Amos, Jeffries & Robinson, LLP
Attorneys at Law

REC'D TN REGULATORY AUTH.

FAX MEMORANDUM

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OFFICE OF THE EXECUTIVE SECRETARY

To: David Waddell

Fax Number: 615-741-5015

From: Jerry Amos

Date: April 13, 1999

Number of Pages, Including Cover Sheet: 32

Pursuant to ordering paragraph 1 of the April 7, 1999 Notice of Hearing in Docket Nos. 98-00338 and 98-00339, attached is the pre-filed testimony and exhibits of Chuck W. Fleenor and Bill R. Morris. This testimony and exhibits are being filed on behalf of Nashville Gas Company.

We are today overnighting 14 copies of this testimony and exhibits to the Authority.

98-00338 and 339

P. O. Box 787
Greensboro, North Carolina 27402

Telephone: (336) 273-5569
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The Tennessee Regulatory Authority

Docket Nos. 98-00338 and 98-00339

Direct Testimony
of
Bill R. Morris

On Behalf of
Nashville Gas Company

April 13, 1999

Association of Certified Public Accountants. I am a member of the Southern Gas Association's Rate Committee and currently serve as Chairman.

Q. What is the purpose of your testimony in this case?

A. The purpose of my testimony is (1) to provide a brief history of these proceedings, (2) to describe Rate Schedule 9, (3) to provide a brief explanation of when and why Rate Schedule 9 was proposed by Nashville Gas and approved by the Tennessee Public Service Commission ("TPSC") and subsequently by the Tennessee Regulatory Authority ("TRA"), (4) to explain how transactions under Rate Schedule 9 affect Nashville Gas and its rates to other customers and (5) to describe the circumstances under which we advised the Commission of our intent to serve Bridgestone under Rate Schedule 9.

Q. Please provide a brief history of these proceedings.

A. As discussed in more detail in the testimony of Mr. Chuck Fleenor, in June 1997 Piedmont Natural Gas was notified by Bridgestone/Firestone that they had engaged Summit Energy Services to conduct a feasibility study of constructing a transmission line from Tennessee Gas Pipeline's line to its manufacturing facility located in LaVergne. At that time, Bridgestone was contributing approximately $390,000 in margin to the Nashville Gas system under Rate Schedule 71, Interruptible Transportation Service. We began negotiations immediately in an attempt to determine if the bypass threat was real and if it was real what rate would be necessary to keep Bridgestone as a Nashville Gas customer. This process involved discussions for the next several months, and as discussed by Mr. Fleenor, we entered into a verbal agreement in January 1998.

As testified to by Mr. Fleenor, during the negotiation process it became obvious that an immediate reduction in Bridgestone's rate was necessary to prevent them from proceeding any further with their bypass action. Consequently, we reduced their rate effective January 1, 1998 under the provisions of Rate Schedule 9.

On May 12, 1998, we filed an application with the TRA requesting the authority to (1) approve a gas redelivery agreement pursuant to which we would provide transportation services to Bridgestone/Firestone and (2) to permit us to recover our future margin losses associated with that gas redelivery agreement.

On January 22, 1999, the Authority issued an order approving the terms of the gas redelivery agreement; however, the Authority ruled that we could only recover 90% of our future margin losses. In addition, the Authority ruled that we could not recover any of our margin losses during the interim period (January 1, 1998 through July 31, 1998) when we transported gas to Bridgestone/Firestone under negotiated rates under Rate Schedule 9.

On February 5, 1998, we filed a motion for rehearing.

The State Industries negotiations actually began during December 1995 when a meeting was suggested by State. Although discussions continued for quite some time, we were notified by State in May 1997 that because Tennessee Gas Pipeline's transmission line actually ran across State's property we could not offer a rate low enough to keep them as a customer. As Mr. Fleenor testifies, discussions stalled for a period of time during which TGP filed with the Federal Energy Regulatory Commission for approval to construct interconnection facilities with State. We filed a protest of that application in December 1997.

It was not until the Office of the Consumer Advocate became involved that negotiations resumed in January 1998. As explained by Mr. Fleenor, a mutually agreeable rate was established during these negotiations, and, as part of the agreement, we agreed to reduce State's rate on January 1, 1998 under the provisions of Rate Schedule 9.

On May 12, 1998, we filed an application with the TRA requesting the authority to (1) approve a gas redelivery agreement pursuant to which we would provide transportation services to State Industries and (2) to permit us to recover our future margin losses associated with that gas redelivery agreement.

On January 22, 1999, the Authority issued an order approving the terms of the gas redelivery agreement; however, the Authority ruled that we could only recover 90% of our future margin losses. In addition, the Authority ruled that we could not recover any of our margin losses during the interim period (January 1, 1998 through July 31, 1998) when we transported gas to State Industries under negotiated rates under Rate Schedule 9.

On February 5, 1998, we filed a motion for rehearing.

In each of the orders, the TRA defined the interim period under which we transported gas to the two customers under Rate Schedule 9 as "Phase I" and the subsequent period during which we transported (or will transport) gas to the two customers under the negotiated contracts as "Phase II." I will use this terminology in my testimony.

At its Agenda Conference on April 6, 1999, the TRA granted our requests for rehearing and set the two matters for hearing.

Q. When was Rate Schedule 9 first filed with the TPSC?

A. Piedmont acquired Nashville Gas in 1985. Rate Schedule 9 was in effect at that time. Although we are not certain when it was first approved, we are certain that it was in effect at least as early as 1983. A copy of Rate Schedule 9 as approved in Docket No. U-83-7223 effective March 18, 1983 is attached as Exhibit BRM-1.

