

BASS

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August 30, 2013

VIA HAND DELIVERY

Executive Director Earl Taylor
c/o Sharla Dillon
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, Tennessee 37243

Re: ***In re: Petition of Piedmont Natural Gas Company, Inc. for Approval of an Integrity Management Rider to Its Approved Rate Schedules and Service Regulations***
Docket No. 13-00118

Dear Mr. Taylor:

Enclosed please find an original and five (5) copies of Piedmont Natural Gas Company, Inc.'s Petition for Approval of an Integrity Management Rider. Also enclosed is a check in the amount of \$25.00 for the filing fee for Piedmont Natural Gas Company, Inc.'s Petition. This Petition is also being filed electronically today with the Authority's Docket Manager, Sharla Dillon.

Please file the original and four copies of this material and stamp the additional copy 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

cc: James H. Jeffries, IV

12313795.1

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

IN RE:)	
)	
PETITION OF PIEDMONT NATURAL GAS)	
COMPANY, INC. FOR APPROVAL OF AN)	Docket No. 13-
INTEGRITY MANAGEMENT RIDER TO ITS)	
APPROVED RATE SCHEDULES AND)	
SERVICE REGULATIONS)	

**PETITION OF PIEDMONT NATURAL GAS COMPANY, INC. FOR
APPROVAL OF AN INTEGRITY MANAGEMENT RIDER TO ITS
APPROVED RATE SCHEDULES AND SERVICE REGULATIONS**

Piedmont Natural Gas Company, Inc. ("Piedmont" or the "Company"), through counsel and pursuant to T.C.A. § 65-5-103(d) and Rule 1220-4-1-.04 of the Rules of the Tennessee Regulatory Authority ("Authority"), respectfully requests approval of a proposed Integrity Management Rider mechanism, in the form attached hereto as Exhibit A, to its approved Rate Schedules and Service Regulations to be effective as of October 1, 2013. In support of this Petition and the proposed tariff revision attached hereto, Piedmont respectfully shows unto the Authority as follows:

1. It is respectfully requested that any notices or other communications with respect to this Petition be sent to:

Jane Lewis-Raymond
Vice President & General Counsel
Piedmont Natural Gas Company, Inc.
Post Office Box 33068
Charlotte, NC 28233
Telephone: 704-731-4261

and

R. Dale Grimes
Bass, Berry & Sims PLC
150 Third Avenue South, Suite 2800
Nashville, TN 37201
Telephone: 615-742-6244

and

James H. Jeffries IV
Moore & Van Allen PLLC
100 North Tryon Street, Suite 4700
Charlotte, NC 28202-4003
Telephone: 704-331-1079

2. Piedmont is incorporated under the laws of the state of North Carolina and is duly authorized by its Articles of Incorporation to engage in the business of transporting, distributing and selling natural gas. Piedmont is duly domesticated and is engaged in conducting the business mentioned above in the states of Tennessee, North Carolina and South Carolina. Piedmont is a public utility under the laws of this State, and its public utility operations in Tennessee are subject to the jurisdiction of this Authority.

3. On April 19, 2013, Governor Haslam signed into law House Bill No. 191 which was subsequently designated as Public Chapter No. 245 of the Session Laws of the State of Tennessee. This legislation was effective on April 29, 2013. The statute authorizes the Authority, among other things, to implement alternative regulation mechanisms, outside the context of a general rate case, allowing public utilities to recover the operational expenses, capital costs, or both associated with: (1) safety requirements imposed by state or federal authorities; or (2) insuring the reliability of public utility plant in service, if the Authority finds that such mechanisms are in the public interest. Pursuant to this legislation, the Authority is required to act on any request for alternative regulation within 120 days of the public utility's filing with the Authority. This authorization is codified at T.C.A. § 65-5-103(d).

4. Pursuant to Rule 1220-4-1-.04 of the Rules of the Authority, Piedmont is permitted to propose changes to its tariff to be effective thirty (30) days after the filing of such changes. Proposed tariff changes automatically go into effect at the end of such period, unless the effectiveness thereof is suspended by the Authority pending further investigation.

