

**Before the
North Carolina Utilities Commission**

Docket No. G-9, Sub 837

GENERAL RATE CASE

**Direct Testimony and Exhibits
of
Karl W. Newlin**

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

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

2 A. My name is Karl Newlin. My business address is 525 South Tryon Street,
3 Charlotte, North Carolina.

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

5 A. I am employed by Duke Energy Business Services, LLC (“DEBS”) as
6 Senior Vice President, Corporate Development and Treasurer. DEBS
7 provides various administrative and other services to Piedmont Natural Gas
8 Company, Inc, (“Piedmont” or the “Company”) and other affiliated
9 companies of Duke Energy Corporation (“Duke Energy”).

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

11 A. I graduated from Southern Methodist University in 1991 with a bachelor’s
12 degree in Business Administration. I subsequently received a master’s
13 degree in Business Administration from UCLA’s Anderson School of
14 Management in 1998. I am also a Chartered Financial Analyst. After
15 serving as Managing Director of Investment Banking for Merrill Lynch &
16 Co. in its New York and Los Angeles offices, I joined Piedmont in 2010 to
17 manage Piedmont’s strategic planning functions, new business
18 development activities and joint venture investments. In November 2011,
19 I was appointed to the position of Chief Financial Officer, assuming
20 responsibility for Piedmont’s accounting, controller, finance, treasurer,
21 investor relations, insurance, credit policy, risk management and state
22 regulatory affairs areas. In October 2016, I was appointed to the position
23 of Senior Vice President and Chief Commercial Officer for Duke Energy’s

1 natural gas business following Duke Energy's October 2016 acquisition of
2 Piedmont. In this role, I was responsible for gas commercial operations,
3 which included supply, wholesale marketing, transportation and pipeline
4 services, field customer service, sales and delivery, and business
5 development. In November 2018, I assumed my current role of Senior Vice
6 President, Corporate Development and Treasurer for Duke Energy.

7 **Q. Have you previously testified before the North Carolina Utilities**
8 **Commission ("Commission") or any other regulatory authority?**

9 A. Yes. I testified before the Commission in Piedmont's prior general rate
10 cases, including in Docket No. G-9, Sub 781 ("2021 Rate Case"). I have
11 also testified on behalf of Duke Energy Carolinas, LLC and Duke Energy
12 Progress, LLC in Docket Nos. E-7, Subs 1214 and 1276, as well as E-2,
13 Subs 1219 and 1300, respectively.

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

15 A. Yes, I have three exhibits. Exhibit_(KWN-1) shows Piedmont's end of test
16 period capital structure, Piedmont's projected capital structure, as well as
17 the pro forma Piedmont capital structure for use in this proceeding.
18 Exhibit_(KWN-2) shows Piedmont's pro forma embedded cost of long-
19 term debt for use in this proceeding. Exhibit_(KWN-3) shows Piedmont's
20 pro forma embedded cost of short-term debt for use in this proceeding.

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

23 A. Yes.

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

2 A. My testimony will address Piedmont's financial objectives, capital
3 structure, and cost of capital. I will also discuss the Company's current
4 credit ratings and forecasted capital needs. Throughout my testimony, I will
5 emphasize the importance of Piedmont's ongoing ability to meet its
6 financial objectives and the benefits to customers resulting from Piedmont
7 maintaining financial stability and strong credit ratings.

8 **Q. Please provide an overview of your testimony.**

9 A. Piedmont continues to face substantial capital needs over the next several
10 years in order to maintain compliance with federal pipeline safety and
11 reliability regulations and to construct new pipeline and distribution
12 facilities in order to reliably serve its growing North Carolina markets. In
13 order to meet these capital demands, the Company competes for capital in
14 the open market and must appeal to debt and equity investors to attract the
15 capital it needs.

16 Investors have a variety of investment opportunities available to
17 them and require a return commensurate with the risk they incur. Investors
18 are less likely to invest in a company if they feel the expected return doesn't
19 fairly compensate them for the perceived risk of the investment. A company
20 with lower credit quality is less attractive as an investment opportunity
21 relative to similarly situated companies with higher credit quality. For this
22 reason, it is critically important that a company maintain strong investment-
23 grade credit quality in order to assure its financial strength and flexibility

1 and ensure access to capital on reasonable terms.

