

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

IN RE:)	
)	
PETITION OF PIEDMONT NATURAL GAS)	
COMPANY, INC. FOR APPROVAL OF AN)	DOCKET NO. 13-00118
INTEGRITY MANAGEMENT RIDER TO ITS)	
APPROVED RATE SCHEDULES AND)	
SERVICE REGULATIONS)	

STIPULATION OF PIEDMONT NATURAL GAS COMPANY

Piedmont Natural Gas Company, Inc. (“Piedmont” or “Company”) and Robert E. Cooper, Jr., Attorney General and Reporter for the State of Tennessee, through the Consumer Advocate and Protection Division (“Consumer Advocate”) (collectively the “Parties”), constituting all of the parties to the above-captioned Docket, have conferred and agreed that, if Piedmont’s tariff for the Integrity Management Rider contains the stipulations set forth in this document and the Tennessee Regulatory Authority (“TRA” or “Authority”) Directors approve it, the Consumer Advocate will not oppose Piedmont’s petition.

BACKGROUND

1. Piedmont is incorporated under the laws of the State of North Carolina and is duly domesticated and engaged in the business of transporting, distributing and selling natural gas in the States of Tennessee, North Carolina and South Carolina. Piedmont’s principal office and place of business is located at 4720 Piedmont Row Drive, Charlotte, North Carolina.

2. Piedmont is a public utility in Tennessee and its natural gas distribution business is subject to regulation and supervision by the Authority pursuant to Chapters 4 and 5 of Title 65 of the Tennessee Code Annotated.

3. Piedmont is engaged in the business of distributing natural gas to customers located in Nashville and the remainder of Davidson County as well as portions of the adjoining

counties of Cheatham, Dickson, Robertson, Rutherford, Sumner, Trousdale, Williamson, and Wilson and in certain incorporated towns and cities located therein.

4. On August 30, 2013, Piedmont filed a petition for a tariff rider to increase rates to recover the costs resulting from certain federal safety regulations. The Company calls this rider the Integrity Management Rider (“IMR” or “Rider”). This petition was filed requesting recovery of costs pursuant to Tenn. Code Ann. § 65-5-103 (2013), which was modified by 2013 Pub. Acts, c. 245, § 5 (effective Apr. 19, 2013).

5. On September 30, 2013, the Consumer Advocate filed a Petition to Intervene in this proceeding which was granted by Authority order dated October 29, 2013. No other person has sought or been granted party status in this proceeding.

6. Since the filing of Piedmont’s petition, the parties to this proceeding have engaged in discovery, informal information exchanges, and extensive communication. In addition to the information provided by Piedmont’s witnesses with their testimony, Piedmont has responded to data requests from the Authority’s Staff and from the Consumer Advocate. Piedmont representatives and representatives from the Consumer Advocate have also spent a significant amount of time discussing the various aspects of Piedmont’s petition and related IMR tariff.

7. The legislature revised Tenn. Code Ann. § 65-5-103 in 2013 to allow tariff riders so long as specific criteria are met, including but not limited to the TRA making a finding that the tariffs are in the public interest prior to approving any tariffs.

8. The Consumer Advocate’s agreement to not oppose Piedmont’s petition in exchange for the Company’s agreement to make stipulated changes to the IMR should not be construed as a finding by the Consumer Advocate that the IMR is in the public interest. The Consumer Advocate takes no position on that issue in this proceeding.

STIPULATED CHANGES TO THE TARIFF

Piedmont agrees to make the following stipulated changes to its tariff, which is attached in Appendix A:

1. ***Actual Capital Costs for DIMP and TIMP Recoverable Annually.*** The costs submitted for consideration as to whether the IMR is in the public interest are limited to the Company's requirements to comply with Part 192 of the United States Department of Transportation regulations, Subpart O (transmission integrity management planning or "TIMP") and Subpart P (distribution integrity management planning or "DIMP").
 - a) The Company is limited to recovering only those actual capital investments resulting from the Company's compliance with DIMP and TIMP that the Authority has found to be reasonable, prudent, and necessary to comply with the regulations and that are not already being recovered through rates.
 - b) If the Company wants to expand the recoverable capital investments allowed in this Rider, the Company is required to file a request not less than 120 days prior to the Annual Filing to provide the Authority an opportunity to determine that cost recovery of capital investments under safety regulations other than DIMP and TIMP are in the public interest prior to recovery of such costs in the Rider. The Company will copy the Consumer Advocate on all requests.
 - c) Any requests for recovery of costs not related to safety regulations approved for recovery through this Rider will be filed under a petition for a separate rider.
2. ***Over- or Under-Collection.*** The Company has requested the Rider be recovered in a volumetric charge. The Company will use the billing determinants from the most recent rate case to calculate the Rider for the forthcoming annual period. The use of billing determinants from the last rate case will likely result in an over- or under-collection of

the Rider actually authorized for recovery. Consequently, the Company will do the following:

- a) The Company will calculate the amount of collections using actual bills for the period and calculate the amount the Company has over or under collected.
- b) This over- or under-collection will be tracked in the Integrity Management Deferred Account.
- c) The amount over- or under-collected, as adjusted for interest, will offset the calculation of revenue requirement related to the Rider for the forthcoming annual period.

3. ***Interest.*** The Company has requested that interest be earned on the amount of over or under collection. The Company originally requested that its authorized rate of return be used as the interest rate. The Company has agreed that the Interest rate defined in the Purchased Gas Adjustment Rule, Rule 1220-04-07-.03, is an appropriate methodology to use in this Rider. Consequently, the Company agrees to define Interest in this Rider as follows: The Company may recover interest on the “Integrity Management Deferred Account” based on the average monthly balance based on the beginning and ending monthly balances. The interest rates for each calendar quarter used to compute such interest shall be a rate equal to the rate used to compute interest on the “Refund Due Customers’ Account” as prescribed by TRA Rule 1220-4-7-.03.

4. ***Source of Factors Used in Calculations.*** The Company agrees to use the methodologies approved in the most recent rate case for accumulated depreciation, depreciation expense, property taxes, pre-tax return and uncollectibles gross-up factor. The Company agrees to use the average of the actual accumulated deferred income taxes at the beginning and end of the year.

5. ***Computation of the Integrity Management Revenue Requirement.*** The Integrity Management Revenue Requirement (“IMRR”) will be computed annually using actual capital investment that is reasonable, prudent, and necessary to comply with DIMP and TIMP less accumulated depreciation and accumulated deferred income taxes to arrive at the Net Investment. The Net Investment is multiplied by the pre-tax rate of return set forth in the most recent rate case order to arrive at the allowed Pre-Tax Return. The Pre-Tax Return is increased by depreciation expense and property taxes, the total of which is multiplied by the uncollectibles gross-up factor from the most recent rate case order to arrive at the Total Revenue Requirement, Excluding Refund Adjustments. The calculation appears as follows:

Integrity Management Investment Amount	\$X,XXX,XXX
Less: Accumulated Depreciation	XXX,XXX
Less: Accumulated Deferred Income Taxes	<u>XXX,XXX</u>
Net Investment	\$X,XXX,XXX
Pre-Tax ROR set forth in the Relevant Rate Order	X.XX%
Allowed Pre-Tax Return	<u>\$X,XXX,XXX</u>
Plus: Depreciation Expense	XXX,XXX
Plus: Property Taxes	<u>XXX,XXX</u>
Total, Excluding Uncollectibles	\$X,XXX,XXX
Multiplied by: Uncollectibles Gross-Up Factor	<u>X.XXXXX</u>
Total Revenue Requirement, Excluding Refund Adjustments	\$X,XXX,XXX