5. By this filing, Piedmont proposes to implement a new Integrity Management Rider ("IMR") mechanism in its tariffs in order to allow it to recover, on an intra-rate case basis, the costs associated with significant levels of capital expenditures incurred as the direct result of compliance with federal and state pipeline safety requirements and needed to insure the continuing reliability of its existing natural gas plant in service in Tennessee. A copy of this proposed new IMR mechanism, in the form of a proposed rider to Piedmont's tariff, is attached hereto as Exhibit A and incorporated herein by reference. The justification for and functioning of the proposed new IMR rider mechanism are explained below.

6. Subparts O and P of Part 192 of the United States Department of Transportation ("DOT") regulations establish a mandatory regimen of inspection, assessment, analysis, testing, and remediation applicable to natural gas transmission and distribution facilities in the United States, including those operated by Piedmont in Tennessee. The regimen applicable to transmission lines under Subpart O is referred to as transmission integrity management planning or "TIMP." The regimen applicable to distribution lines under Subpart P is referred to as distribution integrity management planning or "DIMP."

7. The assessment, inspection, and evaluation regimes established by Subparts O and P of Part 192 require ongoing identification and evaluation of so-called High Consequence Areas ("HCAs") for compliance with TIMP and DIMP requirements and also requires that covered pipeline segments are reassessed using prescribed tools and techniques at least every seven years.

It also requires verification of pipeline maximum operating parameters through various techniques, including hydrostatic pressure testing, and imposes substantial new record-keeping requirements for transmission piping.

8. In its initial implementation of TIMP requirements, Piedmont primarily utilized a "direct assessment" option to evaluate its transmission lines in HCAs within Tennessee. That approach, which is one of the options allowed by TIMP for transmission line evaluation and assessment, involves physically surveying transmission line routes for evidence of deterioration or leakage and conducting additional physical inspection of facilities when indications of a problem are found. At the time of Piedmont's initial compliance with TIMP requirements, direct assessment was the industry standard approach to TIMP compliance for local distribution companies ("LDCs") and while manpower intensive, it did not require significant additional investments of capital. It was also necessitated in many instances because the technology needed to utilize a more sophisticated "in-line" assessment method – also known as pigging or smart-pigging – was not available for many sizes of LDC transmission lines.

9. In the past 12-18 months, Piedmont (along with the rest of the LDC industry), has begun to transition to a more sophisticated approach to TIMP compliance with a greater emphasis on in-line inspection methods. This transition is based in part upon the growing availability of smart pig equipment for smaller LDC transmission lines as well as a growing recognition that the in-line assessment approach to TIMP compliance is superior to direct assessment in many circumstances. After careful review and assessment of its obligations under TIMP and DIMP, Piedmont has begun the transition to the use of an in-line assessment method for much of its transmission system in Tennessee. It is also engaged in much of the other testing and pressure verification requirements of TIMP throughout its Tennessee transmission system.

Piedmont is also significantly engaged in implementing the federal DIMP requirements with respect to its Tennessee distribution facilities.

10. Because of the very broad assessment, evaluation, and remediation requirements of the DOT regulations, Piedmont has been forced to expend, and is currently expending, significant amounts of capital to comply with the federal regulations governing transmission integrity management and distribution integrity management. By way of illustration, Piedmont has invested approximately \$78 million in new capital in Tennessee since the effective date of rates in its last rate case for TIMP/DIMP compliance. All of these investments are required by federal and/or state law.

11. One of the challenging aspects of investing capital in TIMP/DIMP compliance is that these investments, unlike more typical capital investments designed to support system growth, produce no additional incremental revenues to help offset the costs generated by the investment. As a result, investment in facilities required to comply with TIMP/DIMP regulations creates immediate downward pressure on Piedmont's opportunity to earn its allowed return on investment.