2 Piedmont has and will continue to make significant capital
3 investments in order to meet its obligations under pipeline safety and
4 integrity regulations promulgated by the federal Pipeline and Hazardous
5 Materials Safety Administration (“PHMSA”), other federal and state
6 requirements, and to continue to provide cost effective, safe, and reliable
7 natural gas service to its growing customer base within the State of North
8 Carolina. The Company’s proposed rate increase will allow it to recover its
9 prudently incurred costs, to compete in the capital markets for needed
10 capital, and preserve its financial standing with both equity and debt
11 investors as well as the credit rating agencies, all to the long-term benefit of
12 customers.

13 **Q. What role does capital structure and financial stability play in**
14 **Piedmont’s ability to provide safe, reliable, and economic natural gas**
15 **service to its customers?**

16 **A.** Financial stability and consistent access to capital are necessary for
17 Piedmont to provide such safe, reliable, and economic service. Piedmont
18 strives at all times to maintain financial stability, including investment
19 grade credit ratings, to ensure reliable access to capital on reasonable terms.
20 The Company’s ability to access needed capital on reasonable terms is
21 supported by the following specific objectives: (a) maintaining a strong
22 equity component in our capital structure; (b) pursuing timely recovery of
23 prudently incurred costs of providing utility service; (c) maintaining

1 sufficient cash-flows to meet our obligations; and (d) maintaining an
2 adequate rate of return on common equity.

3 **Q. What is Piedmont’s proposed capital structure in this proceeding?**

4 A. As shown on my Exhibit_(KWN-1), I recommend a capital structure
5 consisting of 53.0% equity, 0.7% short-term debt and 46.3% long-term
6 debt.

7 **Q. Why do you recommend this pro forma capital structure?**

8 A. This capital structure represents an appropriate amount of risk due to
9 leverage on Piedmont’s balance sheet while minimizing the weighted
10 average cost of capital. Approval of the proposed capital structure will help
11 Piedmont maintain its credit quality, the importance of which I will describe
12 in subsequent sections of my testimony and is consistent with Duke
13 Energy’s target credit ratings for Piedmont. The short-term debt component
14 of the recommended capital structure is a thirteen-month average value of
15 Piedmont’s natural gas inventory balance. Procurement of natural gas is a
16 significant and necessary part of Piedmont’s short-term indebtedness under
17 normal operating conditions. The Commission has approved this method
18 of calculating the short-term debt component of Piedmont’s capital
19 structure in multiple previous general rate case proceedings.

20 **Q. Does the Company’s actual financial capital structure vary over time?**

21 A. Yes, it does. The specific debt/equity ratio will vary over time, depending
22 on numerous factors, including, but not limited to, the timing and size of
23 capital investments and payments of large invoices, debt issuances,

1 seasonality of earnings, changes to inventory balances, equity infusions
2 received from its corporate parent, and dividend payments made to the
3 parent company. Achieving an approved regulatory capital structure as
4 recommended above is consistent with the Company's financial objectives
5 and overall plan to finance operations at favorable rates for customers.
6 Piedmont will manage its capital structure within a reasonable range of this
7 base. As of March 31, 2024, and June 30, 2024, Piedmont's equity capital
8 structure will exceed 53.00%, and will average in excess of 52.50% for 2024
9 as a whole.

10 **Q. What pro forma cost rates did you attribute to each component of the**
11 **Company's capital structure?**

12 A. I utilized a cost rate of 4.21% for long-term debt, 5.43% for short-term debt,
13 and 10.50% for common equity.

14 **Q. How does Piedmont determine these cost rates?**

15 A. For the Company's cost of common equity, I utilized the cost that
16 Piedmont's return on equity ("ROE") expert witness Jim Coyne calculated
17 and recommended in his direct testimony. For long-term debt, I used
18 Piedmont's projected embedded cost of long-term debt as of June 30, 2024.
19 For short-term debt, the projected rate is based on Piedmont's average
20 borrowing rate under the Duke Energy Utility Money Pool Agreement as of
21 June 30, 2024. The derivation of these debt rates is shown on
22 Exhibit_(KWN-2) and Exhibit_(KWN-3).

