

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

Filed Electronically 10/15/08

IN RE:

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

DOCKET NO. 08-00197

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 purpose of setting rates in this case, the capital structure that should be applied is 50% long-term debt and 50% shareholders' equity. This is consistent with the Company's stated target range of

1 50 – 55% for the debt component of its capital structure. As of March 31, 2010,
2 the end of the attrition period, the Company's capital structure is forecasted to be
3 48.7% long-term debt and 51.3% equity. This ratio of debt to equity reflects the
4 continuing improvement in the Company's capital structure through generating
5 earnings in excess of dividends paid and periodic issuances of shares through its
6 various stock plans. As of June 30, 2008, the Company had a capital structure of
7 48.9% long-term debt, 2.6% short-term debt and 48.5% equity.

8 Embedded Cost of Debt: As of March 31, 2010, the end of the attrition
9 period, the Company's average cost of long term debt will be 6.27%. This is the
10 rate that should be applied.

11 **III. EDUCATION AND BACKGROUND**

12
13 **Q. PLEASE SUMMARIZE YOUR EDUCATION AND WORK**
14 **EXPERIENCE.**

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

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

24 **Q. WHAT ARE YOUR JOB RESPONSIBILITIES AT ATMOS?**

25 A. I am responsible for the corporate treasury, procurement, risk management, and
26 business insurance functions of the Company. My duties include planning,
27 scheduling, and administering the Company's financial requirements, including
28 the sale and issuance of debt and equity securities. In addition to long-term

1 financings, I am responsible for the Company's bank relations and short-term
2 borrowing and investing activities. As a result of these activities, I am in frequent
3 contact with financial institutions, security analysts, credit rating agencies and
4 commercial and investment bankers. I also oversee the Company's merger,
5 acquisition and divestment activities.

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

9 A. Yes, I have testified previously before the TRA. I also have testified before the
10 Georgia Public Service Commission, the Illinois Commerce Commission, the
11 Kansas Corporation Commission, the Kentucky Public Service Commission, the
12 Louisiana Public Service Commission, the Missouri Public Service Commission,
13 the Mississippi Public Service Commission and the Railroad Commission of
14 Texas.

15
16 **IV. RELEVANT COMPANY ORGANIZATIONAL STRUCTURE**

17 **Q. HOW IS ATMOS ENERGY ORGANIZED?**

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

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

23 A. No. These divisions, including Kentucky / Mid-States, are not separate legal
24 entities, and legally comprise part of Atmos Energy Corporation. Therefore, all
25 debt or equity supporting the Company's utility operations must be (and is) issued
26 by Atmos Energy Corporation as a whole, on a consolidated basis.

27
28 **V. PROPER CAPITAL STRUCTURE**

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

1 A. Although this proceeding only affects the rates that may be charged in Tennessee,
2 the appropriate capital structure for each of the Atmos utility operating divisions,
3 including Kentucky / Mid-States, is the consolidated capital structure for Atmos
4 Energy as a whole. This is because Atmos provides the debt and equity capital
5 that supports the assets serving Tennessee customers. The capital structure that is
6 appropriate for the Company's Tennessee operations in this proceeding is 50%
7 long-term debt and 50% shareholders' equity for the attrition period, consistent
8 with the Company's stated target range of 50 – 55% for the debt component of its
9 capital structure.

10 **Q. HOW DOES THIS RECOMMENDED CAPITAL STRUCTURE**
11 **COMPARE TO THE COMPANY'S ACTUAL CAPITAL STRUCTURE AS**
12 **OF JUNE 30, 2008?**

13 A. Atmos Energy's capital structure and ratios as of June 30, 2008 were as follows (\$
14 in thousands):

15	<u>L-T Debt¹</u>	<u>S-T Debt</u>	<u>Total Debt</u>	<u>Shareholders' Equity</u>	<u>Total</u>
16	\$2,120,788	\$ 113,257	\$2,234,045	\$2,105,407	\$4,339,452
17	48.9%	2.6%	51.5%	48.5%	100.0%

