as a result of the analysis presented in Attachment A. Audit Staff cannot provide the Excel spreadsheets used to calculate this over-recovery to the Advisory Staff for inclusion in the Docket File as they contain information considered confidential by the Company.

Sincerely,

Pat Murphy

Pat Murphy
Utilities Division Manager

Attachments: 5

PNG
09-00093
Response to Item 1
April 29, 2010 Data Request

ATTACHMENT A

Line #		Response to 4/29/10 Data Request	
1	2008 Hedging Costs Booked to ACA Account	9,552,373.78	(1) (8)
2	Hedging Costs Benefiting 2009-2011	1,574,764.00	(2) (9)
3	Hedging Costs Attributable to 2008 (L1 - L2)	7,977,609.78	(7)
4	Hedging Costs	3,170,424.78	(3) (5)
5	Margin Requirement Paid/(Received)	4,170,214.00	(3)
6	Total hedging related costs subject to cap	7,340,638.78	
7	Cap (1% of Gas Costs)	2,205,630.13	(4)
8	Amount over Cap	5,135,008.65	
9	Net Gains and Losses on Closed Positions	2,176,590.00	(3)
10	Total Costs Allowed to be Recovered	4,382,220.13	
11	Under (Over-recovery of Hedging Costs)	(5,170,153.65)	(6)

(1) Total net costs booked to the ACA Account in 2008, labeled "ADM Investor". (See Company document Attachment 2) Audit Staff has redacted the names of suppliers, as Piedmont considers this confidential information).

(2) See Piedmont's response to Audit Staff Finding #2 (Attachment 4). Piedmont includes $1,595,660 as "Hedging Costs" for 2008. The difference of $1,574,764 ($3,170,424 - $1,595,660) is for future periods.

(3) Total net costs broken down into costs subject to 1% cap and costs recoverable at 100%. Costs subsequently referred to as "Hedging Costs" includes Option Premiums Paid/(Received), Fees & Commissions and Interest on Account Balance. (See Attachment 3 - Piedmont response to Audit Staff data request)

(4) Cap is based on the total gas costs incurred in calendar year 2008. This is the amount used by Audit Staff to calculate its over-recovery amount of ($5,170,1563.65).

(5) This amount includes the $1,574,764 that Piedmont states benefits future periods (footnote (2)). While this amount should <u>not</u> have been booked to the ACA Account (assuming Piedmont's interpretation of the tariff is correct), the fact is that Piedmont <u>did book</u> this amount in the 2008 audit period. If this amount is not removed from the ending balance in the ACA Account, ratepayers will pay for future related hedging costs in the 2008 audit period, in <u>addition to</u> the 1% cap amount. This is the reason the future hedging costs are and remain part of Audit Staff's over-recovery amount.

(6) As Audit Staff has explained in each of its responses to Advisory Staff's data requests, it does not matter whether or not the Authority determines that hedging costs recoverable subject to the 1% cap should be considered in the period benefited by the underlying hedges (rather than the period incurred), as the Company interprets the tariff. The Finding #2 amount of $5,170,153.65 in Audit Staff's audit report is <u>correct</u>. The $35,145 difference between lines 8 and 11 is the net difference between the amount booked and the amount that should have been booked (see more detailed explanation in Finding #2, Attachment 5).

(7) This amount <u>cannot equal</u> the amount recorded as required by footnote D on Attachment B. Advisory Staff likely misunderstands the different terminology used by the Company in its ACA filing and its response to Audit Staff's Finding #2. The "Hedging Costs" referred to by the Company is just one part of the total hedging related costs booked to the ACA Account (See Attachments 2 and 3). The "total 2008 booked hedging cost" referenced by footnote A on Attachment B includes Hedging Costs, Margin Requirements, and Net (Gains)/Losses on Closed Positions. (See Company documents Attachments 2 and 3)

(8) The difference between the Company's 2008 Hedging Costs Booked to ACA Account (Piedmont's Data Response, May 6, 2010, Attachment A, line 1) of $9,517,229 and Audit Staff's amount of $9,552,373.78 is the net $35,145 explained in footnote (6) above.

