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BERRY • SIMS PLC

150 Third Avenue South, Suite 2800
Nashville, TN 37201
(615) 742-6200

David Killion
PHONE: (615) 742-7718
FAX: (615) 742-0414
E-MAIL: dkillion@bassberry.com

February 5, 2014

VIA HAND DELIVERY

Executive Director Earl Taylor
c/o Sharla Dillon
Tennessee Regulatory Authority
502 Deaderick Street, 4th Floor
Nashville, Tennessee 37243

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

Dear Mr. Taylor:

Enclosed please find an original and five (5) copies of Piedmont Natural Gas Company, Inc.'s Responses to Party Staff's Discovery Requests to Piedmont. A compact disk has been provided with each copy which contains copies of the responses and attachments in their native file formats.

This material is also being filed electronically today by way of email to the Tennessee Regulatory Authority 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
Joe Shirley, Consumer Advocate and Protection Division
Shiva K. Bozarth

PIEDMONT NATURAL GAS COMPANY, INC.
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1. Please identify the new Director of Gas Cost Accounting referenced on page 3 of *Petition of Piedmont Natural Gas Company, Inc. for Accounting Order*. Please provide the name, curriculum vitae, and the date of hire.

Response: Robert L. Thornton was hired on February 26, 2007. Mr. Thornton received a B.S. degree from The College of Charleston in 1984. In 1985, he was employed by Duke Power Company as a staff accountant. In 1990, he was employed by Ingersoll-Dresser Pump Company as Controller. In 1994, he 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 Corp., Mr. Thornton was employed by Cox Technologies in 2000 as Controller and Assistant Treasurer. In 2004, he was employed by HSBC Mortgage Corp. as Manager of Regulatory and Investor Reporting. Mr. Thornton was employed by Piedmont Natural Gas Company, Inc. in 2007 as Manager of Gas Accounting and promoted to Director of Gas and Regulatory Accounting in February 2008. He has testified before the North Carolina Utilities Commission and the Public Service Commission of South Carolina on several occasions.

Response provided by Piedmont Natural Gas on February 5, 2014.

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2. Please identify the changes that were made to the ACA account to correct “inadvertent errors and omissions during prior periods” that were “included in subsequent ACA filings” and were approved by Staff and the Authority.¹ For each correction to the ACA account, provide: a spread sheet detailing the explanation of the change, the dollar amount, the month and year it was recorded in the ACA account and the ACA audit docket number.

Response: It has been common for inadvertent errors and omissions during prior periods to be included in subsequent ACA filings. For illustrative purposes, Piedmont will provide three examples.

In Docket No. 07-00174, Piedmont made a Commodity miscellaneous adjustment #9 in the amount of \$514,593.86. This adjustment was related to meter reads, fuels and 3rd party gas, on gas withdrawn from the FSMA facility. The adjustment related to the time period of November 2005 to March 2006 and was recorded to the ACA in June 2006. The adjustment was accepted by the TRA Staff and Authority. Please see the attached Excel schedule – Attachment 2a.

In Docket No. 08-00227, Piedmont made a Demand adjustment to the Midwestern invoice in the amount of \$41,199. This adjustment was related to the December 2006 invoice from Midwestern that was inadvertently omitted from the 2006 period filing (Docket No. 07-00174). Piedmont included this amount on the January 2007 line for Midwestern demand gas costs and the adjustment was accepted by TRA Staff and Authority. Please see the attached Excel schedule – Attachment 2b.

In Docket No. 09-00093, Piedmont filed separate schedules for Storage accounts FSMA, FSPA, FSSNASH and LNG to report storage inventory activities. In October 2008, Piedmont made withdrawal adjustments to each of the inventory schedules in order to true up the storage balances for the 2006 period. In Finding #2, Staff indicated that since these were prior period adjustments, the adjustments should have been made at the beginning of the audit period (January 2008). Staff moved these adjustments to January 2008 on the inventory schedules and recalculated the cost of inventory activities for all 12 months of the audit period. The total of these adjustments was (\$501,256.79), not including interest. These adjustments were accepted by the TRA Staff and Authority. See Finding #2 from Docket No. 09-00093 – Attachment 2c.

Response provided by Piedmont Natural Gas on February 5, 2014.

¹ *Petition*, page 3 (paragraph 6).

The following files have been produced in native format:

Staff DR - Attachment 2a.xls

Staff DR - Attachment 2b.xls

FINDING #2:

Exception

The Company overstated its Storage Costs.

