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Reply to:
Consumer Advocate and Protection Division
Post Office Box 20207
Nashville, TN 37202

August 18, 2003

Honorable Deborah Taylor Tate
Chairman
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, Tennessee 37243

RE: APPLICATION OF NASHVILLE GAS COMPANY, A DIVISION OF PIEDMONT NATURAL GAS COMPANY, INC. FOR AN ADJUSTMENT OF ITS RATES AND CHARGES, FOR APPROVAL OF REVISED TARIFFS AND APPROVAL OF REVISED SERVICE REGULATIONS, Docket 03-00313

Dear Chairman Tate:

Enclosed is an original and thirteen copies of the Consumer Advocate's Direct Testimony of Steve Brown. Kindly file same in this docket. Copies are being sent to all parties of record. If you have any questions, kindly contact me at (615) 741-8700. Thank you.

Sincerely,

Timothy C. Phillips
Assistant Attorney General

Enclosures
cc: All Parties of Record

#67856

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CAPD DIRECT TESTIMONY - COST-OF-CAPITAL
DOCKET NO. 03-00313

I. Introduction

Q_1. Please state your name.

A_1. Steve Brown.

Q_2. Where do you work and what is your job title?

A_2. I am an Economist in the Consumer Advocate and Protection Division, Office of the Attorney General.

Q_3. What are your responsibilities as an Economist?

A_3. I review companies' petitions for rate changes and follow the economic conditions that affect the companies.

Q_4. What experience do you have regarding utilities?

A_4. In 1995 I began work as an economist in the Consumer Advocate and Protection Division (CAPD) of the Attorney General's Office. I have also appeared as a witness for CAPD in several cases before the Tennessee Regulatory Authority (TRA). From 1986 to 1995 I was employed by the Iowa Utilities Board as Chief of the Bureau of Energy Efficiency, Auditing and Research, and Utility Specialist and State Liaison Officer to the U.S. Nuclear Regulatory Commission. From 1984 to 1986 I worked for Houston Lighting & Power as Supervisor of Rate Design. From 1982 to 1984 I worked for Arizona Electric Power Cooperative as a Rate Analyst. From 1979 to 1982 I worked for Tri-State Generation and Transmission Association as Power Requirements Supervisor and Rate Specialist. Since 1979 my work spanned many issues including cost of service studies, rate design issues, telecommunications issues and matters related to the disposal of nuclear waste.

Q_5. **What is your educational background?**

A_5. I have an M.S. in Regulatory Economics from the University of Wyoming, an M.A. and Ph.D. in International Relations with a specialty in International Economics from the University of Denver, and a B.A. from Colorado State University.

Q_6. **Dr. Brown, have you authored any articles relating to your profession?**

A_6. Yes, my articles have appeared in Public Utilities Fortnightly and the Electricity Journal.

Q_7. **Are you and have you been a member of any professional organizations, Dr. Brown?**

A_7. Yes, I am a past member of the NARUC Staff Committee on Management Analysis, a past trustee of and a member of the Board for the Automatic Meter Reading Association, and a current member of the National Association of Business Economists.

Q_8. **Have you studied mathematics and statistics as part of your education?**

A_8. Yes.

Q_9. **Dr. Brown, do you use mathematics and statistics in combination with economics as part of your profession?**

A_9. Yes.

Q_10. **What were you asked to do with respect to this case?**

A_10. I was asked to form opinions on: 1) the company's capital structure and the components of the company's capital structure; 2) the company's cost-of-capital which includes determining the appropriate capital structure, the appropriate market-based common equity return, the cost of long-term-debt, the cost of short-term-debt; and 3) to assist in the evaluation of testimony offered by other witnesses in this docket.

II. Summary of Testimony

Q_11. **Please summarize your testimony.**

A_11. Based on my review of relevant material and prevailing economic conditions, it is my opinion, within a reasonable degree of professional certainty, that the company's cost-of-capital will decrease almost immediately after this rate case is concluded. Consequently, I believe that the company strategically timed this rate request to be completed before the decrease is reflected in the company's financial records. Similarly, the company's ability to finance its operation with low-cost short-term debt is overlooked in the financial picture which the company presents in this case.

The remainder of my testimony is divided into four major sections: Capital structure, short-term debt cost, long-term debt cost and cost of equity.

II. A.- Capital Structure Summary

In my opinion the capital structure in this rate case proceeding is 43.8 percent equity, 44 percent long-term debt, and 12.2 percent short-term debt. Short-term debt refers to debt having a due date less than one year away from the debt's origination date. Therefore, short-term debt in the capital structure properly excludes the current portion of long-term debt.

My Schedule 3, pages 1 to 7, shows the steps I took to arrive at the capital structure. Its components include Short-Term Debt-Notes Due, Short-Term Debt-Current Portion of Long-Term Debt, Long-Term Debt and Common Equity.

The capital structure's source is the United States' Securities and Exchange Commission's data base, commonly known as "Edgar," which is publicly available over the Internet. More specifically, the capital structure is taken from each comparable company's SEC form 10-K for each comparable company's most recent fiscal year.

I use the SEC's data as a means of building in accountability and objectivity into the capital structure:

1. SEC data is reliable. As of 2002, the companies which file annual reports with the SEC must also provide the Chief Financial Officer's certification that the company's financial statements "fairly present in all material respects the financial condition" of the company.

2. SEC data is an independent means to verify the capital structure proposed in this case by the company's cost-of-capital expert, Dr. Murry, who uses a publication named "Value Line" as the source of his capital structure data. Verification of Value Line's data is crucial because the publication disclaims responsibility for errors or omitted data and has this statement in its publication: "Factual material is obtained from sources believed to be reliable and is provided without warranties of any kind. THE PUBLISHER IS NOT RESPONSIBLE FOR ANY ERRORS OR OMMISSIONS HEREIN [Value Line's emphasis]."

By comparing the SEC data with Dr. Murry's data from Value Line I arrive at several opinions:

My opinion is to disregard the company's proposed capital structure because it is not verified by SEC data. My opinion is to disregard the proposed capital structure's data sources, which are the company's workpapers and Value Line. My opinion is to disregard the company's overall cost-of-capital.

I discovered that the common equity ratios shown in Dr. Murry's Schedule DAM-4 are hugely overstated. For example, Dr. Murry's Schedule DAM-4 shows Nicor's 2002 common equity ratio as 65 percent, but my Schedule 3 page 4 shows the Nicor's 2002 common equity ratio as 47.2 percent. Dr. Murry's Schedule DAM-4 is not an appropriate basis for capital structure because his data is not verified by the certified data from the SEC.

I also discovered that the thirteen-month average equity ratio of 53.45 percent in Dr. Murry's Schedule DAM-1 is identical to the five-year average equity ratio of the comparable companies, which is displayed as 53.4 percent in the lower right-corner of Dr. Murry's Schedule DAM-4.

In Schedule DAM-4 I discovered that for the years 1999 to 2002, the equity ratios of the comparable companies, average to 53.4 percent. I discovered that the equity ratios in Schedule DAM-4 always average to 53.4 percent, whether I use just the years 1999 to 2002, just the year 2003, or all five years of data.

The equivalency of 53.45 percent in Schedule DAM-1 with the figure of 53.4 percent in Schedule DAM-4 invites a favorable judgment on the accuracy of the company's proposed capital structure, as follows - "Dr. Murry and the company have verified the accuracy of DAM-1's source, which is 'Piedmont Natural Gas Company Workpapers,' since the workpapers yield a result no different from Dr. Murry's Value Line ratios."

However, my opinion is to disregard Piedmont workpapers because they are not verified by Schedule DAM-4, which itself is contradicted by the comparable companies' own reporting to the SEC. Therefore, Dr. Murry's Schedule DAM-1 is not verified and therefore unreliable.

Because Piedmont's proposed capital structure is not verified, the CAPD's capital structure is the most recent average capital structure of the comparable companies in this case. The capital structure is 43.8 percent equity, 44 percent long-term debt, and 12.2 percent short-term debt.

II. B.- Short-Term Debt Cost Summary

The short-term debt cost is 1.3 percent, which is the average short-term debt monthly cost from July 2002 to June 2003. Short-term debt cost-data is provided by Federal Reserve Board. At the end of June

2003, the current prevailing short-term cost was one percent.

II. C.- Long-Term Debt Cost Summary

The long-term debt cost is 6.83 percent. This amount is the average long-term debt cost of the comparable companies. The long-term debt data is from each comparable company's most recent 10-K form filed with the SEC. The figure of 6.83 percent is high, in the sense that it does not anticipate refinancing efforts by the comparable companies responding to lower interest rates. One comparable company, Nicor, said in its 10-K that the company has "plans to refinance at least $100 million of long-term debt in 2003."

The Federal Reserve Board policy of lowering interest rates and keeping them low is explicit and very visible to business, the media, and the public in general. Therefore, it is reasonable to expect utilities' long-term debt cost to embody the influences of a lower-interest rate economy. However, a utility is not "locked in" to a cost-of-capital if the interest rate environment changes because a regulated utility has the discretion to file its rate case as needed.

II. D.- Cost of Equity Summary

The equity cost is based on the applications of a Discounted Cash Flow (DCF) analysis and a Capital Asset Pricing Model (CAPM) to the comparable companies in this case. The DCF analysis yields an equity cost of 7.35 percent. The CAPM analysis yields an equity cost of 7.6 percent. The results are not appreciably different. In my opinion an equity return of 7.6 percent is just and reasonable.

My results are consistent with the mainstream of economic returns in the American economy. All forms of economic return have declined in the last few years. Equity returns in general have decreased and it is normal for Piedmont's equity return to decrease as well in the current conditions.

The remainder of my testimony explains my procedures and contrasts them with those employed by Piedmont's cost-of-capital witness, Dr. Murry.

III. Capital Structure

Q_12. What does the term "capital structure" refer to?

A_12. In its broadest sense the term "capital structure" refers to capital funds a company uses to support and carry out its operations. These funds are categorized by the funds' source: borrowed funds are referred to as debt, and owners' funds are referred to as equity. In the context of setting the cost-of-capital for utility service, the term "capital structure" is a short-hand reference to debt and equity funds expressed as a percentage of total funds. Therefore, capital structure is derived from the dollar value of capital funds.

For example, if all of the company's capital funds were borrowed, the company's capital structure would be 100 percent debt. If the company's stockholders provided all the capital funds, the capital structure would be 100 percent equity. Continuing with this example, if a company has $100 million of capital funds and $60 million is borrowed, then the company has a capital structure of 60 percent debt and 40 percent equity. Other ways of conveying the same information are: "the company has a debt to equity ratio of 1.5[which is .6 divided by .4]", or "the company has a debt ratio of 60 percent and an equity ratio of 40 percent." In this situation the cost-of-capital would be equal to .60 multiplied by the debt cost plus .40 multiplied by the equity cost. Therefore, a utility's cost-of-capital depends on capital structure, and capital structure depends on the dollar value of capital funds.

Q_13. Does Piedmont's cost-of-capital witness, Dr. Murry, express capital structure in terms of equity and debt ratios?

A_13. Yes. Dr. Murry's Schedule DAM-1 shows that in this rate case he defines a capital structure of 53.45% equity and 46.55% debt. The debt ratio is the sum of 1.74%, a short-term debt ratio, and 44.81%, a long-term debt.

Q_14. What is your opinion of Dr. Murry's classifying debt as short-term and long-term?

A_14. My opinion is that the classification is reasonable because any capital structure's debt ratio is composed of all forms of debt that comprise total indebtedness. If a certain class of debt were left out of the capital structure, the market would not be fully informed about a company's financial condition.

For example, if a capital structure is based on just part of the debt and all of the equity, the capital structure will be inaccurate. In this case the equity ratio would be higher than it really is, giving a company a financial appearance of being more attractive to investors or lenders than otherwise.

Therefore, Dr. Murry is correct to separate debt into the two classes because a capital structure must be based on full disclosure of debt and equity.

Q_15. What is short-term debt?

A_15. Short-term debt is debt that must be repaid within one year from its incurrence. But just because the debt is repaid in one year does not mean short-term debt disappears. It is a permanent feature of utilities' capital structure, and short-term debt can be a significant part of capital structure.

Q_16. What is long-term debt?

A_16. Long-term debt is debt with a due date anywhere from 30 years into the future to just 367 days into the future. It takes the form of bonds and notes.

III. A. - Piedmont's Proposed Capital Structure Is Not Based On Comparable Companies

Q_17. What is your opinion on the values of the capital structure ratios in Dr. Murry's Schedule DAM-1?

A_17. My opinion is that the ratios are not appropriate because they are not verified nor even remotely based on Dr. Murry's comparable companies

For example, in his direct testimony from page 7 line 10 to page 8 line 8, Dr. Murry identifies seven companies that he believes are comparable to Piedmont. In his Schedule DAM-4, Dr. Murry shows the companies' equity ratios for 1999 to 2003. Data for 2003 is forecasted or estimated data. In his direct testimony at page 8 lines 13-14, Dr. Murry testifies that "I studied the comparable common equity ratios of Piedmont and the other companies."

The language and reasoning evident in Dr. Murry's information suggests that the comparable companies would be the basis of his capital structure. However, in his direct testimony at page 5 lines 18-21, Dr. Murry poses a question regarding "the appropriate capital structure ...in this proceeding" and he replies: "I used the capital structure of Piedmont.." Also, in his Schedule DAM-1, Dr. Murry indicates that his capital structure ratios are based on Piedmont's internally created data, as implied by the phrase at the top of DAM-1: "Thirteen Months Average for the Period Ended December 31, 2002."

Therefore, Dr. Murry has not used the comparable companies as the source of his capital structure. His decision to use Piedmont's internally created data instead of the comparable companies' data leads to the question: Why would Dr. Murry put the comparable companies' equity ratios in Schedule DAM-4 if they were not going to be the basis of his capital structure? In his direct testimony, at page 8 lines 19-21 he uses the comparable companies ratios as a cross-check on Piedmont's equity ratio: "In general, however, as illustrated in Schedule DAM-4, the common equity set for Piedmont for ratemaking purposes is conservative."

Q_18. **What is your opinion of Dr. Murry's decision to use Piedmont's capital structure instead of a capital structure based on the comparable companies?**

A_18. My opinion is that Dr. Murry's decision is arbitrary and inconsistent with the impression given that the comparable companies were the across-the-board criteria for his opinion.

For example, Dr. Murry bases his Discounted Cash Flow (DCF) and Capital Asset Pricing Model (CAPM) analyses on the comparable companies. Dr. Murry testifies at page 10 line 5 that "One should carefully select data used in the DCF analysis.." and then proceeds on the basis of the comparable companies. They show up in sixteen of the twenty-two schedules appended to Dr. Murry's testimony. The sixteen schedules include DAM-4 to DAM-16, DAM-19, DAM-20 and DAM-22.

Also, in his direct testimony at page 5 lines 4-10, Dr. Murry invokes the "comparable companies" principle of the Hope and Bluefield cases. The "comparable companies" standard is a long-standing regulatory principle which has the effect of reigning-in the arbitrary determination of the cost of capital.

If those seven companies he selected really are comparable to Piedmont, then their capital structures should properly be the basis for this proceeding's capital structure, not Piedmont's.

Because Dr. Murry bases his DCF and CAPM analyses on the comparable companies, while also invoking the "comparable companies" principle of the Hope and Bluefield cases, it is reasonable, fair and consistent for the capital structure in this case to be based on the capital structure of comparable companies.

Using comparable companies has another major advantage, avoiding disputes over the accuracy of Piedmont's internally created capital structure data.

For example, in Dr. Murry's Schedule DAM-1, does the phrase "Thirteen Months Average for the Period Ended December 31, 2002" mean that the capital structure is result of thirteen 30-day months so that the averages are based on 390 days of account balances? Or does the phrase mean that the ratios are based on just 13 days of account balances, with the balance representing amounts booked on the last day of the month? Are there certain transactions that are not in the accounts but should be there?

It is standard regulatory practice to determine capital structure with comparable-company data. The procedure is efficient, bypassing the need to answer the accounting questions and avoiding an audit-like procedure to verify the balances and the judgments that created the balances. It is the comparable-company principle that allows a rate case proceeding to be streamlined and manageable from a regulatory standpoint, rather than stretching out the process by having to audit a particular company's own capital structure data.

For example, Piedmont's "thirteen month average" is private information that can not be compared to comparable companies', unless they make a "thirteen month average" publicly available. Capital structure has to be developed from publicly available and verifiable information from comparable companies as a means of building in accountability and objectivity. They are the ones painting the financial picture.

Q_19. What is your opinion of Dr. Murry's choice of comparable companies?

A_19. My opinion is that his selection is reasonable. I am not disputing it.

III. B. - CAPD's Proposed Capital Structure

Q_20. In your opinion, what is the basis for the capital structure in this case?

A_20. In my opinion the capital structure in this case is based on the capital structure of comparable companies, not on Piedmont's data. This is consistent with the "comparable companies" principle.

III. B.1. - Piedmont and Comparable Companies Mistakenly Appear To Have Identical Capital Structures

Q_21. What would your capital structure be if you used the comparable companies' common equity ratios appearing in Dr. Murry's Schedule DAM-4?

A_21. If I used the comparable companies' common equity ratios appearing in Dr. Murry's Schedule DAM-4, my capital structure would be the same as Dr. Murry's because his data is like a map that always leads you to the same place, no matter from which direction you might start.

I have taken Schedule DAM-4's comparable company data and placed it in the table below so anyone reading this testimony can follow this discussion without having to go to Dr. Murry's tables.

Company	1999	2000	2001	2002	2003
AGL	49.2	48.3	38.7	40.0	42.0
Atmos	50.0	51.9	45.7	46.1	45.0
NJR	51.2	52.9	49.9	49.4	55.5
Nicor	64.0	66.7	61.7	65.0	68.0
NWNG	49.9	50.9	53.2	50.5	48.5
PGL	59.6	64.9	55.6	59.3	61.5
WGL	56.1	54.8	56.3	52.4	53.0
Average	54.3	55.8	51.6	51.8	53.4

For example, suppose I say that data from 2003 should not be used because it is estimated and therefore, I use data from 1999 to 2002. In this case the comparable companies' average common equity ratio would 53.4 percent.

Now, suppose I say that the data from 1999 to 2002 is questionable, and I use only the estimated data from 2003. Once again the comparable companies' average common equity ratio would be 53.4 percent.

Now, suppose I take all the data and average it. Once again the comparable companies' average common equity ratio would be 53.4 percent.

These results are identical to the 53.4 percent common equity ratio shown in Dr. Murry's Schedule DAM-1.

Schedule DAM-4 has the appearance of verifying Schedule DAM-1. In this situation it is arguable that there would be no harm in using Piedmont's very own internally created capital structure and dispensing with the comparable companies. The results achieved would be as if the comparable companies had been used. However, it would be a mistake and poor methodology to dispense with the comparable companies.

Q_22. **Why would it be a mistake to dispense with the comparable companies?**

A_22. It would be a mistake and poor methodology to ignore the comparable companies because in my opinion it is very unlikely that Piedmont's common equity ratio would just coincidentally be the same as the comparable companies average common equity ratio. The average common equity ratio of the comparable companies is supposedly the result of four to five years of financial operations by seven different gas companies throughout the United States, as reported by Value Line, according to Dr. Murry. But Piedmont's common equity ratio in Schedule DAM-1 is the result of a thirteen-month average ending Dec. 31, 2002, according to Piedmont's workpapers.

This is a situation where two entirely different statistical methods and entirely different sources of data lead to the same result. The data in Schedules DAM-1 and DAM-4 may at first look reliable, but to verify the data I tested it against publicly available information.

Q_23. **What is your opinion regarding the data in Schedules DAM-1 and DAM-4?**

A_23. My opinion is that the data in Schedules DAM-1 and DAM-4 is inaccurate and unreliable.

III. B.2. - Securities and Exchange Commission's Data Provides A Capital Structure Completely Different From Piedmont's Proposed Capital Structure

Q_24. **What did you do to verify your opinion?**

A_24. To verify my opinion I utilized publicly available data from United States Securities and Exchange Commission (SEC). Since the SEC's data base is available to the public via the Internet, I studied the comparable companies' SEC filings, as well as Piedmont's SEC filings.

Q_25. **What facts did you discover by employing the data from the SEC?**

A_25. I discovered that:

1. Short-term debt is a significant portion of the comparable companies' capital structures.

2. The comparable companies' common-equity ratios shown in DAM-4 and taken from Value Line are not calculated on the basis of the comparable companies total debt.

3. The common-equity ratios shown in DAM-4 are calculated by excluding short-term debt.

4. Value Line fails to report what a comparable company itself voluntarily reports to the SEC, but Value Line does not accept responsibility for errors or omissions because Value Line states in its publication: "Factual material is obtained from sources believed to be reliable and is provided without warranties of any kind. THE PUBLISHER IS NOT RESPONSIBLE FOR ANY ERRORS OR OMMISSIONS HEREIN."

5. The comparable companies credit arrangements and loan covenants, whether short-term or long-term, are based on total debt.

6. When short-term debt is included in the comparable companies capital structure, their average common equity ratio is 43.8% for the fiscal year ending 2002 and 42.7% for the fiscal year ending 2001.

7. The comparable companies average short-term debt ratio is 12.2% for the fiscal year ending 2002 and 14.6% for the fiscal year ending 2001.

8. All Chief Financial Officers of companies filing SEC annual and quarterly reports, such as forms 10-K and 10-Q, after October 1, 2002, must comply with the Sarbanes-Oxley Act and certify those reports as promulgated in SEC Rules 13a-14 and 15d-14.

9. The SEC has administrative rules which specify the certification's contents to include this statement: "based on his or her knowledge, the financial statements and other financial information included in this report, fairly present in all material respects the financial condition and results of operations of the issuer as of, and for, the periods presented in this report."

10. On January 23, 2003 Piedmont filed a 10-K stating at page 14 in the third paragraph: "At October 31, 2002, our capitalization consisted of 44% in long-term debt and 56% in common equity." The report is certified by Piedmont's Chief Financial Officer.

11. On March 28, 2003 Progress Energy and the Chief Financial Officer of Piedmont jointly filed a SEC form U-1/A stating from the bottom of page 5 to the middle of page 6, contrary to

the 10-K report of January 23, 2003 for an identical time frame:

"Piedmont's consolidated capitalization at October 31, 2002 was as follows:		
Common Equity	$589,590,000	51.50%
Preferred Equity	$0	0%
Long-term debt	$462,000,000	40.30%
Short-term debt*	$93,500,000	8.20%
*Including current portion of long-term debt and sinking fund requirements"		

Q_26. **Have you provided information to support the statements you have just made?**

A_26. Yes, I have. My Schedules 1 through 7 appear in my Exhibit CAPD-SB and provide the detail to support my statements.

My Schedule 1 shows the opening computer-page to the SEC's data base which is accessed over the Internet.

For example, typing in the words "Piedmont Natural Gas" in the "Company name" box brings up the information shown in Schedule 2 page 1, which is a copy of computer screen showing the SEC's list of forms filed by Piedmont Natural Gas. Regarding Schedule 2 page 1, clicking a computer mouse on the words "10-K" brings up Piedmont's 10-K which the company filed on January 23, 2003. Schedule 2 page 2 is a copy of Piedmont's 10-K form, page 14. Schedule 2 pages 3 and 4 are copies of Piedmont's 10-K form, pages 81-82, showing Piedmont's certification of its 10-K.

Q_27. **Did Piedmont file its January 23, 2003 10-K in this rate case proceeding?**

A_27. Yes, Piedmont filed its January 23, 2003 10-K as a part of its filing in TRA Docket 03-00313.

Q_28. **Why have you presented Schedules 1 and 2 even though Piedmont filed its 10-K in the current proceeding?**

A_28. Even though Piedmont filed its 10-K in the current proceeding, I have presented Schedules 1 and 2 to show how to access company information from the SEC, to show that the process is straight forward, and to show that company information can be gathered and verified directly without having to go through either the company itself or an intermediary such as Value Line.

Q_29. **What is your opinion regarding the practice of using SEC data to determine capital structure rather than Value Line?**

A_29. My opinion is the data from the SEC is sound and reliable and that SEC data certified by a company is especially reliable. In contrast the information put forward by Value Line and used by Dr. Murry is not reliable and not certified. Value Line even disclaims responsibility for errors and omissions.

My Schedule 3, pages 1 to 7, shows that Value Line often fails to report what a comparable company itself voluntarily and openly reports to the SEC.

Q_30. **How does Schedule 3 support your opinion regarding Value Line's failure to report what the companies themselves report?**

A_30. My Schedule 3 provides sufficient evidence to support my opinion. Schedule 3 lists each company's capital structure by components, such as: Short-Term Debt-Notes Due, Short-Term Debt -Current Portion of Long-Term Debt, Long-Term Debt and Common Equity.

Schedule 3 page 1 is especially relevant because the company shown, AGL Resources, does business in Tennessee. The information shown in the lines numbered 3 through 9 and 12 through 17 are an exact copy of the information and format which AGL Resources presents in its 10-K filing. Line 22 displays a quote from AGL Resources, which explains that its financial covenants are based on total debt, not just long-term debt.

Schedule 3 page 2, line 22 displays a quote from Atmos, a company that does business in Tennessee and which explicitly includes short-term in the capital structure. Schedule 3 page 3, line 23 indicates that New Jersey Resources "financial covenants" depend on total debt and that debt was 56 percent of total capital." Page 4 lines 21 to 22 shows that Nicor's credit arrangements depend on total debt. Page 5 line 27 shows that Northwest Natural Gas explicitly includes short-term in its capital structure. Page 6 line 21 shows that Peoples Energy defines its capital structure as including short-term debt. Page 7 line 25 shows that WGL

Holdings regards total debt as the basis for capital structure ratios.

Q_31. **In your opinion, what is the standard practice to calculate equity ratios and capital structure?**

A_31. Based on my expertise and experience in the public utility field and my review of the comparable companies' own reporting to the SEC, my opinion is that the standard practice is to include short-term debt in the calculation of equity ratios and capital structure. The SEC data proves this, and that anyone interested in finding supporting information can do so.

Q_32. **In your opinion is the SEC data available to knowledgeable investors?**

A_32. Yes.

Q_33. **In your opinion are knowledgeable investors fully aware of the SEC's data?**

A_33. Yes, but I qualify my answer. Knowledgeable investors are well aware of the 10-K, which is the report in which the companies present themselves to the public. It is widely known that 10-K reports are audited and certified, which explains why investors and the public in general trust the information in a 10-K report. I would not expect all investors to look for other filings, such as the U-1, as a source of data.

