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September 2, 2003

VIA FEDERAL EXPRESS

Honorable Deborah Taylor Tate
Chairman
Tennessee Regulatory Authority
460 James Roberson Parkway
Nashville, Tennessee 37243-0505

Re: Docket No. 03-00313

Dear Chairman Tate:

I have enclosed an original and fourteen copies of the Rebuttal Testimony and Exhibits of David J. Dzuricky on behalf of Nashville Gas Company, a Division of Piedmont Natural Gas Company, Inc. Please accept the attached for filing and return one "file-stamped" copy to me.

Very truly yours,

James H. Jeffries IV

JHJ:bo
Enclosures
cc: All Parties of Record
Dale Grimes

Before The
Tennessee Regulatory Authority
Docket No. 03-00313

In the Matter of

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 the Approval of	)
Revised Service Regulations	)

Rebuttal Testimony of David J. Dzuricky
On Behalf Of
Nashville Gas Company,
A Division of
Piedmont Natural Gas Company, Inc.

Piedmont
Natural Gas
Company

Identification of Witness.

Q. Please state your name and your business address.

A. My name is David J. Dzuricky. My business address is 1915 Rexford Road, Charlotte, North Carolina.

Q. Mr. Dzuricky, by whom and in what capacity are you employed?

A. I am employed by Piedmont Natural Gas Company, Inc. ("Piedmont" or the "Company"). I hold the position of Senior Vice President and Chief Financial Officer.

Q. Please describe your educational and professional background.

A. I received a B.S. degree from Syracuse University in 1973 and an MBA from the University of Pittsburgh in 1974. From 1974 to 1995, I was employed in various positions by Consolidated Natural Gas Company ("CNG") or its subsidiaries. My last position with CNG was Vice President and Treasurer. I have been employed as a Senior Vice President by Piedmont since 1995.

Q. What are your responsibilities as Senior Vice President and Chief Financial Officer of Piedmont?

A. I am responsible for all financial, accounting, corporate planning and rates and information technology functions of the Company. In that connection the Company's Vice President, Treasurer and Chief Risk Officer, Vice-President and Controller, Vice President-Corporate Planning and Rates and Vice President of Information Systems report directly to me. I am directly involved in all major decisions of the Company affecting the areas that report to me, including opportunities to make major investments and acquisitions.

Q. Mr. Dzuricky, have you previously testified before any regulatory authority?

A. Yes, I have previously testified before the Federal Energy Regulatory Commission (FERC), the North Carolina Utilities Commission and the Virginia State Corporation Commission.

Purpose of Testimony

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

A. On August 18, 2003, Dr. Steve Brown filed testimony on behalf of the Consumer Advocate and Protection Division (CAPD). In his testimony he asks this Authority to disregard Piedmont's actual capital structure and adopt his proposed hypothetical capital structure.. In addition, he asks this Authority to disregard our actual cost of debt and to substitute his proposed hypothetical cost of debt. The purpose of my testimony is to show this Authority why it should reject Dr. Brown's hypothetical capital structure and cost of debt.

In addition, I will also respond to Mr. Chryster's recommendation that this Authority eliminate the costs of our MVP incentive program.

Capital Structure

Q. What capital structure was used by Piedmont in this docket?

A. We used our average capital structure for the thirteen months ended December 31, 2002, the test period in this case. That capital structure is set forth in the following table

Average Capital Structure – December 31 2002		
	Average	**Ratio**
Long-Term Debt	$505,957,746	44.81%
Short-Term Debt	$19,615,385	1.74%
Common Stock	$603,458,649	53.45%
Total	$1,129,031,779	100.00%

Q. Why did you select this capital structure?

A. We used this capital structure for several reasons. First, it was computed in the same manner as recommended by Dr. Brown in our last litigated rate case and adopted by the Authority. Second, the numbers used in this capital structure are factual and, therefore, verifiable. Third, this capital structure is not only representative of our historical capital structure it is representative of our future capital structure, including the period of time in which the rates approved in this docket are expected to be in effect.

Q. Do you have any schedules to support the computation of this capital structure?

A. Yes. The computations are set forth in Exhibit ___ (DJD-1).

Q. Were these schedules filed with this Authority and provided to the CAPD?

A. Yes. These schedules were filed along with our application in this docket as pages 151 – 154 of Item 25 of the "Filing Guidelines for Rate Cases."

Q. Why is it important to use a thirteen-month average rather than pick a capital structure at a particular point in time?

A. In order to fully respond to that question, I will first need to explain how Piedmont, and virtually every other natural gas utility in the United States, finances its operations. Like other natural gas utilities, we finance much of the cost of our natural gas inventory and working capital needs with short-term debt. As a result, during the calendar year 2002, our monthly short-term debt balance ranged from $0 to $60 million. We also initially finance our construction program with short-term debt. Periodically, we issue either long-term debt or common stock and use the proceeds from such offerings to repay our short-term debt. As a result of these activities, our common stock and/or long-term debt vary with each issuance.

Q. Can you support your statement that virtually every other natural gas utility in the United States finances its operations in the same manner?

A. Yes. At least four of the seven companies used by Dr. Brown in his comparison group have sold either Common Stock, Long-Term debt or both since the dates of his comparison for the purpose of reducing outstanding short-term debt. AGL Resources (AGLR) sold $137 million of common stock in January 2003, Atmos Energy Corporation (Atmos) sold $97 million of common stock in June 2003, Northwest Natural Gas Company sold $40 million of long-term debt, in February 2003, and Peoples issued $150 million of long-term debt in its fiscal quarter ended March 31, 2003, $115 million of long-term debt and $32.4 million of common stock in its fiscal quarter ended June 30, 2003.

Q. Is there anything particularly noteworthy about the sales of equity securities by AGLR and Atmos?

Yes. Dr. Brown seems to think that the capital structures of AGL Resources, Inc.(AGL) and Atmos Energy Corporation (Atmos) are particularly significant since those two companies have either a subsidiary or a division subject to the jurisdiction of this Authority. Although Dr. Brown states that he used "the most recent average capital structure of the comparative companies in this case" (Brown Testimony, p. 7, lines 23-25), he did not do so. Instead, he used the December 31, 2002 capital structure for AGL and the September 30, 2002 capital structure for Atmos. Had he really used the most recent capital structure, his results would be substantially different.

Q. Did either AGLR or Atmos give any reasons for their sale of common stock?

Yes both companies recognized that their equity ratios were too low and their short-term debt ratios were too high. In the 424(b)(5) prospectus filed by AGL with the SEC on January 1, 2003, in connection with the sale of the common stock, AGL specifically recognized that it was seeking "to reduce, over time, our ratio of total debt to total capitalization to strengthen our balance sheet and allow us to better respond to both temporary reductions in cash flow and potential opportunities to invest capital in projects closely related to our businesses that provide attractive returns." (424b5 Prospectus Supplement, page S-9). In a press release dated June 23, 2003, Atmos stated that the sale of the common stock "strengthens Atmos Energy's balance sheet to maintain our credit ratings." A copy of the press release is attached as Exhibit __ (DJD-2).

These statements clearly show that the management of these two companies recognized that their capital structure at the dates used by Dr. Brown were not even appropriate for them, much less for Piedmont or some other company.

Q. You mentioned a public offering of common stock by AGL and Atmos during the first six months of 2003. Are these the only issuance of Common Stock by these two companies during that six-month period?