(9) The Company's amount of $2,474,574 (Piedmont's Data Response, May 6, 2010, Attachment A, line 2) cannot be explained from the documents filed in the ACA Audit and attached to the Audit Staff's response as Attachments 2-5.

PNG
09-00093
Response to Item 2
April 29, 2010 Data Request

ATTACHMENT B

Distribution of 2008 Booked Hedging Costs to Benefit Period

Input total 2008 booked hedging cost in green box > 9,552,373.78 A/

Hedging Costs Benefit Attributable to 2008													
Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08	2008 Total	
256,500	367,200	284,150								388,710	299,100	1,595,660	D/

Hedging Costs Benefit Attributable to 2009													
Jan-09	Feb-09	Mar-09	Apr-09	May-09	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09	2009 Total	
												0	(1)

Hedging Costs Benefit Attributable to 2010													
Jan-10	Feb-10	Mar-10	Apr-10	May-10	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10	2010 Total	
												0	(1)

Hedging Costs Benefit Attributable to 2011													
Jan-11	Feb-11	Mar-11	Apr-11	May-11	Jun-11	Jul-11	Aug-11	Sep-11	Oct-11	Nov-11	Dec-11	2011 Total	
												0	(1)

Total 2008 Booked Hedging Costs 1,595,660 B/

Total Hedging Costs Attributable to 2009 - 2011 1,574,764 C/

A/ This amount should equal the amount input on Attachment A, line 1.
B/ This formula sums individual distribution to check accuracy of distribution to total 2008 booked hedging costs A/.
C/ This amount should be input on Attachment A, line 2.
D/ This amount should agree with Attachment A, line 3.

(1) Audit Staff did not attempt to break down the amount referenced on footnote C. The breakdown is not germane to the analysis requested in this data request.

Costs can be recovered up to a cap of 1% of the total annual gas costs.

Line #		Costs Booked		Costs Restated	
1	Hedging Costs	3,170,424.78	(1)	1,595,660.00	(5)
2	Margin Requirement Paid/(Received)	4,170,214.00	(4)	4,170,214.00	(4)
3	Total hedging related costs subject to cap (line 1 + line 2)	7,340,638.78	(2)	5,765,874.00	(5)
4	Cap (1% of Gas Costs)	**2,205,630.13**	(3)	**2,205,630.13**	(5)

Costs can be recovered 100%

5	Net Losses on Closed Positions (Gains)	**2,176,590.00**	(2)	**2,176,590.00**	(2)

Recoverable Hedging Costs

6	Total Costs Allowed to be Recovered (line 4 + line 5)	**4,382,220.13**	**4,382,220.13**

(1) Costs subsequently referred to as Hedging Costs Includes Option Premiums Paid/(Received), Fees & Commissions, and Interest on Account Balance. See **Attachment 3.**
(2) 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%. **See Attachment 3**
(3) Staff based cap on one year of gas costs using the ACA period January 2008-December 2008.
(4) Piedmont agrees with Staff's Porposed adjustment for Hedging Related Margin Requirements in Excess of the 1% Cap. ACA Audit Report page 11~12. **See Attachment 4.**
(5) ACA Audit Report Page 12. **See Attachment 4.**

