

BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

October 28, 2011

IN RE:

**TARIFF FILING BY PIEDMONT NATURAL GAS
COMPANY TO ADJUST AND CORRECT THE
APPLICABLE FRANCHISE FEE**

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**DOCKET NO.
10-00033**

**ORDER APPROVING, IN PART, AND DENYING, IN PART,
PIEDMONT'S TARIFF ADJUSTING FRANCHISE FEE**

This matter came before Director Mary W. Freeman, Director Eddie Roberson and Director Kenneth C. Hill of the Tennessee Regulatory Authority (the "Authority" or "TRA"), the voting panel assigned to this docket, at a regularly scheduled Authority Conference held on April 12, 2010 for consideration of the proposed tariff filed by Piedmont Natural Gas Company, Inc. ("Piedmont" or "Company") on March 9, 2010 to adjust the applicable rate used in the collection of the franchise fee it pays to the Metropolitan Government of Nashville ("Metro"). At the March 22, 2010 Authority Conference, the panel suspended the proposed tariff for sixty days, from April 1, 2010 to May 30, 2010, to provide the Authority time to gather additional information and to properly evaluate the proposed tariff. During the April 12, 2010 Authority Conference, representatives from the Company provided a summary of the proposed tariff and answered questions from the panel.

PIEDMONT'S PROPOSED TARIFF

Pursuant to its Franchise Agreement with Piedmont, Metro imposes a five percent (5%) franchise fee on all gross revenues of Piedmont, including revenue generated outside of Davidson County. Because the franchise fee can only be collected from Davidson County customers, those customers in Davidson County pay a franchise fee that exceeds five percent (5%). The applicable rate for collection of the Metro franchise fee is based on usage projections, whereas the actual fee

payments due are based on actual usage. At the outset of a particular year, Piedmont performs the calculations necessary to arrive at its best estimate of what its revenues will be and the amount that the five percent franchise fee will produce. Piedmont's tax department calculates the exact amount of the annual fees to be paid to Metro based on the true revenues for a certain period and remits that amount to Metro. A variance between the actual collections and the actual payments may occur from year to year due to changes in the number of Davidson County customers, as well as changes in the overall percentage of revenues generated inside and outside of Davidson County. These variations have had positive and negative impacts on the franchise fee amounts collected and owed over the course of the operation of this mechanism. The Company may also be faced with a result that is significantly different than what it estimated due to external factors such as extreme changes in weather that impact usage or, as experienced in recent years, major fluctuations in gas prices.

During the April 12, 2010 Conference, Piedmont's representative described the proposed tariff filed on March 9, 2010 as a filing that Piedmont makes with the TRA on a periodic basis to adjust the franchise fee percentage that is applied to bills of customers in Davidson County. The overall process involves a fairly complex calculation, which is based not only on the volumes of natural gas that flow directly to the customers in Davidson County but also on the volumes that flow to customers located in the outlying counties that do not have their own franchise fees.

Historically, Piedmont filed with the TRA its annual franchise fee adjustments on a regular basis. Prior to May 31, 2005, Piedmont adjusted the franchise fee percentage at annual or very close to annual intervals through filings with the TRA. These filings were made to true-up prior year over/under collections of franchise fees by basing the calculation on the most recent Company revenues and number of Davidson County customers. At the time of the March 9, 2010 filing, the Company had not revised the Metro franchise fee percentage or made a filing with the TRA related to the Metro franchise fee since May 31, 2005.

The proposed tariff filed on March 9, 2010 sought to adjust the applicable percentage for the collection of the Metro franchise fee by reducing the franchise fee percentage applicable to customers metered inside of Davidson County from 6.11% to 6.08%, to recover net under-collections of \$2,911,943 incurred prior to 1996 forward through May 31, 2009.¹ The Company sought to recover these amounts over a ten (10) year period with the annual amortized amount of under-recovery included in the Company's proposed 6.08% franchise fee.

Piedmont acknowledged to the Authority that it is preferable for the Company to file annually to recalculate its franchise fee percentage applicable to Davidson County customers. Piedmont explained that the delay of this filing had resulted, in part, from recent significant staffing changes within its regulatory and taxation areas due to turnover and corporate reorganization. Also, during this time period, Piedmont was reexamining the methodology it used to true up the franchise fee.

FINDINGS AND CONCLUSIONS

Based on the entire record in this proceeding, the panel found that the rates established in the May 2005 filing were set on a going forward basis and accounted for all prior under-collections that were attributable to projected versus actual revenues during the period preceding May of 2005. To allow Piedmont to recover under-collected fees related to the period prior to May 2005 resulting from a Company error would be inappropriate and unfair to consumers. For this reason, Piedmont should be allowed to recover only the under-collected amounts incurred since May 2005.

The panel found it reasonable to allow Piedmont to recover \$1,675,205 in under-collected Franchise Fees, which represented the amount from the end of Piedmont's last filing (May 31, 2005) through the most current data available (October 31, 2009). While the under-collected franchise fees were accumulated over a four and one half year period, the panel determined that this recovery should be spread over a twelve-month period. Based on these findings, the panel voted unanimously

¹ Under-collection occurs when the amounts collected from customers are less than those owed to Metro.

to approve a 6.93% Metro franchise fee for Piedmont effective May 1, 2010. In addition, the panel voted to require that Piedmont file annual tariff revisions for the Metro franchise fee, including all supporting documentation and calculations, no later than April 1 of each year.

IT IS THEREFORE ORDERED THAT:

1. A 6.93% Metropolitan Nashville Government Franchise Fee is approved for Piedmont Natural Gas Company, Inc. beginning May 1, 2010.

2. Piedmont Natural Gas Company, Inc. shall file annual tariff revisions for the Metropolitan Nashville Government Franchise Fee, including all supporting documentation and calculations, no later than April 1 of each year.


Mary W. Freeman, Director


Eddie Roberson, Director

Kenneth C. Hill, Director