BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE

January 22, 1999

IN RE:

NASHVILLE GAS COMPANY APPLICATION FOR	)	
APPROVAL OF NEGOTIATED GAS REDELIVERY	)	**DOCKET NO. 98-00339**
AGREEMENT WITH BRIDGESTONE/FIRESTONE	)	

ORDER APPROVING APPLICATION

This matter came before the Tennessee Regulatory Authority (the "Authority") on July 21, 1998, for consideration of the Application for Approval of a Negotiated Gas Redelivery Agreement with Bridgestone/Firestone, filed on May 12, 1998, by Nashville Gas Company, a division of Piedmont Natural Gas Company ("NGC").

NGC's Application represents that, prior to January 1, 1997, Bridgestone/Firestone advised NGC that if its transportation rates were not reduced to a competitive level, Bridgestone/Firestone would proceed to bypass NGC and connect directly to an interstate pipeline. NGC's Application further asserts that, if such bypass occurred, all of the transportation revenue currently being realized from Bridgestone/Firestone would be shifted to other customers of NGC.

As negotiations between NGC and Bridgestone/Firestone progressed, the parties entered into a letter agreement dated December 30, 1997, outlining general terms for transportation redelivery service on a two-phase basis. Among other things, Phase 1 of the parties' letter agreement provided that NGC would supply negotiated firm redelivery transportation service to Bridgestone/Firestone on a short-term basis, effective from January 1, 1998 through August 1, 1998, at a discounted rate, pursuant to Rate Schedule 9, which permits NGC to grant a temporary rate adjustment in order to compete with alternate fuels available to its customers, and further allows NGC to recover any lost margin from negotiated contracts through a surcharge to all other customers. A copy of Rate Schedule 9 is attached hereto as Exhibit 1. Phase 2 of the parties' letter agreement provided the general terms for long-term firm redelivery service, subject to the Authority's approval. The long term agreement would become effective upon the first day of the month following the Authority's approval and continue in effect through December 31, 2002.

The Gas Redelivery Agreement dated April 14, 1998, of which NGC's Application now seeks approval, specifically memorializes the parties' agreement for long term firm redelivery service. Therein, NGC and Bridgestone/Firestone agreed that Bridgestone/Firestone would "acquire third party gas supplies, transport, or cause to have transported said supplies through interstate pipeline facilities to [NGC's] interconnection with Tennessee Gas Pipeline Company . . . at meter station No. 2-0312 or [NGC's] interconnection with Columbia Gulf Transmission . . . and have [NGC] redeliver such supplies through [NGC's] natural gas distribution system to [Bridgestone/Firestone's] LaVergne, Tennessee manufacturing plant . . . ."[1] NGC's Application, including the Gas Redelivery Agreement, is attached hereto as Exhibit 2.[2]

NGC's Application seeks approval of the Gas Redelivery Agreement and requests that the Authority permit NGC to recover its margin losses from the implementation of Phase 1 of the parties' letter agreement dated January 30, 1998. NGC also seeks to recover margin losses

[1] NGC's Application, at p.2, ¶5 (reiterating language found in recital paragraph of Gas Redelivery Agreement at p.1).
[2] The Gas Redelivery Agreement is attached to NGC's Application as Exhibit A.

associated with the negotiated Gas Redelivery Agreement in the manner permitted by the Authority in Docket No. 96-00977.[3]

By letter dated May 15, 1998, the Authority's Staff submitted to NGC a Request for Clarification, to which NGC responded, in writing, on June 8, 1998.

Pursuant to Authority Rule 1220-4-1-.07, the Authority may review and approve special contracts between public utilities and certain customers prescribing and providing rates, services and practices not covered by or permitted in the general tariffs, schedules or rules filed by such utilities. The parties' Gas Redelivery Agreement provides for rates not covered by NGC's current tariffs, and, therefore, must be approved by the Authority.

The Authority finds that the totality of the circumstances contained in the record support the approval of NGC's Application. The Authority further finds that approving NGC's Application for approval of the Gas Redelivery Agreement with Bridgestone/Firestone is in the best interest of NGC's ratepayers. The Authority concludes that the contract rates and terms are just and reasonable, and are not unjustly preferential or unduly discriminatory under T.C.A. § 65-5-204.

With respect to NGC's request to recover lost margins resulting from Phase 1 of the parties' letter agreement dated January 30, 1998, the Authority denies NGC's request because the discounted rate granted Bridgestone/Firestone did not, at that time, result from immediate competition from alternate fuels, as required by Rate Schedule 9, but rather a long-term threat from bypass.

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[3] In that docket, the Authority approved a procedure that permits NGC to recover 100% of its margin losses related to negotiated rates. While NGC has been recording its margin losses associated with the Bridgestone/Firestone negotiated rates, the same have not been approved.

While NGC asserts that it will experience a significant annual margin loss from the implementation of the Gas Redelivery Agreement and requests that such margin loss be surcharged to all other ratepayers, the Authority must consider whether it is appropriate for NGC's ratepayers to shoulder the entire burden of NGC's margin loss. In support of its position, NGC points out that its request is consistent with action taken by the TRA in Docket 98-00128 where 100% of margin gains associated with a new Gas Redelivery Agreement with Ford Motor Company (Ford) were approved. The Authority finds, however, that the margin loss from NGC's prior Ford contract (Docket 90-07401) was initially recovered from both NGC and the ratepayers and has been completely recovered from all other ratepayers since NGC's 1994 rate case.[4] Thus, NGC's ratepayers should recover a later gain since such ratepayers "paid" for the prior lost margin on a previously negotiated special contract.

In the interest of fairness, the Authority concludes that NGC shall not be permitted to recover 100% of its margin loss under the Gas Redelivery Agreement; rather, NGC shall be required to bear some of the cost of its margin loss based upon a sharing arrangement of 90%/10% between the ratepayers and NGC, respectively.

IT IS THEREFORE ORDERED THAT:

1. NGC's Application for Approval of a Negotiated Gas Redelivery Agreement with Bridgestone/Firestone is approved;

2. NGC's request to recover margin losses resulting from Phase 1 of the parties' letter agreement dated January 30, 1998 is denied; and

[4] For a copy of the Order entered on April 23, 1993, in Docket 90-07401, see Exhibit 3 attached hereto.

3. NGC's request to recover margin losses resulting from the Gas Redelivery Agreement is permitted, subject to a sharing arrangement for margin losses of 90%/10% between the ratepayers and NGC, respectively.

4. Any party aggrieved by the Authority's decision in this matter has the right of judicial review by filing a Petition for Review in the Tennessee Court of Appeals, Middle Section, within sixty (60) days from and after the date of this order.

CHAIRMAN

DIRECTOR

DIRECTOR

ATTEST:

EXECUTIVE SECRETARY