

**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-_____

**PRE-FILED TESTIMONY OF CHRIS HUTZLER
ON BEHALF OF ATMOS ENERGY CORPORATION**

I. POSITION AND QUALIFICATIONS

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

A. My name is Chris Hutzler. I am employed by the international management consulting firm of Towers Perrin. I am a Principal with the firm and I am responsible for assisting companies with the financial management of their retirement programs as well as plan design and benefit administration outsourcing. My business address is 12377 Merit Drive, Suite 1200, Dallas, Texas 75251.

Q. PLEASE BRIEFLY DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND, AND CURRENT RESPONSIBILITIES.

A. I received a Bachelor of Arts degree from Kansas Wesleyan University in 1988. I have over 18 years of consulting experience, including 16 with Towers Perrin. I was elected Principal in 2001 and am currently the Senior Actuary for the Texas offices with responsibility for technical issues impacting pension plans. I am a Fellow in the Society of Actuaries, a Member of the American Academy of Actuaries, and an Enrolled Actuary under the Employment Retirement Income Security Act ("ERISA"). Additionally, I have the Chartered Financial Analyst® designation and am a member of the CFA Institute.

1 **Q. WHAT ARE YOUR JOB RESPONSIBILITIES?**

2 A. I have specialized in retirement programs for my entire career. I consult with large cor-
3 porations, including Atmos Energy Corporation ("Atmos or the "Company"), regarding
4 retirement compensation matters.

5 **Q. HAVE YOU EVER TESTIFIED BEFORE THE TENNESSEE REGULATORY**
6 **AUTHORITY ("TRA") OR OTHER REGULATORY ENTITIES?**

7 A. No, I have not formally testified before any regulatory commissions. However, I have
8 previously assisted Atmos in rate case preparation and discussion with respect to this
9 topic.

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

11 A. The purpose of my testimony is to sponsor the Company's inclusion of certain retirement
12 plan costs in this rate proceeding and to explain why inclusion of such costs is reasonable
13 and necessary.

14 **II. OVERVIEW OF THE COMPANY'S PENSION ACCOUNT PLAN**

15 **Q. ARE YOU FAMILIAR WITH THE COMPANY'S PENSION ACCOUNT PLAN?**

16 A. Yes, the Pension Account Plan, or "PAP," is a defined benefit plan to which the Com-
17 pany contributes for the financial security of its employees. The PAP is a cash balance
18 plan that provides for annual pay credits and interest credits to a notional account for the
19 employee. The pay credit amount is allocated based on the employee's age, number of
20 service years, and annual salary. The interest credit amount is based on the 30-Year
21 Treasury Securities Rate. The benefit payable from the plan is based on the notional ac-
22 count balance at commencement age. Atmos pays the full cost of the plan through pay-
23 ments to a trust funding the plan.

1 Q. WHAT COMPANY EMPLOYEES ARE ELIGIBLE TO PARTICIPATE IN THE
2 PAP?

3 A. All employees in Tennessee are eligible to participate in the PAP on the first day of the
4 month after they complete one year of Participation Service. Employees earn a year of
5 Participation Service when they perform at least 1,000 hours of service during the first
6 twelve months of their employment or during any calendar year thereafter.

7 Q. ARE YOU FAMILIAR WITH THE COMPANY'S COMPENSATION PHILOSO-
8 PHY?

9 A. Yes. My colleague, Atmos witness Mr. John Ellerman, fully explains the Company's
10 compensation philosophy in his pre-filed direct testimony.

11 Q. HOW DOES THE PAP FIT INTO THE COMPANY'S COMPENSATION PHI-
12 LOSOPHY?

13 A. As explained by Mr. Ellerman, the Company's compensation program is comprised of
14 many components. One integral component is the PAP. A competitive pension plan im-
15 proves the Company's ability to recruit and retain talented employees since pension plans
16 are widely prevalent in the labor markets in which the Company competes for any key
17 talent.

18 Q. ARE PENSION PLANS USED WIDELY IN THE UTILITY BUSINESS TODAY?

19 A. Yes, pension plans are widely prevalent in the utility sector.

20 **III. PENSION PLAN COSTS**

21 Q. HOW ARE PENSION PLAN COSTS TYPICALLY MEASURED?

22 A. There are various measures for pension plan cost. The two most prevalent are the Finan-
23 cial Accounting Standard (FAS) 87 pension cost (which was recently amended by FAS

1 158) and the actual cash contribution for the year based upon funding requirements estab-
2 lished by the Employee Retirement Income Security Act (ERISA).

3 **Q. HOW ARE THESE TWO METHODS DIFFERENT?**

4 A. The FAS accounting and the ERISA funding requirements are separate calculations de-
5 signed for different purposes. FAS 87, as amended by FAS 158, is designed as an objec-
6 tive way to represent the actual cost of the plan over the employee's service period, while
7 the ERISA funding requirements simply ensure that the pension plan is sufficiently
8 funded to pay the retirement benefits of the participants..

9 **Q. HAS ATMOS ADOPTED FAS 87?**

10 A. Yes. Atmos has adopted FAS 87. The rules under FAS 87 require companies to calculate
11 their pension liabilities based on high quality corporate bond yields and use consistent
12 methods and assumptions for purposes of calculating the cost of the pension plans for fi-
13 nancial reporting purposes. These accounting rules were established to provide consis-
14 tency in the way pension plan cost is calculated in the marketplace.

