filed electronically in docket office on February 21, 2014

R. DALE GRIMES

TEL: (615) 742-6244
FAX: (615) 742-2744
dgrimes@bassberry.com

BASS
BERRY • SIMS PLC

A PROFESSIONAL LIMITED LIABILITY COMPANY
ATTORNEYS AT LAW

150 THIRD AVENUE SOUTH, SUITE 2800
NASHVILLE, TN 37201
(615) 742-6200

www.bassberry.com

OTHER OFFICES:

KNOXVILLE
MEMPHIS
WASHINGTON, D.C.

February 21, 2014

Via Hand-Delivery

Executive Director Earl Taylor
c/o Sharla Dillon
Tennessee Regulatory Authority
502 Deaderick Street, 4th 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 the Statement of Stipulated Facts with Exhibits A through G, 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

BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE

IN RE:	)	
	)	
PETITION OF PIEDMONT NATURAL GAS	)	
COMPANY, INC. TO ADJUST THE JUNE 30,	)	Docket No. 13-00119
2012 ACA ENDING BALANCE FOR PRIOR	)	
PERIOD ADJUSTMENTS	)	

STATEMENT OF STIPULATED FACTS

Piedmont Natural Gas Company, Inc. ("Piedmont" or the "Company") and Party Staff ("Party Staff") respectfully submit the following statement of stipulated facts for consideration by the Authority in conjunction with its resolution of the preliminary issues in this docket as identified in the Hearing Officer's January 10, 2014 Order Establishing Procedural Schedule. The below-stated facts constitute those facts upon which Party Staff and Piedmont agree and may be supplemented by other evidence properly offered by the parties to this docket.

1. Piedmont is a natural gas local distribution company and a public utility under the laws of the State of Tennessee.

2. Piedmont's public utility operations within the State of Tennessee are subject to the jurisdiction of the Tennessee Regulatory Authority.

3. Piedmont's service to the public in the State of Tennessee primarily involves the sale and/or redelivery of natural gas to residential, commercial and industrial customers.

4. Piedmont's on-system costs of providing such service are recovered through rates established by the Authority in general rate case proceedings pursuant to T.C.A. § 65-5-103.

5. Piedmont's upstream costs of providing service to its Tennessee customers consist primarily of the commodity cost of gas purchased on the wholesale market and the interstate

pipeline and storage costs incurred to deliver gas supplies to Piedmont's "citygate" delivery points on various interstate natural gas pipelines located in and around Nashville and Davidson County, Tennessee.

6. Piedmont's upstream gas costs are recovered, on a pass through basis, utilizing estimated commodity and demand rates embedded in its overall service rates.

7. The accounting and true-up of upstream commodity and demand costs actually incurred by Piedmont and its recovery of such costs through the estimated components included in its service rates is accomplished through Piedmont's Purchased Gas Adjustment Rider ("PGA") and managed through its Actual Charge Adjustment ("ACA") account mechanism which are both administered pursuant to the terms of Piedmont's Service Schedule No. 311. A copy of Piedmont's Service Schedule No. 311 is attached hereto as Exhibit A.

8. Consistent with the provisions of Authority Rule 1220-4-7-.02, it is the intent of the PGA mechanism and the related ACA account mechanism that Piedmont recover its total costs of gas in a timely manner. A copy of Authority Rule 1220-4-7-.02 is attached hereto as Exhibit B.

9. In the normal course of Piedmont's operations, it records upstream gas costs incurred and gas cost recoveries from customers in its general ledger accounts and in its ACA account.

10. Consistent with Generally Accepted Accounting Principles, Piedmont's general ledger accounts are maintained on an accrual accounting basis.

11. Consistent with the directives of the Authority, Piedmont's ACA account is maintained on a cash or actual cost basis.

12. Piedmont's ACA account is normally audited by TRA Staff on an annual basis.

13. Prior to Docket No. 10-00225, Piedmont's ACA account annual audit period was from January 1 through December 31 of each year.

14. In Docket No. 10-00225, Staff's audit of Piedmont's ACA account was for the extended 18 month period January 1, 2009 through June 30, 2010. The extended audit period in this docket was utilized in order to synchronize Piedmont's ACA accounting audit period with its Performance Incentive Plan accounting audit period.

15. Since Docket No. 10-00225, Piedmont's ACA annual audit accounting period has been from July 1 to June 30 of each year.

16. TRA Staff relies predominately on documentation and data provided by Piedmont in conducting its ACA audit, but is not precluded from independently reviewing publically available third-party corroborating information regarding Piedmont's gas cost transactions when it deems necessary.

17. The first step in the ACA audit process is the submission of information by Piedmont to TRA Staff regarding Piedmont's PGA and ACA account activity for the relevant period.

18. The second step is Staff's technical audit of Piedmont's ACA account and the issuance of its preliminary audit findings to Piedmont for comment.

19. The third step in the audit process is Piedmont's submission of its response(s) to Staff's preliminary audit findings.

20. The final step in the audit process is the publication and filing of Staff's final audit report to the Authority.

21. Following submission of Staff's audit report, the Authority typically reviews and approves the report unless there are substantive disagreements between Staff and Piedmont, in which case the matter may be litigated before the Authority.

22. Adjustments to Piedmont's ACA account, either through the audit process or as a result of correcting entries by Piedmont, while not desirable, are not unusual.

23. Authority Rule 1220-4-7-.03 both anticipates and allows for the possibility of prior period adjustments to Piedmont's ACA account balance. A copy of Authority Rule 1220-4-7-.03 is attached hereto as Exhibit C.

24. TRA Docket No. 07-00174 was Piedmont's ACA audit docket for the 12 months ending December 31, 2006.

25. Staff's Compliance Report in that docket recommended proposed adjustments of ($4,730,021.97) to Piedmont's ACA account. A copy of Staff's Compliance Report from Docket No. 07-00174 is attached hereto as Exhibit D.

26. Piedmont agreed with some of Staff's proposed adjustments and disagreed with others as reflected in the Compliance Report.

27. After discussions with Staff, Piedmont and Staff ultimately agreed to certain adjustments to Piedmont's ACA account and an ending balance in that account at December 31, 2006. Staff and Piedmont submitted these agreed adjustments to the Authority in a "Joint Final Report of Audit Staff and Piedmont Natural Gas Company" on June 10, 2008. A copy of this report is attached hereto as Exhibit E.

28. The Authority approved the Joint Final Report in its Order Adopting ACA Audit Report of Tennessee Regulatory Authority's Utilities Division issued on August 7, 2008. A copy of this Order is attached hereto as Exhibit F.

29. Piedmont has subsequently determined that the ending ACA account balance agreed to in that Joint Final Report in Docket No. 07-00174, which has been carried forward through subsequent ACA audit proceedings, was incorrect. A copy of the explanation for the adjustments necessary to reflect an accurate current ACA account balance, in the form of a "White Paper" attached to Piedmont's Petition, is attached hereto as Exhibit G.

30. The underlying supplier invoices and related documentation supporting the proposed adjustments to Piedmont's ACA account as reflected in Piedmont's "White Paper" represent legitimate gas costs as that term is defined by the Authority's PGA Rules. The Party Staff and Piedmont disagree about whether such costs are currently properly recoverable through Piedmont's ACA account.

31. PGA Rule 1220-4-7-.03(1)(b)2(vii) provides for a calculation of interest on the monthly ACA account balance using the average monthly balance based on the beginning and ending monthly balances.

Respectfully submitted, this the 21st day of February, 2014.

Piedmont Natural Gas Company, Inc.

R. D Grimes

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

James H. Jeffries IV
by RDG
w/permission

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

Party Staff

Shiva Bozarth

by RDG w/ permission

Shiva Bozarth
Legal Counsel
Tennessee Regulatory Authority
502 Deaderick Street, 4th Floor
Nashville, TN 37243
Telephone: 800-342-8359

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 21st day of February, 2014.

R. D. Thomas

SERVICE SCHEDULE NO. 311
Purchased Gas Adjustment Rider

I. General Provisions.

A. This Purchased Gas Adjustment (PGA) Rider is intended to permit the Company to recover, in a timely fashion, the total cost of gas purchased for delivery to its customers and to assure that the Company does not over-collect or under-collect Gas Costs from its customers.

B. This Rider is intended to apply to all Gas Costs incurred in connection with the purchase, transportation and/or storage of gas purchased for general system supply, including, but not limited to, natural gas purchased from interstate pipeline transmission companies, producers, brokers, marketers, associations, intrastate pipeline transmission companies, joint ventures, providers of liquefied natural gas (LNG), liquefied petroleum gas (LPG), substitute, supplemental or synthetic natural gas (SNG), and other hydrocarbons used as feed-stock, other distribution companies and end-users, whether or not the Gas Costs are regulated by the Federal Energy Regulatory Commission and whether or not the provider of the gas, transportation or storage is affiliated with the Company.

C. To the extent practicable, any revision in the PGA shall be filed with the Authority no less than thirty (30) days in advance of the proposed effective date and shall be accompanied by the computations and information required by this Rider. It is recognized, however, that in many instances the Company receives less than 30 days notice from its Suppliers and that other conditions may exist which may prevent the Company from providing 30 days advance notice. Therefore, should circumstances occur where information necessary for the determination of an adjustment under this Rider is not available to the Company so that the thirty (30) days requirement may be met, the Company may, upon good cause shown, be permitted to place such rates into effect with shorter advance notice.

D. The rates for gas service set forth in all of the Rate Schedules of the Company shall be adjusted pursuant to the terms of the PGA, or any specified portion of the PGA as determined by individual Rate Schedule(s).

E. No provision of this Rider shall supersede any provision of a Special Contract approved by the Authority.

II. Definitions.

A. "**Gas Costs**" shall mean the total delivered cost of gas paid or to be paid to Suppliers, including, but not limited to, all commodity/gas charges, demand charges, peaking charges, surcharges, emergency gas purchases, over-run charges, capacity charges, standby charges, gas inventory charges, minimum bill charges, minimum take charges, take-or-pay charges and take-and-pay charges (except as provided below), storage charges, service fees and transportation charges and any other similar charges which are paid by the Company to its gas suppliers in connection with the purchase, storage or transportation of gas for the Company's system supply, including Company use and lost and unaccounted for gas..

B. **"Fixed Gas Costs"** shall mean all Gas Costs based on the Company's right to demand gas or transportation on a daily or seasonal peak; but unless otherwise ordered by the Authority, shall not include other charges paid for gas reserve dedication (e.g., reservation fees and gas inventory charges), minimum bill charges, minimum take charges, over-run charges, emergency gas charges, take-or-pay charges or take-and-pay charges (all of which shall be considered commodity costs).

C. **"Gas Charge Adjustment"** shall mean the per unit amount billed by the Company to its customers solely for Gas Costs. The Gas Charge Adjustment shall be separately stated for firm customers and for non-firm customers.

D. **"Suppliers"** shall mean any person or entity, including affiliates of the Company, who locates, purchases, sells, stores and/or transports natural gas or its equivalent for or on behalf of the Company. Suppliers may include, but not be limited to, interstate pipeline transmission companies, producers, brokers, marketers, associations, intrastate pipeline transmission companies, joint ventures, providers of LNG, LPG, SNG, and other hydrocarbons used as feed-stock, other distribution companies and end-users.

E. **"Computation Period"** shall mean the twelve (12) month period utilized to compute Gas Costs. Such period shall be the twelve (12) month period ending on the last day of a month which is no more than 62 days prior to the filing date of a PGA.

F. **"Demand Billing Determinants"** shall mean the annualized volumes for which the Company has contracted with Suppliers as of the first day of the Filing Month.

G. **"Commodity Billing Determinants"** shall mean the total metered throughput, regardless of source, during the Computation Period, adjusted for known and measurable changes. Should the Company expect to purchase commodity gas from several Suppliers, the Company shall allocate to each supplier a percentage of the total metered throughput, regardless of source, during the Computation Period, adjusted for known and measurable changes. The percentage used to allocate among Suppliers shall be based on historical takes during the Computation Period, if appropriate; otherwise it shall be based upon the best estimate of the Company.

H. **"Filing Month"** shall mean the month in which a proposed revision is to become effective.

III. Computation and Application of the PGA.

The PGA shall consist of three major components: (1) the Gas Charge Adjustment; (2) the Refund Adjustment; and (3) the Actual Cost Adjustment (ACA).

A. Computation of Gas Charge Adjustment.

The Company shall compute the jurisdictional Gas Charge Adjustment at such time that the Company determines that there is a significant change in its Gas Costs.

1. **Formulas.** The following formulas shall be used to compute the Gas Charge Adjustment:

$$Firm\,GCA = \left[\left(\frac{D \pm DACA}{SF}\right) - DB\right] + \left[\left(\frac{P + T + SR \pm CACA}{ST}\right) - CB\right]$$

$$Non\text{-}Firm\,GCA = \left(\frac{P + T + SR \pm CACA}{ST}\right) - CB$$

1. **Definitions of Formula Components.**

GCA = The Gas Charge Adjustment in dollars per Ccf/Therm, rounded to no more than five decimal places.

D = The sum of all fixed Gas Costs.

DACA = The demand portion of the ACA.

P = The sum of all commodity/gas charges.

T = The sum of all transportation charges.

SR = The sum of all FERC approved surcharges.

CACA = The commodity portion of the ACA.

DB = The per unit rate of demand costs or other fixed charges included in base rates in the most recently completed general rate case (which may be zero if the Company so elects and the Authority so approves).

CB = The per unit rate of variable Gas Costs included in base rates in the most recently completed general rate case (which may be zero if the Company so elects and the Authority so approves).

SF = Firm sales.

ST = Total sales.

2. **Determination of Factors for Gas Charge Adjustment.**

a. **Demand Charges (Factor D)**

All fixed Gas Costs that do not vary with the amount of gas purchased or transported, including, but not limited to, the product resulting from the multiplication of (1) the respective Demand Billing Determinants by (2) the demand rates effective the first day of the Filing Month and (3) any fixed storage charges.

b. Demand Actual Cost Adjustment (Factor DACA)

See Subsection C of Section III.

c. Purchased Commodity Charges (Factor P)

All commodity or other variable gas costs associated with the amount of gas purchased or transported including, but not limited to, the product resulting from the multiplication of (1) the respective Commodity Billing Determinants by (2) the respective supplier's commodity/gas rate which are known, or if not known which are reasonably anticipated, to be in effect on the first day of the Filing Month.

d. Transportation Charges (Factor T)

The transportation charges actually invoiced to the Company during the Computation Period or expected to be invoiced to the Company during the current period.

e. FERC Approved Surcharges (Factor SR)

The sum of all FERC approved surcharges, including gas inventory charges or its equivalent, actually invoiced or expected to be invoiced to the Company during the Computation Period or to be effective the first day of the Filing Month by respective Suppliers.

f. Actual Cost Adjustment (Factor ACA)

See Subsection C of Section III.

g. Firm Sales (Factor SF)

Total volumes billed to the Company's firm customers during the Computation Period, regardless of source, adjusted for known and measurable changes.

h. Total Sales (Factor ST)

Total volumes billed to all the Company's customers during the Computation Period, regardless of source, adjusted for known measurable changes.

3. Modification of Formulas.

The formulas set forth above are not designed for use with two-part demand/commodity rate schedules; therefore, the formulas may be modified for use with such rate schedules. In addition, the formulas may be modified from time to time to carry out the intent of this PGA Rider. Any amendment to the formulas shall be effective on the proposed effective date of the amendment unless the Authority shall act to suspend the proposed amendment within thirty days after the filing of the proposed amendment, in which case the proposed amendment shall be subject to notice and hearing.

4. Filing with the Authority.

The computation of the Gas Charge Adjustment shall be filed in accordance with the notice requirements specified in Subsection C of Section I of this Rider, and shall remain in effect until a revised Gas Charge Adjustment is computed and filed pursuant to this Rider.

The Company shall file with the Authority a transmittal letter, an exhibit showing the computation of the Gas Charge Adjustment, a PGA tariff sheet, and any applicable revised tariff sheets issued by Suppliers. The transmittal letter shall state the PGA tariff sheet number, the service area(s), the primary reasons for revision, and the effective date.

If the Company proposes to recover any Gas Costs relating to (1) any payments to an affiliate or (2) any payments to a non-affiliate for emergency gas, over-run charges, take-or-pay charges and take-or-pay charges (except as provided below) or (3) the payment of any demand or fixed charges in connection with an increase in contract demand, the Company must file with the Authority a statement setting forth the reasons why such charges were incurred and sufficient information to permit the Authority to determine if such payments were prudently made under the conditions which existed at the time the purchase decisions were made.

Any filing of a rate change under this Rider shall be effective on the proposed effective date unless the Authority shall act to suspend the proposed change within thirty day after the filing, in which case the filing shall be subject to notice and hearing.

The recovery of pipeline take-or-pay charges which were the subject of Docket No. U-87-7590 shall continue to be handled under procedures approved by the Authority in that docket until such time as such procedures may be modified or amended by further order of the Authority.

B. Refund Adjustment.

The Refund Adjustment shall be separately stated for firm and non-firm customers, and may be either positive or negative.

1. Computation of Refund Adjustment.

The Company shall compute a Refund Adjustment on the last day of each calendar quarter using the following formulas:

$$Firm\ RA = \left(\frac{DR1 - DR2}{SFR}\right) + \left(\frac{CR1 - CR2 \pm CR3 \pm i}{STR}\right)$$

$$Non\text{-}Firm\ RA = \left(\frac{CR1 - CR2 \pm CR3 \pm i}{STR}\right)$$

2. Definitions of Formula Components.

RA = The Refund Adjustment in dollars per Ccf/therm, rounded to no more than five decimal places.

DR1 = Demand refund not included in a currently effective Refund Adjustment, and received from Suppliers by check, wire transfer, or credit memo.

DR2 = A demand surcharge from a Supplier not includable in the Gas Charge Adjustment, and not included in a currently effective Refund Adjustment.

CR1 = Commodity refund not included in a currently effective Refund Adjustment, and received from Suppliers by check, wire transfer, or credit memo.

CR2 = A commodity surcharge from a supplier not includable in the Gas Charge Adjustment, and not included in a currently effective Refund Adjustment.

CR3 = The residual balance of an expired Refund Adjustment.

I = Interest on the "Refund Due Customers' Account," using 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 2% below the arithmetic mean (to the nearest one-hundredth of one percent) of the prime rate value published in the "Federal Reserve Bulletin" or in the Federal Reserve's "Selected Interest Rates" for the 4th, 3rd, and 2nd months preceding the lst month of the calendar quarter

SFR = Firm sales as defined in the Gas Charge Adjustment computation, less sales under a transportation or negotiated rate schedule.

STR = Total sales as defined in the Gas Charge Adjustment computation, less sales under a transportation or negotiated rate schedule.

3. Modification of Formula.

The formulas set forth above are not designed for use with two-part demand/commodity rate schedules; therefore, the formulas may be modified for use with such rate schedules. In addition, the formulas may be modified from time to time to carry out the intent of this PGA Rider. Any amendment to the formulas shall be effective on the proposed effective date of the amendment unless the Authority shall act to suspend the proposed amendment within thirty days after the filing of the proposed amendment, in which case the proposed amendment shall be subject to notice and hearing.

4. **Filing with the Authority.**

The computation of the Refund Adjustment shall be filed in accordance with the notice requirements specified in Subsection C of Section I this Rider, and shall remain in effect for a period of twelve (12) months or for such longer or shorter period of time as required to appropriately refund the applicable refund amount.

The Company shall file with the Authority a transmittal letter, exhibits showing the computation of the Refund Adjustment and interest calculations, and a PGA tariff sheet. The transmittal letter shall state the PGA tariff sheet number, the service area(s), the reason for adjustment, and the effective date. Should the Company have a Gas Charge Adjustment filing to become effective the same date as a Refund Adjustment, a separate transmittal letter and PGA tariff sheet shall not be necessary.

C. Actual Cost Adjustment.

Commencing with the initial effective date of this Rider, the Company shall calculate the ACA monthly. The Company may, at its option, file monthly to include the ACA in its calculation of the Gas Charge Adjustment but shall be required to do so at least annually. The ACA shall be the difference between (1) revenues billed customers by means of the Gas Charge Adjustment and (2) the cost of gas invoiced the Company by Suppliers plus margin loss (if allowed by order of the Authority in another docket) as reflected in the Deferred Gas Cost account. The balance of said account shall be adjusted for interest at the rate provided for the calculation of interest with respect to the Refund Adjustment. The ACA shall be segregated into demand and commodity, and shall be added to or deducted from, as appropriate, the respective demand and commodity costs included in the Gas Charge Adjustment. Supplemental sheets showing the calculations of margin losses and cost savings shall also be provided.

D. Adjustments to Prior Period ACAs.

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. The resulting adjustment shall then be added to or deducted from the appropriate ACA in the next ensuing ACA filing with the Authority.

E. Annual Filing with the Authority.

Each year, the Company shall file with the Authority an annual report reflecting the transactions in the Deferred Gas Cost Account. Unless the Authority provides written notification to the Company within 180 days, the Deferred Gas Cost Adjustment Account shall be deemed in compliance with the provisions of this Rider.

IV. Gas Cost Accounting.

To appropriately match revenues with cost of purchased gas as contemplated under this rule, the Company shall originally record the cost of purchased gas in a "Deferred Gas Cost" account. Monthly, the Company shall debit "Natural Gas Purchases" with an amount equal to any gas cost component included in the

Company's base tariff rates (base rate) plus the PGA rate, as calculated hereunder, multiplied by the appropriate sales volumes billed to customers. The corresponding monthly credit entry shall be made to the "Deferred Gas Cost" account.

(Rule 1220-04-07-.01, continued)

(8) "Commodity Billing Determinants" shall mean the total metered throughput, regardless of source, during the Computation Period, adjusted for known and measurable changes. Should the Company expect to purchase commodity gas from several suppliers, the company shall allocate to each supplier a percentage of the total metered throughput, regardless of source, during the Computation Period, adjusted for known and measurable changes. The percentage used to allocate among suppliers shall be based on historical takes during the Computation Period, if appropriate; otherwise it shall be based upon the best estimate of the Company.

(9) "Authority" shall mean Tennessee Regulatory Authority.

(10) "Written-off" shall mean determined or deemed to be uncollectible by the Company.

Authority: *T.C.A. §§ 65-2-102, 65-4-104 and 65-5-101.* ***Administrative History:*** *Original rule filed October 29, 1993; effective March 1, 1994. Editorial changes made by the Secretary of State pursuant to Public Chapter 305 of 1995; "Commission" and references to the "Commission" were changed to "Authority" and references to the "Authority"; effective March 28, 2003. Amendments filed June 18, 2012; effective September 16, 2012.*

1220-04-07-.02 GENERAL PROVISIONS

(1) These Purchased Gas Adjustment (PGA) Rules are intended to permit the company to recover, in timely fashion, the total cost of gas purchased for delivery to its customers and to assure that the Company does not over-collect or under-collect Gas Costs from its customers.

(2) These Rules are intended to apply to all Gas Costs incurred in connection with the purchase, transportation and/or storage of gas purchased for general system supply, including, but not limited to, natural gas purchased from interstate pipeline transmission companies, producers, brokers, marketers, associations, intrastate pipeline transmission companies, joint ventures, providers of liquefied natural gas (LNG), liquefied petroleum gas (LPG), substitute, supplemental or synthetic natural gas (SNG), and other hydrocarbons used as feed-stock, other distribution companies and end-users, whether or not the Gas Costs are regulated by the Federal Energy Regulatory Commission and whether or not the provider of the gas, transportation or storage is affiliated with the Company.

(3) To the extent, practicable, any revision in the PGA shall be filed with the Authority no less than thirty (30) days in advance of the proposed effective date and shall be accompanied by the computations and information required by these Rules. It is recognized, however, that in many instances the Company receives less than thirty (30) days notice from its suppliers and that other conditions may exist which prevent the Company from providing thirty (30) days advance notice. Therefore, should circumstances occur where information necessary for the determination of an adjustment under these Rules is not available to the Company so that the thirty (30) days requirement can be met, the Authority may permit the Company to place rates into effect with shorter advance notice, upon good cause shown.

(4) The rates for gas service set forth in all of the Rate Schedules of the Company shall be adjusted pursuant to the terms of the PGA, or any specified portion of the PGA as determined by individual Rate Schedule(s).

(5) No provisions of these rules shall supersede any provision of a special contract approved by the Authority.

Authority: *T.C.A. §§ 65 -2-102 and 65-4-104.* ***Administrative History:*** *Original rule filed October 29, 1993; effective March 1, 1994. Editorial changes made by the Secretary of State pursuant to Public*

(Rule 1220-04-07-.02, continued)
Chapter 305 of 1995; "Commission" and references to the "Commission" were changed to "Authority" and references to the "Authority"; effective March 28, 2003.

1220-04-07-.03 COMPUTATIONS AND APPLICATION OF THE PURCHASED GAS ADJUSTMENT (PGA).

(1) The PGA shall consist of three major components: (a) the Gas Charge Adjustment; (b) the Refund Adjustment and (c) the Actual Cost Adjustment (ACA).

(a) Computation of Gas Charge Adjustment. The Company shall compute the jurisdictional Gas Charge Adjustment at such time that the Company determines that there is a significant change in its Gas Costs.

1. Formulas. The following formulas shall be used to compute the Gas Charge Adjustment:

(i) Firm GCA =

$$\left(\frac{\left(\frac{D \pm DACA}{CB}\right)}{SF} - DB\right) + \left(\left(\frac{P + T + SR \pm CACA}{ST}\right) - \right)$$

(ii) Non-Firm GCA

$$\left(\frac{P + T + SR \pm CACA}{ST}\right) - CB$$

2. Definitions of Formula Components.

(i) GCA = The Gas Charge Adjustment in dollars per Ccf/therm, rounded to no more than five decimal places.

(ii) D = The sum of all fixed Gas Costs.

(iii) DACA = The demand portion of the ACA.

(iv) P = The sum of all commodity/gas charges.

(v) T = The sum of all transportation charges.

(vi) SR = The sum of all FERC approved surcharges.

(vii) CACA = The commodity portion of the ACA.

(viii) DB = The per unit of demand costs or other fixed charges included in base rates in the most recently completed general rate case (which may be zero if the Company so elects and the Authority so approves).

(Rule 1220-04-07-.03, continued)

(ix) CB = The per unit rate of variable Gas Costs included in base rates in the most recently completed general rate case (which may be zero if the Company so elects and the Authority so approves).

(x) SF = Firm sales.

(xi) ST = Total sales.

3. Determination of Factors - Gas Charge Adjustment.

(i) Demand Charges (Factor D)

All Fixed Gas Costs that do not vary with the amount of gas purchased or transported, including, but not limited to, the product resulting from the multiplication of (1) the respective Demand Billing Determinants by (2) the respective Supplier demand rates that are effective, known or reasonably anticipated at the time the PGA is filed with the Authority and (3) any fixed storage charges.

(ii) Demand Actual Cost Adjustment (Factor DACA)

See subsection (1)(c) Actual Cost Adjustment.

(iii) Purchased Commodity Charges (Factor P)

All commodity or other variable Gas Costs associated with the amount of gas purchased or transported including, but not limited to, the product resulting from the multiplication of (1) the respective Demand Billing Determinants by (2) the respective Supplier demand rates that are effective, known or reasonably anticipated at the time the PGA is filed with the Authority and (3) any fixed storage charges.

(iv) Transportation Charges (Factor T)

The transportation charges actually invoiced to the Company during the Computation Period or expected to be invoiced in the Company during the current period.

(v) FERC Approved Surcharges (Factor SR)

The sum of all FERC approved surcharges, including gas inventory charges or its equivalent, actually invoiced or expected to be invoiced to the Company during the Computation Period or that are effective, known or reasonably anticipated at the time the PGA is filed with the Authority.

(vi) Actual Cost Adjustment (Factor ACA)

See subsection (1)(c) Actual Cost Adjustment.

(viii) Total Sales (Factor ST)

Total volumes billed to all the Company's customers during the Computation Period, regardless of source, adjusted for known measurable changes.

4. Modification of Formulas.

(Rule 1220-04-07-.03, continued)

(i) The formulas set forth above are not designed for use with two-part demand/commodity rate schedules; however, the formulas may be modified form time to time to carry out the intent of these PGA Rules. Any proposed modification to the formulas shall contain a proposed effective date. The Authority may suspend the modification within thirty (30) days of filing, in which case the proposed modification shall be subject to notice and hearing; otherwise, the modification to the formula shall be effective on the proposed effective date.

5. Filing with the Authority.

(i) The computation of the Gas Charge Adjustment shall be filed in accordance with the notice requirements specified in Rule 1220-04-07-.02(3) shall remain in effect until a revised Gas Charge Adjustment is computed and filed pursuant to these Rules.

(ii) The Company shall file with the Authority a transmittal letter, an exhibit showing the computation of the Gas Charge Adjustment, a PGA tariff sheet, and any applicable revised tariff sheets issued by Suppliers. The transmittal letter shall state the PGA tariff sheet number, the service area(s), the primary reasons for revision, and the effective date.

(iii) If the Company proposes to recover any Gas Costs relating to (1) any payments to an affiliate or (2) any payments to a nonaffiliate for emergency gas, over-run charges, or (3) the payment of any demand or fixed charges in connection with an increase in contract demand, the Company must file with the Authority a statement setting forth the reasons why such charges were incurred and sufficient information to permit the Authority to determine if such payments were prudently made under the conditions which existed at the time the purchase decisions were made.

(iv) Any filing of a rate change under these Rules shall be effective on the proposed effective date unless the Authority shall act to suspend the proposed change within thirty (30) days after the filing, in which case the filing shall be subject to notice and hearing.

(b) Refund Adjustment. The Refund Adjustment shall be separately stated for firm and non-firm customers, and may be either positive or negative.

1. Computation of Refund Adjustment. The Company shall compute a Refund Adjustment on the last day of each calendar quarter using the following formulas:

(i) Firm RA = $\left(\frac{DR1 - DR2}{SFR}\right) + \left(\frac{CR1 - CR2 \pm CR3}{STR}\right) \pm U \pm i$

(ii) Non-Firm RA = $\left(\frac{CR1 - CR2 \pm CR3 \pm U \pm i}{STR}\right)$

2. Definitions of Formula Components.

(i) RA = The Refund Adjustment in dollars per Ccf/therm, rounded to no more than five decimal p1aces.

(Rule 1220-04-07-.03, continued)

(ii) DRI = Demand refund not included in a currently effective Refund Adjustment and received from Suppliers by check, wire transfer. or credit memo.

(iii) DR2 = A demand surcharge from a Supplier not includable in the Gas Charge Adjustment, and not included in a currently effective Refund Adjustment.

(iv) CR1 = Commodity refund not included in a currently effective Refund Adjustment, and received from Suppliers by check, wire transfer, or credit memo.

(v) CR2 = A commodity surcharge from a Supplier not includable in the Gas Charge Adjustment, and not included in a currently effective Refund Adjustment.

(vi) CR3 = The residual balance of an expired Refund Adjustment.

(vii) I = Interest on the "Refund Due Customers' Account", using 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 arithmetic mean (to the nearest one-hundredth of one percent) of the prime rate value published in the "Federal Reserve Bulletin" or in the Federal Reserve's "Selected Interest Rates" for the 4th, 3rd and 2nd months preceding the 1st month of the calendar quarter.

(viii) SFR = Firm sales as defined in the Gas Charge Adjustment computations, less sales under a transportation or negotiated rate schedule.

(ix) STR = Total sales as defined in the Gas Charge Adjustment computation, less sales under a transportation or negotiated rate schedule.

(x) U = Eligible uncollected gas costs surcharged or refunded under this Rule.

3. Modification of Formula. The formulas set forth above are not designed for use with two-part demand/commodity rate schedules; however, the formulas may be modified from time to time to carry out the intent of these PGA Rules. Any proposed modification to the formulas shall contain a proposed effective date. The Authority may suspend the modification within thirty (30) days of filing, in which case the proposed modification shall be subject to notice and hearing; otherwise, the modification to the formula shall be effective on the proposed effective date.

4. Filing with the Authority.

(i) The computation of the Refund Adjustment shall be filed in accordance with the notice requirements specified in Rule 1220-04-07-.02(3) and shall remain in effect for a period of twelve (12) months or for such longer or shorter period of time as required to appropriately refund the applicable refund amount.

(ii) The company shall file with the Authority a transmittal letter, exhibits showing the computation of the Refund Adjustment and interest calculations, and a PGA tariff sheet. The transmittal letter shall state the PGA tariff sheet number, the service area(s), the reason for adjustment, and the effective date. Should the Company have a Gas Charge

(Rule 1220-04-07-.03, continued)

Adjustment filing to become effective the same date as a Refund Adjustment, a separate transmittal letter and PGA tariff sheet shall not be necessary.