Q. Has Rate Schedule 9 also been approved by the TRA?

A. Yes. It was approved in our last general rate case. A copy of Rate Schedule 9 as approved in Docket No. 96-00977 effective January 1, 1997 is attached as Exhibit BRM-2.

Q. Please describe Rate Schedule 9.

A. Rate Schedule 9 permits the Company to negotiate rates to customers who are eligible to purchase gas under Rate Schedules 3, 4 or 10 or to customers who transport gas under Rate Schedules 7F or 7I when necessary to avoid the loss of margin provided by those customers as a result of alternate fuel competition.

Q. Does Rate Schedule 9 provide for the treatment of margin losses?

A. Yes. Rate Schedule 9 provides the following:

> "Margin losses under this rate schedule shall be recovered by the Company through the Company's Actual Cost Adjustment (ACA) as provided in the Company's Purchased Gas Adjustment (PGA) Rider (TRA Service Schedule 11).

Q. What is the purpose of Rate Schedule 9?

A. From time to time, Nashville Gas has large industrial customers who have an option to discontinue purchasing or transporting gas with Nashville Gas and, instead, consume some other source of energy. When that event occurs, Piedmont loses the margin (revenues less cost of gas) that would otherwise be produced if the customer continued to purchase or transport gas with Nashville Gas. Rate Schedule 9 was designed to permit Nashville Gas to negotiate a lower rate in order to prevent the loss of such customers.

Q. What would happen if Nashville Gas were to lose these customers?

A. When the TRA sets rates for Nashville Gas, it assumes that some volume of gas and some margin will be earned from these customers. These assumptions are normally based on the volumes of gas sold or transported and the margin earned during the test period. If the TRA were to assume that Nashville Gas could sell 4,000,000 dts. of gas at a margin of $.25 cents to these large industrial customers, it would assume a margin of $1,000,000. The effect of this assumption would be to reduce the revenue requirements (and, therefore, the rates) from Nashville Gas' other customers by $1,000,000. If Nashville Gas were to lose these large customers to another energy source, Nashville Gas would initially fail to achieve its allowed return as a result of the loss in margin. In its next rate case, however, this loss in margin would be shifted to the other customers resulting in rates being higher in order to produce the $1,000,000 requirement. In order to avoid these undesirable consequences, Nashville Gas is allowed to negotiate a lower competitive rate so that these large customers produce some margin and the rates for other customers are kept at a lower level. If, by negotiating a lower rate, Nashville Gas can compete to keep these large industrial customers and obtain $750,000 of margin, the ultimate result would be to lower the revenue requirement and rates of other customers by $750,000. In short, Rate Schedule 9 permits the Company to obtain the maximum contribution possible from these large customers in the competitive marketplace and, therefore, obtain the minimum possible contribution from its other customers. Since, in the above example, Rate Schedule 9 permits Nashville Gas to recover the $250,000 margin shortfall (the $1,000,000 margin upon which its rates were based and the $750,000 it actually received), Nashville Gas is kept whole (*i.e.*, it is permitted the opportunity to earn the rate of return allowed by the TRA). Thus, Rate Schedule 9 is fair to all concerned.

Q. Why do you contend Rate Schedule 9 is fair to all concerned?

A. Rate Schedule 9 permits large industrial customers to purchase or transport gas from Nashville Gas at competitive rates, it provides the lowest possible margin contribution from Nashville Gas' other customers, it provides Nashville Gas a reasonable opportunity to earn its allowed return, and it prevents the necessity for the filing of repeated general rate cases each time a large industrial customer has an opportunity to select another source of energy. Thus, the negotiating customers, the other customers, Nashville Gas and the Authority all receive significant benefits.

Q. How does the application of Rate Schedule 9 apply to the matter being heard in these consolidated dockets?

A. As discussed in detail by Mr. Fleenor, we were advised by both State Industries and Bridgestone/Firestone that they would discontinue transporting gas on our system unless we lowered their existing rates. To prevent the loss of these two customers and the associated margins, we entered into negotiations with these two customers. Our objective was to obtain the highest rate possible. In order to keep these two customers at the negotiating table, we agreed to provide some interim relief in the form of negotiated rates under Rate Schedule 9.

Q. Did you notify the TRA of your intent to provide negotiated rates under Rate Schedule 9?

A. By letter dated December 30, 1997, we notified the TRA that we had entered into negotiations with Summit Energy Services, an agent for Bridgestone/Firestone, "with the objective of competing with alternate fuels available to the customer by way of a bypass of the Nashville Gas system." In that letter we advised the TRA that "Nashville Gas intends to offer Bridgestone, effective January 1, 1998, a reduced rate under the provisions of TRA Rate Schedule 9, Special Availability Service, until such time as the terms of a mutually agreeable Special Contract can be executed and filed for approved with the Authority." A copy of that letter is attached as Exhibit BRM-3.

Q. Did you receive any objection from the TRA or any member of the TRA staff with respect to your announced intent to negotiate rates under Rate Schedule 9?

A. No.

Q. What were Nashville Gas' negotiated margin losses with respect to Bridgestone/Firestone and State Industries during the interim period in question?

A. The negotiated losses were $64,061 for Bridgestone/Firestone and $51,472 for State Industries as shown on Exhibit BRM-4.

Q. In your opinion does Rate Schedule 9 apply to the Phase I transactions with Bridgestone/Firestone and State Industries?

A. Yes. Rate Schedule 9 specifically provides that it is intended to permit the Company to negotiate lower rates "for the purpose of enabling the Company to compete with alternate fuels available for use by its customers." Webster's defines the adjective "alternate" as: "In the place of another; substitute." Clearly, the competitive treatment of bypass whereby one of our customers can purchase or transport gas directly on a pipeline rather than purchasing gas from and/or transporting gas on our distribution system meets the Webster's definition since bypass transports are a "substitute" for and are "in place of" transactions with the Company. Further, the fundamental reasons for and the benefits of Rate Schedule 9 apply to bypass transactions in exactly the same manner as is the case with other alternate fuels such as coal, fuel oil, propane, woodchips, etc. If the Company does not negotiate a lower rate for a bypass customer under Rate Schedule 9 the margin contribution by the bypass customer will be lost.

