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October 29, 2009

VIA EMAIL AND HAND DELIVERY

Chairman Sara Kyle c/o Ms. Sharla Dillon Tennessee Regulatory Authority 460 James Robertson Parkway Nashville, Tennessee 37243

filed electronically in docket office on 10/29/09

Petition of Piedmont Natural Gas, Inc. for Approval of Service Schedule

No. 317 and Related Energy Efficiency Programs

Docket No. 09-00104

Dear Chairman Kyle:

Enclosed please find an original and five (5) copies of Piedmont Natural Gas, Inc.'s Responses to the Tennessee Regulatory Authority's Data Requests for filing in Docket No. 09-00104. This filing has also been transmitted electronically to the Tennessee Regulatory Authority Docket Manager, Sharla Dillon.

Please stamp one copy as "filed" and return to me by way of our courier. Should you have any questions concerning any of the enclosed, please do not he sitate to contact me.

With kindest regards, I remain

Very truly yours,

R. Dale Drimes, eme by permission

Enclosures

cc:

Hon. Mary Freeman (w/o endosure)

Hon. Eddie Roberson, Ph.D. (w/o endosure)

Hon. Kenneth C. Hill (w/o endosure)

James H. Jeffries, Esq.

#### Tennessee Regulatory Authority Data Request to Petitioners, dated October 13, 2009

- Q1. If Piedmont's total fixed costs were recovered totally from customers in fixed monthly charges, would the Margin Decoupling Tracker be necessary to stabilize earnings as a result of decreased customer usage?
- A. The Margin Decoupling Tracker would not be necessary if total fixed costs were recovered in the fixed monthly charge. However, the Company would note that, in its view, the Margin Decoupling Tracker provides a somewhat more specific billing approach for each individual customer that is still driven by the amount of gas each customer uses. Using a fixed monthly charge to recover total fixed costs does not accommodate customer-specific usage patterns as easily as a Margin Decoupling Tracker and requires the difficult process of classifying customers into smaller groups to establish appropriate fixed monthly charges.

As an illustration of this point, under the proposed Margin Decoupling Tracker mechanism, customers that reduce usage continue to receive a net savings in their bills because the customers have avoided the costs associated with the commodity charges for the therms not otherwise consumed. However, with a higher monthly fixed charge instead of the Margin Decoupling Tracker, those net savings to their bills would be diminished.

#### Tennessee Regulatory Authority Data Request to Petitioners, dated October 13, 2009

- Q2. Excluding purchased gas, please list and describe Piedmont's most volatile expenses for which the Company has little control over.
- A. (a) Payroll. The majority of costs in any particular period come from maintaining the level of employees necessary to continue to provide quality customer service. Payroll costs can be volatile due to the Company's changing requirements from year to year. For example, changes in customer service needs and changes in customer growth are two factors that make employee levels, and therefore payroll expense, difficult to control.
  - (b) Insurance. Medical insurance for employees.
  - (c) Pension. Pension expenses for employees.
  - (d) Construction costs. Both the materials and the costs of external crews.
  - (e) Fuel costs for transportation. Fuel for the various vehicles used for customer service, system maintenance, meter reading, etc.
  - (f) Uncollectible expenses. Customer bad debts.

#### Tennessee Regulatory Authority Data Request to Petitioners, dated October 13, 2009

- Q3. To clarify the proposed tariff, does Piedmont plan to adjust rates monthly for the Margin Decoupling Tracker or semi-annually? Also, please discuss why a deferred account is necessary and why the Authority shouldn't simply review the Company's earned margin on an annual basis and adjust the Company's margin on a going-forward basis?
- A. Piedmont plans to adjust the increment or decrement under the Margin Decoupling Tracker on a semi–annual basis. Specifically, Piedmont's proposal is to file those proposed rate changes to the TRA with 30-days notice, to be effective April 1 and November 1 of each year.

