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September 17, 2014

Via Hand-Delivery

The Honorable Earl Taylor
Executive Director
Tennessee Regulatory Authority
c/o Sharla Dillon
502 Deaderick Street, Fourth Floor
Nashville, Tennessee 37243

Re: ***Petition of Piedmont Natural Gas, Inc. for Accounting Order***
Docket No. 13-00119

Dear Mr. Taylor:

I am enclosing an original and five (5) copies of Piedmont Natural Gas Company, Inc.'s Testimony and Exhibit of Mandi J. King and Testimony of Robert L. Thornton for the above docket. This is also being filed today by way of email to the Tennessee Regulatory Authority Docket Manager, Sharla Dillon.

Please file the original and four copies of this filing and stamp the additional copy as "filed". Then please return the stamped copies 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.

With kindest regards, I remain

Very truly yours,

R. D. Grimes

R. Dale Grimes

RDG:smb

Enclosures

cc: Wayne Irvin
Vance Broemel
Shiva Bozarth

Before the
Tennessee Regulatory Authority

Docket No. 13-00119

**Petition of Piedmont Natural Gas Company, Inc.
to Adjust the June 30, 2012 ACA Ending Balance for
Prior Period Adjustments**

Testimony and Exhibit
of
Mandi J. King

On Behalf of
Piedmont Natural Gas Company, Inc.

Piedmont
Natural Gas

September 17, 2014

Q. Please state your name and business address.

A. My name is Mandi J. King. My business address is 4720 Piedmont Row Drive, Charlotte, North Carolina.

Q. What is your position and what are your responsibilities with Piedmont Natural Gas Company?

A. I am employed as the Manager of Gas Accounting.

Q. Please briefly describe your education and professional experience.

A. I received a B.S. degree from Robert Morris University in 1996. In 1996, I was employed by ExpoServices as a Billing Processor. I was promoted to Accounting Analyst in 1999 and to Accounting Supervisor in 2002. In 2004, I was employed by EnPro Industries as a Corporate Payroll Administrator. In 2005, I was employed by HSBC Mortgage Services as a Senior Financial Analyst. In 2007, I was employed by Piedmont Natural Gas Company, Inc. ("Piedmont") as a Regulatory Analyst. I was promoted to Senior Regulatory Analyst in 2008 and to Manager of Gas Accounting in 2009.

Q. Please describe your responsibilities as Manager of Gas Accounting.

A. My responsibilities include: overseeing the preparation of the cost of gas and supporting schedules, monitoring and analyzing the regulatory mechanisms and their balances in each of the three state jurisdictions in which Piedmont operates, and reviewing internal and external reporting and responding to any concerns related to the cost of gas.

Q. Have you previously testified before this Authority or any other regulatory authority?

A. No.

Q. What is the purpose of your testimony in this proceeding?

A. The purpose of my testimony in this proceeding is to support Piedmont's petition seeking approval of five prior period adjustments to Piedmont's ACA account in order to resolve an imbalance in its accounting for Tennessee gas costs between its books and its ACA accounts.

Q. Can you please describe your involvement in the discovery and determination of the five discrete accounting adjustments to Piedmont's ACA account proposed in this docket?

A. Yes. As of the conclusion of our ACA audit process in TRA Docket No. 07-00174, the Company believed that the ACA ending balance reflected in that docket was correct. That belief was reflected in an agreed ending balance with the TRA Staff which was ultimately approved by the Authority itself. We later discovered that this was not the case when we could not match ending balances in our ACA account to our book gas cost balances.

Q. What did the Company do when it discovered that its book and ACA account balances did not match?

A. When we realized that we had a discrepancy, I was tasked to conduct a detailed review of our gas cost accounting records to discover the nature and causes of the discrepancy. I began that investigation in approximately January 2012 and it continued for a period of approximately 9 months.

Q. Why was this review necessary?

A. Under prevailing standards of accounting, we cannot accept a discrepancy between our books and our ACA account with respect to our Tennessee gas costs and must resolve such a discrepancy once it is discovered. Similarly, we cannot simply make adjustments to either account to resolve the discrepancy, but must determine the cause of the discrepancy and obtain any necessary regulatory approvals to make adjustments to our regulatory accounts, if adjustment to those accounts is required – as it is in this case.

