

**BEFORE THE
TENNESSEE PUBLIC SERVICE COMMISSION
DOCKET NO. 05-00258
PREPARED DIRECT TESTIMONY OF
JAMES C. CAGLE
On Behalf of
ATMOS ENERGY CORPORATION**

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I. POSITION AND QUALIFICATIONS

Q. Please state your name, title and business address.

A. My name is James C. Cagle. I am the Manager of Rates and Revenue Requirements for Atmos Energy Corporation ("Atmos" or the "Company"). My business address is 5430 LBJ Freeway, Suite 700, Dallas, Texas 75240.

Q. Please summarize your educational background and professional experience.

A. I received a Bachelor of Accountancy degree from the University of Oklahoma in 1987. I am a Certified Public Accountant licensed in the state of Texas. I have been employed by Atmos since 1989. I was initially employed in Atmos' financial reporting department. For the past thirteen years, except for the period from September 1997 through February 1998 when I was employed by GTE in its Costing department, I have worked in Atmos' rates department.

Q. Please describe your current responsibilities and qualifications.

A. As Manager of Rates and Revenue Requirements, I am primarily responsible for rate studies of and assisting in the design and implementation of rates for Atmos' regulated utility operations. I am also responsible for oversight of certain rate related compliance

1 and reporting requirements prescribed by Atmos' various regulatory commissions. Part
2 of my responsibilities also include participation in the preparation, updating and
3 implementation of the Company's Cost Allocation Manual (CAM), which is attached as
4 Schedule DMM-1 to the testimony of Company witness Daniel M. Meziere. For a
5 significant portion of the past thirteen years, I have performed rate studies or portions of
6 rate studies for the design and implementation of rates for a majority of the Company's
7 regulated utility operations.

8 **Q. Have you previously provided testimony before the Tennessee Regulatory**
9 **Authority?**

10 A. No. However, I have provided testimony before several state regulatory commissions.
11 Exhibit JCC-1 lists the various states and dockets in which I have testified.

12 **II. PURPOSE OF TESTIMONY**

13
14 **Q. What is the purpose of your testimony?**

15 A. I am sponsoring the cost allocations factors and methodologies made for ratemaking
16 purposes.

17 **Q. Are you sponsoring any Exhibits in connection with your testimony?**

18 A. Attached to my testimony are Exhibits JCC-1 and JCC-2.

19 **III. ATMOS' CORPORATE AND DIVISION STRUCTURE**

20 **Q. Are you familiar with the Company's corporate structure?**

21 A. Yes. Atmos Energy Corporation consists of the utility and various subsidiaries. The
22 utility is the parent company. The Company conducts its unregulated operations
23 through its subsidiaries. A chart showing the corporate structure is included as
24 Appendix A to the CAM (Exhibit DMM-1 to the direct testimony of Mr. Meziere).

1 **Q In the top box of the referenced chart representing Atmos Energy Corporation,**
2 **what do the various divisions represent?**

3 A. The various divisions are a part of the Company's management control structure that is
4 utilized in the Company's shared costs allocation processes. Section 1a of the CAM
5 describes the corporate structure in detail. There are currently eight such divisions –
6 seven of which are regulated gas local distribution operations and one of which is a
7 regulated intrastate pipeline operation. We commonly refer to these divisions as
8 “Operating Divisions” or “Business Units”. The Operating Division/Business Unit
9 which is the subject of this rate filing is referred to as the Mid-States Division.

10 **Q. Do these operating divisions constitute separate legal entities?**

11 A. No. They are merely unincorporated operating divisions within the Company's
12 organizational structure. None of the divisions are subsidiary entities that have a separate
13 legal existence apart from the Company, they are not distinct legal entities, and they do
14 not have separate equity or debt. Nor do the divisions keep separate books and records.

15 **Q. Are you familiar with the organizational structure of the Company's Mid-States**
16 **Operating Division?**

17 A. Yes. As more particularly described in the direct testimony of Company witness Mr.
18 John Paris, the Mid-States Division comprises the Company's regulated gas utility
19 operations in the States of Georgia, Illinois, Iowa, Missouri (except for a small system of
20 a few hundred customers operated through the Company's Colorado-Kansas Division),
21 Tennessee and Virginia.

1 **Q. Are there any organizational changes which will be made within the Company's**
2 **Mid-States Operating Division which impact the subject matter of your testimony**
3 **regarding common cost allocations?**

4 A. Yes. Also as more particularly described in Mr. Paris' and Mr. Waller's testimony, and
5 effective October 1, 2006, the management and operation of the Company's Mid-States
6 and Kentucky Divisions will be consolidated. This consolidation will impact the
7 allocation of common costs for the office rate division (more particularly discussed
8 below) which are included in the Company's cost of service schedules filed in this
9 proceeding for the attrition period.

