

# BASS

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October 19, 2011

**VIA HAND DELIVERY**

Chairman Kenneth C. Hill  
c/o Sharla Dillon  
Tennessee Regulatory Authority  
460 James Robertson Parkway  
Nashville, Tennessee 37243

Re: ***Petition of Piedmont Natural Gas Company, Inc. Inc., for an Adjustment to Its Rates, Approval of Changes to Its Rate Design, Amortization of Certain Deferred Assets, Approval of New Depreciation Rates, Approval of Revised Tariffs and Service Regulations, and Approval of a New Energy Efficiency Program and GTI Funding, Docket No. 11-00144***

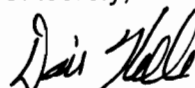
Dear Chairman Hill:

Enclosed please find an original and four (4) copies of Piedmont Natural Gas Company, Inc.'s October 19th Additional Responses to TRA Data Request No. 1.

This material is also being filed today by way of email to the Tennessee Regulatory Authority docket manager, Sharla Dillon. Please file the original and four copies of this material and stamp the additional copy of this cover letter as "filed." Then please return the stamped copy to me by way of our courier.

Should you have any questions concerning this matter, please do not hesitate to contact me at the email address or telephone number listed above.

Sincerely,



David Killion

Enclosures

Chairman Kenneth C. Hill  
October 19, 2011  
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cc: Mr. David Foster, Chief of Utilities Division (w/o enclosure)  
Mr. Jerry Kettles, Chief of Economic Analysis & Policy Division (w/o enclosure)  
Ryan McGehee, Esq. (w/ enclosure)  
C. Scott Jackson, Esq. (w/ enclosure)

10180388.1

BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

February 19, 1997

In Re: )  
 )  
Application of Nashville Gas Company, a Division )  
of Piedmont Natural Gas Company, Inc. for an )  
Adjustment of its Rates and Charges )

RECEIVED  
FEB 24 1997  
STATE ATTORNEY GENERAL  
CONSUMER ADVOCATE DIVISION  
Docket No. 96-00977

ORDER

This matter came before the Tennessee Regulatory Authority (hereafter "Authority") upon the petition of Nashville Gas Company (hereafter "Company" or "Nashville Gas"), an operating division of Piedmont Natural Gas Company, Inc. (hereafter "Piedmont") for a general rate increase. This matter was heard by the Authority on November 13 and 14, 1996.

I. PROCEDURAL BACKGROUND

On May 31, 1996, the Company filed a petition with the Tennessee Public Service Commission (hereafter "TPSC") requesting a general increase in its rates and charges for natural gas service and approval of certain changes to its rate schedules, classifications, and practices. On June 6, 1996, the Consumer Advocate Division, Office of the Attorney General (hereafter "Advocate"), entered a notice of appearance with the TPSC.

On July 29, 1996, pursuant to Administrative Order No. 1,<sup>1</sup> the Company filed its petition to recommence, and its agreement with the Advocate which stipulated that the record before the TPSC would be considered as the record before the Authority.

<sup>1</sup> Effective July 1, 1996, the TPSC ceased to exist and the Authority was established. On July 18, 1996, the Authority issued its Administrative Order No. 1 in which it set forth the requirements upon which it would accept jurisdiction over any pending matters that had been brought before the TPSC and not completed prior to the TPSC's termination.

On August 27, 1996, the Authority ordered that all filings, including petitions, pre-filed testimony, petitions of intervenors, orders of the TPSC and all other matters that were filed before the TPSC with respect to the Company's request for a general rate increase be adopted as though filed with the Authority. On August 9, 1996, Associated Valley Industries group (hereafter "AVI"), a coalition of certain industrial users of natural gas, filed a petition to intervene. That petition was granted on August 20, 1996.

On September 13, 1996, a status conference was held before H. Edward Phillips, III, Associate Counsel of the Authority. On September 25, 1996, a Report and Recommendation was submitted to the Authority providing dates for the submission of any additional data requests and responses, for the filing of additional direct and rebuttal testimony and for a hearing. By Order dated October 7, 1996, the Authority adopted the procedural schedule set forth in the Report and Recommendation.

## **II. HEARING AND APPEARANCES**

On November 13, 1996, a hearing was convened before the Directors of the Authority, at which time, the following appearances were entered by counsel:

### **FOR THE COMPANY:**

T.G. Pappas, Esq.  
Bass, Berry & Sims  
2700 First American Center  
Nashville, TN 37238-2700

Jerry W. Amos, Esq.  
Amos & Jeffries, L.L.P.  
1230 Renaissance Plaza  
Greensboro, NC 27402

FOR THE ADVOCATE:

L. Vincent Williams, Esq.  
Office of the Attorney General  
426 - 5th Avenue, North  
Nashville, TN 37243-0485

FOR AVI:

Henry Walker, Esq.  
414 Union Street, Suite 1600  
Boult, Cummings, Conners & Berry  
Nashville, TN 37219

The Company presented testimony from Bill R. Morris, Gregory E. Aliff, Dr. Donald A. Dr. Murry, Charles W. Fleenor and John H. Maxheim. AVI presented the testimony of Donald Johnstone. The Advocate presented the testimony of Dr. Stephen N. Dr. Brown, Michael W. Warner, Daniel W. McCormac, and R. Terry Buckner.

At a regularly scheduled Authority Conference held on December 17, 1996, the Directors of the Authority, after public deliberation, announced their decision in this matter.

**III. CRITERIA FOR ESTABLISHING JUST AND REASONABLE RATES**

The Authority considers petitions seeking adjustments of rates and charges under Tenn. Code Ann. § 65-5-203, which requires:

- 1) that the Authority shall have the power upon written complaint, or upon its own initiative, to hear and determine whether the increase, change or alteration being sought by a public utility is just and reasonable;
- 2) that the burden of proof to show that the increase, change or alteration is just and reasonable shall be on the public utility making the same; and
- 3) in determining whether such increase, change or alteration is just and reasonable, the Authority shall take into account the safety, adequacy and efficiency or lack thereof of the service or services furnished by the public utility.

#### IV. TEST PERIOD

In a rate case, the Authority must, as a preliminary determination, decide which test period is appropriate. The purpose in the selection of a test period is to provide an indication of the rate of return that is likely to be produced under the existing rate structure in the reasonably foreseeable future after taking into consideration the estimated effect of reasonably expected revenues, expenses and investments.

All of the parties agreed that the Company's use of a test period from December 31, 1995, adjusted to October 31, 1997, was reasonable.

#### V. CONTESTED ISSUES

In its original filing, the Company requested a rate increase of \$9,257,633. At the hearing, the Company agreed to reduce its request to \$7,861,622<sup>2</sup> to reflect the fact that updated information obtained by the Company since the time of its filing required adjustments in Charitable Contributions, Operating Revenues-Forfeited Discounts, Operation and Maintenance Expenses, and Taxes Other Than Income and Retention Factor. The Advocate asserted that a rate increase was not just and that the Company should be ordered to reduce current rates by \$775,415. AVI asserted that if a \$4,600,000 or a \$9,300,000 <sup>3</sup> rate increase were granted, then the industrial users should correspondingly receive either a one percent (1%) reduction in rates or a zero percent (0%) rate increase.<sup>4</sup> AVI's assertion is based upon its position that the Company's

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<sup>2</sup> See Company's Hearing Exhibit No. 5

<sup>3</sup> See table appearing at p. 8 of the Pre-Filed Direct Testimony of Mr. Donald Johnstone. These figures cited to in the text above represent assumed rate increases for the purpose of illustrating the portion of the increase that AVI asserted should be passed on to the industrial users.

<sup>4</sup> See *supra* note 2.

industrial customers are currently paying a premium for natural gas supplied by the Company, and that these rates should be competitive.<sup>5</sup>

**V. A.      Rate Base:**

Rate base is the Company's net investment, which is financed through investor supplied funds, in property used and useful in providing utility service. This is the amount of investment on which the Company should be allowed the opportunity to earn a fair and reasonable rate of return. At the hearing, the disputed issues were (1) whether the Company accurately calculated accumulated depreciation and the related depreciation expense, and (2) whether the Company correctly calculated the amount of its working capital.

**A. I.      Accumulated Depreciation:**

At the hearing, the Company's witness, Mr. Morris, testified that the Advocate's proposed calculation for accumulated depreciation contained an error,<sup>6</sup> which if not corrected would result in an increase in the Company's revenue requirement. Further, Morris testified that the Advocate's proposal was based on an erroneous conclusion that the Company's attrition period accumulated depreciation was overstated by two months.<sup>7</sup> The Advocate did not rebut the Company's assessment that its original calculation of accumulated depreciation was in error. Therefore, the Authority accepts the Company's calculation of accumulated depreciation and depreciation expense of \$101,595,670 and \$11,067,061 respectively based on the supporting proof, and finds that this calculation is reasonable.

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<sup>5</sup> To that end, AVI did not sponsor any witnesses to discuss the cost of service. Instead, AVI proffered only one witness who presented testimony on rate design.

<sup>6</sup> See Hearing Transcript Vol. I, p. 59, testimony of Mr. Bill Morris.

<sup>7</sup> See Hearing Transcript Vol. I, p. 59, testimony of Mr. Bill Morris.

**A. II. Working Capital:**

The Advocate used 38 lag days for income tax expense, while the Company used a negative 106 lag days in the calculation of working capital.<sup>8</sup> The Company's calculation is due to its overpayment of estimated income tax liability. This overpayment and resulting refund causes the negative lag days used by the Company. The Advocate has used the forecasted tax expense included in their case to produce a positive lag day result. Whatever the reason for the overpayment, the Authority finds that it would be inappropriate to require ratepayers to fund any more for working capital relating to income tax expenses than necessary. We, therefore, adopt the 38 lag days proposed by the Advocate.

**A. III. TOTAL RATE BASE:**

Adjusting Rate Base for accumulated depreciation and working capital produces a total rate base of \$200,699,631. The Authority finds that this rate base is fair and reasonable and will permit the Company to earn a fair rate of return.

**V. B. REVENUES & EXPENSES**

The Company's current level of revenues and expenses will determine the current net income. The revenues represent dollars received from the Company's ratepayers in providing services while the expenses represent the cost of providing that same service.

**B. I. Forfeited Discounts:**

Forfeited Discounts are those revenues received by the Company from customers who pay their bills after the expiration of the discount period. The Company has included approximately \$1,506,000 in their case for forfeited discounts while the Advocate has used

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<sup>8</sup> See Pre-Filed Direct Testimony of Mr. Michael Warner at p. 3.



approximately \$1,417,000 which was produced by the Advocate's use of an offsetting adjustment to the Revenue Conversion Factor, discussed below.<sup>9</sup> At the hearing, the Company agreed with the Advocate's calculation of this item, and proposed to adjust their case accordingly.<sup>10</sup> Therefore, the Authority finds that approximately \$1,417,000 is the appropriate amount to include for forfeited discounts.

**B. ii.        Allocation of Demand Cost:**

The Company has proposed to allocate a portion of their fixed gas costs to the gas commodity rates. This proposal has the effect of allocating a portion of the fixed costs of purchasing gas to all customers instead of just those firm customers who use gas on the coldest days. The Company has made this proposal to recognize the principal that all customers should bear a share of the fixed cost burden. There was no opposition from any party at the hearing to this proposal.

The Authority therefore finds that the Company's proposal to allocate a portion of gas demand costs to commodity rates is reasonable and appropriate. The Company is instructed to file its future Purchased Gas Adjustments and Actual Cost Adjustments in a manner that reflects this change.

**B. iii.        Removal of Gas Cost from Base Rates:**

This item relates to the recommendation by the Authority Staff in its compliance audit to remove gas costs from base rates.<sup>11</sup> The Company's current tariff rates include separate amounts for base rates which contain gas costs and a purchased gas adjustment which contains adjusted gas costs.

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<sup>9</sup> See Pre-Filed Testimony of Mr. Daniel McCormac at pp. 3-4.

<sup>10</sup> See Hearing Transcript Vol. I, p. 60, testimony of Mr. Bill Morris.

<sup>11</sup> See p. 13 of the Compliance Audit Report prepared by the Authority's Utility Rate Division Staff.

Since the Authority's current Purchased Gas Adjustment Rule (hereafter "PGA") allows gas utilities to "true-up" any over-recovery or under-recovery of gas costs, it is no longer necessary to consider gas costs in a rate case. Therefore, only the gross margin from gas sales should be considered in a rate case while the gas costs should be moved to the PGA calculation. This is the method approved by the TPSC for both United Cities Gas Company and Chattanooga Gas Company. Making this adjustment for Nashville Gas will create uniformity among the gas utilities regulated by the Authority and will simplify explaining (1) which components of a customer's bill we consider in a rate case and (2) which components are subject to the fluctuations of the natural gas markets. We, therefore, find that the Company should remove the gas cost from its base rates.

**B. iv.        Sales Promotional Expenses:**

This item represents both payroll and non-payroll expenses of Nashville Gas Company employees that perform sales promotional activities. The Company has included approximately \$811,000 and \$308,000 in their case for marketing payroll and non-payroll expenses respectively.<sup>12</sup> The Advocate has proposed to include approximately \$303,000 or (\$816,000 less) in marketing expenses than the Company as part of its overall adjustment for advertising expenses as discussed below. The Advocate contends that sales promotion expenses should be considered a component of advertising and, as such, should be included in the allowance for advertising.<sup>13</sup> Previously, the TPSC limited the Company to recover advertising expenses that were equivalent to only 0.5% of the company's gross revenues.

No party to this proceeding presented evidence that sufficiently demonstrated the TPSC ever meant to include sales promotion payroll and non-payroll expenses in the calculation of the advertising expense allowance. Further, the Advocate failed to present

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<sup>12</sup> See Hearing Transcript Vol. I, p.64, testimony of Mr. Bill Morris.

<sup>13</sup> See Pre-Filed Testimony of Mr. Terry Buckner at p. 7.

evidence that demonstrated that these expenditures were unreasonable. Finally, the Company witnesses presented credible testimony regarding the necessity and the reasonableness associated with these expenditures. Therefore, based upon the evidence presented by the Company that these expenditures were prudent and reasonable for the services rendered, the Authority finds it proper to accept the Company's calculation for Sales Promotion Expense. Further, these payroll and non-payroll expenses are not to be included in the advertising expense allowance.

**B. v.        Advertising Expense:**

The Company has included approximately \$1,486,000 in their case for advertising which represents the amount actually spent in 1995. The Company's witness Mr. Maxheim admitted that this amount was greater than what the Company was allowed to recover by the TPSC. Further, Mr. Maxheim testified that the amount of the advertising expenditures that had exceeded the amount allowed by the TPSC were paid for by the Company's shareholders.

The Company seeks recovery of the entire amount requested for this expense. However, the Advocate has proposed that the Company be limited to recover an amount for these expenditures that is equal to 0.5% of gross revenues.<sup>14</sup>

It is the opinion of the majority of this agency that the evidence appearing in the record demonstrates that both the shareholders and the ratepayers derive some benefit from the company's advertising expenditures. Therefore, the shareholders should bear a portion of the cost of this expense.<sup>15</sup> Therefore, the majority finds that the proper level of

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<sup>14</sup> See Pre-Filed Direct Testimony of Mr. Terry Buckner at p. 7.

<sup>15</sup> Chairman H. Lynn Greer voted not to approve this method of allocation for advertising expenses.

advertising expense to be allowed rate recovery shall be one-half of the amount requested by the company or approximately \$743,000.

The Authority also directs its Staff to conduct a study of the appropriate allowance for advertising for all Class A gas utilities under the Authority's jurisdiction. The results of this study shall be reported to the Authority no later than May 31, 1997.

**B. vi. Payroll Expenses:**

Three issues were raised in this case regarding payroll expenses. These issues dealt with what should be the appropriate amounts allowed for the following expenses: corporate office payroll allocated from North Carolina to Tennessee operations, Tennessee Direct payroll, and the Company's Long Term Incentive Plan.

**a) Corporate Allocated Payroll:**

The first issue concerns the proper allocation of corporate payroll expenses from Piedmont's corporate office in North Carolina to Tennessee. During 1995, the Company consolidated some of its functions into Piedmont's corporate office in North Carolina. This consolidation replaced both payroll and non-payroll expenses that were historically associated with Tennessee. Now these expenses will be allocated to Nashville from the corporate office.<sup>16</sup> Although the Company made this consolidation in 1995, no expense was allocated to Tennessee until November 1, 1996, which coincides with the beginning of Piedmont's fiscal year. Prior to this time, this expense was allocated only to the Company's operations in North and South Carolina.

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<sup>16</sup> See Hearing Transcript Vol. I, pp. 88-89, testimony of Mr. Bill Morris.

The Company has included \$2,440,000 in allocated corporate wages in their rate case for this item.<sup>17</sup> This amount represents the allocation of those corporate employees who provide services to Tennessee.

The Advocate seeks to have the Authority approve the 1995 Tennessee payroll expenses<sup>18</sup> that did not reflect the direct or allocated expense changes that had actually occurred. The Advocate's position is inappropriate because it does not recognize the attrition period consolidation as a known and measurable occurrence. Therefore, the Authority finds that the Company's calculation of \$2,440,000 in allocated corporate wages is just and appropriate.

**b) Direct Payroll:**

The second payroll issue relates to what is the proper amount of Tennessee direct payroll expenses. The Company has included \$11,694,000 in their case for direct salaries & wages while the Advocate has only included \$11,388,000 for a difference of \$306,000. In this case, the Company has used the employee level at December 31, 1995, while the Advocate used the employee level as of August 31, 1996.<sup>19</sup> The total number of employees declined during 1996 due to consolidations of work functions between the Nashville and North Carolina offices. As a result, the Advocate was able to capture a lower employee level which produces the lower expense for the attrition period.

After careful consideration of the evidence in the record, the Authority finds that it is appropriate and reasonable to reduce the Company's Tennessee direct payroll expenses to \$11,388,000. This reduction reflects the fact that the Company has reduced its number of employees since the filing of this case, and that this reduction of employees should be

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<sup>17</sup> See Pre-Filed Rebuttal Testimony of Mr. Bill Morris at p. 14.

<sup>18</sup> See Pre-Filed Direct Testimony of Mr. Terry Buckner at pp. 10-11.

<sup>19</sup> See Pre-Filed Direct Testimony of Mr. Terry Buckner at p. 6.

reflected in the Authority's decision. Therefore, the Company's original filing is reduced by \$306,000 for direct salaries & wages.

**c) Long Term Incentive Plan:**

The third payroll issue is the Long-Term Incentive Plan (LTIP) for upper management employees. The LTIP program is designed to provide additional compensation for top executives that achieve preset financial targets established by the Company. The Company has included approximately \$600,000 in their rate request for LTIP while the Advocate has excluded the entire amount from its case.<sup>20</sup>

There was a great deal of testimony presented on this issue at the hearing. At issue here is whether funding for the LTIP should come from the ratepayers or from the company's shareholders through savings brought about by the plan. The record reflects the fact that both North and South Carolina permit the shareholders and ratepayers to share this expense at a ratio of twenty-five percent (25%) to seventy-five percent (75%) respectively. However, after much consideration, the majority finds that both the shareholders and ratepayers equally share in the benefits derived from the LTIP. Therefore, the majority finds that both the shareholders and ratepayers should fund the LTIP on a fifty-fifty percentage (50/50) ratio. Accordingly, the Company's original filing is reduced by approximately \$300,000.<sup>21</sup>

**B. vii. Injuries and Damages Expense:**

Injuries and damages expense relates to premiums the Company pays for various

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<sup>20</sup> See Pre-Filed Direct Testimony of Mr. Terry Buckner at pp. 11-12.

<sup>21</sup> Director Sara Kyle voted not to approve the allocation for this expense. See p. 105 of the December 17, 1996, Authority Conference Transcript.

liability insurance policies such as Fire Protection, Directors & Officers Liability, Automobile coverage, and their self-insured program for Worker's Compensation coverage. While the forecast for Worker's Compensation is based on an independent estimate from an outside actuary, the amounts for the remaining items are based on Company estimates.

The Company originally included approximately \$967,000 in its case for injuries and damages expense. At the hearing, the Company reduced its request for this item to approximately \$725,000 because of an error in their calculation of Worker's Compensation Insurance.<sup>22</sup> The error is worth approximately \$240,000 as indicated in the Company's hearing exhibit.

The Advocate has included \$650,000 in their calculation of injuries and damages expense. To calculate this expense the Advocate used an overall growth factor of 12.66%<sup>23</sup> to forecast the change in this expense. The Advocate has provided more justification for the use of this growth factor than the Company has for its own. The Authority, therefore, finds that the Advocate's calculation of \$650,000 for Injuries & Damages expense is reasonable and appropriate.

**B. viii. Pension Expense:**

The Company originally included approximately \$1,300,000 of net pension expense in its filing. This amount represents the expense that the Company plans to report in its financial statements during the next year. At the hearing, the Company lowered this amount to approximately \$900,000.<sup>24</sup>

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<sup>22</sup> See Hearing Transcript Vol. I, pp. 80-81, testimony of Mr. Bill Morris.

<sup>23</sup> See Pre-Filed Direct Testimony of Mr. Terry Buckner at p. 4.

<sup>24</sup> See Hearing Transcript Vol. I, p. 88, testimony of Mr. Bill Morris.

The Advocate proposes that the pension expense be excluded from the Company's request. The Advocate correctly demonstrated that the Company's plan is fully funded, and no contribution is necessary at this time.<sup>25</sup> For this reason, the Authority finds that to appropriately match the Company's current pension expense with its current ratepayers, the minimum required contribution should be adopted as the current pension expense.<sup>26</sup> Since the pension plan is fully funded, the Company's minimum required contribution for this case is zero dollars (\$0.00), therefore the Authority adopts this dollar amount for the Company's pension expense.

The Advocate has further excluded approximately \$350,000 in pension fund administrative costs. The administrative cost that the Advocate seeks to exclude, encompasses, but is not limited to the following fees, actuarial fees, investment manager fees, trustee fees, and audit fees. The Authority finds that the Company should recover the \$350,000 in pension fund administrative costs, since this is a continuing prudent cost of the Company. Further, the Authority will permit the Company to establish a deferred asset for the difference between the amount of Pension expense funded, and the amount expensed on the Company's books.

**B. ix. Allocation of Corporate Office Expenses:**

Since Piedmont operates in three states, it is necessary to allocate corporate expenses to each jurisdiction. Historically, these joint expenses have been allocated on the percentage of net plant in Tennessee to total net plant. This same allocation method, which is updated annually, is also used in the company's other jurisdictions outside Tennessee.

<sup>25</sup> See Pre-Filed Direct Testimony of Mr. Terry Buckner at pp. 8-9.

<sup>26</sup> See December 17, 1996, Authority Conference Transcript at p. 79.

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The Advocate has applied an allocation factor based on Tennessee customers to total company customers.<sup>27</sup> The Advocate's rationale for allocating corporate expenses on customers instead of net plant is that the TPSC has used the customer allocation method in relation to other regulated gas utilities.

The Authority recognized that the TPSC has historically allowed Piedmont to allocate corporate office expenses to Tennessee ratepayers by the net plant allocation method. The basis for the applications of the net plant allocation method to Piedmont is not simply based upon the historical practices of the TPSC. Rather, evidence exists that demonstrates that Piedmont is permitted to use the net plant allocation method in both North and South Carolina, which are the other two jurisdictions in which Piedmont provides service. Therefore, the Authority should provide consistency in the application of the new plant allocation method between the jurisdictions. Moreover, consistency of treatment between the jurisdictions will prevent Piedmont from recovering more or less than one hundred percent (100%) of its prudently incurred corporate office expenses.<sup>28</sup> Therefore, it is for these reasons that the Authority finds that the Company's net plant allocation methodology is acceptable.

**B. x. Forecasting of Attrition Period Expenses:**

This issue has been separated into two categories and pertains to the differences between the Company and the Advocate's approaches in arriving at forecasted attrition period expenses that were not manually priced-out. The Advocate has reduced the Company's request by approximately \$748,000 for these items. The Company has used a zero-based calculation on most of their expenses, while the Advocate chose to apply a growth factor based on the Gross Domestic Product (hereafter "GDP") to the entire amount.

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<sup>27</sup> See Pre-Filed Direct Testimony of Mr. Terry Buckner at pp. 10-11.

<sup>28</sup> See Hearing Transcript Vol. I, p. 63, testimony of Mr. Bill Morris.

For the items that were not calculated on a zero-based method, the Company grew these amounts by a factor based on the Consumer Price Index (hereafter "CPI").

**a) CPI vs. GDP Growth:**

Of the \$748,000 total reduction for this item, approximately \$113,000 relates to the Company using a CPI growth factor<sup>29</sup> while the Advocate has used a GDP growth rate.<sup>30</sup> The CPI index relates to price changes in consumer goods, while the GDP index relates to the price changes for the entire economy. Since the expenses that are applied to a growth rate are not limited to consumer type items, the Authority is persuaded that the Advocate's use of the GDP index is more precise. For this reason, the Authority finds that the use of the GDP index is appropriate and that the company's request should be reduced by \$113,000 to reflect this adjustment.

**b) Zero-Based Items:**

As stated above, the Advocate has applied their GDP growth rate to this entire amount, while the Company has chosen to price these amounts out separately. Of the \$748,000 total proposed reduction for this item by the Advocate, approximately \$635,000 relates to the different methods of calculation described above. Generally, it is preferable to price-out these expenses rather than apply a broad growth rate when possible. For this reason, the Authority finds that it shall accept the Company's method of zero-based calculation for these expenses.

The combination of these two items results in a net decrease of \$113,000 from the Company's filing.

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<sup>29</sup> See Pre-Filed Rebuttal Testimony of Mr. Bill Morris at pp. 8-11.

<sup>30</sup> See Pre-Filed Direct Testimony of Mr. Terry Buckner at pp. 3-6.

**B. xi      Charitable Contributions:**

The Company originally proposed to recover certain charitable contributions in its rates. At the hearing, however, the Company agreed to remove this item as an issue and therefore exclude charitable contributions from their case.<sup>31</sup> Therefore the Authority finds that the company shall reduce its request by approximately \$96,000.

**B. xii.      Non-Recurring Expenses:**

Generally, non-recurring expenses are material expenditures made during the test period that are not likely, or expected to re-occur during the forecasted attrition period. In his pre-filed direct testimony, Advocate witness Buckner testified that he deducted approximately \$145,000 of expenses that were described as non-recurring expenses.<sup>32</sup>

As part of an effort to allow the hearing to be completed on November 14, 1996, the Company and the Advocate reached an agreement that permitted the Advocate to enter all of the pre-filed testimony of Daniel McCormac, Terry Buckner and Mike Warner into the record while the Company waived cross-examination. However, both McCormac and Buckner were permitted to address matters raised during the hearing which were not addressed in their pre-filed testimony.

Thus, because of this agreement, the Company did not pose questions to Buckner that related to the nature of specific non-recurring expenses. However, despite the fact that no break-down is provided as to what specific expenses generate the full amount of the non-recurring expenditures, the Authority finds that is reasonable to expect a utility such as Nashville Gas to make certain expenditures that are non-recurring. Further, it is unreasonable to expect that the Company would have zero non-recurring expenses. The

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<sup>31</sup> See Hearing Transcript Vol. II at p. 133, testimony of Mr. John Maxheim.

<sup>32</sup> See Pre-Filed Direct Testimony of Mr. Terry Buckner at p. 6.

Company has not provided an alternative figure to the one proposed by the Advocate, neither has the Company denied that it had non-recurring expenses for the attrition period. The Authority finds that the Advocate has proposed a reasonable reduction for the Company's non-recurring expenses. Therefore, the Authority finds that the Company shall reduce its request by approximately \$145,000.

**B. xiii. Administrative Transferred Credit:**

Transferred Credits are accounting mechanisms used to allocate a portion of the Company's overhead expenses to construction costs and non-utility operations. As a result, the amount for transferred credits will either increase or decrease with corresponding changes in overhead expenses. Examples of overhead expenses that effect transferred credits include administrative employees salaries (both Corporate & Tennessee), pension expense, 401(k) expense, all insurance coverage, and miscellaneous employee benefits expense.

The Company has included approximately \$1,306,000 in their case for transferred credits while the Advocate has included \$1,487,000. According to the Advocate, the Company's figure contained an error of approximately \$424,000.

At the hearing, the Company agreed with the Advocate that their original calculations were in error.<sup>33</sup> However, the Company contends that the actual effect of the error is approximately \$484,000 and they have adjusted their case accordingly. The Advocate presented no objections to this revised calculation. Therefore, the Authority finds that the correct adjustment should be \$484,000.

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<sup>33</sup> See Hearing Transcript Vol. I, pp. 82-83, testimony of Mr. Bill Morris.

**B. xiv. Employee Benefits Expense:**

The Company has included expenses for country club dues, and fees for professional sports tickets and suites in the above-the-line utility operations. While these amounts were removed for rate case purposes, they still should not be booked as utility operating expenses. Therefore, the Authority finds and directs the Company to begin accounting for these expenses to a non-utility account.

**VI. COST OF CAPITAL**

The Authority in reaching a decision on a rate of return must give in-depth analysis and consideration to numerous factors, such as capital structure, cost of capital, and changes that can be reasonably anticipated in the foreseeable future.

**VI. A. Capital Structure:**

Company witness Dr. Murry proposes using the following capital structure based on the period ending October 31, 1997: 46.68% long term debt, 1.52% short term debt and 51.80% common stock equity. Alternatively, Advocate witness Dr. Brown suggests using the Company's 1995 capital structure of 48.8% long term debt, 1.60% short term debt and 49.6% common stock equity.