A. No. Both companies issued additional shares of common stock during that period in connection with various dividend reinvestment or other stock purchase plans and for other reasons. During that six months periods AGL's common shareholders' equity increased from $710.1 million to $895.9 million (an increase of $185.8 million) and Atmos' common shareholder equity increased from $573.2 million to $827.5 million (an increase of $254.3 million). In Atmos' case, common shareholder equity increased by 44.4% during the 9 months following Dr. Brown's analysis.

Q. On page 15 of his testimony, Dr. Brown states in his testimony that "it is standard practice to determine capital structure with comparable-

company data." Do you agree with that statement?

A. No. While it is true that in some cases, a regulatory agency may use a hypothetical capital structure, it is usually based on a finding that either (1) the utility in question is a subsidiary of a holding company and, therefore, does not have a stand alone capital structure or (2) the utility has an actual capital structure that is improper. Piedmont is not a holding company and has its own stand-alone capital structure. Furthermore, I am not aware of any regulatory agency that has ever found Piedmont's capital structure to be improper or even out-of-line with comparable companies.

Q. Doesn't Dr. Brown contend that Piedmont's capital structure is out-of-line with comparable companies?

A. Although he never specifically states as much, one could certainly infer that from his testimony.

Q. Do you believe that Piedmont's capital structure is out-of-line with comparable companies?

A. No, and Dr. Brown's testimony does not show that it is. The difference between Piedmont's capital structure and the capital structures selected by Dr. Brown for the comparable companies relates primarily to the method used by Dr. Brown to determine the capital structures for those companies. As previously stated, he used the capital structures for the comparable companies at dates going back to September 30, 2002 and December 31, 2002. Once his data are updated to the most recent currently available information (June 30, 2003), most of the differences between the comparable companies and Piedmont disappear. Instead of showing the 44% equity percentage calculated by Dr. Brown from his out-of-date data, the updated information for the comparable companies shows an average equity percentage in excess of 50%. Furthermore, Dr. Brown improperly compares the capital structures of the comparable companies at a point in time with Piedmont's capital structure based on a 13-month average. In addition, the capital structure used by Dr. Brown is not even the capital structure used by the regulatory agencies for the comparable companies when they set rates for those companies. Finally, Dr. Brown's testimony completely ignores the fact that the adoption of his recommended capital structure would have significant adverse effects on our credit rating and our cost of debt, matters that are discussed in the rebuttal testimony of Mr.. Ronald Johnson.

Q. Can you support your statement that the capital structure used by Dr. Brown is not even the capital structure used by the regulatory agencies for the comparable companies when they set rates for those companies?

A. Yes. In schedule 3, Page 7, of his Exhibit CAPD_SB, Dr. Brown sets forth the capital structure for WGL Holdings as 48.0% common equity, 41.9% Long-Term Debt, 5.7% Short-Term Debt and 2.6% Current Maturities. These numbers were based on WGL's Form 10-K report for the year ended September 30, 2002. On October 29, 2002, the District of Columbia Public Service Commission issued an order in which it adopted the following capital structure for Washington Gas Light Company:

Capital	Ratios
Common Stock	54.00%
Preferred Stock	1.90%
Long-Term Debt	44.10%
Total	100.00%

In approving this capital structure, the Commission stated the following:

> "The capital structure is reasonable relative to those of similar companies and consistent with past Commission precedent. AOBA [Apartment and Office Building Association] Witness Oliver has not adequately explained why reliance on a hypothetical capital structure would be more appropriate than the existing capital structure of WGL Holdings adjusted to remove the estimated effect of its non-utility activities. Further, he did not recognize the seasonal nature of gas distribution company capital structures, adjust the capital structure of WGL Holdings or the comparable companies, to remove the effect of unregulated operations, or recognize that short-term debt is included in the debt component of the Company's proposed capital structure."

The AOBA in the Washington Gas Light case, like Dr. Brown in this case, argued that the inclusions of large amounts of equity capital in capital structure would provide the company with opportunities to increase its actual earnings by substituting lower cost long-term debt or short-term debt for higher cost equity. The Commission rejected this argument, finding it "less than compelling."

Q. What cost of capital was approved for Washington Gas Light Company?

A. The District of Columbia Public Service Commission approved the following cost of capital for Washington Gas Light Company:

Capital	Cost
Common Stock	10.60%
Preferred Stock	0.09%
Long-Term Debt	6.85%
Total	8.83%

In approving the 10.6% return on equity, the Commission stated the following:

> "[W]e do believe that investors expect a return on common equity that is closer to other recently allowed returns for gas distribution companies – 10.95% in 2001, 10.67% in the first

quarter of 2002 – and one that represents a less dramatic decline from the currently allowed return."

Q. What is the significance of the statement of the District of Columbia Public Service Commission's statement that the AOBA witness "did not recognize the seasonal nature of gas distribution company capital structures?"

A. As previously pointed out, gas utilities use debt to finance their gas inventories. These gas inventories vary from close to $0 to many million dollars over the course of a year. We also use debt to finance our working capital needs. Our working capital needs are much higher in the summer months when we have very little cash generated from the sale of gas than in the winter when we sell more gas and, therefore, have greater cash flow. For these reasons, it is common practice to rely on an average capital structure that recognizes these large swings in the amount of debt that is outstanding at any point in time.

Q. Does the capital structure proposed by Piedmont recognize the seasonal nature of its capital structure?

A. Yes. We use a 13-month average capital structure to recognize the swings in our need for cash and, therefore, the amount of debt outstanding at any given point in time.

Q. Does the capital structure proposed by Dr. Brown recognize the seasonal nature of its capital structure?

A. No. Dr. Brown based his capital structure on data as of September 30, 2002 for some of the comparable companies and December 31, 2002 for the other comparable companies. By choosing these two dates, Dr. Brown has greatly over-stated debt and understated equity.

Q. The District of Columbia Commission said that it believes investors expect a return on common equity that is closer to other recently allowed returns

for gas distribution companies and one that represents a less dramatic decline from the currently allowed return. Do you agree with that statement?

A. Yes. In my opinion, investors and potential investors would consider a dramatic decline in our allowed return a huge negative factor for our stock and would, instead, purchase securities of companies like Washington Gas Light Company who have a more reasonable allowed return.

Q. Why is it important to use Piedmont's actual capital structure rather than Dr. Brown's hypothetical capital structure?

A. Assuming Piedmont's actual capital structure is not imprudent, the rates set by our regulatory authorities must be sufficient to permit us to recover the costs associated with that capital structure--not the costs associated with a hypothetical capital structure. A few examples will illustrate this point.

Assume that at the beginning of a year, both Company A and Company B have a capital structure consisting of 50% equity 45% long-term debt and 5% short-term debt. Now assume that Company A issues common stock on December 31 to repay its short-term debt and Company B issues common stock on January 1 of the following year to repay its short-term debt. At the end of the year, Company A would have a capital structure consisting of 55% common equity and 45% long-term debt. Company B would still have a capital structure consisting of 50% common stock, 45% long-term debt and 5% short-term debt. If Company A is used as the comparison company, Company B would over-earn (since the cost of common stock is greater than the cost of short-term debt). Conversely, if Company B is used as the comparison company, Company A would under-earn. This anomaly would exist even though the only difference is that one company repaid its short-term debt one day earlier than the other company.

The above example assumes that both companies have the same cost of debt. In fact, this is rarely true. Interest rates vary from day to day. Thus, if one company needs long-term funds at the beginning of the year, it may pay a different rate than a company who needs funds at the end of the year. Thus, it would be improper to assume that both companies should have the identical cost of long-term debt.

