

Before the

TENNESSEE REGULATORY AUTHORITY

**IN RE: REQUEST FOR AN ADJUSTMENT OF THE RATES AND CHARGES
OF ATMOS ENERGY CORPORATION**

DOCKET NO. 05-00258

**DIRECT TESTIMONY
OF
DANIEL W. McCORMAC, CPA**

July 17, 2006

BEFORE THE TENNESSEE REGULATORY AUTHORITY

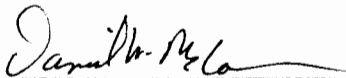
AT NASHVILLE, TENNESSEE

**IN RE: REQUEST FOR AN ADJUSTMENT OF THE RATES AND CHARGES
OF ATMOS ENERGY CORPORATION**

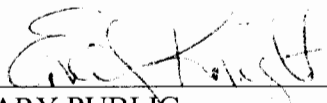
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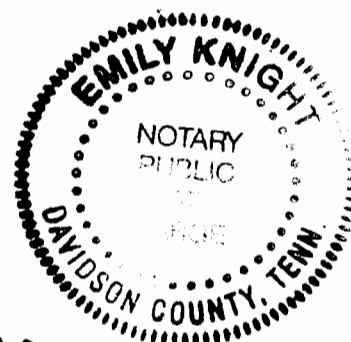
I, Daniel W. McCormac, Coordinator of Analysts for the Consumer Advocate and Protection Division of the Attorney General's Office, hereby certify that the attached Direct Testimony represents my opinion in the above-referenced case and the opinion of the Consumer Advocate and Protection Division.


DANIEL W. McCORMAC

Sworn to and subscribed before me
this 14th day of July, 2006.


NOTARY PUBLIC

My commission expires: Sept. 22, 2007



My Commission Expires SEPT. 22, 2007

1 **Q. Would you state your name for the record?**

2 A. My name is Daniel W. McCormac.

3

4 **Q. By whom are you employed and what is your position?**

5 A. I am employed by the Attorney General's Office as Coordinator of Analysts for the
6 Consumer Advocate and Protection Division.

7

8 **Q. Are you the same Dan McCormac that filed testimony in this docket on**
9 **September 15, 2005?**

10 A. Yes.

11

12 **Q. What are your qualifications as a witness?**

13 A. Please see Appendix A for my education, licenses, and work experience.

14

15 **Q. What is the scope and purpose this testimony?**

16 A. This testimony represents the views of the Consumer Advocate and Protection
17 Division (CAPD) regarding the appropriate revenues to be used in measuring the
18 earnings of Atmos Energy Corporation in Tennessee.

19

20 **Q. Please give a summary of your findings on Revenues.**

21 A. Atmos reported total operating revenues of \$243,290,027 and production expenses
22 of \$189,294,907 on the TRA 3.03 monthly financial statement for the 12 months
23 ended March 31, 2006. Thus Atmos reported \$53,995,120 in gross profits or
24 operating margin on gas sales, forfeited discounts revenue, and other miscellaneous
25 charges to consumers for the 12 months ended March 31, 2006.

26

27 I used several methods to determine a reasonable estimate for gross profits for the 12
28 months ending September 30, 2006. As shown on Exhibits DM1 and DM2, my
29 analysis indicates that \$54,491,796 is a reasonable estimate of the gross profits that

1 Atmos will receive for the 12 months ending September 30, 2006.

2

3 **Q. Please give a more detailed description of your analysis.**

4 A. As shown on Exhibit DM1, I examined the gross margins reported on the TRA 3.03
5 reports for each of the years ended March 31, 2002, 2003, 2004, 2005, and 2006.
6 The gross margins have grown at a rate of \$993,352 per year or \$496,676 every six
7 months. The \$54,491,796 estimate for the year ended September 30, 2006 is based
8 on one half year's growth of \$496,676 added to the \$53,995,120 recorded for the 12
9 months ended March 31, 2006. This equates to an annual revenue growth rate of
10 1.82%.

