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August 21, 2003

VIA HAND DELIVERY

Ms. Deborah Taylor Tate, Chairman
TENNESSEE REGULATORY AUTHORITY
460 James Robertson Parkway
Nashville, Tennessee 37243

Re: *Application of Nashville Gas Company, A Division of Piedmont Natural Gas Company, Inc., for an Adjustment of its Rates and Charges, the Approval of Revised Tariffs and Approval of Revised Service Regulations, Docket No. 03-00313.*

Dear Chairman Tate:

Enclosed for filing in the above-styled matter are the original and thirteen copies of Nashville Gas Company's First Set of Interrogatories and Request for Production of Documents to the Consumer Advocate. Should you have any questions with respect to this filing, please do not hesitate to contact me at the number shown above.

Thanking you in advance for your assistance with this matter, I am

Very truly yours,

R. Dale Grimes / BDR & permission

R. Dale Grimes

RDG/ts
Enclosures

**BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE**

IN RE:

**APPLICATION OF NASHVILLE GAS
COMPANY, A DIVISION OF
PIEDMONT NATURAL GAS
COMPANY, INC., FOR AN
ADJUSTMENT OF ITS RATES AND
CHARGES, THE APPROVAL OF
REVISED TARIFFS AND APPROVAL
OF REVISED SERVICE REGULATIONS**

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DOCKET NO. 03-00313

**NASHVILLE GAS COMPANY'S FIRST SET OF INTERROGATORIES AND
REQUEST FOR PRODUCTION OF DOCUMENTS TO THE CONSUMER ADVOCATE**

Nashville Gas Company, a division of Piedmont Natural Gas Company, Inc. ("Nashville Gas"), through counsel and pursuant to Rules 26, 33 and 36 of the Tennessee Rules of Civil Procedure, requests that the Consumer Advocate and Protection Division of the Office of Attorney General ("Consumer Advocate") respond to the following data requests in the above-captioned docket. Piedmont requests that the Consumer Advocate provide answers to these data requests to its counsel, R. Dale Grimes, Esq. at the offices of Bass, Berry & Sims, PLC, 2700 First American Center, Nashville, Tennessee 37238-2700, on or before August 28, 2003 consistent with the scheduling orders entered in this docket by the Hearing Officer.

I. DEFINITIONS

The following definitions shall apply herein:

1. As used herein, the term "document" includes any written or graphics matter or communication, however produced, stored, recorded or reproduced, whether the original or a copy, and is intended to be comprehensive and include, without limitation, any and all written correspondence, letters, telegrams, agreements, contracts, notes, memoranda, instructions, reports, financial statements, demands, data, schedules, notices, work papers, drafts, recordings (whether by electronic or other means), photographs, charts, analysis, interoffice communications, notebooks, diaries, daily logs, appointment

calendars, sketches, drawings, plans, specifications, blue prints, plats, diagrams, forms, manuals, brochures, lists, publications, minutes of meetings, journals, ledgers, or other financial records, invoices, work tickets, purchase orders, canceled checks, and all other written or graphic material of any nature whatsoever.

2. "Person" means all natural persons, male or female, and all types and kinds of businesses and other entities; including, but not limited to corporations, partnerships, joint ventures and sole proprietorships.

3. "Communication" means a transfer of information, written or oral, by any means whatsoever.

4. "Identify" when used:

(a) With regard to a person, means:

- (1) State the full name;
- (2) State the present or last known residential and business address;
- (3) State the current or last known employer;
- (4) State the current or last known position of employment.

(b) With regard to document, means:

- (1) State the title of the document;
- (2) Identify its author;
- (3) Identify all addressees;
- (4) State the date of making;
- (5) Describe its subject matter;
- (6) State whether the document will be produced, and if not, state the basis

for any claim of privilege or other basis for your failure to produce the document;

(c) With regard to communication, means;

- (1) Identify the participants to the communication;
- (2) State the date upon which the communication was made;

(3) Describe the subject matter of the communication.

(4) Describe the manner in which the communication was made (e.g., telephone call, meeting, letter, memorandum, etc.).

5. "Evidencing" means tending to show, in any probative manner, the existence or nonexistence of any matter.

6. "Consumer Advocate" refers to the Consumer Advocate and Protection Division of the Office of Attorney General for the state of Tennessee, as well as its past and present officers, directors, shareholders, agents, servants and employees.

II. INSTRUCTIONS

1. The singular includes the plural and the plural includes the singular.

2. The Consumer Advocate is requested to furnish all information in its possession and all information available to it, not merely such information as the Consumer Advocate knows of its own personal knowledge but also of knowledge that is available to it, its representatives, attorneys and agents, by reasonable inquiry.

3. If the Consumer Advocate is unable to answer the following data requests completely, answer to the extent possible, specifically stating the reason for the inability to answer the remainder and stating whatever information or knowledge you have concerning the unanswered portion.

