

BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

July 14, 2015

IN RE:

**AUDIT OF PIEDMONT NATURAL GAS
COMPANY'S WEATHER NORMALIZATION
ADJUSTMENT FOR THE PERIOD OCTOBER 1,
2014 TO APRIL 30, 2015**

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**DOCKET NO.
15-00063**

**ORDER ADOPTING WNA AUDIT REPORT OF THE UTILITIES DIVISION
OF THE TENNESSEE REGULATORY AUTHORITY**

This matter came before Chairman Herbert H. Hilliard, Vice Chairman David F. Jones and Director James M. Allison of the Tennessee Regulatory Authority (the "Authority" or "TRA"), the voting panel assigned to this docket, at a regularly scheduled Authority Conference held on June 29, 2015, for consideration of the Weather Normalization Adjustment Audit Report ("Audit Report") of the Authority's Utilities Division (the "Staff") resulting from the Staff's audit of Piedmont Natural Gas Company's ("PNG" or the "Company") Weather Normalization Adjustment ("WNA") for the period October 1, 2014 through April 30, 2015. The Audit Report, which was filed on June 12, 2015, is attached hereto as Exhibit 1 and incorporated by reference in this Order.

The Audit Report contained one finding. The Company used incorrect actual heating degree days for two days in the period, which resulted in customers being over-billed by \$3,708. The Staff recommended that the net over-recovery be included in the Company's next Actual Cost Adjustment ("ACA") filing with the Authority. PNG concurred with the

finding and recommendation. Except for the finding noted, the Staff concluded that it appears PNG is correctly implementing the mechanics of its WNA Rider in all material aspects.


At the regularly scheduled Authority Conference held on June 29, 2015, the panel considered the Audit Report and voted unanimously to approve the findings and recommendations contained therein.

IT IS THEREFORE ORDERED THAT:

1. The Audit Report, a copy of which is attached to this Order as Exhibit 1, is approved and adopted and incorporated in this Order as if fully rewritten herein.
2. Piedmont Natural Gas Company shall include the over-collected amount in its next Actual Cost Adjustment filing with the TRA.

Chairman Herbert H. Hilliard, Vice Chairman David F. Jones and Director James M. Allison concur.

ATTEST:



Earl R. Taylor, Executive Director

EXHIBIT 1

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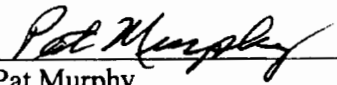
June 12, 2015

Docket No. 15-00063

1. The present docket was opened by the Authority to hear matters arising out of the audit of Piedmont Natural Gas (the “Company”).
2. The Company’s WNA filings were received October 1, 2014, through April 30, 2015, and the Staff completed its audit of same on June 5, 2015.
3. On June 8, 2015, the Utilities Division submitted its preliminary WNA audit findings to the Company via e-mail. The Company responded on June 11, 2015 via e-mail and this response has been incorporated into the final report. The Report is attached to this Notice as Exhibit A and is fully incorporated herein by this reference.

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

Respectfully Submitted:


Pat Murphy
Utilities Division
Tennessee Regulatory Authority

CERTIFICATE OF SERVICE

I hereby certify that on this 12th day of June 2015, 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:

Earl Taylor
Executive Director
Tennessee Regulatory Authority
502 Deaderick Street
Nashville, TN 37243

Herbert H. Hilliard
Chairman
Tennessee Regulatory Authority
502 Deaderick Street
Nashville, TN 37243

David R. Carpenter
Director – Regulatory Affairs
Piedmont Natural Gas Company
P.O. Box 33068
Charlotte, North Carolina 28233

Pia Powers
Manager – Regulatory Affairs
Piedmont Natural Gas Company
P.O. Box 33068
Charlotte, North Carolina 28233

Wayne M. Irvin
Office of the Attorney General
Consumer Advocate and Protection Division
P.O. Box 20207
Nashville, TN 37202-0207

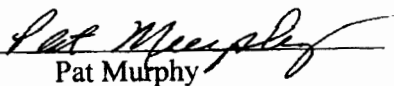

Pat Murphy

EXHIBIT A

COMPLIANCE AUDIT REPORT

OF

PIEDMONT NATURAL GAS

WEATHER NORMALIZATION ADJUSTMENT (WNA) RIDER

DOCKET NO. 15-00063

TENNESSEE REGULATORY AUTHORITY

UTILITIES DIVISION

June 2015

COMPLIANCE AUDIT OF
Piedmont Natural Gas
WEATHER NORMALIZATION ADJUSTMENT (WNA) RIDER
Docket No. 15-00063

