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ALAN MARK TURK

July 12, 2007

Sharla Dillon, Docket Manager
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37238

VIA HAND DELIVERY

RE: Petition of Atmos Energy Corporation for Approval of Adjustment of its Rates and Revised Tariff, TRA Docket No. 07-00105

Dear Ms. Dillon:

Enclosed please find an update to the Minimum Filing Requirements responses of Atmos Energy Corporation in this matter. The update is divided into three parts:

- Non-Confidential Documents;
- Documents marked Confidential Pursuant to the Protective Order; and
- Documents marked Confidential, and Not to Be Shared with Earl Burton, pursuant to the Protective Order in this matter.

The Confidential, and Confidential – No Earl Burton documents are enclosed in a sealed envelope.

Pursuant to Authority rules, an original and four copies are enclosed, and an electronic copy is enclosed on CD.

Please feel free to give me a call if you have any questions.

Best regards.

Sincerely,

A. Scott Ross

ASR:prd

Enclosures

xc: **Via Hand Delivery with CD Enclosed to:**
Joe Shirley
Henry M. Walker
D. Billye Sanders

BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE

IN RE:	)	
	)	
PETITION OF ATMOS ENERGY	)	DOCKET NO. 07-00105
CORPORATION FOR APPROVAL OF	)	
ADJUSTMENT OF ITS RATES AND	)	
REVISED TARIFF	)	

NON-CONFIDENTIAL
DOCUMENTS PRODUCED BY ATMOS ENERGY CORPORATION
IN RESPONSE TO
MINIMUM FILING REQUIREMENTS
JULY 2007 UPDATE

RECEIVED
2007 JUL 12 AM 10:45
T.R.A. DOCKET ROOM

Atmos Energy Corporation
Responses to Minimum Filing Requirements
July 2007 Update

1. If material to the LDC's cost or level of service in Tennessee, please provide a comprehensive discussion of all abnormal conditions or changes in condition that (a) occurred during the last three years or (b) are reasonably anticipated to occur up to the anticipated hearing date in this case. Explain how these changes will affect the LDC's Tennessee operations going forward. The discussion should include, but not be limited to the following:

   a. Management changes
   b. Operational changes
   c. Administrative changes
   d. Recent or pending mergers, consolidations, or acquisitions
   e. Major changes in sales or transportation volumes
   f. Pending negotiations for possible changes in sales or transportation volumes to any current or prospective commercial or industrial customer.
   g. Changes in pipeline allocations.
   h. Labor contracts and/or Union problems
   i. Expenses

Update to Original Response:

a.) Since the original filing of this case, there have been a number of additional management changes in the Kentucky / Mid-States Division, including the appointment of Kevin Akers to the position of Division President. Mr. Akers replaces Mr. John Paris who has been appointed President of the Mid-Tex Division. None of these changes materially impact the cost or level of service in Tennessee.

Witness: Greg Waller

Atmos Energy Corporation
Responses to Minimum Filing Requirements
July 2007 Update

2. State the effect that each of the applicable changes discussed in Item 1 has had or will have on the LDC's, its Parent's, Multi-State Utility's, or Affiliated Utility Service Company's, revenues, expenses, rate base, and capital structure, including the LDC's, its Parent's, Multi-State Utility's, or Affiliated Utility Service Company's, method of allocating each change among its regulated, unregulated, and jurisdictional operations.

Update to Original Response:

None of the new management changes discussed in the updated response to MFR 1 materially impact the cost or level of service in Tennessee.

Greg Waller

Atmos Energy Corporation
Responses to Minimum Filing Requirements
July 2007 Update

8. Provide a detailed General Ledger for the latest 24 months for the LDC, its Parent, Multi-State Utility, and Affiliated Utility Service Company.

Response:

The response is voluminous and is provided in electronic format. Please see the attached CD labeled MFR 8 – July 2007 Update

Dan Meziere

Atmos Energy Corporation
Responses to Minimum Filing Requirements
July 2007 Update

13. Provide a detailed list of all the LDC's affiliated party transactions for the past two years, including the nature and amount of each transaction.

Update to Original Response:

The responsive information is "CONFIDENTIAL AND PRIVILEGED" and "CONFIDENTIAL – DO NOT SHARE WITH EARL BURTON" and is subject to the terms of the Protective Order entered in this proceeding.

Please see attachment MFRU1 13 ATTACH in the attached confidential package.

Dan Meziere/Pat Childers

Atmos Energy Corporation
Responses to Minimum Filing Requirements
July 2007 Update

14. Provide a list of outside professional services, as recorded in NARUC Account No. 923, provided to the LDC for the past two (2) years, showing the nature of each service and the total charge for each service.

Response:

Please see the attachments labeled MFRU1 14 ATTACH 1 and 2.

Dan Meziere

Atmos Energy Corporation
Tennessee Rate Case - 2007
Division 91 & 93, Jan - May 2007

MFR #14 Update, Attachment 1

	Service	Sub Account	Jan-07	Feb-07	Mar-07	Apr-07	May-07
Public Relations	091000	04146				19,684.40	
Postage/Delivery Servic	091000	05111					
Gas Supplies Services	091000	05430	13,901.09	13,293.46	7,282.98	4,849.52	7,639.25
Contract Labor	091000	06111	2,167.61	658.28	235.10	794.61	1,006.80
Legal	091000	06121	6,129.99	19,232.54	1,147.50	20,525.83	28,608.35
Misc General Expense	091000	07590					
	091000 Total		22,198.69	33,184.28	8,665.58	45,854.36	37,254.40
Physical Exam-Mgmt G	093000	04131					
Public Relations	093000	04146				9,842.20	-
Meals & Entertainment	093000	05411			193.41	3.00	
Transportation	093000	05413			3,042.19	421.37	
Lodging	093000	05414			127.10		
Membership Fees	093000	05415		18,672.00			
Gas Supplies Services	093000	05430	7,753.73	6,221.56	3,216.50	16,576.55	10,727.54
Contract Labor	093000	06111		27,158.44	565.91		
Legal	093000	06121	231,532.85	(106,274.37)	17,129.95	44,213.81	67,382.61
Misc Employee Welfare	093000	07499					95.00
Misc General Expense	093000	07590			7.64		
Youth Clubs & Centers	093000	30710					
	093000 Total		239,286.58	(54,222.37)	24,282.70	71,056.93	78,205.15
	Grand Total		261,485.27	(21,038.09)	32,948.28	116,911.29	115,459.55

Atmos Energy Corporation
Tennessee Rate Case - 2007
Division 2 & 12 - Jan-07 - May-07

MFR #14 Update, Attachment 2

	Service	Sub Account	Jan-07	Feb-07	Mar-07	Apr-07	May-07
Customer Relations & Assist.	002000	04046					
Offsite Storage	002000	04065		10,095.87			
Public Relations	002000	04146					
Software Maintenance	002000	04201					
Building Lease/Rents	002000	04581					
Building Maintenance	002000	04582					
Office Supplies	002000	05010	916.86				
Postage/Delivery Services	002000	05111					
Long Distance	002000	05312					
Meals & Entertainment	002000	05411	956.94	475.00	2,066.56	2,071.45	3,028.84
Transportation	002000	05413	959.25	3,038.64	8,209.55		8,501.60
Lodging	002000	05414		359.69	1,561.86		5,010.90
Membership Fees	002000	05415		5,185.00	185.00	1,000.00	
Misc Employee Expense	002000	05419		584.00	4,950.40		
Employee Development	002000	05420					
Training	002000	05421					553.72
Books & Manuals	002000	05424					
Work Environment Training	002000	05429					
Contract Labor	002000	06111	732,218.47	638,292.16	64,885.71	705,632.76	1,402,179.66
Collection Fees	002000	06112					
Legal	002000	06121	2,792.26	445.70	27,243.63	7,231.24	36,233.03
Education & Assist. Program	002000	07447					
Capitalized Restricted Stock	002000	07450					
Restricted Stock	002000	07451					
Misc Employee Welfare Exp	002000	07499					
Misc General Expense	002000	07590	415.78	137,950.37	7,340.22	2,390.90	9,155.95
	002000 Total		738,259.56	796,426.43	116,442.93	718,326.35	1,464,663.70
Contract Labor	012000	06111	77,862.48	146,904.48	122,843.80	72,017.83	38,357.06
Legal	012000	06121	196.00	150.01			5,098.00
	012000 Total		78,058.48	147,054.49	122,843.80	72,017.83	43,455.06
	Grand Total		816,318.04	943,480.92	239,286.73	790,344.18	1,508,118.76

Atmos Energy Corporation
Responses to Minimum Filing Requirements
July 2007 Update

19. Provide a list of the LDC's customers who have changed rate classes in the test period. Show the schedule movement and any adjustments you have made to the bills and usage for the attrition period. Provide the number of net additions by customer classification and by month for the latest 24 months.

Update to Original Response:

The responsive information is "CONFIDENTIAL AND PRIVILEGED" and "CONFIDENTIAL – DO NOT SHARE WITH EARL BURTON" and is subject to the terms of the Protective Order entered in this proceeding.