We find that the capital structure proffered by the Advocate is appropriate in this case. The Advocate's recommendation is based on verifiable and reasonably current data. Conversely, the suggested capital structure proposed by Company witness Dr. Murry is based on speculation for which he provides no convincing foundation. The table below summarizes the recommended capital structures.

|       | Long Term<br>Debt | Short Term<br>Debt | Equity |
|-------|-------------------|--------------------|--------|
| *NGC  | 46.68%            | 1.52%              | 51.8%  |
| **CAD | 48.80%            | 1.60%              | 49.6%  |

\* The abbreviation "NGC" used in this table refers to Nashville Gas Company.

\*\* The abbreviation "CAD" used in this table refers to the Consumer Advocate.

#### **VI. B. Cost of Debt:**

There is no disagreement between the parties concerning the cost of long-term and short-term debt; therefore, it is appropriate to use the cost rates put forth by both parties: 8.32% for long-term debt and 5.92% for short-term debt.

#### **VI. C. Return on Equity:**

Company witness Dr. Murry estimated the Company's cost of equity primarily using the Discounted Cash Flow (DCF) method, the Risk Premium method and the Capital Asset Pricing Model (CAPM). Dr. Murry's DCF estimates range from 9.31% to 15.19%.<sup>34</sup> His risk premium estimate is 13.21% using historical data and 12.97% using current data. His CAPM estimate was 13.12%. In his direct testimony, Dr. Murry recommends allowing a return on common equity between 13.00% and 13.25%. However, in his oral testimony Dr. Murry favors the lower bound of this range based on current market conditions. Advocate witness Dr. Brown uses two techniques to estimate the Company's cost of equity, the DCF and Risk Premium methods. These methods yield estimates of 11.48% and 10.64%, respectively. Dr. Brown recommends allowing a return on common equity of 11.00% based upon a monthly compounding of earnings.

Dr. Brown testified extensively that the approved cost of equity should be adjusted for monthly compounding of earnings. The Authority finds this adjustment inappropriate

<sup>34</sup> Actually, Dr. Murry's DCF estimate was of the overall cost of capital, from which a cost of equity estimate can be imputed.

because it assumes a constant monthly earnings rate not typical of a gas utility.<sup>35</sup> Further, this adjustment ignores variable dividend payments, and conflicts with the calculation of annual earnings elsewhere in this case. Finally, Dr. Brown did not produce any evidence that this theory has been applied in any other case. Therefore, the Authority finds that this theory is inappropriate for use in this rate case.

Dr. Murry testified to several criticisms of Dr. Brown's Risk Premium analysis of the cost of equity. However, Dr. Murry's most important criticism was that Dr. Brown inappropriately combines an estimated short term market risk premium with an estimated long term debt yield.<sup>36</sup> The Authority finds that Dr. Brown's use of inputs based on inconsistent time horizons is inappropriate.

Dr. Brown focuses his criticism on Dr. Murry's Risk Premium analyses using both historical and current data as well as his Comparable Earnings analysis. Dr. Murry uses the results of the latter only as a qualitative check on his other estimates. For all of these analyses, Dr. Brown alleges that Dr. Murry unjustifiably and inappropriately compares the Company to dissimilar firms. In addition to his criticisms of Dr. Murry's methodology, Dr. Brown argues that the approved cost of equity should be adjusted for monthly compounding which gives the Company an opportunity to earn more than the allowed annual rate.

After careful consideration of the testimony of both witnesses, and the evidence in the record, the Authority finds that the cost of equity is 11.50%. Moreover, the cost of equity being adopted by the Authority herein is within the range of DCF calculations proposed by both Dr. Murry and Dr. Brown.

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<sup>35</sup> See Pre-Filed Rebuttal Testimony of Dr. Donald A. Murry at p. 7

<sup>36</sup> See Pre-Filed Rebuttal Testimony of Dr. Donald A. Murry at p. 8.

**VI. D. Overall Cost of Capital:**

Based on the approved capital structure which consists of 48.8% long-term debt, 1.60% short term debt and 49.6% common stock equity the Authority approves an overall rate of return of 9.85%.

**VII. RATE INCREASE**

After determining the appropriate Rate Base, Operating Income, and Fair Rate of Return, we can now calculate the appropriate revenue level and determine how much rates should be adjusted. Since the parties have agreed that the revenue conversion factor of 1.626747 as proposed by the Advocate is appropriate for this case, we will also use this to determine any rate adjustment.

Based on the findings and conclusions set forth above, the Authority concludes that the just and reasonable revenues, expenses, and rate base produce a rate increase of \$4,417,290. The Authority further concludes that in order to permit the Company to earn the return determined to be just and reasonable, the Company should be allowed to increase its rates by \$4,417,290. Further, a majority of the Authority has determined that this rate increase be effective beginning with service rendered on and after January 1, 1997.<sup>37</sup>

**VIII. RATE DESIGN AND TARIFF CHANGES**

Company witness Mr. Fleenor testified that he designed the Company's proposed rates using a cost of service study of existing rates along with traditional rate design principles and the desire to provide additional services to the ratepayers. The traditional rate design principles considered by Mr. Fleenor included (1) value of service, (2) the need

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<sup>37</sup> Director Sara Kyle moved that the increase become effective on January 28, 1997. This motion failed for lack of a second, and as a result, the majority concluded that the increase would become effective on January 1, 1997. See December 17, 1996, Authority Conference Transcript at p. 115.



to avoid discrimination among classes of service, (3) system load equalization and (4) revenue stability. Mr. Fleenor also considered several non-economic factors. He testified that the main objective of his rate design was to continue to develop a design and structure that will enable the Company to continue to adapt to the many changes occurring in the natural gas industry and to recommend rate levels that more properly reflect cost and value of service. Based on the Company's rate design considerations and its original request to increase its rates by \$9,257,633, the Company proposed to increase rates to the residential category by 9.3%, to the small commercial class by 5.3% and to the large commercial and industrial class by 2%.

The Advocate's witness Mr. McCormac did not recommend how a rate increase should be applied, however, he did suggest that any change in rates be spread equally among all customer classes.<sup>38</sup> AVI's witness Mr. Johnstone strongly advocated cost-based rates, and as a result proposed that there should be no increase in industrial rates. Finally, he suggested that if the full requested increase were not granted, then the industrial rates should be reduced by one percent (1%).<sup>39</sup>

After careful consideration of the testimony and exhibits of the parties, the Authority finds that the rate increase approved herein should be spread equally to all customers. It is the intent of the Authority to spread this increase to all ratepayers, including Interruptible Sales customers, Transportation customers, and Special Contract customers, in order to minimize the overall impact of this rate change. In addition, the Authority concludes that the residential customer charge should be increased from \$6.00 per month to \$7.00 per month.

The Company also proposed certain changes to its tariff language to permit the Company to respond to existing competitive conditions under FERC Order No. 636. Among other things, these changes include provisions for customers to elect sales or

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<sup>38</sup> The Advocate proposed a decrease in rates of \$775,415.

<sup>39</sup> See Pre-Filed Direct Testimony of Mr. Donald Johnstone at p.8.

transportation service on an annual basis so that these customers will be prevented from switching back and forth as the price of spot gas and the price of gas under the Company's PGA varies from month to month. No party has objected to these provisions and the Authority finds them to be fair and reasonable. Therefore, the Company is instructed to take the appropriate action so the implementation of these provisions may not be unnecessarily delayed.

#### **IX. DISPOSITION OF PROCEDURAL MOTIONS**

The parties to the proceeding filed several motions concerning certain procedural issues. On November 12, 1996, the Company filed its Motion to Strike the Rebuttal Testimony of Advocate witness Dr. Stephen Brown. After hearing oral argument on this matter, the Authority denied the motion. The Authority noted that the Company would not be unduly prejudiced by the admission of the testimony, because the Company would have the opportunity to cross-examine the witness, attempt to impeach the witness and object to portions of the witness' testimony.

On November 13, 1996, the Advocate filed a Motion requesting disclosure of documents and records prepared by the Authority Staff in relation to this proceeding. The Directors of the authority permitted the Advocate to present oral argument. After careful consideration, the Authority denied the Advocate's motion. In denying the motion, the Authority asserted the deliberative privilege which protects the confidentiality of communication between a Director and certain staff members.

Finally, the Advocate made an oral motion for a one day continuance of the proceeding. The Advocate stated that late filed discovery responses by the Company warranted such continuance. After presentation of oral argument by the parties, the Authority denied the motion.

**IT IS THEREFORE ORDERED:**

(1) That the rates filed by Nashville Gas Company on May 31, 1996, are hereby denied;

(2) The Company is directed to file tariffs with the Authority that are designed to produce \$4,417,290 in additional revenue, for service rendered on and after January 1, 1997, and any other tariffs necessary to be consistent with this Order;

(3) In future true-ups under its Purchase Gas Adjustment (PGA), the Company shall use the demand allocation percentages;

(4) That the residential customer charge shall be increased from \$6.00 per month to \$7.00 per month;

(5) That the Authority Staff shall conduct a study of the appropriate allowance for advertising for all Class A gas utilities under the Authority's jurisdiction. The results of this study shall be reported to the Authority no later than May 31, 1997;


(6) That the Company shall begin accounting for employee benefit expenses in a non-utility account;


(7) That the Company shall establish a deferred asset for the difference between the amount of Pension expense funded, and the amount expensed on the Company's books;


(8) That the Company shall exclude gas costs from its base rates, and shall instead file an appropriate Purchased Gas Adjustment to reflect all of its gas costs;

(9) Any party aggrieved with the Authority's decision in this matter may file a Petition for Reconsideration with the Authority within ten (10) days from and after the date of this Order; and

(10) Any party aggrieved with the Authority's decision in this matter has the right of judicial review by filing a Petition for Review in the Tennessee Court of Appeals, Middle Division, within sixty (60) days from and after the date of this Order.

  
CHAIRMAN

  
DIRECTOR

  
DIRECTOR

ATTEST:

  
EXECUTIVE SECRETARY

ORD/96-00977

**BEFORE THE TENNESSEE REGULATORY AUTHORITY**

**NASHVILLE, TENNESSEE**

June 9, 1997

**In Re:**

**Application of Nashville Gas Company, a Division of )  
Piedmont Natural Gas Company, Inc., for an Adjustment ) Docket No.  
of its Rates and Charges. ) 96-00977**

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**ORDER CLARIFYING "ORDER OF FEBRUARY 19, 1997"; DENYING  
MOTIONS FOR RECONSIDERATION; DISMISSING MOTION TO STRIKE;  
AND DENYING MOTION FOR STAY**

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On May 31, 1996, Nashville Gas Company (here "Nashville Gas"), a Division of Piedmont Natural Gas Company, Inc., filed an application with the Tennessee Public Service Commission (here "Commission") seeking to increase its rates by approximately \$9.2 million. On July 1, 1996, the Commission was replaced with the Tennessee Regulatory Authority (here "Authority"), and on July 29, 1996, the case was recommenced before the Authority. A hearing was held on Nashville Gas' application on November 13 and 14, 1996. On December 17, 1996, the Authority approved an increase of approximately \$4.4 million to be effective January 1, 1997. The Authority's decision was reduced to writing in an order dated February 19, 1997.

Petitions for reconsideration, rehearing or clarification of the February 19, 1997 Order were filed by Nashville Gas, the Consumer Advocate Division, Office of the Attorney General (here "Consumer Advocate"), and Associated Valley Industries Group (here "AVI"). Nashville Gas also filed a motion to strike portions of the petition for reconsideration filed by the Consumer Advocate. These matters were considered by the Authority at its March 18, 1997 conference, at which time, the Authority clarified the February 19, 1997 Order as

discussed below, denied the petitions for reconsideration and rehearing, and dismissed the motion to strike as moot.

### **AVI's Petition for Reconsideration**

AVI did not challenge the amount of the rate increase or the Authority's decision to require interruptible customers to bear an equal share of the rate increase. Instead, AVI challenged the Authority's decision to increase the tail block rate for interruptible service. AVI contends that the tail block should be \$0.21 per dekatherm and that the difference between the tail block rate approved by the Authority (\$.0228 per dekatherm) and the \$0.21 advocated by AVI should be spread to other blocks in the interruptible rate schedule. AVI contends that in recent years the interruptible tail block rate has been either reduced or kept the same to recognize that industrial rates should be cost-based and to deter large gas customers from bypassing Nashville Gas. AVI also argued that Nashville Gas did not propose to increase the tail block rate, that AVI proposed to reduce rates to the industrial class and that, although the Consumer Advocate proposed that any increase be spread evenly to all customer classes, the Consumer Advocate did not propose any change to interruptible rates.

The Authority has carefully considered these arguments; however, we continue to support the rate design set forth in our order. In our December 17, 1996 decision (reduced to writing in our February 19, 1997), we found that Nashville Gas was entitled to increase its rates. No doubt, each class of customers would like to be exempted from any portion of this increase; however, the evidence in this case does not support such an exemption for AVI. While we recognize that bypass is a concern, Nashville Gas has the ability to negotiate lower rates when required to avoid bypass; therefore, the possibility of bypass is not sufficient grounds for lowering the tail block rate at this time.

**Nashville Gas' Motion for Rehearing**

In its motion for rehearing, Nashville Gas argued that the Authority erred in (1) denying the Company the right to recover its actual advertising expenses, (2) denying the Company the right to recover the actual expenses of its Long-Term Incentive Plan (the "LTIP"), (3) denying the Company the right to recover its pension expenses, and (4) approving a return on equity of "only 11.50%."

Nashville Gas argues that the Authority cannot deny it the right to recover its advertising expenses without finding that the expenses were not prudent. We disagree. The standard for judging rates is not prudence, but justness and reasonableness or a zone of reasonableness Southern Bell Tel. and Tel. v. Tennessee Public Service Commission, 202 Tenn. 465, 304 S.W. 2d 640 (1957). Nashville Gas does not claim that the rates are unjust or unreasonable due to the Authority's finding on advertising expenses.

With respect to the LTIP, Nashville Gas states that an error on page 12 of the February 19, 1997 Order where the following statement appears: "The record reflects the fact that both North and South Carolina permit the shareholders and ratepayers to share this expense at a ratio of twenty-five percent (25%) to seventy-five percent (75%)." We agree that the statement is in error and that the second sentence in the second full paragraph on page 12 of the February 19, 1997 Order should be deleted; however, we do not agree that our decision on this issue should be reversed. We continue to support our holding that the shareholders and ratepayers should share the expense of the LTIP because they will share in any cost savings produced as a result of the LTIP.

With respect to pension expense, Nashville Gas states that the February 19, 1997 Order is not clear regarding the treatment of the deferred regulatory

asset for future recovery of its pension cost. The Authority clarifies the Order of February 19, 1997 by deleting the last sentence in the second paragraph on page 14 and replacing it with the following: "Further, the Authority will permit the Company to establish a deferred asset for the difference between the amount of funded pension expense recognized in the Company's last rate case -- in this case, zero -- and the amount of pension expense funded in the future. In future rate cases, the amount of funded expense that has been deferred will be recognized and rates awarded to recover it."

Nashville Gas claims that the 11.5% return on equity is inadequate because it is less than that granted to other Piedmont Natural Gas Company operations in North Carolina and South Carolina. The Authority based its decision regarding the return on equity on all the evidence in the record including the expert testimony presented in this docket, and therefore, we continue to support our decision that the approved return is within the zone of reasonableness.

**Consumer Advocate's Petition for Reconsideration and  
Motion filed March 10, 1997**

The Consumer Advocate argues that the Authority (1) violated a number of procedural rules, (2) improperly permitted Nashville Gas to place rates into effect on January 1, 1997, (3) allowed a return on equity that is too high, (4) allowed an excessive advertising allowance, (5) improperly found that Nashville Gas used zero-based budgeting, and (6) improperly permitted Nashville Gas to recover a portion of its LTIP expenses.

The Consumer Advocate argues that the Authority did not comply with T.C.A. § 4-5-301, which requires that in a contested case the agency members sit in the presence of an administrative judge or hearing officer. We disagree.



Under T.C.A. § 4-5-301, any member of the Authority may fulfill the role as administrative judge or hearing officer, and at all times a member of the Authority fulfilled this role in this proceeding.

The Consumer Advocate also argues that the Authority improperly permitted Nashville Gas to place rates into effect on January 1, 1997. The Authority heard oral arguments on this issue on March 4, 1997.<sup>1</sup> At that time the Consumer Advocate argued that the Authority did not have statutory authority to approve the rates effective January 1, 1997 and that its action amounted to retroactive ratemaking.<sup>2</sup>

The Directors have carefully considered the arguments advanced by the Consumer Advocate in his most recent motion, and have unanimously determined that the motion should be denied. Additionally, the Authority is of the opinion that this decision is consistent with our decision of December 17, 1996 and our order of February 19, 1997 that the rates should become effective on January 1, 1997. The Authority's decision is also consistent with the Order of the Court of Appeals of Tennessee in Consumer Advocate Division v. Tennessee Public Service Commission, 1996 WL 482970 (Aug. 18, 1996), where the court stated the following:

"Under these statutes the rates charged by a public utility are not always the product of a ratemaking proceeding in the Commission. New tariffs automatically become effective unless the Commission elects to suspend them while conducting an investigation."

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<sup>1</sup> At that time, a majority of the Directors voted to deny the Advocate's motion for reasons set forth in the Authority's Order dated May 14, 1997. However, Director Malone concurred in the result reached by the majority, but did not support their rationale.

<sup>2</sup> In response, Nashville Gas asserted its belief that the Authority had the authority to place the rates into effect on at least three grounds. First, Nashville Gas argued that since the rates were not suspended by the Commission, Nashville Gas was authorized to place all or any portion of the rates into effect on June 30, 1996 (while the commission still had authority over this matter). Second, Nashville Gas contended that since the rates were not suspended by the Authority following recommencement of the case, Nashville Gas was authorized to place all or any portion of the rates into effect at any time prior to the authority's issuance of a final order. Third, Nashville Gas argued that it was authorized to place the rates into effect under Section 65-5-203(b)(1).

Finally, the Authority's decision to permit the rates to become effective January 1, 1997, is consistent with the requirements of state law as codified in Title 65 of Tennessee Code Annotated.

With respect to the Consumer Advocate's argument that an 11.5% return on equity is too high, the Consumer Advocate states that the following language appears on page 20 of the February 19, 1997 Order: "Company witness Dr. Murry estimated the Company's cost of equity using the Discounted Cash Flow (DCF) method, the Risk Premium method and the Capital Asset Pricing Model (CAPM). Dr. Murry's DCF estimates range from 9.31% to 15.1%." The Consumer Advocate argues that the quoted language is in error and that it overstates the DCF range testified to by Dr. Murry. The Consumer Advocate is correct, and the second sentence of the quote should be revised to read as follows: "Dr. Murry's DCF estimates for Piedmont range from 8.80% to 11.85%." In addition, footnote 34 on page 20 should be deleted and replaced with the following language: "Dr. Murry's exhibit (DAM-1), Schedule 15." These changes in the February 19, 1997 Order, however, do not change the opinion of the Authority that the appropriate return on equity is 11.5%. The approved return still falls within the range suggested by Dr. Murry.

The Consumer Advocate attacked the use of Nashville Gas' term "zero-based budgeting" in determining just and reasonable expenses. As indicated above, the Authority's decision of December 17, 1997, on advertising and LTIP expenses is supported by the record in this case and produces rates that are just and reasonable. Further, this is true of the other expenses that were approved whether based on "zero-based budgeting" or on some other method. We find the Consumer Advocate's arguments "on zero-based budgeting" to be unpersuasive. The record in this proceeding makes it clear that Nashville Gas used the term "zero-based budgeting" to refer to a procedure in which a

manager in charge of a given expense had to justify 100% of the expense. In other words, the manager had to start from zero. He or she could not simply take a prior period's expense and grow it by some amount for inflation. We find this to be an appropriate method of determining just and reasonable expenses under the facts of this case.

### **Nashville Gas' Motion to Strike**

Nashville Gas filed a motion to strike various affidavits attached to the Consumer Advocate's motion for rehearing and various references to those affidavits set forth throughout that motion. Since we have denied the Consumer Advocate's motion for rehearing, we will dismiss Nashville Gas' motion to strike as moot.

### **Consumer Advocate's Motion to Stay**

The Consumer Advocate also filed a Motion to Stay the February 19, 1997 Order. In this motion, the Consumer Advocate again argues that the Authority should not have permitted Nashville Gas to place the approved rates into effect on January 1, 1997. We have already ruled that Nashville Gas properly placed the approved rates into effect on January 1, 1997; therefore, we deny this motion. We also observe that if we were to grant the requested motion to stay, Nashville Gas' customers may be required to pay the higher rates as originally filed by Nashville Gas, absent an effective Order from this Authority.

### **IT IS THEREFORE ORDERED:**

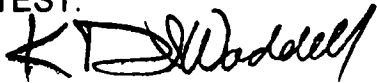
- 1) That AVI's Petition for Reconsideration is denied;
- 2) That Nashville Gas' Motion for Rehearing is denied;

- 3) That the Consumer Advocate's Petition for Reconsideration is denied;
- 4) That the Consumer Advocate's Motion filed on March 10, 1997, is denied;
- 5) That Nashville Gas' Motion to Strike is dismissed as moot;
- 6) That the Consumer Advocate's Motion for Stay is denied;
- 7) That the February 19, 1997 Order is amended as set forth in the body of this order;
- 8) That any party aggrieved by the Authority's decision in this matter may file a Petition for Reconsideration with the Authority within ten (10) days from and after the date of this Order; and
- 9) That any party aggrieved by the Authority's decision in this matter has the right of judicial review by filing a Petition for Review in the Tennessee Court of Appeals, Middle Division, within sixty (60) days from and after the date of this Order.

  
CHAIRMAN

  
DIRECTOR

ATTEST:



EXECUTIVE SECRETARY

  
DIRECTOR

**BEFORE THE TENNESSEE REGULATORY AUTHORITY AT  
NASHVILLE, TENNESSEE**

**July 18, 2000**

|   |   |                            |
|---|---|----------------------------|
| <b>IN RE:</b>                                 | ) |                            |
|   | ) |                            |
| <b>APPLICATION OF NASHVILLE GAS COMPANY,</b>  | ) | <b>DOCKET NO. 99-00994</b> |
| <b>A DIVISION OF PIEDMONT NATURAL GAS</b>     | ) |                            |
| <b>COMPANY, INC. FOR AN ADJUSTMENT OF ITS</b> | ) |                            |
| <b>RATES AND CHARGES, THE APPROVAL OF</b>     | ) |                            |
| <b>REVISED TARIFFS AND THE APPROVAL OF</b>    | ) |                            |
| <b>REVISED SERVICE REGULATIONS</b>            | ) |                            |

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**ORDER APPROVING APPLICATION**

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This matter came before the Tennessee Regulatory Authority (the “Authority”) at a Hearing held on June 5, 2000 upon the Application of Nashville Gas Company (the “Company” or “Nashville Gas”), an operating division of Piedmont Natural Gas Company, Inc. (“Piedmont”) for a general rate increase, the approval of revised tariffs, and the approval of revised service regulations.

**Background**

On December 30, 1999, Nashville Gas filed an application for an adjustment of its rates and charges, the approval of revised tariffs, and the approval of revised service regulations. In that filing, Nashville Gas sought an increase in its annual revenues of \$10,687,612. After the discovery of certain errors in the Company’s filing, the most notable of which were related to the computation of construction work in progress and accumulated depreciation, Nashville Gas’s attrition period revenue deficiency was reduced by \$620,063 to \$10,067,549.

At a regularly scheduled Authority Conference held on January 11, 2000, the Authority voted to suspend the application for ninety (90) days. At a regularly scheduled Authority Conference held on February 1, 2000, the Directors appointed the General Counsel or his designee to act as Pre-Hearing Officer in this proceeding for the purpose of hearing preliminary matters and setting a procedural schedule to completion.

On February 11, 2000, the Consumer Advocate Division of the Office of the Attorney General (the "Consumer Advocate") filed a "Complaint or Petition to Intervene" in this proceeding. On April 6, 2000, the Consumer Advocate's petition for intervention was granted by the Pre-Hearing Officer without objection from Nashville Gas. By letter dated April 6, 2000, Nashville Gas agreed to extend the date at which rates may be placed into effect under bond from June 30, 2000 to July 31, 2000 in order to accommodate the agreed procedural schedule.<sup>1</sup>

On April 27, 2000, Associated Valley Industries Group ("AVI") filed a petition for intervention. On May 9, 2000, Ford Motor Company ("Ford") and Visteon Corporation ("Visteon") filed a joint petition for intervention. No objections being raised by the parties, on May 18, 2000, the Pre-Hearing Officer issued an order granting both petitions for intervention.

On May 18, 2000, Nashville Gas and the Consumer Advocate filed a Joint Motion for Approval and Implementation of Stipulation (the "Stipulation") in which they stated that they had resolved all known disputed issues in this case and had agreed to certain specified adjustments to revenues, expenses, net operating income, net operating income for return, rate base, and return on rate base. These adjustments reduce the Company's additional revenue

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<sup>1</sup> The Hearing was set for June 5-8 to allow Nashville Gas to respond to Authority data requests and because certain witnesses for Nashville Gas would not be available earlier.

requirements from \$10,687,612<sup>2</sup> to \$4,944,000. The Company filed supplemental testimony and the Consumer Advocate filed an affidavit in support of the Stipulation.

On May 25, 2000, Ford and Visteon advised the Authority that they were in support of the rate design as to Special Contract customers and did not oppose the stipulation as to other matters. In support of their position, Ford and Visteon filed the affidavit of James Mulholland, Manager of Natural Gas Programs for Ford Motor Land Services Corporation. On June 2, 2000, the acting Pre-Hearing Officer issued an order establishing a schedule for the orderly conduct of the Hearing. All parties agreed to an order, which was entered on June 5, 2000, permitting the Authority Staff to ask questions of witnesses during the Hearing.

#### **Nashville Gas's Hearing**

On June 5, 2000, a Hearing was held in this matter. The Company presented the direct and supplemental testimony of Bill R. Morris, Chuck W. Fleenor, Ware F. Schiefer, and Dr. Donald A. Murry. The Consumer Advocate presented the affidavit and testimony of Daniel W. McCormac. Ford and Visteon presented the affidavit and testimony of James Mulholland. A representative of AVI stated that AVI did not wish to offer testimony or cross-examine witnesses and that AVI supported the Stipulation.

After testimony and questions from the Directors and the Authority Staff, the Authority approved the Stipulation except for the provision of the Stipulation relative to a tracking mechanism for "Special Contract Customers." Since the Authority must review and approve all special contracts, it is difficult to determine what benefit would be derived from advance approval of the special contract incentive mechanism. By sharing any revenue deviations from

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<sup>2</sup> As noted above, \$10,687,612 was the amount initially requested by the Company in its Application. After correction of a miscalculation, this figure was reduced to \$10,067,549.

current levels, with ten percent (10%) going to Nashville Gas and ninety percent (90%) to other customers, the mechanism purports to provide an incentive for Nashville Gas to negotiate the highest possible rate for special contracts. In theory, ratepayers benefit from having to make up a smaller contribution loss than would be otherwise required if the special contract customer negotiated a lower rate or went to another supplier. In the past, and in the absence of any such "tracking mechanism," Nashville Gas has claimed to have negotiated the highest possible rate with special contract customers in its efforts to prevent by-pass. This being the case, it is unclear what would be achieved by giving the Company further supposed incentives under the tracking mechanism. Locking Nashville Gas into a 10% sharing of any loss with respect to special contract customers would limit the Authority's ability to allocate responsibility for revenue changes in a manner that is appropriate to the particular circumstances surrounding the consideration of a special contract at the time it is submitted to the Authority for approval. For these reasons, the Authority excluded approval of the incentive mechanism for special contract customers without prejudice.

The Authority also approved the Stipulation with a final proviso. The Authority's decision permitting the amortization of deferred pension costs does not indicate in any way that the Authority is abandoning the rationale for the treatment of pension costs as announced in its Orders of February 19, 1997 and June 9, 1997 in Docket No. 96-00977. In that proceeding, the Authority responded to the fact that the Company's pension plan could drop below a fully funded position before the Company's next rate filing by allowing the establishment of a deferred regulatory asset and future recovery. Nevertheless, the Authority has not abandoned the basic and sound regulatory goal of matching current expenses with current ratepayers. To the extent that the Company's future pension expenses continue to surpass fully funded levels, the



Authority will act appropriately to match current expenses with current ratepayers, notwithstanding its actions here.

All parties agreed to waive the condition of the Stipulation that required the Stipulation to be approved in whole.

**Authority Consideration of Rate Increases**

The Authority considers petitions seeking adjustments of rates and charges pursuant to Tenn. Code Ann. § 65-5-203, which provides:

- 1) that the Authority shall have the power upon written complaint, or upon its own initiative, to hear and determine whether the increase, change or alteration being sought by a public utility is just and reasonable;
- 2) that the burden of proof to show that the increase, change or alteration is just and reasonable shall be on the public utility making the same; and
- 3) that in determining whether such increase, change or alteration is just and reasonable, the Authority shall take into account the safety, adequacy and efficiency or lack thereof of the service or services furnished by the public utility.

