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-________**

LAURIE M. SHERWOOD

I. NAME AND POSITION

Q. PLEASE INTRODUCE YOURSELF.

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.

II. SUMMARY OF TESTIMONY

Q. IN WHAT GENERAL AREAS WILL YOU TESTIFY?

A. I will testify in two areas:

1. Proposed Capital Structure, and
2. Embedded Cost of Debt.

Q. PLEASE SUMMARIZE THE TESTIMONY YOU WILL GIVE IN THESE TWO AREAS.

A. Proposed Capital Structure: For the attrition period, the capital structure that should be applied is 51.5% long-term debt and 48.5% equity. This ratio of debt to equity reflects the Company's historical capital structure, as well as its announced intent to maintain a capital structure comprising 50 to 55% debt. Fiscal 2005 through 2006 was an aberrant period, during which the acquisition of TXU Gas Company, extremely warm winter weather, and high gas prices caused the Company's debt to climb. (Immediately before the TXU acquisition, the Company had only 43.3% debt.) In furtherance of the debt-reduction plan, the Company recently implemented a $900 million universal shelf offering, under which 6.325 million shares of stock were issued on December 13, 2006. Atmos has demonstrated the ability to decrease its debt ratio after consummating large acquisitions, and will continue to do so. As of March 31, 2007, the Company had a capital structure of 51.9% long-term debt and 48.1% equity.

Embedded Cost of Debt: As of October 31, 2008, the end of the attrition period, the Company's average cost of long term debt will be 6.10%. This is the rate that should be applied.

III. EDUCATION AND BACKGROUND

Q. PLEASE SUMMARIZE YOUR EDUCATION AND WORK EXPERIENCE.

A. I earned a Bachelor of Business Administration degree with a double major in Management and Finance from Texas A & M University in 1982 and a Master of Business Administration degree from Southern Methodist University in 1988. From August 1982 to April 1999, I was employed by Oryx Energy Company and its former parent, Sunoco Inc., in various financial positions, most recently as Manager, Corporate Finance.

I joined Atmos in May 1999 as Assistant Treasurer. I was named Vice President and Treasurer in September 2000 and became Vice President, Corporate Development and Treasurer in February 2001.

Q. WHAT ARE YOUR JOB RESPONSIBILITIES AT ATMOS?

A. I am responsible for the corporate treasury, procurement, risk management, business insurance, and payment processing functions of the Company. My duties include planning, scheduling and administering the Company's financial requirements, including the sale and issuance of debt and equity securities. In addition to long-term financings, I am responsible for the Company's bank relations and short-term borrowing and investing activities. As a result of these activities, I am in frequent contact with financial institutions, security analysts, credit rating agencies and commercial and investment bankers. I also oversee the Company's merger, acquisition and divestment activities.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE TENNESSEE REGULATORY AUTHORITY ("TRA") OR OTHER REGULATORY ENTITIES?

A. Yes, I have testified previously before the TRA. I also have testified before the Georgia Public Service Commission, the Illinois Commerce Commission, the Kentucky Public Service Commission, the Louisiana Public Service Commission, the Missouri Public Service Commission, the Mississippi Public Service Commission and the Railroad Commission of Texas.

IV. RELEVANT COMPANY ORGANIZATIONAL STRUCTURE

Q. HOW IS ATMOS ENERGY ORGANIZED?

A. Atmos Energy Corporation conducts utility operations in twelve states through unincorporated divisions. The Atmos division relevant here is commonly referred to as the Kentucky / Mid-States Division.

Q. DO THE COMPANY'S UNINCORPORATED DIVISIONS ISSUE THEIR OWN DEBT OR EQUITY?

A. No. These divisions, including Kentucky / Mid-States, are not separate legal entities, and legally comprise part of Atmos Energy Corporation. Therefore, all debt or equity must be (and is) issued by Atmos Energy Corporation as a whole, on a consolidated basis.

V. PROPER CAPITAL STRUCTURE

Q. WHAT CAPITAL STRUCTURE SHOULD BE USED IN THIS PROCEEDING?

A. Although this proceeding only affects the rates that may be charged in Tennessee, the appropriate capital structure for each of the Atmos utility operating divisions, including Kentucky / Mid-States, is the consolidated capital structure for Atmos Energy as a whole. This is because Atmos provides the debt and equity capital that supports the assets serving Tennessee customers. The capital structure that is appropriate for the Company's Tennessee operations in this proceeding is 51.5% long-term debt and 48.5% equity for the attrition period.