Please see attachment MFRU1 19 ATTACH 2 in the attached confidential package.

Mike Ellis

Atmos Energy Corporation
Responses to Minimum Filing Requirements
July 2007 Update

31. Provide a schedule(s) of employees for the test period, identifying them as hourly or salaried, part or full time, and the account to which their compensation is charged. Identify the regular, overtime, and total hours worked during the test period. Also, show the regular and total earnings during the test period. For those employees working only a partial year, give the dates of employment. Identify pay raises, month and percentage, from the test period through the attrition year. Where appropriate, show the allocation of compensation for such employees or appropriate employee group between states and between utility and non-utility operations. Also, indicate any anticipated changes in employment levels through the attrition period.

Response:

The responsive information is marked "CONFIDENTIAL AND PRIVILEGED" and is being provided subject to the terms of the Protective Order entered in this proceeding. A hard-copy response is included in the attached CONFIDENTIAL package.

Dan Meziere, Greg Waller

Atmos Energy Corporation
Responses to Minimum Filing Requirements
July 2007 Update

35. For the test period and attrition period, provide detailed workpapers supporting the calculation of the life insurance expense, long-term disability, hospitalization and medical expenses, and other miscellaneous employee insurance expenses. Show the total and capitalized amounts. Provide actual rates for the benefits that the LDC pays. Provide the amounts that the employee contributes for these benefits.

Response:

Please see attachment MFRU1 35 ATTACH.

Greg Waller

ATMOS energy

Benefits Analysis
Atmos Regulated Shared Services

Jan07-May07

	SA 002DIV Jan07-May07			SA 012DIV Jan07-May07		
	CY Actual SA 002DIV December	Amounts Expensed to Account 9250 &9260	Amounts Capitalized	CY Actual SA 012DIV December	Amounts Expensed to Account 9250 &9260	Amounts Capitalized
Workers' Compensation	169,463	168,687	776	0	0	0
Basic Life Insurance	84,034	83,442	592	45,816	45,816	0
FAS 106	613,456	609,136	4,320	334,465	334,465	0
Medical/Dental Insurance	1,854,338	1,841,280	13,058	1,011,012	1,011,012	0
Long Term Disability	111,814	111,027	787	60,963	60,963	0
Other	987,314	968,643	18,671	549,084	549,084	
Total Benefits	3,820,419	3,782,215	38,204	2,001,340	2,001,340	0
Allocated To TN		156,205			80,654	

Note: Expense by benefit type not kept in the general ledger. Expense for all fringe benefits is primarily charged to accounts 9260.01200, 9260.01201, 9250.01221, and 9250.01201.
The amounts presented in these schedules are calculated based the proportion each benefit type is to the total of all fringe benefits.
These percentages are then used to determine each benefit's relative expense in accounts 9260.01200, 9260.01201, 9250.01221, and 9250.01201.

Note: The cost reflected is gross cost, before any allocations.

ATMOS energy

Benefits Analysis

Atmos Energy-Mid-States

Jan07-May07

	(1) SA 088DIV Jan07-May07			(2) SA 090DIV Jan07-May07			SA 091DIV Jan07-May07			SA 093DIV Jan07-May07		
	CY Actual SA 088DIV December	Amounts Expensed to Account 9250 &9260	Amounts Capitalized	CY Actual SA 090DIV December	Amounts Expensed to Account 9250 &9260	Amounts Capitalized	CY Actual SA 091DIV December	Amounts Expensed to Account 9250 &9260	Amounts Capitalized	CY Actual SA 093DIV December	Amounts Expensed to Account 9250 &9260	Amounts Capitalized
Workers' Compensation	-	-	-	-	-	-	510,904	471,936	38,968	60,364	2,270	58,094
Basic Life Insurance	-	-	-	-	-	-	5,103	(2,800)	7,903	22,982	11,200	11,782
FAS 106	-	-	-	-	-	-	96,074	(52,721)	148,795	432,684	210,860	221,824
Medical/Dental Insurance	-	-	-	-	-	-	101,737	(55,828)	157,565	458,188	223,289	234,899
Long Term Disability	-	-	-	-	-	-	7,889	(4,329)	12,218	35,529	17,314	18,215
Other							(97,208)	(47,985)	(49,223)	417,553	191,917	225,636
Total Benefits	-	-	-	-	-	-	624,499	308,273	316,226	1,427,300	656,850	770,450
								0.49	0.51		0.46	0.54
Allocated To TN								83,758			656,850	

Note: Expense by benefit type not kept in the general ledger. Expense for all fringe benefits is primarily charged to accounts 9260.01200, 9260.01201, 9250.01221, and 9250.01201.
The amounts presented in these schedules are calculated based the proportion each benefit type is to the total of all fringe benefits.
These percentages are then used to determine each benefit's relative expense in accounts 9260.01200, 9260.01201, 9250.01221, and 9250.01201.

Note: The cost reflected is gross cost, before any allocations.

(1) Service Area 088 is no longer used, effective October 1, 2006. Service Area 088 costs are now recorded in Service Area 091.
(2) Service Area 090 is no longer used, effective October 1, 2006. Service Area 090 costs are now recorded in Service Area 091.

Atmos Energy Corporation
Responses to Minimum Filing Requirements
July 2007 Update

36. Provide a liability and property insurance schedule for the test period, identifying the policies in effect, the type of coverage, the coverage period, the annual premiums, the amount included as an expense, the account charged, the beneficiaries and the allocation used. Also, provide the same information for those policies currently in effect and any anticipated changes in policies through the attrition period. Where applicable, provide the name of the insurance company with a contact person and telephone number.

<u>Update to Original Response:</u>

The responsive information is marked "CONFIDENTIAL AND PRIVILEGED" and is being provided subject to the terms of the Protective Order entered in this proceeding. A hard-copy response is included in the attached CONFIDENTIAL package.

Laurie Sherwood

Atmos Energy Corporation
Responses to Minimum Filing Requirements
July 2007 Update

38. Does the LDC have a written policy regarding non-base pay compensation or stock options? If so, please provide a copy of this policy. Were any amounts paid or accrued during the test period? If so, please provide a schedule of employees, showing the amount paid or accrued and the basis of the calculation. Provide the same information for the attrition period.

Response:

The responsive information is "CONFIDENTIAL AND PRIVILEGED" and is subject to the terms of the Protective Order entered in this proceeding.

See attachment labeled MFR 38 ATTACH for schedules showing updated non-base pay amounts by employee and accrued amounts.

Dan Meziere / John Ellerman

Atmos Energy Corporation
Responses to Minimum Filing Requirements
July 2007 Update

39. Provide a detailed analysis of advertising expense for the test period. Provide and discuss the LDC's projected advertising expenses from the end of the test period through the attrition period. For each month, identify the amount of advertising classified as follows:

    a. Institutional
    b. Conservation
    c. Informational
    d. Promotional
    e. Promotional for the sale of appliances

Response:

Please see the attachment labeled MFRU1 39 update ATTACH.

Dan Meziere, Greg Waller

Atmos Energy Corporation
Tennessee Rate Case - 2007
MFR 39 - Update for Jan07-May07

Division	Classification	Jan-07	Feb-07	Mar-07	Apr-07	May-07	FY07 YTD	Allocated to TN
2	Informational	40.00		30.00			70.00	
	Institutional	22,560.62	189,923.74	68,504.52	(154,797.78)	126,541.10	252,732.20	10,437.84
20 Total		22,600.62	189,923.74	68,534.52	(154,797.78)	126,541.10	252,802.20	
91	Conservation	11,035.65	2,315.04	1,916.61	3,340.88	2,520.77	21,128.95	
	Informational	470.53	260.24	7,866.83	21,590.32	1,521.35	31,709.27	
	Promotional		265.25	2,978.50	851.79	1,452.90	5,548.44	1,507.51
91 Total		11,506.18	2,840.53	12,761.94	25,782.99	5,495.02	58,386.66	
93	Conservation	2,809.14	12,253.69	10,958.55	1,365.53	2,638.86	30,025.77	
	Informational	815.55	2,802.21	3,282.52	6,423.94	3,720.82	17,045.04	
	Promotional		3,040.41	1,134.32	1,510.43		5,685.16	
93 Total		3,624.69	18,096.31	15,375.39	9,299.90	6,359.68	52,755.97	52,755.97
Grand Total		37,731.49	210,860.58	96,671.85	(119,714.89)	138,395.80	363,944.83	64,701.32

Allocation to TN Percentages:

Division	
002	4.13%
091	27.17%
093	100.00%

Note: The amounts allocated above are simplified for purposes of this response. Amounts from Shared Services - General Office (Division 002) are allocated based upon the cost center within which the expense is incurred.

Atmos Energy Corporation
Responses to Minimum Filing Requirements
July 2007 Update

40. Provide the amount of expense recorded in NARUC Account 931 for the rental of equipment or other property, for each month of the test period. Provide copies of Lease Agreements if applicable.

Response:

Please see the attachments labeled MFRU1 40 ATTACH.