If the TRA reviewed the Company's earned margin annually and then adjusted the rates going forward, it would accomplish a modified version of the fixed costs recovery. However, this approach would not properly align the Company's interest with the customer's interest. Under this modified approach, each year, the Company would still have the financial incentive to maximize the volumes used by customers each year. Real-time decoupling, as proposed by the Company with the Margin Decoupling Tracker, is needed to properly recover fixed costs and align the Company and the customer to achieve conservation

and the efficient use of natural gas. Additionally, real-time decoupling is necessary to accomplish the conservation approach as described in federal stimulus package language.

#### Tennessee Regulatory Authority Data Request to Petitioners, dated October 13, 2009

- Q4. Please provide a site in the Authority's order in Docket No. 03-00313 stating the adopted total Company margin and the per customer margin for Piedmont. Please provide a comparison of Piedmont's approved margin for the most recent twelve months (provide the margin comparison both on a per customer basis and by total company margin).
- A. See the document attached as Attachment 1 to Piedmont's Response to Data Request No. 4. The first page of Attachment 1 is page 11 of the Authority's Order in Piedmont's 2003 Rate Case (Docket No. 03-00313). This sheet shows the approved margin level for the Company: \$51,021,291 for Residential and \$91,866,767 in total. The second and third attached sheets show the rates calculations supporting the approved level of margin in Docket No. 03-00313. These "proposed rate schedules" were pulled from the electronic files of the Company and were not actually part of the Authority's Order. The information on these sheets in combination with the Order in that docket show that the average monthly customer count for our residential customer class was 135,591, resulting in an approved average annual margin per residential customer of \$376.29.

For the 12-months ending July 31, 2009, the Company reported an adjusted total Tennessee margin of \$95,233,656. Residential margin for that same period was \$52,906,240, as shown on the fourth attached sheet. With an average monthly customer count of 146,536, this calculates to an annual margin of \$361.05.

#### Tennessee Regulatory Authority Data Request to Petitioners, dated October 13, 2009

- Q5. If the Margin Decoupling Tracker is approved as filed, please discuss why a Weather normalizing Adjustment would continue to be necessary.
- A. The Company currently utilizes a mix of rate design approaches in each state of its three-state service territory. WNA is combined with an annual rate adjustment mechanism in South Carolina. WNA was discontinued in North Carolina with the implementation of a decoupling mechanism in 2005. In this Tennessee Docket, the Company has requested to continue WNA in conjunction with margin decoupling for two reasons:
  - (a) WNA is the most accurate method to provide a customer-specific adjustment for weather. Rate designs that incorporate customer-specific calculations when feasible provide the most appropriate market signals.
  - (b) In analyzing the decoupling adjustments made in North Carolina since 2005, there has been a consistent need to estimate the weather-sensitive portion versus the energy efficiency portion. The WNA in Tennessee (in place since 1991) provides this information in a proven calculation that is audited annually by the TRA.

#### STATE OF NORTH CAROLINA

#### **COUNTY OF MECKLENBURG**

#### **VERIFICATION**

Pia K. Powers, being duly sworn, deposes and says that she is Manager – Regulatory Affairs of Piedmont Natural Gas Company, Inc., that as such, she has read the foregoing Responses and knows the contents thereof; that the same are true of her own knowledge except as to those matters stated on information and belief and as to those she believes them to be true.

Pia K. Powers

Mecklenburg County, North Carolina Signed and sworn to before me this day by Pia K. Powers

Sandra K. Hammond, Notary Public

(Official Seal)

My commission expires: August 4, 2013



#### Attachment 1

### Piedmont Response to TRA Data Request No. 4

#### Rate Design

The parties stipulated to a rate design that will produce additional revenues of approximately \$10,300,000 as shown on **Attachment A** to this Order. Based upon a review of the rate design set forth in **Attachment A**, the testimony and exhibits of the parties that were filed in this matter prior to the filing of the stipulated rate design, and the record as a whole, a majority of the panel finds that this rate design is just and reasonable and meets the standards set out in Tenn. Code Ann. § 65-5-203(a).

