# Before the
# Public Service Commission of South Carolina

## Docket No. 2011-4-G

**Annual Review of Purchased Gas Adjustment and Gas Purchasing Policies**
**of**
**Piedmont Natural Gas Company, Inc.**

# Testimony and Exhibits
# of
# Robert L. Thornton

# On Behalf Of
# Piedmont Natural Gas Company, Inc.

Piedmont Natural Gas

**June 10, 2011**

**Q. Please state your name and business address.**

A. My name is Robert L. Thornton. My business address is 4720 Piedmont Row Drive, Charlotte, North Carolina.

**Q. What is your position and what are your responsibilities with Piedmont Natural Gas Company ("Piedmont")?**

A. I am employed as Director of Gas and Regulatory Accounting.

**Q. Please briefly describe your education and experience.**

A. I received a B.S. degree from The College of Charleston in 1984. In 1985, I was employed by Duke Power Company as a staff accountant. In 1990 I was employed by Ingersoll-Dresser Pump Company as Controller. In 1994, I was employed by Public Service Company of North Carolina, Inc. ("PSNC"), as a Senior Financial Accountant and was promoted to Director – Investor Relations and Financial Projects in 1998. After PSNC was acquired by SCANA Corporation, I was employed by Cox Technologies in 2000 as Controller and Assistant Treasurer. In 2004, I was employed by HSBC Mortgage Corp. as Manager of Regulatory and Investor Reporting. I was employed by Piedmont Natural Gas Company, Inc. ("Piedmont") in 2007 as Manager of Gas Accounting. I was promoted to Director of Gas and Regulatory Accounting in February 2008.

**Q. Please describe your responsibilities as Director of Gas and Regulatory Accounting.**

A. My responsibilities include: recording the cost of gas on Piedmont's books, maintaining a proper match of revenues and cost of gas in Piedmont's income

statements, recording Piedmont's margin in accordance with regulatory requirements in each of the three state jurisdictions in which Piedmont operates, verifying volumes and prices on all invoices relating to the purchase and transportation of natural gas, and recording gas inventory accounts and deferred accounts. I am also responsible for the middle office functions related to the experimental hedging program implemented in South Carolina pursuant to Commission Order No. 2002-223 dated March 26, 2002.

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

A. Yes. I have previously testified before the Public Service Commission of South Carolina and the North Carolina Utilities Commission on several occasions.

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

A. The purpose of my testimony in this proceeding is to report to the Commission Piedmont's end-of-period balances in and accounting for its deferred gas costs accounts in order to permit the Commission to determine that Piedmont's true-up procedures for the review period have resulted in a properly stated cost of gas and that Piedmont's gas costs are properly recorded in compliance with Piedmont's Gas Cost Recovery Mechanism and Hedging Plan.

**Q. Were there any adjusting accounting entries made to the Deferred Account No. 253.04?**

A. Yes, there were four adjusting entries related to special items recorded during

the test period. The first entry was recorded in July 2010 as a result of a special contract customer and a power generation facility customer not being handled properly in the new commodity true-up and demand true-up methodologies approved in Docket No. 2009-435-G. The dekatherms related to these customers were inadvertently left out of the true-up mechanisms. The result of this adjustment to the deferred account was a decrease of $1,454,295.33, which included $24,269.48 in interest. The second adjustment was recorded in January 2011 as a result of the improper classification of costs to the SC jurisdiction related to a pipeline interconnection. The result of this adjustment to the deferred account was a credit to true-up the interest owed to the customers of $2,254.32. The third adjustment was recorded in March 2011 as a result of incorrect demand therms on a billing system report that is used in calculating cost recoveries. This adjustment resulted in a decrease to the deferred account of $6,643.80, which included $518.00 in interest. The fourth adjustment was recorded in April 2011 as a result of a correction to the previous adjustment related to demand therms. The Company improperly recorded the demand therms adjustment for a single customer using the transportation rate instead of the sales rate. This adjustment resulted in a decrease to the deferred account of $57,043.71, which included interest of $5,048.91.

**Q. Has the Office of Regulatory Staff reviewed Piedmont's accounting for its cost of gas for the review period in this proceeding?**

A. Yes. The Commission has previously ordered the Company to maintain an account reflecting its gas costs each month, the amount of gas costs recovered each month, and amounts deferred each month. The audit staff of the ORS has conducted a detailed audit and review of the review period activity in that account, as well as the detailed data supporting the accounting entries to that account. A summary of the review period activity in that account is attached hereto as Exhibit__(RLT-1).

