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August 31, 2007

VIA ELECTRONIC MAIL AND HAND DELIVERY

Mr. Charles L.A. Terreni
Chief Clerk/Administrator
Public Service Commission of South Carolina
101 Executive Center Dr., Suite 100
Columbia, SC 29210

VIA ELECTRONIC MAIL AND OVERNIGHT MAIL

Mr. David R. Carpenter
Director – Rates
Piedmont Natural Gas Company, Inc.
Piedmont Town Center
4720 Piedmont Row Drive
Charlotte, NC 28210

Re: Report of Office of Regulatory Staff Examination of Piedmont Natural Gas Company's Monitoring Report Under **CHAPTER 5, TITLE 58 CODE OF LAWS OF SOUTH CAROLINA, ARTICLE 4** ("the Natural Gas Rate Stabilization Act" or "the Act") for the Twelve-Month Period Ending March 31, 2007

Docket No. 2005-125-G

Gentlemen:

The South Carolina Office of Regulatory Staff ("ORS"), in accordance with the Natural Gas Rate Stabilization Act, S.C. Code Ann §§ 58-5-400, et seq. (Supp. 2006), ("RSA" or "The Act"), conducted an examination of Piedmont Natural Gas Company's (hereafter "Piedmont" or "the Company") Monitoring Report for the twelve-month period ended March 31, 2007. Said examination was conducted for the purpose of determining the Company's compliance with Section 58-5-430 and Section 58-5-440 of the Act.

The Company reported in its March 31, 2007, Quarterly Report a Rate of Return and Return on Equity of 10.12% and 12.98%, respectively. As the Company's calculated Return on Equity was less than .50% greater than the 12.6% authorized in its most recent rate case (Order No. 2002-761 issued in Docket No. 2002-63-G on November 1, 2002), no adjustment of Margin revenue was proposed. The Company's calculation of additional revenue requirements consisted only of an adjustment for Demand Cost Under-Recovery of \$1,795,575.

Based upon its examination, the Office of Regulatory Staff is proposing certain adjustments (see Schedule 2) to reported amounts in order to bring the report into conformance with Section 58-5-430 and Section 58-5-440 of the Act.

The Office of Regulatory Staff calculated the Company's Rate of Return and Return on Equity as 10.04% and 12.42%, respectively. As such, and in accordance with the guidelines of the Act, the Company is within the parameters of its authorized return and is not required to adjust its Margin rates but is entitled to an adjustment to collect its cumulative Demand Cost Under-Recovery of \$1,797,800. Accordingly, ORS recommends that the Company be authorized a net increase to revenues of \$1,797,800. After the proposed increase, the Company will have the opportunity to earn a Rate of Return and Return on Equity of 10.04% and 12.42%, respectively.

The following is a summary of the Dockets relative to the Company's most recent rate adjustments:

Date of Order	Docket Number	Amount Requested	Amount Granted	Rates of Return	
				Rate Base	Common Equity
11/07/95	1995-715-G	\$ 8,827,414	\$7,807,207	10.77%	12.50%
11/01/02	2002-63-G	\$15,336,891	\$8,381,220	10.39%	12.60%
10/21/05	2005-125-G	\$ 4,672,048	\$1,387,964	10.34%	12.60%
09/27/06	2005-125-G	\$11,249,086	\$6,533,885	9.48%	11.20%

The following is a description of Schedules prepared by ORS as a result of its review of the Company's filing:

Schedule 1 presents the Company's Operating Experience, Rate Base and Rates of Return for the year ended March 31, 2007, and the accounting and pro forma adjustments which are necessary to correct or normalize the Company's operations both before and after the effect of the requested increase. Utilizing a rate base of \$224,233,278 and per book income of \$13,745,279, ORS computed a Rate of Return on per book operations of 6.13% with an accompanying Return on Equity of 5.53%. Accounting and pro forma adjustments increased Operating Income to \$22,411,616 and decreased rate base to \$223,145,764. The Return on Equity computed by ORS after accounting and pro forma adjustments was 12.42%. After the adjustment for the Demand Cost Under-Recovery of \$1,797,800, operating income remained \$22,411,616 and rate base

remained at \$223,145,764. The Rate of Return on rate base computed by ORS after the adjustment for the proposed increase remains 10.04% with a corresponding Return on Equity of 12.42%.

Schedule 2 presents an explanation of the accounting and pro forma adjustments ORS considers necessary for the Company's report to conform with Section 58-5-430 and Section 58-5-440 of the Act. For comparative purposes, the adjustments of both the Company and ORS are presented.