1 **Q. How do Piedmont’s proposed capital structure and cost rates compare**
2 **to its most recently approved capital structure?**

3 A. In Piedmont’s 2021 Rate Case, the Commission’s January 6, 2022, *Order*
4 *Approving Stipulation, Granting Rate Increase, and Requiring Customer*
5 *Notice* approved the following stipulated capital structure: 47.75% long
6 term debt, 0.65% short term debt and 51.60% common equity. The
7 approved cost rates from that proceeding were 4.08%, 0.20% and 9.60%,
8 respectively.

9 **Q. The Company’s short-term borrowing rate has significantly increased**
10 **since the 2021 Rate Case. Please explain why Piedmont must borrow**
11 **in the short-term markets and incur these relatively higher costs when**
12 **its financing cost for long-term debt, by comparison, is relatively lower**
13 **and appears stable since the 2021 Rate Case.**

14 A. Persistently high inflation following the easing of fiscal and monetary
15 policy during the COVID-19 pandemic has led the Federal Reserve System
16 (“Federal Reserve”) to undertake one of the most aggressive federal funds
17 rate cyclical increases in its history, raising the fed funds rate over 500 basis
18 points since March 2022. The federal funds rate is the interest rate that
19 commercial banks charge each other for borrowing or loaning excess
20 reserves overnight. The current 5.25% - 5.50% target range for the federal
21 funds rate is the highest level since 2006. The inverted yield curve reflects
22 the fact that short-term borrowing rates are currently higher than long-term
23 borrowing rates.

1 Piedmont uses short-term debt to fund its day-to-day working
2 capital needs, including purchases of natural gas because accessing the
3 long-term debt markets for working capital purposes is comparatively
4 inefficient and can result in excess cash and investor confusion around the
5 timing and amount of long-term financing needed by the Company.
6 Piedmont expects short-term rates to remain high, albeit at lower levels than
7 experienced in 2023, as the Federal Reserve has signaled its willingness to
8 go to great lengths to curtail the 40-year high rate of inflation the economy
9 has recently experienced. Although the Federal Reserve has signaled that
10 the federal funds rate is likely to remain higher for a longer period of time,
11 Piedmont anticipates, based on most recent market estimates, that rate cuts
12 will begin sometime in 2024 and continue over the 2025-2027 timeframe.
13 Long-term interest rates have also spiked and remain highly volatile, with
14 the 10-year U.S. Treasury Bond yield up almost 200 basis points since the
15 beginning of 2022. Ideally, Piedmont seeks to access the long-term debt
16 markets once per year while timing any such issuance to maximize available
17 liquidity of the Company.

18 **Q. Please explain credit quality and credit ratings, and how they are**
19 **determined.**

20 A. Credit quality (or creditworthiness) is a term used to describe a company's
21 overall financial health and its willingness and ability to repay all financial
22 obligations in full and on time. An assessment of Piedmont's
23 creditworthiness is performed by two major credit rating agencies, Standard

1 & Poor's ("S&P") and Moody's Investors Service ("Moody's"). Many
2 qualitative and quantitative factors go into this assessment. Qualitative
3 aspects may include an assessment of the regulatory climate in which
4 Piedmont operates, Piedmont's record for delivering on its commitments,
5 the strength of its management team, its operating performance, and the
6 strength of its service area. Quantitative measures are primarily based on
7 operating cash flow and focus on the level at which Piedmont maintains
8 debt leverage in relation to its generation of cash and its ability to meet its
9 fixed obligations (interest and principal payments in particular) on the basis
10 of internally-generated cash. The percentage of debt to total capital is
11 another example of a quantitative measure. Creditors and credit rating
12 agencies view both qualitative and quantitative factors in the aggregate
13 when assessing a company's credit quality.