12. The costs sought to be recovered by the IMR mechanism proposed herein represent the costs of new capital investments that are not being recovered in Piedmont's currently approved rates, are not offset by any incremental revenues associated with the increased investments, and are being incurred as the direct result of Piedmont's obligations to comply with federal and state pipeline safety regulations and requirements. Utilization of an IMR mechanism will promote the orderly planning and implementation of necessary safety and reliability projects required by federal law. These projects will promote the reliability and safety

of Piedmont's transmission and distribution systems for the benefit of its customers and employees, and the public in general, in compliance with state and federal law.

13. Piedmont's proposed solution to the challenges posed by TIMP/DIMP compliance is a rider mechanism that provides a bridge between rate cases to address investments in integrity management projects. This bridge will essentially allow the Company to recover its costs associated with such investments on an intra-rate case basis and, in doing so, will promote public safety through advanced planning and ongoing implementation of the Company's integrity management program without regard to the timing of general rate cases.

14. The IMR mechanism proposed by Piedmont allows it to recover the costs of its capital investment in integrity management projects – such as depreciation, taxes and return – but would not provide for the recovery of any operations and maintenance or other expenses associated with such projects. Also, the mechanism will only apply to capital investments that are made in compliance with state and federal safety and integrity management laws or regulations, and would not apply to investment in normal system growth.

15. In conjunction with its IMR mechanism, the Company will file monthly reports with the Authority detailing the amount of capital expenditures, not otherwise included in the Company's rate base, resulting from capital expenditures incurred in compliance with prevailing federal safety and integrity requirements, and the costs associated with those capital expenditures will be recorded in a deferred account. Once a year, the Company will file a request with the Authority to update rates in order to recover the costs of its capital investment in state and federal pipeline safety and integrity management projects. This recovery would include return, depreciation and taxes, consistent with the cost of service treatment authorized in Piedmont's last Tennessee rate case. The recovery of these costs would be allocated to our customer classes

based upon the revenue allocations in Piedmont's last general rate proceeding. The increment within each customer group will be applied to the customer's volumetric usage rates relying on annual determinants established in the most recent rate proceeding.

16. At the time of Piedmont's next general rate proceeding, all integrity costs will be included in Piedmont's overall cost of service and the IMR mechanism would be reset to zero.

17. Piedmont submits that the IMR mechanism proposed herein is in the public interest because it creates a partial and interim bridge to recover the costs of new capital investment by the Company required to comply with state and federal pipeline safety and reliability regulations between rate case filings. It will allow the Company to periodically update rates for its customers with smaller but more frequent adjustments to rates and enhance public safety and the reliability of Piedmont's transmission and distribution systems in Tennessee. By creating this bridge, Piedmont is able to efficiently recover some (but not all) of the costs associated with its investment in capital required to serve the consuming public. Piedmont's IMR mechanism is also the type of alternate ratemaking mechanism specifically anticipated in Public Chapter No. 245.

18. Piedmont requests an effective date for the IMR mechanism proposed herein of October 1, 2013 consistent with TRA Rule 1220-4-1-.04.

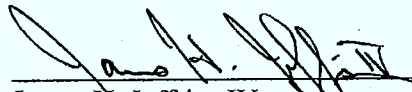
WHEREFORE, for the reasons set forth above, Piedmont respectfully requests that the Authority issue an order, on or before December 28, 2013, authorizing Piedmont to implement its proposed IMR mechanism effective as of October 1, 2013.

Respectfully submitted, this the 30th day of August, 2013.

Piedmont Natural Gas Company, Inc.



R. Dale Grimes
Bass, Berry & Sims PLC
150 Third Avenue South, Suite 2800
Nashville, TN 37201
Telephone: 615-742-6244



James H. Jeffries IV
Moore & Van Allen PLLC
100 North Tryon Street, Suite 4700
Charlotte, NC 28202-4003
Telephone: 704-331-1079

STATE OF NORTH CAROLINA

VERIFICATION

COUNTY OF MECKLENBURG

David R. Carpenter, being duly sworn, deposes and says that he is Vice President – Planning and Regulatory Affairs of Piedmont Natural Gas Company, Inc., that as such, he has read the foregoing documents and knows the contents thereof; that the same are true of his own knowledge except as to those matters stated on information and belief and as to those he believes them to be true.