a-2008-filed.xls]fy 2008

Attachment 2

	Feb-08		Mar-08		Apr-08		May-08		Jun-08		Jul-08		Aug-08		Sep-08		Oct-08		Nov-08		Dec-08		TOTAL
12/31/07Per TRA 2007 ACA Jan'08 Beginning Balance	(7,643,992.20)		(10,269,076.46)		(11,809,699.53)		(11,541,629.39)		(10,293,999.31)		(10,016,877.41)		(9,445,304.89)		(9,223,120.03)		(6,868,604.08)		(5,597,081.56)		(10,113,655.43)		
	0.00		0.00		0.00		0.00		192,945.50	C1a1 + C1c1	186,289.00	C1a1	1,479,138.50	C1a1+ C1e1+ C1s1+ C1f1+ C1w1+ C1k1+ C1aa1- C1o1+ C1ee1	4,096,495.13	C1a1+ C1e1+ C1o1+ C1g1+ C1q1- C1k1+ C1u1	3,442,801.12	C1a1+ C1m1 C1e1+ +C1q1- C1f1+ C1u1	(1,409,648.84)	C1a1+ C1a1+ C1k1+ C1f1+ C1o1+ C1g1 C1s1	1,556,353.37	C2a1+ C2e1+ C2m1- C2f1+ C2q1	9,552,373.78
C1a1+ C1a2	2,047,037.41	C1a1	2,827,436.57	C1a1	0.00		0.00		0.00		0.00		0.00		0.00		0.00		950,584.44	C2a1+ C2b1	3,024.05	C1a	6,985,113.77
	422,620.00	C2a1	0.00		0.00		0.00		0.00		0.00		0.00		0.00		0.00		0.00		0.00		422,620.00
C2a1	12,303.00	C3a1	13,152.00	C2a1	12,727.00	C1a1	13,152.00	C1a1	12,727.00	C2a1	13,152.00	C2a1	13,152.00	C2a1	1,469,987.00	C2a1	3,240,607.28	C2a1	5,950,307.11	C3a1	2,521,444.06	C3a1+C3a2	13,285,862.45
	0.00		0.00		0.00		0.00		0.00		0.00		0.00		0.00		0.00		1,882,506.06	C4a1	1,158,450.73	C4a1+C4a2	3,040,956.79
C3a2	1,508.94	C4a3+ C4a1	416.10	C3a3	1,743.91	C2a3	1,815.84	C2a1	1,400.02	C3a3	2,368.67	C3a3	2,368.32	C3a3	0.00		414.78	C3a3	0.00		0.00		15,102.58
C4a2	4,825.14	C5a2	5,193.76	C4a2	4,520.31	C3a2	5,617.61	C3a2	4,225.85	C4a1	6,510.27	C4a2	2,517.18	C4a2	73.48	C4a2	192.54	C4a2	0.00		0.00		38,155.83
	0.00		0.00		0.00		61,993.86	C4a1	0.00		0.00		0.00		0.00		0.00		1,120,549.84	C7a1	846,011.18	C7a1	2,028,554.88
C5a1	6,841,109.69	C6a1	9,696,175.04	C5a1	2,978,662.12	C4a1	3,629,945.60	C5a1	3,719,641.05	C5a1	4,263,820.17	C5a1	2,966,615.53	C5a1	2,846,835.23	C5a1	2,422,960.49	C5a1	5,037,538.66	C8a1	7,652,016.29	C8a1	62,459,173.68
C6a2	457,206.60	C7a1	0.00		7,145,543.32	C5a1	2,221,820.05	C6a2	1,909,624.12	C6a2	2,254,355.99	C6a2	0.00		1,989,120.54	C6a1	0.00		0.00		0.00		22,342,434.73
C7a2+ C7a5	113,396.78	C8a2	77,557.52	C6a3	37,280.27	C6a3	45,423.24	C7a3	46,378.58	C7a3	47,752.50	C7a3	47,847.24	C7a3	47,506.32	C7a3	33,914.28	C6a2	0.00		(12,060.69)	C9a1	610,405.68
	0.00		0.00		0.00		69,966.26	C8a1	0.00		0.00		0.00		0.00		0.00		0.00		0.00		69,966.26
C8a1	44,000.00	C9a1	192,750.00	C7a1	0.00		0.00		0.00		0.00		0.00		0.00		0.00		0.00		0.00		382,750.00
C9a2	4,806,961.99	C10a1	3,448,132.55	C8a1	34,766.70	C7a1	372,021.15	C9a1	3,051.90	C8a1	2,003,267.77	C8a1	1,126,996.82	C8a1	34,531.90	C8a1+ C8a2	716,311.48	C7a1	1,013,037.18	C9a1	2,272,353.93	C10a1	20,203,764.41
	0.00		0.00		0.00		0.00		0.00		0.00		0.00		1,333,993.33	C9a1	0.00		0.00		0.00		1,333,993.33
C10a1	380,406.87	C11a1	83,193.17	C9a1	985,251.90	C8a1	4,382,431.50	C10a1	969,578.77	C9a1	6,787.20	C9a1	4,544.20	C9a1	6,137.73	C10a1	618,710.24	C6a1	764.80	C10a1	55,949.84	C11a1	7,985,579.59