10 **Q. What is the attrition period to which you refer?**

11 A. In this proceeding, the Tennessee Regulatory Authority ("TRA") has established a
12 prospective ratemaking period (which has been referred to in this proceeding and will be
13 hereinafter referred to in my testimony as the "attrition period") which encompasses the
14 Company's 2007 fiscal year, beginning October 1, 2006 and ending September 30, 2007.
15 My discussion of common cost allocation is based upon cost allocation methodologies
16 which will be effective during the attrition period.

18 **IV. COMMON COST ALLOCATIONS**

19 **Q. What are common cost allocations?**

20 A. Basically, common cost allocation is the process of allocating various common costs
21 which are incurred for the benefit of two or more of the Company's rate divisions and are
22 therefore allocable to those rate divisions.

23 **Q. What are the common costs to which you refer?**

1 A. One portion of common costs include costs related to services that are provided to the
2 Company's operating rate divisions by Shared Services. Shared Services - General
3 Office includes, for example, accounting, human resources, legal, rates, risk management
4 and numerous others. Shared Services - Customer Support includes billing, customer
5 call center functions and customer support related services. The costs for these Shared
6 Services are allocated to the Company's operating rate divisions that utilize those
7 services.

8 **Q. Does the Tennessee rate division utilize the services provided by both Shared**
9 **Services - General Office and Shared Services - Customer Support?**

10 A. Yes. These services are utilized by all of the Company's regulated local distribution
11 operations, including Tennessee.

12 **Q. Are there additional cost allocations other than Shared Services?**

13 A. Yes. If an office rate division encompasses more than one jurisdiction, such as the
14 Company's Mid-States rate division (which provides services to the Company's utility
15 operations in Georgia, Iowa, Illinois, Missouri, Tennessee and Virginia), then the costs
16 from that office rate division are allocated to separate rate divisions to which it provides
17 services. As stated above, effective October 1, 2006, the Mid-States office rate division
18 will also include and provide services and allocate costs to the Company's operations in
19 Kentucky. Because the Company's divisional office in Kentucky will provide services to
20 the Company's utility operations in Georgia, Iowa, Illinois, Missouri, Tennessee and
21 Virginia as well as to Kentucky, costs from the total office rate division will be allocated
22 to these states in addition to Kentucky. In addition the Mid-States divisional offices, the
23 central and eastern region offices, will also be consolidated for accounting and allocation

1 purposes with the Mid-States office rate divisions. The offices located in Tennessee and
2 Kentucky will be accounted for and allocated as one general office rate division.

3 **Q. For purposes of cost allocation, what is an “operating rate division” and an “office**
4 **rate division”?**

5 A. Rate division is the Company’s terminology representing an accumulation of accounting
6 data which is applicable to an area in which rates have been set by a regulatory authority
7 such as the TRA, and which the Company commonly refers to as an “operating rate
8 division.” In addition to operating rate divisions, the Company has certain “office rate
9 divisions” from which the Company’s Tennessee utility operations receive (and will
10 receive) allocations of common costs including Shared Services, and the Mid-States
11 divisional offices (described above).

12 **Q. Does the Company have any methodology for allocating common costs to a rate**
13 **division?**

14 A. Yes. The rate division designation is incorporated into the Company’s account coding
15 string. As such, costs are accumulated for various operating areas or office rate divisions
16 within the Company’s general ledger. This could represent the Company’s operations in a
17 particular state or a particular area within a state and/or various office rate divisions
18 which would appropriately allocate costs to operating rate divisions.

19 **Q. Are cost allocations necessary in the Company’s rate filing?**

20 A. Yes. It is appropriate and necessary to allocate the common costs incurred for the benefit
21 of ratepayers in multiple regulatory jurisdictions to the various jurisdictions which
22 receive those services. For example, the company’s Shared Services provide various
23 services including accounting, billing and customer support, legal, finance, etc., to each

1 of the Company's utility operations in the twelve states in which Atmos operates. The
2 Mid-states division offices provide Operating Division management, regulatory, certain
3 accounting and other services to Tennessee, Virginia, Kentucky, Iowa, Georgia, Illinois,
4 and Missouri. Tennessee customers receive the benefits of these services and the
5 allocation of these costs ensures that Tennessee customers receive a reasonable portion of
6 the costs of these services.

