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September 3, 2003

VIA HAND DELIVERY

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 Ronald A. Johnson 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.

Sincerely,

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 Ronald A. Johnson
On Behalf Of
Nashville Gas Company,
A Division of
Piedmont Natural Gas Company, Inc.

Piedmont
Natural Gas
Company

Q. Please state your name and your business address.

A. My name is Ronald Johnson. My business address is 4 World Financial Center, New York, New York..

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

A. I am employed by Merrill Lynch. I hold the position of Vice President, Investment Banking- Corporate Ratings Advisory.

Q. Please describe your educational and professional background.

A. I received a B.A. degree in Economics with honors from Hobart College in June 1990 and an MBA in Finance and International Management from New York University Stern School of Business in May 1996. From September 1990 to December 1991, I was employed at the Federal Reserve Bank of New York. From January 1992 to August 1994 I was an assistant to the Chief Economist at Salomon Brothers Inc., and from August 1996 to April 2000 I was an Associate Director with Standard & Poor's Corporate Ratings group. I have been employed as a Vice President by Merrill Lynch since 2000.

Q. What are your responsibilities in your current position with Merrill Lynch?

A. My responsibilities are in the investment banking area of the firm. My duties include working with our global power and energy clients on the credit ratings issues related to capital markets transactions, mergers & acquisition and corporate restructuring initiatives.

Q. Have you previously testified before any regulatory authority?

A. I provided written testimony for the staff of the Missouri Public Service Commission in 1998.

Q. Please describe Merrill Lynch.

A. Merrill Lynch is engaged in all phases of the securities business and maintains offices throughout the United States as well as in Europe and in the Far East and is one of the leading underwriters of corporate securities in the US. During the last 5 years, ML has acted as the managing underwriter or as the co-manager of public offerings of corporate securities aggregating about $4.7 trillion. Merrill Lynch has a high degree of familiarity with and experience in all phases of the utility industry and, in the last five years, has acted as a manager or co-manager of public security offerings of gas distribution and pipeline companies or acted as their agent in private placements for a total of about $15 billion.

Q. You have indicated that you were employed from August 1996 to April 2000 by Standard and Poor's please describe Standard & Poor's.

A. Standard & Poor's is one of three major rating agencies that provide independent financial information, analytical services and credit ratings to the financial markets and investor community. The other two agencies are Moody's Investor Service and Fitch Ratings Service.

The ratings issued by these agencies are used by investors and other capital market participants to assess relative risk and as a tool for pricing capital.

While at Standard & Poor's, I was responsible for assessing the creditworthiness of regulated utilities, diversified energy companies and energy merchants.

Q. Have you recently had an opportunity to meet with any credit agencies regarding the rating of Piedmont's debt securities?

A. Yes. I recently met with Standard & Poor's and Moody's June of this year.

Q. Please describe those meetings.

A. During our meetings we discussed capital structure, financing and other ratings issues related to Piedmont's pending purchase of Progress Energy, Inc.'s equity interest in North Carolina Natural Gas Corporation and Eastern North Carolina Natural Gas Corporation.

Q. What factors does S&P and the other rating agencies look at when they provide a credit rating for debt securities?

A. The agencies focus on the financial leverage employed in a gas utility's capital structure relative to the riskyness of the utility's business model. Standard & Poor's uses business risk profile scores as a proxy for the consolidated business risk of the utility. Utility business profiles are categorized from 1 (strong) to 10 (weak). In order to determine a utility's business profile, Standard & Poor's analyzes the following qualitative business or operating characteristics typical of a utility: markets and service area economy; competitive position; fuel and power supply; operations; asset concentration; regulation; and management.

Standard & Poor's uses the relative risk of business to determine the appropriate level of debt leverage, profitability and fixed-charge coverage for its rating categories.

A utility with a strong business profile could have less financial protection than one with a weaker business profile, yet they could still achieve the same rating. Conversely, a utility with a weak business profile could require a more robust financial profile than one with a stronger business profile in order to get the same rating.

