BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

July 12, 2011

IN RE:	**)**	
	)	
PIEDMONT NATURAL GAS COMPANY	**)**	**Docket No. 10-00225**
ACTUAL COST ADJUSTMENT (ACA) AUDIT	**)**	

NOTICE OF FILING BY THE UTILITIES DIVISION OF THE TENNESSEE REGULATORY AUTHORITY

Pursuant to Tenn. Code Ann. §§ 65-4-104, 65-4-111 and 65-3-108, the Utilities Division of the Tennessee Regulatory Authority hereby gives notice of its filing of the Compliance Audit Report of the Actual Cost Adjustment (hereafter "ACA") Component of the Purchased Gas Adjustment Rule ("PGA Rule") for Piedmont Natural Gas Company (hereafter the "Company") in this docket and would respectfully state as follows:

1. The present docket was opened by the Authority to hear matters arising out of the audit of the Company's ACA filing for the period January 2009 through June 2010.

2. The Company's ACA filing was received on December 6, 2010, and Audit Staff ("Staff") completed its audit of same on July 6, 2011.

3. On July 7, 2011, the Utilities Division submitted its preliminary ACA audit findings to the Company via e-mail. The Company responded on July 8, 2011 via e-mail and this response has been incorporated into the final report. The Report is attached hereto as Exhibit A and is fully incorporated herein by this reference.

4. The Utilities Division hereby files its Report with the Tennessee Regulatory Authority for deposit as a public record and approval of the recommendations and findings contained therein.

Respectfully Submitted:

Michelle Ramsey

Michelle Ramsey
Utilities Division
Tennessee Regulatory Authority

CERTIFICATE OF SERVICE

I hereby certify that on this 12th day of July, 2011, a true and exact copy of the foregoing has been either hand-delivered or delivered via U.S. Mail, postage pre-paid, to the following persons:

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EXHIBIT A

COMPLIANCE AUDIT REPORT

OF

Piedmont Natural Gas Company

ACTUAL COST ADJUSTMENT

DOCKET NO. 10-00225

PREPARED BY

TENNESSEE REGULATORY AUTHORITY

UTILITIES DIVISION

July 2011

COMPLIANCE AUDIT

PIEDMONT NATURAL GAS COMPANY

ACTUAL COST ADJUSTMENT

DOCKET NO. 10-00225

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I. INTRODUCTION

The subject of this audit is Piedmont Natural Gas Company's ("Piedmont" "Company" or "PNG") compliance with the Actual Cost Adjustment and Refund Adjustment of the Purchased Gas Adjustment Rule ("PGA Rule") of the Tennessee Regulatory Authority ("TRA" or the "Authority"). The objective of the audit was to determine whether the Purchased Gas Adjustments ("PGA"), which are encompassed by the Actual Cost Adjustment ("ACA")[1], for the eighteen (18) months[2] ended June 30, 2010, were calculated correctly and were supported by appropriate source documentation.

II. AUDIT OPINION

On December 6, 2010, the TRA Audit Staff (hereafter "Staff") received PNG's ACA filing supporting the activity in its deferred gas cost account ("ACA Account") for the period January 1, 2009 through June 30, 2010. Staff's audit resulted in four (4) findings.[3] The net amount of these findings is **$260,466.12 in over-recovered gas costs**. The Company's reported June 30, 2010 balance of **$3,101,521.55 in under-recovered** gas costs is decreased by the $260,466.12 over-collected gas costs determined in this audit. The corrected balance in the ACA Account at June 30, 2010 is **$2,841,055.43 in under-recovered gas costs.** The amount of the Company's errors represent less than one percent of its total gas invoices (approximately $213 million), and is therefore immaterial by comparison. Staff concludes that except for the findings noted in this report, PNG is correctly implementing its Purchased Gas Adjustment Rider as calculated in the Actual Cost Adjustment, in accordance with TRA rules for Piedmont Natural Gas Company.

