

BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE
September 4, 2013

| | | |
|---|---|-------------------|
| IN RE: |) | |
| |) | |
| AUDIT OF PIEDMONT NATURAL GAS |) | DOCKET NO. |
| COMPANY WEATHER NORMALIZATION |) | 13-00090 |
| ADJUSTMENT FOR THE PERIOD |) | |
| OCTOBER 1, 2012 THROUGH APRIL 30, 2013 |) | |

**ORDER ADOPTING WNA AUDIT REPORT OF THE UTILITIES DIVISION
OF THE TENNESSEE REGULATORY AUTHORITY**

This matter came before Vice Chairman Herbert H. Hilliard, Director Kenneth C. Hill, and Director David F. Jones of the Tennessee Regulatory Authority (the "Authority" or "TRA"), the voting panel assigned to this docket, at a regularly scheduled Authority Conference held on July 15, 2013 for consideration of the Weather Normalization Adjustment ("WNA") Audit Report ("Audit Report") of the Authority's Utilities Division (the "Staff") resulting from the Staff's audit of Piedmont Natural Gas Company's ("Piedmont" or the "Company") WNA for the period October 1, 2012 through April 30, 2013. The Audit Report, which was filed on June 25, 2013, is attached hereto as Exhibit 1 and incorporated in this Order by reference.

The Audit Report included one finding. The finding identified that the Company used incorrect actual heating degree days in its calculations of the WNA, which resulted in an under-collection of \$111,303. Staff recommended that the under-collection amount be included in the Company's next Actual Cost Adjustment filing covering the period July 2012


through June 2013. The Company concurred with the finding and the recommendation. After consideration of the Audit Report, the panel unanimously voted to approve the Audit Report and the finding, conclusions, and recommendations contained therein.

IT IS THEREFORE ORDERED THAT:

The Weather Normalization Adjustment Audit Report, a copy of which is attached to this Order as Exhibit 1, is approved and adopted, and it is incorporated in this Order as if fully rewritten herein.

Vice Chairman Herbert H. Hilliard, Director Kenneth C. Hill, and Director David F. Jones concur.

ATTEST:



Earl R. Taylor, Executive Director

EXHIBIT 1

BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

June 25, 2013

IN RE:

PIEDMONT NATURAL GAS

WEATHER NORMALIZATION ADJ. (WNA) AUDIT)

)
)
)
Docket No. 13-00090

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

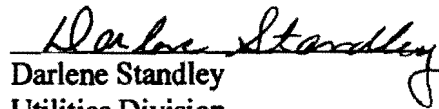
Pursuant to Tenn. Code Ann. §§65-4-104, 65-4-111 and 65-3-108, the Utilities Division of the Tennessee Regulatory Authority (the "Utilities Division") hereby gives notice of its filing of the Piedmont Natural Gas WNA Audit Report in this docket and would respectfully state as follows:

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 October 1, 2012, through April 30, 2013, and the Staff completed its audit of same on June 25, 2013.
3. On June 18, 2013, the Utilities Division issued its preliminary WNA audit findings to the Company, and on June 25, 2013, 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:


Darlene Standley
Utilities Division
Tennessee Regulatory Authority

CERTIFICATE OF SERVICE

I hereby certify that on this 25th day of June, 2013, 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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Darlene Standley

EXHIBIT A

COMPLIANCE AUDIT REPORT

OF

PIEDMONT NATURAL GAS

WEATHER NORMALIZATION ADJUSTMENT (WNA) RIDER

DOCKET NO. 13-00090

TENNESSEE REGULATORY AUTHORITY

UTILITIES DIVISION

June 2013

COMPLIANCE AUDIT OF
Piedmont Natural Gas
WEATHER NORMALIZATION ADJUSTMENT (WNA) RIDER
Docket No. 13-00090

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COMPLIANCE AUDIT
PIEDMONT NATURAL GAS
WEATHER NORMALIZATION ADJUSTMENT (WNA) RIDER
Docket No. 13-00090

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 October 1, 2012 and April 30, 2013. As a result of the WNA Rider, the Company surcharged a net \$544,096 and \$4,804,113 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 one finding for the audit period under review. Except for the finding 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.

Darlene Standley 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 2012-2013 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 |
|----------------|----------------------------|----------------------------|---------------------------|
| September 2012 | 22 | 20 | Colder |
| October 2012 | 218 | 175 | Colder |
| November 2012 | 514 | 438 | Colder |
| December 2012 | 545 | 742 | Warmer |
| January 2013 | 709 | 826 | Warmer |
| February 2013 | 624 | 632 | Warmer |
| March 2013 | 616 | 447 | Colder |
| April 2013 | 212 | 203 | Colder |
| Total | 3460 | 3483 | Warmer |

Since the overall weather during the October 1, 2012 through April 30, 2013 period was warmer than normal, the net impact of the WNA Rider was that residential and commercial customers were surcharged \$544,096 and \$4,804,113 respectively. This equates to an increase from total residential and commercial sales of .62% and 10.12%, respectively (See Table 1). This is a decrease in the WNA revenue from the previous year when the residential and commercial customers were surcharged \$5,782,266 and \$2,991,534 respectively (See Table 2).

Table 1

**Impact of WNA Rider on Residential & Commercial Revenues
October 1, 2012 - April 30, 2013**

| | <u>WNA Rider Revenues</u> | <u>Total Revenues</u> | <u>Percentage Impact of WNA Rider On Revenue</u> |
|-------------------|-------------------------------|---------------------------|--|
| Residential Sales | \$544,096 | \$87,382,311 | 0.62% |
| Commercial Sales | <u>4,804,113</u> | <u>47,455,176</u> | 10.12% |
| Total | <u>\$5,348,209</u> | <u>\$134,837,487</u> | 3.97% |

Table 2

**Amount Surcharged (Refunded)
2010 - 2013**

| | <u>Residential</u> | <u>Commercial</u> | <u>Total Surcharge/Refund</u> |
|------------|---------------------|---------------------|-----------------------------------|
| 11/10-3/11 | (1,286,218) | (696,567) | (1,982,785) |
| 11/11-4/12 | 5,782,266 | 2,991,534 | 8,773,800 |
| 10/12-4/13 | <u>544,096</u> | <u>4,804,113</u> | <u>5,348,209</u> |
| Total | <u>\$ 5,040,144</u> | <u>\$ 7,099,080</u> | <u>\$12,139,224</u> |

VI. WNA FINDINGS AND CONCLUSIONS

As noted in Section I of this report, Staff's audit resulted in one finding for the winter heating season of October 2012 through April 2013. This finding is described in detail below.

FINDING #1:

Exception:

The Company used incorrect actual heating degree days on April 5, 6 and 7th in its weather normalization calculations.

Discussion:

The Company used incorrect actual heating degree days for three (3) days in the period, which resulted in inaccurate WNA factors billed in thirteen (13) 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 |
|-------------|---------------------------------------|------------------------------------|-------------------|
| | | | |
| 4/05/2013 | 20 | 9 | -11 |
| 4/06/2013 | 9 | 8 | -1 |
| 4/07/2013 | 8 | 1 | -7 |
| | | Total | <u>-19</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 **under-collection** of WNA revenues is **\$111,303**. Since the dollar amount of this finding is immaterial on a per customer basis, Staff recommends including the under-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 under-collection amount of \$111,303 should be included in the Company's next Actual Cost Adjustment filing covering the period July 2012 through June 2013.

ATTACHMENT 1

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 October 1 and continuing through the final billing cycle in April of each year. C

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:

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

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 i^{th} 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 i^{th} 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 ith 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 ith 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.

ATTACHMENT 2

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