Q. Why did it take 9 months to complete the investigation?

A. I basically had to recreate and re-audit, in very great detail, our gas cost accounting for the period necessary to find the causes of the discrepancy. This ended up taking me back to our gas cost accounting year 2005. In undertaking this analysis, I literally conducted a detailed review of thousands of gas cost transactions before I could establish with certainty the causes of the accounting discrepancy.

Q. Did you discover the causes of the accounting discrepancy?

A. Yes. These causes were primarily the adjustments described in our Petition in this proceeding and in the White Paper attached hereto as Exhibit_(MJK-1). We prepared this White Paper at the end of my investigation to document the nature and extent of the accounting errors that created the discrepancy between our books and the ACA account. This White Paper was first provided to the

TRA Staff in February 2013, along with all supporting documentation and invoices regarding each proposed adjustment.

Q. Was it reasonably possible for Piedmont or the TRA Staff to recognize and make these adjustments prior to the completion of your investigation?

A. Not in my opinion. If that were the case it would not have taken me 9 months to uncover the issues and propose appropriate corrective accounting adjustments.

Q. Could you describe these adjustments?

A. Yes.

Adjustment #1 occurred because Piedmont did not include the first demand payment for Midwestern Gas Pipeline from November 2006 in the ACA audit materials provided to Staff for the 2006 audit period. Inasmuch as this was a new payment for a service Piedmont had not previously received, it appears that it was simply overlooked in the pre-audit accounting process. To put this oversight in context, Piedmont reported thousands of transactions and more than $188,574,614.40 in gas costs in that audit. The total adjustment is $54,043.26, which includes interest in the amount of $12,843.26.

Adjustment #2 occurred as a result of Piedmont's prior procedure of filing ACA schedules with estimate information in one period, and the estimate to actual variance in the next. This served to correct previous estimates in the subsequent month. Staff subsequently clarified that only actual costs should be reported and the schedule was changed accordingly. At the time of this change, Piedmont did not realize that Staff had adjusted Piedmont's 2005 filing to remove the estimated-to-actual variance adjustment. Therefore, an adjustment was included in January 2006 for the estimate to actual variance from December 2005 in error. This error arises directly from the variance in accounting methodologies between Piedmont's books and its ACA account. Piedmont now seeks to correct this error. The necessary adjustment to correct this error is $431,638.27, including $122,280.80 in interest.

Adjustment #3 occurred because the ACA schedule was credited with a wire in error, as the invoices had already been recorded to the ACA. Piedmont reversed the credit in December 2006 on the ACA schedule in order to correct the apparent double-counting of the credit in Piedmont's ACA account. During the audit process, the TRA questioned this reversal and stated that the credit was a pipeline refund. Consequently, Piedmont agreed to remove it. Piedmont's subsequent investigation revealed that it was not a pipeline refund and was instead a credit legitimately due Piedmont and, therefore, Staff's rejection of Piedmont's reversal was improper. This adjustment totals $917,248.71, which includes $217,982.06 in interest.

Adjustment # 4 concerns Tennessee Gas Pipeline ("TGP") invoices from January 2006-December 2006 that were inadvertently misrepresented in the approved ACA schedule in Docket No. 07-00174. Piedmont paid what it believed to be correct amounts for its TGP service during the period November 2005-October 2006. During that period, this capacity was subject to an asset management agreement. After paying its TGP invoices, Piedmont later learned that when assets were released to a third party, TGP continued to bill directly for withdrawals when the delivery location was also a system balancing point. In 2006, Piedmont began paying the asset manager for FSMA withdrawals because Piedmont expected TGP to bill them for all released assets. In April of 2006, Piedmont stopped trying to get a credit from TGP and took a credit against the asset manager invoice instead. For the remainder of that asset management contract, all FSMA withdrawal charges were remitted directly to TGP. The adjustment needed to correct Piedmont's ACA account for the confusion stemming from the AMA on the TGP system is $951,853.41, which includes interest of $259,715.81.