7 **Q. Please describe the Company's cost allocation methodology.**

8 A. The Company allocates certain types of common costs to its operating rate divisions for
9 management purposes as well as for reporting and ratemaking purposes. Operations and
10 Maintenance ("O&M") expense, depreciation expense, and taxes, other than income
11 taxes, expense that represent common costs are allocated on the books of the Company.
12 Other common costs such as commonly utilized plant in service and other ratebase items
13 are not allocated on the books of the Company but are allocated for ratemaking purposes.
14 These costs are allocated based on accepted methodologies which are further outlined
15 below in order to fully show the costs of providing utility service in each of the
16 regulatory jurisdictions within which the Company serves customers.

17 **Q. In your answer, you differentiate between common costs which are allocated on the**
18 **books of the Company and those that are allocated for ratemaking purposes. Can**
19 **you explain the difference?**

20 A. Yes. Operations and Maintenance (O&M) expense, depreciation expense, and taxes,
21 other than income taxes, expense related to Shared Services, the Mid-States divisional
22 offices are currently allocated on the Company's books and records utilizing the
23 allocation methodologies described in detail in the CAM attached to Mr. Meziere's

1 testimony. The Company allocates these expenses within its books and records as a part
2 of its normal accounting cycle. The allocation factors used are generally calculated once
3 per year, updated at the beginning of the Company's fiscal year (October 1), and utilized
4 for the entire year unless a material event occurs which would significantly change the
5 factors. For the attrition period, the Composite and Customer factors used to allocate
6 Shared Services common costs to Tennessee are those currently in effect for the
7 Company's Fiscal 2006 adjusted to reflect the operational changes discussed in Mr.
8 Waller's testimony. No material change in the factors is expected to occur for the
9 attrition period. These factors are shown in Attachment JCC-2.

10 With respect to the allocation of common costs relating to the Mid-States office divisions,
11 the composite factor also shown in Attachment JCC-2 is to be used to allocate costs from
12 the consolidated Mid-states general offices (described above).

13
14 For those Shared Services costs which are not allocated on the Company's books and
15 records, Composite Factors or a Customer Factor are used to allocate costs. Some
16 examples of Shared Services costs for which Composite Factors or a Customer Factor
17 are used for allocating such expenses for ratemaking purposes would include plant in
18 service and accumulated deferred income taxes, as well as other rate base items. For the
19 attrition period, Composite Factors are also to be used to allocate costs for the Mid-
20 States office rate division's plant in service, accumulated deferred income taxes and
21 other rate base items.

22 **Q. What is the difference between Composite Factors and a Customer Factor?**

1 Composite Factors are used to allocate costs relating to rate base items for Shared
2 Services – General Office and the Mid-States office rate division. The Customer Factor
3 is used to allocate costs relating to rate base items for Shared Services – Customer
4 Support. The Customer Factor is used for the latter because this office rate division
5 provides services exclusively to the Company’s regulated utility customers and does not
6 perform any function for the Company’s subsidiaries or pipeline division. As a result,
7 Shared Services – Customer Support costs are allocated only to the seven local
8 distribution Operating Divisions of the Company. The use of the Customer Factor to
9 allocate the costs of this office rate division, instead of the Composite Factors, is
10 reasonable and appropriate because the need for and level of the services required are
11 primarily driven by the number of customers within an Operating Division.

12 **Q. How are the Composite and Customer Factors derived?**

13 A. The Composite Factors are derived based upon a three-factor formula comprised of the
14 simple average of the relative percentage of gross plant in service, the relative
15 percentages of the average number of customers and the relative percentages of direct
16 O&M for each of the Company’s Operating Divisions, which is further described in the
17 CAM. The Customer Factor is derived based on the average number of customers of the
18 Operating Divisions that receive allocable costs for the services provided. Shared
19 Services allocations to the business unit are then added to the business unit’s general
20 office costs and then further allocated to the applicable office rate divisions using
21 Composite Factors (based upon the three-factor formula) specific as to the Operating
22 Division. For the Mid-States business unit, the Composite Factors utilized for further
23 allocating applicable Shared Services –General Office and Mid-States general offices

1 A. O&M expense, depreciation expense, and taxes, other than income taxes, are allocated in
2 the Company's filing utilizing the methodologies set forth in the CAM. As previously
3 stated, the Company does not allocate ratebase items for Shared Services (such as plant in
4 service or accumulated deferred income taxes) within its books and records. Instead,
5 these items are allocated in the context of rate proceedings such as this one and for
6 certain reporting purposes. In this filing, ratebase items and ratemaking adjustments were
7 allocated utilizing the composite factors set forth and described in Schedule JCC-2
8 attached to my testimony and described above. General office costs have been allocated
9 in the filing utilizing the Mid-states Operating Division composite factors also set forth in
10 Schedule JCC-2 utilizing the methodology described above.