Discussion

The Company filed separate schedules for Storage accounts FSMA, FSPA, FSSNASH and LNG to report Storage Inventory activities. In October 2008, the Company made withdrawal adjustments to each of the inventory schedules in order to true up the storage balances. The result of these adjustments was a decrease in Storage costs of \$354,371.67 for FSMA Storage, a decrease in Storage cost of \$19,133.50 for FSSNASH Storage and an increase in Storage costs of \$2,065.76 for FSPA Storage. These amounts, however, were not booked to the ACA account. Additionally, a negative \$4,821.99 adjustment for LNG Storage was removed from the inventory schedule, after the Company indicated it was inappropriate.

Since these were prior period adjustments, the adjustments should have been made at the beginning of the audit period which was in January 2008 to accurately reflect the amount of interest on the ACA Account. Staff moved these adjustments to January 2008 on the inventory schedules, and recalculated the cost of inventory activities for all 12 months of the audit period based on the new withdrawal rates. Staff then included adjusting withdrawal charges of negative \$360,171.87 for FSMA Storage, negative \$140,068.07 for FSSNASH Storage and negative \$704.19 for FSPA Storage in the ACA Account in January 2008.

One additional adjustment to the ACA was required due to the removal by the Company of the adjustment in the LNG Storage schedule. Removal of the adjustment caused a change in the withdrawal rates going forward, resulting in a Staff adjustment to the withdrawal charges of negative \$43.98 in October 2008, a negative \$70.84 in November 2008 and a negative \$197.84 in December 2008 in the ACA Account.

The result of the above adjustments was a decrease in Commodity gas costs of **\$501,256.79**. This represents an **over-recovery of gas costs**.

Company Response

The Company is in agreement with the above Audit Staff findings in the amount of \$501,256.79 and will adjust its records accordingly.

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3. Please explain the process (or procedures) that Piedmont accounting personnel use to validate the activity in the ACA account.

Response: Piedmont utilizes a multi-level integrated process to track and record its Tennessee gas costs and to adjust its ACA account to reflect those costs. Piedmont has a dedicated staff of accountants who are responsible for this function and they utilize a dedicated and integrated Gas Costing System which is the gas cost system of record for the Company to record expenses and track payments. The Company also utilizes a separate Middle Office function as a back-up check to its primary accounting function. The Middle Office balances gas costs on a daily basis, confirms transactions with suppliers, and validates contracts and rates used in the GCS system. The Company utilizes a standard cost of gas file to prepare monthly actual and estimated gas costs required by Piedmont's accrual accounting system. The payment of invoices are processed timely and reconciled to the GCS system of record prior to payment. Inventory balances are reconciled monthly to 3rd party supporting documentation. Department meetings are held by the Manager of Gas Accounting immediately after the month-end closing process to discuss any issues or problems experienced or detected during the closing process.

All transactions and calculations in the cost of gas files (both estimated and actual) are prepared and checked by Piedmont's gas cost accounting personnel. The Manager of Gas Accounting also performs an extensive review of the cost of gas files and all supporting documentation prior to posting gas cost transactions to the Company's general ledger. The Director of Gas & Regulatory Accounting also reviews the cost of gas file and supporting documentation prior to posting to the general ledger. Additionally, the ACA schedule and all supporting documentation are prepared and checked by staff personnel on a monthly basis. The ACA schedule is reviewed and locked by the Manager of Gas Accounting monthly. The balance in the ACA schedule is reconciled to the general ledger on a monthly basis.

The procedures described above represent Piedmont's current gas cost accounting structure that resulted from a substantial review and overhaul in the 2007-2008 timeframe. This review and overhaul was necessitated by dramatically increased complexity in the nature and volume of Piedmont's gas cost transactions arising primarily from the advent of asset management, which increased the efficiency of Piedmont's utilization of upstream supply and capacity assets, and which ultimately reduced gas costs for customers, but which made tracking and accounting for gas cost transactions substantially more complex than had previously been the case.

Response provided by Piedmont Natural Gas on February 5, 2014.

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4. How often is the ACA account balance reconciled to Piedmont's general ledger? Prior to the discovery in early 2012 that the general ledger balance did not agree to the approved ACA filing balance, when was the last time a reconciliation was performed?