Finally, Adjustment #5 relates to an asset manager true-up Piedmont performed on its Firm Storage Market Area ("FSMA") capacity on TGP for the period April 2005-October 2005. In May 2006, Piedmont calculated that the adjustment would reduce the storage balance by 101,516 dekatherms. Piedmont's Gas Accounting Department assigned the October 2005 rate of $9.52, resulting in a $966,432.32 adjustment. During the audit in Docket No. 07-00174, Staff questioned the adjustment and Piedmont removed it from the schedule, believing at that time that the adjustment had been processed in 2005. In its investigation, Piedmont recreated the inventory schedules for its FSMA capacity and now understands that the adjustment was not included in the 2005 ACA audit. This adjustment totals $966,432.32, which includes interest of $343,138.62.

Q. Do these adjustments represent legitimate gas costs incurred by Piedmont for the benefit of its Tennessee customers?

A. Yes.

Q. Did you discover any other discrepancies in your investigation?

A. Yes. We discovered $793,087.45 in other discrepancies in our general ledger that favored our customers.

Q. Is Piedmont requesting approval to make those adjustments in this docket?

A. No. We have not requested that approval since it did not impact the ACA filings. We made those adjustments to our general ledger balance.

Q. Do you believe that it is appropriate to make the adjustments to Piedmont's ACA account you have identified above and on Exhibit_(MJK-1)?

A. Yes. That is the proper accounting treatment and it will correct an existing misstated balance in our ACA account.

Q. Does this conclude your direct testimony?

A. Yes.

EXHIBIT_(MJK-1)

Exhibit_(MJK-1)

Piedmont Natural Gas

Tennessee Adjustment Summary
Prepared By: Mandi King & Rob Thornton
Amount of Adjustments Including Interest: $3,664,354.59

It was discovered that, even though Piedmont had been validating the activity in the ACA account 18650, the general ledger balance in the account did not agree to the approved balance in the ACA filings. The ACA and the general ledger disagree by $4,457,442.07 as of June 30, 2012. The approved ACA balance is ($8,638,881.89) and the general ledger balance is ($4,181,439.82) as of June 30, 2012. Estimate to actual differences and the lag time on receiving approved ACA filings in prior years were the main contributors in disguising this issue in the previous years. However, since the ACA filings are now current and filed on an actual basis, Gas Accounting began to look into the variance. After detailed investigation and review of the ACA filings and the entries made to the general ledger, it was determined that the year 2006 was the primary source of the variance. The conclusion of the detailed investigation and review results in an adjustment to the general ledger of ($793,087.45) and an adjustment to the ACA filing of $3,664,354.62. The revised ACA balance at June 30, 2012 should be ($4,974,527.27).

Piedmont made the entries that resulted in the ($793,087.45) adjustment to account 18650 in the general ledger in October 2012. Summarized below are the details related to the $3,664,354.62 adjustments that need to be made to the ACA filings, including associated interest, which must be reviewed and approved by the TRA staff.

1. $41,200.00 – We did not include the first demand payment for Midwestern Gas Pipeline from November 2006 in the ACA schedule, nor did we provide a copy of the invoice to the TRA. The interest associated with this adjustment is an additional $12,843.26, resulting in a total adjustment of $54,043.26
2. $309,357.47 – We originally filled the ACA schedules with estimate information in one period, and the estimate to actual variance in the next. The TRA only wanted the actual information represented, and the schedule was changed accordingly. It was not realized that the TRA had adjusted the 2005 filing to remove the estimated data as well. Therefore, an adjustment was included in January 2006 for the estimate to actual variance from December 2005 in error. The interest associated with this adjustment is an additional $122,280.80, resulting in a total adjustment of $431,638.27.
3. $699,266.65 – We received a wire from Tennessee Gas Pipeline in November 2006 for credit invoices. The ACA schedule was credited with this wire in error as the invoices had already been recorded to the ACA. We reversed the credit in December 2006 on the ACA schedule. The TRA questioned the December 2006 reversal in a data request. We responded that the reversal was in error and removed it. However, we now know that the wire was due Piedmont for credit invoices over the summer as demand was released to the asset manager. The interest associated with this adjustment is an additional $217,982.06, resulting in a total adjustment of $917,248.71.
4. $692,137.60 - The Tennessee Gas Pipeline invoices from January 2006 – December 2006 were misrepresented in the approved ACA schedule. We were paying the incorrect amounts each month, but with the acceptance of the credit from Tennessee Gas Pipeline in November 2006, we actually paid each month as invoiced in full. The $699,266.65 credit was not only for credit invoices, it also included all the payment variances from November 2005 – October 2006. (We had to include the November & December 2005 payment variances as these were included on the ACA in January 2006). The interest associated with this adjustment is $259,715.81, resulting in a total adjustment of $951,853.41. Follow up: We have learned

