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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 Bill R. Morris 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

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 Bill R. Morris
On Behalf Of
Nashville Gas Company,
A Division of
Piedmont Natural Gas Company, Inc.

Piedmont
Natural Gas
Company

Q. Please state your name.

A. My name is Bill R. Morris.

Q. Have you previously filed direct testimony in this case?

A. Yes My direct testimony was filed on April 29, 2003.

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

A. The purpose is to address the adjustments proposed by the Consumer Advocate and Protection Division (CAPD) relating to the income statement and rate base included in our filing. Specifically, my comments will be limited to the CAPD's adjustments pertaining to operations and maintenance expenses, depreciation and amortization expense and taxes. Mr. David Carpenter will address issues relating to revenues and cost of gas. Mr. Ron Edelstein will address an issue relating to our contributions to the Gas Technology Institute (GTI). Mr. Dzuricky will address the issue relating to the recovery of amounts payable under our short-term incentive plan known as our "MVP Plan." Messrs. Dzuricky, Johnson and Murry will address issues relating to our capital structure and our cost of capital.

Q. Please identify the adjustments proposed by the CAPD to income statement and rate base filed by the Company.

A. I will address the differences by witness and subject matter and indicate whether the Company agrees or disagrees with each.

CAPD Witness Daniel McCormac proposes the following adjustments:

a. An increase in gas sales revenues of $80,651 relating to a billing error that occurred during the test period. The Company accepts this adjustment.

b. An increase in uncollectible accounts expense of $289,587 to include the gas cost portion of net write-offs. The Company accepts the methodology of this adjustment; however, because of other issues, that will be explained by Mr. Carpenter, the amount of the adjustment may change as revenues change.

c. An increase in accumulated depreciation in the amount of $2,694,437 to correct a formula error in the Company's filing. The Company accepts this adjustment.

d. A decrease in gas inventory in the amount of $4,697,742 relating to the CAPD's proposal to use NYMEX futures prices as opposed to the Company's existing commodity gas cost component of the purchased gas adjustment in the inventory valuation. The Company disagrees with this adjustment, and I will address this item in more detail later in my testimony.

e. A change in the lag days for common equity from zero to 45 in the lead/lag study. This adjustment has the effect of reducing the working capital allowance in the Company's filing by $865,830. The Company disagrees with this adjustment and I will address this item in more detail later in my testimony.

CAPD Witness Michael Chrysler proposes the following adjustments:

a. A decrease in salaries and wages expense in the amount of $387,000 relating to the CAPD's removal of the amounts payable under our MVP Plan. The Company disagrees with this adjustment and Mr. David Dzuricky will address this item in more detail in his testimony.

b. The elimination of our GTI funding in the amount of $185,000. The Company disagrees with this adjustment, and Mr. Ronald Edelstein of GTI will address this item in more detail in his testimony.

CAPD Witness Mark Crocker proposes the following adjustments:

a. An increase in liability insurance in the amount of $77,990 to recognize the current market climate for Officers and Directors liability insurance. The Company accepts this adjustment.

b. An increase in gas cost expense in the amount of $43,737 to include the cost of odorant that was omitted in the Company's filing. The Company accepts this adjustment.

c. A decrease in pension expense in the amount $86,256 to reflect more recent information available on the Company's funding requirements. The Company accepts this adjustment.

d. A decrease in outside services expense in the amount of $48,328 to remove the allocation of consulting fees for the former Chairman and CEO. The Company accepts this adjustment.

e. An increase in excise tax expense of $57,000 relating to the use of the current state excise tax rate. The Company accepts this adjustment; however, depending on the outcome of other issues, this amount is subject to change.

Q. In his testimony, Mr. McCormac makes the statements beginning at line 5 on page 6, "Rates should be calculated on a Rate Base of $258,662,000, an Operating Income at Present Rates of $15,671,000 and a gross revenue conversion factor of 1.640709 as shown on CAPD Exhibit, Schedule 1. Rates

should be increased to produce a fair rate of return of 6.5%." Do you agree with these statements?

A. No. After recognizing the effects of the adjustments agreed to by the Company and quantified on Rebuttal Exhibit___(BRM-1), rates should be calculated on a Rate Base of $262,984,735, an Operating Income at Present Rates of $15,352,733 and a gross revenue conversion factor of 1.637782. Rates should be increased to produce a fair rate of return of 10.23%.

Q. In addition to the CAPD's investigation of this rate filing, has the Company received discovery requests from the TRA Staff?

