

IN THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

**IN RE: PETITION TO OPEN AN)
INVESTIGATION TO DETERMINE)
WHETHER ATMOS ENERGY CORP.)
SHOULD BE REQUIRED BY THE TRA)
TO APPEAR AND SHOW CAUSE THAT)
ATMOS ENERGY CORP. IS NOT)
OVEREARNING IN VIOLATION OF)
TENNESSEE LAW AND THAT IT IS)
CHARGING RATES THAT ARE JUST)
AND REASONABLE)**

Docket No. 05-00258

TESTIMONY OF THOMAS H. PETERSEN

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

A. My name is Thomas H. Petersen. I am Director of Rates for Atmos Energy Corporation ("Atmos" or "Company"), 5430 LBJ Freeway, Dallas, Texas 75240. I am responsible for rate studies of the Company's gas utility operations in 12 states including Tennessee.

Q. What is your educational background and professional experience?

A. I received a Bachelor of Science degree in accounting from the University of Nebraska at Omaha and a Master of Arts degree with a major in finance from the University of Iowa. I am a Chartered Financial Analyst. From July 1980 through March 1989, I was employed in Rates and Tariffs Division of the Kentucky Public Service Commission. I was Manager of Rates and Revenue Requirements for Atmos from April 1989 through September 1997. I was Director of Price Policy and Administration from October 1997 through September 1998. I have been in my current position since October 1998.

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

3
4 A. My testimony presents the calculation of the company's projected revenue
5 deficiency for the attrition year ended September 30, 2007. It shows the
6 calculation of an average rate base for the period, and incorporates the capital
7 structure presented by Ms. Sherwood, the rate of return presented by Dr. Murry,
8 shared services depreciation rates presented by Mr. Roff, cost allocation
9 changes presented by Mr. Cagle and the expense and revenue projections
10 presented by Mr. Waller into the deficiency calculation. The deficiency and rate
11 base calculations are shown in attached Schedules THP-1 through THP-10 and
12 related work papers.

13
14 **Q. Please explain Schedule THP-1.**

15
16 A. Schedule THP-1 summarizes the elements of the cost of service including gas
17 cost expense, operation and maintenance expense, depreciation expense, taxes
18 other than income taxes, return on rate base income tax and interest on
19 customer deposits and compares the total cost of service to revenues at present
20 rates to calculate a net revenue deficiency. The resulting total projected revenue
21 deficiency for the attrition year ended September 30, 2007 is \$3,393,287.

22
23 **Q. Please explain Schedules THP-2 and THP-3.**

24
25 A. Schedule THP-2 shows the projected attrition year revenues from Mr. Waller's
26 testimony and Schedule THP-3 shows the projected cost of gas from Mr. Waller's
27 testimony.

28
29 **Q. Please explain Schedule THP-4.**

1 A. Schedule THP-4 shows the projected attrition year operation and maintenance
2 expenses from DR #3 and the adjustments to remove the rent on intercompany
3 leased property, deduct the gain on the sale of the Maryland Way property,
4 include a three year amortization of rate case expenses, include a three year
5 amortization of environmental clean-up costs related to Docket 94-02529 and
6 adjust for cost allocation changes discussed in Mr. Waller's and Mr. Cagle's
7 testimony. The calculation of the amortization of environmental costs already
8 deferred and further environmental costs budgeted for the attrition year is shown
9 on work paper WP THP 4-1. Projected attrition year operation and maintenance
10 expenses while including some of the cost changes related to the Mid-States
11 reorganization did not consider cost allocation changes. The calculation of the
12 effect of pro forma cost allocation changes on attrition year operation and
13 maintenance expenses as presented in DR #3 is shown on work paper WP THP
14 4-2.

15
16 **Q. Please Explain Schedule THP-5.**

17
18 A. Schedule THP-5 shows the projected attrition year taxes other than income taxes
19 expense from DR #3 and an adjustment to incorporate pro forma cost allocation
20 factors. Projected attrition year taxes other than income taxes while including
21 some of the cost changes related to the Mid-States reorganization did not
22 consider cost allocation changes. The calculation of the effect of pro forma cost
23 allocation changes on attrition year taxes other than income taxes as presented
24 in DR #3 is shown on work paper WP THP 5-1.

25
26 **Q. Please Explain Schedule THP-6.**

27
28 A. Schedule THP-6 shows the projected attrition year depreciation and amortization
29 expense from DR #3, an adjustment to reflect the proposed depreciation rates on
30 shared services assets discussed in Mr. Roff's testimony and incorporates pro
31 forma cost allocation factors and an adjustment to reflect the net elimination of

1 intercompany leased property. The calculation of attrition year depreciation
2 expense at proposed shared services depreciation rates on work papers WP
3 THP 6-1 and WP THP 7-1 uses pro forma allocation factors.

4
5 **Q. Please Explain Schedule THP-7.**

6
7 A. Schedule THP-7 shows the calculation of the projected attrition year rate base.
8 The rate base includes the projected thirteen month averages of the original cost
9 of plant, accumulated depreciation, construction work in progress, storage gas
10 investment, materials and supplies, prepayments, accumulated deferred income
11 tax, customer advances, customer deposits, deferred rate case expenses. The
12 items included are generally consistent with the items included in the rate base in
13 the company's monthly 3.03 reports to the TRA. The differences from the 3.03
14 filings are that prepayments are included in Schedule THP-7 while cash working
15 capital and a credit for the unpaid for portion of material and supplies are
16 included in the 3.03 filings. The company has not performed a lead-lag study to
17 identify its cash working capital requirements and the company's general ledger
18 does not separately identify accounts payable related to materials and supplies.
19 The amount of prepayments included in rate base in Schedule THP-7 is
20 approximately \$724,000 which is less than the approximately \$1,170,000
21 included in rate base in the monthly 3.03 reports for cash working capital net of a
22 credit for the unpaid for portion of material and supplies.