(c) Actual Cost Adjustment.

1. Commencing with the initial effective date of these Rules, the Company shall calculate the ACA monthly. The Company shall be required to include the ACA in its calculation of the Gas Charge Adjustment at least monthly. Should the Company or Authority Staff determine it appropriate to include the ACA in the Gas Charge Adjustment more frequently than once per year, then the company may be allowed/directed to do so. The Authority shall resolve disputes between the Company and the Staff regarding timing of such ACAs.

2. The ACA shall be the difference between (1) revenues billed customers by means of the Gas Charge Adjustment and (2) the cost of gas invoiced the Company by suppliers plus margin loss (if allowed by order of the Authority in another docket) as reflected in the Deferred Gas Cost Account. The balance of said account shall be adjusted for interest at the rate provided for the calculation of interest with respect to the Refund Adjustment. The ACA shall be segregated into demand and commodity, and shall be added to or deducted from, as appropriate, the respective demand and commodity costs included in the Gas Charge Adjustment. Supplemental sheets showing the calculations of margin losses and cost savings shall also be provided.

3. Adjustments to Prior Period ACAs. 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. The resulting adjustment shall then be added to or deducted from the appropriate ACA in the next ensuing ACA filing with the Authority.

(2) Annual Filing with the Authority. Each year, the Company shall file with the Authority an annual report reflecting the transactions in the Deferred Gas Cost Account. Unless the Authority provides written notification to the Company within one hundred eighty (180) days from the date of filing the report, the Deferred Gas Cost Adjustment Account shall be deemed in compliance with the provisions of these Rules. This one hundred eighty (180) day notification period may be extended by mutual consent of the Company and the Authority Staff or by order of the Authority.

Authority: *T.C.A. §§ 65-2-102 and 65-4-104.* ***Administrative History:*** *Original rule filed October 29, 1993; effective March 1, 1994. Editorial changes made by the Secretary of State pursuant to Public Chapter 305 of 1995; "Commission" and references to the "Commission" were changed to "Authority" and references to the "Authority"; effective March 28, 2003. Amendments filed June 18, 2012; effective September 16, 2012.*

1220-04-07-.04 GAS COST ACCOUNTING.

(1) To appropriately match revenues with cost of purchased gas as contemplated under these Rules, the Company shall originally record the cost of purchased gas in a "Deferred Gas Cost" Account. Monthly, the Company shall debit "Natural Gas Purchases" with an amount equal to any Gas Cost component included in the Company's base tariff rates (base rate) plus the PGA rate, as calculated hereunder, multiplied by the appropriate volumes sold or billed to customers. The corresponding monthly credit entry shall be made to the "Deferred Gas Cost" Account.

Exh. D

RECEIVED
2008 APR -3 PM 3:38
T.R.A. DOCKET ROOM

BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

April 3, 2008

IN RE:	)	
	)	
NASHVILLE GAS COMPANY	)	**Docket No. 07-00174**
ACTUAL COST ADJUSTMENT (ACA) AUDIT	)	

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

Pursuant to Tenn. Code Ann. §§ 65-4-104, 65-4-111 and 65-3-108, the Utilities Division of the Tennessee Regulatory Authority hereby gives notice of its filing of the Compliance Audit Report of the Actual Cost Adjustment (hereafter "ACA") Component of the Purchased Gas Adjustment Rule ("PGA Rule") for Nashville Gas Company (hereafter the "Company") in this docket and would respectfully state as follows:

1. The present docket was opened by the Authority to hear matters arising out of the audit of the Company's ACA filing for the period January 2006 through December 2006.

2. The Company's ACA filing was received on July 16, 2007, and Audit Staff ("Staff") completed its audit of same on March 12, 2008

3. On March 14, 2008, the Utilities Division issued its preliminary ACA audit findings to the Company and on March 25, 2008, the Company responded thereto.

4. The preliminary ACA audit report was modified to reflect the Company's responses to the preliminary audit findings, Staff's rebuttal responses to eight (8) Company

responses and a final ACA audit report (the "Report") resulted therefrom. The Report is attached hereto as Exhibit A and is fully incorporated herein by this reference. The Report contains the audit findings of the Utilities Division, the Company's responses thereto, Staff's rebuttal responses, and the conclusions and recommendations of the Utilities Division in connection therewith.

5. The original 180-days for completion of the audit of Nashville Gas Company was extended on several occasions, lastly to April 21, 2008, by mutual consent of the Company and the Staff as provided for in PGA Rule 1220-4-7-.03(2).

6. The Utilities Division hereby files its Report with the Tennessee Regulatory Authority for deposit as a public record and approval of the recommendations and findings contained therein.

Respectfully Submitted:

Paul D. Greene

Paul D. Greene
Utilities Division
Tennessee Regulatory Authority

CERTIFICATE OF SERVICE

I hereby certify that on this 3rd day of April, 2008, a true and exact copy of the foregoing has been either hand-delivered or delivered via U.S. Mail, postage pre-paid, to the following persons:

Eddie Roberson
Chairman
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37243

Mr. David Carpenter
Director - Rates
Piedmont Natural Gas Company
PO Box 33068
Charlotte, NC 28233

Ms. Jenny Furr
Manager – Regulatory Reporting
Piedmont Natural Gas Company
PO Box 33068
Charlotte, NC 28233

Ms. Kelly Choate
Piedmont Natural Gas Company
4720 Piedmont Row Drive
Charlotte, NC 28210

James H. Jefferies, IV Esq.
Moore & Van Allen, PLLC
100 North Tryon Street, Suite 4700
Charlotte, NC 28202

Paul D. Greene

Paul D. Greene

EXHIBIT A

COMPLIANCE AUDIT REPORT

OF

Nashville Gas Company

ACTUAL COST ADJUSTMENT

DOCKET NO. 07-00174

PREPARED BY

TENNESSEE REGULATORY AUTHORITY

UTILITIES DIVISION

April 2008

COMPLIANCE AUDIT

NASHVILLE GAS COMPANY

ACTUAL COST ADJUSTMENT

DOCKET NO. 07-00174

TABLE OF CONTENTS

I. INTRODUCTION

The subject of this audit is Nashville Gas Company's ("Nashville Gas," "Company" or "NGC") compliance with the Actual Cost Adjustment and Refund Adjustment of the Purchased Gas Adjustment Rule ("PGA Rule") of the Tennessee Regulatory Authority ("TRA" or the "Authority"). The objective of the audit was to determine whether the Purchased Gas Adjustments ("PGA"), which are encompassed by the Actual Cost Adjustment ("ACA")[1], for the twelve (12) months ended December 31, 2006, were calculated correctly and were supported by appropriate source documentation. **Staff also reviewed this filing to determine the Company's compliance with the Authority's order in Docket No. 06-00087.**

II. AUDIT OPINION

On July 16, 2007, the TRA Audit Staff (hereafter "Staff") received NGC's ACA filing supporting the activity in its deferred gas cost account ("ACA Account") for the period January 1, 2006 through December 31, 2006. Nashville Gas filed a PGA May 31, 2007 to surcharge the Company's unaudited February 28, 2007 balance in the ACA Account effective July 1, 2007.

Staff's audit resulted in eighteen (18) findings.[2] The net amount of these findings is **$4,730,021.97 in overrecovered gas costs.** The Company's reported December 31, 2006 balance of **$7,682,964.25 in underrecovered** gas costs is decreased by the $4,730,021.97 overcollected gas costs determined in this audit. The corrected balance in the ACA Account at December 31, 2006 is **$2,952,942.29 in underrecovered gas costs.** The amount of the Company's errors represent less than three percent of its total gas invoices, and is therefore immaterial by comparison. Staff concludes that except for the findings noted in this report, NGC is correctly implementing its Purchased Gas Adjustment Rider as calculated in the Actual Cost Adjustment, in accordance with TRA rules for Nashville Gas Company.

III. BACKGROUND INFORMATION ON COMPANY AND GAS SUPPLIERS

Nashville Gas Company, with headquarters at 665 Mainstream Drive, Nashville, Tennessee, is an operating division of Piedmont Natural Gas Company, which has its headquarters at 4720 Piedmont Row Drive, Charlotte, North Carolina. On February 12, 2008, the Company notified the Authority of its intent to change the name under which it operates in Tennessee from Nashville Gas Company to its corporate name of Piedmont Natural Gas Company, Inc. The Authority issued an order on March 31, 2008 in Docket No. 08-00028 approving the change. Piedmont is a gas distributor that provides service to several communities in the Middle Tennessee area. The natural gas used to serve these areas is purchased from producers and marketers and transported to Piedmont's city gate through the interstate transmission facilities of Tennessee Gas Pipeline ("TGP"), Columbia Gas Transmission Corporation ("CGTC"), Texas Eastern Gas Pipeline ("TETCO") and Midwestern Gas Transmission Company ("MGT").

---

[1] The ACA is more fully described in Section V.

[2] Refer to Section VII for a description of the findings.

IV. JURISDICTION OF THE TENNESSEE REGULATORY AUTHORITY

Tennessee Code Annotated ("T.C.A".) gave jurisdiction and control over public utilities to the Tennessee Regulatory Authority. T.C.A. §65-4-104 states that:

> The [A]uthority has general supervisory and regulatory power, jurisdiction, and control over all public utilities, and also over their property, property rights, facilities, and franchises, so far as may be necessary for the purpose of carrying out the provisions of this chapter.

Further, T.C.A. §65-4-105 grants the same power to the Authority with reference to all public utilities within its jurisdiction as chapters 3 and 5 of Title 65 of the T.C.A. have conferred on the Department of Transportation's oversight of the railroads or the Department of Safety's oversight of transportation companies. By virtue of T.C.A. §65-3-108, this power includes the right to audit:

> The department is given full power to examine the books and papers of the companies, and to examine, under oath, the officers, agents, and employees of the companies and any other persons, to procure the necessary information to intelligently and justly discharge its duties and carry out the provisions of this chapter and chapter 5 of this title.

The Utilities Division Staff of the TRA is responsible for auditing those energy, water and wastewater utilities under the Authority's jurisdiction to ensure that each company is abiding by Tennessee statute as well as the Rules and Regulations of the Authority. Paul Greene and Michelle Ramsey conducted this audit.

V. DESCRIPTION OF PURCHASED GAS ADJUSTMENT RULE

Actual Cost Adjustment Audits:

The PGA Rule can be found in Chapter 1220-4-7 of the Rules of the Tennessee Regulatory Authority. The PGA Rule permits a gas company to recover, in a timely fashion, the total cost of gas purchased for delivery to its customers and to assure that a company does not over-collect or under-collect gas costs from its customers. The PGA consists of three major components:

1. **The Actual Cost Adjustment ("ACA")**
2. **The Gas Charge Adjustment ("GCA")**
3. **The Refund Adjustment ("RA")**

The ACA is the difference between the revenues billed customers by means of the GCA and the cost of gas invoiced the Company by suppliers plus margin loss (if allowed by order of the TRA in another docket) as reflected in the Deferred Gas Cost account. The ACA then "trues-up" the difference between the actual gas costs and the gas costs recovered from customers through a surcharge or a refund. The RA refunds the "true-up" along with other supplier refunds. For a more complete definition of the GCA and RA, please see the PGA Formula in Appendix A.

Section 1220-4-7-.03(2) of the PGA Rule requires:

> Each year, the Company shall file with the [Authority] an annual report reflecting the transactions in the Deferred Gas Cost Account. Unless the [Authority] provides written notification to the Company within one hundred eighty (180) days from the date of filing the report, the Deferred Gas Cost Adjustment Account shall be deemed in compliance with the provisions of these Rules. This 180-day notification period may be extended by mutual consent of the Company and the [Authority] Staff or by order of the [Authority].

Prudence Audit of Gas Purchases:

Section 1220-4-7-.05 of the PGA Rule requires, unless otherwise ordered by the Authority, an "Audit of Prudence of Gas Purchases" by a qualified consultant. This specialized audit evaluates and reports annually on the prudence of any gas costs included in the PGA. In Docket 96-00805, Nashville Gas was authorized to operate under a Performance-Based Ratemaking Mechanism ("PBR" or "Incentive Plan"), beginning July 1, 1998, and continuing each year unless terminated by the Company or the Authority. For each year that the mechanism was in effect, the requirements of Section 1220-4-7-.05 of the PGA Rule was waived. On December 14, 2007, the TRA issued an order in Docket 05-00165 approving a revised Incentive Plan for Nashville Gas, effective July 1, 2006. This revised Incentive Plan replaces the annual prudence review of the Company's gas purchasing activities.

VI. SCOPE OF ACTUAL COST ADJUSTMENT AUDIT

The ACA audit is a limited compliance audit of NGC's ACA Account. The audit goal is to verify that the Company's calculations of gas costs incurred and recovered are materially correct,[3] and that the Company is following all Authority orders and directives with respect to its calculation of the ACA Account balance. Also included in this audit is the Company's PGA filing implementing a customer surcharge of the unaudited February 28, 2007 ACA Account balance filed May 31, 2007, effective July 1, 2007. **Staff also reviewed this filing to determine the Company's compliance with the Authority's order in Docket No. 06-00087.**

[3] The audit goal is not to guarantee that the Company's results are 100% correct. Where it is appropriate, Staff utilizes sampling techniques to determine whether the Company's calculations are materially correct. Material discrepancies would dictate a broadening of the scope of Staff's review.

To accomplish the audit goal, Staff reviewed gas supply invoices, as well as supplemental schedules and other source documentation provided by the Company. Where appropriate, Staff requested additional information to clarify the filing.

VII. ACA AUDIT FINDINGS

NOTE: In Docket No. 06-00087, the Authority approved and adopted the ACA Audit Report of NGC's annual deferred gas cost account filing for the year ended December 31, 2005. The Authority specifically adopted the findings and recommendations contained in the Audit Report, including the recommendation that the "accrual methodology the Company used in the ACA filing be rejected and the Company [be] directed to report actual amounts in the month incurred."[4] Staff reviewed the Company's compliance with the Authority's June 14, 2007 Order in completing this Audit.

The result of the Staff's audit was a **net overrecovery of $4,730,021.97** which has the effect of *decreasing* the Company's underrecovered balance at December 31, 2006 by this amount. A summary of the account as filed by the Company and as adjusted by the Staff is shown below, followed by a detailed description of each finding. Staff sent its preliminary findings to Nashville Gas on March 14, 2008 and asked that the Company provide written responses to each one. Nashville Gas complied on March 25, 2008, and Staff has copied their responses verbatim into this final report. Staff then considered each response and adjusted our results as we deemed appropriate.

SUMMARY OF THE ACA ACCOUNT:

	Company	Staff (1)	Difference (Findings)
Commodity Balance at 1/1/06	$ -18,934,743.47	$ -18,934,743.47	$ 0.00
Plus Gas Costs	184,410,960.47	181,622,331.09	-2,788,629.38
Minus Recoveries	162,472,648.03	162,440,217.86	-32,430.17
Ending Balance before Interest	$ 3,003,568.97	$ 247,369.76	$ -2,756,199.21
Plus Interest	-283,922.05	-380,873.12	-96,951.07
Commodity Balance at 12/31/06	$ 2,719,646.92	$ -133,503.35	$ -2,853,150.28
Demand Balance at 1/1/06	$ 3,981,917.83	$ 3,981,917.83	$ 0.00
Plus Gas Costs	8,755,212.87	6,952,283.31	-1,802,929.56
Minus Recoveries	8,129,471.48	8,129,471.48	0.00
Ending Balance before Interest	$ 4,607,659.22	$2,804,729.66	$ -1,802,929.56
Plus Interest	355,658.11	281,715.98	-73,942.13
Demand Balance at 12/31/06	$ 4,963,317.33	$ 3,086,445.64	$ -1,876,871.69
Total ACA Ending Balance at 12/31/06 (2)	$ 7,682,964.25	$ 2,952,942.29	$ -4,730,021.97

[4] *In re: Nashville Gas Company, a Division of Piedmont Natural Gas Company, Inc. Actual Cost Adjustment (ACA) Audit for the Twelve Months Ended December 31, 2005*, Docket No. 06-00087, *Order Adopting ACA Audit Report of Tennessee Regulatory Authority's Utilities' Division*, Exhibit A, p. 13 (June 14, 2007).

(1) Staff's column and the Summary of Findings below contain the final audit results after Staff took into consideration the Company's responses to the preliminary findings.
(2) Nashville Gas filed a PGA May 31, 2007 to surcharge the Company's unaudited February 28, 2007 balance in the ACA Account of $6,193,507, effective July 1, 2007.

Note: A negative number indicates an overrecovery of gas costs.

SUMMARY OF FINDINGS:

				See page
FINDING #1	Accrual Adjustment	$ (1,964,194.67)	Over-recovery	8
FINDING #2	Hedging Cost Adjustment	467,228.00	Under-recovery	15
FINDING #3	LNG Power Costs	(66,600.00)	Over-recovery	16
FINDING #4	Cash-out Adj.	400,792.77	Under-recovery	17
FINDING #5	Commodity Recoveries	32,430.17	Under-recovery	18
FINDING #6	Banked Gas Adjustment	(984,484.16)	Over-recovery	20
FINDING #7	Miscellaneous Adjustment	(966,432.32)	Over-recovery	21
FINDING #8	Miscellaneous Adjustment	(68,400.00)	Over-recovery	22
FINDING #9	Asset Management Misclassification	393,461.00	Under-recovery	23
FINDING #10	Interest – Commodity	(96,951.07)	Over-recovery	24
FINDING #11	Asset Management Misclassification	637,500.00	Under-recovery	25
FINDING #12	Accrual Adjustment	(708,364.31)	Over-recovery	26
FINDING #13	2004 Audit Finding	(1,837.60)	Over-recovery	29
FINDING #14	Asset Mgt. Misclassification	(1,030,961.00)	Over-recovery	30
FINDING #15	Miscellaneous Adjustment	(699,266.65)	Over-recovery	31
FINDING #16	Interest – Demand	(73,942.13)	Over-recovery	32
FINDING #17	Tariff Rate Codes	No $$ effect		33
FINDING #18	Accruals	No $$ effect		34
	Net Result	**$ (4,730,021.97)**	**Over-recovery**	

FINDING #1:

Exception

The Company over-stated its commodity invoiced gas costs by including accrual adjustments in the ACA filing. This is a repeat finding from the prior audit.

Preliminary Discussion

The Purchased Gas Adjustment (PGA) Rules "are intended to permit the company to recover, in timely fashion, the total cost of gas purchased for delivery to its customers and to assure that the Company does not over-collect or under-collect Gas Costs from its customers." TRA Rule (1220-4-7-.02)(1) ("PGA Rule") Gas Costs "shall mean the total delivered cost of gas paid or to be paid to Suppliers,..." PGA Rule (1220-4-7-.01(1). The intent is clear that the cost of gas to be recovered from customers should be based on actual invoiced gas costs. Therefore, Staff eliminated all accrual adjustments from the Company's reported gas costs and included only those amounts documented by actual invoiced amounts. The result of this finding is a **decrease in commodity gas costs of $1,964,643.36.**

Company Response

The Company agrees, in part, and disagrees, in part, with Audit Staff's Finding #1. The Company has suggested, and believes that Audit Staff concurs, that data reflecting the Company's "actual" gas costs for each month should be reported to Staff for ACA audit purposes to ensure that actual gas costs are recovered from customers. The Company disagrees, however, with the Staff's finding that the adjustments to the Company's reported invoiced gas costs should be eliminated, resulting in a $1,964,643.36 decrease of the Company's commodity gas costs.

The Audit Staff and the Company have differing understandings of the appropriate treatment of the Company's adjustments to invoices. Under the accrual accounting methodology, the Company records adjustments to invoices in the month that the adjustments are recognized, instead of recording the adjustments in the month to which an adjustment is related as Audit Staff would prefer. As a result, Audit Staff eliminated adjustments totaling ($1,299,800.57) for the review period, based on the misunderstanding that various adjustments reflect accruals instead of actual costs. These amounts represent adjustments that have been recorded to the cost of gas in the periods presented and are valid actual adjustments, not accruals as the Audit Staff has presented. Accordingly, the Company disagrees with the Staff's elimination of the $1,964,643.36 in adjustments from the commodity invoiced gas costs. The appropriate adjustment should be in the amount of ($302,417.98) for commodity costs as presented on the attached schedule captioned Analysis of TRA Staff Adjustments. Additionally, the Audit Staff has included demand adjustments in February of $4,294.64; in April of $6,530.80; in October of $6,791.63; in December of ($31,449.50) and commodity adjustments in December of ($157,925.85). The Company is unable to determine the basis for these additional demand and commodity adjustments and, therefore, cannot agree to them.

The Staff's Findings #1, #12, and #18 are based on the Staff's position that "accrual accounting has no place in the reporting of transactions in the ACA Account." The Staff's last audit addressed the Staff's preference that the Company use a cash accounting methodology instead of the Company's current methodology of accruing estimated gas costs in the current month, followed by reversals and booking actuals in the month that adjustments are realized. While the accrual methodology may make it slightly more complicated for Staff to conduct the ACA audit, the Company believes that its use of the GAAP approved methodology and the ability to assess the Company's actual costs are not mutually exclusive. In fact, the Company successfully uses this methodology for all jurisdictions that the Company serves and to change this methodology to account for Nashville Gas accounts in Tennessee in a separate manner would be onerous and result in an unnecessary increase in costs to the Company. The Company has worked with Audit Staff this year to provide Audit Staff with ACA schedules that meet the Audit Staff's needs. In fact, the Company withdrew it's initial filing in an effort to provide Audit Staff with simplified schedules to assist in the audit process. The Company continues to desire to work with Audit Staff to reach a consensus on an ACA reporting structure that simplifies the audit process for future periods while also respecting the Company's current operating structure, accounting systems, internal reporting needs, and cost concerns.

Staff Rebuttal to Company Response

While the Company keeps saying they are not accruing costs in the ACA, by their own admission, they record "adjustments to invoices in the month that the adjustments are recognized, instead of recording the adjustments in the month to which an adjustment is related **as Audit Staff would prefer.**"[5] [Emphasis added] Staff asserts that the Company is totally misrepresenting Staff's position.

To be perfectly clear, Staff gives the following illustrative examples of how costs should be recorded in the ACA filing.[6] We clarify that we may not cover every situation. Should the Company have questions regarding situations not covered in the examples, they can contact Staff at anytime during the year to discuss.

Typical Gas Cost Invoices

1. The Company receives an invoice in February for gas purchased in January ("January invoice").
2. While the Company may pay the invoice in February (or later), the January invoice "amount paid"[7] must be recorded in the ACA filing as a January gas cost.

[5] Company response to Finding #1, 2nd paragraph, 2nd sentence.

[6] For further clarification, when Staff refers to the ACA filing, we mean the ACA schedules that the Company submits for audit by the TRA Staff to determine the correct gas costs to be recovered from ratepayers. Staff is not referring to the Company's deferred gas cost account on their books that an outside auditor would audit to determine if it reconciles to the General Ledger each month. Staff is not interested in looking at the internal journal entries made to the General Ledger, only the invoices that support the gas costs that are recovered from ratepayers.

[7] In some cases, the Company may or may not pay the total amount billed, such as when an amount is disputed, or a credit has been taken. The amount paid, however, is the amount to be recorded.

Invoice Gas Cost Adjustment Examples

Example 1 – The supplier omits a legitimate charge on the January invoice (for whatever reason) and bills the omitted charge in April. [Staff is not sure the method the supplier would use, whether sending a revised invoice or including the omitted charge as an adjustment to the April invoice.]

This adjustment is properly recorded in the ACA filing as an April gas cost, regardless of the fact that it relates to the January purchase.

Example 2 – The supplier makes an error in the volumes or rate billed and it is not recognized by the Company until March. [Staff assumes some communication takes place between the Company and its supplier by whatever method and the Company becomes aware of the error.]

This adjustment is properly recorded in the ACA filing as a March gas cost, regardless of the fact that it relates to the January purchase.

In paragraph 3 of its response, the Company reiterates its use of the accrual methodology for its accounting. It states that in the last audit, Staff's preference was that the Company use a cash accounting methodology. Staff has never advocated any accounting methodology for the Company to use in its books and records. Footnote 9 to the Staff's Audit Report in Docket No. 06-00087 states: "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 accurate." We do not see this as an accounting issue. This is an audit of the Company's gas invoices and the revenues billed to ratepayers via the PGA rates. In truth, if the calculation of interest on the monthly ACA balances was not required by the PGA Rule, then the timing differences generated by accrual accounting would not be a significant problem. But the fact is that timing differences can materially impact the calculation of interest.

The Company also states in paragraph 3 that it successfully uses the accrual methodology in its other jurisdictions. This statement by the Company is interesting in light of the Public Staff testimony in South Carolina in Docket No. 2007-4-G. (See *Attachment 8* for copy of the testimony.)

> "However, the Parties further agree that: (i) Piedmont experienced significant issues with some aspects of the accounting and reporting of its gas costs during the Review Period; (ii) these issues resulted in numerous ORS adjustments including, but not limited to, the Company's commodity true-up, inventory accountability and deferred account-hedging program; (iii) several issues relating to the account entries applicable to the Company's commodity true-up calculation and inventory levels remain unresolved and, as a result, ORS is unable to verify the end-of-period balance in the deferred account #253.04…" The Office of Regulatory Staff Settlement Testimony of Carey M. Flynt (November 9, 2007), page 2.

Further, in an article titled State: Piedmont Gas too sloppy: Regulators say errors repeatedly found in company's accounting, found on Trading Markets.com, Jim Hoard, assistant director of the accounting division for the public staff of the North Carolina Utilities Commission says that sometimes the accounting errors appear to work to the advantage of the company's bottom line and sometimes to the advantage of consumers. "They're making lots of mistakes." (*See Attachment 9*)

Staff further refutes the Company's assertion that its accrual methodology may make it "slightly" more complicated for Staff to conduct the ACA audit. In fact, Staff asserts that the Company's use of accrual methodology for regulatory reporting purposes causes the auditing process to be unduly burdensome and therefore unacceptable to Staff. Further, Staff asserts that if the Company's ACA filing methodology was compliant with TRA requirements, it would greatly reduce the number of interrogatories, data requests, phone calls, emails, conference calls, etc. between Staff and the Company in order to trace all the unnecessary accrual adjustments included in the ACA filing.

Staff will now address each commodity audit adjustment refuted by the Company on its schedule titled Analysis of TRA Audit Staff Adjustments. This schedule is attached to this report as *Attachment 1.* We have addressed all adjustments with which the Company disagreed.

Commodity Gas Cost Adjustments:

February 2006
$32,564.20
The Company states that the payment made in July 2005 was correct, but that the "postings" were not. The documentation supplied by the Company (see *Attachment 2*) indicates that this is an "accrual adjustment" of activity which occurred in the 2005 ACA audit period. Therefore, Staff contends that this is an accrual adjustment as stated by the Company. Again, Staff opines that accruals have no place in the ACA audit. Staff has made that clear to the Company and will not attempt to trace these adjustments back through multiple months, which in some cases go to a prior audit period. True adjustments should be recorded in the ACA filing in the month the adjustment is required due to revised supplier invoices. Staff will accept only those gas costs that are supported by supplier invoices and not internal Company journal entries.

March 2006
$3,846.27
The El Paso invoice for $3,846.27 was paid in March 2006 and charged to gas costs. The Merrill Lynch invoice included the same cost of $3,846.27. The Company paid the total Merrill Lynch invoice amount and the invoice amount was charged to gas costs. At this point Merrill Lynch was overpaid by $3,846.27. In April 2006, the Company applied the credit of $3,846.27 against the Merrill Lynch invoice total and paid the balance. Staff contends that the credit adjustment of $3,846.27 in March and the debit adjustment of $3,846.27 in April was an attempt

by the Company to reconcile the ACA balance to its General Ledger. The adjustments were not necessary in order to correctly state the ACA balance which should only include "actual costs" paid. As shown in the scenario recounted above, the credit due against Merrill Lynch was appropriately taken and recorded in April 2006.

April 2006
$(3,846.27)
See discussion in March 2006 above.

$2,929.91
The Company indicates that this amount was paid on the April 2006 invoice, which was charged to the ACA. The Company then reversed this amount with the explanation that it was "paid in April, accrued in May." (See *Attachment 3*) On *Attachment 1*, the Company gives the additional explanation that it "paid this charge on the April invoice but did not record in COG until May." COG is the Cost of Gas Schedule. First of all, Staff does not understand how an amount can be "paid" in one month and "accrued" in a subsequent month, even for General Ledger purposes much less for ACA reporting purposes. Again, Staff contends that the invoice paid in April 2006 reflects the true cost of gas for April and the adjustments made in April 2006 and May 2006 are an attempt by the Company to reconcile the ACA balance to the activity in its General Ledger.

$73,930.23
The Company states that this amount represents a reversal of withdrawal charges recorded in November 2005 through February 2006. According to the Company explanation on *Attachment 1*, the "corrected charges appear in the April 06 Commodity Invoice section" of the Merrill Lynch invoice. Staff took the actual Merrill Lynch invoice amount for April 2006 and included this amount in the cost of gas. Therefore, the adjustment made by the Company is not necessary and Staff reversed the entry.

($307.99)
Staff agrees with the Company that this is a reclassification adjustment from Commodity to Demand. Staff has changed its schedules eliminating Staff's adjustment.

May 2006
($2,929.91)
Refer to discussion in April 2006 above.

$(5,092.89)
Company explanation states that this cashout credit was taken in May 2006 (actual) and credit accrued in June 2006. (See *Attachment 1*) Staff recorded the actual transaction. See discussion of $2,929.91 adjustment in April 2006.

June 2006
$5,092.89
See discussion in May 2006 above.

$140.70
The Company states that it incorrectly recorded this amount as a demand charge. It was actually a commodity charge. The Company did not provide invoice references to support this claim. Staff will accept the Company's explanation. However, we point out that the Company in making this adjustment reversed the entries in error. The adjustment to demand should have been a negative $140.70. And the adjustment to commodity should have been a positive $140.70. We have made the correct adjustments to our schedule.

$1,159.34
The Company states that they "recorded credit instead of debit" and made an adjustment to correct. (See *Attachment 1*) Staff believes that this was probably the case on their General Ledger. However, the supplier invoice provided to Staff states the "correct" invoice amount and Staff included the invoice amount in the gas costs. On the documentation provided in the ACA for June 2006, the Company states that "Supplier pd. Correctly – NOT ADJUSTED in accrual." (See *Attachment 4*) By the Company's own admission, the invoice amount was correct. Therefore, Staff included the correct amount in gas costs and appropriately reversed the Company's improper accrual adjustments.

July 2006
$567.00
The Company states that the Merrill Lynch invoice charge was paid in July 2006 but not recorded (in General Ledger) until August 2006. (See *Attachment 1*) Therefore, the Company reversed out the paid out amount in July 2006 as an adjustment and made an adjustment in August 2006 to include it back in gas costs when posted to the General Ledger. Staff appropriately included the Merrill Lynch invoice amount paid in July 2006 as part of the July gas costs. Therefore, Staff appropriately reversed the Company's improper accrual adjustments.

August 2006
$(567.00)
See discussion in July 2006 above.

October 2006
$(235,160)
Through a data request, Staff ascertained the total amount of hedging costs, to which the Company agreed. (See Finding #2) Staff made the appropriate adjustments in the months in which the costs occurred. These were a $140,880 positive adjustment in March 2006 and a $94,280 positive adjustment in May 2006, for a total of $235,160. The Company states they agree with these adjustments. To avoid *double collection* of these amounts, Staff reversed the

Company's AP (Accounts Payable) adjustment in October 2006 for the March 2006 and May 2006 ADM payments.

$(3,194,812.86)
$(397,577.38)
$1,760,176.03
The Company states that these are AP accruals for 2006 winter period. The notation made on the "documentation" provided in the ACA was "Misc. adjustment of A/P. True up to TN G/L A/P balance." (See *Attachment 5*) This schedule was an internal schedule reconciling the gas cost account with Accounts Payable in the General Ledger. Staff first of all looked at the material magnitude of these adjustments. The Company provided <u>no invoices or revised invoices</u> to support the adjustments. Staff opines that the ACA is a mechanism for the Company to recover its invoiced gas costs. Unless there is an invoice(s) to support these adjustments, they cannot be recovered from ratepayers.

December 2006
$301.14
The Company is accruing a credit in December 2006 that it states will be taken in January 2007. Staff opines that the Company cannot include an accrued credit that will be taken in the future.

$165,468
The Company mischaracterized this adjustment, stating that Staff removed this amount from the December 2006 gas costs. Actually, Staff added this amount for hedging costs incurred in November 2006. We should have added this cost to the November gas costs instead of December 2006, so we have revised our schedules to reflect the change.