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COMPLIANCE AUDIT
PIEDMONT NATURAL GAS
WEATHER NORMALIZATION ADJUSTMENT (WNA) RIDER
Docket No. 15-00063

I. INTRODUCTION AND AUDIT OPINION

The subject of this compliance audit is the Weather Normalization Adjustment (WNA) Rider of Piedmont Natural Gas (hereafter "PNG," "Piedmont" or the "Company"). The objective of this audit was to determine if the WNA adjustments were calculated correctly and applied to customers' bills appropriately between October 1, 2014 and April 30, 2015. As a result of the WNA Rider, the Company refunded a net \$2,954,384 and \$1,522,140 to the residential and commercial customers respectively, during the period. The impact of WNA revenues on the Company's total revenues is detailed in Section V, Table 1.

The Audit Staff's ("Staff") audit results produced one finding for the audit period under review. Except for the finding reported in Section VI, Staff concludes that the Company is correctly implementing the mechanics of the WNA Rider as specified by the Tennessee Regulatory Authority ("TRA" or the "Authority") and included in the Company's tariff. (See Attachment 2)

II. SCOPE OF AUDIT

In meeting the objective of the audit, the Staff compared the following on a daily basis:

- (1) The Company's actual heating degree days (ADD) to National Oceanic and Atmospheric Administration ("NOAA") actual heating degree days;
- (2) The Company's normal heating degree days (NDD) to the normal heating degree days calculated in the last rate case; and
- (3) The Company's calculation of the WNA factor to Staff's calculation.

Staff also selected a sample of customer bills to verify that the WNA factor had been correctly applied to customer bills. The Staff also examined each sample bill to determine whether the Base Rates and Purchased Gas Adjustments were billed correctly. As a result of the bill audit, Staff maintains PNG is correctly billing its customers.

Pat Murphy, Daniel Ray and Patsy Fulton of the Utilities Division conducted this audit.

III. BACKGROUND INFORMATION ON PIEDMONT NATURAL GAS

Piedmont Natural Gas Company corporate headquarters are located at 4720 Piedmont Row Drive, Charlotte, North Carolina. Local offices are located at 665 Mainstream Drive, Nashville, Tennessee. PNG is a natural gas distributor that provides service to Nashville and several other communities in the Middle Tennessee area, as well as service areas in North and South Carolina. The natural gas used to serve Tennessee is purchased from producers and marketers and transported to Nashville'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 (MGTC).

IV. BACKGROUND ON WEATHER NORMALIZATION ADJUSTMENT (WNA) RIDER

In setting rates, the Tennessee Regulatory Authority uses a normalized level of revenues and expenses for a test year, which is designed to be the most reasonable estimate of the Company's operations during the time the rates are to be in effect. Use of normalized operating levels eliminates unusual fluctuations that may occur during the test period, which causes rates to be set too high or too low.

Specifically, one part of normalizing revenues consists of either increasing or decreasing the test year weather related sales volumes to reflect the difference between the normal and actual heating degree days. (A heating degree day is calculated as the difference in the average daily temperature and 65 degrees Fahrenheit.) This average daily temperature constitutes normal weather and is determined based on the previous thirty years' weather data.¹

Normal weather rarely occurs. This has two impacts:

- (1) The customers' bills fluctuate dramatically due to changes in weather from month to month; and
- (2) The gas companies earn more or less than their authorized rate of return. For example, if weather is colder than normal, then more gas than anticipated in the rate case will be sold. This results in higher customer bills and over-earnings for the company. On the other hand, if weather is warmer than normal, less gas than anticipated in the rate case will be sold, the customers' bills will be lower and the company will under-earn.

In recognition of this fact, on September 26, 1991, the Tennessee Public Service Commission² ("TPSC") approved a three-year experimental Weather Normalization Adjustment Rider ("WNA Rider") to the tariffs of Chattanooga Gas Company, Nashville

¹ Weather data is published monthly by the National Oceanic and Atmospheric Administration ("NOAA").

² By legislative action, the Public Service Commission was replaced on July 1, 1996 by the Tennessee Regulatory Authority. See Act of May 24, 1995, ch. 305, 1995 Tenn. Pub. Acts 450. The TRA retains jurisdiction over the above named gas companies. See Tenn. Code Ann. § 65-4-104: see also Tenn. Code Ann. § 65-4-101 (a) (defining public utility).