A. Yes. At the time I prepared my rebuttal testimony, the TRA Staff had sent the Company fifty discovery request items.

Q. As a result of responding to those discovery requests, are there additional adjustments that you feel are appropriate to the Company's original filing?

A. Yes. The Company agrees to three adjustments that are the result of the TRA Staff's discovery request. The first adjustment is to update the corporate office payroll allocation for vacant positions deleted and new positions added during the past month. The effect of this adjustment is a reduction of $26,116 in payroll expense. The second adjustment involves the miscoding of expenses during the test period. In responding to a TRA Staff data request, it was determined that some expenses were charged to Tennessee direct expense that should have been coded as three-state expenses and allocated to Tennessee on that basis. The effect of this adjustment reduces expenses by $125,922. Lastly, it was discovered that actual degree days used in the revenue calculation were pulled from a source other than the NOAA data source. Mr. Carpenter discusses this in more detail in his testimony. The effect of recalculating revenues using the NOAA degree day information reduces the attrition period margin by $832,222.

Q. **Have you calculated the effect on the revenue increase requested in this case of the various proposed adjustments agreed to by the Company?**

A. Yes. Rebuttal Exhibit___(BRM-1) shows that the combined effect of all the adjustments the Company has agreed to increases the amount originally requested by $601,308.

Q. Is the Company seeking to increase the amount of the rate increase being requested in this case?

A. No. The Company is not seeking a formal modification to its overall revenue request in this docket; however, we do believe that it is appropriate for the Authority to consider all proper adjustments to the Company's filed case – both positive and negative – in reaching a final decision in this docket. As such, the Company believes that to the extent that the Authority finds that the revenue increase originally requested in this case should be reduced to reflect any of the CAPD's proposed downward adjustments, we ask that all upward adjustments, including the margin error discovered by the TRA Staff, be recognized as an offset in the Authority's final decision.

Q. Please comment on the CAPD proposed adjustments with which the Company disagrees?

A. With the exception of issues which I have indicated will be discussed by other Company witnesses, I will set forth below the Company's position on the CAPD's proposed adjustments to rate base and income statement items.

Q. Please comment on CAPD's proposed gas inventory valuation adjustment addressed in the testimony of Mr. McCormac.

A. I will begin my discussion by explaining the method used by the Company in calculating gas inventory. Consistent with the Company's practice in previous rate proceedings, the Company calculated the average inventory balance for the attrition period by using the actual commodity gas cost component included in Nashville Gas' billing rates at the time of filing. At the time of filing, the commodity gas component of the Company's billing rates was $6.6808 per dekatherm. That rate is also the current commodity gas component of Nashville Gas' billing rates. This is also the commodity gas component of the rates used by Mr. Carpenter in calculating the gas sales revenues in the Company's filing. Thus, a proper matching of revenues, gas cost and gas storage inventory existed in the Company's filing. Utilizing this rate, the Company's average gas storage inventory for the attrition period included in the Company's filing is $23,857,915.

During the course of the CAPD's investigation, a request was made for the Company to provide a calculation of the gas storage inventory utilizing the NYMEX futures prices that existed at that time. Using the NYMEX futures prices at July 3, 2003, the calculation was made using the same injections and withdrawals as included in our filing. This produced an average attrition period inventory of $19,160,173, or

$4,697,742 less than the amount included by the Company. This is the amount included in the CAPD's analysis.

Q. Why didn't the Company use the NYMEX futures prices to value inventory in its filing?

A. We chose not to use the NYMEX for a number of reasons. First, the gas cost inventory calculation presented by the Company reflected an actual fixed number (the commodity gas cost in the Company's PGA) that was reasonably determinable and representative of the actual cost of gas to the Company at the time of filing. Second, and as I have previously explained, the method utilized by the Company to calculate gas storage inventory was the same methodology used and approved in previous Tennessee rate cases. As such, the Company believed that it was appropriate to utilize that methodology in this case. Third, NYMEX futures prices are experiencing significant volatility. The industry is experiencing some of the highest prices in its history. The NYMEX at the Henry Hub for March 2003 closed at a price over $9.00 and there is still substantial uncertainty in the market regarding the price of natural gas going forward. On Nashville Rebuttal Exhibit___(BRM-2), I have shown NYMEX futures prices for the months of February 2003 through October 2004, as of the first of each month during the period February through August 2003. As this chart shows, the NYMEX has, and continues, to fluctuate widely with respect to the future price of gas. Since the March 2003 price spike, the NYMEX has generally shown a downward trend, but it is anyone's guess what the future market trend will be. Many market experts believe that prices this coming winter could be much higher than current prices with normal or colder than normal weather. One can observe from the chart that for the month of August 2003, futures prices ranged from a low of \$4.859 per dekatherm projected in February 2003 to a high of \$6.311 per dekatherm projected in June 2003. The actual settlement for August 2003 closed at \$4.693. As a result of this obvious volatility in NYMEX prices for gas to be delivered during the attrition period, and no discernible method to favor one of these projected prices over another, the Company believes that, as between the Company's and CAPD's proposals, the better mechanism for pricing gas storage inventory is the Company's existing commodity cost of gas, as set forth in its filing in this case.