Q. Do you believe Piedmont's capital structure is a prudent capital structure for Piedmont and, if so, why?

A. Yes, in my opinion, Piedmont's capital structure is a prudent capital structure for Piedmont. Piedmont requires funds for working capital to pay its obligations, including its gas bills (which in a recent winter month exceeded $19 million) and to support the construction and maintenance of facilities to serve new and existing customers. Each year, our entire management team and support staff engages in a three-month-long budgeting process to determine our needs for funds. As a part of this process we determine what we believe to be the most cost-effective means for obtaining these funds. This determination is made in consultation with our investment advisors and in recognition of the quality guidelines of the various rating agencies that rate our debt securities. We then make a recommendation to the Finance Committee of our board of directors for its consideration. Once the Finance Committee has approved the method for obtaining these funds, it is presented to the entire board of directors for its approval. Following approval of the board, we stay in contact with our investment advisors, and we issue either common stock, long-term debt, short-term debt or a combination of one or more of these securities to meet our needs.

The timing of these transactions depends upon market conditions. Considering the expertise of our directors, our financial advisors and our financial staff, I believe the resulting capital structure is prudent.

Q. Please expand on the expertise of the Finance Committee of your board of directors.

A. Mr. C.M. Butler, III serves as the Chair of our finance committee. Mr. Butler is currently an attorney and consultant in financial and regulatory affairs. From June 1981 to October 1983, Mr. Butler served as the chairman of the Federal Energy Regulatory Commission (FERC). From November 1983 to September 1988, Mr. Butler was employed by Kidder Peabody, an investment banking firm, as a Senior Vice-President. As Chairman of the FERC, Mr. Butler was called upon many times to evaluate the capital structures of various gas and electric utilities. While with Kidder Peabody, Mr. Butler was directly involved in the issuance, sale and pricing of various equity and debt offerings for utilities.

Other members of that committee include Malcolm E. Everett III and Aubrey B. Harwell, Jr. Mr. Everett is Senior Executive Vice President of Wachovia Corporation, the 5th largest bank in the United States. Mr. Harwell is the Managing Partner of the Nashville law firm of Neal & Harwell.

Q. Who does Piedmont use as its financial advisors?

A. We use Merrill Lynch. Merrill Lynch is the largest investment banking firm in the United States. Mr. Ronald Johnson will provide more information on Merrill Lynch's expertise.

Q. In your opinion, does Piedmont negotiate the best possible terms for the securities its issues from time to time?

A. Yes. Our financing team is in constant contact with various banks, investment firms, institutional investors and others to keep abreast of the ever-changing market conditions and to make sure that we employ the latest techniques for obtaining and pricing our securities. Mr. Jerry Amos, a partner in Nelson, Mullins, Riley & Scarborough, LLP, acts as our legal advisor in connection with these negotiations. Nelson Mullins is a law firm with more than 300 lawyers. Mr. Amos has represented public utilities for 40 years and has represented Piedmont and others in connection with the issuance of more than $2 billion in equity and debt securities.

Q. On page 3 of his testimony, Dr. Brown states that in his opinion, Piedmont's cost of capital will decrease almost immediately after this rate case and that the Company "strategically timed this rate request to be completed before the decrease is reflected in the company's financial records." Is he correct?

A. Absolutely not. Every year we begin investigating the need to file rate cases in one or more the three states in which we operate shortly after we see the financial results for our fiscal year. Our fiscal year ends October 31, and this financial information is usually available in late November. If, after reviewing this financial information, we determine the need to file a rate case, we immediately begin our preparation to do so. This preparation takes several months, and we usually file our cases in March or April. This timing permits us to put any new rates, rate designs, etc., into effect on the following November 1, which is both the beginning of our fiscal year and the beginning of our heating season. We have followed this procedure in our last rate cases in Tennessee (as well as in our past several rate cases in North Carolina and South

Carolina). To suggest that we timed this rate case for some nefarious purpose is not only inaccurate, it is insulting.

Dr. Brown gives no support for his statement that our cost of capital will decrease following this rate case and, unless he is able to foresee the future, I do not know how he reached that conclusion. In fact, with interest rates at historically low levels, it is my opinion that Piedmont's cost of capital has a greater chance of increasing (in step with a rise in interest rates) rather than decreasing.

Q. Are you aware of any economic forecasts that project an increase in interest rates?

A. Yes. In its August 18, 2003 Monthly Economic Forecast, Wachovia Bank stated the following:

> "Long-term interest rates have risen dramatically over the past seven weeks and are expected to rise significantly further over the forecast period., The yield on the 10-year Treasury is expected to rise to 4.8% by the end of this year and 5.6% by the end of 2004. We also expect the Fed to begin raising interest rates in early 2004 and look for the federal funds rate to rise 150 basis points by the end of 2004."

I should emphasize that the Treasury Rate of 5.6% quoted by Wachovia is the rate paid by the U. S. Government. The rate that will be paid by corporate borrowers will be higher, with the companies with the highest credit rating paying the smallest spread above the Treasury Rate and the companies with the lowest credit rating paying the greatest spread above the Treasury Rate.

Q. On page 8 of his testimony, Dr. Brown states that the 6.83% cost of long-term debt for the comparable companies is high because it does not anticipate refinancing efforts. Does Piedmont have an opportunity to refinance its existing long-term debt?

A. No. From time to time in the past, we did have an opportunity to refinance some of our older debt at a lower cost. In recent years, however, the financial community has taken steps to prevent or discourage such refinancing by placing what are known as "make-whole" provisions in their debt instruments. These "make-whole" provisions require the borrower to pay a substantial premium to refinance. They are called "make whole" provisions because these penalties are designed to give the lenders the same return that they envisioned when they negotiated the loans. The debt markets also prefer "no call" securities so credit investors can clearly match their long-term liabilities and assets. Thus, once a debt security is issued with a "no call" provision, it will remain outstanding for its full term. At present, all of our outstanding debt instruments contain provisions that make it uneconomic for us to refinance our long-term debt.

Q. On pages 21-22 of his testimony, Dr. Brown states that in one SEC filing Piedmont lists its "capitalization" as consisting of 56% common equity and 44% debt and in another filing its shows its capitalization as consisting of 51.5% common equity, 40.3% long-term debt and 8.2% short-term debt. Dr. Brown states that the information in the second filing is "contrary" to the information in the first filling. Is that assertion correct?

A. Absolutely not. Even a cursory review of the two filings will indicate that there are no inconsistencies. The complete quote on page 14 of our 10-K reads as follows:

> "At October 31, 2002, our capitalization consisted of 44% in long-term debt and 56% in common equity. Our long-term targeted capitalization ratio is 45% in long-term debt and 55% in common equity."

On page 33 of our 10-K, under the caption "Capitalization," we list our common equity at $590 million and our long-term debt as $462 million. The total capitalization is $1,052. By dividing the two numbers by the total capitalization, we derive the 56%/44% ratios stated in the 10-K. You will note that, in accordance with generally accepted accounting principles (GAAP), short-term debt is not listed under capitalization. Again, in accordance with GAAP, short-term debt is listed under "Current Liabilities." In short, Piedmont's 10-K is not only accurate, it is in full compliance with GAAP.