	0.00		0.00		0.00		0.00		444,650.06	C10a1	0.00		0.00		0.00		0.00		0.00		0.00		444,650.08
	0.00		0.00		0.00		0.00		0.00		0.00		0.00		1,837.67	C11a2	1,939.66	C9a2	0.00		0.00		3,777.33
C11a1	1,307,151.96	C12a1 +C12a2	301,211.27	C10a1	3,051.90	C9a1	3,153.63	C11a1	3,051.90	C11a1	3,153.63	C10a1	3,153.63	C10a1	3,051.90	C12a1	3,153.63	C10a1	0.00		0.00		2,582,657.40
C12a1	2,790,441.48	C13a1	3,274,681.40	C11a1	3,395,923.20	C10a1	7,562.76	C12a1	4,208,310.00	C12a1	4,854,894.27	C11a1	3,357,590.55	C11a1	2,494,783.27	C13a1	7,562.76	C11a1	2,171,487.04	C11a1	7,590.04	C12a1	29,157,369.48
C13a1	0.00		0.00		0.00		0.00		0.00		0.00		0.00		0.00		0.00		16,451,885.21	C12a2	17,809,824.44	C14a1+C14f1	34,300,925.87
	0.00		0.00		0.00		0.00		0.00		0.00		0.00		1,458,707.05	C14a1	1,412,601.70	C12a1	0.00		0.00		2,871,308.75
C14a2	47,171.20	C14a2	7,774.53	C12a2	864.56	C12a2	(16,277.91)	C13c1+ C13d1	(21,051.40)	C14a2	(4,947.83)	C13a2	21,276.08	C12a2	(1,322.10)	C15a1	(3,761.51)	C13a2	6,882.40	C15a2	(21,821.16)	C15a2	27,995.52
D1a	21,342.99	D2a	59,542.87	D3a	42,724.02	D4a	30,643.23	D5a	135,011.63	D6a	21,002.91	D7a	26,434.82	D8a	4,505.98	D9a	2,180.89	D10a	38,209.17	D11a	136,596.49	D12a	539,631.29
	21,297,662.05		19,985,116.78		14,643,088.21		10,829,268.82		11,829,545.00		13,660,408.55		9,051,635.87		15,786,244.43		11,899,589.34		33,220,150.87		33,990,532.57		220,665,123.48
E1a+ F1a	(206,352.43)	E2a+ F2a	(31,216.12)	E3a	(142,683.55)	E4a	(154,462.97)	E5a	(7,936.43)	E6a	(63,212.64)	E7a	(56,198.39)	E8a	(33,834.36)	E9a	(129,887.54)	E10a+ F10a	(109,611.55)	E11a	(7,220.67)	E12a+ J36a	(1,169,032.72)
J1b	(993,322.87)	J4b	(6,597,732.72)	J7b	(2,924,341.61)	J10b	0.00	J13b	0.00	J16b	(172,477.60)	J19b	0.00	J22b	(3,303,741.27)	J25b	(3,022,376.24)	J28b	(16,053,367.53)	J31b	(12,228,405.36)	J34b	(46,545,858.28)
J1c	(30,708,034.53)	J4c	(24,611,926.02)	J7c	(14,200,402.35)	J10c	(7,327,432.00)	J13c	(5,947,916.39)	J16c	(4,569,060.30)	J19c	(4,491,252.82)	J22c	(4,620,234.89)	J25c	(4,549,651.41)	J28c	(10,800,287.60)	J31c	(25,675,103.36)	J34c	(166,145,627.68)
J1f	(813,511.68)	J4f	(654,673.43)	J7f	(387,538.09)	J10f	(209,626.38)	J13f	(132,175.98)	J16f	(105,940.84)	J19f	(106,067.13)	J22f	(107,801.39)	J25f	(133,394.58)	J28f	(315,072.00)	J31f	(703,790.18)	J34f	(4,439,584.88)
M1a	(13,364,597.65)	M2a	(7,012,359.86)	M3a	(1,966,053.07)	M4a	485,266.60	M5a	1,156,982.08	M6a	1,070,762.05	M7a	823,436.63	M8a	(470,142.88)	M9a	(3,547,236.39)	M10a	(11,249,670.72)	M11a	(15,068,694.02)	M12a	(67,125,531.32)
	17,983,194.07		13,364,597.65		7,012,389.86		1,966,053.07		(485,266.60)		(1,156,982.08)		(1,070,762.05)		(823,436.63)		470,142.88		3,547,236.39		11,249,670.72		63,788,268.70
	(162,390.19)		(162,390.19)		0.00		0.00		0.00		0.00		0.00		0.00		0.00		0.00		9,566.87		(477,603.70)