Q_34. **In your opinion, what is the value of data from federal government sources, such as the SEC?**

A_34. In my opinion data from federal agencies has an informative value for investors, consumers and regulatory agencies. Federal data gives them an opportunity to cross-check and verify a utility's public statements and its data filed in state regulatory proceedings, whether that data is about the company itself or other companies.

The federal government's data has brought the short-term debt issue to the surface in this particular rate case. Had it not been for this data, there would have be no way to identify the comparable companies' short-term debt ratios and place them into the record within the brief time allowed for a rate case proceeding.

Q_35. **Does Dr. Murry identify the short-term debt components of the comparable companies' capital structures?**

A_35. No. Dr. Murry does not identify the short-term debt components of the comparable companies' capital structures.

Q_36. **How does the data in your Schedules 3 compare to the data shown in Dr. Murry's Schedule DAM-4?**

A_36. There are enormous differences between my Schedule 3 and his Schedule DAM-4.

For example, Dr. Murry's shows Nicor's 2002 common equity ratio as 65 percent, but my Schedule 3 page 4 shows the common equity ratio as 47.2 percent. No matter which equity ratio is chosen, Dr. Murry's ratio is always higher, because it is not calculated on the firm's total debt, despite the company's own reporting to the SEC.

My Schedules 4 and 5 are summaries of the comparable companies common equity and short-term debt ratios. These schedules prove that Piedmont's 53.45 percent common equity ratio is not substantiated, and excessive in comparison to the equity ratios of the comparable companies. Dr. Murry's opinion expressed in his direct testimony at page 8 lines 20-21, that "the common equity set for Piedmont for ratemaking purposes is conservative," is inaccurate and unsubstantiated.

Q_37. **Is there any reason to believe that your results are different from Dr. Murry's because the capital structures in Value Line have dates different from the dates shown in the SEC data?**

A_37. No. The results are not different because of the dates.

Q_38. **Does Dr. Murry, in his analysis, use any data from the SEC?**

A_38. The answer is both "yes" and "no" in the sense that Dr. Murry does not use any data directly from the SEC. However, Value Line uses some information from SEC data. In that sense Dr. Murry does use SEC data because he used Value Line's information.

For example, I have already pointed out in my Schedule 2 that Piedmont represents (in its 10-K filed with the SEC) that it had a 56 percent common equity ratio as of October 31, 2002. The amount, "56.1%," appears in Value Line's data for Piedmont, which is available in Piedmont's response to CAPD's Discovery Request 30. Value Line's data sheet for Piedmont shows the phrase "CAPITAL STRUCTURE as of 10/31/02" appearing at the left-hand side data sheet. The figure of "56.1" and the date of "10/31/02" are drawn from Piedmont's 10-K. The figure "56.1%" also appears in Dr. Murry's Schedule DAM-4, under the "2002" column for Piedmont. Therefore, Value Line and Dr. Murry use SEC data.

However, Value Line does not necessarily report what a comparable company itself voluntarily and openly reports to the SEC, especially with regard to the impact of short-term debt on equity ratios.

III. B.3. - Comparable Companies' Equity Ratios In Value Line Are Calculated Without Including Short-Term Debt

Q_39. **In your opinion do you have any conclusive proof that Value Line's capital structure excludes short-term debt?**

A_39. Piedmont's own SEC filings provide the best proof. Based on Piedmont's 10-K of October 31, 2002, Value Line reports a 56.1 percent equity ratio for Piedmont. Value Line's data sheet for Piedmont is attached to my testimony as CAPD Schedule 7.

Comparing my Schedule 6 with my Schedule 7 proves that Value Line's data does not include short-term debt. Schedule 6 pages 1 and 2 are screen copies of the SEC's opening data page for Progress Energy, the company that is selling North Carolina Natural Gas to Piedmont. Schedule 6 pages 3 and 4 are screen copies of a joint SEC form U-1/A filing made by Progress and Piedmont to comply with the Public Utility Holding Company Act. In that filing Piedmont says that "at October 31, 2002" its equity ratio is 51.5% and that short-term debt is 8.2%. Clearly the common equity ratio of 56.1 percent in Value Line and Schedule DAM-4 does not reflect short-term debt.

However, there is a peculiar aspect in this discovery. Schedule 7, which is Value Line's data sheet on Piedmont, has the following quote: "The proposed purchase of North Carolina Natural Gas (NCNG) is moving along. The $425 million acquisition... will largely be financed with short-term debt."

Despite Value Line's own recognition of an impending surge in Piedmont's short-term debt, Value Line forecasts Piedmont's equity ratio in 2004 as 59.5 percent in 2004, which comprises most of the attrition year used in this rate case proceeding. This conclusively establishes that Value Line does not follow standard practice in the calculation of equity ratios and capital structure.

Q_40. **Did Piedmont file its U-1/A in this rate case proceeding?**

A_40. No, Piedmont did not file its U-1/A in this rate case.

Q_41. **In your opinion are knowledgeable investors familiar with the U-1/A filing?**

A_41. No. In my opinion the U-1/A would not draw investors' attention because the form is not filed periodically. The report appears only at the time there is a pending transaction involving a holding company.

Q_42. **In the form U-1/A which you discovered, are the dollar values of Piedmont's common equity, $589.596 million, and long-term debt, $462 million, the same amounts which appear in Piedmont's 10-K, regarding common equity and long-term debt?**

A_42. Yes, the figures in the U-1/A for common equity and long-term debt also appear at page 33 in Piedmont's 10-K for 2002.

Q_43. **Do you know of any regulation by the SEC that compelled Piedmont to announce in its 10-K or to represent in its 10-K that the company had "56% in common equity" as of October 31, 2002?**

A_43. No. I do not know of any SEC regulation that compelled Piedmont to represent the company's financial condition as embodying a 56 percent equity ratio as of October 31, 2002.

Q_44. **Do you know of any TRA regulation that compelled Dr. Murry to introduce Piedmont's 56 percent common equity ratio as evidence in this rate case?**

A_44. No. I do not know of any TRA regulation that compelled Dr. Murry to introduce Piedmont's "56% common equity" ratio as evidence in this rate case.

Q_45. **In your opinion do Piedmont and Dr. Murry have similar approaches to defining capital structure?**

A_45. Yes. Piedmont and Dr. Murry have similar approaches to defining capital structure. Each of them excludes short-term debt in the calculation of equity ratios, and each of them represents such ratios as a basis for setting prices in this rate case.

Q_46. **In its 10-K of January 23, 2003, does Piedmont state or represent that short-tem debt will be a part of its capital structure in the future?**

A_46. No, in its 10-K Piedmont does not represent that short-tem debt will be a part of its capital structure in the future. For example, at page 14 of its 10-K Piedmont states, "Our long-term targeted capitalization ratio is 45% in long-term debt and 55% in common equity."

Q_47. **Do the comparable companies represent their future capital structure as including short-term debt?**

A_47. Yes, the comparable companies represent their future capital structure as including short-term debt. For example, Northwest Natural Gas states in its most recent 10-K, "The Company's goal is to maintain a capital structure comprised of 45 to 50 percent common stock equity, up to 10 percent preferred stock and 45 to 50 percent short-term and long-term debt."

Q_48. **In its 10-K, does Piedmont state or represent that it will use short-tem debt in the future?**

A_48. Yes. In its 10-K at page 12 Piedmont states with regard to its impending acquisition, "The purchase price of $425 million will initially be funded with short-term debt that will be refinanced within six to nine months through the issuance of long-term debt and equity securities."

Q_49. When did Piedmont file its U-1/A with the SEC?

A_49. Piedmont filed its U-1/A with the SEC on March 28, 2003.

Q_50. When did Piedmont file the current rate case with the TRA?

A_50. Piedmont filed its case approximately April 29, 2003.

Q_51. Is there any statement in Dr. Murry's direct testimony where he says, implies or suggests that Value Line's equity ratios do not include the effect of include short-term debt?

A_51. No, there is no statement in Dr. Murry's testimony indicating that Value Line's equity ratios do not include the effect of short-term debt.

Q_52. In your opinion what is Piedmont's strategy in this case regarding short-term debt?

A_52. My opinion, based on the facts I have discovered, is that Piedmont's strategy is to minimize the role of short-term debt in the capital structure which will result from this rate case proceeding.

For example, in his direct testimony at page 16 lines 14-16 Dr. Murry testifies: "The long-term securities are more likely to be substitutes in Piedmont's permanent capital structure than are short-term securities." However, Dr. Murry's opinion is unsubstantiated because, as I have already testified, he makes no effort whatsoever to identify the short-term debt ratios of the comparable companies.

Furthermore, because Dr. Murry is presenting a case where the short-term debt ratio is just a tiny 1.74 percent of capital structure, the substitution of short-term debt for long-term debt should be a *de minimus* issue to him, hardly worthy of notice.

Q_53. **In your opinion, why did Piedmont file its rate-case petition in April, 2003 with a capital structure as of December 31, 2002?**

A_53. In my 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's capital structure, 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.

Q_54. **In your opinion, what are the economic effects of minimizing short-term debt in this proceeding?**

A_54. Short-term debt is currently the least expensive source of capital funds. Therefore, my opinion is that by minimizing short-term debt the company's cost-of-capital would be higher, therefore its revenues would be higher because consumers in Nashville, such as small businesses, schools, hospitals and homes, would be paying higher prices.

Also, prospectively Piedmont would be in a strong position to seek even more short-term financing for its projects, essentially operating at capital costs which will be significantly lower than what Dr. Murry has presented in his testimony.

Q_55. **Isn't it true that utility rate cases have a prospective component to them?**

A_55. Yes, it is true that prospective components are part of a rate case, but it is an open question how "prospective" is implemented.

For example, one way to predict economic events in 2004 is to take 2003's data and just add five percent. Another way is to predict a reduction in the economy's oil supply in 2004 and add twenty percent to 2003 energy prices and food prices while reducing wages by ten percent and employment by five percent.

Q_56. **In your opinion what capital structure should be used in this rate case proceeding?**

A_56. In my opinion the capital structure used in this proceeding is a 43.8 percent common equity ratio, a 12.2 percent short-term debt ratio, and a 44 percent long-term debt ratio.

Q_57. **What is the basis for your opinion?**

A_57. My opinion is based on the real, true and accurate data reported by the comparable companies to the SEC for the companies' fiscal year ending 2002.

I chose 2002 because it is current data filed in that fiscal year and certified by the company CFOs.

Q_58. **Are Piedmont's equity and short-term debt ratios an accurate measure for the purposes of this rate case proceeding?**

A_58. No. Piedmont's filings with the SEC have already demonstrated the company's flexibility with regard to how it presents an equity ratio and short-term debt ratio. In addition, my capital structure is based on the comparable companies chosen by Dr. Murry and accepted by Piedmont. Also, on a prospective basis Piedmont has already said, at page 12 of its 10-K, that it will add $425 million dollars in short-term capital to the company's capitalization by November, about 90 days from now, thus tilting its capital structure toward the comparable companies' configuration.

III. B.4. - Short-Term Debt's Current Cost Is Just One Percent Annually

Q_59. **Isn't it true that the company has said it will turn that short-term debt into equity and long-term debt within six to nine months?**

A_59. Yes, that is true but that does not make economic sense for the time being. The company itself has already set a short-term debt of just 2 percent, but a long-term rate of 7.71 percent, giving an interest rate spread of 5.71

percent. Put another way, Dr. Murry and Piedmont are presenting a case where long-term debt is nearly 4 times more costly than short-term debt. Given this situation it would be normal for Piedmont to increase short-term, debt, just as the comparable companies are doing.

My Schedule 8 provides a history of short-term rates from September 1997 to June 2003. As of June 2003, short term rates have declined to just 1 percent -- short-term debt is almost free.

Q_60. **But isn't it true that short-term debt can vary throughout the year?**

A_60. Yes, short-term debt can vary throughout the year. However, whether all the short-term debt varies or just a small portion of it, or whether the variation is tiny or large, depends on interest rates, on the size of short-term debt within the capital structure, and on the use the funds will be put to.

For example, Piedmont says in its 10-K, page 12, "the purchase of $425 million will initially be funded with short-term debt that will be refinanced within six to nine months."

Piedmont's capitalization is now about $1 billion, but by November 15, the capitalization will approach $1.425 billion, with 30 percent being short-term debt.

At a cost of 1 percent, short-term debt should be used for as long as possible. To do so makes perfect economic sense.

Q_61. How does Piedmont's proposed long-term-cost/short-term-cost ratio in this case compare to that ratio in past cases before the TRA?

A_61. Piedmont's ratio in this case is very high compared to the findings in the TRA's final order dated February 19, 1997 in Docket No. 96-00977. That was the most recent time the TRA deliberated over a Piedmont rate case. In the final order at page 20, the TRA Directors commented: "There is no disagreement between the parties concerning the cost of long-term and short-term debt; therefore it is appropriate to use the cost rates put forth by both parties: 8.32% for long-term debt and 5.92% for short-term debt."

Therefore, in the 1996 case the long-term-cost/short-term-cost ratio was just 1.41. In the current case the company itself proposes a ratio close to 4. There is plenty of financial room and reason for Piedmont to expand its short-term ratio.

III. B.5. - Capital Structure Must Be Based on Current And Verifiable Information

Q_62. Did you testify in Docket No. 96-00977?

A_62. Yes, I testified in Docket No. 96-00977.

Q_63. Was capital structure a disputed issue in that case?

A_63. Yes, capital structure was a disputed issue in that case.

Q_64. Why was capital structure a disputed issue in that case?

A_64. Capital structure was a disputed issue because I did not agree with the capital structure proposed by Piedmont. There were eight comparable companies in that case: Bay State Gas, Laclede Gas, Northwest Natural Gas, Indiana Energy, Washington Gas, AGL Resources, Peoples Energy, And Brooklyn Union Gas. The CAPD discovered three facts about Piedmont's financial policy: The company was raising its dividends at an annual rate of nearly 6 percent, a rate two to three time faster than 2.2 percent dividend growth rate of the comparables; the company raised its dividends faster than company was earning profit; the company's policy of raising dividends faster than earnings had caused the company's equity ratio to decline, like someone who dips into their savings to spend more money than they actually make.

Piedmont's own dividend policy pulled down its equity ratio in the early to mid 1990s, as shown in my Charts One and Two, which are attached to my direct testimony in this docket, 03-00313. Those charts were also filed as attachments to my direct testimony in Docket 96-00977 as Chart 5 and Chart 6.

Piedmont's cost-of-capital witness, Dr. Murry, argued that Piedmont was a substantially higher risk company because Piedmont's equity ratio had declined over time, and that the company should be compensated for that risk by using a capital structure where the equity ratio was the result of a proforma adjustment that did not reflect any known, measurable and impending change. The proforma adjustment substantially raised the equity ratio in the company's proposed capital structure.

In Docket 96-0977, Dr. Murry, in his direct testimony, at page 7 lines 11-13, testified that Piedmont's "lower common equity ratio means that the financial risk of Piedmont is greater than the risk of the" of the comparables.

The CAPD argued that Piedmont's declining equity ratio was the result of Piedmont's very own practice, where the company sent money out faster than it was coming in. The CAPD further argued that the company wanted to be treated as if it were raising its dividends at only 2.2 percent, instead of the nearly 6 percent growth rate the company had established by its own policy. CAPD also argued that a proforma adjustment would give the company incentive to continue raising dividends faster than earnings, continuing its cycle of lowering its equity ratio to finance dividend growth in anticipation of future proforma adjustments, which would be financed by consumers paying higher prices.

Therefore, in Docket 96-00977, beginning at pages 41 line 30 of my direct testimony I testified: "I use the most recent [equity] ratio because it represents the cumulative and on-going effect of Piedmont's dividend policy. The company's board has allowed dividend growth to outpace earnings growth, which I show in Chart 5. The adverse consequence is a declining equity ratio. If I were to use an equity ratio of 51.8%, the amount Dr. Murry uses in his analysis, or if I used the company's five-year average ratio of 50.9%, the overall cost of capital would increase and prices for natural gas would be higher than they would otherwise be. In effect, such an increase makes consumers bear any adverse consequence of the company's declining equity ratio. I do not believe this is fair to consumers because they have nothing to do with determining Piedmont's dividends."

Q_65. **Do you know if the TRA agreed with the CAPD's argument?**

A_65. No, I do not know if the TRA agreed with CAD's argument.

Q_66. **What capital structure did the Authority order in that case?**

A_66. The Authority ordered a capital structure of 49.6 percent equity, 1.6 percent short-term debt, and 48.8 percent long-term debt.

Q_67. **What did the Authority say in its Final Order regarding its capital-structure decision?**

A_67. The Authority said at page 19 of the Order: "We find that the capital structure proffered by the Advocate is appropriate in this case. The Advocate's recommendation is based on verifiable and reasonably current data. Conversely, the suggested capital structure by company witness Dr. Murry is based on speculation for which he provides no convincing foundation."

Q_68. **Do you know what Piedmont's witness Mr. Morris has testified to, in the current docket, Docket No. 03-00313, regarding the Authority's capital structure decision in Docket No. 96-00977?**

A_68. Yes. In his direct testimony at page 5, lines 20-22, Mr. Morris testifies: "In Docket No. 96-00977, the Authority adopted the use of an historical capital structure, thus, as I have previously explained, we have recognized the Authority's policy in this filing."

Q_69. **Do you agree with Mr. Morris's testimony, that the Authority established a policy that a "historical capital structure" has to be used in a rate case?**

A_69. No, I disagree with Mr. Morris.

Q_70. **Why do you disagree with Mr. Morris?**

A_70. In my opinion there is nothing in the Authority's order regarding "historical capital structure." The Authority wrote that "The Advocate's recommendation is based on verifiable and reasonably current data." In my opinion the words "current and verifiable" do not mean historical.

Q_71. **In your opinion is Dr. Murry's capital structure "current and verifiable?"**

A_71. No. In my opinion, which is based on the evidence I have presented, Dr. Murry's capital structure is not "current and verifiable."

Q_72. **Is your capital structure "current and verifiable?"**

A_72. Yes, in my opinion the capital structure I use is "current and verifiable" because it is based on the comparable companies' certified financial statements filed with the SEC. The capital structure of 43.8 percent equity, 12.2 percent short-term debt and 44 percent long-term debt is *nothing more than the most recent average capital structure of the comparable companies.*

III. B.6. - The Capital Structure Issue In Docket 03-00313 Is Different Than The Capital Structure Issue In Docket 96-00977

Q_73. What is the difference between the capital structure issue in this case and the capital structure issue in Docket 96-00977?

A_73. In Docket 96-00977, Piedmont's capital structure was verified and its equity ratio was consistent with the equity ratios of the comparable companies. For example, my Schedule 9 shows Piedmont's equity ratio was between the maximum and minimum equity ratios of the comparable companies for the years 1990 to 1995. Also, Piedmont's short-term debt ratio was not at issue because short-term debt cost was close to long-term debt cost.

In the current case Piedmont's capital structure is not verified, its proposed equity ratio excludes the impact of short-term debt, its proposed equity ratio vastly exceeds the equity ratios of the comparable companies, the company has filed inconsistent equity-ratio information with the Securities and Exchange Commission of the United States, and the company's short-term debt ratio is tiny and inconsistent with the short-term debt ratios of the comparables.

Consequently, rather than using Piedmont's unverified, inconsistent and contradictory information, in this case I use a capital structure based on the most recent information filed with the SEC by the comparable companies.

III. B.7. - Average Capital Structure Does Not Change Piedmont's Risk

Q_74. **Would an equity ratio of 43.8 percent make Piedmont a riskier company than the comparable companies?**

A_74. No. An equity ratio of 43.8 percent would not make Piedmont a riskier company than the comparable companies. In his direct testimony at page 8 lines 1-2, Dr. Murry testifies: "I included only companies...that had a capital structure with common stock equity of at least 40 percent in the year 2002." A 43.8 percent equity ratio is above his threshold of 40 percent.

Q_75. **Would an equity ratio of 43.8 percent violate any credit or loan covenants that Piedmont may have?**

A_75. No, based on the evidence I have accumulated 43.8 percent is well above any covenants I found.

For example, my Schedule 3 page 1, line 22 shows that AGL has to maintain an equity ratio of 30 percent. Page 4 line 21 shows that NICOR has to maintain a 35 percent equity ratio. Page 3 line 23 shows New Jersey Resources must maintain a 35 percent equity ratio. Page 7 line 25 shows that WGL must maintain a 35 percent ratio.

Furthermore, at page 12 of its 10-K Piedmont states, "We are well within the debt default provisions established for our senior notes, medium-term notes, short-term bank lines of credit and accounts receivable financings."

Furthermore, an equity ratio of 43.8 percent in this case only means that Piedmont's prices in Tennessee are calculated on that ratio. The company's real equity ratio will be affected by sales in its other service territories and the savings the company is enjoying from its acquisition of North Carolina Natural Gas from Progress Energy.

Q_76. **Are those savings factored into costs that Piedmont has included in its attrition year expenses filed by the company in this rate case proceeding?**

A_76. No. Those savings are not factored in.

Q_77. **Does the 43.8 percent equity ratio capture any portion of those savings?**

A_77. No. The 43.8 percent equity ratio does not capture any of those savings nor is it intended to. The equity ratio is based strictly on the comparable companies chosen by Dr. Murry and accepted by the company.

However, Piedmont is likely to improve its equity by enjoying savings from its acquisition from Progress Energy. Piedmont also improves its equity through the "Nashville Gas Company Performance Incentive Plan," which provided Piedmont with approximately $1.4 million in savings Tennessee for the year ending June 2002.

IV. Cost of Short-Term Debt

Q_78. What is your opinion on short-term debt cost?

A_78. My opinion is that the short-term debt cost is 1.3 percent, which is the average of commercial paper interest rates from July 2002 to June 2003.

Q_79. What is your opinion on the company's short-term debt cost?

A_79. My opinion is that company's short-term debt cost is too high. In Dr. Murry's Schedule DAM-1, short-term debt cost is shown as 2 percent. According to my Schedule 8 page 2, short-term debt cost has not been 2 percent since November 2001.

V. *Cost of Long-Term Debt*

Q_80. What is your opinion on the company's long-term debt cost?

A_80. My opinion is that company's long-term debt cost is too high. In Dr. Murry's Schedule DAM-1, long-term debt cost is shown as 7.71 percent. According to my Schedule 10, the comparable companies have an average long-term debt cost of 6.83 percent for the fiscal years ending 2002.

Q_81. What is the purpose of using comparable companies' data?

A_81. My Schedule 10 shows the comparable companies have a wide range of interest rates and financing methods. Using the comparable companies' data avoids disputes over a specific company's specific embedded cost and its financing methods.

For example, using a company-specific embedded cost would mean that the company with the highest debt cost would always suggest that its equity return be higher than debt cost, therefore, the higher the debt cost the higher the return to equity. Conversely, the company with the lowest debt cost would receive the lowest return to equity. The markets do not work that way. A company's return to equity is not guaranteed to be a certain amount higher or lower than the company's debt cost.

Q_82. Isn't true that 6.83 percent is not equal to the 7.71 percent which Piedmont filed in this case?

A_82. Yes. However, there is ample reason to believe that 6.83 percent will more than cover Piedmont's long-term debt cost in the attrition year and beyond, even if the short-term debt cost is left out of the analysis.

Consider the $425 million that Piedmont is paying Progress Energy for the acquisition of NCNG. According to Progress Energy's SEC form 10-Q for the quarter ending March 31, 2003, Progress issued $425 million of First Mortgage Bonds at a rate of just 4.80%. These bonds are not due until March 1, 2013. These are long-term bonds. Furthermore, Progress did this on an equity ratio of only 39 percent, as of March 1, 2003. Progress Energy's SEC form 10-Q for the quarter ending March 31, 2003 is not attached to my testimony but can be copied from the SEC's online data base.

Q_83. **Are you suggesting that Progress Energy is comparable to Piedmont?**

A_83. No, I am not suggesting that Progress should be one of the comparable companies. I am pointing out that long-term rates are very low. If one North Carolina-based utility with a 38 percent equity ratio can get 4.8 percent long-term rate on $425 million, then Piedmont can probably get the same or better treatment for any refinancing or new debt funded from the financial community that served Progress.

Q_84. **How do you know that the $425 million you are referring to is the same $425 million that Piedmont is paying Progress?**

A_84. My Schedule 11 is the entire U-1/A form I described earlier. I know from the form that

Progress regarded the $425 million as "in the bank" by March 2003. In the U/1-A filed with the SEC, the parties say "Even if the Commission takes into account the capitalization of and earnings...in which Progress Energy has an interest, there would be no basis for withholding approval of the proposed transaction," where the "Commission" means the SEC and the "transaction" means the transfer of assets to Piedmont. The financial community appears to have already passed $425 million to Progress, and Progress appears to have booked the transaction while turning that amount into 4.8 percent mortgage bonds.

Therefore, the $425 million sale is not a "prospective" transaction as Piedmont suggests. 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, even though the transaction's scheduled closing date has not yet been reached.

VI. *Cost of Equity*

Q_85. Is the company's requested return a just and reasonable cost-of-equity?

A_85. No. In my opinion the requested return of 12.6 percent is not a just and reasonable cost-of-equity because the recommended rate for equity overstates the prevailing return on equity in the American economy.

Q_86. What is the prevailing equity return in the market?

A_86. My Schedule 12 displays the prevailing return on equity in our economy. The schedule shows a range of equity returns for approximately 5600 companies for the twelve months ending July 2003. The information is compiled by MorningStar, a data base firm that maintains a data base on stocks, mutual funds and tracks their performance. Its information can be accessed through the internet.

Nearly one-half of the stocks achieved equity returns of less than 7%. Less than one-quarter achieved returns higher than 12.6 percent, which is the company's requested return.

VI. A. - Dr. Murry's Support For A 12.6 Percent Return

Q_87. How does Dr. Murry support his recommended return?

A_87. Dr. Murry supports his return with three basic arguments.

1. An equity-return must exceed the return to debt, any other result is not credible.

For example, in his direct testimony at page 12 lines 12-15: "In general these DCF results are so low that they are comparable to yields on debt instruments, and this is not commensurate with the risk differentials between common stock ownership and ownership of a quality debt instrument. This is not a credible result." Dr. Murry makes a similar point at page 13 lines 10 to 12: "ranges between 7.2 percent and 7.9 percent ... given current bond yields, these results cannot represent the expectations and requirements of common stock investors..."