Schedule 3 presents the calculation of the average weighted cost of capital used by the Company in calculating its Return on Equity both before and after its proposed increase. The rate base, as shown on Schedule 1, is allocated between long term debt and equity according to the respective ratios as computed using the Company's average weighted capital structure. The amount of total income for return necessary to cover an embedded cost rate of 6.92% on long term debt is computed to be \$6,671,778. The remainder of the total income for return of \$15,739,838 is income to common equity. Such remainder produced a return of 12.42% on common equity. The overall cost of capital after accounting and pro forma adjustments but prior to the requested increase is 10.04%. Such overall cost of capital equals the rate of return on rate base shown on Schedule 1.

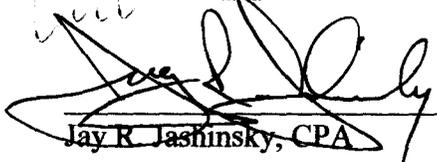
After the proposed increase of \$1,797,800 for Demand Cost Under-recovery, income available to common equity remains \$15,739,838 and return on common equity remains 12.42%. Overall cost of capital as detailed in Schedule 3 equals 10.04%. Such overall cost of capital equals the rate of return on Schedule 1.

Respectfully submitted by,



Jeffrey M. Nelson, Esquire

- and -



Jay R. Jashinsky, CPA

Piedmont Natural Gas Company
South Carolina Operations
Net Operating Income and Rate of Return
For the Twelve Months Ended March 31, 2007
Docket No. 2005-125-G

	(1) Per Regulatory Books	(2) ORS Accounting and Pro Forma Adjustments	(3) ORS As Adjusted	(4) Adjustments for Demand Cost Under-Recovery	(5) Total After Proposed Rates
<u>Operating Revenues</u>					
1	\$ 201,382,985	\$ (1,076,672) (1)	\$ 200,306,313	\$ 1,797,800 (12)	\$ 202,104,113
2	945,789	0	945,789		945,789
3	<u>202,328,774</u>	<u>(1,076,672)</u>	<u>201,252,102</u>	<u>1,797,800</u>	<u>203,049,902</u>
<u>Operating Expenses</u>					
4	125,494,760	(2,098,826) (2)	123,395,934	1,785,055 (13)	125,180,989
5	30,349,750	(1,876,718) (3)	28,473,032	4,299 (14)	28,477,331
6	11,529,236	(230,252) (4)	11,298,984		11,298,984
7	6,680,910	(191,658) (5)	6,489,252	8,446 (15)	6,497,698
8	572,568	680,537 (6)	1,253,105		1,253,105
9	14,264,806	(5,955,010) (7)	8,309,796		8,309,796
10	(59,487)		(59,487)		(59,487)
11	<u>188,832,543</u>	<u>(9,671,927)</u>	<u>179,160,616</u>	<u>1,797,800</u>	<u>180,958,416</u>
12	13,496,231	8,595,255	22,091,486	0	22,091,486
13	(120,366)		(120,366)		(120,366)
14	(14,343)	(386) (8)	(14,729)		(14,729)
15	274,075		274,075		274,075
16	109,662	71,468 (9)	181,150		181,150
17	<u>\$ 13,745,279</u>	<u>\$ 8,666,337</u>	<u>\$ 22,411,616</u>	<u>\$ 0</u>	<u>\$ 22,411,616</u>
<u>Original Cost Rate Base:</u>					
18	\$ 360,882,042		\$ 360,882,042		\$ 360,882,042
19	(129,944,541)		(129,944,541)		(129,944,541)
20	230,937,501		230,937,501		230,937,501
Add:					
21	5,889,778		5,889,778		5,889,778
22	19,784,206	(82,771) (10)	19,701,435		19,701,435
23	4,943,966	(1,004,743) (11)	3,939,223		3,939,223
Deduct:					
24	3,599		3,599		3,599
25	3,845,353		3,845,353		3,845,353
26	33,102,582		33,102,582		33,102,582
27	370,639		370,639		370,639
28	<u>\$ 224,233,278</u>	<u>\$ (1,087,514)</u>	<u>\$ 223,145,764</u>		<u>\$ 223,145,764</u>
29	<u>6.13%</u>		<u>10.04%</u>		<u>10.04%</u>
30	<u>5.53%</u>		<u>12.42%</u>		<u>12.42%</u>

Piedmont Natural Gas Company
South Carolina Operations
Explanations of Accounting and Pro Forma Adjustments
Twelve Months Ended March 31, 2007
Docket No. 2005-125-G