Q. What relief did you request in your two motions for rehearing with respect to Phase I?

A. We requested the TRA to permit us to recover 100% of our Phase I losses with respect to both Bridgestone/Firestone and State Industries as provided in Rate Schedule 9?

Q. What relief did you seek in your two motions for rehearing with respect to Phase II?

A. We requested the TRA to permit us to recover 100% of our Phase II losses in connection with both Bridgestone/Firestone and State Industries. In the alternative, and by way of compromise, we requested the TRA to permit us to recover 100% of our Phase I losses, 90% of our Phase II loses and to keep at least 10% of the gains on the Ford contract.

Q. Please explain what relationship the Ford contract has to the two dockets that are the subject of this proceeding.

A. On February 25, 1998, Nashville Gas petitioned the Authority in Docket No. 98-00128 for approval of a negotiated gas redelivery agreement with Ford Motor Company. The contract's effective date was March 1, 1998 which coincided with the expiration date of the previous contract with Ford which was approved by the TPSC in Docket No. 90-07401. We are very proud of the fact that in the Ford negotiations, we were able to negotiate a rate that was *higher* than the previous contract rate. In our petition, we proposed to credit 100% of the difference between the new rate and the old rate to the benefit of the other customers. Our proposal was conditioned, however, in a footnote, on the "continued approval of the negotiated loss recovery mechanism." In other words, we were willing to give back 100% of the margin increase from Ford provided we were to receive equal treatment on future margin losses under other contracts such as Bridgestone/Firestone and State Industries.

In its Order, the TRA approved the redelivery agreement and found that the

Company's proposal to give back 100% of the margin increase was fair "whereas such ratepayers had paid for the prior lost margin on the agreement with Ford." The Order made no mention of the conditional nature of the Company's proposal.

Q. In you opinion, is it fair and reasonable to require Nashville Gas to refund 100% of any gains but to absorb 10% of any negotiated losses on negotiated contracts?

A. No.

Q Please explain your answer.

A. As I explained earlier, we are very proud of the fact that we were able to negotiate a rate for Ford that was higher than the existing rate. We could have taken the much easier approach and just offered the same rate, which obviously would have been accepted by Ford. Under that scenario, the other customers would have received no benefit. By giving back 100% of the gain from Ford, there is no incentive for the Company to ever attempt to get a higher rate in contract negotiations. Also, as I have previously discussed, by allowing only 90% recovery of margin losses and requiring 100% return of all margin gains, the Company is unable to ever achieve its allowed rate of return, all other factors being equal.

Q. Is Nashville Gas willing to offer a settlement compromise on the recovery of its Phase I and Phase II loses?

A. Yes. If provided an opportunity at the April 15, 1999 hearing, we are prepared to offer a settlement compromise.

Q. Does this conclude your testimony?

A. Yes it does.

NASHVILLE GAS COMPANY
814 Church Street, Nashville, Tennessee 37203

SCHEDULE OF APPROVED RATES

As ordered by the
TENNESSEE PUBLIC SERVICE COMMISSION

For billing of all limited availability natural gas
service in the entire service area of the Company

Effective upon approval by and until further order of the Commission, the following schedule shall be charged by the Nashville Gas Company for natural gas served in the territory shown above for the class of service indicated, in accordance with the Company's Rules and Regulations, where the Company's distribution mains are suitable for supplying the desired service.

SPECIAL AVAILABILITY SERVICE
Schedule No. 9

AVAILABILITY

Available to any large commercial or industrial customer when the Company has gas supplies that it cannot sell at its established fixed rates. On such occasions, the gas is lost to the Company and its customers. This rate schedule is designed to permit the Company to sell such gas at special rates for the purpose of enabling the Company to compete with alternate fuels available for use by its customers.

Gas service under this rate schedule is available on a temporary basis to customers, who would otherwise qualify for rate schedules 3 and 4, who are connected to the Company's distribution system and to off-system customers who can be served by pipeline supplier transportation arrangements. Gas service may be provided under this rate schedule only in the event that the Company has volumes of gas that cannot be sold under other rate schedules of the Company. Service under this rate schedule is temporary and the Company has the right to discontinue such service up to 100% of capacity. Gas service under this rate schedule will be curtailed prior to service under any other rate schedule. Service under this rate schedule will be made available on a first request basis.

BASE RATE

The customer shall pay the Company for all gas supplied under this schedule at a predetermined rate negotiated prior to delivery. Said rate would not be lower than the cost of gas adjusted to include a provision for the cost of unaccounted for gas and revenue related taxes, now greater than that of the rate schedule under which the customer would otherwise be served.

CUSTOMER MONTHLY CHARGE

A monthly customer charge of $30.00 will be billed to each customer for the availability of gas service in addition to charges for gas delivered from the time of initial service until termination at the customer's request, unless there is a temporary discontinuance of service in which case there will be a reconnect charge.

CONTRACT PERIOD AND BILLING

All customers taking gas under this rate schedule will be subject to standard contract and subject to the Company's Rules and Regulations as filed with the Tennessee Public Service Commission.

This tariff shall remain in effect through December 31, 1983, unless sooner modified or cancelled. Standard contracts shall be for periods in accordance with the foregoing effective period with monthly payment for service taken.