2. Rates should be based primarily on the future.

For example, Dr. Murry states in his direct testimony at page 10 lines 14-16 and lines 20-21: "Since rates are being set for the future, a sharp division between prospective and historical data diminishes the usefulness of historical data for analytical purposes...However, given current market circumstances, I focused my analysis principally on forecasted earnings and dividends." Dr. Murry makes a similar point at page 19 lines 18-21: "As indicated...I relied primarily upon the results from the DCF analyses using the projected earnings growth rates."

3. "Interpretation" is the path to credible and proper rates.

For example, Dr. Murry states in his direct testimony at page 7 lines 6-9: "...market conditions are important when interpreting the results ... Putting the results of these analyses in the context of current market conditions aids in their interpretation." He makes the same point from page 9 line 26 to page 10 line 6: "A second [limitation] is the analyst's interpretation of those data...One should carefully select data...and interpret the results just as carefully...", and again page 18 lines 21-22: "You indicated that interpretation of ...results was important."

VI. B. - 7.2 Percent Return Is Above Debt Cost And What Investors Expect

Q_88. What is your opinion of Dr. Murry's arguments?

A_88. My opinion is that the arguments are not substantiated. Therefore, I disagree with them.

Consider the argument that equity return must exceed debt return. Dr. Murry's first step, that equity returns must exceed the returns to a "quality debt instrument," merges into a second step, that equity returns must exceed "current bond yields," implying that "quality debt instruments" are limited to bonds. But there are plenty of bonds. A 7.2 percent DCF yield is higher than a 6 percent return from a corporate triple-A bond, higher than a 5 percent return from a thirty-year government bond, and higher than the return on the ten-year U.S. Treasury Notes. So which sector is the basis of comparison? Public sector debt or private sector debt? What time horizon is the basis of comparison? Thirty years or ten?

Dr. Murry's argument does not specify a sector or a "holding time" or the investor's time horizon. Does the investor plan to hold the stock for 30 years, ten years, or two years? Dr. Murry implies the investor has a thirty year horizon, judging from his Schedule DAM-17, which he describes in his testimony at page 16 lines 7 to 8. However, he provides no evidence to support his interpretation that thirty-years is a shareholder's holding period. In fact, investors have a very short horizon of no more than three years.

Q_89. **What is the basis of your opinion, that an investor's time-horizon is no more than three years?**

A_89. My opinion is based on the turnover rates of stock ownership for Piedmont and for each comparable company.

I gathered daily trading history for each stock going back several years.

For example, Yahoo's web site on internet, http://chart.yahoo.com/d, has historical trading data, as does America Online, which uses Standard & Poor's data.

My Schedule 13 shows my analysis. At page 1 of Schedule 13, AGL is shown to have 63,343,000 shares outstanding as of July 31, 2003. In my analysis I assumed there would be little difference in stock outstanding on July 31 versus May 30. At page 2 of Schedule 13, for example, 486,300 shares of AGL Resources were traded on May 27, 2003. I added up the shares traded, starting from May 30, to May 29 to May 28 and so on, until I reached a date where the total number of shares traded was equal to or greater than the number of shares outstanding. That date is shown on page 1, in the column titled "100% TurnOver Since."

For every company, 100 percent of the shares turn over within three years.

Therefore, the appropriate time-horizon in this case is short, and short-term bonds are much better benchmarks than a thirty year note. A 7.2 percent equity return is very credible because the short-term bonds have much lower returns.

Q_90. **Do you have other information which suggests a 7.2 percent return is credible?**

A_90. Yes, my Schedule 14 supports my opinion that a 7.2 percent return is credible. In May 2001 the DRI-WEFA group, an economic and financial forecasting company formed from DRI (formerly Data Resources Inc. owned by Standard & Poor's) and WEFA (Wharton Econometric Forecasting Associates) issued a report named "*25-Year Focus, Summer 2001* - The Four Scenarios: The Trend Projection." At page 17 of the report the firm projects stock market prices to rise at just 5.3 percent annually. That page is my Schedule 14 and is attached to my testimony.

A respected economics consulting firm is suggesting that a rapidly rising stock market with high levels of growth and high equity risk is over.

Q_91. **Do you have any evidence suggesting that DRI-WEFA's forecast is accurate?**

A_91. Yes. My Schedule 12, which displays MorningStar's compilation of recent equity returns in the American economy, confirms that DRI-WEFA is accurate thus far. My Schedules 12, 13 and 14 confirm that historical levels of risk premiums and equity returns will not be attained. When establishing a return on equity for a utility, the Authority should consider this information as primary, rather than the historical information that Dr. Murry displays in his Schedule DAM-7, especially in view of Dr. Murry's claim that Value Line's equity returns and forecasts represents an appropriate view of investor expectations

Q_92. **How is Dr. Murry claiming that Value Line's equity returns and forecasts represent an appropriate view of investor expectations?**

A_92. Dr. Murry makes that claim because his only source of returns and forecast data is Value Line. For example, in his testimony at page 10 line 21 he states, "I focused my analysis principally on forecasted earnings and dividends." At page 11 line 6-7 he says the data is in Schedule DAM-5. At the bottom of that schedule the source is listed as "Value Line."

But despite his supposed focus on the future, he lays out what appears to be historical and high equity returns in his Schedule DAM-7, which supposedly shows equity returns in the range of 12 percent for Piedmont and the comparable companies. In his direct testimony at page 11 lines 21 to 22, Dr. Murry concludes: "As Schedule DAM-7 shows, the returns on common equity of Piedmont have been less than the average of the group of comparable companies since 2000."

Q_93. **What is your opinion of the forecasts and equity returns shown in Dr. Murry's schedules DAM-5 and DAM-7?**

A_93. My opinion is that they are not credible. I have already shown that Value Line calculates common equity ratios by excluding short-term debt. Also, I have already shown that Dr.

Murry's statement that "the common equity set for Piedmont for ratemaking purposes is conservative," is not right. Therefore, I do not believe the equity returns shown in Schedule DAM-7 are accurate.

Those returns are likely to be inflated, just as the common equity ratios are inflated. Therefore, my opinion is to disregard Dr. Murry's testimony that "the returns on common equity of Piedmont have been less than the average of the group of comparable companies since 2000."

Q_94. **Do you have additional evidence demonstrating Value Line's lack of credibility.**

A_94. Yes. Consider Dr. Murry's CAPM analysis, which uses Value Line's betas.

VI. C. - Dr. Murry's CAPM Analysis Overestimates Equity Return

Q_95. **Why did Dr. Murry perform a CAPM analysis?**

A_95. Dr. Murry performed a CAPM analysis to validate his recommended return of 12.6 percent. In his direct testimony at page 15 lines 1-2, he states that his CAPM analysis "serves as a good check on the results of the DCF calculation."

Q_96. **What is the role of Value Line betas in Dr. Murry's CAPM analysis?**

A_96. Value Line betas play a central role in Dr. Murry's CAPM analysis.

Q_97. What is a beta?

A_97. It is a ratio of the change in a stock price to the change in the overall market price or index, and there are three possibilities. For example, if a market index increases by 10 percent and a stock price increases 5 percent, then the stock's beta is .5 or one-half. On the other hand, if a market index increases by 10 percent and a stock price decreases 5 percent, then the stock's beta is a negative one-half. Finally, if a market index changes and the stock price does not change, the stock's beta is zero.

Q_98. What economic meaning is normally assigned to the beta?

A_98. It is regarded as a measure of risk, the higher the beta, the higher the risk.

Q_99. Where are the Value Line betas in Dr. Murry's cost-of-capital analysis?

A_99. Value Line betas appear in Dr. Murry's analysis in his Schedules DAM-15 and DAM-16.

Q_100. What are values of the betas in Dr. Murry's Schedules DAM-15 and DAM-16?

A_100. The betas' values range from a high of .9 to .6, the lowest value.

VI. D. - Dr. Murry's CAPM Analysis Relies On Value Line Betas, Which Are Not Standard Practice and Which Inflate Returns

Q_101. **Do you agree that Value Line betas measure risk?**

A_101. No. I disagree because Value Line's betas inflate the measure of risk and are not standard practice in the financial industry.

My Schedule 15 provides a comparison of Value Line betas with other betas. The far left column lists the companies, and columns 1 through 2 list betas from the financial sources on the internet. Column 3 lists my calculation of the beta and column 4 lists Value Line's beta.

Value Line's betas are substantially higher than all others. Clearly, Value Line's betas are not standard practice. My calculations give results consistent with standard practice.

Q_102. **What is the effect of Value Line's betas on the estimated cost-of-capital?**

A_102. Value Line's betas lead to an overestimate of risk and an overestimate of capital cost.

Q_103. **How does Value Line calculate its betas?**

A_103. Value Line reduces the calculated beta by one-third and then adds .35 to produce an "adjusted" beta. This adjustment to the calculated beta makes low betas look higher than they really are. Therefore, Value Line's betas do not capture or embody changes in economic conditions.

My Schedule 16 shows the relationship between a calculated beta and the Value Line Beta.

Q_104. **Do you know the economic basis for Value Line's procedure to calculate betas?**

A_104. Yes. Value Line bases its procedure on an article titled "On The Assessment Of Risk" which was authored by Marshall Blume of the University of Pennsylvania. Professor Blume's article was published in the March 1971 issue of the *Journal of Finance*. Blume believed that all betas tend towards one, which is overall market average beta of the thousands of companies that compose the stock market.

Blume performed a calculation to raise the value of betas that are low and lower the value of betas that are high. This procedure was adopted by Value Line. The portfolios in Blume's article were formed between the years 1926 and 1968. His most recent portfolio is almost forty years old. His inquiry has not been updated, and there is no evidence that his portfolio included gas distribution companies.

Q_105. Has the issue of adjusted betas versus calculated betas been studied?

A_105. Yes. The issue of adjusted versus calculated betas has been addressed in several forums.

Financial Markets and Corporate Strategy, (1st Edition, 1998), a standard college financial textbook used worldwide and authored by Professor Mark Grinblatt of UCLA and Professor Sheridan Titman of the University of Texas, addresses the issue of Value Line adjusting a beta's value towards one. At page 175 of the book its authors advise students of finance: "better beta estimates might result by shrinking the unadjusted estimates towards an industry average rather than toward the market average [of one]."

Another standard but older financial textbook, *Financial Management and Policy* by James C. VanHorne of Stanford University, says at page 69 of the 7th edition: "Adjusting historical betas is difficult business because the process is seldom clear and consistent."

In 2002 the Australian government commissioned a study to examine the use of adjusted betas versus calculated betas. The relevant report is: "Final Report, Empirical Evidence on Proxy Beta Values for Regulated Gas Transmission Activities: July 2002 Report for the Australian Competition and Consumer Commission," prepared by the Allen Consulting Group of Melbourne, Australia.

The following conclusion appears at page 30 of the report: "Accordingly this report uses the raw betas estimates produced by each of the beta estimation services." The report can be acquired over the internet at:

http://www.accc.gov.au/gas/br_reg_iss/empiricalA.pdf,

and

http://www.accc.gov.au/gas/br_reg_iss/empiricalB.pdf.

Also in 1998 Professor Martin Lally of the Victoria University of Wellington, authored an article, with the technical and esoteric title of "An examination of Blume and Vasicek Betas." The article was published in the economic journal, *The Financial Review*. Professor Lally concludes at page 192 of his article: "The result is a dramatic overestimate by Blume, because a singularly relevant fact is ignored, i.e., membership [in] an industry whose average estimated, and therefore presumably also true beta is well below one."

These sources are not attached to my testimony but they are available in CAPD's workpapers.

Q_106. **Isn't it true that *The Financial Review* is just an obscure economics journal?**

A_106. No. The journal may be obscure to regulatory agencies but *The Financial*

Review is the property of and published by the Eastern Finance Association.

My Schedule 17 is a display of the Association's officers, who represent a cross-section of the economics profession in 2003.

Q_107. **What is your opinion of Dr. Murry's statement that "betas are sometimes unstable?"**

A_107. Dr. Murry's statement, which appears in his direct testimony at page 15 line 9, is mistaken. In my opinion betas are not unstable, or said another way, betas do not swing wildly from month to month because they are generally calculated by using five years of data. They change gradually over time.

My Schedule 18 is a table of betas that I calculated going back to January 1998. The table clearly shows betas declining from 1998 forward. The table's values are shown more conveniently in the "Chart Of Betas" following my Schedule 18.

My table and chart show that real betas have not been in the .6 to .8 range since early 1998. Therefore, Dr. Murry's CAPM analysis is predicated on betas that are not even close to being current.

Q_108. **Why do financial reporting services, such as those you reference in your Schedule 15, not follow Value Line's example?**

A_108. Financial reporting services do not follow Value Line's example because, in my opinion, it is common knowledge that Value Line's betas are overestimates.

Q_109. **Do you consider your calculated beta to be accurate?**

A_109. Yes, I consider it accurate, and the proof is in my Schedule 15, where my calculated beta is shown to be consistent with the betas published by Standard & Poor's and Yahoo.

Q_110. **What is your opinion with regard to Value Line's betas?**

A_110. My opinion is that they be disregarded because they are inaccurate, leading to a higher risk assessment than otherwise.

Q_111. **What is your opinion regarding Dr. Murry's CAPM analysis as a "good check" on his DCF result of 12.6 percent?**

A_111. My opinion is that Dr. Murry's CAPM analysis is not a "good check" because it relies on Value Line's betas, which are vast overestimates and not standard practice.

Q_112. **What are the value of the comparable companies' equity returns in Dr. Murry's CAPM analyses?**

A_112. In Dr. Murry's Schedule DAM-15 the comparable companies' equity return is 11.74%. In his Schedule DAM-16 the comparable companies' equity return is 11.02%.

VI. E. - Using Standard & Poor's Beta in Dr. Murry's CAPM Analysis Gives A Return of 7.2 Percent

Q_113. If the betas from Standard & Poor's or Yahoo were used in Dr. Murry's CAPM analysis, what would the overall equity returns be?

A_113. If the betas from Standard & Poor's or Yahoo were used in Dr. Murry's CAPM analysis, the equity returns would be about 7.2 percent, the same number that Dr. Murry has already described as "not credible" at page 13 of his direct testimony.

Q_114. Are there other aspects of Dr. Murry's CAPM analysis which are not standard practice?

A_114. Yes. In his Schedule DAM-15, Dr. Murry has a column titled "Market Total Returns" which displays a figure of "14.55%." That amount is the basis of the 8.35% "risk premium," supposedly an amount of return over and above the amount which investors expect to get from debt investments.

Dr. Murry's testimony provides no evidence about how he derived the figure of "14.55%," nor state exactly what the source is, nor show the calculations that lead to "14.55%," a return not in the mainstream of equity returns. Also, the number is so large that it could be an "arithmetic" mean of returns rather than a real return.

Q_115. What is an "arithmetic" mean of returns?

A_115. An "arithmetic" mean is an inappropriate way to express returns to equity.

For example, if I bought a stock two years ago for $1000 and the market price declined to $500, I would have a loss of 50% in that year. If by a miracle the stock climbed back to $1000 the next year, I would have a 100% gain even though I have the same amount of money I started with. The average gain over two years is the "arithmetic" mean, which is 25%, i.e., (-50% + 100%)/2. Any historical record where stock gains and losses are expressed in terms of percentages, without comparing the actual dollar values of investment, always overestimates the true gain.

Because Dr. Murry has not shown how he got to "14.55% and because that figure looks like an inappropriate return, my opinion is to disregard the risk premiums he displays in Schedules DAM-15 and Schedule DAM-16.

However, my CAPM analysis shows how historical records should be employed.

VI. F. – CAPD's CAPM Analysis

Q_116. What is the CAPM model?

A_116. The model defines the cost-of-equity as the market's risk-free rate of return plus an estimated risk premium which is multiplied by a beta. The risk premium is the difference between the overall market return and the risk-free return. The model is often expressed by the following general formula:

$$K_e = R_f + (R_m - R_f) * B_e \qquad (1)$$

where

K_e is the cost-of-equity

R_m is the overall market rate of return

R_f is the risk-free rate of return

B_e is the beta for common stock

There is an exact correspondence between this formula and the formulas shown in Dr. Murry's testimony at page 14.

But I use the next formula:

$$K_e = K_d + (R_m - R_f) * B_e \qquad (2)$$

The formula's terms have the same meanings as already discussed:

K_e is the cost-of-equity

R_m is the market rate of return

R_f is the risk-free rate of return

B_e is the beta for common stock

The only difference is that K_d is the debt cost and substitutes for R_f.

I arrived at my formula by using the following equation:

$K_d = R_f + (R_m-R_f)*B_d$ (3)

where B_d is the beta for debt capital.

There is a market for debt capital just like there is a market for equity capital. I derived equation (2) by subtracting equation (3) from equation (1) and the result is equation (1):

$K_e = K_d + (R_m-R_f)*(B_e-B_d)$ (1).

I've assumed that B_d is zero, so that equation (2) reduces to equation (1) but K_d substitutes for R_f.

Q_117. **What is the procedure for deriving the cost-of-equity from this risk premium model?**

A_117. The procedure has six steps:

1. Estimate the market's current cost of debt - K_d.

2. Estimate market-wide rate of return for common equity - R_m.

3. Estimate the market-wide risk-free investment - R_f.

4. Calculate the difference between steps 2 and 3

5. Multiply the difference by a "Beta" - B_e.

6. Add the result of step 5 to the debt cost in step 1. The result is the estimated cost-of-equity from the risk premium model.

Q_118. **What do you use as the current cost of debt - K_d?**

A_118. I use the comparable companies' average cost of long-term debt, 6.83 percent.

Q_119. **What do you use to estimate R_m, market-wide rate of return for common equity?**

A_119. My Schedule 19 displays the data I used, which is 10.20 percent and which is displayed in the lower right corner of the schedule. The entire schedule displays the compound annual growth rate for Standard & Poor's 500 Company stock index from the period 1925 through 2002. The data is taken from Ibbotson Associates 2003 Yearbook - Stocks Bonds, Bills and Inflation, Tables A-1 and B-1.

In my Schedule 19 columns 2 and 5 display the index's annual value. Columns 3 and 6 display the percentage change from year to year in the index. In the lower right corner there is a figure of 12.2 percent. This amount is the "arithmetic" average - an overstatement of the real return, which is greater than 10.2 percent.

Q_120. **Why are you using** Ibbotson's Tables A-1 and B-1?

A_120. I use the tables because they comprise Standard & Poor's 500 Stock Composite Index, according to the definition at page 352 of Ibbotson's 2003 yearbook. Also, Standard & Poor's 500 Stock Composite Index is a standard measure of performance.

Q_121. Why are you using historical data to estimate the risk premium?

A_121. Historical data provides a way to smooth out the wild fluctuations in the risk premium, which is the difference between the risk-free return and market return to common equity.

Q_122. Why are you using the years from 1925 through 2002 to measure the risk premium?

A_122. Ibbotson provides historical information on the risk premium from 1925 through 2002, and these years represent the entire term for which information is available. Using the entire data avoids any element of subjectivity that may influence the selection of only a portion of the data.

Q_123. What represents the market-wide risk-free investment, R_f?

A_123. My Schedule 20 displays the data I use for the risk-free investment, which is Ibbotson's data on three-month U.S. Treasury bill. It is risk-free because there has never been a loss. Columns 3 and 6 display the percentage change from year to year, and there is not a single negative number in the columns. My

Schedule 20 also displays the arithmetic mean, which is virtually identical to the actual average.

Also, the risk-free rate covers the same years as the market-wide return to common equity

Q_124. **What is the market-wide risk-free rate of return, R_f, based on three-month bills?**

A_124. The risk-free rate is 3.79 percent, which is the compound annual growth rate in the value of the three-month treasury bills from 1926 to 2002.

Q_125. **What betas do you use in your CAPM analysis?**

A_125. I use Standard & Poor's betas shown in my Schedule 15.

Q_126. **What return does the CAPM analysis suggest?**

A_126. My Schedule 21 displays my CAPM analysis and suggests a return of 7.6 percent.

Q_127. **Where would a 7.6 percent return be placed in your Schedule 12?**

A_127. A return of 7.6 percent would place the return in the top 40% of company returns.

Q_128. **In your opinion is that a reasonable return?**

A_128. Yes, in my opinion they are reasonable returns, performing well ahead of long-term-debt cost and well above the performance of approximately 60 percent of the companies in the past year.

VI. G. - CAPD's DCF Analysis

Q_129. What is the Discounted Cash Flow model?

A_129. The DCF model is a standard way that investors evaluate their potential returns. The model defines the cost of common equity as the cash flowing to the investor, where the cash flow to the investor is based on the dividend yield plus the dividend's expected growth rate.

Q_130. What is the advantage of using the DCF model?

A_130. It pays close attention to the company's dividend per share of common stock and to the company's ability to raise or lower the dividend and the dividend yield.

Q_131. What is the dividend yield?

A_131. Dividend yield is measured as the company's annual dividend divided by the price for the company's stock.

Q_132. What is dividend growth?

A_132. Dividend growth is the year-to-year change in dividend payments to the shareholder.

Q_133. What are the results of your DCF analysis?

A_133. The results of my DCF analysis are shown in my Schedule 22. The suggested DCF return is 7.35%

Q_134. Where would a 7.35% return be placed in your Schedule 12?

A_134. A return of 7.35 % would place the return in the top 40% of company returns.

Q_135. In your opinion is that a reasonable return?

A_135. Yes, in my opinion they are reasonable returns, performing well ahead of long-term-debt cost and well above the performance of approximately 60 percent of the companies in the past year.

Q_136. What is the difference in procedures between your DCF analysis and Dr. Murry's?

A_136. My DCF analysis relies on dividends only. My source is the MorningStar online data base, and the growth rate is based on 5 years of dividend history and the current dividend yield.

Dr. Murry's DCF analysis is summarized in his Schedule DAM-14. However, his DCF analysis treats earnings as if they are dividends.

Q_137. Did you agree with Dr. Murry' use of earnings growth in his DCF model?

A_137. No. A correct DCF analysis is based on the investor's real-world cash flow from dividends and their growth. Thus investors' expectations are clearly formed on dividend growth, not earnings. Even Value Line, in my Schedule 7, says of Piedmont: "Relatively rapid dividend growth continues to be this equity's primary appeal." However, Dr. Murry relies on earnings in his DCF analysis.

Q_138. **How does Dr. Murry rely on earnings in his DCF analysis?**

A_138. Dr. Murry relies on Value Line's earnings forecasts to raise his maximum DCF return to 14.07 percent. Value Line's earnings forecasts are central to Dr. Murry's results. The earnings growth rate is 8 percent for Piedmont and 6.64 percent for the comparable companies

For example, in his Schedule DAM-10 there is a column titled "EPS Forecasts - Value Line." In the same schedule and to the immediate left of the Value Line data there is a column titled "2003 Yields - High." Dr. Murry adds the two columns together and places the results in the far right column under the heading "Cost-of-capital - High." Those results are transferred to his Schedule DAM-14. He applies the same procedures to his Schedule DAM-13 and transfers the results to DAM-14.

Q_139. **Is there any overlap or similarity between your DCF analysis and Dr. Murry's?**

A_139. Yes, there is overlap. Dr. Murry's Schedule DAM-11 is based on dividends. His result is approximately 7.2 percent, but he does not place these results in Schedule DAM-14.

Q_140. **Do you know why Dr. Murry excludes those results from his Schedule DAM-14?**

A_140. Yes, I know. Based on my reading of his testimony, his opinion is that a 7.2 percent return is not credible. However, he does not say the numbers in his Schedule DAM-11 are wrong or misleading. Also, his inclusion of the results in his analysis contradicts his opinion that such results are not credible, otherwise such results would not be in his analysis.

Q_141. **In your opinion is his recommended return credible?**

A_141. No. In my opinion his recommended return is not credible because it relies on Value Line's long-term earnings growth rates, which are untested and unlikely to be achieved in the future.

In April 2003, an article, titled "The Federal Reserve Board and the Stock Market Bubble" was published in the economic journal, *Business Economics*. The author, Mr. Spencer England, concludes at page 35 of his article: "Finally, we just had the most severe earnings decline since the depression. Put simply, there is no evidence that the economy has entered a new era of permanently higher earnings growth, even though Wall Street analysts still forecast double-digit growth. But from current depressed levels it would take years of double-digit earnings growth just to return earnings growth to the seven percent long-term trend."

Therefore, Value Line's long-term forecasts, 8 percent for Piedmont and 6.64 percent for the other companies, are not credible. They are nothing more than historical growth rates that are over and finished.

The author also says: "if 2002 was the first year of a recovery, it was among the weakest on record." The article is not attached to my testimony but is a part of CAPD's workpapers.

The article I have just referenced makes it clear that Dr. Murry's suggested return of 12.6 percent does not reflect mainstream economic conditions nor the changes that have occurred in the economy. All forms of economic return have declined in the last few years. Equity returns in general have decreased and it is normal for Piedmont's equity return to decrease as well in the current conditions.

Q_142. **Isn't it true that Piedmont has recently been granted a return substantially higher than 7.6 percent in North Carolina?**

A_142. Yes. Piedmont has informed CAPD that the company was granted a substantially higher return in North Carolina and that Dr. Murry was the company's cost-of-capital witness. My Schedule 23 is a copy of common equity ratios filed as Dr. Murry's "Exhibit 1 Schedule 4" in the North Carolina Commission's Docket No. G-21, SUB 442. This confirms that Dr. Murry's methods in TRA Docket 03-00313 are no different than his practice in the North Carolina docket. Therefore, my opinion is to disregard the North Carolina case as a measure of a just and reasonable return.

Q_143. **In your opinion what is a just and reasonable equity return in this rate case proceeding?**

A_143. In my opinion 7.6% is a just and reasonable equity return, consistent with current returns in the American economy.

This concludes my testimony at this time.

Before the
TENNESSEE REGULATORY AUTHORITY

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

DOCKET NO. 03-00313

AFFIDAVIT

I, Steve Brown, for the Consumer Advocate and Protection Division of the Attorney General's Office, hereby certify that the attached Direct Testimony represents my opinion in the above-referenced case and the opinion of the Consumer Advocate and Protection Division.

Steve Brown
STEVE BROWN

Sworn to and subscribed before me
this 18 day of August, 2003.