14 **Q. How does a utility company's perceived regulatory environment factor**
15 **into the investment community's evaluation of its financial strength?**

16 A. Investors, investment analysts, and credit rating agencies regard
17 constructive regulation as one of the most important factors in assessing a
18 utility company's financial strength. A stable regulatory environment that
19 allows Piedmont to recover prudently-incurred costs and earn a reasonable
20 return on investments necessary to meet the demand, reliability, service,
21 safety, and environmental requirements of its customers and service area is
22 an important factor in investor decisions to make equity investments in the
23 Company. Important considerations also include the allowed rate of return,

1 the cash quality of earnings, the timely recovery of capital investments, the
2 stability of earnings, and the strength of Piedmont’s capital structure. The
3 investment community also looks positively upon jurisdictions where the
4 regulatory process for utilities is streamlined, contains tools to minimize
5 regulatory lag through cost recovery mechanisms such as riders and
6 trackers, and equitably balances outcomes between customers and
7 investors.

8 **Q. How do the credit rating agencies currently rate Piedmont’s**
9 **outstanding securities?**

10 A. As of the date of this testimony, Piedmont’s senior unsecured credit ratings
11 and outlooks are as follows:

Rating Agency	S&P	Moody’s
Senior Unsecured	BBB+	A3
Outlook	Stable	Stable

12 Obligations carrying a credit rating in the “A” category are considered
13 strong, investment-grade securities subject to low credit risk for the
14 investor. “A” rated debt is presumed to be somewhat susceptible to changes
15 in circumstances and economic conditions; however, the debt issuer’s
16 capacity to meet its financial commitments is considered strong. By
17 contrast, ratings in the “BBB” (one level weaker than the “A” category)
18 category are considered adequate and have less assurance of access to the
19 capital markets in challenging market conditions.

20 S&P may also modify its ratings with the use of a plus or minus sign
21 to further indicate the relative standing within a major rating category. An

1 “A+” credit rating is at the higher end of the “A” credit rating category and
2 an “A-” is at the lower end of the category. Moody’s credit rating
3 assignments use the numbers “1”, “2” and “3”, with the numbers “1” and
4 “3” analogous to a “+” and “-”, respectively. For example, Moody’s credit
5 ratings of “A2” and “A3” would be analogous to “A” and “A-” credit ratings
6 at S&P.

7 The ratings outlook assesses the potential direction of a long-term
8 credit rating over an intermediate term (typically six months to two years).
9 Piedmont’s “Stable” outlook at S&P and Moody’s is an indication that the
10 credit ratings are not likely to change at this time. A change in outlook or
11 rating could occur, however, if the Company experiences a change in its
12 business or financial risk.

13 **Q. Have there been any recent changes to Piedmont’s credit ratings or**
14 **outlooks at S&P or Moody’s?**

15 A. Yes. On December 15, 2020, S&P revised its outlook to “negative” from
16 “stable” on Duke Energy and subsidiaries, including Piedmont. On January
17 26, 2021, S&P downgraded the senior unsecured ratings of Duke Energy
18 and subsidiaries, including Piedmont, to “BBB+” from “A-” and returned
19 the outlook to “stable.”

20 S&P utilizes a family rating methodology, whereby it applies the
21 credit rating and outlook of the parent company, Duke Energy, to each of

1 the parent's subsidiaries. In its January 2021 Duke Energy report,¹ S&P
2 attributed the downgrade to weaker consolidated financial metrics primarily
3 as a result of the coal ash settlement reached at Duke Energy Carolinas,
4 LLC and Duke Energy Progress, LLC, as well as Duke Energy's elevated
5 capital expenditure plan. S&P's "stable" outlook is predicated on the
6 expectation that Duke Energy and subsidiaries will be able to manage
7 regulatory risk while capital spending remains high as Duke Energy
8 continues its energy transformation to reduce its carbon footprint.

9 **Q. What impact does a one-notch downgrade by S&P at Duke Energy and**
10 **its subsidiaries have on Piedmont's expected long-term borrowing**
11 **costs?**

12 A. Since the one-notch downgrade by S&P on January 26, 2021 to Piedmont's
13 senior unsecured rating, there has been no material impact to Piedmont's
14 credit spreads. With Moody's leaving its "A3" senior unsecured credit
15 rating on Piedmont unchanged, a sophisticated investor in senior unsecured
16 bonds will evaluate the creditworthiness of that specific utility when
17 determining the appropriate pricing level on new debt offerings. For these
18 reasons, a one-notch downgrade at Piedmont by S&P due solely to its family
19 rating methodology will not likely have any meaningful impact to
20 Piedmont's cost of debt going forward.