that Tennessee Gas Pipeline had a system limitation that was only corrected in 2010. When assets were released to a third party, Tennessee Gas Pipeline continued to bill directly for withdrawals when the delivery location was also a system balancing point. In 2006, we began by paying Merrill Lynch for FSMA withdrawals because we expected Tennessee Gas Pipeline to bill them for all released assets. In April of 2006, we gave up trying to get a credit from Tennessee Gas Pipeline, and took a credit against the Merrill Lynch invoice instead. For the remainder of the asset manager contract with Merrill Lynch, all FSMA withdrawal charges were remitted directly to Tennessee Gas Pipeline. We believe this to be the main cause of our payment issues with Tennessee Gas Pipeline from November 2005 through April 2006.

5. $966,432.32 – An asset manager true-up was performed on FSMA for the period of April 2005 – October 2005. In May 2006, Gas Accounting was notified by Gas Supply that the adjustment would reduce the storage balance by 101,516 dts. Gas Accounting assigned the October rate of $9.52, resulting in a $966,432.32 adjustment. The TRA questioned the adjustment. We removed the adjustment from the schedule believing that the adjustment had already been processed in 2005. We recreated the inventory schedules for FSMA and now know that the adjustment was not booked in the 2005 ACA audit. We believe we responded incorrectly because GCS was altered in October 2005 for the dts. We also made the mistake of not changing the inventory schedule that goes with the filing so the removal was masked because our ending balance in the general ledger agreed with the ending balance on the ACA inventory worksheet. The interest associated with this adjustment is an additional $343,138.62, resulting in a total adjustment of $1,309,570.94.

Before the
Tennessee Regulatory Authority

Docket No. 13-00119

**Petition of Piedmont Natural Gas Company, Inc.
to Adjust the June 30, 2012 ACA Ending Balance for
Prior Period Adjustments**

Testimony
of
Robert L. Thornton

On Behalf of
Piedmont Natural Gas Company, Inc.

Piedmont Natural Gas

September 17, 2014

Q. Please state your name and business address.

A. My name is Robert L. Thornton. My business address is 4720 Piedmont Row Drive, Charlotte, North Carolina.

Q. What is your position and what are your responsibilities with Piedmont Natural Gas Company?

A. I am employed as the Managing Director of Gas and Regulatory Accounting.

Q. Please briefly describe your education and professional experience.

A. I received a B.S. degree from The College of Charleston in 1984. In 1985, I was employed by Duke Power Company as a staff accountant. In 1990 I was employed by Ingersoll-Dresser Pump Company as Controller. In 1994, I was employed by Public Service Company of North Carolina, Inc. ("PSNC"), as a Senior Financial Accountant and was promoted to Director – Investor Relations and Financial Projects in 1998. After PSNC was acquired by SCANA Corporation, I was employed by Cox Technologies in 2000 as Controller and Assistant Treasurer. In 2004, I was employed by HSBC Mortgage Corp. as Manager of Regulatory and Investor Reporting. I was employed by Piedmont Natural Gas Company, Inc. ("Piedmont") in 2007 as Manager of Gas Accounting. I was promoted to Director of Gas and Regulatory Accounting in February 2008. I was promoted to Managing Director of Gas and Regulatory Accounting in March 2014.

Q. Please describe your responsibilities as Managing Director of Gas and Regulatory Accounting.

A. My responsibilities include: recording the cost of gas on Piedmont's books, maintaining a proper match of revenues and cost of gas in Piedmont's income statements, recording Piedmont's margin in accordance with regulatory requirements in each of the three state jurisdictions in which Piedmont operates, verifying volumes and prices on all invoices relating to the purchase and transportation of natural gas, and recording gas inventory accounts and deferred accounts. I am also responsible for the middle office functions related to daily reconciliation of purchases and sales of gas as well as the experimental hedging program implemented in South Carolina pursuant to Commission Order No. 2002-223 dated March 26, 2002. I am also responsible for the billing functions associated with the Company's large-volume customers.

