

BEFORE THE TENNESSEE PUBLIC UTILITY COMMISSION

NASHVILLE, TENNESSEE

April 4, 2023

IN RE:

**PIEDMONT NATURAL GAS COMPANY, INC., ACTUAL
COST ADJUSTMENT (ACA) FILING FOR THE PERIOD
OF JULY 1, 2021 THROUGH JUNE 30, 2022**

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**DOCKET NO.
22-00085**

**ORDER ADOPTING ACA AUDIT REPORT OF
TENNESSEE PUBLIC UTILITY COMMISSION’S UTILITIES DIVISION**

This matter came before Chairman Herbert H. Hilliard, Vice Chairman David F. Jones, Commissioner Clay R. Good, Commissioner David Crowell, and Commissioner John Hie of the Tennessee Public Utility Commission (the “Commission” or “TPUC”), the voting panel assigned to this docket, during a regularly scheduled Commission Conference held on February 27, 2023 to consider the report of the Commission’s Utilities Division (the “Staff”) following the completion of the Staff’s audit of Piedmont Natural Gas Company, Inc.’s (“Piedmont” or the “Company”) annual deferred gas cost account filing for the period ended June 30, 2022. The Actual Cost Adjustment (“ACA”) Compliance Audit Report (the “Report”) is attached hereto as Exhibit 1 and incorporated by this reference.

The Company filed its ACA filing on August 31, 2022. The Company submitted a revised filing on October 11, 2022 for the purpose of creating a separate line item for the remaining Integrity Management Rider (“IMR”) balance that was transferred to the ACA

Account in Docket No. 20-00130.¹ The Staff completed its audit of the Company's filing and filed its Report on February 8, 2023. The objective of the audit was to verify that the Company's calculations of gas costs incurred and recovered were materially correct and that the Company has followed all Commission orders and directives with respect to the ACA account balance. Based on the Company's filing and staff's audit of the same, the ending balance reported by Piedmont in the ACA Account as of June 30, 2022 was \$14,314,680.28 in under-recovered gas costs.² The Report included no material findings.³

In addition, the Consumer Advocate Unit in the Financial Division of the Office of the Tennessee Attorney General ("Consumer Advocate") submitted a *Petition to Intervene* on October 5, 2022 which was granted by the Hearing Officer on November 3, 2022. The Consumer Advocate filed records requests in this docket, to which Commission Staff responded.⁴

During the regularly scheduled Commission Conference held on February 27, 2023, the voting panel considered the Company's ACA filing and Staff's Compliance Audit Report. The panel found that Piedmont is correctly implementing its Purchased Gas Adjustment Rider, as calculated in the ACA. Further, the panel found that the correct ending balance in the ACA Account at June 30, 2022 is \$14,314,680.28 in under-collected gas costs, as reported in the Piedmont filing. The panel unanimously approved the

¹ See *In re: Petition of Piedmont Natural Gas Company, Inc. for Approval of an Integrity Management Rider to its Approved Rate Schedules and Service Regulations*, Docket No. 20-00130, *Order Approving Integrity Management Annual Report as Amended and Approval of Transfers of Balance to ACA Account*, p. 7 (January 9, 2022).

² *Notice of Filing by the Utilities Division of the Tennessee Public Utility Commission*, Exh. A, pp. 4-5 (February 8, 2023).

³ *Id.* at 1.

⁴ See Consumer Advocate's Records Request Re: Piedmont Natural Gas Company, Inc., Annual Cost Adjustment (ACA) Filing for the Period July 1, 2021 Through June 30, 2022 (February 2, 2023) and Commission Response to Consumer Advocate Request for Records Under Tenn. Code Ann. § 65-4-118 Filed February 2, 2023 (February 10, 2023).

Compliance Audit Report as filed.

IT IS THEREFORE ORDERED THAT:

The Actual Cost Adjustment Compliance Audit Report relative to Piedmont Natural Gas Company, Inc.'s gas costs for the period ended June 30, 2022, a copy of which is attached to this Order as Exhibit 1, is approved and adopted and the conclusions and recommendations contained therein are incorporated in this Order as if fully rewritten herein.

FOR THE TENNESSEE PUBLIC UTILITY COMMISSION:

**Chairman Herbert H. Hilliard,
Vice Chairman David F. Jones,
Commissioner Clay R. Good,
Commissioner David Crowell, and
Commissioner John Hie concurring.**

None dissenting.

ATTEST:



Earl R. Taylor, Executive Director

EXHIBIT 1

EXHIBIT A

COMPLIANCE AUDIT REPORT

OF

Piedmont Natural Gas Company

ACTUAL COST ADJUSTMENT

DOCKET NO. 22-00085

PREPARED BY

TENNESSEE PUBLIC UTILITY COMMISSION

UTILITIES DIVISION

February 2023

EXHIBIT A

COMPLIANCE AUDIT
PIEDMONT NATURAL GAS COMPANY

ACTUAL COST ADJUSTMENT

DOCKET NO. 22-00085

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I. INTRODUCTION

The subject of this audit is Piedmont Natural Gas Company's ("Piedmont" "Company" or "PNG") compliance with the Actual Cost Adjustment and Refund Adjustment of the Purchased Gas Adjustment Rule ("PGA Rule") of the Tennessee Public Utility Commission (hereafter the "TPUC" or the "Commission")¹. The objective of the audit was to determine whether the Purchased Gas Adjustments ("PGA"), which are encompassed by the Actual Cost Adjustment ("ACA")², for the twelve (12) months ended June 30, 2022, were calculated correctly and were supported by appropriate source documentation.