23
24 Most of the amounts included in rate base are based on the company's
25 responses to DRs #33 and #36. Those data responses included projections
26 through the attrition year prepared by the company's planning and budget
27 department. These attrition year projections included general office cost
28 allocations using allocation factors from the current year. I have revised the
29 calculation of the items included in rate base to use the pro forma allocation
30 factors presented in Mr. Cagle's testimony. This reallocation is shown on work
31 papers WP THP 7-4 and WP THP 7-5. These allocation factors reflect the

1 reorganization of the Mid-States and Kentucky Divisions on October 1, 2006
2 discussed in Mr. Waller's testimony. The allocation factors are summarized on
3 work paper WP THP 7-6. That work paper also shows the calculation of a
4 blended or weighted average allocation factor for shared services rate base
5 items. Approximately 70 percent of shared services plant investment relates to
6 customer support services with the remainder related to general office plant. The
7 allocation factor from shared services to Tennessee for customer service plant is
8 3.99% and the allocation factor for general office plant is 4.24%. The projected
9 shared services plant and other rate base items from DRs 33 and 36 are not
10 broken out between customer service and general office amounts. Therefore a
11 weighted average shared services to Tennessee allocation factor of 4.07% is
12 calculated on work paper WP THP 7-6. The change in allocation factors from
13 those used in DR #33 reduces rate base by approximately \$784,000. The
14 deferred rate case expenses are based on the legal and consulting cost
15 estimates from MFR #45 plus an estimated \$25,000 of miscellaneous rate case
16 expenses and a three year amortization of the total deferred rate case expenses.
17 The rate base is adjusted to include the projected net book value of the
18 intercompany leased property, deduct the unamortized gain on the sale of the
19 Maryland Way property and to increase accumulated depreciation for the
20 implementation of proposed shared services depreciation rates at the beginning
21 of the attrition year. The calculation of the accumulated depreciation adjustment
22 is shown on work papers WP THP 7-1 through WP THP 7-3.

23
24 **Q. Please Explain Schedule THP-8.**

25
26 A. Schedule THP-8 shows the calculation of income taxes on the required return on
27 rate base.

28
29 **Q. Please Explain Schedule THP-9.**

1 A. Schedule THP-9 shows the calculation of the overall cost of capital based on the
2 target capital structure from Ms. Sherwood's testimony of 50% equity and 50%
3 debt, a debt cost rate based on the annualized cost rate on long term debt as of
4 April 30, 2006 of 6.03% and the required rate of return on equity from Dr. Murry's
5 testimony of 12%. The resulting weighted average cost of capital is 9.02%.

6
7 **Q. Please Explain Schedule THP-10.**

8
9 A. Schedule THP-10 shows the calculation of a rate of return on rate base and a
10 rate of return on the equity financed portion of rate base for the attrition period
11 with costs and revenues as presented in schedules THP-2 through THP-9. The
12 resulting rate of return on rate base is 7.80% and the rate of return on the equity
13 financed portion of rate base is 9.57%.

14
15 **Q. Does this conclude your testimony?**

16 A. Yes.

**Tennessee Distribution System
Cost of Service
Twelve Months Ended to September 30, 2007**

Line No.	Description (a)	Reference (b)	Amount (c)
1	Cost of Gas	Schedule 3	\$143,086,066
2			
3	Operation & Maintenance Expense	Schedule 4	14,309,933
4			
5	Depreciation & Amortization Expense	Schedule 6	12,758,460
6			
7	Taxes Other Than Income Taxes	Schedule 5	6,090,833
8			
9	Return	Schedule 7	15,282,436
10			
11	Income Tax	Schedule 8	6,561,066
12			
13	Interest on Customer Deposits		<u>470,796</u>
14			
15	Total Cost of Service		198,559,590
16			
17			
18	Revenue at Present Rates	Schedule 2	<u>195,166,303</u>
19			
20	Net Revenue Deficiency		<u><u>3,393,287</u></u>

**Tennessee Distribution System
Interest on Customer Deposits
Twelve Months Ended September 30, 2007**

Line No.	Description (a)	Amount (b)
1	Average Customer Deposit Balance	\$6,082,633
2		
3	Interest Rate on Customer Deposits	<u>7.74%</u>
4		
5	Adjusted Customer Deposit Interest	<u><u>\$470,796</u></u>

Tennessee Distribution System
Summary of Revenue at Present Rates
Twelve Months Ended September 30, 2007

Line No.	Description	Amount	Source
	(a)	(b)	(c)
1	Revenues	195,166,303	Dr #3
2			
3	Adjustments	-	
4			
5	Adjusted Margin	<u>195,166,303</u>	

Tennessee Distribution System
Cost of Gas
Twelve Months Ended September 30, 2007

Line No.	Description	Amount	Source
	(a)	(b)	
1	Gas Cost	\$143,086,066	Dr #3
2			
3	Adjustments	-	
4			
5	Total Gas Cost	<u>143,086,066</u>	

**Tennessee Distribution System
Operation and Maintenance Expenses
Twelve Months Ended September 30, 2007**

Line No.	Description (b)	Amount (\$) (c)
1		
2	Storage Trans. & Dist.-Oper	4,451,731
3		
4	Storage Trans. & Dist.-Mtnce	474,886
5		
6	Customer Accounts Expense	2,339,060
7		
8	Sales Expense	173,884
9		
10	Administrative and General Expenses	<u>7,956,954</u>
11		
12	Total Operation and Maintenance Expenses - Unadjusted	15,396,515
13		
14	<u>Adjustments to O&M</u>	
15	Net Elimination of Intercompany Leased Property	(2,079,882)
16	Gain on sale of Maryland Way Property	(20,244)
17	Amortization of rate case expense	55,000
18	Amortization of Manufactured Gas Plant Clean-up	637,802
19	Reorganization related allocation change	320,742
20		
21	Total Adjustments	<u>(1,086,582)</u>
22		
23	Total Adjusted Operation and Maintenance Expenses	<u><u>14,309,933</u></u>