18 **Q. IS THE COMPANY'S CAPITAL STRUCTURE AS OF JUNE 30, 2008**
19 **DIFFERENT FROM THE CAPITAL STRUCTURE THAT YOU BELIEVE**
20 **TO BE APPROPRIATE FOR THIS PROCEEDING?**

21 A. Yes. Atmos Energy's capital structure as of June 30, 2008 contained
22 approximately 48.9% long-term debt and 2.6% short-term debt, higher than the
23 level of total debt at the end of the attrition period on March 31, 2010. In
24 addition, because the Company's use of short-term debt is seasonal in nature and
25 is not intended to be used to finance additions to utility plant, short-term debt
26 should not be included in the Company's capital structure in this proceeding. The
27 Company expects the debt component of its capital structure to decline, and the
28 equity component to increase, during the attrition period due to ongoing issuances
29 of common stock through the Company's various stock plans and the generation
30 of earnings in excess of common dividends paid.

¹ Includes current maturities.

1 **Q. HOW DOES THIS RECOMMENDED CAPITAL STRUCTURE**
2 **COMPARE TO THE COMPANY'S CAPITAL STRUCTURE AS OF THE**
3 **END OF THE ATTRITION PERIOD (MARCH 31, 2010)?**

4 A. Atmos Energy's capital structure and ratios as of the end of the attrition period
5 (March 31, 2010) are projected as follows (\$ in thousands):

<u>L-T Debt</u> ²	<u>S-T Debt</u>	<u>Total Debt</u>	<u>Shareholders' Equity</u>	<u>Total</u>
\$2,120,316	\$ 0	\$2,120,316	\$2,234,353	\$4,354,669
48.7%	0.0%	48.7%	51.3%	100.0%

9 **Q. IS THE COMPANY'S CAPITAL STRUCTURE AS OF THE END OF THE**
10 **ATTRITION PERIOD DIFFERENT FROM THE CAPITAL STRUCTURE**
11 **THAT YOU BELIEVE TO BE APPROPRIATE FOR THIS**
12 **PROCEEDING?**

13 A. Yes. Atmos Energy's capital structure as of March 31, 2010 is projected to
14 contain approximately 48.7% long-term debt, lower than the Company's stated
15 target range of 50 – 55% of total capitalization.

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

18 A. On April 23, 2008, in Docket No. 07-00105, the TRA issued an order that
19 accepted and approved the Settlement Agreement Between Atmos Energy
20 Corporation and the Consumer Advocate and Protection Division ("Settlement
21 Agreement"). Exhibit A, Schedule 6 of the Settlement Agreement specifies the
22 capital structure to be used for the purposes of the Settlement Agreement.

23 **Q. HOW DOES THE CAPITAL STRUCTURE THAT YOU HAVE**
24 **RECOMMENDED IN THIS PROCEEDING COMPARE TO THE**
25 **CAPITAL STRUCTURE INCLUDED IN THE SETTLEMENT**
26 **AGREEMENT THAT WAS ACCEPTED AND APPROVED BY THE TRA**
27 **IN DOCKET NO. 07-00105?**

28 A. The capital structure in the Settlement Agreement was as follows:

<u>L-T Debt</u>	<u>S-T Debt</u>	<u>Total Debt</u>	<u>Shareholders' Equity</u>	<u>Total</u>
52.80%	3.00%	55.80%	44.20%	100.0%

² Includes current maturities.

1 **Q. IS THE COMPANY'S CAPITAL STRUCTURE IN THE SETTLEMENT**
2 **AGREEMENT DIFFERENT FROM THE CAPITAL STRUCTURE THAT**
3 **YOU BELIEVE TO BE APPROPRIATE FOR THIS PROCEEDING?**

4 A. Yes. The capital structure in the Settlement Agreement contained approximately
5 55.80% total debt, which is significantly higher than the debt component of the
6 Company's actual capital structure as of June 30, 2008, higher than the
7 Company's stated target range, and higher than the Company's capital structure as
8 of the end of the attrition period. In addition, the Settlement Agreement included
9 a short-term debt component of 3.00%. Because the Company's historical
10 practice is not to use short-term debt to finance additions to utility plant, the
11 appropriate capital structure for use in this proceeding should contain no short-
12 term debt.

