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

GREGORY K. WALLER

I. INTRODUCTION OF WITNESS

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

A. My name is Gregory K. Waller. I am Vice President of Finance for the Kentucky/Mid-States Division of Atmos Energy Corporation ("Atmos" or the "Company"). My business address is 810 Crescent Centre Drive, Suite 600, Franklin, TN 37067.

Q. PLEASE STATE YOUR EDUCATION AND PROFESSIONAL BACKGROUND.

A. I received a Bachelor of Arts degree in economics from Dartmouth College in 1994 and an MBA degree from the University of Texas in 2000. I worked as a management consultant from 1994 to 2003 at Harbor Research in Boston, MA (1994-1996) and Towers Perrin in Dallas, TX (1997 – 2003). I joined Atmos Energy in 2003 in the Planning and Budgeting Department in Dallas. In November of 2005 I became Vice President of Finance for what is now the Kentucky/Mid-States Division, which includes the Company's Tennessee operations.[1]

Q. WHAT ARE YOUR RESPONSIBILITIES AT ATMOS?

A. I am responsible for monitoring and analyzing the financial performance of the Kentucky/Mid-States Division, and implementing necessary actions based on those results. I also direct the development of the Division's annual budget. Other responsibilities include establishing and maintaining policies, procedures, and controls to ensure compliance with corporate accounting policies, Generally Accepted

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[1] "Division" as used in my testimony means the Company's Kentucky/Mid-States Division. "Tennessee" when used in my testimony, unless indicated otherwise, refers exclusively to the Company's operations in Tennessee.

Accounting Principles (GAAP) and regulatory requirements.

Q. HAVE YOU TESTIFIED BEFORE THIS OR ANY OTHER REGULATORY COMMISSION?

A. Yes. I testified before the Tennessee Regulatory Authority in 2006 and the Georgia Public Service Commission in 2008. I also submitted direct testimony in the Company's rate proceedings in Kentucky (2006), Tennessee (2007), and Virginia (2008).

II. SUMMARY OF TESTIMONY

Q. WHAT SUBJECT AREAS DO YOU INTEND TO COVER IN YOUR TESTIMONY?

A. I will testify concerning the following subject areas:

1. The Operating and Maintenance (O&M) expense budgeting process used by Atmos Energy's utility divisions, including the Kentucky / Mid-States Division;
2. The Shared Services Unit (SSU) budgeting process;
3. Control and monitoring of O&M variances; and
4. The historical test period costs and forecasted attrition year budget for O&M, depreciation expense, and taxes other than income taxes incurred directly by the Tennessee operations and allocated from the Kentucky / Mid-States General Office and Shared Services Unit.

Q. PLEASE SUMMARIZE YOUR TESTIMONY IN THESE SUBJECT AREAS:

A. <u>The Division and SSU Budgeting Process</u>

- The objectives of the Company's O&M budgeting process are to: (1) formalize the process of identifying the anticipated costs of operating and maintaining Atmos' systems each year; (2) ensure that all policies and procedures associated with the annual budgeting process are consistently adhered to by the functional managers and officers; (3) assess the appropriateness of routine maintenance requirements and non-capital expenditures proposed by the functional managers and officers to ensure that the amounts do not exceed a level necessary to deliver safe, reliable, and efficient natural gas service to the Company's customers; and (4) ensure that the O&M budget properly reflects our strategic operational and financial plans.

- O&M costs are budgeted on a fiscal year basis -- from October 1 through September 30 of the following year. Budgets are reviewed and approved at multiple levels beginning with the supervisor/managers up through division and corporate leadership.
- The O&M budget is prepared by type of cost element. Within each cost element expenses are budgeted at the sub-account level. Although the budgets are not prepared by FERC account, Atmos Energy does convert its budget and forecast to FERC accounts.
- The annual budget for SSU O&M is developed using these same methods and processes.
- SSU is comprised of functional services groups such as planning and budgeting, accounting, legal, rates, information technology, gas supply, customer support, and risk management. Each functional service group is comprised of one or more cost centers, which may have additional cost centers below them.
- Each SSU cost center owner is responsible for developing his or her annual budget, except for certain predetermined costs, which are developed by the planning and budgeting group or another group that has knowledge of the predetermined cost.
- Once an SSU cost center budget has been prepared, it is subject to the same managerial review and approval processes that are used for the budgets for the Company's utility divisions and subsidiaries.
- The SSU capital expenditure (Capex) budget is developed using the same methods and processes employed for the division's capital expenditure budget.
- O&M costs in SSU and the Kentucky/Mid-States General Office are allocated to the Company's utility divisions by using a process of common cost allocation more particularly described in the Company's Cost Allocation Manual attached to the testimony of Company witness Dan Meziere.
- Unlike O&M costs, SSU Capex is not directly charged to the Company's utility divisions or subsidiaries. Once an SSU capital project is completed and closed to plant, it then becomes part of SSU general plant that is allocated for rate making purposes within a rate filing.
- An allocated portion of SSU costs have been included as part of the attrition period

costs for purposes of this rate filing.