NOTARY PUBLIC

My commission expires: Sept 24, 2005

67859

Docket No. 03-00313
Exhibit CAPD-SB___
Direct Testimony___
Schedule 1________
Page 1 of 1________

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Exhibit CAPD-SB___
Direct Testimony___
Schedule 2________
Page 1 of 4________

Screen Copy Of Piedmont's Opening Page in SEC Data Base And Screen Location of Form 10-K Filed With SEC and With TRA in Current Rate Case

Company Information: PIEDMONT NATURAL GAS CO INC - Microsoft Internet Explorer

Address: http://www.sec.gov/cgi-bin/browse-edgar?company=Piedmont+natural&CIK=&filenum=&State=&SIC=&owner=exclude&action=getcompany

PIEDMONT NATURAL GAS CO INC (0000078460)
SIC: 4924 - Natural Gas Distribution
State location: NC | State of Inc.: NC | Fiscal Year End: 1031

Business Address
1915 REXFORD RD
CHARLOTTE NC 28211
7043643120

Mailing Address
P.O. BOX 33068
CHARLOTTE NC 28233

To limit filing results, enter form type or date (as 2002/05/23).
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Ownership? Include Exclude Only
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Items 1 - 80

Form	Formats	Description	Filing Date	File Number
8-K	[html][text] 18 KB	Current report, items 5 and 7	2003-06-27	001-06196
S-3	[html][text] 1 MB	Registration for face-amount certificate companies	2003-06-19	333-106268
8-K	[html][text] 26 KB	Current report, items 5 and 7	2003-06-13	001-06196
10-Q	[html][text] 560 KB	Quarterly report [Sections 13 or 15(d)]	2003-06-12	001-06196
8-K	[html][text] 94 KB	Current report, items 5 ,7, and 9	2003-05-30	001-06196
10-Q	[html][text] 357 KB	Quarterly report [Sections 13 or 15(d)]	2003-03-12	001-06196
8-K	[html][text] 25 KB	Current report, items 5 and 7	2003-02-28	001-06196
SC 13G/A	[html][text] 25 KB	[Amend]Statement of acquisition of beneficial ownership by individuals	2003-02-14	005-39349
ARS	[html][text] 1 KB	[Paper]Annual Report to Security Holders Film# = 03005894	2003-02-03	001-06196
10-K	[html][text] 1 MB	Annual report [Section 13 and 15(d), not S-K Item 405]	2003-01-23	001-06196
DEF 14A	[html][text] 183 KB	Other definitive proxy statements	2003-01-17	001-06196
8-K	[html][text] 14 KB	Current report, items 5 and 7	2003-01-08	001-06196
8-K	[html][text] 16 KB	Current report, items 5 and 7	2002-12-23	001-06196
8-K	[html][text] 16 KB	Current report, items 5 and 7	2002-11-06	001-06196

Internet

Screen Copy Of Piedmont's 10-K Filed Jan. 23, 2003. At Page 14, the Company States Its Common Equity Ratio Is 56% At Oct. 31, 2002

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Long-term debt	$509	$47	$ 37	$ —	$425
Pipeline and storage capacity and gas supply	861	97	247	141	376
Operating leases	14	4	7	1	2

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. The embedded cost of long-term debt at October 31, 2002, was 7.71%. The return on average common equity for 2002 was 10.82%.

Critical Accounting Policies and Estimates

We prepare our consolidated financial statements in conformity with accounting principles generally accepted in the United States of America. We make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods reported. Actual results may differ significantly from these estimates and assumptions. We base our estimates on historical experience, where applicable, and other relevant factors that we believe are reasonable under the circumstances. On an ongoing basis, we evaluate estimates and assumptions and make adjustments in subsequent periods to reflect more current information if we determine that modifications in assumptions and estimates are warranted.

Our domestic natural gas distribution segment is subject to regulation by certain state and federal authorities. We have accounting policies that conform to Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effect of Certain Types of Regulation" (Statement 71), and are in accordance with accounting requirements and ratemaking practices prescribed by the regulatory authorities. The application of these accounting policies allows us to defer expenses and income on the balance sheet as regulatory assets and liabilities when it is

probable that those expenses and income will be allowed in the rate-setting process in a period different from the period in which they would have been reflected in the income statement by an unregulated company. We then recognize these deferred regulatory assets and liabilities through the income statement in the period in which the same amounts are reflected in rates. At October 31, 2002, we had $19.7 million of regulatory assets and $28.6 million of regulatory liabilities, including deferred income tax liabilities of $13 million. If, for any reason, we cease to meet the criteria for application of regulatory accounting treatment for all or part of our operations, we would eliminate from the balance sheet the regulatory assets and liabilities related to these portions ceasing to meet such criteria and include them in the income statement for the period in which the discontinuance of regulatory accounting treatment occurs. Such an event could have a material effect on our results of operations in the period

Done Internet

Copy Of Certification By Piedmont's Chief Financial Officer At Pages 81-82 of 10-K Filed with SEC Jan. 23, 2003

CERTIFICATIONS

I, David J. Dzuricky, certify that:

1. I have reviewed this annual report on Form 10-K of Piedmont Natural Gas Company, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures and internal controls and procedures for financial reporting (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have;
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal controls and procedures for financial reporting, or caused such internal controls and procedures for financial reporting to be designed under their supervision, to provide reasonable assurances that the registrant's financial statements are fairly presented in conformity with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and internal controls and procedures for financial reporting as of the end of the period covered by this report ("Evaluation Date");

   d) Presented in this report our conclusions about the effectiveness of the disclosure controls and procedures and internal controls and procedures for financial reporting based on our evaluation as of the Evaluation Date;

   e) Disclosed to the registrant's auditors and the audit committee of the board of directors (or persons fulfilling the equivalent function):

Copy Of Certification By Piedmont's Chief Financial Officer At Pages 81- 82 of 10-K Filed with SEC Jan. 23, 2003

(i) All significant deficiencies and material weaknesses in the design or operation of internal controls and procedures for financial reporting which could adversely affect the registrant's ability to record, process, summarize and report financial information required to be disclosed by the registrant in the reports that it files or submits under the Act (15 U.S.C. 78a *et seq.*), within the time periods specified in the U.S. Securities and Exchange Commission's rules and forms; and

(ii) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls and procedures for financial reporting; and

f) Indicated in this report any significant changes in the registrant's internal controls and procedures for financial reporting or in other factors that could significantly affect internal controls and procedures for financial reporting made during the period covered by this report, including any actions taken to correct significant deficiencies and material weaknesses in the registrant's internal controls and procedures for financial reporting.

Date: January 23, 2003

/s/ David J. Dzuricky

David J. Dzuricky
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)

DETERMINATION OF COMMON EQUITY RATIOS AND CAPITAL STRUCTURE FOR COMPANIES COMPARABLE TO PIEDMONT

Category 1: Companies Doing Business in Tennessee and Regulated by the Tennessee Regulatory Authority

1	***AGL Resources: Consolidated Capitalization***			
2	*(In Millions of $)*			
3	*Capital Structure Components As Of:*	*2002: Dec 31*	*2001 Dec 31*	*2001: Sep 30*
4	*Short-Term Debt: Notes Due*	*$389*	*$385*	*$303*
5	*Short-Term Debt: Current Portion of Long-Term Debt*	*$30*	*$93*	*$45*
6	*Long-Term Debt*	*$767*	*$797*	*$845*
7	*Trust Preferred Securities*	*$227*	*$218*	*$220*
8	*Common Equity*	*$710*	*$690*	*$671*
9	*Total*	*$2,123*	*$2,183*	*$2,085*
10				
11	*RATIOS:*			
12	*Short-Term Debt: Notes Due*	*18.3%*	*17.6%*	*14.6%*
13	*Short-Term Debt: Current Portion of Long-Term Debt*	*1.4%*	*4.3%*	*2.2%*
14	*Long-Term Debt*	*36.1%*	*36.5%*	*40.5%*
15	*Trust Preferred Securities*	*10.7%*	*10.0%*	*10.5%*
16	*Common Equity*	*33.4%*	*31.6%*	*32.2%*
17	*Total*	*100.0%*	*100.0%*	*100.0%*
18				

19 *Source:AGL FORM 10-K. For the fiscal year ended December 31, 2002: Exhibit 13, In Section Titled " Liquidity and Capital Resources" Subsection Titled "Financing"*

20 *Internet Address For AGL's 10-K Exhibit 13: http://www.sec.gov/Archives/edgar/data/1004155/000100415503000046/exhibit13.htm*

21 *Date Filed With SEC: 2003-03-19*

22 *Quote From Exhibit 13: "AGL Resources is required by financial covenants in its Credit Facility, customer contracts and PUHCA requirements to maintain a ratio of total debt to total capitalization of no greater than 70.0%. As of December 31, 2002, AGL Resources is in compliance with this leverage ratio requirement."*

DETERMINATION OF COMMON EQUITY RATIOS AND CAPITAL STRUCTURE FOR COMPANIES COMPARABLE TO PIEDMONT

Category 1: Companies Doing Business in Tennessee and Regulated by the Tennessee Regulatory Authority

1	***Atmos : Consolidated Capitalization***		
2	*(In Thousands of $)*		
3	*Capital Structure Components As Of:*	*2002: Sep 30*	*2001: Sep 30*
4	*Short-Term Debt: Notes Due*	*$145,791*	*$201,247*
5	*Short-Term Debt: Current Portion of Long-Term Debt*	*$21,980*	*$20,695*
6	*Long-Term Debt*	*$670,463*	*$692,399*
7	*Common Equity*	*$573,235*	*$583,864*
8	*Preferred*	*$0*	*$0*
9	*Total*	*$1,411,469*	*$1,498,205*
10			
11	*RATIOS:*		
12	*Short-Term Debt: Notes Due*	*10.3%*	*13.4%*
13	*Short-Term Debt: Current Portion of Long-Term Debt*	*1.6%*	*1.4%*
14	*Long-Term Debt*	*47.5%*	*46.2%*
15	*Common Equity*	*40.6%*	*39.0%*
16	*Preferred*	*0.0%*	*0.0%*
17	*Total*	*100.0%*	*100.0%*

18 *Source: For 2002 and 2001 - Atmos FORM 10-K. For the fiscal year ended September 30, 2002: Page 26 Section Titled "Liquidity"*

19 *Internet Address For Atmos 2002 10-K: http://www.sec.gov/Archives/edgar/data/731802/000095013402014920/0000950134-02-014920.txt*

20

21 *Date Filed With SEC: 2002-11-21*

22 *Quote From 2002 10-K Report p. 26:"The excess of cash inflows over outflows has resulted in a slight decrease in debt as a percentage of total capitalization, including short-term debt, as in debt as a percentage of total capitalization, including short-term debt, as shown"*

DETERMINATION OF COMMON EQUITY RATIOS AND CAPITAL STRUCTURE FOR COMPANIES COMPARABLE TO PIEDMONT

1	**New Jersey Resources : Consolidated Capitalization**		
2	(In Millions of $)		
3	Capital Structure Components As Of:	2002: Sep 30	2001: Sep 30
4	Short-Term Debt: Notes Due	$60	$86
5	Short-Term Debt: Current Portion of Long-Term Debt	$27	$1
6	Long-Term Debt	$371	$354
7	Common Equity	$361	$352
8	Preferred	0.295	0.298
9	Total	$819	$792
10			
11	RATIOS:		
12	Short-Term Debt: Notes Due	7.3%	10.8%
13	Short-Term Debt: Current Portion of Long-Term Debt	3.3%	0.1%
14	Long-Term Debt	45.3%	44.7%
15	Common Equity	44.1%	44.5%
16	Preferred	0.0%	0.0%
17	Total	100.0%	100.1%
18			

19 Source: For Long-Term Debt, Common Equity and Preferred - All Years: New Jersey Resources 2002 FORM 10-K. For the fiscal year ended Sep 30,2002, at page 30 of Annual Report which is Appended to 10-K as "Document 3 - file: y66677exv13w1.txt."

20 Source: For Short-Term Debt and Current Portion of Long Term Debt - 2002 and 2001| Same source at Page 41 Section Titled "Consolidated Balance Sheets" SubSection titled "Current Liabilities"

21 Internet Address for New Jersey Resources 2002 Form 10-K:
http://www.sec.gov/Archives/edgar/data/356309/000095012302012107/y66677exv13w1.txt

22 Dates filed With SEC: 10-K 2002-12-20

23 Quote From the 10-K Report: "Financial covenants contained in these credit facilities include a maximum debt to total capitalization of 65 percent and a minimum interest coverage of 2.5 times. At September 30, 2002, the debt to total capitalization was 56 percent..."

DETERMINATION OF COMMON EQUITY RATIOS AND CAPITAL STRUCTURE FOR COMPANIES COMPARABLE TO PIEDMONT

1	**NICOR : Consolidated Capitalization**		
2	(In Millions of $)		
3	Capital Structure Components As Of:	2002: Dec 31	2001: Dec 31
4	Short-Term Debt: Notes Due	$315	$277
5	Short-Term Debt: Current Portion of Long-Term Debt	$100	0
6	Long-Term Debt	$396	$446
7	Common Equity	$728	$704
8	Preferred	$4	$6
9	Total	$1,544	$1,434
10			
11	RATIOS:		
12	Short-Term Debt: Notes Due	20.4%	19.3%
13	Short-Term Debt: Current Portion of Long-Term Debt	6.5%	0.0%
14	Long-Term Debt	25.7%	31.1%
15	Common Equity	47.2%	49.1%
16	Preferred	0.3%	0.4%
17	Total	100.0%	100.0%

18

19 Source: For 2002 and 2001 - NICOR FORM 10-K. For the fiscal year ended Dec 31, 2002: Page 34 Section Titled "Consolidated Balance Sheet"

20 Dates filed With SEC: 10-K 2003-03-28

21 Quote From the 10-K Report: "Under the company's 2002/2003 short-term line of credit agreements, if Nicor's ratio of consolidated total indebtedness to capitalization (including short-term debt) exceeds 65% during the term of the credit facility while there are short-term bank loans outstanding,

22 Quote From the 10-K Report - Continued: "each bank may at its option declare any amounts due immediately payable and/or terminate its commitment to make advances to the company."

DETERMINATION OF COMMON EQUITY RATIOS AND CAPITAL STRUCTURE FOR COMPANIES COMPARABLE TO PIEDMONT

1	**Northwest Natural Gas : Consolidated Capitalization**		
2	(In Thousands of $)		
3	Capital Structure Components As Of:	2002: Dec 31	2001: Dec 31
4	Short-Term Debt: Notes Due	$69,802	$108,291
5	Short-Term Debt: Current Portion of Long-Term Debt	$20,000	$40,000
6	Long-Term Debt	$445,945	$378,377
7	Common Equity	$483,103	$468,161
8	Preferred	$8,250	$34,000
9	Total	$1,027,100	$1,028,829
10			
11	RATIOS:		
12	Short-Term Debt: Notes Due	6.8%	10.5%
13	Short-Term Debt: Current Portion of Long-Term Debt	1.9%	3.9%
14	Long-Term Debt	43.4%	36.8%
15	**Common Equity**	**47.0%**	**45.5%**
16	Preferred	0.8%	3.3%
17	Total	100.0%	100.0%
18			
19			

Source: 2002 FORM 10-K. For the fiscal year ended Sep 30,2002, at page 47 Section Titled " Company Consolidated Balance Sheets"

20

21

Internet Address for Northwest Natural Gas 2002 Form 10-K:
23 http://www.sec.gov/Archives/edgar/data/73020/000095012003000141/form10k.txt

24

25

27 Quote From 2002 10-K Report: "The Company's goal is to maintain a capital structure comprised of 45 to 50 percent common stock equity, up to 10 percent preferred stock and 45 to 50 percent short-term and long-term debt. The Company's primary source of short-term funds is commercial paper notes payable."

28 Quote From the 2002 10-K Report: "Short-term liquidity is provided by cash from operations and from the sale of the Company's commercial paper notes, which are supported by commercial bank lines of credit."

DETERMINATION OF COMMON EQUITY RATIOS AND CAPITAL STRUCTURE FOR COMPANIES COMPARABLE TO PIEDMONT

Category 2: Companies Not Doing Business in Tennessee

Line	Peoples Energy Corporation : Consolidated Capitalization		
2	(In Thousands of $)		
3	Capital Structure Components As Of:	2002: Sep 30	2001: Sep 30
4	Short-Term Debt: Notes Due	$287,871	$507,454
5	Short-Term Debt: Current Portion of Long-Term Debt	$90,000	$100,000
6	Long-Term Debt	$554,014	$644,308
7	Common Equity	$806,324	$798,614
8	Preferred	$0	$0
9	Total	$1,738,209	$2,050,376
10			
11	RATIOS:		
12	Short-Term Debt: Notes Due	16.6%	24.7%
13	Short-Term Debt: Current Portion of Long-Term Debt	5.2%	4.9%
14	Long-Term Debt	31.9%	31.4%
15	**Common Equity**	**46.4%**	**38.9%**
16	Preferred	0.0%	0.0%
17	Total	100.0%	100.0%

18 Source: For 2002 and 2001 - Peoples 2002 10-K. For the fiscal year ended September 30, 2002: Consolidated Balance Shhets and Consolodated Capitalization Sheet

19

20 Internet Address For Peoples 2002 10-K: http://www.sec.gov/Archives/edgar/data/77385/000007738502000054/form10k.htm
Date Filed With SEC: 2002-12-31

21 In the 2002 10-K, at item 6. "Selected Financial Data" Peoples explicitly includes short-term debt in capital structure

DETERMINATION OF COMMON EQUITY RATIOS AND CAPITAL STRUCTURE FOR COMPANIES COMPARABLE TO PIEDMONT

1	***WGL Holdings : Consolidated Capitalization***		
2	*(In Thousands of $)*		
3	*Capital Structure Components As Of:*	*2002: Sep 30*	*2001: Sep 30*
4	*Short-Term Debt: Notes Due*	*$90,865*	*$134,052*
5	*Short-Term Debt: Current Portion of Long-Term Debt*	*$42,238*	*$48,179*
6	*Long-Term Debt*	*$667,951*	*$584,370*
7	*Common Equity*	*$766,403*	*$788,253*
8	*Preferred*	*$28,173*	*$28,173*
9	*Total*	*$1,595,630*	*$1,583,027*
10			
11	***RATIOS:***		
12	*Short-Term Debt: Notes Due*	*5.7%*	*8.5%*
13	*Short-Term Debt: Current Portion of Long-Term Debt*	*2.6%*	*3.0%*
14	*Long-Term Debt*	*41.9%*	*36.9%*
15	***Common Equity***	***48.0%***	***49.8%***
16	*Preferred*	*1.8%*	*1.8%*
17	*Total*	*100.0%*	*100.0%*
18			

19 *Source: For 2002 and 2001: 2002 FORM 10-K. At page 51 Section Titled " Company Consolidated Balance Sheets"*

20

Internet Address for WGL Holdings 2002 Form 10-K:
21 *http://www.sec.gov/Archives/edgar/data/1103601/000095013302004208/w66936e10vk.htm*

23

24 *Quote From 2002 10-K Report: At Page 27 "During fiscal year 2002, interest expense decreased by $4.1 million due to lower short-term borrowings stemming from lower accounts receivable, unrecovered gas costs and storage gas inventory balances, coupled with significantly lower short-term interest rates"*

25 *Quote From the 2002 10-K Report: At Page 33 "The $6.3 million decrease in interest expense on short-term debt during fiscal year 2002 reflects a $64.9 million decrease in the average balance outstanding and a 3.5 percentage point decrease in the weighted-average cost of short-term debt"*

26 *Dates filed With SEC: 2002 10-K 2002-12-14*

27

28

SUMMARY OF COMMON EQUITY RATIOS FOR COMPANIES COMPARABLE TO PIEDMONT

Category 1: Companies Doing Business in Tennessee and Regulated by the Tennessee Regulatory Authority

AGL Resources:	*2002: Dec 31*	*2001: Sep 30*
Common Equity	***33.4%***	***32.2%***
Atmos :	*2002: Sep 30*	*2001: Sep 30*
Common Equity	***40.6%***	***39.0%***
Category 1 - Average	***37.0%***	***35.6%***

Category 2: Companies Not Doing Business in Tennessee

New Jersey Resources :	*2002: Sep 30*	*2001: Sep 30*
Common Equity	***44.1%***	***44.5%***
NICOR :	*2002: Dec 31*	*2001: Dec 31*
Common Equity	***47.2%***	***49.1%***
Northwest Natural Gas :	*2002: Dec 31*	*2001: Dec 31*
Common Equity	***47.0%***	***45.5%***
Peoples Energy Corporation :	*2002: Sep 30*	*2001: Sep 30*
Common Equity	***46.4%***	***38.9%***
WGL Holdings :	*2002: Sep 30*	*2001: Sep 30*
Common Equity	***48.0%***	***49.8%***
Category 2 - Average	***46.6%***	***45.6%***

	Fiscal Year Ending:	
	2002	***2001***
All Comparable Companies - Average Common Equity Ratio	***43.8%***	***42.7%***

SUMMARY OF SHORT-TERM DEBT: NOTES DUE RATIOS FOR COMPANIES COMPARABLE TO PIEDMONT

Category 1: Companies Doing Business in Tennessee and Regulated by the Tennessee Regulatory Authority

AGL Resources:		
	2002: Dec 31	***2001: Sep 30***
Short-Term: Notes Due	***18.3%***	***14.6%***
Atmos :		
	2002: Sep 30	***2001: Sep 30***
Short-Term: Notes Due	***10.3%***	***13.4%***
Category 1 - Average	***14.3%***	***28.0%***

Category 2: Companies Not Doing Business in Tennessee

Peoples Energy Corporation :		
	2002: Sep 30	***2001: Sep 30***
Short-Term: Notes Due	***16.6%***	***24.7%***
NICOR :		
	2002: Dec 31	***2001: Dec 31***
Short-Term: Notes Due	***20.4%***	***19.3%***
New Jersey Resources :		
	2002: Sep 30	***2001: Sep 30***
Short-Term: Notes Due	***7.3%***	***10.8%***
Northwest Natural Gas :		
	2002: Dec 31	***2001: Dec 31***
Short-Term: Notes Due	***6.8%***	***10.5%***
WGL Holdings :		
	2002: Sep 30	***2001: Sep 30***
Short-Term: Notes Due	***5.7%***	***8.5%***
Category 2 - Average	***11.4%***	***14.8%***

	Fiscal Year Ending: 2002	***2001***
All Comparable Companies - Average Short-Term: Notes Due	***12.2%***	***14.6%***

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U.S. Securities and Exchange Commission

PROGRESS ENERGY INC (0001094093)

SIC: 4911 - Electric Services
State location: NC | State of Inc.: NC | Fiscal Year End: 1231
formerly: CP&L ENERGY INC (until 2000-12-04)
formerly: CP&L HOLDINGS INC (until 1999-12-03)

Business Address
410 S WILMINGTON ST
RALEIGH NC 27601
9195466463

Mailing Address
410 S WILMINGTON ST
RALEIGH NC 27601

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8-K	[html][text] 83 KB	Current report, item 5	2003-07-23	001-15929
11-K	[html][text] 59 KB	Annual report of employee stock purchase, savings and similar plans	2003-06-27	001-15929
8-K	[html][text] 32 KB	Current report, item 5	2003-06-24	001-15929
U-1	[html][text] 161 KB	Application or declaration under the act	2003-06-12	070-10132
8-K	[html][text] 23 KB	Current report, items 7 and 9	2003-06-11	001-15929
SE	[html][text] 1 KB	[Paper]Exhibits Film# = 03021678	2003-06-05	001-15929
U-1	[html][text] 165 KB	Application or declaration under the act	2003-06-05	070-10130
35-CERT	[html][text] 46 KB	Certificate, terms and conditions [Rule 24]	2003-06-02	070-09659
U-9C-3	[html][text] 24 KB	Quarterly report, energy and gas companies [Rule 58]	2003-05-30	074-00051
8-K	[html][text] 29 KB	Current report, items 7 and 9	2003-05-30	001-15929
10-Q	[html][text] 283 KB	Quarterly report [Sections 13 or 15(d)]	2003-05-09	001-15929
POS AMC	[html][text] 21 KB	Pre-effective amendments for application or declaration	2003-05-07	070-09643
SE	[html][text] 1 KB	[Paper]Exhibits Film# = 03057516	2003-05-05	070-09659
POS AMC	[html][text] 22 KB	Pre-effective amendments for application or declaration	2003-05-05	070-09659
S-8	[html][text] 131 KB	Securities to be offered to employees in employee benefit plans	2003-05-02	333-104952

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Docket No. 03-00313
Exhibit CAPD-SB___
Direct Testimony___
Schedule 6________
Page 2 of 4________

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Company Information: PROGRESS ENERGY INC - Microsoft Internet Explorer

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Items 1 - 80

Form	Formats	Description	Filing Date	File Number
8-K	[html][text] 83 KB	Current report, item 5	2003-07-23	001-15929
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SE	[html][text] 1 KB	**[Paper]**Exhibits Film# = **03021678**	2003-06-05	001-15929
U-1	[html][text] 165 KB	Application or declaration under the act	2003-06-05	070-10130
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POS AMC	[html][text] 21 KB	Pre-effective amendments for application or declaration	2003-05-07	070-09643
SE	[html][text] 1 KB	**[Paper]**Exhibits Film# = **03057516**	2003-05-05	070-09659
POS AMC	[html][text] 22 KB	Pre-effective amendments for application or declaration	2003-05-05	070-09659
S-8	[html][text] 131 KB	Securities to be offered to employees in employee benefit plans	2003-05-02	333-104952
S-8	[html][text] 114 KB	Securities to be offered to employees in employee benefit plans	2003-05-02	333-104951
U5S	[html][text] 83 KB	Annual report for holding companies [Section 5]	2003-05-02	030-00352
8-K	[html][text] 13 KB	Current report, items 7 and 9	2003-04-30	001-15929
8-K	[html][text] 60 KB	Current report, item 5	2003-04-23	001-15929
35-CERT	[html][text] 43 KB	Certificate, terms and conditions [Rule 24]	2003-04-14	070-09659
U-9C-3	[html][text] 22 KB	Quarterly report, energy and gas companies [Rule 58]	2003-04-10	074-00051
8-K	[html][text] 20 KB	Current report, item 5	2003-04-01	001-15929
DEF 14A	[html][text] 160 KB	Other definitive proxy statements	2003-03-31	001-15929
U-1/A	[html][text] 52 KB	**[Amend]**Application or declaration under the act	2003-03-28	070-10115
10-K	[html][text] 954 KB	Annual report [Section 13 and 15(d), not S-K Item 405]	2003-03-21	001-15929
U-1	[html][text] 35 KB	Application or declaration under the act	2003-03-17	070-10118
35-CERT	[html][text] 3 KB	Certificate, terms and conditions [Rule 24]	2003-02-19	070-09659
35-CERT	[html][text] 3 KB	Certificate, terms and conditions [Rule 24]	2003-02-18	070-09659
8-K	[html][text] 403 KB	Current report, item 5	2003-02-18	001-15929
SC 13G/A	[html][text] 16 KB	**[Amend]**Statement of acquisition of beneficial ownership by individuals	2003-02-14	005-60093
SC 13G/A	[html][text] 9 KB	**[Amend]**Statement of acquisition of beneficial ownership by individuals	2003-02-13	005-60093
8-K	[html][text] 11 KB	Current report, item 5	2003-02-12	001-15929
SC 13G	[html][text] 7 KB	Statement of acquisition of beneficial ownership by individuals	2003-02-07	005-60093

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Exhibit CAPD-SB___
Direct Testimony___
Schedule 6________
Page 3 of 4________

Screen Copy: Opening Page of SEC Form U-1/A Jointly Filed By Progress Energy And Piedmont

http://www.sec.gov/Archives/edgar/data/1094093/000095012003000147/d139168.txt - Microsoft Internet Explorer

Address http://www.sec.gov/Archives/edgar/data/1094093/000095012003000147/d139168.txt

<TEXT>
(As filed with the Securities and Exchange Commission on March 28, 2003)

File No. 70-10115

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM U-1/A

AMENDMENT NO. 1
TO
APPLICATION OR DECLARATION

under the

PUBLIC UTILITY HOLDING COMPANY ACT OF 1935

PROGRESS ENERGY, INC.
410 South Wilmington Street
Raleigh, North Carolina 27602

PIEDMONT NATURAL GAS COMPANY, INC.
1915 Rexford Road
Charlotte, North Carolina 28211

(Names of companies filing this statement
and addresses of principal executive offices)

PROGRESS ENERGY, INC.