1 S&P Global Ratings, Research Update, "Duke Energy Corp. And Subsidiaries Downgraded To 'BBB+' On Coal Ash Settlement, Outlook Stable," January 26, 2021 ("January 2021 Duke Energy Corporation Report")

1 **Q. What benefits do customers of Piedmont enjoy by being a part of the**
2 **broader Duke Energy family?**

3 A. Customers of Piedmont enjoy several benefits derived from Piedmont's
4 status as a subsidiary of the larger Duke Energy portfolio of utilities. Duke
5 Energy's \$9.0 billion Master Credit Facility and \$6.0 billion commercial
6 paper program provide Piedmont greater access to liquidity from highly
7 reputable financial institutions and in the short-term money markets. In
8 addition, the Utility Money Pool Agreement allows Piedmont to borrow
9 short-term funds from participating entities at the "AA" Industrial
10 Commercial Paper Composite Rate, which is a lower rate than would
11 otherwise be available to Piedmont as a stand-alone issuer. Access to
12 deeper pools of liquidity at lower borrowing costs were particularly
13 beneficial several years ago as uncertainty from the COVID-19 pandemic
14 led to extreme market dislocation and heightened volatility in the first half
15 of 2020. Piedmont also benefits from lower overhead costs as a result of
16 shared corporate services.

17 **Q. Do Piedmont's customers benefit from the Company's strong credit**
18 **ratings?**

19 A. Yes. To ensure reliable and cost-effective service, compliance with federal
20 pipeline safety regulations and to fulfill its obligations to serve customers,
21 the Company must continuously plan and execute significant capital
22 projects. This is the nature of regulated, capital-intensive industries like
23 natural gas utilities. The Company must be able to operate and maintain its

1 business without interruption and refinance maturing debt on time,
2 regardless of financial market conditions. The financial markets can
3 experience periods of volatility, and Piedmont must be able to finance its
4 needs throughout such periods. Strong investment-grade credit ratings
5 provide Piedmont with greater access to the capital markets on reasonable
6 terms during such periods of volatility. Any factors that negatively impact
7 Piedmont's credit ratings, including an inadequate allowed ROE or an
8 inadequate equity percentage of the capital structure, have the potential to
9 reduce Piedmont's access to the capital markets and to increase the cost of
10 such access.

11 Approval of the Company's request in this case will support its
12 financial objectives by allowing timely recovery of its investments in plant
13 and equipment, providing sufficient cash flows to fund necessary capital
14 expenditures and service debt.

15 **Q. What strengths and weaknesses have the credit rating agencies**
16 **identified with respect to Piedmont?**

17 A. The rating agencies believe Piedmont operates in generally constructive
18 regulatory environments that support long-term credit quality, and they also
19 view the Company's customer growth profile and system integrity
20 investments as credit supportive. However, the rating agencies have
21 identified a number of challenges Piedmont faces in maintaining its credit
22 ratings. In its June 2023 credit opinion, Moody's identified several factors
23 that could adversely impact Piedmont's financial metrics (specifically, cash

1 flow coverage ratios), which, in turn, could affect its ratings:²

- 2 • Capital Expenditures: Moody’s notes elevated capital expenditures,
3 the loss of bonus depreciation that occurred following the enactment
4 of federal tax reform, and the associated leverage to fund customer
5 growth and system integrity investments will continue to pressure
6 key credit metrics.
- 7 • Environmental and Social Considerations: Moody’s includes in its
8 credit assessment of Piedmont the impact of fugitive emissions
9 associated with its natural gas distribution operations and the
10 potential for operational disruptions and unexpected increases in
11 commodity prices. From a social perspective, Moody’s assesses the
12 risk that demographic and societal trends could trigger public
13 affordability concerns that could lead to adverse regulatory or
14 political intervention. Moody’s states, “...Piedmont’s governance
15 profile is supported by neutral to low risks associated with financial
16 strategy and risk management, management credibility and track
17 record, organizational structure, compliance and reporting and
18 board structure policies and procedures.”³

