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BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

I.R.A. DOCKET ROOM

July 31, 2012

IN RE:

PIEDMONT NATURAL GAS

WEATHER NORMALIZATION ADJ. (WNA) AUDIT)

Docket No. 12-00083

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

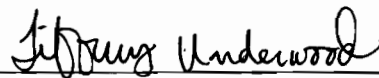
Pursuant to Tenn. Code Ann. §§65-4-104, 65-4-111 and 65-3-108, the Utilities Division of the Tennessee Regulatory Authority (the "Utilities Division") hereby gives notice of its filing of the Piedmont Natural Gas WNA Audit Report in this docket and would respectfully state as follows:

1. The present docket was opened by the Authority to hear matters arising out of the audit of Piedmont Natural Gas (the "Company").
2. The Company's WNA filings were received November 1, 2011, through April 30, 2012, and the Staff completed its audit of same on July 18, 2012.
3. On July 19, 2012, the Utilities Division issued its preliminary WNA audit findings to the Company, and on July 25, 2012, the Company responded thereto.
4. The preliminary WNA audit report was modified to reflect the Company's responses and a final WNA audit report (the "Report") resulted therefrom. The Report is attached hereto as Exhibit A and is fully incorporated herein by this reference. The Report contains

the audit findings of the Utilities Division, the Company's responses thereto and the recommendation of the Utilities Division in connection therewith.

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

Respectfully Submitted:

A handwritten signature in cursive script, reading "Tiffany Underwood", is written over a horizontal line.

Tiffany Underwood
Utilities Division
Tennessee Regulatory Authority

CERTIFICATE OF SERVICE

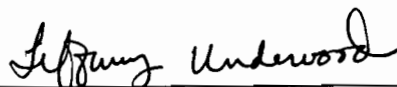
I hereby certify that on this 31th day of July, 2012, a true and exact copy of the foregoing has been either hand-delivered or delivered via U.S. Mail, postage pre-paid, to the following persons:

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Tiffany Underwood

EXHIBIT A

COMPLIANCE AUDIT REPORT

OF

PIEDMONT NATURAL GAS

WEATHER NORMALIZATION ADJUSTMENT (WNA) RIDER

DOCKET NO. 12-00083

TENNESSEE REGULATORY AUTHORITY

UTILITIES DIVISION

July 2012

COMPLIANCE AUDIT OF
Piedmont Natural Gas
WEATHER NORMALIZATION ADJUSTMENT (WNA) RIDER
Docket No. 12-00083

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COMPLIANCE AUDIT
PIEDMONT NATURAL GAS
WEATHER NORMALIZATION ADJUSTMENT (WNA) RIDER
Docket No. 12-00083

I. INTRODUCTION AND AUDIT OPINION

The subject of this compliance audit is the Weather Normalization Adjustment (WNA) Rider of Piedmont Natural Gas (hereafter "PNG," "Piedmont" or the "Company"). The objective of this audit was to determine if the WNA adjustments were calculated correctly and applied to customers' bills appropriately between November 1, 2011 and April 30, 2012. As a result of the WNA Rider, the Company surcharged a net \$5,782,266 and \$2,991,534 from the residential and commercial customers respectively during the period. The impact of WNA revenues on the Company's total revenues is detailed in Section V, Table 1.

The Audit Staff's ("Staff") audit results produced two findings for the audit period under review. Except for the findings reported in Section VI, Staff concludes that the Company is correctly implementing the mechanics of the WNA Rider as specified by the Tennessee Regulatory Authority ("TRA" or the "Authority") and included in the Company's tariff. (See Attachment 1)

II. SCOPE OF AUDIT

In meeting the objective of the audit, the Staff compared the following on a daily basis:

- (1) The Company's actual heating degree days (ADD) to National Oceanic and Atmospheric Administration ("NOAA") actual heating degree days;
- (2) The Company's normal heating degree days (NDD) to the normal heating degree days calculated in the last rate case; and
- (3) The Company's calculation of the WNA factor to Staff's calculation.

