

Atmos Energy Corporation

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				Value
Yields (Riskless Rates)¹				
Long-term (20-year) U.S. Treasury Coupon Bond Yield				4.6%
Equity Risk Premium²				
Long-horizon expected equity risk premium (historical): large company stock total returns minus long-term government bond income returns				7.1
Long-horizon expected equity risk premium (supply side): historical equity risk premium minus price-to-earnings ratio calculated using three-year average earnings				6.3
Size Premium³				
Decile	Market Capitalization of Smallest Company (in millions)		Market Capitalization of Largest Company (in millions)	Size Premium (Return in Excess of CAPM)
Mid-Cap, 3-5	\$1,729.364	-	\$7,187.244	1.02%
Low-Cap, 6-8	\$587.243	-	\$1,728.888	1.81
Micro-Cap, 9-10	\$1.079	-	\$586.393	3.95
Breakdown of Deciles 1-10				
1-Largest	\$16,091.015	-	\$367,495.144	-0.37
2	\$7,189.887	-	\$16,016.450	0.67
3	\$3,968.998	-	\$7,187.244	0.85
4	\$2,525.472	-	\$3,961.425	1.10
5	\$1,729.364	-	\$2,519.280	1.49
6	\$1,282.276	-	\$1,728.888	1.73
7	\$872.443	-	\$1,280.966	1.67
8	\$587.243	-	\$872.103	2.33
9	\$265.056	-	\$586.393	2.76
10-Smallest	\$1.079	-	\$264.981	6.36
Breakdown of the 10th Decile				
10a	\$169.245	-	\$264.981	4.39
10b	\$1.079	-	\$169.195	9.83

¹ As of December 31, 2005. Maturity is approximate.

² See chapter 5 for complete methodology.

³ See chapter 7 for complete methodology.

Note: Examples on how these variables can be used are found in Chapters 3 and 4

Atmos Energy Corporation
 Jerry Kettles' Comparable Gas Companies
 Capital Asset Pricing Model

	Risk Free Return	Beta	Equity Risk Premium	Size Premium	Cost of Equity
Atmos Energy Corp.	5.50%	0.75	7.10%	1.02%	11.85%
AGL Resources Inc.	5.50%	0.95	7.10%	1.02%	13.27%
Cascade Natural Gas Corp.	5.50%	0.85	7.10%	3.95%	15.49%
KeySpan Inc.	5.50%	0.90	7.10%	1.02%	12.91%
Laclede Group Inc.	5.50%	0.85	7.10%	1.81%	13.35%
New Jersey Resources Corp.	5.50%	0.80	7.10%	1.81%	12.99%
NICOR Inc.	5.50%	1.20	7.10%	1.02%	15.04%
Northwest Natural Gas Corp.	5.50%	0.75	7.10%	1.81%	12.64%
Peoples Energy Corp.	5.50%	0.90	7.10%	1.81%	13.70%
Piedmont Natural Gas Co. Inc.	5.50%	0.85	7.10%	1.02%	12.56%
South Jersey Industries Inc.	5.50%	0.70	7.10%	1.81%	12.28%
Southwest Gas Corp.	5.50%	0.85	7.10%	1.81%	13.35%
UGI Corp.	5.50%	0.90	7.10%	1.02%	12.91%
WGL Holdings Inc.	5.50%	0.80	7.10%	1.81%	12.99%
Comparable Companies' Average	5.50%	0.87	7.10%	1.67%	13.34%

Sources:

Ibbotson Associates' SBBI Valuation Edition: 2006 Yearbook

Schedule JLK-5 of the Direct Testimony of Jerry Kettles

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Comparison of Returns on Common Equity

The Comparable Companies of CAPD Witness Steve Brown

Company	2006E	Forecast '09-'11
Atmos Energy	8.50%	10.50%
AGL Resources	13.00%	12.00%
KeySpan	8.00%	9.50%
Laclede Group	12.00%	12.00%
New Jersey Resources	16.00%	14.50%
NICOR	13.00%	13.50%
Northwest Natural Gas	10.00%	10.50%
Peoples Energy	9.00%	14.50%
Piedmont Natural Gas	11.00%	12.50%
Southwest Gas	8.50%	9.50%
WGL Holdings	10.00%	11.00%
Av of Comparable Companies	11.05%	11.95%

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Comparison of Recent Allowed Returns on Common Equity