Gas Company, a division of Piedmont Natural Gas Company, Inc. and United Cities Gas Company.³ In periods of weather colder than normal, the customer receives a credit on his bill, while in periods of warmer than normal weather, the customer is billed a surcharge. Thus, customers' monthly bills should not fluctuate as dramatically and the gas company should have a more stable rate of return. The WNA Rider was to be applied to residential and commercial customers' bills during the months of October through May of each year. On June 21, 1994, the TPSC issued an Order authorizing the above mentioned gas companies to permanently implement an amended version of the WNA Rider.⁴

Piedmont Natural Gas was authorized to calculate WNA adjustments during the months of November through March of each year until its last rate case in Docket No. 11-00144 when the WNA period was extended to October through April effective March 1, 2012.⁵ The TRA Staff audits these calculations annually.

V. IMPACT OF WNA RIDER

The table below quantifies the number of actual heating degree days by month as compared to the normal heating degree days for that month. It shows that during the audit period, the weather (overall) was colder than normal, resulting in a net refund from PNG to its customers for the period. See also the graph (Attachment 1) which visually compares the actual heating degree days to normal heating for Piedmont during the 2014-2015 heating season.

Month	Actual Heating Degree Days	Normal Heating Degree Days	Warmer/Colder than Normal
September 2014	3	20	Warmer
October 2014	150	175	Warmer
November 2014	621	438	Colder
December 2014	671	742	Warmer
January 2015	840	826	Colder
February 2015	905	631	Colder
March 2015	441	447	Warmer
April 2015	114	197	Warmer
Total	3745	3476	Colder

³ See petition of Chattanooga Gas Company, Nashville Gas Company, a Division of Piedmont Natural Gas Company, Inc. and United Cities Gas Company for a Rulemaking Hearing to Adopt a Weather Normalization Adjustment (WNA) Rider, Docket No. 91-01712, Order (September 26, 1991).

⁴ The amendment directed Chattanooga Gas Company and United Cities Gas Company to eliminate from their WNA Rider the shoulder months of October and May, and Nashville Gas Company to eliminate the shoulder months of October, April and May.

⁵ See *In Re: Petition of Piedmont Natural Gas Company, Inc. for an Adjustment to Its Rates, Approval of Changes to its Rate Design, Amortization of Certain Deferred Assets, Approval of New Depreciation rates, Approval of Revised Tariffs and Service Regulations, and Approval of a New Energy Efficiency Program and GTI Funding*, Docket No. 11-00144, Order, p. 14.

Since the overall weather during the October 1, 2014 through April 30, 2015 period was colder than normal, the net impact of the WNA Rider was that residential and commercial customers were **refunded** \$2,954,384 and \$1,522,140 respectively. This equates to a decrease from total residential and commercial sales revenues of 2.4% and 2.2%, respectively (See Table 1). This is a decrease from the WNA refund in the previous year when the residential and commercial customers were **refunded** a net \$4,069,177 and \$1,992,197 respectively. Table 2 below compares the WNA surcharges/refunds over the last three (3) winter heating seasons.

Table 1

**Impact of WNA Rider on Residential & Commercial Revenues
October 1, 2014 - April 30, 2015**

	<u>WNA Rider Revenues</u>	<u>Total Revenues</u>	<u>Percentage Impact of WNA Rider on Revenue</u>
Residential Sales	(\$2,954,384)	\$123,383,562	-2.4%
Commercial Sales	<u>(1,522,140)</u>	<u>69,933,254</u>	<u>-2.2%</u>
Total	<u>(\$4,476,524)</u>	<u>\$193,316,816</u>	<u>-2.3%</u>

Table 2

**Amount Surcharged (Refunded)
2012 - 2015**

	<u>Residential</u>	<u>Commercial</u>	<u>Total Surcharge/Refund</u>
10/12-4/13	544,096	4,804,113	5,348,209
10/13-4/14	(4,069,177)	(1,992,197)	(6,061,374)
10/14-4/15	<u>(2,954,384)</u>	<u>(1,522,140)</u>	<u>(4,476,524)</u>
Total	<u>\$ (6,479,465)</u>	<u>\$ 1,289,776</u>	<u>\$ (5,189,689)</u>

VI. WNA FINDINGS

As noted in Section I of this report, Staff's audit resulted in one finding for the winter heating season of October 2014 through April 2015. This finding is described in detail below.