Dan Meziere

Atmos Energy Corporation
Tennessee Rate Case - 2007
MFR 40

Account 931	Jan-07	Feb-07	Mar-07	Apr-07	May-07
Shared Services - General Office	260,728	259,930	294,155	270,443	271,073
Shared Services - Customer Support	94,156	94,156	94,156	94,156	94,156
Eastern Regional Office	5,405	5,405	5,405	5,405	5,405
Tennessee	31,536	31,536	31,536	31,536	31,536
Gas Services	-	-	-	-	-
Grand Total	391,825	391,027	425,252	401,540	402,170

43. Provide the amount of direct and allocated charges to the LDC from its Parent, Multi-State Utility, or Affiliated Utility Service Company, by account, for each month of the test period and the projected amount for each month of the attrition period.

Response:

Please see the attachment labeled MFRU1 43 ATTACH.

Dan Meziere, Greg Waller

Atmos Energy Corporation
MFR #43

	2007 January	2007 February	2007 March	2007 April	2007 May
O&M Allocation					
Shared Services	359,963	347,319	280,513	270,183	326,128
Pipeline	3,932	(1,585)	(1,934)	-	-
Brentwood	333,778	240,776	244,986	228,610	234,286
Eastern	-	-	-	-	-
Central	-	-	-	-	-
Total	**697,673**	**586,510**	**523,565**	**498,793**	**560,414**
Depr Allocation					
Shared Services	69,730	69,967	65,413	69,854	69,657
Brentwood	14,382	13,042	13,683	13,051	14,731
Eastern	-	-	-	-	-
Central	-	-	-	-	-
Total	**84,112**	**83,009**	**79,096**	**82,905**	**84,388**
Other Taxes Allocation					
Shared Services	18,263	13,724	11,371	14,892	10,885
Brentwood	8,765	7,762	6,510	6,707	6,820
Eastern	-	-	-	-	-
Central	-	-	-	-	-
Total	**27,028**	**21,486**	**17,881**	**21,599**	**17,705**

Atmos Energy Corporation
Responses to Minimum Filing Requirements
July 2007 Update

47. Provide copies of the following tax returns (state and federal) for the most recent three (3) tax years:

    a. Tennessee Gross Receipts Tax Returns
    b. Tennessee Franchise and Excise Tax Returns
    c. Property tax statement Tennessee Ad Valorem Tax Report
    d. Employer's Quarterly Federal Tax Returns (Form 941)
    e. Employer's Annual Federal Unemployment Tax Return (Form 940)
    f. Employer's Quarterly Contribution Report to the Tennessee Department of Employment Security

Response:

The responsive information is marked "CONFIDENTIAL AND PRIVILEGED" and is being provided subject to the terms of the Protective Order entered in this proceeding. A hard-copy response is included in the attached CONFIDENTIAL package.

51. Provide monthly plant additions and retirements by account number for the last three (3) fiscal years to include the test period. Please break down plant additions into normal or special projects, as defined below:

    a. Normal construction requirements should be considered to include the needs created through normal system expansion, such as serving residential areas, shopping areas, old home conversions, replacements of tools and work equipment, transportation equipment, etc.

    b. Special construction requirements should be considered to arise from extensive replacement of old facilities which cannot be foreseen, major expansion projects such as industrial parks, system improvements such as change from low pressure to high pressure required because of changing delivery patterns, and changes required by government action such as street improvement and relocation, community and neighborhood development, bridge replacement, etc. These requirements should be considered to be outside the control of the LDC.

    c. For the last three (3) fiscal years, identify any contributions in aid of construction.

Response:

Please see attachment MFRU1 51 ATTACH.

Dan Meziere, Rad Cook

ATMOS ENERGY CORPORATION
Tennessee Property
Update to MFR # 51

		Jan-07			Feb-07			Mar-07			Apr-07			May-07		
Account	Description	Normal Additions	Special Additions	Retirement	Normal Additions	Special Additions	Retirement	Normal Additions	Special Additions	Retirement	Normal Additions	Special Additions	Retirement	Normal Additions	Special Additions	Retirement
30400	Land & Land Rights	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
30500	Structures And Improv	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
31900	Gas Mixing Equipment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
37400	Land & Land Rights	-	-	-	-	-	-	-	29,484.74	-	-	-	-	-	-	-
37402	Land & Land Rights	-	266.38	-	-	(148.12)	-	-	6.25	-	-	-	-	-	-	-
37500	Structures & Improvem	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
37600	Mains - Cathodic Prot	1,421.89	-	-	2,242.80	-	-	2,233.44	-	-	1,486.16	3,982.47	-	1,595.00	-	-
37601	Mains - Steel	42,316.47	1,309,640.07	-	47,986.41	402,303.37	-	(807,511.77)	19,302.85	3,294.33	23,263.42	422,469.11	-	50,206.16	58,966.10	-
37602	Mains - Plastic	54,866.01	819,932.35	-	45,876.45	229,025.44	-	325,543.71	342,818.67	43.68	59,056.49	861,632.70	-	49,131.14	95,510.98	-
37800	Meas. And Reg. Sta. E	-	7,954.85	-	-	45,722.41	-	-	15,424.76	-	-	63,522.05	-	-	174.18	-
37900	Meas & Reg Station Eq	-	9,095.90	-	-	16,595.64	-	-	15.99	-	-	-	-	-	-	-
38000	Services	546,610.49	-	-	476,022.69	-	-	881,537.81	-	-	323,676.17	63,898.73	-	372,412.79	-	-
38100	Meters	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
38200	Meter Installations	114,116.35	-	-	95,655.91	-	-	568,334.24	-	157.93	80,300.20	-	-	101,632.35	-	-
38300	House Regulators	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
38500	Industrial Measuring	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
38700	Other Equipment Distr	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
39000	Structures & Improvem	-	(722.88)	-	-	23.11	-	-	(69.92)	-	-	-	-	-	8,455.90	-
39003	Improvements	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
39100	Office Furniture And	-	(168.32)	-	-	-	-	-	(16.28)	(75,476.37)	-	-	-	-	627.48	-
39200	Transportation Equipm	-	-	-	-	-	-	-	-	(238,709.25)	-	-	-	-	-	-
39300	Stores Equipment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
39400	Tools Shop And Garage	-	-	-	-	1,559.58	-	-	4,979.34	-	-	-	-	-	-	-
39600	Power Operated Equipm	-	-	-	-	9,803.69	-	-	-	-	-	4,754.88	-	-	-	-
39603	Ditchers	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
39604	Backhoes	-	140,009.91	-	-	-	-	-	-	-	-	-	-	-	-	-
39605	Welders	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
39700	Communication Equipme	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
39701	Comm. Equip. - Mobile Radios	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
39702	Comm. Equip. - Fixed Radios	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
39705	Comm. Equip. - Telemetering	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
39800	Miscellaneous Equipme	-	51,723.98	-	-	5,978.77	-	-	34,983.23	-	-	16,727.05	-	-	16,728.40	-
39900	Other Tangible Equipm	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
39901	Oth Tang Prop - Serve	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
39906	PC Hardware	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
39907	PC Software	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Total	759,331	2,337,732	-	667,784	710,864	-	970,137	446,930	(310,690)	487,782	1,436,987	-	574,977	180,463	-
	CIAC	**(406,091.21)**			**(113,580.02)**			**(737,781.29)**			**(22,262.68)**			**(14,043.66)**		

Atmos Energy Corporation
Responses to Minimum Filing Requirements
July 2007 Update

61. Provide a list of all the LDC's checking accounts, identifying the nature and use for each. Provide a copy of all the LDC's bank statements for each month during the test period.

Response:

The responsive information is marked "CONFIDENTIAL AND PRIVILEGED" and is being provided subject to the terms of the Protective Order entered in this proceeding.

Due to the voluminous nature of the bank statements, statement copies are available for viewing in the company's division office in Cool Springs, Tennessee. Please contact Pat Childers at (615) 771-8332. Bank statements through May 2007 are made available with this update.

Laurie Sherwood

66. Provide a calculation of the LDC's, its Parent's, Multi-State Utility's, or Affiliated Utility Service Company's, debt, equity capital and the debt and equity ratios for the last two (2) years. Show long and short-term debt, preferred stock and common equity separately.

Response:

Please see attached file labeled MFRU1 66.

Laurie Sherwood

ATMOS ENERGY CORPORATION
Atmos Energy Corporation
Tennessee Rate Case - 2007 (Docket No. 07-00105)
Update for MFR #66

		12 month ended		
		Mar 31, 2007	**Apr. 30, 2007**	**May 31, 2007**
66	**Capitalization**			
	Capitalization:			
	Shareholders' equity	2,021,953	2,027,519	2,000,802
	Long - term debt (including current maturities	2,181,563	2,181,458	2,181,302
	Short - term debt	-	-	
	Total Capitalization	4,203,516	4,208,977	4,182,104
	Capitalization Ratios:			
	Shareholders' equity	48.1%	48.2%	47.8%
	Long - term debt	51.9%	51.8%	52.2%
	Short - term debt	0.0%	0.0%	0.0%
		100.0%	100.0%	100.0%

Atmos Energy Corporation
Responses to Minimum Filing Requirements
July 2007 Update

67. Provide a copy of any information filed with other Regulatory Commissions (other than the Tennessee Regulatory Authority) where such information describes the Company's debt position and equity position. Provide all data submitted in the last twelve-(12) months and also on a forward-going basis.