Q. Have you previously testified before this Authority or any other regulatory authority?

A. I have not testified before this Authority but I have previously testified before the Public Service Commission of South Carolina and the North Carolina Utilities Commission on several occasions.

Q. What is the purpose of your testimony in this proceeding?

A. The purpose of my testimony in this proceeding is to explain to the Authority Piedmont's end-of-period balances in and accounting for its deferred gas costs accounts in order to permit the Authority to determine that the requested accounting adjustment is in the public interest and will benefit Piedmont and its customers by correctly stating the balance in Piedmont's deferred Actual Cost

Adjustment ("ACA") account and eliminating the discrepancy between Piedmont's per books gas costs and the ACA account.

Q. Has the Authority reviewed Piedmont's accounting for its cost of gas for the review period in this proceeding?

A. Yes. On September 28, 2012, Piedmont submitted its most recent annual deferred ACA account filing for the period July 1, 2011 through June 30, 2012 in Docket No. 12-00114. On March 26, 2013, the Authority issued its *Order Adopting ACA Audit Report of Tennessee Regulatory Authority's Utilities Division* ("2013 ACA Order"). The Authority concluded that "the Company appears to be correctly implementing its purchased gas adjustment as calculated in the ACA account in all material respects" and voted unanimously to approve Staff's audit report which found that as of June 30, 2012, Piedmont's ACA account balance reflected an over-collection of $8,639,411.62.

Q. Does Piedmont now believe that the ACA over-collection balance approved in the 2013 ACA Order is over-stated?

A. Yes. Piedmont now believes that the over-collection balance in its ACA account, as approved by the Authority in its 2013 ACA Order, is over-stated by $3,664,354.59.

Q. Please explain why Piedmont believes the ACA balance is over-stated by $3,664,354.59.

A. As a result of difficulties Piedmont was experiencing in matching its per books cost of gas to its ACA account balance, Piedmont's gas cost accounting personnel undertook an extensive analysis of Piedmont's per books gas costs and its ACA account balance reported to and approved by the Authority in the 2013 ACA Order. The analysis revealed the existence of five (5) prior gas cost transactions that were either overlooked or improperly accounted for in Piedmont's ACA account and which were responsible for most of the discrepancy between Piedmont's ACA account and the General Ledger.

Q. Who conducted this analysis for Piedmont?

A. Mandi King, Piedmont's Manager of Gas Accounting, conducted an exhaustive analysis over the period of nine months to identify the five transactions that caused the mismatch in Piedmont's per books costs of gas and its ACA account balance.

Q. What period did these discrepancies relate to?

A. The accounting discrepancies related to the 2007 ACA audit period.

Q. Why did it take Piedmont so long to discover these five (5) transactions?

A. Over the years, the accounting associated with the thousands of annual gas cost transactions reflected in Piedmont's ACA account has become quite complex. Piedmont responded to the increasing accounting complexity by hiring additional gas cost accounting personnel, including myself, as the Director of Gas Cost Accounting. After an extensive review of Piedmont's prior gas cost accounting activities, we concluded that a number of changes to the balances in

Piedmont's ACA account were necessary in order to properly reflect the impact of prior transactions that were not appropriately recorded in Piedmont's Gas Cost account at the time they occurred. These changes were included in subsequent ACA filings with the Authority and have been approved by Staff and by the Authority in those proceedings. While we thought that Piedmont had resolved all discrepancies between its books and its ACA account, we discovered in early 2012 that, even though we had been validating the activity in the ACA account, the general ledger balance did not agree to the approved balance in the ACA filings. This discrepancy was initially not apparent to us because of a mismatch in the manner in which Piedmont was maintaining its books and its ACA account. Specifically, Piedmont was recording gas costs in the general ledger on an estimated basis (as required by Generally Accepted Accounting Principles applicable to Piedmont's books) and the ACA filings were being recorded on an actual cost basis (as required by TRA Staff). This mismatch in accounting methods for the two accounts, along with the lag time on receiving approved ACA filings in prior years, made it very difficult for Piedmont or Staff to detect the difference in the account balances.