The second SEC filing referred to by Dr. Brown is SEC Form U-1. This filing was made jointly by Progress Energy, Inc. ("Progress") in connection with Piedmont's pending purchase of Progress' equity interests in North Carolina Natural Gas Corporation (NCNG) and Eastern North Carolina Natural Gas Corporation. Progress is a utility holding company, is subject to the Public Utility Holding Company Act of 1935 (PUHCA) and must obtain the approval of the SEC under PUHCA to sell these equity interests to Piedmont. Piedmont is not a public utility, is not subject to the provisions of PUHCA and has never been under any obligation to file a Form U-1 with the SEC. Progress' PUHCA attorney prepared the form and asked us to insert certain information for Piedmont. A copy of the form and the email from Progress' PUHCA attorney is attached as Exhibit __ (DJD-__). The form provided to us contained a table with captions provided for common equity, preferred equity, long-term debt and short-term debt and with the amounts filled in. We verified the amounts in the table, filled in certain other information and returned the form to the attorney. We are advised by Progress' PUHCA attorney that the SEC PUHCA Staff requires the inclusion of short-term debt for Form U-1 purposes. We recently confirmed this advice with that attorney. If you look at the numbers contained in that table, you will see that the amounts shown for common equity and for long-term debt are the same.

In summary, there is no inconsistency whatsoever. The 10-K statement relates to our capitalization as shown on our balance sheet under the title "Capitalization" (as required by GAAP) and the U-1 statement relates to our capitalization plus short-term debt.

Q. On page 33 of his testimony, Dr. Brown testifies that in his opinion, "Piedmont filed its rate-case petition in April, 2003 with a capital structure as of December 31, 2002, to avoid the inclusion of a large amount of very low-cost short-term debt in this proceeding even though the short-term debt will be a part of the company's capital structure in the attrition year, which extends from November 1, 2003 to October 31, 2004." Is this assertion correct?

A. No. I have already explained why we filed the rate case when we did, and Dr. Brown's statement about short-term debt being a part of the company's capital structure in the attrition year is simply incorrect.

Q. On page 36 of his testimony, Dr. Brown states that 30% of Piedmont's capital structure will be short-term debt? Is that correct?

A. The short-term debt to which Dr. Brown refers to is short-term debt we will issue to pay the purchase price of Progress' equity interest in NCNG and EasternNC. As explained in the Form S-3 that we filed with the SEC on June 19, 2003, we plan to initially finance that purchase with short-term debt. However as further explained in the Form S-3, we intend to sell common stock and long-term debt no later than November and to use the proceeds from that sale to repay the short-term debt. Thus, the short-term debt will be on our balance sheet for only a very short period of time.

Q. Why don't you just sell the common stock and long-term debt and avoid

the use of short-term debt?

A. We would like to close the purchase of the NCNG and EasternNC equity interests as soon as possible. For various reasons, including the need to obtain certain regulatory approvals, we are not able to determine exactly when those approvals will be received and when we can close. We can sell short-term debt on very short notice. We cannot sell common stock and long-term debt on short notice. Since the common stock and long-term debt will be sold through a public offering, we are required to make various filings with the SEC, including the Form S-3 to which I earlier referred. We filed the Form S-3 on June 19, 2003, and it has still not been declared effective by the SEC. Once it is declared effective, we must file an SEC 424b supplemental prospectus with the SEC at the time of the sale. This entire process is very time consuming and it is not practical to time a public offering so that it will occur at the same time as the common stock and long-term debt proceeds are received. Our decision to initially finance the transactions with short-term debt and to use the proceeds from the offering of common stock and long-term debt to repay the short-term debt is the standard practice in the industry. For example, as disclosed on page 35 of its 10-Q for the periods ended June 30, 2003, Atmos used short-term debt to purchase Mississippi Valley Industries in December 2002 and long-term debt in January 2003 to refinance the short-term debt.

Q. On pages 22 – 23 of his testimony, Dr. Brown explains how easy it is to obtain data for Piedmont on the SEC's website, and his schedule 2 shows a screen shot of what he found for Piedmont. Please comment on Dr. Brown's Schedule 2.

A. This screen shot shows that the 10-K on which Dr. Brown relies is the tenth item in the list. The S-3 which shows that Piedmont intends to repay the short-term debt with the proceeds from the sale of the common stock and long-term debt is the second item in the list. Thus, I believe it is reasonable to assume that Dr. Brown was aware of the S-3. Had he read the S-3, he would have known of our intent. At the very least, it should have caused him to inquire into Piedmont's intent to retire the short-term debt out of the proceeds of the sale of the common stock and long-term debt as clearly set forth in the Form S-3 before he filed testimony under oath asserting nefarious motives to our selection of a filing date.

Q. On page 34 of his testimony, Dr. Brown testifies that by "minimizing short-term debt in this proceeding, "prospectively Piedmont would be in a strong position to seek even more short-term financing" Is that correct?

A. No. Dr. Brown appears to be asserting that simply because we included our average short-term debt during the test period in our capital structure in this proceeding, we would be in a position to issue more short-term debt in the future. If so, Dr. Brown lacks even a rudimentary understanding of the operation of the financial markets. When we sell short-term debt, the lenders look at our actual capital structure as reflected on our balance sheet and our ability to repay the loans as reflected in our income statement. They do not know and they do not care what capital structure may have been proposed by either Dr. Brown or Dr. Murry. They do care, however, if this Authority were to adopt a hypothetical capital structure, base our rates and, therefore, our revenues on that hypothetical capital structure and, thereby, affect our ability to repay our debt.

If Dr. Brown is inferring that our actual short-term debt during the test period is inadequate and that, by including the actual amount, we have an opportunity to increase our earnings by substituting more short-term debt in the future, his argument is the same as the argument made by the AOBA in the Washington Gas Light Case that the District of Columbia Commission rejected and found "less than compelling."

Q. What factors do affect your ability to issue short-term debt?

A. Potential lenders look at a number of things, including the following:

Our credit ratings. Many institutional investors cannot purchase debt securities from companies who do not have what is commonly called "investment grade securities."

Our debt to total capitalization ratio as it appears on our books. Commonsense tells us that a company with a higher debt to total capitalization ratio is at greater risk than a company with a lower debt to total capitalization ration. It is for this reason that many lenders specifically require a limit on the debt to total capitalization ratio.

Our ratio of earnings to fixed charges. This ratio indicates our ability to generate enough earnings to pay the principal and interest on our debt when they become due. It is for this reason that the SEC requires us to include our ratio of earnings to fixed charges in various SEC filings, including our 10-Ks, 10-Qs and Form S-3s.

Q How does Piedmont decide whether to issue long-term securities or short-term debt?

A. We finance short-term obligations (such as working capital needs) with short-term debt and long-term obligations (such as the purchase of fixed assets) with long-term debt and equity. This practice is not only considered a prudent practice by the gas distribution industry, it is considered a prudent practice by the business and financial community in general. In Accounting Handbook for

Nonaccountants, Second Edition, at page 148, the author explains the reason for this practice as follows:

> "Stated in another way, no more than half of the investment in current assets should be financed with short-term debt. On a going concern basis such a margin enables a smooth financing of current operations, including meeting current debts as they mature. It also provides desirable protection to short-term creditors in the event the company involved gets into serious financial difficulty and is forced into liquidation, thereby ceasing to be a going concern."

Q. Currently, short-term debt is less expensive than long-term debt. Why don't you rely more on short-term debt?

A. There are several reasons. First, banks and others who loan money on a short-term basis expect the principal be paid when those short-term obligations become due. We cannot sell fixed assets every time we need to repay a short term debt. Second, interest rates are not stagnant. They vary from time-to-time. By relying on long-term debt for our long-term obligations, we hedge against swings in the interest rates.

