BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE

March 12, 1999

IN RE:

APPLICATION OF NASHVILLE GAS COMPANY, A DIVISION OF PIEDMONT NATURAL GAS COMPANY, FOR APPROVAL OF A NEGOTIATED REDELIVERY AGREEMENT WITH FORD MOTOR COMPANY	)))))	**DOCKET NO. 98-00128**

ORDER APPROVING THE NEGOTIATED GAS REDELIVERY AGREEMENT

The Tennessee Regulatory Authority (hereafter the "Authority"), during its regularly scheduled Authority Conference held on April 21, 1998, considered the Application of Nashville Gas Company, a division of Piedmont Natural Gas Company, (hereafter "Nashville Gas") for Approval of a Negotiated Gas Redelivery Agreement (hereafter the "Extension Agreement")[1] with Ford Motor Company (hereafter "Ford"). The Extension Agreement reflects the terms under which Nashville Gas agrees to transport natural gas to Ford for a period beginning March 1, 1998, through October 31, 2000, unless otherwise extended or terminated.

By Order dated April 23, 1993, in Docket No. 90-07401, the Tennessee Public Service Commission (hereafter the "TPSC") approved the original agreement which allowed Nashville Gas to transport natural gas to Ford at its Nashville, Tennessee, manufacturing plant for a five year period beginning March 1, 1993, and expiring on February 28, 1998.

[1] The Extension Agreement is attached hereto as Exhibit A.

The original agreement charged Ford a monthly reservation fee of $35,000 and a volumetric charge of $0.20 per dekatherm for each dekatherm in excess of 166,667 dekatherms per month. Since these rates were less than the existing tariff rates of Nashville Gas, the TPSC allowed Nashville Gas recovery of its margin loss related to this contract. Per Nashville Gas' petition in Docket 98-00128:

> When the TPSC approved the original Ford agreement, it also authorized Nashville Gas to increase its rates to recover 75% of its margin losses from its other customers pending its next general rate case. In Nashville Gas' next general rate case, the Ford volumes were included at the contract rates, permitting Nashville Gas full margin recovery. In Docket No. 96-00977, the Authority approved a procedure that permits Nashville Gas to recover 100% of its margin losses related to negotiated rates.

By the Extension Agreement, Nashville Gas and Ford propose to continue their natural gas transportation arrangement, with certain modifications, as provided therein. Nashville Gas asserts that the following conditions exist at this time:[2]

> a. Ford has notified Nashville Gas Company that it must reduce its delivered natural gas costs in order to keep its Nashville facility competitive with other glass operations. If Ford were to reduce its operations in Nashville, it could result in layoffs. Any such action would adversely effect the Nashville economy and tax base.
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> b. Ford has already significantly reduced its gas consumption and has indicated that it may have to make further reductions if the delivered cost of gas does not become more competitive. If this were to occur, the fixed cost currently being realized from Ford would be shifted to other Nashville Gas Company customers.
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> c. Ford has advised Nashville Gas Company that if its rates are not reduced to a competitive level, Ford may be forced to seek permanent alternative sources of gas supplies, including direct service from an interstate pipeline. If this were to occur, the

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[2] Petition of Nashville Gas Company in Docket 98-00128, for Approval of Negotiated Gas Redelivery Agreement with Ford Motor Company, page 3.

shift in costs referred to in the foregoing paragraph would be permanent.

The above conditions also existed at the time of negotiations of the original contract between Nashville Gas and Ford in 1991:[3]

The Authority agrees that it is in the best interest of Nashville Gas and the ratepayers of Nashville Gas to retain Ford as a customer. The Authority also agrees that, considering the natural gas usage of the Ford plant and its close proximity to an interstate pipeline, by-pass remains economically feasible.

Per the terms of the Extension Agreement, Nashville Gas will charge Ford a reservation fee of $48,000 and a volumetric charge of $0.23 per dekatherm for each dekatherm over 200,000 dekatherms per month. Contrary to the original agreement, the negotiated rates of this Extension Agreement are higher than the current rates which were approved for Ford in Nashville Gas' most recent rate case (Docket Number 96-00977). Nashville Gas, therefore, proposed that they credit their ratepayers with one hundred percent (100%) of the difference between the negotiated Ford rates and the current rates as approved by the Authority. By this action, Nashville Gas will provide its customers with full credit for the increase in Ford's negotiated rates. The Authority finds that Nashville Gas' proposal is fair in that it permits the ratepayers to recover a later gain whereas such ratepayers had paid for the prior lost margin on the agreement with Ford.

Based upon the foregoing findings and conclusions, the Directors of the Authority unanimously approved Nashville Gas' Application for Approval of the Extension Agreement.

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[3] A review of the Direct Testimony which was filed in Nashville Gas Company's rate petition, Docket No. 91-02636, indicates that the possibility of Ford by-passing Nashville Gas' system was, in fact, economically feasible. Nashville Gas Company, Docket 91-02636, Direct Testimony of Douglas L. Burton of Acarus Group, Inc. dated July 1991, page 4.

IT IS THEREFORE ORDERED THAT:

1. Nashville Gas' Application for Approval of the Extension Agreement with Ford Motor Company is approved;

2. The term of the Extension Agreement is March 1, 1998, through October 31, 2000;

3. Nashville Gas will credit its ratepayers with one hundred percent (100%) of the difference between the Ford rates as negotiated in the Extension Agreement and the current tariff rates as approved by the Authority; and

4. Any party aggrieved with the Authority's decision in this matter may file a Petition for Reconsideration with the Authority within ten (10) days from and after the date of this Order.

H. Lynn Greer, Jr., Chairman

Sara Kyle, Director

Melvin J. Malone, Director

ATTEST:

K. David Waddell, Executive Secretary