David R. Carpenter

Mecklenburg County, North Carolina

Signed and sworn to before me this day by David R. Carpenter

Date: August 29, 2013



Sandra K. Hammond, Notary Public

(Official Seal)

My commission expires: August 4, 2018

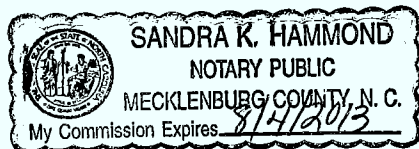


EXHIBIT A

SERVICE SCHEDULE 317
Integrity Management Rider

1. Provision for Adjustment

The base rates per therm (100,000 Btu) for gas service set forth in Rate Schedules 301, 302, 303, 304, 313, 314, and 352 ("Applicable Rate Schedules") of Piedmont Natural Gas Company ("Company") shall be adjusted by an amount hereinafter described which amount is referred to as the "Integrity Management Adjustment." The Integrity Management Adjustment shall be calculated as an increment and applied to Applicable Rate Schedules to recover the balance in the "Integrity Management Deferred Account." The Integrity Management Deferred Account shall be established by a monthly adjustment hereinafter described, which monthly adjustment is referred to as the "Integrity Management Deferred Account Adjustment."

2. 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 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.

"Integrity Management Investment Amount" means the capital investment of the Company resulting from prevailing state and federal standards for pipeline integrity and safety and not otherwise included in current base rates. At the time of the Company's next general rate case proceeding, all prudently incurred Integrity Management Investment Amounts associated with this Rider shall be included in base rates.

3. Computation of Integrity Management Revenue Requirement

The total amount to be recovered will be calculated as follows:

Integrity Management Investment Amount	\$X,XXX,XXX
Less: Accumulated Depreciation	XXX,XXX
Less: Accumulated Deferred Income Taxes	XXX,XXX
Net Investment	\$X,XXX,XXX
Pre-Tax ROR set forth in the Relevant Rate Order	X.XX%
Allowed Pre-Tax Return	\$X,XXX,XXX
Plus: Depreciation Expense	XXX,XXX
Plus: Property Taxes	XXX,XXX
Total	\$X,XXX,XXX

4. Computation of Integrity Management Deferred Account Adjustment

The Integrity Management Deferred Account Adjustment shall be computed monthly based on the monthly allocation of revenues from the Company's last general rate proceeding.

5. Computation of Integrity Management Adjustment

Effective for the first day of January's Bill Cycle Month the Integrity Management Adjustment to refund or recover the balance in the Integrity Management Deferred Account, shall be calculated for each customer class to the nearest one-thousandth cent per therm by the following formula:

Customer Class Integrity Management Adjustment = $\frac{\text{Allocated portion of the Integrity Management Deferred Account Balance}}{\text{Customer Class Annual Therms}}$

Where:

Integrity Management Deferred Account Balance = Balance at October 31

Allocated portion of the Integrity Management Deferred Account Balance = $\frac{\text{Integrity Management Deferred Account Balance} \times (\text{customer class allocated revenue responsibility from Relevant Rate Order} / \text{total Company revenue requirement established by Relevant Rate Order})}{\text{total Company revenue requirement established by Relevant Rate Order}}$

Customer Class Annual Therms = Normalized volumes assigned to the respective customer class in the Relevant Rate Order

6. Interest

Interest will be applied to the Integrity Management Deferred Account at the Company's authorized overall rate of return.

7. Monthly Filing with Authority

The Company will file monthly as directed by the Authority (a) detail of the current month's Integrity Management Investment Amount, (b) the cumulative Integrity Management Investment subject to this Rider, and (c) a schedule detailing the Integrity Management Adjustment recorded for the month. Such reports will be filed within 45 days after the end of the month for which the report is being filed.

8. Filing with Authority

The Company will file revised tariffs for Authority approval upon 14 days notice to implement a decrement or an increment each January. With the filing the Company will include a copy of the computation of the Integrity Management Adjustment.