Q. HOW DOES THIS RECOMMENDED CAPITAL STRUCTURE COMPARE TO THE COMPANY'S ACTUAL CAPITAL STRUCTURE AS OF MARCH 31, 2007?

A. Atmos Energy's capital structure and ratios as of March 31, 2007 were as follows ($ in thousands):

L-T Debt[1]	S-T Debt	Total Debt	Shareholder Equity	Total
$2,181,564	$ 0	$2,336,413	$2,021,951	$4,203,516
51.9%	0.0%	51.9%	48.1%	100.0%

Q. IS THE DEBT COMPONENT OF THE COMPANY'S CAPITAL STRUCTURE AS OF MARCH 31, 2007 HIGHER THAN THE CAPITAL STRUCTURE THAT YOU BELIEVE TO BE APPROPRIATE FOR THIS PROCEEDING?

A. Yes. The Company's capital structure as of March 31, 2007 contained approximately 51.9% total debt, slightly higher than the level at the end of the attrition period on October 31, 2008. The Company expects the debt component of its capital structure to decline, and the equity component to increase, during the attrition period due to ongoing issuances of common stock through the Company's various stock plans and generating earnings in excess of common dividends paid.

[1] Includes current maturities.

Q. HAS THE TRA MADE ANY RECENT FINDINGS REGARDING THE COMPANY'S CAPITAL STRUCTURE?

A. On October 25, 2006, in Docket No. 05-000258[2], Director Pat Miller made a Motion, unanimously adopted by the TRA directors. Director Miller's Motion made certain findings, among other things, with respect to capital structure, cost of debt and return on equity.

Q. HOW DOES THE CAPITAL STRUCTURE THAT YOU HAVE RECOMMENDED IN THIS PROCEEDING COMPARE TO THE CAPITAL STRUCTURE ADOPTED BY THE TRA IN DOCKET NO. 05-000258?

A. The capital structure adopted by the TRA in Docket No. 05-000258 was as follows:

L-T Debt	S-T Debt	Total Debt	Shareholder Equity	Total
53.03%	3.59%	56.62%	43.38%	100.0%

Q. ARE THE DEBT COMPONENTS OF THE COMPANY'S CAPITAL STRUCTURE ADOPTED BY THE TRA IN DOCKET NO. 05-000258 HIGHER THAN THE CAPITAL STRUCTURE THAT YOU BELIEVE TO BE APPROPRIATE FOR THIS PROCEEDING?

A. Yes. The capital structure adopted in that proceeding contained approximately 56.62% total debt, which included a short-term component of 3.59%. The TRA concluded that the Company's use of short-term debt is seasonal to finance natural gas purchases and that 3.59% excluded seasonal components.[3] But these findings were made before the Company's recent equity issuance, which I will discuss in more detail. In addition, the Company's historical practice is not to use short-term debt to finance additions to utility plant. Therefore, the appropriate capital structure for use in this proceeding should contain no short-term debt.

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[2] *Petition to Open an Investigation to Determine Whether Atmos Energy Corp. Should Be Required by the Tennessee Regulatory Authority to Appear and Show Cause That Atmos Energy Corp. Is Not Overearning In Violation of Tennessee Law and That it is Charging Rates That Are Just and Reasonable;* TRA Docket No. 05-000258.

[3] The TRA concluded that the Company had short-term debt each month for the most recent twelve months in the record before the TRA and each month prior to the summer of 2004. *See* Director Miller's Motion, p. 12.

Q. DOES THE COMPANY HAVE ANY PLANS TO FURTHER REDUCE THE DEBT COMPONENT OF ITS CAPITAL STRUCTURE?

A. Atmos Energy's objective is to maintain its debt within a range of 50 – 55% of total capitalization. This level is consistent with the Company's actual capital structure as of March 31, 2007, as well as with the Company's actual capital structure immediately prior to its acquisition of the operations of TXU Gas Company at the beginning of fiscal year 2005, and is also consistent with the objective of maintaining a solid investment grade credit rating on Atmos Energy's debt.