III. BACKGROUND INFORMATION ON COMPANY AND GAS SUPPLIERS

Piedmont Natural Gas Company (local distribution company), with headquarters at 665 Mainstream Drive, Nashville, Tennessee, is an operating division of Piedmont Natural Gas Company (parent company), which has its headquarters at 4720 Piedmont Row Drive, Charlotte, North Carolina. On February 12, 2008, the Company notified the Authority of its intent to change the name under which it operates in Tennessee from Nashville Gas Company to its corporate name of Piedmont Natural Gas Company, Inc. The Authority issued an order on March 31, 2008 in Docket No. 08-00028 approving the change. Piedmont is a gas distributor that provides service to several communities in the Middle Tennessee area. The natural gas used to serve these areas is purchased from producers and marketers and transported to Piedmont's city gate through the interstate transmission facilities of Tennessee Gas Pipeline ("TGP"), Columbia Gas Transmission Corporation ("CGTC"), Texas Eastern Gas Pipeline ("TETCO") and Midwestern Gas Transmission Company ("MGT").

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[1] The ACA is more fully described in Section V.

[2] On August 23, 2010, the TRA approved an 18-month audit period for the ACA Account on a one-time basis in the next audit. (Docket # 09-00093)

[3] Refer to Section VII for a description of the findings.

IV. JURISDICTION OF THE TENNESSEE REGULATORY AUTHORITY

Tennessee Code Annotated ("T.C.A".) gave jurisdiction and control over public utilities to the Tennessee Regulatory Authority. T.C.A. §65-4-104 states that:

> The [A]uthority has general supervisory and regulatory power, jurisdiction, and control over all public utilities, and also over their property, property rights, facilities, and franchises, so far as may be necessary for the purpose of carrying out the provisions of this chapter.

Further, T.C.A. §65-4-105 grants the same power to the Authority with reference to all public utilities within its jurisdiction as chapters 3 and 5 of Title 65 of the T.C.A. have conferred on the Department of Transportation's oversight of the railroads or the Department of Safety's oversight of transportation companies. By virtue of T.C.A. §65-3-108, this power includes the right to audit:

> The department is given full power to examine the books and papers of the companies, and to examine, under oath, the officers, agents, and employees of the companies and any other persons, to procure the necessary information to intelligently and justly discharge its duties and carry out the provisions of this chapter and chapter 5 of this title.

The Utilities Division Staff of the TRA is responsible for auditing those energy, water and wastewater utilities under the Authority's jurisdiction to ensure that each company is abiding by Tennessee statute as well as the Rules and Regulations of the Authority. Michelle Ramsey and Tiffany Underwood conducted this audit.

V. DESCRIPTION OF PURCHASED GAS ADJUSTMENT RULE

Actual Cost Adjustment Audits:

The PGA Rule can be found in Chapter 1220-4-7 of the Rules of the Tennessee Regulatory Authority. The PGA Rule permits a gas company to recover, in a timely fashion, the total cost of gas purchased for delivery to its customers and to assure that a company does not over-collect or under-collect gas costs from its customers. The PGA consists of three major components:

1. **The Actual Cost Adjustment ("ACA")**
2. **The Gas Charge Adjustment ("GCA")**
3. **The Refund Adjustment ("RA")**

The ACA is the difference between the revenues billed customers by means of the GCA and the cost of gas invoiced the Company by suppliers plus margin loss (if allowed by order of the TRA in another docket) as reflected in the Deferred Gas Cost account. The ACA then "trues-up" the difference between the actual gas costs and the gas costs recovered from customers through a surcharge or a refund. The RA refunds the "true-up" along with other supplier refunds. For a more complete definition of the GCA and RA, please see the PGA Formula in Appendix A.

Section 1220-4-7-.03(2) of the PGA Rule requires:

> Each year, the Company shall file with the [Authority] an annual report reflecting the transactions in the Deferred Gas Cost Account. Unless the [Authority] provides written notification to the Company within one hundred eighty (180) days from the date of filing the report, the Deferred Gas Cost Adjustment Account shall be deemed in compliance with the provisions of these Rules. This 180-day notification period may be extended by mutual consent of the Company and the [Authority] Staff or by order of the [Authority].