Piedmont Natural currently holds business profile score of a '3'. In Exhibit __(RAH-1), I have included a list of the business profile scores and debt ratings for the gas utilities referenced in Mr. Brown's testimony.

Both Moody's and Fitch employ similar methodology for rating a utility.

Q. When rating agencies look at a natural gas utilities short-term debt, do they pick a single point in time or do they look at average short-term debt outstanding.

For ratio calculation, the agencies factor in seasonal variations in short term debt balances and assume that these balances will be paid down over the cause of the business year. The agencies view short-term balances that are constantly rolled over as permanent debt, and include these amounts when calculating debt leverage in a company's consolidated capital structure.

Q. Have you had an opportunity to review the testimony filed in this proceeding by Mr. Steve Brown?

A. Yes.

Q. Have you examined the hypothetical capital structure proposed by Mr. Brown?

A. Yes.

Q. Do you have an opinion how Mr. Brown's proposed hypothetical capital structure would affect Piedmonts credit rating and cost of debt?

A. Yes.

Q. Please state your opinion.

A. Adopting Mr. Brown's capital structure recommendation of 56% total debt, return on common equity of 7.6%, and rate proposal of $1.9 million would increase Piedmont's financial risk and weaken the utility's consolidated coverage ratios to a level that may no longer be appropriate for its current ratings.

Moreover, the agencies would likely revisit their view of the degree of credit support provided by the utility's regulator. I believe the agencies would view these developments negatively and would likely review their ratings on Piedmont. I believe that a ratings downgrade could impair Piedmont's ability to access the capital market and increase its cost of capital.

In its recent ratings rationale (July 22, 2003), Standard & Poor's discusses regulatory risk, acquisition financing risk and capital structure expectations as they relate to the maintenance of current credit quality. I have attached the Standard & Poor's ratings rationale and the current Moody's rationale as Exhibit ___(RAH-2), and I have highlighted segments that are most relevant to these proceedings.

Q. Is it reasonable to assume that two natural gas utilities would have the same cost of long-term debt?

A. No. Credit ratings and general market conditions are two of many factors that determine a utility's cost of long-term debt. Furthermore, the two companies may have sold their existing long-term debt at different times and under entirely different market conditions.

Q. As one of Piedmont's financial advisors, does Merrill Lynch recommend that Piedmont speculate on interest rates?

A. We do not advise clients to take chances on interest rates. We do advise clients, such as Piedmont Natural Gas, to finance when they have the need or if they know they will have a need to use a hedging technique to lock in an acceptable interest rate. We do not advise clients to postpone a financing because we think rates will go lower. It is possible that rates may go lower, but our client could develop financial problems or the industry in which the client is situated could have financial problems making it difficult for any company in that industry to finance regardless of the overall level of interest rates.

Q. In your opinion, would it be prudent for Piedmont to use short-term debt to finance its long-term obligations?

A. No. I think that it is prudent for the company to put into place long-term capital as soon as possible. The use of short-term debt to finance its long-term obligation would expose the company to market and refinance risk and thus increase the overall financial risk profile of the company.

Q. How would the rating agencies react to an attempt by a natural gas utility to finance its long-term obligations with short-term debt?

A. Negatively, as this would be viewed as increasing the financial risk profile of the company.

Q. Does this conclude your prepared testimony?

A. Yes, it does.

Affidavit

State of New York)
)
County of New York)

Ronald A. Johnson, being first duly sworn, deposes and says that he is the same Ronald A. Johnson whose prepared testimony and exhibits accompany this affidavit.

Ronald A. Johnson 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.

Ronald A. Johnson

Sworn to and subscribed before me, a Notary Public, on this the 2nd day of September, 2003.

____

My Commission Expires:

____

The foregoing document was acknowledged before me this 2nd day of September by Sylvia L. Douglas

Notary Public

SYLVIA L. DOUGLAS
Notary Public, State of New York
No. 01DO6087072
Qualified in Bronx County
Commission Expires February 10, 2007

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 Ronald A. Johnson
On Behalf Of
Nashville Gas Company,
A Division of
Piedmont Natural Gas Company, Inc.