**Q. Does the Company also maintain a hedging deferred account?**

A. Yes. Effective April 1, 2002, Piedmont implemented an experimental natural gas hedging program pursuant to Commission Order No. 2002-223. Pursuant to this program, Piedmont maintains a Hedging Deferred Account in which it records the results of its hedging activities undertaken in accordance with its hedging plan. The audit staff of the Office of Regulatory Staff has also conducted a detailed review of the activity in this account and the detailed accounting data supporting that activity. A summary of the review period activity in Piedmont's Hedging Deferred Account is attached hereto as Exhibit__(RLT-2).

**Q. Does this conclude your testimony?**

A. Yes.

# EXHIBIT__(RLT-1)

Piedmont Natural Gas Co., Inc. - South Carolina
Gas Cost Deferred Account Activity
Annual Prudence Review - Docket No. 2011-4-G
12 Months Ended March 31, 2011
**Debits (Credits)**

Exhibit__(RLT-1)

| Reporting Month ==> | May-10 | Jun-10 | Jul-10 | Aug-10 | Sep-10 | Oct-10 | Nov-10 | Dec-10 | Jan-11 | Feb-11 | Mar-11 | Apr-11 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Gas Flow Month ==> | Apr-10 | May-10 | Jun-10 | Jul-10 | Aug-10 | Sep-10 | Oct-10 | Nov-10 | Dec-10 | Jan-11 | Feb-11 | Mar-11 | Totals |
| Beginning Balance | 2,596,769.77 | 2,039,775.46 | 2,781,517.74 | 1,966,650.22 | 1,953,347.30 | 3,967,126.68 | 4,697,269.17 | 6,348,799.53 | 5,889,453.41 | 667,774.77 | (7,037,899.40) | (9,238,589.87) | |
| Billed vs. Filed (Commodity) TU | (513,090.84) | (86,693.39) | (295,100.21) | (983,573.42) | (68,119.42) | (428,356.13) | 59,720.68 | (764,585.02) | (120,532.32) | (221,699.19) | 117,995.62 | 693,424.43 | (2,610,609.21) |
| Demand True-Up | 820,162.28 | 1,306,239.26 | 1,251,080.10 | 1,157,380.62 | 1,275,444.42 | 1,211,467.57 | 1,231,267.20 | (18,498.46) | (3,366,241.99) | (3,093,101.22) | (1,220,685.02) | (286,138.87) | 268,375.89 |
| Negotiated Losses | 70,968.39 | 71,804.86 | 71,718.95 | 77,479.51 | 84,962.52 | 55,063.34 | 90,481.55 | 123,813.86 | 137,863.44 | 119,056.46 | 110,335.80 | 111,908.52 | 1,125,457.20 |
| Capacity Release Credits | (927,532.21) | (66,546.38) | (74,012.27) | (66,044.32) | (66,961.08) | (64,699.26) | (58,054.34) | (112,471.42) | (119,721.70) | (129,551.87) | (241,812.32) | (182,099.04) | (2,109,506.21) |
| SC Portion of Off System Sales Revenue | (2,002,507.90) | (2,501,987.38) | (2,989,714.91) | (2,867,327.42) | (1,934,805.69) | (2,099,252.99) | (1,628,077.28) | (2,406,592.10) | (3,054,084.50) | (5,356,297.74) | (2,274,354.53) | (2,948,230.20) | (32,063,232.64) |
| SC Portion of Off System Sales Costs | 1,950,269.61 | 2,459,390.08 | 2,840,588.14 | 2,739,675.46 | 1,851,495.14 | 1,991,940.07 | 1,618,575.57 | 2,297,895.66 | 2,168,736.47 | 3,069,014.35 | 1,915,459.10 | 2,847,149.32 | 27,750,188.97 |
| WNA (includes adjustment) | 171.23 | 6.91 | (751.27) | (166.45) | (54.71) | (16.52) | 0.80 | 370,243.28 | (960,137.60) | (2,237,844.17) | (686,907.85) | 1,195,025.93 | (2,320,430.42) |
| Supplier Refunds | (214.53) | (77,820.25) | (311.03) | - | (34,951.80) | - | - | (3.40) | - | (100.93) | (38,636.07) | - | (152,038.01) |
| SC - Uncollectibles | 127,035.48 | 99,621.39 | 212,429.49 | 159,341.86 | 52,122.13 | 22,646.10 | 30,898.20 | 6,839.85 | (24,187.81) | (7,259.11) | (4,565.61) | (22,420.36) | 652,501.61 |
| Monthly Hedging Transfer | (90,567.36) | (470,194.83) | (383,622.60) | (235,874.81) | 846,934.18 | 29,924.78 | 291,688.19 | 26,469.82 | 108,107.32 | 162,787.82 | 156,652.66 | 95,730.16 | 538,035.33 |
| Other Adjustments | | | (1,454,295.33) | - | | | | | (2,254.32) | - | (6,643.80) | (57,043.71) | (1,520,237.16) |
| Ending Balance Before Interest | 2,031,463.92 | 2,773,595.73 | 1,959,526.80 | 1,947,541.25 | 3,959,412.99 | 4,685,843.64 | 6,333,769.74 | 5,871,911.60 | 657,000.40 | (7,027,220.83) | (9,211,061.42) | (7,791,283.69) | |
| Interest | 8,311.54 | 7,922.01 | 7,123.42 | 5,806.05 | 7,713.69 | 11,425.53 | 15,029.79 | 17,541.81 | 10,774.37 | (10,678.57) | (27,528.45) | (29,106.89) | 24,334.30 |
| **Ending Balance (Actuals only)** | **2,039,775.46** | **2,781,517.74** | **1,966,650.22** | **1,953,347.30** | **3,967,126.68** | **4,697,269.17** | **6,348,799.53** | **5,889,453.41** | **667,774.77** | **(7,037,899.40)** | **(9,238,589.87)** | **(7,820,390.58)** | |
| Monthly Interest Rate | 4.310% | 3.950% | 3.606% | 3.560% | 3.131% | 3.169% | 3.270% | 3.445% | 3.950% | 4.030% | 4.066% | 4.102% | |