O1a	162,390.19	O1b	0.00	O1c	0.00	O1d	0.00	O1e	0.00	O1f	0.00	O1g	0.00	O1h	0.00	O1i	0.00	O1j	(9,566.87)	O1k	(9,566.87)	O1l	305,646.64
H1-a	(1,585,633.16)	H1-c	(1,002,699.07)	H1-e	(2,280,944.16)	H1-g	(2,632,813.41)	H1-i	(4,378,226.77)	H1-k	(2,820,168.74)	H1-m	(1,279,832.27)	H1-p	(4,955,051.14)	H1-q	(646,326.45)	H1-r	(3,097,940.16)	H1-t	(1,729,843.71)	H1-v	(26,979,253.58)
	0.00		0.00		(170,843.71)	H2-d	(682,791.76)	H2-e	(706,027.06)	H2-f	(1,833,118.08)	H2-h	0.00		(240,159.90)	H2-i	0.00		(365,371.36)	H2-j	0.00		(3,998,317.37)
	0.00		0.00		(929,813.46)	H3-d	(1,134,711.60)	H3-e	(916,246.80)	H3-f	(1,698,208.04)	H3-g	(1,207,679.04)	H3-h	0.00		(66,100.32)	H3-i	0.00		0.00		(5,952,819.25)
	(919.83)	H4-b	0.00		0.00		0.00		0.00		(1,775,836.80)	H4-h	(1,568,336.86)	H4-i	0.00		(313,521.12)	H4-l	0.00		0.00		(3,658,616.61)
H1-b	3,802,962.51	H1-d	3,070,093.49	H1-f	1,897,154.39	H1-h	77,731.98	H1-j	97.07	H1-l	61,893.52	H1-n	0.00		0.00		2,199,253.35	H1-s	535,270.13	H1-u	4,304,444.91	H1-w	22,764,735.66
H2-a	683,340.70	H2-b	726,213.42	H2-c	0.00		0.00		31,182.24	H2-g	0.00		0.00		0.00		0.00		0.00		1,092,695.28	H2-k	3,173,655.26
H3-a	751,556.92	H3-b	205,076.96	H3-c	0.00		0.00		0.00		0.00		0.00		0.00		169,388.84	H3-j	0.00		1,107,322.10	H3-k	3,832,112.93
H4-a	642,368.05	H4-c	684,004.33	H4-d	70,449.76	H4-e	70,461.10	H4-f	67,564.89	H4-g	0.00		3,101.05	H4-j	101,341.10	H4-k	66,460.23	H4-m	110,268.59	H4-n	307,975.50	H4-o	2,560,731.05
I1a	23,172.52	I2a	22,415.76	I3a	23,003.64	I4a	22,303.04	I5a	22,681.11	I6a	22,461.78	I7a	185,358.37	I8a	102,964.76	I9a	23,132.43	I10c+ I10b	104,442.68	I11a	28,439.92	I12a	690,770.50
G1a	(78,410.85)	G2a	(354,147.43)	G5a	(309,685.81)	G6a	0.00	G7a	0.00	G8a	0.00	G9a	0.00	G10a	(270,265.99)	G11a	(60,403.49)	G12a	0.00	G15a	0.00	G18a	(1,183,364.76)
																							0.00
													(10,082.73)	H1-o									(10,082.73)
																	85,140.35	P2a					
																	(14,729.48)	C6a3	(391.58)	C5a2+ C6a2			
																					100,131.11	P2b	
															1,134,091.69	P1a	(1,134,091.69)	P1b					
	(10,211,418.37)		(11,738,632.97)		(11,475,944.47)		(10,232,577.90)		(9,959,744.97)		(9,402,420.61)		(9,181,984.76)		(6,833,146.50)		(5,571,165.37)		(10,080,992.77)		(13,255,506.54)		(115,553,125.13)
	(8,927,705.28)		(11,003,854.72)		(11,642,822.00)		(10,887,103.65)		(10,120,872.14)		(9,709,649.01)		(9,313,644.83)		(8,028,133.20)		(6,219,884.73)		(7,839,037.17)		(11,684,580.98)		(110,710,092.50)
	7.75%		7.75%		6.77%		6.77%		6.77%		5.30%		5.30%		5.30%		5.00%		5.00%		5.00%		
	(57,658.10)		(71,086.56)		(65,684.92)		(61,421.41)		(57,132.44)		(42,884.28)		(41,135.27)		(35,457.59)		(25,916.19)		(32,662.00)		(48,685.75)		(574,107.44)
	(10,269,076.46)		(11,809,699.53)		(11,541,629.39)		(10,293,999.31)		(10,016,877.41)		(9,445,304.89)		(9,223,120.03)		(6,868,604.08)		(5,597,081.56)		(10,113,655.43)		(13,304,192.29)		(116,127,232.57)