$(1,725.01)
$(5,817.14)
The Company accrued more than the actual invoiced amounts for two supplier invoices. Therefore, Staff reduced gas costs by these amounts. Since the Company does not recognize the adjustments, the $(1,725.01) related to the Columbia invoice and the $(5,817.14) related to the Merrill Lynch invoice. Once again the Company mischaracterized Staff's adjustments. Staff subtracted the adjustments rather than added them. (See *Attachment 6*)

After the appropriate Staff adjustments were made following our review of the Company's response to Finding #1, the result of this finding is a **decrease in commodity gas costs of $1,964,194.67.**

FINDING #2:

Exception

The Company understated its hedging costs.

Discussion

When comparing the Company's reported hedging costs against the ADM Investor monthly statements,[8] Staff noted that of the $1,288,408 invoiced amounts, the Company only included $821,180 in the ACA filing. The Company responded that $400,628 was actually paid, but not reported and $66,600 was erroneously reported as an LNG Power Cost. The Company provided appropriate documentation to support its response. Therefore, Staff added $467,228 difference in additional hedging costs and correspondingly reduced the amount of LNG Power Costs by $66,600 (see Finding #3). The effect of this adjustment is an **increase in the cost of gas of $467,228.**

Company Response

The Company agrees with Audit Staff's Finding #2 that the hedging costs are understated by $467,228 ($400,628 of which are to be added to the ACA account and $66,600 to be reclassified from LNG Power Costs to hedging costs).

[8] Staff receives these statements daily and monthly direct from ADM.

FINDING #3:

Exception

The Company overstated its LNG Power Costs.

Discussion

In September 2006, the Company erroneously included $66,600 in hedging costs as part of the reported LNG Power Costs. Therefore, Staff removed $66,600 of LNG Power Costs for September 2006 and appropriately reflected them in the cost of gas (see Finding #2). The result of this finding is a **decrease in LNG Power Costs of $66,600.00.**

Company Response

The Company agrees with Audit Staff's Finding #3 that the $66,600 of hedging costs be removed from LNG Power Costs and reclassified to hedging costs (see Finding #2).

FINDING #4:

Exception

For each month of the audit period, the Company reversed Transportation Long amounts that were included in the Cost of Gas.

Discussion

If a transportation customer buys more gas than it can use in a month, the Company purchases the excess gas back from the customer at a discount and includes that purchase in its cost of gas. This purchase amount is labeled as a "Transportation Long" amount and is appropriately treated as a cost of gas. The Company; however, reversed these entries each month as a "Cash-out," which Staff believes is in error.

Staff eliminated these reversals of the Transportation Long amounts in the Cost of Gas. The result of these adjustments effectively **increases the Company's reported gas costs by $400,792.77.**

Company Response

The Company agrees with Audit Staff's Finding #4 that the Transportation Long amounts ($400,792.77) are purchases and should be appropriately treated as a cost of gas and not reverse these costs on the ACA schedule.

FINDING #5:

Exception

The Company overstated its Commodity gas cost recoveries.

Preliminary Discussion

The only support originally filed in the ACA for Off-System Sales was "internal" schedules of sales volumes prepared by the Company. Recoveries were credited for the PGA amount of the reported volumes and the margin (premium) amount received was reported as a separate entry "Margin on Off System Sales." There were numerous "adjustments" made based on these schedules. Staff opines that internally developed schedules do not provide convincing evidence to support amounts reported in the ACA. Therefore, Staff requested and received actual bills for Off-System sales customers.

Transportation Short recoveries[9] are supported by schedules provided by the Company; however, in its recovery calculations, the Company made some adjustments that relied on accounting adjustments that Staff could not document or understand.

In order to clarify gas cost recoveries and gain some assurance as to the proper amounts, Staff independently calculated recoveries from sales customers, added the actual amounts invoiced to off systems customers and added the amounts paid by transportation customers for additional volumes purchased. We then compared our amount against the total amount reported by the Company for "Cost Recovery" and "Margin on Off System Sales". The net effect (excluding interest) of Staff's adjustments is a **decrease in the Company reported Commodity gas cost recoveries of $783,246.02.**

Company Response

The Company disagrees, in part, with Audit Staff's Finding #5. Audit Staff excluded all Rate 360 adjustments related to billing adjustments. Billing adjustments can occur many months after the original billing. The Company's practice is to recognize these billing adjustments in the month that they occur (when the customer is rebilled) consistent with standard accounting practice. Removing these adjustments misstates the cost recovery amounts. The Company has adjusted the Cost Recovery – Sales Customers line in the Audit Staff's ACA Commodity Schedule in the amount of $750,815.85.

Staff Rebuttal to Company Response

According to a data response from the Company, Rate Code 360 is Transportation Longs/Shorts customers. (See *Attachment 7*) Staff used the Company supplied Transportation Short schedules showing the calculation of the recoveries, which did not tie to the Cost Recovery

[9] If a transportation customer uses more gas than it buys in a month, the Company sells the excess needed gas to the customer at a premium and includes that sale in its gas cost recoveries.

schedules in every month. We asked for backup to support the differences. The Company supplied multiple "screen prints" from its billing system showing adjusting entries, which were impossible for Staff to follow. Staff does not disagree that the Company may need to make adjustments to customer billing in a subsequent month, but the appropriate support must be supplied to document these adjustments.

We will agree to accept the Company's recovery adjustments for this audit period for Rate Code 360 in the amount $750,815.85 as suggested by the Company. However, in future audits, Staff will require that the Company supply us with the customer bills and re-bills to support any adjustments. Therefore, the net effect (excluding interest) of Staff's adjustments is an **increase in the Company's reported Commodity gas cost recoveries of $32,430.17.**

FINDING #6:

Exception

The Company overstated the ACA balance due to a miscellaneous adjustment to Banked Gas in July 2006 in error.

Discussion

The Company made a Banked Gas adjustment in July 2006 to reverse an accrual for Banked Gas in June 2006. Upon inquiry by Staff and further review by the Company, Staff discovered that the actual Banked Gas entry for June 2006 was zero, and therefore, no adjustment was needed in July 2006. Staff eliminated this adjustment which had the effect of **reducing the ACA Commodity balance by $984,484.16.**

Company Response

The Company agrees with Audit Staff's Finding #6 that the July 2006 Banked Gas adjustment for $984,484.16 is not appropriate and should not be included in the ACA Schedule.

FINDING #7:

Exception

The Company overstated its inventory withdrawals in June 2006.

Discussion

The Company made a withdrawal adjustment to an inventory schedule in June 2006 in order to true up the storage balance. However, after an inquiry by Staff and upon further review, the Company determined that the adjustment was not needed since the adjustment had already been made. Staff removed this adjustment, which **reduced the ACA Commodity balance by $966,432.32.**

Company Response

The Company agrees with Audit Staff's Finding #7 that the inventory withdrawal adjustment in June 2006 for the amount of $966,432.32 had already been made and should be removed from the ACA schedule.

FINDING #8:

Exception

The Company failed to report hedging costs appropriately.

Discussion

The Company included a miscellaneous adjustment for hedging costs, stating that the amount had been posted to South Carolina instead of Tennessee. Through a data request, Staff determined the total hedging costs attributable to Tennessee that were paid by the Company. The total adjustment necessary was made in the Gas Costs (see Finding #2). The result of this adjustment is a **decrease in the Commodity ACA balance of $68,400.00.**

Company Response

The Company agrees with Audit Staff's Finding #8 that hedging costs of $68,400.00 should be removed from the Commodity ACA balance.

FINDING #9:

Exception

The Company booked its April 2006 asset management payment as a Commodity Cost credit rather than as a Demand Cost credit.

Discussion

The Company booked the asset management payment for April 2006 as a miscellaneous Commodity adjustment. The amount should be booked as a Demand credit. Staff reversed the miscellaneous adjustment and reflected the asset management payment appropriately as a Demand credit. The effect of this adjustment is a **$393,461.00 reduction in Demand costs** (included in Finding #14) and an **increase in Commodity costs of $393,461.**

Company Response

The Company agrees with Audit Staff Finding #9 that the asset management payment should be booked as a Demand credit and not a Commodity credit; therefore, the Demand costs should be reduced (as detailed in Audit Finding #14) and the Commodity costs should be increased by $393,461.00.

FINDING #10:

Exception

The Company understated the amount of interest due to customers in the Commodity component of the ACA filing.

Preliminary Discussion

Staff adjusted the Company reported Commodity ACA interest due to adjustments #1 - #9 above. The result of this finding is an **increase to reported interest due to customers of $75,064.76.**

Company Response

Nashville Gas agrees that the reported Commodity ACA interest due to Findings #1 - #9 should be recalculated. The Company has recalculated the amount to be an increase to reported interest due to customers of $5,351.06 instead of an increase to reported interest due to customers of $75,064.76 based on the adjustments presented on the attached schedule titled Summary of ACA Account for 2006.

Staff Rebuttal to Company Response

Audit Staff recalculated the Commodity ACA interest due to changes made as a result of the Company's responses to Staff findings and Staff's restatement of certain finding amounts. Staff's revised Commodity ACA interest due to customers is $380,873.12. Therefore, the result of this finding is an **increase to the reported interest due to customers of $96,951.07.**

FINDING #11:

Exception

The Company inappropriately netted asset management payments against Demand Costs.

Discussion

The Company netted the asset management payments of $318,750 due from Merrill Lynch as per contract against the demand costs invoiced from Merrill Lynch in November 2006 and December 2006. While Merrill Lynch may have agreed with the Company to handle the payments in this manner, Staff disagrees with the Company's reporting in the ACA. In this case the Company's actual demand costs are understated by $637,500 in the filing and the asset management payments are buried in the invoice detail. Staff would prefer that Merrill Lynch make its contract payments to the Company and the Company pay its invoice total each month. If the remaining payments have already been accounted for in this manner, then for filing purposes, Staff would instruct the Company to report the asset management payment as a separate line item in the ACA and increase its demand costs accordingly in the Company's next ACA filing for January 2007 – December 2007. The effect of this adjustment is an **increase in the Demand costs of $637,500.**

Company Response

The Company agrees, in part, and disagrees, in part, with Audit Staff's Finding # 11. The Company agrees that in the future it can report asset management payments as a separate line item in the ACA. However, the Company believes that it is not "inappropriate" to net asset management payments against Demand Costs. Asset Management payments routinely are credits against Demand Costs on invoices and the Company presented the information as detailed on the invoice. As a result, the Company disagrees that Demand costs are understated by $637,500. The net effect on Total Demand Costs of increasing "Invoiced Demand Costs" and subtracting the "Asset Management Payments" is $0.00. Therefore, no adjustment to Demand Costs is necessary.

Staff Rebuttal to Company Response

Staff appreciates the Company's agreement to report asset management payments as a separate line item in all future ACA filings. This methodology will properly show total Demand costs and total asset management payments. Staff does not assert that the netting process is inappropriate for Company internal accounting, but that it is inappropriate for ACA reporting purposes.

FINDING #12:

Exception

The Company understated its Demand costs by including accrual adjustments in the ACA Account. This is a repeat finding from the prior audit.

Discussion

The cost of gas should be based on actual invoiced costs. Staff eliminated the accrual adjustments from the Company's reported invoiced gas costs and used amounts from actual invoices only. The result of this finding is an **increase in gas costs of $497,687.02.**

Company Response

The Company agrees, in part, and disagrees, in part, with Audit Staff's Finding #12 for the same reasons explained in detail in the Company's Response to Finding # 1. The $513,466.49 of adjustments for demand costs as presented on the Company's attached ACA schedule are appropriate actual adjustments, not accruals. The Audit Staff should not have eliminated these adjustments from the Company's reported invoiced gas costs.

Additionally, the Audit Staff has included demand adjustments in February of $4,294.64; in April of $6,530.80; in October of $6,791.63; in December of ($31,449.50) and commodity adjustments in December of ($157,925.85). The Company has not been able to determine the basis for these additional demand and commodity adjustments, therefore, the Company is unable to agree to them at this time.

Staff Rebuttal to Company Response

For the following detailed Staff response to the Company's analysis presented, please refer to the Analysis of TRA Audit Staff Adjustments, a Company provided schedule attached to this report as *Attachment 1.* We have addressed all adjustments with which the Company disagreed.

Demand Gas Cost Adjustments:

February 2006
$(4,237.03)
With the additional explanation, Staff now understands and accepts this adjustment. Staff has added this amount back to gas costs.

$4,294.64
This was **not** a Staff adjustment. This amount was part of the Company's original filing.

April 2006
$27,743.04
Upon further review, Staff agrees that there is an invoice to support a supplier refund credit. The credit however applied to Tennessee per the payment stamp is $36,161.85. Staff believes the credit should be applied in January 2006 when the invoice was received, rather than April 2006. Therefore, Staff has credited $36,161.85 to January 2006 gas costs.

$160,436.76
Upon further review, Staff agrees that there is an invoice page supporting this credit. However, it is impossible for Staff to follow an audit trail to determine whether the credit was actually taken against gas costs in January 2006. Since the Company wants to dispute Staff's reversal of the accrual adjustment in April 2006, Staff agrees to apply this credit to January 2006 gas costs to *the benefit of the ratepayer.*

$412,542
Upon further review, Staff agrees that the company provided 3 separate invoice pages (2 of which go back to the prior audit period) with a total credit of $412,542. However, it impossible for Staff to follow an audit trail to determine whether the credits were actually taken against gas costs in November and December 2005 and January 2006. Since the Company wants to dispute Staff's reversal of the accrual adjustment in April 2006, Staff agrees to apply this credit to January 2006 gas costs to *the benefit of the ratepayer.*

$(77,176.40)
$77,176.40
Staff notes that these are characterized as accrual adjustments recorded in April 2006. However, since the net effect is zero, Staff **did not** adjust these amounts.

$(67,513)
Staff further reviewed the support provided for the $67,513 additional gas cost adjustment that the Company reported in April 2006. Staff pulled the documentation from the last audit and reviewed the November and December 2005 invoices referenced in the Company's explanation for the adjustment. The two invoices in question do not support the scenario described by the Company, so the Staff cannot accept the adjustment made by the Company.

$307.99
Staff agrees with the Company that this is a reclassification adjustment from Commodity to Demand. Staff has changed its schedules eliminating this adjustment.

$6,530.80
This was **not** a Staff adjustment. This amount was part of the Company's original filing.

June 2006
$(140.70)
See discussion in Commodity section for June 2006.

$(12.74)
Because this was an immaterial difference in the May 2006 gas costs, Staff did not include an adjustment in May 2006. However, if the Company wants to adjust this amount in June 2006, Staff will agree to Company's adjustment.

June/July 2006
$(2.04)
$2.04
These are such immaterial amounts that if the Company wants to make its adjustments as they indicate, Staff does not object. We will adjust our schedules accordingly.

October 2006
$6,791.63
This was **not** a Staff adjustment. This amount was part of the Company's original filing.

December 2006
$(31,449.50)
The Company stated that its actual invoice amount for CGTC for December 2006 was $62,898.50. The invoice amount for commodity was $31,449.50. The Company's written comment on the invoice was that it accrued $62,898.50, but paid $31,449.50. (See *Attachment 6*) Therefore, Staff made an adjustment to remove the additional amount accrued.

After the appropriate Staff adjustments were made following our review of the Company's response to Finding #1, the result of this finding is a **decrease in demand gas costs of $708,364.31.**

FINDING #13:

Exception

The Company inappropriately made an adjustment for an audit finding in the 2004 ACA audit.

Discussion

The Company made an adjustment for an audit finding in the 2004 audit; however, all audit adjustments were included the Company's adjustment to its beginning balance in the 2005 audit. Therefore, this is a duplicate adjustment and should be eliminated. The effect of this adjustment is to **reduce the ACA balance by $1,837.60**.

Company Response

The Company agrees with Audit Staff's Finding #13 that the adjustment for $1,837.60 should be eliminated.

FINDING #14:

Exception

The Company inappropriately netted asset management payments against Demand Costs and booked an asset management payment to Commodity rather than to Demand.

Discussion

The Company booked the April 2006 asset management payment of $393,461 as a miscellaneous Commodity adjustment (see Finding #9). The Company also netted its asset management payments for November 2006 and December 2006 with its Demand costs (see Finding #11). Therefore, Staff separated out the netted payments ($637,500) and reclassified the April 2006 payment for a total adjustment of $1,030,961. The effect of this adjustment is an **increase to reported asset management credits in the Demand portion of the ACA of $1,030,961.00.**

Company Response

The Company agrees with Audit Staff's Finding #14.

FINDING #15:

Exception

The Company reversed a pipeline refund credit in error.

Discussion

In November 2006, Tennessee Gas Pipeline issued a refund to Piedmont which was credited to the ACA Account. In December 2006 the Company made a miscellaneous adjustment that reversed the credit in error. Staff removed the incorrect reversal of the credit, which **reduced the ACA Demand balance by $699,266.65.**

Company Response

The Company agrees with Audit Staff's Finding #15 that the reversal of the November 2006 TGP refund in December 2006 was not necessary.

FINDING #16:

Exception

The Company understated the amount of interest due from customers in the Demand component of the ACA filing.

Preliminary Discussion

Staff recalculated interest based upon the audit findings #11 - #15 above. Demand interest due from the customers was **understated by $5,062.75**. Staff made the adjustment to the ACA Account to reflect this amount.

Company Response

The Company agrees with Audit Staff Finding #16 that ACA interest will need to be adjusted due to Audit Staff's Findings #11 - #15. Nashville Gas has calculated the interest due from the customers to be understated by $30,429.84.

Staff Rebuttal to Company Response

Staff recalculated the Demand ACA interest due to changes made as a result of the Company's responses to Staff findings and Staff's restatement of certain finding amounts. Staff's revised Demand ACA interest due from customers is $281,715.98. Therefore, the result of this finding is a **decrease to the reported interest due from customers of $73,942.13.**

FINDING #17:

Exception

The Company referenced rate schedules in its filing that are not supported by its tariff.

Preliminary Discussion

During this filing, Staff noted that the Company continues to use rate schedule numbers that are different than the rate schedule numbers that were approved by the TRA in its tariff. When Staff questioned the Company on this practice, the Company responded by providing Staff with a Rate Conversion schedule mapping the rate schedules used in the filing to the approved tariff rate schedules. (See *Attachment 7* to the report.) In addition, the Company has added other rate schedule numbers not found in the tariff. Staff opines that the Company must use its tariffed rate schedules in future filings.

Company Response

The Company has explained to the Audit Staff that the Company's billing system uses different codes to represent tariff rate schedules. It is unavoidable that system generated supporting documents and other reports produced by the Company will contain codes that differ from the rate schedule numbers approved by the TRA in its tariff. The Company has provided Audit Staff with a schedule that details the appropriate conversion between the Company's billing system/supporting documents and the approved tariff rate schedules. It is not feasible for the Company to change the billing system's nomenclature.

Staff Rebuttal to Company Response

While Staff does not object to the Company using whatever internal codes it desires, the Company should use tariffed rate codes on all information provided in the ACA documentation or any other reports provided to the TRA. Staff simply asks that the Company *change* internal codes to tariff rate codes (handwritten changes are fine) on system generated reports that use internal coding that differ from the approved tariff rate codes for all supporting documents provided in the ACA audit. That way Staff does not have the responsibililty of interpreting Company documents, since the Company will clearly label documents with the correct tariff codes.

FINDING #18:

Exception

In each month, the Company continued its practice of including accruals and reversals as part of the reporting of the transactions in the ACA Account. This is a **repeat finding**.

Preliminary Discussion

In the last audit report (Docket 06-00087), Staff stated in Finding #2 that the accrual methodology used by the Company was unacceptable for ACA reporting purposes. In its recommendations, the Staff requested the Authority to reject the Company's methodology and direct the Company to report actual amounts in the month incurred. At the January 8, 2007 Authority Conference, the panel voted unanimously to approve the Staff's report, findings and recommendations.

On February 1, 2007, Staff met with representatives of Piedmont to discuss the Authority's decision and explain the problems Staff was encountering in auditing the Company's filing. Piedmont agreed to work closely with Staff to remedy the problem and present the filing in a manner acceptable to Staff. The Company initially filed the current ACA on June 7, 2007 (Docket 07-00147). After an initial review by Staff, the Company voluntarily withdrew the filing at Staff's request, since it was evident that the accrual method had not been discontinued. The Company re-filed the ACA on July 16, 2007 (Docket 07-00174). Staff's initial review showed that accruals were still present and that the Company had not presented its invoices as Staff had requested. At this time, Staff suggested that the filing be withdrawn a second time. However, the Company declined and stated that it would be flexible if deadline extensions were necessary.

Staff has attempted to the best of its ability to explain to Piedmont the corrective actions necessary to present its "actual" gas costs, through numerous phone calls, emails, data requests, etc. Despite these repeated communications, the Company has continued to show accrual adjustments in its documentation of the transactions in the ACA Account, both on the cost side and the recovery side. Therefore, Staff had no alternative but to strip out all accruals and restate the balance in the ACA Account based strictly on the third party invoices and customer bills supplied. The effect of some Staff adjustments was to the benefit of the consumer and some were to the benefit of the Company. Staff's objective is to properly state the ACA balance regardless of the effect on the Company or the consumers.

Staff again states that accrual accounting has no place in the reporting of transactions in the ACA filing. Several of the findings above were the result of Staff restating an amount after stripping out accruals.

Company Response

The Company appreciates and respects the continued efforts of Audit Staff to work with the Company to resolve the issues surrounding the completion of the ACA schedule that best meets the needs of the Audit Staff and the Company.

The Company has faced a variety of issues and challenges in the last several years with respect to its gas cost accounting. The Company has taken several steps to resolve the issues and challenges. In the spring of 2006, the Company hired new and additional gas cost personnel and moved the responsibility for this function to the rates and regulatory affairs department. In July 2006, a new manager of gas cost accounting was hired. As a result of audits by both the North Carolina Public Staff and the South Carolina Office of Regulatory Staff during the 2006 prudence reviews, it became apparent to the Company that the challenges faced by the existing gas cost accounting system were much more substantial than previously known. As the Company dealt with month end closings during the winter months of 2006 – 2007, it also became apparent that the newly assigned manager of gas cost accounting did not have enough experience in gas cost accounting to effectively deal with the more complex accounting issues that had become apparent through the previous audits. The Company hired a new and more experienced manager of cost accounting and hired new accounting analysts to assist in the process. The Company also retained an outside consultant to assist in redesigning and restructuring the gas cost accounting functions, which should be completed within the next twelve months. Subsequently, in March of 2008, the Company has hired a manager of regulatory reporting that will work more closely with the Audit Staff.

As stated in the Company Response to Audit Finding #12, the Company has made a number of adjustments (not accruals) to the gas costs reflected in its ACA filing. Adjustments to these gas costs were made in conjunction with the Company's efforts (undertaken in conjunction with its outside consultants) to review and confirm its gas costs in light of the difficulties identified above to ensure that its gas costs were stated properly. In this process, the Company has made every attempt to provide appropriate support to the Audit Staff for each adjustment required. The Company recognizes that the adjustments were reported in the period in which the adjustments were made (versus restating prior closed periods) but this is both standard accounting practice and consistent with the manner in which the adjustments were recorded on the Company's books.

The Company agrees with Audit Staff that future ACA filings should be based on "actual" gas accounting information, however, the Company will continue to recognize adjustments in current periods as these adjustments are recognized in the general ledger. Audit Staff has stated in Docket No. 06-00087 that since the ACA filing occurs after the months are closed that the Company should be able to apply all adjustments to the prior months and Audit Staff does not see this as a problem for the Company. The Company disagrees with this approach as to prepare the ACA schedule in this manner would require additional resources to comply and would essentially require the Company to completely restate its gas costs for the review period in a manner that is inconsistent with the way in which these costs are recorded on the Company's books. The Company is also concerned that Audit Staff's approach would not properly account for adjustments that occur from prior ACA periods that have already been closed. Failure to include these adjustments would result in an improper accounting of the Company's gas costs and would directly impact the costs recovered from customers.

The Company has and will continue to make efforts to improve the ACA schedules in the 2007 audit year filing. The Company will work closely with the Audit Staff to provide ACA schedules based on "actual" closing data and workpapers to support the Audit Staff in their audit.

Staff Rebuttal to Company Response

Staff is fully aware of the requirements of GAAP and that the Company's books used to prepare external financial statements must follow those standards. Staff is not trying to interfere with the Company's accounting staff's responsibilities. However, Staff sees the Company's accounting process as separate from the ACA regulatory reporting process.

In order for the Company to recover its gas costs from ratepayers, all costs must be based on supplier invoices. (PGA Rule 1220-4-7-.02) Staff believes that it is not unduly burdensome for the Company's regulatory staff to prepare an annual schedule showing the amounts actually paid for a month supported by the actual supplier invoices. [No accruals, no adjustments to reconcile these amounts to the General Ledger.] All true adjustments to gas costs need to be supported by revised supplier invoices and recorded in the month the revised invoices are received or the Company becomes aware that a revision adjustment is necessary. [Again, no accruals or adjustments made for the purpose of reconciling the amounts to the General Ledger.] The regulatory staff is afforded with sufficient time after the year closes to be sure the Company's ACA filing reflects the actual amounts paid or adjusted and are reported in the appropriate months, regardless of when these costs or adjustments actually hit the General Ledger.

As we've communicated throughout these findings, Staff will not accept any accruals, nor will we accept adjustments without third party supporting invoices or other third party evidence. We also realize that sometimes an adjustment is not known until after an audit period has closed. In that case it is perfectly acceptable to make a legitimate prior year adjustment to the beginning balance of the current audit period. Again, the adjustment should be supported by revised invoices.

Staff appreciates the Company's statement that it will work closely with Audit Staff to provide proper ACA schedules.

VIII. CONCLUSIONS AND RECOMMENDATIONS

NOTE: In Docket No. 06-00087, the Authority approved and adopted the ACA Audit Report of NGC's annual deferred gas cost account filing for the year ended December 31, 2005. The Authority specifically adopted the findings and recommendations contained in the Audit Report, including the recommendation that the "accrual methodology the Company used in the ACA filing be rejected and the Company [be] directed to report actual amounts in the month incurred."[10] Staff reviewed the Company's compliance with the Authority's June 14, 2007 Order in completing this Audit.

In this report, Staff was compelled to refute many Company misrepresentations regarding our position as to the proper methodology that must be used in the required regulatory reporting of gas costs incurred and recovered, and other related issues. Despite our numerous issues with the methodologies used by the Company in the ACA filing, Staff acknowledges a good professional working relationship with Company personnel. Staff stands ready to assist the Company with future regulatory filings as needed.

As was the case in the previous ACA, the Company failed to provide a significant number of documents necessary to support the amounts reported in the ACA filing at the time of tiling. Staff, therefore, had to obtain this supporting documentation through phone calls, emails, and written requests. Staff also notes that the only supporting documentation provided for some items was Company internal accounting schedules. Such internal accounting schedules based on accrual accounting do not provide convincing evidence to support amounts reported in the ACA. Additionally, the Company uses untariffed rate schedules in the presentation of its recoveries. Staff acknowledges that the Company was cooperative in attempting to provide the supporting information requested. **Staff recommends that the Company include actual bills or third party support documents for all amounts reflected on the ACA analysis schedule with its initial filing and that the Company use only tariffed rate codes on recovery schedules provided in the ACA filing.**

The Company's improper methodology of reporting accrued estimated gas costs, cash outs and gas cost recoveries followed by reversals and booking of actuals in subsequent months continues to be unacceptable.[11] The Company stated many times that if actual costs are not available prior to the 8th working day of the following month then estimates are posted to the deferred gas account in the General Ledger. Staff understands the Company's financial reporting practices, since accruals are required for GAAP accounting. Staff does not, however, accept the Company's accrual method for reflecting transactions reported in the ACA since it is widely acknowledged that GAAP accounting and regulatory reporting are very different. An ACA filing is typically made 90 days after the end of the reporting period, which in Piedmont's case is 90 days following the end of the calendar year. Thus, in spite of the fact that the Company's accounting staff is required to accrue amounts to comply with GAAP reporting on its external

---

[10] *In re: Nashville Gas Company, a Division of Piedmont Natural Gas Company, Inc. Actual Cost Adjustment (ACA) Audit for the Twelve Months Ended December 31, 2005*, Docket No. 06-00087, *Order Adopting ACA Audit Report of Tennessee Regulatory Authority's Utilities' Division*, Exhibit A, p. 13 (June 14, 2007).

[11] See Finding #2.

financial statements, the Company's regulatory staff has ample time to assemble the required data and report the actual gas costs in its ACA filing.[12] **Staff recommends that the accrual methodology the Company used in the ACA filing once again be rejected and the Company be directed to report actual amounts in the month incurred or in the month to which they are attributable.[13]**

It appears that much of NGC's ACA reporting format is driven by the Company's accounting personnel who may not fully appreciate the differences between GAAP accounting and regulatory reporting. It is imperative that the upper management of the Company understand and address this issue. **Staff recommends that the Authority direct the Company to develop a comprehensive strategy to address the concerns noted in this audit.**

Staff noted in Finding #11 that the Company netted its asset management payments against its demand costs in the ACA filing. While the Company objected to the finding, since the asset management payments were a credit on the asset manager's invoices for gas purchases, Staff believes it is important for these payments to be shown as a separate line item in the ACA filing. The Company also operates under an Incentive Plan. The Incentive Plan allows the Company to surcharge customers for its share of any "savings" accruing under the plan. The asset management payments are included as part of those savings. Therefore, Staff believes that the asset management payments should be separately identified in the ACA filing, to document the amounts recognized in the Incentive Plan. They should not be "buried" in the detail of a supplier invoice. **Staff recommends that the Authority direct the Company to identify its asset management payments as a separate line item in its future ACA filings.**

Going forward, Staff would like to gain greater assurance that the injections and withdrawals reported in the inventory accounts for <u>all</u> companies be properly documented by supplier invoices. **To that end, Staff recommends that the Company provide the following support in its next ACA filing:**

1. Provide third party invoices to support all volumes that are injected or withdrawn from storage each month, appropriately cross referenced from inventory schedules to invoices;
2. Provide the calculations of injection rates for all injections each month appropriately cross referenced from inventory schedules to invoices. All calculations should be provided electronically in an Excel spreadsheet with working formulas; and
3. Provide the calculations of the WACOG rates applied to all withdrawals each month. All calculations should be provided electronically in an Excel spreadsheet with working formulas.

---

[12] Staff is not precluding the occasional need for prior period adjustments when information has not been timely received to enable the Company's staff to include the adjustment in the appropriate reporting period.

[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 accurate. 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.

Staff recommends that the Authority adopt this report in total and direct the Company to address each finding as well as all issues discussed in the Conclusions and Recommendations section of this report.

Staff recommends that the Authority instruct the Company to use the Staff's ending commodity and demand balances as the beginning commodity and demand balances in the next reporting period. By doing so, all monetary audit adjustments will be addressed.

Because the issues discussed in this audit are substantially the same issues the Authority directed the Company to correct in Docket No. 06-00087, Staff recommends the Authority put the Company on notice that future non-compliant ACA filings will be subject to rejection, and the Company may, therefore, be subject to any and all remedies and sanctions available to the Authority.

APPENDIX A

PGA FORMULA[14]

The computation of the GCA can be broken down into the following formulas:

$$\text{Firm GCA} = \frac{D + DACA}{SF} - DB + \frac{P + T + SR + CACA}{ST} - CB$$

$$\text{Non-Firm GCA} = \frac{P + T + SR\ CACA}{ST} - CB$$

where

GCA	=	The Gas Charge Adjustment in dollars per Ccf/Therm, rounded to no more than five decimal places.
D	=	The sum of all fixed Gas Costs.
DACA	=	The demand portion of the ACA.
P	=	The sum of all commodity/gas charges.
T	=	The sum of all transportation charges.
SR	=	The sum of all FERC approved surcharges.
CACA	=	The commodity portion of the ACA.
DB	=	The per unit rate of demand costs or other fixed charges included in base rates in the most recently completed general rate case (which may be zero if the Company so elects and the Commission so approves).
CB	=	The per unit rate of variable gas costs included in base rates in the most recently completed general rate case (which may be zero if the Company so elects and the Commission so approves).
SF	=	Firm Sales.
ST	=	Total Sales.

[14] Pursuant to Docket 03-00209, the PGA Formula has been amended to include the gas cost portion of uncollectible accounts.