<u>Line No.</u>	<u>Description</u>	<u>Per Piedmont</u>	<u>Per ORS</u>
1	<u>Operating Revenues - Sale and Transportation of Gas</u>		
	To decrease revenues on a going-level basis.	\$ (1,076,672)	\$ (1,076,672)
	<u>Total Operating Revenues - Sale and Transportation of Gas</u>	\$ (1,076,672)	\$ (1,076,672)
2	<u>Cost of Gas</u>		
	To decrease cost of gas on a going-level basis.	\$ (2,098,826)	\$ (2,098,826)
	<u>Total Cost of Gas</u>	\$ (2,098,826)	\$ (2,098,826)
3	<u>Operations and Maintenance Expenses</u>		
	a. To decrease the payroll costs on a going-level basis, to annualize the payroll expense as of March 31, 2007, and to disallow officer salary increases in conformance with PSC Order No. 2002-761, dated November 1, 2002.	\$ (315,158)	\$ (147,185)
	b. To decrease expenses for the salary and payroll investment plan. The plan allows participants to defer a portion of their base salary and the Company matches a portion of the participant's contribution.	(34,061)	(29,493)
	c. Adjustment 3 c. not used by company.		
	d. To correct pension costs included in the filing.	(52,551)	(52,551)
	e. To adjust uncollectible gas cost expense utilizing the method recently approved in Docket No. 2006-4-G, Order No. 2006-527, dated October 11, 2006. This removes uncollectible gas cost expense from base rates and records the amount in account # 253.04. The applicable uncollectible gas cost rate is .24081%.	(274,537)	(373,546)
	f. To decrease expenses for allocations to non-utility activities.	(14,280)	(14,280)
	g. To decrease expenses for the Long-Term Incentive Plan.	(240,355)	(240,355)
	h. To decrease expenses for the Short-Term Incentive Plan.	(31,352)	(31,352)
	i. To increase expenses for the MVP Incentive Plan.	109,948	109,948

Piedmont Natural Gas Company
South Carolina Operations
Explanations of Accounting and Pro Forma Adjustments
Twelve Months Ended March 31, 2007
Docket No. 2005-125-G

<u>Line No.</u>	<u>Description</u>	<u>Per Piedmont</u>	<u>Per ORS</u>
j.	To increase expenses for group insurance as projected.	71,143	71,143
k.	To decrease expenses for the Piedmont Town Center lease.	(938)	(938)
l.	To decrease expenses for the South Carolina assessment fee.	(17,196)	(17,196)
m.	To decrease expenses for items that are nonallowable for ratemaking purposes.	(134,965)	(134,965)
n.	To decrease expenses for amortization of early retirement incentive.	<u>(1,015,948)</u>	<u>(1,015,948)</u>
	<u>Total Operations and Maintenance Expense</u>	<u>\$ (1,950,250)</u>	<u>\$ (1,876,718)</u>
4	<u>Depreciation Expense</u>		
	To decrease depreciation expense on a going-level basis using recently completed depreciation study rates.	\$ <u>(230,252)</u>	\$ <u>(230,252)</u>
	Total Depreciation Expense	<u>\$ (230,252)</u>	<u>\$ (230,252)</u>
5	<u>General Taxes</u>		
a.	To decrease property taxes on a going-level basis.	\$ (12,262)	\$ (12,262)
b.	To adjust payroll tax expense.	(148,692)	(174,338)
c.	To decrease franchise taxes (rate of .3%) and gross receipts tax (rate of .16979%) for the adjustment made to decrease revenues on a going-level basis.	<u>0</u>	<u>(5,058)</u>
	Total General Taxes	<u>\$ (160,954)</u>	<u>\$ (191,658)</u>
6	<u>State Income Taxes</u>		
	To adjust state income taxes (rate of 5%) to reflect the impact on income of accounting and pro forma adjustments.	\$ <u>651,824</u>	\$ <u>680,537</u>
	Total State Income Taxes	<u>\$ 651,824</u>	<u>\$ 680,537</u>

Piedmont Natural Gas Company
South Carolina Operations
Explanations of Accounting and Pro Forma Adjustments
Twelve Months Ended March 31, 2007
Docket No. 2005-125-G

<u>Line No.</u>	<u>Description</u>	<u>Per Piedmont</u>	<u>Per ORS</u>
7	<u>Federal Income Taxes</u>		
	To adjust federal income taxes (rate of 35%) to reflect the impact on income of accounting and pro forma adjustments.	\$ (6,145,951)	\$ (5,955,010)
	<u>Total Federal Income Taxes</u>	<u>\$ (6,145,951)</u>	<u>\$ (5,955,010)</u>
8	<u>Amortization of Debt Redemption Premium</u>		
	To decrease net operating income for amortization of debt redemption premium.	\$ (386)	\$ (386)
	<u>Total Amortization of Debt Redemption Premium</u>	<u>\$ (386)</u>	<u>\$ (386)</u>
9	<u>Customer Growth</u>		
	To increase net operating income to reflect anticipated customer growth (rate of .82%) following the adjustments to operating revenues and expenses.	\$ 72,632	\$ 71,468
	<u>Total Customer Growth</u>	<u>\$ 72,632</u>	<u>\$ 71,468</u>
10	<u>Materials and Supplies</u>		
	To adjust materials and supplies to reflect actual gas inventory levels.	\$ 0	\$ (82,771)
	<u>Total Materials and Supplies</u>	<u>\$ 0</u>	<u>\$ (82,771)</u>
11	<u>Cash Working Capital</u>		
	To decrease cash working capital following the pro forma adjustments to operation, and maintenance expenses (rate of 12.5%) as reflected in the Original Filing.	\$ (243,781)	\$ (1,004,743)
	<u>Total Cash Working Capital</u>	<u>\$ (243,781)</u>	<u>\$ (1,004,743)</u>
12	<u>Operating Revenues - Sale and Transportation of Gas</u>		
	To increase the revenue requirement for the sale and transportation of gas associated with the demand cost under-recovery.	\$ \$1,795,575	\$ 1,797,800
	<u>Total Operating Revenues - Sale and Transportation of Gas</u>	<u>\$ \$1,795,575</u>	<u>\$ 1,797,800</u>