Tennessee Distribution System
Proposed Amortization of Environmental Remediation costs
Twelve Months Ended to September 30, 2007

Line No.	Account Number	Description	Balance Mar-06
1	1860.13927	Johnson, City, TN	\$ 299,829
2	1860.13927	Bristol, TN	750,465
3	1860.13936	TN Tank Removal	<u>183,112</u>
4		Total	\$ 1,233,407
5			
6		Projected spending FY 2007	<u>680,000</u>
7			
8		Total	1,913,407
9			
10		Amortization - 3 years	<u><u>637,802</u></u>

Tennessee Distribution System
Change in Attrition Year O&M Related to Proforma Allocation Factors
Twelve Months Ended to September 30, 2007

Line No.	Description	Amount
1	Mid-States General Office Projected O&M	\$ 26,593,572
2	[Including SSU allocations and changes due to reorganization]	
3		
4	Proforma Mid-States Genral Office Allocation Factor	<u>27.6%</u>
5		
6	Mid-States General Office Projected O&M Allocated to Tennessee	7,338,940
7		
8	Mid-States General Office Projected O&M Allocated to Tennessee	<u>7,018,197</u>
9	[Consistent with O&M in DR #3]	
10		
11	Increase	<u><u>320,742</u></u>

**Tennessee\ Distribution System
Taxes Other Than Income Taxes
Twelve Months Ended September 30, 2007**

Line No.	Description	Total Georgia Distribution
	(a)	(b)
	<u>Taxes Other Than Income Taxes</u>	
1	Total Unadjusted	\$ 6,116,416
2		
3	<u>Adjustments</u>	
4		
5	Reorganization related allocation change	(25,583)
6		
7		
8	Total Adjustments	<u>(25,583)</u>
9		
10		
11	Total Taxes Other Than Income Taxes, As Adjusted	<u><u>\$6,090,833</u></u>

Tennessee Distribution System
Change in Attrition Year Taxes Other Than Income Related to Proforma Allocation Factors
Twelve Months Ended to September 30, 2007

Line No.	Description	Amount
1	Mid-States General Office Projected Taxes Other Than Income	\$ 850,754
2	[Including SSU allocations and changes due to reorganization]	
3		
4	Proforma Mid-States Genral Office Allocation Factor	<u>27.6%</u>
5		
6	Mid-States General Office Projected Taxes Other Than Income	234,780
7	Allocated to Tennessee	
8	Mid-States General Office Projected Taxes Other Than Income	<u>260,363</u>
9	Allocated to Tennessee [Consistent with O&M in DR #3]	
10		
11	Increase	<u><u>(25,583)</u></u>

**Tennessee Distribution System
Depreciation and Amortization Expense
Twelve Months Ended September 30, 2007**

Line No.	Description (a)	Amount (b)	Source
1	Depreciation and Amortization Expense	\$ 12,000,217	DR #3
2			
3	Adjustment to reflect Attrition Year Level of	519,659	WP THP 6-1
4	Plant and Proposed SSU Depreciation rates		
5	and proforma allocation factors		
6			
7	Net Elimination of Intercompany Leased Property	238,584	DR #42
8			
9			
10	Total Depreciation and Amortization Expense, As Adjusted	<u>\$ 12,758,460</u>	

**Tennessee Distribution System
Depreciation Expense Adjustment
Proforma SSU Depreciation (Company 10)
Twelve Months Ended to September 30, 2007**

Line No.	Description	Amount
1	Tennessee Depreciation Excluding SSU as included in DR #33	\$ 10,929,017
2		
3	Reduction of Tennessee Depreciation Excluding SSU to reflect	
4	proforma allocation factors	\$ (70,460)
5		
6	Proforma SSU Allocated Depreciation Expense from SSU (WP 7-1)	<u>1,661,319</u>
7		
8	Proforma Depreciation Expense	\$ 12,519,876
9		
10	DR #3 Depreciation Expense	<u>12,000,217</u>
11		
12	Proforma Depreciation Adjustment	<u><u>\$ 519,659</u></u>

**Tennessee Distribution System
Rate Base & Return
Twelve Months Ended to September 30, 2007
Thirteen Month Average**

Line No.	Description (a)	Amount (b)
1	Original Cost of Plant	\$317,595,022
2		
3	Accumulated Depreciation and Amortization	(138,491,810)
4		
5	Construction Work in Progress per Books	5,170,361
6		
7	Storage Gas Investment	16,616,293
8		
9	Material & Supplies	38,945
10		
11	Deferred Rate Case Expenses	137,500
12		
13	Prepayments	723,572
14		
15	Accumulated Deferred Income Tax	(32,917,653)
16		
17	Customer Advances for Construction	(39,063)
18		
19	Customer Deposits	(6,082,633)
20		
21	Adjustments:	
22	Net Elimination of Intercompany Leased Property	7,126,069
23	Unamortized Maryland Way Gain	(28,708)
24	Proposed SSU Depreciation Rates	(419,556)
25	Total Rate Base	<u>169,428,338</u>
26		
27		
28	Return @ Overall Cost of Capital on Rate Base	<u>15,282,436</u>

**Tennessee Distribution System
Accumulated Depreciation Adjustment
Proforma SSU Depreciation (Company 10)
Twelve Months Ended to September 30, 2007**