6. ***Computation of the Integrity Management Deferred Account Adjustment.*** The Integrity Management Deferred Account Adjustment will be calculated monthly. Revenue will be recorded monthly and is based on the monthly allocation of throughput consistent with the last rate case. The debit to the revenue recorded will be to the Integrity Management Deferred Account. Collections will also be recorded monthly as an offset to the receivable balance in the Integrity Management Deferred Account. The

amount of the Integrity Management Adjustment collected from customers will be computed by multiplying the Integrity Management Adjustment billing increment for each Applicable Rate Schedule by the corresponding actual terms of usage billed to customers for the month. The Company shall also record in the Integrity Management Deferred Account each month the interest due from (to) customers related to the cumulative under- (over-) collection of the IMRR, pursuant to the terms described in Section 6 of this Rider. An illustration of the monthly journal entries are as follows:

	<u>Debit</u>	<u>Credit</u>
1. To record revenue:		
Integrity Management Deferred Account	XXX,XXX	
Income		XXX,XXX

2. To record collections:		
Accounts Receivable	XXX,XXX	
Integrity Management Deferred Account		XXX,XXX

3. To record interest:		
If the Integrity Management Deferred Account has a net debit balance, which reflects net under-collections:		
Integrity Management Deferred Account	X,XXX	
Interest Income		X,XXX

 If the Integrity Management Deferred Account has a net credit balance, which reflects net over-collections:

Interest Expense	X,XXX	
Integrity Management Deferred Account		X,XXX

7. **Annual Filing.** In order to provide an opportunity for review of the reasonableness, prudence, and necessity of the capital costs submitted for recovery through the Rider, the Company must submit the following information to the Authority and simultaneously copy the Consumer Advocate annually either 30 days before the implementation of the

IMRR for the forthcoming year or a period of time set forth by the Authority, whichever is longer:

- a) the monthly filing (pursuant to Section 7 of the attached amended tariff, which includes the detail of the current month's Integrity Management Investment Amount, the cumulative Integrity Management Investment subject to this Rider, a schedule detailing the Integrity Management Deferred Account Adjustment recorded for the month, and any related general ledger support) for October,
- b) a schedule of all journal entries made related to this Rider for the previous 12 months,
- c) actual billing determinants for the prior 12 months as used in the computation of the Integrity Management Deferred Account Adjustment,
- d) capitalization policy effective for the prior 12 months,
- e) the computation calculating the IMRR and all supporting schedules,
- f) a schedule of any proposed prior period adjustments, and
- g) an affirmative statement of whether the Company is aware of any changes in the market conditions or other factors that may affect whether the Rider is still in the public interest, including the identification of such factors if they exist.

8. Notice Requirements. The Company has requested to submit its annual filing with the Rider calculation 14 days before the Rider is implemented. The Company agrees to file notice at least 30 days prior to the implementation of the Rider for the forthcoming annual period and to simultaneously copy the Consumer Advocate on such filing.

9. Public Interest Review. Whether the Rider is in the public interest may change over time. Consequently, the Company agrees to the following:

- a) The Consumer Advocate or other interested parties may file petitions requesting the Authority to reconsider whether the Rider is still in the public interest after three years from the initial effective date.
- b) If there is a material change in conditions affecting the public interest within the first three years of the Rider, the Consumer Advocate or other interested parties may file a petition requesting the Authority to reconsider whether the Rider continues to be in the public interest in light of such changed conditions.

10. Legal fees. The Company has confirmed that the Rider will not include the recovery of legal fees associated with regulatory proceedings before the Authority seeking the approval of this rider mechanism or regulatory proceedings related to periodic filings with the TRA as provided by the IMR.

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by RDG
w/ permission

**CONSUMER ADVOCATE AND PROTECTION
DIVISION**

A handwritten signature in blue ink, appearing to read "RE Cooper, Jr.", written over a horizontal line.

Robert E. Cooper, Jr. (BPR No. 10934)
Attorney General and Reporter

A handwritten signature in blue ink, appearing to read "Charlena Aumiller", written over a horizontal line.

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APPENDIX 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, 310, 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 "Integrity Management Revenue Requirement" (IMRR), and 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" and shall track the Company's recovery of the IMRR.

2. Definitions

For the purposes of this Rider:

"Authority" means the Tennessee Regulatory Authority.