Q. CAN YOU EXPLAIN WHAT LED TO THE COMPANY'S CAPITAL STRUCTURE AS OF MARCH 31, 2007?

A. On September 30, 2004, debt comprised approximately 43.3% of the Company's capital structure. Then, on October 1, 2004, Atmos completed the acquisition of the operations of TXU Gas Company for approximately $1.9 billion in cash. To finance the acquisition, Atmos issued 9.9 million shares of common stock in a public offering in July 2004, followed by another offering of 16.1 million shares of common stock in October 2004, yielding combined net proceeds of approximately $617 million. The remainder of the purchase price was financed with long-term debt.

This acquisition, combined with warm winter weather and higher than expected natural gas prices, increased Atmos Energy's ratio of debt to total capitalization to approximately 59.3% as of its next fiscal year end on September 30, 2005. The Company's debt ratio as of September 30, 2006 was slightly higher, at 60.9% of total capitalization, due to elevated levels of short-term debt caused by continuing high natural gas prices and the extremely warm winter weather that Atmos continued to experience across its service territory during fiscal year 2006 (particularly in Texas, where over half of the Company's utility customers are located). However, in December 2006, the Company used the net proceeds of a 6.325 million share offering of common stock to reduce short-term debt outstanding. As previously noted, Atmos Energy's ratio of debt to total capitalization as of March 31, 2007, was 51.9%, composed solely of long-term debt.

Q. WHY IS THE COMPANY'S CAPITAL STRUCTURE AT MARCH 31, 2007 NOT APPROPRIATE FOR USE IN SETTING RATES IN THIS PROCEEDING?

A. As explained above, the March 31, 2007 capital structure contains a slightly higher percentage of debt than the capital structure at the end of the attrition period. The capital structure at the end of the attrition period reflects ongoing additions to shareholders' equity through issuances under the Company's various stock plans and generating earnings in excess of common dividends paid.

Q. WHAT IS THE COMPANY'S OBJECTIVE FOR ITS PERMANENT CONSOLIDATED CAPITAL STRUCTURE AND HOW DOES ATMOS PLAN TO MAINTAIN IT?

A. As the Company has repeatedly stated, including in its 2006 Annual Report to Shareholders, Atmos Energy intends to maintain a capital structure comprising 50 – 55% total debt. The Company plans to fund future spending requirements by utilizing internally generated cash flows, credit facilities, and its access to the public debt and equity capital markets. In addition, Atmos will continue to increase shareholders' equity by issuing common stock from its various stock plans and by generating earnings in excess of common dividends paid.

Q. HAS THE COMPANY UNDERTAKEN ANY RECENT ACTION TO ACHIEVE ITS STATED CAPITALIZATION OBJECTIVE?

A. Yes. The Company recently implemented a $900 million universal shelf offering for issuances of long-term debt and equity. As discussed above, under the universal shelf, the Company issued 6,325,000 shares of stock as of December 13, 2006, which yielded net proceeds of approximately $191.9 million. The net proceeds from this equity issuance were used to pay down short-term debt outstanding under the Company's commercial paper program. As of March 31, 2007, the Company's capital structure consisted of 51.9% long-term debt and 48.1% equity.

Q. WHY HAVEN'T YOU INCLUDED ANY SHORT-TERM DEBT IN THE CAPITAL STRUCTURE FOR THE FORECAST PERIOD IN THIS RATE PROCEEDING?

A. The Company has not historically used short-term debt as a permanent form of capital. The Company has used short-term debt as the means to finance purchased gas costs during the heating season and the level of short-term debt typically reduces to zero during the warmer months.

Q. PLEASE SUMMARIZE YOUR DISCUSSION ON CAPITAL STRUCTURE.

A. Atmos Energy's actual capital structure as of March 31, 2007, included approximately 51.9% debt, composed solely of long-term debt. This reflects the seasonal nature of any short-term debt that may be outstanding from time to time, and affirms the Company's historical practice of not using short-term debt to finance additions to utility plant. Therefore, it is not appropriate to include short-term debt in the capital structure to be used in this proceeding. Additionally, the percentage of debt in the Company's capital structure at the end of the attrition period will be slightly lower than in the actual capital structure as of March 31, 2007, because the Company will continue to increase shareholders' equity by issuing common stock from its various stock plans and by generating earnings in excess of common dividends paid. Going forward, Atmos will use internally generated cash flow and ongoing additions to shareholders equity to maintain its capital structure within its permanent target range of 50 – 55% total debt. The Company's recent implementation of its universal shelf, and equity issuance thereunder, coupled with the Company's historically-demonstrated ability to improve its capitalization ratio after consummating large acquisitions such as TXU Gas[4], illustrates that the capital structure advocated by the Company for this proceeding, although forecasted, is realistic, achievable and entirely appropriate. The capital structure that I have proposed of 51.5% long-term debt and 48.5% shareholders' equity is therefore appropriate for use in this proceeding.