11

12 As shown on Exhibits DM3 and DM4, I tested this estimate with the long range
13 growth since the last detailed analysis of revenues in the 1995 rate case. Gross
14 margin has grown at an annual growth rate of 1.88% per year for the last 11 years,
15 which supports the 1.82% that I have calculated.

16

17 **Q. Would you explain your analysis of customer growth?**

18 A. As shown in my Exhibit DM5, I examined the growth for the last five years and it
19 appears that customer growth is close to 3% per year. This further supports the
20 1.82% growth rate assumption above and is used by Mr. Buckner in estimating
21 growth in certain unknown expenses.

22

23 **Q. Would you explain your analysis of forfeited discounts revenue as shown on**
24 **Exhibit DM7?**

25 A. Forfeited discount revenues for the year ended March 31, 2006 were .75% of
26 revenues. Forfeited discount revenues as a percentage of revenues have declined from
27 .82% for the 12 months ended November 2004 to .57% in November 2005.
28 However, the percentage has recently recovered to .75% as of March 2006. The
29 .75% actual appears to be a reasonable ratio and is used on Schedule 7 of Exhibit

1 CAPD to compute a revenue conversion factor.

2

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

4 A. Yes.

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Q. What is your educational background and what degrees and licenses do you hold?

A. I have a Bachelor of Science Degree in Accounting from David Lipscomb College and I am a licensed Certified Public Accountant in the State of Tennessee.

Q. What is your experience in the field of ratemaking and regulatory accounting?

A. I have 30 years of experience in the field of utility ratemaking and regulatory accounting including more than two years with the Certified Public Accounting firm of Wilson, Work, Fossett & Greer as the supervisor in the utility consulting segment. I served sixteen years with the Tennessee Public Service Commission, including one year as Technical Assistant to the Commissioners. I served two years as Chief of Energy and Water at the Tennessee Regulatory Authority (“TRA”) and ten years with the Office of the Attorney General. While employed by the Commission and the Attorney General’s Office, I supervised the preparation of many utility rate cases and earnings reviews. As part of these investigations, we developed financial exhibits to present to the Commission or TRA. These investigations supplied evidence to the TRA to enable it to set just and reasonable rates for utility services. In addition, I participated in various special studies and provided technical assistance in other cases in which I did not testify.

As the Technical Assistant to the Commissioners I observed hearings and analyzed the issues in each case from an independent technical perspective. I responded to the Commissioners’ requests for expert assistance in evaluating and interpreting the financial evidence in the record. I also provided and checked calculations based on that evidence. In each position, my responsibilities have included making decisions on whether the information provided was adequate and suitable for deciding the questions presented.

My duties with the Consumer Advocate and Protection Division (“CAPD”) are similar, but also include the review of various tariffs filed before the TRA. I assist in the decision making process as to whether the terms and conditions of the numerous filings are just and reasonable or whether additional evidence is needed to support the filings. When significant consumer interests appear to be in jeopardy, we investigate further and provide expert testimony before the TRA when needed.

Q. What expertise do you have related to the natural gas industry?

A. Since 1976 I have been involved in auditing gas companies, reviewing testimony, tariffs and exhibits, negotiating rates and preparing testimony and exhibits relating to various revenue, expense and rate base issues of all major Tennessee gas distribution companies. I have prepared testimony in every major case involving a gas utility since my employment with the Attorney General’s office in 1994.