11 **Q. Does that conclude your testimony?**

12 A. Yes.

DOCKET	TESTIMONY STYLED AS	TYPE	DATE
Virginia Corporation Commission			
PUE 000171	Atmos Energy Corporation for an increase in rates.	Direct	March-00
PUE 2003-00507	Atmos Energy Corporation for an increase in rates.	Direct	February-04
Colorado Public Utility Commission			
00S-668G	In the matter of the tariff sheets filed by Greeley Gas Company, a Division of Atmos Energy Corp with Advice Letter No. 419 regarding comprehensive changes to the rates, terms and conditions for natural gas sales, and transportation services	Direct	November-00
Kansas Corporation Commission			
03-ATMG-1036-RTS	In the Matter of the Application of Atmos Energy for Adjustment of its Natural Gas Rates in the States of Kansas	Direct and Rebuttal	June-03
Railroad Commission of Texas			
9002 – 9135	Statement of Intent Filed by Energas Company to Increase Rates Charged in the 67 West Texas Cities: Petition by Energas for Review of 67 Municipal Rate Decisions	Direct and Rebuttal	March-00
9670, 9676	Petition for de novo review of the reduction of the gas utility rates of Atmos Energy Corp, Mid-Tex Division...	Direct	May-06
Louisiana Public Service Commission			
U-21922, U-23508 Consolidated	Louisiana Public Service Commission, ex parte, Consolidated Docket U-21922 and U-23508, In re: Docket No. U-21922, In re: Investigation of the Rates and Charges of Trans Louisiana Gas Company, A Division of Atmos Energy Corp. (formerly styled: Trans Louisiana Gas Company (Dallas, Texas) ex parte, Request to continue Rate Stabilization Clause (RSC) beyond the three year trial period, which expired September 3, 1995)_and now Consolidated with Docket U-23508, Trans Louisiana Gas Company, A Division of Atmos Energy Corp. ex parte, In re: Request for approval of Commodity Performance Mechanism.	Direct and Rebuttal	March-99
U-28814	Petition of Trans Louisiana Gas Company, a regulatory division of Atmos Energy Corporation, requesting approval of a Conservation and Consumer Cost Stabilization rider.	Direct	May-05
Georgia Public Utility Commission			
20298-U	Filing of Increased Rates for Natural Gas Service	Direct	May-05
Missouri Public Service Commission			
GR-2006-0387	Atmos Energy Corporation's tariff revision designed to consolidate rates and implement a general rate increase for natural gas service	Direct	April-06

ATMOS ENERGY CORPORATION
MidStates General Office (Div091) Composite Allocation Factors
Based on 12 Month Period Ended 9/30/05

Composite Allocation Data	MidStates	092DIV IL	093DIV TN	095DIV GA	099DIV Ft Benning	096DIV VA	070DIV Kirkville	071DIV Butler	072DIV SEMO	097DIV MO	098DIV IA	099DIV KY
		092DIV IL	093DIV TN	095DIV GA	099DIV Ft Benning	096DIV VA	070DIV Kirkville	071DIV Butler	072DIV SEMO	097DIV MO	098DIV IA	099DIV KY
Gross Direct PP&E	\$	869,564,446	42,004,481	284,731,266	115,803,132	448,074	52,813,254	6,830,944	41,574,408	34,562,065	12,884,308	277,912,514
Average Number of Customers	#	465,548	23,125	122,120	64,758	1	21,563	5,964	35,191	14,453	4,329	174,044
Total O&M Expense *	\$	33,091,343	1,629,109	7,872,426	5,815,285	55,713	1,943,732	385,348	2,184,186	2,397,676	581,883	10,225,985
(* w/o Allocations)												
Gross Direct PP&E	%	100.00%	4.83%	32.75%	13.32%	0.05%	6.07%	0.79%	4.78%	3.97%	1.48%	31.96%
Average Number of Customers	%	100.00%	4.97%	26.24%	13.91%	0.00%	4.63%	1.28%	7.56%	3.10%	0.93%	37.38%
Total O&M Expense	%	100.00%	4.92%	23.80%	17.57%	0.17%	5.87%	1.16%	6.60%	7.25%	1.76%	30.90%
Total Composite Factor for FY 2006	%	66.59%	4.91%	27.60%	14.93%	0.07%	5.52%	1.08%	6.31%	4.77%	1.39%	33.41%
SS Composite		15.38%	0.75%	4.24%	2.30%	0.01%	0.85%	0.17%	0.97%	0.73%	0.21%	5.14%
SS Customer		15.19%	0.75%	3.98%	2.11%	0.00%	0.70%	0.19%	1.15%	0.47%	0.14%	5.68%