Major Rate Case Decisions for 2005

State Company Case Identification	Date	ROR %	ROE %
<u>ARKANSAS</u>			
Arkansas Oklahoma Gas	12/09/05	6.61%	9.70%
Arkansas Western Gas	11/02/05	5.93%	9.70%
Centerpoint Energy Arkansas Gas	09/19/05	5.31%	9.45%
<u>CONNECTICUT</u>			
So. Conn. Gas	12/28/05	8.85%	10.00%
<u>GEORGIA</u>			
Atlanta Gas Light	06/10/05	8.53%	10.90%
<u>ILLINOIS</u>			
AmerenIP	05/17/05	8.18%	10.00%
No. Illinois Gas	09/30/05	8.85%	10.51%
<u>IOWA</u>			
Interstate Power and Light	10/14/05	8.68%	10.40%
<u>KENTUCKY</u>			
Union Light, Heat & Power	12/22/05	8.10%	10.20%
<u>LOUISIANA</u>			
Entergy Gulf States	07/06/05	8.11%	10.50%
<u>MARYLAND</u>			
Baltimore Gas & Electric	12/21/05	8.49%	11.00%
<u>MASSACHUSETTS</u>			
Bay State Gas	11/30/05	8.22%	10.00%
<u>MICHIGAN</u>			
Michigan Consolidated Gas	04/28/05	7.19%	11.00%
SEMCO	03/29/05	7.49%	11.00%
<u>MINNESOTA</u>			
Northern States Power	08/11/05	8.76%	10.40%
CenterPoint Energy Minnegasco	06/08/05	8.03%	10.18%
<u>NORTH CAROLINA</u>			
Piedmont Natural Gas	11/03/05	9.04%	NA
<u>OHIO</u>			
Vectren Energy Delivery of Ohio	04/13/05	8.94%	10.60%
<u>OKLAHOMA</u>			
Oklahoma Natural Gas	10/04/05	8.74%	9.90%
<u>SOUTH CAROLINA</u>			
South Carolina Elec. & Gas	10/31/05	8.43%	10.25%
<u>WASHINGTON</u>			
Avista	12/21/05	9.11%	10.40%
Puget Sound Energy	02/18/05	8.40%	10.30%
<u>WEST VIRGINIA</u>			
Mountaineer Gas	08/24/05	8.43%	NA
<u>WISCONSIN</u>			
Madison Gas & Electric	12/12/05	8.88%	11.00%
Wisconsin P & L	07/19/05	9.41%	11.50%
Wisconsin Pub. Service	12/22/05	8.83%	11.00%

Source: *Regulatory Focus* , Major Rate Case Decisions January 1990 - December 2005

Atmos Energy Corporation

CAPD Witness Steve Brown's Discounted Cash Flow Method

Using Historical Earnings per Share Growth Rates

Company	Growth in Earnings from Prior Year				Average	Dividend Yield	DCF ROE
	2002	2003	2004	2005			
AGL Resources	-10.12%	38.07%	13.42%	8.77%	12.53%	4.07%	16.60%
KeySpan	66.46%	-9.13%	18.83%	-20.07%	14.02%	4.62%	18.64%
Laclede Group	-26.71%	54.23%	0.01%	4.39%	7.98%	4.29%	12.27%
New Jersey Resources	7.44%	13.88%	7.14%	6.28%	8.69%	3.18%	11.87%
NICOR	7.07%	-17.36%	-28.57%	80.57%	10.43%	4.66%	15.09%
Northwest Natural Gas Company	-13.84%	8.64%	5.69%	13.44%	3.48%	3.97%	7.45%
Peoples Energy Corporation	-8.39%	14.34%	-24.04%	-5.97%	-6.01%	6.05%	0.04%
Piedmont Natural Gas	-6.50%	-41.27%	128.82%	4.01%	21.27%	3.94%	25.21%
Southwest Gas Corporation	14.78%	-14.40%	41.60%	-28.75%	3.31%	2.98%	6.29%
WGL Holdings	-54.38%	187.53%	-13.75%	6.76%	31.54%	4.78%	36.32%
Comparables' Average					10.72%	4.25%	14.98%

Source: Schedule 6 of Exhibit CAPD-SB, the Direct Testimony of Steve Brown

Summary Statistics for Basic and Inflation-Adjusted Series

Table 6-7 presents summary statistics of annual total returns, and where applicable, income and capital appreciation, for each asset class. The summary statistics presented here are arithmetic mean, geometric mean, standard deviation, and serial correlation. Table 6-8 presents summary statistics for the six inflation-adjusted total return series.

Table 6-7

Total Returns, Income Returns, and Capital Appreciation of the Basic Asset Classes
Summary Statistics of Annual Returns from 1926 to 2004

Series	Geometric Mean	Arithmetic Mean	Standard Deviation	Serial Correlation
Large Company Stocks				
Total Returns	10.4%	12.4%	20.3%	0.03
Income	4.3	4.3	1.5	0.89
Capital Appreciation	5.9	7.9	19.6	0.03
Small Company Stocks (Total Returns)	12.7	17.5	33.1	0.06
Long-Term Corporate Bonds (Total Returns)	5.9	6.2	8.6	0.08
Long-Term Government Bonds				
Total Returns	5.4	5.8	9.3	-0.08
Income	5.2	5.2	2.7	0.96
Capital Appreciation	0.0	0.4	8.1	-0.23
Intermediate-Term Government Bonds				
Total Returns	5.4	5.5	5.7	0.14
Income	4.7	4.8	2.9	0.96
Capital Appreciation	0.5	0.6	4.5	-0.20
Treasury Bills (Total Returns)	3.7	3.8	3.1	0.92
Inflation	3.0	3.1	4.3	0.65

Total return is equal to the sum of three component returns; income return, capital appreciation return, and reinvestment return. Annual reinvestment returns for select asset classes are provided in Table 2-6.

Highlights of the Summary Statistics

Table 6-7 shows that over 1926–2004 small company stocks were the riskiest asset class with a standard deviation of 33.1 percent, but provide the greatest rewards to long-term investors, with an arithmetic mean annual return of 17.5 percent. The geometric mean of the small stock series is 12.7 percent. Large company stocks, long-term government bonds, long-term corporate bonds, and intermediate-term government bonds are progressively less risky, and have correspondingly lower average returns. Treasury bills were nearly riskless and had the lowest return. In general, risk is rewarded by a higher return over the long term.