Response:

Please see the attachments labeled MFRU1 67 ATTACH 1 & 2.

Laurie Sherwood

BEFORE THE PUBLIC SERVICE COMMISSION

COMMONWEALTH OF KENTUCKY

IN THE MATTER OF	)	
	)	
RATE APPLICATION BY	)	**Case No. 2006-00464**
	)	
ATMOS ENERGY CORPORATION	)	

<u>REBUTTAL TESTIMONY OF LAURIE M. SHERWOOD</u>

Q. **PLEASE STATE YOUR NAME, BUSINESS AFFILIATION AND BUSINESS ADDRESS.**

A. My name is Laurie M. Sherwood. I am the Vice President, Corporate Development and Treasurer of Atmos Energy Corporation ("Atmos", "Atmos Energy" or "the Company"). My business address is 5430 LBJ Freeway, Suite 700, Dallas, Texas 75240.

Q. **DID YOU PREVIOUSLY FILE TESTIMONY ON BEHALF OF THE COMPANY IN THIS RATE PROCEEDING?**

A. Yes. My direct testimony was filed at the time of and in connection with the Company's rate application.

Q. **WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

A. My rebuttal testimony addresses certain statements made and conclusions reached by Dr. J. Randall Woolridge, a witness for the Kentucky Attorney General, regarding the Company's capital structure. Dr. Wooldridge's statements and conclusions regarding recommended capital structure are set out in pp. 12-14 of his direct testimony filed in this proceeding.

Q. **WHAT CAPITAL STRUCTURE IS PROPOSED BY DR. WOOLRIDGE?**

A. Dr. Woolridge recommends a ratemaking capital structure of 2.86% short-term debt, 50.36% long-term debt and 46.78% common equity. (Woolridge Exhibit JRW-3) In contrast, the Company has proposed a projected capital structure of 51.85% long-term debt, 48.15% common equity and no short-term debt.

Q. IS THE CAPITAL STRUCTURE PROPOSED BY THE ATTORNEY GENERAL APPROPRIATE?

A. No, for several reasons. The capital structure proposed by Dr. Woolridge is based upon selected historic quarterly averages and includes a component for short-term debt. Moreover, Dr. Woolridge's proposed capital structure is not based upon the capital needs of the Company.

Q. PLEASE EXPLAIN WHY THE USE OF HISTORIC QUARTERLY CAPITAL STRUCTURE AVERAGES IS NOT APPROPRIATE?

A. The primary reason is because this rate case uses a forecasted period and a 13-month average capital structure for the period ending June 30, 2008. The use of historical averages for capital structure in a forecasted case is of limited relevance because the focus should be upon the Company's ability to forecast its capital requirements rather than comparing a forecasted capital structure to historic quarterly averages. Furthermore, when setting rates for a forecasted test period, the most current information should be used to properly match rates with the Company's cost-of-service. These precepts have been previously enunciated by the Kentucky Public Service Commission ("KPSC") in rate proceedings of Kentucky-American Water Company (Case No. 2004-00103).

Q. DOES THE CAPITAL STRUCTURE PROPOSED BY DR. WOOLRIDGE COMPORT WITH KPSC PRECEDENT?

A. No. Additionally, the KPSC has previously stated that rate setting in a forecasted case should be based upon the most current information, including changes to capital structure that have occurred since the filing of the rate application (Kentucky-American Water Company Case No. 2000-120).

Q. DOES DR. WOOLRIDGE'S TESTIMONY ACCOUNT FOR CHANGES TO THE COMPANY'S CAPITAL STRUCTURE SINCE THE FILING OF THE RATE APPLICATION IN DECEMBER 2006?

A. No. As described more particularly in my direct testimony previously filed herein, the Company, pursuant to an equity offering made in December 2006, substantially reduced the level of its then outstanding short-term debt. Since the filing of its rate application, and as reported by the Company in its Form 10-Q filed with the Securities and Exchange Commission for the fiscal quarter ended March 31, 2007, the Company has reduced its level of short-term debt to zero.

Q. WHY IS THIS SIGNIFICANT?

A. As I explained in my direct testimony, the Company's prior elevated levels of short-term debt were primarily attributable to the unprecedented spike in natural gas prices in late 2005 combined with much warmer than normal winter weather during the 2005-2006 heating season. Even though the 2004-2005 winter heating season was also much warmer than normal, the Company's short-term debt levels returned to zero as usual in the spring and summer of 2005; interestingly, Dr. Woolridge ignores this and chooses to focus solely on 2006 short-term debt in his testimony. However, for the reasons I have just noted, the elevated levels of short-term debt in 2006 were not truly reflective of the Company's historical use of short-term debt to seasonally fund natural gas purchases, at which times short-term debt levels have typically fallen to zero once the heating season ends. The Company's reduction of its short-term debt level to zero as of March 31, 2007 is indicative of the Company's historical use of short-term debt.

Q. WHY DOES DR. WOOLRIDGE INCLUDE A SHORT-TERM DEBT COMPONENT IN HIS PROPOSED CAPITAL STRUCTURE?

A. Dr. Wooldridge states that the Company's purchased gas costs are included in its test period operating expenses and that the average gas stored underground balance is included in the test period rate base. Dr. Woolridge therefore concludes that a component of short-term debt should be included in the Company's capital structure for consistency purposes.

Q. HAS THE COMPANY INCLUDED PURCHASED GAS COSTS IN ITS TEST PERIOD OPERATING EXPENSES?

A. Not for purposes of Operating and Maintenance (O&M) expense. As the Company informed the Attorney General during discovery in its response to the Attorney General's data request No. 1-189, the Company recovers zero percent of its purchased gas costs in rates and instead recovers those costs through its gas cost adjustment rider. Purchased gas costs are included in the Company's *Summary of Utility Jurisdictional Adjustments to Operating Income by Major Accounts* as Filing Requirement 10(10)(b), but that is to properly account for and reflect total operating revenue, total plant revenue and net operating income which do factor into calculating other rate items (such as the KPSC assessment), and not as a component of O&M expense that is used for purposes of setting rates for the Company. The Company is unaware of any major gas utility in Kentucky that does not use a gas cost adjustment rider to recover its purchased gas costs.

Q. DO YOU AGREE WITH DR. WOOLRIDGE'S CONCLUSION THAT THE COMPANY'S USE OF SHORT-TERM DEBT TO FUND GAS STORED UNDERGROUND JUSTIFIES THE INCLUSION OF A COMPONENT OF SHORT-TERM DEBT IN THE CAPITAL STRUCTURE?

A. No. During discovery, the Company advised the Attorney General that the Company uses cash from all sources, including short-term debt, to fund its natural gas purchases (Response to AG Data Request No. 1-5). This response, however, does not automatically presume that the Company borrows short-term funds every time its pays for storage gas. Such payments could just as well come from cash flow from operations, which is the Company's typical first source of funding in order to avoid incurring borrowing costs. If payment from cash flow from operations is not practicable at the time, then such purchases may be funded through short-term borrowings.

Even assuming, however, that the KPSC were to accept Dr. Woolridge's rationale concerning storage gas, the level he has proposed for short-term debt does not correspond to the Company's projected rate base level of storage gas as of June 30, 2008. In Filing Requirement 10(8)(f) sponsored by Company witness Mr. Thomas Petersen, the Company's projected level of rate base storage gas at June 30, 2008 is approximately $23.6 million. This is drastically less than the level of approximately $124 million in short-term debt that Dr. Wooldridge proposes to be included in the Company's capital structure. If inclusion of storage gas in rate base justifies inclusion of a component of short-term debt in capital structure, then the Company's adjusted capital structure would appear as follows (in thousands):

L-T Debt	S-T Debt	Total Debt	Shareholder Equity	Total
$2,183,548	$23,598	$2,207,146	$2,006,916	$4,214,062
51.85%	0.005%	51.8505%	48.1495%	100.0%

As shown above, there is no noticeable change in the Company's projected capital structure of 51.85% long-term debt and 48.15% common equity.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

BEFORE THE

KENTUCKY PUBLIC SERVICE COMMISSION

CASE NO. 2006-00464

PREPARED REBUTTAL TESTIMONY

OF

DONALD A. MURRY, Ph.D.

On Behalf of

ATMOS ENERGY CORPORATION

~~July 10, 2007 June 11, 2007~~

BEFORE THE
KENTUCKY PUBLIC SERVICE COMMISSION
CASE NO. 2006-00464

PREPARED DIRECT TESTIMONY
OF
DONALD A. MURRY, Ph.D.

On Behalf of
ATMOS ENERGY CORPORATION

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND POSITION IN THE COMPANY.

