

**BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE**

IN RE:

**PETITION OF ATMOS ENERGY)
CORPORATION FOR APPROVAL OF)
ADJUSTMENT OF ITS RATES AND)
REVISED TARIFF)**

DOCKET NO. 07-_____

ROBERT R. COOK, JR.

I. INTRODUCTION OF WITNESS

Q. PLEASE STATE YOUR NAME, POSITION AND BUSINESS ADDRESS.

A. My name is Robert R. Cook Jr. I am Vice President Technical Services of the KY/Mid-States Division of Atmos Energy Corporation ("Atmos Energy" or "Company"). My business address is 2401 New Hartford Road, Owensboro, Kentucky, 42303.

II. SUMMARY OF TESTIMONY

Q. PLEASE BRIEFLY SUMMARIZE THE TESTIMONY YOU INTEND TO GIVE IN THIS MATTER.

A. In my testimony, I will describe Atmos Energy's budgeting process for capital expenses ("Capex"). My testimony will describe how the Company decides upon and prioritizes its capital expenditures.

Specifically, I will discuss the Company's budget for capital expenditures relating to Tennessee for the attrition period and as forecast for future years.

III. WITNESS QUALIFICATIONS

Q. PLEASE DESCRIBE YOUR PROFESSIONAL AND EDUCATIONAL BACKGROUND.

A. I received a Bachelor of Science degree in Civil Engineering from Murray State University in 1990.

I have been employed in the utility industry for 16 years, predominantly in the natural gas transmission field. I have been employed by Atmos Energy Corporation for approximately three (3) years. My previous employer was Williams Gas Pipeline Company -- Texas Gas.

During my time at Williams Gas Pipeline Company, I worked in design and construction as a project engineer in Kentucky from 1990 until 1999. I then worked as a project manager in the engineering department overseeing pipeline and compression projects in Kentucky until 2000. From 2000 until 2003, I worked in Houston, Texas as manager of construction/mapping for Williams Gas Pipeline Company.

In 2004, I returned to Kentucky to join Atmos Energy as Vice President of Technical Services for its Kentucky Division. Effective October 1, 2006, I assumed the responsibility of Vice President of Technical Services for the consolidated KY/Mid-States Division.¹

Q. WHAT ARE YOUR RESPONSIBILITIES AS THE VICE PRESIDENT OF TECHNICAL SERVICES?

A. I have overall responsibility for decision-making related to technical operations. This includes engineering and system design, safety, compliance, procurement, environmental, measurement, communications, technological infrastructure, and storage operations. I also sponsor Atmos' safety committee and am a member of the Atmos' Utility Operations Council, which sets the Company's standard practices and procedures for construction, maintenance and service. In addition, I am responsible for developing the Division's (including Tennessee) annual capital

¹ Effective October 1, 2006, the Company's Kentucky and Mid-States Divisions were organizationally consolidated and are now the KY/Mid-States Division.

1 budget and monitoring capital budgetary compliance. In this regard, it is my role
2 to ensure that the Company's investment in new plant and equipment in
3 Tennessee is targeted towards meeting the important goals of public safety,
4 system reliability and efficiency.

5
6 **IV. CAPITAL BUDGETING PROCESS**

7 **Q. WHAT ARE THE OBJECTIVES OF THE COMPANY'S CAPITAL**
8 **BUDGETING PROCESS?**

9 A. The objectives of the Company's capital budgeting process are to:
10 (1) Formalize the process of identifying construction needs and prioritizing
11 capital expenditures;
12 (2) Assess the economic feasibility of individual construction projects;
13 (3) Determine overall capital requirements for the planning periods;
14 (4) Reassess long term system maintenance requirements annually; and
15 (5) Review past construction projects and work practices, and apply procedural
16 improvements as appropriate.