Piedmont
Natural Gas
Company

Exhibit ___(RAJ-1)

Company	Credit Rating and Outlook	Business Profile Score (Source: Standard & Poor's Utilities & Perspectives, August 25, 2003)
Piedmont Natural Gas	A/negative	3
Atmos Energy	A-/negative	4
AGL Resources	A-/stable	3
Atlanta Gas & Light	A-/stable	2
Nicor	AA/stable	3
Nicor Gas	AA/stable	2
Northwest Natural Resources	A/stable	3
Peoples Energy	A-/stable	4
Peoples Gas & Light	A-/stable	3
WGL Holdings	AA-/stable	3
Washington Gas & Light	AA-/stable	3

STANDARD &POOR'S	RATINGSDIRECT

Return to Regular Format

Research:
Summary: Piedmont Natural Gas Co. Inc.

Publication date: 22-Jul-2003
Credit Analyst: Brian Janiak, New York (1) 212-438-5025

Credit Rating: A/Negative/A-1

Rationale

On July 22, 2003, Standard & Poor's Ratings Services affirmed its 'A' corporate credit rating on Piedmont Natural Gas Co. Inc., following the approval by the North Carolina Utilities Commission (NCUC) of the company's proposed acquisition of North Carolina Natural Gas (NCNG), a natural gas distribution company, from Progress Energy Inc. for approximately $425 million in cash.

The ratings were removed from CreditWatch where they were placed Oct. 17, 2002, following the announcement of the proposed transaction. At the same time, Standard & Poor's assigned its 'A-1' short-term corporate credit rating to Piedmont and its 'A-1' rating to the company's new $450 million commercial paper program.

The outlook is negative. Piedmont had approximately $467 million of debt outstanding as of April 30, 2003.

The negative outlook reflects Standard & Poor's concerns about Piedmont's significantly increased debt levels to complete the transaction of NCNG and Piedmont's ability to generate financial performance commensurate with the existing ratings.

The acquisition is consistent with Piedmont's growth strategy to increase its gas distribution presence in the southeastern markets. However, the size and scope of the proposed acquisition, combined with the uncertainties regarding the execution risk of the transaction, as well as the uncertainty of the company's two near-term rate hearings in North Carolina ($46.3 million) and Tennessee ($18.6 million), further heightens Standard & Poor's concerns on Piedmont's ability to support an 'A' ratings profile.

Nevertheless, the proposed acquisition should strengthen Piedmont's highly regulated natural gas distribution business by adding an additional 176,000 NCNG residential, commercial, and industrial natural gas customers in eastern and southern North Carolina, which will increase Piedmont's customers served to more than 901,000 across North Carolina, South Carolina, and Tennessee. Furthermore, Piedmont's projected financial performance, with funds from operations interest coverage above 4.0x and total debt to total capital below 49% is appropriate with current ratings.

Standard & Poor's expects Piedmont to continue to strengthen its credit protection measures going forward after integrating its acquisition of NCNG and completing its permanent financing for the proposed transaction with a combination of $200 million of equity and $250 million of debt.

Liquidity.

Piedmont's liquidity is adequate for current market conditions. As of April 30, 2003, Piedmont had approximately $64 million of cash and full availability under its $200 million of committed bank lines. In addition, the company has access to an additional $68 million of uncommitted bank lines. Piedmont's liquidity position should remain adequate after meeting its debt maturities of about $47 million in 2003 because the company is expected to maintain sufficient availability under its bank lines due to its modest working capital needs and maintenance capital expenditures and minimal debt maturities after 2003. Finally, Piedmont's commercial paper program is expected to have minimal borrowings after the company uses proceeds from its expected equity issuance and longer-term debt offering to reduce outstanding borrowings under the program.

Outlook

Failure to successfully integrate the acquired operations and finance the transaction with appropriate amounts of common equity and long-term debt could result in lower ratings. The current ratings also depend upon reasonable outcomes in Piedmont's regulatory proceedings.