FINDING #1:

Exception:

The Company used incorrect actual heating degree days on April 22, 2015 and April 25, 2015 in its weather normalization calculations.

Discussion:

The Company used incorrect actual heating degree days for two (2) days in the period, which resulted in inaccurate WNA factors billed in four (4) billing cycles.

These inaccuracies are due to differences in daily heating degree days published in NOAA's Local Climatological Data report⁶ and the daily heating degree days that the Company used in calculating its WNA factors.⁷ In order to timely bill its customers, the Company must obtain actual degree day information from its weather information source(s) on a real time basis. The WNA Rider and the Staff's audit of this Rider are based on the official NOAA publication, which is released approximately two months later. Therefore, Staff recognizes that discrepancies can be caused by the Company's weather information source through no fault of the Company.

Date	Company Actual Degree Days	NOAA Actual Degree Days	Difference
4/22/2015	0	5	5
4/25/2015	13	0	-13
		Total	<u>-8</u>

The result of these errors was a total **net over-collection** of WNA revenues from customers of **\$3,708**.

⁶ This published report is the official data supplied by NOAA and is the standard that the Staff uses to audit the Weather Normalization Rider.

⁷ See Table below for detail of the differences.

Recommendation:

Since the dollar amount of this finding is immaterial on a per customer basis, Staff recommends including the under-collection in the Company's next Actual Cost Adjustment filing, rather than identifying and collecting from specific customers.

Company Response:

The Company supports Staff's recommendation that the over-collection amount of \$3,708 should be included in the Company's next Actual Cost Adjustment filing covering the period July 2014 through June 2015.