2 See Moody’s Investors Service, Credit Opinion, “Piedmont Natural Gas Company, Inc. – Update following rates affirmation,” June 30, 2023 (“June 2023 Piedmont Report”)

3 June 2023 Piedmont Report, at 5.

1 **Q. What role do equity investors play in the financing of Piedmont, and**
2 **how will the outcome of this case impact these investors?**

3 A. Equity investors provide the foundation of a company's capitalization by
4 providing significant amounts of capital, for which an appropriate economic
5 return is required. Piedmont compensates equity investors for the risk of
6 their investment by targeting fair and adequate returns, stable cash flows,
7 and earnings growth - all necessary to preserve access to equity capital.
8 Returns to equity investors are realized only after all operating expenses and
9 fixed payment obligations (including principal and interest on debt
10 obligations) of the business have been paid. Because equity investors are
11 the last to receive surplus earnings and cash flows, their investment involves
12 significantly more risk. For this reason, equity investors require a higher
13 return for their investment. Equity investors in Duke Energy expect utilities
14 like Piedmont to recover their prudently incurred costs and earn a fair and
15 reasonable return for their investors. The Company's proposal in this
16 proceeding supports this investor expectation.

17 **Q. What effect do capital structure and ROE have on credit quality?**

18 A. Capital structure and ROE are important components of credit quality. As
19 mentioned in the previous answer, the greater the equity component of
20 capitalization, the safer the returns are to debt investors, which translates
21 into higher credit quality and lower borrowing costs. In addition, the
22 allowed ROE is a key component in the generation of earnings and cash
23 flows. An adequate ROE helps ensure equity investors receive fair

1 compensation for their investment while also helping to protect the interests
2 of debt investors. A strong capital structure and an adequate ROE provide
3 balance sheet protection and cash flow generation to support high credit
4 quality. High credit quality creates financial flexibility by improving access
5 to the capital markets on reasonable terms, and ultimately lower debt
6 financing costs.

7 **Q. Do you believe Piedmont's capital structure has an adequate equity**
8 **component to enable the Company to achieve its financial strength and**
9 **credit quality objectives?**

10 A. Yes. Piedmont's requested equity component of 53% enables it to maintain
11 current credit ratings and financial strength and flexibility. Like many
12 utilities, Piedmont is in a period of significant capital investment necessary
13 to provide cost-effective, safe, and reliable service to its customers in a
14 period of rising costs, growing customer load and evolving state and federal
15 pipeline safety and integrity requirements. The magnitude of its capital
16 requirements dictates the need for a strong equity component of the
17 Company's capital structure in order to assure access to capital funding at
18 reasonable terms.

19 **Q. Please describe Piedmont's future capital requirements.**

20 A. Piedmont faces substantial capital needs over the next several years in order
21 to comply with pipeline safety and integrity regulations, refurbish, replace
22 and upgrade aging infrastructure, support its growing customer base,
23 construct additional on-system storage assets, and satisfy its debt maturities.

1 Piedmont currently expects its capital expenditures supporting its gas
2 operations in North Carolina to be approximately \$650 million in 2024, and
3 range between \$625 million and \$740 million per year from 2025 to 2027;
4 Piedmont's capital expenditures for its North Carolina operations will
5 encompass, on average, approximately 78% of its total capital expenditures
6 during this forecasted period.⁴ Piedmont has scheduled maturities of long-
7 term debt of \$40 million in 2024, \$205 million in 2025, \$40 million in 2026,
8 and \$300 million in 2027.

9 **Q. How will Piedmont fund its capital requirements?**

10 A. Piedmont expects to fund its capital requirements from internal cash
11 generation, the issuance of debt, and equity contributions from its parent. It
12 is important to remember that Duke Energy also has dividend expectations
13 from its shareholders. Duke Energy's corporate dividend policy targets a
14 mid-point 65% payout ratio, based on adjusted diluted earnings per share.
15 Piedmont and other utility subsidiaries of Duke Energy are expected to
16 support this dividend policy over time.

