Piedmont Natural Gas

December 22, 2021

VIA E-MAIL & U.S. MAIL

Executive Director Earl Taylor
c/o Ectory Lawless
Tennessee Public Utility Commission
502 Deaderick Street, Fourth Floor
Nashville, Tennessee 37243

Re: Docket Nos. 21-00073, 21-00101, and 21-00102

Dear Mr. Taylor:

On November 3, 2021, the Consumer Advocate division of the Attorney General ("Consumer Advocate") filed a letter in the above-referenced proceedings making certain allegations about Piedmont Natural Gas Company, Inc.'s ("Piedmont" or the "Company") behavior during the Winter Storm Uri event that occurred in February of last year and its calculation of savings under its Commission-approved Service Schedule No. 316 for that month. Piedmont disagrees with the substance of the Consumer Advocate's allegations and disputes that customers were harmed or that Piedmont behaved improperly with regard to the operation of its tariffs or procurement of gas supply during this period. To the contrary, Piedmont submits, as is explained below in greater detail, that its actions during the Winter Storm Uri event were entirely consistent and in accordance with the approved terms of its tariffs, including Service Schedule No. 316. Piedmont addresses the specific allegations made by the Consumer Advocate below.

Allegation that Savings Under Piedmont's Performance Incentive Plan are Improper

Piedmont's current incentive plan mechanism, set forth in its Service Schedule No. 316, "is designed to provide incentives to the Company in a manner that will produce rewards for its customers and its stockholders and improvements in the Company's gas procurement and capacity management activities." This Plan, among other things, allows the Company to retain 25% of the annual commodity and capacity management savings obtained by the Company in the procurement of capacity and supply necessary to serve its customers up to a maximum of $1.6 million. The method and manner of calculating such savings is spelled out, in detail, in Piedmont's Performance Incentive Plan which has been approved by the Commission and which has been in operation for many years.

According to the Consumer Advocate, the activity from last February should be carefully scrutinized because February activity accounted for $2 million of the total $2.2 million in gas procurement savings. These figures omit savings of over $3.7 million of gains associated with capacity management as reported on Page 2 of the Company's filing in Docket No. 21-00102 on August 31, 2021. In support of this contention, the Consumer Advocate further cites findings of the draft Triennial Review Report which takes issue with the benchmarking aspect of Piedmont's Performance Incentive Plan for some gas supplies and contends that utilization of Chicago index prices for the commodity cost of gas is improper and that somehow the sheer size of the market volatility last February invalidates the computations embedded in Service Schedule No. 316.

The problem with this assertion is that it is directly contrary to the requirements set forth in Service Schedule No. 316 regarding how commodity and capacity savings are to be calculated. In addition, the Company is being consistent with how gains have been achieved historically for these deliveries.

The tariff outlines how "Citygate benchmark calculations shall be computed utilizing the Company's Design Day delivery requirements." On a Design day, the Tennessee Gas Pipeline Company ("TGP") capacity would be used to make deliveries at Piedmont's Citygate on TGP and Piedmont would use its Midwestern Gas Transmission Company ("MGT") capacity and its East Tennessee Natural Gas, LLC ("ETNG") interruptible transportation ("IT") backhaul capacity to make deliveries to Hendersonville. Firm transportation between TGP's interconnect with ETNG and Piedmont's Citygate on ETNG is not available to Piedmont and its ETNG IT backhaul capacity cannot be used to move volumes from TGP to Hendersonville. There is no basis for comparing ETNG deliveries to an index on another pipeline (TGP) that does not connect with capacity to which the Company subscribes. It would not be reasonable for Piedmont to benchmark deliveries on ETNG using prices from TGP when Piedmont cannot buy gas to serve its customers at the Consumer Advocate's preferred TGP index point. Such an approach to benchmarking would be arbitrary and inconsistent with the purpose and verbiage of the Performance Incentive Plan. This would also be inconsistent with the benchmark calculations for the Company's other subscribed capacity paths. Piedmont acknowledges the fact that the consultant drafting Piedmont's Triennial Review report has raised this argument on several occasions but the Company rejects it (and has consistently rejected it) for the reason that it is nonsensical to benchmark the Company's performance based upon gas prices at a supply point Piedmont is unable to access.

In summary, our tariff also does not allow the Company to benchmark ETNG purchases against the TGP index prices as proposed in the draft findings of the Exeter report on Piedmont's incentive mechanism.

Allegation that Piedmont's Actions led to Higher Gas Costs

The Consumer Advocate asserts that Piedmont's actions during Winter Storm Uri led to higher gas costs to be recovered from its sales customers. Specifically, the Consumer Advocate cites to the example of a marketer on Piedmont's system that ran a two-day imbalance on Piedmont's system on February 18th and 19th which the Consumer Advocate asserts caused Piedmont to buy natural gas in the spot market at prevailing prices (which were higher than normal).

Piedmont disputes both the factual basis of the Consumer Advocate's assertion and its conclusions about those facts.

First, Piedmont is a monthly balancing system for transportation customers operating on its system and always has been in Tennessee. Under a monthly balancing system, customers are encouraged to stay in balance at all times but daily imbalances are permitted (within limits) without penalty so long as the daily imbalances are corrected by the end of the month. Piedmont's system is designed to accommodate periodic daily imbalances from its customers and marketers within tariff parameters subject to Piedmont's ability to limit them, if necessary, for operational reasons. Thus, as an initial point, there is nothing contrary to the Company's tariffs or its normal operating practices that occurred relative to the actions of the cited marketer.

With regard to the notion that Piedmont could have issued an order to limit or prevent the daily imbalances challenged by the Consumer Advocate, Piedmont would again note that such orders are generally issued for operational reasons, and there was no operational reason to issue one on February 18th or 19th. Piedmont's system and its storage assets, which are designed to accommodate variances in deliveries on its system (including daily imbalances), functioned as intended. The Consumer Advocate's assertion that customers were harmed because Piedmont bought spot gas on the days in question is simply incorrect as those volumes were not purchased to make up for marketer imbalances but were purchased based on the projected demand of its sales customers. In other words, the assertion that Piedmont purchased spot market gas to compensate for a marketer imbalance is simply untrue. That gas was purchased to serve our firm sales customers based upon our projections regarding likely demand from those customers.

To look backwards, as done by the Consumer Advocate, and contend that Piedmont could have avoided spot market purchases if the marketers had been in balance is both temporally impossible (we bought the spot market gas before the imbalances occurred) and the worst sort of after-the-fact second guessing. The point is that because Piedmont bought the spot gas for the purpose of meeting its sales customers projected demand and Piedmont bought it before the marketer imbalances occurred, those purchases were completely causally unrelated to the ultimate daily imbalances accrued by the natural gas broker and those spot purchases would have been made whether or not the marketer imbalances had occurred.

Thank you for your assistance with this matter.

Sincerely,

/s/ Bruce P. Barkley

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