[4] *See* Direct Testimony of Dr. Don Murry.

Q. WHAT RATES DO YOU PROPOSE FOR THE EMBEDDED COST OF DEBT CAPITAL IN SETTING RATES IN THIS CASE?

A. As shown in Exhibit LMS-1 attached to my testimony, the Company's weighted average cost of long-term debt was 6.06% as of March 31, 2007. However, I do not recommend that the TRA adopt 6.06% as the weighted average cost of long-term debt capital for use in this proceeding because it does not reflect what the cost will be as of October 31, 2008, which is the end of the attrition period used in this proceeding. Exhibit LMS-2 attached to my testimony shows that at October 31, 2008, the Company's projected cost of long-term debt capital will be 6.10% and I recommend that the TRA adopt that as the weighted average cost of long-term debt capital for use in this proceeding.

Although the Company does not believe that it is appropriate to include short-term debt in the Company's capital structure herein, should the TRA find to the contrary, then I recommend that the TRA adopt the Company's projected cost of short-term debt at October 31, 2008. The Company had no short-term debt outstanding as of March 31, 2007. As shown in Exhibit LMS-3 attached to my testimony, the projected weighted average cost of short-term debt capital at October 31, 2008 will be 7.05%.

The calculations supporting these recommended costs of debt are shown on my Exhibits LMS-2 and LMS-3. These weighted average costs of debt will permit Atmos Energy to raise the debt capital required to support its operations and to continue to provide safe, reliable, and efficient natural gas service to its Tennessee customers.

Q. Does this conclude your testimony?

A. Yes.

BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE

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

VERIFICATION

STATE OF TEXAS)
)
COUNTY OF DALLAS)

I, Laurie M. Sherwood, being first duly sworn, state that I am the Vice President, Corporate Development and Treasurer of Atmos, that I am authorized to testify on behalf of Atmos Energy Corporation in the above referenced docket, that the Testimony of Laurie M. Sherwood in support of Atmos Energy Corporation's Petition and the Exhibits 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.

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Laurie M. Sherwood

Sworn and subscribed before me this 24 day of April, 2007.

____
Notary Public

My Commission Expires: 11-16-2008

JEFFERY D PERRYMAN
NOTARY PUBLIC
State of Texas
Comm. Exp. 11-16-2008

Atmos Energy Corporation, TN **EXHIBIT LMS-1**

AVERAGE ANNUALIZED LONG-TERM DEBT
as of March 31, 2007

Line	Debt Series (a)	Year Issued (b)	Outstanding 3/31/2007	End Int Rate	Annual Int at 3/31/2007
1	10% Senior Notes due Dec 2011	1991	2,303,308	10.00%	230,331
2	7.38% Senior Notes due May 2011	2001	350,000,000	7.38%	25,812,500
3	6.75% Debentures Unsecured due July 2028	1998	150,000,000	6.75%	10,125,000
4	5.125% Senior Notes due Feb 2013	2003	250,000,000	5.13%	12,812,500
5	10.43% First Mortgage Bond P due 2017 (eff 2012)	1987	7,500,000	10.43%	782,250
6	6.67% MTN A1 due Dec 2025	1995	10,000,000	6.67%	667,000
7	6.27% MTN A2 due Dec 2010	1995	10,000,000	6.27%	627,000
8	2.465% Sr Note 3Yr Floating due 10/15/2007	2004	300,000,000	5.74%	17,205,000
9	4.00% Sr Note due 10/15/2009	2004	400,000,000	4.00%	16,000,000
10	4.95% Sr Note due 10/15/2014	2004	500,000,000	4.95%	24,750,000
11	5.95% Sr Note due 10/15/2034	2004	200,000,000	5.95%	11,900,000
12					
13	Subtotal -- Utility Long-Term Debt		$ 2,179,803,308		$ 120,911,581
14					
15	United Cities Propane Gas, Inc.				
16	Pulaski -- Ingas, Ingram & Carvell 06/08		150,000	8.00%	12,000
17	Total Propane		150,000		12,000
18					
19	Atmos Leasing, Inc.				
20	Industrial Develop Revenue Bond 07/13	1991	851,189	7.90%	67,244
21	Atmos Power Sys - Wells Fargo 05/08	2003	1,623,146	5.65%	91,708
22	US Bancorp - 04/09	2004	2,244,648	5.29%	118,742
23	**Total Long-Term Debt**		$ 2,184,672,292		$ 121,201,274
24	Less Unamortized Debt Discount		$ 3,108,428		
25	Annualized Amortization of Debt Exp. & Debt Dsct.				$ 11,103,566
26			$ 2,181,563,864		$ 132,304,840
27					
28	Effective Avg Cost of Consol Debt			**6.06%**	end of period