17 **Q. PLEASE DESCRIBE THE PLANNING AND BUDGET PROCESS FOR**
18 **THE COMPANY'S CAPITAL CONSTRUCTION PROGRAM?**

19 A. The Company plans its capital expenditures over five fiscal years, with a focused
20 emphasis on the first year of that five-year period. We normally begin this
21 process during our third fiscal quarter (April-May) of each year, some 4 to 5
22 months prior to the beginning of the next fiscal year. The process is initiated
23 within the Division by a request from my office for a "bottom-up" submission of
24 projects from our operations supervisors and operations managers in Tennessee.
25 All proposed projects, vehicles, and equipment must be identified at a high level
26 by need and cost, and all budgets are prepared based upon meeting the five
27 objectives described above. The proposed projects, vehicles, and equipment are
28 reviewed by the KY/Mid-States Division's regional vice presidents of operations
29 for collaborative agreements between the regional vice presidents, operations
30 managers, and myself.

1 After review, additional information is requested for projects that are determined
2 to be the most eligible for funding and more detailed documentation is requested
3 from the operations and technical services managers on those particular projects.
4 The process is largely complete by late June when projects are entered into the
5 Atmos Energy capital budget system (PlanIt), although finalization of capital
6 expenditures is not completed until late July. During this time, the agreed-to
7 projects have been further substantiated to ensure they meet the appropriate
8 financial criteria and the stated objectives.

9 The final proposed budget must be reviewed by the Division's senior
10 management, including the Division President. Additional reviews are performed
11 by corporate executive operations management and their staff. High level reviews
12 of the division budgets are also performed by the Company's senior executives
13 who are presiding members of the Company's Management Committee. The
14 Capex budget for Tennessee is not officially approved until it, as part of the
15 Company's total Capex budget, is presented to the Company's Board of Directors
16 in September of each year. Upon this approval, all approved projects are
17 transferred into the Atmos Energy capital tracking system (POWERPLANT) and
18 are ready for appropriation.

19 **Q. HOW DOES ATMOS PRIORITIZE ITS CAPITAL EXPENDITURES?**

20 A. Our priorities for capital expenditure, listed in order of importance, are:

- 21 1. Public Safety
- 22 2. System Capacity and Reliability
- 23 3. Customer Growth
- 24 4. Facilities Maintenance
- 25 5. Public Works, and
- 26 6. Support of Long Term Technological Programs.

27 Typically, the funds for customer growth constitute about 33% of our annual
28 capital expenditures. The other components comprising our non-growth capital
29 expenditures, including our technology investments, make up the balance of our
30 spending.

1 **Q. WHAT FINANCIAL CRITERIA ARE THE MOST SIGNIFICANT IN**
2 **APPROVING A PROJECT DURING THE CAPITAL BUDGETING**
3 **PROCESS?**

4 A. We begin work with an overall capital spending goal which we try to work
5 within, although variations are permitted if justified. We also use key investment
6 criteria to evaluate projects. Any expenditure above targeted levels must be
7 justified. Individual projects, and our construction program as a whole, are
8 assessed on the basis of their return on investment, return on equity, cost of
9 capital, cash flow, new business forecasts, and various capital overheads such as
10 labor, benefits, and inflation.

11 **Q. MUST ALL PROJECTS MEET THE SAME FINANCIAL CRITERIA?**

12 A. No. We separate projects into growth and non-growth capital expenditures.
13 Growth projects are revenue-producing investments for which we can identify a
14 stream of revenues, cash flow, return, payback and other standard investment
15 criteria. Non-growth capital expenditures involve system integrity, equipment,
16 structures, pipeline integrity, system maintenance and reliability projects which
17 are evaluated on a cost/benefit basis. We endeavor to keep our annual non-
18 growth capital expenditures below the level of depreciation. Since these
19 expenditures do not have an associated stream of revenues, our goal is to fund
20 these expenditures through internal financial cash flow. Obviously, there are
21 certain non-growth expenditures that do not impact public safety that can be
22 scheduled into our five-year investment program to ensure that we properly
23 maintain our system while still operating within overall cash flow constraints.
24 Expenditures that impact public safety always have had and will continue to have
25 the highest priority. To help manage and prioritize our System Integrity pipeline
26 replacements projects, we use our Atmos Risk Management Model ("ARMM").
27 ARMM is computer software that was developed to identify and prioritize
28 pipeline replacements, primarily our bare steel pipelines. We take our obligation
29 to build and operate a safe and reliable gas system very seriously. Finally, there

1 are also a number of projects we must fund over which we have little control as to
2 timing, such as public works projects and highway relocations.