Prudence Audit of Gas Purchases:

Section 1220-4-7-.05 of the PGA Rule requires, unless otherwise ordered by the Authority, an "Audit of Prudence of Gas Purchases" by a qualified consultant. This specialized audit evaluates and reports annually on the prudence of any gas costs included in the PGA. In Docket 96-00805, Nashville Gas was authorized to operate under a Performance-Based Ratemaking Mechanism ("PBR" or "Incentive Plan"), beginning July 1, 1998, and continuing each year unless terminated by the Company or the Authority. For each year that the mechanism was in effect, the requirements of Section 1220-4-7-.05 of the PGA Rule was waived. On December 14, 2007, the TRA issued an order in Docket 05-00165 approving a revised Incentive Plan for Nashville Gas, effective July 1, 2006. This revised Incentive Plan replaces the annual prudence review of the Company's gas purchasing activities.

VI. SCOPE OF ACTUAL COST ADJUSTMENT AUDIT

The ACA audit is a limited compliance audit of PNG's ACA Account. The audit goal is to verify that the Company's calculations of gas costs incurred and recovered are materially correct,[4] and that the Company is following all Authority orders and directives with respect to its calculation of the ACA Account balance. On June 28, 2010 the Company filed a PGA to change the ACA factor to begin surcharging the unaudited balance in the ACA Account at May 31, 2010, effective August 1, 2010. On February 28, 2011, Piedmont filed a PGA to update its ACA factor to reflect the unaudited balance in the ACA Account at January 31, 2011, effective April 1, 2011.

[4] The audit goal is not to guarantee that the Company's results are 100% correct. Where it is appropriate, Staff utilizes sampling techniques to determine whether the Company's calculations are materially correct. Material discrepancies would dictate a broadening of the scope of Staff's review.

To accomplish the audit goal, Staff reviewed gas supply invoices, as well as supplemental schedules and other source documentation provided by the Company. Where appropriate, Staff requested additional information to clarify the filing.

VII. ACA AUDIT FINDINGS

The result of Staff's audit was a **net over-recovery of $260,466.12,** which has the effect of decreasing the Company's under-recovered balance at June 30, 2010 by this amount. A summary of the account as filed by the Company and as adjusted by Staff is shown below, followed by a detailed description of each finding.

SUMMARY OF THE ACA ACCOUNT:

	Company	Staff	Difference (Findings)
Commodity Balance at 1/1/09	($19,820,483.55)	($19,820,483.55)	$ 0.00
Plus Gas Costs	195,068,233.51	194,810,330.33	($ 257,903.18)
Minus Recoveries	171,866,564.95	171,866,564.95	0.00
Ending Balance before Interest	$ 3,381,185.01	$ 3,123,281.83	($ 257,903.18)
Plus Interest	($ 480,522.99)	($ 483,085.93)	($ 2,562.94)
Commodity Balance at 6/30/10	$ 2,900,662.02	$ 2,640,195.90	($ 260,466.12)
Demand Balance at 1/1/09	$ 73,365.78	$ 73,365.78	$ 0.00
Plus Gas Costs	17,969,120.08	17,969,120.08	0.00
Minus Recoveries	17,909,934.56	17,909,934.56	0.00
Ending Balance before Interest	$132,551.30	$132,551.30	$0.00
Plus Interest	68,308.23	68,308.23	$0.00
Demand Balance at 6/30/10	$ 200,859.53	$ 200,859.53	$0.00
Total ACA Ending Balance at 6/30/10	$ 3,101,521.55	$ 2,841,055.43	($ 260,466.12)

Note: A negative number indicates an over-recovery of gas costs.

SUMMARY OF FINDINGS:

				See page
COMMODITY:				
FINDING #1	Duplicate WNA Audit Adjustment	$ (28,433.00)	Over-recovery	6
FINDING #2	Uncollectible Gas Costs	(257,443.04)	Over-recovery	7
FINDING #3	Storage Costs	27,972.86	Under -recovery	8
FINDING #4	Interest – Commodity	(2,562.94)	Over-recovery	9
	Net Result	**$ (260,466.12)**	**Over-recovery**	

FINDING #1:

Exception

The Company included the WNA audit adjustment (Docket # 08-00123) twice in the ACA account.