**The Stipulation**

In the Stipulation, the Company and the Consumer Advocate agreed, and the Authority approved, that the Company should be permitted to:

- (1) increase its rates to produce additional revenues of \$4,944,000 effective July 1, 2000;
- (2) recover 100% of its prudently incurred Liquefied Natural Gas power costs through its periodic Actual Cost Adjustment filings;
- (3) implement the revised rates attached to this Order as Schedule I effective July 1, 2000;
- (4) use the gas costs embedded in the proposed rates and set forth in Schedule II, attached to this Order, in future true-ups of gas costs under the Company's Purchase Gas Adjustment (PGA);

- (5) use the "R" values, base load factors, and heat factors set forth in Schedule III, attached to this Order, in future rate adjustments under the Company's Weather Normalization Adjustment;
- (6) implement the revised tariffs attached to this Order as Schedule IV effective July 1, 2000;
- (7) implement the revised Service Regulations, including the main extension policy contained therein, attached to this Order as Schedule V, effective July 1, 2000; and
- (8) amortize the previously established regulatory asset for deferred pension costs of \$1,016,093 over a period of five years, beginning with the effective date of the rates approved herein.

### **Rate Increase**

Schedule VI, attached to this Order, contains the Rate Base, Operating Income at Present Rates, Earned Rate of Return from Present Rates, Fair Rate of Return, Required Operating Income to Produce the Fair Rate of Return, Operating Income Deficiency, Gross Revenue Conversion Factor and Revenue Deficiency agreed upon by the Company and the Consumer Advocate in the Stipulation. The Authority has carefully reviewed each of these items and, based upon the testimony and supporting documentation, concludes that each is fair and reasonable and should be approved. The Authority further concludes that in order to permit the Company to earn the return determined to be just and reasonable, the Company should be allowed to increase its rates by \$4,944,000. Further, the Authority has determined that this rate increase should become effective beginning with service rendered on and after July 1, 2000.

### **Rate Design and Tariff Changes**

In his pre-filed direct and supplemental direct testimony, Chuck Fleenor testified that he designed the Company's proposed rates using a cost of service study of existing rates along with traditional rate design principles and the desire to provide additional services to the ratepayers.<sup>3</sup>

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<sup>3</sup> Pre-Filed Direct Testimony of Chuck Fleenor, December 30, 1999, p. 4.

The traditional rate design principles considered by Mr. Fleenor included value of service, the need to avoid discrimination among classes of service, system load equalization, and revenue stability.<sup>4</sup> He testified that his main objective was to develop a design and structure that will enable the Company to continue to adapt to the many changes occurring in the natural gas industry and to recommend rate levels that more properly reflect the cost and value of service.<sup>5</sup>

In the Stipulation, the parties agreed to a rate increase of \$4,944,000, or \$5,743,612 less than requested by the Company in the Application. The parties also agreed that approximately 97% of the reduction in the rate increase should be reflected in rates for residential customers and the remainder in rates for small general service customers. As a result, residential rates will increase by 1.91%, small general service rates will increase by 3.97%, and industrial rates will increase by 8.38%.

The Company also filed to reduce the fixed gas costs included in its PGA by \$2,418,299 to reflect a reduction in demand for gas from its suppliers as a result of the Company's renegotiations of its supplier contracts. The Company proposed to place this PGA reduction in effect simultaneously with the margin rate increase. The net effect of the PGA reduction and the margin rate increase approved herein is an increase in residential rates of 0.71%, an increase in small general service rates of 2.84%, and an increase of 2.67% for industrial rates.

The stipulated rates are set forth as Schedule I, attached to this Order, and are supported by Mr. Fleenor in his supplemental direct testimony.<sup>6</sup> After careful consideration, the Authority concludes that the stipulated rates are fair and reasonable to all classes of customers and will

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<sup>4</sup> Pre-Filed Direct Testimony of Chuck Fleenor, December 30, 1999, p. 5.

<sup>5</sup> Id., p. 7.

<sup>6</sup> Pre-Filed Supplemental Direct Testimony of Chuck Fleenor, May 18, 2000, pp. 1-2.

permit the Company a reasonable opportunity to earn the return on the rate base previously found to be fair and reasonable.

The Company also proposed certain changes to its tariff language to permit the Company to respond to existing competitive conditions. Mr. Fleenor testified that market and regulatory changes over the years have caused certain language in the Company’s existing tariffs to become outdated and in need of revision.<sup>7</sup> He testified that existing tariffs were designed for and intended to apply to the provision of monopolistic utility services to customers who have no alternative delivery system for natural gas.<sup>8</sup> Since competitive gas services are available to customers today, the Company proposes to amend the applicability section of all of its rate schedules to state that they apply only to full requirement natural gas customers.<sup>9</sup> In addition, the Company proposes to clarify language and correct typographical errors that occur in several rate schedules.<sup>10</sup> The Company also proposes to modernize and strengthen the “Unauthorized Gas” provisions of its tariffs to make them more reflective of the current volatile daily gas market and to provide a greater economic disincentive for abuse.<sup>11</sup>

No party has objected to the proposed tariff changes, and the Authority finds them to be fair and reasonable.

**Service Regulations**

Nashville Gas also proposed changes to its Service Regulations. The Company proposed to change its policy to allow main extension investments on those projects that produce a positive net present value (NPV) over the life of the project. The discount rate in the NPV

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<sup>7</sup> Pre-Filed Direct Testimony of Chuck Fleenor, December 30, 1999, p. 9.  
<sup>8</sup> Id.  
<sup>9</sup> Id.  
<sup>10</sup> Id.  
<sup>11</sup> Id.

calculation is equal to the overall allowed rate of return in the Company's last general rate case. Mr. Morris testified<sup>12</sup> that the proposed methodology is the same methodology that has been approved for Piedmont by both the North Carolina Utilities Commission and the Public Service Commission of South Carolina and is similar to the policy approved by the Authority for Chattanooga Gas Company in Docket No. 96-01174.<sup>13</sup> The Company also proposed to eliminate the current preference given to Company employees under the existing main extension policy.

Because the Company no longer adds gas air conditioning customers, the Company proposed to eliminate the provision for 200 feet of free service line for the installation of gas air conditioning and heating which is currently included in its service line policy. In addition, the Company proposed a change in its service line policy to provide for 100 feet of free service line for the installation of one major gas appliance, where no main extension is required. An additional 50 feet of free service line would be allowed for the installation of each additional minor appliance, such as an outdoor grill or fireplace logs. Finally, the Company proposed to increase its reconnect fee from \$35 to \$50, and to eliminate the entire section pertaining to mobile homes.

The Authority carefully reviewed the proposed changes to the Company's Service Regulations and concluded that they are fair and reasonable.

### **Special Contract Customers**

The Company proposed and the Stipulation provided for the implementation of a tracking mechanism for "Special Contract Customers," as explained in the pre-filed direct testimony of Bill R. Morris.<sup>14</sup> Under this proposal, the Company would share in any difference between

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<sup>12</sup> Pre-Filed Direct Testimony of Bill R. Morris, December 30, 1999, p. 12.

<sup>13</sup> Authority Order of June 2, 1999.

<sup>14</sup> Pre-Filed Direct Testimony of Bill R. Morris, December 30, 1999, pp. 4-5.

annual revenues actually received from the Special Contract Customers and the existing Special Contract revenue on a 90%/10% basis. The Company states that such a mechanism would give it an incentive to maximize increases and minimize reductions in Special Contract revenue because of its potential 10% share in increases or reductions. In support of this tracking mechanism, the Company argued that the mechanism would provide the Company with an incentive to maximize its revenues from the Special Contract Customers to the benefit of all other customers. Nevertheless, in view of the Company's past practice of maximizing these revenues without an incentive, the Authority did not find a need for such a mechanism at this time. Further, the Authority will consider approval of all special contracts on a case-by-case basis, considering all relevant evidence, including the need for any recovery or "sharing" of any revenue changes, at the time the contract is submitted for approval. Prior approval of such a "sharing" or "tracking" arrangement, which may not meet the future needs of the Company or the public, is not necessary in this situation. Therefore, the Authority excluded without prejudice the approval of the incentive mechanism for special contract customers.

**IT IS THEREFORE ORDERED THAT:**

1. The rates filed by Nashville Gas Company on December 31, 1999 are hereby denied;
2. The rates attached to this Order as Schedule I are hereby approved to be effective July 1, 2000, and the existing rates for the "Special Contract Customers" shall continue in effect until further order of the Authority;

3. The allocation of fixed pipeline demand costs for future changes in rates under the Company's Purchased Gas Adjustment as set forth in Schedule II attached to this Order are hereby approved to be effective July 1, 2000;

4. The Weather Normalization Adjustment factors attached to the Order as Schedule III are hereby approved to be effective July 1, 2000;

5. The tariffs attached to this Order as Schedule IV are hereby approved to be effective July 1, 2000;

6. The Service Regulations attached to this Order as Schedule V are hereby approved, to be effective July 1, 2000;

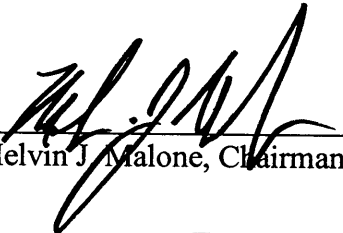
7. The Company is authorized to recover 100% of its prudently incurred Liquefied Natural Gas power costs through its periodic Actual Cost Adjustment filings;

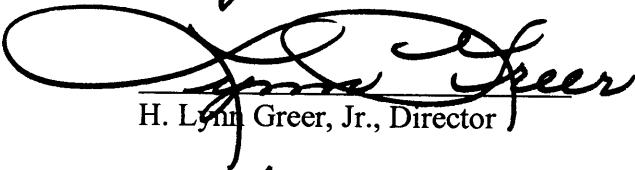
8. The Company is authorized to amortize the regulatory asset for deferred pension costs of \$10,016,093 over a period of five (5) years beginning with the effective date of the rates approved herein;

9. The Company's request to implement a tracking mechanism for "Special Contract Customers" is excluded from approval of the Stipulation without prejudice;

10. Any party aggrieved with the Authority's decision in this matter may file a Petition for Reconsideration with the Authority within fifteen (15) days from and after the date of this

11. Any party aggrieved with the Authority’s decision in this matter has the right to judicial review by filing a Petition for Review in the Tennessee Court of Appeals, Middle Division, within sixty (60) days from and after the date of this Order.

  
Melvin J. Malone, Chairman

  
H. Lynn Greer, Jr., Director

  
Sara Kyle, Director

ATTEST:

  
K. David Waddell, Executive Secretary



Nashville Gas Company  
Schedule of Proposed Margin Rates  
Per Therm

| <u>Rate Class</u>                           | <u>Margin Rates</u> |
|---|---------------------|
| <u>Residential</u>                          |                     |
| Customer Charge/Per month                   | \$ 8.00             |
| Winter                                      | 0.29884             |
| Summer                                      | 0.26255             |
| Air Conditioning                            | 0.22255             |
| Backup Service Demand Charge                | 0.534506            |
| <u>Small General Service</u>                |                     |
| Customer Charge/Per month                   | \$ 22.00            |
| Winter                                      | 0.34839             |
| Summer                                      | 0.31233             |
| Air Conditioning                            | 0.27266             |
| Backup Service Demand Charge                | 0.534506            |
| <u>Large General Service</u>                |                     |
| Demand Charge                               | \$ 0.80000          |
| First 15,000 Therms                         | 0.08918             |
| Next 25,000 Therms                          | 0.08195             |
| Next 50,000 Therms                          | 0.05904             |
| Over 90,000 Therms                          | 0.02530             |
| <u>Interruptible General Service</u>        |                     |
|   | \$ 300.00           |
| First 15,000 Therms                         | 0.08034             |
| Next 25,000 Therms                          | 0.07382             |
| Next 50,000 Therms                          | 0.05319             |
| Over 90,000 Therms                          | 0.02280             |
| <u>Firm Transportation Service</u>          |                     |
| Demand Charge                               | \$ 0.80000          |
| First 15,000 Therms                         | 0.08918             |
| Next 25,000 Therms                          | 0.08195             |
| Next 50,000 Therms                          | 0.05904             |
| Over 90,000 Therms                          | 0.02530             |
| <u>Interruptible Transportation Service</u> |                     |
| Customer Charge/Per month                   | \$ 300.00           |
| First 15,000 Therms                         | 0.08034             |
| Next 25,000 Therms                          | 0.07382             |
| Next 50,000 Therms                          | 0.05319             |
| Over 90,000 Therms                          | 0.02280             |
| <u>Sales For Resale</u>                     |                     |
| Demand Charge                               | \$ 0.80000          |
| Commodity                                   | 0.07000             |

**Nashville Gas Company**  
**Schedule of Fixed Gas Cost Rates**  
**Per Therm**

| <u>Rate Class</u>                                  | <u>Fixed<br/>Cost<br/>Rate</u> | <u>Apportionment<br/>Percentage</u> |
|--|--------------------------------|-------------------------------------|
| <b><u>Residential</u></b>                          |                                |                                     |
| Customer Charge/Per month                          |                                |                                     |
| Winter   | 0.04898                        | 49.211%                             |
| Summer   | 0.04898                        | 49.211%                             |
| Air Conditioning                                   | 0.04898                        | 49.211%                             |
| Backup Service Demand Charge                       |                                |                                     |
| <b><u>Small General Service</u></b>                |                                |                                     |
| Customer Charge/Per month                          |                                |                                     |
| Winter   | 0.04442                        | 30.661%                             |
| Summer   | 0.04442                        | 30.661%                             |
| Air Conditioning                                   | 0.04442                        | 30.661%                             |
| Backup Service Demand Charge                       |                                |                                     |
| <b><u>Large General Service</u></b>                |                                |                                     |
| Demand Charge                                      | 0.63730                        | 8.976%                              |
| First 15,000 Therms                                | 0.00292                        | 0.309%                              |
| Next 25,000 Therms                                 | 0.00240                        | 0.066%                              |
| Next 50,000 Therms                                 | 0.00169                        | 0.001%                              |
| Over 90,000 Therms                                 | 0.00000                        | 0.000%                              |
| <b><u>Interruptible General Service</u></b>        |                                |                                     |
| First 15,000 Therms                                | 0.02992                        | 0.512%                              |
| Next 25,000 Therms                                 | 0.02940                        | 0.402%                              |
| Next 50,000 Therms                                 | 0.02869                        | 0.290%                              |
| Over 90,000 Therms                                 | 0.02700                        | 0.068%                              |
| <b><u>Firm Transportation Service</u></b>          |                                |                                     |
| Demand Charge                                      | 0.63730                        | 7.660%                              |
| First 15,000 Therms                                | 0.00292                        | 0.194%                              |
| Next 25,000 Therms                                 | 0.00240                        | 0.111%                              |
| Next 50,000 Therms                                 | 0.00169                        | 0.025%                              |
| Over 90,000 Therms                                 | 0.00000                        | 0.000%                              |
| <b><u>Interruptible Transportation Service</u></b> |                                |                                     |
| Customer Charge/Per month                          |                                |                                     |
| First 15,000 Therms                                | 0.00292                        | 0.208%                              |
| Next 25,000 Therms                                 | 0.00240                        | 0.214%                              |
| Next 50,000 Therms                                 | 0.00169                        | 0.186%                              |
| Over 90,000 Therms                                 | 0.00000                        | 0.000%                              |
| <b><u>Sales For Resale</u></b>                     |                                |                                     |
| Demand Charge                                      | 0.63730                        | 0.900%                              |
| Commodity  | 0.00200                        | 0.006%                              |

**Piedmont Natural Gas Company, Inc.  
Calculation of "R" Values for WNA Computations  
Nashville Gas Rate Case**

|                        |              | <b>Residential</b> | <b>Commercial</b> |
|------------------------|--------------|--------------------|-------------------|
| <b>Fixed Gas Costs</b> | (\$/therm)   | 0.04898            | 0.04442           |
| <b>Commodity</b>       | (\$/therm)   | 0.29209            | 0.29209           |
| <b>"R" Value</b>       | (\$/therm)   | 0.29884            | 0.34839           |
| <b>HSF</b>             | (therms/DDD) | 0.18769            | 0.79321           |
| <b>BL</b>              | (therms/mo.) | 13.018             | 126.066           |

NASHVILLE GAS COMPANY  
665 Mainstream Drive  
Nashville, Tennessee 37228  
A Division of Piedmont Natural Gas Company  
TRA Rate Schedule No.1

**RATE SCHEDULE NO. 1**  
**Residential Service**

**AVAILABILITY**

Available within the Company's service area to any full requirements single private residences, including the separate private units of apartment houses and other multiple dwellings, actually used for residential purposes, which are separately metered where the Company's distribution mains are suitable for supplying the desired service.

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| <b><u>MARGIN RATE</u></b>                                      | <b><u>Winter</u></b><br><b><u>(November-March)</u></b> | <b><u>Summer</u></b><br><b><u>(April-October)</u></b> |
|--|--|---|
| Customer Charge (per month)                                    | \$8.00   | \$8.00  |
| Commodity Charge (per therm)                                   | \$.29884   | \$.26255  |
| Backup Service Demand Charge<br>(per therm of input per month) | \$.534506  | \$.534506   |

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**AIR CONDITIONING RIDER**

A Residential Customer who uses gas for summer air conditioning shall be billed at a rate of \$.04 per therm less than that listed above for all gas consumed over 50 therms per month. This discount shall apply to all gas used during the billing months of June through October.

**MONTHLY CUSTOMER CHARGE**

A charge will be billed monthly to all Customers for the availability of gas service. This charge will be in addition to the commodity charge for gas delivered. The Customer charge will be billed from the date of initial service until service is terminated at the Customer's request. In the case of temporary discontinuance of service there will be a reconnect charge of \$50.00 to be billed at the time the gas service is reinstated.

**BACKUP SERVICE**

When gas service is being supplied for use as a Backup Service for the dual-fuel heat pump or for similar use where the Customer's equipment is specifically designed by the manufacturer or is modified by the Customer or others for the purpose of using natural gas as the equipment's backup energy source, there shall be payable monthly in addition to all and other charges under this Rate Schedule a Backup Service Demand Charge individually determined for each Customer based upon the Customer's applicable gas equipment input rating.

NASHVILLE GAS COMPANY  
665 Mainstream Drive  
Nashville, Tennessee 37228  
A Division of Piedmont Natural Gas Company  
TRA Rate Schedule No.1

Page 2 of 2

Input shall be based upon individual Customer's applicable gas equipment rating in:

$$\frac{\text{BTU/Hour} \times 10 \text{ hours}}{100,000 \text{ BTU}} = \text{TH}$$

#### **SERVICE AGREEMENTS**

All Customers purchasing gas pursuant to this schedule shall be subject to the Company's standard contracts and/or service applications and subject to the Company's Rules and Regulations as filed with the TRA.

#### **PAYMENT TERMS**

All bills for service are due upon presentation and the net rates are applicable if payment is made on or before the last date of payment stated on the bill. Payments made after that date shall be for the gross amount which is greater by five percent (5%) than the net billing.

#### **RETURNED CHECK CHARGE**

In the event a Customer's check for payment is returned to the Company marked NSF (Non Sufficient Funds) the Customer will be assessed a charge of \$20.00.

#### **ADJUSTMENTS**

Bills for service are subject to adjustment caused by changes in the cost of purchased gas in accordance with Rule No. 1220-4-7 of the TRA Rules and Regulations.

Purchased gas adjustments and all applicable taxes and fees are in addition to the above stated margin rates in accordance with The Rules, Regulations and Orders of the TRA and Laws of the State of Tennessee.

#### **SERVICE AVAILABILITY**

All requests for new and additional service or the transfer of existing service to higher priority end use will be considered based upon the Company's judgement as to the available gas supply, Customer's load factor or use pattern, end use, impact on the local economy, and The Rules, Regulations, and Orders of the TRA and Laws of the State of Tennessee.

#### **SERVICE INTERRUPTION AND CURTAILMENT**

Gas service under this schedule is subject to the provisions contained within TRA Schedule No. 6, "Schedule for Limiting and Curtailing Service".

#### **WEATHER NORMALIZATION ADJUSTMENT**

Gas service under this schedule is subject to the provisions contained within TRA Schedule No. 13, "Weather Normalization Adjustment Rider".

ISSUED BY: Ware F. Schiefer  
ISSUED ON: June 14, 2000

EFFECTIVE: July 1, 2000  
DOCKET NO: 99-00994

NASHVILLE GAS COMPANY  
665 Mainstream Drive  
Nashville, Tennessee 37228  
A Division of Piedmont Natural Gas Company  
TRA Rate Schedule No.2

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**RATE SCHEDULE NO. 2**  
**Small General Service**

**AVAILABILITY**

Gas service under this Rate Schedule is available to any full requirements non-residential Customer whose maximum usage during any month of the 12-month period ended the 31st day of March was not more than 15,000 therms. Availability under this Rate Schedule for new Customers will be based on reasonably anticipated usage. A Customer under this Rate Schedule will be eligible to be transferred to Rate Schedules 3, 4, 7F or 7I if the Customers' usage is 110% or more of the minimum required by such rate schedule. Any such transfers will be effective June 1 of each year.

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| <b><u>MARGIN RATE</u></b>                                      | <b><u>Winter<br/>(November-March)</u></b> | <b><u>Summer<br/>(April-October)</u></b> |
|--|---|--|
| Customer Charge (per month)                                    | \$22.00                                   | \$22.00                                  |
| Commodity Charge (per therm)                                   | \$.34839                                  | \$.31233                                 |
| Backup Service Demand Charge<br>(per therm of input per month) | \$.534506                                 | \$.534506                                |

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**AIR CONDITIONING RIDER**

A Small General Service Customer who uses gas for summer air conditioning shall be billed at a rate of \$.04 per therm less than that listed above for all gas consumed over 500 therms per month. This discount shall apply to all gas used during the billing months of June through October.

**MONTHLY CUSTOMER CHARGE**

A charge will be billed monthly to all Customers for the availability of gas service. This charge will be in addition to the commodity charge for gas delivered. The Customer charge will be billed from the date of initial service until service is terminated at the Customer's request. In the case of temporary discontinuance of service there will be a reconnect charge of \$50.00 to be billed at the time the gas service is reinstated.

**BACKUP RATE**

When gas service is being supplied for use as a Backup Service for the dual-fuel heat pump or for similar use where the Customer's equipment is specifically designed by the manufacturer or is modified by the Customer or others for the purpose of using natural gas as the equipment's backup energy source, there shall be payable monthly in addition to all and other charges under this Rate Schedule a Backup Service Demand Charge individually determined for each Customer based upon the Customer's applicable gas equipment input rating.

Input shall be based upon individual Customer's applicable gas equipment rating in:

$$\frac{\text{BTU/Hour} \times 10 \text{ hours}}{100,000 \text{ BTU}} = \text{TH}$$

ISSUED BY: Ware F. Schiefer  
ISSUED ON: June 14, 2000

EFFECTIVE: July 1, 2000  
DOCKET NO: 99-00994

NASHVILLE GAS COMPANY  
665 Mainstream Drive  
Nashville, Tennessee 37228  
A Division of Piedmont Natural Gas Company  
TRA Rate Schedule No.2

Page 2 of 2

**SERVICE AGREEMENTS**

All Customers purchasing gas pursuant to this schedule shall be subject to the Company's standard contracts and/or service applications and subject to the Company's Rules and Regulations as filed with the TRA.

**PAYMENT TERMS**

All bills for service are due upon presentation and the net rates are applicable if payment is made on or before the last date of payment stated on the bill. Payments made after that date shall be for the gross amount which is greater by five percent (5%) than the net billing.

**RETURNED CHECK CHARGE**

In the event a Customer's check for payment is returned to the Company marked NSF (Non Sufficient Funds) the Customer will be assessed a charge of \$20.00.

**ADJUSTMENTS**

Bills for service are subject to adjustment caused by changes in the cost of purchased gas in accordance with Rule No. 1220-4-7 of the TRA Rules and Regulations.

Purchased gas adjustments and all applicable taxes and fees are in addition to the above stated margin rates in accordance with The Rules, Regulations and Orders of the TRA and Laws of the State of Tennessee.

**SERVICE AVAILABILITY**

All requests for new and additional service or the transfer of existing service to higher priority end use will be considered based upon the Company's judgement as to the available gas supply, Customer's load factor or use pattern, end use, impact on the local economy, and The Rules, Regulations, and Orders of the TRA and Laws of the State of Tennessee.

**SERVICE INTERRUPTION AND CURTAILMENT**

Gas service under this schedule is subject to the provisions contained within TRA Schedule No. 6, "Schedule for Limiting and Curtailing Service".

**WEATHER NORMALIZATION ADJUSTMENT**

Gas service under this schedule is subject to the provisions contained within TRA Schedule No. 13, "Weather Normalization Adjustment Rider".

NASHVILLE GAS COMPANY  
665 Mainstream Drive  
Nashville, Tennessee 37228  
A Division of Piedmont Natural Gas Company  
TRA Rate Schedule No.3

Page 1 of 2

**RATE SCHEDULE NO. 3**  
**Large General Sales Service**

**AVAILABILITY**

Gas service under this Rate Schedule is available to any full requirements non-residential Customer whose usage during any month of the 12-month period ended the 31st day of March was in excess of 15,000 therms. Availability under this Rate Schedule for new Customers will be based on reasonably anticipated usage. An existing Customer may also qualify for service under this Rate Schedule based upon reasonably anticipated usage by adding incremental load either by the installation of additional equipment or by increasing hours of operation. Service under this Rate Schedule is contingent upon the installation by the Company of telemetering equipment that reports daily consumption. A Customer will be transferred from this Rate Schedule to Rate Schedule No.2 if the Customers' usage is 90% or less of the minimum required by this Rate Schedule. Any such transfers will be effective June 1 of each year.

Once a qualified Customer elects service under this Rate Schedule, all services will be provided under the terms and conditions of this Rate Schedule for a term extending through the following May 31. Upon meeting the qualifications contained therein, a Customer may receive service under Rate Schedule 9 concurrent with service provided under the Rate Schedule. Subject to the requirements set forth above, a Customer may elect to discontinue service under this Rate Schedule and receive service under Rate Schedule No.7F by giving written notice to the Company prior to March 1 of any year. Proper notice having been provided, the Customer shall discontinue service under this Rate Schedule effective the first June 1 following the notice.

**MARGIN RATE**

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|   |           |
|---|-----------|
| Demand Charge (per therm of billing demand) | \$ .80000 |
| Commodity Charge (per therm)                |           |
| 1 <sup>st</sup> Step (0-15,000 therms)      | \$ .08918 |
| 2 <sup>nd</sup> Step (15,001-40,000 therms) | \$ .08195 |
| 3 <sup>rd</sup> Step (40,001-90,000 therms) | \$ .05904 |
| 4 <sup>th</sup> Step (Over 90,000 therms)   | \$ .02530 |

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**MONTHLY MINIMUM BILL**

The minimum monthly bill shall be the monthly demand charge.

**BILLING DEMAND**

The billing demand shall be determined as follows:

A Customer's billing demand determinant shall be the highest daily usage during the period from November 1 to March 31 of the previous winter period as metered and reported to the Company by the telemetering equipment installed by the Company. Changes to the Customer's billing demand determinant will become effective May 1 of each year. The per unit demand charge may be adjusted from time to time to reflect rate changes, including, but not limited to, a general change in system rates or a change in pipeline capacity charges billed to the Company.



NASHVILLE GAS COMPANY  
665 Mainstream Drive  
Nashville, Tennessee 37228  
A Division of Piedmont Natural Gas Company  
TRA Rate Schedule No.3

Page 2 of 2

For Customers commencing initial gas service under this Rate Schedule and who do not have a consumption history from other services provided by the Company, the billing demand determinant shall be computed by multiplying the month of highest consumption for the period to date by six percent (6%). If a Customer has received gas service from the Company prior to receiving service under this rate schedule, but does not have daily telemetered records to determine peak day usage as described above, the Company shall determine a billing demand based upon the highest monthly level of consumption during the previous winter period multiplied by six percent (6%).

#### **SERVICE AGREEMENTS**

All Customers purchasing gas under this Rate Schedule shall be subject to the Company's standard contracts and/or service applications and subject to the Company's Rules and Regulations as filed with the TRA.

#### **PAYMENT TERMS**

All bills for service are due upon presentation and the net rates are applicable if payment is made on or before the last date of payment stated on the bill. Payments made after that date shall be for the gross amount which is greater by five percent (5%) than the net billing.

#### **RETURNED CHECK CHARGE**

In the event a Customer's check for payment is returned to the Company marked NSF (Non Sufficient Funds) the Customer will be assessed a charge of \$20.00.

#### **ADJUSTMENTS**

Bills for service are subject to adjustment caused by changes in the cost of purchased gas in accordance with Rule No. 1220-4-7 of the TRA Rules and Regulations.

Purchased gas adjustments and all applicable taxes and fees are in addition to the above stated margin rates in accordance with The Rules, Regulations and Orders of the TRA and Laws of the State of Tennessee.

#### **SERVICE AVAILABILITY**

All requests for new or additional service or the transfer of existing service to a higher priority end use will be considered based upon the Company's judgement as to the available gas supply, Customer's load factor or use pattern, end use, impact on the local economy, and The Rules, Regulations, and Orders of the TRA and Laws of the State of Tennessee.

#### **SERVICE INTERRUPTION AND CURTAILMENT**

Gas service under this schedule is subject to the provisions contained within TRA Rate Schedule No.6, "Schedule for Limiting and Curtailing Service".