Month	SSU Gas Plant in Service (Account 101)	Proforma Depreciation at composite rates	Proforma Depreciation Allocated to Tennessee	Proforma Depreciation Additions to Accumulated	DR #33 Depreciation Allocated to Tennessee	DR #33 Depreciation Additions to Accumulated	Adjustment to Accumulated Depreciation
Sep-06	234,325,396						
Oct-06	235,658,729	3,298,898	134,265	134,265	71,030	71,030	63,235
Nov-06	236,992,062	3,317,563	135,025	269,290	71,432	142,462	126,828
Dec-06	238,325,396	3,336,228	135,784	405,074	71,834	214,295	190,779
Jan-07	239,658,729	3,354,893	136,544	541,619	72,236	286,531	255,088
Feb-07	240,992,062	3,373,558	137,304	678,922	72,637	359,168	319,754
Mar-07	242,325,396	3,392,222	138,063	816,986	73,039	432,208	384,778
Apr-07	243,658,729	3,410,887	138,823	955,809	73,441	505,649	450,160
May-07	244,992,062	3,429,552	139,583	1,095,392	73,843	579,492	515,900
Jun-07	246,325,396	3,448,217	140,342	1,235,734	74,245	653,737	581,998
Jul-07	247,658,729	3,466,882	141,102	1,376,836	74,647	728,383	648,453
Aug-07	248,992,062	3,485,547	141,862	1,518,698	75,049	803,432	715,266
Sep-07	250,325,396	3,504,212	142,621	1,661,319	75,451	878,883	782,437
Average	242,325,396			890,829		471,272	419,556
FY 2007 total		40,818,659	1,661,319		878,883		

Composite depreciation rate 16.8%

Allocation percentage to Tennessee 4.07%

**Tennessee Distribution System
Accumulated Depreciation Adjustment
Composite Shared Services Depreciation Rate
Twelve Months Ended December 31, 2005**

Line No.	Shared Services General Office		Balance	Fully & Non-Deprec		Depreciable Plant	Depr. Rate	Proforma Depreciation
	Account	Description		Plant				
	(a)	(b)	(c)	(d)		(e)	(f)	(g)
1	390	Improvements to Leased Premises	\$5,865,602			\$5,865,602	12.26%	\$719,123
2	391	Office Furniture & Equipment	10,385,073			10,385,073	3.29%	341,669
3	391.02	Remittance Processing Equipment	53,365	53,365		0	11.37%	0
4	391.03	Office Furniture & Equipment	1,160,987	1,160,987		0	1.17%	0
5	392	Transportation Equipment	18,885	18,885		0	28.96%	0
7	393	Stores Equipment	6,063	6,063		0	10.00%	0
8	394	Tools & Work Equipment	33,042	33,042		0	10.00%	0
9	397	Communication Equipment - Telephone	1,737,456			1,737,456	11.64%	202,240
10	398	Miscellaneous Equipment	631,550			631,550	20.86%	131,741
11	399	Other Tangible Property	10,196			10,196	23.99%	2,446
12	399.01	Other Tangible Property-Servers Hardware	2,786,265			2,786,265	28.15%	784,333
13	399.02	Other Tangible Property-Servers Software	1,440,287			1,440,287	29.95%	431,366
14	399.03	Other Tangible Property-Network-Hardware	350,749			350,749	29.09%	102,033
15	399.04	Other Tangible Property-CPU	1,095,465	1,095,465		0	26.26%	0
16	399.05	Other Tangible Property-MF Hardware	1,159,964	1,159,964		0	15.76%	0
17	399.06	Other Tangible Property-PC Hardware	4,886,184			4,886,184	47.16%	2,304,324
18	399.07	Other Tangible Property-PC Software	1,043,348			1,043,348	26.52%	276,696
19	399.08	Other Tangible Property-Application Software	26,508,039			26,508,039	17.02%	4,511,668
20	399.09	Other Tangible Property-System Software	3,089,128			3,089,128	6.21%	191,835
21	399.24	Other Tangible Property-GenStartupCost	0			0	10.81%	0
22	Total		<u>\$62,261,648</u>	<u>\$3,527,772</u>		<u>\$58,733,877</u>		<u>9,999,475</u>
23	Total Including Customer Support WP 7-3		\$204,441,638					34,342,823
24	Compsite Depreciation Rate							<u>16.80%</u>

**Tennessee Distribution System
Accumulated Depreciation Adjustment
Composite Shared Services Depreciation Rate
Twelve Months Ended December 31, 2005**

Shared Services Customer Support

Line No.	Account	Description	Balance	Non-Deprec Plant	Depreciable Plant	Depr. Rate	Proforma Depreciation
	(a)	(b)	(c)	(d)	(g)	(h)	(i)
1	390	Improvements to Leased Premises	\$3,519,069		\$3,519,069	12.26%	431,438
2	391	Office Furniture & Equipment	56,077		56,077	3.29%	1,845
3	391.02	Remittance Processing Equipment	0		0	11.37%	0
4	391.03	Office Furniture & Equipment	0		0	1.17%	0
5	392	Transportation Equipment	0		0	28.96%	0
6	393	Tools & Work Equipment	0		0	10.00%	0
7	394	Tools & Work Equipment	0		0	10.00%	0
8	397	Communication Equipment - Telephone	22,021,825		22,021,825	11.64%	2,563,340
9	398	Miscellaneous Equipment	1,916		1,916	20.86%	400
10	399	Other Tangible Property	214,670		214,670	23.99%	51,499
11	399.01	Other Tangible Property-Servers Hardware	9,628,535		9,628,535	28.15%	2,710,433
12	399.02	Other Tangible Property-Servers Software	6,854,583		6,854,583	29.95%	2,052,948
13	399.03	Other Tangible Property-Network-Hardware	459,775		459,775	29.09%	133,749
14	399.04	Other Tangible Property-CPU	0		0	26.26%	0
15	399.05	Other Tangible Property-MF Hardware	0		0	15.76%	0
16	399.06	Other Tangible Property-PC Hardware	2,544,181		2,544,181	47.16%	1,199,836
17	399.07	Other Tangible Property-PC Software	1,557,860		1,557,860	26.52%	413,145
18	399.08	Other Tangible Property-Application Software	72,149,171		72,149,171	17.02%	12,279,789
19	399.09	Other Tangible Property-System Software	0		0	6.21%	0
21	399.24	Other Tangible Property-GenStartupCost	23,172,326		23,172,326	10.81%	2,504,928
22	Total		<u>\$142,179,989</u>	<u>\$0</u>	<u>\$142,179,989</u>		<u>24,343,349</u>