Discussion

Staff noted that the $28,433 2007-2008 WNA audit findings (Docket # 08-00123) was included as an adjustment to the beginning balance for January 2008 in the last ACA audit (Docket 09-00093). That amount was also included as a line item adjustment for January 2009 in the current filing. Therefore, Staff removed this duplicate adjustment in the ACA account. The result of this finding is a **decrease** in Commodity gas costs of **$28,433.00 (Over-recovery).**

Company Response

The Company is in agreement with the above Audit Staff finding in the amount of $28,433.00 and will adjust its records accordingly.

FINDING #2:

The Current ACA audit for Piedmont covers a period of 18 months (from January 1, 2009 through June 30, 2010) rather than the usual 12 months.[5] Due to the one-time change in ACA period, the Company inadvertently did not include uncollectible gas costs[6] for the period January 2010 through June 2010 in the current ACA filing.

Discussion

In Docket No. 03-00209, Piedmont Natural Gas (as well as Chattanooga Gas and Atmos Energy) was given permission to collect or refund, through the ACA mechanism, the difference between the actual gas cost portion of uncollectible accounts written off and the gas cost portion of uncollectible expense included in its base rates.

Based on monthly reports filed with TRA Staff, as required in Docket No. 03-00209, the Company's actual unrecovered gas cost expense from January 2009 through June 2010 was $549,905.08. The gas cost portion of the allowance for uncollectibles approved in the Company's last rate case (Docket 03-00313) was $958,402.35 for an 18-month period. The difference between these two amounts is $408,497.27 which means the Company has more uncollectible gas costs built into its base rates than it actually experienced during this audit period. Docket 03-00209 therefore requires the Company to credit the ratepayers $408,497.27 in the Company's ACA filing. However, due to the change from 12-months to 18-months audit period, the Company recorded only $151,054.23 in the ACA Account. The result of this error is a **decrease** of **$257,443.04** in Commodity gas costs **(Over-recovery).**

Company Response

The Company is in agreement with the above Audit Staff finding in the amount of $257,443.04 and will adjust its records accordingly.

[5] On August 23, 2010, the TRA approved an 18-month audit period for the ACA Account on a one-time basis in the next audit. (Docket # 09-00093)

[6] The Stipulation filed by Chattanooga Gas on June 1, 2005 in Docket No. 03-00209, and agreed to by all three large gas companies states on page 4 "The gas portion of the bad debts written-off and the amount from collection of accounts previously written-off are tracked and are to be charged or (credited) as appropnate [sic] to ACA (deferred gas account) at least annually for inclusion in the utility's ACA filing."

FINDING #3:

Exception

The Company understated its LNG Storage Withdrawals.

Discussion

Based on the last ACA audit, the net balance in the LNG Storage account as of December 31, 2008 was $7,022,770.43. This balance should become the beginning balance at January 1, 2009 in the Company's current ACA filing. However, the Company used $6,929,538.43 as the beginning balance at January 1, 2009 for LNG Storage account. Staff adjusted the beginning balance on the LNG Storage schedule, and recalculated the cost of inventory activities for all 18 months of the audit period based on the new withdrawal rates. When gas purchased for delivery to customers is injected into storage, the cost of that gas is credited (deducted) from the ACA account, since customers do not yet obtain the value of that gas. When gas is withdrawn from storage for delivery to customers, the weighted average cost of the gas is charged back to the ACA account for recovery from customers. The Company calculated storage withdrawals to be $2,266,096.71. Staff's adjusted amount was $2,294,069.57. The difference of **$27,972.86** represents an **increase** in Commodity gas costs **(Under-recovery).**

Company Response

The Company is in agreement with the above Audit Staff finding in the amount of $27,972.86 and will adjust its records accordingly.

FINDING #4:

Exception

The Company understated the amount of interest due to customers in the Commodity component of the ACA filing.

Discussion

Staff adjusted the Company reported Commodity ACA interest due to customers, resulting from audit findings #1 - #3 above. The result of this finding is an **increase to reported interest due to customers of $2,562.94 (Over-recovery).**

Company Response

The Company is in agreement with the above Audit Staff finding in the amount of $2,562.94 and will adjust its records accordingly.