(Name of top registered holding company parent
of each Progress Energy applicant or declarant)

<TABLE>

<C>	<C>
William D. Johnson, Executive Vice President, General Counsel and Secretary Progress Energy, Inc. 410 South Wilmington Street Raleigh, North Carolina 27602	David J. Dzuricky, Senior Vice President and Chief Financial Officer Piedmont Natural Gas Company, Inc. 1915 Rexford Road Charlotte, North Carolina 28211

</TABLE>

Screen Copy: SEC Form U-1/A Jointly Filed By Progress Energy And Piedmont. From Bottom Of Page 5 to Top of Page 6, Piedmont States Its Common Equity Ratio Is 51.5% At Oct. 31, 2002

http://www.sec.gov/Archives/edgar/data/1094093/000095012003000147/d139168.txt - Microsoft Internet Explorer

Address http://www.sec.gov/Archives/edgar/data/1094093/000095012003000147/d139168.txt

L.P., the sole general partner and a 31% limited partner of Heritage Propane Partners, L.P., the nation's fourth- largest propane distribution company. Piedmont Partners also owns several other subsidiaries that are inactive.

For the fiscal year ended October 31, 2002, Piedmont reported on a consolidated basis total operating revenues of $832,028,000, net operating revenues (operating revenues less cost of gas) of $335,794,000, operating income of $90,127,000, and net income of $62,217,000 (including net income, reported on an equity basis, from non-utility businesses). At October 31, 2002, Piedmont had $1,445,088,000 in total consolidated assets, including net utility plant of $1,158,523,000. Piedmont's consolidated capitalization at October 31, 2002, was as follows:

5

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<TABLE>
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Common equity	$589,596,000	51.5%
Preferred equity	$0	0%
Long-term debt	$462,000,000	40.3%
Short-term debt*	$93,500,000	8.2%

<FN>
* Including current portion of long-term debt and sinking fund requirements.
</FN>
</TABLE>

As of March 4, 2003, Piedmont had 33,310,490 issued and outstanding shares of common stock, no par value. Piedmont's common stock is listed and traded on the New York Stock Exchange ("NYSE"). Piedmont's senior unsecured debt is currently rated "A" by S&P and "A2" by Moody's, but was placed under review for possible downgrade by both rating services following announcement of the transaction described below.

1.2 Background of Transaction. Progress Energy and Piedmont have entered into a Stock Purchase Agreement, dated October 16, 2002, which is filed as Exhibit B hereto, pursuant to which Progress Energy has agreed to sell and Piedmont has agreed to purchase all of the issued and outstanding common stock

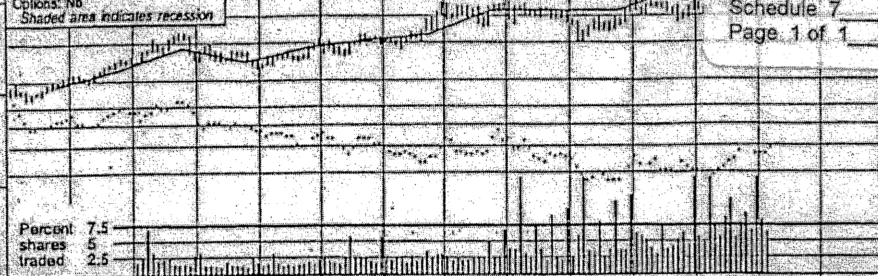
PIEDMONT NAT'L. NYSE-PNY

RECENT PRICE	33.80	P/E RATIO	16.1 (Trailing: 14.2; Median: 15.0)	RELATIVE P/E RATIO	1.17	DIV'D YLD	4.9%	VALUE LINE	471

TIMELINESS 3 Raised 9/20/02
SAFETY 2 New 7/27/90
TECHNICAL 2 Raised 3/14/03
BETA .70 (1.00 = Market)

High:	20.4	26.4	23.4	24.9	25.8	36.4	36.1	36.6	39.4	38.0
Low:	15.4	18.8	18.0	18.3	20.5	22.0	27.9	28.6	23.7	29.2

LEGENDS
— 1.40 x Dividends p sh divided by Interest Rate
.... Relative Price Strength
2-for-1 split 4/93
Options: No
Shaded area indicates recession



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Page 1 of 1

2006-08 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	55	(+65%)	16%
Low	40	(+20%)	9%

Insider Decisions

	A	M	J	J	A	S	O	N	D
to Buy	6	0	1	2	0	0	2	0	0
Options	0	0	0	0	0	0	0	0	0
to Sell	1	0	0	0	0	0	0	0	1

Institutional Decisions

	2Q2002	3Q2002	4Q2002
to Buy	71	66	63
to Sell	48	55	47
Hld's(000)	10103	10174	9260

Percent shares traded 7.5 5 2.5

% TOT. RETURN 2/03

	THIS STOCK	VL ARITH. INDEX
1 yr.	12.5	-19.4
3 yr.	52.7	-2.6
5 yr.	32.2	2.2

1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	© VALUE LINE PUB., INC.	06-08
23.04	19.62	20.25	18.84	16.64	17.83	21.14	21.65	17.52	23.18	25.69	24.90	21.94	26.02	34.13	25.14	34.35	29.25	Revenues per sh A	38.15
1.74	1.75	1.92	1.94	1.56	2.15	2.28	2.26	2.51	2.98	3.25	3.44	3.39	3.54	3.62	3.62	3.95	4.30	"Cash Flow" per sh	5.45
1.10	1.19	1.21	1.22	.89	1.40	1.45	1.35	1.45	1.67	1.85	1.96	1.86	2.01	2.02	1.89	2.10	2.30	Earnings per sh B	3.15
.65	.72	.79	.83	.87	.91	.95	1.01	1.09	1.15	1.21	1.28	1.36	1.44	1.52	1.60	1.66	1.72	Div'ds Decl'd per sh C■	1.90
2.85	3.74	3.11	3.24	2.75	2.81	3.16	3.90	3.44	3.27	3.05	2.96	3.15	3.30	2.57	2.42	2.55	3.10	Cap'l Spending per sh	3.55
7.49	8.25	8.73	9.15	9.65	10.27	10.90	11.36	12.31	13.07	13.90	14.91	15.71	16.52	17.26	17.82	18.65	19.25	Book Value per sh D	22.00
17.87	20.33	20.78	21.43	24.73	25.80	26.15	26.58	28.84	29.55	30.19	30.74	31.30	31.91	32.46	33.09	33.50	34.00	Common Shs Outst'g E	35.00
10.2	9.1	10.3	11.3	16.3	12.3	15.4	15.7	13.8	13.9	13.6	16.3	17.7	14.3	16.7	18.4	Bold figures are Value Line estimates		Avg Ann'l P/E Ratio	15.5
.68	.76	.78	.84	1.04	.75	.91	1.03	.92	.87	.78	.85	1.01	.93	.86	.98			Relative P/E Ratio	1.05
5.8%	6.7%	6.3%	6.0%	6.0%	5.3%	4.3%	4.8%	5.4%	4.9%	4.8%	4.0%	4.1%	5.0%	4.5%	4.6%			Avg Ann'l Div'd Yield	3.9%

CAPITAL STRUCTURE as of 10/31/02
Total Debt $555.5 mill. Due in 5 Yrs $175.0 mill.
LT Debt $462.0 mill. LT Interest $34.0 mill.
(LT interest earned: 3.9x; total interest coverage: 3.8x)

Pension Liability None

Pfd Stock None

Common Stock 33,177,794 shs.
(as of 1/13/03)

MARKET CAP: $1.1 billion (Mid Cap)

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004		06-08
552.8	575.4	505.2	685.1	775.5	765.3	686.5	830.4	1107.9	832.0	1150	995	Revenues ($mill) A	1335
37.5	35.5	40.3	48.6	55.2	60.3	58.2	64.0	65.5	62.2	70.0	80.0	Net Profit ($mill)	110.0
38.4%	37.6%	38.7%	38.9%	39.1%	39.2%	39.7%	34.7%	34.6%	33.1%	35.0%	35.0%	Income Tax Rate	35.0%
6.8%	6.2%	8.0%	7.1%	7.1%	7.9%	8.5%	7.7%	5.9%	7.5%	6.1%	7.9%	Net Profit Margin	8.3%
49.4%	50.9%	50.4%	50.3%	47.6%	44.7%	46.2%	46.1%	47.6%	43.9%	42.0%	40.5%	Long-Term Debt Ratio	37.0%
50.6%	49.1%	49.6%	49.7%	52.4%	55.3%	53.8%	53.9%	52.4%	56.1%	58.0%	59.5%	Common Equity Ratio	63.0%
563.0	615.0	716.0	777.1	800.8	829.3	914.7	978.4	1069.4	1051.6	1075	1105	Total Capital ($mill)	1220
654.5	734.9	801.3	862.0	941.7	990.6	1047.0	1072.0	1114.7	1158.5	1190	1230	Net Plant ($mill)	1350
8.6%	7.7%	7.5%	8.2%	8.9%	9.2%	8.1%	8.3%	7.9%	7.8%	8.5%	9.0%	Return on Total Cap'l	10.5%
13.2%	11.8%	11.4%	12.6%	13.1%	13.2%	11.8%	12.1%	11.7%	10.6%	11.0%	12.0%	Return on Shr. Equity	14.5%
13.2%	11.8%	11.4%	12.6%	13.1%	13.2%	11.8%	12.1%	11.7%	10.6%	11.0%	12.0%	Return on Com Equity	14.5%
4.4%	2.8%	2.7%	3.9%	4.6%	4.7%	3.3%	3.5%	3.0%	1.7%	2.5%	3.5%	Retained to Com Eq	5.5%
67%	76%	76%	69%	65%	65%	72%	71%	75%	83%	79%	73%	All Div'ds to Net Prof	60%

CURRENT POSITION ($MILL.)	2000	2001	10/31/02
Cash Assets	8.7	5.6	13.1
Other	275.5	169.7	162.7
Current Assets	284.2	175.3	175.8
Accts Payable	87.6	41.1	51.1
Debt Due	131.5	34.0	93.5
Other	77.9	74.1	60.5
Current Liab.	297.0	149.2	205.1
Fix. Chg. Cov.	378%	307%	290%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '00-'02 to '06-'08
Revenues	5.0%	5.0%	5.0%
"Cash Flow"	6.5%	4.5%	7.0%
Earnings	5.5%	3.5%	8.0%
Dividends	5.5%	6.0%	4.0%
Book Value	6.0%	5.5%	4.0%

Fiscal Year Ends	QUARTERLY REVENUES ($ mill.) A Jan.31	Apr.30	Jul.31	Oct.31	Full Fiscal Year
2000	268.6	283.0	131.2	147.6	830.4
2001	467.6	408.0	121.8	110.5	1107.9
2002	288.7	293.9	127.9	121.5	832.0
2003	493.5	395	135	126.5	1150
2004	350	370	140	135	995

Fiscal Year Ends	EARNINGS PER SHARE A B F Jan.31	Apr.30	Jul.31	Oct.31	Full Fiscal Year
2000	1.40	1.18	d.32	d.25	2.01
2001	1.56	1.23	d.37	d.40	2.02
2002	1.26	1.27	d.27	d.36	1.89
2003	1.57	1.30	d.32	d.45	2.10
2004	1.55	1.35	d.30	d.30	2.30

Cal-endar	QUARTERLY DIVIDENDS PAID C■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
1999	.325	.345	.345	.345	1.36
2000	.345	.365	.365	.365	1.44
2001	.365	.385	.385	.385	1.52
2002	.40	.40	.40	.40	1.60
2003	.415				

BUSINESS: Piedmont Natural Gas Company is primarily a regulated natural gas distributor, serving over 740,000 customers in North Carolina, South Carolina, and Tennessee. 2002 revenue mix: residential (30%), commercial (22%), industrial (45%), other (3%). Principal suppliers: Transco and Tennessee Pipeline. Gas costs: 53.3% of revenues. '02 depreciation rate: 3.3%. Estimated plant age: 8.7 years. Non-regulated operations: sale of gas-powered heating equipment; natural gas brokering; propane sales. Has about 1,715 employees, 18,665 shareholders of record. CEO & President: Thomas E. Skains. Incorporated: North Carolina. Address: 1915 Rexford Road, P.O. Box 33068 Charlotte, NC 28233. Telephone: 704-364-3120. Internet: www.piedmontng.com.

Piedmont Natural Gas has changed the way it records revenues. Following the industry norm, the company will now record unbilled revenues, whereas before it would defer the cost of deliveries made and record revenues only for those volumes billed. The change effectively boosted reported fiscal first-quarter (ended January 31st) earnings by $0.53 a share. However, the net effect for the year is expected to amount to a one-time gain of $0.17 a share. Excluding this nonrecurring item, we expect share net to reach $2.10 in fiscal 2003.

The weather has been on the company's side. Temperatures in Piedmont's service territories ran 41% colder than last year in the January quarter, which, combined with above average customer growth, have resulted in much greater throughput. And though colder weather and higher gas costs have moderately increased the provision for uncollectible accounts, margins have held fairly steady.

Non-utility income continues to support the bottom line, albeit to a lesser extent. Total unregulated earnings fell roughly 50% in the first quarter of fiscal 2003. Broken down, lower income from SouthStar Energy was the central factor, offset partially by strength in the company's Heritage Propane interests.

The proposed purchase of North Carolina Natural Gas (NCNG) is moving along. The $425 million acquisition, which will be largely financed with short-term debt, will add about 176,000 residential, commercial and industrial natural gas customers in eastern and southern North Carolina. The deal, which still awaits regulatory approval, should close by mid-2003 and become accretive to earnings in fiscal 2004. NCNG intends to seek rate relief this month, with the hope of implementation by November. PNY also plans to file a rate case in Tennessee, which may also buoy profits in 2004.

Relatively rapid dividend growth continues to be this equity's primary appeal. The company recently raised its quarterly payment by about 4%, to $0.415 a share. Moreover, the stock holds a Safety rank of 2 (Above Average), which makes it a suitable holding for conservative, income-oriented accounts.

Edward Plank *March 21, 2003*

(A) Fiscal year ends October 31st.
(B) Diluted earnings. Excl. extraordinary item: '00, 16¢. Excl. nonrecurring charge: '97, 4¢. Next egs. report due early June.
(C) Next div'd mtg late May. Goes ex mid-June. Approx. dividend payment dates: 15th of Jan., April, July, Oct.
■ Div'd reinvest. plan available; 5% discount.
(D) Incl. def'd chrgs. In '02: $3.8 mill., 11¢/sh.
(E) In millions, adj. for stock split.
(F) Qtrs. may not add to total due to change in shares outstanding.

Company's Financial Strength	B++
Stock's Price Stability	100
Price Growth Persistence	45
Earnings Predictability	85

CURRENT SHORT-TERM DEBT RATES

Docket No. 03-00313
Exhibit CAPD-SB____
Direct Testimony___
Schedule 8 ______

Released By Federal Reserve Board on 07/14/2003

Rate of interest in money and capital markets - per annum rates

Federal Reserve System

Short-term or money market

Private securities

	Commercial Paper			Financial Paper		
Maturity	30 Days	60 Days	90 Days	30 Days	60 Days	90 Days
	----	----	----	----	----	----
Month-Year						
Sep-97	5.49	5.48	5.48	5.51	5.51	5.51
Oct-97	5.49	5.48	5.51	5.50	5.50	5.55
Nov-97	5.53	5.59	5.60	5.55	5.65	5.64
Dec-97	5.78	5.71	5.67	5.80	5.72	5.70
Jan-98	5.46	5.44	5.42	5.48	5.46	5.44
Feb-98	5.47	5.44	5.42	5.49	5.47	5.45
Mar-98	5.51	5.49	5.46	5.53	5.51	5.49
Apr-98	5.49	5.48	5.46	5.51	5.49	5.48
May-98	5.49	5.49	5.48	5.50	5.50	5.50
Jun-98	5.51	5.50	5.48	5.53	5.52	5.50
Jul-98	5.51	5.50	5.48	5.52	5.51	5.50
Aug-98	5.50	5.50	5.48	5.51	5.51	5.50
Sep-98	5.44	5.37	5.31	5.45	5.38	5.32
Oct-98	5.14	5.08	5.04	5.18	5.12	5.09
Nov-98	5.00	5.14	5.06	5.04	5.19	5.15
Dec-98	5.24	5.12	5.00	5.31	5.13	5.04
Jan-99	4.80	4.78	4.77	4.83	4.81	4.81
Feb-99	4.80	4.80	4.79	4.82	4.82	4.82
Mar-99	4.82	4.82	4.81	4.84	4.83	4.84
Apr-99	4.79	4.78	4.79	4.80	4.80	4.80
May-99	4.79	4.80	4.81	4.80	4.82	4.83
Jun-99	4.95	4.98	4.98	4.96	5.00	5.04
Jul-99	5.06	5.08	5.11	5.08	5.10	5.14
Aug-99	5.18	5.23	5.25	5.20	5.24	5.28
Sep-99	5.28	5.29	5.32	5.29	5.31	5.32
Oct-99	5.28	5.30	5.88	5.29	5.32	5.93
Nov-99	5.37	5.82	5.81	5.38	5.85	5.85
Dec-99	5.97	5.91	5.87	6.02	5.95	5.93
Jan-00	5.59	5.67	5.74	5.62	5.72	5.81
Feb-00	5.76	5.81	5.87	5.78	5.84	5.90
Mar-00	5.93	5.96	6.00	5.94	5.98	6.03
Apr-00	6.02	6.06	6.11	6.03	6.07	6.15
May-00	6.40	6.47	6.54	6.41	6.50	6.57
Jun-00	6.53	6.55	6.57	6.53	6.56	6.59
Jul-00	6.49	6.50	6.52	6.50	6.51	6.54
Aug-00	6.47	6.48	6.49	6.49	6.49	6.49
Sep-00	6.48	6.47	6.47	6.49	6.48	6.47
Oct-00	6.48	6.48	6.51	6.48	6.47	6.52
Nov-00	6.49	6.52	6.50	6.49	6.54	6.52
Dec-00	6.51	6.42	6.34	6.52	6.42	6.33

CURRENT SHORT-TERM DEBT RATES

Docket No. 03-00313
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Schedule 8 ______
Page 2 of 2______

		Released By Federal Reserve Board on 07/14/2003					
		Rate of interest in money and capital markets - per annum rates					
		Federal Reserve System					
		Short-term or money market					
		Private securities					
		Commercial Paper			Financial Paper		
Maturity		30 Days	60 Days	90 Days	30 Days	60 Days	90 Days
		----	----	----	----	----	----
Month-Year							
Jan-01		5.74	5.59	5.49	5.75	5.62	5.51
Feb-01		5.39	5.25	5.14	5.41	5.29	5.19
Mar-01		5.02	4.87	4.78	5.06	4.93	4.81
Apr-01		4.71	4.54	4.44	4.74	4.57	4.47
May-01		4.06	3.98	3.93	4.08	4.00	3.96
Jun-01		3.82	3.73	3.67	3.84	3.75	3.69
Jul-01		3.71	3.63	3.59	3.73	3.66	3.62
Aug-01		3.54	3.47	3.42	3.57	3.48	3.44
Sep-01		2.96	2.87	2.81	2.97	2.87	2.84
Oct-01		2.40	2.30	2.28	2.42	2.31	2.29
Nov-01		2.03	2.00	1.97	2.04	2.02	2.00
Dec-01		1.84	1.79	1.78	1.83	1.81	1.81
Jan-02		1.70	1.69	1.70	1.72	1.71	1.72
Feb-02		1.76	1.76	1.79	1.77	1.78	1.80
Mar-02		1.78	1.82	1.86	1.80	1.82	1.87
Apr-02		1.76	1.77	1.81	1.76	1.79	1.83
May-02		1.75	1.76	1.78	1.76	1.77	1.80
Jun-02		1.74	1.74	1.76	1.75	1.77	1.78
Jul-02		1.74	1.74	1.75	1.74	1.75	1.76
Aug-02		1.72	1.70	1.70	1.72	1.72	1.71
Sep-02		1.73	1.72	1.72	1.74	1.74	1.74
Oct-02		1.72	1.70	1.70	1.73	1.72	1.71
Nov-02		1.34	1.35	1.36	1.34	1.37	1.37
Dec-02		1.31	1.32	1.31	1.31	1.32	1.32
Jan-03		1.25	1.26	1.26	1.26	1.27	1.27
Feb-03		1.24	1.25	1.26	1.25	1.25	1.25
Mar-03		1.21	1.20	1.19	1.23	1.22	1.21
Apr-03		1.22	1.21	1.20	1.24	1.23	1.23
May-03		1.21	1.20	1.19	1.24	1.22	1.20
Jun-03		1.06	1.03	1.01	1.08	1.04	1.02
Average: July 02-June 03		1.29	1.29	1.28	1.30	1.30	1.30

Chart 1 From CAPD in 96-00977

PIEDMONT NAT GAS INC
ANNUAL GROWTH RATE OF DIVIDENDS, EARNINGS, AND EQUITY RATIO:
1991-1995

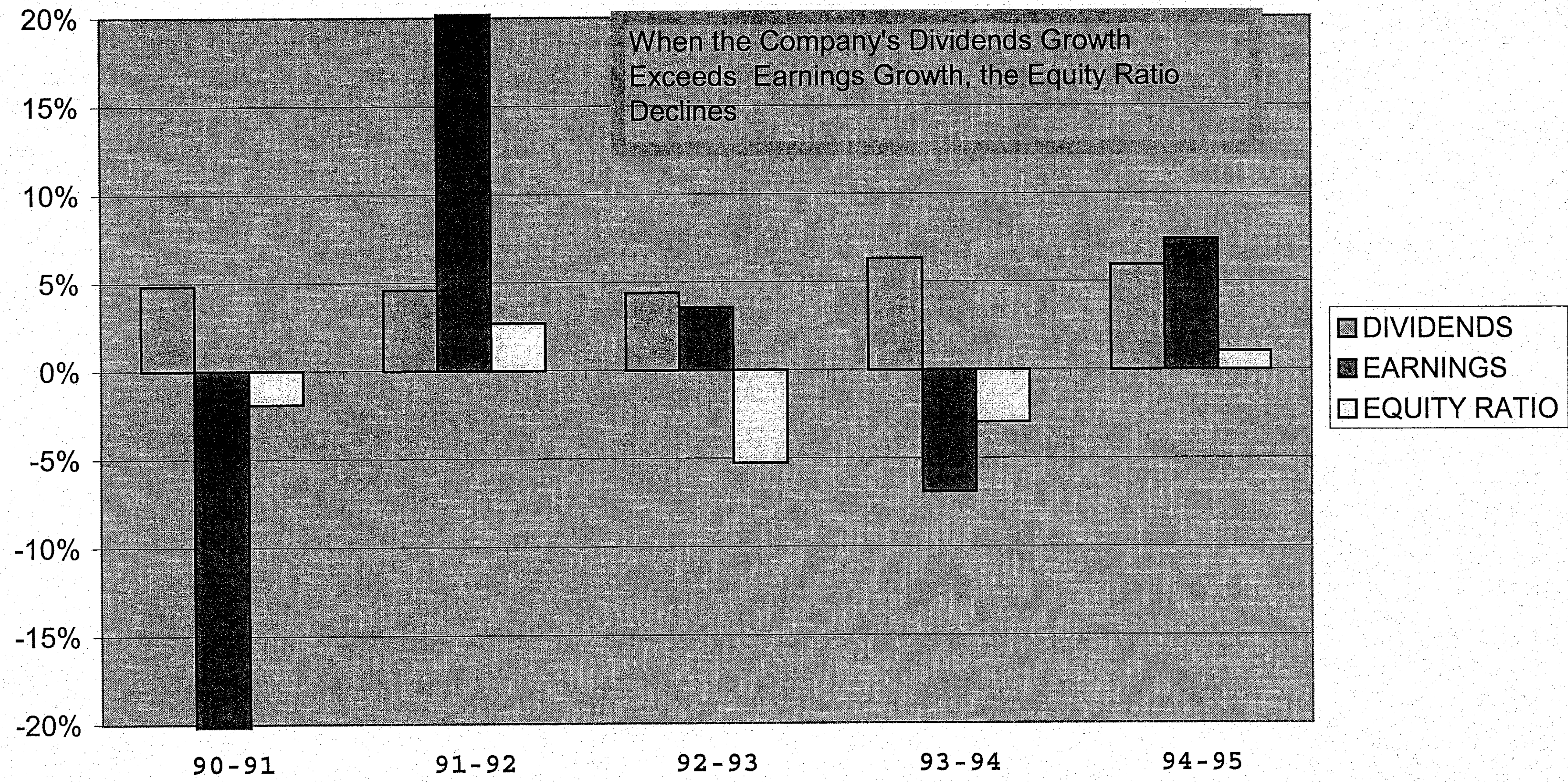
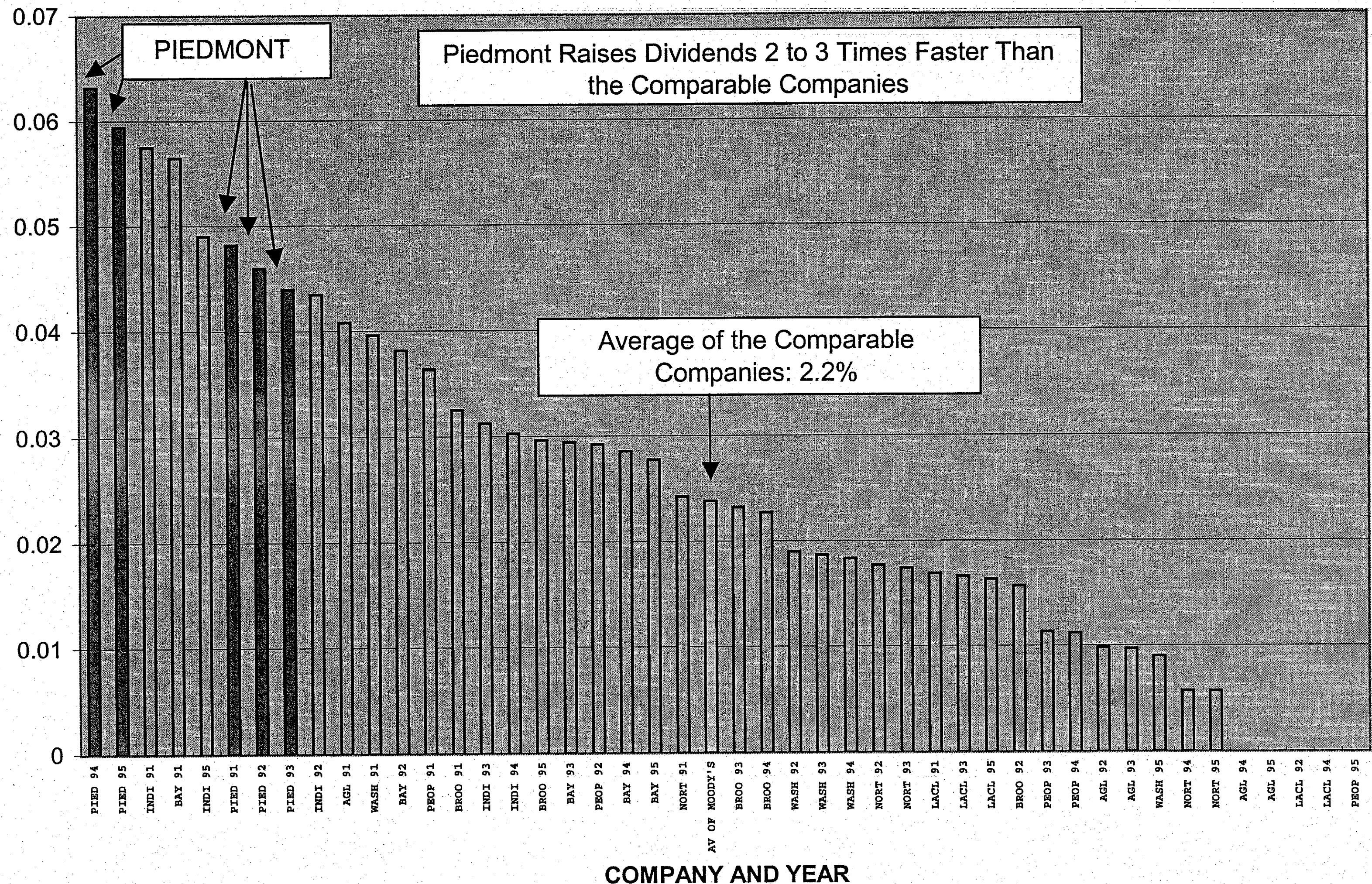