A. My name is Donald A. Murry.

Q. ARE YOU THAT SAME DONALD A. MURRY WHO FILED DIRECT TESTIMONY PREVIOUSLY IN THIS PROCEEDING?

A. Yes, I am.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. I am offering testimony in rebuttal of the Direct Testimony of J. Randall Woolridge.

Q. WHAT IS THE NATURE OF REBUTTAL TESTIMONY OF PROFESSOR WOOLRIDGE?

A. Dr. Woolridge's recommended allowed return on common stock of 9.0 percent for Atmos is very low in today's markets. For example, using Dr. Woolridge's own information, (Exhibit___(JRW-2), Atmos is relatively more risky. Yet, his recommended allowed return is lower than all of the studied companies' average current returns on equity of 12.3 percent. As his Exhibit__(JRW-2) shows, which I have summarized in Rebuttal Schedules DAM-1 and DAM-2, Atmos is a BBB rated company, and of the nine companies that he studied, only South Jersey Industries and Southwest Gas were not rated A- or above. Atmos' common equity ratio is 45 (See Exhibit___(JRW-2), percent while the average of the gas distribution utilities that he studied is 48.1 percent. Also, in Exhibit__JRW-6, Dr. Woolridge reported an average return on equity for the comparable gas utilities of 12.1 percent, which he also ignored, to reach his recommended allowed return for Atmos. However, on investigation of his assumptions and analysis, it is clear that Dr. Woolridge's recommendations are not supported by his own analysis. This is not too surprising considering Dr. Woolridge's primary methodology, the Discounted Cash Flow (DCF), incorporates a DCF model that is misspecified and misapplied. Finally, I wish to respond to some of Dr. Woolridge's comments regarding my direct testimony.

Q. WHY DO YOU SAY THAT DR. WOOLRIDGE'S TESTIMONY IS NOT EVEN SUPPORTED BY HIS OWN ANLYSIS?

A. Dr. Woolridge premised his testimony on some basic misconceptions and analytical errors. He has relied on a fundamentally incorrect interpretation of current economic conditions and interest rates. He used an unorthodox regulatory standard for determining whether a utility was earning in excess of its cost of capital. He also demonstrated that his interpretation of investor risk was too narrow to be practical.

Q. WHAT MISCONCEPTIONS ABOUT ECONOMIC CONDITIONS AND INTEREST

RATES UNDERLIE DR. WOOLRIDGE'S TESTIMONY?

A. Dr. Woolridge describes his testimony as "consistent with the current economic environment" (Woolridge Direct, page 2, line 7), and this is not a valid statement. For example, in numerous places in his testimony Dr. Woolridge claims that interest rates are at historic lows (Woolridge Direct, pg. 2 line 8, pg. 5 line 18, pg. 6 line 3, pg. 9 line 17, pg. 20 line 7, pg. 61 line 14, pg. 93 line 4). This is factually wrong. Even his own exhibits, which he ignored, show this. The chart of yields on 10-year government bonds on the top of page 6 of Dr. Woolridge's direct testimony shows rates increasing since the lows of 2003. Ten-year Treasury bonds hit a low of 3.33 percent in June 2003 and, as of June 8, 2007, yielded 5.13%--more than 50% higher. Moreover, as Dr. Woolridge himself pointed out, (Woolridge Direct, page 20, line 8) A-rated utility bonds are up almost 40 percent from the low of 4.5 percent he cites in 2003-2005. Current A-rated utility bonds are yielding approximately 6.24 percent. Contrary to Dr. Woolridge's assertion that interest rates are at historic lows, in fact, rates have risen. Gas utilities are capital intensive and the level of interest rates and expected interest rates are of paramount importance to investors in gas utility securities. Dr. Woolridge's insistence that he should base his recommendation on all- time low interest rates does not square with corporate interest rates, up almost 40 percent, and the bellwether 10-year Treasury, up more than 50 percent, since the 2003-2005 time period he cites. Furthermore, analysts forecast corporate bond rates will increase further in the remainder of 2007 and 2008. This is important because a utility's cost of capital is a forward looking concept, based on expectations. He has ignored this principle as well as the facts.

Q. YOU REFERRED TO CURRENT INTEREST RATE FORECASTS. CAN YOU CITE SOME OF THESE CURRENT FORECASTS OF NEAR-TERM INTEREST RATE INCREASES?

A. Yes. As indicated in the June 1, 2007 edition of *Blue Chip Financial Forecasts,* 10-year Treasury Bonds are expected to increase from their May 18, 2007 yield of 4.74 percent to 5.0 percent in the Third Quarter of 2008. However, rates have risen so much that the yield on 10-year treasuries has already exceeded the forecast amount. By comparison, AAA and BBB corporate bonds are expected to increase from 5.46 percent and 6.38 percent to 5.9 percent and 6.8 percent, respectively. Market expectations are the primary consideration in this regard.

Q. CAN YOU IDENTIFY IF DR. WOOLRIDGE'S INACCURATE ASSESSMENT OF CURRENT AND FUTURE INTEREST RATES AFFECTED HIS RECOMMENDED ALLOWED RETURN?

A. He stated in his direct testimony that it did. In response to a question, at page 61, lines 11-15 of his Direct Testimony, as to whether his recommended rate of return is low by historical standards, he responded affirmatively. He explained why, as follows: "First, as discussed above, current capital costs are very low by historical standards, with interest rates at a cyclical low not seen since the 1960s."

Q. WHY DID YOU STATE THAT DR. WOOLRIDGE USED AN "UNORTHODOX" REGULATORY STANDARD TO DETERMINE WHETHER A UTILITY IS EARNING IN EXCESS OF ITS COST OF CAPITAL?

A. Dr. Woolridge falsely assumes that utilities with market-to-book ratios above one must be earning in excess of their cost of common equity. Beginning on page 16, line 3, of his direct testimony, Dr. Woolridge spends a considerable amount of time discussing the relationship among the cost of equity, earned returns on equity, and the market-to-book ratio. On page 63 line 7 of his direct testimony, Dr. Woolridge claims that a market-to-book ratio above one for the group of natural gas distribution companies and Atmos indicates that these companies are earning above their equity cost rates. However, Dr. Woolridge has provided no evidence to support this claim.

Q. WHAT IS WRONG WITH DR. WOOLRIDGE'S ASSUMPTION THAT A MARKET-TO-BOOK RATIO IMPLIES THAT A UTILITY IS EARNING IN EXCESS OF ITS COST OF CAPITAL?

A. Many things, other than the returns on regulated assets exceeding the cost of equity, will cause investors to bid the prices of utility stocks above book value, and Dr. Woolridge has failed to recognize this. For example, returns on any non-regulated operation could cause the market-to-book ratio to be above one. Returns on services such as energy marketing and trading and commodity services could cause the market-to book ratio to be above one. Company assets, including real estate, which have market values above original cost, have value to investors and are likely to cause a utility's market-to-book ratio to be above one. In fact, real estate and land belonging to the regulated entity, with a market value above original cost, are likely to raise the market-to-book ratio above one if investors anticipate that those assets will be freed-up through a spin-off or deregulation. Other factors, such as investment tax credits that earn a return and incentive regulation also could cause the market-to book ratio to be above one. That is, many justifiable reasons can drive the market price of a utility's common stock above book value.

Q. DID DR. WOOLRIDGE'S ERRONEOUS ASSUMPTION, THAT MARKET-TO-BOOK RATIOS GREATER THAN ONE IMPLY THAT UTILITIES' RETURNS EXCEED THE COST OF EQUITY, AFFECT HIS ANALYSIS?

A. From the data in Dr. Woolridge's Exhibit__(JRW-2), this appears to be the case. He apparently ignored that all of his comparable gas distribution utilities had market-to-book ratios greater than one; they averaged 2. He must have adopted this market-to-book standard of one as an adequate return; otherwise he would have noted that the market-to-book ratio of Atmos, at 1.46, was the lowest of all of gas distribution utilities that he studied. It apparently did not concern Dr. Woolridge that Atmos' market-to-book ratio was the lowest of any of the gas distribution utilities in the group of comparable companies that he analyzed. He also ignored the simple fact that the average market-to-book ratio of Dow Jones Industrials is 3 as I show in Rebuttal Schedule DAM-3. This comparison is interesting because most of these companies in non-regulated industries face competition which would drive down their returns if they exceeded their true cost of capital for extended periods. In sum, Dr. Woolridge's based his rationale for determining a fair rate of return recommendation in this proceeding on a false economic premise.

Q. CAN YOU BE CERTAIN THAT DR. WOOLRIDGE APPLIES THE MARKET-TO-

BOOK-RATIO OF ONE AS A STANDARD WHEN DETERMINING THE ALLOWED RETURN FOR A UTILITY?