15 **Q. HAS ATMOS ADOPTED FAS 158?**

16 No. Atmos Energy will adopt FAS 158 on September 30, 2007.

17 **Q. HOW DOES FAS 158 DIFFER FROM FAS 87?**

18 FAS 158 carries forward the pension liability calculation and expense recognition rules of
19 FAS 87. Therefore, FAS 158 does not change the amount of a company's liability or the
20 level of cost recognized in its income statement. However, FAS 158 modifies the rules
21 regarding the manner in which pension assets and liabilities are presented on the balance
22 sheet and changes the disclosures required for the financial statements. Under FAS 87,
23 companies were required to show the total pension plan liability as a footnote to the fi-

1 nancial statements rather than directly on the balance sheet. Under FAS 158, companies
2 are now required to recognize in the balance sheet the overfunded or underfunded posi-
3 tion of a pension plan, along with a corresponding noncash, after-tax adjustment to
4 stockholders' equity.

5 **Q. WHAT IS THE BEST MEASURE OF PENSION PLAN COST FOR RATE-**
6 **MAKING PURPOSES?**

7 A. For the purposes of setting rates, the best measure of pension plan cost is one that
8 achieves three objectives: i) that it is a reasonable measure ii) that it provides an objective
9 way to represent the actual cost of a plan over the related employee service period and iii)
10 that it can be consistently applied over time to different generations of ratepayers and
11 over different jurisdictions. The FAS pension cost does a better job of satisfying the
12 three objectives and is therefore a better measure of pension plan cost for ratemaking.

13 **Q. WHY IS THE FAS PENSION COST A MORE REASONABLE MEASURE OF**
14 **ACTUAL PENSION COSTS?**

15 A. The FAS 87 pension cost is tied to the change in unfunded obligation over a year. Unlike
16 the actual cash contribution made to the plan, the FAS pension cost is intended to reflect
17 the cost of the pension plan over an employee's service period. Changes in a plan's un-
18 funded obligations are recognized in an orderly fashion by amortizing the amount of the
19 change over time. This measure of cost does a better job of tracking the expected change
20 in the unfunded liability from year to year.

21 The FAS 87 pension cost is less subject to management discretion. The FAS pension
22 cost is based on a single defined cost method and must be calculated based on a narrow
23 range of assumptions, resulting in more consistency from year to year and across compa-

1 nies. In contrast, management has wide latitude to decide how much to contribute to the
2 plan in a given year.

3 The FAS 87 pension cost better reflects the value of benefits earned during a year. As
4 participants continue to receive pay and service in a pension plan, they earn benefits that
5 cost the company money even though the actual cash contribution made for that particu-
6 lar year may differ significantly from the value of benefits earned during that year.

7 The FAS 87 pension cost is fairer to the different generations of ratepayers. Many of the
8 cash funding rules have built-in thresholds. If these thresholds are met, the actual cash
9 contribution may be \$0; if these thresholds are not met, plan sponsors may make large
10 contributions. In well funded plans, companies may not make a contribution for many
11 years and then later make large contributions. Conversely, if management decides to con-
12 tribute larger amounts now, contributions will be lower in future years, all other things
13 being equal. If pension costs were recovered in the rates based on the actual cash contri-
14 bution, costs would be recovered as the company contributed to the plan and not neces-
15 sarily when benefits were earned by participants.

16 **Q. HOW IS THE FAS PENSION COST DIFFERENT FROM THE ERISA FUNDING**
17 **REQUIREMENTS?**

18 A. The actual cash contribution is more subject to management discretion based on com-
19 pany-specific funding objectives. ERISA defines both minimum required and maximum
20 tax deductible contribution amounts. Companies are free to contribute any amount be-
21 tween the minimum and the maximum. Thus, companies may make the minimum con-
22 tribution to save cash for another business purpose or because they expect to earn a
23 greater return in another business opportunity. Or, a company may make a larger contri-

1 bution to minimize the volatility of future contributions, avoid Pension Benefit Guaranty
2 Corporation premiums, avoid quarterly contribution requirements, or to achieve a particu-
3 lar funding target.

4 ERISA cash funding methods and assumptions are not required to be consistent across
5 companies. Companies have significant flexibility in the methods and assumptions used
6 to calculate the funding requirements of a pension plan and also in the funding policy
7 they adopt. Because of the variety of practices used to calculate the funding amounts,
8 there is the potential for wide variation in contribution amounts for similar pension plans.

9 **Q. IS THE USE OF THE FAS PENSION COST COMMONLY ACCEPTED FOR**
10 **MEASURING PENSION COSTS?**

11 A. Yes. It is my understanding that the FAS pension cost is the most common measure of
12 pension cost used for ratemaking purposes in various states. In all the states where At-
13 mos operates, recovery of the pension cost is based on the FAS pension cost measure.
14 Using different measures of pension costs in different jurisdictions would, over time, ad-
15 vantage some states while disadvantaging others.

16 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

17 A. Yes.

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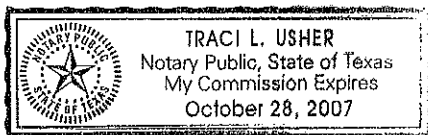
VERIFICATION

STATE OF TEXAS)
)
COUNTY OF DALLAS)

I, Chris Hutzler, being first duly sworn, state that I am a Principal with the consulting firm of Towers Perrin, that I am authorized to testify on behalf of Atmos Energy Corporation in the above referenced docket, that the Testimony of Chris Hutzler 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.


Chris Hutzler

Sworn and subscribed before me this 6 day of April, 2007.




Notary Public

My Commission Expires: Oct 28 2007