Control and Monitoring of O&M Variances

- On a quarterly basis, each division's actual to budget variances with explanations are presented to the Company's Management Committee, SSU department heads, select Board of Directors members, and external auditors at a formal quarterly performance review.
- Each month, once the books are closed, the SSU Financial Reporting department publishes electronically the monthly Atmos Financial Package that details the financial performance of each of the Atmos operating divisions. This Financial Package, once complete, is available to all Atmos officers and Board members for review and is an official Sarbanes Oxley control document for the Company. Once the Financial Package is complete and my department has completed a thorough review of the division's financial performance and the Financial Package, I complete an online questionnaire generated by our Sarbanes Oxley Compliance Tool certifying that we have done so. The Company's external auditors look for this certification as evidence of Sarbanes Oxley compliance.

Historical Test Period Costs and Forecasted Attrition Year Budget

- The forecasted attrition period in this rate proceeding is April 1, 2009 – March 31, 2010.
- The historical test period in this rate proceeding is July 1, 2007 – June 30, 2008.
- The basis for the forecasted attrition period budget is the Company's fiscal year 2009 budget.
- The forecasted attrition period O&M is comprised of three parts: expenses incurred and booked directly in Tennessee, allocated expenses from the Kentucky/Mid-States division general office, and allocated expenses from SSU.
- The direct O&M for Tennessee for the historical test period is $9,005,213.
- The direct O&M for Tennessee for the attrition period is $9,364,851.
- The difference is $359,637 and reflects adjustments I have made for labor and benefits, rent, other O&M, and bad debt. It also includes $225,000 to account for a

recommended two-year amortization of expenses related to this proceeding.

- Direct labor expense is forecasted to increase $236,914 from the test period to the attrition period. The labor capitalization rate in the approved fiscal year 2009 budget averages 51.7% for the year. This is 3.8% lower than the capitalization rate in the test period.
- Benefits are projected as a fixed benefit load percentage of labor expense plus an amount for worker's compensation insurance. The attrition period direct benefits expense of $1,526,728 is $130,409 higher than the test period.
- O&M expense types other than labor, benefits, rent and bad debt are forecasted using a standard inflation factor of 3.2% to arrive at the attrition period expense level.
- Our adjustment relating to bad debt seeks to reflect our goal that bad debt is no higher than .5% of residential, commercial, and public authority gross margins during any given year. To arrive at the bad debt projection of $216,426 we simply calculated .5% of residential, commercial and public authority gross margins from the revenue projections. The projection is $157,562 lower than the test period.
- The General Office O&M allocated to Tennessee for the historical test period is $3,075,606.
- The General Office O&M allocated Tennessee for the attrition period is $3,648,543. The difference between the General Office test period O&M and the attrition period O&M allocated to Tennessee is an increase of $572,938.
- Using the forecast methodologies I have described, labor expense is forecasted to decrease $14,848 from the test period to the attrition period. Benefits are forecasted to increase $149,500. Rent, maintenance and utilities expense is forecasted to increase $40,881 and other O&M is forecasted to increase $386,046 from the test period to the attrition period. In addition, there was an adjustment in September 2007 to remove $11,359 of bad debt provision mistakenly booked to the General Office and allocated to Tennessee.
- The amount of Shared Services O&M allocated to Tennessee for the test period is $4,326,482. The amount of the Shared Services O&M allocated to Tennessee for the forecasted attrition period is $5,086,997.

- The differences between the shared services O&M for the test period and the forecasted attrition period is an increase of $760,515.
- When the three components of O&M are added together, total O&M is forecasted to increase 10.3% or approximately 5.8% per year from a test period level of $16,407,300 to an attrition period level of $18,100,391. Prior to the addition of estimated rate case expenses for this proceeding, the total O&M growth rate is 8.9% or approximately 5.0% per year.
- The amount of depreciation expense for the test period is $9,976,279.
- The amount of depreciation expense for the attrition test period is $9,075,156.
- The expense level for taxes, other than income taxes for the test period, is $6,847,723. The level of taxes, other than income taxes for the forecasted attrition period is $6,228,016. The components are itemized by type of tax on Schedule GW-3. The significant decrease from the test period to the attrition period is primarily due to a decrease in state gross receipts taxes.

Q. ARE YOU SPONSORING ANY SCHEDULES?

A. Yes. I am sponsoring the following schedules.

Schedule GW-1 Total Operating Expenses
Schedule GW-2 O&M by Cost Element
Schedule GW-3 Taxes other than Income Tax
Schedule GW-4 Depreciation Expense

III. O&M BUDGETING PROCESS

Q. WHAT ARE THE OBJECTIVES OF THE COMPANY'S O&M BUDGETING PROCESS?

A. The objectives are to: (1) formalize the process of identifying the anticipated costs of operating and maintaining Atmos' systems each year; (2) ensure that all policies and procedures associated with the annual budgeting process are consistently adhered to by the functional managers and officers; (3) assess the appropriateness of routine maintenance requirements and non-capital expenditures proposed by the functional managers and officers to ensure that the amounts do not exceed a level necessary to deliver safe, reliable, and efficient natural gas service to the Company's customers; and (4) ensure that the O&M budget properly reflects our strategic operational and financial plans. These objectives are applicable to the Company as a whole (including SSU) as well as to its various division, state and local level operations.