**Tennessee Distribution System
Rate Base & Return
Twelve Months Ended to September 30, 2007
Change due to proforma allocation factors**

Line No.	Description	FY 2006 Allocation Factors Amount	Pro Forma Allocation Factors Amount	Difference	Source / Description
	(a)	(b)	(c)	(d)	(e)
1	Original Cost of Plant	\$318,920,976	317,595,022	(1,325,954)	DR #33 & #36 - Account 101
2					
3	Accumulated Depreciation and Amortization	(139,623,342)	(138,491,810)	1,131,532	DR #33 & #36 - Account 108
4					
5	Construction Work in Progress per Books	5,811,376	5,170,361	(641,014)	DR #33 & #36 - Account 107
6					
7	Storage Gas Investment	16,616,293	16,616,293	-	DR #33 & #36 - Account 164.1
8					
9	Material & Supplies	61,606	38,945	(22,662)	DR #33 & #36 - Account 154
10					
11	Deferred Rate Case Expenses	137,500	137,500	-	MFR #45 plus 25K misc exp & 3yr amort
12					
13	Prepayments	737,252	723,572	(13,680)	DR #33 - Account 165
14					
15	Accumulated Deferred Income Tax	(33,005,385)	(32,917,653)	87,732	DR #33 & #36 - Accts 190, 282, 283
16					
17	Customer Advances for Construction	(32,476)	(39,063)	(6,588)	DR #33 & #36 - Account 252
18					
19	Customer Deposits	(6,082,633)	(6,082,633)	-	DR #33 & #36 - Account 235
20					
21	Adjustments:				
22	Net Elimination of Interco. Leased Property	7,126,069	7,126,069	(0)	DR #36
23	Unamortized Maryland Way Gain	(28,708)	(28,708)	-	DR #36
24	Proposed SSU Depreciation Rates	(426,123)	(419,556)	6,566	
25	Total Rate Base	<u>170,212,404</u>	<u>169,428,338</u>	<u>(784,066)</u>	

Tennessee Distribution System
Reallocation of Rate Base Items at Proforma Allocation Factors
Twelve Months Ended September 30, 2007

a. : Gas Plant in Service (Account 101) 13 month average Balances.

Row #	a	b	c	d	e	f	g	h	i	j	k	l
	Month	Service Area 93,000 Tennessee	Service Area 88,000 Central Regional	Service Area 90,000 Eastern Regional	Service Area 91,000 MSBU	Company 10 Shared Services	Service Area 93,000 100%	Service Area 88,000 27.60%	Service Area 90,000 27.60%	Service Area 91,000 27.60%	Company 10 4.07%	Total Tennessee
1	Sep-06	299,147,889	179,711	30,274	4,484,612	234,325,396	299,147,889	98,086	12,098	2,138,263	10,029,127	311,425,463
2	Oct-06	300,080,593	175,955	30,043	4,079,257	235,658,729	300,080,593	48,564	8,292	1,125,875	9,591,310	310,854,634
3	Nov-06	302,054,243	175,909	30,274	3,610,668	236,992,062	302,054,243	48,551	8,356	996,544	9,645,577	312,753,271
4	Dec-06	303,575,489	176,571	26,912	2,695,776	238,325,396	303,575,489	48,734	7,428	744,034	9,699,844	314,075,528
5	Jan-07	304,636,546	175,460	30,129	2,141,348	239,658,729	304,636,546	48,427	8,316	591,012	9,754,110	315,038,411
6	Feb-07	306,309,293	176,058	30,105	1,491,236	240,992,062	306,309,293	48,592	8,309	411,581	9,808,377	316,586,152
7	Mar-07	305,469,139	149,108	29,914	6,425,340	242,325,396	305,469,139	41,154	8,256	1,773,394	9,862,644	317,154,587
8	Apr-07	306,211,979	150,030	30,103	6,129,242	243,658,729	306,211,979	41,408	8,308	1,691,671	9,916,910	317,870,277
9	May-07	306,954,819	150,952	30,292	5,833,144	244,992,062	306,954,819	41,663	8,361	1,609,948	9,971,177	318,585,967
10	Jun-07	307,697,659	151,874	30,481	5,537,046	246,325,396	307,697,659	41,917	8,413	1,528,225	10,025,444	319,301,658
11	Jul-07	310,601,736	161,153	30,412	5,186,235	247,658,729	310,601,736	44,478	8,394	1,431,401	10,079,710	322,165,719
12	Aug-07	313,505,612	170,432	30,343	4,835,424	248,992,062	313,505,612	47,039	8,375	1,334,577	10,133,977	325,029,780
13	Sep-07	316,409,889	179,711	30,274	4,484,612	250,325,396	316,409,889	49,600	8,356	1,237,753	10,188,244	327,893,842
14		306,358,084	167,148	29,966	4,379,534	242,325,396	306,358,084	49,863	8,558	1,278,021	9,900,496	317,595,022

b. : Construction Work in Process (Account 1070).

13 month average balances.

