BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE
April 18, 2012

IN RE:	)	
	)	
PIEDMONT NATURAL GAS COMPANY, INC.	)	**DOCKET NO.**
ACTUAL COST ADJUSTMENT ACCOUNT	)	**11-00168**
FILING FOR THE PERIOD JULY 1, 2010 –	)	
JUNE 30, 2011	)	

ORDER ADOPTING ACA AUDIT REPORT OF TENNESSEE REGULATORY AUTHORITY'S UTILITIES DIVISION

This matter came before the Tennessee Regulatory Authority (the "Authority" or "TRA") at a regularly scheduled Authority Conference held on March 26, 2012 for consideration of the report of the Authority's Utilities Division (the "Staff") resulting from the Staff's audit of Piedmont Natural Gas Company Inc.'s ("Piedmont" or the "Company") annual deferred gas cost account filing for the period July 1, 2010 through June 30, 2011. The Actual Cost Adjustment ("ACA") Compliance Audit Report (the "Report"), attached hereto as Exhibit 1 and incorporated by this reference, contains no findings.

The Company submitted its ACA filing on September 30, 2011. On March 7, 2012, the Staff completed its audit of the Company's filing. There were no material audit findings. On March 12, 2012, the Staff filed its Report in this docket.

At a regularly scheduled Authority Conference held on March 26, 2012, the panel considered the March 2012 TRA staff audit Report. The Company appears to be correctly implementing its purchased gas adjustment as calculated in the ACA account in all material respects. The panel voted unanimously to approve the TRA staff audit Report, including any findings, conclusions and recommendations contained therein.

IT IS THEREFORE ORDERED THAT:

The Actual Cost Adjustment Compliance Audit Report of Piedmont Natural Gas Company, Inc.'s annual deferred gas cost account filing for the year ended June 30, 2011, a copy of which is attached to this Order as Exhibit 1, is approved and adopted, and it is incorporated in this Order as though fully rewritten herein.

Kenneth C. Hill, Chairman

Sara Kyle, Director

Mary W. Freeman, Director

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BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

March 12, 2012

IN RE:	)
	)
PIEDMONT NATURAL GAS COMPANY	**) Docket No. 11-00168**
ACTUAL COST ADJUSTMENT (ACA) AUDIT	)

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

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

1. The present docket was opened by the Authority to hear matters arising out of the audit of the Company's ACA filing for the period July 2010 through June 2011.

2. The Company's ACA filing was received on September 30, 2011, and Audit Staff ("Staff") completed its audit of same on March 7, 2012. There were no material audit findings.

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

Respectfully Submitted:

Michelle Ramsey

Michelle Ramsey
Utilities Division
Tennessee Regulatory Authority

CERTIFICATE OF SERVICE

I hereby certify that on this 12th day of March, 2012, a true and exact copy of the foregoing has been either hand-delivered or delivered via U.S. Mail, postage pre-paid, to the following persons:

Kenneth C. Hill
Chairman
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37243

Mr. David Carpenter
Director-Rates
Piedmont Natural Gas Company
P.O. Box 33068
Charlotte, NC 28233

Ms. Jenny Furr
Manager – Regulatory Reporting
Piedmont Natural Gas Company
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Dave Peters
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Michelle Ramsey

Michelle Ramsey

EXHIBIT A

COMPLIANCE AUDIT REPORT

OF

<u>Piedmont Natural Gas Company</u>

<u>ACTUAL COST ADJUSTMENT</u>

DOCKET NO. 11-00168

PREPARED BY

<u>TENNESSEE REGULATORY AUTHORITY</u>

UTILITIES DIVISION

March 2012

COMPLIANCE AUDIT

PIEDMONT NATURAL GAS COMPANY

ACTUAL COST ADJUSTMENT

DOCKET NO. 11-00168

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I. INTRODUCTION

The subject of this audit is Piedmont Natural Gas Company's ("Piedmont" "Company" or "PNG") compliance with the Actual Cost Adjustment and Refund Adjustment of the Purchased Gas Adjustment Rule ("PGA Rule") of the Tennessee Regulatory Authority ("TRA" or the "Authority"). The objective of the audit was to determine whether the Purchased Gas Adjustments ("PGA"), which are encompassed by the Actual Cost Adjustment ("ACA")[1], for the twelve (12) months ended June 30, 2011, were calculated correctly and were supported by appropriate source documentation.