13 **Q. CAN YOU PLEASE DEMONSTRATE HOW THE COMPANY'S USE OF**
14 **SHORT-TERM DEBT IS SEASONAL IN NATURE?**

15 A. Yes. Perhaps the clearest way to demonstrate this is to examine what portion of
16 capital structure is attributable to short-term debt as historically reported by the
17 Company over the last several years. If one evaluates all of the 10-Q and 10-K
18 filings made by the Company since the acquisition of TXU Gas Company, then
19 short-term debt, expressed as a percentage of capital structure, is as follows:

<i>Data Source</i>	<i>Short-Term Debt</i>
9/30/04 10-K	0.00%
12/31/04 10-Q	0.07%
3/31/05 10-Q	0.00%
6/30/05 10-Q	0.00%
9/30/05 10-K	3.70%
12/31/05 10-Q	11.00%
3/31/06 10-Q	6.30%
6/30/06 10-Q	7.20%
9/30/06 10-K	9.10%
12/31/06 10-Q	3.60%

3/31/07 10-Q	0.00%
6/30/07 10-Q	0.00%
9/30/07 10-K	3.50%
12/31/07 10-Q	4.60%
3/31/08 10-Q	0.00%
6/30/08 10-Q	2.60%

Q. WHAT DOES THE ABOVE TABLE ILLUSTRATE?

A. The above table illustrates that for almost half of the reported periods the Company had little to no short-term debt. However, following Hurricane Katrina in August 2005 and Hurricane Rita shortly thereafter, natural gas prices escalated dramatically as evidenced by the sharp increase in the Company's level of short-term debt as of December 31, 2005. Although the Company made some headway in reducing short-term debt the following quarter, the residual short-term debt from the previous season exacerbated the levels of short-term debt continuing into the fourth quarter of fiscal 2006 as the Company continued to fund seasonal natural gas purchases.³ Following the reduction of outstanding short-term debt using the proceeds of an equity issuance in December of 2006, short-term debt returned to a more typical seasonal level and went to zero by the end of the next quarter. This normal seasonal pattern prevailed throughout 2007 and to the present.

Q. WERE THERE ANY ADDITIONAL FACTORS THAT CONTRIBUTED TO THE ELEVATED LEVELS OF SHORT-TERM DEBT?

A. Yes. For the Company's fiscal year 2006, the Company generated operating cash flow of \$311.4 million compared to \$386.9 million in fiscal year 2005.⁴ Reduced cash flow due to warmer than normal winter weather in non-weather-normalized jurisdictions (particularly in Texas), in combination with high natural

³ As reported in the Company's Form 10-K for the fiscal year ended September 30, 2005, the Company's utility gas cost was approximately \$2.2 billion. By the end of the following fiscal year, the Company's utility gas cost was approximately \$2.7 billion (as reported in the Company's Form 10-K report for the fiscal year ended 9/30/06).

⁴ See Atmos Energy Form 10-K for the fiscal year ended 9/30/06, p. 52.

1 gas prices, contributed to the Company's elevated short-term debt levels during
2 the period under discussion.

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

5 A. Yes. Atmos Energy will further reduce the debt component of its capital structure
6 by continuing to issue common stock under its various stock plans and by
7 generating earnings in excess of dividends paid. The Company's objective is to
8 maintain its total debt at or below a range of 50 – 55% of total capitalization.
9 This level is consistent with the Company's actual capital structure as of June 30,
10 2008, and is also consistent with the objective of maintaining a solid investment
11 grade credit rating on Atmos Energy's debt.