Row #	a	b	c	d	e	f	g	h	i	j	k	l
	Month	Service Area 93,000 Tennessee	Service Area 88,000 Central Regional	Service Area 90,000 Eastern Regional	Service Area 91,000 MSBU	Company 10 Shared Services	Service Area 93,000 100%	Service Area 88,000 27.60%	Service Area 90,000 27.60%	Service Area 91,000 27.60%	Company 10 4.07%	Total Tennessee
22	Sep-06	2,351,933	30,434	2,454	3,173,426	10,534,457	2,351,933	16,611	981	1,513,090	450,875	4,333,489
23	Oct-06	2,857,729	34,190	2,685	3,578,781	10,534,457	2,857,729	9,436	741	987,744	428,752	4,284,402
24	Nov-06	2,322,579	34,236	2,454	4,047,370	10,534,457	2,322,579	9,449	677	1,117,074	428,752	3,878,532
25	Dec-06	2,239,833	33,574	5,816	4,962,262	10,534,457	2,239,833	9,266	1,605	1,369,584	428,752	4,049,041
26	Jan-07	2,617,276	34,685	2,599	5,516,690	10,534,457	2,617,276	9,573	717	1,522,606	428,752	4,578,925
27	Feb-07	2,383,029	34,087	2,623	6,166,802	10,534,457	2,383,029	9,408	724	1,702,037	428,752	4,523,951
28	Mar-07	4,661,683	61,037	2,814	1,232,698	10,534,457	4,661,683	16,846	777	340,225	428,752	5,448,283
29	Apr-07	5,357,343	60,115	2,625	1,528,796	10,534,457	5,357,343	16,592	725	421,948	428,752	6,225,359
30	May-07	6,053,003	59,193	2,436	1,824,894	10,534,457	6,053,003	16,337	672	503,671	428,752	7,002,436
31	Jun-07	6,748,663	58,271	2,247	2,120,992	10,534,457	6,748,663	16,083	620	585,394	428,752	7,779,512
32	Jul-07	5,263,086	48,992	2,316	2,471,803	10,534,457	5,263,086	13,522	639	682,218	428,752	6,408,217
33	Aug-07	3,817,510	39,713	2,385	2,822,615	10,534,457	3,817,510	10,961	658	779,042	428,752	5,036,923
34	Sep-07	2,351,933	30,434	2,454	3,173,426	10,534,457	2,351,933	8,400	677	875,866	428,752	3,665,628
35		3,772,738	42,997	2,762	3,278,504	10,534,457	3,772,738	12,499	786	953,884	430,454	5,170,361

**Tennessee Distribution System
Reallocation of Rate Base Items at Proforma Allocation Factors
Twelve Months Ended September 30, 2007**

Row #	a	b	c	d	e	f	g	h	i	j	k	l
c.: Inventories; Plant Materials (Account 1540).												
13 month average balances.												
		Service Area 93,000	Service Area 88,000	Service Area 90,000	Service Area 91,000	Company 10	Service Area 93,000	Service Area 88,000	Service Area 90,000	Service Area 91,000	Company 10	Total
	Month	Tennessee	Central Regional	Eastern Regional	MSBU	Shared Services	100%	27.60%	27.60%	27.60%	4.07%	Tennessee
1	Sep-06	0	0	0	138,933	0	0	0	0	66,243	0	66,243
2	Oct-06	0	0	0	135,589	0	0	0	0	37,423	0	37,423
3	Nov-06	0	0	0	132,711	0	0	0	0	36,628	0	36,628
4	Dec-06	0	0	0	132,711	0	0	0	0	36,628	0	36,628
5	Jan-07	0	0	0	132,656	0	0	0	0	36,613	0	36,613
6	Feb-07	0	0	0	132,583	0	0	0	0	36,593	0	36,593
7	Mar-07	0	0	0	132,583	0	0	0	0	36,593	0	36,593
8	Apr-07	0	0	0	132,583	0	0	0	0	36,593	0	36,593
9	May-07	0	0	0	132,583	0	0	0	0	36,593	0	36,593
10	Jun-07	0	0	0	132,583	0	0	0	0	36,593	0	36,593
11	Jul-07	0	0	0	132,583	0	0	0	0	36,593	0	36,593
12	Aug-07	0	0	0	132,583	0	0	0	0	36,593	0	36,593
13	Sep-07	0	0	0	132,583	0	0	0	0	36,593	0	36,593
14		0	0	0	133,328	0	0	0	0	38,945	0	38,945

c. : Inventories-Gas Stored (Account 1641).
13 month average balances.

Gas Stored (Account 1641).
13 month average balances.
Includes Tennessee stored gas in Division 93 and an allocated portion of Tennessee stored gas in Division 96

Month	Service Area 93,000 Tennessee	Service Area 88,000 Central Regional	Service Area 90,000 Eastern Regional	Service Area 91,000 MSBU	Company 10 Shared Services	Service Area 93,000 100%	Service Area 88,000 27.60%	Service Area 90,000 27.60%	Service Area 91,000 27.60%	Company 10 4.07%	Total Tennessee
Sep-06	20,903,904	0	0	0	0	20,903,904	0	0	0	0	20,903,904
Oct-06	24,670,004	0	0	0	0	24,670,004	0	0	0	0	24,670,004
Nov-06	28,208,215	0	0	0	0	28,208,215	0	0	0	0	28,208,215
Dec-06	26,213,458	0	0	0	0	26,213,458	0	0	0	0	26,213,458
Jan-07	20,760,985	0	0	0	0	20,760,985	0	0	0	0	20,760,985
Feb-07	16,932,894	0	0	0	0	16,932,894	0	0	0	0	16,932,894
Mar-07	9,138,011	0	0	0	0	9,138,011	0	0	0	0	9,138,011
Apr-07	4,395,469	0	0	0	0	4,395,469	0	0	0	0	4,395,469
May-07	6,481,793	0	0	0	0	6,481,793	0	0	0	0	6,481,793
Jun-07	8,834,924	0	0	0	0	8,834,924	0	0	0	0	8,834,924
Jul-07	12,378,725	0	0	0	0	12,378,725	0	0	0	0	12,378,725
Aug-07	16,567,578	0	0	0	0	16,567,578	0	0	0	0	16,567,578
Sep-07	20,525,852	0	0	0	0	20,525,852	0	0	0	0	20,525,852
	16,616,293	0	0	0	0	16,616,293	0	0	0	0	16,616,293