Q. CAN YOU DESCRIBE THE COMPANY'S O&M BUDGETING PROCESS?

A. Yes. O&M costs are budgeted on a fiscal year basis, which begins on October 1 of each year (consistent with the seasonal operations of our business) and runs through September 30 of the following year. Preparation of operating and construction budgets for a fiscal year formally begins in late May of each year and culminates with completion of final budgets in late August, just prior to the beginning of the fiscal year. Budget preparation is based on meeting the four objectives described above. Budgets are approved at multiple levels beginning with supervisor/managers up through division leadership. Additional reviews are performed by corporate executive operations management and their staff. High level reviews of the division budgets are also performed by the Company's senior executives who are presiding members of the Company's Management Committee. The Board of Directors must review and approve the total Company budget before finalization and implementation. This approval typically occurs in September of each year.

Q. WHAT ROLE DOES THE O&M BUDGETING PROCESS PLAY IN THE COMPANY'S FINANCIAL PLANNING?

A. Atmos' Planning and Budgeting Department is responsible for financial planning at the enterprise level. That department receives direction from the Board of Directors concerning forward-looking financial objectives for the Company. Planning and Budgeting is responsible, with significant input and collaboration from division leadership, for translating those enterprise targets into a financial plan for each division and rate jurisdiction. It is the collaboration between Planning and Budgeting and division leadership that ensures that all four of the objectives described above are met each year. Spending targets are established as a result of this collaboration.

Q. WHAT IS YOUR ROLE IN THIS PROCESS?

A. My role is to facilitate the budget process within the Kentucky Mid-States Division that confirms the operational feasibility of the targets and produces an O&M budget consistent with the Company's processes and goals described above. My department communicates certain budget guidelines such as average wage increase percentages and anticipated benefits rates to managers and supervisors (cost center owners). Each cost center owner is responsible for building his or her department's budget and submitting it for review by me and approval along the appropriate approval chain. My department provides support to and often asks for clarifying information from cost center owners as needed to explain significant variances from the prior year. In addition, we budget several items on behalf of the entire Division such as bill print fees, insurance costs, bad debt provision, etc. An iterative process involving Division leadership (including myself), my department and the cost center owners ultimately produces an O&M budget that meets the needs of our operations, ensures that we operate safely, reliably and efficiently, and allows our Division to contribute to the financial success of Atmos. This process is used to develop the direct O&M budget for Tennessee, as well as the Division's general office O&M budget. A portion of the Division's general office O&M budget, as hereinafter discussed, is allocated to Tennessee in accordance with the allocation methods addressed in the Company's Cost Allocation Manual attached to the testimony of Company witness Dan Meziere.

Q. SO FAR YOU HAVE DESCRIBED THE O&M BUDGETING PROCESS. CAN YOU EXPLAIN HOW THE BUDGET IS PREPARED WITHIN THE PARAMETERS OF THIS PROCESS?

A. Yes. The O&M budget is prepared by type of cost element, such as labor, benefits, transportation, rents, office supplies, etc. Within each cost element we budget expenses at the sub-account level. The prior year's actual costs, year to date actual costs, and budgeted costs for the remainder of the fiscal year are used as guidelines for budgeting by functional managers and officers. The budgets are prepared using a web based software tool called PlanIt. This tool allows cost center owners to enter their budgets and allows my department and Division management to review budgets using a number of standard and ad hoc reports.

Q. ARE THESE BUDGETS PREPARED BY FERC ACCOUNT?

A. No. In our experience, FERC accounts do not provide a sufficient level of detail to enable us to understand the costs within each account. For budgeting purposes (and subsequent managing of expenses), we need individualized expense types that relate to the operation of each cost center. FERC accounts do not provide that level of detail.

However, when we spend, we do identify our expenditures by FERC account as well as expense type. This provides a timely analysis of the type of charges being expensed by FERC account.

Q. HOW DOES ATMOS CONVERT ITS O&M BUDGET BY COST ELEMENT INTO FERC ACCOUNTS?

A. To convert our budget and forecast to FERC accounts, Fiscal 2008 year-to-date actual expenditures were downloaded from the general ledger by FERC account and cost element. A calculation was then made to determine within each cost element type the percentage of spending attributable to each FERC account. Each percentage factor was then applied to the fiscal year 2009 budget and attrition period forecast by cost type to develop a budget and test period forecast by FERC account.

IV. SSU BUDGETING

Q. CAN YOU DESCRIBE THE SSU BUDGETING PROCESS?

A. The annual budget for SSU O&M is developed using the same methods, processes, and controls that I have described hereinabove. SSU is, however, slightly different.