NASHVILLE GAS COMPANY  
665 Mainstream Drive  
Nashville, Tennessee 37228  
A Division of Piedmont Natural Gas Company  
TRA Rate Schedule No.4

Page 1 of 2

**RATE SCHEDULE NO. 4**  
**Interruptible General Sales Service**

**AVAILABILITY**

Gas service under this rate schedule is available **ON AN INTERRUPTIBLE BASIS** to any full requirements non-residential Customer whose usage during any month of the 12-month period ended the 31st day of March was in excess of 15,000 therms when adjusted for curtailment and cycle length. Availability under this rate schedule for new Customers will be based on reasonably anticipated usage. An existing Customer may also qualify for service under this Rate Schedule by adding incremental load either by the installation of additional equipment or by increasing hours of operation. Service under this Rate Schedule is contingent upon the installation by the Company of telemetering equipment that reports daily consumption. A Customer will be transferred from this Rate Schedule to Rate Schedule 2 if the Customers' usage is 90% or less of the minimum required by this Rate Schedule. Any such transfers will be effective June 1 of each year.

Once a qualified Customer elects service under this Rate Schedule, all services will be provided under the terms and conditions of this Rate Schedule for a term extending through the following May 31. Upon meeting the qualifications contained therein, a Customer may receive service under Rate Schedule 9 concurrent with service provided under this Rate Schedule. Subject to the requirements set forth above, a Customer may elect to discontinue service under this Rate Schedule and receive service under Rate Schedule No.7I by giving written notice to the Company prior to March 1 of any year. Proper notice having been provided, the Customer shall discontinue service under this Rate Schedule effective the first June 1 following the notice.

Customers purchasing gas pursuant to this schedule shall maintain, in useable condition, alternate-fuel facilities with ample on-site alternate fuel capability for supplying 100% of the establishment's gas requirements during periods of gas interruption or curtailment. Such interruption or curtailment shall be immediately effective upon verbal or written notification by the Company, and Customer shall refrain from using gas until permitted to do so by the Company. It is understood and agreed that the Company will have the right to suspend gas service without further notice to the Customer in the event Customer fails to curtail Customer's use of gas in accordance with the Company's notice of curtailment.

---

**MARGIN RATE**

|   |           |
|---|-----------|
| Customer Charge (per month)                 | \$300.00  |
| Commodity Charge (per therm)                |           |
| 1 <sup>st</sup> Step (0-15,000 therms)      | \$0.08034 |
| 2 <sup>nd</sup> Step (15,001-40,000 therms) | \$0.07382 |
| 3 <sup>rd</sup> Step (40,001-90,000 therms) | \$0.05319 |
| 4 <sup>th</sup> Step (Over 90,000 therms)   | \$0.02280 |

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ISSUED BY: Ware F. Schiefer  
ISSUED ON: June 14, 2000

EFFECTIVE: July 1, 2000  
DOCKET NO: 99-00994

NASHVILLE GAS COMPANY  
665 Mainstream Drive  
Nashville, Tennessee 37228  
A Division of Piedmont Natural Gas Company  
TRA Rate Schedule No.4

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**MONTHLY MINIMUM BILL**

The minimum monthly bill shall be the Customer Charge.

**MONTHLY CUSTOMER CHARGE**

A charge will be billed monthly to all Customers for the availability of gas service. This charge will be in addition to the commodity charge for gas delivered. The Customer Charge will be billed from the date of initial service until service is terminated at the Customer's request.

**SERVICE AGREEMENTS**

All Customers purchasing gas pursuant to this schedule shall be subject to the Company's standard contracts and/or service applications and subject to the Company's Rules and Regulations as filed with the TRA.

**PAYMENT TERMS**

All bills for service are due upon presentation and the net rates are applicable if payment is made on or before the last date of payment stated on the bill. Payments made after that date shall be for the gross amount which is greater by five percent (5%) than the net billing.

**RETURNED CHECK CHARGE**

In the event a Customer's check for payment is returned to the Company marked NSF (Non Sufficient Funds) the Customer will be assessed a charge of \$20.00.

**ADJUSTMENTS**

Bills for service are subject to adjustment caused by changes in the cost of purchased gas in accordance with Rule No. 1220-4-7 of the TRA Rules and Regulations.

Purchased gas adjustments and all applicable taxes and fees are in addition to the above stated margin rates in accordance with The Rules, Regulations and Orders of the TRA and Laws of the State of Tennessee.

**SERVICE AVAILABILITY**

All requests for new and additional service or the transfer of existing service to higher priority end use will be supplied based upon the Company's judgement as to the available gas supply, Customer's load factor or use pattern, end use, impact on the local economy, and The Rules, Regulations, and Orders of the TRA and Laws of the State of Tennessee.

**SERVICE INTERRUPTION AND CURTAILMENT**

Gas service under this schedule is subject to the provisions contained within TRA Schedule No. 6, "Schedule for Limiting and Curtailing Service".

NASHVILLE GAS COMPANY  
665 Mainstream Drive  
Nashville, Tennessee 37228  
A Division of Piedmont Natural Gas Company  
TRA Rate Schedule No.6

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## **SERVICE SCHEDULE NO. 6**

### **Schedule for Limiting and Curtailing Service**

This Service Schedule defines the types of curtailment that the Company may invoke from time to time due to the occurrence of extreme weather conditions, operating conditions or force majeure events, and describes the process and procedures to be followed in the implementation of gas service restrictions.

#### **DISTRIBUTION PRESSURE CURTAILMENTS**

Due to extreme weather conditions, operating conditions or force majeure events as defined in the Nashville Gas Company Service Regulations, Rules and Regulations Governing Supply and Consumption of Gas, or the demands of the Company's firm Customers as the same may effect the Company's ability to provide interruptible service, the Company may experience localized pressure deficiencies. During such times and within the areas affected, the Company will curtail service to interruptible Customers served under Rate Schedule No. 4, Rate Schedule No. 9, or Rate Schedule 7I, by priority of their margin contribution to the Company (curtailing Customers with the lowest margin rate first) until the pressure situation can be alleviated. In the unlikely event that further interruption is required, the Company will proceed with curtailment by margin contribution considering end use, impact on the local economy, and The Rules, Regulations, and Orders of the TRA and Laws of the State of Tennessee.

#### **SUPPLY OR CAPACITY RELATED CURTAILMENTS**

In situations when supply and capacity services contracted by the Company are not sufficient to meet the full requirements of Customers desiring sales services from the Company, the Company will first curtail service to interruptible sales Customers receiving service under Rate Schedule No. 4 by priority of their margin contribution to the Company. Customers receiving discounted sales service under Rate Schedule No. 9 will also be curtailed according to the discounted rates. The Company reserves the right at the Company's discretion to purchase quantities being delivered to the Company by Customers under Rate Schedule 7I at market prices in order to serve Customers without operable alternative fuel capability. In the unlikely event that further interruption is required, the Company will proceed with curtailment by margin contribution considering end use, impact on the local economy, and The Rules, Regulations, and Orders of the TRA and Laws of the State of Tennessee.

#### **EMERGENCY SERVICE**

The Company will make every reasonable effort to deliver plant protection volumes to industrial and commercial Customers that do not have standby fuel systems sufficient to prevent damage to facilities or danger to personnel, or to Customers that find it impossible to continue operations on the Customer's standby or alternate energy source as a result of a bona fide existing or threatened emergency. This includes the protection of such existing material in process that would otherwise be destroyed, or deliveries required to maintain plant production. All emergency gas service is of a discretionary nature and implies no present or future obligation of the Company to any Customer to provide such service on either a temporary or continuing basis. Deliveries of gas hereunder shall be made pursuant only to advance operating arrangements between the Company's authorized personnel and the Customer and shall be subject to curtailment and interruption at any time should the Company deem it necessary.

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#### **RATE FOR EMERGENCY SERVICE**

If the Company has authorized the Customer to consume limited quantities of emergency gas as provided in the above paragraph, then all gas consumed by the Customer will be at a rate of \$1.00 per therm plus the higher of two gas commodity indices, "Monthly Contract" and "Daily Price", until otherwise notified that either (1) further gas sales will be under the Customer's regular rate schedule or (2) complete curtailment is unavoidable and that further gas sales will be considered unauthorized. "Monthly Contract" shall be defined as the monthly contract index price for the applicable calendar month as published in Gas Daily under the designation, "Monthly Contract Index" and indicated specifically under "Citygates" for Tenn. Zone 6 (delivered)". "Daily Price" shall be defined as the daily price for gas defined by Gas Daily as stated in the "Daily Price Survey", "Citygates", "Tenn. Zone 6 (delivered)", "Midpoint" price. For days of consumption when the Gas Daily is not published, the Gas Daily price shall equal the price as published on the nearest subsequent day by Gas Daily. Revenues realized from emergency service transactions will be credited to the Actual Cost Adjustment (ACA) account as recovery of gas costs.

#### **UNAUTHORIZED OVER RUN PENALTY**

If at any time a Customer exceeds specified contract entitlements or if during any curtailment period, any affected Customer takes, without the Company's advance written approval, a volume of natural gas in excess of the curtailment period quantity entitlement applicable to such Customer, said volume shall constitute an unauthorized over run volume. For each therm of such unauthorized over run volume taken by such Customer, such Customer shall pay to the Company a rate of \$1.50 per therm plus the higher of two gas commodity indices, "Monthly Contract" and "Daily Price". "Monthly Contract" shall be defined as the monthly contract index price for the applicable calendar month as published in Gas Daily under the designation, "Monthly Contract Index" and indicated specifically under "Citygates" for Tenn. Zone 6 (delivered)". "Daily Price" shall be defined as the daily price for gas defined by Gas Daily as stated in the "Daily Price Survey", "Citygates", "Tenn. Zone 6 (delivered)", "Midpoint" price. For days of consumption when the Gas Daily is not published, the Gas Daily price shall equal the price as published on the nearest subsequent day by Gas Daily. The Customer shall be liable for the above charges together with and in addition to any incremental charges or assessments (including, but not limited to penalties) by the interstate pipeline during the time of the unauthorized usage by such Customer. The payment of a penalty for unauthorized over run volumes shall not under any circumstances be considered as giving any such Customer the right to take unauthorized over-run volumes, nor shall such payment be considered as a substitute for any other remedies available to the Company or any other Customer against the offending Customer for failure to adhere to its obligations under the provisions of this Rate Schedule. Revenues realized from unauthorized over run penalties will be credited to the Actual Cost Adjustment (ACA) account as recovery of gas costs.

#### **PAYMENT TERMS**

All bills for service are due upon presentation and the net rates are applicable if payment is made on or before the last date of payment stated on the bill. Payments made after that date shall be for the gross amount which is greater by five percent (5%) than the net billing.

#### **RETURNED CHECK CHARGE**

In the event a Customer's check for payment is returned to the Company marked NSF (Non Sufficient Funds) the Customer will be assessed a charge of \$20.00.

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TRA Rate Schedule No.6

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**ADJUSTMENTS**

Bills for service are subject to adjustment caused by changes in the cost of purchased gas in accordance with Rule No. 1220-4-7 of the TRA Rules and Regulations.

Purchased gas adjustments and all applicable taxes and fees are in addition to the above stated margin rates in accordance with The Rules, Regulations and Orders of the TRA and Laws of the State of Tennessee.

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ISSUED ON: June 14, 2000

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A Division of Piedmont Natural Gas Company  
TRA Rate Schedule No. 7F

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## **RATE SCHEDULE NO. 7F**

### **Firm Transportation Service**

#### **AVAILABILITY**

Gas service under this Rate Schedule is available to any full requirements non-residential Customer whose usage during any month of the 12-month period ended the 31st day of March was in excess of 15,000 therms. Availability under this Rate Schedule for new Customers will be based on reasonably anticipated usage. An existing Customer may also qualify for service under this Rate Schedule based upon reasonably anticipated usage by adding incremental load either by the installation of additional equipment or by increasing hours of operation. Service under this Rate Schedule is contingent upon the installation by the Company of telemetering equipment that reports daily consumption. A Customer will be transferred from the Rate Schedule to Rate Schedule 2 if the Customers' usage is 90% or less of the minimum required by this Rate Schedule. Any such transfers will be effective June 1 of each year.

Once a qualified Customer elects service under this Rate Schedule, all services will be provided under the terms and conditions of this Rate Schedule for a term extending through the following May 31. Upon meeting the qualifications contained therein, a Customer may receive service under Rate Schedule 9 concurrent with service provided under this Rate Schedule. Subject to the requirements set forth above, a Customer may elect to discontinue service under this Rate Schedule and receive service under Rate Schedule 3 by giving written notice to the Company prior to March 1 of any year. Proper notice having been provided, the Customer shall discontinue service under this Rate Schedule effective the first June 1 following the notice.

#### **APPLICABILITY AND CHARACTER OF SERVICE**

Transportation service is available under this Rate Schedule to any qualified Customer connected to the Company's system who has obtained an independent supply of natural gas and has arranged to have this supply delivered to one of the Company's existing delivery points for transportation by the Company to the Customer's facilities.

The Company will deliver gas previously transported by a connected pipeline for the Customer's account under this Rate Schedule on a day-to-day basis in accordance with the Customer's scheduled and confirmed nominations, subject to such maximum allowable daily deliveries as may be specified in the Gas Service Contract.

The Company reserves the right to suspend service on any day when, in the Company's sole opinion, its operating conditions are such that suspension of service is necessary. The Company reserves the right to limit, allocate, or direct third party gas nominations among the interstate pipelines serving the Company's distribution system, when, in the Company's sole opinion, such action is necessary to maintain the operational integrity of the system.

Receipts and deliveries of gas hereunder shall be at uniform rates of flow with no significant fluctuations or imbalance. Any imbalances shall be corrected by the Customer, insofar as practicable, during the month in which they occur. Customer may adjust its daily nominations during a month in order to correct any accumulated imbalance and maintain a monthly balance, subject to the operating limitations of the Company. The Company reserves the right to limit the amount of such imbalances to avoid operating problems and to comply with balancing requirements of any pipeline transporting gas hereunder. Customer will be responsible for any imbalance charges assessed by the pipeline in connection with any gas transported by the Company under this Rate Schedule. The Company reserves the right to reduce nominations when, in the judgment of the Company, such action is necessary to reduce or eliminate operational problems. Company will use its best efforts to notify the Customer or the Customer's agent before proceeding with a unilateral reduction and will notify Customer of any reduction to Customer's nomination that has been instituted by the Company. The Company reserves the

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right to initiate Standby Sales Service, described below, when, in the judgement of the Company, such action is necessary to reduce or eliminate operational problems resulting from the gas imbalances of the Customer. The Company will use its best efforts to notify the Customer or the Customer's agent before initiating Standby Sales Service.

By 10:30am central time four business days prior to the beginning of each month, the Customer shall inform the Company of its a) nomination of the daily quantity of gas to be transported for such month, and b) choice of pipeline for transportation for such month. If the Customer does not provide a timely nomination to transport gas provided by a party other than the Company, the Customer will have requested Standby Sales Service provided herein by default. By 10:30am central time six business days prior to the beginning of each month, the Customer must inform the Company of the nominating agent for gas to be transported. Changes to nominations for gas transportation within the month are due by 10:30am central time on the day prior to gas flow.

**BALANCING**

It shall be the Customer's responsibility to maintain a daily and monthly balance with its transporting pipelines to avoid any assessment of penalties against the Company. If the Company is assessed a penalty by a Customer's transporting pipeline, the Company shall have the right to pass-through all such penalties to the Customer to the extent the Customer is responsible for causing the Company to be assessed such penalties.

**MONTHLY IMBALANCE RESOLUTION**

Any differences between the quantities delivered to the Company's city gate facilities for the account of the Customer for the month, and the quantities consumed by the Customer as metered for the month, shall be the monthly imbalance. Unless the Company and Customer agree to correct imbalances in kind, this imbalance shall be resolved monthly by "cashing out" the imbalance as they are known to exist at that time. If the Customer consumes more gas than it has delivered to the Company, the Customer will be deemed to be "short" by the amount of the deficiency, and the Company will sell gas to the Customer in an amount equal to the deficiency and at a price equal to the highest Weighted Index Price for any week beginning in the calendar month as published in *Natural Gas Week* plus the Tennessee Gas Pipeline FT-A charges inclusive of all surcharges and fuel times the premium percentage corresponding to the percentage of the deficiency listed in the table below. If the Customer consumes less gas than it has delivered to the Company, the Customer will be deemed to be "long" by the amount of the surplus, and the Company will buy the amount of the surplus by paying the Customer a price equal to the lowest Weighted Index Price for any week beginning in the calendar month as published in *Natural Gas*

*Week* plus the Tennessee Gas Pipeline FT-A charges inclusive of all surcharges and fuel times the discount percentage corresponding to the percentage of the surplus listed in the table below.

| Percentage<br>of the Imbalance       | Short<br>(Premium) | Long<br>(Discount) |
|--------------------------------------|--------------------|--------------------|
| Equal to or less than 5%             | 100%               | 100%               |
| Over 5% & equal to or less than 10%  | 115%               | 85%                |
| Over 10% & equal to or less than 15% | 130%               | 70%                |
| Over 15% & equal to or less than 20% | 140%               | 60%                |
| Over 20%                             | 150%               | 50%                |

"The Weighted Index Price" shall be derived from the prices published in *Natural Gas Week* in the table Spot Prices on Interstate Pipeline Systems for the following pipeline designations and weighted by the corresponding percentages set forth below:

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|  |   |                     |
|--|---|---------------------|
| Tennessee Gas Pipeline Co. Zone 0:South Texas      | X | 19.47% <sup>1</sup> |
| +  |   |                     |
| Tennessee Gas Pipeline Co. Zone 1: South Louisiana | X | 73.69% <sup>1</sup> |
| +  |   |                     |
| Columbia Gulf Transmission Co.: Rayne, La.         | X | 6.84% <sup>1</sup>  |

The Company will collect gross receipts tax on the incremental gas related charges.

Any difference between the actual cost of gas incurred by the Company and the Index price as defined in the previous paragraph will be accounted for in the Actual Cost Adjustment account in a manner consistent with Rule No. 1220-4-1-12 of the TRA Rules and Regulations. Increments or decrements which may result from the PGA adjustments will not apply to the cash-out of imbalances.

**AGENCY AUTHORIZATION FORM**

A Customer may authorize an agent to act on its behalf with respect to the nominations, imbalance resolution, and/or billing under this Rate Schedule by executing an Agency Authorization Form in the form attached to this Rate Schedule. To the extent that the Agent appointed by the Customer is common to other Customers of the Company, the Company will permit such Agent to aggregate all such qualifying Customers' transportation quantities for purposes of administering service to such Agent. Once a Customer has designated an agent, the agent is then authorized to act on behalf of that Customer and as such, the agent can be considered as the Customer in all references contained within this Rate Schedule. The Customer may not change agents within the calendar month without the permission of the Company. All agents must utilize the electronic means made available by the Company in order to submit nominations. The Company may recover all costs incurred in providing the agent access to the electronic bulletin board.

**STANDBY SALES SERVICE**

At the option of the Customer, an election may be made monthly to receive Standby Sales Service from the Company under this Rate Schedule for delivery to the Customer at the Company's city gate. The Customer will also receive Standby Sales Service as a default if the Customer or the Customer's agent fails to submit a timely and valid nomination for transportation service. In addition to paying the Monthly Standby Index Price set forth below for Standby Sales Service hereunder, the Customer will utilize the transportation services and incur the charges otherwise applicable under this Rate Schedule to cause such gas supplies to be delivered to the Customer's meter. The price which the Customer shall pay for the gas supplied under this paragraph will be the Monthly Standby Index Price defined as follows: "The weighted average index price for the applicable month as published in the first *Natural Gas Week* for such month in the table Spot Prices on Interstate Pipeline Systems in the column labeled "Bid Week", for:

|  |   |                     |
|--|---|---------------------|
| Tennessee Gas Pipeline Co. Zone 0:South Texas      | X | 19.47% <sup>1</sup> |
| +  |   |                     |
| Tennessee Gas Pipeline Co. Zone 1: South Louisiana | X | 73.69% <sup>1</sup> |
| +  |   |                     |
| Columbia Gulf Transmission Co.: Rayne, La.         | X | 6.84% <sup>1</sup>  |

1 These percentages are the ratio of actual test period purchases for these two pipelines determined in the Company's most recent general rate case.

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If the Customer nominates transportation service hereunder and purchases gas supplies from a third party supplier, and such Customer's consumption exceeds actual deliveries to the Company from such third party supplier to the point where operational problems are created for the Company, then the Company shall have the right, at its sole discretion, to initiate Standby Sales Service to the Customer. The price for such service shall be the same as set forth above except when the Company is required by such imbalance shortfall to purchase incremental volumes of gas supplies. In this case the Customer receiving Standby Sales Service will pay the higher of (on a daily basis) the Monthly Standby Index Price or the Daily Standby Index Price defined as follows:

The midpoint daily index price as published in Gas Daily for the day of consumption as stated in the "Daily Price Survey", for the "Tennessee 500 Leg". For days of consumption when the Gas Daily is not published, the Gas Daily price shall equal the price as published on the nearest subsequent day by Gas Daily.

Applicable firm transportation tariff commodity charges, fuel and any other surcharges as defined in the above transporters' FERC approved tariffs will be added to the above standby index prices. The Company will collect gross receipts tax on the incremental gas related charges.

Any difference between the actual cost of gas incurred by the Company and the Index price as defined in the previous paragraph will be accounted for in the Actual Cost Adjustment account in a manner consistent with Rule No. 1220-4-1-12 of the TRA Rules and Regulations. Increments or decrements which may result from the PGA adjustments will not apply to the standby index prices.

**MARGIN RATE**

|   |           |
|---|-----------|
| Demand Charge (per therm of billing demand) | \$ .80000 |
| Commodity Charge (per therm)                |           |
| 1 <sup>st</sup> Step (0-15,000 therms)      | \$ .08918 |
| 2 <sup>nd</sup> Step (15,001-40,000 therms) | \$ .08195 |
| 3 <sup>rd</sup> Step (40,001-90,000 therms) | \$ .05904 |
| 4 <sup>th</sup> Step (Over 90,000 therms)   | \$ .02530 |

**MONTHLY MINIMUM BILL**

The minimum monthly bill shall be the monthly demand charge multiplied by the billing demand determined as described below.

**BILLING DEMAND**

The billing demand shall be determined as follows:

Customer billing demand determinate shall be the highest daily usage during the period from November 1 to March 31 of the previous winter period as metered and reported to the Company by the telemetering equipment installed by the Company. Changes to the Customer's billing demand determinate will become effective May 1 of each year. The per unit charge may be adjusted from time to time to reflect rate changes, including, but not limited to, a general change in system rates or a change in pipeline capacity charges billed to the Company. For Customers commencing initial gas service under this Rate Schedule and who do not have a consumption history from other services provided by the Company, the billing demand determinate shall be based upon a reasonable assumption of usage considering the connected load. If a Customer has received gas service from the Company prior to receiving service under this Rate Schedule but does not have daily telemetered records to

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determine peak day usage as described above , the Company shall determine a billing demand based on the highest monthly level of consumption during the previous winter period multiplied by six percent (6%).

**SERVICE AGREEMENTS**

All Customers receiving service under this Rate Schedule shall be required to execute the Company's standard contracts and/or service applications and shall be subject to the Company's Rules and Regulations as filed with and approved by the Tennessee Regulatory Authority (TRA).

**PAYMENT TERMS**

All bills for service are due upon presentation and the net rates are applicable if payment is made on or before the last date of payment stated on the bill. Payments made after that date shall be for the gross amount which is greater by five percent (5%) than the net billing.

**RETURNED CHECK CHARGE**

In the event a Customer's check for payment is returned to the Company marked NSF (Non Sufficient Funds) the Customer will be assessed a charge of \$20.00.

**ADJUSTMENTS**

Bills for transportation service are subject to adjustment caused by changes in the cost of purchased gas in accordance with Rule No. 1220-4-7 of the TRA Rules and Regulations.

Purchased gas adjustments and all applicable taxes and fees are in addition to the above stated margin rates in accordance with the Rules, Regulations and Orders of the TRA and the Laws of the State of Tennessee.

**SERVICE AVAILABILITY**

All requests for new or additional service or the transfer of existing service to a higher priority end use will be considered based upon the Company's judgement as to the available gas supply, Customer's load factor or use pattern, end use, impact on the local economy, the TRA Rules and Regulations, Orders of the TRA, and the Laws of the State of Tennessee.

**SERVICE CURTAILMENT**

Gas service under this schedule is subject to the provisions contained within TRA Schedule No. 6, "Schedule for Limiting and Curtailing Service".

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ISSUED ON: June 14, 2000

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**AGENCY AUTHORIZATION FORM  
RATE SCHEDULE NO.7F**

DATE \_\_\_\_\_

CUSTOMER \_\_\_\_\_  
NAME OF FACILITY \_\_\_\_\_ ACCOUNT NUMBER(S) \_\_\_\_\_

AGENT \_\_\_\_\_

AGENT CONTACT \_\_\_\_\_ PHONE # \_\_\_\_\_

This is to advise Nashville Gas Company that \_\_\_\_\_ (Customer) has authorized  
\_\_\_\_\_ (Agent) to act on its behalf for the following transactions:

\_\_\_\_\_ nominations, \_\_\_\_\_ imbalance resolution, \_\_\_\_\_ billing,

of gas for the above listed account(s). Nashville Gas Company is hereby authorized to deal with the Agent directly, and by signature below, the Customer and the Agent understand that they are responsible, jointly and severally for any amounts due Nashville Gas Company under this Rate Schedule which are not paid by agent on these accounts. Customer will provide Nashville Gas Company with a revised "AGENCY AUTHORIZATION FORM" at least six (6) business days prior to changing Agents of the accounts designated.

AUTHORIZED SIGNATURE \_\_\_\_\_ AUTHORIZED SIGNATURE \_\_\_\_\_  
FOR THE CUSTOMER FOR THE AGENT

**Please Print**  
AGENT'S NAME \_\_\_\_\_ TITLE \_\_\_\_\_  
PHONE # \_\_\_\_\_ FAX # \_\_\_\_\_  
MAILING ADDRESS \_\_\_\_\_

**Please submit to:** End User Transportation  
Nashville Gas Company  
A Division of Piedmont Natural Gas Company  
P O Box 33068  
Charlotte, NC 28233  
Fax # \_704 365-8740

NASHVILLE GAS COMPANY  
 665 Mainstream Drive  
 Nashville, Tennessee 37228  
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 TRA Rate Schedule No. 71

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## **RATE SCHEDULE NO. 71**

### **Interruptible Transportation Service**

#### **AVAILABILITY**

Gas service under this Rate Schedule is available ON AN INTERRUPTIBLE BASIS to any full requirements non-residential Customer whose usage during any month of the 12-month period ended the 31st day of March was in excess of 15,000 therms. Availability under this Rate Schedule for new Customers will be based on reasonably anticipated usage. An existing Customer may also qualify for service under this Rate Schedule based upon reasonably anticipated usage by adding incremental load either by the installation of additional equipment or by increasing hours of operation. Service under this Rate Schedule is contingent upon the installation by the Company of telemetering equipment that reports daily consumption. A Customer will be transferred from this Rate Schedule to Rate Schedule 2 if the Customers' usage is 90% or less of the minimum required by this Rate Schedule. Any such transfers will be effective June 1 of each year.

Once a qualified Customer elects service under this Rate Schedule, all services will be provided under the terms and conditions of this Rate Schedule for a term extending through the following May 31. Upon meeting the qualifications contained therein, a Customer may receive service under Rate Schedule No. 9 concurrent with service provided under this Rate Schedule. Subject to the requirements set forth above, a Customer may elect to discontinue service under this Rate Schedule and receive service under Rate Schedule No. 4 and/or 10 by giving written notice to the Company prior to March 1 of any year. Proper notice having been provided, the Customer may discontinue service under this Rate Schedule effective the first June 1 following the notice.

Customers receiving services under this Rate Schedule shall maintain, in useable condition, alternate-fuel facilities with ample on-site alternate fuel capability for supplying 100% of the establishment's gas requirements during periods of gas interruption or curtailment. Such interruption or curtailment shall be immediately effective upon verbal or written notification by the Company, and Customer shall refrain from using gas until permitted to do so by the Company. It is understood and agreed that the Company will have the right to suspend gas service without further notice to the Customer in the event Customer fails to curtail Customer's use of gas in accordance with the Company's notice of curtailment.

#### **APPLICABILITY AND CHARACTER OF SERVICE**

Transportation service is available under this Rate Schedule to any qualified Customer connected to the Company's system who has obtained an independent supply of natural gas and has arranged to have this supply delivered to one of the Company's existing delivery points for transportation by the Company to the Customer's facilities.

The Company will deliver ON AN INTERRUPTIBLE BASIS gas previously transported by a connected pipeline for the Customer's account under this Rate Schedule on a day-to-day basis in accordance with the Customer's scheduled and confirmed nominations. The Company reserves the right to suspend service on any day when, in the Company's sole opinion, its operating conditions are such that suspension of service is necessary. The Company reserves the right to

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limit, allocate, or direct third party gas nominations among the interstate pipelines serving the Company's distribution system, when, in the Company's sole opinion, such action is necessary to maintain the operational integrity of the system.

Receipts and deliveries of gas hereunder shall be at uniform rates of flow with no significant fluctuations or imbalance. Any imbalances shall be corrected by the Customer, insofar as practicable, during the month in which they occur. Customer may adjust its daily nominations during a month in order to correct any accumulated imbalance and maintain a monthly balance, subject to the operating limitations of the Company. The Company reserves the right to limit the amount of such imbalances to avoid operating problems and to comply with balancing requirements of any pipeline transporting gas hereunder. Customer will be responsible for any imbalance charges assessed by the pipeline in connection with any gas transported by the Company under this Rate Schedule. The Company reserves the right to reduce nominations when, in the judgment of the Company, such action is necessary to reduce or eliminate operational problems. Company will use its best efforts to notify the Customer or the Customer's agent before proceeding with a unilateral reduction and will notify Customer of any reduction to Customer's nomination that has been instituted by the Company.