Q. What are the five (5) prior gas cost transactions that were either overlooked or improperly accounted for in Piedmont's ACA account?

A. The five (5) prior gas transactions that were either overlooked or improperly accounted for in Piedmont's ACA account are: (1) the failure to include a demand payment invoice to Midwestern Gas Pipeline; (2) the removal of December 2005 estimate to actual variance including interest; (3) the inclusion of incoming wire payment from Tennessee Gas Pipeline ("TGP"); (4) payment issues with TGP; and (5) the failure to book a true-up adjustment.

Q. Please explain in greater detail each of these transactions and how Piedmont proposes to adjust its ACA account balance to take these transactions into consideration.

A. These transactions, and what Piedmont deems to be the appropriate adjustments, are as follows:

1. Demand Payment to Midwestern Gas Pipeline – Piedmont's 2006 ACA filing did not include the first demand payment to Midwestern Gas Pipeline in November 2006. The inclusion of this demand payment results in a total adjustment of $54,043.26, which consists of the omitted $41,200.00 demand payment and $12,843.26 in interest.

2. Removal of Estimated Information – Piedmont inappropriately included in the 2006 ACA filing the December 2005 estimate to actual variance. Since the 2005 ACA filing had been approved on an actual cost basis, this adjustment was not necessary. This error results in a total adjustment of $431,638.27, which consists of the duplicated $309,357.47 adjustment and $122,280.80 in interest.

3. Inclusion of Incoming Wire – Piedmont incorrectly credited the ACA

schedule with a pipeline payment that had already been credited to the ACA schedule in prior months. The inclusion of the incoming wire results in a total adjustment of $917,248.71, which consists of the previously included $699,266.65 credits and $217,982.06 in interest.

4. <u>Payment Issues with Tennessee Gas Pipeline ("TGP")</u> – There were multiple factors that contributed to payment errors and ACA misstatements related to TGP. Some of Piedmont's TGP assets were released to a third party and there was confusion surrounding who would be the billable party for these released assets. We discovered that Piedmont erroneously omitted payments to TGP and remitted the amounts to the asset manager because Piedmont believed that TGP would bill the asset manager for these amounts. TGP was able to assist Piedmont in providing the correct invoiced amounts and payment variances. Using this information, we revised and corrected the ACA schedule. These issues require an adjustment in the amount of $951,853.41, which consists of $692,137.60 in ACA misstatements and $259,715.81 in interest.

5. <u>Failure to Book True-Up Adjustment</u> – Piedmont did not book an adjustment associated with an asset manager true-up because Piedmont mistakenly thought it was processed in 2005. We now know that the true-up was not booked in the 2005 ACA audit because the inventory schedule was not adjusted and therefore, the general ledger ending balance matched the ending balance on the ACA inventory worksheet. The incorrect removal of the storage

true-up adjustment results in a total adjustment of $1,309,570.94, which consists of the $966,432.32 adjustment and $343,138.62 in interest.

Q. In addition to the five (5) prior gas cost transactions that were either overlooked or improperly accounted for in Piedmont's ACA account, were there any other factors contributing to the discrepancy between Piedmont's per books cost of gas allocable to Piedmont's Tennessee customers and its ACA account balance?

A. Yes. Our review also revealed several mistakes in Piedmont's General Ledger totaling $793,087.45 which favored customers. Piedmont made those adjustments to its books upon finalizing its review results.

Q. What are you asking the Authority to do in this proceeding?

A. I am requesting that the Authority authorize Piedmont to make an accounting adjustment to the reported balance in its deferred ACA account in order to reflect the appropriate balance in that account consistent with the Company's general ledger balance for the costs included in that account. In order to resolve the discrepancy between the Company's general ledger and the reported balance in the ACA account, Piedmont requests that the Authority authorize Piedmont to make an adjustment in the amount of $3,664,354.59, inclusive of interest, to its ACA Account No. 18650.

Q. How would you characterize the adjustments described above and why do you propose that the Authority allow Piedmont's ACA account balance to

be revised for these adjustments?