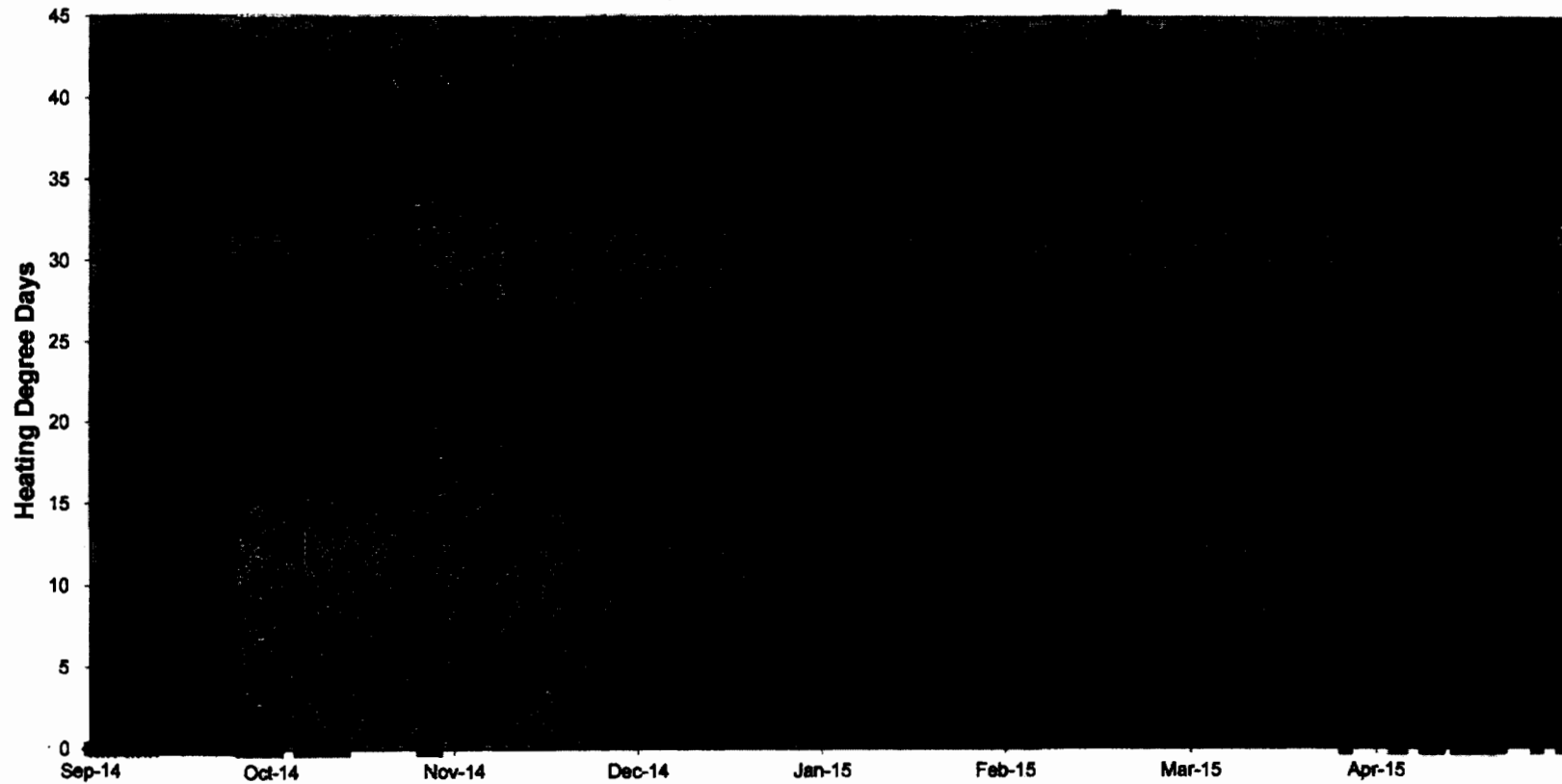
VII. CONCLUSIONS AND RECOMMENDATIONS

The Company has satisfactorily responded to the Audit Staff's Finding #1. As stated in Section I, except for the finding noted, Audit Staff concludes that it appears that PNG is correctly implementing the mechanics of its WNA Rider in all material aspects. Staff recommends that the Company include the \$3,708 over-collection in its next Actual Cost Adjustment filing with the TRA. Piedmont has agreed to do so.

Staff appreciates and thanks the Company's Staff for their cooperation during this audit process.

ATTACHMENT 1

**Piedmont Natural Gas Company
Comparison of Actual to Normal Heating Degree Days
Nashville Weather Station**



ATTACHMENT 2

SERVICE SCHEDULE NO. 315

Weather Normalization Adjustment

(WNA) Rider

I. Provision for Adjustment

The base rates per therm (100,000 Btu) for gas service set forth in any rate schedules utilized by the Authority in determining normalized test period revenues shall be adjusted by an amount hereinafter described, which amount is referred to as the "Weather Normalization Adjustment".

The Weather Normalization Adjustment will be applicable for bills rendered on and after October 1 and continuing through the final billing cycle in April of each year. C

II. Definitions

For the purposes of this Rider:

"Authority" means the Tennessee Regulatory Authority.

"Relevant Rate Order" means the final order of the Authority in the most recent litigated rate case of the Company fixing the rates of the Company or the most recent final order of the Authority specifically prescribing or fixing the factors and procedures to be used in the application of this Rider.

III. Computation of Weather Normalization Adjustment

The Weather Normalization Adjustment shall be computed to the nearest one-hundredth cent per therm by the following formula:

$$WNA_i = R_i \times \frac{(HSF_i(NDD-ADD))}{(BL_i + (HSF_i \times ADD))}$$

Where:

$I =$ any particular rate schedule or billing classification within any particular rate schedule that contains more than one billing classification.

$WNA_i =$ Weather Normalization Adjustment Factor for the i^{th} rate schedule or classification expressed in cents per therm.

$R_i =$ weighted average base rate (base rate less any embedded gas cost) of temperature sensitive sales for the i^{th} schedule or classification utilized by the Authority in the Relevant Rate Order for the purpose of determining normalized test year revenues.

EFFECTIVE: March 1, 2012

- HSF_i** = heat sensitive factor for the ith schedule or classification utilized by the Authority in the Relevant Rate Order for the purpose of determining normalized test year revenues.
- NDD** = normal billing cycle heating degree days utilized by the Authority in the Relevant Rate Order for the purpose of determining normalized test year revenues.
- ADD** = actual billing cycle heating degree days.
- BL_i** = base load sales for the ith schedule or classification utilized by the Authority in the Relevant Rate Order for the purpose of determining normalized test year revenues.

IV. Filing with Authority

The Company will file as directed by the Authority (a) a copy of each computation of the Weather Normalization Adjustment, (b) a schedule showing the effective date of each such Weather Normalization Adjustment, and a schedule showing the factors or values derived from the Relevant Rate Order used in calculating such Weather Normalization Adjustment.