17 **Q. Do you anticipate Piedmont will be able to access sufficient debt and
18 equity to support its ongoing operations without any problems?**

19 A. I do, but the reasonableness of the terms upon which Piedmont can access
20 those markets depends largely on Piedmont continuing to maintain
21 favorable credit ratings. That, in turn, depends on the regulatory treatment

⁴ See G-1 Item 32 of Piedmont's application for support for these forecasted capital expenditures.

1 Piedmont receives from the state public service commissions that regulate
2 it. This is particularly true for this rate case and this Commission, as North
3 Carolina accounts for over 70% of the Company's rate base and earnings
4 potential.

5 **Q. Can you explain?**

6 A. Yes. As I explained earlier, Piedmont's investors and creditors carefully
7 evaluate how the Commission regulates the Company, including what
8 levels of allowed return are approved in our general rate proceedings. They
9 are aware that allowed rates of return may vary over time with changes in
10 general economic factors, but they also believe we operate in a generally
11 constructive regulatory environment – a conclusion with which we agree
12 and which we believe is a significant benefit to our customers. Any change
13 in this assessment could raise capital costs for Piedmont and its customers.
14 This vulnerability is especially acute in light of Piedmont's significant and
15 ongoing investments in capital projects required to meet federal safety and
16 integrity management requirements.

17 The Company's management recognizes that the Commission must
18 balance the interests of customers with those of the Company when setting
19 rates of return and capital structure in any general rate proceeding. At the
20 same time, it is important to consider the long-term consequences these
21 decisions can have on the terms under which Piedmont can access capital
22 markets.

1 Q. Does this conclude your pre-filed direct testimony?

2 A. Yes.

**PIEDMONT NATURAL GAS COMPANY, INC.
GENERAL RATE CASE
DOCKET NO. G-9, SUB 837**

EXHIBIT_(KWN-1)

Capital Structure for Piedmont

		[A]	[B]	[C]	[D]	[E]	[F]	[G]	[H]	[I]	[J]	[K]
		Actuals	Ratio	Projected	Ratio	Projected	Ratio	Projected	Ratio	2024	2024	Pro Forma
		@ 12/31/2023	@ 12/31/2023	@ 3/31/2024	@ 3/31/2024	@ 06/30/2024	@ 06/30/2024	@ 12/31/2024	@ 12/31/2024	Average	Average	Capital Structure
1	Long-Term Debt ⁽¹⁾	\$ 3,624,013,043	46.86%	\$ 3,624,483,597	45.73%	\$ 3,625,390,835	45.72%	\$ 4,001,631,934	47.74%	\$ 3,718,879,852	46.53%	46.30%
2	Short-Term Debt ⁽²⁾	58,042,681	0.75%	58,042,681	0.73%	58,042,681	0.73%	58,042,681	0.69%	58,042,681	0.73%	0.70%
3	Common Equity ⁽³⁾	4,051,301,786	52.39%	4,244,044,559	53.54%	4,246,760,194	53.55%	4,322,261,324	51.57%	4,216,091,966	52.75%	53.00%
4	Total Capitalization	<u>\$ 7,733,357,510</u>	<u>100.00%</u>	<u>\$ 7,926,570,837</u>	<u>100.00%</u>	<u>\$ 7,930,193,710</u>	<u>100.00%</u>	<u>\$ 8,381,935,939</u>	<u>100.00%</u>	<u>\$ 7,993,014,499</u>	<u>100.00%</u>	<u>100.00%</u>

Notes:

(1) Reflects the carrying value of Piedmont's Non-Current Long Term Debt. Support for actuals at 12/31/2023 is provided in G-1 Items 35a & 35b. Support for projections is provided in G-1 Items 35c thru 35e.

(2) Piedmont's 13-month average natural gas inventory is shown as the proxy for per book Short Term Debt. Support for the 13-month average natural gas inventory at the end of the Test Period and the pro forma gas inventory amount is provided in G-1 Item 23.

(3) Support for common equity at 12/31/2023 is provided in G-1 Items 34a thru 34d. Support for projections is provided in G-1 Item 34e.