12 **Q. PLEASE SUMMARIZE YOUR DISCUSSION ON CAPITAL**
13 **STRUCTURE.**

14 A. Atmos Energy's actual capital structure as of June 30, 2008, included
15 approximately 48.9% long-term debt, 2.6% short-term debt and 48.5%
16 shareholders' equity. As I have demonstrated, the Company's use of short-term
17 debt is seasonal in nature and is not intended for financing additions to utility
18 plant. Therefore, it is not appropriate to include short-term debt in the capital
19 structure to be used in this proceeding. Additionally, both the percentage of debt
20 in the Company's capital structure at the end of the attrition period and my
21 recommended percentage of debt are lower than in the actual capital structure as
22 of June 30, 2008, because the Company will continue to increase shareholders'
23 equity by issuing common stock from its various stock plans and by generating
24 earnings in excess of dividends paid. Going forward, Atmos will use internally
25 generated cash flow and ongoing additions to shareholders equity to maintain the
26 debt portion of its capital structure at or below its target range of 50 – 55%. The
27 capital structure advocated by the Company for this proceeding is consistent with
28 stated strategy, realistic, and achievable. Therefore, the capital structure that I
29 have proposed of 50% long-term debt and 50% shareholders' equity is
30 appropriate for use in this proceeding.

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

3 A. As shown in Exhibit LMS-1 attached to my testimony, the Company's weighted
4 average cost of long-term debt was 6.09% as of June 30, 2008. However, I do not
5 recommend that the TRA adopt 6.09% as the weighted average cost of long-term
6 debt capital for use in this proceeding because it does not reflect what the cost
7 will be as of March 31, 2010, which is the end of the attrition period used in this
8 proceeding. Exhibit LMS-2 attached to my testimony shows that at March 31,
9 2010, the Company's projected cost of long-term debt capital will be 6.27% and I
10 recommend that the TRA adopt that as the weighted average cost of long-term
11 debt capital for use in this proceeding.

12 Although the Company does not believe that it is appropriate to include short-
13 term debt in the Company's capital structure herein, should the TRA find to the
14 contrary, then I recommend that the TRA adopt the Company's projected cost of
15 short-term debt at March 31, 2010. The Company had a small amount of short-
16 term debt outstanding as of June 30, 2008, but this is seasonal in nature and is not
17 intended to be used to finance additions to utility plant. As shown in Exhibit
18 LMS-3 attached to my testimony, the projected weighted average cost of short-
19 term debt capital at March 31, 2010 will be 6.16%.

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

25 **Q. Does this conclude your testimony?**

26 A. Yes.

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

IN RE:

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

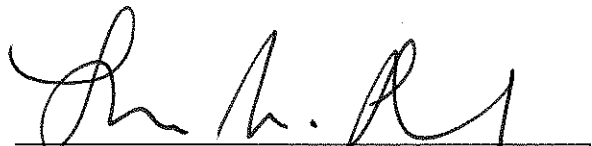
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DOCKET NO. _____

VERIFICATION

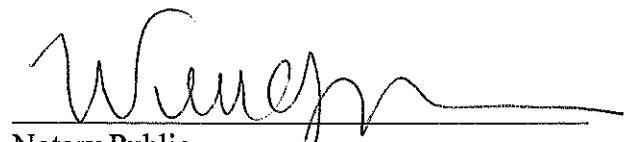
STATE OF TEXAS)
)
COUNTY OF DALLAS)

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



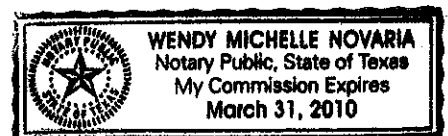
Laurie M. Sherwood

Sworn and subscribed before me this 19 day of September, 2008.