3 **Q. HOW CAN THE COMPANY JUSTIFY ADDITIONAL EXPENDITURES**
4 **BEYOND ITS REGULAR CAPITAL BUDGET PROJECTIONS?**

5 A. The KY/Mid-States Division can secure additional funding through Atmos
6 Energy if we can demonstrate that we have potential investments which compare
7 more favorably to competing expenditures in other Atmos business units and are,
8 therefore, more worthy of immediate funding from a purely financial standpoint.
9 Unbudgeted expenditures that impact public safety, system capacity, or reliability,
10 or compliance projects have the highest priority, and are considered mandatory
11 capital projects. Unbudgeted expenditures greater than twenty-five thousand
12 dollars must be reviewed by the Division's senior management, including the
13 Division President. If applicable, high-level reviews of unbudgeted expenditures
14 also are performed by the Company's senior executives, who are presiding
15 members of the Company's Management Committee.

16
17 **V. CONTROL & MONITORING OF CAPITAL EXPENDITURES**

18 **Q. WHAT ARE THE GOALS OF THE COMPANY'S PROCESS OF**
19 **CONTROLLING AND MONITORING CAPITAL EXPENDITURE**
20 **VARIANCES?**

21 A. Variances from budgeted amounts are inherent in the process of making capital
22 expenditures. Our variance monitoring process exists to institute financial quality
23 control by formalizing the analysis of variances by responsibility center in a
24 process that identifies year-to-date spending variances by project. These reports
25 are received and reviewed every month at the business unit level and on a
26 quarterly basis at the corporate level. The goal is to keep all levels of
27 management informed of spending by category or project relative to budgeted
28 levels and to ensure that corrective action is initiated on a timely basis. This
29 supports decision-making related to the cost and appropriate management of
30 current and future capital projects.

1 **Q. PLEASE DESCRIBE THE COMPANY'S PROCESS FOR**
2 **CONTROLLING AND MONITORING CAPITAL EXPENDITURE**
3 **VARIANCES.**

4 A. The Company's capital budgeting system maintains projects in two broad
5 categories – Blanket Functionals and Specific Projects. The Blanket Functionals
6 include total capital authorizations of a similar type such as new services, leak
7 repair, short main replacements, small integrity/reliability projects, etc. Specific
8 projects are uniquely identified such as a specific highway relocation project,
9 replacement of work equipment, or some larger significant integrity/reliability
10 project.

11 Once a project has been entered in the capital budget system an appropriation
12 Purpose and Necessity (P&N) may be submitted for authorization. Projects are
13 then monitored to ensure they stay within budgeted levels. If during the course of
14 a project, field management identifies that the costs of the project will exceed
15 approved amounts, a request for supplemental funding may be submitted. All
16 expenditures above authorized appropriation, and all expenditures for unbudgeted
17 projects or variances on budgeted and approved projects, must be approved at the
18 appropriate levels within the Company.

19 Each month, various project variance reports are published. Each budget center
20 manager is responsible and held accountable for managing his overall approved
21 capital budget.

22 **Q. DISCUSS THE VARIANCES INCURRED DURING THE MOST RECENT**
23 **FISCAL YEAR'S CAPITAL BUDGETING PROGRAM.**

24 A. In fiscal year 2006, the Company's actual capital expenditures in Tennessee were
25 \$17.76 million, resulting in a variance of 37.8% over the 2006 budget. There
26 were several factors contributing to this overage. Contractor costs related to the
27 mandated replacement of 45,000 feet of bare steel pipe annually were unbudgeted
28 and higher than expected. Growth in the Franklin, Murfreesboro, and Spring Hill
29 areas of Tennessee required unbudgeted system reinforcements to support the
30 added load. This area of Middle Tennessee will require additional unbudgeted

1 capital expenditures for system capacity of \$7.5 million in fiscal year 2007. In
2 general, the pace of construction and the corresponding capital expenditures
3 normally increase as we progress into summer.
4

5 **VI. ATTRITION PERIOD CAPITAL BUDGET**

6 **Q. WHAT IS THE ATTRITION PERIOD USED IN THIS RATE**
7 **APPLICATION?**

8 A. The attrition period is November 1, 2007 through October 31, 2008. This
9 represents 11 months of Tennessee's fiscal year 2008 (FY2008) and 1 month of
10 Tennessee's fiscal year 2009 (FY2009).