Ratings Assigned

Rating

Piedmont Natural Gas Co. Inc.

Short-term corp credit rating A-1

$450 mil commercial paper program A-1

Ratings List

To From

Piedmont Natural Gas Co. Inc.

Long-term corp credit rating A/Negative A/Watch Neg

Senior unsecured debt A A/Watch Neg

Complete ratings information is available to subscribers of RatingsDirect, Standard & Poor's Web-based credit analysis system, at www.ratingsdirect.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com; under Credit Ratings in the left navigation bar, select Credit Ratings Actions.

Global Credit Research
Opinion Update
25 JUN 2003

Moody's Investors Service

Opinion Update: Piedmont Natural Gas Company, Inc.

Piedmont Natural Gas Company, Inc.

Charlotte, North Carolina, United States

Ratings

Category	**Moody's Rating**
Senior Unsecured	A3

Contacts

Analyst	**Phone**
Edward Tan/New York	1.212.553.1653
Mihoko Manabe/New York	
John Diaz/New York	

Opinion

Rating Rationale

Piedmont Natural Gas Co.'s A3 sr. uns. rating is based on the stable cash flows it generates as a regulated gas utility, strong customer growth over twice the national average, a balanced capital structure, and conservative management. Piedmont is primarily a distributor of natural gas to 740,000 residential, commercial and industrial customers in North Carolina, South Carolina and Tennessee. It also holds investments in non-utility energy-related businesses including retail natural gas and propane marketing, interstate and intrastate natural gas storage and transportation. It benefits from supportive regulation in the three states it serves. All three jurisdictions have granted it weather normalization clauses, which help to keep its cash flows relatively stable and provide normalization of approximately 60% in annual gas sales. The residential and commercial customer classes compose 85%of overall revenues, contributing to the earnings stability of the company.

Piedmont suffers from regulatory lag and is dependent on obtaining rate relief from its various regulatory jurisdictions to help fund its growing capital expenditure needs. Shortfalls in regulatory rate increases must be met by further reliance on the capital markets to fund the growing cash needs for both capital expenditures and dividend increases. The company is currently in rate hearings in North Carolina ($46.3 million) and Tennessee ($18.5 million). As the new and enlarged Piedmont becomes a more dominant gas distributor in North Carolina following the NCNG acquisition, regulators in that state are also likely to apply reductions to the amounts of company petitions for further rate increases, even if they may be justified by the hiatus in NCNG obtaining rate relief during the ownership period under Progress Energy. It has filed rate cases in both North Carolina and Tennessee. These rate cases are expected to be concluded in the fourth quarter of fiscal 2003.

Piedmont will acquire North Carolina Natural Gas (NCNG) upon receipt of regulatory approval for $425 million. The acquisition of NCNG will add over 170,000 new customers to its existing customer base of 740,000. Piedmont plans to permanently finance its $425 million acquisition of North Carolina Natural Gas in its first fiscal 2004 quarter through a combination of debt and equity. Regulatory approvals for this acquisition are expected by the North Carolina Utility Commission in June of this year and by the SEC in July.

Recent Events

Moody's downgraded Piedmont's ratings to A3 with a negative outlook in June 2003 reflecting concerns of a financial profile weaker than the A2 peer group as Piedmont's retained cash flow (funds from operations after dividends), EBIT/Interest coverage and retained cash flow to total debt have declined steadily from 1999 through 2002. During this same period, dividend payouts as a percentage of net income have grown from 72% to 83%. While the purchase of NCNG is expected to be approved and physically integrated into the existing operations of

Piedmont's gas distribution business in 2003, it will undoubtedly incur increasing O&M pressures as employee medical and pension benefits continue to rise. The added levels of debt incurred to fund the acquisition will continue to pressure fixed charge coverage ratios in fiscal 2003 and beyond, even if the company manages to bring its leverage down to previously lower levels.

Rating Outlook

The negative outlook reflects Piedmont's proclivity towards further acquisitions as well as the execution risks of integrating NCNG. Management has declared its intention to pursue additional regional gas utility acquisitions.