Q. HOW DOES SSU DIFFER?

A. Perhaps the easiest way to explain the SSU budgeting process is to begin with a brief explanation of how SSU is organized. SSU is comprised of functional service groups such as planning and budgeting, accounting, legal, rates, information technology, gas supply, customer support, risk management, etc. Each functional service group is comprised of one or more cost centers, such as accounting which, at the high level, consists of the Company's controller, general accounting services, tax services, revenue accounting, and financial reporting. These cost centers may have additional cost centers below them that roll up into the cost center for total budgeting purposes, such as plant accounting within general accounting. The planning and budgeting group works with and supports the Company's utility divisions, subsidiaries, and SSU cost center owners in the development of their annual budgets.

Each SSU cost center owner, whether an officer, managerial director, manager or supervisor of the Company, is responsible for developing his or her annual budget as part of the Company-wide annual budgeting process, except for certain pre-determined costs developed by planning and budgeting or another group that has knowledge of the pre-determined cost. An example of a pre-determined cost is the allocated portion of corporate office rent. Pre-determined costs are provided to cost center owners for inclusion in their cost center budgets.

Once an SSU cost center budget has been prepared, it is subject to the same managerial review and approval processes that are used for the budgets of the Company's utility divisions and subsidiaries. Once approved, the SSU cost center's budget is subject to the same ongoing control processes, including variance monitoring, that I have described hereinbelow.

Q. YOU HAVE DESCRIBED THE SSU O&M BUDGETING PROCESS, BUT WHAT ABOUT SSU CAPEX BUDGETING?

A. The SSU Capex budget is developed using the same general methods and processes employed for the Division's Capex budget, which is more particularly described in the direct testimony of Company witness Mr. Ernie Napier. There are, however, some notable differences.

Q. PLEASE DESCRIBE THE DIFFERENCES.

A. Although a particular Capex item may be budgeted by an SSU cost center owner, such as the purchase of a new filing cabinet, the majority of SSU Capex costs consists of information technology hardware and software systems. These costs are budgeted in the SSU Information Technology (IT) costs centers. For example, if tax services required a new property tax management system, then the IT group would work with tax services to budget the costs of purchasing or developing and implementing the new system. IT will include these costs as part of the IT Capex budget for SSU information technology capital projects. The SSU Capex budget is subject to the same managerial review and pre-approval processes, as well as ongoing control processes, described in Mr. Napier's testimony.

Q. HOW ARE THE COSTS IN AN SSU COST CENTER BUDGET CHARGED OR ALLOCATED TO THE COMPANY'S UTILITY DIVISIONS, SUCH AS IN TENNESSEE?

A. For O&M costs, the Company employs a process of common cost allocation that is described in the Company's Cost Allocation Manual attached the testimony of Company witness Dan Meziere For illustrative purposes only, if the SSU tax services cost center budgeted $100,000 in O&M for a fiscal year and the applicable allocation factor for Tennessee was 5%, then Tennessee would be allocated $5,000 of tax services budgeted in O&M. Of course, budgeted allocation amounts are based upon actual budget numbers and actual allocation factors.

Unlike O&M, SSU Capex is not directly charged to the Company's utility divisions or subsidiaries. Once an SSU capital project is completed and closed to plant, it then becomes part of SSU general plant that is allocated for ratemaking purposes within a rate filing. In this rate filing, increases to SSU general plant for the attrition period pertain to spending on capital projects which are reasonably expected to be closed to plant and in service for the benefit of the Company's utility divisions, including the Kentucky/Mid-States Division, before the end of the attrition period.

Q. HAVE ALLOCATED SSU COSTS BEEN INCLUDED AS PART OF THE ATTRITION PERIOD COSTS FOR PURPOSES OF THIS RATE FILING?

A. Yes. The Company's planning and budgeting group developed the forward-looking SSU costs (both O&M and Capex) for purposes of the attrition period used for this rate filing. The entirety of these forecasted costs are not attributable to Tennessee, only an allocated portion. The allocated costs were determined according to the Company's Cost Allocation Manual and as discussed herein above and are incorporated into the filing requirements sponsored by me (O&M) and Messrs. Napier and Petersen (Capex).

V. O&M CONTROL AND MONITORING

Q. DOES THE COMPANY EMPLOY ANY METHODOLOGY TO MONITOR AND CONTROL O&M ACCORDING TO BUDGETED LEVELS?

A. Yes. Atmos utilizes variance monitoring to ensure financial quality control of O&M expenses by formalizing the analysis of variances by cost type and cost center. On a quarterly basis, we present our Division's actual to budget variances with explanation to the Company's Management Committee, SSU department heads, select Board of Directors members and external auditors at a formal Quarterly Performance Review.

The goal is to keep all levels of management informed of our O&M spending in comparison to budgeted amounts, in order to allow management to react to unanticipated events on a timely basis.