Response: Currently, the ACA balance is reconciled to the general ledger on a monthly basis. Following the review and overhaul of gas cost accounting practices in 2007-2008, the Company was able to reconcile the monthly activity in the ACA account but was not able to determine that there was an issue with the beginning balance. This problem is addressed in greater detail in the response to Item 5. The beginning balance discrepancy was disguised due to the practice of recording gas costs in the general ledger on an estimated basis and the ACA filings being recorded on an actual basis. Piedmont follows the GAAP methodology of accrual accounting for its general ledger, which is different than Staff's "cash" accounting methodology of reporting actual amounts in the month incurred or in the month to which transactions are attributable. This difference in accounting methodology for the ACA and Piedmont's general ledger unavoidably results in the ACA balance not agreeing to the general ledger at any specific point in time. In its April 2008 Compliance Audit Report filed in Docket No. 07-00174 and in the context of discussing the actual to estimate controversy, TRA staff indicated that they were unconcerned with the reconciliation of the general ledger to the audited ACA balance (at least at that time).² Piedmont believes that proper accounting requires that the ACA and Piedmont's general ledger reflect the same gas cost transactions even if the two accounts do not "balance" at any specific point in time.

Response provided by Piedmont Natural Gas on February 5, 2014.

² See Docket No. 07-00174, *Order Adopting ACA Audit Report of Tennessee Regulatory Authority's Utilities Division*, Exhibit A at pg. 38, n. 13 ("The Company is free to book transactions to its General Ledger as it deems appropriate according to the Uniform System of Accounts (USOA). Staff is not responsible for the Company's general ledger and is therefore unconcerned with reconciliation of the general ledger to the audited ACA balance. Staff's charge relating to ACA audits is to determine if the Company's ACA filing is inaccurate. ACA filings are typically received by the Authority several months subsequent to the end of the current ACA period and must reflect actual monthly transactions in the period in which they occur.").

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5. How did Piedmont discover that the ACA account balance did not agree with the general ledger balance in early 2012? What time period was looked at to make that discovery?

Response: Due to the difference in accounting methodologies between Piedmont's general ledger and its ACA account, which are described in previous responses, and prior to the implementation of its substantially upgraded gas cost accounting system now in place, Piedmont had difficulty balancing the two sets of accounts for its Tennessee gas costs it was required to maintain. As a result, Piedmont was used to seeing differences between its general ledger balance and its ACA account balances for any given period. This difficulty was exacerbated by the ACA audit processes utilized for the period 2006 through 2008 in which there were a number of adjustments proposed by Staff and at least some initial disagreement about those adjustments. After going through the audit processes for those years and an extended period filing for 2009/2010 (which was approved on July 12, 2011), Piedmont became concerned that the ACA balance and the general ledger did not agree with respect to prior transactions. Piedmont began an extensive investigatory process at that point to examine prior transactions and to determine if substantive adjustments were needed to either its general ledger or ACA account to correct for prior errors. Due to the complexity of the gas cost accounting transactions, this review required nine months of extensive research. It was determined in October 2011 that there was indeed an inconsistency between the ACA balance and the general ledger and Piedmont pursued an intensive review of the variance in January 2012. ACA's were recreated from the period of 2005 to the current period, and it was determined that the year 2006 was the primary source of the variance.

Response provided by Piedmont Natural Gas on February 5, 2014.

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6. Do Piedmont's outside auditors examine the ACA account to see if it reconciles to the general ledger during its annual audits? Please explain what process the outside auditors utilize if they do reconcile the ACA account to the general ledger.

Response: Our outside auditors do not examine the ACA account. The outside auditors' focus is on Piedmont's financial statements and general ledger.

Response provided by Piedmont Natural Gas on February 5, 2014.

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7. At the conclusion of the annual ACA filing audits, do Piedmont accounting personnel make appropriate accounting adjustments to the ACA account to reflect the ending balance approved by the Authority? When adjustments to the ACA account are made, are those adjustments also reflected in the general ledger?

Response: Yes. Adjustments are made to the general ledger if appropriate.

Response provided by Piedmont Natural Gas on February 5, 2014.

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8. At the time that Piedmont filed its ACA report with the Authority for the 12 months ended December 31, 2006, in Docket No. 07-00174, did the balance in its ACA account agree with the general ledger balance for that account?

Response: No.

Response provided by Piedmont Natural Gas on February 5, 2014.

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9. Generally speaking, how does it come to the attention of Piedmont accounting personnel that certain adjustments to the ACA account need to be made? Does it usually take several years for errors to be recognized?

Response: Currently, the improved processes and procedures implemented by Piedmont will identify any adjustments that are necessary to the ACA account and/or general ledger on a monthly basis. Previously, the processes and procedures that Piedmont had in place were not able to “true-up” balances in its general ledger and ACA account. This was due to both the different methodologies used in the accounts as well as different auditable periods for the two accounts. It was also due, in some part, to the nature of the accounting methods utilized by Piedmont prior to the upgraded system the Company now uses. Piedmont recognized the need for changes to its systems fairly quickly in 2006 when the issues with maintaining accurate accounting arose in the face of the additional complexity in upstream supply and capacity transactions. Piedmont then proceeded to implement a variety of changes to its gas cost accounting systems, including augmentation/restructuring of the accounting staff, the establishment of a Gas Costing System as a system of record, the establishment of the Middle Office function, the development of a standard cost of gas file, invoice processing and payment controls, reconciliation of data to 3rd party supporting documentation when appropriate, and other processes.