Staff also selected a sample of customer bills to verify that the WNA factor had been correctly applied to customer bills. The Staff also examined each sample bill to determine whether the Base Rates and Purchased Gas Adjustments were billed correctly. As a result of the bill audit, Staff maintains PNG is correctly billing its customers.

Tiffany Underwood of the Utilities Division conducted this audit.

III. BACKGROUND INFORMATION ON PIEDMONT NATURAL GAS

Piedmont Natural Gas Company corporate headquarters are located at 4720 Piedmont Row Drive, Charlotte, North Carolina. Local offices are located at 665 Mainstream Drive, Nashville, Tennessee. PNG is a natural gas distributor that provides service to Nashville and several other communities in the Middle Tennessee area, as well as service areas in North and South Carolina. The natural gas used to serve Tennessee is purchased from producers and marketers and transported to Nashville'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 (MGTC).

IV. BACKGROUND ON WEATHER NORMALIZATION ADJUSTMENT (WNA) RIDER

On September 26, 1991, the Tennessee Public Service Commission¹ ("TPSC") approved a three-year experimental Weather Normalization Adjustment Rider² to the tariffs of Chattanooga Gas Company, Nashville Gas Company³, a division of Piedmont Gas Company, Inc. and United Cities Gas Company.⁴ The WNA Rider was to be applied to residential and commercial customers' bills during the months of October through May of each year. On June 21, 1994, the TPSC issued an Order authorizing the above mentioned gas companies to permanently implement an amended version⁵ of the WNA Rider. Piedmont Natural Gas was authorized to calculate WNA adjustments during the months of November through March of each year until its last rate case in Docket No. 11-00144 when the WNA period was extended to October through April effective March 1, 2012.⁶ The TRA Staff audits these calculations annually.

In setting rates, the Tennessee Regulatory Authority uses a normalized level of revenues and expenses for a test year, which is designed to be the most reasonable estimate of the Company's operations during the time the rates are to be in effect. Use of normalized

¹ By legislative action, the Tennessee Public Service Commission was replaced on July 1, 1996 by the Tennessee Regulatory Authority. See Act of May 24, 1995, ch. 305, 1995 Tenn. Pub. Acts 450. The TRA retains jurisdiction over the above named gas companies. See Tenn. Code Ann. § 65-4-104: see also Tenn. Code Ann. § 65-4-101 (a) (defining public utility).

² See petition of Chattanooga Gas Company, Nashville Gas Company, a Division of Piedmont Natural Gas Company, Inc. and United Cities Gas Company for a Rulemaking Hearing to Adopt a Weather Normalization Adjustment (WNA) Rider, Docket No. 91-01712, Order (September 26, 1991).

³ In January 2008, Piedmont notified the Authority that beginning in March 2008, Nashville Gas' name would be changed to Piedmont Natural Gas.

⁴ Effective October 1, 2002, Atmos Energy Corporation announced that all divisions of the Company would start doing business as Atmos Energy™.

⁵ The amendment directed Chattanooga Gas Company and United Cities Gas Company to eliminate from their WNA Rider the shoulder months of October and May, and Nashville Gas Company to eliminate the shoulder months of October, April and May.

⁶ See *In Re: Petition of Piedmont Natural Gas Company, 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, Order, p. 14.

operating levels eliminates unusual fluctuations that may occur during the test period, which causes rates to be set too high or too low.

Specifically, one part of normalizing revenues consists of either increasing or decreasing the test year weather related sales volumes to reflect the difference between the normal and actual heating degree days. (A heating degree day is calculated as the difference in the average daily temperature and 65 degrees Fahrenheit.) This average daily temperature constitutes normal weather and is determined based on the previous thirty years weather data.

Since normal weather rarely occurs, this has two impacts:

- (1) The customers' bills fluctuate dramatically due to changes in weather from month to month; and
- (2) The gas companies earn more or less than their authorized rate of return. For example, if weather is colder than normal, then more gas than anticipated in the rate case will be sold. This results in higher customer bills and overearnings for the company. On the other hand, if weather is warmer than normal, less gas than anticipated in the rate case will be sold, the customers' bills will be lower and the company will underearn.