Chart 2 From CAPD in 96-00977

Docket No. 03-00313
Exhibit CAPD-SB____
Direct Testimony___
Chart 2 of 3______

PIEDMONT AND THE COMPARABLE COMPANIES: ANNUAL PERCENT INCREASE IN DIVIDENDS: 1991-1995



Equity Ratios in TRA Docket No. 96-00977

EQUITY RATIOS : TRA DOCKET 96 - 00997

	1990	1991	1992	1993	1994	1995
INDIANA ENERGY INC	62.10%	53.20%	55.50%	61.10%	63.10%	61.40%
LACLEDE GAS CO	58.10%	52.50%	55.30%	53.10%	55.50%	59.30%
WASHINGTON GAS LT CO	56.40%	56.90%	57.30%	54.90%	56.70%	58.90%
AV OF COMPARABLE COMPANIES	52.86%	50.01%	53.63%	53.03%	52.66%	53.81%
BROOKLYN UN GAS CO	46.80%	45.40%	47.80%	50.80%	52.20%	53.20%
BAY ST GAS CO	53.70%	48.00%	57.00%	51.90%	52.30%	51.80%
PEOPLES ENERGY CORP	51.00%	52.10%	55.10%	54.30%	50.60%	50.80%
AGL RESOURCES INC (HLDG CO)	47.80%	48.80%	57.10%	53.10%	45.80%	47.60%
NORTHWEST NAT GAS CO	47.00%	43.20%	43.90%	45.00%	45.10%	47.50%
PIEDMONT NAT GAS INC	53.00%	52.00%	53.40%	50.60%	49.10%	49.60%

SUMMARY OF LONG-TERM DEBT COST FOR COMPANIES COMPARABLE TO PIEDMONT

Summary of Comparable Companies Long-Term Debt Cost			
Company	Line Reference In Schedule 9	Cost of Long-Term Debt:	
		Most Recent Fiscal Year -2002	Prior Fiscal Year -2001
AGL	31	9.63%	11.09%
Atmos	79	7.65%	7.71%
New Jersey Resources	31	3.80%	4.33%
NICOR	55	6.35%	6.29%
Northwest Natural Gas	113	7.04%	7.10%
Peoples Energy Corporatio	49	6.62%	6.58%
WGL	7	6.70%	6.80%
Average: All Comparable Companies		6.83%	7.13%

DETERMINATION OF LONG-TERM DEBT COST FOR COMPANIES COMPARABLE TO PIEDMONT

1	AGL			
2	Source: Interest Expense - http://www.sec.gov/Archives/edgar/data/1004155/000100415503000046/exhibit12			
3	Source: Debt Value - http://www.sec.gov/Archives/edgar/data/1004155/000100415503000046/exhibit13.htm			
4			In Millions of $	
5			LT Debt At	LT Debt At
6			2002, Dec 31	2001, Sep 30
7	Due	Rate		
8	2021	9.10%	30	30
9	2004-2023 (1)	8.03%	167	167
10	2005-2027 (2)	6.60%	270	300
11	2011	7.13%	300	300
12			767	797
13				
14	(1) Floating Rate: Between Max of 8.7% and Min of 7.35%			
15	(2) Floating Rate: Between Max of 7.3% and Min of 5.9%			
16				
17	Interest Expense:			
18	Long-term		62.40	57.40
19	Amortized premiums, discounts and capitalized expenses related to indebtedness		11.50	31.00
20	Total Interest		73.90	88.40
21				
22	Total LT Debt		767.00	797.00
23				
24				
25				
26				
27				
28				
29				
30				
31	Weighted Long-Term Cost		9.63%	11.09%

DETERMINATION OF LONG-TERM DEBT COST FOR COMPANIES COMPARABLE TO PIEDMONT

1	Atmos			
2	Source: http://www.sec.gov/Archives/edgar/data/731802/000095013402014920/d01510e10vk.txt			
3			In Millions of $	
4			LT Debt At	LT Debt At
5	Due	Rate	2002, Sep 30	2001, Sep 30
6				
7	2002	11.20%	2	4
8	2004	9.76%	9	12
9	2004	11.32%	4.3	6.44
10	2006	9.57%	8	10
11	2006	7.95%	4	5
12	2006	8.07%	20	20
13	2007	7.50%	10	10
14	2010	6.27%	10	10
15	2011	10.00%	2.303	2.303
16	2011	7.38%	350	350
17	2013	8.80%	3.59	10.601
18	2014	8.26%	20	20
19	2017	10.43%	16.25	18.75
20	2020	9.75%	18	19
21	2021	9.40%	17	17
22	2021	9.32%	18	18
23	2022	8.77%	20	20
24	2025	6.77%	10	10
25	2028	6.75%	150	150
26			692.443	713.094
27				
28	Less Current Maturitites		-21.98	-20.695
29				
30	Totlal LT Debt		670.463	692.399
31				
32	Express LT Debt as a Percentage of All LT Debt			
33				
34				
35	2002	11.20%	0.30%	0.58%
36	2004	9.76%	1.34%	1.73%
37	2004	11.32%	0.64%	0.93%
38	2006	9.57%	1.19%	1.44%
39	2006	7.95%	0.60%	0.72%
40	2006	8.07%	2.98%	2.89%
41	2007	7.50%	1.49%	1.44%
42	2010	6.27%	1.49%	1.44%
43	2011	10.00%	0.34%	0.33%
44	2011	7.38%	52.20%	50.57%
45	2013	8.80%	0.54%	1.53%
46	2014	8.26%	2.98%	2.89%
47	2017	10.43%	2.42%	2.71%
48	2020	9.75%	2.68%	2.75%
49	2021	9.40%	2.54%	2.46%
50	2021	9.32%	2.68%	2.60%
51	2022	8.77%	2.98%	2.89%
52	2025	6.77%	1.49%	1.44%
53	2028	6.75%	22.37%	21.67%
54			103.28%	103.03%
55				
56				
57	Weighted Long Term Debt Cost			
58				
59				
60	2002	11.20%	0.03%	0.06%
61	2004	9.76%	0.13%	0.16%
62	2004	11.32%	0.28%	0.27%
63	2006	9.57%	0.06%	0.09%
64	2006	7.95%	0.09%	0.11%
65	2006	8.07%	0.12%	0.11%
66	2007	7.50%	0.11%	0.11%
67	2010	6.27%	3.17%	3.08%
68	2011	10.00%	0.06%	0.07%
69	2011	7.38%	0.21%	0.21%
70	2013	8.54%	1.85%	1.80%
71	2014	8.26%	0.12%	0.12%
72	2017	10.43%	0.24%	0.27%
73	2020	9.75%	0.25%	0.26%
74	2021	9.40%	0.27%	0.26%
75	2021	9.32%	0.24%	0.24%
76	2022	8.77%	0.25%	0.25%
77	2025	6.77%	0.02%	0.02%
78	2028	6.75%	0.03%	0.10%
79			7.55%	7.58%

DETERMINATION OF LONG-TERM DEBT COST FOR COMPANIES COMPARABLE TO PIEDMONT

1	New Jersey Resources			
2	Source: http://www.sec.gov/Archives/edgar/data/356309/000095012302012107/y66677exv13w1.txt			
3			In Millions of $	
4			LT Debt At	LT Debt At
5	Due	Rate	2002, Sep 30	2001, Sep 30
6				
7	2002	7.50%	25	25
8	2004	8.25%	25	25
9	2008	6.27%	30	30
10	2010	6.88%	20	20
11	2023	5.38%	10.3	10.3
12	2024	6.25%	10.5	10.5
13	2012	Capital Lease	19.396	0
14	2021	Capital Lease	30.054	30.583
15	2004	Floating	25	25
16	2027	Floating	13.5	13.5
17	2028	Floating	9.545	9.545
18	2028	Floating	15	15
19	2030	Floating	25	50
20	2030	Floating	16	16
21	2033	Floating	18	18
22	2004	Floating	105.275	55.9
23			397.57	354.328
24	Less current portion of Long-Term Debt		-26.942	-0.529
25			370.628	353.799
26				
27				
28	Long-Term Debt Interest Charges:			
29	Page 39 of 2002 10-K		14.095	15.314
30				
31	Weighted Long-Term Cost:		3.80%	4.33%

DETERMINATION OF LONG-TERM DEBT COST FOR COMPANIES COMPARABLE TO PIEDMONT

Docket No. 03-00313
Exhibit CAPD-SB____
Direct Testimony___
Schedule 10 _____
Page 5 of 8______

1	NICOR			
2	Source: http://www.sec.gov/Archives/edgar/data/72020/000095013703001832/c75779e10vk.htm			
3			In Millions of $	
4			LT Debt At	LT Debt At
5	Due	Rate	2002, Dec 31	2001, Dec 31
6				
7	Current in 2003	5.75%	50	50
8	2006	5.55%	50	50
9	2008	5.88%	75	75
10	2009	5.37%	50	50
11	2011	6.63%	75	75
12	2016	7.20%	50	50
13	2027	7.38%	50	50
14	2028	6.58%	50	50
15			450	450
16				
17				
18	Excluding Current Portion Of Long-Term Due in 2003 and Unamortized Discount			
19				
20	Current in 2003	5.75%	0	50
21	2006	5.55%	50	50
22	2008	5.88%	75	75
23	2009	5.37%	50	50
24	2011	6.63%	75	75
25	2016	7.20%	50	50
26	2027	7.38%	50	50
27	2028	6.58%	50	50
28			400	450
29	Unamortized Discount		-3.8	-3.6
30			396.2	446.4
31				
32	Express LT Debt as a Percentage of All LT Debt			
33				
34	Current in 2003	5.75%	0.00%	11.11%
35	2006	5.55%	12.50%	11.11%
36	2008	5.88%	18.75%	16.67%
37	2009	5.37%	12.50%	11.11%
38	2011	6.63%	18.75%	16.67%
39	2016	7.20%	12.50%	11.11%
40	2027	7.38%	12.50%	11.11%
41	2028	6.58%	12.50%	11.11%
42			100.00%	100.00%
43				
44				
45	Weighted Long-Term Cost			
46				
47	Current in 2003	5.75%	0.00%	0.64%
48	2006	5.55%	0.69%	0.62%
49	2008	5.88%	1.10%	0.98%
50	2009	5.37%	0.67%	0.60%
51	2011	6.63%	1.24%	1.10%
52	2016	7.20%	0.90%	0.80%
53	2027	7.38%	0.92%	0.82%
54	2028	6.58%	0.82%	0.73%
55			6.35%	6.29%

DETERMINATION OF LONG-TERM DEBT COST
FOR COMPANIES COMPARABLE TO PIEDMONT

1	Northwest Natural Gas																
2	Source:http://www.sec.gov/Archives/edgar/data/73020/000095012003000141/form10k.txt																
3			In Millions of $														
4			LT Debt At	LT Debt At													
5			2002, Dec 31	2001, Dec 31													
6							42	Express LT Debt as a Percentage of All LT Debt					78	Weighted Long-Term Cost			
7	Due	Rate					43						79				
8	2002	8.05%	0	10			44	2002	8.05%	0.00%	2.39%		80	2002	8.05%	0.00%	0.19%
9	2002	6.75%	0	10			45	2002	6.75%	0.00%	2.39%		81	2002	6.75%	0.00%	0.16%
10	2002	5.55%	0	20			46	2002	5.55%	0.00%	4.78%		82	2002	5.55%	0.00%	0.27%
11	2003	6.40%	20	20			47	2003	6.40%	4.29%	4.78%		83	2003	6.40%	0.27%	0.31%
12	2005	6.34%	5	5			48	2005	6.34%	1.07%	1.20%		84	2005	6.34%	0.07%	0.08%
13	2005	6.38%	5	5			49	2005	6.38%	1.07%	1.20%		85	2005	6.38%	0.07%	0.08%
14	2005	6.45%	5	5			50	2005	6.45%	1.07%	1.20%		86	2005	6.45%	0.07%	0.08%
15	2006	6.05%	8	8			51	2006	6.05%	1.72%	1.91%		87	2006	6.05%	0.10%	0.12%
16	2007	6.31%	20	0			52	2007	6.31%	4.29%	0.00%		88	2007	6.31%	0.27%	0.00%
17	2007	6.80%	9.5	10			53	2007	6.80%	2.04%	2.39%		89	2007	6.80%	0.14%	0.16%
18	2008	6.50%	5	5			54	2008	6.50%	1.07%	1.20%		90	2008	6.50%	0.07%	0.08%
19	2010	7.45%	25	25			55	2010	7.45%	5.37%	5.98%		91	2010	7.45%	0.40%	0.45%
20	2011	6.65%	10	10			56	2011	6.65%	2.15%	2.39%		92	2011	6.65%	0.14%	0.16%
21	2012	7.13%	40	0			57	2012	7.13%	8.58%	0.00%		93	2012	7.13%	0.61%	0.00%
22	2012	7.25%	6.445	8.377			58	2012	7.25%	1.38%	2.00%		94	2012	7.25%	0.10%	0.15%
23	2014	8.26%	10	10			59	2014	8.26%	2.15%	2.39%		95	2014	8.26%	0.18%	0.20%
24	2017	7.00%	40	40			60	2017	7.00%	8.58%	9.56%		96	2017	7.00%	0.60%	0.67%
25	2018	6.60%	22	22			61	2018	6.60%	4.72%	5.26%		97	2018	6.60%	0.31%	0.35%
26	2019	8.31%	10	10			62	2019	8.31%	2.15%	2.39%		98	2019	8.31%	0.18%	0.20%
27	2019	7.63%	20	20			63	2019	7.63%	4.29%	4.78%		99	2019	7.63%	0.33%	0.36%
28	2021	9.05%	10	10			64	2021	9.05%	2.15%	2.39%		100	2021	9.05%	0.19%	0.22%
29	2023	7.25%	20	20			65	2023	7.25%	4.29%	4.78%		101	2023	7.25%	0.31%	0.35%
30	2023	7.50%	4	4			66	2023	7.50%	0.86%	0.96%		102	2023	7.50%	0.06%	0.07%
31	2023	7.52%	11	11			67	2023	7.52%	2.36%	2.63%		103	2023	7.52%	0.18%	0.20%
32	2025	7.72%	20	20			68	2025	7.72%	4.29%	4.78%		104	2025	7.72%	0.33%	0.37%
33	2025	6.52%	10	10			69	2025	6.52%	2.15%	2.39%		105	2025	6.52%	0.14%	0.16%
34	2026	7.05%	20	20			70	2026	7.05%	4.29%	4.78%		106	2026	7.05%	0.30%	0.34%
35	2027	7.00%	20	20			71	2027	7.00%	4.29%	4.78%		107	2027	7.00%	0.30%	0.33%
36	2027	6.65%	20	20			72	2027	6.65%	4.29%	4.78%		108	2027	6.65%	0.29%	0.32%
37	2028	6.65%	10	10			73	2028	6.65%	2.15%	2.39%		109	2028	6.65%	0.14%	0.16%
38	2030	7.74%	20	20			74	2030	7.74%	4.29%	4.78%		110	2030	7.74%	0.33%	0.37%
39	2030	7.85%	10	10			75	2030	7.85%	2.15%	2.39%		111	2030	7.85%	0.17%	0.19%
40	2032	5.82%	30	0			76	2032	5.82%	6.44%	0.00%		112	2032	5.82%	0.37%	0.00%
41	Total		465.945	418.377			77			100.00%	100.00%		113			7.04%	7.10%

DETERMINATION OF LONG-TERM DEBT COST FOR COMPANIES COMPARABLE TO PIEDMONT

1	Peoples Energy Corporation			
2	Source: http://www.sec.gov/Archives/edgar/data/77385/000007738502000054/form10k.htm			
3			In Millions of $	
4			LT Debt At	LT Debt At
5	Due	Rate	2002, Sep 30	2001, Sep 30
6	Current in 2003	6.37%	75	75
7	Current in 2003	6.37%	15	15
8	2011	6.90%	325	325
9	2015	6.88%	50	50
10	2020	8.00%	24.554	24.563
11	2023	5.75%	75	75
12	2025	6.10%	50	50
13	2028	5.00%	29.46	29.475
14			644.014	644.038
15				
16	Exclude Current Portion Of Long-Term Due in 2003			
17				
18	2003	6.37%	0	75
19	2003	6.37%	0	15
20	2011	6.90%	325	325
21	2015	6.88%	50	50
22	2020	8.00%	24.554	24.563
23	2023	5.75%	75	75
24	2025	6.10%	50	50
25	2028	5.00%	29.46	29.475
26			554.014	644.038
27				
28	Express LT Debt as a Percentage of All LT Debt			
29				
30	2003	6.37%	0	11.6%
31	2003	6.37%	0	2.3%
32	2011	6.90%	58.7%	50.5%
33	2015	6.88%	9.0%	7.8%
34	2020	8.00%	4.4%	3.8%
35	2023	5.75%	13.5%	11.6%
36	2025	6.10%	9.0%	7.8%
37	2028	5.00%	5.3%	4.6%
38			100.0%	100.0%
39				
40	Weighted Long-Term Cost			
41	2003	6.37%	0.0%	0.7%
42	2003	6.37%	0.0%	0.1%
43	2011	6.90%	4.0%	3.5%
44	2015	6.88%	0.6%	0.5%
45	2020	8.00%	0.4%	0.3%
46	2023	5.75%	0.8%	0.7%
47	2025	6.10%	0.6%	0.5%
48	2028	5.00%	0.3%	0.2%
49			6.62%	6.58%

DETERMINATION OF LONG-TERM DEBT COST FOR COMPANIES COMPARABLE TO PIEDMONT

1	WGL Holdings			
2	Source:http://www.sec.gov/Archives/edgar/data/1103601/000095013302004208/w66936e10vk.htm			
3			LT Debt At	LT Debt At
4			2002, Sep 30	2001, Sep 30
5				
6	Source:WGL Statement at			
7	Page 32 of 2002 10k		6.70%	6.80%

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<SEQUENCE>1
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<DESCRIPTION>AMENDMENT NO. 1 TO FORM U-1
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(As filed with the Securities and Exchange Commission on March 28, 2003)

File No. 70-10115

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM U-1/A

AMENDMENT NO. 1
TO
APPLICATION OR DECLARATION

under the

PUBLIC UTILITY HOLDING COMPANY ACT OF 1935

PROGRESS ENERGY, INC.
410 South Wilmington Street
Raleigh, North Carolina 27602

PIEDMONT NATURAL GAS COMPANY, INC.
1915 Rexford Road
Charlotte, North Carolina 28211

(Names of companies filing this statement
and addresses of principal executive offices)

PROGRESS ENERGY, INC.

(Name of top registered holding company parent
of each Progress Energy applicant or declarant)

<TABLE>

<C>	<C>
William D. Johnson, Executive Vice President,	David J. Dzuricky, Senior Vice Pres
General Counsel and Secretary	Chief Financial Officer
Progress Energy, Inc.	Piedmont Natural Gas Company, Inc.
410 South Wilmington Street	1915 Rexford Road
Raleigh, North Carolina 27602	Charlotte, North Carolina 28211

</TABLE>

(Names and addresses of agents for service)

<PAGE>

The Commission is requested to mail copies of all orders,
notices and other communications to:

<TABLE>
<C> <C>

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</TABLE>

<PAGE>

The Application/Declaration filed in this proceeding on January 29, 2003 is hereby amended and restated in its entirety to read as follows:

ITEM 1. DESCRIPTION OF PROPOSED TRANSACTION.

1.1 Description of Applicants.

A. Progress Energy and Subsidiaries. Progress Energy, Inc. ("Progress Energy"), a registered holding company,/1/ owns, directly or indirectly, all of the issued and outstanding common stock of two electric utility subsidiary companies: Carolina Power & Light Company ("CP&L"), which generates, transmits, purchases and sells electricity in parts of North Carolina and South Carolina; and Florida Power Corporation ("FPC"), which generates, transmits, purchases and sells electricity in parts of Florida. Together, CP&L and FPC provide electric utility service to approximately 2.7 million retail, commercial and industrial customers in an area having a population of more than 9 million people, including Raleigh, Asheville, and Wilmington, North Carolina, Florence, South Carolina, and metropolitan St. Petersburg, Clearwater and the greater Orlando area in Florida.

In addition to its primary integrated electric utility system, Progress Energy owns all of the issued and outstanding common stock of North Carolina Natural Gas Corporation ("NCNG"), a gas utility company that serves approximately 176,000 residential, commercial, industrial and municipal customers in 33 south-central and eastern North Carolina counties. NCNG's facilities include more than 1,000 miles of transmission pipeline and more than 2,900 miles of distribution mains. NCNG is supplied with natural gas that is delivered by Transcontinental Gas Pipe Line Company ("Transco") and Columbia Gas Transmission Corporation ("Columbia Gas"). NCNG was acquired by CP&L in July 1999, and became a direct subsidiary of Progress Energy (then known as CP&L Energy, Inc.) in July 2000./2/

NCNG has three direct, wholly-owned, non-utility subsidiaries: Cape Fear Energy Corporation ("Cape Fear"), which was previously engaged in purchasing natural gas for resale to large industrial and commercial users and the municipalities served by NCNG, as well as the business of providing energy management services, but is now inactive; NCNG Cardinal Pipeline Investment Corporation, which holds a 5% membership interest in Cardinal Pipeline Company, LLC, an intrastate pipeline; and NCNG Pine Needle Investment Corporation, which holds a 5% membership interest in Pine Needle LNG Company, LLC, which owns a liquefied natural gas project in North Carolina./3/

/1/ See CP&L Energy, Inc., et al., Holding Co. Act Release No. 27284 (Nov. 27,

2000) (the "Merger Order").

/2/ Under the Merger Order, the Commission held that NCNG was retainable by Progress Energy as an additional integrated public-utility system under the "A-B-C" clauses of Section 11(b)(1) of the Act.

/3/ Prior to the closing of the proposed transaction that is described below in Item 1.2, the common stock of Cape Fear will be transferred by NCNG to Progress Energy or another non-utility subsidiary of Progress Energy. The other two companies will remain as subsidiaries of NCNG.

3

<PAGE>

For the twelve months ended December 31, 2002, NCNG had total operating revenues of $301,120,000, of which $301,062,000 (more than 99.9%) were derived from natural gas sales, and net operating revenues (gross margin) of $83,580,000. At December 31, 2002, NCNG had total consolidated assets of $522,150,000, including net utility plant of $393,779,000.

Progress Energy also owns 50% of the issued and outstanding shares of common stock of Eastern North Carolina Natural Gas Company ("Eastern NCNG"), a North Carolina company that has been granted a certificate of public convenience and necessity by the North Carolina Utilities Commission ("NCUC") to construct a new natural gas distribution system and provide gas service to customers in 14 counties in eastern North Carolina. The remaining 50% of Eastern NCNG's issued and outstanding common stock is owned by the Albemarle Pamlico Economic Development Corporation ("APEC"), a North Carolina nonprofit corporation created to encourage infrastructure and economic development in the 14 eastern North Carolina counties. Eastern NCNG's service territory in North Carolina is adjacent to NCNG's./4/

Through its other direct and indirect non-utility subsidiaries, Progress Energy is engaged in development, construction, ownership and operation of "exempt wholesale generators" ("EWGs"), coal mining and coal transportation and handling, synthetic fuels production from coal, natural gas exploration, production, gathering and processing, energy management services, and other energy-related or exempt activities.