	<b>Present Net</b>	Rate	Rate
	Revenues	Increase %	Increase
Residential	\$51,021,291	16.51%	\$7,229,179
Commercial	28,974,173	5.44%	1,494,901
Industrial	8,820,079	18.62%	1,384,350
Special Contract	752,415	0.00%	0
Sale for Resale	169,200	6.19%	9,867
Other	2,129,609	10.92%	209,635
Total	\$91,866,767	12.67%	\$10,327,932
Revenue Deficiency	Distriction		10,300,000
Difference		_	\$27,932

#### Tariff and Service Regulation Changes

The parties have also stipulated to changes other than rates in the Company's tariff. Specifically, the parties have agreed on language to segment residential customers into one of two categories: a Standard Rate or low base usage category, and a Value Rate or high base load usage category. In addition, the parties have also agreed on language to segment commercial customers into one of four categories: a Low Usage Standard Rate, a Low Usage Value Rate, a Medium Usage Standard Rate and a Medium Usage Value Rate. These changes are also outlined in **Attachment A** to this Order.

	Revenue from Proposed Rates Proforma Rate Design as Requested Determinates	Residential Rate: Standard Rate Winter Bills Winter dts 441,347	Summer Bills 596,922 Summer dts 996,028	Value Rate Winter Bills 244,685 Winter dts 3,749,803	Summer dis 344,134 Summer dis 1,371,221	10,586,231	Commercial: Rate 302 Bills 156,710 Winter dis 3,256,649 Summer dts 571,689	Rate 332 Winter Bills 17,580 Winter dts first 200 1,089,294 over 200 320,775	Summer Bills 25,458 Summer dts first 200 1,182,347 over 200 158,774	Rate 352  Bills 30  Winter dis 17,886  Summer dis 6,437	Rate 362         121           Bills         121           Winter dls         first 500         59,887           over 500         55,934	Summer Bills 173 Summer therms first 500 82,041 over 500 32,937	Total Com 6,834,650
	Revised Fixed Pipeline	S	22 28 \$ 0.1001	85 03 \$ 0.2200	34 21 \$ 0.1002	31	<del>(A</del>	80 94 \$ 0.220 75 \$ 0.110	58 47 \$ 0.150 74 \$ 0.0751	30 86 \$ 0.220 37 \$ 0.1101	21 87 \$ 0.220 34 \$ 0.110	73 41 \$ 0.150 37 \$ 0.075	50
		994 \$	5001	\$ 002	002 \$	U3	0.5994 \$ 0.1000 \$	200 100 \$	500 \$	200 S 100 S	200 \$ 100 \$		ห ห
	Revised Fixed Pipeline Recovery	2,678,826	99,702	824,957	137,396	3,740,881	1,952,035 57,169	239,645 35,285	177,352 11,908 <b>2,473,39</b> 4	3,935 708	13,175 6,153	12,306 2,470	38,747 2,512,142
	Commodity per dt	\$ 6.6808	6.6808	6.6808	6.6808		6.6808 6.6808	6.6808 6.6808	6.5808	6.6808 6.6808	6.6808 6.6808	6.6808	
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	Commodity Charges	29,857,691	6,654,264	25,051,684	9,160.853	70,724,492	21,757,021 3,819,340	7,277,355 2,143,034	7,899,024 1,060,737 43,956,511	119,493 43,004	400,093 373,684	548,100 220,046	1,704,419 45,660,930
	Proposed Margin Rate	\$ 13.00 S \$ 3.2000 \$	s 10.00 s	s 13.00 \$ 3.2000 \$	\$ 10.00 \$ 2.7000 \$	U3	29.00 \$ 3.5400 \$ 3.0300 \$	29.00 S 3.5400 S 3.5400 S	29.00 8 3.0300 9 3.0300 8	75.00 3.5400 3.0300	75.00 3.5400 3.5400	75.00 3.0300 3.0300	सर्चर
	Proposed Margin Recovery	5,737,511	5,969,220 2,689,276	3,180,905 11,999,370	3,441,340	5 51,021,291	4,544,590 11,528,537 1,732,218	\$ 509,820 \$ 3,856,101 \$ 1,135,544	\$ 738,282 \$ 3,582,511 \$ 481,085 \$ 28,108,688	2,250 63,316 19,504	9,075 212,000 198,006	12,975 248,584 99,799	s 28,974,198
o de la companya de	Proposed Billing Rates	\$ 13.00 \$ \$ 10.4802 \$	s 10.00 s s 9.4809 s	s 13.00 s s 10.1008 s	\$ 10.00 \$ \$ 9.4810 \$	u	\$ 29.00 \$ \$ 10.8202 \$ \$ 9.8108 \$	\$ 29.00 S S 10.4408 \$ S 10.3308 S	5 29.00 S S 9.8608 S S 9.7858 S	75.00 S 10.4408 S 5 9.8208 S	\$ 75.00 \$ \$ 10.4408 \$ \$ 10.3308 \$	\$ 75.00 S \$ 9.8608 S \$ 9.7858 S	U)
	Proposed Revenue	5,737,511	5,969,220 9,443,242	3,180,905 37,876,010	3,441,340 13,000,546	125,486,664	4,544,590 35,237,594 5,608,726	509,820 11,373,101 3,313,862	738,282 11,658,887 1,553,731	2,250 186,744 63,216	9,075 625,268 577,843	12,975 808,990 322,315	77,147,270