Q. ARE O&M VARIANCES EVALUATED MORE FREQUENTLY THAN ON A QUARTERLY BASIS?

A. Yes. My department conducts a thorough review of O&M actual to budget variances each month.

Q. PLEASE DESCRIBE YOUR MONTHLY VARIANCE REVIEW PROCESS.

A. We begin by examining, at the Division level, significant variances by cost type (labor, benefits, materials, rents, etc.). Significant variances are researched until an explanation is found. Reasonable explanations could include events that affected the entire Division or a particular cost center or region. In some cases, clarifying information is sought from cost center owners to explain unusual variances or transactions. For some cost types, clarifying analysis is provided by SSU departments. If errors are found, they are most often corrected in the current month's business. Occasionally, however, errors are discovered after the books are closed, and, depending on materiality, they are corrected in the following month's business.

Q. DOES ANYONE ELSE WITHIN THE DIVISION HAVE THE ABILITY TO MONITOR OR REVIEW O&M VARIANCES?

A. In addition to the research conducted by my department, each cost center owner has the ability to run variance reports throughout the monthly closing process. Because cost center owners are held accountable for significant variances to budget, they conduct their own research and often contact my department when they find errors or have questions about the expenses that were charged to their cost centers.

Q. WHAT CONTROLS AND REPORTING ARE INVOLVED IN THE MONTHLY CLOSE PROCESS REGARDING O&M VARIANCES?

A. Once the monthly books are closed, the SSU Financial Reporting department in Dallas publishes (electronically) the monthly Atmos Financial Package. This package details the financial performance for Atmos Energy at the corporate and each division level. For each division, the report includes a comparative income statement, operating statistics page (volumes, total spending), O&M detail page, balance sheet highlights page, and financial highlights page. The financial highlights page reports the Division's monthly and year-to-date (YTD) performance versus budget for net income, gross profit, direct O&M and capital spending. I provide narrative comments on this page to describe our monthly and YTD variances. Once complete, this Financial Package is available to all Atmos officers and Board members for review and is an official Sarbanes Oxley control document of the Company. Once the package is complete, I complete an online questionnaire generated by our Sarbanes Oxley Compliance Tool certifying that my department has conducted a thorough review of the division's financial performance and the Financial Package and addressed all matters therein. The Company's external auditors look for this certification as evidence of Sarbanes Oxley compliance.

After meeting the Financial Package control requirement, my department publishes (electronically) detailed O&M reports that include monthly and YTD variances for each cost center and these reports are then made available to each cost center owner and their respective managers (managers, Division Vice Presidents, Division President). This activity ensures that each cost center owner receives the same information in the same format each month in a timely fashion in order to make operational decisions and manage our operations effectively and efficiently.

VI. FORECASTED ATTRITION PERIOD O&M BUDGET

Q. WHAT IS THE FORECASTED ATTRITION PERIOD USED IN THIS RATE APPLICATION?

A. The forecasted attrition period is April 1, 2009 – March 31, 2010.

Q. HOW WAS THE FORECASTED ATTRITION PERIOD BUDGET DEVELOPED?

A. The basis for the forecasted attrition period is our fiscal year 2009 ("FY2009") budget. Consistent with our normal annual budgeting timelines, this budget was prepared during the summer of 2008 and approved by the Board of Directors in September of 2008. This budget was prepared in the manner I described earlier. The first six months of the forecasted attrition period (April, 2009 – September, 2009) are consistent with the approved 2009 budget adjusted slightly to account for minor anticipated variances. The second six months of the forecasted attrition period (October, 2009 – March, 2010) are based on the same months in the 2009 budget, adjusted for inflation using methodologies I will describe in detail below. The FY2009 O&M budget and forecasted attrition period projection were converted into FERC account detail using the method described above.

Q. WHAT ARE THE COMPONENTS OF O&M FOR THE FORECASTED ATTRITION PERIOD?

A. The forecasted attrition period O&M is comprised of three parts: expenses incurred and booked directly in Tennessee, allocated expenses from the Kentucky/Mid-States Division General Office, and allocated expenses from SSU. These components are itemized on schedule GW-2. I will describe the methodology used for the projection for each of the three components.

Q. WHAT COMPRISES THE HISTORICAL TEST PERIOD LEVEL OF COST FILED IN THIS RATE APPLICATION?

A. The historical test period is July 1, 2007 – June 30, 2008.

Q. WHAT IS THE DIRECT O&M FOR THE HISTORICAL TEST PERIOD?

A. The direct O&M for Tennessee for the historical test period (hereinafter the "Test Period O&M") is $9,005,213.

Q. WHAT IS THE DIRECT O&M FOR THE FORECASTED ATTRITION PERIOD?

A. The direct O&M for Tennessee for the attrition period (the "Attrition Period O&M") is $9,364,851.

Q. WHAT IS THE DOLLAR DIFFERENCE BETWEEN THE TEST PERIOD O&M AND ATTRITION PERIOD O&M?

A. The difference is $359,637 and reflects adjustments I have made for labor and benefits, rent, other O&M, and bad debt. It also includes $225,000 to account for a recommended two-year amortization of expenses related to this proceeding. These adjustments by cost element can be seen in Schedule GW-2.