A. Each of the adjustments set forth above represents a legitimate gas cost incurred by Piedmont to provide natural gas service to its customers of the type that would normally be included in Piedmont's ACA account without controversy or challenge. It is my understanding that the underlying premise of Piedmont's gas cost accounting activities in this State and this Authority's policy is that gas costs should be a flow-through item of expense for the Company and that it should neither make money nor lose money on the recovery of its gas costs. The fact that these adjustments were initially accounted for improperly or misunderstood by Piedmont and Staff does not render them invalid gas costs. Nor, in my mind at least, should it disqualify them for recovery by Piedmont under the Authority's prior period adjustment procedures.

Q. Could you provide some context to these adjustments?

A. Yes. At or about the time the accounting mistakes underlying our proposed adjustments occurred, several different events were occurring that may have contributed to the fact that our proposed adjustments were not found and corrected in the accounting periods in which they originated. First, our gas cost accounting mechanisms were faced with significant new and increased gas cost transactions as a result of the onset and ramping up of asset management arrangements whereby capacity and supply assets were released or assigned to third-parties who then used those assets to both meet Piedmont's customer's needs and then to optimize the economic value of those assets when not needed to serve Piedmont's customer's needs. These arrangements caused Piedmont to have to account for credits and charges to the ACA account that were both new and complicated. In the face of this increasingly complex gas cost accounting context, Piedmont also began a process of restructuring and updating all of the mechanisms involved in the gas cost accounting function including the addition of new personnel, the design and implementation of new automated accounting systems, and the creation of new accounting audit and confirmation structures within the company. The combination of these factors created a context in which maintaining perfect accounting for the thousands of annual gas cost credits and debits ultimately reflected in both Piedmont's books and its ACA account was not possible. These same factors, however, over time, have provided multiple benefits for Piedmont and its customers. The implementation of asset management arrangements with respect to Piedmont's Tennessee capacity and supply assets has reduced gas costs for Tennessee customers by millions of dollars over the last seven years. Similarly, the implementation of new and improved processes and structures in the gas cost accounting area at Piedmont has reduced audit adjustments to both Piedmont's books and its ACA account to near zero in the last few years.

Q. Do you acknowledge that there has been a long-delay in addressing these adjustments?

A. Yes. We fully recognize that these adjustment relate to an audit period that was now 7 years ago but I would also note that we did not discover the existence or nature of these adjustments until fairly recently and that we promptly brought them to the attention of Staff and sought Commission approval to include them in our ACA account balance. We acknowledge that the delay is regrettable. I would also hasten to point out though that the proposed adjustments are very small if compared to the total gas costs flowed through to customers during 2006 ($3,664,355 compared to $188,574,614) and are infinitesimal if compared to the total gas costs allocated to customers during the intervening period 2007-2013 ($923,999,131). I would also point out that customers have not been hurt by the delay in allocating these adjustments. In fact, they have actually paid incrementally lower bills during periods that were economically difficult and when commodity prices were much higher than they are today as a result of the delay in proposing these adjustments.

Q. Aren't customers hurt by the inclusion of interest in the proposed adjustments?

A. I would not say they were hurt by the inclusion of interest in our proposed adjustments. The purpose of the interest calculation is to account for the time-value of money between the time the costs were incurred and the time they are included in the gas cost deferred account. In my view, the accounting effect of the interest adjustment is to make the transaction neutral to both parties. More to the point though, we included interest in our proposed adjustments in this case because that is standard practice for gas cost accounting adjustments in Tennessee.

Q. Does this conclude your direct testimony?

A. Yes.

CERTIFICATE OF SERVICE

The undersigned hereby certifies that a copy of the attached documents were served upon the parties in this action by electronic mail and by depositing a copy of the same in the United States Mail, First Class Postage Prepaid, addressed as follows:

Wayne M. Irvin
Assistant Attorney General
Office of the Tennessee Attorney General
Consumer Advocate and Protection Division
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Nashville, Tennessee 37202
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Vance L. Broemel
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Shiva K. Bozarth
Legal Counsel
Tennessee Regulatory Authority
502 Deaderick Street, 4th Floor
Nashville, Tennessee 37243
Shiva.K.Bozarth@tn.gov

This the 17th day of September 2014.

R. D Mannis