# EXHIBIT__(RLT-2)

**Piedmont Natural Gas Company, Inc. - South Carolina**
**Hedging Account Activity**
**Annual Prudence Review - Docket No. 2011-4-G**
**12 Months Ended March 31, 2011**
**Debits (Credits)**

Exhibit__(RLT-2)

| | # of Contracts Executed / Exercised | Beginning Balance | Net Options Premium | Fees 1 | Margin Requirement (P&L Cash Act) | Consultant Fees | Proceeds from positions | Fees 2 | Interest from brokerage acct. | Other Monthly Fee | Monthly Gain / Loss Transfer |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Apr-10 | 65 | $ - | 57,800.00 | 263.50 | (746,177.00) | 790.50 | 596,160.00 | 744.00 | (195.48) | 47.12 | (90,567.36) |
| May-10 | 61 | $ - | 27,000.00 | 139.50 | (1,186,504.00) | 790.50 | 687,740.00 | 806.00 | (191.15) | 24.32 | (470,194.83) |
| Jun-10 | 62 | $ - | 36,900.00 | 279.00 | (837,715.00) | 790.50 | 415,580.00 | 682.00 | (163.42) | 24.32 | (383,622.60) |
| Jul-10 | 121 | $ - | 93,400.00 | 666.50 | (1,013,646.00) | 790.50 | 681,750.00 | 1,209.00 | (69.13) | 24.32 | (235,874.81) |
| Aug-10 | 132 | $ - | 166,000.00 | 1,116.00 | (24,157.00) | 790.50 | 702,315.90 | 930.00 | (85.54) | 24.32 | 846,934.18 |
| Sep-10 | 99 | $ - | 64,500.00 | 449.50 | (891,872.00) | 790.50 | 855,000.00 | 1,085.00 | (52.54) | 24.32 | 29,924.78 |
| Oct-10 | 112 | $ - | 289,170.00 | 1,736.00 | - | 790.50 | - | - | (32.63) | 24.32 | 291,688.19 |
| Nov-10 | 10 | $ - | 25,500.00 | 155.00 | - | 790.50 | - | - | - | 24.32 | 26,469.82 |
| Dec-10 | 35 | $ - | 106,750.00 | 542.50 | - | 790.50 | - | - | - | 24.32 | 108,107.32 |
| Jan-11 | 66 | $ - | 160,950.00 | 1,023.00 | - | 790.50 | - | - | - | 24.32 | 162,787.82 |
| Feb-11 | 80 | $ - | 154,610.00 | 1,240.00 | | 790.50 | | | | 12.16 | 156,652.66 |
| Mar-11 | 96 | $ - | 138,310.00 | 1,224.50 | | - | (44,080.00) | 263.50 | | 12.16 | 95,730.16 |
| | | Activity Totals | 1,320,890.00 | 8,835.00 | (4,700,071.00) | 8,695.50 | 3,894,465.90 | 5,719.50 | (789.89) | 290.32 | 538,035.33 |