Q. PLEASE EXPLAIN YOUR ADJUSTMENT FOR LABOR AND BENEFITS.

A. The labor expense forecast is based on the fiscal year 2009 budget. Labor expense for the first six months of the forecasted attrition period (April, 2009 – September, 2009) is consistent with the approved 2009 budget, adjusted slightly to account for minor anticipated variances. The second six months of the forecasted attrition period (October, 2009 – March, 2010) are based on the same months in the 2009 budget, adjusted for scheduled pay increases. Base pay increases go into effect each October 1 and have averaged 3.5% annually for the past several years. The increases that took effect October 1, 2008 are captured as part of the FY2009 budget. An adjustment was made as part of the forecast to account for an average wage increase of 3.5% to become effective October 1, 2009. While there is always a normal level of position vacancy at any given point in time, we strive to fill open positions in a timely manner when and if filling the position is justified by current workload. The base period level of total labor expenditures represents a fully staffed level minus the normal level of vacancies. The labor capitalization rate in the approved FY09 budget averages 51.7% for the year for the Tennessee operations. This is 3.8% lower than the labor capitalization rate in the test period. Taking this into account, direct labor expense is forecasted to increase $236,914 from the test period to the attrition period. Benefits are projected as a fixed benefit load percentage of labor expense plus an amount for workers' comp insurance. The attrition period benefits expense of $1,526,728 is $130,409 higher than the test period.

Q. PLEASE EXPLAIN YOUR ADJUSTMENT RELATING TO RENT.

A. Unlike other O&M categories that are likely to increase with normal inflation, our building rents are driven by leases already in place and can therefore be projected with a high level of accuracy. Overall, direct Rent, Utilities and Maintenance is projected to decrease $15,211 from the test period to the attrition period.

Q. PLEASE EXPLAIN YOUR ADJUSTMENT RELATING TO BAD DEBT.

A. Our goal is to keep bad debt no higher than 0.50% of residential, commercial, and public authority gross margins during any given year. We work vigorously to collect bad debts from customers each year to achieve this goal so as to reduce the impact of good-paying customers subsidizing poor-paying customers who drive up our expenses. To arrive at the bad debt projection of $216,426 we simply calculated 0.50% of residential, commercial and public authority gross margins from the revenue projection discussed in the testimony of Pat Childers. The projection is $157,562 lower than the test period.

Q. PLEASE EXPLAIN YOUR ADJUSTMENT RELATING TO OTHER O&M.

A. For the purpose of this rate filing, O&M expense types other than labor, benefits, rent and bad debt are forecasted using a standard inflation factor. Using our FY2009 budget as a starting point, categories other than the ones listed above are inflated by 3.2% to arrive at the attrition period expense level for the second half of the attrition year. The 3.2% inflation factor is the average inflation rate for the southern region over the last two years as reported by the Bureau of Labor Statistics. Overall, expense categories other than those already mentioned are expected to decrease $59,913 from the test period to the attrition period.

Q. WHAT IS THE DIVISION GENERAL OFFICE O&M FOR THE HISTORICAL TEST PERIOD?

A. The General Office O&M allocated to Tennessee for the historical test period is $3,075,606.

Q. WHAT IS THE DIVISION GENERAL OFFICE O&M FOR THE FORECASTED ATTRITION PERIOD?

A. The General Office O&M allocated to Tennessee for the attrition period is $3,648,543.

Q. WHAT IS THE DOLLAR DIFFERENCE BETWEEN THE GENERAL OFFICE TEST PERIOD O&M AND ATTRITION PERIOD O&M ALLOCATED TO TENNESSEE?

A. The difference is an increase of $572,938 and reflects adjustments I have made for labor and benefits, rent and other O&M. The budgeting process and forecast methodologies are identical for both direct O&M and General Office O&M. Therefore, the categories of adjustments made to forecast General Office O&M are also the same as direct.

Q. PLEASE DOCUMENT THE AMOUNTS OF ADJUSTMENTS MADE TO GENERAL OFFICE O&M ALLOCATED TO TENNESSEE?

A. Using the forecast methodologies described above, labor expense is forecasted to decrease $14,848 from the test period to the attrition period. Benefits are forecasted to increase $149,500 from the test period to the attrition period. Rent, Maintenance and Utilities expense is forecasted to increase $40,881 from the test period to the attrition period. Other O&M is forecasted to increase $386,046 from the test period to the attrition period. In addition, there was an adjustment in September 2007 to remove $11,359 of bad debt provision mistakenly booked to the General Office and allocated to Tennessee.