PAYMENT TERMS

All bills for service are due upon presentation and the above stated net rates shall be allowed if payment is made on or before the last day for payment as specified on the bill. Payments made after that day shall be for the gross amount which will be greater by five percent (5%) than the net billing.

PENALTY FOR UNAUTHORIZED USE

In the event customer uses gas in excess of the daily volume allowed by the Company during a curtailment period, customer agrees to pay in addition to the regular rate an amount equal to one dollar ($1.00) per Ccf for each Ccf of such excess daily volume of unauthorized use. This penalty is due and payable immediately at time of unauthorized use.

It is not intended that the use of unauthorized gas will entitle customer to purchase such gas on any of the Company's applicable firm rate schedules.

Issued by: J. Crispin Ashworth
Issued on: March 9, 1983

Effective: March 18, 1983
Docket No. U-83-7223

(Schedule No. 9 Continued on Page Two)

SERVICE INTERRUPTION AND CURTAILMENT

Gas service under this schedule may be limited as to weekly, monthly and peak day volumes allowed and is subject to curtailment provisions specified by TPSC Service Schedule No. 6, Schedule for Limiting and Curtailing Service.

ADJUSTMENTS

Bills for service are subject to adjustment for changes in the cost of purchased gas in accordance with Rule 401.12 of the TPSC Rules and Regulations.

Purchased gas adjustments and all applicable taxes and fees are in addition to the above stated base rates as per Rules, Regulations and Orders of the Commission and Laws of the State of Tennessee.

INCREMENTAL PRICING SURCHARGE

Gas service provided hereunder to industrial boiler fuel customers not qualifying for exemption from Incremental pricing under S206 of the Natural Gas Policy Act of 1978 (NGPA) shall be subject to the provisions of incremental Pricing Tariff TPSC Schedule No. 8 as originally effective January 1, 1980 or as thereafter revised and made effective.

NASHVILLE GAS COMPANY
665 Mainstream Drive
Nashville, Tennessee 37228
A Division of Piedmont Natural Gas Company
TRA Rate Schedule No.9

RATE SCHEDULE NO. 9
Special Availability Service

AVAILABILITY

Gas service under this rate schedule is available to any TRA Rate Schedule No. 3, 4, 7F, 7I, or 10 customer when the Company has gas supplies that it cannot sell at its established fixed rates where the Company's distribution mains are suitable for supplying the desired service. On such occasions, the gas is lost to the Company and its customers. This rate schedule is designed to permit the Company to sell such gas at special rates for the purpose of enabling the Company to compete with alternate fuels available for use by its customers.

Gas service under this rate schedule is available on a temporary basis to customers who would otherwise qualify for industrial rate schedules and transportation service who are connected to the Company's distribution system. Gas service may be provided under this rate schedule only in the event that the Company has volumes of gas that cannot be sold under other rate schedules of the Company. Service under this rate schedule is temporary and the Company has the right to discontinue such service up to 100% capacity. Gas service under this rate schedule will be curtailed prior to service under any other rate schedule.

In the event a customer has zero consumption during any billing period, this tariff will not apply and service shall be rendered pursuant to the Company's regular rate schedules for the class of service indicated.

BASE RATE

The customer shall pay the Company for all gas supplied under this schedule at a predetermined rate negotiated prior to delivery for limited term periods up to seven consecutive months.

SERVICE AGREEMENTS

All customers purchasing gas pursuant to this schedule shall be subject to the Company's standard contracts and/or service applications and subject to the Company's Rules and Regulations as filed with the TRA.

PAYMENT TERMS

All bills for service are due upon presentation and the above stated net rates are applicable if payment is made on or before the last date of payment stated on the bill. Payments made after that date shall be for the gross amount which is greater by five percent (5%) than the net billing.

NASHVILLE GAS COMPANY
665 Mainstream Drive
Nashville, Tennessee 37228
A Division of Piedmont Natural Gas Company
TRA Rate Schedule No.9

RETURNED CHECK CHARGE

In the event a customer's check for payment is returned to the Company marked NSF (Non Sufficient Funds) the customer will be assessed a charge of $20.00.

ADJUSTMENTS

Bills for service are subject to adjustment caused by changes in the cost of purchased gas in accordance with Rule No. 1220-4-1-.12 of the TRA Rules and Regulations.

Purchased gas adjustments and all applicable taxes and fees are in addition to the above stated base rates in accordance with The Rules, Regulations and Orders of the TRA and Laws of the State of Tennessee.

SERVICE AVAILABILITY

All requests for new and additional service or the transfer of existing service to higher priority end use will be supplied based upon the Company's judgement as to the available gas supply, customer's load factor or use pattern, end use priority as specified by the Federal Energy Regulatory Commission (FERC), impact on the local economy, and The Rules, Regulations, and Orders of the TRA and Laws of the State of Tennessee.

SERVICE INTERRUPTION AND CURTAILMENT

Gas service under this schedule is subject to the curtailment provisions contained within TRA Schedule No. 6, "Schedule for Limiting and Curtailing Service."

TREATMENT OF NEGOTIATED MARGIN LOSSES

Margin losses under this rate schedule shall be recovered by the Company through the Company's Actual Cost Adjustment (ACA) as provided in the Company's Purchased Gas Adjustment (PGA) Rider (TRA Service Schedule No. 11).