The computation of the RA can be computed using the following formulas:

$$\text{Firm RA} = \frac{DR1 - DR2}{SFR} + \frac{CR1 - CR2 + CR3 + i}{STR}$$

$$\text{Non-Firm RA} = \frac{CR1 - CR2 + CR3 + i}{STR}$$

where

RA	=	The Refund Adjustment in dollars per Ccf/Therm, rounded to no more than five decimal places.
DR1	=	Demand refund not included in a currently effective Refund Adjustment, and received from suppliers by check, wire transfer, or credit memo.
DR2	=	A demand surcharge from a supplier not includable in the GCA, and not included in a currently effective Refund Adjustment.
CR1	=	Commodity refund not included in a currently effective Refund Adjustment, and received from suppliers by check, wire transfer, or credit memo.
CR2	=	A commodity surcharge from a supplier not includable in the GCA, and not included in a currently effective Refund Adjustment.
CR3	=	The residual balance of an expired Refund Adjustment.

i = Interest on the "Refund Due Customers" account, using the average monthly balances based on the beginning and ending monthly balances. The interest rates for each calendar quarter used to compute such interest shall be the arithmetic mean (to the nearest one-hundredth of one percent) of the prime rate value published in the "Federal Reserve Bulletin" or in the Federal Reserve's "Selected Interest Rates" for the 4th, 3rd, and 2nd months preceding the 1st month of the calendar quarter.

SFR = Firm sales as defined in the GCA computation, less sales under a transportation or negotiated rate schedule.

STR = Total sales as defined in the GCA computation, less sales under a transportation or negotiated rate schedule.

ATTACHMENT

1

Analysis of TRA Audit Staff Adjustments

C indicates Commodity adjustment
D indicates Demand adjustment

Month	Item	C/D	Adjustments Identified (TRA Added/Removed) $	Explanation	Company Disagreed (Reversed Staff Adj)	Company Agreed (Left Staff Adj)
JAN	None					
FEB						
	[redacted] - reversal 1/06 Refund Excess Deferred - transferred to NC/SC - JE# 41780 - AHB	D	(4,237.03)	Took Refund Credit amount on January Invoice. Applicable to NC/SC. Reversed with this addition to transfer to NC/SC.	4,237.03	
	7/05 MA Swing adjmnt. ACA '05 audit - 500 Leg	C	$ 32,564.20	In July 2005, MA Injections were not reduced by 3rd Party Gas. Payment was correct but postings were not. This adjustment represents a reduction to COG reported to reflect the actual MA Injections without 3rd Party Gas.	$ (32,564.20)	
	Staff Ajustment - unknown	D	$ 4,294.64		$ (4,294.64)	
MAR						
	[redacted] - commodity charges K# 3650-pd in April	C	$ 3,846.27	FSMA charge paid to [redacted] in March. Should have taken a credit on [redacted] in March but did not do until April.	$ (3,846.27)	
	Staff Adjustment for Hedging	C	$ 140,880.00	[redacted] for March-Ok to add to COG		$ 140,880.00
APR						
	A-K# 6815 - [redacted] 12/05 Annual IS Credits -Pd in Dec 05 but not in COG	D	$ 27,743.04	Annual Credit on FSMA and FSPA on December bill, not recorded in COG until April	$ (27,743.04)	
	B-K# 60882 - [redacted] 1/06 demand Cr- Cr taken on Jan Inv but not recorded in Jan COG	D	$ 160,436.76	Paid [redacted] and took credit on [redacted] bill in January 2006. Did not account for the credit in the COG until April 2006.	$ (160,436.76)	
	C-FT - BH - #46715 - record [redacted] 11/05,12/05, and 1/06 demand credits	D	$ 412,542.00	Paid [redacted] incorporating the credit) but did not record the credits in Nov and Dec 05 and Jan 06. Took all 3 in April 06 COG.	$ (412,542.00)	
	D-FT - A 60542- [redacted] 11/05 demand-Billed and Pd in Nov but not recorded in COG	D	$ (77,176.40)	Demand charge billed and paid in November but not recorded in the COG (Invoice #688683). Recorded in Apr 06.	$ 77,176.40	
	E-Dmd Cr for 11/05-Billed in Nov. Pd in past due amt in Dec, but not recorded in COG	D	$ 77,176.40	Assignment Credit on billed on November Invoice (#688684) but credit not taken on bill nor recorded in COG. Credit taken on April 06 bill and recorded in COG in April 06.	$ (77,176.40)	

	F-FT-24706-[redacted] 11/05 payment for Non-discounted Point Charge-Billed in Nov,Pd in past due amt in Dec but not recorded in COG	D	$ (67,513.00)	Point charge Billed in Nov 05 and paid in Dec 05, not recorded in COG until April 06.	$ 67,513.00	
	G-FT - A 237 - credit [redacted] 11/05 for difference is amt. due vs. paid-remove from demand (s/b commodity)	D	$ 307.99	GCS vs [redacted] bill difference. Paid per GCS then took the credit on April [redacted] bill/COG. This adjustment is appropriately negated below with the addition of the 307.99 in the commodity section of adjustments. Should just show net this one out. The credit is netted from the commodity amount on the invoice section.	$ (307.99)	
	[redacted] - commodity charges K# 3650-pd in April, recorded in March	C	$ (3,846.27)	See above.	$ 3,846.27	
	[redacted] TCO Storage FTS commodity -pd in April, recorded in May	C	$ 2,929.91	Paid this charge on the April invoice but did not record in COG until May.	$ (2,929.91)	
	I-[redacted]- wd comm.chgs.reversed/credits applied above for swing on storage 11/05 - 2/06	C	$ 73,930.23	Reversal of W/D chgs recorded in 11/05 through 2/06. Corrected charges appear in the April 06 Commodity Invoice section. Net effect is the change to the dollars.	$ (73,930.23)	
	H-[redacted] - 12/05 commodity on injections originally recorded to [redacted]	C	$ (5,027.33)	Recorded/Paid [redacted] $5,027.33 too much in Dec 05. Took a credit for this overpayment in Jan 06 bill. Overaccrual in COG for [redacted] never adjusted. ML was paid/recorded $5,027.33 too much in Dec 05.		$ (5,027.33)
	Credit Accrued above in April should have been in commodity (pd as commodity)	C	$ (307.99)	Used to net out the demand credit. Actual credit taken from the Commodity section of the Invoice.	$ 307.99	
	Credit taken on [redacted] bill in April but not recorded for in COG	C	$ 9,663.40	Credit represents the difference between a credit taken and a credit owed to [redacted] (both of which were resolved). Adjustment not needed.		$ 9,663.40
	Staff Ajustment - unknown	D	$ 6,530.80		$ (6,530.80)	
MAY						
	[redacted] TCO Storage FTS commodity -pd in April, accrued in May	C	(2,929.91)	See above.	2,929.91	
	[redacted]-Cashout for April, taken in May and credit accrued in June	C	(5,092.89)	Cashout for the month of April, taken against [redacted] bill in May, in COG in June.	5,092.89	
	Staff Ajustment	C	94,280.00	[redacted] for May-Ok to add to COG		$ 94,280.00
JUN						
	[redacted] $140.70 was incorrectly categorized as demand. Moved to commodity.	D	(140.70)	Recorded $142.74 in June in Demand. Adjustment made to move the $140.70 to Commodity in Invoice section.	140.70	
	[redacted]-May billing difference-credit adj June Bill	D	(12.74)	Billing difference. Recorded per GCS less than was invoiced. Adjustment made to correct invoice in	12.74	
	[redacted] June bill overstated-credit adj June Bill	D	(2.04)	Recorded too much for the June bill (found in the June actual). Took credit in July.	2.04	

	[redacted] Cashout for April, taken in May and credit recorded in June	C	5,092.89	See above.	(5,092.89)	
	[redacted] $140.70 was incorrectly categorized as demand. Moved to commodity.	C	140.70	See above.	(140.70)	
	[redacted] -Adjustment to fix posted COG (opposite sign used in COG) was not adjusted to correct this	C	1,159.34	Recorded credit instead of debit. Adjustment to correct.	(1,159.34)	
JUL						
	[redacted] -June bill overstated-credit adj June Bill, recorded in July on demand (not commodity)	D	2.04	See above.	(2.04)	
	Overpayment to [redacted], Pd in July not recorded	C	10.20	Agree with removal by Staff.		10.20
	[redacted] 100 Leg Pool July 2006 SANMER04-06 ML Commodity Rpt. Paid/not recorded in 7/06	C	567.00	[redacted] Charge paid in July but not recorded until August.	(567.00)	
	Staff Ajustment	D	10.20	Agree with removal by Staff.		10.20
	Staff Ajustment	C	(10.20)	Agree with removal by Staff.		(10.20)
AUG						
	[redacted] 100 Leg Pool July 2006 SANMER04-06 ML Commodity Rpt. Paid/not recorded in 7/06	C	$ (567.00)	See above.	$ 567.00	
SEP						
	[redacted] - RP95-408 Article V CR - ACA '05 Item 13 audit adjmnt.- Finding #5 under-recovery	D	(1,837.60)	2004 ACA finding-Starting with TRA balances. Agree with Staff's removal of this adjustment.		(1,837.60)
	Staff Added $66,600 for finding #13	C	$ 66,600.00	[redacted] for September-OK to add		$ 66,600.00
OCT						
	[redacted] - AP for April and June 2006 payments	C	(235,160.00)	Adjustment for the March and May [redacted] payments.	235,160.00	
	[redacted] - AP for 2006 winter period	C	(3,194,812.86)	AP adjustment - Nov through March	3,194,812.86	
	[redacted] AP for 2006 winter period	C	(397,577.38)	AP adjustment - Nov through March	397,577.38	
	[redacted] - AP for 2006 winter period	C	1,760,176.03	AP adjustment - Nov through March	(1,760,176.03)	
	Staff Ajustment - unknown	D	6,791.63		(6,791.63)	
NOV						
	[redacted] commodity/injection/withdrawal charges [redacted] Adj in Nov,Pd Subsequent to 12/06	C	$ (2,150.69)	Recorded in COG but not paid. Agree with Staff on the removal of this adjustment.		$ (2,150.69)
DEC						
	[redacted] - Prior Adjustment for 9/06 Cashout (301.14)- Taken in January 07	C	$ 301.14	Credit taken in COG in 12/06 for 9/06 cashout. Taken off January 07 bill.	$ (301.14)	
	Staff Ajustment - unknown	D	$ (31,449.50)		$ 31,449.50	
	Staff Ajustment - unknown	C	$ (165,468.00)		$ 165,468.00	
	Staff Ajustment - unknown	C	$ 1,725.01		$ (1,725.01)	
	Staff Ajustment - unknown	C	$ 5,817.14		$ (5,817.14)	
	TOTAL		**(1,299,800.57)**		**1,602,218.55**	**(302,417.98)**
	Demand	D	$ 513,466.49		$ (515,293.89)	$ (1,827.40)
	Commodity	C	$ (1,813,267.06)		$ 2,117,512.44	$ 304,245.38

ATTACHMENT

2

(C)

[redacted]				
Demand		$	-	
Commodity		$	107,695.07	11a3
	Total Invoice	**$**	**107,695.07**	
[redacted]				
Demand		$	-	
Commodity		$	2,111,147.37	14a4
	Total Invoice	**$**	**2,111,147.37**	
[redacted]				
Demand		$	133,879.46	4a2
Commodity		$	(9,875.80)	4a1
	Total Invoice	**$**	**124,003.66**	
Transportation Billing (LONG)				
Commodity		$	85,305.75	E2
	Total Invoice	**$**	**85,305.75**	

Total Demand per AP Invoices	$	903,818.55	
Total Commodity per AP Invoices	$	22,925,940.05	
TOTAL	$	23,829,758.59	

Misc Demand Adjustments

[redacted] - reversal **1/06** Refund Excess Deferred - transferred to NC/SC - JE# 41780 - AHB **4,237.03** 3

Misc Commodity Adjustments

7/05 MA Swing accrual adjmnt. ACA '05 audit - 500 Leg **$** **(32,564.20)** 2/a1

Total Demand Accrued	(B) $	908,055.58	1
Total Commodity Accrued	$	22,893,375.85	
TOTAL	$	23,801,431.42	2

(A)

ıSHVILLE GAS COMPANY
ɔST OF GAS - ACʎ 'IT FORMAT
LY 31, 2005

	DTS	AMOUNT		
- A 237 - Demand/Reservation - [redacted]		398,895.12	Pg. 10	
- A 24706 - Demand/Reservation -		275,028.00	Pg. 10	
ıace/Delivery Charge - MA 6815 and PA 2400		141,275.31	Pg. 10	
		815,198.43		
[redacted] - TCO - FSS DEMAND		15,010.00	Pg. 10	
[redacted] - TCO - SST DEMAND		29,030.00	Pg. 10	
[redacted] - TCO - FSSCP DEMAND		17,621.86	Pg. 10	
[redacted] - FTS1 #76812 not released to [redacted], pay [redacted] $15,725 April - Oct. '05		30,195.15	Pgs. 3 and 10.	
		91,857.01		
[redacted] - payable to [redacted] - paying as invoiced		2,909.88	Pg. 5	
[redacted] Demand Chgs		52,600.00	Pg. 2	
		55,509.88		
DEMAND SUBTOTAL		962,565.32		
ɹRCHASES:				
[redacted] - options		41,520.00	Pg. 1	
[redacted] - [redacted] reservation - 7/05		4,499.78	Pg. 4	
[redacted] commodity chgs.- summer refill	0	3,845.01	Pg. 9	
[redacted] - [redacted] 100 Leg - index	81,896	574,183.80	Pg. 7	
[redacted] - [redacted] - Summer Refill	109,405	793,700.04	Pg. 9	
[redacted] - [redacted] - commodity charges		23,077.64	Pg. 7	
[redacted] - [redacted] - commodity charges - 3rd party - reported in GCS		274.58	Pg. 7	
[redacted] - [redacted] - commodity chgs. - storage wds		4,008.40	Pg. 8	
[redacted] INJ #6815/MA - Summer Refill - 100 Leg	0	0.00		
[redacted] INJ #6815/MA - Summer Refill - 500 Leg	0	0.00		
[redacted] INJ #6815/MA - Summer Refill - 800 Leg	0	0.00		
[redacted] - [redacted] 500 LEG/Pool	102,970	720,680.00	Pg. 7	
[redacted] - [redacted] - 800 LEG	85,637	601,134.90	Pg. 7	
[redacted] - 100 Leg	0	0.00		
[redacted] - 500 Leg	0	0.00		
[redacted] - 800 Leg	0	0.00		
[redacted] INJ #6815/MA - [redacted] - 100 Leg	30,727	215,439.48	Pg. 7	
[redacted] INJ #6815/MA - [redacted] - 500 Leg	38,638	270,432.16	Pg. 7	→ Ties to 2/06 - 4
[redacted] INJ #6815/MA - [redacted] - 800 Leg	32,132	225,547.20	Pg. 7	
[redacted] INJ #6815 - Swing to MA - Third Party Gas	4,646	[redacted]		Accruals by Leg were not reduced for 3rd Party Swing $. Payment was correct, accrual adjusted in 2/06 ACTUAL
[redacted] INJ #2400/PA - 100 Leg	0	0.00		106,143 total withdrawn dts are found on Pg. 8.
[redacted] INJ #2400/PA - 500 Leg	0	0.00		
[redacted] INJ #2400/PA - 800 Leg	0	0.00		
ƎAS PURCHASED - [redacted] PROVISIONS (LONG)	2,545	14,670.82	Pg. 11	
ƆTAL COMMODITY PURCHASES	488,596	3,525,578.01		
A/P ACCRUAL		4,488,143.33		
LESS AMOUNTS ACCRUED VIA S2K		(14,670.82)		
NET 17A ACCRUAL		4,473,472.51		

21a
2/06-62

ATTACHMENT

3

(C)

Total Demand per AP Invoices	$	746,401.04
Total Commodity per AP Invoices	$	11,224,833.60
TOTAL	$	11,971,234.64

Misc Demand Adjustments

A-K# 6815 - [redacted] 12/05 Annual IS Credits -Pd in Dec 05 but not accrued in COG	$	(27,743.04)	
B-K# 60882 - [redacted] 1/06 demand Cr- Cr taken on Jan Inv but not accrued in Jan COG	$	(160,436.76)	
C-FT - BH - #46715 - record [redacted] 11/05,12/05, and 1/06 demand credits	$	(412,542.00)	
D-FT - A 60542-[redacted] 11/05 demand-Billed and Pd in Nov but not accrued in COG	$	77,176.40	
E-Dmd Cr for 11/05-Billed in Nov, Pd in past due amt in Dec, but not accrued in COG	$	(77,176.40)	
F-FT-24706-[redacted] 11/05 payment for Non-discounted Point Charge-Billed in Nov,Pd in past due amt in Dec but not accrued in COG	$	67,513.00	
G-FT - A 237 - credit [redacted] 11/05 for difference is amt. due vs. paid-remove from demand (s/b commodity)	$	(307.99)	a

Misc Commodity Adjustments

[redacted] - commodity charges K# 3650-pd in **April,** accrued in **March**	**$**	**3,846.27**	
[redacted] - [redacted] Storage FTS commodity -pd in **April**, accrued in **May**		**(2,929.91)**	
I-[redacted] - wd comm.chgs.reversed/credits applied above for swing on storage 11/05 - 2/06	$	(73,930.23)	
H-[redacted] - 12/05 commodity on injections originally accrued to [redacted]	$	5,027.33	
Credit Accrued above in April should have been in commodity (pd as commodity)	**$**	**307.99**	3
Credit taken on [redacted] bill in April but not accrued for in COG	**$**	**(9,663.40)**	4

Total Demand Accrued	$	212,884.25	2
Total Commodity Accrued	$	11,147,491.65	1
TOTAL	$	11,360,375.90	

ATTACHMENT

4

6/06 - 37

7c

NASHVILLE GAS COMPANY
COST OF GAS - JUNE ESTIMATE
JUNE 30, 2006

	DTS	AMOUNT	RATE	
FT - A 60004 - Demand/Reservation - payable [redacted]		388,886.12	agrees to [redacted] ale summaries	
		0.00		
Guarantee Fee - Payable [redacted] overpayment to Piedmont for asset mgmnt.		12,651.80		
		0.00		
		0.00		
		0.00		
		0.00		
		0.00		
FT - BH - #40715 - Dem./Reserv. 81,600 dts & Assign.Cr. 55,900 dts - credit taken [redacted]		(82,477.20)		
FT - BH - #40715 Demand $.672 TGP, $.0224/30 days GCS payable [redacted]		137,614.00		
Space/Delivery Charge - MA 8815 and PA 2400 - payable [redacted]		141,278.31		
		887,259.03		
[redacted] TCO - FSS DEMAND - #38017 - payable [redacted]		16,000.00		
[redacted] TCO - SST DEMAND (5,000 * $5.7710) - payable [redacted]		28,855.00		
[redacted] - TCO - FSSCP DEMAND - #38017 - payable [redacted]		17,821.88		
[redacted] Storage Base Gas Dolo - payable [redacted]		0.00		
[redacted] FTG1 #43462 and #70812 - payable [redacted]		30,180.15	bkd/pd as billed	
		0.00		
		91,872.01		
[redacted] - Demand 10,000 @ $12.4700		0.00	Dts and $ per GCS calcs - no June 2006 bill at Estimate Close	
[redacted] - K# 800059		8,100.83	Added $12.74 in 6/06 Estimate for 5/06 accrual/billing differences.	
[redacted] O K# 810743 ($.0018)		0.00	ADJUST [redacted] DEMAND BY ($2.04) FOR DIFFERENCE	
[redacted] G Demand Chgs		52,600.00	BETWEEN ESTIMATED AMT. $142.74 AND ACTUAL (BILLED) $140.70.	
YELLOW - 100 LEG volumes		59,700.83		
GREEN - 500 LEG volumes				
DEMAND SUBTOTAL		757,631.67		
PINK - 800 LEG volumes				
PURCHASES:				
[redacted] - Imbalance Cash Out - 3858 LMSMA - revision May 2006 production	8	(89.24)	#DIV/0!	Dts per GCS, $ per [redacted] billed 528 dts)
		0.00		
[redacted] - Swing on Storage - amount due pipeline - June 2006		8,232.46		
		0.00		
		0.00		
		0.00		
		0.00		
		0.00		
		0.00		
		0.00		
[redacted] - commodity charges K# 3850		0.00		
[redacted] commodity charges - storage withdrawals		1,188.83		
[redacted] commodity charges - baseload		37,368.88		
[redacted] cashout for April '06 production billed in May 2006		(5,002.88)	Accrued credit of ($5,002.88) billed late in May 2006.	
[redacted] - cashout for May '06 production - data from 5/06 invoice provided for info purposes		(579.67)	No bill at Estimate Close - THIS AMT SHOULD BE POSITIVE - ADJUST	
		0.00	IN ACTUAL BY $1,159.34 - BILL RECVD BY FAX 7/20	
[redacted] - commodity charges - swing		0.00		
[redacted] - TN 800 Leg	114,298	678,743.78	5.9209	
[redacted] - TN 100 Leg - Pool	58,957	339,582.32	5.7600	
[redacted] L - TN 800 Leg - Pool		388,178.16	5.8200	
[redacted] N 8)		438,105.79	5.8200	$1,123,938.26
		0.00	#DIV/0!	103,724
[redacted] - 100 LE[illegible]		744,090.18	5.7425	
		0.00		
		0.00		
PF [illegible] vation -		3,859.29		
		0.00		
		0.00		
[redacted] L - TN 10[illegible]		645,287.04	5.9040	
[redacted] K INJ		0.00	#DIV/0!	
[redacted] INJ		0.00	#DIV/0!	
[redacted] NJ		0.00	#DIV/0!	0
[redacted]		0.00		$0.08
[redacted]		8,015.88		
[redacted]		490,179.35	6.1770	
[redacted] SBL		813,818.54	5.9208	
		0.00		
		0.00		
[redacted] Injection		0.00		
[redacted] Injection		0.00		
[redacted] S Injection		0.00		
		0.00		
[redacted] INJ		97,563.82	5.9045	
[redacted] INJ		110,411.22	5.9205	
[redacted] K INJ		91,822.14	5.9219	48,887
[redacted] -		17,881.89		$289,798.88
[redacted] EK INJ		518,138.16	5.9043	
[redacted] INJ		850,508.16	5.9281	
[redacted] EK INJ		541,284.82	5.9212	288,740
[redacted] - TET		8,872.80	5.8107	$1,706,009.24
[redacted] INJ		114,580.44	5.9024	
[redacted] INJ		144,423.30	5.9202	
[redacted] K INJ		120,316.88	5.9231	84,132
[redacted] H -		3,871.51		$379,328.80
GAS PURCHASED -	211	1,359.71	6.4441	
				$2,987,418.04
TOTAL COMMODITY PURCHASES	1,107,090	6,050,003.84	5.8577	
A/P ACCRUAL		7,715,635.71		
LESS AMOUNTS ACCRUED VIA 62K		(1,359.71)		
NET 17A ACCRUAL		7,714,276.00		

1

- Supplier pd correctly
- NOT

adjusted in accrual

should be → 579.67-ul

underaccrued by

x2 = $1,159.34

2

G:\GasAccounting\JOHNSKI\COG\cog2006\cog0606estimate posted

ATTACHMENT

5

Transportation Billing (LONG)

Commodity		$	16,117.94 E1a
	Total Invoice	$	16,117.94

Total Demand per AP Invoices	$	775,116.40
Total Commodity per AP Invoices	$	8,389,593.06
TOTAL	$	9,164,709.46

Misc Demand Adjustments

Misc Commodity Adjustments

[redacted] - AP accrual for April and June 2006 payments	235,160.00 - C2d
[redacted] - AP accrual for 2006 winter period	3,194,812.86 - C2c
[redacted] - AP accrual for 2006 winter period	397,577.38 - C2b
[redacted] - AP accrual for 2006 winter period	(1,760,176.03) - C2a

Total Demand Accrued	$	775,116.40 - a
Total Commodity Accrued	$	10,456,967.27 - b
TOTAL	$	11,232,083.67

Tennessee

		[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	TN Total	Mo activity	end bal	Total Company	Gen Ledger Balance	Difference	
Balance Forward			11,151,473.50				26,156,875.01	25,791,974.31	(364,900.70)	164,082,581.49	163,711,383.11	(371,198.38)	
July 2006	Adjustment - Est to Actual												
	Payments	(AP Data file from AP Dept)	(6,987,228.76)		(744,090.18)		(7,801,216.75) ok		8,717,777.12				
	Misc Adjustments		1,230.00				(1,502.42)						
	Demand	CM Estimate JE 17A	769,347.17	(82,462.27)			749,353.45	6,217,711.98 Diff					
	Commodity		7,392,565.60	(7,505.64)			7,920,240.48	5,301,151.61	GL activity - TN				
	Transportation		49,685.61				49,685.61	916,560.37	6,935,032.81	58,295,763.20	57,925,487.50	(370,275.70)	
							0.00						
August 2006	Adjustment - Est to Actual		793,475.34				793,475.34						
	Payments	(AP Data file from AP Dept)	(7,631,203.40)		(1,892,117.85)		(9,585,020.36)			(63,316,454.27)			
	Misc Adjustments						-						
	Demand	CM Estimate JE 17A	769,347.17	(82,462.27)			749,412.67						
	Commodity		5,995,409.41	3,563.67	2,287,097.39		8,291,210.23						
	Transportation		29,110.00				29,110.00	278,187.88	7,213,228.69	79,694,120.93	79,322,944.83	(371,176.10)	
							0.00						
September 1006	Adjustment - Est to Actual												
	Payments	(AP Data file from AP Dept)	(6,793,299.57)		(2,287,097.39)		(9,151,845.75)			(84,394,547.24)			
	Misc Adjustments						-						
	Demand	CM Estimate JE 17A	769,358.40	(82,477.20)			751,143.25						
	Commodity		6,502,475.92	2,142.70	2,109,659.25		8,618,029.32						
	Transportation		37,595.31				37,595.31	254,922.13	7,468,142.82	53,759,534.43	53,388,358.33	(371,176.10)	
							0.00						
October 2006	Adjustment - Est to Actual						491.38						
	Payments	(AP Data file from AP Dept)	(7,109,429.98)		(2,109,659.25)		(9,485,744.34)			(60,044,256.03)			
	* Misc Adjustments		A/ (1,768,176.03) a	A/ 397,577.38 b	A/ 3,194,812.86 c	A/ 235,160.80 d	5,176,680.65						
	Demand		798,291.97	(82,477.20)			772,106.83						
	Commodity		7,213,611.48	(268,329.08)	1,313,009.81		8,267,011.39						
	Transportation		96,117.50	16,816.10			112,933.60	4,843,478.71	12,311,621.53	61,688,075.41	61,316,899.31	(371,176.18)	58,710,050.58
								[redacted]					
			14,887,899.28	(414,324.68)	3,422,669.06	0.00	21,797,365.87						
	C/M accrual		7,309,429.63	(80,334.50)	2,109,659.25	0.00	9,406,767.88		58,710,050.58				
			[redacted]				(12,390,597.99)						
							[redacted]	(3,499,118.53)					

Misc adjustment of A/P.
True up to TN G/L A/P balance.

A/ 10/06 - 3

G:\GasAccounting\GASACC\RECONCILIATIONS\#23217 AP Reconc 2007

A/P
2
10/2/2007
10/06-4

ATTACHMENT

6

C

Piedmont Natural Gas Company
ACA Audit-AP Invoices
DECEMBER 31, 2006

[redacted]			
Demand			
Commodity		$ 1,260,531.20	1a1
	Total Invoice	**$ 1,260,531.20**	
[redacted]			
Demand			
Commodity		$ 965,778.93	2a1
	Total Invoice	**$ 965,778.93**	
[redacted]			
Demand			
Commodity		$ 1,140,066.48	3a1
	Total Invoice	**$ 1,140,066.48**	
[redacted]			
Demand		$ 62,898.50	4a1
Commodity		$ 4,980.01	4a2
	Total Invoice	**$ 67,878.51**	
[redacted]			
Demand			
Commodity		$ 6,518,976.13	5a1
	Total Invoice	**$ 6,518,976.13**	
[redacted]			
Demand		$ 217,173.02	6a2
Commodity		$ 127,578.93	6a1
	Total Invoice	**$ 344,751.95**	
[redacted]			
Demand			
Commodity		$ 3,435,761.93	7a1
	Total Invoice	**$ 3,435,761.93**	
[redacted]			
Demand		$ 52,600.00	8a1
Commodity			
	Total Invoice	**$ 52,600.00**	
[redacted]			
Demand			
Commodity		$ 56,094.18	9a1
	Total Invoice	**$ 56,094.18**	
[redacted]			
Demand		$ 50,372.00	10a1
Commodity		$ 5,817.14	10e1
	Total Invoice	**$ 56,189.14**	
[redacted]			
Demand			
Commodity		$ 880,080.92	11a1
	Total Invoice	**$ 880,080.92**	
[redacted]			
Demand			
Commodity		$ 2,857,649.92	12a1
	Total Invoice	**$ 2,857,649.92**	

(C)

[redacted]

Demand		$ 133,580.36	13a 1
Commodity		$ (7,699.58)	13a 2
	Total Invoice	**$ 125,880.78**	

Transportation Billing (LONG)		
Commodity		$ -
	Total Invoice	**$ -**

Misc Adjustments

Total Demand per AP Invoices	$ 516,623.88
Total Commodity per AP Invoices	$ 17,245,616.19
TOTAL	$ 17,762,240.07

Misc Demand Adjustments

Misc Commodity Adjustments

[redacted] - Prior Adjustment for 9/06 Cashout (301.14)-Taken in January 07	**$ (301.14)**	13g 1

Total Demand Accrued	$ 516,623.88	1
Total Commodity Accrued	$ 17,245,315.05	2
TOTAL	$ 17,761,938.93	

gd 1-17-07

12/06-19

4a

ACH/WIRE REQUEST

TEMPLATE #	VENDOR #	REQUISITION DATE	DUE DATE	$ AMOUNT
878132	[redacted]	1/17/2007	1/19/2007	$34,704.50

* Please execute a [X] Wire [ ] ACH for Piedmont Natural Gas

VENDOR NAME [redacted]

Requested by KSJ

Approved by [signature] 1/17/07 [signature] 1/17/07 [signature] 1/17/2007

INSTRUCTIONS:

Bank Account#	[redacted] ✓
Bank Name	[redacted]
ABA Number	[redacted] ✓

SPECIAL INSTRUCTIONS:

Pipeline

GENERAL LEDGER DISTRIBUTION

CO	SUB	ACCOUNT NUMBER	ST	DIST	AREA CODE	I.R. NUMBER	BUDGET CODE	$ AMOUNT
01	01	80400	0	0	6220			
01	01	80400	3	17	6220			$34,704.50

KSJ 1/17/07

* All Wire Requests must be to A/P by 4:00pm the Day Prior to Due Date to ensure timely processing

* All ACH Requests must be to A/P by 4:00pm 2 Days Prior to Due Date to ensure timely processing

		Accrued	Pd-Dec
DM:	Nov	31,449.00-4e1	(Jan)-4h1
	Dec	31,449.50-4b1	31,449.50
		62,898.50₁	31,449.50
[redacted]	Nov	1,302.00-4e2	(Jan)-4h2
	Dec	3,255.00-4b2	3,255.00
		423.01-4b3	(Jan)-4h3
		4,980.01₂	3,255.00

TR COG (SSP) + Actual 1/9

10a

ACH/WIRE REQUEST

Route To ~~Lauder/Carpenter~~
Slabley/Searcy
Jessee/Maust
S Gathings
N Hitchins

TEMPLATE #	VENDOR #	REQUISITION DATE	DUE DATE	$ AMOUNT
20202	[redacted]	1/15/2007	1/25/2007	

$4,433,961.54

* Please execute a [X] Wire [ ] ACH for Piedmont Natural Gas

VENDOR NAME [redacted]

Requested by KSJ, CCO

Approved by MJL 1/22/07

INSTRUCTIONS:

Bank Account Number	[redacted]
Bank Name	[redacted]
ABA Number	[redacted]

SPECIAL INSTRUCTIONS:

Gas Purchases - 2 Invoices

GENERAL LEDGER DISTRIBUTION

CO	SUB	ACCOUNT NUMBER	ST	DIST	AREA CODE	I.R. NUMBER	BUDGET CODE	$ AMOUNT
01	01	80400	0	0	6220			4,383,590.54
01	01	80400	3	17	6220			$ 50,371.00

CCO 1/12/0
KSJ 1/15/0

* All Wire Requests must be to A/P by 4:00pm the Day Prior to Due Date to ensure timely processing

* All ACH Requests must be to A/P by 4:00pm 2 Days Prior to Due Date to ensure timely processing

DM: 50,371.00 ,1063 (off 1 rounding)

[redacted] 5,817.14

accrued pmt withheld

Kim Johnston/Rates/PNG
Sent by: Kim Johnstc

01/15/2007 12:09 PM

To [redacted]

cc Margaret Lauder/Audit/PNG@PNG, Scott Searcy/GS/PNG@PNG, Sarah Stabley/GS/PNG@PNG, Nancy Hitchins/FIN/PNG@PNG

bcc

Subject Re: December Invoice

12/06-60

84

10e

CONFIDENTIAL

Andrew,

We will wait to process storage charges related to November and December 2006 until volumes and dollars have been communicated and agreed upon wit [redacted]. At this time, payment will be based on demand charges for December 2006 only.