Q. WHAT IS THE AMOUNT OF SHARED SERVICES O&M ALLOCATED TO TENNESSEE FOR THE TEST PERIOD?

A. $4,326,482.

Q. WHAT IS THE AMOUNT OF THE SHARED SERVICES O&M ALLOCATED TO TENNESSEE FOR THE FORECASTED ATTRITION PERIOD?

A. $5,086,997.

Q. PLEASE DISCUSS THE DIFFERENCE BETWEEN THE SHARED SERVICES TEST PERIOD AND FORECASTED ATTRITION PERIOD AMOUNTS.

A. The difference is an increase of $760,515. The forecasted SSU attrition period amounts are determined using the same methodology described earlier for the Direct O&M. The SSU budget is prepared as I described above. Once the SSU department heads complete, submit, and get approval for their budgets, the appropriate level of expenses are allocated to the Tennessee rate jurisdiction per the methodologies described in the Company's Cost Allocation Manual attached the testimony of Company witness Dan Meziere.

Q. HOW DO YOU MONITOR SHARED SERVICES BILLINGS TO THE KENTUCKY MID-STATES DIVISION?

A. Shared Services expense billings are reviewed as part of our monthly close process described earlier. It is my responsibility to contact Accounting in Dallas and obtain an explanation for any significant variances.

Q. ADDING THE THREE COMPONENTS OF O&M TOGETHER, WHAT IS THE TOTAL O&M FOR THE TEST PERIOD AND ATTRITION PERIOD IN THIS RATE FILING?

A. Total O&M is forecasted to increase 10.3%, or approximately 5.8% per year, from a test period level of $16,407,300 to an attrition period level of $18,100,391. Prior to the addition of estimated rate case expenses for this proceeding, the total O&M growth rate is 8.9% or approximately 5.0% per year.

VII DEPRECIATION EXPENSE AND TAXES, OTHER THAN INCOME TAX

Q. WHAT IS THE DEPRECIATION EXPENSE FOR THE TEST PERIOD?

A. The amount of depreciation expense for the test period is $9,976,279.

Q. WHAT IS THE DEPRECIATION EXPENSE FOR THE FORECASTED ATTRITION PERIOD?

A. The amount of depreciation expense for the forecasted test period is $9,075,156.

Q. PLEASE DISCUSS THE DIFFERENCES BETWEEN THE TEST PERIOD AND FORECASTED ATTRITION PERIOD DEPRECIATION AMOUNTS.

A. Depreciation rates for Shared Services and the Tennessee Operations used to calculate attrition period depreciation expense are consistent with those approved in the Company's last rate case, Docket 07-00105. Depreciation rates for the Division General Office are discussed in the testimony of Mr. Tom Petersen. Please see Schedule GW-4 for details of depreciation expense. The depreciation rates for SSU have been applied to the applicable categories of SSU plant, resulting in an allocation of SSU depreciation expense to Tennessee based upon the cost allocation methodology more fully explained in the Company's Cost Allocation Manual attached to the testimony of Company witness Dan Meziere.

Q. WHAT IS THE EXPENSE LEVEL FOR TAXES, OTHER THAN INCOME TAXES FOR THE TEST PERIOD?

A. $6,847,723.

Q. WHAT IS THE LEVEL OF TAXES, OTHER THAN INCOME TAXES FOR THE FORECASTED ATTRITION PERIOD?

A. $6,228,016.

Q. PLEASE DISCUSS THE DIFFERENCES BETWEEN THE TEST PERIOD AND FORECASTED ATTRITION PERIOD AMOUNTS.

A. The difference is a decrease of $619,707. Taxes, other than income taxes, like O&M, are comprised of three components: direct Tennessee taxes, taxes allocated from the General Office, and taxes allocated from SSU. These components are itemized by type of tax on schedule GW-3. The primary reason for the decrease is a significant decrease in State Gross Receipts Taxes from $2,846,003 to $1,906,286. State gross receipts taxes are calculated based on the level of gross receipts from the most recently completed year and paid each year in the summer. That amount is then amortized on the income statement for the following 12 months proportional to the gross receipts in that month. Due to this timing, there is approximately a two-year lag on the timing of the actual gross receipts and the corresponding gross receipts taxes on the income statement. The amount of taxes allocated from the Division General Office and SSU is based upon the cost allocation methodology more fully explained in the Company's Cost Allocation Manual attached the testimony of Company witness Dan Meziere.

VIII CONCLUSION

Q. DO YOU BELIEVE THAT THE ATTRITION PERIOD FORECASTS YOU HAVE PRESENTED ARE THE MOST REASONABLE ESTIMATE OF COSTS FOR THE ATTRITION PERIOD USED IN THIS PROCEEDING?

A. Yes. It is the best estimate we have of the Tennessee jurisdiction's future expenses.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

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	)	**DOCKET NO. _______**

VERIFICATION

STATE OF TENNESSEE)
)
COUNTY OF WILLIAMSON)

I, Gregory K. Waller, being first duly sworn, state that I am the Vice President of Finance for the Kentucky/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 Gregory K. Waller 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.

G Waller

Gregory K. Waller

Sworn and subscribed before me this 24th day of September, 2008.

Pamela Todd

Notary Public

PAMELA TODD
STATE OF TENNESSEE
NOTARY PUBLIC
DAVIDSON COUNTY, TENN.

