

Piedmont Natural Gas Company, Inc. Margin Decoupling Tracker

The Margin Decoupling Tracker (MDT) was approved in Piedmont Natural Gas Company, Inc.'s (Piedmont's) last general rate case, which became effective November 1, 2008. The reasoning behind the implementation of the MDT was to recognize that residential customer usage of natural gas is declining, while the cost of each unit (therm) of gas has increased. By North Carolina Law, a public utility like Piedmont is allowed to recover its costs plus a reasonable profit (called margin). Since the vast majority of Piedmont's costs are fixed in nature and do not vary with customer usage, its ability to recover those costs is highly dependent on customer usage and the charge per therm.

The Company's previous rate structure created a conflict between the interests of the Company and its customers when it came to conservation. While conservation benefits customers by reducing the amount of gas they use, conservation has the potential to harm the Company and its shareholders because it reduces the ability of the Company to recover its approved margin and to provide the return reasonably expected by the Company's shareholders. This conflict, which is due to the highly volumetric rate structure, is not in the public interest.

In past rate cases, the Commission has approved increases in the monthly fixed charge component of Piedmont's rates for its residential and commercial customers in order to partially address risks from a predominantly volumetric rate structure, even though such increases are not popular with some, if not most, customers.

The implementation of the MDT allows the Company to earn the margin the Commission determined it should earn in the last general rate case without the use of higher monthly charges. When customers use more gas than determined in the rate case, there is a credit (reduction) in the MDT account, which is held separate by Piedmont. Similarly, when customers use less gas than determined in the rate case, there is a surcharge (increase) in customers' MDT account. Twice a year, in April and November, the Company is permitted to adjust rates to either collect shortfalls or refund overcharges depending on the MDT balance.

In addition, declining margin recovery resulting from declining per customer usage creates pressure to file for more frequent and larger rate increases. Rate cases are substantial, lengthy and expensive undertakings ultimately paid for by ratepayers. The MDT helps alleviate the frequency of rate cases.

Benefits and results from the MDT mechanism include: customer savings from utilization of smaller amounts of natural gas; a credit to customer in the event of colder than normal weather (higher than anticipated usage); the creation of downward pressure on short-term wholesale gas rates from lower demand;

enhanced opportunities for utilities to recover their fixed costs and a better opportunity to earn their allowed return; enhancement of state policies to increase economic development; enhanced abilities for state public utility commissions to support larger state policy objectives (such as conservation); and finally, the implementation of the MDT allowed the Company to discontinue the Weather Normalization Adjustment (WNA).

The Commission approved Appendix C of Piedmont's Service Regulations which provides a detailed description of the MDT mechanism and the method of computation.