A. I know of at least one previous proceeding where he acknowledged that he applied that standard. For example, in the Public Service of Oklahoma rate case (PUD No. 200600285), at Hearing Transcript page 117, lines 2-11, he explained his use of this standard, as follows:

> 02 REFEREE MILLER: Dr. Woolridge, I'm going
> 03 to ask you to focus on the question. Ask the question again
> 04 and then respond.
> 05 Q. (By Mr. Slocum) Do you believe, across the board,
> 06 regulatory agencies have been setting return on equities that
> 07 are too high?
> 08 A. Yes. And it's primarily related--the evidence on that
> 09 is the fact that the market to book ratios are about 2.0,
> 10 which clearly suggests that the allowed returns are above the
> 11 returns that investors require.

He further confirmed in this same proceeding that he knew that his methodology produced an unusually low return on common equity. He acknowledged that among the various cost of capital witnesses in 11 previous cases, he recommended the lowest return on common equity 10 times. In that one additional instance he was just 10 basis points higher that the lowest recommendation.

Q. WHY DID YOU CALL PROFESSOR WOOLRIDGE'S RISK CONCEPT TOO NARROW TO BE PRACTICAL?

A. At several places in Dr. Woolridge's testimony he demonstrates a very narrow concept of investment risk. This conceptual narrowness has obviously caused him to reach some illogical conclusions regarding the allowed return appropriate for this proceeding. However, because of his misperceptions of investor risk he apparently fails to see the resulting inconsistencies.

Q. CAN YOU PROVIDE EXAMPLES OF DR. WOOLRIDGE'S OVERLY NARROW DEFINITION OF RISK AS YOU DESCRIBE IT?

A. Throughout his testimony, many similar definitional problems are apparent when one recognizes Dr. Woolridge's underlying risk concept. Dr. Woolridge, for example, states on page 22, line 8 of his Direct Testimony, "Exhibit JRW-5 provides an assessment of investment risk for 100 industries as measured by beta, which according to modern capital theory is the *only* relevant measure of risk that need be of concern for investors." [*Emphasis added.*] However, if one turns to Exhibit JRW-5, it is rather clear that Dr. Woolridge's risk definition and his assertion that beta is the *only* measure of risk are not adequate. For example, he reports a beta of 0.97 for the Electric Utility (West) and a beta of 0.94 for Electric Utility (Central). At the same time, he reports a lower, less risky beta of 0.88 for Petroleum (Producing). Although many oil producers and analysts, as well, would disagree with Dr. Woolridge's relative risk assessment of oil production and electric utilities, for the purposes of his testimony in this regulatory proceeding, it is his overly narrow concept of risk that is important.

Q. CAN YOU EXPLAIN FURTHER WHAT YOU MEAN BY PROFESSOR WOOLRIDGE'S OVERLY NARROW CONCEPT OF RISK?

A. Yes. In JRW-8, page 3 of 4, he presents bar charts showing the standard deviations of annual returns for common stocks and bonds for the years 1930-2006. He explains on page 82, lines 2 to 5, that this variability shows the "relative riskiness of bonds and stocks." These standard deviations, which show only the variability about a mean reveal Dr. Woolridge's narrow risk concept. These measures show nothing more; that is, for example, they do not show whether returns are trending upward or downward.

Q. WHY ARE YOU STATING THAT THE STANDARD DEVIATIONS, WHICH SHOW THE VARIABILITY OF RETURNS, ARE A NARROW DEFINITION OF RISK BECAUSE THEY DO NOT SHOW TRENDS?

A. Let me explain by an example. Suppose in one year all of the returns sequentially decrease from high returns to low returns for a common stock. Then for another common stock all of the returns sequentially increase from low returns to high returns for the same period. Dr. Woolridge's definition of variability about the mean as the *only* measure of risk implies and that an investor would consider these common stocks to possess equal risks. He would not even suggest that an investor need inquire as to why one common stock was trending upward and the other downward.

Q. DID YOU DETECT SPECIFIC INSTANCES IN WHICH PROFESSOR WOOLRIDGE'S NARROW RISK DEFINITION LED HIM TO REACH INACCURATE JUDGMENTS IN THIS CASE?

A. Yes. On page 61, line 6 of his Direct Testimony regarding the Company's Formula Based Rates tariff plan he revealed his narrow risk concept very clearly by stating, "... the FBR plan would reduce the risk of the Company by reducing the volatility of earnings." In so stating, Dr. Woolridge has ignored that Formula Base Rates that narrow the range of expected revenues do not necessarily change investor expectations. Indeed, an FBR, which reduces both the upper revenue expectations and, at the same time, raises the lower revenue expectations, reduces in the range about the expected mean of returns. It will not reduce an investor's expected level of returns.

Q. IF VARIABILITY OF RETURNS IS NOT AN ADEQUATE, PRACTICAL DEFINITION OF RISK, HOW WOULD YOU DESCRIBE OVERALL RISK THAT WOULD BE USEFUL FOR DETERMINING THE COST OF COMMON EQUITY IN THIS PROCEEDING?

A. Because investors are interested in achieving their investment objectives, the probability of their not achieving those objectives from a particular investment is a more practical, and more involved risk concept. As Dr. Woolridge employed his inadequate, risk concept throughout his testimony, he ignored risk indicators that he analyzed and recommended an unrealistically low return on common equity.

Q. HOW DO YOU KNOW THAT PROFESSOR WOOLRIDGE IGNORED RISK INDICATORS THAT HE ANALYZED?

A. He reported indicators of relative risk of Atmos and the comparable gas utilities in the exhibits accompanying his testimony, but he did not refer to them when they might have demonstrated that his recommended allowed return was an outlier. In Exhibit (JRW-2), he reported that the Return on Equity of his comparable companies averaged 12.3 percent with a median of 11.0 percent. He did not explain how

Atmos' risk could be so much lower than the risk of his comparable companies, which would justify his recommended allowed return of 9.0 percent. Also, he reported, in that same exhibit, that his comparable group has an S&P bond rating of A, while Atmos has an S&P bond rating of BBB. This is just barely above a minimal "investment grade" level, and he showed no concern for setting an allowed return to at least maintain this rating.

Q. DID YOU DETERMINE THAT PROFESSOR WOOLRIDGE'S OVERLY NARROW RISK CONCEPT MAY HAVE PRECLUDED HIS INVESTIGATING ATMOS' RISK MEASURES MORE THOROUGHLY?

A. Yes. Dr. Woolridge did not even investigate the relative financial safety of his recommended allowed return. For example, he had calculated the Pre-Tax Interest Coverage of Atmos and the companies that he studied in Exhibit__JRW-2. The average of his comparable companies was 4.2 times. For Atmos, it was only 2.8 times. Only Southwest Gas, a gas distribution company that has been in financial difficulty, is lower. In this case again, Dr. Woolridge ignored his own analysis and an obvious indictor of financial risk, and he recommended an outlier rate of return.

Q. HAVE YOU DETERMINED WHY PROFESSOR WOOLRIDGE HAS PRODUCED SUCH A LOW EQUITY RETURN RECOMMENDATION WITHOUT RECOGNIZING THAT IT WAS AN OUTLIER?

A. Apparently, he accepted the low common equity return because he applied the market-to-book standard. On page 62, line 12, he stated, "To test the reasonableness of my 9.00 equity cost rate recommendation, I examine the relationship between the return on common equity and the market-to-book ratios for the companies in the group of gas distribution companies and for Atmos Energy." Although he reports that the equity return and market-to-book ratio of Atmos is already significantly lower than the group of comparable companies, he is recommending a reduction in common equity return for Atmos, which will further drive down its market price and market-to-book ratio relative to the group.

Q. COULD YOU DETERMINE WHY HE WOULD RECOMMEND LOWERING ATMOS' RETURN, WHEN IT IS ALREADY LOWER THAN THE MARKET-TO-BOOK RATIO, IF THAT IS HIS STANDARD OF "REASONABLE?"

A. I believe that he revealed his dubious logic leading to this conclusion in his testimony. On page 63, lines 7-8, when referring to the market-to-book ratio of the "Gas Group" and Atmos Energy he stated, "These results clearly indicate that, on average, these companies and Atmos Energy are earning returns on equity above their equity cost rates." That is, he believes that his comparable group of gas utilities earns above their equity costs. So, he can ignore their returns and their market-to-book levels, and he recommended an outlier, low return on common equity for Atmos.

Q. IS HIS ASSERTION THAT HIS COMPARABLE COMPANIES' EARNINGS ARE TOO HIGH AND GIVING HIM A FALSE EARNINGS STANDARD, THE ONLY THING THAT YOU THINK IS WRONG WITH PROFESSOR WOOLRIDGE'S METHODOLOGY?

A. No. I believe, when he sets up a comparable group of utilities in his methodology and then ignores them, this is not only bad analysis, it probably also violates the standard set in the *Hope Natural Gas* decision. As I stated in my direct testimony, this decision implies that investors in a utility's common stock are entitled to the same return as investors in equities of similar risk. Dr. Woolridge appears to have recommended a return for Atmos that is in direct conflict with this standard. For this reason alone, I believe that his recommendation has no value when determining the cost of capital in this proceeding.

