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December 11, 2009

VIA EMAIL AND HAND DELIVERY

Chairman Sara Kyle
c/o Ms. Sharla Dillon
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, Tennessee 37243

Re: **Petition of Piedmont Natural Gas, Inc. for Approval of Service Schedule
No. 317 and Related Energy Efficiency Programs**
Docket No. 09-00104

Dear Chairman Kyle:

Enclosed please find an original and five (5) copies of Piedmont Natural Gas, Inc.'s Pre-Filed Rebuttal Testimony of David Dzuricky for filing in Docket No. 09-00104. A copy of the filing has also been transmitted electronically to the Tennessee Regulatory Authority Docket Manager, Sharla Dillon. Please stamp one copy as "filed" and return to me by way of our courier.

Should you have any questions concerning any of the enclosed, please do not hesitate to contact me.

Sincerely,



Erin M. Everitt

Enclosures

cc: Hon. Mary Freeman (*w/o enclosure*)
Hon. Eddie Roberson, Ph.D. (*w/o enclosure*)
Hon. Kenneth C. Hill (*w/o enclosure*)
Ryan McGehee, Esq.
James H. Jeffries, Esq.

**Before the
Tennessee Regulatory Authority**

Docket No. 09-00104

**Petition of Piedmont Natural Gas Company, Inc.
to Implement a Margin Decoupling Tracker (MDT) Rider
and Related Energy Efficiency and Conservation Programs**

**Rebuttal Testimony
of
David J. Dzuricky**

**On Behalf Of
Piedmont Natural Gas Company, Inc.**



December 11, 2009

1 **Q. Please state your name and business address.**

2 A. My name is David J. Dzuricky. My business address is 4720 Piedmont
3 Row Drive, Charlotte, North Carolina.

4 **Q. By whom and in what capacity are you employed?**

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

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

10 A. I am responsible for all financial, accounting, planning, and information
11 technology functions of the Company. In that connection, the Company's
12 Vice President and Chief Risk Officer, Vice President and Controller,
13 Vice President of Information Systems, and the Manager of Budgeting
14 and Joint Venture Administration report directly to me. I am directly
15 involved in all major decisions of the Company affecting the areas that
16 report to me, including opportunities to make major investments and
17 acquisitions.

18 **Q. Please describe your educational and professional background.**

19 A. I received a B.S. degree from Syracuse University in 1973 and an MBA
20 from the University of Pittsburgh in 1974. From 1974 to 1995, I was
21 employed in various positions by Consolidated Natural Gas Company
22 ("CNG") or its subsidiaries. My last position with CNG was Vice

1 President and Treasurer. I have been employed as Senior Vice President
2 and Chief Financial Officer by Piedmont since 1995.

3 **Q. Mr. Dzuricky, have you previously testified before this Authority or**
4 **any other regulatory authority?**

5 A. No, but I have previously testified before the North Carolina Utilities
6 Commission, the Federal Energy Regulatory Commission and the
7 Virginia State Corporation Commission.

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

9 A. I will rebut the testimony submitted by witnesses for the Consumer
10 Advocate (Klein and Dismukes) relating to the impact the Margin
11 Decoupling Tracker (MDT) mechanism will have on Piedmont's business
12 risk. This matter has been identified as Issue 4 in this proceeding.

13 **Q. Do you have any exhibits supporting your testimony?**

14 A. No.

15 **Q. What do the Consumer Advocate's witnesses have to say about**
16 **reductions in Piedmont's rate of return on equity in this proceeding?**

17 A. Dr. Klein and Dr. Dismukes both contend that a reduction in Piedmont's
18 allowed return on common equity should be imposed by the Authority in
19 conjunction with adoption of Piedmont's MDT service schedule. In Dr.
20 Klein's case, he contends that decoupling reduces Piedmont's business
21 risk by 10% and justifies a 50 basis point reduction in return on equity.

1 **Q. Do you agree with Dr. Klein and Dr. Dismukes conclusions in this**
2 **regard?**

3 A. No. I do not.

4 **Q. Will Piedmont's proposed MDT mechanism significantly alter or**
5 **reduce the business risk of Piedmont?**

6 A. No, Piedmont competes for capital in the equity markets with all
7 companies, whether regulated or not. Capital markets constantly assess
8 risk and to my knowledge, and based on more than 30 years experience in
9 the capital markets, margin decoupling has never been specifically
10 identified as a general business risk mitigator for companies competing in
11 those markets.

12 **Q. What issues are considered significant by security analysts?**

13 A. In my experience, the most often discussed item of risk is the economy
14 and its effect on the growth of Piedmont. By far and away, it is the most
15 probed area of risk. Needless to say, given the state of the economy and
16 its effect on our growth, it is fair to say risk has increased significantly in
17 this area.

18 Other areas discussed are liquidity and access to capital markets,
19 corporate strategy, cost control, capital expenditure plans, joint venture
20 performance, union relationships, Board governance and regulatory
21 commission environment.

1 **Q. What types of questions are asked about regulatory commission**
2 **relations?**

3 A. Typically, security analysts ask questions around whether or not the
4 regulatory bodies are elected or appointed, the experience of the
5 Commissions and their staffs, whether any rate cases are pending and the
6 general attitude of regulators toward utility ratemaking.