4. These data requests shall be deemed continuing and call for supplementary responses in the event new or additional information or documents are acquired.

III. FIRST SET OF DISCOVERY REQUESTS

1. With respect to the testimony and exhibits of Consumer Advocate witnesses Brown, McCormac, Chrysler, and Crocker filed on behalf of the Consumer Advocate in this proceeding, please produce a copy of all workpapers or other documents generated by, reviewed or relied upon by these witnesses in the formulation of such testimony and exhibits or any of the recommendations reflected therein.

2. With respect to the Exhibit CAPD filed on behalf of the Consumer Advocate in this proceeding, please produce a copy of all workpapers or other documents generated by, reviewed or relied upon by the Consumer Advocate staff in the formulation of such exhibit or any of the recommendations or calculations reflected therein.

3. With respect to the Exhibit CAPD filed on behalf of the Consumer Advocate in this proceeding, Schedule 4, line 24, identify the derivation, basis and justification for utilization of a 45 day lag factor for common equity included therein.

4. With respect to Joint Exhibit CAPD filed on behalf of the Consumer Advocate in this proceeding, Schedule 4, line 24:

(a) identify by caption and docket number each and every proceeding before the Tennessee Regulatory Authority (or its predecessor) during the last ten (10) years in which the Consumer Advocate or any other party known to the Consumer Advocate has recommended or utilized a Working Capital Expense lag factor for common equity of greater than zero;

(b) provide a copy of any testimony filed in such proceedings incorporating or referencing such recommendation or utilization; and

(c) identify by state, caption and docket number each and every proceeding before any state public service commission or authority of which the Consumer Advocate is aware wherein the use of a Working Capital Expense lag factor for common equity of greater than zero was adopted.

5. Identify each and every proceeding (by caption and docket number) within the last ten (10) years before the Tennessee Regulatory Authority or its predecessor in which Consumer Advocate witness Brown, or any other witness sponsored by the Consumer Advocate, has recommended or supported the use of an equity, long-term debt, or short-term debt component of capital structure derived

from an average of the equity, long-term debt, or short-term debt components of one or more comparable companies.

6. Please provide a copy of any testimony filed by or on behalf of the Consumer Advocate in any proceeding identified in response to Discovery Request No. 8.

7. In reference to the prefiled testimony of Consumer Advocate witness Brown set forth at page 7, lines 21 and 22, please explain, in detail, every reason why, in Mr. Brown's view, "Piedmont's proposed capital structure is not verified" and provide a copy of each and every document, treatise or financial accounting standard upon which Mr. Brown relied in reaching such conclusion.

8. In reference to the prefiled testimony of Consumer Advocate witness Brown set forth at page 7, lines 37 and 38, please provide a copy of the documentation from the Federal Reserve Board utilized and/or relied upon by Mr. Brown in reaching his conclusions regarding the proper cost of short-term debt to be utilized in this case.

9. In reference to the prefiled testimony of Consumer Advocate witness Brown set forth at page 8, lines 8-13, please provide a copy of each Form 10-K relied upon or referred to by Mr. Brown in concluding that the appropriate long-term debt cost for use in this proceeding is 6.83 percent.

10. In reference to the prefiled testimony of Consumer Advocate witness Brown set forth at page 12, lines 27 through 30, please explain, in detail, every reason why, in Mr. Brown's view, the capital structure ratios utilized by Dr. Murry "are not verified nor even remotely based on Dr. Murry's comparable companies" and provide a copy of each and every document, treatise or financial accounting standard upon which Mr. Brown relied in reaching such conclusion.

11. In reference to the prefiled testimony of Consumer Advocate witness Brown set forth at page 14, lines 26 through 31, please explain, in detail, every reason or fact supporting Mr. Brown's view that the capital structures of Dr. Murry's comparable companies "should properly be the basis for this proceeding's capital structure, not Piedmont's" and provide a copy of each and every document, treatise or financial accounting principle upon which Mr. Brown relied in reaching such conclusion.

12. In reference to the prefiled testimony of Consumer Advocate witness Brown set forth at page 15, lines 18 and 19, please explain, in detail, every reason or fact supporting Mr. Brown's assertion that "It is standard regulatory practice to determine capital structure with comparable-company data" and provide a copy of each and every document, treatise or financial accounting principle upon which Mr. Brown relied in reaching such conclusion.

13. In reference to the prefiled testimony of Consumer Advocate witness Brown set forth at page 19, lines 28 through 33, please identify each and every United States Securities and Exchange Commission document utilized by Mr. Brown to verify his opinion that SEC data provides a capital structure completely different from Piedmont's proposed capital structure and provide a copy thereof.