**PIEDMONT NATURAL GAS COMPANY, INC.
GENERAL RATE CASE
DOCKET NO. G-9, SUB 837**

EXHIBIT_(KWN-2)

Embedded Cost of Long Term Debt Projected for June 30, 2024

Long-Term Debt ^(a)	Principal Amount	Less Unamortized Debt Discount and Expense	Total	Cost		
				Interest	Debt Expense Amortization	Total
Senior Notes:						
3.47% - due 2027	\$ 100,000,000	\$ 165,779	\$ 99,834,221	\$ 3,470,000	27,251	\$ 3,497,251
3.57% - due 2027	200,000,000	339,420	199,660,580	7,140,000	55,795	7,195,795
4.65% - due 2043	300,000,000	2,079,081	297,920,920	13,950,000	54,269	14,004,269
4.10% - due 2034	250,000,000	1,430,331	248,569,670	10,250,000	70,019	10,320,019
3.60% - due 2025	150,000,000	166,154	149,833,847	5,400,000	71,209	5,471,209
3.64% - due 2046	300,000,000	2,640,270	297,359,730	10,920,000	59,110	10,979,110
3.50% - due 2029	600,000,000	2,372,160	597,627,840	21,000,000	241,237	21,241,237
3.35% - due 2050	400,000,000	5,533,311	394,466,689	13,400,000	106,752	13,506,752
2.50% - due 2031	350,000,000	2,198,351	347,801,649	8,750,000	163,920	8,913,920
5.05% - due 2052	400,000,000	6,441,346	393,558,655	20,200,000	115,471	20,315,471
5.40% - due 2033	350,000,000	1,506,684	348,493,317	18,900,000	83,705	18,983,705
					-	
					-	
Medium-Term Notes:						
7.40% - due 2025	55,000,000	21,693	54,978,307	4,070,000	8,639	4,078,639
7.50% - due 2026	40,000,000	26,136	39,973,865	3,000,000	5,751	3,005,751
7.95% - due 2029	60,000,000	102,377	59,897,624	4,770,000	9,839	4,779,839
6.00% - due 2033	100,000,000	375,925	99,624,076	6,000,000	19,856	6,019,856
					-	
Capital Lease:						
5.446% - due 2026	67,158		67,158	3,657	-	3,657
					-	
Unamortized Loss on Reacquired Debt - 6.25% IQ Notes		2,839,502	(2,839,502)	-	119,140	119,140
Unamortized Debt Expense		0	0	-	-	
Credit Facilities Fee		1,437,807	(1,437,807)	-	191,130	191,130
	<u>\$ 3,655,067,158</u>	<u>\$ 29,676,323</u>	<u>\$ 3,625,390,835</u>	<u>\$ 151,223,657</u>	<u>\$ 1,403,089</u>	<u>\$ 152,626,746</u>
Embedded Cost		<u>4.21%</u>				

(a) This schedule reflects the non-current portion of Piedmont's long term debt.

**PIEDMONT NATURAL GAS COMPANY, INC.
GENERAL RATE CASE
DOCKET NO. G-9, SUB 837**

EXHIBIT_(KWN-3)

Projected Inter-Company Money Pool Borrowings by Piedmont for June 30, 2024

Line No.	@ Month End	Actuals or Projections	[A] Borrowings ^(a)	[B] Accrued Interest ^(a)	[C] Pro Forma Annual Interest Rate for Short Term Debt [= (column B line 8 / column A line 7) * 2]
1	Jan-24	Actual	\$ 572,147,000	\$ 2,771,037	
2	Feb-24	Actual	525,532,000	2,348,891	
3	Mar-24	Projection	402,280,054	1,834,967	
4	Apr-24	Projection	357,244,464	1,756,408	
5	May-24	Projection	384,661,037	1,715,671	
6	Jun-24	Projection	530,534,404	2,116,411	
7	Average Balance		<u>\$ 462,066,493</u>		
8	Total Accrued Interest			<u>\$ 12,543,385</u>	
9	Average Interest Rate				<u><u>5.43%</u></u>

(a) Support for the amounts of borrowings and accrued interest shown in lines 1 through 6 is provided in G-1 Item 36d.