Piedmont Natural Gas Company
South Carolina Operations
Explanations of Accounting and Pro Forma Adjustments
Twelve Months Ended March 31, 2007
Docket No. 2005-125-G

<u>Line No.</u>	<u>Description</u>	<u>Per Piedmont</u>	<u>Per ORS</u>
13	<u>Cost of Gas</u>		
	To increase cost of gas for the demand cost under-recovery using a demand cost allocation factor of 16.16%, based upon the most recent design day study.	\$ <u>\$1,785,055</u>	\$ <u>1,785,055</u>
	<u>Total Cost of Gas</u>	\$ <u>\$1,785,055</u>	\$ <u>1,785,055</u>
14	<u>Operations and Maintenance Expenses</u>		
	a. To increase the provision for uncollectible accounts (rate of .24081%) following the adjustment to operating revenues.	\$ 5,181	\$ 4,299
	b. To increase the franchise taxes (rate of .30%) following the adjustments to operating revenues.	<u>5,340</u>	<u>0</u>
	<u>Total Operations and Maintenance Expenses</u>	\$ <u>10,521</u>	\$ <u>4,299</u>
15	<u>General Taxes</u>		
	To increase the franchise taxes (rate of .3%) and gross receipts tax (rate of .16979%) for the adjustment made to revenues for the demand cost under-recovery.	<u>0</u>	<u>8,446</u>
	<u>Total General Taxes</u>	<u>0</u>	<u>8,446</u>

**Piedmont Natural Gas Company
South Carolina Operations
Average Weighted Cost of Capital
Docket No. 2005-125-G**

Schedule 3

<u>Description</u>	<u>Capital Structure</u>	<u>Ratio</u>	<u>Regulatory Per Books</u>			<u>As Adjusted</u>			<u>After Proposed Increase</u>			<u>Net Operating Income</u>		
			<u>Rate Base</u>	<u>Embedded Cost/Return</u>	<u>Overall Cost/Return</u>	<u>Income For Return</u>	<u>Rate Base</u>	<u>Embedded Cost/Return</u>	<u>Overall Cost/Return</u>	<u>Income For Return</u>	<u>Rate Base</u>		<u>Embedded Cost/Return</u>	<u>Overall Cost/Return</u>
Long-Term Debt	767,560,983	43.21%	96,882,849	6.92%	2.99%	6,704,293	96,412,974	6.92%	2.99%	6,671,778	96,412,974	6.92%	2.99%	6,671,778
Common Equity	<u>1,008,942,469</u>	56.79%	<u>127,350,429</u>	5.53%	3.14%	<u>7,040,986</u>	<u>126,732,790</u>	12.42%	7.05%	<u>15,739,838</u>	<u>126,732,790</u>	12.42%	7.05%	<u>15,739,838</u>
Total	<u>1,776,503,452</u>	100.00%	<u>224,233,278</u>		6.13%	<u>13,745,279</u>	<u>223,145,764</u>		10.04%	<u>22,411,616</u>	<u>223,145,764</u>		10.04%	<u>22,411,616</u>

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2005-125-G

IN RE:)	
)	
Notice of Election of Piedmont Natural)	
Gas Company, Inc. for Application)	CERTIFICATE OF
Of the Natural Gas Rate Stabilization)	SERVICE
Act to its Rates and Charges)	
_____)	

This is to certify that I, Pamela J. McMullan, an employee with the Office of Regulatory Staff, have this date served one (1) copy of the **AUDIT REPORT** in the above-referenced matter to the person(s) named below by causing said copy to be deposited in the United States Postal Service, first class postage prepaid and affixed thereto, and addressed as shown below:

James H. Jeffries, IV
Piedmont Natural Gas Company
100 North Tryon Street, Ste 4700
Charlotte, NC 28202

Scott Elliott
Elliott & Elliott, P.A.
721 Olive Street
Columbia, SC 29205



Pamela J. McMullan

August 31, 2007
Columbia, South Carolina