Q. Please explain how the use of long-term debt acts as a hedge against swings in interest rates.

A. I can best explain this concept through an example. Assume that the current short-term rate is 1.5% and the current long-term rate is 6%. Further assume that we need $1 million of funds to purchase a long-term asset, such as gas pipes. Following generally accepted borrowing practices, we would finance that asset by issuing $1 million of long-term (for example, 20 years) of debt at 6%. The total cost of that money would be $1.2 million (20x.06x $1,000,000). Now suppose we decide to finance that long-term asset with $1 million of short-term debt and two years later we have to refinance that short-term debt with long-term debt to satisfy our short-term lenders. Further assume that at the time of refinancing, the cost of long-term debt has increased to 8%. Our total financing costs would now be $1.44 million ((2*.02*2) + (18*.08*18)). As you can see, our total financing cost would increase by $240,000 ($1,440,000 - $1,200,000).

Q. Are you aware of any business treatises that recognize the risk associated with short-term debt and the need to use interest rates to hedge against fluctuations in interest rates?

A. Yes. In Fundamentals of Financial Management, Fourth Edition, the author states the principal as follows:

> "Even though short-term debt is often less expensive than long-term debt, financing with short-term debt subjects the borrowing firm to greater risks than does financing with long-term debt. This added risk occurs for two reasons. (1) If a firm borrows on a long-term basis, its interest costs will be fixed and therefore stable over time, but if it uses short-term credit, its interest expense will fluctuate widely, at times going quite high. The Transamerica example cited at the beginning of the chapter illustrated that risk. (2) If a firm borrows heavily on a short-term basis, it may find itself unable to repay this debt, and it may be in such a weak financial position that the lender will not extend the loan; this could force the firm into bankruptcy. Braniff Airlines, which failed during a recent credit crunch, is an example."

Q. The quote refers to Transamerica and Braniff, can you give some more recent examples of companies who have suffered as a result of their inability to generate sufficient cash flow to pay their debt as it becomes due?

A. There are several recent examples in the natural gas industry. The Williams Company, Inc. is the owner of several large interstate pipelines and other businesses, primarily in the energy industry. According to its 10-K for the year ended December 31, 2002, Williams had a debt to total capitalization ratio ranging from 57% to 61% for the years 1999 through 2001. In 2001, the cash generated from Williams businesses become insufficient to permit Williams to meet its obligations. As a result, Williams was forced to renegotiate its debt at higher rates, to sell several billion dollars of assets and to reduce its employees from 12,400 at the end of 2001 to 7,300 as of March 14, 2003. Williams credit rating was reduced to junk bond status, its interest rates increased substantially (in one case to at least 14%), and its per share stock price fell from a high of $45.90 in the first quarter of 2001 to a low of $0.88 in the third quarter of 2002.

Aquila, Inc. ("Aquila") is a multinational energy provider headquartered in Kansas City, Missouri. Its cash flow problems are summarized on page 4 of its 10-K for the year ended December 31, 2002, as follows:

> "We have experienced significant net losses and negative cash flows from operations in 2002. We have also experienced a number of credit downgrades and are currently rated as non-investment grade. This has caused us to post a substantial amount of cash or letters of credit as collateral on a number of our contractual agreements. As shown in our Consolidated Financial Statements, we had a retained deficit of $1.7 billion as of December 31, 2002. In addition, as discussed in Notes 12 and 13 to the Consolidated Financial Statements, as a result of these losses, we were in violation of an interest coverage ratio covenant and a covenant that requires us to maintain a maximum debt to capitalization ratio."

As was the case with Williams, Acquila's credit rating was downgraded. As set forth on page 113 of Acquila's 10-K, as a result of these downgrades, the interest rates on one series of its senior notes increased from 7.75% to 9.95%, the interest rate on another series of its senior notes increased from 11.875% to 14.875%. As set forth on page 109 of its 10-K, Acquila was also forced to obtain a waiver of these debt covenants for a limited period of time at a cost of $3.6 million.

CMS Energy ("CMS") is an energy holding company. Its two principal subsidiaries are Consumers Energy Company ("Consumers") and CMS Enterprises.Company ("Enterprises"). Consumers is a public utility that provides natural gas and/or electricity to almost 6 million customers in Michigan. According to CMS's 10-K for the year ended December 31, 2002, Consumers' gas utility operations, if independent, would be the 6th largest gas utility company in the United States. Enterprises, through subsidiaries, is engaged in several energy businesses in the United States and in selected international markets. Like Williams and Acquila, CMS suffers from liquidity problems due to an insufficient cash flow to meet its cash requirements. As a result, during 2001 and 2002, CMS was forced to reduce its debt through the sale of $2.8 billion of assets. On March 30, 2003, CMS and one of its affiliates amended and restated their revolving credit agreements with respect to more than $1 billion of debt at a cost of 10.0%. In addition, Consumers filed a rate case seeking $156 million of interim relief.

In all of these cases, the companies relied too heavily on short-term and long-term debt and when they were unable to meet their economic goals, they found themselves unable to meet the requirements of their debt instruments. I do not want to put Piedmont in that position by adopting the capital structure and cost of capital proposed by Dr. Brown.

Q. On page 47 of his testimony, Dr. Brown states that "Piedmont can probably get the same or better treatment for any refinancing or new debt funded from the financial community that served Progress." Do you agree with that statement?

A. No. But even if I did, it would not lead me to the conclusion that Piedmont can issue long-term debt at 4.8% as suggested by Dr. Brown. In fact, it does not even lead me to the conclusion that Progress can issue all of its long-term debt at 4.8%.

Q. Please explain your answer.

A. Dr. Brown is very selective in the way in which he picks and chooses data to support his conclusions. For example, the Progress 10-Q to which Dr. Brown refers mentions not only that Progress issued $425 million of First Mortgage Bonds, 4.80% Series, Due March 1, 2013 to which Dr. Brown refers, it also mentions <u>in the same sentence</u>, $225 million of First Mortgage Bonds, 5.90% Series, Due March 1, 2033. Dr. Brown also failed to distinguish between the cost of secured first mortgage bonds (of the kind issued by Progress) and the unsecured debt issued by Piedmont. Even for the same company, the difference in cost can be substantial. For example, in April 2002, Progress issued $350 million of 5-year unsecured notes at a cost of 6.05% and $450 million of 10-year notes at a cost of 6.85%.

Piedmont is prohibited by its outstanding debt instruments from issuing first mortgage bonds.

Q. Why did Piedmont agree not to issue any additional first mortgage bonds?

A. There are a number of factors other than interest rates considered when a decision is made to issue securities. Many years ago, Piedmont, with the assistance of its financial advisors, determined that its current obligations under its secured bond debt were too restrictive to permit Piedmont to operate in the fast growth environment in which Piedmont operates. For that reason, Piedmont decided to defease its then outstanding bonds and to issue unsecured debt in the future. We found that this approach gives us the greatest flexibility in meeting our financial needs.

Q. On page 48 of his testimony, Dr. Brown states that "the $425 million sale is not a "prospective" transaction as Piedmont suggests" and that "Progress Energy's issuance of $425 million of bonds in March suggests Progress received payment in full for the assets approximately two months before Piedmont filed its case with the TRA." Do you agree with this statement?