Q. COULD YOU DETERMINE IF PROFESSOR WOOLRIDGE ATTEMPTED TO RECOMMEND AN ALLOWED RETURN THAT IS CONSISTENT WITH THE CONCEPT OF SETTING AN ALLOWED RETURN THAT IS EQUAL TO THE RETURNS EARNED BY INVESTORS IN SECURITIES OF EQUIVALENT RISKS?

A. No, I could not. In fact, on page 14, line 20, Dr. Woolridge refers to the need to "...provide an adequate return on capital to attract investors." This is good so far because this statement is consistent with the concept of setting returns at an equivalent margin to returns for investments of equivalent risks. However, on page 16, line 4, he changes his standard. He substitutes a market-to-book ratio standard by stating, "...when a firm earns a return on equity in excess of its cost of equity, investors respond by valuing the firms' equity in *excess of book value*." [Emphasis added.] Dr. Woolridge apparently believes that all of his comparable gas companies are earning excessive regulated returns, and he has substituted his own market-to-book ratio standard for the standard of returns equivalent to the returns on similar securities.

Q. YOU INDICATED THAT DR. WOOLRIDGE HAD A NUMBER OF INTERNAL INCONSISTENCES AND MECHANICAL PROBLEMS IN HIS TESTIMONY THAT MAY HAVE CAUSED HIM TO RECOMMEND SUCH A LOW RETURN. COULD YOU EXPLAIN THAT FURTHER?

A. Yes, at least one is important. Dr. Woolridge devotes a considerable portion of his testimony, from page 42, line 6 to page 55, line 17, developing an equity-bond risk premium for use in his CAPM analysis. As Dr. Woolridge notes, at page 42, line 16, he by-passes the traditional risk premium method, which he refers to as the "Ibbotson Approach," and he calculates a much lower risk premium. His analysis includes a discussion of a variety of estimates of the equity-bond risk premium, and it is difficult to determine the weight he places on the various information sources. Nevertheless, his analysis contains a number of conceptual problems. For example, he uses the S&P 500 to represent the market, and this is a gross understatement of the alternatives available to investors. (Woolridge, page 55, line 8). Dr. Woolridge used the wrong Ibbotson equity risk premium in Exhibit_(JRW-7), page 3 of 5. It should be 7.1 percent as I noted in Rebuttal Schedule DAM-4, an excerpt from his source. A clue that something is wrong with Dr. Woolridge's estimate of his risk premium is that his estimate of the expected return on common stock is only 1.13 percent higher than the current rate for low-investment grade BBB corporate bonds. On its face, Dr. Woolridge's risk premium analysis is not credible.

Q. WHY DO YOU SAY THAT DR. WOOLRIDGE'S DCF MODEL IS MISSPECIFIED AND MISAPPLIED?

A. On page 28, line 1 of his Direct Testimony, Dr. Woolridge shows the standard, annual DCF model used in his analysis. The assumptions underlying this standard model include dividends being paid annually at the end of the year with a yearly increase in dividends starting exactly one year from the present (See Morin, R. *New Regulatory Finance, pg. 343, Public Utilities Reports, Inc. Vienna, Virginia, 2006.).* However, as shown on page 31, line 10 of his testimony, rather than multiplying the current annual dividend by the expected growth rate, Dr. Woolridge adjusts the expected growth rate of dividends by one-half for two reasons: First, because some analysts use the current quarterly dividend and multiply that dividend by 4 which could overstate the expected dividend in the coming year due to firms changing dividends at different times of the year, and second, because the overall cost of capital may be applied to a projected or end-of-test-year rate base (Woolridge Direct, page 30, line 9).

Q. IS THIS AN APPROPRIATE ADJUSTMENT?

A. No. Dr. Woolridge's adjustment is inappropriate with regard to both of these conditions. First, Dr. Woolridge obtained his dividend yields from *AUS Utility Reports* (Exhibit JRW-6, page 2 of 5) which uses the current annual dividend to calculate the dividend yield. Consequently, there is no overstatement of the expected dividend because of differences in expected growth between the coming quarter versus the coming year. Second, the adjustment Dr. Woolridge cites that is associated with a projected or end-of-test-year rate base only applies when a *quarterly compounded* DCF model is used to determine the cost of equity. A quarterly compounded DCF model recognizes the time value of money associated with dividends being paid quarterly. Consequently, all other things being equal, a quarterly compounded model will produce a higher cost of equity.

Q. DO ANALYSTS UNDERSTAND THIS?

A. Analysts have recognized that the "DCF quarterly rate is in fact an effective market-based rate of return that, although appropriate for unregulated companies, requires modification because of the manner in which revenue requirements are set." (See Morin, R. *New Regulatory Finance*, page. 350, Public Utilities Reports, Inc. Vienna, Virginia, 2006.) The proper adjustment to synchronize the rate base and the return on equity when using a quarterly DCF model is to adjust the effective rate to a nominal rate. Consequently, not only is Dr. Woolridge's adjustment inappropriate for his annual DCF model, it would be inaccurate even if he had used a quarterly model. In sum, Dr. Woolridge's primary cost of equity analysis relies on a misspecified and misapplied model that inherently underestimates the cost of equity.

Q. WHAT COMMENTS DO YOU HAVE REGARDING DR. WOOLRIDGE'S EVALUATION OF YOUR TESTIMONY?

A. I am surprised at the inconsistencies of Dr. Woolridge's response to my direct testimony. In numerous instances, Dr. Woolridge goes to great lengths to criticize aspects of my analysis when he has incorporated the very same methods in his own work. Additionally, many of Dr. Woolridge's criticisms contradict either his own statements, financial theory, or both. Finally, Dr. Woolridge's criticism of the need for a flotation cost adjustment and a size adjustment in his CAPM analysis are theoretically wrong. Consequently, the inconsistency and selective application of financial principles severely undermine the credibility of his responsive testimony and render it unreliable.

Q. YOU STATED THAT DR. WOOLRIDGE'S TESTIMONY WAS INCONSISTENT. WHAT DID YOU MEAN BY THAT STATEMENT?

A. The most obvious example is Dr. Woolridge's criticism of my use of analysts' forecasts. While he criticized my use of analyst's forecasts, he used them in his own analysis. For example, Dr. Woolridge spent nine pages of his Direct Testimony (Woolridge, pages 70-78) expounding on the unsuitability of analysts' forecasts for determining the DCF growth rate and criticizing academic studies supporting their use. Nevertheless, he relied on analysts' forecasts for determining his DCF growth rate (Woolridge Direct, page 31, line 4). In addition to analysts' forecasts, Dr. Woolridge "reviewed" historical growth. However, analysts also take historical growth into consideration when making forecasts. On page 76, line 8, of his testimony, regarding *Value Line*, Dr. Woolridge states, "Value Line has a decidedly positive bias to its earnings growth rate forecasts as well." Yet, Dr. Woolridge relies heavily on *Value Line's* forecasts to determine his growth rate (Woolridge Direct, page 34, line 8). Although he uses analysts' forecasts for his own analysis, he also disclaims their value. This type of internal inconsistency in his testimony is commonplace.

Q. HOW DID PROFESSOR WOOLRIDGE USE ANALYSTS' FORECASTS AND AT

THE SAME TIME DISCLAIM THEIR VALUE?

A. Yes. On page 61, line 16 of his direct testimony Dr. Woolridge states boldly, without any substantiation, "It seems highly unlikely that investors today would rely excessively on the forecasts of security analysts." Dr. Woolridge's unsupported opinion of whether investors are using the right information to form their expectations is not relevant. What is necessary for determining the expected growth rate in a DCF analysis is a proxy for investor expectations. Dr. Woolridge would have us believe that rather than widely circulated published forecasts by professionals, investors rely on something else. Also, Dr. Woolridge's opinion is inconsistent with academic research. As I cited in my Direct Testimony, from as early as 1982 to just recently, published academic studies have shown that analysts' forecasts are superior to historical trended growth rates as predictors of growth rates for DCF analyses.

Q. DID DR. WOOLRIDGE USE ANALYSTS' FORECASTS IN OTHER AREAS OF HIS TESTIMONY?

A. Yes. On page 46, line 1 of his testimony, Dr. Woolridge cites a study by Claus and Thomas of Columbia University to support his CAPM analysis. In citing that study, Dr. Woolridge points out, "The expected cash flows are developed using *analysts earnings forecasts*." [Emphasis Added.]

Q. DR. WOOLRIDGE CRITICIZED YOUR TESTIMONY, BUT HE APPLIED THE SAME METHODS HIMSELF. DID YOU DETERMINE WHETHER DR. WOOLRIDGE CRITICIZED OTHER AREAS OF YOUR TESTIMONY WHEN HE

USED THE SAME METHODS OR DATA?

A. Yes. Another instance occurred on page of his Direct Testimony, where Dr. Woolridge criticized my use of the historical relationship between stock and bond returns from the "Ibbotson Study." Then, on page 86, line 4, of his Direct Testimony, he stated, "Using the historical relationship between stock and bond returns to measure an ex ante risk premium is erroneous, and especially in this case, overstates the real market risk premium." However, as shown on page 56, line 11, Dr. Woolridge included the results of the Ibbotson Study in determining his CAPM cost of equity.