Please let me know, if you are in agreement.

Thanks,

Kim

[redacted]

12/06-61
1,615.00 - 10f1
C 4,202.14 - 10g1
12/06-62
$ [redacted]
1

[redacted]

01/12/2007 04:13 PM

To <Kim.Johnston@piedmontng.com>

cc

Subject December Invoice

Kim,
I'm sending over the December invoice to you to begin your review. Scott has asked that we change the format and re-invoice November which I am working on but I have to get with Wes in Mid-office to work all of that out. Once we have everything I will send over the final invoice, which also include the storage balances on them. As always let me know if there are any questions or if you need additional information.

Thanks,

[redacted]

ATTACHMENT

7

Tariff to S2k Rate Conversion

Tariff			S2k
301	Residential Value		311
321	Residential Standard		313
302	Small General Standard		321
332	Small General Value 1st 2000		332
352	Medium General Standard		352
362	Medium General Value 1st 5000		366
303	Firm Industrial	Peak	331
304	Interruptible Industrial		341
313	Firm Transportation	Peak	371
314	Interruptible Transportation		372
310	ReSale Service/SMYRNA		381
	Rate 365 - Off System Sales		365
	Rate 361- Emergency gas		361
	Rate 360 - Transportation Shorts/Longs		360

ATTACHMENT

8

THE OFFICE OF REGULATORY STAFF

SETTLEMENT TESTIMONY

OF

Carey M. Flynt

November 9, 2007

DOCKET NO. 2007-4-G

Annual Review of Purchased Gas Adjustment and Gas Purchasing Policies of Piedmont Natural Gas, Inc.

SETTLEMENT TESTIMONY OF CAREY M. FLYNT ON BEHALF OF THE SOUTH CAROLINA OFFICE OF REGULATORY STAFF DOCKET NO. 2007-4-G

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION.

A. My name is Carey M. Flynt. My business address is 1441 Main Street, Suite 300, Columbia, South Carolina 29201. I am employed by the State of South Carolina as Manager of the Gas Department for the Office of Regulatory Staff ("ORS").

Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A. I received a Bachelor of Science Degree in Business Administration, with a major in Accounting from the University of South Carolina in Columbia in 1975. I was employed at that time in the electric and gas utility industry and gained twenty five years experience in this field. In October 2004, I began my employment with ORS. I have testified on numerous occasions before the Public Service Commission of South Carolina ("Commission") in conjunction with natural gas issues.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

The purpose of my testimony is to address the settlement agreement made by and among the Office of Regulatory Staff of South Carolina ("ORS") and Piedmont Natural Gas Company, Inc. ("Piedmont" or "Company") (collectively referred to as the "Parties" or sometimes individually as a "Party").

Q. PLEASE ADDRESS THE MAJOR COMPONENTS.

A. ORS found that (i) Piedmont's gas purchasing policies and practices during the Review Period were reasonable and prudent; (ii) Piedmont properly adhered to the gas cost recovery provisions of its gas tariff during the Review Period; and (iii) Piedmont managed its hedging program during the Review Period in a reasonable and prudent manner.

However, the Parties further agree that: (i) Piedmont experienced significant issues with some aspects of the accounting and reporting of its gas costs during the Review Period; (ii) these issues resulted in numerous ORS adjustments including, but not limited to, the Company's commodity true-up, inventory accountability and deferred account-hedging program; (iii) several issues relating to the accounting entries applicable to the Company's commodity true-up calculation and inventory levels remain unresolved and, as a result, ORS is unable to verify the end-of-period balance in deferred account #253.04 and (iv) in order to address the unresolved accounting issues relating to Piedmont's commodity true-up and inventory levels and to permit a final accounting of Piedmont's deferred account 253.04, Piedmont agrees to provide revised and updated data to ORS for its review by not later than January 7, 2008.

The Parties further agree that a report regarding the aforesaid verification and recommended adjustment(s) to the deferred account will be made and reported to the Commission by the Parties no later than February 15, 2008.

Piedmont also agrees to exercise its best efforts to continue to correct deficiencies in its accounting and reporting practices to conform with requirements of the Commission, as stated in previous Orders of the Commission.

In addition, Piedmont further agrees to begin filing monthly hedging reports beginning with the report for the month of November 2007 for a period of one year or until otherwise adjusted by mutual agreement of the Parties or by Order of the Commission in the next annual review.

Piedmont additionally agrees to report back to the Commission on the results of their actions in restructuring their accounting practices and procedures on or before February 15, 2008.

Although there were several problems with certain of Piedmont's accounting and financial controls during the review period, ORS believes that Piedmont is making a good faith effort to correct these shortcomings and should therefore be permitted the additional time addressed in the settlement agreement to attempt to finalize their corrective actions. ORS does not believe that it would serve the interests of any of the parties or Piedmont's customers to impede the Company's progress to correct problems identified by ORS and the Company itself.

Taking into consideration the above statements, ORS has determined that the public interest and Piedmont has determined that their interests would be best served by reaching this settlement agreement.

I respectfully request that the Commission approve this settlement agreement in its entirety.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.

BEFORE

THE PUBLIC SERVICE COMMISSION

OF SOUTH CAROLINA

DOCKET NO. 2007-4-G

IN RE:

Annual Review of Purchased Gas Adjustment and Gas Purchasing Policies of Piedmont Natural Gas Company, Incorporated	)))))	**CERTIFICATE OF SERVICE**

This is to certify that I, Chrystal L. Morgan, have this date served one (1) copy of the **SETTLEMENT TESTIMONY** in the above-referenced matter to the person(s) named below by causing said copy to be deposited in the United States Postal Service, first class postage prepaid and affixed thereto, and addressed as shown below:

David Carpenter
Tom Skains
Piedmont Natural Gas Company
PO Box 33068
Charlotte, NC 28233

James H. Jeffries IV, Esquire
Moore & Van Allen PLLC
Bank of America Corp Center
100 North Tryon Street, Ste 4700
Charlotte, NC 28202-4003

Chrystal L. Morgan
Chrystal L. Morgan

November 9, 2007
Columbia, South Carolina

ATTACHMENT

9

State: Piedmont Gas too sloppy: Regulators say errors repeatedly found in company's accounting

Tuesday, November 20, 2007; Posted: 05:12 AM

Nov 20, 2007 (The Charlotte Observer - McClatchy-Tribune Information Services via COMTEX) -- PNY | charts | news | PowerRating -- State regulators are complaining that Piedmont Natural Gas Co. routinely submits reports with accounting errors that if left unchecked could hurt ratepayers and the company's bottom line.

The utility, with more than 1 million customers in the Carolinas and Tennessee, submits expense reports so it can work with regulators to set future gas rates. The N.C. Utilities Commission's public staff, which looks out for consumers, reviews the figures annually and suggests rates.

In the latest example, the Charlotte-based utility reported business expenses for an annual rate review in May that were off by more than $16 million -- in favor of ratepayers, said Jim Hoard, assistant director of the accounting division for the public staff. "They were hurting themselves."

The completed rate review with corrected figures took months and was submitted Nov. 5 for the seven-member commission to review. It approved the new rates Monday that will increase the average N.C. residential bill by about $14 a year, starting next month.

Piedmont spokesman David Trusty said the company was improving and that buying natural gas has become much more complex since prices began fluctuating unpredictably several years ago.

Hoard said that sometimes the accounting errors appear to work to the advantage of the company's bottom line and sometimes to the advantage of consumers. "They're making lots of mistakes," he said.

He said that other companies, such as Gastonia-based PSNC Energy, aren't having the same troubles. He said the errors started popping up after Piedmont bought ENCNG from Progress Energy in 2003.

Hoard's division has told Piedmont it needs to improve its accounting performance because the extra months it takes to review the records is sapping resources, he said.

Bob Willett, publisher of Natural Gas and Electricity magazine, said that he had never heard of such an accounting issue. He said consistent errors could signal "reliability" issues with how the company is being run. In the business world, errors of more than 5 percent of a company's net income are considered serious, he said. Piedmont's annual net income has hovered around $100 million.

Trusty said the company has been working with the state to better provide the correct information in the proper timeframe. Since hurricanes Katrina and Rita disrupted natural gas supply lines more than two years ago and sent rates skyrocketing, wholesale gas prices have been unpredictable, he said. And regulated companies, like Piedmont, have been increasingly required by state regulators to place hedges on buying natural gas, he said.

"Accounting for the costs of gas are much more complex than they used to be," Trusty said. "Changes took place very rapidly."

For the annual review in May, Piedmont at first said it needed to collect an extra $20.3 million from N.C. customers to cover the cost of buying natural gas over the previous year. The correct figure turned out to be $30.3 million, Hoard said. The company also said it needed to refund about $22.2 million it overcharged customers for the cost of transporting and storing the gas. The correct figure was about $15.5 million, Hoard said.

The company is not allowed to make a profit on the natural gas it supplies and passes on 100 percent of the wholesale price to customers. That accounts for 65 percent to 75 percent of a monthly bill. The company profits from delivering the gas to customers.

Exh. E

RECEIVED

2008 JUN 10 PM 1:09

T.R.A. DOCKET ROOM

BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE

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

Audit Staff of the Tennessee Regulatory Authority ("Audit Staff") and Piedmont Natural Gas Company, Inc. ("Piedmont" or the "Company"), through counsel, respectfully submit this Joint Final Report on Piedmont's Actual Cost Adjustment ("ACA") account for the twelve months ended December 31, 2006 ("Review Period"). This Joint Report resolves all pending issues between Audit Staff and Piedmont in this proceeding and sets forth, in Attachments 1 and 2 hereto, the final agreed ACA Account Summary for the twelve-month period ended December 31, 2006 and a Summary of Adjustments to the ACA account balance reflected in Audit Staff's April 3, 2008 Compliance Audit Report filing ("Compliance Report") in this proceeding. Piedmont and Audit Staff respectfully request that the Tennessee Regulatory Authority ("Authority") accept and approve this Joint Final Report as the final accounting of Piedmont's ACA account for the Review Period. In support of this request, Audit Staff and Piedmont respectfully show unto the Authority as follows:

1. On April 3, 2008, Audit Staff issued its initial Compliance Report in this proceeding in which it recommended Review Period adjustments to Piedmont's ACA account of ($4,730,021.97). In its Compliance Report, Audit Staff also reflected substantial dissatisfaction with the methodology Piedmont used to record its gas costs during the Review Period, which Audit Staff characterized as a continuing problem with the Company's reporting of its gas costs.

2. In its Compliance Report, Audit Staff also reflected Piedmont's response to Audit Staff's findings and proposed ACA account adjustments. Those responses included agreement by Piedmont with the majority of Audit Staff's proposed adjustments but disagreement with a smaller number of proposed adjustments. In its response, Piedmont also disputed that it had recorded estimated rather than actual costs in its ACA account for the Review Period.

3. The Compliance Report contained Audit Staff's rebuttal of Piedmont's response. This rebuttal demonstrated substantial ongoing disagreement between the Company and Audit Staff with respect to Piedmont's Review Period reporting of gas costs and the proper ending balance in Piedmont's ACA account.

4. On April 8, 2008, the Authority Advisory Staff issued a data request to Piedmont asking the Company to respond to the matters set forth in Audit Staff's rebuttal.

5. On April 18, 2008, at the request of Piedmont and with the consent of Audit Staff, the Authority extended the time in which Piedmont was required to respond to Audit Staff's rebuttal and also extended the time by which the audit process must be completed. Piedmont's request for extension of time indicated that it believed that further discussions between Audit Staff and the Company could help narrow or eliminate disputed reporting issues and that Audit Staff had agreed to participate in such discussions. Piedmont's request also indicated the Company's belief that Audit Staff and Piedmont accounting personnel had been "talking past each other" with regard to the Company's regulatory reporting.

6. Following the Authority's approval of the requested extension, Piedmont and Audit Staff met to discuss Audit Staff's findings and proposed adjustments to Piedmont's ACA account and the issue of Audit Staff's dissatisfaction with Piedmont's regulatory reporting. Piedmont also provided additional information and documentation to Audit Staff (at this meeting and afterwards) regarding several of Audit Staff's adjustments.

7. This process was fruitful and resulted in the Company understanding the manner in which Audit Staff requires ACA account gas costs to be reported. This process also resulted in several agreed modifications to Audit Staff's Compliance Report ACA account adjustments

based on the provision of additional information by Piedmont and further review of that information by Audit Staff.

8. The modifications to Audit Staff's Compliance Report adjustments agreed to by Piedmont and Audit Staff as a result of this process are detailed on the schedule attached hereto as Attachment 1. The cumulative adjustments to Piedmont's Review Period ACA account agreed to by Piedmont and Audit Staff are shown on the schedule attached hereto as Attachment 2.

9. The agreements between Piedmont and Audit Staff reflected herein resolve all monetary matters in dispute between the parties with respect to Piedmont's ACA account for the twelve months ended December 31, 2006.

10. Based on the foregoing, Audit Staff and Piedmont respectfully request that the Authority accept the final agreed balance of Piedmont's Review Period ACA account as reflected herein and on Attachments 1 and 2 appended hereto as an amendment to the findings of the April 3, 2008 Compliance Report.

WHEREFORE, for the reasons set forth above, Audit Staff and Piedmont respectfully request that the Authority issue an order approving the Compliance Report, as amended herein, with the agreed upon balance of Piedmont's ACA account at December 31, 2006 reflected herein and in Attachments 1 and 2 hereto.

Respectfully submitted, this the 10 th day of June, 2008.

Tennessee Regulatory Authority Audit Staff

Rebecca S. Montgomery

Piedmont Natural Gas Company, Inc.

James H. Jeffries IV (RSM by permission)

Piedmont Natural Gas
ACA Audit Results
January 2006 - December 2006
Docket No. 07-00174

Summary of Adjustments Resulting from Additional Documentation Supplied by Company

	Amount	Reference
Total Findings Issued by Audit Staff	(4,730,021.97)	Audit Report (April 3, 2008), page 7.
Adjustments Agreed to by Audit Staff:		
December 2006 Columbia invoice - Commodity	1,725.01	Finding #1, page 14. Company documentation number 32.
December 2006 Columbia invoice - Demand	31,449.50	Finding #12, page 28. Company documentation number 32.
October 2006 AP Adjustments for Nov./ Dec. 2005		
Merril Lynch Invoice	45,837.45	Finding #1, page 14. Company documentation number 15.
Coral Invoice	1,302,695.02	Finding #1, page 14. Company documentation number 15.
El Paso Invoice	(540,241.96)	Finding #1, page 14. Company documentation number 15.
El Paso Invoice	160,436.76	Finding #12, page 27.
El Paso Invoice	412,542.00	Finding #12, page 27.
Interest Effect of Above Adjustments	103,347.56	Finding #16, page 32. Staff recalculation of interest.
Subtotal of Adjustments made by Audit Staff	1,517,791.34	
Restated Audit Findings	(3,212,230.63)	
Audit Adjustments Requested by Company:		
Company Documentation No. 32	33,174.51	
Company Documentation No. 15	1,775,539.40	
Company Documentation No. 21, 24, 25	39,769.96	
Company Documentation No. 20	-	
	1,848,483.87	
Adjustments Accepted by Audit Staff	1,517,791.34	
Difference	(330,692.53)	

ATTACHMENT 1

Piedmont Natural Gas
ACA Audit
Docket No. 07-00174

Summary of the ACA Account:

	Company Filing	Staff	Difference (Findings)
Commodity Balance at 1/1/06	-18,934,743.47	-18,934,743.47	$0.00
Plus Gas Costs	184,410,960.47	182,432,346.61	-1,978,613.86
Minus Recoveries	162,472,648.03	162,440,217.86	-32,430.17
Ending Balance before Interest	$3,003,568.97	$1,057,385.28	-1,946,183.69
Plus Interest	-283,922.05	-320,578.05	-36,656.00
Commodity Balance at 12/31/06	$2,719,646.92	$736,807.23	-$1,982,839.69
Demand Balance at 1/1/06	$3,981,917.83	$3,981,917.83	$0.00
Plus Gas Costs	8,755,212.87	7,556,711.57	-1,198,501.30
Minus Recoveries	8,129,471.48	8,129,471.48	0
Ending Balance before Interest	$4,607,659.22	$3,409,157.92	-1,198,501.30
Plus Interest	355,658.11	324,768.47	-30,889.64
Demand Balance at 12/31/06	$4,963,317.33	$3,733,926.39	-$1,229,390.94
Total ACA Ending Balance at 12/31/06	$7,682,964.25	$4,470,733.63	-$3,212,230.62

ATTACHMENT 2

filed electronically in docket office on 08/30/13

BASS
BERRY • SIMS PLC

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

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

August 30, 2013

VIA HAND DELIVERY

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

Re: ***In re: Petition of Piedmont Natural Gas Company, Inc. for 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 Petition for Accounting Order. Also enclosed is a check in the amount of $25.00 for the filing fee for Piedmont Natural Gas Company, Inc.'s Petition. This Petition is also being filed electronically today with the Authority's Docket Manager, Sharla Dillon.

Please file the original and four copies of this material and stamp the additional copy as "filed." Then please return the stamped copy to me by way of our courier.

Should you have any questions concerning this matter, please do not hesitate to contact me at the email address or telephone number listed above.

Sincerely,

David Killion

cc: James H. Jeffries, IV

12313795.1

Exh. F

BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

August 7, 2008

IN RE:	)	
	)	
NASHVILLE GAS COMPANY, A DIVISION OF	)	**DOCKET NO.**
PIEDMONT NATURAL GAS COMPANY, INC.	)	**07-00174**
ACTUAL COST ADJUSTMENT (ACA) AUDIT	)	
FOR THE TWELVE MONTHS ENDED	)	
DECEMBER 31, 2006	)	

ORDER ADOPTING ACA AUDIT REPORT OF TENNESSEE REGULATORY AUTHORITY'S UTILITIES DIVISION

This matter came before Chairman Tre Hargett, Director Sara Kyle, and Director Mary W. Freeman of the Tennessee Regulatory Authority (the "Authority" or "TRA"), the voting panel assigned to this Docket, at a regularly scheduled Authority Conference held on July 28, 2008 for consideration of the report of the Authority's Utilities Division (the "Audit Staff") resulting from the Audit Staff's audit of Nashville Gas Company's ("Piedmont," "Nashville Gas," or the "Company") annual deferred gas cost account filing for the year ended December 31, 2006 and the subsequent Joint Final Report of Audit Staff and Piedmont Natural Gas Company ("Joint Final Report") filed on June 10, 2008. The Actual Cost Adjustment ("ACA") Compliance Audit Report (the "Report"), attached hereto as Exhibit A and incorporated by this reference, contains the audit findings of the Audit Staff, the responses thereto of the Company, the rebuttal of Audit Staff to Company responses, and the recommendations of the Audit Staff to the Company addressing the findings.

The Company submitted its ACA filing on July 16, 2007, and the Audit Staff completed its audit of the Company's filing on March 12, 2008. On March 14, 2008, the Audit Staff issued its preliminary ACA audit findings to the Company, and the Company responded to these findings on March 25, 2008. The Audit Staff filed the Report on April 3, 2008. The Report contains eighteen findings which result in the net over-recovery of $4,730,021.97.

On April 8, 2008, a data request was issued by Authority Advisory Staff asking the Company to respond to certain matters set forth in the Report. On April 18, 2008, the Hearing Officer issued an Order granting the Company's request for an extension of time to file its response so that further discussions could take place between the Company and Audit Staff. The Joint Final Report was filed on June 10, 2008 which set out agreed to modifications to the Report's account adjustments. These modifications lowered the Audit Staff's total adjustments by $1,517,791.34, thereby resulting in a restated net audit finding of $3,212,230.62 in over-recovered gas costs. The *Joint Final Report* stated the final agreed-upon balance as $4,470,733.63 and requested that the Authority issue an order approving the Report, as amended.

After consideration of the entire record, the panel voted unanimously to approve and adopt the findings and Actual Cost Adjustment account balances contained in the April 3, 2008 Report, as amended by the Joint Final Report. The panel further voted unanimously to adopt the recommendations contained in the April 3, 2008 Report as set forth below.

1. The Company shall include actual bills or third party support documents for <u>all</u> amounts reflected on the ACA analysis schedule with its initial filing and that the Company use only tariffed rate codes on recovery schedules provided in the ACA filing.

2. The Company shall develop a comprehensive strategy to address the concerns noted in this audit.

3. The Company shall identify its asset management payments as a separate line item in its future ACA filings.

4. The Company shall provide third party invoices to support all volumes that are injected or withdrawn from storage each month, appropriately cross-referenced from inventory schedules to invoices.

5. The Company shall provide the calculations of injection rates for all injections each month appropriately cross-referenced from inventory schedules to invoices. All calculations should be provided electronically in an Excel spreadsheet with working formulas.

6. The Company shall provide the calculations of the Weighted Average Cost of Gas rates applied to all withdrawals each month. All calculations should be provided electronically in an Excel spreadsheet with working formulas.

7. The Company shall use the Audit Staff's ending commodity and demand balances as the beginning commodity and demand balances in the next reporting period.

8. The Company is put on notice that future non-compliant ACA filings will be subject to rejection, and the Company may, therefore, be subject to any and all remedies and sanctions available to the Authority.

IT IS THEREFORE ORDERED THAT:

The Actual Cost Adjustment Compliance Audit Report of Nashville Gas Company's annual deferred gas cost account filing for the year ended December 31, 2006, a copy of which is attached to this Order as Exhibit A, is approved and adopted, as amended by the Joint Final Report attached to this Order as Exhibit B, and the findings and recommendations contained therein are incorporated in this Order as if fully rewritten herein.

Tre Hargett

Tre Hargett, Chairman

Sara Kyle

Sara Kyle, Director

Mary W. Freeman

Mary W. Freeman, Director

RECEIVED
2008 APR -3 PM 3:38
T.R.A. DOCKET ROOM

BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

April 3, 2008

IN RE:	)	
	)	
NASHVILLE GAS COMPANY	)	**Docket No. 07-00174**
ACTUAL COST ADJUSTMENT (ACA) AUDIT	)	

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

Pursuant to Tenn. Code Ann. §§ 65-4-104, 65-4-111 and 65-3-108, the Utilities Division of the Tennessee Regulatory Authority hereby gives notice of its filing of the Compliance Audit Report of the Actual Cost Adjustment (hereafter "ACA") Component of the Purchased Gas Adjustment Rule ("PGA Rule") for Nashville Gas Company (hereafter the "Company") in this docket and would respectfully state as follows:

1. The present docket was opened by the Authority to hear matters arising out of the audit of the Company's ACA filing for the period January 2006 through December 2006.

2. The Company's ACA filing was received on July 16, 2007, and Audit Staff ("Staff") completed its audit of same on March 12, 2008

3. On March 14, 2008, the Utilities Division issued its preliminary ACA audit findings to the Company and on March 25, 2008, the Company responded thereto.

4. The preliminary ACA audit report was modified to reflect the Company's responses to the preliminary audit findings, Staff's rebuttal responses to eight (8) Company

Exhibit A

responses and a final ACA audit report (the "Report") resulted therefrom. The Report is attached hereto as Exhibit A and is fully incorporated herein by this reference. The Report contains the audit findings of the Utilities Division, the Company's responses thereto, Staff's rebuttal responses, and the conclusions and recommendations of the Utilities Division in connection therewith.

5. The original 180-days for completion of the audit of Nashville Gas Company was extended on several occasions, lastly to April 21, 2008, by mutual consent of the Company and the Staff as provided for in PGA Rule 1220-4-7-.03(2).

6. The Utilities Division hereby files its Report with the Tennessee Regulatory Authority for deposit as a public record and approval of the recommendations and findings contained therein.

Respectfully Submitted:

Paul D. Greene

Paul D. Greene
Utilities Division
Tennessee Regulatory Authority

CERTIFICATE OF SERVICE

I hereby certify that on this 3rd day of April, 2008, a true and exact copy of the foregoing has been either hand-delivered or delivered via U.S. Mail, postage pre-paid, to the following persons:

Eddie Roberson
Chairman
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37243

Mr. David Carpenter
Director - Rates
Piedmont Natural Gas Company
PO Box 33068
Charlotte, NC 28233

Ms. Jenny Furr
Manager – Regulatory Reporting
Piedmont Natural Gas Company
PO Box 33068
Charlotte, NC 28233

Ms. Kelly Choate
Piedmont Natural Gas Company
4720 Piedmont Row Drive
Charlotte, NC 28210

James H. Jefferies, IV Esq.
Moore & Van Allen, PLLC
100 North Tryon Street, Suite 4700
Charlotte, NC 28202

Paul D. Greene

Paul D. Greene

EXHIBIT A

COMPLIANCE AUDIT REPORT

OF

Nashville Gas Company

ACTUAL COST ADJUSTMENT

DOCKET NO. 07-00174

PREPARED BY

TENNESSEE REGULATORY AUTHORITY

UTILITIES DIVISION

April 2008

COMPLIANCE AUDIT

NASHVILLE GAS COMPANY

ACTUAL COST ADJUSTMENT

DOCKET NO. 07-00174

TABLE OF CONTENTS

I. INTRODUCTION

The subject of this audit is Nashville Gas Company's ("Nashville Gas," "Company" or "NGC") compliance with the Actual Cost Adjustment and Refund Adjustment of the Purchased Gas Adjustment Rule ("PGA Rule") of the Tennessee Regulatory Authority ("TRA" or the "Authority"). The objective of the audit was to determine whether the Purchased Gas Adjustments ("PGA"), which are encompassed by the Actual Cost Adjustment ("ACA")[1], for the twelve (12) months ended December 31, 2006, were calculated correctly and were supported by appropriate source documentation. **Staff also reviewed this filing to determine the Company's compliance with the Authority's order in Docket No. 06-00087.**

II. AUDIT OPINION

On July 16, 2007, the TRA Audit Staff (hereafter "Staff") received NGC's ACA filing supporting the activity in its deferred gas cost account ("ACA Account") for the period January 1, 2006 through December 31, 2006. Nashville Gas filed a PGA May 31, 2007 to surcharge the Company's unaudited February 28, 2007 balance in the ACA Account effective July 1, 2007.

Staff's audit resulted in eighteen (18) findings.[2] The net amount of these findings is **$4,730,021.97 in overrecovered gas costs.** The Company's reported December 31, 2006 balance of **$7,682,964.25 in underrecovered** gas costs is decreased by the $4,730,021.97 overcollected gas costs determined in this audit. The corrected balance in the ACA Account at December 31, 2006 is **$2,952,942.29 in underrecovered gas costs.** The amount of the Company's errors represent less than three percent of its total gas invoices, and is therefore immaterial by comparison. Staff concludes that except for the findings noted in this report, NGC is correctly implementing its Purchased Gas Adjustment Rider as calculated in the Actual Cost Adjustment, in accordance with TRA rules for Nashville Gas Company.

III. BACKGROUND INFORMATION ON COMPANY AND GAS SUPPLIERS

Nashville Gas Company, with headquarters at 665 Mainstream Drive, Nashville, Tennessee, is an operating division of Piedmont Natural Gas Company, which has its headquarters at 4720 Piedmont Row Drive, Charlotte, North Carolina. On February 12, 2008, the Company notified the Authority of its intent to change the name under which it operates in Tennessee from Nashville Gas Company to its corporate name of Piedmont Natural Gas Company, Inc. The Authority issued an order on March 31, 2008 in Docket No. 08-00028 approving the change. Piedmont is a gas distributor that provides service to several communities in the Middle Tennessee area. The natural gas used to serve these areas is purchased from producers and marketers and transported to Piedmont's city gate through the interstate transmission facilities of Tennessee Gas Pipeline ("TGP"), Columbia Gas Transmission Corporation ("CGTC"), Texas Eastern Gas Pipeline ("TETCO") and Midwestern Gas Transmission Company ("MGT").

---

[1] The ACA is more fully described in Section V.

[2] Refer to Section VII for a description of the findings.

IV. JURISDICTION OF THE TENNESSEE REGULATORY AUTHORITY

Tennessee Code Annotated ("T.C.A".) gave jurisdiction and control over public utilities to the Tennessee Regulatory Authority. T.C.A. §65-4-104 states that:

> The [A]uthority has general supervisory and regulatory power, jurisdiction, and control over all public utilities, and also over their property, property rights, facilities, and franchises, so far as may be necessary for the purpose of carrying out the provisions of this chapter.

Further, T.C.A. §65-4-105 grants the same power to the Authority with reference to all public utilities within its jurisdiction as chapters 3 and 5 of Title 65 of the T.C.A. have conferred on the Department of Transportation's oversight of the railroads or the Department of Safety's oversight of transportation companies. By virtue of T.C.A. §65-3-108, this power includes the right to audit:

> The department is given full power to examine the books and papers of the companies, and to examine, under oath, the officers, agents, and employees of the companies and any other persons, to procure the necessary information to intelligently and justly discharge its duties and carry out the provisions of this chapter and chapter 5 of this title.

The Utilities Division Staff of the TRA is responsible for auditing those energy, water and wastewater utilities under the Authority's jurisdiction to ensure that each company is abiding by Tennessee statute as well as the Rules and Regulations of the Authority. Paul Greene and Michelle Ramsey conducted this audit.

V. DESCRIPTION OF PURCHASED GAS ADJUSTMENT RULE

Actual Cost Adjustment Audits:

The PGA Rule can be found in Chapter 1220-4-7 of the Rules of the Tennessee Regulatory Authority. The PGA Rule permits a gas company to recover, in a timely fashion, the total cost of gas purchased for delivery to its customers and to assure that a company does not over-collect or under-collect gas costs from its customers. The PGA consists of three major components:

1. **The Actual Cost Adjustment ("ACA")**
2. **The Gas Charge Adjustment ("GCA")**
3. **The Refund Adjustment ("RA")**

The ACA is the difference between the revenues billed customers by means of the GCA and the cost of gas invoiced the Company by suppliers plus margin loss (if allowed by order of the TRA in another docket) as reflected in the Deferred Gas Cost account. The ACA then "trues-up" the difference between the actual gas costs and the gas costs recovered from customers through a surcharge or a refund. The RA refunds the "true-up" along with other supplier refunds. For a more complete definition of the GCA and RA, please see the PGA Formula in Appendix A.

Section 1220-4-7-.03(2) of the PGA Rule requires:

> Each year, the Company shall file with the [Authority] an annual report reflecting the transactions in the Deferred Gas Cost Account. Unless the [Authority] provides written notification to the Company within one hundred eighty (180) days from the date of filing the report, the Deferred Gas Cost Adjustment Account shall be deemed in compliance with the provisions of these Rules. This 180-day notification period may be extended by mutual consent of the Company and the [Authority] Staff or by order of the [Authority].

Prudence Audit of Gas Purchases:

Section 1220-4-7-.05 of the PGA Rule requires, unless otherwise ordered by the Authority, an "Audit of Prudence of Gas Purchases" by a qualified consultant. This specialized audit evaluates and reports annually on the prudence of any gas costs included in the PGA. In Docket 96-00805, Nashville Gas was authorized to operate under a Performance-Based Ratemaking Mechanism ("PBR" or "Incentive Plan"), beginning July 1, 1998, and continuing each year unless terminated by the Company or the Authority. For each year that the mechanism was in effect, the requirements of Section 1220-4-7-.05 of the PGA Rule was waived. On December 14, 2007, the TRA issued an order in Docket 05-00165 approving a revised Incentive Plan for Nashville Gas, effective July 1, 2006. This revised Incentive Plan replaces the annual prudence review of the Company's gas purchasing activities.

VI. SCOPE OF ACTUAL COST ADJUSTMENT AUDIT

The ACA audit is a limited compliance audit of NGC's ACA Account. The audit goal is to verify that the Company's calculations of gas costs incurred and recovered are materially correct,[3] and that the Company is following all Authority orders and directives with respect to its calculation of the ACA Account balance. Also included in this audit is the Company's PGA filing implementing a customer surcharge of the unaudited February 28, 2007 ACA Account balance filed May 31, 2007, effective July 1, 2007. **Staff also reviewed this filing to determine the Company's compliance with the Authority's order in Docket No. 06-00087.**

[3] The audit goal is not to guarantee that the Company's results are 100% correct. Where it is appropriate, Staff utilizes sampling techniques to determine whether the Company's calculations are materially correct. Material discrepancies would dictate a broadening of the scope of Staff's review.