A. No. Once again, based on a completely erroneous assumption, Dr. Brown has reached an incorrect conclusion in an apparent effort to disparage Piedmont. The transaction with Progress has not closed and Piedmont has not paid Progress one penny toward the purchase price of those assets. The closing of the transaction will take place, and Piedmont will pay Progress, once all of the closing conditions, including approval of the SEC, have been met. Nowhere in that 10-Q upon which Dr. Brown relies does Progress suggest that it has received any money from Piedmont. Furthermore, in both the Progress 10-Q on which Dr. Brown relies and its 10-Q for its quarter ended June 30, 2003 (which was filed 3 months after the 10-Q relied on by Dr. Brown), Progress stated that the transaction has not yet closed and that, when it does, the net proceeds from "the sale <u>will be used</u> to pay down debt obligations." This statement of future intent clearly shows that it has not yet received the proceeds from the transaction.

Q. If Piedmont were to change the way it operates so that its actual capital structure matched the hypothetical capital structure, what would be the effect on Piedmont and its customers?

A. As is explained in more detail in Mr. Johnson's testimony, our credit rating would be reduced by both Moody's and Standard & Poor's. This would make it more difficult for us to issue debt securities, and it would increase the cost of that debt. Since our ratio of common stock to total capitalization would be reduced, our stock prices would fall and it would be more difficult for us to sell additional shares of common stock. Those few utilities who have allowed their common stock to total capitalization ratios to go down have recently been given a significant wake-up call. For example, the two major electric companies who operate in North Carolina have had their credit ratings reduced and have been forced to issue large amounts of equity securities and to reduce their dependence on debt. Because it would be more difficult and costly for us to obtain capital, we would eventually be unable to provide adequate service to our customers at reasonable prices.

Q. Please explain how you determined the cost of your debt for this proceeding?

A. We used the 13-month average of our actual costs of debt for the 13 months ended December 31, 2002.

Q. Why did you use this cost of debt?

A. We must have sufficient revenues to pay our actual interest costs as they become due. The adoption of Dr. Brown's hypothetical interest costs would not provide sufficient funds for the payment of our actual interest costs.

Q. Do you believe it is appropriate to use the comparison group of companies to determine Piedmont's cost of debt?

A. No. A utility's interest costs depend upon a number of factors, including the prevailing interest rates that existed at the time the debt was offered. For example, we have Medium-Term Notes outstanding with interest rates of 6.23%, 7.35%, 7.80%, 6.55%, 6.87%, 8.45%, 7.40%, 7.50% and 7.95%. These notes were issued at different times and have different maturity dates. The comparable companies issued different amounts of debt at different times; therefore, it is to be expected that their cost of debt would be different. That does not indicate that one company is smarter than the other, it simply indicates that they issued their debt at different points in time and for different maturities.

We are in the natural gas business. We do not speculate in movements in interest rates. We issue debt when we need it to meet the requirements of our customers, not when we believe we can arbitrage the interest rate market.

Q. Mr. Dzuricky, Dr. Brown has recommended a return on common equity of 7.6%. In your opinion, what would be the effect on Piedmont's ability to serve its customers in Tennessee if the TRA were to adopt that return on equity?

A. In my opinion, the result would be disastrous. We must compete with other gas distribution companies, and Dr. Brown's recommended return is out-of-line with the rates of return being granted by other commissions for other natural gas companies. I had a search made of orders issued in 2003 by other commissions for other natural gas distribution companies, and I found the following:

Commission and Date of Decision	Company	Return on Common Equity
South Carolina Public Service Commission (January 28, 2003)	Piedmont Natural Gas Company	12.60%
Wisconsin Public Service Commission (February 28, 2003)	Madison Gas and Electric Company	12.3%
Michigan Public Service Commission (May 2, 2003)	SEMCO Energy Gas Company	11.40%
Michigan Public Service Commission (March 12, 2003)	Michigan Gas Utilities	11.4%
North Dakota Public Service Commission December 18, 2002	Montana-Dakota Utilities Company	11.329
Florida Public Service Commission January 6, 2003	Peoples Gas System	11.25%
California Public Service Commission (May 8, 2003)	Pacific Gas & Electric	11.22%

Iowa Utilities Board (May 15, 2003)	Interstate Power and Light Company	11.05%
California Public Service Commission (May 8, 2003	San Diego Gas & Electric	10.90%
Virginia State Corporation Commission (March 24, 2003)	Southwestern Virginia Gas Company	10.3%

In my opinion, adoption of Dr. Brown's capital structure, costs of debt and cost of equity would seriously affect our ability to raise the necessary capital to continue to provide safe and reliable service to our Tennessee customers. At the very least, it would prevent us from raising the amount of capital we would require if we are to continue to add new customers and contribute to the economic development of our service area in Tennessee.

Q. Mr. Dzuricky, what is your response to Mr. Chrysler's proposal to deny Piedmont recovery of the costs of its MVP Program?

A. Piedmont has several methods by which it may compensate its employees. Of course, one way is to simple raise their base pay. In consultation with our compensation consultants and with the approval of our Board of Directors, we determined several years ago that it would benefit both our customers and our shareholders if we would subject some portion of our employees' compensation to their ability to obtain certain goals. Several years ago, we adopted a long-term incentive plan ("LTIP") for our employees of "Director" level or above with these goals in mind. In our last general rate case, the CAPD objected to the recovery of any of the costs associated with the LTIP. This Authority, recognizing that the LTIP benefits both customers and shareholders, determined that the costs of the LTIP should be shared 50% by customers and 50% by shareholders. Recently, our Board of Directors, again upon the recommendation of our compensation consultants, approved a short-term incentive plan known as the MVP Plan. This plan is primarily aimed at employees below the "Director" level. Like the LTIP, the goals for participation in the benefits of the MVP Plan will benefit both customers and shareholders. The customer related goals include (1) the delivery of products and services that meet or exceed customer expectations, (2) the management of customer relationships as a valuable asset, (3) the provision of safe, secure and reliable service, and (4) the implementation of operational efficiencies to reduce cost of service. The shareholder related goals include (1) increasing shareholder value and (2) achieving financial objectives.

While we continue to believe that 100% of the costs of incentive plans should be included in our O&M expenses for ratemaking purposes, we recognize that the Authority has previously determined that the costs of such plans should be shared 50% by customers and 50% by shareholders. As a result and, of course, subject to the approval of the Authority, we will agree to a 50/50 sharing of the MVP Plan costs. This agreement, if accepted by the Authority, would reduce our rate request by $193,981.50.

Q. Does this conclude your testimony?

A. Yes

Affidavit

State of North Carolina)
)
County of Mecklenburg)

David J. Dzuricky, being first duly sworn, deposes and says that he is the same David J. Dzuricky whose prepared testimony and exhibits accompany this affidavit.

David J. Dzuricky further states that, to the best of his knowledge and belief, his answers to the questions contained in such prepared testimony are true and accurate.

David J. Dzuricky ______________________ David J. Dzuricky

Sworn to and subscribed before me, a Notary Public, on this the 27 th day of August, 2003.

____

My Commission Expires:
MY COMMISSION EXPIRES 10-29-05
____

Before The
Tennessee Regulatory Authority
Docket No. 03-00313

In the Matter of

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 the Approval of	)
Revised Service Regulations	)

Rebuttal Exhibits of David J. Dzuricky
On Behalf Of
Nashville Gas Company,
A Division of
Piedmont Natural Gas Company, Inc.