VIII. CONCLUSIONS AND RECOMMENDATIONS

Staff reviewed the gas costs and recoveries of Piedmont Natural Gas Company for the 18-month period ended June 30, 2010. As reported in the body of this report, Staff concludes that the Purchased Gas Adjustment mechanism, as calculated in the Actual Cost Adjustment, appears to be working properly and in accordance with the TRA rules for PNG. Staff's audit procedures revealed four monetary findings reported in Section VII, with which the Company concurs. Based on the Company's filing and the audit adjustments by Staff, the net balance in the ACA Account as of June 30, 2010 was a positive $2,841,055.43. This means that as of June 30, 2010 the Company had under-collected this amount from its customers. This balance will become the beginning balance at July 1, 2010 in the Company's next ACA filing, thereby correcting all error noted in this report. **Staff recommends approval of the Company's adjusted ACA Account balances.**

Previously the ACA audit cycle followed a calendar year, from January through December and the IPA[7] audit period is on a July through June audit cycle. Due to the intimate relationship of the two audits, the mismatch in audit cycles presented a problem to Staff. In the last audit report (Docket 09-00093), Staff requested the Authority to approve an 18-month audit period for the ACA Account on a one-time basis for the next audit to align the two audit periods. At the August 23, 2010 Authority Conference, the panel voted unanimously to approve the Staff's report, findings and recommendations. The Current ACA audit for Piedmont covers a period of 18 months (from January 1, 2009 through June 30, 2010) and the next ACA audit will cover a period of 12 months (from July 1, 2010 through June 30, 2011).

[7] Incentive Plan Account audit.

APPENDIX A

PGA FORMULA[7]

The computation of the GCA can be broken down into the following formulas:

$$\text{Firm GCA} = \frac{D + DACA}{SF} - DB + \frac{P + T + SR + CACA}{ST} - CB$$

$$\text{Non-Firm GCA} = \frac{P + T + SR\ CACA}{ST} - CB$$

where

GCA = The Gas Charge Adjustment in dollars per Ccf/Therm, rounded to no more than five decimal places.

D = The sum of all fixed Gas Costs.

DACA = The demand portion of the ACA.

P = The sum of all commodity/gas charges.

T = The sum of all transportation charges.

SR = The sum of all FERC approved surcharges.

CACA = The commodity portion of the ACA.

DB = The per unit rate of demand costs or other fixed charges included in base rates in the most recently completed general rate case (which may be zero if the Company so elects and the Commission so approves).

CB = The per unit rate of variable gas costs included in base rates in the most recently completed general rate case (which may be zero if the Company so elects and the Commission so approves).

SF = Firm Sales.

ST = Total Sales.

[7] Pursuant to Docket 03-00209, the PGA Formula has been amended to include the gas cost portion of uncollectible accounts.

The computation of the RA can be computed using the following formulas:

$$\text{Firm RA} = \frac{DR1 - DR2}{SFR} + \frac{CR1 - CR2 + CR3 + i}{STR}$$

$$\text{Non-Firm RA} = \frac{CR1 - CR2 + CR3 + i}{STR}$$

where

RA	=	The Refund Adjustment in dollars per Ccf/Therm, rounded to no more than five decimal places.
DR1	=	Demand refund not included in a currently effective Refund Adjustment, and received from suppliers by check, wire transfer, or credit memo.
DR2	=	A demand surcharge from a supplier not includable in the GCA, and not included in a currently effective Refund Adjustment.
CR1	=	Commodity refund not included in a currently effective Refund Adjustment, and received from suppliers by check, wire transfer, or credit memo.
CR2	=	A commodity surcharge from a supplier not includable in the GCA, and not included in a currently effective Refund Adjustment.
CR3	=	The residual balance of an expired Refund Adjustment.

i = Interest on the "Refund Due Customers" account, using the average monthly balances based on the beginning and ending monthly balances. The interest rates for each calendar quarter used to compute such interest shall be the arithmetic mean (to the nearest one-hundredth of one percent) of the prime rate value published in the "Federal Reserve Bulletin" or in the Federal Reserve's "Selected Interest Rates" for the 4th, 3rd, and 2nd months preceding the 1st month of the calendar quarter.

SFR = Firm sales as defined in the GCA computation, less sales under a transportation or negotiated rate schedule.

STR = Total sales as defined in the GCA computation, less sales under a transportation or negotiated rate schedule.