Row #	a	b	c	d	e	f	g	h	i	j	k	l
f. : Customers Deposits (Account 2350).												
13 month average balances.												
	Month	Service Area 93,000 Tennessee	Service Area 88,000 Central Regional	Service Area 90,000 Eastern Regional	Service Area 91,000 MSBU	Company 10 Shared Services	Service Area 93,000 100%	Service Area 88,000 27.60%	Service Area 90,000 27.50%	Service Area 91,000 27.60%	Company 10 4.07%	Total Tennessee
1	Sep-06	-5,698,955	0	0	0	0	-5,698,955	0	0	0	0	-5,698,955
2	Oct-06	-5,970,229	0	0	0	0	-5,970,229	0	0	0	0	-5,970,229
3	Nov-06	-6,145,574	0	0	0	0	-6,145,574	0	0	0	0	-6,145,574
4	Dec-06	-6,238,541	0	0	0	0	-6,238,541	0	0	0	0	-6,238,541
5	Jan-07	-6,251,066	0	0	0	0	-6,251,066	0	0	0	0	-6,251,066
6	Feb-07	-6,297,210	0	0	0	0	-6,297,210	0	0	0	0	-6,297,210
7	Mar-07	-6,294,153	0	0	0	0	-6,294,153	0	0	0	0	-6,294,153
8	Apr-07	-6,197,815	0	0	0	0	-6,197,815	0	0	0	0	-6,197,815
9	May-07	-6,181,576	0	0	0	0	-6,181,576	0	0	0	0	-6,181,576
10	Jun-07	-6,088,857	0	0	0	0	-6,088,857	0	0	0	0	-6,088,857
11	Jul-07	-5,996,138	0	0	0	0	-5,996,138	0	0	0	0	-5,996,138
12	Aug-07	-5,903,419	0	0	0	0	-5,903,419	0	0	0	0	-5,903,419
13	Sep-07	-5,810,699	0	0	0	0	-5,810,699	0	0	0	0	-5,810,699
14		-6,082,633	0	0	0	0	-6,082,633	0	0	0	0	-6,082,633

i.: Accumulated Deferred FIT (Total Accounts 1900, 2820, 2830), 13 month average balances.

		Service Area			Service Area		Service Area		Service Area		Service Area		Service Area		Company		Company		Total	
		Tennessee	88,000	90,000	Eastern Regional	MSBU	Shared Services	100%	93,000	27.60%	88,000	27.60%	90,000	27.60%	91,000	27.60%	10	4.07%	Tennessee	
	Month	Sep-06	-30,680,745	-65,733	-14,002	144,365	-49,443,409	-30,680,745	-35,877	-5,595	68,833	-2,116,178	-32,769,562							
19		Sep-06	-30,680,745	-65,733	-14,002	144,365	-49,443,409	-30,680,745	-35,877	-5,595	68,833	-2,116,178	-32,769,562							
20		Oct-06	-30,717,543	-65,812	-14,019	144,539	-49,502,711	-30,717,543	-18,164	-3,869	39,893	-2,014,760	-32,714,444							
21		Nov-06	-30,754,342	-65,891	-14,036	144,712	-49,562,014	-30,754,342	-18,186	-3,874	39,940	-2,017,174	-32,763,635							
22		Dec-06	-30,791,141	-65,970	-14,052	144,885	-49,621,317	-30,791,141	-18,208	-3,878	39,988	-2,019,588	-32,792,826							
23		Jan-07	-30,827,939	-66,049	-14,069	145,058	-49,680,619	-30,827,939	-18,229	-3,883	40,036	-2,022,001	-32,832,017							
24		Feb-07	-30,864,738	-66,128	-14,086	145,231	-49,739,922	-30,864,738	-18,251	-3,888	40,084	-2,024,415	-32,871,208							
25		Mar-07	-30,901,536	-66,206	-14,103	145,404	-49,799,225	-30,901,536	-18,273	-3,892	40,132	-2,026,828	-32,910,399							
26		Apr-07	-30,938,335	-66,285	-14,120	145,578	-49,858,527	-30,938,335	-18,295	-3,897	40,179	-2,029,242	-32,949,589							
27		May-07	-30,975,134	-66,364	-14,136	145,751	-49,917,830	-30,975,134	-18,316	-3,902	40,227	-2,031,656	-32,988,780							
28		Jun-07	-31,011,932	-66,443	-14,153	145,924	-49,977,133	-31,011,932	-18,338	-3,906	40,275	-2,034,069	-33,027,971							
29		Jul-07	-31,048,731	-66,522	-14,170	146,097	-50,036,435	-31,048,731	-18,360	-3,911	40,323	-2,036,483	-33,067,162							
30		Aug-07	-31,085,530	-66,601	-14,187	146,270	-50,095,738	-31,085,530	-18,382	-3,916	40,371	-2,038,897	-33,106,353							
31		Sep-07	-31,122,328	-66,679	-14,204	146,443	-50,155,041	-31,122,328	-18,404	-3,920	40,418	-2,041,310	-33,145,544							
32			-30,901,536	-66,206	14,103	145,404	-49,799,225	-30,901,536	-19,637	-4,025	42,362	-2,034,815	-32,917,653							

i.: Accumulated Depreciation (Account 1080). 13 month average balances.

m.: Customers Advances (Account 2520).

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**Tennessee Distribution System
Reallocation of Rate Base Items at Proforma Allocation Factors
Twelve Months Ended September 30, 2007**

p.: Prepaid. (Account 1650).
13 month average balances.

[illegible]

Net elimination of intercompany leased property
13 month average balances.