14. In reference to the prefiled testimony of Consumer Advocate witness Brown set forth at page 20, lines 27 through 30, please provide a copy of every document or other source of information reviewed by or relied upon by Mr. Brown in reaching his conclusion that "The comparable companies credit arrangements and loan covenants, whether short-term or long-term, are based on total debt."

15. In reference to the prefiled testimony of Consumer Advocate witness Brown set forth at page 20, lines 32 through 37, please provide a copy of all documents reviewed, relied upon or referred to by Dr. Brown, and all workpapers underlying his conclusion that "When short-term debt is included in the comparable companies capital structure, their average common equity ratio is 43.8% for the fiscal year ending 2002 and 42.7% for the fiscal year ending 2001."

16. In reference to the prefiled testimony of Consumer Advocate witness Brown set forth at page 21, lines 1 through 4, please provide a copy of all documents reviewed, relied upon or referred to by Dr. Brown, and all workpapers underlying his conclusion that "The comparable companies average short-term debt ratio is 12.2% for the fiscal year ending 2002 and 14.6% for the fiscal year ending 2001."

17. In reference to the prefiled testimony of Consumer Advocate witness Brown set forth at page 23, lines 33 and 37, please explain, in detail, every reason or fact supporting Mr. Brown's assertion that "The information put forward by Value Line and used by Doctor Murry is not reliable and not certified" and provide a copy of each and every document, treatise or financial accounting principle upon which Mr. Brown relied in reaching such conclusion.

18. Identify by caption and docket number each and every proceeding before the Tennessee Regulatory Authority or its predecessor in the last ten (10) years in which Mr. Brown or any other witness sponsored by the Consumer Advocate has relied upon or incorporated into his or her testimony financial information taken from Value Line and provide a copy of each such testimony.

19. In reference to the prefiled testimony of Consumer Advocate witness Brown set forth at page 27, lines 21 and 22, please explain, in detail, every reason or fact supporting Mr. Brown's assertion that the results of Dr. Murry's capital structure analysis and Mr. Brown's capital structure analysis are not different because of differences in the dates between values reported in Value Line and by the SEC and provide a copy of each and every document, treatise or financial accounting principle upon which Mr. Brown relied in reaching such conclusion.

20. In reference to the prefiled testimony of Consumer Advocate witness Brown set forth at page 33, lines 22-30, please identify and produce each and every document or other evidence supporting

Mr. Brown's assertion that Piedmont intentionally filed its rate case petition in April 2003 for the purpose of avoiding the inclusion of a large amount of short-term debt in its capital structure.

21. In reference to the prefiled testimony of Consumer Advocate witness Brown set forth at page 36, lines 4 through 7, please explain, in detail, every reason or fact supporting Mr. Brown's assertion that "Given this situation it would be normal for Piedmont to increase short-term debt, just as the comparable companies are doing" and provide a copy of each and every document, treatise or financial accounting principle upon which Mr. Brown relied in reaching such conclusion.

22. In reference to the prefiled testimony of Consumer Advocate witness Brown set forth at page 42, lines 25 through 28, please explain, in detail, every reason or fact supporting Mr. Brown's assertion that "In Docket No. 96-00977, Piedmont's capital structure was verified" and provide a copy of each and every document, treatise or financial accounting principle upon which Mr. Brown relied in reaching such conclusion.

23. In reference to the prefiled testimony of Consumer Advocate witness Brown set forth at page 43, lines 23 through 25, please explain, in detail, every reason or fact supporting Mr. Brown's assertion that having an equity ratio of 43.8% would not make Piedmont a riskier company than the comparable companies and provide a copy of each and every document, treatise or financial accounting principle upon which Mr. Brown relied in reaching such conclusion.

24. In reference to the prefiled testimony of Consumer Advocate witness Brown set forth at page 44, lines 2 through 4, please identify and produce a copy of each and every document reviewed, relied upon or referred to by Mr. Brown in concluding that a 43.8 percent equity ratio would not violate any covenants of which he was aware.

25. In reference to the prefiled testimony of Consumer Advocate witness Brown set forth at page 56, lines 7 and 8, please explain, in detail, every reason or fact supporting Mr. Brown's assertion that the equity returns shown on Schedule DAM-7 "are likely to be inflated, just as the common equity ratios are inflated" and provide a copy of each and every document, treatise or financial accounting principle upon which Mr. Brown relied in reaching such conclusion.

26. In reference to the prefiled testimony of Consumer Advocate witness Brown set forth at page 58, lines 13 through 16, please explain, in detail, every reason or fact supporting Mr. Brown's assertion that "Value Line's Betas . . . are not standard practice in the financial industry" and provide a copy of each and every document, treatise or financial accounting principle upon which Mr. Brown relied in reaching such conclusion.