Attachment 3

	-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08	Total
	0.00	0.00	0.00	0.00	0.00	(358,800.00)	(308,100.00)	(1,327,200.00)	(1,956,260.00)	(2,052,150.00)	(192,000.00)	0.00	(6,194,510.00)
	0.00	0.00	0.00	0.00	0.00	166,800.00	120,400.00	610,550.00	1,008,200.00	1,082,000.00	68,000.00	0.00	3,055,950.00
	0.00	0.00	0.00	0.00	0.00	(945.50)	(589.00)	(5,704.00)	(10,137.00)	(9,331.00)	(1,240.00)	0.00	(27,946.50)
	0.00	(155.00)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	(2,790.00)	(2,325.00)	(1,798.00)	(7,068.00)
	0.00	0.00	0.00	0.00	0.00	0.00	0.00	(756,784.50)	(3,138,550.50)	(1,404,948.00)	1,986,050.00	(855,981.00)	(4,170,214.00)
	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	252.37	1,017.88	1,413.84	465.63	3,149.72
	0.00	(155.00)	0.00	0.00	0.00	(192,945.50)	(188,289.00)	(1,479,138.50)	(4,096,495.13)	(2,386,201.12)	1,859,898.84	(857,313.37)	(7,340,638.78)
													5,152,167.00
nt)													(2,188,471.78)
	0.00	35,300.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	35,300.00
	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	(1,056,600.00)	(456,250.00)	(699,040.00)	(2,211,890.00)
	0.00	35,300.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	(1,056,600.00)	(456,250.00)	(699,040.00)	(2,176,590.00)