ISSUED BY: John H. Maxheim
ORIGINALLY ISSUED ON: May 31, 1996 to be effective June 30, 1996
REISSUED ON: December 31, 1996 to be effective January 1, 1997

EFFECTIVE: January 1, 1997
DOCKET NO: 96-00977

Piedmont
Natural Gas
Company

Post Office Box 33068
Charlotte, North Carolina 28233

December 30, 1997

Mr. David Waddell
Executive Secretary
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37243-0505

Dear Mr. Waddell:

The purpose of this letter is to advise the Authority that Piedmont Natural Gas Company, through its Nashville Gas division, has entered into negotiations with Summit Energy Services, as agent for Bridgestone/Firestone, Inc., with the objective of competing with alternate fuels available to the customer by way of a bypass of the Nashville Gas system. Nashville Gas believes that a successful resolution can be accomplished through meaningful negotiations, however, in the interim, it is apparent that such negotiations cannot go forward without an immediate reduction in the rate currently being charged to Bridgestone for transportation services.

Nashville Gas intends to offer Bridgestone, effective January 1, 1998, a reduced rate under the provisions of TRA rate Schedule 9, Special Availability Service, until such time as the terms of a mutually agreeable Special Contract can be executed and filed for approval with the Authority.

Nashville Gas believes the immediate rate reduction is the public interest in that the permanent loss of such a substantial industrial load would be detrimental to the remaining Nashville Gas customers.

Sincerely,

Bill R. Morris

Bill R. Morris
Director-Rates

c: L. Vincent Williams, Consumer Advocate

Nashville Gas Company

Negotiated Loss Report

Date	Customer	Therms	As Billed Under Rate 9	Normal Rate 71 Billings	Margin Loss
Jan'98	State Industries	371,651	$7,180.30	$15,685.88	$8,505.58
	Bridgestone Tire	1,258,030	$31,853.32	$43,269.99	$11,416.67
Feb'98	State Industries	354,379	$6,846.60	$15,151.87	$8,305.27
	Bridgestone Tire	1,157,961	$29,319.57	$40,159.35	$10,839.78
Mar'98	State Industries	330,667	$6,388.49	$14,343.76	$7,955.27
	Bridgestone Tire	1,021,636	$25,867.82	$35,846.71	$9,978.89
Apr'98	State Industries	269,793	$5,212.40	$12,449.36	$7,236.96
	Bridgestone Tire	688,539	$17,433.81	$25,480.73	$8,046.92
May'98	State Industries	190,897	$3,688.13	$9,991.91	$6,303.78
	Bridgestone Tire	725,966	$18,381.46	$26,643.26	$8,261.80
Jun'98	State Industries	250,086	$4,831.66	$11,835.18	$7,003.52
	Bridgestone Tire	674,871	$17,087.73	$25,054.49	$7,966.76
Jul'98	State Industries	178,739	$3,453.24	$9,614.86	$6,161.62
	Bridgestone Tire	603,100	$15,270.49	$22,820.97	$7,550.48
Totals	State Industries				$51,472.00
	Bridgestone				$64,061.30
					$115,533.30

The Tennessee Regulatory Authority

Docket Nos. 98-00338 and 98-00339

Direct Testimony
of
Chuck W. Fleenor

On Behalf of
Nashville Gas Company

April 13, 1999

Q. Please state your name and business address.

A. My name is Chuck Fleenor. My business address is 1915 Rexford Road, Charlotte, North Carolina 28211.

Q. By whom are you employed and in what capacity?

A. I am employed by Piedmont Natural Gas Company, Inc., (Piedmont) as Vice President-Gas Services.

Q. Please summarize your educational and professional background.

A. I received a B.S. degree in Physics in 1972 from the University of North Carolina at Charlotte. In 1979, I received a Masters degree in Business Administration from the same university. I became a registered Professional Engineer in the state of North Carolina in 1980. In 1987, I became a registered Professional Engineer in the state of South Carolina. I was employed by Piedmont in 1974. Prior to my current position as Vice President-Gas Services, I held the positions of Engineer-Gas Supply, Manager-Technology, Director-Technology, Director-Energy Systems, and Director-Gas Supply. I was promoted to Vice President - Gas Supply in 1985 and held that position until April 1, 1996 when my position changed to Vice President - Gas Services.

Q. Have you previously testified before this Commission or any other regulatory authority?

A. Yes. I have testified before this Commission on several occasions. I have also testified before the South Carolina Public Service Commission, the North Carolina Utilities Commission and the Federal Energy Regulatory Commission.

Q. In what areas have you testified before federal or state regulatory agencies?

A. I have presented testimony on a number of issues, including cost of service studies, rate designs, cost of gas, projected sales and transportation volumes and revenue requirements.

Q. Please describe the purpose of your testimony in this proceeding.

A. I will describe how Nashville Gas Company (Nashville Gas) attempts to avoid the loss of margin that occurs when its large industrial customers switch to an alternate source of energy and discontinue purchasing and/or transporting gas on Nashville Gas' system. I will also explain the particular details surrounding our negotiations with State Industries and Bridgestone/Firestone to keep them from selecting an alternate energy source.

Q. What effect does the loss of a large industrial customer have on Nashville Gas' other customers?

A. As explained in more detail in the testimony of Mr. Bill Morris, the ultimate result is that other customers must pay higher rates in order to make up for the margin loss from the customer who chooses to use an alternate source of energy. It was for this reason that Rate Schedule 9 was adopted in Tennessee, and similar rate schedules were adopted in our other service areas. If we can keep these large industrial customers on our system by negotiating lower rates, we are able to maximize the contribution from these large industrial customers and avoid substantial increases to our other customers.

Q. What alternate sources of energy are available to your large industrial customers?

A. The type of alternate energy sources available to our large industrial customers varies from customer to customer and from time-to-time depending upon a number of factors, including prices, technology and regulation. Many years ago, the major alternate source of energy was coal. Environment regulation eliminated coal as a alternate source of energy for some, but not all, of our customers. In many instances, fuel oil is a major alternate source of energy. Due to the nature of their operations, some of our customers cannot use fuel oil but can use propane as an alternate fuel. During the gas shortages of the late 1970's and early 1980's, some of our customers developed the ability to use wood chips as an alternate fuel. In recent years, changes in regulation have made it possible for some of our customers to bypass our distribution system and purchase gas from and/or transport gas on an interstate pipeline.