To accomplish the audit goal, Staff reviewed gas supply invoices, as well as supplemental schedules and other source documentation provided by the Company. Where appropriate, Staff requested additional information to clarify the filing.

VII. ACA AUDIT FINDINGS

NOTE: In Docket No. 06-00087, the Authority approved and adopted the ACA Audit Report of NGC's annual deferred gas cost account filing for the year ended December 31, 2005. The Authority specifically adopted the findings and recommendations contained in the Audit Report, including the recommendation that the "accrual methodology the Company used in the ACA filing be rejected and the Company [be] directed to report actual amounts in the month incurred."[4] Staff reviewed the Company's compliance with the Authority's June 14, 2007 Order in completing this Audit.

The result of the Staff's audit was a **net overrecovery of $4,730,021.97** which has the effect of *decreasing* the Company's underrecovered balance at December 31, 2006 by this amount. A summary of the account as filed by the Company and as adjusted by the Staff is shown below, followed by a detailed description of each finding. Staff sent its preliminary findings to Nashville Gas on March 14, 2008 and asked that the Company provide written responses to each one. Nashville Gas complied on March 25, 2008, and Staff has copied their responses verbatim into this final report. Staff then considered each response and adjusted our results as we deemed appropriate.

SUMMARY OF THE ACA ACCOUNT:

	Company	Staff (1)	Difference (Findings)
Commodity Balance at 1/1/06	$ -18,934,743.47	$ -18,934,743.47	$ 0.00
Plus Gas Costs	184,410,960.47	181,622,331.09	-2,788,629.38
Minus Recoveries	162,472,648.03	162,440,217.86	-32,430.17
Ending Balance before Interest	$ 3,003,568.97	$ 247,369.76	$ -2,756,199.21
Plus Interest	-283,922.05	-380,873.12	-96,951.07
Commodity Balance at 12/31/06	$ 2,719,646.92	$ -133,503.35	$ -2,853,150.28
Demand Balance at 1/1/06	$ 3,981,917.83	$ 3,981,917.83	$ 0.00
Plus Gas Costs	8,755,212.87	6,952,283.31	-1,802,929.56
Minus Recoveries	8,129,471.48	8,129,471.48	0.00
Ending Balance before Interest	$ 4,607,659.22	$2,804,729.66	$ -1,802,929.56
Plus Interest	355,658.11	281,715.98	-73,942.13
Demand Balance at 12/31/06	$ 4,963,317.33	$ 3,086,445.64	$ -1,876,871.69
Total ACA Ending Balance at 12/31/06 (2)	$ 7,682,964.25	$ 2,952,942.29	$ -4,730,021.97

[4] *In re: Nashville Gas Company, a Division of Piedmont Natural Gas Company, Inc. Actual Cost Adjustment (ACA) Audit for the Twelve Months Ended December 31, 2005*, Docket No. 06-00087, *Order Adopting ACA Audit Report of Tennessee Regulatory Authority's Utilities' Division*, Exhibit A, p. 13 (June 14, 2007).

(1) Staff's column and the Summary of Findings below contain the final audit results after Staff took into consideration the Company's responses to the preliminary findings.
(2) Nashville Gas filed a PGA May 31, 2007 to surcharge the Company's unaudited February 28, 2007 balance in the ACA Account of $6,193,507, effective July 1, 2007.

Note: A negative number indicates an overrecovery of gas costs.

SUMMARY OF FINDINGS:

				See page
FINDING #1	Accrual Adjustment	$ (1,964,194.67)	Over-recovery	8
FINDING #2	Hedging Cost Adjustment	467,228.00	Under-recovery	15
FINDING #3	LNG Power Costs	(66,600.00)	Over-recovery	16
FINDING #4	Cash-out Adj.	400,792.77	Under-recovery	17
FINDING #5	Commodity Recoveries	32,430.17	Under-recovery	18
FINDING #6	Banked Gas Adjustment	(984,484.16)	Over-recovery	20
FINDING #7	Miscellaneous Adjustment	(966,432.32)	Over-recovery	21
FINDING #8	Miscellaneous Adjustment	(68,400.00)	Over-recovery	22
FINDING #9	Asset Management Misclassification	393,461.00	Under-recovery	23
FINDING #10	Interest – Commodity	(96,951.07)	Over-recovery	24
FINDING #11	Asset Management Misclassification	637,500.00	Under-recovery	25
FINDING #12	Accrual Adjustment	(708,364.31)	Over-recovery	26
FINDING #13	2004 Audit Finding	(1,837.60)	Over-recovery	29
FINDING #14	Asset Mgt. Misclassification	(1,030,961.00)	Over-recovery	30
FINDING #15	Miscellaneous Adjustment	(699,266.65)	Over-recovery	31
FINDING #16	Interest – Demand	(73,942.13)	Over-recovery	32
FINDING #17	Tariff Rate Codes	No $$ effect		33
FINDING #18	Accruals	No $$ effect		34
	Net Result	**$ (4,730,021.97)**	**Over-recovery**	

FINDING #1:

Exception

The Company over-stated its commodity invoiced gas costs by including accrual adjustments in the ACA filing. This is a repeat finding from the prior audit.

Preliminary Discussion

The Purchased Gas Adjustment (PGA) Rules "are intended to permit the company to recover, in timely fashion, the total cost of gas purchased for delivery to its customers and to assure that the Company does not over-collect or under-collect Gas Costs from its customers." TRA Rule (1220-4-7-.02)(1) ("PGA Rule") Gas Costs "shall mean the total delivered cost of gas paid or to be paid to Suppliers,..." PGA Rule (1220-4-7-.01(1). The intent is clear that the cost of gas to be recovered from customers should be based on actual invoiced gas costs. Therefore, Staff eliminated all accrual adjustments from the Company's reported gas costs and included only those amounts documented by actual invoiced amounts. The result of this finding is a **decrease in commodity gas costs of $1,964,643.36.**

Company Response

The Company agrees, in part, and disagrees, in part, with Audit Staff's Finding #1. The Company has suggested, and believes that Audit Staff concurs, that data reflecting the Company's "actual" gas costs for each month should be reported to Staff for ACA audit purposes to ensure that actual gas costs are recovered from customers. The Company disagrees, however, with the Staff's finding that the adjustments to the Company's reported invoiced gas costs should be eliminated, resulting in a $1,964,643.36 decrease of the Company's commodity gas costs.

The Audit Staff and the Company have differing understandings of the appropriate treatment of the Company's adjustments to invoices. Under the accrual accounting methodology, the Company records adjustments to invoices in the month that the adjustments are recognized, instead of recording the adjustments in the month to which an adjustment is related as Audit Staff would prefer. As a result, Audit Staff eliminated adjustments totaling ($1,299,800.57) for the review period, based on the misunderstanding that various adjustments reflect accruals instead of actual costs. These amounts represent adjustments that have been recorded to the cost of gas in the periods presented and are valid actual adjustments, not accruals as the Audit Staff has presented. Accordingly, the Company disagrees with the Staff's elimination of the $1,964,643.36 in adjustments from the commodity invoiced gas costs. The appropriate adjustment should be in the amount of ($302,417.98) for commodity costs as presented on the attached schedule captioned Analysis of TRA Staff Adjustments. Additionally, the Audit Staff has included demand adjustments in February of $4,294.64; in April of $6,530.80; in October of $6,791.63; in December of ($31,449.50) and commodity adjustments in December of ($157,925.85). The Company is unable to determine the basis for these additional demand and commodity adjustments and, therefore, cannot agree to them.

The Staff's Findings #1, #12, and #18 are based on the Staff's position that "accrual accounting has no place in the reporting of transactions in the ACA Account." The Staff's last audit addressed the Staff's preference that the Company use a cash accounting methodology instead of the Company's current methodology of accruing estimated gas costs in the current month, followed by reversals and booking actuals in the month that adjustments are realized. While the accrual methodology may make it slightly more complicated for Staff to conduct the ACA audit, the Company believes that its use of the GAAP approved methodology and the ability to assess the Company's actual costs are not mutually exclusive. In fact, the Company successfully uses this methodology for all jurisdictions that the Company serves and to change this methodology to account for Nashville Gas accounts in Tennessee in a separate manner would be onerous and result in an unnecessary increase in costs to the Company. The Company has worked with Audit Staff this year to provide Audit Staff with ACA schedules that meet the Audit Staff's needs. In fact, the Company withdrew it's initial filing in an effort to provide Audit Staff with simplified schedules to assist in the audit process. The Company continues to desire to work with Audit Staff to reach a consensus on an ACA reporting structure that simplifies the audit process for future periods while also respecting the Company's current operating structure, accounting systems, internal reporting needs, and cost concerns.

Staff Rebuttal to Company Response

While the Company keeps saying they are not accruing costs in the ACA, by their own admission, they record "adjustments to invoices in the month that the adjustments are recognized, instead of recording the adjustments in the month to which an adjustment is related **as Audit Staff would prefer.**"[5] [Emphasis added] Staff asserts that the Company is totally misrepresenting Staff's position.

To be perfectly clear, Staff gives the following illustrative examples of how costs should be recorded in the ACA filing.[6] We clarify that we may not cover every situation. Should the Company have questions regarding situations not covered in the examples, they can contact Staff at anytime during the year to discuss.

Typical Gas Cost Invoices

1. The Company receives an invoice in February for gas purchased in January ("January invoice").
2. While the Company may pay the invoice in February (or later), the January invoice "amount paid"[7] must be recorded in the ACA filing as a January gas cost.

---

[5] Company response to Finding #1, 2nd paragraph, 2nd sentence.

[6] For further clarification, when Staff refers to the ACA filing, we mean the ACA schedules that the Company submits for audit by the TRA Staff to determine the correct gas costs to be recovered from ratepayers. Staff is not referring to the Company's deferred gas cost account on their books that an outside auditor would audit to determine if it reconciles to the General Ledger each month. Staff is not interested in looking at the internal journal entries made to the General Ledger, only the invoices that support the gas costs that are recovered from ratepayers.

[7] In some cases, the Company may or may not pay the total amount billed, such as when an amount is disputed, or a credit has been taken. The amount paid, however, is the amount to be recorded.

Invoice Gas Cost Adjustment Examples

Example 1 – The supplier omits a legitimate charge on the January invoice (for whatever reason) and bills the omitted charge in April. [Staff is not sure the method the supplier would use, whether sending a revised invoice or including the omitted charge as an adjustment to the April invoice.]

This adjustment is properly recorded in the ACA filing as an April gas cost, regardless of the fact that it relates to the January purchase.

Example 2 – The supplier makes an error in the volumes or rate billed and it is not recognized by the Company until March. [Staff assumes some communication takes place between the Company and its supplier by whatever method and the Company becomes aware of the error.]

This adjustment is properly recorded in the ACA filing as a March gas cost, regardless of the fact that it relates to the January purchase.

In paragraph 3 of its response, the Company reiterates its use of the accrual methodology for its accounting. It states that in the last audit, Staff's preference was that the Company use a cash accounting methodology. Staff has never advocated any accounting methodology for the Company to use in its books and records. Footnote 9 to the Staff's Audit Report in Docket No. 06-00087 states: "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 accurate." We do not see this as an accounting issue. This is an audit of the Company's gas invoices and the revenues billed to ratepayers via the PGA rates. In truth, if the calculation of interest on the monthly ACA balances was not required by the PGA Rule, then the timing differences generated by accrual accounting would not be a significant problem. But the fact is that timing differences can materially impact the calculation of interest.

The Company also states in paragraph 3 that it successfully uses the accrual methodology in its other jurisdictions. This statement by the Company is interesting in light of the Public Staff testimony in South Carolina in Docket No. 2007-4-G. (See *Attachment 8* for copy of the testimony.)

> "However, the Parties further agree that: (i) Piedmont experienced significant issues with some aspects of the accounting and reporting of its gas costs during the Review Period; (ii) these issues resulted in numerous ORS adjustments including, but not limited to, the Company's commodity true-up, inventory accountability and deferred account-hedging program; (iii) several issues relating to the account entries applicable to the Company's commodity true-up calculation and inventory levels remain unresolved and, as a result, ORS is unable to verify the end-of-period balance in the deferred account #253.04..." The Office of Regulatory Staff Settlement Testimony of Carey M. Flynt (November 9, 2007), page 2.

Further, in an article titled State: Piedmont Gas too sloppy: Regulators say errors repeatedly found in company's accounting, found on Trading Markets.com, Jim Hoard, assistant director of the accounting division for the public staff of the North Carolina Utilities Commission says that sometimes the accounting errors appear to work to the advantage of the company's bottom line and sometimes to the advantage of consumers. "They're making lots of mistakes." (*See Attachment 9*)

Staff further refutes the Company's assertion that its accrual methodology may make it "slightly" more complicated for Staff to conduct the ACA audit. In fact, Staff asserts that the Company's use of accrual methodology for regulatory reporting purposes causes the auditing process to be unduly burdensome and therefore unacceptable to Staff. Further, Staff asserts that if the Company's ACA filing methodology was compliant with TRA requirements, it would greatly reduce the number of interrogatories, data requests, phone calls, emails, conference calls, etc. between Staff and the Company in order to trace all the unnecessary accrual adjustments included in the ACA filing.

Staff will now address each commodity audit adjustment refuted by the Company on its schedule titled Analysis of TRA Audit Staff Adjustments. This schedule is attached to this report as *Attachment 1*. We have addressed all adjustments with which the Company disagreed.

Commodity Gas Cost Adjustments:

February 2006
$32,564.20
The Company states that the payment made in July 2005 was correct, but that the "postings" were not. The documentation supplied by the Company (see *Attachment 2*) indicates that this is an "accrual adjustment" of activity which occurred in the 2005 ACA audit period. Therefore, Staff contends that this is an accrual adjustment as stated by the Company. Again, Staff opines that accruals have no place in the ACA audit. Staff has made that clear to the Company and will not attempt to trace these adjustments back through multiple months, which in some cases go to a prior audit period. True adjustments should be recorded in the ACA filing in the month the adjustment is required due to revised supplier invoices. Staff will accept only those gas costs that are supported by supplier invoices and not internal Company journal entries.

March 2006
$3,846.27
The El Paso invoice for $3,846.27 was paid in March 2006 and charged to gas costs. The Merrill Lynch invoice included the same cost of $3,846.27. The Company paid the total Merrill Lynch invoice amount and the invoice amount was charged to gas costs. At this point Merrill Lynch was overpaid by $3,846.27. In April 2006, the Company applied the credit of $3,846.27 against the Merrill Lynch invoice total and paid the balance. Staff contends that the credit adjustment of $3,846.27 in March and the debit adjustment of $3,846.27 in April was an attempt

by the Company to reconcile the ACA balance to its General Ledger. The adjustments were not necessary in order to correctly state the ACA balance which should only include "actual costs" paid. As shown in the scenario recounted above, the credit due against Merrill Lynch was appropriately taken and recorded in April 2006.

April 2006
$(3,846.27)
See discussion in March 2006 above.

$2,929.91
The Company indicates that this amount was paid on the April 2006 invoice, which was charged to the ACA. The Company then reversed this amount with the explanation that it was "paid in April, accrued in May." (See *Attachment 3*) On *Attachment 1*, the Company gives the additional explanation that it "paid this charge on the April invoice but did not record in COG until May." COG is the Cost of Gas Schedule. First of all, Staff does not understand how an amount can be "paid" in one month and "accrued" in a subsequent month, even for General Ledger purposes much less for ACA reporting purposes. Again, Staff contends that the invoice paid in April 2006 reflects the true cost of gas for April and the adjustments made in April 2006 and May 2006 are an attempt by the Company to reconcile the ACA balance to the activity in its General Ledger.

$73,930.23
The Company states that this amount represents a reversal of withdrawal charges recorded in November 2005 through February 2006. According to the Company explanation on *Attachment 1*, the "corrected charges appear in the April 06 Commodity Invoice section" of the Merrill Lynch invoice. Staff took the actual Merrill Lynch invoice amount for April 2006 and included this amount in the cost of gas. Therefore, the adjustment made by the Company is not necessary and Staff reversed the entry.

($307.99)
Staff agrees with the Company that this is a reclassification adjustment from Commodity to Demand. Staff has changed its schedules eliminating Staff's adjustment.

May 2006
($2,929.91)
Refer to discussion in April 2006 above.

$(5,092.89)
Company explanation states that this cashout credit was taken in May 2006 (actual) and credit accrued in June 2006. (See *Attachment 1*) Staff recorded the actual transaction. See discussion of $2,929.91 adjustment in April 2006.

June 2006
$5,092.89
See discussion in May 2006 above.

$140.70
The Company states that it incorrectly recorded this amount as a demand charge. It was actually a commodity charge. The Company did not provide invoice references to support this claim. Staff will accept the Company's explanation. However, we point out that the Company in making this adjustment reversed the entries in error. The adjustment to demand should have been a <u>negative</u> $140.70. And the adjustment to commodity should have been a <u>positive</u> $140.70. We have made the correct adjustments to our schedule.

$1,159.34
The Company states that they "recorded credit instead of debit" and made an adjustment to correct. (See *Attachment 1*) Staff believes that this was probably the case on their General Ledger. However, the supplier invoice provided to Staff states the "correct" invoice amount and Staff included the invoice amount in the gas costs. On the documentation provided in the ACA for June 2006, the Company states that "Supplier pd. Correctly – NOT ADJUSTED in accrual." (See *Attachment 4*) By the Company's own admission, the invoice amount was correct. Therefore, Staff included the correct amount in gas costs and appropriately reversed the Company's improper accrual adjustments.

July 2006
$567.00
The Company states that the Merrill Lynch invoice charge was <u>paid</u> in July 2006 but <u>not recorded</u> (in General Ledger) until August 2006. (See *Attachment 1*) Therefore, the Company reversed out the paid out amount in July 2006 as an adjustment and made an adjustment in August 2006 to include it back in gas costs when posted to the General Ledger. Staff appropriately included the Merrill Lynch invoice amount paid in July 2006 as part of the July gas costs. Therefore, Staff appropriately reversed the Company's improper accrual adjustments.

August 2006
$(567.00)
See discussion in July 2006 above.

October 2006
$(235,160)
Through a data request, Staff ascertained the total amount of hedging costs, to which the Company agreed. (See Finding #2) Staff made the appropriate adjustments in the months in which the costs occurred. These were a $140,880 positive adjustment in March 2006 and a $94,280 positive adjustment in May 2006, for a total of $235,160. The Company states they agree with these adjustments. To avoid *double collection* of these amounts, Staff reversed the

Company's AP (Accounts Payable) adjustment in October 2006 for the March 2006 and May 2006 ADM payments.

$(3,194,812.86)
$(397,577.38)
$1,760,176.03
The Company states that these are AP accruals for 2006 winter period. The notation made on the "documentation" provided in the ACA was "Misc. adjustment of A/P. True up to TN G/L A/P balance." (See *Attachment 5*) This schedule was an internal schedule reconciling the gas cost account with Accounts Payable in the General Ledger. Staff first of all looked at the material magnitude of these adjustments. The Company provided <u>no invoices or revised invoices</u> to support the adjustments. Staff opines that the ACA is a mechanism for the Company to recover its invoiced gas costs. Unless there is an invoice(s) to support these adjustments, they cannot be recovered from ratepayers.

December 2006
$301.14
The Company is accruing a credit in December 2006 that it states will be taken in January 2007. Staff opines that the Company cannot include an accrued credit that will be taken in the future.

$165,468
The Company mischaracterized this adjustment, stating that Staff removed this amount from the December 2006 gas costs. Actually, Staff added this amount for hedging costs incurred in November 2006. We should have added this cost to the November gas costs instead of December 2006, so we have revised our schedules to reflect the change.

$(1,725.01)
$(5,817.14)
The Company accrued more than the actual invoiced amounts for two supplier invoices. Therefore, Staff reduced gas costs by these amounts. Since the Company does not recognize the adjustments, the $(1,725.01) related to the Columbia invoice and the $(5,817.14) related to the Merrill Lynch invoice. Once again the Company mischaracterized Staff's adjustments. Staff subtracted the adjustments rather than added them. (See *Attachment 6*)

After the appropriate Staff adjustments were made following our review of the Company's response to Finding #1, the result of this finding is a **decrease in commodity gas costs of $1,964,194.67.**

FINDING #2:

Exception

The Company understated its hedging costs.

Discussion

When comparing the Company's reported hedging costs against the ADM Investor monthly statements,[8] Staff noted that of the $1,288,408 invoiced amounts, the Company only included $821,180 in the ACA filing. The Company responded that $400,628 was actually paid, but not reported and $66,600 was erroneously reported as an LNG Power Cost. The Company provided appropriate documentation to support its response. Therefore, Staff added $467,228 difference in additional hedging costs and correspondingly reduced the amount of LNG Power Costs by $66,600 (see Finding #3). The effect of this adjustment is an **increase in the cost of gas of $467,228.**

Company Response

The Company agrees with Audit Staff's Finding #2 that the hedging costs are understated by $467,228 ($400,628 of which are to be added to the ACA account and $66,600 to be reclassified from LNG Power Costs to hedging costs).

[8] Staff receives these statements daily and monthly direct from ADM.

FINDING #3:

Exception

The Company overstated its LNG Power Costs.

Discussion

In September 2006, the Company erroneously included $66,600 in hedging costs as part of the reported LNG Power Costs. Therefore, Staff removed $66,600 of LNG Power Costs for September 2006 and appropriately reflected them in the cost of gas (see Finding #2). The result of this finding is a **decrease in LNG Power Costs of $66,600.00.**

Company Response

The Company agrees with Audit Staff's Finding #3 that the $66,600 of hedging costs be removed from LNG Power Costs and reclassified to hedging costs (see Finding #2).

FINDING #4:

Exception

For each month of the audit period, the Company reversed Transportation Long amounts that were included in the Cost of Gas.

Discussion

If a transportation customer buys more gas than it can use in a month, the Company purchases the excess gas back from the customer at a discount and includes that purchase in its cost of gas. This purchase amount is labeled as a "Transportation Long" amount and is appropriately treated as a cost of gas. The Company; however, reversed these entries each month as a "Cash-out," which Staff believes is in error.

Staff eliminated these reversals of the Transportation Long amounts in the Cost of Gas. The result of these adjustments effectively **increases the Company's reported gas costs by $400,792.77.**

Company Response

The Company agrees with Audit Staff's Finding #4 that the Transportation Long amounts ($400,792.77) are purchases and should be appropriately treated as a cost of gas and not reverse these costs on the ACA schedule.

FINDING #5:

Exception

The Company overstated its Commodity gas cost recoveries.

Preliminary Discussion

The only support originally filed in the ACA for Off-System Sales was "internal" schedules of sales volumes prepared by the Company. Recoveries were credited for the PGA amount of the reported volumes and the margin (premium) amount received was reported as a separate entry "Margin on Off System Sales." There were numerous "adjustments" made based on these schedules. Staff opines that internally developed schedules do not provide convincing evidence to support amounts reported in the ACA. Therefore, Staff requested and received actual bills for Off-System sales customers.

Transportation Short recoveries[9] are supported by schedules provided by the Company; however, in its recovery calculations, the Company made some adjustments that relied on accounting adjustments that Staff could not document or understand.

In order to clarify gas cost recoveries and gain some assurance as to the proper amounts, Staff independently calculated recoveries from sales customers, added the actual amounts invoiced to off systems customers and added the amounts paid by transportation customers for additional volumes purchased. We then compared our amount against the total amount reported by the Company for "Cost Recovery" and "Margin on Off System Sales". The net effect (excluding interest) of Staff's adjustments is a **decrease in the Company reported Commodity gas cost recoveries of $783,246.02.**

Company Response

The Company disagrees, in part, with Audit Staff's Finding #5. Audit Staff excluded all Rate 360 adjustments related to billing adjustments. Billing adjustments can occur many months after the original billing. The Company's practice is to recognize these billing adjustments in the month that they occur (when the customer is rebilled) consistent with standard accounting practice. Removing these adjustments misstates the cost recovery amounts. The Company has adjusted the Cost Recovery – Sales Customers line in the Audit Staff's ACA Commodity Schedule in the amount of $750,815.85.

Staff Rebuttal to Company Response

According to a data response from the Company, Rate Code 360 is Transportation Longs/Shorts customers. (See *Attachment 7*) Staff used the Company supplied Transportation Short schedules showing the calculation of the recoveries, which did not tie to the Cost Recovery

[9] If a transportation customer uses more gas than it buys in a month, the Company sells the excess needed gas to the customer at a premium and includes that sale in its gas cost recoveries.

schedules in every month. We asked for backup to support the differences. The Company supplied multiple "screen prints" from its billing system showing adjusting entries, which were impossible for Staff to follow. Staff does not disagree that the Company may need to make adjustments to customer billing in a subsequent month, but the appropriate support must be supplied to document these adjustments.

We will agree to accept the Company's recovery adjustments for this audit period for Rate Code 360 in the amount $750,815.85 as suggested by the Company. However, in future audits, Staff will require that the Company supply us with the customer bills and re-bills to support any adjustments. Therefore, the net effect (excluding interest) of Staff's adjustments is an **increase in the Company's reported Commodity gas cost recoveries of $32,430.17.**

FINDING #6:

Exception

The Company overstated the ACA balance due to a miscellaneous adjustment to Banked Gas in July 2006 in error.

Discussion

The Company made a Banked Gas adjustment in July 2006 to reverse an accrual for Banked Gas in June 2006. Upon inquiry by Staff and further review by the Company, Staff discovered that the actual Banked Gas entry for June 2006 was zero, and therefore, no adjustment was needed in July 2006. Staff eliminated this adjustment which had the effect of **reducing the ACA Commodity balance by $984,484.16.**

Company Response

The Company agrees with Audit Staff's Finding #6 that the July 2006 Banked Gas adjustment for $984,484.16 is not appropriate and should not be included in the ACA Schedule.

FINDING #7:

Exception

The Company overstated its inventory withdrawals in June 2006.

Discussion

The Company made a withdrawal adjustment to an inventory schedule in June 2006 in order to true up the storage balance. However, after an inquiry by Staff and upon further review, the Company determined that the adjustment was not needed since the adjustment had already been made. Staff removed this adjustment, which **reduced the ACA Commodity balance by $966,432.32.**

Company Response

The Company agrees with Audit Staff's Finding #7 that the inventory withdrawal adjustment in June 2006 for the amount of $966,432.32 had already been made and should be removed from the ACA schedule.

FINDING #8:

Exception

The Company failed to report hedging costs appropriately.

Discussion

The Company included a miscellaneous adjustment for hedging costs, stating that the amount had been posted to South Carolina instead of Tennessee. Through a data request, Staff determined the total hedging costs attributable to Tennessee that were paid by the Company. The total adjustment necessary was made in the Gas Costs (see Finding #2). The result of this adjustment is a **decrease in the Commodity ACA balance of $68,400.00.**

Company Response

The Company agrees with Audit Staff's Finding #8 that hedging costs of $68,400.00 should be removed from the Commodity ACA balance.

FINDING #9:

Exception

The Company booked its April 2006 asset management payment as a Commodity Cost credit rather than as a Demand Cost credit.

Discussion

The Company booked the asset management payment for April 2006 as a miscellaneous Commodity adjustment. The amount should be booked as a Demand credit. Staff reversed the miscellaneous adjustment and reflected the asset management payment appropriately as a Demand credit. The effect of this adjustment is a **$393,461.00 reduction in Demand costs** (included in Finding #14) and an **increase in Commodity costs of $393,461.**

Company Response

The Company agrees with Audit Staff Finding #9 that the asset management payment should be booked as a Demand credit and not a Commodity credit; therefore, the Demand costs should be reduced (as detailed in Audit Finding #14) and the Commodity costs should be increased by $393,461.00.

FINDING #10:

Exception

The Company understated the amount of interest due to customers in the Commodity component of the ACA filing.

Preliminary Discussion

Staff adjusted the Company reported Commodity ACA interest due to adjustments #1 - #9 above. The result of this finding is an **increase to reported interest due to customers of $75,064.76.**

Company Response

Nashville Gas agrees that the reported Commodity ACA interest due to Findings #1 - #9 should be recalculated. The Company has recalculated the amount to be an increase to reported interest due to customers of $5,351.06 instead of an increase to reported interest due to customers of $75,064.76 based on the adjustments presented on the attached schedule titled Summary of ACA Account for 2006.

Staff Rebuttal to Company Response

Audit Staff recalculated the Commodity ACA interest due to changes made as a result of the Company's responses to Staff findings and Staff's restatement of certain finding amounts. Staff's revised Commodity ACA interest due to customers is $380,873.12. Therefore, the result of this finding is an **increase to the reported interest due to customers of $96,951.07.**

FINDING #11:

Exception

The Company inappropriately netted asset management payments against Demand Costs.

Discussion

The Company netted the asset management payments of $318,750 due from Merrill Lynch as per contract against the demand costs invoiced from Merrill Lynch in November 2006 and December 2006. While Merrill Lynch may have agreed with the Company to handle the payments in this manner, Staff disagrees with the Company's reporting in the ACA. In this case the Company's actual demand costs are understated by $637,500 in the filing and the asset management payments are buried in the invoice detail. Staff would prefer that Merrill Lynch make its contract payments to the Company and the Company pay its invoice total each month. If the remaining payments have already been accounted for in this manner, then for filing purposes, Staff would instruct the Company to report the asset management payment as a separate line item in the ACA and increase its demand costs accordingly in the Company's next ACA filing for January 2007 – December 2007. The effect of this adjustment is an **increase in the Demand costs of $637,500.**

Company Response

The Company agrees, in part, and disagrees, in part, with Audit Staff's Finding # 11. The Company agrees that in the future it can report asset management payments as a separate line item in the ACA. However, the Company believes that it is not "inappropriate" to net asset management payments against Demand Costs. Asset Management payments routinely are credits against Demand Costs on invoices and the Company presented the information as detailed on the invoice. As a result, the Company disagrees that Demand costs are understated by $637,500. The net effect on Total Demand Costs of increasing "Invoiced Demand Costs" and subtracting the "Asset Management Payments" is $0.00. Therefore, no adjustment to Demand Costs is necessary.

Staff Rebuttal to Company Response

Staff appreciates the Company's agreement to report asset management payments as a separate line item in all future ACA filings. This methodology will properly show total Demand costs and total asset management payments. Staff does not assert that the netting process is inappropriate for Company internal accounting, but that it is inappropriate for ACA reporting purposes.

FINDING #12:

Exception

The Company understated its Demand costs by including accrual adjustments in the ACA Account. This is a repeat finding from the prior audit.

Discussion

The cost of gas should be based on actual invoiced costs. Staff eliminated the accrual adjustments from the Company's reported invoiced gas costs and used amounts from actual invoices only. The result of this finding is an **increase in gas costs of $497,687.02.**

Company Response

The Company agrees, in part, and disagrees, in part, with Audit Staff's Finding #12 for the same reasons explained in detail in the Company's Response to Finding # 1. The $513,466.49 of adjustments for demand costs as presented on the Company's attached ACA schedule are appropriate actual adjustments, not accruals. The Audit Staff should not have eliminated these adjustments from the Company's reported invoiced gas costs.

Additionally, the Audit Staff has included demand adjustments in February of $4,294.64; in April of $6,530.80; in October of $6,791.63; in December of ($31,449.50) and commodity adjustments in December of ($157,925.85). The Company has not been able to determine the basis for these additional demand and commodity adjustments, therefore, the Company is unable to agree to them at this time.

Staff Rebuttal to Company Response

For the following detailed Staff response to the Company's analysis presented, please refer to the Analysis of TRA Audit Staff Adjustments, a Company provided schedule attached to this report as *Attachment 1.* We have addressed all adjustments with which the Company disagreed.

Demand Gas Cost Adjustments:

February 2006
$(4,237.03)
With the additional explanation, Staff now understands and accepts this adjustment. Staff has added this amount back to gas costs.

$4,294.64
This was **not** a Staff adjustment. This amount was part of the Company's original filing.

April 2006
$27,743.04
Upon further review, Staff agrees that there is an invoice to support a supplier refund credit. The credit however applied to Tennessee per the payment stamp is $36,161.85. Staff believes the credit should be applied in January 2006 when the invoice was received, rather than April 2006. Therefore, Staff has credited $36,161.85 to January 2006 gas costs.