By 10:30am central time four business days prior to the beginning of each month, the Customer shall inform the Company of its a) nomination of the daily quantity of gas to be transported for such month, and b) choice of pipeline for transportation for such month. If the Customer does not provide a timely nomination to transport gas, the Customer will not be entitled to receive gas service. By 10:30am central time six business days prior to the beginning of each month, the Customer must inform the Company of the nominating agent for gas to be transported.

Changes to nominations for gas transportation within the month are due by 10:30am central time on the day prior to gas flow.

Notwithstanding the above, if a supplier interrupts its sales service to Customer being transported hereunder, and such interruptions by the supplier occur within a month, Customer may reschedule alternative gas supplies which may be available to Customer subject to: a) normal daily nomination and confirmation deadlines and procedures b) any operational limitations of the Company and c) the availability of interruptible transportation service hereunder.

#### **BALANCING**

It shall be the Customer's responsibility to maintain a daily and monthly balance with its transporting pipelines to avoid any assessment of penalties against the Company. If the Company is assessed a penalty by a Customer's transporting pipeline, the Company shall have the right to pass-through all such penalties to the Customer to the extent the Customer or Customer's agent is responsible for causing the Company to be assessed such penalties.

#### **MONTHLY IMBALANCE RESOLUTION**

Any differences between the quantities delivered to the Company's city gate facilities for the account of the Customer for the month, and the quantities consumed by the Customer as metered for the month, shall be the monthly imbalance. Unless the Company and Customer agree to correct imbalances in kind, this imbalance shall be resolved monthly by "cashing out" the imbalance as they are known to exist at that time. If the Customer consumes more gas than it has

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delivered to the Company, the Customer will be deemed to be “short” by the amount of the deficiency, the Company will sell gas to the Customer in an amount equal to the deficiency and at a price equal to the highest Weighted Index Price for any week beginning in the calendar month as published in *Natural Gas Week* plus the Tennessee Gas Pipeline FT-A charges inclusive of all surcharges and fuel times the premium percentage corresponding to the percentage of the deficiency listed in the table below. If the Customer consumes less gas than it has delivered to the Company, the Customer will be deemed to be “long” by the amount of the surplus, and the Company will buy the amount of the surplus by paying the Customer a price equal to the lowest Weighted Index Price for any week beginning in the calendar month as published in *Natural Gas Week* plus the Tennessee Gas Pipeline FT-A charges inclusive of all surcharges and fuel times the discount percentage corresponding to the percentage of the surplus listed in the table below.

| Percentage<br>of the Imbalance       | Short<br>(Premium) | Long<br>(Discount) |
|--------------------------------------|--------------------|--------------------|
| Equal to or less than 5%             | 100%               | 100%               |
| Over 5% & equal to or less than 10%  | 115%               | 85%                |
| Over 10% & equal to or less than 15% | 130%               | 70%                |
| Over 15% & equal to or less than 20% | 140%               | 60%                |
| Over 20%                             | 150%               | 50%                |

“The Weighted Index Price” shall be derived from the prices published in *Natural Gas Week* in the table Spot Prices on Interstate Pipeline Systems for the following pipeline designations and weighted by the corresponding percentages set forth below:

|  |   |                     |
|--|---|---------------------|
| Tennessee Gas Pipeline Co. Zone 0:South Texas      | X | 19.47% <sup>1</sup> |
| +  |   |                     |
| Tennessee Gas Pipeline Co. Zone 1: South Louisiana | X | 73.69% <sup>1</sup> |
| +  |   |                     |
| Columbia Gulf Transmission Co.: Rayne, La.         | X | 6.84% <sup>1</sup>  |

The Company will collect gross receipts tax on the incremental gross gas related charges

Any difference between the actual cost of gas incurred by the Company and the Index prices defined above will be accounted for in the Actual Cost Adjustment account in a manner consistent with Rule No. 1220-4-1-.12 of the TRA Rules and Regulations. Increments or decrements which may result from the PGA adjustments will not apply to the cash-out mechanism.

**AGENCY AUTHORIZATION FORM**

A Customer may authorize an agent to act on its behalf with respect to the nominations, imbalance resolution, and/or billing under this Rate Schedule by executing an Agency Authorization Form in the form attached to this Rate Schedule. To the extent that the Agent appointed by the Customer is common to other Customers of the Company, the Company will permit such Agent to aggregate all such qualifying Customers’ transportation quantities for

1 These percentages are the ratio of actual test period purchases for these two pipelines determined in the Company's most recent general rate case.

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purposes of administering service to such Agent. Once a Customer has designated an agent, the agent is then authorized to act on behalf of that Customer and as such, the agent can be considered as the Customer in all references contained within this Rate Schedule. The Customer may not change agents within the calendar month without the permission of the Company. All agents must utilize the electronic means made available by the Company in order to submit nominations. The Company may recover all costs incurred in providing the agent access to the electronic bulletin board.

---

**MARGIN RATE**

|   |          |
|---|----------|
| Customer Charge (per month)                 | \$300.00 |
| Commodity Charge (per therm)                |          |
| 1 <sup>st</sup> Step (0-15,000 therms)      | \$.08034 |
| 2 <sup>nd</sup> Step (15,001-40,000 therms) | \$.07382 |
| 3 <sup>rd</sup> Step (40,001-90,000 therms) | \$.05319 |
| 4 <sup>th</sup> Step (Over 90,000 therms)   | \$.02280 |

---

**MONTHLY MINIMUM BILL**

The minimum monthly bill shall be the Customer Charge.

**MONTHLY CUSTOMER CHARGE**

A charge will be billed monthly to all Customers for the availability of gas service. This charge will be in addition to the commodity charge.

**SERVICE AGREEMENTS**

All Customers receiving service pursuant to this Rate Schedule shall be required to execute the Company's standard contracts and/or service applications and shall be subject to the Company's Rules and Regulations as filed with and approved by the Tennessee Regulatory Authority (TRA).

**PAYMENT TERMS**

All bills for service are due upon presentation and the net rates are applicable if payment is made on or before the last date of payment stated on the bill. Payments made after that date shall be for the gross amount which is greater by five percent (5%) than the net billing.

**RETURNED CHECK CHARGE**

In the event a Customer's check for payment is returned to the Company marked NSF (Non Sufficient Funds) the Customer will be assessed a charge of \$20.00.

**ADJUSTMENTS**

Bills for transportation service are subject to adjustment caused by changes in the cost of purchased gas in accordance with Rule No. 1220-4-7 of the TRA Rules and Regulations.

Purchase gas adjustments and all applicable taxes and fees are in addition to the above stated margin rates in accordance with the Rules, Regulations and Orders of the TRA and the Laws of the State of Tennessee.

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**SERVICE AVAILABILITY**

All requests for new or additional service or the transfer of existing service to a higher priority end use will be considered based upon the Company's judgement as to the available gas supply, Customer's load factor or use pattern, end use, impact on the local economy, the TRA Rules and Regulations, the Orders of the TRA, and the Laws of the State of Tennessee.

**SERVICE INTERRUPTION AND CURTAILMENT**

Gas service under this schedule is interruptible and is subject to the provisions contained within TRA Schedule No. 6, "Schedule for Limiting and Curtailing Service".

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AGENCY AUTHORIZATION FORM  
RATE SCHEDULE NO.7I

DATE \_\_\_\_\_

CUSTOMER \_\_\_\_\_  
NAME OF FACILITY \_\_\_\_\_ ACCOUNT NUMBER(S) \_\_\_\_\_

AGENT \_\_\_\_\_

AGENT CONTACT \_\_\_\_\_ PHONE # \_\_\_\_\_

This is to advise Nashville Gas Company that \_\_\_\_\_  
(Customer) has authorized \_\_\_\_\_ (Agent) to act on  
its behalf for the following transactions:

\_\_\_\_\_ nominations, \_\_\_\_\_ imbalance resolution, \_\_\_\_\_ billing,

of gas for the above listed account(s). Nashville Gas Company is hereby authorized to deal with the Agent directly, and by signature below, the Customer and the Agent understand that they are responsible, jointly and severally for any amounts due Nashville Gas Company under this Rate Schedule which are not paid by agent on these accounts. Customer will provide Nashville Gas Company with a revised "AGENCY AUTHORIZATION FORM" at least six (6) business days prior to changing Agents of the accounts designated.

AUTHORIZED  
SIGNATURE \_\_\_\_\_  
FOR THE CUSTOMER

AUTHORIZED  
SIGNATURE \_\_\_\_\_  
FOR THE AGENT

Please Print  
AGENT'S NAME \_\_\_\_\_ TITLE \_\_\_\_\_  
PHONE # \_\_\_\_\_ FAX # \_\_\_\_\_  
MAILING ADDRESS \_\_\_\_\_  
\_\_\_\_\_

Please submit to: End User Transportation  
Nashville Gas Company  
A Division of Piedmont Natural Gas Company  
P O Box 33068  
Charlotte, NC 28233  
Fax # 704-365-8740

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## **RATE SCHEDULE NO. 9**

### **Special Availability Service**

#### **AVAILABILITY**

Gas service under this rate schedule is available to any TRA Rate Schedule No. 3, 4, 7F, or 7I, Customer when the Company has gas supplies or services that it cannot sell at its established fixed rates where the Company's distribution mains are suitable for supplying the desired service. On such occasions, the opportunity is lost to the Company and its Customers. This Rate Schedule is designed to permit the Company to sell such gas and services at special rates for the purpose of enabling the Company to compete with alternative fuels and services available for use by its Customers.

Gas service under this Rate Schedule is available on a limited term basis to Customers who are connected to the Company's distribution system and would otherwise qualify for commercial and industrial sales or transportation service.. Gas service may be provided under this Rate Schedule only in the event that the Company has available supplies or services that cannot competitively be provided under other rate schedules. Service under this Rate Schedule is temporary and the Company has the right to discontinue such service. Gas service under this rate schedule will be curtailed prior to service under any other rate schedule.

In the event a Customer has zero consumption during any billing month, this tariff will not apply and service shall be rendered pursuant to the Company's regular rate schedules for the class of service indicated for the purpose of determining a minimum bill and qualifying provisions.

#### **BASE RATE**

The Customer shall pay the Company for all gas supplied or services provided under this schedule at a predetermined rate negotiated prior to delivery for limited term periods up to seven consecutive months.

#### **SERVICE AGREEMENTS**

All Customers purchasing gas pursuant to this Rate Schedule shall be subject to the Company's standard contracts and/or service applications and subject to the Company's Rules and Regulations as filed with the TRA.

#### **PAYMENT TERMS**

All bills for service are due upon presentation and the above stated net rates are applicable if payment is made on or before the last date of payment stated on the bill. Payments made after that date shall be for the gross amount which is greater by five percent (5%) than the net billing.

#### **RETURNED CHECK CHARGE**

In the event a Customer's check for payment is returned to the Company marked NSF (Non Sufficient Funds) the Customer will be assessed a charge of \$20.00.

#### **ADJUSTMENTS**

Bills for service are subject to adjustment caused by changes in the cost of purchased gas in

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accordance with Rule No. 1220-4-1-7 of the TRA Rules and Regulations.

Purchased gas adjustments and all applicable taxes and fees are in addition to the above stated base rates in accordance with The Rules, Regulations and Orders of the TRA and Laws of the State of Tennessee.

**SERVICE AVAILABILITY**

All requests for new and additional service or the transfer of existing service to higher priority end use will be supplied based upon the Company's judgement as to the available gas supply, Customer's load factor or use pattern, end use priority as specified by the Federal Energy Regulatory Commission (FERC), impact on the local economy, and The Rules, Regulations, and Orders of the TRA and Laws of the State of Tennessee.

**SERVICE INTERRUPTION AND CURTAILMENT**

Gas service under this schedule is subject to the provisions contained within TRA Schedule No. 6, "Schedule for Limiting and Curtailing Service."

**TREATMENT OF NEGOTIATED MARGIN LOSSES**

Margin losses under this rate schedule shall be recovered by the Company through the Company's Actual Cost Adjustment (ACA) as provided in the Company's Purchased Gas Adjustment (PGA) Rider (TRA Service Schedule No. 11).

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**RATE SCHEDULE NO. 10**  
**Resale Service**

**AVAILABILITY**

Sales for Resale Service is available under this rate schedule to any qualified local distribution company who purchases natural gas for the purpose of reselling same, where the Company's distribution mains are suitable for supplying the desired service.

---

**MARGIN RATE**

|   |           |
|---|-----------|
| Demand Charge (per therm of billing demand) | \$ .80000 |
| Commodity Charge (per therm)                | \$ .07000 |

---

**MONTHLY MINIMUM BILL**

The minimum monthly bill shall be the monthly demand charge.

**BILLING DEMAND**

Demand determinants shall be those agreed to in the contract.

**SERVICE AGREEMENTS**

All customers purchasing gas pursuant to this schedule shall be subject to the Company's standard contracts and/or service applications and subject to the Company's Rules and Regulations as filed with the TRA.

**PAYMENT TERMS**

All bills for service are due upon presentation and the net rates are applicable if payment is made on or before the last date of payment stated on the bill. Payments made after that date shall be for the gross amount which is greater by five percent (5%) than the net billing.

**RETURNED CHECK CHARGE**

In the event a customer's check for payment is returned to the Company marked NSF (Non Sufficient Funds) the customer will be assessed a charge of \$20.00.

**ADJUSTMENTS**

Bills for service are subject to adjustment caused by changes in the cost of purchased gas in accordance with

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Rule No. 1220-4-7 of the TRA Rules and Regulations.

Purchased gas adjustments and all applicable taxes and fees are in addition to the above stated margin rates in accordance with The Rules, Regulations and Orders of the TRA and Laws of the State of Tennessee.

**SERVICE AVAILABILITY**

All requests for new and additional service or the transfer of existing service to higher priority end use will be supplied based upon the Company's judgement as to the available gas supply, customer's load factor or use pattern, end use priority as specified by the Federal Energy Regulatory Commission (FERC), impact on the local economy, and The Rules, Regulations, and Orders of the TRA and Laws of the State of Tennessee.

**SERVICE INTERRUPTION AND CURTAILMENT**

Gas service under this schedule is subject to the curtailment provisions contained within TRA Schedule No. 6, "Schedule for Limiting and Curtailing Service".

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**SERVICE SCHEDULE NO. 13**  
**Weather Normalization Adjustment**  
**(WNA) Rider**

**I. Provision for Adjustment**

The base rates per therm (100,000 Btu) for gas service set forth in any rate schedules utilized by the Authority in determining normalized test period revenues shall be adjusted by an amount hereinafter described, which amount is referred to as the "Weather Normalization Adjustment".

The Weather Normalization Adjustment will be applicable for bills rendered on and after November 1 and continuing through the final billing cycle in March of each year.

**II. Definitions**

For the purposes of this Rider:

"Authority" means the Tennessee Regulatory Authority.

"Relevant Rate Order" means the final order of the Authority in the most recent litigated rate case of the Company fixing the rates of the Company or the most recent final order of the Authority specifically prescribing or fixing the factors and procedures to be used in the application of this Rider.

**III. Computation of Weather Normalization Adjustment**

The Weather Normalization Adjustment shall be computed to the nearest one-hundredth cent per therm by the following formula:

$$WNA_i = R_i \quad * \quad \frac{(HSF_i(NDD-ADD))}{(BL_i + (HSF_i \times ADD))}$$

Where:

I = any particular rate schedule or billing classification within any particular rate schedule that contains more than one billing classification.

WNA<sub>i</sub> = Weather Normalization Adjustment Factor for the i<sup>th</sup> rate schedule or classification expressed in cents per therm.

R<sub>i</sub> = weighted average base rate (base rate less any embedded gas cost) of temperature sensitive sales for the i<sup>th</sup> schedule or classification utilized by the Authority in the Relevant Rate Order for the purpose of determining normalized test year revenues.

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$HSF_i$  = heat sensitive factor for the  $i^{th}$  schedule or classification utilized by the Authority in the Relevant Rate Order for the purpose of determining normalized test year revenues.

$NDD$  = normal billing cycle heating degree days utilized by the Authority in the Relevant Rate Order for the purpose of determining normalized test year revenues.

$ADD$  = actual billing cycle heating degree days.

$BL_i$  = base load sales for the  $i^{th}$  schedule or classification utilized by the Authority in the Relevant Rate Order for the purpose of determining normalized test year revenues.

#### IV. Filing with Authority

The Company will file as directed by the Authority (a) a copy of each computation of the Weather Normalization Adjustment, (b) a schedule showing the effective date of each such Weather Normalization Adjustment, and a schedule showing the factors or values derived from the Relevant Rate Order used in calculating such Weather Normalization Adjustment.

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**2nd Revised Addendum to TRA Service Schedule No. 13**

**NASHVILLE GAS COMPANY  
WNA Components**

|                                | <b><u>Residential</u></b> | <b><u>Commercial</u></b> |
|--------------------------------|---------------------------|--------------------------|
| <b>"R" Value:</b>              | 0.29884                   | 0.34839                  |
| <b>Heat Sensitivity Factor</b> | 0.18769                   | 0.79321                  |
| <b>Base Load:</b>              | 13.018                    | 126.066                  |

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**Schedule V**

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## **Nashville Gas Company Service Regulations**

### **Section 1 – GENERAL SERVICE POLICY OF NASHVILLE GAS**

Nashville Gas (hereinafter referred to as “the Company”) will make free service calls, within certain broad guidelines, around-the-clock on customer appliances connected to our mains. Those service requests requiring immediate attention will be answered as soon as possible. Those of less urgent nature will be answered on a scheduled basis according to the workload. In either case, the Company will make every effort to answer each customer's call promptly and to leave all appliances operating at maximum efficiency.

#### **Free Services** (1220-4-5-.06(iii))

The Company provides the following services at no charge to the customer during normal working hours (Mon - Fri, 8am - 5pm, excluding Holidays):

- Install gas meters and regulators for new customers
- Turn-on, turn-off, & service gas meters
- Check for gas leaks
- Investigate the possible presence of carbon monoxide
- Cut off pilots
- Disconnect appliances (disconnect & cap existing pipe only)
- Food Service equipment service including leveling, adjusting, or calibrating
- Diagnostic time or time to provide an estimate for jobbing work
- Quotes for appliance installation
- The first light-up and service call of the heating season on central furnaces (a flat charge applies for each additional light-up)
- Gaslight turn-on and re-lighting
- Service leased water heaters
- Service appliances other than central heating systems or gas air conditioners (no parts needed) including:
  - Service calls to diagnose problems
  - Check gas pressure
  - Adjust burners
  - Clean air mixers
  - Light pilots
  - Clean & adjust pilots
  - Examine flue connections & check draft
  - Check and calibrate thermostats & controls
  - Check appliance wiring & other electrical components
- Service central heating systems including floor furnaces and unit heaters

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**Section 1 – General Service Policy**

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including:

- Service calls to diagnose problems
- Gas and air adjustments on burners and pilot assemblies
- Adjustments of controls and thermostats
- Minor electrical repairs that do not require materials
- Service Arkla, Bryant, and other gas-fired air conditioners including:
  - Service calls to diagnose problems
  - Gas and air adjustments on burners and pilot assemblies
  - Checks of controls and thermostats
  - Pumping of water-cooled units to maintain operation
  - Purging of non-condensables from air-cooled units

Note: When an appliance is not operating, every effort will be made to answer the call without delay, and in most circumstances, on the same day. Should repair work be required, parts needed to complete the repair will be ordered from the manufacturer and installed if the customer so desires. There is, however, a charge for this service.

The company will also provide immediate response to any hazardous situation that might cause threat to life or property after normal working hours (Mon – Fri, 5pm - 8am; Sat; Sun; & Holidays) at no charge, including:

- Fire or explosion
- Gas leak
- Damaged gas main or service (parts & labor may apply)
- Gas appliance that won't cut off
- Carbon monoxide investigation
- Leased water heater service within 24 hours

**Services For Which There Are Charges**

- Installation or connection of gas appliances
- Reconnects of gas appliances
- Repair of gas appliances where parts are needed (except central systems)
- Repair or replacement parts, electrical equipment, or thermostats on Arkla or Bryant gas air conditioners beyond Service/Warranty Contract
- Cleaning condensers and condensate lines on gas A/C units
- Gaslight repairs and reconditioning
- Miscellaneous pipe work
- Change outs and reconnects of food service equipment
- Repair of gas air conditioning units installed after January 1, 1975; units on which the Warranty/Service Contract has expired; and units or installations not approved by the Company's Service Department
- Work involving replacement of filters and out-of-warranty parts (charged on a "time and materials" basis)

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- After hours work that requires a repair including commercial cooking and water heating equipment (the customer may be given the option for jobbing repair at the current overtime rate, if time and workload permits)

**Work the Company Does Not Provide**

- Replacement of filters in central heating equipment
- Installation, connection, or repair of unit heaters and central heating equipment
- Repair or replacement of unit heaters and other equipment requiring an electrician
- Repair or installation of gas appliances that are not AGA certified or where gas appliances are not used in accordance with manufacturer listing
- Repairs on heating equipment that requires parts will not be made except on those units sold by Nashville Gas prior to May 1, 1974. In addition, the Company does not install furnace filters
- No work will be performed on electrical air conditioning units installed with a gas furnace (this work will be referred to the installer or mechanical contractor)

**Termination Policy****Reasons for Termination of Service or Denial of Service** (1220-4-5-.18)

Service may be refused or discontinued for any of the reasons listed below. Unless otherwise stated, the customer shall be allowed a reasonable time in which to comply with the rule before service is discontinued.

1. With notice in the event of a condition determined by the utility to be hazardous
2. Without notice in the event of customer use of equipment or the utility's service to others
3. Without notice in the event of tampering with the equipment furnished and owned by the utility
4. Without notice in the event of unauthorized use
5. For violation of and/or non-compliance with the utility's rules on file with and approved by the Tennessee Regulatory Authority
6. For failure of the customer to fulfill his contractual obligations for service and/or facilities subject to regulation by the Tennessee Regulatory Authority
7. For failure of the customer to permit the utility reasonable access to its equipment
8. For non-payment of bill provided that the utility has made a reasonable attempt to effectively collect and has given the customer written notice that he has at least five (5) days, excluding Sundays and holidays, in which to make settlement on his account or have his service denied

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9. For failure of the customer to provide the utility with a deposit as authorized by 1220-4-5-.14 of the Tennessee Regulatory Authority Statutes
10. For failure of the customer to furnish such services, equipment, permits, certificates, and/or rights-of-way, as shall have been specified by the utility as a condition to obtaining service, or in the event such equipment or permission are withdrawn or terminated.

**Insufficient Reasons for Denying Service** (1220-4-5-.19)

The following shall not constitute sufficient cause for refusal of service to a present or prospective customer:

1. Delinquency in payment for service by a previous occupant of the premises to be served
2. Failure to pay for merchandise purchased from the utility
3. Failure to pay for a different type of class of public utility service
4. Failure to pay the bill of another customer as guarantor thereof
5. Failure to pay a back bill rendered in accordance 1220-4-5-.17(a) of Tennessee Regulatory Authority Statutes.

**Disconnection**

The Company has the right to shut off gas from any consumer who may be in arrears for a longer period than twenty (20) days in paying for gas furnished hereunder or under any other prior or subsequent agreement, or for gas used by the consumer at the consumer's present or any prior subsequent address. The said twenty-day period commences to run from the date the bill was rendered. The Company will not shut off gas for non-payment without first mailing a notice to the consumer giving him seven (7) calendar days to pay the bill in arrears.

**Reinstating Service**

If natural gas service is disconnected for nonpayment, service will be restored after the customer has paid the total amount past due, paid the reconnection charge and paid a deposit.

**Third-Party Notification**

At the customer's request, the Company will send a copy of any disconnection notice to a designated third party. However, the designated third party is not responsible for paying the bill.

**Medical Emergencies and Life Support Devices**

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The Company will delay disconnection of gas service for 30 days if a physician, public health officer or social service official certifies in writing that discontinuing gas service will worsen an existing medical emergency for a permanent resident of the premises where services are rendered. A prompt request is important. During the 30-day extension, payment of the bill must be guaranteed by another person or entity that is acceptable to the Company.

The Company will not disconnect service at the service address if there are natural gas appliances that are critical to maintaining the health of one or more permanent residents. The Customer Service Department must be contacted to determine whether a gas appliance is considered a life-support device.

**Notice of Rights and Remedies**

Should the Customer request help in paying his natural gas bill the Company will provide the customer with a list of community agencies that provide aid in paying their natural gas bill. The company will also, in some cases, make alternative pay arrangements if the customer is temporarily unable to pay his natural gas bill. However, if such an agreement is made the customer gives up their right to dispute the amount due under the agreement. If the customer does not fulfill the terms of the agreement, the Company may disconnect service and a new pay agreement will not be offered before we disconnect service.

If the Customer wants to appeal an unfavorable decision regarding a natural gas bill, they may contact the Tennessee Regulatory Authority's Complaint Division, 460 James Robertson Parkway, Nashville, TN 37219 (615-741-3939 or 800-342-8359). This must be done before the net due date if the dispute involves a disconnection notice. The Company will not disconnect service for nonpayment of the disputed portion of the bill while it is being reviewed. The Customers right to appeal will not expire if delay on the Company's part makes it impossible to contact the TRA within the required time period. The Customer also has the right to suspend payment of the disputed portion of the bill while the dispute procedures mentioned above are in progress.

**Customer Classifications****Residential**

Residential service applies to single private residences, including separate private units of apartment houses and other multiple dwellings, actually used for residential purposes, which are separately metered. A dwelling shall be considered non-residential which has more than one apartment or condo on the same meter. A duplex, for example, shall be considered residential only if each of the two units is separately metered. A residential dwelling will also be considered commercial if in

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the Company's judgment such dwelling and/or usage is identifiable as being used primarily (more than 50%) for business or professional purposes.

**Commercial**

Commercial service applies to customers engaged in selling, warehousing, or distributing a commodity or service in some business activity or profession or in some other form of economic or social activity. For example, and not by way of limitation, all local, state and federal governmental agencies, any organizations or institutions whether profit or non-profit, with uses other than those involving industrial or residential requirements are classified as commercial customers. Also included are offices, stores, schools, dormitories, hotels, restaurants, apartment houses, religious institutions, orphanages, clubs, boarding and rooming houses, communes, motor courts, camps, and rehabilitation organizations.

**Industrial**

Industrial service applies to customers primarily engaged in a process that creates or changes raw or unfinished materials into another form of product, including the generation of electric power.

**Firm Service**

Firm service applies to those schedules or contracts under which the Seller is expressly obligated to deliver specific volumes within a given time period and under which the Seller anticipates no interruptions. This obligation does permit unexpected interruption in those cases where the supply to higher priority customers is threatened.

**Interruptible Service**

Interruptible (Limited Availability) service refers to those schedules or contracts under which the Seller is not expressly obligated to deliver specific volumes within a given time period. This category of service anticipates and permits interruption on short notice, or service under schedules or contracts that expressly or implicitly require installation of alternate fuel capability.

**Priority of Service**

The Company has established the following categories of service in order of priority:

1. Residential, small commercial (less than 50 MCF on a peak day), school, hospital, police protection, fire protection, sanitation, or correctional facility requirements
2. Essential agricultural requirements



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3. Large commercial requirements (50 MCF or more on a peak day), firm industrial requirements for plant protection, feedstock and process needs, pipeline customer storage injection requirements, and firm industrial sales up to 300 MCF per day
4. All industrial requirements not specified in 2, 3, 5, 6, 7, 8, 9 or 10
5. Firm industrial requirements for boiler fuel use at less than 3,000 MCF per day, but more than 1,500 MCF per day, where alternate fuel capabilities can meet such requirements
6. Firm industrial requirements for large volume (3,000 MCF or more per day) boiler fuel use where alternate fuel capabilities can meet such requirements
7. Limited Availability requirements of less than 300 MCF per day, where alternate fuel capabilities can meet such requirements
8. Limited Availability requirements of more than 300 MCF per day but less than 1,500 MCF per day, where alternate fuel capabilities can meet such requirements
9. Limited Availability requirements of intermediate volumes (from 1,500 MCF per day through 3,000 MCF per day), where alternate fuel capabilities can meet such requirements
10. Limited Availability requirements of more than 3,000 MCF per day, but less than 10,000 MCF per day, where alternate fuel capabilities can meet such requirements
11. Limited Availability requirements of more than 10,000 MCF per day, where alternate fuel capabilities can meet such requirements.

**Meter Turn On**

There is no charge for meter turn on for a new customer. There will be a flat charge for meter turn on for an existing customer or member of same family or household. For turning on meters shut off for non-payment of bills there will be a flat charge for meter turn on plus payment of all past due bills. The Company may also secure an additional customer deposit. If an existing customer requests that his/her meter be turned off for the summer to avoid minimum bills during the summer period and then requests the Company to turn the meter back on, the flat charge for meter turn on will apply.

**Gas Wastage** (1220-4-5-.06(iv))

Excessive gas consumption without knowledge by the customer may possibly be the result of gas leakage or appliance malfunction. Gas bill adjustments generally will not be permitted for improper and/or inefficient operation of gas appliances or for gas leaks. Adjustments for all special cases will be based upon individual merit dependent upon such factors as prompt action by the customer, the nature of the problem, maintenance of facilities by the customer, the time period involved, etc. An example might possibly be a

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hot water relief valve stuck open or a broken hot water line on a gas water heater. All such special adjustments shall not exceed 35% of the wastage and shall be approved by the Director of Customer Service (residential) or the General Manager of Marketing (commercial). Wastage shall be based on Service Department inspection or Customer Service Department researches. The Director of Customer Service shall determine consumption rates. Duration of the adjustment shall not exceed 30 days. Where such gas appliance malfunction or gas leakage was directly caused by actions of Company personnel or occurred within 30 days of the date the work was performed by Company personnel, the Company will grant 100% credit of wastage to the customer. The amount of wastage will be approved by the Service Superintendent and not exceed a period of 30 days.