Q. Did the CAPD use the NYMEX pricing methodology for gas inventory in Nashville Gas' last litigated rate case in 1996?

A. No. In Docket No. 96-00977, the CAPD used the same inventory amount that was calculated by the Company. In that case, the Company's inventory was calculated using the same methodology as used in the current filing.

Q. What method of pricing gas inventory was proposed by the Company in its last rate case?

A. The same as has been used in this case.

Q. Do you have any additional comments you wish to make concerning this issue?

A. Yes. As is obvious from my testimony above, Nashville believes that its proposed method of valuing gas inventory is superior to that proposed by the CAPD. Nonetheless, the Company recognizes that neither its historical price approach nor the CAPD's projected future price approach to valuing gas inventory is likely to recover the Company's exact cost of gas inventory going forward. As such, the Company would propose a compromise that utilizes a different mechanism to recover these costs on a going-forward basis.

Q. What is that mechanism?

A. In Nashville Gas' 1999 rate case, the Company and the CAPD entered into a settlement (approved by the TRA) of all issues including a provision to recover actual prudently incurred power costs associated with the liquefaction process for Nashville Gas' liquefied natural gas (LNG) facility through the Company's Actual Cost Adjustment (ACA) account. The Company proposes that carrying costs associated with its gas inventory, similarly, be "tracked" and any difference between the carrying costs approved in this rate case and the carrying costs on the actual average inventory balance be handled through the ACA account. The carrying costs would be calculated on the actual cost of inventory at the approved overall rate of return grossed-up for taxes on the equity component. We feel that such an approach is consistent with the settlement in the last rate case and will result in the Company receiving its actual carrying costs on the actual inventory balance. This treatment would also prevent any over- or under-recovery of these costs and avoid speculation as to the future price of natural gas.

Q. Please comment on the CAPD's adjustment to increase the lag days from zero to 45 on common equity in the lead/lag study component of the working capital allowance.

A. To explain this issue, I first need to define what a lead/lag study is designed to accomplish in the ratemaking process. It is designed to measure the average amount of capital, over and above the investments in plant and other separately identified rate base items, provided by investors. Simply stated, it measures the difference in the time revenues are received and expenses are paid, and it quantifies the impact on working capital requirements. When revenues are received in advance of the time expenses are paid, the ratepayer, or non-investor, has provided funds for the day-to-day operations of the company. The opposite is true in situations where expenses are paid in advance of the receipt of revenues. In these situations, the investor has provided the funds for the day-to-day operations of the company. In our lead/lag study, we have assigned a zero-lag to the common equity component of the attrition period cost of service. The CAPD has proposed a 45-day lag for the common equity component. I was unable to find any testimony on this adjustment in the CAPD's filing, therefore I cannot comment on the rationale used by the CAPD in proposing a 45-day lag in this case.

In the Company's discovery request, the CAPD was asked to cite any references where the CAPD had proposed in any proceedings before this Authority the use of a lag on common equity greater than zero. The CAPD was also asked to provide any references where any state commission had adopted a lag of greater than zero on common equity. The responses provided no evidence that the CAPD had proposed a 45-day lag in any proceedings before this Authority, and provided no evidence of such a proposal being adopted by any other state commission.

Q. **Why does the Company feel that a 45-day lag on common equity is inappropriate for common equity?**

A. Very simply, it deprives the investor of the return he is entitled to on his investment. By applying a 45-day lag to the common equity portion of the cost of service, the

CAPD is in essence reducing the amount of the rate base funded by investors. Income is the property of the investor at the time it is earned, not at the point in time the investor receives cash in the form of dividends. It is illogical for ratepayers to receive a benefit simply because the Company pays dividends to its shareholders.

