

**Before the  
Tennessee Regulatory Authority**

**Docket No. 11-\_\_\_\_\_**

**Petition of Piedmont Natural Gas Company, Inc. for an  
Adjustment to its Rates, Approval of Changes to Its Rate Design,  
Amortization of Certain Deferred Assets, Approval of New  
Depreciation Rates, Approval of Revised Tariffs and Service  
Regulations, and Approval of a New Energy Efficiency Program  
and GTI Funding.**

**Testimony and Exhibits  
of  
David R. Dzuricky**

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



**September 2, 2011**

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 financial, accounting functions of the Company. In  
11 that connection, the Company's Vice President, Treasurer and Chief Risk  
12 Officer and Vice President and Controller, report directly to me. I am  
13 responsible for recommending and implementing all investment, debt,  
14 and equity financing decisions for the Company.

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

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

22 **Q. Mr. Dzuricky, have you previously testified before the Tennessee**  
23 **Regulatory Authority ("TRA") or any other regulatory authority?**

1 A. Yes, I have previously testified before the TRA, the North Carolina  
2 Utilities Commission, the Federal Energy Regulatory Commission and  
3 the Virginia State Corporation Commission.

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

5 A. My testimony is filed to support Piedmont's application in this case.  
6 Specifically, I will address the Company's capital structure and the cost  
7 and rates for long term debt and short term debt presented in the filing.  
8 Dr. Donald Murry will present testimony in support of the capital  
9 structure and return on equity requested in this filing. I will also provide  
10 support for the Company's proposed amortization of pension costs it has  
11 previously deferred pursuant to TRA Order.

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

13 A. Yes. Exhibit\_\_(DJD-1) shows the calculation of Piedmont's capital  
14 structure in this proceeding, including Piedmont's weighted cost of debt  
15 and equity and the resulting rates of return on rate base and common  
16 equity. Exhibit\_\_(DJD-2) shows the derivation of the embedded cost of  
17 long term debt. Exhibit\_\_(DJD-3) shows the derivation of the embedded  
18 cost of short term debt.

19 **Q. Were these exhibits prepared by you or under your direction and**  
20 **supervision?**

21 A. Yes.

22 **Q. What is Piedmont's proposed capital structure in this proceeding?**

1 A. For purposes of this rate case we have used the 3 year average capital  
2 structure for the Company at June 30, for June 2009, 2010, and 2011.  
3 This capital structure, the derivation of which is reflected on Exhibit  
4 \_\_\_\_ (DJD-1), consists of 52.71% common equity, 41.42% long term debt,  
5 and 5.87% short term debt.

6 **Q. Why did you choose this method for calculating Piedmont's capital**  
7 **structure?**

8 A. Because that was the methodology most recently utilized by the TRA for  
9 calculating capital structure in a natural gas distribution company rate  
10 case. Specifically, the Authority utilized this method for establishing the  
11 capital structure for Chattanooga Gas Company in TRA Docket No. 09-  
12 00183.

13 **Q. What cost rates did you attribute to each component of the**  
14 **Company's capital structure?**

15 A. I utilized a cost rate of 6.05 % for long term debt, 1.59 % for short term  
16 debt, and 11.25 % for common equity.

17 **Q. How were these cost rates determined?**

18 A. For the Company's cost of common equity, I utilized the cost calculated  
19 by Piedmont witness Dr. Murry in his testimony. For long term debt, I  
20 used Piedmont's weighted average cost of long term debt as of June 30,  
21 2011. This date was selected because it represents the closing of our  
22 most recent long term debt issuance and is, therefore, the most current  
23 calculation possible of the Company's long term debt cost rate. The

1 derivation of this rate is shown on Exhibit\_\_\_\_(DJD-2). For short term  
2 debt, I used our current (FY 2011) cost rate for outstanding short-term  
3 debt. The derivation of this rate is shown on Exhibit\_\_\_\_ (DJD-3).