In recognition of this fact, the TRA approved a WNA mechanism to reduce the impact abnormal weather has on the customers' bills and on the gas utilities' operations. In periods of weather colder than normal, the customer receives a credit (refund) on his bill, while in periods of warmer than normal weather, the customer is billed a surcharge. Thus, customers' monthly bills should not fluctuate as dramatically and the gas company should have a more stable rate of return.

V. IMPACT OF WNA RIDER

The graph (Attachment 2) compares the actual heating degree days to normal heating degree days for Piedmont during the 2011-2012 heating season. It shows that during the audit period, the weather (overall) was warmer than normal, resulting in a net surcharge from PNG to its customers for the period. The table below quantifies the number of actual heating degree days by month as compared to the normal heating degree days for that month.

Month	Actual Heating Degree Days	Normal Heating Degree Days	Warmer/Colder than Normal	Percentage Change
October 2011	207	188	Colder	10.3%
November 2011	387	447	Warmer	-13.4%
December 2011	650	738	Warmer	-12.0%
January 2012	663	850	Warmer	-22.0%
February 2012	554	660	Warmer	-16.0%
March 2012	174	447	Warmer	-61.1%
April 2012	153	192	Warmer	-20.3%
Total	2788	3522	Warmer	-20.8%

Since the overall weather during the November 1, 2011 through April 30, 2012 period was warmer than normal, the net impact of the WNA Rider was that residential and commercial customers were **surcharged** \$5,786,266 and \$2,991,534 respectively. This equates to an increase from total residential and commercial sales of 7.85% and 7.52%, respectively (See Table 1). This is an increase in the WNA revenue from the previous year when the residential and commercial customers were **refunded** \$1,286,218 and \$696,567 respectively (See Table 2).

Table 1

**Impact of WNA Rider on Residential & Commercial Revenues
November 1, 2011 - April 30, 2012**

	<u>WNA Rider Revenues</u>	<u>Total Revenues</u>	<u>Percentage Impact of WNA Rider On Revenue</u>
Residential Sales	\$5,782,266	\$73,635,319	7.85%
Commercial Sales	<u>2,991,534</u>	<u>39,773,931</u>	7.52%
Total	<u>\$8,773,800</u>	<u>\$113,409,250</u>	7.74%

Table 2

**Amount Surcharged (Refunded)
2009 - 2012**

	<u>Residential</u>	<u>Commercial</u>	<u>Total Surcharge/Refund</u>
11/09-3/10	-3,772,092	-1,894,251	-5,666,343
11/10-3/11	-1,286,218	-696,567	-1,982,785
11-10-4/12	<u>5,782,266</u>	<u>2,991,534</u>	<u>8,773,800</u>
Total	<u>\$ 723,956</u>	<u>\$ 400,716</u>	<u>\$1,124,672</u>

VI. WNA FINDINGS AND CONCLUSIONS

As noted in Section I of this report, Staff's audit resulted in two findings for the winter heating season of November 2011 through April 2012. These findings are described in detail below.

FINDING #1:

Exception:

The Company used incorrect actual heating degree days on February 19, 2012 and March 8, 2012 in its weather normalization calculations.

Discussion:

The Company used incorrect actual heating degree days for two (2) days in the period, which resulted in inaccurate WNA factors billed in thirty (30) billing cycles.

These inaccuracies are due to differences in daily heating degree days published in NOAA's Local Climatological Data report⁷ and the daily heating degree days that the Company used in calculating its WNA factors.⁸ In order to timely bill its customers, the Company must obtain actual degree day information from its weather information source(s) on a real time basis. The WNA Rider and the Staff's audit of this Rider are based on the official NOAA publication, which is released approximately two months later. Therefore, Staff recognizes that discrepancies can be caused by the Company's weather information source through no fault of the Company.