For the twelve months ended December 31, 2002, Progress Energy had total operating revenues of $7,945,120,000, of which $6,600,689,000 (83.08%) were derived from electric utility operations and $1,344,431,000 (16.92%) from other, unregulated, businesses, including sales of electricity by Progress Energy's EWG subsidiaries. At December 31, 2002, Progress Energy had total consolidated assets of $21,352,704,000, including net utility plant of $10,656,234,000. (As of December 31, 2002, NCNG's results of operations and assets and liabilities were reported as "discontinued operations" and, therefore, are not included in Progress Energy's year-end consolidated operating revenues and utility plant accounts.) Progress Energy's consolidated capitalization (including short-term debt) at December 31, 2002 was as follows:

<TABLE>
<S> <C> <C>

Common equity	$6,677,009,000	38.2%
Preferred equity	$92,831,000	.5%
Long-term debt	$9,747,293,000	55.7%
Short-term debt*	$970,247,000	5.6%

<FN>
* Including current portion of long-term debt.
</FN>
</TABLE>

/4/ As noted in the Merger Order (see Appendix A to Merger Order, fn. 18), Progress Energy committed to file a separate application to acquire and retain Eastern NCNG as an additional gas utility subsidiary. Progress Energy filed an application with respect to Eastern NCNG on January 15, 2002 (see File No. 70-10035), in which it is asserting that Eastern NCNG and NCNG together constitute an integrated gas utility system within the meaning of Section 2(a)(29)(B) of the Act. The Commission issued a notice of the proposed transaction on May 24, 2002. (Holding Co. Act Release No. 27531).

<PAGE> 4

Progress Energy's unsecured senior debt is currently rated "BBB" by Standard & Poor's Inc. ("S&P") and "Baa2" by Moody's Investor Service ("Moody's").

B. Piedmont Natural Gas Company, Inc. and Subsidiaries. Piedmont Natural Gas Company, Inc. ("Piedmont"), a North Carolina corporation, is a gas utility company that is engaged in the distribution of natural gas to 740,000 residential, commercial and industrial customers in parts of North Carolina, South Carolina and Tennessee that include Charlotte, Salisbury, Greensboro, Winston-Salem, High Point, Burlington, Hickory, Reidsville and Spruce Pine in North Carolina, Anderson, Greenville, Spartanburg and Gaffney in South Carolina, and the metropolitan Nashville area in Tennessee. Piedmont is not a "holding company" or "subsidiary company" of a "holding company" as those terms are defined under the Act.

Piedmont's utility properties include approximately 670 miles of lateral pipelines of up to sixteen inches in diameter that connect Piedmont's distribution systems with the transmission systems of its pipeline suppliers, and approximately 20,500 miles of distribution mains. Piedmont holds firm transportation capacity on the Transco system, which delivers most of the gas Piedmont requires, as well as on the Columbia Gas, Tennessee Gas Pipeline Co., Texas Eastern Transmission Corp., and Columbia Gulf Transmission systems. Piedmont is subject to regulation as to rates, service and safety standards, accounting and other matters by the NCUC, the Public Service Commission of South Carolina and the Tennessee Regulatory Authority.

Piedmont has three direct, wholly-owned, non-utility subsidiaries: Tennessee Gas Company, which is inactive; Piedmont Greenbrier Pipeline Company, LLC, a 33% member of Greenbrier Pipeline Company, LLC, which is currently seeking approval from the Federal Energy Regulatory Commission ("FERC") to construct and operate a 280-mile interstate pipeline linking multiple gas supply basins and storage facilities in the Southeast; and Piedmont Energy Partners, Inc. ("Piedmont Partners"), a non-utility holding company for several other non-utility subsidiaries of Piedmont. Piedmont Partners has four direct wholly-owned subsidiaries: Piedmont Intrastate Pipeline Company, which is a 16.45% member of Cardinal Pipeline Company, L.L.C., an intrastate pipeline that is regulated by the NCUC; Piedmont Interstate Pipeline Company, which is a 35% member of Pine Needle LNG Company, an interstate pipeline company that is regulated by the FERC; Piedmont Energy Company, which is a 30% member of SouthStar Energy Services LLC, a non-regulated retail gas marketer in the Southeast; and Piedmont Propane Company, which is a 20.69% member of US Propane, L.P., the sole general partner and a 31% limited partner of Heritage Propane Partners, L.P., the nation's fourth- largest propane distribution company.

Piedmont Partners also owns several other subsidiaries that

For the fiscal year ended October 31, 2002, Piedmont reported on a consolidated basis total operating revenues of $832,028,000, net operating revenues (operating revenues less cost of gas) of $335,794,000, operating income of $90,127,000, and net income of $62,217,000 (including net income, reported on an equity basis, from non-utility businesses). At October 31, 2002, Piedmont had $1,445,088,000 in total consolidated assets, including net utility plant of $1,158,523,000. Piedmont's consolidated capitalization at October 31, 2002, was as follows:

<PAGE>

<TABLE>
<S> <C> <C>

Common equity	$589,596,000	51.5%
Preferred equity	$0	0%
Long-term debt	$462,000,000	40.3%
Short-term debt*	$93,500,000	8.2%

<FN>
* Including current portion of long-term debt and sinking fund requirements.
</FN>
</TABLE>

As of March 4, 2003, Piedmont had 33,310,490 issued and outstanding shares of common stock, no par value. Piedmont's common stock is listed and traded on the New York Stock Exchange ("NYSE"). Piedmont's senior unsecured debt is currently rated "A" by S&P and "A2" by Moody's, but was placed under review for possible downgrade by both rating services following announcement of the transaction described below.

1.2 Background of Transaction. Progress Energy and Piedmont have entered into a Stock Purchase Agreement, dated October 16, 2002, which is filed as Exhibit B hereto, pursuant to which Progress Energy has agreed to sell and Piedmont has agreed to purchase all of the issued and outstanding common stock of NCNG, $0.10 par value per share (the "NCNG Shares"), and all of the shares of common stock and Series A preferred stock of Eastern NCNG that are held by Progress Energy, representing, respectively, 50% and 100% of the total number of shares of common stock and Series A preferred stock that are issued and outstanding (together, the "ENCNG Shares"). In addition, Piedmont will assume all of Progress Energy's rights and obligations under a subscription letter, dated January 5, 2001, pursuant to which Progress Energy is committed to purchase from Eastern NCNG the remaining authorized but unissued shares of Series A preferred stock, and a shareholders' agreement, dated as of January 5, 2001, by and among Eastern NCNG, Progress Energy and APEC (the "ENCNG Rights and Obligations").

In this Application/Declaration, Progress Energy is requesting approval under Section 12(d) of the Act for the sale and transfer of the NCNG Shares, the ENCNG Shares and the ENCNG Rights and Obligations to Piedmont (the "Transaction"). The Transaction is subject to approval by the NCUC and filing with the Department of Justice and the Federal Trade Commission of pre-merger notification forms under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the "H-S-R Act"), and expiration or early termination of the statutory waiting period thereunder. The Transaction has been approved by the boards of directors of Progress Energy and Piedmont; it does approval by the shareholders of either company. Subject to receipt of regulatory approvals, the Transaction is expected to close by mid-2003.

Progress Energy has decided to sell NCNG, which was acquired by CP&L in July 1999, as well as its 50% interest in Eastern NCNG, in response to changes in its business brought about by its November 2000 acquisition of Florida Progress Corporation. The divestiture of NCNG and Eastern NCNG will enable Progress Energy to strengthen its balance sheet and focus itself on its core electric utility business. The net proceeds of the Transaction will be used by Progress Energy to pay down debt, thereby lowering Progress Energy's debt to equity ratio.

Immediately following the purchase of the NCNG Shares, Piedmont will cause NCNG to be merged with and into Piedmont, with Piedmont as the surviving corporation. By operation of law, Piedmont will assume all of the outstanding

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obligations of NCNG. Piedmont will acquire and hold Eastern NCNG as a 50%-owned subsidiary company and will therefore become a "holding company" within the meaning of Section 2(a)(7)(A) of the Act with respect to Eastern NCNG. Accordingly, Piedmont is requesting in this Application/Declaration that the Commission issue an order under Section 3(a)(2) of the Act exempting Piedmont and its subsidiary companies as such from all provisions of the Act, except Section 9(a)(2). Piedmont's request for exemption is addressed in Item 3.3, below.

1.3 Principal Terms of the Transaction. Under the Stock Purchase Agreement, Piedmont has agreed to pay $417,500,000 in cash for the NCNG Shares, plus or minus the Working Capital (as described below) on the balance sheet of NCNG for the end of the most recent month immediately preceding the closing of the Transaction (the "Closing"). The Working Capital (which may be a positive or negative number) will be equal to the difference between the book value of current assets and book value of current liabilities on the date the Working Capital is determined, provided that current assets shall not include any tax refund, tax credit or other tax asset and current liabilities will not include any liability for taxes or notes payable to any affiliate of NCNG./5/ In addition, Piedmont has agreed to pay $7,500,000 for the ENCNG Shares and the ENCNG Rights and Obligations. Under the Stock Purchase Agreement, the parties are obligated to close on the sale and purchase of the NCNG Shares, the ENCNG Shares and the ENCNG Rights and Obligations at the same time, provided, however, that, if, on the date of Closing, (i) Progress Energy has not obtained from APEC a waiver of certain restrictions on the transfer of the ENCNG Shares under the ENCNG Shareholders' Agreement, (ii) APEC has not consented to the assignment to Piedmont of an existing agreement pursuant to which CP&L has agreed to construct, operate and maintain Eastern NCNG's gas distribution system, or (iii) Piedmont has not received an exemption from the provisions of the Act (except for Section 9(a)(2) thereof), then Piedmont shall have no obligation to purchase the ENCNG Shares and the ENCNG Rights and Obligations and the parties shall close on the sale and purchase of the NCNG Shares alone.

The obligations of Progress Energy and Piedmont under the Stock Purchase Agreement are subject to the satisfaction prior to Closing of various conditions precedent that are normal and customary for a transaction of this type, including receipt of all required regulatory and corporate approvals and satisfaction of state laws.

1.4 Application of Net Proceeds. As indicated, the net proceeds of the Transaction will be used by Progress Energy to pay down debt. Progress Energy is filing herewith as Exhibit FS-11 pro forma consolidated financial statements that show the impact of the Transaction on Progress Energy'

/5/ In accordance with authorizations in File No. 70-9909, all of NCNG's long-term debt is held by Progress Energy and all of NCNG's short-term debt is currently funded through borrowings by NCNG under the Progress Energy system utility money pool arrangement. See Progress Energy, et al., Holding Co. Act Release Nos. 27297, dated December 12, 2000, and 27440, dated September 20, 2001. As of December 31, 2002, NCNG had outstanding a $150 million note payable to Progress Energy and approximately $8 million of borrowings under the utility money pool. It is contemplated that, prior to closing of the Transaction, the intercompany note payable to Progress Energy will be repaid and that any borrowings by NCNG under the utility money pool that are outstanding at the time of closing will be repaid or extinguished.

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capitalization as of December 31, 2002, assuming for balance sheet purposes that the Transaction had closed on December 31, 2002. As shown on Exhibit FS-11, the net proceeds of the Transaction on a pro forma basis (i.e., the aggregate purchase price less Working Capital adjustment, current income taxes and Transaction expenses) are estimated at $373.3 million. After application of the net proceeds to retire debt, Progress Energy's common equity as a percentage of consolidated capitalization (including short-term debt and current maturities of long-term debt) would have increased from 38.2% to 39.0%.

ITEM 2. FEES, COMMISSIONS AND EXPENSES.

The fees, commissions and expenses paid or incurred or to be incurred by Progress Energy in connection with the proposed Transaction are estimated at not more than $4,500,000, including approximately $3,500,000 in investment banking fees and $1,000,000 in outside legal fees.

ITEM 3. APPLICABLE STATUTORY PROVISIONS.

3.1 General Overview. Section 12(d) of the Act and Rule 44 thereunder are applicable to the proposed Transaction, and Section 3(a)(2) of the Act is applicable to Piedmont's request for an exemption from all provisions of the Act, except Section 9(a)(2).

3.2 Rule 54 Analysis. The proposed Transaction is also subject to Rule 54, which refers to Rule 53. Under Rule 53, a registered holding company may not issue any security (including any guarantee) for the purpose of financing the acquisition of the securities of or other interest in an EWG unless certain conditions are satisfied. Rule 54 provides that the Commission shall not consider the effect of the capitalization or earnings of any subsidiaries of a registered holding company that are EWGs or "foreign utility companies" ("FUCOs") in determining whether to approve other transactions if Rule 53(a), (b) and (c) are satisfied.

Progress Energy currently does not comply with the "safe harbor" investment limitation in Rule 53(a)(1). Progress Energy's "aggregate investment" in EWGs is $1.268 billion (as of December 31, 2002), or about 61.1% of Progress Energy's "consolidated retained earnings" for the four quarters ended December 31, 2002 ($2.075 billion). Progress Energy currently does not hold any interest in a FUCO. However, by order dated July 17, 2002 in File No. 70-10060 (the "July 2002 Order"), the Commission has authorized Progress Energy to increase its "aggregate investment" in EWGs to $4 billion./6/ Therefore, although Progress Energy's "aggregate investment" in EWGs currently exceeds the 50% "safe harbor" limitation, this investment level is permitted under the Ju.

Even if the Commission takes into account the capitalization of and earnings from EWGs in which Progress Energy has an interest, there would be no basis for withholding approval of the proposed Transaction. With regard to capitalization, Progress Energy's common equity as of December 31, 2002, as a percentage of consolidated capitalization, is higher than at June 30, 2002, the

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/6/ Under the July 2002 Order, the Commission reserved jurisdiction over the use of financing proceeds by Progress Energy to acquire any securities of or other interest in any FUCO pending completion of the record.

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end of the quarter immediately preceding the issuance of the July 2002 Order./7/ Moreover, the proposed Transaction will enable Progress Energy to retire debt and therefore modestly improved common equity as a percentage of consolidated capitalization.

As to earnings from EWGs, certificates filed pursuant to Rule 24 in this proceeding show that Progress Energy's EWG investments continue to contribute positively to consolidated earnings.

Progress Energy is currently in compliance with all other requirements of Rule 53(a):

Rule 53(a)(2): Progress Energy maintains books and records enabling it to identify investments in and earnings from each EWG and FUCO in which it directly or indirectly acquires and holds an interest. Progress Energy will cause each domestic EWG in which it acquires and holds an interest, and each foreign EWG and FUCO that is a majority-owned subsidiary, to maintain its books and records and prepare its financial statements in conformity with U.S. generally accepted accounting principles ("GAAP"). All of such books and records and financial statements will be made available to the Commission, in English, upon request.

Rule 53(a)(3): No more than 2% of the employees of the Utility Subsidiaries will, at any one time, directly or indirectly, render services to EWGs and FUCOs.

Rule 53(a)(4): Progress Energy will submit copies of the applicable filings made with the Commission to each of the public service commissions having jurisdiction over the retail rates of the Utility Subsidiaries.

In addition, Progress Energy states that the provisions of Rule 53(a) are not made inapplicable to the authorization herein requested by reason of the occurrence or continuance of any of the circumstances specified in Rule 53(b). Rule 53(c) is inapplicable by its terms.

3.3 Exemption of Piedmont. Section 3(a) of the Act, in pertinent part, provides that the Commission

> "shall exempt any holding company, and every subsidiary company thereof as such, from any provision or provisions of [the Act], unless and except insofar as it finds the exemption detrimental to the public interest or the interest of investors or consumers, if-
>
> (2) such holding company is predominantly a public-utility company whose operations as such do not extend beyond the State in which it is organized and States contiguous thereto[.]"

/7/ At December 31, 2002, Progress Energy's consolidated ca consisted of 38.2% common equity, .5% preferred stock, 57.3% long-term debt (including current maturities of long-term debt), and 4.0% short-term debt, versus 35.3% common equity, .5% preferred stock, 58.7% long-term debt (including current maturities of long-term debt), and 5.5% short-term debt at June 30, 2002 (the end of the quarter immediately preceding the issuance of the July 2002 Order).

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Piedmont is a gas utility company that operates through divisions in three states. Following the Transaction, Piedmont's sole public-utility subsidiary will be Eastern NCNG. Taking into account its 50% common stock interest in Eastern NCNG, Piedmont and its subsidiary companies, as such, will be entitled to an exemption under Section 3(a)(2) of the Act because Piedmont will remain "predominantly" a public-utility company whose operations as such will be confined to North Carolina, its state of incorporation, and South Carolina and Tennessee, which are contiguous to North Carolina.

In making a determination whether an applicant for exemption under Section 3(a)(2) is "predominantly" an operating utility, the Commission has historically compared the size of utility operations of the holding company, as a separate entity, to the size of the utility operations of its subsidiaries, with the greatest emphasis being placed on the relative gross revenues of the companies in question. See Houston Industries, Incorporated, et al., 53 S.E.C. 34, 40 (1997), and cases cited in fn. 18. Other indicators of relative size have also been considered.

As explained more fully in File No. 70-10035, to which reference is made, Eastern NCNG is constructing a new natural gas transmission and distribution system in 14 counties in eastern North Carolina. The system is being constructed in seven phases, with completion expected in late 2004. It is estimated that, by the end of 2017, Eastern NCNG will have approximately 11,650 customers, based on various projections and assumptions concerning, among other factors, the rate of new customer hook-ups. Based on these projections, it is estimated that the gross revenues of Eastern NCNG in 2017 will be approximately $3,179,000, or only about 0.3% of the combined gross operating revenues of Piedmont and NCNG ($1,133,148,000) for their respective 2002 fiscal years./8/ This percentage gross-to-gross revenues comparison, which simply ignores any growth in Piedmont's utility revenues over the same period, is well within the range that the Commission has found acceptable in Houston Industries and earlier cases. Likewise, Eastern NCNG's projected customer base in 2017 (11,650) represents approximately 1% of Piedmont's and NCNG's combined customer base at year end 2001 (approximately 916,000).

Moreover, there is no basis for the Commission to conclude that granting Piedmont an exemption under Section 3(a)(2) of the Act would be "detrimental to the public interest or interest of investors and consumers." Piedmont and Eastern NCNG will both be subject to extensive regulation by the NCUC with respect to rates, service and safety standards, securities issuances, accounting and other matters. Thus, the grant of an exemption to Piedmont will not create any gap in effective regulation of Piedmont and Eastern NCNG.

ITEM 4. REGULATORY APPROVAL.

As indicated, the Transaction (as well as the merger of NCNG into Piedmont) is subject to approval by the NCUC and to the filing of pre-merger notification statements under the H-S-R Act and expiration or early termination of the

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/8/ Gross operating revenues of Piedmont for the fiscal ye 2002 were $832,028,000 and gross operating revenues of NCNG for the fiscal year ended December 31, 2002 were $301,120,000.

statutory waiting period thereunder. No other state commission and no federal commission, other than this commission, has jurisdiction over the proposed Transaction.

ITEM 5. PROCEDURE.

The applicants request that the Commission publish a notice of the filing of this Application/Declaration as soon as practicable and that the Commission issue an order approving the proposed Transaction and granting Piedmont an exemption pursuant to Section 3(a)(2) of the Act as soon as the rules allow. The applicants further (i) request that there not be a 30-day waiting period between issuance of the Commission's order and the date on which the order is to become effective, (ii) waive a recommended decision by a hearing officer or any other responsible officer of the Commission, and (iii) consent to the participation of the Division of Investment Management in the preparation of the Commission's decision and/or order, unless the Division of Investment Management opposes the matters proposed herein.

ITEM 6. EXHIBITS AND FINANCIAL STATEMENTS.

A. EXHIBITS.

A-1 Amended and Restated Certificate of Incorporation of North Carolina Natural Gas Company. (Incorporated by reference to Exhibit 3(1) to Form 10 filed by North Carolina Natural Gas Company on July 21, 2000 in File No. 000-00082)

A-2 Articles of Incorporation of Eastern North Carolina Natural Gas Company. (Incorporated by reference to Exhibit A-1 to Form U-1 Application/Declaration filed by Progress Energy, Inc. on January 15, 2002 in File No. 70-10035)

B Stock Purchase Agreement by and between Progress Energy, Inc. and Piedmont Natural Gas Company, Inc. (Previously filed)

C None

D-1 Joint Application to the North Carolina Utilities Commission. (Previously filed)

D-2 Order of North Carolina Utilities Commission. (To be filed by amendment)

E None

F Opinion of Counsel for Progress Energy, Inc. (To be filed by amendment)

G Form of Federal Register Notice. (Previously filed)

B. FINANCIAL STATEMENTS.

FS-1	Progress Energy Consolidated Statement of Income for the year ended December 31, 2002	Incorporated by reference to Annual Report of Progress Energy on Form 10-K for the year ended December 31, 2002 (File No. 1-15929)
FS-2	Progress Energy Consolidated Balance Sheet as of December 31, 2002	Incorporated by reference to Annual Report of Progress Energy on Form 10-K for the year ended December 31, 2002 (File No. 1-15929)
FS-3	Intentionally left blank	
FS-4	Intentionally left blank	
FS-5	Piedmont Consolidated Statement of Income for the fiscal year ended October 31, 2002	Incorporated by reference to Annual Report of Piedmont on Form 10-K for the fiscal year ended October 31, 2002 (File No. 1-6196)
FS-6	Piedmont Consolidated Balance Sheet as of October 31, 2002	Incorporated by reference to Annual Report of Piedmont on Form 10-K for the fiscal year ended October 31, 2002 (File No. 1-6196)
FS-7	Piedmont Consolidated Statement of Income for three months ended January 31, 2003	Incorporated by reference to Quarterly Report of Piedmont on Form 10-Q for the period ended January 31, 2003 (File No. 1-6196)
FS-8	Piedmont Consolidated Balance Sheet as of January 31, 2003	Incorporated by reference to Quarterly Report of Piedmont on Form 10-Q for the period ended January 31, 2003 (File No. 1-6196)
FS-9	NCNG Consolidated Balance Sheet (Unaudited) as of December 31, 2002	Previously filed

FS-10	NCNG Consolidated Statement of Income (Unaudited) for the year ended December 31, 2002	Previously filed
FS-11	Unaudited pro forma consolidated financial statements of Progress Energy as of December 31, 2002	Filed herewith

ITEM 7. INFORMATION AS TO ENVIRONMENTAL EFFECTS.

The matters that are the subject of this amended Application/Declaration do not involve a "major federal action," nor do they "significantly affect the quality of the human environment" as those terms are used in section 102(2)(C) of the National Environmental Policy Act. The transactions proposed herein will not result in changes in the operations of the applicants that will have an impact on the environment. The applicants are not aware of any federal agency that has prepared or is preparing an environmental impact statement with respect to the transactions that are the subject of this amended Application/Declaration.

SIGNATURES

Pursuant to the requirements of the Public Utility Holding Company Act of 1935, each of the undersigned companies has duly caused this amended Application/Declaration to be signed on its behalf by the undersigned thereunto duly authorized.

PROGRESS ENERGY, INC.

By:/s/ William D. Johnson

Name: William D. Johnson
Title: Executive Vice President, General Counsel and Secretary

PIEDMONT NATURAL GAS COMPANY, INC.

By:/s/ David J. Dzuricky

Name: David J. Dzuricky
Title: Senior Vice President and Chief Financial Officer

Date: March 28, 2003

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Exhibit CAPD-SB____
Direct Testimony___
Schedule 12______
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Morningstar Premium Stock Screener - Microsoft Internet Explorer

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These quartile ranges and average will help you choose a meaningful value.

Quartile Ranges	Return on Equity % - Trailing 12 Months		
Top	13.78	to	982.57
Second	6.97	to	13.78
Third	-5.31	to	6.97
Bottom	-145.36	to	-5.31
Average			**2.13**

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Select a condition and value to screen on.