Since the new processes, procedures and controls have been implemented, audit findings have been insignificant. For example, in Docket No. 11-00168 for the period July 1, 2010 to June 30, 2011, there were no audit findings. In Docket No. 12-00114, covering the period of July 1, 2011 to June 30, 2012, there was one audit finding of (\$529.73), including interest. The Company and TRA Staff have agreed to withhold the filing for the period of July 1, 2012 to June 30, 2013 until resolution of this issue.

Response provided by Piedmont Natural Gas on February 5, 2014.

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10. At the time that Piedmont and Audit Staff reached the final agreed balance in the ACA account as of December 31, 2006, which was filed with the Authority in the *Joint Final Report of Audit Staff and Piedmont Natural Gas* on June 10, 2008, in Docket No. 07-00174, did Piedmont accounting personnel make the appropriate accounting entries necessary to the ACA account to reflect this agreed upon balance on its books? Were reconciling adjustments also made to the general ledger account?

Response: Yes, Piedmont attempted to make these adjustments to the ACA account and its general ledger. When it was discovered that this process did not reconcile the ACA account with Piedmont's general ledger, Piedmont began to further explore the discrepancies between its ACA account and its general ledger and it was that process, which carried through several subsequent ACA audits that ultimately led to Piedmont's discovery of the proper adjustments to effect such a reconciliation and to its filing in this docket.

Response provided by Piedmont Natural Gas on February 5, 2014.

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11. Tenn. Comp. R. & Reg. 1220-4-7-.03(1)(c)(3) specifically addresses prior period ACA adjustments and how they should be accounted for. “In the event that **circumstances warrant** a correction to or restatement of a prior period ACA, such correction or restatement shall be made in accordance with the ACA calculation in effect for the time period(s) to which the correction or restatement relates.” [emphasis added] Considering the length of time spent in negotiations following the filing of Audit Staff’s report in Docket No. 07-00174,³ the *Joint Final Report of Audit Staff and Piedmont Natural Gas Company* filed on June 10, 2008, and the three and a half years that followed before Piedmont “discovered” that the ACA account balance did not agree to the general ledger balance, explain fully Piedmont’s rationale that additional adjustments based primarily on oversight or improper accounting of transactions by Piedmont’s accounting personnel⁴ are justified and should be considered by the Authority at this time.

Response: As Piedmont indicates in its Petition, the errors in its ACA account underlying its proposed adjustments in this docket were inadvertent in nature and arose from the significantly increased complexity of gas cost accounting created by changes in the way the secondary market operated and impacted Piedmont’s gas cost accounting. They were not the result of misconduct by Piedmont’s gas cost accounting personnel. They were simple accounting errors that were not detected by either Piedmont accounting personnel or the TRA Audit Staff in prior audits (and therefore could not have been addressed and resolved in those audits). Further, and because of a number of factors discussed at length in other portions of these responses, including (1) differences in accounting methodologies applicable to Piedmont’s general ledger and its ACA account, (2) differences in the audit periods for these two accounts, (3) delay in resolving/finalizing audits for most of the intervening period, and (4) difficulty in determining the nature of the precise adjustments necessary to reconcile Piedmont’s ACA account to its general ledger, it took Piedmont longer than it would have liked to present these adjustments to the Authority. They are, nonetheless, legitimate adjustments to its ACA account necessary to reconcile that account to the actual costs Piedmont has incurred to make service available to its customers. The adjustments are not barred by any time limitation established by the Authority’s Rules or otherwise and the delay in seeking them has not harmed customers who have paid less than the actual costs of providing gas service to them for the period at issue.

Piedmont believes that the accounting and reporting of its gas costs for the state of Tennessee, as reflected in its ACA account, should be accurate and that it is better that it is accurate than inaccurate. Piedmont also believes that in the absence of wrongful conduct, the proper remedy for an accounting error is to correct the error. These positions are not outcome dependent and Piedmont has affirmatively sought similar adjustments in other states that favored customers.

Response provided by Piedmont Natural Gas on February 5, 2014.

³ Two months of communications between Audit Staff and Company personnel and analysis of adjustments to the ACA account that includes most of the invoices and numbers underlying the Company’s request in this docket.

⁴ *Petition*, page 4 (paragraph 8).