Piedmont
Natural Gas
Company

Piedmont Natural Gas
Capitalization
Thirteen Months Average for the Period Ended December 31, 2002

	Average	Ratio	Post NCNG	Ratio
Long-Term Debt	505,957,746	44.81%	776,410,807	47.80%
Short-Term Debt	19,615,385	1.74%	19,615,385	1.21%
Common Equity	603,458,649	53.45%	828,422,547	51.00%
Total	1,129,031,779	100.00%	1,624,448,739	100.00%

07-Mar-2003
BLG
Capitalization

Piedmont Natural Gas
Capitalization
Test Period Ended December 31, 2002
Embedded Cost of Long-Term Debt

Account No.	Description	End of Period Balance	A Annual Interest Cost	B Amortization of Debt Expense	C Total Annual Cost
Senior Notes:					
22413	10.06%, due 2004	4,000,000	402,400	0	402,400
22416	9.44%, due 2006	35,000,000	3,304,000	0	3,304,000
22422	8.51%, due 2017	35,000,000	2,978,500	2,436	2,980,936
Medium-Term Notes:					
22409	7.40%, due 2025	55,000,000	4,070,000	17,280	4,087,280
22411	7.80%, due 2010	60,000,000	4,680,000	50,016	4,730,016
22417	7.35%, due 2009	30,000,000	2,205,000	25,728	2,230,728
22418	7.95%, due 2029	60,000,000	4,770,000	19,656	4,789,656
22421	7.50%, due 2026	40,000,000	3,000,000	11,820	3,011,820
22423	6.23%, due 2003	45,000,000	2,803,500	37,812	2,841,312
22425	6.87%, due 2023	45,000,000	3,091,500	14,424	3,105,924
22426	8.45%, due 2024	40,000,000	3,380,000	12,900	3,392,900
22449	6.55%, due 2011	60,000,000	3,930,000	47,952	3,977,952
Issues Redeemed Before Maturity:					
18109	10.02% redemption premium	0	0	53,436	53,436
18110	10.11% redemption premium	0	0	57,804	57,804
18129	10.02% debt expense	0	0	10,140	10,140
18131	10.11% debt expense	0	0	3,576	3,576
	Total	509,000,000	38,614,900	364,980	38,979,880
Less Unamortized Debt Expense		(3,779,651)			
	Net Long-Term Debt	505,220,349			
Embedded Cost of Long-Term Debt					7.72% D

A End of period balance times the stated interest rate.

B Annualized amortization as of December 31, 2002.

C A plus B.

D Total annual cost divided by net long-term debt.

07-Mar-2003
BLG
Capitalization

Piedmont Natural Gas Company
Worksheet for Average Capitalization
Test Period Ended December 31, 2002

	12/31/2001	01/31/2002	02/28/2002	03/31/2002	04/30/2002	05/31/2002	06/30/2002	07/31/2002	08/31/2002	09/30/2002	10/31/2002	11/30/2002	12/31/2002
Long-Term Debt													
Senior Notes:													
10.06% Senior Notes, due 2004	6,000,000	6,000,000	6,000,000	6,000,000	6,000,000	6,000,000	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000
9.44% Senior Notes, due 2006	35,000,000	35,000,000	35,000,000	35,000,000	35,000,000	35,000,000	35,000,000	35,000,000	35,000,000	35,000,000	35,000,000	35,000,000	35,000,000
8.51% Senior Notes, due 2017	35,000,000	35,000,000	35,000,000	35,000,000	35,000,000	35,000,000	35,000,000	35,000,000	35,000,000	35,000,000	35,000,000	35,000,000	35,000,000
Total Senior Notes	76,000,000	76,000,000	76,000,000	76,000,000	76,000,000	76,000,000	74,000,000	74,000,000	74,000,000	74,000,000	74,000,000	74,000,000	74,000,000
Medium-Term Notes:													
6.23% Medium-Term Notes, due 2003	45,000,000	45,000,000	45,000,000	45,000,000	45,000,000	45,000,000	45,000,000	45,000,000	45,000,000	45,000,000	45,000,000	45,000,000	45,000,000
6.55% Medium-Term Notes, due 2011	60,000,000	60,000,000	60,000,000	60,000,000	60,000,000	60,000,000	60,000,000	60,000,000	60,000,000	60,000,000	60,000,000	60,000,000	60,000,000
6.87% Medium-Term Notes, due 2023	45,000,000	45,000,000	45,000,000	45,000,000	45,000,000	45,000,000	45,000,000	45,000,000	45,000,000	45,000,000	45,000,000	45,000,000	45,000,000
8.45% Medium-Term Notes, due 2024	40,000,000	40,000,000	40,000,000	40,000,000	40,000,000	40,000,000	40,000,000	40,000,000	40,000,000	40,000,000	40,000,000	40,000,000	40,000,000
7.40% Medium-Term Notes, due 2025	55,000,000	55,000,000	55,000,000	55,000,000	55,000,000	55,000,000	55,000,000	55,000,000	55,000,000	55,000,000	55,000,000	55,000,000	55,000,000
7.50% Medium-Term Notes, due 2026	40,000,000	40,000,000	40,000,000	40,000,000	40,000,000	40,000,000	40,000,000	40,000,000	40,000,000	40,000,000	40,000,000	40,000,000	40,000,000
7.35% Medium-Term Notes, due 2009	30,000,000	30,000,000	30,000,000	30,000,000	30,000,000	30,000,000	30,000,000	30,000,000	30,000,000	30,000,000	30,000,000	30,000,000	30,000,000
7.80% Medium-Term Notes, due 2010	60,000,000	60,000,000	60,000,000	60,000,000	60,000,000	60,000,000	60,000,000	60,000,000	60,000,000	60,000,000	60,000,000	60,000,000	60,000,000
7.95% Medium-Term Notes, due 2029	60,000,000	60,000,000	60,000,000	60,000,000	60,000,000	60,000,000	60,000,000	60,000,000	60,000,000	60,000,000	60,000,000	60,000,000	60,000,000
Total Medium-Term Notes	435,000,000	435,000,000	435,000,000	435,000,000	435,000,000	435,000,000	435,000,000	435,000,000	435,000,000	435,000,000	435,000,000	435,000,000	435,000,000
Total Long-Term Debt	511,000,000	511,000,000	511,000,000	511,000,000	511,000,000	511,000,000	509,000,000	509,000,000	509,000,000	509,000,000	509,000,000	509,000,000	509,000,000
Less Unamortized Debt Expense	(4,176,036)	(4,116,066)	(4,086,094)	(4,056,124)	(4,026,153)	(3,992,557)	(3,962,140)	(3,931,726)	(3,901,312)	(3,870,898)	(3,840,482)	(3,810,066)	(3,779,651)
Total Long-Term Debt, net	506,823,964	506,883,934	506,913,906	506,943,876	506,973,847	507,007,443	505,037,860	505,068,274	505,098,688	505,129,102	505,159,518	505,189,934	505,220,349
Short-Term Debt	38,500,000	33,000,000	0	0	0	0	0	0	0	22,000,000	46,500,000	55,000,000	60,000,000
Common Equity:													
Common Stock	334,734,838	338,136,842	338,561,869	338,979,487	342,544,136	342,973,711	343,482,263	347,592,242	348,107,339	348,371,546	352,553,054	355,204,229	355,490,165
Retained Earnings	236,371,079	258,356,708	266,544,288	282,655,991	287,130,962	272,749,970	268,813,139	265,032,417	247,996,639	244,532,370	240,026,408	243,665,540	244,355,206
Total Common Equity	571,105,917	596,493,550	605,106,157	621,635,478	629,675,098	615,723,681	612,295,402	612,624,659	596,103,978	592,903,916	592,579,462	598,869,769	599,845,371
Total Capitalization, net	1,116,429,881	1,136,377,484	1,112,020,063	1,128,579,354	1,136,648,945	1,122,731,124	1,117,333,262	1,117,692,933	1,101,202,666	1,120,033,018	1,144,238,980	1,159,059,703	1,165,065,720