Q. Does the margin loss occur regardless of the alternate energy source selected by a particular large industrial customer?

A. Yes. Anytime a customer leaves our system to use an alternate energy source, we lose margin.

Q. What experience do you personally have in negotiating special arrangements with large volume customers to avoid this loss of margin?

A. I am responsible for the commercial relations with all of Piedmont's large volume customers within the three state territory that we serve. Most of these customers have the capability to use alternate fuels to serve major portions of their energy requirements, and, from time to time, Piedmont must negotiate discounts to its published tariffs in order to maintain service levels. One of my responsibilities is to assure that we only lower these rates when absolutely necessary and that, when we do negotiate, we receive the maximum margin contribution possible.

Q. What experience do you have in negotiating agreements that protect the Company from the threats of bypass?

A. Piedmont has or is negotiating with about one dozen of its largest customers, representing about 13 million dts of annual load. I have successfully negotiated agreements in all of the three states that Piedmont serves. I represented Nashville Gas in the original Ford Motor Company contract in March 1993, the renegotiation of that contract in 1998 (resulting in an increase in rates), and the contracts that are being discussed today with State Industries and Bridgestone/Firestone.

Q. What variables are considered when Nashville Gas evaluates a potential loss of a customer to bypass?

A. We must consider many of the same factors that the customer should evaluate to determine the economic feasibility of constructing bypass facilities. Although the bottom line is the potential savings that would be available to the customer, the sub-components of this determination include: the current rate being charged; the distance from the customer's facilities to an interstate pipeline and, therefore, the cost; the consumption level of the customer; regulatory restrictions; and the nature of the customer's needs (firm or interruptible).

Q. How do you respond to customers who intend to reduce their costs by constructing bypass delivery facilities in competition to those provided by Nashville Gas?

A. Most of our large volume customers have been approached by consultants, marketers, and pipeline contractors who often make unrealistic claims about the amount of savings available to end users who bypass the local distribution system and construct their own natural gas facilities. Discussions begin by scrubbing the construction bids and estimates that third parties have given the customer. In most cases, I will actually encourage the customer to obtain estimates from the interstate pipeline for interconnection since the real cost is often much higher than the cost estimated by the customer or its consultant. We also advise the customers of the regulatory approval process, the possibility that the bypass facilities may not be approved, and the timing of construction.

Q. Why is the regulatory approval process important to the negotiation of these agreements?

A. It is important to understand what the customer wants. Often the customer is willing to accept a ten cent reduction to their costs today instead of a fifteen cent reduction two years from now. When the regulatory approval process before the FERC is added to construction time, a customer may be looking at a delay of a year or more before it could benefit from the capital expenditures and investments in a bypass connection to an interstate pipeline. Nashville Gas takes into account the regulation/construction requirements of bypass facilities when it negotiates a competitive rate under Rate Schedule 9 and when it negotiates a long-term redelivery contract. Without the ability to use Rate Schedule 9 to provide an immediate discount while the parties are negotiating the terms of a longer term special contract, the discounts in the long term special contracts would have to be much higher. Thus, the ability to negotiate under Rate Schedule 9 ultimately benefits our other customers by providing a greater margin contribution from the contract customer than would otherwise be available.

Q. Under what circumstances does Nashville Gas negotiate with customers to avoid margin loss due to bypass?

A. In certain cases, large volume users who are geographically close to an interstate pipeline can materially reduce their energy costs and, therefore, their operating costs by building their own pipeline. Exhibit CWF-1 is a map of the Nashville Gas system showing the location of State Industries and Bridgestone/Firestone. State Industries literally has Tennessee Gas Pipeline (TGP) in its backyard. Bridgestone/Firestone is located on the eastern side of the Nashville system and sits between two interstate pipelines, Columbia Gulf Transmission and Texas Eastern Transmission (TETCO). Thus, in the case of both of these customers, bypass was a very real threat.

Q. When did the negotiations with State Industries begin?

A. In the case of State Industries, a meeting was arranged by the customer for December 12, 1995, for the specific purpose of discussing transportation options, including bypass. Initial rate discounting offers were extended by Nashville Gas in February of 1996. Without making Nashville Gas a counteroffer, State Industries notified Nashville Gas in May of 1997 that it was proceeding with a bypass. The Company extended another offer that same month while the customer discussed interconnection plans with TGP. On October 14, 1997, TGP filed an application with FERC (see Exhibit CWF-2) to construct interconnection facilities in order to provide service to State Industries. The Company's negotiation intensity increased, but because TGP actually crosses State Industries' property, the customer told us that we could not offer a rate low enough to avert a bypass.

In December 1997, we filed a protest of the TGP application with the FERC. In addition, we also filed an application with the TRA for "Authority to Abandon Service to State Industries, Inc. and to Offer Future Service upon Negotiated, Non Regulated Prices." Moreover, the Office of the Consumer Advocate (CA) became involved to see if there was any way that the negotiations between Nashville Gas and State Industries could proceed to a mutually beneficial compromise. The CA had discussions with both parties and gathered data from each party to determine if a settlement could be reached.

With the help of the CA and the understanding and cooperation of the parties involved, an agreement as to a discounted rate was finally reached that all parties could support. This discounted rate formed the basis for an agreement that provided State Industries with a discounted rate that was provided under Rate Schedule 9 effective January 1, 1998, pending approval by the TRA of a longer term contract.

This temporary discount was originally provided by oral agreement, and the oral agreement was reduced to writing and executed on February 2, 1998. It took several months to draft the formal long term contract that was filed for approval with the TRA on May 12, 1998.