		Total Margin:	Revenues	COG		
3/31/02	Apr. 2001 - Mar. 2002	50,862,547	126,039,539	75,176,992	(2,218,698)	4.4%
3/31/03	Apr. 2002 - Mar. 2003	48,643,849	160,581,530	111,937,681	4,800,194	9.9%
3/31/04	Apr. 2003 - Mar. 2004	53,444,043	170,208,366	116,764,323	(1,126,986)	-2.1%
3/31/05	Apr. 2004 - Mar. 2005	52,317,057	162,990,795	110,673,738	1,678,063	3.2%
3/31/06	Apr. 2005 - Mar. 2006	53,995,120	243,290,027	189,294,907		
9/30/06		54,491,796		496,676	1/2 year's growth	
9/30/07		55,485,148	1.823%	993,352	1 year's growth	
3/31/06		53,840,316				
3/31/07		54,833,668	1.845%	993,352		

EXHIBIT

DM1

SMITH

Atmos Gross Margin 12 Months to Date

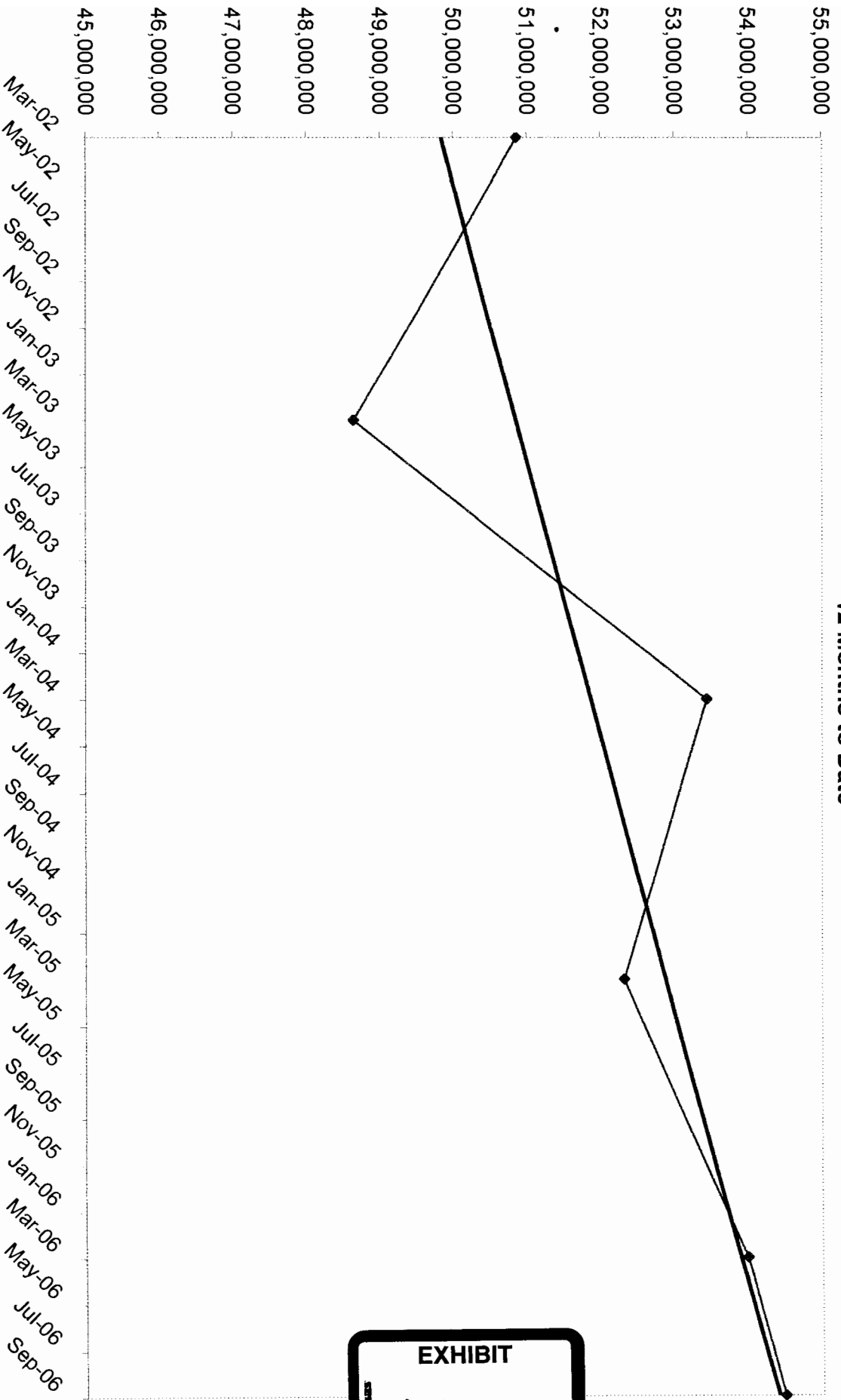


EXHIBIT
DM 2

ITEM	Month-to-Date		Year-to-Date		12 Months-to-Date	
	This Year	Last Year	This Year	Last Year	This Year	Last Year
(A)	(b)	(c)	(d)	(e)	(f)	(g)
1 Residential Sales.....	4,197,516	4,972,566	16,938,144	19,640,717	35,194,324	40,141,928
2 Commercial & Industrial Sales.....	6,037,423	7,270,409	21,628,970	25,511,997	61,199,860	67,026,594
3 Other Sales.....	206,288	204,242	546,819	750,504	1,265,716	1,529,216
5 Total Operating Revenues	10,441,227	12,447,217	39,113,933	45,903,218	97,659,900	108,697,738
6 Production.....	5,526,430	7,809,294	21,344,902	28,695,204	55,868,081	69,037,793
7 Storage, Trans. & Dist.-Oper.....	230,358	209,492	634,885	600,152	2,391,991	2,508,461
8 Storage, Trans. & Dist.-Mtnc.....	120,204	103,732	378,012	320,012	1,441,102	1,346,970
9 Customer Accounts Expense.....	293,750	257,194	910,310	782,808	2,955,213	2,741,650
10 Sales Expense.....	97,752	71,280	271,660	213,629	1,312,873	1,100,846
11 Adm. & Gen'l. Expense.....	817,845	1,016,225	2,549,076	2,657,516	9,417,135	9,839,033
12 Deprn. & Amort. Expense.....	535,094	491,337	1,573,445	1,474,204	6,159,848	5,766,788
13 Taxes Other Than Income Taxes.....	360,575	319,470	1,061,460	939,841	3,931,862	3,715,316