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03-Mar-03

Piedmont Natural Gas
Unamortized Debt Expense
Twelve Months Ended December 31, 2002

	12/31/2001	1/31/2002	2/28/2002	3/31/2002	4/30/2002	5/31/2002	6/30/2002	7/31/2002	8/31/2002	9/30/2002	10/31/2002	11/30/2002	12/31/2002
Unamortized Debt Expense:													
Senior Notes:													
10.02% Senior Notes, due 2003	20,303	19,458	18,613	17,768	16,923	16,078	15,233	14,388	13,543	12,698	11,853	11,007	10,162
10.06% Senior Notes, due 2004	0	0	0	0	0	0	0	0	0	0	0	0	0
10.11% Senior Notes, due 2004	11,539	11,241	10,943	10,645	10,347	10,049	9,751	9,453	9,155	8,857	8,559	8,261	7,963
9.44% Senior Notes, due 2006	0	0	0	0	0	0	0	0	0	0	0	0	0
8.51% Senior Notes, due 2017	29,378	29,175	28,972	28,769	28,566	28,363	28,160	27,957	27,754	27,551	27,348	27,145	26,942
Total Senior Notes	61,220	59,874	58,528	57,182	55,836	54,490	53,144	51,798	50,452	49,106	47,760	46,413	45,067
Medium-Term Notes:													
6.23% Medium-Term Notes, due 2003	59,033	55,882	52,730	49,579	46,428	43,277	40,125	36,974	33,823	30,672	27,521	24,369	21,218
7.35% Medium-Term Notes, due 2009	198,333	196,189	194,045	191,901	189,757	187,613	185,469	183,325	181,181	179,037	176,893	174,749	172,605
7.80% Medium-Term Notes, due 2010	464,146	459,978	455,810	451,642	447,474	443,306	439,138	434,970	430,802	426,634	422,466	418,298	414,130
6.55% Medium-Term Notes, due 2011	498,277	464,725	461,173	457,621	454,069	446,891	442,895	438,899	434,903	430,907	426,911	422,915	418,919
6.87% Medium-Term Notes, due 2023	314,053	312,851	311,648	310,446	309,243	308,041	306,838	305,636	304,433	303,231	302,028	300,826	299,623
8.45% Medium-Term Notes, due 2024	292,866	291,792	290,718	289,643	288,569	287,495	286,420	285,346	284,272	283,198	282,123	281,049	279,975
7.40% Medium-Term Notes, due 2025	410,443	409,003	407,563	406,124	404,684	403,244	401,804	400,364	398,925	397,485	396,045	394,605	393,165
7.50% Medium-Term Notes, due 2026	289,778	288,793	287,808	286,823	285,838	284,853	283,868	282,883	281,898	280,913	279,928	278,943	277,958
7.95% Medium-Term Notes, due 2029	544,791	543,153	541,515	539,877	538,239	536,601	534,963	533,325	531,687	530,049	528,411	526,773	525,135
Total Medium-Term Notes	3,071,720	3,022,366	3,003,010	2,983,656	2,964,301	2,941,321	2,921,520	2,901,722	2,881,924	2,862,126	2,842,326	2,822,527	2,802,728
Premium:													
10.02% Senior Notes, due 2003	411,942	407,489	403,036	398,583	394,130	389,677	385,224	380,771	376,318	371,865	367,412	362,959	358,506
10.11% Senior Notes, due 2004	445,532	440,715	435,898	431,081	426,264	421,447	416,630	411,813	406,996	402,179	397,362	392,545	387,728
	857,474	848,204	838,934	829,664	820,394	811,124	801,854	792,584	783,314	774,044	764,774	755,504	746,234
Shelf Registration	185,622	185,622	185,622	185,622	185,622	185,622	185,622	185,622	185,622	185,622	185,622	185,622	185,622
Total Unamortized Debt Expense	4,176,036	4,116,066	4,086,094	4,056,124	4,026,153	3,992,557	3,962,140	3,931,726	3,901,312	3,870,898	3,840,482	3,810,066	3,779,651

BLG
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Capitalization

Financial News

Press Release

Source: Atmos Energy Corporation

Atmos Energy Corporation Completes Equity Offering

Monday June 23, 4:54 pm ET

DALLAS, June 23 /PRNewswire-FirstCall/ -- Atmos Energy Corporation (NYSE: ATO - News) said today that it has completed the sale of 4 million shares of common stock from a public offering that raised about $97 million in net proceeds.

The offering, priced on June 18 at $25.31 a share, yielded gross proceeds of approximately $101 million. The underwriters also have the option to purchase an additional 600,000 shares by July 18, 2003, to cover overallotments.

The Dallas-based natural gas distributor said it will use the proceeds to repay its outstanding short-term debt, to provide approximately $20 million of funding for its pension plan and for general corporate purposes, including capital spending and purchasing natural gas.

"Selling equity at this time strengthens Atmos Energy's balance sheet to maintain our credit ratings and allows us to make a sizable contribution to our pension plan," said Robert W. Best, chairman, president and chief executive officer of Atmos Energy Corporation. "We are very gratified by the market's indication of support for this offering. Although issuing additional shares creates modest dilution, we nevertheless expect that our fiscal 2003 earnings per share will reach the lower part of our stated guidance of $1.52 to $1.58," Best said.

Atmos Energy's number of common shares outstanding after the sale is approximately 49.9 million.

Forward-Looking Statements

The matters discussed or incorporated by reference in this news release may contain "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 or Section 21E of the Securities Exchange Act of 1934. All statements other than statements of historical fact included in this news release are forward-looking statements made in good faith by the Company and are intended to qualify for the safe harbor from liability established by the Private Securities Litigation Reform Act of 1995. When used in this news release or in any of the Company's other documents or oral presentations, the words "anticipate," "expect," "estimate," "plans," "believe," "objective," "forecast," "goal" or similar words are intended to identify forward-looking statements. Such forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those expressed or implied in the statements relating to the Company's earnings-per- share projections, operations, markets, services, rates, recovery of costs, availability of gas supply and other factors. A discussion of these risks and uncertainties

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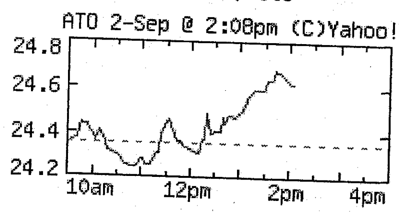

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may be found in the Company's Form 10-K for the fiscal year ended September 30, 2002. Although the Company believes these forward-looking statements to be reasonable, there can be no assurance that they will approximate actual experience or that the expectations derived from them will be realized. We undertake no obligation to update or revise our forward- looking statements, whether as a result of new information, future events or otherwise.

Atmos Energy Corporation, headquartered in Dallas, is one of the largest pure natural gas distributors in the United States, serving about 1.7 million gas utility customers. Atmos Energy's utility operations serve more than 1,000 small and medium-size communities in 12 states from the Blue Ridge Mountains in the East to the Rocky Mountains in the West. Atmos Energy's nonutility operations, organized under Atmos Energy Holdings, operate in 18 states. They provide natural gas marketing and procurement services to industrial, commercial and municipal customers, manage company-owned natural gas storage and pipeline assets, construct small electric generating plants for industrial and municipal customers, and hold an indirect equity interest in Heritage Propane Partners, L.P., the fourth-largest U.S. propane marketer. For more information, visit www.atmosenergy.com .

Source: Atmos Energy Corporation