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12. Provide schedules that calculate the interest component attached to each of the five (5) adjustments requested by Piedmont. Provide the files electronically, with working formulas and show the monthly interest rates approved by the Authority for that time period.

Response: Please see the attached Excel schedule.

Response provided by Piedmont Natural Gas on February 5, 2014.

The following file has been produced in native format:

Staff DR - Response 12 Attachment.xls

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13. Please explain Piedmont's statement that the accounting adjustments requested are "in the public interest and will benefit Piedmont and its customers."⁵ Include in the explanation the rationale that customers should pay Piedmont additional interest over a six (6) year period for errors and omissions made by Piedmont accounting personnel.⁶

Response: Please see response to question 11 and 15 with regard to the justification for making the underlying adjustments and Piedmont's position that these are accounting errors that should be corrected. It is the regular and routine convention of both Audit Staff and Piedmont to make corresponding interest calculations for adjustments to Piedmont's ACA account. These types of interest calculations are routinely utilized by Audit Staff and Piedmont followed this convention when making its filing in this case.

Response provided by Piedmont Natural Gas on February 5, 2014.

⁵ *Petition*, page 7 (paragraph 13).

⁶ Total interest requested totals \$955,960.55 or 26% of the overall adjustment.

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14. Provide copies of Piedmont's workpapers and related electronic files (with working formulas) showing the reconciliation between the ACA account balance and the general ledger balance. Also, provide copies of any additional workpapers and related electronic files (with working formulas) generated in the preparation of this filing.

Response: Please see the attached Excel schedules, using the adjustments Piedmont has proposed, to reconcile the ACA account balance to the general ledger.

Response provided by Piedmont Natural Gas on February 5, 2014.

The following file has been produced in native format:

Staff DR - Response 14 Attachment.xls

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15. Please explain Piedmont's reasoning that it is appropriate to request recovery years later for large amounts resulting from the Company's accounting errors.

Response: The Authority's rules and procedures provide for a 3 step process in conjunction with the incurrence and recovery of Piedmont's gas costs. The first step is Piedmont's incurrence and payment for such costs and its internal accounting thereof on its general ledger and its ACA account. The second step is the TRA audit and approval process for such accounting. The third step is the potential for adjustment of prior period ACA balances when that is appropriate and/or necessary to correct or adjust those balances to accurately reflect Piedmont's gas costs. These prior period adjustments are often informally included in subsequent period ACA reports where they represent adjustments to transactions that occurred in the prior period. In this case, Piedmont and Audit Staff agreed, based upon the information available to them at the time, on a final accounting of Piedmont's ACA account audit for the period covered by Docket No. 07-00174. Based upon substantial subsequent research and investigation by Piedmont, which was initiated when Piedmont was unable to true-up its ACA account to its general ledger based upon the adjustments agreed to in the Final Report, Piedmont discovered that several additional adjustments were required to ensure that its ACA account was properly stated. While these adjustments are not insubstantial, they are nonetheless only a tiny fraction of Piedmont's overall annual gas cost expense for the period to which they relate. By way of illustration of this fact, for the audit period addressed in Docket No. 07-00174, Piedmont's total gas cost expenses were approximately \$190 million. As such, the requested adjustments represent a proposed adjustment to gas costs for the period to which they relate of less than 2.0%.

By definition, the necessity to make a prior period adjustment arises in an accounting period subsequent to that period to which it relates. This is why the Authority's rules allow for prior period adjustments – because the need for them arises outside the context of the audit for the applicable period. In this case, it took Piedmont until October of 2012 to finally determine the precise nature and scope of the proposed adjustments needed to balance its general ledger accounts and its ACA account. And while the delay in this case is longer than Piedmont would have liked, customers were not harmed by the delay – in fact they benefitted by not paying the full costs of gas purchased for their benefit during the interim period.

Put simply, Piedmont believes that its ACA account and general ledger accounts should balance and that it is better to have a correct balance in its ACA account than an incorrect balance. Piedmont presumes that the Authority agrees with it on this point as the Authority's rules provide for prior period adjustments to effectuate this result. Piedmont's position on this point is not contingent on whether the adjustments favor Piedmont or its customers and as evidence of this point Piedmont would point the Authority to Docket No. 2012-4-G of the Public Service Commission of South Carolina, where Piedmont proposed a prior period gas cost adjustment of \$2,806,898 (including \$502,714 in interest) to the benefit of its customers.

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Except for a brief period addressed in Piedmont's petition, where delay in making its prior period adjustment proposals was directly attributable to Piedmont and for which Piedmont has waived interest, Piedmont believes that the sequence of events that led to its proposed adjustments were reasonable, even if longer than Piedmont would have liked.