II. AUDIT OPINION

On August 31, 2022, the TPUC Audit Staff (hereafter "Staff") received PNG's ACA filing supporting the activity in its deferred gas cost account ("ACA Account") for the period July 1, 2021 through June 30, 2022. After reviewing the Company's filing, Staff found no material errors.³ Staff concludes that PNG is correctly implementing its Purchased Gas Adjustment Rider as calculated in the Actual Cost Adjustment, in accordance with TPUC rules for Piedmont Natural Gas Company.

III. BACKGROUND INFORMATION ON COMPANY AND GAS SUPPLIERS

Piedmont Natural Gas Company (local distribution company), with headquarters at 83 Century Boulevard, Nashville, Tennessee, is an operating division of Piedmont Natural Gas Company (parent 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 natural 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").

IV. JURISDICTION OF THE TENNESSEE PUBLIC UTILITY COMMISSION

Tennessee Code Annotated ("T.C.A.") gave jurisdiction and control over public utilities to the Tennessee Regulatory Authority, now the Tennessee Public Utility Commission. 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

¹ As of April 5, 2017, the name of Tennessee Regulatory Authority has changed to the Tennessee Public Utility Commission and board member of the agency will be known as Commissioners rather than Directors.

² The ACA is more fully described in Section V.

³ Refer to Section VII for a description of the findings.

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 TPUC is responsible for auditing those energy, water and wastewater utilities under the Commission's jurisdiction to ensure that each company is abiding by Tennessee statute as well as the Rules and Regulations of the Commission. This audit was performed by Emily Qingshe and Grace Marek of the Utilities Division.

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, now the Tennessee Public Utility Commission. 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 TPUC in another docket) as reflected in the Deferred Gas Cost account. The ACA then "true-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 is in effect, the requirements of Section 1220-4-7-.05 of the PGA Rule are 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 PNG’s ACA Account. The audit goal is to verify that the Company’s calculations of gas costs incurred and recovered are materially correct,⁴ and that the Company is following all Commission orders and directives with respect to its calculation of the ACA Account balance. On September 30, 2022, Piedmont filed a PGA to change the ACA factor to begin charging the net unaudited balance in the ACA Account at August 31, 2022, effective November 1, 2022.⁵

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.

⁴ 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.

⁵ Tariff No.2022-0079, At August 31, 2022, the net balance in the ACA Account was positive \$15,671,314.

VII. ACA AUDIT FINDINGS

Staff agrees with the ACA Account balances as calculated by the Company. Therefore, there are no findings. A summary of the account, as filed by the Company, is shown below.

SUMMARY OF THE ACA ACCOUNT:

	<u>Company</u>
Commodity Balance at 7/1/21	\$ 13,043,513.02
Plus TN IMR Closeout ⁶	18,918.48
Plus WNA Audit Adjustment ⁷	103,256.00
Plus Gas Costs	97,366,634.40
Plus Refund of Unprotected Excess ADIT and Deferred Revenue ⁸	3,378,065.45
Minus Recoveries	<u>98,776,072.63</u>
Ending Balance before Interest	\$ 15,134,314.72
Plus Interest	392,618.51
Commodity Balance at 6/30/22	<u>\$ 15,526,933.23</u>
Demand Balance at 7/1/21	(\$ 788,488.98)
Plus Gas Costs	17,015,399.12
Minus Recoveries	<u>17,451,002.65</u>
Ending Balance before Interest	(\$ 1,224,092.51)
Plus Interest	<u>11,839.56</u>
Demand Balance at 6/30/22	<u>(\$ 1,212,252.95)</u>
Total ACA Ending Balance at 6/30/22	<u>\$ 14,314,680.28</u>

Note: A negative number indicates an over-recovery of gas costs.

VIII. CONCLUSIONS AND RECOMMENDATIONS

Staff reviewed the gas costs and recoveries of Piedmont Natural Gas Company for the 12-month period ended June 30, 2022. As reported in the body of this report, Staff concludes that the Purchased Gas Adjustment mechanism, as calculated in the Actual Cost Adjustment, appears to be working properly and in accordance with the TPUC rules for PNG. Based on the Company's filing, the net balance in the ACA Account as of June 30, 2022 was \$14,314,680.28. This means that as of June 30, 2022 the Company had under-collected this amount from its

⁶ The company created an additional line item in their revised filing to separate the \$18,918.48 IMR Balance associated with Docket #20-00130 from the November beginning balance.

⁷ Including the net of two WNA Audit Findings: \$34,962.00 from Docket #21-00083 and \$68,294.00 from Docket #22-00053.

⁸ The company also filed the information under tax Docket #18-00040 on Oct. 21, 2022.

customers. This balance will become the beginning balance at July 1, 2022 in the Company's next ACA filing. **Staff recommends approval of the Company's ACA Account balances, as filed.**

APPENDIX A

PGA FORMULA⁹

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

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

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

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.

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

⁹ Pursuant to Docket 03-00209, the PGA Formula has been amended to include the gas cost portion of uncollectible accounts.

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

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

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.