11 **Q. WHAT IS TENNESSEE'S ATTRITION PERIOD CAPITAL BUDGET?**

12 A. Tennessee's attrition period's capital budget is \$18.7 million. Tennessee's capital
13 budget is comprised of three components: (1) the capital spending for Tennessee
14 for the forecasted period; (2) the amount allocated to Tennessee resulting from
15 capital spending by the KY/Mid-States Division's general office; and (3) the
16 amount allocated to Tennessee resulting from capital spending by the Company's
17 Shared Services (SSU) during the forecasted test period. The budgeting process
18 for SSU Capex is described in the direct testimony of Company witness Mr. Greg
19 Waller and the amounts projected to be closed to plant and comprising additions
20 to SSU ratebase are sponsored by Company witness Mr. Thomas Petersen. The
21 methodology for allocating SSU and the Division general office ratebase amounts
22 to Tennessee is described in the testimony of Company witness Mr. James C.
23 Cagle.

24 **Q. HOW WAS TENNESSEE'S CAPITAL BUDGET FOR THE ATTRITION**
25 **PERIOD DEVELOPED?**

26 A. We relied upon the FY2007 capital budget as a baseline for projecting FY2008
27 through FY2009 capital expenditures for purposes of the attrition period in this
28 rate application.

29 **Q. WHAT IS TENNESSEE'S FY2007 DIRECT CAPITAL BUDGET?**

30 A. The original approved FY2007 direct capital budget for Tennessee was \$16.97

1 million. The Atmos Energy Board of Director's approved an additional \$6.5
2 million in capital expenditures for system reinforcements in the Middle Tennessee
3 area. This brings the total approved FY2007 direct capital budget for Tennessee
4 to \$23.47 million.

5 **Q. WHAT IS TENNESSEE'S FY2008 DIRECT CAPITAL BUDGET AS**
6 **ESTIMATED IN THE FIVE YEAR PLANNING PROCESS?**

7 A. Tennessee's FY2008 direct capital budget is estimated at \$18.88 million.

8 **Q. HOW DID YOU ADJUST TENNESSEE'S FY2007 CAPITAL BUDGET IN**
9 **ORDER TO PREPARE THE FY2008 CAPITAL BUDGET?**

10 A. The estimated cost of budgeted projects planned for FY2007, before the
11 application of overheads, was used as a baseline. Three factors were evaluated
12 and used to adjust the baseline. These adjustments were necessary in order to
13 reflect the most current information available that would impact our future level
14 of capital spending, and thus ensure that the capital budget is accurate. These
15 three factors are:

- 16 1. Changes related to system integrity and system improvement projects;
- 17 2. Cost increases in materials and labor tied to inflation; and
- 18 3. An application of overheads attributable to capital projects.

19 **Q. PLEASE DISCUSS EACH OF THESE FACTORS.**

20 A. The change in system integrity and system improvements reflects an anticipated
21 increase in capital spending above FY2007 levels for leak repairs, bare steel
22 replacement, and cathodic protection. Spending levels for system improvements
23 for increased system capacity and reliability are expected to return to normal after
24 the completion of the system improvement project in Middle Tennessee. We
25 expect to sustain this level of work in FY2008 and FY2009 with an anticipated
26 increase in cost of material and labor. No major changes in overhead rates are
27 anticipated.

28 **Q. HOW WAS THE DIVISION'S GENERAL OFFICE CAPITAL BUDGET**
29 **DEVELOPED?**

1 A. The capital budget for the KY/Mid-States Division general office was developed
2 in conjunction with Tennessee's capital budget as well as the capital budgets for
3 all other rate jurisdictions within the Division, as part of the Division's total
4 capital budget. The budgeting processes I have described herein applied to all
5 rate division capital budgets that roll up into the Division's total capital budget,
6 including Tennessee and the Division general office.