Response provided by Piedmont Natural Gas on February 5, 2014.

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16. Please explain why the Authority should modify the order in Docket No. 07-00174 approving the agreed upon balance in the ACA account for the 12 months ended December 31, 2006,⁷ which resulted from extensive research, analysis and negotiations by both Audit Staff and Piedmont personnel, as well as assertions made by Piedmont during the audit.

Response: Piedmont does not propose to modify the final TRA order in Docket No. 07-00174. Instead, it seeks authorization from the Authority to adjust its current period ACA balance to account for appropriate adjustments to the gas costs incurred by Piedmont during a prior period on the basis of information and analysis that did not become available until well after the Authority issued its final order in Docket No. 07-00174.

Response provided by Piedmont Natural Gas on February 5, 2014.

⁷ Piedmont stated that the adjustments it is requesting in this docket stem from gas costs accounted for in the 12-month ACA period ended December 31, 2006. The ACA account balance as of June 30, 2012 at issue in this docket, and approved by this Authority in Docket No. 12-00114 (see Order Adopting ACA Audit Report of TRA's Utilities Division on March 26, 2013), is based on the December 31, 2006 ACA account balance and four (4) subsequent audits since then.

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17. If Audit Staff found past audit errors that if corrected would benefit customers, and assuming they were a significant amount, would Piedmont support reaching back to those closed audit periods and making prior period adjustments to the Company's current ACA filing? Why or why not?

Response: Yes. Piedmont would support making prior period adjustments to the current ACA filing if the adjustments were deemed appropriate. Piedmont's position and practice is that the ACA account should be correct (i.e. it should reflect the actual gas costs and gas cost collections experienced by the Company) and that appropriate adjustments should be made to correct errors in that accounting irrespective of whether the adjustments favor Piedmont or its customers. Piedmont follows this practice in all of its jurisdictions. For example, in Docket No. 2012-4-G before the Public Service Commission of South Carolina, Piedmont proposed an adjustment to the filing for the period of April 1, 2011 through March 31, 2012 related to the incorrect recording of a supplier refund in its gas cost deferred account in a prior period. This adjustment was from the gas flow period of December 2007, was proposed by Piedmont, and was to the benefit of Piedmont's customers in the amount of \$2,806,898, including interest of \$502,714.

Response provided by Piedmont Natural Gas on February 5, 2014.

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18. Admit or deny the requested adjustments 2, 3, 4 and 5 relate to ACA transactions/entries in Docket No. 07-00174 that were addressed in some fashion during the audit, whether as miscellaneous adjustment documentation, data request responses, or reconciliation schedules provided by Piedmont.

Response: Denied. Piedmont's proposed adjustments 2, 3, 4 and 5 provide necessary corrections to Piedmont's ACA account based upon the facts recited in Piedmont's petition in this docket and the documents attached thereto. Some of these adjustments were related to other adjustments addressed by Staff and Piedmont as part of the Docket No. 07-00174 audit process; however, the adjustments agreed to in the audit process were incorrect and resulted in a misstated ACA balance at the end of that process, although neither Staff nor Piedmont had the information necessary to understand that fact at that time. Piedmont's proposed adjustments in this docket are not the same as were reflected in the Final Report (if they were they would not result in the need to adjust the ACA account) and they result from different transactions than those underlying the audit process adjustments.

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19. Admit or deny in the conduct of an audit, Audit Staff must rely on actual invoices, representations made by Piedmont (written and oral) and other schedules (documentation) provided by Piedmont to reach its conclusions and recommendations.

Response: Denied. Piedmont acknowledges that the first step in any Staff audit of Piedmont's ACA is the provision of data and account balances by Piedmont. Following receipt of that information, Piedmont is not directly involved in Staff's audit process and is unaware of the details or processes of such audit or the extent to which it utilizes or relies on public or third-party information. Piedmont is aware, however, that much of the information included in Piedmont's gas cost accounting is publicly available or available from third-parties and to the extent that it is not, it is available to Staff from Piedmont upon request.

Response provided by Piedmont Natural Gas on February 5, 2014.

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20. Admit or deny that Piedmont did not contest audit Findings #7 and #15 in Docket No. 07-00174.

Response: Admitted.

Response provided by Piedmont Natural Gas on February 5, 2014.

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21. Admit or deny that Piedmont and Audit Staff participated in a negotiation process to settle any unresolved audit issues that Piedmont did contest in Docket No. 07-00174.