$160,436.76
Upon further review, Staff agrees that there is an invoice page supporting this credit. However, it is impossible for Staff to follow an audit trail to determine whether the credit was actually taken against gas costs in January 2006. Since the Company wants to dispute Staff's reversal of the accrual adjustment in April 2006, Staff agrees to apply this credit to January 2006 gas costs to *the benefit of the ratepayer.*

$412,542
Upon further review, Staff agrees that the company provided 3 separate invoice pages (2 of which go back to the prior audit period) with a total credit of $412,542. However, it impossible for Staff to follow an audit trail to determine whether the credits were actually taken against gas costs in November and December 2005 and January 2006. Since the Company wants to dispute Staff's reversal of the accrual adjustment in April 2006, Staff agrees to apply this credit to January 2006 gas costs to *the benefit of the ratepayer.*

$(77,176.40)
$77,176.40
Staff notes that these are characterized as accrual adjustments recorded in April 2006. However, since the net effect is zero, Staff **did not** adjust these amounts.

$(67,513)
Staff further reviewed the support provided for the $67,513 additional gas cost adjustment that the Company reported in April 2006. Staff pulled the documentation from the last audit and reviewed the November and December 2005 invoices referenced in the Company's explanation for the adjustment. The two invoices in question do not support the scenario described by the Company, so the Staff cannot accept the adjustment made by the Company.

$307.99
Staff agrees with the Company that this is a reclassification adjustment from Commodity to Demand. Staff has changed its schedules eliminating this adjustment.

$6,530.80
This was **not** a Staff adjustment. This amount was part of the Company's original filing.

June 2006
$(140.70)
See discussion in Commodity section for June 2006.

$(12.74)
Because this was an immaterial difference in the May 2006 gas costs, Staff did not include an adjustment in May 2006. However, if the Company wants to adjust this amount in June 2006, Staff will agree to Company's adjustment.

June/July 2006
$(2.04)
$2.04
These are such immaterial amounts that if the Company wants to make its adjustments as they indicate, Staff does not object. We will adjust our schedules accordingly.

October 2006
$6,791.63
This was **not** a Staff adjustment. This amount was part of the Company's original filing.

December 2006
$(31,449.50)
The Company stated that its actual invoice amount for CGTC for December 2006 was $62,898.50. The invoice amount for commodity was $31,449.50. The Company's written comment on the invoice was that it accrued $62,898.50, but paid $31,449.50. (See *Attachment 6*) Therefore, Staff made an adjustment to remove the additional amount accrued.

After the appropriate Staff adjustments were made following our review of the Company's response to Finding #1, the result of this finding is a **decrease in demand gas costs of $708,364.31.**

FINDING #13:

Exception

The Company inappropriately made an adjustment for an audit finding in the 2004 ACA audit.

Discussion

The Company made an adjustment for an audit finding in the 2004 audit; however, all audit adjustments were included the Company's adjustment to its beginning balance in the 2005 audit. Therefore, this is a duplicate adjustment and should be eliminated. The effect of this adjustment is to **reduce the ACA balance by $1,837.60.**

Company Response

The Company agrees with Audit Staff's Finding #13 that the adjustment for $1,837.60 should be eliminated.

FINDING #14:

Exception

The Company inappropriately netted asset management payments against Demand Costs and booked an asset management payment to Commodity rather than to Demand.

Discussion

The Company booked the April 2006 asset management payment of $393,461 as a miscellaneous Commodity adjustment (see Finding #9). The Company also netted its asset management payments for November 2006 and December 2006 with its Demand costs (see Finding #11). Therefore, Staff separated out the netted payments ($637,500) and reclassified the April 2006 payment for a total adjustment of $1,030,961. The effect of this adjustment is an **increase to reported asset management credits in the Demand portion of the ACA of $1,030,961.00.**

Company Response

The Company agrees with Audit Staff's Finding #14.

FINDING #15:

Exception

The Company reversed a pipeline refund credit in error.

Discussion

In November 2006, Tennessee Gas Pipeline issued a refund to Piedmont which was credited to the ACA Account. In December 2006 the Company made a miscellaneous adjustment that reversed the credit in error. Staff removed the incorrect reversal of the credit, which **reduced the ACA Demand balance by $699,266.65.**

Company Response

The Company agrees with Audit Staff's Finding #15 that the reversal of the November 2006 TGP refund in December 2006 was not necessary.

FINDING #16:

Exception

The Company understated the amount of interest due from customers in the Demand component of the ACA filing.

Preliminary Discussion

Staff recalculated interest based upon the audit findings #11 - #15 above. Demand interest due from the customers was **understated by $5,062.75**. Staff made the adjustment to the ACA Account to reflect this amount.

Company Response

The Company agrees with Audit Staff Finding #16 that ACA interest will need to be adjusted due to Audit Staff's Findings #11 - #15. Nashville Gas has calculated the interest due from the customers to be understated by $30,429.84.

Staff Rebuttal to Company Response

Staff recalculated the Demand ACA interest due to changes made as a result of the Company's responses to Staff findings and Staff's restatement of certain finding amounts. Staff's revised Demand ACA interest due from customers is $281,715.98. Therefore, the result of this finding is a **decrease to the reported interest due from customers of $73,942.13.**

FINDING #17:

Exception

The Company referenced rate schedules in its filing that are not supported by its tariff.

Preliminary Discussion

During this filing, Staff noted that the Company continues to use rate schedule numbers that are different than the rate schedule numbers that were approved by the TRA in its tariff. When Staff questioned the Company on this practice, the Company responded by providing Staff with a Rate Conversion schedule mapping the rate schedules used in the filing to the approved tariff rate schedules. (See *Attachment* 7 to the report.) In addition, the Company has added other rate schedule numbers not found in the tariff. Staff opines that the Company must use its tariffed rate schedules in future filings.

Company Response

The Company has explained to the Audit Staff that the Company's billing system uses different codes to represent tariff rate schedules. It is unavoidable that system generated supporting documents and other reports produced by the Company will contain codes that differ from the rate schedule numbers approved by the TRA in its tariff. The Company has provided Audit Staff with a schedule that details the appropriate conversion between the Company's billing system/supporting documents and the approved tariff rate schedules. It is not feasible for the Company to change the billing system's nomenclature.

Staff Rebuttal to Company Response

While Staff does not object to the Company using whatever internal codes it desires, the Company should use tariffed rate codes on <u>all</u> information provided in the ACA documentation or any other reports provided to the TRA. Staff simply asks that the Company *change* internal codes to tariff rate codes (handwritten changes are fine) on system generated reports that use internal coding that differ from the approved tariff rate codes for all supporting documents provided in the ACA audit. That way Staff does not have the responsibililty of interpreting Company documents, since the Company will clearly label documents with the correct tariff codes.

FINDING #18:

Exception

In each month, the Company continued its practice of including accruals and reversals as part of the reporting of the transactions in the ACA Account. This is a **repeat finding.**

Preliminary Discussion

In the last audit report (Docket 06-00087), Staff stated in Finding #2 that the accrual methodology used by the Company was unacceptable for ACA reporting purposes. In its recommendations, the Staff requested the Authority to reject the Company's methodology and direct the Company to report actual amounts in the month incurred. At the January 8, 2007 Authority Conference, the panel voted unanimously to approve the Staff's report, findings and recommendations.

On February 1, 2007, Staff met with representatives of Piedmont to discuss the Authority's decision and explain the problems Staff was encountering in auditing the Company's filing. Piedmont agreed to work closely with Staff to remedy the problem and present the filing in a manner acceptable to Staff. The Company initially filed the current ACA on June 7, 2007 (Docket 07-00147). After an initial review by Staff, the Company voluntarily withdrew the filing at Staff's request, since it was evident that the accrual method had not been discontinued. The Company re-filed the ACA on July 16, 2007 (Docket 07-00174). Staff's initial review showed that accruals were still present and that the Company had not presented its invoices as Staff had requested. At this time, Staff suggested that the filing be withdrawn a second time. However, the Company declined and stated that it would be flexible if deadline extensions were necessary.

Staff has attempted to the best of its ability to explain to Piedmont the corrective actions necessary to present its "actual" gas costs, through numerous phone calls, emails, data requests, etc. Despite these repeated communications, the Company has continued to show accrual adjustments in its documentation of the transactions in the ACA Account, both on the cost side and the recovery side. Therefore, Staff had no alternative but to strip out all accruals and restate the balance in the ACA Account based strictly on the third party invoices and customer bills supplied. The effect of some Staff adjustments was to the benefit of the consumer and some were to the benefit of the Company. Staff's objective is to properly state the ACA balance regardless of the effect on the Company or the consumers.

Staff again states that accrual accounting has no place in the reporting of transactions in the ACA filing. Several of the findings above were the result of Staff restating an amount after stripping out accruals.

Company Response

The Company appreciates and respects the continued efforts of Audit Staff to work with the Company to resolve the issues surrounding the completion of the ACA schedule that best meets the needs of the Audit Staff and the Company.

The Company has faced a variety of issues and challenges in the last several years with respect to its gas cost accounting. The Company has taken several steps to resolve the issues and challenges. In the spring of 2006, the Company hired new and additional gas cost personnel and moved the responsibility for this function to the rates and regulatory affairs department. In July 2006, a new manager of gas cost accounting was hired. As a result of audits by both the North Carolina Public Staff and the South Carolina Office of Regulatory Staff during the 2006 prudence reviews, it became apparent to the Company that the challenges faced by the existing gas cost accounting system were much more substantial than previously known. As the Company dealt with month end closings during the winter months of 2006 – 2007, it also became apparent that the newly assigned manager of gas cost accounting did not have enough experience in gas cost accounting to effectively deal with the more complex accounting issues that had become apparent through the previous audits. The Company hired a new and more experienced manager of cost accounting and hired new accounting analysts to assist in the process. The Company also retained an outside consultant to assist in redesigning and restructuring the gas cost accounting functions, which should be completed within the next twelve months. Subsequently, in March of 2008, the Company has hired a manager of regulatory reporting that will work more closely with the Audit Staff.

As stated in the Company Response to Audit Finding #12, the Company has made a number of adjustments (not accruals) to the gas costs reflected in its ACA filing. Adjustments to these gas costs were made in conjunction with the Company's efforts (undertaken in conjunction with its outside consultants) to review and confirm its gas costs in light of the difficulties identified above to ensure that its gas costs were stated properly. In this process, the Company has made every attempt to provide appropriate support to the Audit Staff for each adjustment required. The Company recognizes that the adjustments were reported in the period in which the adjustments were made (versus restating prior closed periods) but this is both standard accounting practice and consistent with the manner in which the adjustments were recorded on the Company's books.

The Company agrees with Audit Staff that future ACA filings should be based on "actual" gas accounting information, however, the Company will continue to recognize adjustments in current periods as these adjustments are recognized in the general ledger. Audit Staff has stated in Docket No. 06-00087 that since the ACA filing occurs after the months are closed that the Company should be able to apply all adjustments to the prior months and Audit Staff does not see this as a problem for the Company. The Company disagrees with this approach as to prepare the ACA schedule in this manner would require additional resources to comply and would essentially require the Company to completely restate its gas costs for the review period in a manner that is inconsistent with the way in which these costs are recorded on the Company's books. The Company is also concerned that Audit Staff's approach would not properly account for adjustments that occur from prior ACA periods that have already been closed. Failure to include these adjustments would result in an improper accounting of the Company's gas costs and would directly impact the costs recovered from customers.

The Company has and will continue to make efforts to improve the ACA schedules in the 2007 audit year filing. The Company will work closely with the Audit Staff to provide ACA schedules based on "actual" closing data and workpapers to support the Audit Staff in their audit.

Staff Rebuttal to Company Response

Staff is fully aware of the requirements of GAAP and that the Company's books used to prepare external financial statements must follow those standards. Staff is not trying to interfere with the Company's accounting staff's responsibilities. However, Staff sees the Company's accounting process as separate from the ACA regulatory reporting process.

In order for the Company to recover its gas costs from ratepayers, all costs must be based on supplier invoices. (PGA Rule 1220-4-7-.02) Staff believes that it is not unduly burdensome for the Company's regulatory staff to prepare an annual schedule showing the amounts actually paid for a month supported by the actual supplier invoices. [No accruals, no adjustments to reconcile these amounts to the General Ledger.] All true adjustments to gas costs need to be supported by revised supplier invoices and recorded in the month the revised invoices are received or the Company becomes aware that a revision adjustment is necessary. [Again, no accruals or adjustments made for the purpose of reconciling the amounts to the General Ledger.] The regulatory staff is afforded with sufficient time after the year closes to be sure the Company's ACA filing reflects the actual amounts paid or adjusted and are reported in the appropriate months, regardless of when these costs or adjustments actually hit the General Ledger.

As we've communicated throughout these findings, Staff will not accept any accruals, nor will we accept adjustments without third party supporting invoices or other third party evidence. We also realize that sometimes an adjustment is not known until after an audit period has closed. In that case it is perfectly acceptable to make a legitimate prior year adjustment to the beginning balance of the current audit period. Again, the adjustment should be supported by revised invoices.

Staff appreciates the Company's statement that it will work closely with Audit Staff to provide proper ACA schedules.

VIII. CONCLUSIONS AND RECOMMENDATIONS

NOTE: In Docket No. 06-00087, the Authority approved and adopted the ACA Audit Report of NGC's annual deferred gas cost account filing for the year ended December 31, 2005. The Authority specifically adopted the findings and recommendations contained in the Audit Report, including the recommendation that the "accrual methodology the Company used in the ACA filing be rejected and the Company [be] directed to report actual amounts in the month incurred."[10] Staff reviewed the Company's compliance with the Authority's June 14, 2007 Order in completing this Audit.

In this report, Staff was compelled to refute many Company misrepresentations regarding our position as to the proper methodology that must be used in the required regulatory reporting of gas costs incurred and recovered, and other related issues. Despite our numerous issues with the methodologies used by the Company in the ACA filing, Staff acknowledges a good professional working relationship with Company personnel. Staff stands ready to assist the Company with future regulatory filings as needed.

As was the case in the previous ACA, the Company failed to provide a significant number of documents necessary to support the amounts reported in the ACA filing at the time of tiling. Staff, therefore, had to obtain this supporting documentation through phone calls, emails, and written requests. Staff also notes that the only supporting documentation provided for some items was Company internal accounting schedules. Such internal accounting schedules based on accrual accounting do not provide convincing evidence to support amounts reported in the ACA. Additionally, the Company uses untariffed rate schedules in the presentation of its recoveries. Staff acknowledges that the Company was cooperative in attempting to provide the supporting information requested. **Staff recommends that the Company include actual bills or third party support documents for <u>all</u> amounts reflected on the ACA analysis schedule with its initial filing and that the Company use only tariffed rate codes on recovery schedules provided in the ACA filing.**

The Company's improper methodology of reporting accrued estimated gas costs, cash outs and gas cost recoveries followed by reversals and booking of actuals in subsequent months continues to be unacceptable.[11] The Company stated many times that if actual costs are not available prior to the 8th working day of the following month then estimates are posted to the deferred gas account in the General Ledger. Staff understands the Company's financial reporting practices, since accruals are required for GAAP accounting. Staff does not, however, accept the Company's accrual method for reflecting transactions reported in the ACA since it is widely acknowledged that GAAP accounting and regulatory reporting are very different. An ACA filing is typically made 90 days after the end of the reporting period, which in Piedmont's case is 90 days following the end of the calendar year. Thus, in spite of the fact that the Company's accounting staff is required to accrue amounts to comply with GAAP reporting on its external

---

[10] *In re: Nashville Gas Company, a Division of Piedmont Natural Gas Company, Inc. Actual Cost Adjustment (ACA) Audit for the Twelve Months Ended December 31, 2005*, Docket No. 06-00087, *Order Adopting ACA Audit Report of Tennessee Regulatory Authority's Utilities' Division*, Exhibit A, p. 13 (June 14, 2007).

[11] See Finding #2.

financial statements, the Company's regulatory staff has ample time to assemble the required data and report the actual gas costs in its ACA filing.[12] **Staff recommends that the accrual methodology the Company used in the ACA filing once again be rejected and the Company be directed to report actual amounts in the month incurred or in the month to which they are attributable.[13]**

It appears that much of NGC's ACA reporting format is driven by the Company's accounting personnel who may not fully appreciate the differences between GAAP accounting and regulatory reporting. It is imperative that the upper management of the Company understand and address this issue. **Staff recommends that the Authority direct the Company to develop a comprehensive strategy to address the concerns noted in this audit.**

Staff noted in Finding #11 that the Company netted its asset management payments against its demand costs in the ACA filing. While the Company objected to the finding, since the asset management payments were a credit on the asset manager's invoices for gas purchases, Staff believes it is important for these payments to be shown as a separate line item in the ACA filing. The Company also operates under an Incentive Plan. The Incentive Plan allows the Company to surcharge customers for its share of any "savings" accruing under the plan. The asset management payments are included as part of those savings. Therefore, Staff believes that the asset management payments should be separately identified in the ACA filing, to document the amounts recognized in the Incentive Plan. They should not be "buried" in the detail of a supplier invoice. **Staff recommends that the Authority direct the Company to identify its asset management payments as a separate line item in its future ACA filings.**

Going forward, Staff would like to gain greater assurance that the injections and withdrawals reported in the inventory accounts for <u>all</u> companies be properly documented by supplier invoices. **To that end, Staff recommends that the Company provide the following support in its next ACA filing:**

1. Provide third party invoices to support all volumes that are injected or withdrawn from storage each month, appropriately cross referenced from inventory schedules to invoices;
2. Provide the calculations of injection rates for all injections each month appropriately cross referenced from inventory schedules to invoices. All calculations should be provided electronically in an Excel spreadsheet with working formulas; and
3. Provide the calculations of the WACOG rates applied to all withdrawals each month. All calculations should be provided electronically in an Excel spreadsheet with working formulas.

---

[12] Staff is not precluding the occasional need for prior period adjustments when information has not been timely received to enable the Company's staff to include the adjustment in the appropriate reporting period.

[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 accurate. 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.

Staff recommends that the Authority adopt this report in total and direct the Company to address each finding as well as all issues discussed in the Conclusions and Recommendations section of this report.

Staff recommends that the Authority instruct the Company to use the Staff's ending commodity and demand balances as the beginning commodity and demand balances in the next reporting period. By doing so, all monetary audit adjustments will be addressed.

Because the issues discussed in this audit are substantially the same issues the Authority directed the Company to correct in Docket No. 06-00087, Staff recommends the Authority put the Company on notice that future non-compliant ACA filings will be subject to rejection, and the Company may, therefore, be subject to any and all remedies and sanctions available to the Authority.

APPENDIX A

PGA FORMULA[14]

The computation of the GCA can be broken down into the following formulas:

$$\text{Firm GCA} = \frac{D + DACA}{SF} - DB + \frac{P + T + SR + CACA}{ST} - CB$$

$$\text{Non-Firm GCA} = \frac{P + T + SR\ CACA}{ST} - CB$$

where

GCA	=	The Gas Charge Adjustment in dollars per Ccf/Therm, rounded to no more than five decimal places.
D	=	The sum of all fixed Gas Costs.
DACA	=	The demand portion of the ACA.
P	=	The sum of all commodity/gas charges.
T	=	The sum of all transportation charges.
SR	=	The sum of all FERC approved surcharges.
CACA	=	The commodity portion of the ACA.
DB	=	The per unit rate of demand costs or other fixed charges included in base rates in the most recently completed general rate case (which may be zero if the Company so elects and the Commission so approves).
CB	=	The per unit rate of variable gas costs included in base rates in the most recently completed general rate case (which may be zero if the Company so elects and the Commission so approves).
SF	=	Firm Sales.
ST	=	Total Sales.

[14] Pursuant to Docket 03-00209, the PGA Formula has been amended to include the gas cost portion of uncollectible accounts.

The computation of the RA can be computed using the following formulas:

$$\text{Firm RA} = \frac{DR1 - DR2}{SFR} + \frac{CR1 - CR2 + CR3 + i}{STR}$$

$$\text{Non-Firm RA} = \frac{CR1 - CR2 + CR3 + i}{STR}$$

where

RA	=	The Refund Adjustment in dollars per Ccf/Therm, rounded to no more than five decimal places.
DR1	=	Demand refund not included in a currently effective Refund Adjustment, and received from suppliers by check, wire transfer, or credit memo.
DR2	=	A demand surcharge from a supplier not includable in the GCA, and not included in a currently effective Refund Adjustment.
CR1	=	Commodity refund not included in a currently effective Refund Adjustment, and received from suppliers by check, wire transfer, or credit memo.
CR2	=	A commodity surcharge from a supplier not includable in the GCA, and not included in a currently effective Refund Adjustment.
CR3	=	The residual balance of an expired Refund Adjustment.

i = Interest on the "Refund Due Customers" account, using the average monthly balances based on the beginning and ending monthly balances. The interest rates for each calendar quarter used to compute such interest shall be the arithmetic mean (to the nearest one-hundredth of one percent) of the prime rate value published in the "Federal Reserve Bulletin" or in the Federal Reserve's "Selected Interest Rates" for the 4th, 3rd, and 2nd months preceding the 1st month of the calendar quarter.

SFR = Firm sales as defined in the GCA computation, less sales under a transportation or negotiated rate schedule.

STR = Total sales as defined in the GCA computation, less sales under a transportation or negotiated rate schedule.

ATTACHMENT

1

Analysis of TRA Audit Staff Adjustments

C indicates Commodity adjustment
D indicates Demand adjustment

Month	Item	C/D	Adjustments Identified (TRA Added/Removed) $	Explanation	Company Disagreed (Reversed Staff Adj)	Company Agreed (Left Staff Adj)
JAN	None					
FEB						
	[redacted] - reversal 1/06 Refund Excess Deferred - transferred to NC/SC - JE# 41780 - AHB	D	(4,237.03)	Took Refund Credit amount on January Invoice. Applicable to NC/SC. Reversed with this addition to transfer to NC/SC.	4,237.03	
	7/05 MA Swing adjmnt. ACA '05 audit - 500 Leg	C	$ 32,564.20	In July 2005, MA Injections were not reduced by 3rd Party Gas. Payment was correct but postings were not. This adjustment represents a reduction to COG reported to reflect the actual MA Injections without 3rd Party Gas.	$ (32,564.20)	
	Staff Ajustment - unknown	D	$ 4,294.64		$ (4,294.64)	
MAR						
	[redacted] - commodity charges K# 3650-pd in April	C	$ 3,846.27	FSMA charge paid to [redacted] in March. Should have taken a credit on [redacted] in March but did not do until April.	$ (3,846.27)	
	Staff Adjustment for Hedging	C	$ 140,880.00	[redacted] for March-Ok to add to COG		$ 140,880.00
APR						
	A-K# 6815 - [redacted] 12/05 Annual IS Credits -Pd in Dec 05 but not in COG	D	$ 27,743.04	Annual Credit on FSMA and FSPA on December bill, not recorded in COG until April	$ (27,743.04)	
	B-K# 60882 - [redacted] 1/06 demand Cr- Cr taken on Jan Inv but not recorded in Jan COG	D	$ 160,436.76	Paid [redacted] and took credit on [redacted] bill in January 2006. Did not account for the credit in the COG until April 2006.	$ (160,436.76)	
	C-FT - BH - #46715 - record [redacted] 11/05, 12/05, and 1/06 demand credits	D	$ 412,542.00	Paid [redacted] (incorporating the credit) but did not record the credits in Nov and Dec 05 and Jan 06. Took all 3 in April 06 COG.	$ (412,542.00)	
	D-FT - A 60542- [redacted] 11/05 demand-Billed and Pd in Nov but not recorded in COG	D	$ (77,176.40)	Demand charge billed and paid in November but not recorded in the COG (Invoice #688683). Recorded in Apr 06.	$ 77,176.40	
	E-Dmd Cr for 11/05-Billed in Nov, Pd in past due amt in Dec, but not recorded in COG	D	$ 77,176.40	Assignment Credit on billed on November Invoice (#688684) but credit not taken on bill nor recorded in COG. Credit taken on April 06 bill and recorded in COG in April 06.	$ (77,176.40)	

	F-FT-24706-[redacted] 11/05 payment for Non-discounted Point Charge-Billed in Nov.Pd in past due amt in Dec but not recorded in COG	D	$	(67,513.00)	Point charge Billed in Nov 05 and paid in Dec 05, not recorded in COG until April 06.	$	67,513.00		
	G-FT - A 237 - credit [redacted] 11/05 for difference is amt. due vs. paid-remove from demand (s/b commodity)	D	$	307.99	GCS vs [redacted] bill difference. Paid per GCS then took the credit on April [redacted] bill/COG. This adjustment is appropriately negated below with the addition of the 307.99 in the commodity section of adjustments. Should just show net this one out. The credit is netted from the commodity amount on the invoice section.	$	(307.99)		
	[redacted] - commodity charges K# 3650-pd in April, recorded in March	C	$	(3,846.27)	See above.	$	3,846.27		
	[redacted] TCO Storage FTS commodity -pd in April, recorded in May	C	$	2,929.91	Paid this charge on the April invoice but did not record in COG until May.	$	(2,929.91)		
	I-[redacted]- wd comm.chgs.reversed/credits applied above for swing on storage 11/05 - 2/06	C	$	73,930.23	Reversal of W/D chgs recorded in 11/05 through 2/06. Corrected charges appear in the April 06 Commodity Invoice section. Net effect is the change to the dollars.	$	(73,930.23)		
	H-[redacted] - 12/05 commodity on injections originally recorded to [redacted]	C	$	(5,027.33)	Recorded/Pai[redacted] $5,027.33 too much in Dec 05. Took a credit for this overpayment in Jan 06 bill. Overaccrual in COG for [redacted] never adjusted. ML was paid/recorded $5,027.33 too much in Dec 05.			$	(5,027.33)
	Credit Accrued above in April should have been in commodity (pd as commodity)	C	$	(307.99)	Used to net out the demand credit. Actual credit taken from the Commodity section of the Invoice.	$	307.99		
	Credit taken on [redacted] bill in April but not recorded for in COG	C	$	9,663.40	Credit represents the difference between a credit taken and a credit owed to [redacted] (both of which were resolved). Adjustment not needed.			$	9,663.40
	Staff Ajustment - unknown	D	$	6,530.80		$	(6,530.80)		
MAY									
	[redacted] TCO Storage FTS commodity -pd in April, accrued in May	C		(2,929.91)	See above.		2,929.91		
	[redacted]-Cashout for April, taken in May and credit accrued in June	C		(5,092.89)	Cashout for the month of April, taken against [redacted] bill in May, in COG in June.		5,092.89		
	Staff Ajustment	C		94,280.00	[redacted] for May-Ok to add to COG			$	94,280.00
JUN									
	[redacted] $140.70 was incorrectly categorized as demand. Moved to commodity.	D		(140.70)	Recorded $142.74 in June in Demand. Adjustment made to move the $140.70 to Commodity in Invoice section.		140.70		
	[redacted]-May billing difference-credit adj June Bill	D		(12.74)	Billing difference. Recorded per GCS less than was invoiced. Adjustment made to correct invoice in		12.74		
	[redacted]une bill overstated-credit adj June Bill	D		(2.04)	Recorded too much for the June bill (found in the June actual). Took credit in July.		2.04		

Month	Description	Type	Amount	Comment	Adjustment	Staff
	[redacted] Cashout for April, taken in May and credit recorded in June	C	5,092.89	See above.	(5,092.89)	
	[redacted] $140.70 was incorrectly categorized as demand. Moved to commodity.	C	140.70	See above.	(140.70)	
	[redacted] -Adjustment to fix posted COG (opposite sign used in COG) was not adjusted to correct this	C	1,159.34	Recorded credit instead of debit. Adjustment to correct.	(1,159.34)	
JUL						
	[redacted] -June bill overstated-credit adj June Bill, recorded in July on demand (not commodity)	D	2.04	See above.	(2.04)	
	Overpayment to [redacted], Pd in July not recorded	C	10.20	Agree with removal by Staff.		10.20
	[redacted] 100 Leg Pool July 2006 SANMER04-06 ML Commodity Rpt. Paid/not recorded in 7/06	C	567.00	[redacted] Charge paid in July but not recorded until August.	(567.00)	
	Staff Ajustment	D	10.20	Agree with removal by Staff.		10.20
	Staff Ajustment	C	(10.20)	Agree with removal by Staff.		(10.20)
AUG						
	[redacted] 100 Leg Pool July 2006 SANMER04-06 ML Commodity Rpt. Paid/not recorded in 7/06	C	$ (567.00)	See above.	$ 567.00	
SEP						
	[redacted] - RP95-408 Article V CR - ACA '05 Item 13 audit adjmnt.- Finding #5 under-recovery	D	(1,837.60)	2004 ACA finding-Starting with TRA balances. Agree with Staff's removal of this adjustment.		(1,837.60)
	Staff Added $66,600 for finding #13	C	$ 66,600.00	[redacted] for September-OK to add		$ 66,600.00
OCT						
	[redacted] - AP for April and June 2006 payments	C	(235,160.00)	Adjustment for the March and May [redacted] payments.	235,160.00	
	[redacted] AP for 2006 winter period	C	(3,194,812.86)	AP adjustment - Nov through March	3,194,812.86	
	[redacted] AP for 2006 winter period	C	(397,577.38)	AP adjustment - Nov through March	397,577.38	
	[redacted] AP for 2006 winter period	C	1,760,176.03	AP adjustment - Nov through March	(1,760,176.03)	
	Staff Ajustment - unknown	D	6,791.63		(6,791.63)	
NOV						
	[redacted] commodity/injection/withdrawal charges [redacted] Adj in Nov,Pd Subsequent to 12/06	C	$ (2,150.69)	Recorded in COG but not paid. Agree with Staff on the removal of this adjustment.		$ (2,150.69)
DEC						
	[redacted] Prior Adjustment for 9/06 Cashout (301.14)-Taken in January 07	C	$ 301.14	Credit taken in COG in 12/06 for 9/06 cashout. Taken off January 07 bill.	$ (301.14)	
	Staff Ajustment - unknown	D	$ (31,449.50)		$ 31,449.50	
	Staff Ajustment - unknown	C	$ (165,468.00)		$ 165,468.00	
	Staff Ajustment - unknown	C	$ 1,725.01		$ (1,725.01)	
	Staff Ajustment - unknown	C	$ 5,817.14		$ (5,817.14)	
	TOTAL		**(1,299,800.57)**		**1,602,218.55**	**(302,417.98)**
	Demand	D	$ 513,466.49		$ (515,293.89)	$ (1,827.40)
	Commodity	C	$ (1,813,267.06)		$ 2,117,512.44	$ 304,245.38

ATTACHMENT

2

C

[redacted]

Demand		$	-	
Commodity		$	107,695.07	11a3
	Total Invoice	$	107,695.07	

[redacted]

Demand		$	-	
Commodity		$	2,111,147.37	14a4
	Total Invoice	$	2,111,147.37	

[redacted]

Demand		$	133,879.46	4a2
Commodity		$	(9,875.80)	4a1
	Total Invoice	$	124,003.66	

Transportation Billing (LONG)

Commodity		$	85,305.75	E2
	Total Invoice	$	85,305.75	

Total Demand per AP Invoices	$	903,818.55
Total Commodity per AP Invoices	$	22,925,940.05
TOTAL	$	23,829,758.59

Misc Demand Adjustments

[redacted] - reversal 1/06 Refund Excess Deferred - transferred to NC/SC - JE# 41780 - AHB — 4,237.03 3

Misc Commodity Adjustments

7/05 MA Swing accrual adjmnt. ACA '05 audit - 500 Leg — $ (32,564.20) 2/a1

Total Demand Accrued	B $	908,055.58	1
Total Commodity Accrued	$	22,893,375.85	
TOTAL	$	23,801,431.42	2