Q. Who benefitted from the Rate Schedule 9 negotiated rate that was provided in the January Phase I agreement?

A. This settlement benefitted State Industries by giving near-term relief to its operating costs; it benefitted Nashville Gas by increasing the probability that State Industries would remain a long-term customer, and it benefitted the ratepayers of Nashville Gas by retaining a margin contribution from State Industries that would otherwise be lost.

Q. Is it your testimony that without the agreement to provide a discount to State Industries under Rate Schedule 9 during the period beginning on January 1, 1998 and ending on the date of the approval of the long-term contract, State Industries would have proceeded with the bypass?

A. Yes. One of the principle conditions of the Phase I agreement was that State Industries would direct TGP to withdraw its application with FERC to construct interconnection facilities; therefore, without the Phase I agreement State Industries would not have stopped or slowed their aggressive pursuit of alternate bypass facilities. Stated another way, had we not negotiated a temporary rate reduction under Rate Schedule 9, the State Industries margin loss would have been in a greater amount (100%) and would have become permanent.

Q. When did the negotiations begin with Bridgestone/Firestone?

A. Although several preliminary discussions with the customer occurred in meetings during 1996, intense negotiations began in June 1997 when Bridgestone notified us that it was using the services of Summit Energy Services, Inc. to act as its agent in any further negotiations and to assist with the planning of bypass facilities. We were also advised that Bridgestone's management was close to making a decision. As a result, we met with representatives of Summit to compare cost estimates and to discuss regulatory approvals and other issues the customer would face by proceeding with a bypass.

Q. Did Nashville Gas agree to provide Bridgestone a discounted rate at that time?

A. No. It was not until December of 1997 that Summit was able to obtain final cost estimates for an interconnection to TETCO. At that time, Summit also advised us that Bridgestone held options on most of the rights-of-way needed to proceed with the bypass facilities. Upon receipt of this additional information, Nashville Gas increased the intensity of the negotiations.

Q. Why does it take so long to reach an agreement after a customer first threatens bypass?

A. We realize that the longer it takes before a discount must be given, the longer we can avoid shifting the margin deficiency to other customers, but when it comes time to "fish or cut bait" the customer must see rate relief in the negotiations.

Q. When was that time for Bridgestone?

A. I was convinced in January of 1998 that Bridgestone's management was going to make an immediate decision to proceed to bypass in the absence of a negotiated settlement; therefore, as was the case with State Industries, we came to a verbal agreement that was memorialized in February 1998.

Q. Based upon your years of dealing with industrial customers, are you convinced that the Phase I agreement made with Bridgestone was necessary to prevent their decision to proceed with the construction of bypass facilities?

A. There is no doubt in my mind that the time was appropriate to close the deal and that the agreement structured was the best possible arrangement for all parties involved.

Q. Is it your testimony that without the agreement to providc a discount to Bridgestone/Firestone during the period beginning on January 1, 1998 and ending on the date of the approval of the long-term contract, Bridgestone/Firestone would have proceeded with the bypass?

A. Yes. Without the temporary discount provided under Rate Schedule 9, Bridgestone/Firestone would have filed with the FERC to bypass our system. Stated another way, had we not negotiated a temporary rate reduction under Rate Schedule 9, the Bridgestone/Firestone margin loss would have been in a greater amount (100%) and would have become permanent.

Q. How can you be sure that bypass is a real threat?

A. Many industries in the United States have filed applications to bypass their local distribution companies, and the FERC has routinely granted those requests. Several local distribution companies and/or state regulatory agencies have appealed these cases to the courts, but the courts have routinely affirmed the action of the FERC. Finally, despite our efforts to avoid bypass through the negotiation of lower rates under rate schedules similar to Rate Schedule 9, we recently lost a large industrial customer in South Carolina to bypass.

Q. In your opinion is Rate Schedule 9 applicable to, and necessary to avoid, bypass transactions such as those threatened by State Industries and Bridgestone/Firestone?

A. Absolutely. The purpose of Rate Schedule 9 is to avoid the substantial margin losses that occur when a customer stops purchasing or transporting gas on Nashville Gas' system in order to use an alternate fuel. The result for Nashville Gas and to other customers is identical whether the alternate fuel is coal, fuel oil, propane, woodchips or gas provided in a bypass situation. In all of these cases, a negotiated rate under Rate Schedule 9 serves to reduce the burden on Nashville Gas' remaining customers.

Q. Please summarize your testimony.

A. We negotiated very long and very hard to avoid a permanent loss of the margin contribution by State Industries and Bridgestone/Firestone. Had we not negotiated temporary rate discounts under Rate Schedule 9 with these two customers, the margin contribution provided by these two customers would have been totally lost. Thus, the negotiation of these temporary discounts under Rate Schedule 9 was of substantial benefit to our other customers. During this entire process, we have attempted to keep the TRA, its Staff and the Consumer Advocate advised of our actions. Since we acted in good faith in a manner that provides substantial savings to our customers, we believe it is unfair to deny us the right to recover our margin losses as permitted by Rate Schedule 9 during the Phase I period.