Response: Denied. Piedmont engaged in extensive discussions with Audit Staff as part of the Docket No. 07-00174 proceedings, but the purpose of those discussions, from Piedmont's perspective at least, was to reach consensus as to the proper end-of-period balance in Piedmont's ACA account.

Response provided by Piedmont Natural Gas on February 5, 2014.

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22. Admit or deny that attachments 1 and 2 to the *Joint Final Report of Audit Staff and Piedmont Natural Gas Company* filed on June 10, 2008, in Docket No. 07-00174 represented the final agreed ACA Account Summary for the 12 months ended December 31, 2006.⁸

Response: Admitted. The referenced attachments reflected Piedmont and Staff's consensus, based upon the facts known to them at the time, as to the proper ACA closing balance for purposes of the audit report.

Response provided by Piedmont Natural Gas on February 5, 2014.

⁸ *In Re: Nashville Gas Company, A Division of Piedmont Natural Gas Company, Inc. Actual Cost Adjustment Account Filing for the Twelve Months Ended December 31, 2006*, Docket No. 07-00174, Joint Final Report of Audit Staff and Piedmont Natural Gas Company, page 1 (June 10, 2008).

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23. Admit or deny that Piedmont and Audit Staff requested the Authority to "...approve this Joint Final Report as the **final** accounting of Piedmont's ACA account for the Review Period." [emphasis added].⁹

Response: Piedmont admits that the Final Report contains the language quoted but without the emphasis provided in the question. Piedmont denies that such language, or anything else in the Final Report, waives Piedmont's right to seek prior period adjustment authority from the TRA.

Response provided by Piedmont Natural Gas on February 5, 2014.

⁹ *Id.*

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24. Admit or deny that the Authority approved the Joint Final Report at its July 28, 2008, Authority Conference.¹⁰

Response: Admitted.

Response provided by Piedmont Natural Gas on February 5, 2014.

¹⁰ *In Re: Nashville Gas Company, A Division of Piedmont Natural Gas Company, Inc. Actual Cost Adjustment Account Filing for the Twelve Months Ended December 31, 2006*, Docket No. 07-00174, Order Adopting ACA Audit Report of the Tennessee Regulatory Authority's Utilities Division (August 7, 2008).

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25. Admit or deny that Audit Staff concluded in its Audit Report in Docket No. 06-00087 that Piedmont's accrual methodology for reporting its gas costs in the ACA filing was unacceptable to Staff and recommended that the accrual methodology be rejected and Piedmont be directed to report actual amounts in the month incurred.¹¹

Response: Admitted. This position by Staff created an inconsistency in accounting methods for Piedmont's general ledger (accrual) and its ACA account (cash) that contributed to the delay in determining the need for and specific details around Piedmont's proposed adjustments in this docket.

Response provided by Piedmont Natural Gas on February 5, 2014.

¹¹ In Re: Nashville Gas Company, a Division of Piedmont Natural Gas Company, Inc. Actual Gas Cost Adjustment for the 12 Months Ended December 31, 2005, Docket No. 06-00087, Compliance Audit Report, page 13 (December 12, 2006).

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26. Admit or deny that the Authority approved and adopted the Audit Staff's Audit Report in Docket No. 06-00087 and the findings and recommendations contained in the Report;¹²

Response: Admitted.

Response provided by Piedmont Natural Gas on February 5, 2014.

¹² In Re: Nashville Gas Company, a Division of Piedmont Natural Gas Company, Inc. Actual Gas Cost Adjustment for the 12 Months Ended December 31, 2005, Docket No. 06-00087, Order Adopting ACA Audit Report of Tennessee Regulatory Authority's Utilities Division, page 2 (June 14, 2007).

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27. Admit or deny that Piedmont continued the accrual methodology in its next filing (Docket No. 07-00174) and Audit Staff reported a repeat finding of over-statement of gas costs due to use of accrual accounting.¹³

Response: Piedmont admits that it initially filed its ACA information in Docket No. 07-00174 using the accrual methodology. In doing so, Piedmont did not intend to challenge the Authority's prior ruling but it did have some concerns and some uncertainty about how accounts using different methodologies could be effectively reconciled and, at that time, Piedmont did not have the methodologies in place to accomplish that task. The resulting difference in accounting methodologies for the ACA and general ledger contributed to Piedmont's difficulty in detecting and determining the need for the adjustments proposed in this docket.

Response provided by Piedmont Natural Gas on February 5, 2014.

¹³ *In Re: Nashville Gas Company, A Division of Piedmont Natural Gas Company, Inc. Actual Cost Adjustment Account Filing for the Twelve Months Ended December 31, 2006*, Docket No. 07-00174, Compliance Audit Report Findings #1, 12, and 18, pages 8, 26, and 34 (June 10, 2008).