The Company agrees with Staff's adjustment to the review period Commodity gas costs identified above to the extent it is based upon a disallowance of margin requirements in excess of the 1% annual sales volume cap on hedging costs set forth in Service Schedule No. 316. In this case, the Staff adjustment excludes certain review period margin requirements associated with hedging transactions which, under Piedmont's Service Schedule No. 316, are classified as hedging costs subject to the 1% cap. The Company also agrees with Staff that any actual gains and losses on hedging transactions, which occur when those hedging transactions are ultimately closed, are to be recorded in the Company's ACA account as a gain or loss without being subject to any cap.

Conclusion

Based on the foregoing, Piedmont believes that the appropriate adjustment to Piedmont's Commodity gas costs (which captures "excess" margin requirements in excess of the 1% cap but appropriately attributes hedging costs to the periods covered by the underlying hedging transactions) is $3,560,244 as compared to Staff's proposed adjustment of $5,135,008, each as shown below.

Calculation of Recoverable Hedging Costs

	Staff	Company
Hedging Costs	3,170,424	1,595,660
Margin Requirements	4,170,214	4,170,214
Total Costs	7,340,638	5,765,874
1% Cap	2,205,630	2,205,630
Amount Over Cap	5,135,008	3,560,244

FINDING #2:

Exception

The Company overstated its recoverable hedging costs.

Discussion

For the audit period, Piedmont booked $9,552,373.78 in total hedging related costs to the ACA Account to be recovered from ratepayers. This amount included $7,340,483.78 in hedging transaction costs and $2,211,890 in net losses on closed positions. After reviewing the documentation provided, Audit Staff determined there was an additional $155 in hedging transaction costs and $35,300 in net gains on closed positions that were not accounted for in the amounts reported above. The corrected amount for the audit period is $7,340,638.78 in hedging transaction costs and $2,176,590 net losses on closed positions.

The tariff governing the amount of hedging related costs that can be recovered from ratepayers is Piedmont's Service Schedule No. 316, Performance Incentive Plan. A copy of this tariff is attached to the report as Exhibit 1. The tariff states that "The Company may engage in hedging transactions within the PGA/ACA mechanism. **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 percent (1%) of total annual gas costs.** Costs related to hedging transactions recoverable through the ACA account shall be defined as all direct, transaction related costs arising from the Company's prudent efforts to stabilize or hedge its commodity gas costs including, without limitation, brokerage fees, margin requirements, and the costs of financial instruments. **All monthly gains and losses shall be (credited)/debited to the ACA account.** [Emphasis Added]"[5]

The Company included its total hedging transaction costs, as well as net gains and losses, in the ACA for recovery from ratepayers, failing to apply the 1% recovery cap to the hedging transaction costs. The tariff distinguishes those costs that can be recovered 100% and those costs that can be recovered up to a cap of 1% of the total annual gas costs. Monthly gains and losses are recoverable at 100%. All other costs related to hedging transactions are subject to a maximum recovery of 1% of annual gas costs. Gas costs for the audit period include $211,107,618.58 in commodity costs and $9,455,394.61 in demand costs for a total annual gas cost of $220,563,013.19. The 1% threshold of total annual gas costs would therefore calculate to $2,205,630.13. This amount plus the $2,176,590.00 net loss for the period results in $4,382,220.13 that is eligible for recovery from rate payers. Staff, therefore, reduced the Company's original filing by $5,170,153.65.[6]

The effect (excluding interest) of Staff's adjustment is a **decrease in the Company's reported Commodity gas cost of $5,170,153.65 (Over-recovery).**

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[5] Service Schedule No. 316, Performance Incentive Plan, page 4.

[6] $9,552,373.78 in the Company's original filing minus $4,382,220.13 allowable expense equals $5,170,153.65 over-recovery of gas costs.