## **Title to Facilities**

The title to all facilities including mains, gas service lines, meters, and accessory equipment up to and including the outlet of the meter assembly shall be vested in the Company, notwithstanding any charge which may be made to the customer for extending service.

## **Appliance Classifications**

### **Major appliances**

- central heating systems
- circulating heater\*
- floor furnaces
- gas air conditioners
- water heaters

\* A circulating heater will be considered as a major appliance when it has all of the following features:

1. Has an input rating of 40,000 BTU per hour or greater (two or more smaller vented circulating heaters having a combined output of 40,000 BTU or more will be considered as one major appliance)
2. Is used for heating throughout the heating season
3. Is the major source of space heating in the building

### **Minor appliances**

- clothes dryers
- gas fireplaces
- gaslights
- grills

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- incinerators
- log starters
- logs
- ranges
- swimming pool gas water heaters

## **General Installation / Connection & Repair Policy**

The following regulations are applicable for residential natural gas appliance connections on Nashville Gas lines. The delivery and uncrating of the appliance is the responsibility of the customer/dealer. The connection/installation of commercial and/or industrial gas appliances is the responsibility of dealer. All natural gas appliance installations on Nashville Gas lines shall comply with the provisions of the Southern Gas Code (SBCCI), as updated. All appliances must also be AGA approved. The Company reserves the right to refuse to connect those appliances which, in its judgment, do not conform to appropriate safety requirements.

## **Space Heaters and Central Heating**

The Company will provide free of charge: a service call to diagnose the problem, gas and air adjustments on burners and pilot assemblies, adjustments to controls and thermostats, and minor electrical repairs not requiring material. The Company shall not make repairs to gas furnaces other than pilots, thermocouples, or other parts we normally stock. A heating contractor, preferably the one who installed the equipment, will perform such repairs. The Company does not install air filters. The Company will make repairs to gas heating equipment that was installed by the Company. Such repairs will be charged to the customer on a "Time and Material" basis or at a flat charge if so provided for herein.

**A Gas Furnace Safety Inspection** is provided without charge by the Company and covers the following:

1. Check for gas leaks at the meter and on the customers' gas fuel lines.
2. Check furnace vent.
3. Safety inspection of the gas fired equipment to ascertain that safety and other limit controls are operating correctly.
4. Safety inspection of the furnace combustion chamber to determine if cracked or unsafe.

**A Gas Furnace Operational Inspection** is provided at the request of the Federal Housing Authority, Veteran's Administration, HUD, real estate/mortgage firms, or other parties interested in a more thorough operational inspection of the gas fired heating equipment. Such requests should be initially referred to the Marketing Department. There is a charge for this inspection that includes the following:

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1. Check for gas leaks at the meter and on the customers' gas fuel lines.
2. Check furnace vent.
3. Safety inspection of the gas fired equipment to ascertain that safety inspection and other limit controls are operating correctly.
4. Inspection of the combustion chamber for safety (check for cracked chamber) and for operational purposes to determine the condition of furnace.
5. Calculate actual equipment input rate (Btu/h) to determine if the burner is operating in accordance with the manufacturers' instructions and rating plate.
6. Make an inspection of the air delivery system to check for the condition of ductwork and delivery of reasonable air volumes.
7. Provide a written report to the client on findings of Operational Inspection.

**Automatic Vent Dampers**

Automatic vent dampers that are AGA certified and UL listed are acceptable. Dampers must be installed in accordance with the manufacturer's instructions. The name of the qualified installing agency must be affixed to the damper. The vent damper must be so installed and wired so that upon failure it will "fail safe" in the open position. If not, the damper and the associated gas appliance will be red-tagged and turned off. The Company will not install, repair, or provide service on the damper installation. In the instance of a malfunction or a retrofit damper installation, the Company will secure the damper in a "make safe" position and advise the customer to secure repair through the distributor, manufacturer, or installing dealer. The Company does not endorse any specific brand unit and does not endorse or guarantee any claimed energy savings.

**Unvented Gas Heaters**

The use of UL listed unvented natural gas space heaters is permitted in accordance with the Southern Gas Association Code. However, they may not be located in bedroom areas or sleeping quarters, nor in confined areas where the listed total input rating of such heaters is greater than 30 BTU/HR/CF of space volume (confined space definition).

Further, the gas meter will not be turned on in the following cases:

- Where unvented heaters are the primary source of heat in a residence
- Where unvented heaters are the primary source of heat in commercial or industrial structures unless specifically approved by the Service Superintendent or General Superintendent as being unconfined space and adequately ventilated

**Gas Air Conditioning**

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On Arkla, Bryant, and other gas-fired air conditioning units connected to our lines, the Company will provide the following services without charge to the customer:

1. Make service call to diagnose the problem.
2. Perform gas and air adjustments to all burners and pilot assemblies.
3. Check thermostats and controls.
4. Pumping of water-cooled units in order to maintain operations.
5. Purging of non-condensables from air-cooled units.

Other than that described above, and unless specifically covered under appropriate customer Warranty/Service Contract, service work involving repair or parts replacement will be charged to the customer on a "Time and Material" basis. The General Manager of Marketing or the Service Superintendent will determine any exceptions. On request by customer, the Company will replace air filters on gas air conditioning system on our lines for a flat charge, regardless of the number of filters required per job. This will apply to plain flat filters only, not bag or other types.

**Water Heaters**

All installations of and repairs on water heaters purchased from Nashville Gas will be charged on a "Time & Material" basis. The Company will provide dip tube replacement, thermostat control, and other repairs to the residential customer for a charge based on "Time & Material". For repairs of commercial gas water heaters, the customer is to be referred to local dealer or plumber.

**Dryers**

Installations of and repairs on residential gas clothes dryers will be charged on a "Time & Material" basis. Repair requests on commercial gas clothes dryers, other thermocouples or other parts normally stocked by our storeroom, will be referred to the appropriate dealer for servicing.

**Gas Grills**

The Company, as part of its free service program, will make burner air and gas adjustments, check controls, and assist in problem diagnosis on a no-charge basis. Installations of and repairs on gas grills will be charged on a "Time & Material" basis. Cleaning and painting of the grill will be the responsibility of customer. The Company may also perform the following:

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1. **Post Replacement:** Gas grill posts will be replaced for "Time and Material." If a special post must be fabricated, the cost of the installation and post will be "Time and Material."
2. **Repairs to Cut or Damaged Tubing:** If repair to tubing is performed by the Company, the charge will be "Time and Material". A service representative can sometimes perform this work, but generally a three-man fitting crew is required.
3. **All Other Repairs –** All other repairs will be performed at "Time and Material".

**Gaslights**

With regard to gaslights, the Company will turn on, re-light and replace mantles without charge to the residential customer. Should the residential customer wish to replace the mantles himself, the Company will, upon request, mail to him replacement mantles for residential use in his gaslights without charge. Residential customers may also pick up free replacement mantles for use only in their gaslights at the Company's storeroom. The same gaslight service policies apply to commercial/industrial customers except they will be charged for the mantles. Subdivision entrances and multi-family developments do not qualify for residential use. Services do not include the painting of gaslights or glass cleaning; these are considered the owner's responsibilities.

The Company will recondition the customer's gaslight, including replacement of mantles, cleaning and/or replacement of glass panes as required, and painting repair of gaslight as necessary, for a flat labor charge plus cost of replacement parts (other than mantles). In the case of multiple gaslights on the same piece of property, the labor charge shall apply only to the first light. For each additional light on the same property, an additional charge plus parts (other than mantles) will apply. The same policy applies to commercial customers except they will also be charged for mantles. Installation of and repairs on gaslights will be charged on a "Time & Materials" basis. The Company may also perform the following:

1. **Post and/or Light Head Replacement:** Post only replacement will be performed by the company on a "Time & Material" basis. All customers needing to purchase a gaslight head will be referred to the Home Energy Center.
2. **Repairs to Cut or Damaged Tubing:** If repair to tubing is performed by the Company, the charge will be "Time & Material". A service representative can sometimes perform this work, but generally a three-man fitting crew is required.
3. **Complete Replacement:** The customer shall be referred to the Company's Home Energy Center. If the customer provides a replacement light head and post of the same basic type, the Company will connect the replacement, charging the customer on a "Time & Material" basis.

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4. All Other Repairs: Other repairs will be performed on a "Time & Material" basis.

**Gas Logs & Log Starters**

All installations of or repairs on gas logs and log starters will be charged on a "Time & Material" basis.

**Other Miscellaneous Residential Gas Appliances**

All installations of or repairs on other approved gas appliances will be charged on a "Time & Material" basis.

**Customer Options**

In those instances where a flat charge for connection/repair is listed, the customer may elect prior to our performing the work involved to be charged on a "Time & Material" basis rather than the flat charge. However, having elected to take the T&M option, after the work is completed that decision cannot be reversed and customer will be charged on the "Time & Material" basis. All customer charges described herein are subject to change by the Company.

**Appliance Parts Broken by Company Personnel**

From time to time when our service personnel are repairing a customer's gas appliance, other adjacent parts become broken during the course of the repair. Such instances leave a question as to whether the customer should be charged for that additional part. Such decisions shall be at the discretion of the supervisor involved. The following guidelines should be of assistance.

**No Charge to Customer**

1. Breakage caused by negligence on part of our personnel. In such cases, the employee will be counseled to avoid repetition.
2. Accidental breakage of part considered "relatively new" and our representative was using care and attention to work procedures.

**Charge to Customer**

1. Parts that may be broken after customer first being warned that we will use care in repair but the customer will be responsible for all parts involved. If the service representative has doubts about the condition of the appliance, he should so warn the customer initially.
2. Any parts broken which are not "relatively new" and in process of normal repair with our representative using reasonable care in work procedures. Where we

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make a mistake we'll stand behind it, but we will not unilaterally absorb the cost of other parts broken, they will be considered part of the job.

**Sales to Employees**

The following is applicable for active permanent employees, retired employees and retiree's surviving wife or husband until such time as survivor remarries:

1. Employees may purchase Natural Gas Appliances and accessories at cost from the Home Energy Center. Appliances must be purchased for use only in the employee's own home.
2. Pipe, pipe fittings and similar material carried in stock by the Company may be purchased by employees at warehouse cost, but these also must be used in the employee's own home. The employee's department head must approve purchases exceeding \$15.00. Each month, a list of employee purchases will be supplied to the employee's department head. Each purchase must be released to personnel for documentation and approved by the Customer Service Department if financing is requested.
3. Central gas HVAC systems purchased through Qualified Gas contractors and financed through the Nashville Gas Financing Program will be financed at the lowest rate available to customers. (Presently 8.9%) The units must be installed in the employee's own home.

There is no intent in these rules for employees to unfairly benefit from Company discounts. The giving of false information to obtain a discount from the Company will be considered a cause for discipline.

When an employee purchases a qualifying residential natural gas appliance from the Home Energy Center for connection on Company gas lines for use in his own home, the Company will provide normal installation at cost with no mark up to the employee. Qualifying residential natural gas appliances are as follows:

- Gas Dryer
- Gas Range, Cooktop, or Walloven
- Gas Grill
- Gas Water Heater
- Gas Space Heaters
- Gas Logs or Log Starter
- Gaslight

Appliances purchased elsewhere will be installed at the normal installation charges as set forth in the service Rules and Regulations Manual. Floor furnaces, central heating and cooling equipment, including pre-vent heaters and wall furnaces, commercial appliances, and pool heater installations are also not qualifying and should be referred to plumbing or



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mechanical contractors. Relocation of the above listed applicable natural gas appliances, within an employee's own home, will be performed at cost of labor and materials, but no overhead will be charged.

Residential appliance repair on natural gas appliances in use by employee in his own home on Company lines will be performed by the Company with the employee being charged only for the cost of materials with no overhead. Replacement of furnace combustion chambers is not included in this program. Warranty repair work for an appliance obtained from a dealer and still in warranty will be performed by the dealer. The Vice President of Tennessee Operations and the Superintendent of the Service Department will resolve any questions or interpretations of the above policies.

**Liquid Propane Conversion to Natural Gas**

Any new conversion customer converting from liquid propane (LP) to natural gas will receive gas service line and meter installation on the same basis as any other residential or commercial customer. The fuel lines and any other required conversion labor and materials from the meter to the gas equipment will be the responsibility of the customer. Contractors other than Nashville Gas must perform these conversions.

**Residential**

Conversion of AGA approved residential gas dryers, grills, logs, and ranges from LP to natural gas is available for a flat charge for each appliance. This charge is to include change of burner orifices and addition or modification of gas appliance pressure regulator. Where a burner cannot be converted and new burner is required, the conversion charge will be "Time and Material." The charge for conversion of more than one of these appliances at the same time, shall be "Time and Material". Conversion of furnaces or other appliances will be done on "Time and Material" basis.

**Commercial**

Conversion of AGA approved residential gas appliances or commercial gas appliances in a commercial structure will be performed on a "Time and Material" basis. Service line and meter installation will be on the same basis as any other new customer. Any necessary fuel line, house piping and appliance connection will be done on a "Time and Material" basis.

**Temporary Conversions to Liquid Propane**

When deemed necessary by Nashville Gas, new construction and conversion customers will be temporarily converted to liquid propane at no charge. The conversion back to natural gas will also be performed by Nashville Gas at no charge.



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# **Nashville Gas Company Service Regulations**

## **Section 2 – METERS**

### **Installation & Location**

The Company performs standard meter installation at no charge to the customer. However, a customer desiring an underground meter installation will be charged for the additional cost. The most desirable and serviceable location for a new residential meter installation is on the outside of the structure, approximately four feet past the front wall, where it is not subject to damage from automobiles. The new meter shall be so located unless it is physically impractical or it interferes with customer's use of his property. If a problem arises, the Service Superintendent and General Manager of Marketing will make a decision on a location after consulting with the Construction Superintendent. Underground meter locations will not be used except as approved by the Vice President of Tennessee Operations.

The proper meter location for large outside commercial or industrial meters, especially those having multiple structures, is at the property line wherever possible. Under no circumstances shall a meter be located within 10 feet of a combustion air intake. Further, meters shall not be located within 3 feet of an ignition source such as heating or air conditioning equipment, water heaters, electric meters, switch gear, electric panels, etc.

The customer or owner must at all times provide a proper and accessible location for all meters and regulators. The following rules apply as well:

1. All meters installed on high-pressure services must be installed outdoors.
2. All "farm tap" meters shall be located at the main.
3. All meters served from standard and medium pressure mains shall be installed outdoors, except in those instances in which it is extremely difficult to do so or is very undesirable from the customer's viewpoint. In such cases, the meter may be installed indoors, at the discretion of the Company, if the installation conforms to applicable codes.
4. If a customer desires to use gas solely for swimming pool water heating, the meter shall be located at the house and the fuel line run from this point to the pool heater.
5. If located indoors, the meter shall not be located:
  - a. Above the ground floor
  - b. Less than 3 feet from a hot air furnace or boiler
  - c. Less than 3 feet from a gas oven or hot water heater
  - d. On or under stairways
  - e. In bathrooms or adjoining clothes closets
  - f. In small, unvented, or confined spaces

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- g. Where subject to damage, extreme high temperature, or corrosion
- h. In entrances or exits so as to obstruct passage in any way
- i. Less than 10 feet from boilers or other sources of heat, if the meter capacity is 80B or larger

**Meter Relocation**

Outside meters will be relocated when requested by the customer, however, the customer will be charged Time and Material.

**Meter Testing**

The Company maintains a regular program of meter testing and change-out to insure metering accuracy. Upon written request from the customer for a special test of his meter, the Company will inspect the meter at a reasonable time in accordance with provisions of Rules, Regulations and Statutes Governing Public Utilities as issued by the Tennessee Regulatory Authority. Such meters will be considered to register correctly if the error is not greater than plus or minus two percent (2%). If the meter is found to be registering incorrectly, the meter will be repaired or adjusted to conform to standards with no charge to the customer for testing or repair. If the meter is registering correctly, there will be a meter testing charge to the customer.

**Meter Tampering or By-pass**

The term "metered gas" is defined as "all gas that has passed through the customer's meter." It is Company policy to prosecute those persons involved where the Company finds evidence of meter tampering or by-pass. Such acts are illegal, as well as extremely dangerous, and Tennessee State Law provides for substantial punishment. In such cases, the customer or party involved will be charged for all gas used and the cost of meter repair including travel time and all other related expenses on a "Time and Materials" basis. At the Company's option, gas service may also be terminated. The Regional Customer Service Manager, the Manager of Meter Reading, and the Service Superintendent will handle such investigations.

**Meter Damage**

The customer has a responsibility to provide reasonable protection for the Company's metering facilities from damage by his employees, customers, and the general public. It is not, however, his equipment and he cannot be expected to provide security such as guards, surveillance, enclosures, etc. to protect the Company's meters from acts of vandalism or from the general public. The Company selects and approves meter locations.

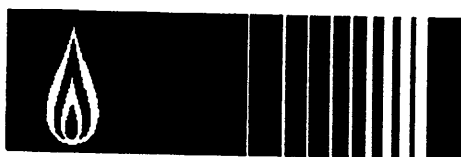
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If a location is in a drive, parking lot, alley, etc. where damage is likely, then it is the Company's responsibility to provide adequate protection such as posts, etc. In cases where the Company's metering facilities are damaged, the Service Department shall conduct investigations of the incidents. The Chief Engineer will approve all proposed meter damage bills after consultation with the General Manager of Marketing and the Service Superintendent. With regard to actual damage responsibility, the following applies:

1. If the customer or his employees cause damage (accidentally or purposely), then the customer should be billed for damages.
2. If a visitor, commercial vehicle, or general public vehicle damages a meter, damage relief should come from that person or firm causing the damage. Damage relief shall not come from the customer, unless it can be proven that the damage by a third party resulted from negligence on the customer's part.



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## **Nashville Gas Company Service Regulations**

### **Section 3 – FUEL LINES**

Customer gas fuel lines installed on Company mains shall comply with provisions of the Southern Gas Code (SBCCI), the appropriate gas code recognized by the Metropolitan Government of Nashville and Davidson County, Nashville Gas, or other county regulations. The care and maintenance of all customer-owned underground fuel lines is the responsibility of the customer. All piping carrying metered gas is considered a fuel line. When in place in a finished building, hidden from view and not easily accessible, the piping is considered a concealed fuel line. All fuel lines will be (a) standard threaded and coupled or welded steel minimum schedule 40 pipe (depending on operating pressure), or (b) plastic pipe or tubing of the following types: TR-418 PE 2306 – orange color, Drisco 7000 or 8000 PE 3406 – black color, or approved equal.

#### **Fuel Lines May**

- Be installed underground in accordance with applicable codes to include corrosion protection.
- Be installed to serve any number of buildings if all the buildings are located on a single or continuous tract of land with common ownership.
- Be concealed if installed in accordance with applicable codes.

#### **Fuel Lines May Not**

- Be smaller than 1-1/4" coated steel or 1-1/8" x.090 wt Polyethylene (PE) tubing if installed underground (unless serving only gaslights, grills, or logs). Fuel lines to remote heating units may be smaller as approved by the Service Department. The Service Department will determine the size of fuel lines for mobile homes.
- Extend to or across property under different ownership.
- Cross any public street, alley, or highway. Fuel lines shall be sized to have a minimum pressure drop between the meter outlet and any appliance of 0.3-inch water column. Those fuel lines served from standard pressure distribution systems will be sized on 0.2-inch water column pressure drop.

#### **Installation Charges**

All fuel lines will be installed at the customer's expense with one exception: when determined necessary, the Company may choose to install a fuel line instead of a service line. In this event, ownership with maintenance responsibility shall remain with the customer. In such cases, footage of fuel line installed shall be equal to the footage of

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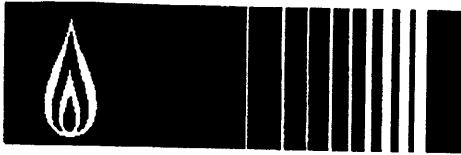
**Section 3 – Fuel Lines**

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service line that would be "free service" if the customer were served in the usual manner (a "farm tap" customer is an example). Charges for residential underground fuel lines will be "Time & Material." Pre-installation estimates may be obtained from the Service Department (for plastic tubing) or the Construction Department (for all other underground fuel lines). The customer at his expense will replace any sidewalk or pavement cut. The customer will be charged "Time and Materials" for all fuel line repairs (excluding tubing to gaslights and grills) made by the Company.

**Commercial or Industrial Fuel Lines**

Commercial or Industrial fuel line piping work requests shall be referred to local plumbing contractors, except in special cases as approved by the Superintendent of Construction and the General Manager of Marketing. If the Company installs a customer's underground fuel line, the charge will be "Time and Materials."



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# **Nashville Gas Company Service Regulations**

## **Section 4 – SERVICE LINES**

Service lines are pipes used to carry unmetered gas from the main to the customer's meter. The preferred route of the service line will be from the nearest adequate main to four (4) feet beyond the customer's nearest building wall. Service lines, service relocations, and extensions may be installed in accordance with applicable codes by either the Company or by a contractor approved by the Company. The complete installation must be inspected and approved, prior to being backfilled, by the appropriate Company representative. In general, service lines should not be laid on vacant property adjoining the building to be served if there is likelihood that a building will be constructed on the vacant property. Service line installation policies are subject to conditions of gas supply and the Company's limited service attachment programs.

## **Customer Types**

### **Residential**

The Company will install free of charge 100 feet of service line for one major appliance where no main extension is required. An additional 50 feet of service line shall be installed free of charge for each additional appliance. These footages refer to the service line between the customer's property line and four (4) feet past the nearest outside building wall. The customer shall replace any sidewalk or pavement on his property that is cut.

For service lines to supply appliances not included as major appliances, the customer shall be charged the Company's actual cost for the entire length of the service line from the main to the meter. However, this rule shall not be construed as prohibiting the Company from installing service lines for certain groups of minor appliances as long as the installation is made under more favorable terms to the customer and no discrimination is practiced between customers whose service requirements are similar.

### **Commercial or Industrial**

For permanent use and where revenues justify, the Company will install free of charge 100 feet of service line measured from customer's property line or four feet past the nearest building wall, whichever is less.

**Nashville Gas Company Service Regulations**

Effective July 1, 2000

**Section 4 – Service Lines**

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## **Charges**

The facilities to be installed by the Company as described above will be at no cost to the customer if (1) at a minimum the customer will be installing central gas heating or gas water heating, (2) the gas service line extends along the route selected by the Company and (3) the length of the gas service line is no greater than allowed, as shown above. In the event that the above conditions are not met, the service line installed for the customer must provide a reasonable return to the Company. If the customer wishes the facilities to be constructed along a route other than the route selected by the Company and/or if the gas service line is more than the length allowed above and/or the service to be rendered to the customer will not produce a reasonable return to the Company, the Company may require the customer to pay the excess cost of constructing the facilities along the alternate route or in excess of the footage allowed and/or to make a contribution which will permit the Company to earn a reasonable return. In all cases any pavement or sidewalk cut will be replaced by and at the customer's expense.

## **Exceptions**

In cases where there is exceptional cost due to length of service, paving (such as crossing major street), rock, etc., these service orders shall be reviewed by the Engineering Department on a case-by-case basis to determine if they meet the main extension policy provided in Section 5. The Chief Engineer and the General Manager of Marketing must approve these exceptions.

## **Excess Service**

Excess service refers to that portion of the total cost of a service line installed for a customer that is in excess of the Company's justifiable investment and is that portion of service line cost paid for by the customer. A customer may pay the excess service charge with cash or credit with approval, and may spread the cost over three years on a monthly installment payment basis.

## **Repairs**

Repairs to service lines damaged by others shall be charged at the Company's actual repair costs.

## **Service Extensions**



**Nashville Gas Company Service Regulations**

Effective July 1, 2000

**Section 4 – Service Lines**

Page 3 of 3

A service extension includes all piping carrying unmetered gas from the termination of the previous service line to the inlet of the meter. Service extensions and relocations shall be installed at the customer's expense.

**Branch Services**

Branch services will be permitted only when the point of junction of the two services is either in the public right-of-way or on a customer's property. In the latter case, written and notarized permission of the property owner must be obtained and filed with the Register of Deeds of the appropriate county. In the case of services requiring in-line valves, the service must be branched in the public right-of-way, and the Construction Department must confirm presence of a valve in each branch.

**Multiple Buildings on Same Lot**

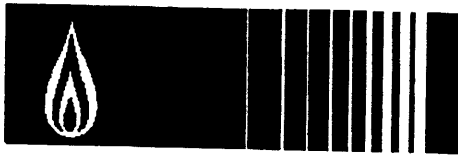
In those cases where two or more buildings are located on the same lot in such a manner as to be reasonably suited to subdividing, the Company will, if requested, run separate service lines to these buildings. However, if the buildings are not so situated (e.g. garage apartments or combination commercial and residential buildings), the Company will not run separate services except where the full cost of the additional service from main to meter, including paving, is borne by the customer.

**Service Line Enlargements**

If the load through an existing service is so increased as to require a larger service line, the Company will enlarge the existing service to a point four (4) feet beyond the customer's nearest outside building wall without charge. Any enlargement of the service line beyond this point will be at the customer's expense. Any fuel line changes will be at the customer's expense.

**Shopping Centers**

A shopping center shall be considered as a single structure containing a minimum of 7,500 square feet of floor space and a minimum of four (4) tenants or business stores operating within the structure. The Company shall install one service line and one bank of gas meters for each 12,000 square feet of floor space. The final number of meter banks shall be at the discretion of the General Manager of Marketing, based upon the size and layout of the particular shopping center under consideration.



**Piedmont  
Natural Gas  
Company**

Section 5  
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## **Nashville Gas Company Service Regulations**

### **Section 5 – MAINS**

The Company has a policy of extending its main(s) to serve a new customer (or customers) provided such main extension is determined to be economically feasible. The criteria for economic feasibility shall be met when the total annual net revenue to be obtained from the customer (or customers) provides a rate of return that is equal to or greater than the overall cost of capital established in the Company's last general rate case.

The determination of the anticipated rate of return on the main extension will be based on a net present value (NPV) computation utilizing the following parameters:

1. Net revenues will be calculated by applying the applicable tariff margin rate to the estimated annual total usage and, where applicable, potential for future growth may be considered.
2. Estimated annual total usage shall be based on those appliances that will be in use during the first five (5) years of service, except as provided in paragraph 3 under "Main Extension Contract".
3. The required investment will be based upon engineering cost estimates as determined by the Company and will include the costs of all facilities required for providing service including material and labor costs associated with the installation of mains, service lines, metering and regulating equipment, easements, rights of way, street crossings, and all other required equipment or facilities.
4. The discount rate shall be equal to the overall cost of capital allowed in the Company's last general rate case adjusted for taxes and depreciation.
5. The discount period shall be equal to the economic useful life of the investment in the mains and services.
6. Main extensions producing a positive net present value at the end of the discount period shall be considered economically feasible.

### **Main Extension Contract**

To the extent the net present value computation produces a negative result:

1. The customer shall pay to the Company an amount equal to the negative net present value at the end of the discount period, plus any additional funds required to provide for the payment of resulting taxes. This payment may be made in a lump sum or in periodic payments (without interest) – annual, monthly, etc.
2. If within three (3) years after the original installation, the customer making the payment adds additional major or minor appliances, the Company will refund to the customer (if

**Nashville Gas Company Service Regulations**

Effective July 1, 2000

**Section 5 – Main Extension Policy**

Page 2 of 2

- paid in advance or credit his account if on extended terms), upon written request, an amount equal to the net annual revenues anticipated to be realized from the usage of the additional appliance(s).
3. If within three years after the original installation additional customers are connected to the main then the Company shall refund (or credit his account) to customers making the payment, upon written request, an amount equal to the net annual revenues anticipated to be realized from the additional customer(s).
  4. In no case shall the customer making the payment be refunded more than he paid.

The above provisions assume that only one customer will make the payments. If two or more customers make the payments, the contract will be adjusted to reflect this fact; for example, if two customers made equal payments and a refund is due because one of the two has added an additional appliance, then the entire refund shall be paid to him.

**Exceptions**

The Company may make exceptions to the main extension rule when system improvements are realized by the extension.

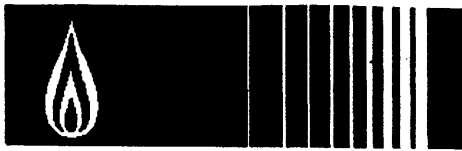
**Main Relocation**

If a customer requests a re-routing or relocation of a main located on a public right-of-way, the customer will be charged for this work. If the main is located on private property, such as an easement, railroad right-of-way, the case will be referred to the Engineering Department for determination as to whether a charge shall be made. The same will apply to relocations or re-routings requested by a contractor. Repairs to mains damaged by a contractor will be charged to the contractor on a "Time and Materials" basis.