4 **Q. Please describe Piedmont's request to amortize and recover**  
5 **previously deferred pension costs?**

6 A. In Piedmont's 1996 rate proceeding (Docket No. 96-00977) in an Order  
7 issued on June 9, 1997, the TRA established a deferral mechanism for  
8 pension expenses incurred by Piedmont which allows the Company to  
9 create a deferred asset representing "the difference between the amount of  
10 funded pension expense recognized in the Company's last rate case . . .  
11 and the amount of pension expense funded in the future." With respect to  
12 this deferred asset, the TRA stated that "[i]n future rate cases, the amount  
13 of funded expense that has been deferred will be recognized and rates  
14 awarded to recover it." Piedmont has filed two general rate cases since  
15 this approach to accounting and recovery of pension funding was adopted  
16 by the TRA. The first case was in Docket No. 99-00994 in 1999 and the  
17 second was in Docket No. 03-00313 in 2003. In both cases, Piedmont  
18 was permitted to amortize the accrued balance of deferred pension costs  
19 in accordance with the mechanism established in Docket No. 96-00977.

20 **Q. Please describe the nature of Piedmont's pension obligations and the**  
21 **manner in which such obligations are incurred.**

22 A. Piedmont has operated a defined benefit pension plan for its employees  
23 for many years. This type of pension plan, which is common in the utility

1 industry, provides for a predetermined pension benefit upon retirement.  
2 In order to ensure that Piedmont has sufficient plan assets to pay the  
3 defined benefit due under the plan, Piedmont must periodically invest  
4 funds with the plan. These investments are managed by outside trustees  
5 and the plan itself is supervised by an internal Piedmont administrative  
6 committee and overseen by the Benefits Committee of Piedmont's Board  
7 of Directors. The Plan administrative committee, which includes several  
8 senior officers of the Company, makes all decisions relative to funding  
9 the plan. Such decisions are made based on a variety of factors with  
10 advice and assistance from outside pension experts and are ratified by the  
11 Board Benefits Committee.

12 **Q. What is Piedmont proposing in this docket?**

13 A. We are proposing to follow the same methodology for the recovery of  
14 pension expense that was established by the Authority in Docket No. 96-  
15 00977 and followed in Docket Nos. 99-00994 and 03-00313.

16 **Q. Is there any difference in Piedmont's request in this proceeding than**  
17 **in the prior rate case dockets?**

18 A. No, the approach Piedmont is proposing is the same as has been used in  
19 prior cases.

20 **Q. Over what period of time does Piedmont propose to amortize and**  
21 **collect this balance?**

22 A. We propose to amortize and recover our deferred pension expense  
23 balance over a period of 8 years at the rate of \$2,686,343 per year.

1   **Q.   What factors contributed to the current deferred pension expense**  
2   **balance?**

3   A.   Several factors have contributed to the current balance in the deferred  
4   pension expense account. The first and most obvious is that Piedmont  
5   has not filed a rate case in Tennessee for 8 years. This compares to a 2-3  
6   year interval for the prior cases in which deferred pension assets have  
7   been amortized. In other words, the deferred balance has accrued over a  
8   longer period than in prior rate cases. Other factors have also contributed  
9   to the current deferred pension balance including the aging nature of  
10   Piedmont's workforce subject to the defined benefit plan, reductions in  
11   the value of pension assets as a result of a significant downturn in  
12   securities markets, and an emphasis on fully funding pension obligations  
13   in order to minimize risk associated with the plan and fulfill Piedmont's  
14   pension commitment to its employees.

15   **Q.   Is there anything out of the ordinary in these factors?**

16   A.   No. They are the types of factors you would expect to encounter in  
17   making determinations as to when and how much to fund a defined  
18   benefit pension plan.

19   **Q.   What are you asking the Authority to do in this proceeding with**  
20   **respect to the deferred balance in Piedmont's pension cost account?**

21   A.   We are asking the Authority to allow Piedmont to amortize the deferred  
22   balance in that account over a period of 8 years. We also request that the  
23   currently approved pension deferral and amortization mechanism be

1 continued with respect to any future pension funding expense incurred by  
2 the Company.