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28. Admit or deny that the Authority put Piedmont on notice that “future non-compliant ACA filings will be subject to rejection, and Piedmont may, therefore, be subject to any and all remedies and sanctions available to the Authority.”¹⁴

Response: Piedmont admits that the quoted language was contained in the Authority’s Order in Docket No. 07-000174. Piedmont states that it has not subsequently submitted non-compliant ACA filings nor has Staff sought sanctions or rejection of any subsequent ACA filing.

Response provided by Piedmont Natural Gas on February 5, 2014.

¹⁴ *In Re: Nashville Gas Company, A Division of Piedmont Natural Gas Company, Inc. Actual Cost Adjustment Account Filing for the Twelve Months Ended December 31, 2006*, Docket No. 07-00174, Order Adopting ACA Audit Report of Authority’s Utilities Division, page3 (August 7, 2008).

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29. Admit or deny that Piedmont did not contest Audit Staff's findings and conclusions and resulting ending balance in the ACA account at December 31, 2007, in Docket No. 08-00227.¹⁵

Response: Admitted.

Response provided by Piedmont Natural Gas on February 5, 2014.

¹⁵ *In Re: Piedmont Natural Gas Company, Inc. Actual Cost Adjustment Filing for the Twelve Months Ended December 31, 2007*, Docket No., Order Adopting ACA Audit Report of Tennessee Regulatory Authority's Utilities Division (June 15, 2009).

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30. Admit or deny that other than recovery of its hedging costs, Piedmont did not contest Audit Staff's findings and conclusions and resulting revised ending balance in the ACA account at December 31, 2008, in Docket No, 09-00093.¹⁶

Response: Admitted.

Response provided by Piedmont Natural Gas on February 5, 2014.

¹⁶ *In Re: Piedmont Natural Gas Company, Inc. Actual Cost Adjustment Filing for the Twelve Months Ended December 31, 2008*, Docket No. 08-00227, Order Adopting Revised ACA Audit Report of Tennessee Regulatory Authority's Utilities Division (October 25, 2010).

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31. Admit or deny that Piedmont did not contest Audit Staff's findings and conclusions and resulting ending balance in the ACA account at June 30, 2010, in Docket No. 10-00225.¹⁷

Response: Admitted.

Response provided by Piedmont Natural Gas on February 5, 2014.

¹⁷ *In Re: Piedmont Natural Gas Company, Inc. Actual Cost Adjustment Filing for the Period January 1, 2009 through June 30, 2010*, Docket No. 10-00225, Order Adopting ACA Audit Report of Tennessee Regulatory Authority's Utilities Division (August 15, 2011).

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32. Admit or deny that Piedmont did not contest Audit Staff's findings and conclusions and resulting ending balance in the ACA account at June 30, 2011, in Docket No. 11-00168.¹⁸

Response: Admitted.

Response provided by Piedmont Natural Gas on February 5, 2014.

¹⁸ *In Re: Piedmont Natural Gas Company, Inc. Actual Cost Adjustment Filing for the Period July 1, 2010 through June 30, 2011*, Docket No. 11-00168, Order Adopting ACA Audit Report of Tennessee Regulatory Authority's Utilities Division (April 18, 2012).

STATE OF NORTH CAROLINA
COUNTY OF MECKLENBURG

VERIFICATION

Robert L. Thornton, being duly sworn, deposes and says that he is Director of Gas and Regulatory Accounting 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.

Robert L. Thornton

Robert L. Thornton

Mecklenburg County, North Carolina

Signed and sworn to before me this day by Robert L. Thornton

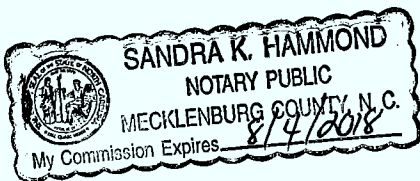
Date: *February 4, 2014*

Sandra K. Hammond

Sandra K. Hammond, Notary Public

(Official Seal)

My commission expires: August 4, 2018



CERTIFICATE OF SERVICE

The undersigned hereby certifies that a copy of the foregoing 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:

Joe Shirley
Senior Counsel
Office of the Attorney General
Consumer Advocate and Protection Division
Post Office Box 20207
Nashville, Tennessee 37202
joe.shirley@ag.tn.gov

Shiva K. Bozarth
Legal Counsel
Tennessee Regulatory Authority
502 Deaderick Street, 4th Floor
Nashville, Tennessee 37243
shiva.k.bozarth@tn.gov

This the 5th day of February, 2014.