

**ATMOS ENERGY CORPORATION**

**DOCKET NO. 05-00258**

**TESTIMONY OF LAURIE M. SHERWOOD**

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

2   A.    My name is Laurie M. Sherwood. I am Vice President, Corporate Development and  
3        Treasurer. My business address is Atmos Energy Corporation (“Atmos Energy” or “the  
4        Company”), 700 Three Lincoln Centre, 5430 LBJ Freeway, Dallas, Texas 75240

5   **Q.    What is your educational background and professional experience?**

6   A.    I have a Bachelor of Business Administration degree with majors in Finance and  
7        management from Texas A&M University and a Master of Business Administration  
8        degree from Southern Methodist University.

9        I joined Atmos Energy in May 1999 as Assistant Treasurer. My duties as Assistant  
10       Treasurer consisted of forecasting the Company’s financial needs, developing annual and  
11       long-term financing plans and evaluating financial alternatives. In September 2000, I  
12       was named Vice President and Treasurer and was named to my current position in  
13       February 2001. My current duties involve managing all financing, cash management,  
14       risk management, corporate development and procurement functions for the Company.  
15       Prior to joining Atmos Energy I was employed by Oryx Energy Company as Manager,  
16       Corporate Finance. I served Oryx and its former parent, Sunoco, Inc., since 1982 in  
17       various financial positions.

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

19   A.    I will sponsor the proposed capital structure.

**Q. Ms. Sherwood, what is the appropriate capital structure for Atmos Energy Corporation's Mid States Division in this proceeding?**

A. The appropriate capital structure for Atmos Energy Corporation's Mid States Division is equivalent to the permanent consolidated capital structure for Atmos Energy as a whole, since Atmos Energy provides the debt and equity capital that supports the assets serving Tennessee customers. The capital structure that is appropriate for use in this proceeding in Tennessee is Atmos Energy's permanent capital structure of 50 percent shareholders equity and 50 percent debt.

**Q. How does this recommended capital structure compare to the actual capital structure as of September 30, 2005 and March 31, 2006?**

A. Atmos Energy's capital structure at September 30, 2005 is shown below (\$ are in thousands):

<u>L-T Debt</u>	<u>S-T Debt</u>	<u>Total Debt</u>	<u>Shareholders Equity</u>	<u>Total</u>
\$2,186,368 <sup>1</sup>	\$144,809	\$2,331,177	\$1,602,422	\$3,933,599
55.58%	3.68%	59.26%	40.74%	100.00%

Atmos Energy's capital structure at March 31, 2006 is shown below (\$ are in Thousands):

<u>L-T Debt</u>	<u>S-T Debt</u>	<u>Total Debt</u>	<u>Shareholders Equity</u>	<u>Total</u>
\$2,184,428 <sup>2</sup>	\$262,315	\$2,446,743	\$1,706,291	\$4,153,034
52.60%	6.32%	58.92%	41.08%	100.00%

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<sup>1</sup> Includes current maturities portion of long-term debt.

<sup>2</sup> Includes current maturities portion of long-term debt.

1 **Q. Please explain why the debt components of Atmos Energy's capital structure as of**  
2 **March 31, 2006 are higher than the permanent capital structure that you believe to**  
3 **be appropriate for this proceeding.**

4 A. Atmos Energy's objective is to maintain a permanent capital structure comprising  
5 approximately 50 percent shareholders equity and 50 percent debt. This objective is  
6 consistent with the Company's actual capital structure immediately prior to its acquisition  
7 of the operations of TXU Gas Company, as discussed in more detail below, and is also  
8 consistent with the objective of maintaining a solid investment grade credit rating on  
9 Atmos Energy's debt.

10 On September 30, 2004, immediately prior to completion of the TXU Gas acquisition,  
11 debt comprised approximately 43.4 percent of Atmos Energy's capital structure.

12 On October 1, 2004, Atmos Energy completed the acquisition of the operations of TXU  
13 Gas Company for \$1.905 billion in cash. In order to permanently finance the acquisition,  
14 Atmos Energy issued 9.9 million shares of common stock in a public offering in July  
15 2004, followed by another offering of 16.1 million shares of common stock in October  
16 2004, yielding combined net proceeds of approximately \$618 million. The remainder of  
17 the purchase price was financed with long-term debt. This increased Atmos Energy's  
18 ratio of debt to capitalization to approximately 59.3 percent as of its next fiscal year end  
19 on September 30, 2005. The Company's debt ratio as of March 31, 2006 was slightly  
20 lower, at 58.9 percent of total capitalization, but was still higher than expected due to the  
21 extremely warm winter weather that Atmos Energy has experienced across its service  
22 territory (particularly in Texas, where over half of the Company's operations are located)  
23 during fiscal years 2005 and 2006.

1 However, as explained below, the current capital structure is not appropriate for use in  
2 setting rates in this proceeding.

3 **Q. What is Atmos Energy's objective for its permanent consolidated capital structure**  
4 **and how does Atmos Energy plan to achieve it?**

5 A. As stated in Atmos Energy's 2005 Annual Report to Shareholders, Atmos Energy intends  
6 to return its capital structure to near its permanent target of 50 percent shareholders  
7 equity and 50 percent debt. The Company plans to fund future spending requirements by  
8 utilizing internally generated cash flows, credit facilities and its access to the public debt  
9 and equity capital markets, and will continually add to shareholders equity through  
10 issuances of common stock from its RSP and DSPP stock plans. Because Atmos  
11 Energy's current temporary capital structure contains a higher percentage of debt than  
12 both its permanent target capital structure and its actual capital structure immediately  
13 prior to the TXU Gas acquisition, it is not the appropriate capital structure to be applied  
14 to the Mid States Division for use in this proceeding.

15 **Q. Please summarize your testimony regarding the appropriate capital structure for**  
16 **use in this proceeding.**

17 A. Although Atmos Energy's temporary capital structure as of March 31, 2006 included  
18 approximately 58.9 percent debt, this level is the result of the acquisition of the  
19 operations of TXU Gas Company in the Company's fiscal year 2005 and the extremely  
20 warm winter weather experienced during fiscal years 2005 and 2006. On September 30,  
21 2004, just prior to completion of the acquisition, Atmos Energy's capital structure  
22 contained approximately 43.4 percent debt. Atmos Energy will use internally generated  
23 cash flow and ongoing additions to shareholders equity from its DSPP and RSP stock

1 plans to return its capital structure to near its permanent target of 50 percent shareholders  
2 equity and 50 percent debt. Therefore, the permanent capital structure of 50 percent  
3 shareholders equity and 50 percent debt that I have proposed is appropriate for use in this  
4 proceeding.

5 **Q. Does this conclude your testimony?**

6 A. Yes.