"DIMP" means the regimen referred to as the distribution integrity management planning under Subpart P of Part 192 of the United States Department of Transportation ("U.S. DOT") regulations.

"Integrity Management Deferred Account" means the account reflecting the cumulative difference between the amounts authorized for collection pursuant to this Rider and the collections actually received. The over or under collected amount is a result of the billing determinants used to establish the billing increment associated with this Rider for each Applicable Rate Schedule.

"Integrity Management Investment Amount" means the approved amount of actual capital investment of the Company resulting from prevailing state and federal standards for pipeline integrity and safety for complying with DIMP and TIMP regulations 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.

"Refund Adjustments" means the adjustment to the IMRR applicable to the coming annual period for the net amount of over or under collections in the Integrity Management Deferred Account, as adjusted for Interest.

“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.

“TIMP” means the regimen referred to as the transmission integrity management planning under Subpart O of Part 192 of the U.S. DOT regulations.

“Vintage Year” means the fiscal year during which the Integrity Management Investment Amount is made.

3. Computation of Integrity Management Revenue Requirement

The total revenue requirement will be calculated for each Vintage Year, as follows:

Integrity Management Investment Amount	\$X,XXX,XXX
Less: Accumulated Depreciation	XXX,XXX
Less: Accumulated Deferred Income Taxes	XXX,XXX
Net Investment	<u>\$X,XXX,XXX</u>
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, Excluding Uncollectibles	\$X,XXX,XXX
Multiplied by: Uncollectibles Gross-Up Factor	<u>X.XXXXX</u>
Total Revenue Requirement, Excluding Refund Adjustments	\$X,XXX,XXX

Where:

Accumulated Depreciation	=	Accumulated depreciation calculated using rates approved in Relevant Rate Order
Accumulated Deferred Income Taxes	=	An average of the actual accumulated deferred income taxes at the beginning and end of the year
Depreciation Expense	=	Approved actual Integrity Management Investment Amount x Depreciation Rates approved in the Relevant Rate Order

Property Taxes	=	Composite property tax rate approved in the Relevant Rate Order
Uncollectibles Gross-Up Factor	=	Uncollectibles gross-up factor used and approved in the Relevant Rate Order

The total of the revenue requirements for each Vintage Year is the IMRR. The total amount to be recovered through the Integrity Management Adjustment is the IMRR plus the Refund Adjustment.

4. Computation of Integrity Management Deferred Account Adjustment

Each month the Company will record in the Integrity Management Deferred Account the portion of the IMRR that corresponds to that month, based on the monthly allocation of throughput consistent with the Relevant Rate Order. Furthermore, each month the Company will make an offsetting entry to the Integrity Management Deferred Account for the amount of the Integrity Management Adjustment collected from customers. The amount of the Integrity Management Adjustment collected from customers will be computed by multiplying the Integrity Management Adjustment billing increment for each Applicable Rate Schedule by the corresponding actual therms of usage billed to customers for the month. The Company shall also record in the Integrity Management Deferred Account each month the interest due from or to customers related to the cumulative under or over collection of the IMRR, pursuant to the terms described in Section 6 of this Rider. An illustration of the monthly journal entries described above is as follows:

	<u>Debit</u>	<u>Credit</u>
1. To record revenue:		
Integrity Management Deferred Account	\$XXX,XXX	
Income		\$XXX,XXX
2. To record collections:		
Accounts Receivable	\$XXX,XXX	
Integrity Management Deferred Account		\$XXX,XXX
3. To record interest:		

If the Integrity Management Deferred Account has a net debit balance, which reflects net under-collections:

Integrity Management Deferred Account	\$X,XXX	
Interest Income		\$X,XXX

If the Integrity Management Deferred Account has a net credit balance, which reflects net over-collections:

Interest Expense	\$X,XXX	
Integrity Management Deferred Account		\$X,XXX

5. Computation of Integrity Management Adjustment

The Integrity Management Adjustment will be adjusted annually using 1) actual Integrity Management Investment Amounts that the Authority has found to be reasonable, prudent, and necessary to comply with the safety regulations approved for recovery through this Rider, and 2) the Refund Adjustment recognizing the actual balance in the Integrity Management Deferred Account.