Q. Do you have any other comments regarding any of the CAPD's adjustments?

A. Yes, as I have previously discussed, the Company agrees with the CAPD's adjustment to include the gas cost portion of the attrition period uncollectible expense in this case. Nashville Gas is a joint petitioner in Docket No. 03-00209 in which the State's three local distribution companies (LDCs) have requested a declaratory ruling from the Authority as to the recovery of the gas cost portion of uncollectible accounts through the Purchased Gas Adjustment (PGA) rule. We are still a party in that proceeding and fully support the position stated in the joint petition. At the time of our filing in this case, it was anticipated that the Authority would have acted on our petition by the time this case went to hearing. We optimistically took the approach of including only the margin portion of our uncollectible accounts for recovery in this case. We are agreeing to the CAPD's adjustment in this case without prejudice to our position taken in the joint petition docket.

Q. Does this conclude your testimony?

A. Yes, it does.

Affidavit

State of North Carolina)
)
County of Mecklenburg)

Bill R. Morris, being first duly sworn, deposes and says that he is the same Bill R. Morris whose prepared testimony and exhibits accompany this affidavit.

Bill R. Morris 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.

Bill R. Morris

Bill R. Morris

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

Lee C. Howard

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 Bill R. Morris
On Behalf Of
Nashville Gas Company,
A Division of
Piedmont Natural Gas Company, Inc.

Piedmont
Natural Gas
Company

Rebuttal Exhibit___(BRM-1)

NASHVILLE GAS COMPANY
Adjustments Agreed To By Company

		Revenue Requirement Effect
	CAPD Adjustments agreed to:	
1	Correction for meter read errors in test period	($80,651)
2	Adjustment to uncollectible expense to include gas costs	365,825
3	Correction for error in Accumulated Depreciation	(392,693)
4	Adjustment to gas cost - odorant	43,857
5	Adjustment to remove former CEO consulting fees	(50,253)
6	Adjustment to increase D&O Liab. Insurance	78,204
7	Adjustment to reduce pension exp. for updated contr.	(86,496)
8	Adjustment to increase state excise tax for new rate	155,722
		$33,515
	Adjustments resulting from TRA Staff discovery:	
10	Adjustment to Corporate payroll allocation	(26,189)
11	Adjustment for expense coding errors	(130,938)
12	Adjustment to margin for degree day correction	832,222
		$675,095
13	Effects on working capital and forfeited discounts of above adjustments	**($107,302)**
14	**Total of ALL Adjustments**	**$601,308**

Rebuttal Exhibit___(BRM-2)

NYMEX FUTURES

@

	FEBUARY 3, 2003	MARCH 3, 2003	APRIL 2, 2003	MAY 2, 2003	JUNE 2, 2003	JULY 2, 2003	AUGUST 4, 2003
FEBRUARY-2003	**5.660**						
MARCH	5.605	**9.133**					
APRIL	5.345	8.101	**5.146**				
MAY	5.027	6.071	5.125	**5.123**			
JUNE	4.899	5.761	5.168	5.267	**5.945**		
JULY	4.879	5.651	5.175	5.347	6.251	**5.291**	
AUGUST	4.859	5.591	5.185	5.397	6.311	5.317	**4.693**
SEPTEMBER	4.804	5.516	5.150	5.380	6.296	5.362	4.874
OCTOBER	4.799	5.501	5.130	5.397	6.296	5.392	4.909
NOVEMBER	4.917	5.656	5.240	5.502	6.389	5.572	5.122
DECEMBER	5.022	5.811	5.352	5.612	6.519	5.748	5.365
JANUARY- 2004	5.087	5.871	5.432	5.708	6.596	5.850	5.492
FEBRUARY	4.944	5.746	5.292	5.588	6.446	5.780	5.437
MARCH	4.724	5.531	5.072	5.388	6.166	5.620	5.342
APRIL	4.344	4.876	4.632	4.828	5.311	5.035	4.850
MAY	4.191	4.651	4.532	4.726	5.131	4.885	4.740
JUNE	4.149	4.531	4.492	4.686	5.081	4.875	4.730
JULY	4.154	4.461	4.482	4.656	5.071	4.870	4.725
AUGUST	4.164	4.461	4.487	4.676	5.061	4.885	4.735
SEPTEMBER	4.139	4.461	4.482	4.646	5.051	4.875	4.709
OCTOBER	4.164	4.491	4.487	4.636	5.061	4.905	4.733

Note: Numbers in bold represent actual settlement prices for the month.