7 **Q. WHAT IS THE PORTION OF THE DIVISION'S FY2007 CAPITAL**
8 **BUDGET ALLOCATED TO TENNESSEE?**

9 A. The portion of the approved FY2007 Division's general office capital budget
10 allocated to Tennessee is \$37,935.

11 **Q. WHAT ABOUT SUBSEQUENT FISCAL YEARS?**

12 A. Those forecasted amounts are \$39,832 for FY2008 and \$41,824 for FY2009.

13 **Q. HOW WAS THE SHARED SERVICES TEST PERIOD CAPITAL**
14 **BUDGET DEVELOPED?**

15 A. The development of the Shared Service capital budget for the forecasted test
16 period is described in Company witness Mr. Greg Waller's direct testimony.

17 **Q. WHAT IS THE SHARED SERVICES FY2007 CAPITAL BUDGET**
18 **ATTRIBUTABLE TO TENNESSEE?**

19 A. The portion of the approved FY2007 Shared Services capital budget allocated to
20 Tennessee is \$647,399.

21 **Q. WHAT ABOUT SUBSEQUENT FISCAL YEARS?**

22 A. Those forecasted amounts are \$679,769 for FY2008 and \$713,757 for FY2009.

23 **Q. PLEASE DISCUSS TENNESSEE'S OVERALL FORECASTED**
24 **CONSTRUCTION PROGRAM.**

25 A. Tennessee's capital budget was developed by the following major categories:

- 26 1. Equipment
- 27 2. Growth
- 28 3. Information Technology (IT)
- 29 4. Pipeline Integrity
- 30 5. Public Improvements

1 6. Structures

2 7. System Improvements

3 8. System Integrity

4 9. Vehicles

5 **Q. WHAT KEY NEEDS ARE MET THROUGH THIS PARTICULAR**
6 **BUDGET?**

7 A. System improvement, pipeline integrity, and system integrity investments focus
8 on customer safety and system reliability, and are the highest priorities for capital
9 budgeting. Next are public improvements and state and local public works
10 projects such as highway relocations. Customer growth follows. Atmos Energy
11 continues to build good working relationships with developers, economic
12 development boards, and growing communities to meet the needs of the customer
13 and to accommodate customer growth on its system. Next in order of priority, a
14 modern fleet of vehicles and equipment (backhoes, safety equipment, ditchers,
15 first responder equipment, air compressors, welding machines, etc.) allows us to
16 maintain our system and continue to provide a reliable level of service to our
17 customers. To enhance the level of customer service provided in the field, we
18 also continue to make investments in new technology. Technology is a strategic
19 investment that will enable us to continue improving our business processes, hold
20 down operating costs, and meet the changing expectations of our customers.

21
22 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

23 A. Yes.

**BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE**

IN RE:

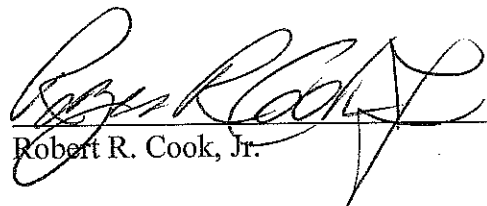
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DOCKET NO. 07-_____

VERIFICATION

STATE OF KENTUCKY)
COUNTY OF DAVIESS)

I, Robert R. Cook, Jr., first duly sworn, state that I am Vice President Technical Services of Mid-States Division of Atmos Energy Corporation, that I am authorized to testify on behalf of Atmos Energy Corporation in the above referenced docket, that the Testimony of Robert R. Cook, Jr. in support of Atmos Energy Corporation's Petition thereto pre-filed in this docket on the date of filing of this Petition are true and correct to the best of my knowledge, information and belief.


Robert R. Cook, Jr.

Sworn and subscribed before me this 9th day of April, 2007.


Notary Public - State of KY at Large

My Commission Expires: September 26, 2009