3 **Q. Do you have anything to add to your testimony?**

4 **A.** Not at this time.

5

**EXHIBIT\_\_(DJD-1)**

	ACTUAL BALANCES		
	Actual Balance as of June 30, 2009	Actual Balance as of June 30, 2010	Actual Balance as of June 30, 2011
<b>Long-Term Debt</b>	\$ 813,604,051	\$ 783,364,166	\$ 725,249,094
<b>Short-Term Debt</b>	\$ 154,500,000	\$ 43,500,000	\$ 131,000,000
<b>Common Equity</b>	\$ 945,961,621	\$ 989,046,836	\$ 1,020,050,999
<b>Total</b>	<u>\$ 1,914,065,672</u>	<u>\$ 1,815,911,002</u>	<u>\$ 1,876,300,093</u>

	PROPOSED CAPITAL STRUCTURE & COST RATES			
	Three Year Average Balance @ June 30	Three Year Average Ratio @ June 30	Embedded Cost	Overall Cost Rate
	\$ 774,072,437	41.42%	6.05%	2.51%
	\$ 109,666,667	5.87%	1.59%	0.09%
	\$ 985,019,819	52.71%	11.25%	5.93%
	<u>\$ 1,868,758,923</u>	<u>100.00%</u>		<u>8.53%</u>

**EXHIBIT\_\_(DJD-2)**

Piedmont Natural Gas Company, Inc.  
Embedded Cost of Long-Term Debt  
June 30, 2011

Exhibit\_\_ (DJD-2)

Line No.	(1)	(2)	(3)	(4)	(5)	(6)
	Principal Amount	Less Unamortized Debt Discount and Expense	Total	Interest	Cost Debt Expense Amortization	Total
<b>Senior Notes</b>						
1	8.51% - due 2017	\$ 6,236	\$ 34,993,764	\$ 3,028,142	\$ 2,436	\$ 3,030,578
2	2.92% - due 2016	304,833	39,695,167	1,168,000	62,000	1,230,000
3	4.24% - due 2021	1,080,917	158,919,083	6,784,000	109,000	6,893,000
<b>Medium-Term Notes</b>						
4	6.87% - due 2023	176,969	44,823,031	3,091,500	14,430	3,105,930
5	8.45% - due 2024	170,395	39,829,605	3,380,000	12,892	3,392,892
6	7.40% - due 2025	246,305	54,753,695	4,070,000	17,278	4,087,278
7	7.50% - due 2026	177,488	39,822,512	3,000,000	11,820	3,011,820
8	7.95% - due 2029	358,059	59,641,941	4,770,000	19,656	4,789,656
9	6.55% - due 2011	15,984	59,984,016	2,903,833	15,984	2,919,817
10	5.0% - due 2013	202,422	99,797,578	5,000,000	82,658	5,082,658
11	6.0% - due 2033	892,402	99,107,598	6,000,000	39,753	6,039,753
<b>Insured Notes</b>						
12	6.25% - due 2036	5,847,384	(5,847,384)	-	234,182	234,182
13	Total	\$ 11,719,418	\$ 724,172,985	\$ 43,195,475	\$ 622,089	\$ 43,817,564

**Embedded Cost = 6.05%** (= Column 6 Line 13 / Column 3 Line 13)

# **EXHIBIT\_\_(DJD-3)**

Piedmont Natural Gas Company, Inc.  
Embedded Cost of Short-Term Debt (New Facility)

Exhibit\_\_ (DJD-3)

1	Average Amount Outstanding in FY 2011	\$	<b>325,000,000</b>
2	Interest Expense	\$	3,932,500
3	Unused Fees	\$	487,500
4	Facility Fees	\$	745,775
5	Total Interest Expense	<u>\$</u>	<u><b>5,165,775</b></u>
6	<b>Embedded Cost</b> (Line 5 / Line 1)		<b>1.59%</b>