14 Income Taxes.....	837,115	700,067	3,467,057	3,391,398	3,449,816	2,760,631
15 Total Operating Expenses.....	8,819,123	10,978,091	32,190,806	39,074,764	86,927,922	98,817,488
16 Net Operating Income.....	1,622,104	1,469,126	6,923,127	6,828,454	10,731,978	9,880,250
17 Other Income.....	244,984	96,060	230,851	44,569	666,929	610,841
18 Misc. Income Deductions.....	27,510	13,537	62,217	37,523	223,719	251,390
19 Interest Charges.....	471,437	407,494	1,425,369	1,292,762	5,536,975	5,727,859
20 Net Income.....	1,368,141	1,144,155	5,666,391	5,542,738	5,638,214	4,511,843
=====						
Co. Balance at Month-End			Average 12 Months-to-Date			
Selected Balance Sheet Items *	This Year	Last Year	This Year	Last Year		
	(h)	(i)	(j)	(k)		
21 Utility Plant in Service.....	151,435,731	141,389,968	146,476,378	136,314,004		
22 Construction Work in Progress.....	7,374,187	747,578	3,460,187	1,642,757		
23 Acquisition Adjustments, Net.....	0	0	0	0		
24 Property Held for Future Use.....	0	0	0	0		
25 Depreciation.....	52,434,421	47,725,544	49,944,547	44,696,176		
26 Materials and Supplies.....	2,925,256	1,868,430	6,630,128	5,021,165		
27 Unamortized ITC.....*	4,554,198	4,922,800	4,722,613	5,093,337		
28 Deferred Federal Income Tax.....	6,805,274	6,133,307	6,356,618	12,145,608		
29 Contributions in aid of Const.....	606,312	606,312	606,312	606,312		
30 Customer Advances for Const.....	428,231	369,701	401,923	348,138		
31 Preferred & Preference Stock.....*	0	0	0	86,525		
32 Common Stock.....*	77,081,878	71,384,932	73,759,226	69,973,637		
33 Premium on Cap. Stk. & Other Cap.....*	18,672,485	18,838,035	18,784,725	20,572,250		
34 Retained Earnings.....*	11,778,643	13,949,521	5,799,948	6,828,643		
35 Long-Term Debt.....*	141,061,000	129,955,000	153,497,761	141,571,897		

11/15/95

Rate

4,792

2,227

44,019

53,995

10.0

Mill

in 11 yr.