Month	Service Area 93000		Service Area 88000		Service Area 90000		Service Area 91000		Company 10		Total	
	Tennessee	Central Regional	Eastern Regional	MSBU	Shared Services	100%	27.60%	27.60%	27.60%	4.07%	Tennessee	
Sep-04	7,245,366	0	0	0	0	7,245,366	0	0	0	0	7,245,366	
Oct-04	7,225,483	0	0	0	0	7,225,483	0	0	0	0	7,225,483	
Nov-04	7,205,600	0	0	0	0	7,205,600	0	0	0	0	7,205,600	
Dec-04	7,185,717	0	0	0	0	7,185,717	0	0	0	0	7,185,717	
Jan-05	7,165,834	0	0	0	0	7,165,834	0	0	0	0	7,165,834	
Feb-05	7,145,951	0	0	0	0	7,145,951	0	0	0	0	7,145,951	
Mar-05	7,126,069	0	0	0	0	7,126,069	0	0	0	0	7,126,069	
Apr-05	7,106,186	0	0	0	0	7,106,186	0	0	0	0	7,106,186	
May-05	7,086,303	0	0	0	0	7,086,303	0	0	0	0	7,086,303	
Jun-05	7,066,420	0	0	0	0	7,066,420	0	0	0	0	7,066,420	
Jul-05	7,046,537	0	0	0	0	7,046,537	0	0	0	0	7,046,537	
Aug-05	7,026,654	0	0	0	0	7,026,654	0	0	0	0	7,026,654	
Sep-05	7,006,771	0	0	0	0	7,006,771	0	0	0	0	7,006,771	
	7,126,069	0	0	0	0	7,126,069	0	0	0	0	7,126,069	

**Tennessee Distribution System
Reallocation of Rate Base Items at Proforma Allocation Factors
Twelve Months Ended September 30, 2007**

[illegible]

**Tennessee Distribution System
Allocation Factors
Twelve Months Ended September 30, 2007**

Line No.	Description	(b)	(c)	Allocation Factors (d)
1	Composite allocation factor SSU to Mid- States			0.1538
2				
3	Composite allocation factor Mid- States to Tennessee			<u>0.2760</u>
4				
5	Composite allocation factor SSU to Tennessee			<u>0.0424</u>
6				
7				
8	Customer allocation factor SSU to Mid- States			0.1519
9				
10	Customer allocation factor Mid- States to Tennessee			<u>0.2624</u>
11				
12	Customer allocation factor SSU to Tennessee			<u>0.0399</u>
13				
14				
15	SSU General Office Plant WP 7-2	\$62,261,648	30.45%	
16	SSU Customer Support Plant WP 7-3	<u>\$142,179,989</u>	<u>69.55%</u>	
17		\$204,441,638	100.00%	
18				
19	SSU Average Rate Base Allocation Factor			
20	Composite allocation factor SSU to Tennessee	0.0424	30.45%	0.0129
21	Customer allocation factor SSU to Tennessee	0.0399	69.55%	<u>0.0277</u>
22	Average Factor			<u>0.0407</u>

**Tennessee Distribution System
Computation of Federal Income Taxes
Twelve Months Ended September 30, 2007**

Line No.	Description		(b)
1	Required Return		\$15,282,436
2			
3	Interest Deduction		<u>5,116,736</u>
4			
5	Equity Portion of Return		10,165,700
6			
7	Application of Tax Rate to Equity Return - Tennessee	6.5%	660,771
8			
9	Application of Tax Rate to Equity Return - Federal	35%	<u>\$3,326,725</u>
10			
11			\$3,987,496
12			
13	Tax Expansion Factor		<u>1.64541</u>
14			
15	Total Income Tax Liability		<u><u>\$6,561,066</u></u>

Tennessee Distribution System
Overall Cost of Capital
Twelve Months Ended September 30, 2007

Line No.	Description	Percent	Cost Rate	Overall Cost of Capital
	(a)	(b)	(c)	(d)
1	Long Term Debt Capital	50.00%	6.03%	3.02%
2	Equity Capital	<u>50.00%</u>	12.00%	<u>6.00%</u>
3				
4	Total Capital	<u><u>100.0%</u></u>		<u><u>9.02%</u></u>

Tennessee Distribution System
Rate of Return
Twelve Months Ended to September 30, 2007

Line No.	Description (a)	Reference (b)	Amount (c)
1	Total Revenues	Schedule 2	\$195,166,303
2			
3	Gas Cost	Schedule 3	143,086,066
4			
5	Operation & Maintenance Expense	Schedule 4	14,309,933
6			
7	Depreciation & Amortization Expense	Schedule 6	12,758,460
8			
9	Taxes Other Than Income Taxes	Schedule 5	6,090,833
10			
11	Income Tax	Wp 10-1	5,230,057
12			
13	Interest on Customer Deposits		<u>470,796</u>
14			
15	Return on Rate Base		<u>\$ 13,220,158</u>
16			
17	Total Rate Base	Schedule 7	169,428,338
18			
19	Rate of Return on Rate Base		7.80%
20			
21	Interest Expense	Schedule 8	<u>5,116,736</u>
22			
23	Return on Equity		\$8,103,422
24			
25	Rate of Return on Equity		9.57%

Tennessee Distribution System
Computation of Federal Income Taxes for Sch 10
Twelve Months Ended to September 30, 2007

Wp 10-1

Line No.	Description (a)	Amount (b)
1	Net Operating Income Before Income Tax	\$18,450,215
2		
3	Interest Deduction	<u>5,116,736</u>
4		
5	Equity Portion of Return	13,333,479
6		
7	Application of Tax Rate to Equity Return - Tennessee	6.5% 866,676
8		
9	Application of Tax Rate to Equity Return - Federal	35% <u>\$4,363,381</u>
10		
11	Income Tax Expense	<u><u>\$5,230,057</u></u>