**Aboveground Facilities**

If the above-ground facilities (such as post regulators, vent pipe, etc.) are so located that they seriously interfere with, or make impracticable, the owner's use of this property, the relocation of such facility will be done at no cost to the customer. An example of serious interference would be when the aboveground facility was located in front of a proposed narrow driveway. In all other cases, the cost of relocation will be charged to the customer. In those cases where it is difficult to determine whether the customer is to be charged for the relocation, the decision shall be made by the Vice President of Tennessee Operations. The charge, unless specified for any of the above items, will be either of the following, at the customer's option, prior to commencement of work:

1. Estimated cost as determined by the Construction Department
2. Actual cost



**Piedmont  
Natural Gas  
Company**

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Effective July 1, 2000

## **Nashville Gas Company Service Regulations**

### **Section 6 - Rules and Regulations Governing Supply & Consumption of Gas**

The consumer agrees to the following rules and regulations, having made proper application and deposit for service with Nashville Gas Company.

1. Consumer is responsible for damage to any gas meter or equipment belonging to the Company placed on the premises occupied by the consumer and will immediately reimburse the Company for all costs of repairing or replacing same. In accordance with Item (1), Section 1220-4-5-. 18, Reasons for Denial of Service of the Tennessee Regulatory Authority's Rules and Regulations, a consumer may be refused service if consumer has damaged the Company's equipment or tampered with the lock on a meter. The Company will charge \$45.00 for a broken meter lock.
2. Consumer will use gas supplied through Company's meter only. Use of other metering devices or bypassing equipment and tampering or adjustments on company-owned metering facilities by consumer are prohibited. The Company will not permit secondary meter billing.
3. In case the meter has failed to register the quantity of gas consumed, in whole or in part, the consumer will pay such reasonable sum as is ascertained to be due for the period involved.
4. The Company's authorized agents shall have access to consumer's premises at all reasonable times for the purpose of checking, reading, servicing, and disconnecting the meter; shutting off gas; and for such other purposes as the Company may deem advisable to protect its interests.
5. The Company shall be under no duty to inspect, repair, or maintain the service of other pipes, connections, equipment, or appliances located beyond the meter outlet on the premises of the consumer.
6. The consumer shall be liable and shall pay for all gas passing through the meter until it is turned off. When termination of service is requested, consumer must ensure that the Company receives either written or verbal notice at least two days prior to the desired date of termination. Access to the meter must be provided.
7. The consumer is entitled to the usual discount allowed by the Company if bills are paid within the first twelve days following the date bills are rendered. All gas bills are due when rendered and they will be considered as rendered when mailed to the address specified by the consumer. A residential, head of household consumer dependent on social security or other retirement check may request a net to gross

**Nashville Gas Company Service Regulations**

Effective July 1, 2000

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- discount waiver. Qualified consumers will be granted a net to gross discount waiver and the account will be monitored for continuing compliance.
8. The Company shall have the right to shut off gas from any consumer who may be in arrears for a longer period than twenty days in paying for gas furnished hereunder or under any other prior or subsequent agreement, or for gas used by consumer at consumer's present or any prior or subsequent address, it being understood hereby that said twenty day period commences to run from date the bill is rendered as above defined. The Company will not shut off gas for non-payment without first mailing a notice to the consumer giving him seven days to pay for the bill in arrears.
  9. The Company is authorized to require the consumer to make a deposit, or increase any existing deposit, in such amount as the Company deems proper for its protection before restoring gas service. The deposit amount will not exceed two consecutive billing periods or ninety (90) days, whichever is less.
  10. If a consumer is found using gas service without having made proper application and deposit, a notice to the consumer will be delivered to the premises and the consumer will be allowed four days in which to make proper application before the service is discontinued.
  11. All consumer deposits will accrue simple interest on the principal at the rate of six (6) percent per annum.
  12. The Company will charge \$50.00 for turning on a meter for an existing consumer or member of the same family or household at same address. This charge applies only to those consumers who have previously elected to have the meter turned off without discontinuing service or whose account has been closed because of non-payment of a bill.
  13. In the event gas is shut off because of consumer's failure to pay, a charge will be made for each restoration. The Company will charge \$50.00 plus payment of past due gas bills for turning on meters shut off for non-payment of bill. The Company will not be liable for damages for shutting off gas or for delay in restoring service. An additional deposit may also be required.
  14. The consumer agrees to notify Company in advance of any planned change in physical premise or environment around meter or service to determine impact on safety cases, meter reading, and meter maintenance.
  15. In the event the Company is unable, wholly or in part, by reason of force majeure to carry out its obligations to provide service, the obligations of the Company so far as they are affected by such force majeure, shall be suspended during the continuance of any inability so caused but for no longer period, and such cause shall as far as possible be remedied with all reasonable dispatch. The term "force majeure" as employed above shall mean acts of God; extreme weather conditions; strikes, lockouts, or other industrial disturbances; acts of the public enemy; war; blockades;

**Nashville Gas Company Service Regulations**

Effective July 1, 2000

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insurrections; riots; epidemics; landslides; lightning; earthquakes; fires; storms; floods; washouts; arrests and restraints of governments and people; civil disturbances; explosions; breakage of or accidents to machinery, lines of pipe, or the Company's peak shaving plants; freezing of wells or lines of reduction in gas pressure by its suppliers; inability to obtain rights-of-way, permits, materials, equipment, or supplies for use in the Company's peak shaving plants; and any other causes whether of the kind herein enumerated or otherwise, not within control of the Company, and which by the exercise of due diligence the Company is unable to prevent or overcome. It is understood and agreed that the settlement of strikes or lockouts shall be entirely within the discretion of the Company, and the above requirement that any force majeure shall be remedied with all reasonable dispatch shall not require the settlement of strikes or lockouts when such course is inadvisable in the discretion of the Company.

16. When the Company in its discretion determines that it is necessary to curtail service to maintain the integrity of its distribution system or to provide for its or the public's safety, the Company shall have the right to curtail delivery of gas to any consumer.
17. In the event of a failure or interruption of service, the Company shall use all reasonable diligence to remove the cause or causes thereof, but the Company shall not be liable for any loss or damage resulting from such failure or interruption due to accidents, force majeure, extreme weather conditions, or causes beyond its control.

Schedule VI

Nashville Gas Company  
Results of Operations  
For the 12 Months Ending May 31, 2001

| Line<br>No. |                                   |                            |
|-------------|-----------------------------------|----------------------------|
| 1           | Rate Base                         | \$ 235,725,376             |
| 2           | Operating Income at Present Rates | 19,502,031                 |
| 3           | Earned Rate of Return             | 8.27%                      |
| 4           | Fair Rate of Return               | 9.56%                      |
| 5           | Required Operating Income         | 22,535,346                 |
| 6           | Operating Income Deficiency       | 3,033,315                  |
| 7           | Gross Revenue Conversion Factor   | <u>1.629900</u>            |
| 8           | Revenue Deficiency                | <u><u>\$ 4,944,000</u></u> |

**BEFORE THE TENNESSEE REGULATORY AUTHORITY**  
**NASHVILLE, TENNESSEE**

**July 15, 2004**

|   |   |                   |
|---|---|-------------------|
| <b>IN RE:</b>                           | ) |                   |
|   | ) |                   |
| <b>APPLICATION OF NASHVILLE GAS</b>     | ) | <b>DOCKET NO.</b> |
| <b>COMPANY, A DIVISION OF PIEDMONT</b>  | ) | <b>03-00313</b>   |
| <b>NATURAL GAS COMPANY, INC. FOR</b>    | ) |                   |
| <b>AN ADJUSTMENT OF ITS RATES AND</b>   | ) |                   |
| <b>CHARGES, THE APPROVAL OF REVISED</b> | ) |                   |
| <b>TARIFFS AND THE APPROVAL OF</b>      | ) |                   |
| <b>REVISED SERVICE REGULATIONS</b>      | ) |                   |

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**ORDER APPROVING RATE INCREASE AND RATE DESIGN  
AND APPROVING RATES FILED BY NASHVILLE GAS COMPANY**

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This matter came before Director Pat Miller, Director Sara Kyle, and Director Ron Jones, of the Tennessee Regulatory Authority (“Authority” or “TRA”), the voting panel assigned to this docket, at a regularly scheduled Authority Conference held on September 22, 2003, for consideration of the *Application of Nashville Gas Company, a Division of Piedmont Natural Gas Company, Inc. for an Adjustment of its Rates and Charges, For Approval of Revised Tariffs and Approval of Revised Service Regulations* (“*Application*”) filed on April 29, 2003. As more fully described herein, and for the reasons set forth below, the panel voted unanimously to grant the request of Nashville Gas Company (“NGC” or the “Company”) to increase its rates. Additionally, a majority of the panel voted to approve a rate design implementing the increased rates.



**BACKGROUND****NGC's Application**

NGC filed its *Application* together with a proposed tariff for a rate increase on April 29, 2003. In the *Application*, NGC requested that it be allowed to earn an overall rate of return of ten and twenty-three one hundredths percent (10.23%) and a twelve and six-tenths percent (12.6%) return on equity during the attrition year ending October 31, 2004. The Consumer Advocate and Protection Division of the Office of the Attorney General ("Consumer Advocate" or the "CAPD") filed a petition to intervene on May 14, 2003. In support of its *Application*, NGC filed sworn testimony, together with exhibits, of the following witnesses: Thomas E. Skains, President and Chief Executive Officer of Piedmont Natural Gas Company; Chuck Fleenor, Vice President of Planning and Rates of Piedmont Natural Gas Company; Bill R. Morris, Director of Corporate Planning and Corporate Development of Piedmont Natural Gas Company; David Carpenter, Director of Rates of Piedmont Natural Gas Company; and Donald A. Murry, Economist with C. H. Guernsey & Company, Oklahoma City, Oklahoma.

NGC's *Application* was considered at a regularly scheduled Authority Conference held on June 2, 2003, at which time the panel voted unanimously to suspend NGC's proposed tariff, convene a contested case, grant the intervention of the Consumer Advocate, and appoint Director Pat Miller as the Hearing Officer in this proceeding for the purpose of preparing this matter for hearing. The Hearing Officer conducted a Status Conference on June 17, 2003 and thereafter, by way of an order issued on June 18, 2003, established a procedural schedule for discovery and the filing of testimony and set this matter for hearing on September 9 and 10, 2003.

On June 26, 2003 NGC filed a letter revising and amending the Service Regulations previously filed as part of their *Application*. On August 1, 2003 Associated Valley Industries, Inc. ("AVI") filed a petition to intervene. On August 7, 2003 NGC filed a request to modify the procedural schedule without modifying the hearing dates set by the Hearing Officer's June 18, 2003 order. On August 8, 2003 the Hearing Officer issued an order modifying the procedural schedule as requested and maintaining the September 9 and 10, 2003 hearing dates. A separate Notice of the September 9 and 10, 2003 hearing dates was also issued on August 8, 2003. On August 13, 2003 the Hearing Officer issued an order granting AVI's petition to intervene.<sup>1</sup> Thereafter NGC and the Consumer Advocate conducted discovery in the form of interrogatories and requests for production of documents pursuant to the Hearing Officer's procedural schedule.

A Status Conference was held on September 8, 2003. During the Status Conference, counsel for NGC and the Consumer Advocate confirmed that they had reached a tentative settlement of the case and were in the process of reducing the settlement to a written agreement. Thereafter counsel for the parties requested that the Hearing begin at 3:00 p.m. the next day rather than at 9:00 a.m. as originally scheduled. The Hearing Officer granted the parties' request and rescheduled the Hearing to begin at 3:00 p.m. on September 9, 2003.

### **The Hearing**

This matter came before the panel of Directors for Hearing on September 9, 2003. Participating in the Hearing were the following parties and their respective attorneys:

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<sup>1</sup> AVI was served copies of all filings in this docket but did not actively participate in this docket

**Nashville Gas Company, a Division of Piedmont Natural Gas Company, Inc.** – R. Dale Grimes, Esq., Bass, Berry & Sims, PLC, AmSouth Center, Suite 2700, 315 Deaderick Street, Nashville, Tennessee 37238 and James H. Jeffries IV, Esq. and Jerry Amos, Esq., Nelson, Mullins, Riley & Scarborough, L.L.P., Bank of America Corporate Center, Suite 2400, 100 North Tryon Street, Charlotte, North Carolina 28202;

**Consumer Advocate and Protection Division** – Timothy C. Phillips, Esq. and Joe A. Shirley, Esq., Office of the Attorney General, P.O. Box 20207, Nashville, Tennessee 37202.

AVI did not participate in the Hearing.

During the Hearing counsel for the parties submitted the *Stipulation*, reflecting the settlement agreement of the parties, for the consideration of the panel. The *Stipulation* was also filed in the docket file on September 9, 2003. The *Stipulation* contained the following language:

The parties to this settlement have engaged in substantial discovery and have undertaken extensive discussions to resolve all known disputed issues in this case. In addition, the Staff of the Authority has engaged in discovery. As a result of the information obtained during discovery and the discussions between the Company and the CAPD, the parties to this stipulation have agreed to adjustments to revenues, expenses, net operating income, net operating income for return, rate base and return on rate base. These adjustments reduce the Company's additional revenue requirements from \$18,315,475 to \$10,300,000. The Staff of the Tennessee Regulatory Authority has identified certain adjustments which the parties agree are included in the \$10,300,000 settlement amount.

The parties agree that the adjustments referred to [above] include the following: (a) reduction to correct meter reading errors in the test period; (b) increase to include uncollectibles expense; (c) reduction to correct accumulated depreciation; (d) increase to include gas odorant costs; (e) decrease to remove certain consulting fees; (f) increase to reflect additional coverage and cost of directors and officers liability insurance; (g) decrease to reduce pension expense to reflect updated pension contributions; (h) increase to recognize new rate for state excise taxes; (i) decrease to reflect lower carrying charges for gas inventory; (j) decrease to eliminate short-term incentive bonus; and (k) decrease to eliminate GTI funding. The elimination of GTI funding from expenses in this case is not intended to prevent the Company from making contributions to GTI.

The parties were unable to reach an agreement as to various capital structure, cost of capital and rate of return issues; however, the parties agree that the increase of \$10,300,000 results in reasonable rates.

The parties to this settlement jointly recommend to the Authority that the Authority issue an order authorizing the Company: (a) to increase its rates to produce additional revenues of \$10,300,000 effective November 1, 2003; (b) to implement the revised rates attached hereto as Schedule I effective November 1, 2003; (c) to use the fixed gas costs set forth on Schedule II attached hereto in future true-ups of gas costs under the Company's Purchase Gas Adjustment (PGA); (d) to use the "R" values, base load factors and heat factors set forth on Schedule III attached hereto in future rate adjustments under the Company's Weather Normalization Adjustment (WNA); (e) to implement the revised tariffs attached hereto as Schedule IV effective November 1, 2003; and (f) to implement, effective November 1, 2003, the revised Service Regulations filed with the Authority on April 29, 2003, as amended by letter filing of June 26, 2003.

The parties hereto agree that the revised rates and tariffs agreed to herein are fair and reasonable to all customer classes and will provide the Company with a reasonable opportunity to recover the agreed upon additional operating revenue requirement and a reasonable rate of return on investment. The parties further agree as follows: (a) the Company's rate base is \$259,859,927; (b) the Company's existing rates will permit it to earn an operating income of \$15,602,432; (c) to earn a reasonable return on its investment, the Company should be permitted to earn an operating income of \$21,880,206; (d) unless changed, the Company's existing rates will cause the Company to have an operating income deficiency of \$6,277,774; (e) the gross revenue conversion factor is 1.640709; (f) the revenue deficiency is \$10,300,000 ( $\$6,277,774 \times 1.640709$ ); and (g) the fair rate of return on investment is within the range of 8.0% to 9.0%.

At the outset of the Hearing, the attorneys for the parties each expressed their respective clients' support for the *Stipulation*. After hearing from the parties, the Directors voted unanimously to continue the Hearing until September 22, 2003 at which time the panel would deliberate the merits of the *Stipulation* following the regularly scheduled Authority Conference.

After the September 9, 2003 Hearing, and prior to the resumption of the Hearing on September 22, 2003, the Consumer Advocate and NGC filed responses to data requests regarding the *Stipulation* issued by the Authority.<sup>2</sup>

The panel reconvened on September 22, 2003 and deliberated the merits of the *Stipulation*. Thereafter the panel voted unanimously to approve the requested rate increase as modified by the *Stipulation*. A majority of the Directors voted to approve the rate design set forth in the *Stipulation*.<sup>3</sup>

### **Criteria For Establishing Just And Reasonable Rates**

The Authority considers Applications for a rate increase, filed pursuant to Tenn. Code Ann. § 65-5-203, in light of the following criteria:

1. The investment or rate base upon which the utility should be permitted to earn a fair rate of return;
2. The proper level of revenues for the utility;
3. The proper level of expenses for the utility; and
4. The rate of return the utility should earn.

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<sup>2</sup> See Letter from William H. Novak, Chief, Energy and Water Division to R. Dale Grimes, Esq., Counsel for Piedmont Natural Gas Company, Mr. Bill Morris, Director of Corporate Planning & Development; and Timothy Phillips, Esq., Assistant Attorney General, Office of the Attorney General, Consumer Advocate Division (September 11, 2003). Letter from Ron Jones, Director, Tennessee Regulatory Authority to R. Dale Grimes, Esq., Counsel for Piedmont Natural Gas Company; Mr. Bill Morris, Director of Corporate Planning & Development, and Timothy Phillips, Esq., Assistant Attorney General, Office of the Attorney General, Consumer Advocate Division (September 12, 2003). *Response to TRA Data Request Dated September 11, 2003* (September 15, 2003). *Response to TRA Data Request Dated September 12, 2003* (September 16, 2003). Letter from James H. Jeffries IV to Pat Miller, Director, Tennessee Regulatory Authority (September 16, 2003). Letter from James H. Jeffries IV to Ron Jones, Director, Tennessee Regulatory Authority (September 16, 2003) (There are two letters from James H. Jeffries IV addressed to Director Ron Jones and filed on September 16, 2003 responding to separate data requests).

<sup>3</sup> Director Jones declined to vote with the majority with regard to the rate design portion of the *Stipulation*. Director Jones could not find any basis in the *Stipulation* for dividing the residential class into two different classes that did not exist prior to the filing of the *Stipulation* or with one class bearing more of the demand reallocation than another and no part of the demand reallocation being placed on special contract customers. See Transcript of Proceedings, p. 71 (September 22, 2003).

**Findings and Conclusions**

After reviewing the record, including all exhibits, the TRA makes the following findings and conclusions.

**Test Period**

The objective of selecting a test period is to obtain financial data and adjust it as necessary to reflect the inter-relationship of revenues, expenses and investment expected to occur in the immediate future. In this case, the Company selected the twelve months ended December 31, 2002, as the historical test period and made two levels of adjustments. The first adjustment normalizes the test year and the second adjusts the normalized year to arrive at the forecast for the attrition year, which is the twelve months ending October 31, 2004. The *Stipulation* between the parties as to this issue is adopted. The TRA therefore finds that this attrition period will allow the Company the opportunity to earn a fair rate of return on its investment.

**Rate Base**

The parties stipulated as to a rate base for the attrition year in the amount of \$259,859,927, as detailed below. The TRA finds that the rate base in this case has been adjusted to reflect the investment and expenses of the Company for the attrition year test period and therefore is proper and should give the Company the opportunity to earn a fair rate of return on its investment to which it is entitled.

**Additions:**

|                               |                             |
|-------------------------------|-----------------------------|
| Utility Plant in Service      | \$468,507,509               |
| Construction Work in Progress | 6,536,531                   |
| Working Capital               | 12,201,210                  |
| <b>Total Additions</b>        | <b><u>\$487,245,250</u></b> |

**Deductions:**

|                                      |                      |
|--------------------------------------|----------------------|
| Accumulated Depreciation             | \$199,411,506        |
| Accumulated Deferred Income Taxes    | 23,313,096           |
| Customer Advances for Construction   | 187,175              |
| Contributions in Aid of Construction | 4,473,546            |
| <b>Total Deductions</b>              | <b>\$227,385,323</b> |

|                  |                      |
|------------------|----------------------|
| <b>Rate Base</b> | <b>\$259,859,927</b> |
|------------------|----------------------|

**Revenues and Expenses**

The parties have stipulated to certain facts which were obtained by their review and investigation of the Company's books and records for the purposes of this case. The parties agree that the net operating income at present rates of the Company for the attrition period is \$15,602,433 as detailed below. The TRA finds that the net operating income in this case has been adjusted to reflect the appropriate attrition period level of revenues and expenses necessary for continued utility operations.

**Revenues:**

|                                    |                     |
|------------------------------------|---------------------|
| Sales and Transportation of Gas    | \$195,481,680       |
| Less Gas Cost                      | 115,869,340         |
| Net Sale and Transportation of Gas | \$79,612,340        |
| Other Revenues                     | 1,814,896           |
| <b>Total Net Revenues</b>          | <b>\$81,427,236</b> |

**Expenses:**

|                                     |                     |
|-------------------------------------|---------------------|
| Salaries and Wages                  | \$17,721,485        |
| Distribution Expense                | 5,062,890           |
| Uncollectible Accounts Expense      | 850,872             |
| Customer Relations Expense          | 657,174             |
| Administrative and General Expense  | 10,526,781          |
| Interest on Customer Deposits       | 232,103             |
| Miscellaneous Expense               | 38,184              |
| Depreciation & Amortization Expense | 18,232,156          |
| Taxes Other Than Income             | 8,938,625           |
| State Excise Tax                    | 678,624             |
| Federal Income Tax                  | 3,233,982           |
| <b>Total Expenses</b>               | <b>\$66,172,876</b> |

|   |                  |
|---|------------------|
| <b>Allowance for Funds Used During Construction</b> | <b>\$348,073</b> |
|---|------------------|

|                             |                     |
|-----------------------------|---------------------|
| <b>Net Operating Income</b> | <b>\$15,602,433</b> |
|-----------------------------|---------------------|

### **Fair Rate of Return**

In reaching a decision on a rate of return, the Authority must conduct an in-depth analysis and give proper consideration to numerous factors, such as capital structure, cost of capital and changes which can reasonably be anticipated in the foreseeable future. The Authority has the obligation to make this determination based upon the controlling legal standard set forth in the landmark cases of *Bluefield Water Works and Improvement Company v. Public Service Commission of the State of West Virginia*<sup>4</sup> and *Federal Power Commission v. Hope Natural Gas Company*,<sup>5</sup> which have been specifically relied upon by the Tennessee Supreme Court.<sup>6</sup>

In the *Bluefield* case, the United States Supreme Court stated:

A public utility is entitled to such rates as will permit it to earn a return on the value of the property which it employs for the convenience of the public equal to that generally being made at the same time and in the same general part of the country on investments in other business undertakings which are attended by corresponding risk and uncertainties; but it has no constitutional rights to profits such as are realized or anticipated in highly profitable or speculative ventures. The return should be reasonably sufficient to assure confidence in the financial soundness of the utility, and should be adequate, under efficient and economical management to maintain and support its credit and enable it to raise the money necessary for the proper discharge of its public duties.<sup>7</sup>

Later, in the *Hope* case, the United States Supreme Court refined these guidelines, holding that:

From the investor or company point of view it is important that there be enough revenue not only for operating expenses but also for the capital

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<sup>4</sup> *Bluefield Water Works and Improvement Company v. Public Service Commission of the State of West Virginia*, 262 U.S. 679, 43 S. Ct. 675 (1923)

<sup>5</sup> *Federal Power Commission v. Hope Natural Gas Company*, 320 U.S. 591, 64 S. Ct. 281 (1944)

<sup>6</sup> *Southern Bell Telephone & Telegraph Co. v. Public Service Commission*, 304 S.W.2d 640, 647 (Tenn. 1957)

<sup>7</sup> *Bluefield Water Works and Improvement Company v. Public Service Commission of the State of West Virginia*, 262 U.S. 679, 692-93, 43 S. Ct. 675, 679 (1923)



costs of the business. These include service on the debt and dividends on the stock. By that standard the return to the equity owner should be commensurate with returns on investments in other enterprises having corresponding risks. That return, moreover, should be sufficient to assure confidence in the financial integrity of the enterprise so as to maintain its credit and to attract capital.<sup>8</sup>

The parties for this case, and this case only, have agreed on a capital structure and cost that produces an overall rate of return for the Company of 8.42% without providing detail as to the specific structural components of this return. The TRA finds that this return is fair and reasonable and meets the tests of the *Bluefield* and *Hope* cases.

**Revenue Deficiency**

Based upon the rate base, net operating income, and fair rate of return agreed to by the parties, the revenue deficiency for this case is calculated to be \$10,300,000 as shown below. This revenue deficiency calculation was agreed to by each of the parties. The TRA finds that the Company needs additional annual revenues in the amount of \$10,300,000 in order to earn a fair return on its investment during the attrition year.

|  |                     |
|--|---------------------|
| Rate Base                              | \$259,859,927       |
| Fair Rate of Return                    | 8.42%               |
| <b>Required Net Operating Income</b>   | <b>\$21,880,207</b> |
| Current Net Operating Income           | 15,602,433          |
| <b>Net Operating Income Deficiency</b> | <b>\$6,277,774</b>  |
| Revenue Conversion Factor              | 1.640709            |
| <b>Net Revenue Deficiency</b>          | <b>\$10,300,000</b> |

<sup>8</sup> *Federal Power Commission v Hope Natural Gas Company*, 320 U.S. 591, 603, 64 S. Ct. 281, 288 (1944)

**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<br/>Revenues</b> | <b>Rate<br/>Increase %</b> | <b>Rate<br/>Increase</b> |
|--------------------|---------------------------------|----------------------------|--------------------------|
| 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                  |
| <b>Total</b>       | <b>\$91,866,767</b>             | <b>12.67%</b>              | <b>\$10,327,932</b>      |
| Revenue Deficiency |                                 |                            | 10,300,000               |
| <b>Difference</b>  |                                 |                            | <b>\$27,932</b>          |

**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.

In addition, the parties have agreed on tariff language to change the reconnection fee from a year-round rate of \$50 to a seasonal design of \$85 for reconnections during the time period from September through January and \$55 for reconnections during the time period from February through August.

Finally, the parties have agreed on language for changes in the Company's service line policy. Under the current service line policy, the Company will extend its service lines for one hundred (100) feet from the main to the customer's premise at no additional charge if the customer agrees to use natural gas for one major appliance, and install an additional fifty (50) feet at no cost for each additional natural gas appliance. The new language eliminates the provision of installing an additional fifty (50) feet and replaces it with language stating that the additional service line will be installed at no cost only if the anticipated load from the additional appliance provides a reasonable return to the Company.

The Authority finds that these tariff changes are just and reasonable and meet the standards set out in Tenn.Code Ann. § 65-5-203(a).

#### **Fixed Demand Cost Reallocation**

Although not part of the base rates established in this case, the parties have stipulated to an allocation of fixed demand costs that the Company will recover through the purchased gas adjustment ("PGA") process as shown on **Attachment A** to this Order. The TRA finds that this fixed demand cost allocation is just and reasonable and meets the standards set out in Tenn. Code Ann. § 65-5-203(a).

**Weather Normalization Adjustment**

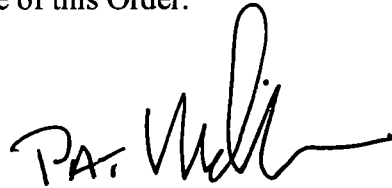
The parties have stipulated to use the “R” values, base load factors, and heat factors as set out below in future rate adjustments under the Company’s Weather Normalization Adjustment.<sup>9</sup> The TRA finds that these factors are just and reasonable and meet the standards set out in Tenn. Code Ann. § 65-5-203(a).

|                     | <b>“R” Value<br/>(\$/Therm)</b> | <b>Heat Sensitivity<br/>Factor<br/>(Therms/DDD)</b> | <b>Base<br/>Factor<br/>(Therms/month)</b> |
|---------------------|---------------------------------|---|---|
| <b>Residential:</b> |                                 |   |   |
| Standard Rate       | \$0.32000                       | \$0.15957   | \$3.915640                                |
| Value Rate          | 0.32000                         | 0.21337   | 23.086530                                 |
| <b>Commercial:</b>  |                                 |   |   |
| <b>Rate 302</b>     |                                 |   |   |
| All Usage           | 0.35400                         | 0.79247   | 0.675169                                  |
| <b>Rate 332</b>     |                                 |   |   |
| First 2,000 Therms  | 0.35400                         | 0.51840   | 486.221100                                |
| Over 2,000 Therms   | 0.35400                         | 0.51840   | 486.221100                                |
| <b>Rate 352</b>     |                                 |   |   |
| All Usage           | 0.35400                         | 17.6718   | 2229.587600                               |
| <b>Rate 362</b>     |                                 |   |   |
| First 5,000 Therms  | 0.35400                         | 5.36775   | 6229.705300                               |
| Over 5,000 Therms   | 0.35400                         | 5.36775   | 6229.705300                               |


<sup>9</sup> These values and factors are defined in Service Schedule No 315 of the Weather Normalization Adjustment Rider in NGC’s tariff which is on file with the Authority

**IT IS THEREFORE ORDERED THAT:**

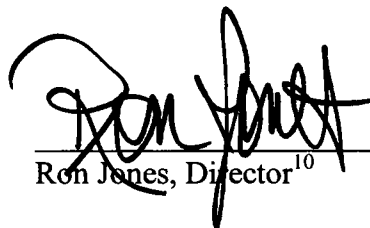
1. The *Application of Nashville Gas Company, a Division of Piedmont Natural Gas Company, Inc. for an Adjustment of its Rates and Charges, For Approval of Revised Tariffs and Approval of Revised Service Regulations*, as modified by the *Stipulation*, is approved based on the Authority's determination that a rate increase is warranted and that NGC is entitled to a rate increase of \$10,300,000.
2. The rate design set forth in **Attachment A** to this Order shall be used to allocate the approved \$10,300,000 rate increase.
3. Any party aggrieved by the Authority's decision in this matter may file a Petition for Reconsideration with the Authority within fifteen (15) days from the date of this Order.
4. Any party aggrieved by the Authority's decision in this matter has the right of judicial review by filing a Petition for Review in the Tennessee Court of Appeals, Middle Section, within sixty (60) days from the date of this Order.