Q. CAN YOU IDENTIFY OTHER CONTRADICTIONS BETWEEN PROFESSOR WOOLRIDGE'S CRITICISM OF YOUR TESTIMONY AND HIS OWN METHODS?

A. Yes. Dr. Woolridge criticizes my judgment in evaluating the data and results in my cost of equity analyses. In my analyses, I evaluated relevant market data for Atmos and a group of comparable companies and used my judgment based on these analyses to recommend an allowed return. Then, I tested this recommendation for its adequacy. Dr. Woolridge criticized this process and my judgment as "highly selective use" (Woolridge Direct, pg. 65, line 5). Nevertheless, on page 23, line 4 of his Direct Testimony, Dr. Woolridge states, "The cost of common equity, however, cannot be determined precisely and must instead be estimated from market data and informed judgment."

Q. WHY DID YOU STATE THAT DR. WOOLRIDGE'S CRITICISM OF THE NEED FOR A FLOTATION COST ADJUSTMENT IS MISGUIDED?

A. On page 79 line 10 of his testimony, Dr. Woolridge claims that I have inappropriately focused on the higher DCF results as an alternative to making a flotation or market pressure adjustment. Again, he applied his faulty market-to-book value standard as the basis for this statement. (Woolridge, page 79, line 16). However, issuance and flotation costs are inescapable investment expenses that analysts should consider in estimating an allowed return necessary for a utility to attract capital. All other things being equal, if not considered, the investor will not earn the required return.

Q. IS THE ALLOWANCE FOR ISSUANCE EXPENSE FOR COMMON STOCKS SIMILAR TO THE ALLOWANCE FOR BOND ISSUANCE EXPENSE?

A. Conceptually, the situation with common stock is similar to that of bonds and preferred stock, but the regulatory treatment differs. With bonds for example, the issuance expenses recovered over the life of the bond are reflected in the cost charged to ratepayers. The cost to the company for a specific bond issue is the interest expense plus the amortization of issuance costs divided by the principal value less the unamortized issuance costs. The result is that the cost to the utility is greater than the return to the creditor.

Unlike the case of bonds, however, common stock does not have a finite life. Therefore, a utility cannot amortize issuance costs and must recover them by an upward adjustment to the allowed return on equity. Studies have shown that the adjustment is necessary, even if there are no plans for future stock issuance. This adjustment reflects the utility's earned return on an equity balance that is less than the actual amount paid by investors because of the issuance costs.[1] Historically, utility underwriting expenses associated with issuing common stock have averaged 3 to 5.5 percent of gross proceeds.[2]

Q. YOU MENTIONED THAT PROFESSOR WOOLRIDGE CRITICIZED YOUR USE OF A SIZE ADJUSTMENT IN YOUR CAPM ANALYSIS. WHAT IS THE NATURE OF HIS CRITICISM?

A. Dr. Woolridge misrepresents an article by Ms. Annie Wong to argue that a size premium is inappropriate for a public utility. His criticism misses the point at several levels. First, Ms. Wong did not demonstrate that a size premium was inappropriate for utilities; she only reported that in the model that she used, she could not find the evidence of a size differential for utilities. Her finding, however, was contrary to the extensive work by other academics who found the size differential. Dr. Woolridge chose to ignore this extensive work. In fact, Ibbotson Associates uses an electric utility as the example in its publication when demonstrating the application of the size premium adjustment in a CAPM analysis. As Rebuttal Schedule DAM-5 shows, his CAPM understated the estimated returns of his gas utility group by an average of 158 basis points.

Q. ARE THESE ISSUES THAT YOU MENTIONED YOUR ONLY CONCERNS WITH PROFESSOR WOOLRIDGE'S TESTIMONY?

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1 See Brigham, E.F., Aberwald, D., and Gapenski, L.D., "Common Equity Flotation Costs and Rate Making," Public Utilities Fortnightly, May 2, 1985, pp. 28-36

2 See Lee, I., Lochead, S., Ritter, J., and Zhao, Q., "The Costs of Raising Capital." Journal of Financial Research, Vol. XIX, No. 1, Spring 1996.

A. No. I raised the issues mentioned at this point in my rebuttal testimony because I thought these were perhaps the significant misconceptions that led to is inordinately low recommended allowed return and his major criticisms of my Direct Testimony.

Q. DOES THIS COMPLETE YOUR REBUTTAL TESTIMONY?

A. Yes, it does.

68. Provide a calculation of the average composite interest cost for the long-term debt and short-term debt for the last two (2) years.

Response:

Please see the attachment labeled MFRU1 68 ATTACH 1 & 2.

Laurie Sherwood

June 2006 - May 2007 Weighted Average Interest Expense for STD

Using June 06-May 07 Historical Numbers
MFRU1 68, Attachment 1

Month	Avg monthly amt o/s	Average monthly interest rate	Amt o/s as a % of total	WAVG Amt o/s	WAVG Interest Rate	Estimated WAVG Interest Expense
Jun-06	179,760,000	5.366%	8.16%	14,659,703	0.43761%	
Jul-06	250,205,645	5.588%	11.35%	28,400,975	0.63429%	
Aug-06	272,648,355	5.575%	12.37%	33,724,445	0.68963%	
Sep-06	314,803,500	5.551%	14.28%	44,959,156	0.79278%	
Oct-06	376,837,451	5.554%	17.10%	64,423,922	0.94945%	
Nov-06	393,379,333	5.559%	17.85%	70,204,043	0.99202%	
Dec-06	240,125,806	5.560%	10.89%	26,158,734	0.60572%	
Jan-07	100,675,806	5.552%	4.57%	4,598,215	0.25356%	
Feb-07	59,592,857	5.527%	2.70%	1,611,118	0.14942%	
Mar-07	16,221,774	5.530%	0.74%	119,381	0.04070%	
Apr-07	0	0.000%	0.00%	0	0.00000%	
May-07	0	0.000%	0.00%	0	0.00000%	
Total	2,204,250,528		100%			
WAVG				288,859,693	5.54520%	16,017,834

Notes:
No short - term debt outstanding at May 31, 2007.

Long Term Debt Outstanding
As of May 31, 2007
Average Annualized Long-Term Debt
MFRU1 68, Attachment 2

Title of Issue	Date of Maturity	5/31/2007 Amount Outstanding	5/31/2007 End Int Rate	Annual Interest at 5/31/2007
Long Term Debt				
Unsecured floating rate Sr. Notes	10/15/07	300,000,000	5.73%	17,191,890
Unsecured 4.00% Sr. Notes	10/15/09	400,000,000	4.00%	16,000,000
Unsecured 7.375% Senior Notes	05/15/11	350,000,000	7.38%	25,812,500
Unsecured 10% Notes	12/31/11	2,303,308	10.00%	230,331
Unsecured 5.125% Sr. Notes	01/15/13	250,000,000	5.13%	12,812,500
Unsecured 4.95% Sr. Notes	10/15/14	500,000,000	4.95%	24,750,000
Unsecured 5.95% Sr. Notes	10/15/34	200,000,000	5.95%	11,900,000
Medium term notes				-
Series A, 1995-2, 6.27%	12/19/10	10,000,000	6.67%	667,000
Series A, 1995-1, 6.67%	12/15/25	10,000,000	6.27%	627,000
Unsecured 6.75% Debentures	7/15/28	150,000,000	6.75%	10,125,000
First Mortgage Bonds:		-		-
Series P, 10.43%, due 2013	11/1/17	7,500,000	10.43%	782,250
Subtotal -- Utility Long-Term Debt		2,179,803,308		120,898,471
Atmos Leasing Inc.				
Industrial Develop Revenue Bond	7/1/13	851,189	7.90%	67,244
Atmos Power Sys - Wells Fargo Equip	5/15/08	1,508,426	5.65%	85,226
US Bancorp	4/1/09	2,074,019	5.29%	109,716
Subtotal		2,184,236,942		121,160,656
United Cities Propane Gas Company				
Pulaski -- Ingas, Ingram & Carvell 06/08	6/1/08	100,000	8.00%	8,000
Subtotal		100,000		8,000
Total Long Term Debt		2,184,336,942		121,168,656
Less: Unamortized Debt Discount		3,034,406		
Annualized Amortization of Debt Exp. & Debt Dsct.				$ 10,699,179
		2,181,302,536		131,867,836
Effective Avg Cost of Consol Debt			6.05%	

Atmos Energy Corporation
Responses to Minimum Filing Requirements
July 2007 Update

82. Provide copies of the LDC's projected new stock and debt issues for the next five (5) fiscal years.

Response:

Atmos Energy Corporation
Response to MFR No. 82
Projected Stock Issues
(In Thousands)

The following update reflects the actual debt issuance in June 2007 and related pay-off of existing debt in July.

	2007	2008	2009	2010	2011
June 2007 Long-Term Debt Offering	$250,000				
Pay-off of Long-Term Debt – July 2007	($300,000)				
Net LT Debt Reduction	**($ 50,000)**				

Laurie Sherwood