= 1.88%

Annual

growth

\$

1,015,000

per yr.

EXHIBIT



DM 3

V. Commission Determination.

The Commission has fully reviewed the settlement in all its parts, as described above, and finds it to be reasonable and in the public interest. Therefore, the Commission ratifies and approves the foregoing settlement and resolution of the issues as a whole and orders that the same be implemented as indicated below.

IT IS THEREFORE ORDERED:

1. That the Petition of United Cities Gas Company for a rate increase of \$3,950,613 is denied.
2. That the stipulation between the Commission Staff and United Cities Gas Company which is attached as Appendix A is hereby approved as though copied into this Order verbatim.
3. That the Company shall file tariff sheets designed to produce \$2,227,000 in additional annual revenue and in accordance with this Order and the agreements approved hereby, said tariff sheets to become effective as of November 15, 1995, for service rendered on and after that date.
4. That any party aggrieved with the Commission's decision in this may file a Petition for Reconsideration with the Commission within ten (10) days from and after the date of this Order; and
5. That any party aggrieved with the Commission's decision in this matter has the right of judicial review by filing a Petition for Review in the Tennessee Court of Appeals, Middle Section, within sixty (60) days from and after the date of this Order.


CHAIRMAN

COMMISSIONER

COMMISSIONER

10

EXHIBIT
DM 4

12 month avg. customers	FY2000	FY2001	Year to Year Change	FY2002	Year to Year Change	FY2003	Year to Year Change	FY2004	Year to Year Change	FY2005	Year to Year Change	Oct - Mar 06	6 mo. growth	Atmos' 07 proj.	Atmos' 06 proj.	CAPD Proj.	Resulting Additions	4 yr. growth	Atmos' 06 proj.	Atmos' 07 proj.
Residential	94,568	95,851	1,283	97,501	1,650	101,532	4,031	103,566	2,033	106,337	2,772	108,737	2,400	2.5%	3.1%	3.0%	3,262	2.6%	3.371	-
Commercial	13,548	13,786	238	13,981	196	14,400	419	14,643	243	14,821	178	15,049	228	6.1%	4.9%	2.0%	301	1.8%	737	-
Public Authority	150	150	0	194	44	116	(77)	148	32	329	181	483	154	0	0.0%	25.0%	121	21.7%	-	-
Industrial	372	358	(14)	361	4	388	26	271	(116)	362	90	355	(7)	0	0.0%	0.0%	-	0.3%	-	-
Transportation	28	36	8	53	17	57	5	74	17	83	9	83	(0)	0	0.0%	0.0%	-	23.4%	-	-
	108,666	110,181	1,515 1.39%	112,090	1,909 1.73%	116,493	4,403 3.93%	118,701	2,208 1.90%	121,931	3,230 2.72%	124,706	2,775 2.28%	2,775 4.55% (annualized)	3.3%	3.0%	3,584	2.6%	4,108	-

EXHIBIT

DM5

SECRET

Tennessee
MFR #22

Provide a copy of any usage and growth trends and any adjustments used to project revenues.

	<u>FY06</u> Fcst	<u>FY07</u> Fcst	
Customer Usage Trends			
Residential base load per customer	1.177	1.159	98.54%
Commercial base load per customer	12.307	11.993	97.44%

	<u>FY 06</u>	<u>FY07</u> Growth Customers
Customer Growth Trends		
Residential Customers	3.1%	2,742
Commercial Customers	4.9%	914

EXHIBIT

DM6