Notary Public

My Commission Expires: March 31, 2010



AVERAGE ANNUALIZED LONG-TERM DEBT
as of June 30, 2008

Line	Debt Series (a)	Year Issued (b)	Outstanding (c)	End Int Rate (d)	Annual Interest (e)
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	6.35% Sr Note due 2017	2007	250,000,000	6.35%	15,875,000
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	-		0
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		<u>\$ 2,122,303,308</u>		<u>\$ 118,799,331</u>
14					
15	United Cities Propane Gas, Inc.				
16	Pulaski -- Ingas, Ingram & Carvell 06/08		-		0
17	Total Propane		<u>\$ -</u>		<u>\$ -</u>
18					
19	Atmos Leasing, Inc.				
20	Industrial Develop Revenue Bond 07/13	1991	720,237	7.90%	56,899
21	Atmos Power Sys - Wells Fargo 05/08	2003	-		
22	US Bancorp - 04/09	2004	927,581	5.29%	49,069
23	Total Long-Term Debt		<u>\$ 2,123,951,126</u>		<u>\$ 118,905,299</u>
24	Less Unamortized Debt Discount		<u>\$ (3,163,011)</u>		
25	Annualized Amortization of Debt Exp. & Debt Dsct.				<u>\$ 10,287,278</u>
26			<u><u>\$ 2,120,788,114</u></u>		<u><u>\$ 129,192,576</u></u>
27					
28	Effective Avg Cost of Consolidated Debt			<u><u>6.09%</u></u>	end of period

Atmos Energy Corporation
Case No. _____
AVERAGE ANNUALIZED LONG-TERM DEBT
as of March 31, 2010

EXHIBIT LMS-2

Line No.	ISSUE (a)	13-Mth Average Amount OUTSTANDING (b)	Interest Rate (c)	EFFECTIVE ANNUAL Cost (d)	COMPOSITE Interest Rate (e=d/b)
1	10.43% First Mortgage Bond P due 2017 (eff 2012)	\$0			
2	10% Senior Notes due Dec 2011	1,151,654	10.000%	115,165	
3	10% Senior Notes due Dec 2011	1,151,654	10.000%	115,165	
4	6.75% Debentures Unsecured due July 2028	150,000,000	6.750%	10,125,000	
5	7.375% Senior Notes due May 2011	350,000,000	7.375%	25,812,500	
6	5.125% Senior Notes due Feb 2013	250,000,000	5.125%	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	6.35% Sr Note, due 2017	250,000,000	6.350%	15,875,000	
10	4.00% Sr Note due 10/15/2009	246,153,846	4.000%	9,846,154	
11	4.95% Sr Note due 10/15/2014	500,000,000	4.950%	24,750,000	
12	5.95% Sr Note due 10/15/2034	200,000,000	5.950%	11,900,000	
13	Projected \$400 Million Re-financing [1]	153,846,154	6.500%	10,000,000	
14	Industrial Develop Revenue Bond 07/13	528,845	7.900%	41,779	
15	Atmos Power Sys - Wells Fargo 05/08	0			
16	US Bancorp - 04/09	7,277	5.290%	385	
17	Pulaski - Ingas, Ingram & Carvell 06/08	0			
18					
19	Annualized Amortization of Debt Exp. & Debt Dsct.			10,287,278	
20	Less Unamortized Debt Discount	(2,523,157)			
	Total LONG-TERM DEBT	<u>\$2,120,316,273</u>		<u>\$132,974,926</u>	<u>6.27%</u>

Atmos Energy Corporation

EXHIBIT LMS-3

Case No. _____
AVERAGE ANNUALIZED SHORT-TERM DEBT
as of March 31, 2010

	ISSUE (A)	Amount OUTSTANDING (B) \$000	Interest Rate (C)	EFFECTIVE ANNUAL Cost (D) \$000	COMPOSITE Interest Rate (E=D/B)
1	Average SHORT-TERM DEBT (1)	\$ 105,033	5.00%	\$ 5,252	
2	COMMITMENT FEE (2)			\$ 410	
3	COMMITMENT FEE (3)			\$ 805	
4	Total SHORT-TERM DEBT	\$ 105,033		\$ 6,467	6.16%

NOTES:

- (1) Interest Rate is the forecasted average rate for 2009.
- (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.