Pat Miller, Director



Sara Kyle, Director



Ron Jones, Director<sup>10</sup>

<sup>10</sup> Director Jones voted with the panel on the issue of the rate increase but did not vote with the majority on the issue of rate design

**ATTACHMENT A**

|                                       | <b>Base<br/>Rate</b> | <b>Demand<br/>Rate</b> |
|---------------------------------------|----------------------|------------------------|
| <hr/>                                 |                      |                        |
| <b>Residential</b>                    |                      |                        |
| <b>Value Tariff (Rate 301)</b>        |                      |                        |
| Winter Monthly Customer Charge        | \$13.0000            |                        |
| Summer Monthly Customer Charge        | 10.0000              |                        |
| Winter Volumetric Charge (per Therm)  | 0.3200               | \$0.02200              |
| Summer Volumetric Charge (per Therm)  | 0.2700               | 0.01002                |
| <b>Standard Tariff (Rate 321)</b>     |                      |                        |
| Winter Monthly Customer Charge        | \$13.0000            |                        |
| Summer Monthly Customer Charge        | 10.0000              |                        |
| Winter Volumetric Charge (per Therm)  | 0.3200               | \$0.05994              |
| Summer Volumetric Charge (per Therm)  | 0.2700               | 0.01001                |
| <b>Commerical</b>                     |                      |                        |
| <b>SGS Value Tariff (Rate 332)</b>    |                      |                        |
| Monthly Customer Charge               | \$29.0000            |                        |
| Winter – 1 <sup>st</sup> 2000 Therms  | 0.3540               | \$0.02200              |
| Winter – Over 2000 Therms             | 0.3540               | 0.01100                |
| Summer – 1 <sup>st</sup> 2000 Therms  | 0.3030               | 0.01500                |
| Summer – Over 2000 Therms             | 0.3030               | 0.00750                |
| <b>SGS Standard Tariff (Rate 302)</b> |                      |                        |
| Monthly Customer Charge               | \$29.0000            |                        |
| Winter Volumetric Charge (per Therm)  | 0.3540               | \$0.05994              |
| Summer Volumetric Charge (per Therm)  | 0.3030               | 0.01000                |
| <b>MGS Value Tariff (Rate 362)</b>    |                      |                        |
| Monthly Customer Charge               | \$75.0000            |                        |
| Winter – 1 <sup>st</sup> 5000 Therms  | 0.3540               | \$0.02200              |
| Winter – Over 5000 Therms             | 0.3540               | 0.01100                |
| Summer – 1 <sup>st</sup> 5000 Therms  | 0.3030               | 0.01500                |
| Summer – Over 5000 Therms             | 0.3030               | 0.00750                |
| <b>MGS Standard Tariff (Rate 352)</b> |                      |                        |
| Monthly Customer Charge               | \$75.0000            |                        |
| Winter Volumetric Charge (per Therm)  | 0.3540               | \$0.02200              |
| Summer Volumetric Charge (per Therm)  | 0.3030               | 0.01100                |

Attachment A, Page 2 of 2

|  | Base<br>Rate | Demand<br>Rate |
|--|--------------|----------------|
| <b>Industrial</b>                              |              |                |
| <b>Industrial Sales (Rate 303)</b>             |              |                |
| Customer Charge                                | \$300.0000   |                |
| Demand Charge                                  | 8.0000       | \$0.54409      |
| 1 <sup>st</sup> 15000 Therms                   | 0.9742       | 0.00300        |
| Next 25000 Therms                              | 0.8953       | 0.00200        |
| Next 50000 Therms                              | 0.6450       | 0.00120        |
| Over 90000 Therms                              | 0.2764       | 0.00000        |
| <b>Industrial Transportation (Rate 313)</b>    |              |                |
| Customer Charge                                | \$300.0000   |                |
| Demand Charge                                  | 8.0000       | \$0.54409      |
| 1 <sup>st</sup> 15000 Therms                   | 0.9742       | 0.00300        |
| Next 25000 Therms                              | 0.8953       | 0.00200        |
| Next 50000 Therms                              | 0.6450       | 0.00120        |
| Over 90000 Therms                              | 0.2764       | 0.00000        |
| <b>Interruptible Sales (Rate 304)</b>          |              |                |
| Customer Charge                                | \$300.0000   |                |
| 1 <sup>st</sup> 15000 Therms                   | 0.9742       | \$0.04500      |
| Next 25000 Therms                              | 0.8953       | 0.02000        |
| Next 50000 Therms                              | 0.6450       | 0.01500        |
| Over 90000 Therms                              | 0.2764       | 0.01000        |
| <b>Interruptible Transportation (Rate 314)</b> |              |                |
| Customer Charge                                | \$300.0000   |                |
| 1 <sup>st</sup> 15000 Therms                   | 0.9742       | \$0.00300      |
| Next 25000 Therms                              | 0.8953       | 0.00200        |
| Next 50000 Therms                              | 0.6450       | 0.00120        |
| Over 90000 Therms                              | 0.2764       | 0.00000        |
| <b>Special Contract</b>                        | Set by Order | \$0.09200      |
| <b>Sale for Resale (Rate 310)</b>              |              |                |
| Demand   | \$8.0000     | \$0.54409      |
| Commodity                                      | 0.9000       | 0.00171        |

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13. Can the Company propose an alternate method to provide customers interested in energy savings the necessary materials at cost, so the cost is placed on the cost-causer without recovering from the gas customers who may not participate in the proposed School Energy Pledge Program?

**Response:** This proposed School Energy Pledge™ (“SEP”) Program was selected by the Company because the assemblies, curricula, and program support for SEP go far beyond installing selected energy efficiency measures. In other words, the SEP is far more than what is represented by the materials in the supplied toolkits. This program teaches the importance of natural resource stewardship, inspires action, and changes attitudes and behaviors. SEP captures and focuses the energy and enthusiasm of young students to create change within their homes. The SEP’s benefits are measurable and verifiable, as described in the Company’s filing.

As an energy efficiency *resource* program, the SEP program is a least cost alternative to utility supply-side options (i.e., natural gas and natural gas fired electric generation). As such, program economic benefit is measured in terms of avoided utility supply-costs. Recovering all costs of program materials and administration exclusively from the participating customers (described in the question above as “cost-causers”) would serve as a barrier to program participation and conflict with the primary design objective in planning and administering an energy efficiency program. As explained in the pre-filed testimony of Ms. Powers at pages 19 - 20, the Company used both the Total Resource Cost (“TRC”) and the Utility Cost Test (“UTC”) to measure effectiveness of the proposed. Because the SEP as proposed by the Company was determined to have a TRC test ratio of 3.59:1 and a UCT ratio of 2.86:1, all customers (both participating and non-participating) will benefit from the SEP as proposed. While cost causation is an important rate design concept, the equities of requiring all who benefit to share in the costs of a program is also important as a rate design consideration.

In light of the merits of the SEP program, the Company has not prepared an alternative program or method to propose at this time.

Response provided by Piedmont Natural Gas on October 19, 2011.



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14. Discuss the qualifications a school must possess in order to be considered for participation in the School Energy Pledge Program. Has Piedmont developed a list of targeted schools for participation?

**Response:** The Company will consider all school districts that overlap its service territory. The Company plans to focus its program efforts, at least in the first few years of operation, on the early-mid elementary grades of schools with district populations that have significant or near complete overlap with the Company's service territory. In other words, Piedmont's prioritization of targeted schools will begin with those well within its service territory rather than those on the periphery of its service territory. Targeting of and communication with specific schools would begin upon the Authority's approval of the SEP program, as would the development of the school-specific program materials and curricula. Assuming Authority approval is granted in early Spring 2012, first SEP Program assemblies with students and teachers would be occurring midway during the 2012 Fall semester.

Response provided by Piedmont Natural Gas on October 19, 2011.

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15. Does Piedmont plan to provide energy efficiency toolkits to non Piedmont customers at the expense of ratepayers?

**Response:** No.

Response provided by Piedmont Natural Gas on October 19, 2011.

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16. Are there any circumstances in which a family would be precluded from participating in the School Energy Pledge Program? Explain.

**Response:** Children who live in homes that are not served as a customer of Piedmont Natural Gas will not receive the energy efficiency toolkits for their home. However, those children will still be able to participate in the school assembly program and classroom-based learning segments of the SEP Program. For those children living in homes served as a customer of Piedmont Natural Gas, receipt of the toolkit is contingent upon the parent/guardian agreeing to implement the energy efficiency measures in the home.

Response provided by Piedmont Natural Gas on October 19, 2011.

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17. Page 9 of Exhibit PKP-2 states that “the program manager will attend regulatory and other stakeholders meetings to present and discuss program operations and performances.” Is the cost of these visits built into rates or will this be an additional cost?

**Response:** This will not be an additional program cost; it will be covered within the annual SEP program expense in the cost of service.

Response provided by Piedmont Natural Gas on October 19, 2011.

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18. Page 17 of Exhibit PKP-2 states that the School Energy Pledge Program for Duquesne Light Company was suspended due to a competitive bidding process. Please explain and whether the program in its entirety has been reestablished.

**Response:** The SEP Program is currently active and in operation by Dusquene Light. It is Piedmont's understanding that Dusquene's operation of the SEP Program was delayed for 2 months (January and February 2010) pursuant to a decision to conduct a competitive bidding process for the program administration.

Response provided by Piedmont Natural Gas on October 19, 2011.

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20. Is there any cost to participants in the School Energy Pledge Program other than the cost built into rates for Piedmont's customers?

**Response:** No.

Response provided by Piedmont Natural Gas on October 19, 2011.

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22. Explain and provide calculations supporting the Company's growth rates (including all referenced material).

**Response:** The growth rates embedded in the Company's projection of residential and commercial sales revenues can be found in the worksheets provided in MFR 25, file 3 ("3 - Adjustment\_1 & 4\_TN 2011 Rate Case Proforma Revs.xls." These worksheets were used to develop Exhibit\_\_ (DRC-1), which shows the pro forma revenues for all gas sales and transportation service. Specifically, the residential and commercial customer growth rate calculations can be found on tab "Customer Growth" in file 3. On this tab, rows 11 thru 17 lay out the net customer growth trend -- the % change in number of residential and commercial customers. This projected growth rate is calculated off the actual customer count by class in March 2011 and the projected net customer additions for March 2012 and 2013. Cells F16 and F17 on this tab show that the calculated net residential customer growth rate for March 2011 to March 2012 is expected to be 0.67%, and 0.17% for March 2012 to March 2013. The projected commercial customer growth rates for these periods are likewise shown in cells I16 and I17. Rows 26 thru 62 on this tab break this customer growth projection out by month. The rows highlighted in blue on this tab (rows 50 thru 61) represents the months of the Attrition Period. The projected monthly Attrition Period customer counts shown on this tab respectively feed into the tabs "Res Value", "Res Standard", "Small Gen Value", "Small Gen Standard", "Med Gen Value", "Med Gen Standard" -- see the calculations in the column for Base Cust shown on rows 77 thru 88 in each of these 6 tabs. On the tab "Pro Forma Revs", the Attrition Period Billing Determinants (column 5) for the rows labeled "Bills", "Bills -- winter" or "Bills -- summer" by rate schedule reflect the seasonal aggregation of the projected customer counts by month shown in rows 77 thru 88 of each of the 6 rate schedule tabs.

Response provided by Piedmont Natural Gas on October 19, 2011.

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23. Explain and provide calculations supporting the Company's volumetric growth (including all referenced material).

**Response:** The volumetric growth (increase in usage of gas by customer class) is embedded in the Company's projection of residential and commercial sales revenues and can be found in the worksheets provided in MFR 25, file 3 ("3 - Adjustment\_1 & 4\_TN 2011 Rate Case Proforma Revs.xls". These worksheets were used to develop Exhibit DRC-1, which shows the pro forma revenues for all gas sales and transportation service.

Specifically, see the monthly Attrition Period usage projection by rate schedule in the tabs "Res Value", "Res Standard", "Small Gen Value", "Small Gen Standard", "Med Gen Value", "Med Gen Standard." In each of these tabs, a regression analysis is performed on the per customer usage by month during the Test Period, in order to determine the weather-normalized characteristics of usage by customers in that rate class – i.e. the Heat Factor and the Base Factor. These factors are applied to the forecasted customer count in each month of the Attrition Period, considering the normal degree days associated with each of those months, to arrive at a calculated total volumetric usage by month for customers represented under that rate schedule. See the calculations in the columns for Base Vol, Heat Vol and Total Vol shown on rows 77 thru 88 in each of these 6 tabs, for projected usage by month of the Attrition Period. On the tab "Pro Forma Revs," the Attrition Period Billing Determinants (column 5) for the rows labeled "Winter" or "Summer" by rate schedule reflect the seasonal aggregation of the projected volumetric usage by month shown in rows 77 thru 88 of each of the 6 rate schedule tabs.

Response provided by Piedmont Natural Gas on October 19, 2011.



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28. Using PKP-1, Schedule1, Page 1, price-out attrition period revenues at current rates by providing the attrition period billing determinates multiplied by the current rates.

**Response:** Attrition Period revenues priced out at current rates are shown in MFR 25, file 3 (3 - Adjustment\_1 & 4\_TN 2011 Rate Case Proforma Revs.xls), tab "Pro Forma Revs", Column 7. In keeping with basic ratemaking principles, current Clean Rates (current TRA-approved rates exclusive of temporaries, such as the ACA surcharge and the IPA surcharge) were used for this calculation.

Response provided by Piedmont Natural Gas on October 19, 2011.

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56. Provide support for the 3% increase in Insurance Expense projected in 2012 and 2013.

**Response:** Piedmont estimated the increase in insurance expenses for 2012 and 2013, primarily based on anticipated market trending (which generally follows inflationary projections) for this expense category. As explained in the Company's response to Item 57 of this data request, currently all but two of current invoices for insurance premiums reflect coverage that is prior to the Attrition Period. The Company will soon (within the next two weeks) be receiving and paying the invoices for coverage that extends into the Attrition Period. The amounts on these forthcoming actual invoices can be used in further enhancement of the calculation of the Attrition Period expense for Insurance, as shown in MFR 25, file 22 (Adjustment\_5O\_Insurance Expense Attrition Adjustment.xls). Once received, the Company will submit copies in a supplemental response to data request item 57, as well as provide an update to MFR 25, file 22 incorporating these latest actual insurance premium expense amounts.

Response provided by Piedmont Natural Gas on October 19, 2011.

**Piedmont Natural Gas Company**  
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57. Provide the most current invoice for each type of insurance contained in Insurance Expense.

**Response:** See attached CONFIDENTIAL invoices and excel schedule with letter references to the invoices. These are the most recent invoices on hand. All but two of them reflect coverage that is prior to the Attrition Period.\* The Company will soon (within the next two weeks) be receiving and paying the invoices for coverage that extends into the Attrition Period. The amounts on these forthcoming actual invoices can be used in further enhancement of the calculation of the Attrition Period expense for Insurance, as shown in MFR 25, file 22 (Adjustment\_5O\_Insurance Expense Attrition Adjustment.xls). Once received, the Company will submit copies in a supplemental response to this data request item, as well as provide an update to MFR 25, file 22 incorporating these latest actual insurance premium expense amounts.

\* The two are labeled “Q” and “V” in the attachment.

Response provided by Piedmont Natural Gas on October 19, 2011.

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58. Provide lease agreements for each expense contained in Rent Expense.

**Response:** Certain lease agreements related to the Attrition Period were provided in MFR 53. These corresponded to the detail provided in MFR 25, file 25 (25 - Adjustment\_5R\_Rents Attrition Adjustment\_rd.xls), tab "Attrition Year calc." For clarity, attached are copies of the relevant sections of the confidential lease agreements provided in MFR 53, with the rental amount provisions marked-up in red.

CONFIDENTIAL:

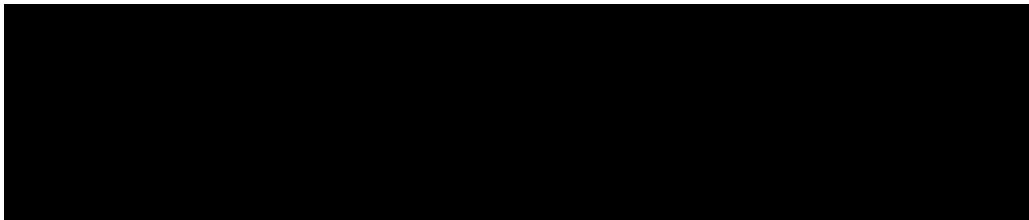
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Response provided by Piedmont Natural Gas on October 19, 2011.

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59. Provide a detailed explanation of activities included in Other Employee Benefits and Training Expense.

**Response:** The category of Other Employee Benefits and Training expense includes the cost of tuition and fees paid for qualified educational courses completed by employees, costs and expenses incurred when relocating an employee as part of their employment, uniforms and safety work apparel for field employees, and miscellaneous employee benefits such as service and recognition awards. Expenses for certain health and wellness activities are also included in miscellaneous employee benefits; the Company's support of employee health and wellness is intended to create a healthier employee population that we hope will reduce healthcare costs, reduce disability and worker's compensation claims and improve productivity and reduce absenteeism. Training expenses include the costs of personnel attending training delivered through internal technical training classes or other Piedmont-delivered training, and the costs of personnel attending external training including conferences, seminars, continuing education for professional certifications and other courses not part of the Company's tuition reimbursement program.

Response provided by Piedmont Natural Gas on October 19, 2011

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60. Provide documentation of Authority approval in Docket 03-00313 of an annual expense recovery of \$8,673 used to calculate the unamortized balance of environmental cleanup expense on MFR 25/Adjustment 19\_ 5L Deferred Environmental Clean-up Attrition.

**Response:** Docket 03-00313 was a settled rate case and consequently did not include a detailed listing of approved expense recoveries. The TRA approved the settlement reached by the Company and the CAPD. That settlement included an annual amortization of \$8,673 for environmental cleanup expenses. To provide the requested documentation, a copy of the Company's workpaper from the last rate case is provided. It shows the deferred environmental cleanup expense balance at that time of \$17,345, to be amortized over 2 years, yielding an annual regulatory amortization expense amount of \$8,673.

Response provided by Piedmont Natural Gas on October 19, 2011.

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61. Provide documentation of TRA approvals of deferred pension expense recovery ordered in Docket Nos. 99-00994 and 03-00313 supporting the calculations in Company worksheet ADJUSTMENT\_5K\_DEFERRED PENSION ATTRITION ADJUSTMENT.XLS.

**Response:** Attached are copies of the Orders issued by the TRA in Dockets Nos. 99-00994 and 03-00313. Also attached is the Order issued in Docket No. 96-00977, which is the rate case where the TRA originally established the deferred treatment for pension expense related to funding contributions the Company makes to its defined benefit pension plan. The clarifying Order dated June 9, 1997 in Docket No. 96-00977 on page 4 strikes certain language included in the February 19, 1997 Order in the docket and replaces it with the following: “Further, the Authority will permit the Company to establish a deferred asset for the difference between the amount of funded pension expense recognized in the Company’s late rate case – in this case, zero – and the amount of pension expense funded in the future. In future rate cases, the amount of funded expense that has been deferred will be recognized and rates awarded to recover it.”

The Company has adhered to the deferred treatment for pension funding expense as first ordered by the TRA in Docket No. 96-00977; namely, the Company established a regulatory asset for this matter and has made accounting entries to it according to the methodology described on page 4 of the TRA’s June 9, 1997 Order. And in the Company’s two subsequent rate cases since that time, indeed the Company’s deferred funded pension expense was recognized and rates were awarded to recover it. Specifically, the amount of deferred pension expense awarded in rates to Piedmont in its 1999 and 2003 rate cases was refreshed to reflect the current deferred pension balance at that time and a specific amortization period.

In the July 18, 2000 Order in the Company’s 1999 rate case (Docket No. 99-00994), paragraph 8 on page 6 remarks on the TRA-approved Stipulation in this docket which allowed the Company to “amortize the previously established regulatory asset for deferred pension costs of \$1,016,093 over a period of five years, beginning with the effective dates of rates approved herein.” This yields a regulatory amortization amount of \$203,220 (rounded) per year [or \$16,935 per month] for deferred pension funding expense. Following this 1999 rate case Order, the Company thereafter adjusted its accounting entries to the regulatory asset to reflect this new, approved annual rate recovery amount of \$203,220.

In the July 15, 2004 Order in the Company’s 2003 rate case (Docket No. 03-00313), the Company’s deferred pension account balance and settled regulatory amortization period were not cited, since the Stipulation in that proceeding did not include a detailed listing of expense recoveries. However, the Authority approved the settlement in Docket No. 03-00313 and, accordingly, the Company recognized the updated regulatory amortization for pension from that proceeding. To provide the requested documentation from this rate case, a copy of the Company’s workpapers on pension from the 2003 rate case is provided. See the CONFIDENTIAL excel attachment.



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CONFIDENTIAL:



Response provided by Piedmont Natural Gas on October 19, 2011.

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69. Is the unamortized balance for environmental clean up costs included in rate base? If so, please identify the amount and where it is included. Please provide an explanation as to why this deferred amount should or should not be included in rate base.

**Response:** Exhibit PKP-1, Schedule 3, line 24 shows the rate base amount for Allowance for Working Capital. This rate base item includes as an addition the unamortized amount for the deferred environmental clean up costs. For the Test Period, the amount included is \$1,495,538. For the Attrition Period, the amount included is \$ 1,828,203. These amounts can be found in MFR 25, file 33, as provided (with footnote corrections) in the CONFIDENTIAL excel attachment to this response.\* In the tab "Deferred Debits", cells H29 and H37 show these amounts as used in the calculation of Allowance for Working Capital. The 13-month average Attrition Period balance shown in cell H37 is calculated in the following file: MFR 25, file 19, tab "Attrition Balances."

The rationale for this inclusion in rate base is the same basic ratemaking theory that supports the inclusion of any other prepayment item in rate base -- that until the cost is recovered, the Company may earn a return on the unamortized balance by including the amount in rate base. In other words, the Company should be allowed to recover the carrying cost of that expenditure. The deferred environmental cleanup expense represents an expenditure by the Company that is not yet recovered in rates, similar to the other prepayments included in rate base, such as insurance premiums, material and supplies, and gas inventory.

\* Please note that in the course of responding to this data request item, the Company noticed a misstatement in the descriptive footnotes on the "Deferred Debits" tab in file 33 of MFR 25. These misstatements did not affect the working capital data and calculations performed in this file. For the purpose of providing clear and accurate information in this rate case filing, the Company is submitting herewith a revised version of MFR 25 file 33 – the only change is the correction to these descriptive footnotes on the "Deferred Debits" tab.

Response provided by Piedmont Natural Gas Company on October 19, 2011.

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71. Is the unamortized balance for flood clean up costs included in rate base? If so, identify the amount and where it is included. Provide an explanation as to why this deferred amount should or should not be included in rate base.

**Response:** Exhibit PKP-1, Schedule 3, line 24 shows the rate base amount for Allowance for Working Capital. This rate base item includes as an addition the unamortized amount for the deferred flood clean up costs. For the Test Period, the amount included is \$719,635. For the Attrition Period, the amount included is \$899,720. These amounts can be found in MFR 25, file 33, as provided (with footnote corrections) in response to Item 69 of this data request. In the tab "Deferred Debits", cells D29 and D37 show these amounts as used in the calculation of Allowance for Working Capital. The 13-month average Attrition Period balance shown in cell D37 is calculated in the following file: MFR 25, file 20, tab "Attrition Balances".

The rationale for this inclusion in rate base is the same basic ratemaking theory that supports the inclusion of any other prepayment item in rate base -- that until the cost is recovered, the Company may earn a return on the unamortized balance by including the amount in rate base. In other words, the Company should be allowed to recover the carrying cost of that expenditure. The deferred flood cleanup expense represents an expenditure by the Company that is not yet recovered in rates, similar to the other prepayments included in rate base, such as insurance premiums, material and supplies, and gas inventory.

Response provided by Piedmont Natural Gas on October 19, 2011.

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75. Provide a detailed listing supporting the Contract Labor of \$258,622 listed in MFR, Schedule 20, for flood clean up. This should include the date, location of clean up, description of function performed, contractor name and the amount paid, etc.

**Response:** See attached CONFIDENTIAL schedule showing detail for the \$258,622 of expenses for other contract labor related to the flood response and cleanup. Please refer to the project number descriptions provided in the Company's response to Item 72 of this data request for further detail regarding the location for these expenses by project number.

Response provided by Piedmont Natural Gas on October 19, 2011.

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76. Provide a detailed listing supporting the Inventory of \$259,624 listed in MFR, Schedule 20, for flood clean up. This should include the date, location of clean up, description of material and the amount, etc.

**Response:** See attached CONFIDENTIAL schedule showing detail for the \$259,624 of Inventory expenses related to the flood response and cleanup. Please refer to the project number descriptions provided in the Company's response to Item 72 of this data request for further detail regarding the location for these expenses by project number.

Materials issued from Inventory are comprised of two cost factors: the original cost of the inventory item and a cost factor to cover the cost of maintaining the inventory in the storeroom. This additional cost factor, referred to as "Stores Expense," is designated as a percentage each month and is derived by dividing the total expense of maintaining the inventory, accounted for in the 970xx series of accounts, by the total dollar volume of the inventory charged out.

Each month, the Company establishes the stores expense factor based on projected stores expense (the monthly charges to the 970xx accounts) and the projected inventory to be issued. At the end of the month, this factor is trued up based on actual charges and actual issues. An entry is made to the original destination of each Materials and Supplies charge to correct the stores expense allocated to that charge. The corresponding entry may be either a debit (original projection was less than actual) or a credit (original projection was more than actual). In the CONFIDENTIAL excel file attached to this response, see tab "Stores Expense" for the listing of accounting entries of the stores expense allocations.

Response provided by Piedmont Natural Gas on October 19, 2011

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77. Provide a detailed listing supporting the parts/materials of \$11,322 listed in MFR, Schedule 20, for flood clean up. This should include the date, location of clean up, description of material and the amount, etc.

**Response:** See the attached CONFIDENTIAL schedule showing detail for the \$11,322 of non-inventory parts and materials expenses related to the flood response and cleanup. Please refer to the project number descriptions provided in the Company's response to Item 72 of this data request for further detail regarding the location for these expenses by project number.

Response provided by Piedmont Natural Gas on October 19, 2011.

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78. Is the unamortized account balance for TN Deferred Pension Expense included in rate base? If so, please identify the amount and where it is included. Please provide an explanation as to why this deferred amount should or should not be included in rate base.

**Response:** Exhibit PKP-1, Schedule 3, line 24 shows the rate base amount for Allowance for Working Capital. This rate base item includes as an addition the unamortized amount for the deferred pension funding expense. For the Test Period, the amount included is \$20,192,082. For the Attrition Period, the amount included is \$20,147,575. These amounts can be found in MFR 25, file 33, as provided (with footnote corrections) in response to Item 69 of this data request. In the tab "Deferred Debits", cells B29 and B37 show these amounts as used in the calculation of Allowance for Working Capital. The 13-month average Attrition Period balance shown in cell B37 is calculated in the following file: MFR 25, file 18, tab "Attrition Balances".

The rationale for this inclusion in rate base is the same basic ratemaking theory that supports the inclusion of any other prepayment item in rate base -- that until the cost is recovered, the Company may earn a return on the unamortized balance by including the amount in rate base. In other words, the Company should be allowed to recover the carrying cost of that expenditure. The deferred pension funding expense represents an expenditure by the Company that is not yet recovered in rates, similar to the other prepayments included in rate base, such as insurance premiums, material and supplies, and gas inventory.

Response provided by Piedmont Natural Gas on October 19, 2011.

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79. Is the unamortized account balance for Deferred Rate Case Expense included in rate base? If so, please identify the amount and where it is included. Please provide an explanation as to why this deferred amount should or should not be included in rate base.

**Response:** Exhibit PKP-1, Schedule 3, line 24 shows the rate base amount for Allowance for Working Capital. This rate base item includes as an addition the unamortized amount for the deferred rate case expense. For the Test Period, the amount included is \$52,048. For the Attrition Period, the amount included is \$674,878. These amounts can be found in MFR 25, file 33, as provided (with footnote corrections) in response to Item 69 of this data request. In the tab "Deferred Debits," cells F29 and F37 show these amounts as used in the calculation of Allowance for Working Capital. The 13-month average Attrition Period balance shown in cell F37 is calculated in the following file: MFR 25, file 29, tab "Attrition Balances."

The rationale for this inclusion in rate base is the same basic ratemaking theory that supports the inclusion of any other prepayment item in rate base -- that until the cost is recovered, the Company may earn a return on the unamortized balance by including the amount in rate base. In other words, the Company should be allowed to recover the carrying cost of that expenditure. The deferred rate case expense represents an expenditure by the Company that is not yet recovered in rates, similar to the other prepayments included in rate base, such as insurance premiums, material and supplies, and gas inventory.

Response provided by Piedmont Natural Gas on October 19, 2011.



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80. Provide a schedule showing the total amount of plant additions by month from June 2005 through May 2011.

**Response:** See CONFIDENTIAL excel attachment.

Response provided by Piedmont Natural Gas on October 19, 2011.