

BEFORE THE
TENNESSEE REGULATORY AUTHORITY

IN RE: PETITION OF THE CONSUMER ADVOCATE DIVISION TO OPEN AN
INVESTIGATION TO DETERMINE WHETHER ATMOS ENERGY CORP. SHOULD BE
REQUIRED BY THE TENNESSEE REGULATORY AUTHORITY 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 05-00258

PREFILED DIRECT TESTIMONY

OF

DAVID FOSTER

JULY 17, 2006

1 Q. Please state your name and business address.

2 A. My name is David Foster, and my business address is 460 James Robertson Parkway,
3 Nashville, Tennessee, 37243-0505.

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

5 A. I am employed by the Tennessee Regulatory Authority ("Authority" or "TRA") in the
6 position of Deputy-Chief of the Utilities Division.

7 Q. Please provide a summary of your educational background and professional experience.

8 A. I graduated from The University of Tennessee at Martin in 1986 with a Bachelor's
9 Degree in Accounting and I have twenty (20) years experience in the field of utility
10 ratemaking and regulatory accounting with the TRA and its predecessor agency, The
11 Tennessee Public Service Commission ("TPSC"). I am also an active member on the
12 National Association of Regulatory Utility Commissioners (NARUC) Staff
13 Subcommittees on Accounting and Finance, Gas and Telecommunications.

14 While employed at the TRA and TPSC I have participated in numerous utility rate cases
15 and earnings reviews, which have included the development of financial exhibits and rate
16 design proposals presented before the TRA and TPSC to aid in establishing just and
17 reasonable rates. I have also provided technical assistance and advice in other cases in
18 which I either did not testify or was strictly serving in a Staff advisory role.

19 Q. What is your role in this proceeding?

20 A. I am Team Leader of the Staff Investigative Team responsible for calculating a just and
21 reasonable level of earnings for Atmos Energy Corporation ("Atmos").

22 Q. What is the purpose of your testimony?

1 A. The purpose of my direct testimony is to support the calculations and exhibits provided
2 by the Consumer Advocate and Protection Division (CAPD) relating to net operating
3 income and rate base.

4 Q. What about the development of a fair rate of return?

5 A. The Staff Investigative Team's calculation of a fair rate of return for Atmos was prepared
6 by Mr. Jerry Kettles; his analysis indicates an overall fair rate of return of 7.916%.

7 Q. What is the result of applying Mr. Kettles' debt and equity returns to the net operating
8 income and rate base calculated by the CAPD, which you support?

9 A. First, an adjustment must be made to reflect the tax effect of the increased interest
10 expense resulting from difference in the weighted cost of debt that Mr. Kettles developed
11 and that of CAPD witness, Dr. Steve Brown. This adjustment decreases pre-tax
12 operating income by \$430,308, thereby reducing income tax and excise tax by \$160,551;
13 consequently, net operating income is increased. This adjustment, coupled with Mr.
14 Kettles overall return of 7.916%, results in overall surplus revenues of \$9,177,524 for the
15 twelve months ended September 30, 2006. See Staff Exhibit 1 for Staff's calculation of
16 surplus revenues for Atmos.

17 Q. Does this conclude your testimony?

18 A. Yes.

Atmos
05-00258
Revenue Surplus

Staff Exhibit 1

Line No.		12 Months Ended September 30, 2006
1	Rate Base	157,426,273 A/
2	Net Operating Income at Present Rates	17,910,909 A/
3	Adjustment for Interest Synchronization	160,551 B/
4	Total Adjusted Net Operating Income at Present Rates	18,071,460
5	Earned Rate of Return (L4/L1)	11.4793%
6	Fair Rate of Return	7.9160% C/
7	Required Operating Income (L1xL6)	12,461,864
8	Operating Income Surplus (L4-L7)	5,609,596
9	Gross Revenue Conversion Factor	1.63604 A/
10	Revenue Surplus (L8xL9)	9,177,524

A/ Exhibit CAPD Schedule 1.

B/ Income and Excise Tax Effect For The Difference in Weighted Cost of Debt Between CAPD and Staff

C/ Kettles Schedule JLK-9.