Q. Does this complete your testimony at this time?

A. Yes.

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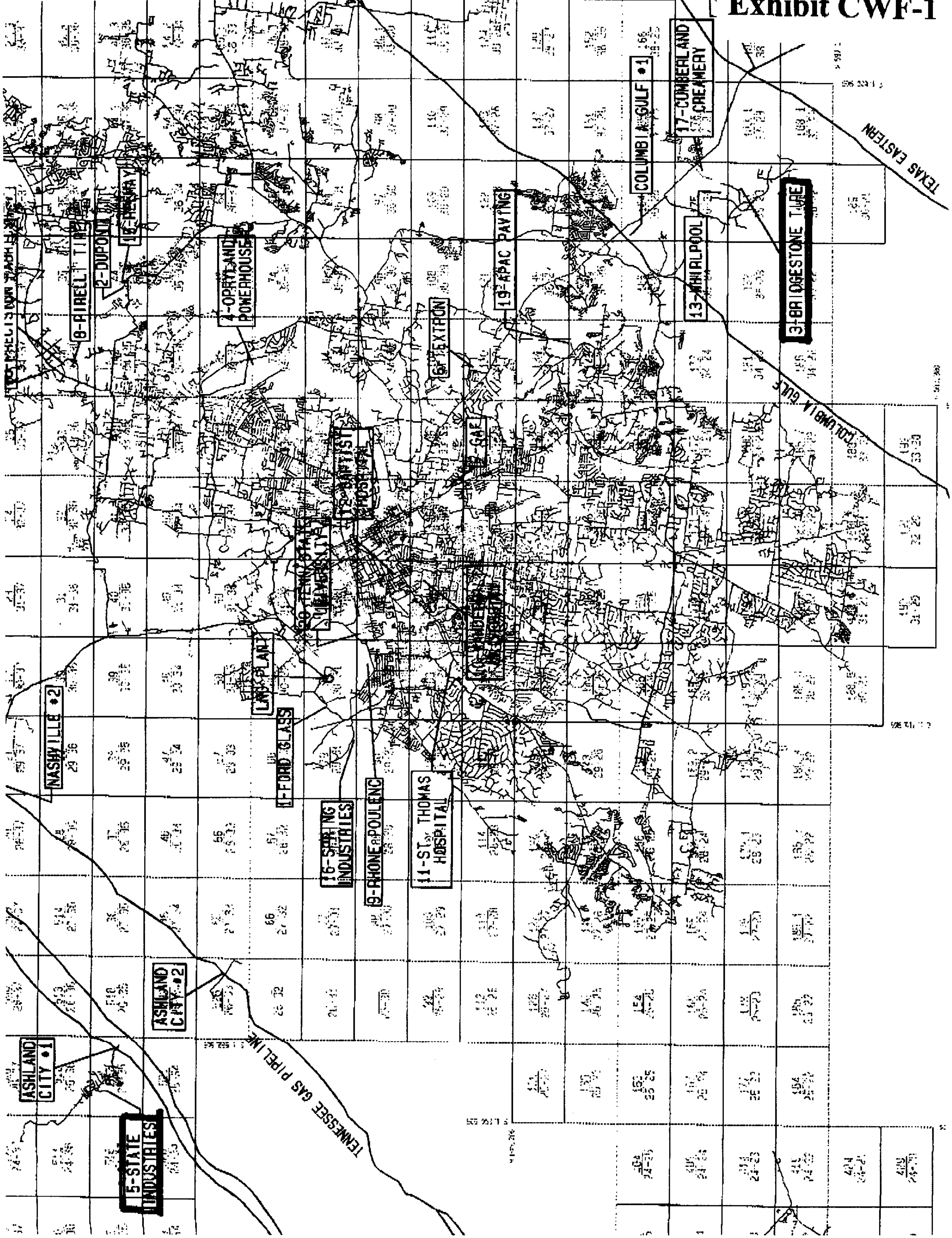
Exhibit CWF-1



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UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Tennessee Gas Pipeline Company	))	Docket No. CP98-23-000

NOTICE OF REQUEST UNDER BLANKET AUTHORIZATION

(October 21, 1997)

Take notice that on October 14, 1997, Tennessee Gas Pipeline Company (Tennessee), P.O. Box 2511, Houston, Texas 77252, filed in Docket No. CP98-23-000 a request pursuant to Sections 157.205 and 157.212 of the Commission's Regulations (18 CFR 157.205, 157.212) under the Natural Gas Act (NGA) for authorization to construct and operate delivery point facilities in Cheatham County, Tennessee, for Part 284 transportation services by Tennessee on behalf of State Industries, Inc. (State), under Tennessee's blanket certificate issued in Docket No. CP82-413-000, pursuant to Section 7 of the NGA, all as more fully set forth in the request that is on file with the Commission and open to public inspection.

Tennessee proposes to install the delivery point facilities, which consist of 2 2-inch hot tap assemblies and electronic gas measurement equipment, and explains that State, an end-user, will install approximately 3,500 feet of interconnecting pipe and measuring facilities. It is asserted that the facilities will be used to deliver up to 3,000 Dt equivalent of natural gas on a peak day and 42,000 Dt equivalent on an annual basis to State on an interruptible basis under Tennessee's Rate Schedule IT. It is estimated that the facilities will cost approximately $80,600, for which Tennessee will be reimbursed by State.

It is stated that the proposal is not prohibited by Tennessee's existing tariff and that the quantities to be delivered to State will not exceed the total quantities authorized . It is further stated that Tennessee has sufficient capacity to make the accommodate the proposed changes without detriment or disadvantage to Tennessee's existing customers.

Any person or the Commission's staff may, within 45 days after issuance of the instant notice by the Commission, file pursuant to Rule 214 of the Commission's Procedural Rules (18 CFR 385.214) a motion to intervene or notice of intervention and pursuant to Section 157.205 of the Regulations under the Natural Gas Act (18 CFR 157.205) a protest to the request. If no protest is filed within the time allowed therefor, the proposed activity shall be deemed to be authorized effective the day after the time allowed for filing a protest. If a protest is filed and not withdrawn within 30 days after the time allowed for filing a protest, the instant request shall be treated as an application for authorization pursuant to Section 7 of the Natural Gas Act.

Lois D. Cashell
Secretary