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

$$\begin{aligned}
 \text{Customer Class Integrity Management Adjustment} &= \frac{\text{(Allocated portion of the Integrity Management Deferred Account Balance)}}{\text{Customer Class Annual Therms}} \\
 &+ \text{(Allocated portion of the IMRR/Customer Class Annual Therms)}
 \end{aligned}$$

Where:

$$\begin{aligned}
 \text{Integrity Management Deferred Account Balance} &= \text{Balance at October 31} \\
 \text{Allocated portion of the Integrity Management Deferred Account Balance} &= \frac{\text{Integrity Management Deferred Account Balance}}{\text{Customer Class allocated margin revenue responsibility from Relevant Rate Order / total margin revenue requirement for Applicable Rate Schedules from Relevant Rate Order}}
 \end{aligned}$$

Allocated portion of the IMRR	=	IMRR
	x	(Customer Class allocated margin revenue responsibility from Relevant Rate Order / total margin revenue requirement for Applicable Rate Schedules from Relevant Rate Order)
Customer Class Annual Therms	=	Annualized and Normalized throughput assigned to the respective Customer Classes in the Relevant Rate Order
Residential Customer Class	=	Rate Schedule 301
Commercial Customer Class	=	Rate Schedules 302 and 352
Firm Large General Customer Class	=	Rate Schedules 303, 313 and 310
Interruptible Large General Customer Class	=	Rate Schedules 304 and 314

6. Interest

The Company may recover interest on the "Integrity Management Deferred Account" based on the average monthly balance based on the beginning and ending monthly balances. The interest rates for each calendar quarter used to compute such interest shall be a rate equal to the rate used to compute interest on the "Refund Due Customers' Account" as prescribed by TRA Rule 1220-4-7-.03.

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, (c) a schedule detailing the Integrity Management Deferred Account Adjustment recorded for the month, and (d) any related general ledger support. Such reports will be filed within 45 days after the end of the month for which the report is being filed.

8. Annual Filing with Authority

The Company will include in its Annual Filing made not later than each November 30th the following information: (a) the monthly filing (pursuant to Section 7 of this Rider) for October, (b) a schedule of all journal entries made related to this Rider

for the previous 12 months, (c) actual billing determinants for the prior 12 months as used in the computation of the Integrity Management Deferred Account Adjustment, (d) capitalization policy effective for the prior 12 months, (e) the computation calculating the IMRR and all supporting schedules, (f) a schedule of any proposed prior period adjustments, and (g) an affirmative statement of whether the Company is aware of any changes in the market conditions or other factors that may affect whether the Rider is still in the public interest, including the identification of such factors if they exist.

The Company will simultaneously copy the Consumer Advocate on its Annual Filing.

9. Notice Requirements

The Company will file revised tariffs for Authority approval upon 30 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. The Company will simultaneously copy the Consumer Advocate on this filing.

10. Expansion of the Rider Beyond DIMP and TIMP Costs

If the Company wants to expand the recoverable capital investments allowed in the Integrity Management Investment Amount for safety regulations that are not related to DIMP or TIMP compliance, the Company is required to file a request, not less than 120 days prior to the Annual Filing discussed in Section 8 of this Rider, for the Authority to determine that cost recovery of capital investments under the safety regulations other than DIMP and TIMP are in the public interest prior to recovery of such costs in the Rider. The Company will simultaneously copy the Consumer Advocate on all such requests.

11. Public Interest Review

After a period of three years from the initial effective date of this Rider, the Consumer Advocate or other interested parties may file petitions seeking the Authority to reconsider whether the Rider remains in the public interest. Notwithstanding the aforementioned, the Consumer Advocate or any other interested party may file a petition for the Authority to reconsider the public interest of the Rider within the 3-year period upon a material change in conditions affecting the public interest.