27. In reference to the prefiled testimony of Consumer Advocate witness Brown set forth at page 58, lines 18 and 19 and Schedule SB 15, please provide a copy of each and every source document from which Mr. Brown draws "other" beta values and identify the date and source of publication thereof.

28. Please provide a copy of each and every source document from which the beta values reflected on Schedule SB 18 are derived and identify the date and source of publication thereof.

29. In reference to the prefiled testimony of Consumer Advocate witness Brown set forth at page 64, lines 12 through 18, please explain, in detail, every reason or fact supporting Mr. Brown's assertion that "If the betas from Standard & Poor's or Yahoo were used in Dr. Murry's CAPM analysis, the equity returns would be about 7.2 percent" and provide a copy of each and every workpaper, document, treatise or financial accounting principle upon which Mr. Brown relied in reaching such conclusion.

30. In reference to the prefiled testimony of Consumer Advocate witness Brown set forth at page 74, lines 9 through 13, please explain, in detail, every reason or fact supporting Mr. Brown's assertion that Dr. Murry's "recommended return is not credible because it relies on Value Line's long-term earnings growth rates, which are untested and unlikely to be achieved in the future" and provide a copy of each and every document, treatise or financial accounting principle upon which Mr. Brown relied in reaching such conclusion.

31. Please provide copies of the articles referred to on page 2 lines 22-24 of Dr. Brown's Direct Testimony.

32. Please provide all work papers in support of Schedule 15 of Dr. Brown's testimony including the data and the calculations of betas. (A response in electronic format would be preferred, if available.)

33. Referring to page 46, lines 17-22 of Dr. Brown's Direct Testimony, please provide all studies, papers, articles and analyses, including previous testimony filed by Dr. Brown, that support his use of the embedded cost of debt of comparable companies for the cost of long-term debt of a utility in a rate proceeding.

34. At page 25, line 11-13, Dr. Brown states "...my opinion is that the standard practice is to include short-term debt in the calculation of equity ratios and capital structure." Please provide all studies, analyses and citations that are in support of Dr. Brown's opinion.

(a) Does Dr. Brown believe that the gas distribution companies often use short-term debt to provide funds for short-term cash exigencies, such as acquiring gas supplies during the off-peak season?

(b) Does Dr. Brown believe that the natural gas that is forward purchased by a gas distributor should be included in the "rate base" of a gas distribution company?

35. Please provide any analysis, including work papers and showing results, performed by Dr. Brown concerning the times interest earned or debt coverage ratios of Piedmont or other companies used in his cost of capital analysis.

36. Is it Dr. Brown's opinion that investors will not acquire shares of common stock in anticipation of earnings growth even when the company has no record of paying dividends and no forecasted payment of dividends?

37. Would Dr. Brown expect the price on a company's common stock traded on the New York Stock Exchange increase upon the announce of an increase in common stock earnings that exceeded estimates by most financial analysts? If not, please explain and provide any references and citations used by Dr. Brown to assist in his determination.

38. At several points in Dr. Brown's Direct Testimony, including at page 74, line 32, Dr. Brown refers to financial information provided by *Value Line* as "not credible." Has Dr. Brown ever used *Value Line* data as a basis for his analysis in cost of capital testimony? If so, please provide copies of all such testimony for cases that were active in the past three years. If none, please explain at what point in time and the circumstances which resulted in Dr. Brown not using *Value Line* data in his cost of capital testimony.

39. In Dr. Brown's Direct Testimony at page 55, line 32, Dr. Brown states in response to the question "What is your opinion of the forecasts and equity returns shown in Dr. Murry's schedules DAM-5 and DAM-7 as follows: "My opinion is that they are not credible." Has Dr. Brown ever used *Value Line* earnings and dividend forecasts as a basis for his analysis in cost of capital testimony? If so, please provide copies of all such testimony for cases that were active in the past three years. If none, please explain at what point in time and the circumstances which resulted in Dr. Brown not using *Value Line* data in his cost of capital testimony.

This the 21st day of August, 2003.

R. Dale Grimes / Brian D. Roark
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ATTORNEYS FOR NASHVILLE GAS COMPANY

CERTIFICATE OF SERVICE

The undersigned hereby certifies that a copy of NASHVILLE GAS COMPANY'S FIRST SET OF DATA REQUESTS TO THE CONSUMER ADVOCATE was served upon the parties in this action by hand delivering a copy to the Consumer Advocate and by facsimile to Associated Valley Industries.

Timmothy Phillips
Assistant Attorney General
Office of the Consumer Advocate and Protection Division
460 James Robertson Parkway
Nashville, Tennessee 37243

George H. Godwin, Jr.
Executive Director
Associated Valley Industries, Inc.
1204 Cleo Avenue, SE
Decatur, Alabama 35601
T: 256-355-0953
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This the 21st day of August, 2003.

R. Dale Grimes / BOR
R. Dale Grimes
vj-perman