II. AUDIT OPINION

On September 30, 2011, the TRA Audit Staff (hereafter "Staff") received PNG's ACA filing supporting the activity in its deferred gas cost account ("ACA Account") for the period July 1, 2010 through June 30, 2011. After reviewing the Company's filing, Staff found no material errors.[2] Staff concludes that PNG is correctly implementing its Purchased Gas Adjustment Rider as calculated in the Actual Cost Adjustment, in accordance with TRA rules for Piedmont Natural Gas Company.

III. BACKGROUND INFORMATION ON COMPANY AND GAS SUPPLIERS

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

IV. JURISDICTION OF THE TENNESSEE REGULATORY AUTHORITY

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

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

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

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

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

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

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

V. DESCRIPTION OF PURCHASED GAS ADJUSTMENT RULE

Actual Cost Adjustment Audits:

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

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

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

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

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

Prudence Audit of Gas Purchases:

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

VI. <u>SCOPE OF ACTUAL COST ADJUSTMENT AUDIT</u>

The ACA audit is a limited compliance audit of PNG's ACA Account. The audit goal is to verify that the Company's calculations of gas costs incurred and recovered are materially correct,[3] and that the Company is following all Authority orders and directives with respect to its calculation of the ACA Account balance. On September 29, 2011 the Company filed a PGA to change the ACA factor to begin refunding the unaudited balance in the ACA Account at August 31, 2011, effective November 1, 2011.

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

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

VII. ACA AUDIT FINDINGS

Staff agrees with the ACA Account balances as calculated by the Company. Therefore, there are no findings. A summary of the account as filed by the Company is shown below.

SUMMARY OF THE ACA ACCOUNT:

	Company
Commodity Balance at 7/1/10	$ 2,631,100.90
Plus Gas Costs	83,236,713.18
Minus Recoveries	91,482,111.65
Ending Balance before Interest	($ 5,614,297.57)
Plus Interest	($66,360.56)
Commodity Balance at 6/30/11	($ 5,680,658.13)
Demand Balance at 7/1/10	$ 200,859.53
Plus Gas Costs	1,331,213,504.85
Minus Recoveries	1,330,400,352.00
Ending Balance before Interest	$ 1,014,012.38
Plus Interest	53,995.43
Demand Balance at 6/30/11	$ 1,068,007.81
Total ACA Ending Balance at 6/30/11	($ 4,612,650.32)

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

VIII. CONCLUSIONS AND RECOMMENDATIONS

Staff reviewed the gas costs and recoveries of Piedmont Natural Gas Company for the 12-month period ended June 30, 2011. As reported in the body of this report, Staff concludes that the Purchased Gas Adjustment mechanism, as calculated in the Actual Cost Adjustment, appears to be working properly and in accordance with the TRA rules for PNG. Based on the Company's filing, the net balance in the ACA Account as of June 30, 2011 was a negative $4,612,650.32. This means that as of June 30, 2011 the Company had over-collected this amount from its customers. This balance will become the beginning balance at July 1, 2011 in the Company's next ACA filing. **Staff recommends approval of the Company's ACA Account balances.**

APPENDIX A

PGA FORMULA[4]

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

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

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

where

GCA	=	The Gas Charge Adjustment in dollars per Ccf/Therm, rounded to no more than five decimal places.
D	=	The sum of all fixed Gas Costs.
DACA	=	The demand portion of the ACA.
P	=	The sum of all commodity/gas charges.
T	=	The sum of all transportation charges.
SR	=	The sum of all FERC approved surcharges.
CACA	=	The commodity portion of the ACA.
DB	=	The per unit rate of demand costs or other fixed charges included in base rates in the most recently completed general rate case (which may be zero if the Company so elects and the Commission so approves).
CB	=	The per unit rate of variable gas costs included in base rates in the most recently completed general rate case (which may be zero if the Company so elects and the Commission so approves).
SF	=	Firm Sales.
ST	=	Total Sales.

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

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

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

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

where

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

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

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

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