A

SHVILLE GAS COMPANY
)ST OF GAS - AC/ 'IT FORMAT
LY 31, 2005

	DTS	AMOUNT	
- A 237 - Demand/Reservation - [redacted]		398,895.12	Pg. 10
- A 24706 - Demand/Reservation -		275,028.00	Pg. 10
ace/Delivery Charge - MA 5815 and PA 2400		141,275.31	Pg. 10
		815,198.43	
[redacted] - TCO - FSS DEMAND		15,010.00	Pg. 10
[redacted] - TCO - SST DEMAND		29,030.00	Pg. 10
[redacted] - TCO - FSSCP DEMAND		17,621.86	Pg. 10
[redacted] - FTS1 #76812 not released to [redacted], pay [redacted] $15,725 April - Oct. '05		30,195.15	Pgs. 3 and 10.
		91,857.01	
[redacted] - payable to [redacted] - paying as invoiced		2,909.88	Pg. 5
[redacted] Demand Chgs		52,600.00	Pg. 2
		55,509.88	
DEMAND SUBTOTAL		962,565.32	
JRCHASES:			
[redacted] - options		41,520.00	Pg. 1
[redacted] - [redacted] reservation - 7/05		4,499.78	Pg. 4
[redacted] commodity chgs.- summer refill	0	3,845.01	Pg. 9
[redacted] - [redacted] 100 Leg - index	81,896	574,183.80	Pg. 7
[redacted] - [redacted] - Summer Refill	109,405	793,700.04	Pg. 9
[redacted] - [redacted] - commodity charges		23,077.64	Pg. 7
[redacted] - [redacted] - commodity charges - 3rd party - reported in GCS		274.58	Pg. 7
[redacted] - [redacted] - commodity chgs. - storage wds		4,008.40	Pg. 8
[redacted] INJ #6815/MA - Summer Refill - 100 Leg	0	0.00	
[redacted] INJ #6815/MA - Summer Refill - 500 Leg	0	0.00	
[redacted] INJ #6815/MA - Summer Refill - 800 Leg	0	0.00	
[redacted] - [redacted] 500 LEG/Pool	102,970	720,680.00	Pg. 7
[redacted] - [redacted] - 800 LEG	85,637	601,134.90	Pg. 7
[redacted] - 100 Leg	0	0.00	
[redacted] - 500 Leg	0	0.00	
[redacted] - 800 Leg	0	0.00	
[redacted] INJ #6815/MA - [redacted] - 100 Leg	30,727	215,439.48	Pg. 7
[redacted] INJ #6815/MA - [redacted] - 500 Leg	35,638	270,432.16	Pg. 7 → Ties to 2/06-4
[redacted] INJ #6815/MA - [redacted] - 800 Leg	32,132	225,547.20	Pg. 7
[redacted] INJ #6815 - Swing to MA - Third Party Gas	4,646	[illegible]	Accruals by Leg were not reduced for 3rd Party Swing S. Payment was correct, accrual adjusted in 2/06 ACTUAL
[redacted] INJ #2400/PA - 100 Leg	0	0.00	106,143 total withdrawn dts are found on Pg. 8.
[redacted] INJ #2400/PA - 500 Leg	0	0.00	
[redacted] INJ #2400/PA - 800 Leg	0	0.00	
3AS PURCHASED - [redacted] PROVISIONS (LONG)	2,545	14,670.82	Pg. 11
)TAL COMMODITY PURCHASES	488,596	3,525,578.01	
A/P ACCRUAL		4,488,143.33	
LESS AMOUNTS ACCRUED VIA S2K		(14,670.82)	
NET 17A ACCRUAL		4,473,472.51	

21a
2/06-62

ATTACHMENT

3

(C)

Total Demand per AP Invoices	$	746,401.04
Total Commodity per AP Invoices	$	11,224,833.60
TOTAL	$	11,971,234.64

Misc Demand Adjustments

A-K# 6815 - [redacted] 12/05 Annual IS Credits -Pd in Dec 05 but not accrued in COG	$	(27,743.04)	
B-K# 60882 - [redacted] 1/06 demand Cr- Cr taken on Jan Inv but not accrued in Jan COG	$	(160,436.76)	
C-FT - BH - #46715 - record [redacted] 11/05,12/05, and 1/06 demand credits	$	(412,542.00)	
D-FT - A 60542- [redacted] 11/05 demand-Billed and Pd in Nov but not accrued in COG	$	77,176.40	
E-Dmd Cr for 11/05-Billed in Nov, Pd in past due amt in Dec, but not accrued in COG	$	(77,176.40)	
F-FT-24706- [redacted] 11/05 payment for Non-discounted Point Charge-Billed in Nov,Pd in past due amt in Dec but not accrued in COG	$	67,513.00	
G-FT - A 237 - credit [redacted] 11/05 for difference is amt. due vs. paid-remove from demand (s/b commodity)	$	(307.99)	a

Misc Commodity Adjustments

[redacted] - commodity charges K# 3650-pd in **April,** accrued in **March**	**$**	**3,846.27**	
[redacted] - [redacted] Storage FTS commodity -pd in **April,** accrued in **May**		**(2,929.91)**	
I-[redacted] - wd comm.chgs.reversed/credits applied above for swing on storage 11/05 - 2/06	$	(73,930.23)	
H-[redacted] - 12/05 commodity on injections originally accrued to [redacted]	$	5,027.33	
Credit Accrued above in April should have been in commodity (pd as commodity)	**$**	**307.99**	3
Credit taken on [redacted] bill in April but not accrued for in COG	**$**	**(9,663.40)**	4

Total Demand Accrued	$	212,884.25	2
Total Commodity Accrued	$	11,147,491.65	1
TOTAL	$	11,360,375.90	

ATTACHMENT

4

6/06 - 37

7C

NASHVILLE GAS COMPANY
COST OF GAS - JUNE ESTIMATE
JUNE 30, 2006

	DTS	AMOUNT	RATE	
FT - A 60084 - Demand/Reservation - payable [redacted]		384,898.13	agrees to [redacted] summaries	
		0.00		
Guarantee Fee - Payable [redacted] - overpayment to Piedmont for asset mgmnt.		12,081.80		
		0.00		
		0.00		
		0.00		
		0.00		
		0.00		
FT - BH - #40715 - Dem./Reserv. 81,900 dts & Assign.Cr. 65,000 dts - credit [redacted]		(92,477.28)		
FT - BH - #40716 Demand $.072 TGP, $.0224/30 days GCS payable [redacted]		137,814.80		
Space/Delivery Charge - MA 8815 and PA 2408 - payable [redacted]		141,378.31		
		847,259.03		
[redacted] TCD - FSS DEMAND - #30017 - payable [redacted]		18,800.00		
[redacted] TCD - SST DEMAND (5,000 * $5.7710) - payable [redacted]		28,855.00		
[redacted] - TCD - FSSCP DEMAND - #30017 - payable [redacted]		17,821.88		
[redacted] Storage Boro Gas Gale - payable [redacted]		0.00		
[redacted] FT61 #43462 and #70012 - payable [redacted]		30,198.15	adjust as billed	
		0.00		
		[illegible]		
[redacted] Demand 10,000 @ $12.4700		0.00	Dts and $ per GCS calcs - no June 2006 bill in Estimate Close	
[redacted] - K# 880859		6,100.83	Added $12.74 in 6/06 Estimate for 5/06 accrual/billing differences.	
[redacted] O K# 810743 ($.0816)		0.00	ADJUST [redacted] DEMAND BY ($2.04) FOR DIFFERENCE	
[redacted] G Demand Chgs		52,600.00	BETWEEN ESTIMATED AMT. $142.74 AND ACTUAL (BILLED) $140.70.	
YELLOW - 100 LEG volumes		58,700.83		
GREEN - 500 LEG volumes				
DEMAND SUBTOTAL		757,631.87		
PINK - 800 LEG volumes				
PURCHASES:				
[redacted] - Imbalance Cash Out - 3850 LMGMA - revision May 2006 production	8	(18.24)	#DIV/0!	Dts per GCS, $ per [redacted] billed 520 dts)
		0.00		
[redacted] O - Swing on Storage - amount due pipeline - June 2006		8,332.46		
		0.00		
		0.00		
		0.00		
		0.00		
		0.00		
		0.00		
		0.00		
[redacted] - commodity charges K# 3858		0.00		
[redacted] commodity charges - storage withdrawals		1,180.83		
[redacted] commodity charges - baseload		37,318.88		
[redacted] cashout for April '06 production billed in May 2006		(8,992.88)	Accrued credit of ($5,002.89) billed later in May 2006.	
[redacted] - cashout for May '06 production - data from 6/06 invoice provided for two purposes		(579.67)	WE BILL [illegible]	
		0.00	IN ACTUAL BY $(1,159.34) BILL RECVD BY FAX 7/26	
[redacted] - commodity charges - swing		0.00		
[redacted] - TN 800 Leg	114,190	676,743.78	5.9219	
[redacted] - TN 100 Leg - Pool	56,957	338,682.31	5.7800	
[redacted] - TN 800 Leg - Pool	[illegible]	388,178.18	5.8200	
[redacted] N 8)		438,198.76	5.8100	$1,123,938.26
		0.00	#DIV/0!	103,724
[redacted] - 100 LE(		744,090.18	5.7425	
		0.00		
		0.00		
PF vation -		3,338.38		
		0.00		
		0.00		
[redacted] L - TN 10		845,287.04	5.9040	
[redacted] K INJ		0.00	#DIV/0!	
[redacted] INJ		0.00	#DIV/0!	
[redacted] NJ		0.00	#DIV/0!	0
[redacted]		0.00		$0.00
[redacted]		8,018.58		
[redacted]		498,178.31	6.1770	
[redacted] ble		812,518.84	5.9208	
		0.00		
		0.00		
[redacted] Injection		0.00		
[redacted] Injection		0.00		
[redacted] Injection		0.00		
		0.00		
[redacted] INJ		81,393.83	5.9048	
[redacted] INJ		310,411.22	5.9105	
[redacted] K INJ		81,822.14	5.9211	48,187
[redacted] -		17,083.88		$283,788.89
[redacted] EK INJ		816,188.18	5.9043	
[redacted] INJ		489,808.18	5.9701	
[redacted] EK INJ		841,284.82	5.9212	388,740
[redacted] - TET		5,872.88	5.9107	$1,188,888.24
[redacted] INJ		114,580.44	5.9034	
[redacted] INJ		148,423.30	5.9202	
[redacted] K INJ		128,318.80	5.9231	54,132
[redacted] H -		3,871.81		$378,338.80
GAS PURCHASED	211	1,358.71	6.4441	
				$3,887,418.84
TOTAL COMMODITY PURCHASES	1,187,800	6,958,003.84	5.8577	
A/P ACCRUAL		7,715,835.71		
LESS AMOUNTS ACCRUED VIA 62K		(1,358.71)		
NET 17A ACCRUAL		7,714,477.00		

1

-Supplier pd correctly
-NOT adjusted in accrual
should be → 579.67-
underaccrued by
x2 = $1,159.34

2

G:\GasAccounting\JOHNSKI\COG\cog2006\cog0606estimate posted

ATTACHMENT

5

Transportation Billing (LONG)

Commodity		$	16,117.94 E1a
	Total Invoice	**$**	**16,117.94**

Total Demand per AP Invoices	$	775,116.40
Total Commodity per AP Invoices	$	8,389,593.06
TOTAL	$	9,164,709.46

Misc Demand Adjustments

Misc Commodity Adjustments

[redacted] - AP accrual for April and June 2006 payments	235,160.00 - C2d
[redacted] - AP accrual for 2006 winter period	3,194,812.86 - C2c
[redacted] - AP accrual for 2006 winter period	397,577.38 - C2b
[redacted] - AP accrual for 2006 winter period	(1,760,176.03) - C2a

Total Demand Accrued	$	775,116.40 - a
Total Commodity Accrued	$	10,456,967.27 - b
TOTAL	$	11,232,083.67

Tennessee

		[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	TN Total	Mo activity	end bal	Total Company	Gen Ledger Balance	Difference	
Balance Forward			31,151,473.50				26,154,875.01	25,791,974.51	(364,900.78)	164,082,581.49	163,711,383.11	(371,198.38)	
July 2006	Adjustment - Est to Actual												
	Payments	[illegible]	(6,987,228.76)		(744,090.10)		(7,801,716.75) ok		6,717,772.12				
	Misc Adjustments		1,230.00				(1,502.42)						
	Demand	[illegible]	769,317.17	(82,462.27)			749,353.45	6,217,711.98 DIP					
	Commodity		7,392,565.60	(7,505.64)			7,920,248.48	5,301,151.61 GL activity - TN					
	Transportation		49,685.61				49,685.61	916,560.37	6,935,032.81	58,295,763.20	57,925,487.50	(370,275.70)	
							0.00						
August 2006	Adjustment - Est to Actual		793,475.34				793,475.34						
	Payments	[illegible]	(7,631,200.40)		(1,892,117.85)		(9,585,020.16)			(63,316,454.27)			
	Misc Adjustments						-						
	Demand	[illegible]	769,347.17	(82,462.27)			749,412.67						
	Commodity		5,995,409.41	3,565.67	2,287,097.39		8,297,210.23						
	Transportation		29,114.00				29,110.09	278,187.88	7,213,220.69	79,694,120.93	79,322,944.83	(371,176.10)	
							0.00						
September 2006	Adjustment - Est to Actual												
	Payments	[illegible]	(6,791,299.57)		(2,287,097.39)		(9,151,845.73)			(84,394,547.24)			
	Misc Adjustments						-						
	Demand	[illegible]	769,358.40	(82,477.20)			751,143.25						
	Commodity		6,502,475.92	2,142.70	2,109,659.25		8,618,029.32						
	Transportation		37,595.31				37,595.31	254,922.13	7,468,142.82	53,759,534.43	53,388,358.33	(371,176.10)	
							0.00						
October 2006	Adjustment - Est to Actual						497.38						
	Payments	[illegible]	(7,309,429.98)		(2,109,659.25)		(9,455,744.34)			(60,044,756.03)			
	* Misc Adjustments		A/ (1,768,176.83) a	A/ 397,977.58 b	A/ 3,194,812.06 c	A/ 235,160.00 d	5,176,680.65						
	Demand		798,201.97	(82,477.20)			772,306.03						
	Commodity		7,213,611.48	(268,329.00)	1,313,009.81		8,267,031.39						
	Transportation		96,317.50	16,816.10			112,933.60	4,843,478.71	12,314,611.53	61,688,075.41	61,316,899.31	(371,176.10)	58,710,050.58
								[redacted]					
			14,887,699.28	(414,324.68)	3,422,669.06	0.00	21,797,365.87						
	C/M accrual		7,309,429.63	(80,334.50)	2,109,659.25	8.00	9,406,767.88		58,710,050.37				
			[redacted]				(12,390,597.99)						
							[redacted]	(3,490,118.53)					

Misc adjustment of A/P.
True up to TN G/L A/P balance.

A/ 10/06 - 3

G:\GasAccounting\GASACC\RECONCILIATIONS\#23217 AP Reconc 2007

A/P ② 10/2/2007

10/06-4

ATTACHMENT

6

C

Piedmont Natural Gas Company
ACA Audit-AP Invoices
DECEMBER 31, 2006

[redacted]			
Demand			
Commodity		$ 1,260,531.20	1a1
	Total Invoice	**$ 1,260,531.20**	
[redacted]			
Demand			
Commodity		$ 965,778.93	2a1
	Total Invoice	**$ 965,778.93**	
[redacted]			
Demand			
Commodity		$ 1,140,066.48	3a1
	Total Invoice	**$ 1,140,066.48**	
[redacted]			
Demand		$ 62,898.50	4a1
Commodity		$ 4,980.01	4a2
	Total Invoice	**$ 67,878.51**	
[redacted]			
Demand			
Commodity		$ 6,518,976.13	5a1
	Total Invoice	**$ 6,518,976.13**	
[redacted]			
Demand		$ 217,173.02	6a2
Commodity		$ 127,578.93	6a1
	Total Invoice	**$ 344,751.95**	
[redacted]			
Demand			
Commodity		$ 3,435,761.93	7a1
	Total Invoice	**$ 3,435,761.93**	
[redacted]			
Demand		$ 52,600.00	8a1
Commodity			
	Total Invoice	**$ 52,600.00**	
[redacted]			
Demand			
Commodity		$ 56,094.18	9a1
	Total Invoice	**$ 56,094.18**	
[redacted]			
Demand		$ 50,372.00	10a1
Commodity		$ 5,817.14	10e1
	Total Invoice	**$ 56,189.14**	
[redacted]			
Demand			
Commodity		$ 880,080.92	11a1
	Total Invoice	**$ 880,080.92**	
[redacted]			
Demand			
Commodity		$ 2,857,649.92	12a1
	Total Invoice	**$ 2,857,649.92**	

Kim Johnston/Rates/PNG
Sent by: Kim Johnst

01/15/2007 12:09 PM

To [redacted]

cc Margaret Lauder/Audit/PNG@PNG, Scott Searcy/GS/PNG@PNG, Sarah Stabley/GS/PNG@PNG, Nancy Hitchins/FIN/PNG@PNG

bcc

Subject Re: December Invoice

12/06-60

84

10e

CONFIDENTIAL

Andrew,

We will wait to process storage charges related to November and December 2006 until volumes and dollars have been communicated and agreed upon wi [redacted]. At this time, payment will be based on demand charges for December 2006 only.

Please let me know, if you are in agreement.

Thanks,

Kim

[redacted]

12/06-61

1,615.00 - 10f1

4,202.14 - 10g1

12/06-62

c

$ [redacted]

1

[redacted]

01/12/2007 04:13 PM

To <Kim.Johnston@piedmontng.com>

cc

Subject December Invoice

Kim,
I'm sending over the December invoice to you to begin your review. Scott has asked that we change the format and re-invoice November which I am working on but I have to get with Wes in Mid-office to work all of that out. Once we have everything I will send over the final invoice, which also include the storage balances on them. As always let me know if there are any questions or if you need additional information.

Thanks,

[redacted]

[redacted]

ATTACHMENT

7

Tariff to S2k Rate Conversion

Tariff			S2k
301	Residential Value		311
321	Residential Standard		313
302	Small General Standard		321
332	Small General Value 1st 2000		332
352	Medium General Standard		352
362	Medium General Value 1st 5000		366
303	Firm Industrial	Peak	331
304	Interruptible Industrial		341
313	Firm Transportation	Peak	371
314	Interruptible Transportation		372
310	ReSale Service/SMYRNA		381
	Rate 365 - Off System Sales		365
	Rate 361- Emergency gas		361
	Rate 360 - Transportation Shorts/Longs		360

ATTACHMENT

8

THE OFFICE OF REGULATORY STAFF

SETTLEMENT TESTIMONY

OF

Carey M. Flynt

November 9, 2007

DOCKET NO. 2007-4-G

Annual Review of Purchased Gas Adjustment and Gas Purchasing Policies of Piedmont Natural Gas, Inc.

SETTLEMENT TESTIMONY OF CAREY M. FLYNT
ON BEHALF OF
THE SOUTH CAROLINA OFFICE OF REGULATORY STAFF
DOCKET NO. 2007-4-G

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION.

A. My name is Carey M. Flynt. My business address is 1441 Main Street, Suite 300, Columbia, South Carolina 29201. I am employed by the State of South Carolina as Manager of the Gas Department for the Office of Regulatory Staff ("ORS").

Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A. I received a Bachelor of Science Degree in Business Administration, with a major in Accounting from the University of South Carolina in Columbia in 1975. I was employed at that time in the electric and gas utility industry and gained twenty five years experience in this field. In October 2004, I began my employment with ORS. I have testified on numerous occasions before the Public Service Commission of South Carolina ("Commission") in conjunction with natural gas issues.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

The purpose of my testimony is to address the settlement agreement made by and among the Office of Regulatory Staff of South Carolina ("ORS") and Piedmont Natural Gas Company, Inc. ("Piedmont" or "Company") (collectively referred to as the "Parties" or sometimes individually as a "Party").

Q. PLEASE ADDRESS THE MAJOR COMPONENTS.

A. ORS found that (i) Piedmont's gas purchasing policies and practices during the Review Period were reasonable and prudent; (ii) Piedmont properly adhered to the gas cost recovery provisions of its gas tariff during the Review Period; and (iii) Piedmont managed its hedging program during the Review Period in a reasonable and prudent manner.

However, the Parties further agree that: (i) Piedmont experienced significant issues with some aspects of the accounting and reporting of its gas costs during the Review Period; (ii) these issues resulted in numerous ORS adjustments including, but not limited to, the Company's commodity true-up, inventory accountability and deferred account-hedging program; (iii) several issues relating to the accounting entries applicable to the Company's commodity true-up calculation and inventory levels remain unresolved and, as a result, ORS is unable to verify the end-of-period balance in deferred account #253.04 and (iv) in order to address the unresolved accounting issues relating to Piedmont's commodity true-up and inventory levels and to permit a final accounting of Piedmont's deferred account 253.04, Piedmont agrees to provide revised and updated data to ORS for its review by not later than January 7, 2008.

The Parties further agree that a report regarding the aforesaid verification and recommended adjustment(s) to the deferred account will be made and reported to the Commission by the Parties no later than February 15, 2008.

Piedmont also agrees to exercise its best efforts to continue to correct deficiencies in its accounting and reporting practices to conform with requirements of the Commission, as stated in previous Orders of the Commission.

In addition, Piedmont further agrees to begin filing monthly hedging reports beginning with the report for the month of November 2007 for a period of one year or until otherwise adjusted by mutual agreement of the Parties or by Order of the Commission in the next annual review.

Piedmont additionally agrees to report back to the Commission on the results of their actions in restructuring their accounting practices and procedures on or before February 15, 2008.

Although there were several problems with certain of Piedmont's accounting and financial controls during the review period, ORS believes that Piedmont is making a good faith effort to correct these shortcomings and should therefore be permitted the additional time addressed in the settlement agreement to attempt to finalize their corrective actions. ORS does not believe that it would serve the interests of any of the parties or Piedmont's customers to impede the Company's progress to correct problems identified by ORS and the Company itself.

Taking into consideration the above statements, ORS has determined that the public interest and Piedmont has determined that their interests would be best served by reaching this settlement agreement.

I respectfully request that the Commission approve this settlement agreement in its entirety.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.

BEFORE

THE PUBLIC SERVICE COMMISSION

OF SOUTH CAROLINA

DOCKET NO. 2007-4-G

IN RE:

Annual Review of Purchased Gas Adjustment and Gas Purchasing Policies of Piedmont Natural Gas Company, Incorporated	)))))	**CERTIFICATE OF SERVICE**

This is to certify that I, Chrystal L. Morgan, have this date served one (1) copy of the **SETTLEMENT TESTIMONY** in the above-referenced matter to the person(s) named below by causing said copy to be deposited in the United States Postal Service, first class postage prepaid and affixed thereto, and addressed as shown below:

David Carpenter
Tom Skains
Piedmont Natural Gas Company
PO Box 33068
Charlotte, NC 28233

James H. Jeffries IV, Esquire
Moore & Van Allen PLLC
Bank of America Corp Center
100 North Tryon Street, Ste 4700
Charlotte, NC 28202-4003

Chrystal L. Morgan
Chrystal L. Morgan

November 9, 2007
Columbia, South Carolina

ATTACHMENT

9

STOCK NEWS

More News: Top Stories · Stock Alerts · All Trading News

State: Piedmont Gas too sloppy: Regulators say errors repeatedly found in company's accounting

Tuesday, November 20, 2007; Posted: 05:12 AM

Nov 20, 2007 (The Charlotte Observer - McClatchy-Tribune Information Services via COMTEX) -- PNY | charts | news | PowerRating -- State regulators are complaining that Piedmont Natural Gas Co. routinely submits reports with accounting errors that if left unchecked could hurt ratepayers and the company's bottom line.

The utility, with more than 1 million customers in the Carolinas and Tennessee, submits expense reports so it can work with regulators to set future gas rates. The N.C. Utilities Commission's public staff, which looks out for consumers, reviews the figures annually and suggests rates.

In the latest example, the Charlotte-based utility reported business expenses for an annual rate review in May that were off by more than $16 million -- in favor of ratepayers, said Jim Hoard, assistant director of the accounting division for the public staff. "They were hurting themselves."

The completed rate review with corrected figures took months and was submitted Nov. 5 for the seven-member commission to review. It approved the new rates Monday that will increase the average N.C. residential bill by about $14 a year, starting next month.

Piedmont spokesman David Trusty said the company was improving and that buying natural gas has become much more complex since prices began fluctuating unpredictably several years ago.

Hoard said that sometimes the accounting errors appear to work to the advantage of the company's bottom line and sometimes to the advantage of consumers. "They're making lots of mistakes," he said.

He said that other companies, such as Gastonia-based PSNC Energy, aren't having the same troubles. He said the errors started popping up after Piedmont bought ENCNG from Progress Energy in 2003.

Hoard's division has told Piedmont it needs to improve its accounting performance because the extra months it takes to review the records is sapping resources, he said.

Bob Willett, publisher of Natural Gas and Electricity magazine, said that he had never heard of such an accounting issue. He said consistent errors could signal "reliability" issues with how the company is being run. In the business world, errors of more than 5 percent of a company's net income are considered serious, he said. Piedmont's annual net income has hovered around $100 million.

Trusty said the company has been working with the state to better provide the correct information in the proper timeframe. Since hurricanes Katrina and Rita disrupted natural gas supply lines more than two years ago and sent rates skyrocketing, wholesale gas prices have been unpredictable, he said. And regulated companies, like Piedmont, have been increasingly required by state regulators to place hedges on buying natural gas, he said.

"Accounting for the costs of gas are much more complex than they used to be," Trusty said. "Changes took place very rapidly."

For the annual review in May, Piedmont at first said it needed to collect an extra $20.3 million from N.C. customers to cover the cost of buying natural gas over the previous year. The correct figure turned out to be $30.3 million, Hoard said. The company also said it needed to refund about $22.2 million it overcharged customers for the cost of transporting and storing the gas. The correct figure was about $15.5 million, Hoard said.

The company is not allowed to make a profit on the natural gas it supplies and passes on 100 percent of the wholesale price to customers. That accounts for 65 percent to 75 percent of a monthly bill. The company profits from delivering the gas to customers.

BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE

RECEIVED
2008 JUN 10 PM 1:09
T.R.A. DOCKET ROOM

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

Audit Staff of the Tennessee Regulatory Authority ("Audit Staff") and Piedmont Natural Gas Company, Inc. ("Piedmont" or the "Company"), through counsel, respectfully submit this Joint Final Report on Piedmont's Actual Cost Adjustment ("ACA") account for the twelve months ended December 31, 2006 ("Review Period"). This Joint Report resolves all pending issues between Audit Staff and Piedmont in this proceeding and sets forth, in Attachments 1 and 2 hereto, the final agreed ACA Account Summary for the twelve-month period ended December 31, 2006 and a Summary of Adjustments to the ACA account balance reflected in Audit Staff's April 3, 2008 Compliance Audit Report filing ("Compliance Report") in this proceeding. Piedmont and Audit Staff respectfully request that the Tennessee Regulatory Authority ("Authority") accept and approve this Joint Final Report as the final accounting of Piedmont's ACA account for the Review Period. In support of this request, Audit Staff and Piedmont respectfully show unto the Authority as follows:

1. On April 3, 2008, Audit Staff issued its initial Compliance Report in this proceeding in which it recommended Review Period adjustments to Piedmont's ACA account of ($4,730,021.97). In its Compliance Report, Audit Staff also reflected substantial dissatisfaction with the methodology Piedmont used to record its gas costs during the Review Period, which Audit Staff characterized as a continuing problem with the Company's reporting of its gas costs.

Exhibit B

2. In its Compliance Report, Audit Staff also reflected Piedmont's response to Audit Staff's findings and proposed ACA account adjustments. Those responses included agreement by Piedmont with the majority of Audit Staff's proposed adjustments but disagreement with a smaller number of proposed adjustments. In its response, Piedmont also disputed that it had recorded estimated rather than actual costs in its ACA account for the Review Period.

3. The Compliance Report contained Audit Staff's rebuttal of Piedmont's response. This rebuttal demonstrated substantial ongoing disagreement between the Company and Audit Staff with respect to Piedmont's Review Period reporting of gas costs and the proper ending balance in Piedmont's ACA account.

4. On April 8, 2008, the Authority Advisory Staff issued a data request to Piedmont asking the Company to respond to the matters set forth in Audit Staff's rebuttal.

5. On April 18, 2008, at the request of Piedmont and with the consent of Audit Staff, the Authority extended the time in which Piedmont was required to respond to Audit Staff's rebuttal and also extended the time by which the audit process must be completed. Piedmont's request for extension of time indicated that it believed that further discussions between Audit Staff and the Company could help narrow or eliminate disputed reporting issues and that Audit Staff had agreed to participate in such discussions. Piedmont's request also indicated the Company's belief that Audit Staff and Piedmont accounting personnel had been "talking past each other" with regard to the Company's regulatory reporting.

6. Following the Authority's approval of the requested extension, Piedmont and Audit Staff met to discuss Audit Staff's findings and proposed adjustments to Piedmont's ACA account and the issue of Audit Staff's dissatisfaction with Piedmont's regulatory reporting. Piedmont also provided additional information and documentation to Audit Staff (at this meeting and afterwards) regarding several of Audit Staff's adjustments.

7. This process was fruitful and resulted in the Company understanding the manner in which Audit Staff requires ACA account gas costs to be reported. This process also resulted in several agreed modifications to Audit Staff's Compliance Report ACA account adjustments

based on the provision of additional information by Piedmont and further review of that information by Audit Staff.

8. The modifications to Audit Staff's Compliance Report adjustments agreed to by Piedmont and Audit Staff as a result of this process are detailed on the schedule attached hereto as Attachment 1. The cumulative adjustments to Piedmont's Review Period ACA account agreed to by Piedmont and Audit Staff are shown on the schedule attached hereto as Attachment 2.

9. The agreements between Piedmont and Audit Staff reflected herein resolve all monetary matters in dispute between the parties with respect to Piedmont's ACA account for the twelve months ended December 31, 2006.

10. Based on the foregoing, Audit Staff and Piedmont respectfully request that the Authority accept the final agreed balance of Piedmont's Review Period ACA account as reflected herein and on Attachments 1 and 2 appended hereto as an amendment to the findings of the April 3, 2008 Compliance Report.

WHEREFORE, for the reasons set forth above, Audit Staff and Piedmont respectfully request that the Authority issue an order approving the Compliance Report, as amended herein, with the agreed upon balance of Piedmont's ACA account at December 31, 2006 reflected herein and in Attachments 1 and 2 hereto.

Respectfully submitted, this the 10 th day of June, 2008.

Tennessee Regulatory Authority Audit Staff

Rebecca S. Montgomery

Piedmont Natural Gas Company, Inc.

James H. Jeffries IV (RSM by permission)

Piedmont Natural Gas
ACA Audit Results
January 2006 - December 2006
Docket No. 07-00174

Summary of Adjustments Resulting from Additional Documentation Supplied by Company

	Amount	Reference
Total Findings Issued by Audit Staff	(4,730,021.97)	Audit Report (April 3, 2008), page 7.
Adjustments Agreed to by Audit Staff:		
December 2006 Columbia invoice - Commodity	1,725.01	Finding #1, page 14. Company documentation number 32.
December 2006 Columbia invoice - Demand	31,449.50	Finding #12, page 28. Company documentation number 32.
October 2006 AP Adjustments for Nov./ Dec. 2005		
Merril Lynch Invoice	45,837.45	Finding #1, page 14. Company documentation number 15.
Coral Invoice	1,302,695.02	Finding #1, page 14. Company documentation number 15.
El Paso Invoice	(540,241.96)	Finding #1, page 14. Company documentation number 15.
El Paso Invoice	160,436.76	Finding #12, page 27.
El Paso Invoice	412,542.00	Finding #12, page 27.
Interest Effect of Above Adjustments	103,347.56	Finding #16, page 32. Staff recalculation of interest.
Subtotal of Adjustments made by Audit Staff	1,517,791.34	
Restated Audit Findings	(3,212,230.63)	
Audit Adjustments Requested by Company:		
Company Documentation No. 32	33,174.51	
Company Documentation No. 15	1,775,539.40	
Company Documentation No. 21, 24, 25	39,769.96	
Company Documentation No. 20	-	
	1,848,483.87	
Adjustments Accepted by Audit Staff	1,517,791.34	
Difference	(330,692.53)	

ATTACHMENT 1

Piedmont Natural Gas
ACA Audit
Docket No. 07-00174

Summary of the ACA Account:

	Company Filing	Staff	Difference (Findings)
Commodity Balance at 1/1/06	-18,934,743.47	-18,934,743.47	$0.00
Plus Gas Costs	184,410,960.47	182,432,346.61	-1,978,613.86
Minus Recoveries	162,472,648.03	162,440,217.86	-32,430.17
Ending Balance before Interest	$3,003,568.97	$1,057,385.28	-1,946,183.69
Plus Interest	-283,922.05	-320,578.05	-36,656.00
Commodity Balance at 12/31/06	$2,719,646.92	$736,807.23	-$1,982,839.69
Demand Balance at 1/1/06	$3,981,917.83	$3,981,917.83	$0.00
Plus Gas Costs	8,755,212.87	7,556,711.57	-1,198,501.30
Minus Recoveries	8,129,471.48	8,129,471.48	0
Ending Balance before Interest	$4,607,659.22	$3,409,157.92	-1,198,501.30
Plus Interest	355,658.11	324,768.47	-30,889.64
Demand Balance at 12/31/06	$4,963,317.33	$3,733,926.39	-$1,229,390.94
Total ACA Ending Balance at 12/31/06	$7,682,964.25	$4,470,733.63	-$3,212,230.62

ATTACHMENT 2

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.