7 **Q. Do you get questions specifically regarding margin decoupling tariffs**
8 **and your allowed rate of return on equity?**

9 A. I have never been asked a question of that nature.

10 **Q. What do you conclude from this fact?**

11 A. That stock analysts, who publish recommendations to the marketplace
12 regarding investments in utility stocks and who routinely track and
13 analyze the economic performance and prospects of Piedmont, do not
14 consider the presence or absence of a decoupling mechanism as a critical
15 factor in their overall analyses of the economic prospects of a natural gas
16 distribution company.

17 **Q. If a reduction in rate of return on equity were to be tied to approval**
18 **of Piedmont's MDT mechanism, what do you expect the result would**
19 **be?**

20 A. I would expect the analyst community would lower their outlook for our
21 earnings and thus would likely reduce the price of our stock.

1 **Q. How would this affect the customers of Piedmont?**

2 A. It would have a negative effect on our customers. The reason being is the
3 significant capital outlays that are required to continue operate a safe and
4 reliable gas system while growing our infrastructure to serve the needs of
5 the communities we serve. While we have some flexibility in accessing
6 capital markets, the investments we make do not wait for an appropriate
7 time to go to those markets. Thus, if our stock price is reduced, the
8 higher cost of equity ultimately will find its way to our customers rates
9 because it will increase the cost of accessing capital.

10 **Q. Wouldn't the decline in customer usage act to ease Piedmont's need**
11 **for capital?**

12 A. Actually, it has little or no effect. While annual usage of gas is
13 decreasing, peak usage continues to grow as we add customers. This
14 phenomenon requires us to invest both short-term and long-term capital
15 in seasonal and peak day deliverability. Effectively, this means that our
16 fixed cost requirements are increasing at the same time that customer
17 usage (and the revenues we earn from usage based rates) are declining.

18 **Q. In your view, what is the net impact of these factors on Piedmont's**
19 **business risk?**

20 A. We compete in the global capital and credit markets against all
21 participants in those markets. Our ability to access the capital necessary
22 to operate and expand our business in order to provide safe and reliable
23 natural gas service to our customers is based on the market's evaluation

1 of Piedmont against all other participants in the equity and credit markets.
2 The matters I have discussed above all represent increased risk factors to
3 potential investors and lenders and the MDT mechanism does nothing to
4 reduce any of them.

5 **Q. Do you have any reaction to Dr. Klein's Capital Asset Pricing Model**
6 **analysis or the linear regression analysis he uses to arrive at a range**
7 **of possible return impacts from decoupling?**

8 A. I do. I am not an economist and I have not undertaken a dissection of his
9 analyses, but I do have a lifetime's worth of experience working in the
10 capital markets and particularly in the markets involving regulated
11 utilities. I am also currently directly responsible for managing capital and
12 liquidity issues for a publicly traded natural gas utility with a total market
13 capitalization approaching \$2 billion dollars. In my experience, models
14 and analyses such as those used by Dr. Klein can be useful as indicators
15 of appropriate levels of return in general rate case proceedings (where
16 utilities and consumer advocates generally produce conflicting analyses),
17 but they have little or no direct applicability to the competition for access
18 to equity capital in the real world. In that world, which is the world I
19 work in every day, I have seen no indication that the presence or absence
20 of an MDT type mechanism has any material impact on Piedmont's
21 ability to attract and retain equity capital. As such, I do not believe it is
22 appropriate to adjust Piedmont's allowed return downward in conjunction
23 with adoption of the MDT.

1 **Q. Does this conclude your rebuttal testimony?**

2 **A. Yes.**

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

IN RE:

PETITION OF PIEDMONT NATURAL GAS
COMPANY, INC. TO IMPLEMENT A
MARGIN DECOUPLING TRACKER (MDT)
AND RELATED ENERGY EFFICIENCY AND
CONSERVATION PROGRAMS

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Docket No. 09-00104

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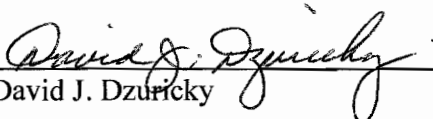
STATE OF NORTH CAROLINA

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COUNTY OF MECKLENBURG

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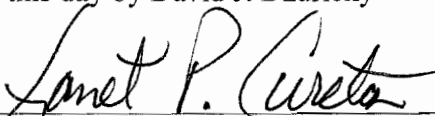
David J. Dzuricky, being duly sworn, deposes and says that he is the David J. Dzuricky whose Rebuttal Testimony accompanies this affidavit; that such rebuttal testimony was prepared by him; that he is familiar with the contents thereof; that the facts set forth therein are true and correct to the best of his knowledge, information and belief; and that he does adopt the same as his sworn rebuttal testimony in this proceeding.


David J. Dzuricky

Mecklenburg County, North Carolina

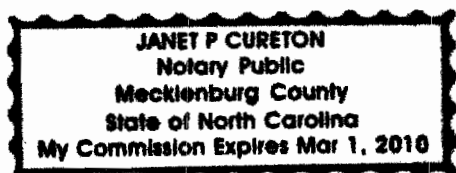
Signed and sworn to before me this day by David J. Dzuricky

Date: 12-9-2009


Janet P. Cureton, Notary Public

(Official Seal)

My commission expires: March 1, 2010



CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing Pre-Filed Rebuttal Testimony was served via U.S. Mail or electronic mail upon:

C. Scott Jackson
Ryan L. McGehee
Office of the Attorney General
Consumer Advocate and Protection Division
PO Box 20207
Nashville, Tennessee 37202-0207

This 11th day of December, 2009.

Erin M. Everett