1. Data | View Definition

*When applicable, Year 1 refers to the most recent fiscal year

Return on Equity % - Trailing 12 Months

2. Condition

>

3. Value | Benchmark

Enter a value (Number)

OK Cancel

ESTABLISHING INVESTOR'S TIME HORIZON OR HOLDING PERIOD FOR COMPANIES COMPARABLE TO PIEDMONT

Company Name	Company Ticker	Stcok Outstanding at July 31, 2003	100% TurnOver Since:
AGL	ATG	63,343,000	07/30/2002
Atmos	ATO	49,904,000	03/05/2002
New Jersey Resources	NJR	27,127,000	08/28/2001
NICOR	GAS	44,021,000	01/03/2003
Northwest Natural Gas	NWN	25,663,000	04/09/2002
Peoples	PGL	36,052,000	06/04/2002
Piedmont	PNY	33,441,000	08/07/2002
WGL	WGL	48,583,000	01/24/2002

ESTABLISHING INVESTOR'S TIME HORIZON OR HOLDING PERIOD FOR COMPANIES COMPARABLE TO PIEDMONT

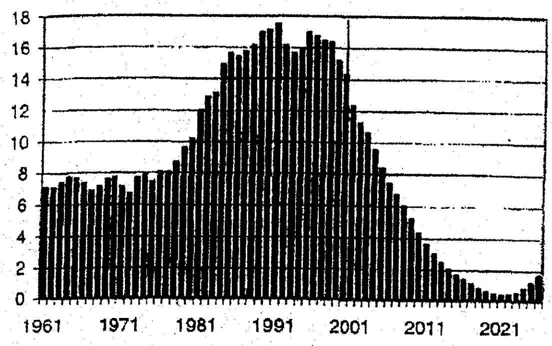
			Prices			
Company	Ticker	Date	High	Low	Close	Shares Traded
AGL	ATG	05/27/2003	26.98	26	26.61	486300
AGL	ATG	05/28/2003	26.61	26.26	26.35	211200
AGL	ATG	05/29/2003	26.55	25.81	26.03	234500
AGL	ATG	05/30/2003	26.43	26.08	26.13	300700
Atmos	ATO	05/27/2003	24.98	24.26	24.85	390700
Atmos	ATO	05/28/2003	24.93	24.61	24.76	94600
Atmos	ATO	05/29/2003	24.76	24.34	24.58	153300
Atmos	ATO	05/30/2003	24.78	24.55	24.75	159600
New Jersey Resources	NJR	05/27/2003	35.2	34.7	35.18	110600
New Jersey Resources	NJR	05/28/2003	35.32	34.92	35.21	65100
New Jersey Resources	NJR	05/29/2003	35.34	34.84	35.18	89300
New Jersey Resources	NJR	05/30/2003	35.49	35.12	35.37	62000
NICOR	GAS	05/27/2003	36.3	34.6	36.14	859300
NICOR	GAS	05/28/2003	36.16	35.63	35.79	469500
NICOR	GAS	05/29/2003	36.19	35.26	35.26	372800
NICOR	GAS	05/30/2003	35.9	35.36	35.61	267600
Northwest Natural Gas	NWN	05/27/2003	28.52	27.35	28.15	210800
Northwest Natural Gas	NWN	05/28/2003	28.25	27.7	27.71	76800
Northwest Natural Gas	NWN	05/29/2003	28.32	27.3	27.97	63100
Northwest Natural Gas	NWN	05/30/2003	28.5	27.85	27.85	59400
Peoples	PGL	05/27/2003	44.6	43.42	43.57	399600
Peoples	PGL	05/28/2003	43.6	42.85	42.98	252200
Peoples	PGL	05/29/2003	43.15	42	42.41	214100
Peoples	PGL	05/30/2003	42.98	42.48	42.64	144500
Piedmont	PNY	05/27/2003	39.67	38.67	38.83	293200
Piedmont	PNY	05/28/2003	39.24	38.75	38.95	146300
Piedmont	PNY	05/29/2003	39.58	39.01	39.3	137000
Piedmont	PNY	05/30/2003	39.69	39.04	39.23	163900
WGL	WGL	05/27/2003	28.14	27.28	27.98	252100
WGL	WGL	05/28/2003	28.13	27.77	27.84	95500
WGL	WGL	05/29/2003	28	27.36	27.67	133700
WGL	WGL	05/30/2003	28	27.55	27.76	143000

Docket No. 03-00313
Exhibit CAPD-SB____
Direct Testimony___
Schedule 14_____
Page 1 of 1____

EXHIBIT 14

Net Interest Paid by the Federal Government

(Percent of federal government expenditures, excluding investment)



Government. Federal discretionary spending is expected to remain under pressure throughout the projection period, as Washington attempts to mitigate the impacts of rapidly rising entitlement spending on the federal budget. As a share of GDP, federal government current expenditures will fall from their recent peak of almost 22.5% in 1992 to a low of 16.3% in 2011, before gradually rising to 18.7% by 2026. Personal transfer payments will expand as a share of government current expenditures, increasing from 42% last year to 59% by 2026.

Real military spending should decline between 2001 and 2026, as the nation continues to reap a peace dividend. In 2000 military spending garnered only 18% of total federal outlays, down from 28% as recently as 1988. The average defense share of federal outlays will average 15.48% during 2000-26.

Interest payments—the fastest-growing component of federal spending in recent years—rose from about an 8% share of the budget in 1976 to a 17.5% share in 1991, mostly due to the rapidly expanding federal debt (which climbed from 25% to 46% of GDP over the same period). This interest share should steadily fall to less than 2% after 2014 (Exhibit 14). After 28 years of deficit, the federal budget (unified basis) recorded a surplus in fiscal 1998. We expect surpluses to continue through 2020, and average 0.2% of GDP through fiscal 2026.

For much of the postwar period, state and local government spending was a leading "growth industry." Real municipal consumption and investment rose 4.4% annually from 1960 to 1975, boosting total state and local spending's share of GDP from 9.0% to 12.8%. This pattern then changed dramatically, as demand for state and local services slackened and resistance to higher taxes stiffened. In addition, real federal grants-in-aid were unchanged between 1975 and 1990, reducing their share of nominal state receipts from 23% to 17% over these years. Since then, rising Medicaid outlays have pushed this share back to 20%.

State and local consumption and investment have moderated since their robust advances of 1983-90, and should continue to rise less than 1.0% annually through the projection period. Spending, following revenues, will grow more slowly during the second half of the forecast interval than during the first half. Overall outlays will rise more rapidly than consumption and investment, the result of big increases in Medicaid outlays and retirement pensions.

International. The outlook for foreign trade is probably the most uncertain among all of the economy's sectors. The dollar's real exchange rate should decline through the forecast period. By 2026, the U.S. unit will be about 11% below its 2000 level.

Contrary to the general postwar experience, the export share of GDP plummeted in the early 1980s, from 10% in 1980 to 7% in 1986. Helped by the weakening dollar and growing foreign economies, though, this share steadily improved to nearly 11% by 2000. After some weakness this year, real exports should again record healthy advances, averaging 6.6% annual gains through 2026. Meanwhile, real imports will also continue to climb rapidly, averaging 6.0% growth over the forecast interval.

Profits and Equities. Before-tax profits will hover between 7.6 % and 9.0% of GNP, above the average share during the 1980s. Meanwhile, corporate cash flow will average 11.1% of GNP over the projection period, above the average of the past 25 years. The stable growth, modest inflation, and moderate real interest rates found in the trend outlook provide an excellent environment for equities over the next ten years, with stock prices enjoying steady 5.3% annual gains between 2001 and 2026.

BETAS ON JULY 31, 2003
FOR COMPANIES COMPARABLE TO PIEDMONT

Docket No. 03-00313
Exhibit CAPD-SB____
Direct Testimony___
Schedule 15 _____
Page 1 of 1______

BETAS AND THEIR SOURCES				
Comparable Companies	Sources on the Internet			
Company (Stock Exchange: SYMBOL)	Yahoo	Standard & Poors	CAPD Calulation	Value Line
	(1)	(2)	(3)	(4)
AGL Resources (NYSE:ATG)	0.28	0.28	0.26	0.75
Atmos Energy Cp (NYSE:ATO)	0.05	0.05	0.06	0.60
N J Resources Cp (NYSE:NJR)	0.09	0.09	0.08	0.65
Nicor Inc (NYSE:GAS)	0.30	0.29	0.33	0.90
Northwest Natural (NYSE:NWN)	0.07	-0.07	-0.06	0.60
Peoples Energy Cp (NYSE:PGL)	0.05	0.05	0.05	0.75
WGL Holdings Inc (NYSE:WGL)	0.14	0.14	0.13	0.65
Average of Comparable Companies:	0.14	0.12	0.12	0.70
Piedmont Nat Gas Co (NYSE:PNY)	0.08	0.08	0.09	0.70

Value Line Beta Is
.35 + Two-Thirds of Calculated Beta

Calculated Values 'Masked' by Value Line Procedures

Calculated Beta	Value Line Beta
0.00	0.35
0.10	0.42
0.20	0.48
0.30	0.55
0.40	0.62
0.50	0.68
0.60	0.75
0.70	0.82
0.80	0.88
0.90	0.95
1.00	1.02

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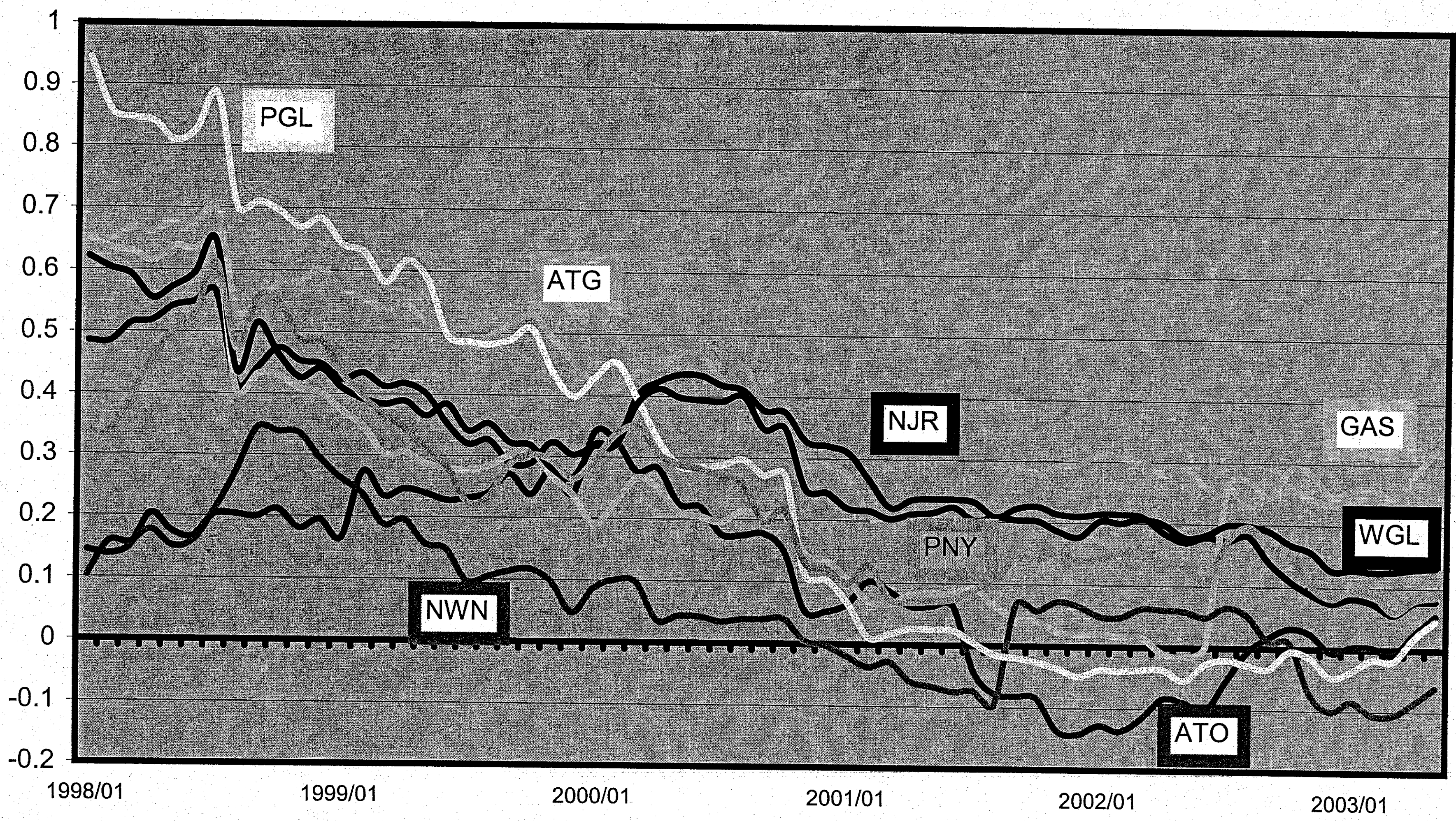
RISK PREMIUM ANALYSIS: PIEDMONT AND COMPARABLE COMPANIES REGRESSED AGAINST S&P 500

BETA FOR 60 MONTH PERIOD ENDING:	AGL (NYSE:ATG)	Atmos Energy (NYSE:ATO)	Nicor Inc (NYSE:GAS)	N J Resources (NYSE:NJR)	Northwest Natural (NYSE:NWN)	Peoples Energy Cp (NYSE:PGL)	Piedmont (NYSE:PNY)	WGL Holdings (NYSE:WGL)
1998/01	0.656	0.144	0.651	0.485	0.103	0.944	0.338	0.622
1998/02	0.649	0.138	0.635	0.485	0.158	0.857	0.340	0.604
1998/03	0.668	0.150	0.630	0.514	0.156	0.846	0.394	0.592
1998/04	0.662	0.204	0.615	0.518	0.178	0.840	0.455	0.555
1998/05	0.677	0.176	0.638	0.541	0.152	0.810	0.502	0.573
1998/06	0.678	0.167	0.634	0.549	0.160	0.826	0.527	0.595
1998/07	0.700	0.203	0.644	0.565	0.210	0.887	0.614	0.648
1998/08	0.534	0.204	0.404	0.415	0.272	0.701	0.472	0.438
1998/09	0.550	0.200	0.432	0.442	0.344	0.711	0.558	0.515
1998/10	0.579	0.212	0.429	0.475	0.339	0.696	0.548	0.463
1998/11	0.582	0.181	0.408	0.453	0.336	0.670	0.489	0.426
1998/12	0.603	0.196	0.402	0.449	0.294	0.684	0.486	0.441
1999/01	0.569	0.166	0.373	0.424	0.262	0.642	0.433	0.410
1999/02	0.555	0.274	0.347	0.435	0.237	0.630	0.395	0.392
1999/03	0.538	0.235	0.303	0.413	0.188	0.582	0.366	0.384
1999/04	0.546	0.246	0.305	0.418	0.196	0.617	0.344	0.389
1999/05	0.517	0.239	0.287	0.401	0.157	0.588	0.311	0.366
1999/06	0.503	0.228	0.280	0.353	0.148	0.496	0.282	0.384
1999/07	0.475	0.231	0.277	0.320	0.097	0.486	0.225	0.342
1999/08	0.496	0.240	0.284	0.327	0.105	0.482	0.234	0.354
1999/09	0.514	0.271	0.301	0.289	0.114	0.490	0.287	0.323
1999/10	0.531	0.238	0.312	0.289	0.118	0.508	0.303	0.318
1999/11	0.492	0.280	0.268	0.324	0.097	0.438	0.293	0.281
1999/12	0.453	0.240	0.237	0.303	0.047	0.398	0.264	0.266
2000/01	0.420	0.341	0.190	0.318	0.087	0.430	0.295	0.321
2000/02	0.410	0.327	0.226	0.320	0.101	0.454	0.337	0.321
2000/03	0.438	0.277	0.267	0.400	0.097	0.395	0.350	0.388
2000/04	0.446	0.283	0.251	0.424	0.035	0.328	0.307	0.412
2000/05	0.470	0.225	0.211	0.436	0.044	0.286	0.288	0.398
2000/06	0.467	0.220	0.205	0.434	0.043	0.285	0.282	0.394
2000/07	0.430	0.176	0.196	0.419	0.035	0.289	0.271	0.392
2000/08	0.449	0.175	0.214	0.411	0.039	0.298	0.258	0.401
2000/09	0.389	0.178	0.207	0.378	0.039	0.272	0.198	0.347
2000/10	0.387	0.149	0.209	0.375	0.040	0.274	0.214	0.350
2000/11	0.290	0.053	0.145	0.328	0.004	0.111	0.130	0.250
2000/12	0.290	0.052	0.135	0.321	-0.003	0.104	0.121	0.245
2001/01	0.274	0.065	0.104	0.310	-0.020	0.067	0.099	0.219
2001/02	0.209	0.102	0.070	0.266	-0.037	0.011	0.127	0.216
2001/03	0.193	0.086	0.066	0.221	-0.029	0.018	0.073	0.204
2001/04	0.204	0.062	0.082	0.235	-0.059	0.026	0.069	0.212
2001/05	0.209	0.063	0.084	0.237	-0.067	0.025	0.070	0.214
2001/06	0.210	0.064	0.084	0.237	-0.075	0.024	0.075	0.223
2001/07	0.198	-0.042	0.093	0.232	-0.074	0.004	0.090	0.202
2001/08	0.245	-0.078	0.065	0.208	-0.094	-0.015	0.109	0.209
2001/09	0.289	-0.082	0.044	0.223	0.067	-0.019	0.141	0.204
2001/10	0.281	-0.084	0.041	0.226	0.057	-0.026	0.141	0.203
2001/11	0.293	-0.137	0.023	0.214	0.072	-0.036	0.153	0.187
2001/12	0.295	-0.142	0.020	0.211	0.065	-0.049	0.140	0.177
2002/01	0.315	-0.128	0.021	0.215	0.049	-0.038	0.143	0.204
2002/02	0.306	-0.137	0.016	0.215	0.048	-0.039	0.152	0.200
2002/03	0.301	-0.116	0.016	0.211	0.063	-0.037	0.162	0.207
2002/04	0.279	-0.084	-0.010	0.186	0.061	-0.036	0.139	0.199
2002/05	0.291	-0.089	-0.015	0.171	0.059	-0.054	0.135	0.178
2002/06	0.260	-0.102	0.002	0.179	0.049	-0.027	0.108	0.182
2002/07	0.263	-0.053	0.265	0.174	0.066	-0.020	0.172	0.199
2002/08	0.231	-0.006	0.272	0.181	0.052	-0.028	0.197	0.198
2002/09	0.246	0.018	0.245	0.139	0.010	-0.034	0.168	0.190
2002/10	0.257	0.033	0.291	0.110	0.009	-0.005	0.156	0.169
2002/11	0.243	0.024	0.284	0.089	-0.073	-0.015	0.103	0.157
2002/12	0.234	-0.005	0.246	0.075	-0.101	-0.046	0.082	0.127
2003/01	0.244	0.004	0.259	0.082	-0.085	-0.036	0.096	0.129
2003/02	0.244	0.003	0.259	0.075	-0.106	-0.017	0.092	0.126
2003/03	0.236	-0.008	0.246	0.057	-0.106	-0.019	0.061	0.126
2003/04	0.267	0.026	0.285	0.077	-0.086	0.019	0.081	0.131
2003/05	0.263	0.055	0.326	0.079	-0.061	0.047	0.087	0.133

Chart Of Betas

How Betas Have Changed Since 1998: All Companies



MARKET WIDE RATE OF RETURN: 1925-2002

Index of Returns To S & P 500 Companies

YEAR (1)	S & P 500 Company Total Return Index For Year (2)	Year-To-Year Percentage Change In S & P 500 Company Total Return Index (3)	YEAR (4)	S & P 500 Company Total Return Index For Year (5)	Year-To-Year Percentage Change In S & P 500 Company Total Return Index (6)
1925	1.00		1964	47.14	16.48%
1926	1.12	11.60%	1965	53.01	12.45%
1927	1.54	37.54%	1966	47.67	-10.06%
1928	2.20	43.58%	1967	59.10	23.98%
1929	2.02	-8.44%	1968	65.64	11.06%
1930	1.52	-24.88%	1969	60.06	-8.50%
1931	0.86	-43.34%	1970	62.47	4.01%
1932	0.79	-8.15%	1971	71.41	14.31%
1933	1.21	53.87%	1972	84.96	18.98%
1934	1.20	-1.40%	1973	72.50	-14.66%
1935	1.77	47.62%	1974	53.31	-26.47%
1936	2.37	33.96%	1975	73.14	37.20%
1937	1.54	-35.02%	1976	90.58	23.84%
1938	2.02	31.08%	1977	84.08	-7.18%
1939	2.01	-0.40%	1978	89.59	6.56%
1940	1.81	-9.76%	1979	106.11	18.44%
1941	1.60	-11.59%	1980	140.51	32.42%
1942	1.93	20.29%	1981	133.62	-4.91%
1943	2.43	25.95%	1982	162.22	21.41%
1944	2.91	19.74%	1983	198.74	22.51%
1945	3.97	36.44%	1984	211.20	6.27%
1946	3.65	-8.07%	1985	279.11	32.16%
1947	3.85	5.71%	1986	330.67	18.47%
1948	4.07	5.50%	1987	347.97	5.23%
1949	4.83	18.79%	1988	406.46	16.81%
1950	6.36	31.70%	1989	534.46	31.49%
1951	7.89	24.03%	1990	517.50	-3.17%
1952	9.34	18.36%	1991	675.59	30.55%
1953	9.24	-0.99%	1992	727.41	7.67%
1954	14.11	52.62%	1993	800.08	9.99%
1955	18.56	31.56%	1994	810.54	1.31%
1956	19.78	6.56%	1995	1113.92	37.43%
1957	17.65	-10.78%	1996	1370.95	23.07%
1958	25.30	43.36%	1997	1828.37	33.37%
1959	28.32	11.95%	1998	2350.89	28.58%
1960	28.46	0.47%	1999	2845.63	21.04%
1961	36.11	26.89%	2000	2586.52	-9.11%
1962	32.96	-8.73%	2001	2279.13	-11.88%
1963	40.47	22.80%	2002	1775.34	-22.10%

*Source: Ibbotson Associates 2003 Yearbook: ACTUAL RETURN	10.20%	12.20%
Columns (2), (5) - From Table B-1		ARITHMETIC AVERAGE
Columns (3), (6) - From Table A-1		

RISK FREE RATE OF RETURN: 1925-2002

Index of Returns To Three-Month Treasury Bills

YEAR	T-Bill Total Return Index For Year	Year-To-Year Percentage Change In T-Bill Total Return Index	YEAR	T-Bill Total Return Index For Year	Year-To-Year Percentage Change In T-Bill Total Return Index
(1)	(2)	(3)	(4)	(5)	(6)
1925	1.00000		1964	1.76000	3.53%
1926	1.03300	3.30%	1965	1.82900	3.92%
1927	1.06500	3.10%	1966	1.91600	4.76%
1928	1.10300	3.57%	1967	1.99700	4.23%
1929	1.15500	4.71%	1968	2.10100	5.21%
1930	1.18300	2.42%	1969	2.23900	6.57%
1931	1.19600	1.10%	1970	2.38500	6.52%
1932	1.20700	0.92%	1971	2.49000	4.40%
1933	1.21100	0.33%	1972	2.58500	3.82%
1934	1.21300	0.17%	1973	2.76400	6.92%
1935	1.21500	0.16%	1974	2.98600	8.03%
1936	1.21700	0.16%	1975	3.15900	5.79%
1937	1.22100	0.33%	1976	3.31900	5.06%
1938	1.22100	0.00%	1977	3.48900	5.12%
1939	1.22100	0.00%	1978	3.74000	7.19%
1940	1.22100	0.00%	1979	4.12800	10.37%
1941	1.22200	0.08%	1980	4.59200	11.24%
1942	1.22500	0.25%	1981	5.26700	14.70%
1943	1.22900	0.33%	1982	5.82200	10.54%
1944	1.23300	0.33%	1983	6.33500	8.81%
1945	1.23700	0.32%	1984	6.95900	9.85%
1946	1.24200	0.40%	1985	7.49600	7.72%
1947	1.24800	0.48%	1986	7.95800	6.16%
1948	1.25800	0.80%	1987	8.39300	5.47%
1949	1.27200	1.11%	1988	8.92600	6.35%
1950	1.28700	1.18%	1989	9.67300	8.37%
1951	1.30600	1.48%	1990	10.42900	7.82%
1952	1.32800	1.68%	1991	11.01200	5.59%
1953	1.35200	1.81%	1992	11.39800	3.51%
1954	1.36400	0.89%	1993	11.72800	2.90%
1955	1.38500	1.54%	1994	12.18600	3.91%
1956	1.41900	2.45%	1995	12.86800	5.60%
1957	1.46400	3.17%	1996	13.53800	5.21%
1958	1.48600	1.50%	1997	14.25000	5.26%
1959	1.53000	2.96%	1998	14.94200	4.86%
1960	1.57100	2.68%	1999	15.64100	4.68%
1961	1.60400	2.10%	2000	16.56300	5.89%
1962	1.64800	2.74%	2001	17.19700	3.83%
1963	1.70000	3.16%	2002	17.48000	1.65%
			Actual Return	► 3.79%	3.83%
					▲
				Arithmetic "Average" Return	

*Source: Ibbotson Associates 2002 Yearbook:
Column (2) - From Table B-9
Column (3) - From Table A-14
Column (5) - From Table B-9
Column (6) - From Table A-14

CAPM SUGGESTED RATE OF RETURN

Risk Premium Suggested Rate Of Return

COMPANY	Debt Yield (a)	Beta (b)	Market Risk Premium = 10.20% - 3.79% (c)	Risk Premium (d)=(b)X(c)	Comparable Company Equity Cost (e)=(a)+(d)
AGL (NYSE:ATG)	6.83%	0.280	6.41%	1.79%	8.62%
Atmos Energy (NYSE:ATO)	6.83%	0.050	6.41%	0.32%	7.15%
Nicor Inc (NYSE:GAS)	6.83%	0.090	6.41%	0.58%	7.40%
N J Resources (NYSE:NJR)	6.83%	0.290	6.41%	1.86%	8.69%
Northwest Natural (NYSE:NWN)	6.83%	-0.070	6.41%	-0.45%	6.38%
Peoples Energy Cp (NYSE:PGL)	6.83%	0.050	6.41%	0.32%	7.15%
WGL Holdings (NYSE:WGL)	6.83%	0.140	6.41%	0.90%	7.72%
RISK PREMIUM ROR - EQUITY: ALL COMPARABLE COMPANIES:					7.59%

Docket No. 03-00313
Exhibit CAPD-SB____
Direct Testimony___
Schedule 22 ______
Page 1 of 1______

DCF SUGGESTED RATE OF RETURN

		Current Div Yield	5- Yr Div Growth Rate	Suggested DCF Return
AGL (NYSE:ATG)	AGL Resources	3.98	3.60	7.58
Atmos Energy (NYSE:ATO)	Atmos	5.07	2.83	7.90
N J Resources (NYSE:NJR)	New Jersey Resources	3.56	2.47	6.03
Nicor Inc (NYSE:GAS)	Nicor	5.44	5.38	10.82
Northwest Natural (NYSE:NWN)	Northwest Natural Gas	4.57	0.81	5.38
Peoples Energy Cp (NYSE:PGL)	Peoples Energy	5.28	2.03	7.31
WGL Holdings (NYSE:WGL)	WGL Holdings	4.93	1.48	6.41
		4.69	2.66	7.35

North Carolina Natural Gas Corporation

Comparable Local Distribution Companies

Comparison of Common Equity Ratios

	1998	1999	2000	2001	2002(E)	Five Year Average
Piedmont Natural Gas	55.3%	53.8%	53.9%	52.4%	58.0%	54.7%
AGL Resources, Inc.	47.1%	49.2%	48.3%	38.7%	40.0%	44.7%
Atmos Energy Corp.	48.2%	50.0%	51.9%	45.7%	46.0%	48.4%
Laclede Group	58.6%	57.8%	54.5%	50.2%	52.3%	54.7%
New Jersey Resources	45.6%	51.2%	52.9%	49.9%	48.0%	49.5%
Nicor, Inc.	57.4%	64.0%	66.7%	61.7%	64.5%	62.9%
Northwest Natural Gas	50.6%	49.9%	50.9%	53.2%	50.5%	51.0%
Peoples Energy Corp.	58.9%	59.6%	64.9%	55.5%	59.5%	59.7%
WGL Holdings, Inc.	57.1%	56.1%	54.8%	56.3%	52.0%	55.3%
Comparable Companies' Average	52.9%	54.7%	55.6%	51.4%	51.6%	53.3%

Source: Value Line Investment Survey

NCNG
Docket No. G-21, SUB 442
Murry Exhibit 1
Schedule 4