Date	Company Actual Degree Days	NOAA Actual Degree Days	Difference
2/19/2012	24	25	1
3/08/2012	10	13	3
		Total	<u>4</u>

⁷ This published report is the official data supplied by NOAA and is the standard that the Staff uses to audit the Weather Normalization Rider.

⁸ See Table below for detail of the differences.

Recommendation:

The total amount of **over-collection** of WNA revenues is **\$85,666**. Since the dollar amount of this finding is immaterial on a per customer basis, Staff recommends including the over-collection in the Company's next Actual Cost Adjustment filing, rather than identifying and refunding to specific customers.

Company Response:

The Company supports Staff's recommendation that the over-collection amount of \$85,666 should be included in the Company's next Actual Cost Adjustment filing.

FINDING #2:

Exception:

The Company used an incorrect R factor in its calculation of the weather normalization adjustments for billing cycles 1-5 in April 2012.

Discussion:

The Company immediately notified staff of an over-collection of WNA revenues resulting from a billing error in Piedmont's April 2012 cycles 1 through 5. The error resulted from using the winter R factor in the WNA calculation for these cycles in April rather than the summer R factor.⁹ The Company caught this mistake during the 4th billing cycle, but could not make a correction in time before the 5th cycle had been billed. Historically, if the dollar amount of a WNA audit finding is immaterial on a per customer basis, the amount is credited or debited to the ACA Account and becomes part of the ACA refund or surcharge. This avoids the extra expense involved for the Company to identify specific customers that are affected by the error(s) and calculate specific amounts to be credited or surcharged.

In this case, the total customer base was not affected, only customers that are billed on cycles 1 through 5 (approximately 50,000). And the amount of over-collection on a per customer basis for this subset of customers was material for a large percentage of them. After considering the matter, Piedmont decided to make correcting adjustments on each of the individual customer accounts for the affected customers. In June 2012, the Company refunded a total of \$177,451.13, of which \$167,604.24 was the WNA and \$9,846.89 was related taxes on the over-collection. Refunds per customer ranged from \$0.00 to \$788.

Staff's independent calculation of this error was an over-collection of \$156,715 (does not include related taxes). The \$10,889 difference between the staff's and Company's calculation results because staff calculates a WNA for each customer class for each cycle rather than for each individual customer on each cycle as the Company did in its analysis.

Recommendation:

Staff concurs with Piedmont's actions. The Company provided electronically an analysis of all affected customer bills in April, as well as a calculation of the refund amounts. Staff requested a sample of customer bills for June 2012 and verified the calculation of the credit amounts and that the credits were appropriately applied to the customers' bills. Staff, therefore, avers that no further action is necessary to correct the billing error.

Company Response:

The Company supports Staff's conclusion that the April 2012 cycles 1 through 5 billing error has been corrected and that no further action is necessary on this matter.

⁹ Piedmont's tariff contains a winter commodity charge (R factor) for the months of November through March and a summer commodity charge (R factor) for April through October.

SERVICE SCHEDULE NO. 315

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_i = Weather Normalization Adjustment Factor for the ith rate schedule or classification expressed in cents per therm.

R_i = weighted average base rate (base rate less any embedded gas cost) of temperature sensitive sales for the ith schedule or classification utilized by the Authority in the Relevant Rate Order for the purpose of determining normalized test year revenues.

- $HSF_i =$ 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.

Piedmont Natural Gas Company, Inc.
 TRA Docket #11-00144
 WNA Factors effective March 1, 2012

Revised
 Settlement Attachment C

Rate Schedule	November - March "R" Factor (\$/Therm)	October & April "R" Factor (\$/Therm)	Heat Sensitivity Factor (HSF) (Therms/DDD)	Base Factor (BL) (Therms/Month)
Residential - 301	0.32000	0.27000	0.17945	7.91318
Small & Medium General - 302 & 352	0.35400	0.30000	0.74873	104.85079

**Piedmont Natural Gas Company
Comparison of Actual to Normal Heating Degree Days
Nashville Weather Station**