\$ 207,000 \$ 1,091,400 \$ 4,408,347 1,033,647 17,618 \$ 6,758,012	\$ 11,100 \$ 240,775 \$ 306,728 \$ 323,141 \$ 23,550 \$ 905,295	\$ 333,600 \$ 2.207,330 \$ 1,180,815 \$ 540,056 \$ 138,199 \$ 4,414,633	\$ 195,300 \$ 862,296 \$ 938,871 \$ 751,958 \$ 1,017,197 \$ 3,765,622	\$ 209,678 \$ 374,827	\$ 752,415	\$ 219,814,415			
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# SECOND DISCOVERY REQUEST OF THE TENNESSEE REGULATORY AUTHORITY TO PIEDMONT NATURAL GAS COMPANY, INC.

Question 4 Response

## August 2008 through July 2009

	Customers <u>Res Val</u>	DT's Res Val	Customers Res Std	DT's <u>Res Std</u>	Margin Per Cust	Margin <u>Per DT</u>	Calculated Margin Res Val	WNA	Calculated Margin <u>Res Val</u>	WNA
Ananst	59,342	118,586	85,755	45,675	10.00	2,70	913,602		980,872	
September	59,332	122,285	85,254	46,270	10.00	2.70	923,491		977,470	
October	59,472	141,894	85,206	62,132	10.00	2.70	977,833		1,019,816	
November	53,447	360,044	92,263	375,266	13.00	3.20	1,846,950	(141,023)	2,400,270	(189, 366)
December	53,929	866,965	93,643	1,021,386	13.00	3.20	3,475,364	(492,837)	4,485,794	(625,704)
January	54,107	1,019,701	94,229	1,248,848	13.00	3.20	3,966,434	215,932	5,221,290	243,403
February	54,248	1,085,058	94,391	1,300,506	13.00	3.20	4,177,409	(143,592)	5,388,702	(191,451)
March	54,242	769,818	94,200	905,116	10.00	3.20	3,005,839	43,921	3,838,370	86,871
April	54,160	425,091	93,611	455,824	10.00	2.70	1,689,347		2,166,835	
Mav	54,025	240,638	92,678	200,359	10.00	2.70	1,189,973		1,467,749	
June	53,908.	148,063	91,819	70,989	10.00	2.70	938,849		1,109,859	
July	53,888	124,456	91,283	55,641	10.00	2.70	. 874,910		1,063,060	
	664,100		1,094.332				23,979,999	(517,599)	30,120,086	(676,247)
Total Residential Customers	Ø		1,758,432							
Average Monthly Residential Customers	al Customers		146,536							
Total Residential Margin			\$ 52,906,240							
Average Margin Per Customer	ner		\$ 361.05							