Atmos Energy Corporation, TN

EXHIBIT LMS-2

Case No. ____________

AVERAGE ANNUALIZED LONG-TERM DEBT

as of October 31, 2008

Schedule _____

Witness:

Line No.	ISSUE		13 Mth Average Amount OUTSTANDING	Interest Rate	EFFECTIVE ANNUAL Cost	COMPOSITE Interest Rate
	(A)		(B)	(C)	(D)	(E=D/B)
1	10.43% First Mortgage Bond P due 2017 (eff 2012)		$6,346,154	10.43%	$661,904	
2	10% Senior Notes due Dec 2011		1,151,654	10.00%	115,165	
3	10% Senior Notes due Dec 2011		1,151,654	10.00%	115,165	
4	6.75% Debentures Unsecured due July 2028		150,000,000	6.75%	10,125,000	
5	7.38% Senior Notes due May 2011		350,000,000	7.38%	25,812,500	
6	5.125% Senior Notes due Feb 2013		250,000,000	5.13%	12,812,500	
7	6.67% MTN A1 due Dec 2025		10,000,000	6.670%	667,000	
8	6.27% MTN A2 due Dec 2010		10,000,000	6.270%	627,000	
9	Projected 6.00% Refinancing Issuance	[1]	300,000,000	6.00%	18,000,000	
10	4.00% Sr Note due 10/15/2009		400,000,000	4.00%	16,000,000	
11	4.95% Sr Note due 10/15/2014		500,000,000	4.95%	24,750,000	
12	5.95% Sr Note due 10/15/2034		200,000,000	5.95%	11,900,000	
13	Industrial Develop Revenue Bond 07/13		715,200	7.90%	56,501	
14	Atmos Power Sys - Wells Fargo 05/08		558,950	5.65%	31,581	
15	US Bancorp - 04/09		1,105,513	5.29%	58,482	
16	Pulaski -- Ingas, Ingram & Carvell 06/08		38,462	8.00%	3,077	
17						
18	Annualized Amortization of Debt Exp. & Debt Dsct.				11,103,566	
19	Less Unamortized Debt Discount		(2,627,285)			
20	Total LONG-TERM DEBT		$2,178,440,301		$132,839,441	6.10%

EXHIBIT LMS-3

Atmos Energy Corporation, TN
Case No. ____________
AVERAGE ANNUALIZED SHORT-TERM DEBT
as of October 31, 2008

Schedule _____

Witness:

	ISSUE	Amount OUTSTANDING	Interest Rate	EFFECTIVE ANNUAL Cost	COMPOSITE Interest Rate
	(A)	(B) $000	(C)	(D) $000	(E=D/B)
1	Average SHORT-TERM DEBT (1)	84,196	5.58%	4,698	
2	COMMITMENT FEE (2)			429	
3	COMMITMENT FEE (3)			806	
4	Total SHORT-TERM DEBT	84,196		5,933	7.05%

NOTES:
(1) Interest Rate is the forecasted average rate for 2007.
(2) Amortization of Arrangement fees over 5 years for $600 million line of credit, and over one year for $300 million line of credit.
(3) Commitment fees associated with $900 million line of credit averaging .08667% on the unused portion, calculated using 360-day convention.