My Commission Expires: May 8, 2012

My Commission Expires May 8, 2012

Total Operating Expenses
Schedule GW-1

	Historical Test Period Ending June 2008	Attrition March 2010	
O&M			
Direct	9,005,213	9,364,851	4.0%
SSU	4,326,482	5,086,997	17.6%
Division General Office	3,075,606	3,648,543	18.6%
Total O&M	16,407,300	18,100,391	10.3%
Taxes Other			
Direct	6,585,369	5,916,705	-10.2%
SSU/Division General Office	262,354	311,312	18.7%
Total Taxes Other	6,847,723	6,228,016	-9.0%
Depreciation			
Direct	8,877,802	7,938,731	-10.6%
SSU/Division General Office	1,098,477	1,136,426	3.5%
Total Depreciation	9,976,279	9,075,156	-9.0%
Total Operating Expense(excl Gas costs)	33,231,302	33,403,564	0.5%

O&M by Cost Element
Schedule GW-2

	Tennessee			SSU			Division General Office			Total		
	Historical	Attrition	Difference	Historical	Attrition	Difference	Historical	Attrition	Difference	Historical	Attrition	Difference
Labor	3,424,303	3,661,218	236,914	2,234,092	2,580,941	346,849	755,870	741,021	(14,848)	6,414,266	6,983,180	568,914
Benefits	1,396,319	1,526,728	130,409	655,000	794,173	139,173	323,439	472,939	149,500	2,374,758	2,793,840	419,082
Materials & Supplies	256,275	218,741	(37,534)	25,006	37,477	12,472	85,594	106,560	20,966	366,875	362,779	(4,096)
Vehicles & Equip	601,354	770,364	169,010	(168)	5,397	5,565	28,226	29,224	998	629,413	804,985	175,572
Print & Postages	13,064	19,094	6,030	10,917	15,815	4,898	8,956	9,375	419	32,936	44,284	11,347
Insurance	301,455	346,425	44,970	263,404	319,643	56,239	(118,907)	(153,251)	(34,344)	445,952	512,818	66,865
Marketing	141,238	52,937	(88,300)	44,898	30,932	(13,966)	98,438	153,879	55,441	284,574	237,748	(46,826)
Employee Welfare	54,917	67,891	12,974	908,783	850,721	(58,062)	302,419	369,200	66,781	1,266,119	1,287,812	21,693
Information Technologies	859	-	(859)	304,379	444,331	139,952	62,708	40,373	(22,335)	367,946	484,704	116,758
Rent, Maint., & Utilities	493,264	478,052	(15,211)	300,850	314,415	13,565	198,155	239,037	40,881	992,269	1,031,504	39,235
Directors & Shareholders &PR	17,253	-	(17,253)	215,568	215,684	116	2,520	5,727	3,207	235,341	221,411	(13,930)
Telecom	144,348	245,019	100,671	185,414	193,166	7,752	117,205	120,250	3,045	446,967	558,435	111,468
Travel & Entertainment	361,207	79,174	(282,033)	95,634	100,157	4,523	160,115	151,995	(8,120)	616,956	331,326	(285,630)
Dues & Donations	52,591	28,921	(23,670)	10,342	17,428	7,085	37,930	71,070	33,140	100,864	117,419	16,555
Training	11,526	8,019	(3,507)	38,542	91,567	53,025	51,473	93,948	42,475	101,540	193,534	91,994
Outside Services	1,176,525	1,244,870	68,345	448,179	505,536	57,357	950,218	1,174,176	223,958	2,574,922	2,924,583	349,661
Provision for Bad Debt	373,988	216,426	(157,562)	-	-	-	(11,359)	-	11,359	362,629	216,426	(146,203)
Miscellaneous	184,727	175,971	(8,756)	(1,414,359)	(1,430,387)	(16,028)	22,606	23,019	414	(1,207,026)	(1,231,397)	(24,371)
Total O&M Expenses	9,005,213	9,139,851	134,637	4,326,482	5,086,997	760,515	3,075,606	3,648,543	572,938	16,407,300	17,875,391	1,468,091
Rate Case Amortization for this case		225,000	225,000							-	225,000	225,000
Total O&M	9,005,213	9,364,851	359,637	4,326,482	5,086,997	760,515	3,075,606	3,648,543	572,938	16,407,300	18,100,391	1,693,091

Taxes and Other Income Taxes
Schedule GW-3

line #	& Title	Jul-07	Aug-07	Sep-07	Oct-07	Nov-07	Dec-07	Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08
	Div 093	$	$	$	$	$	$	$	$	$	$		
1	FICA	17,181	19,005	17,911	19,991	25,217	15,620	27,114	21,045	20,961	17,119	18,935	20,500
2	FUTA	15	10	17	22	22	18	3,665	210	(83)	1	7	13
3	SUTA	15	16	25	19	21	12	2,496	437	1,157	(234)	15	13
4	Other												
5	Ad Valorem	230,627	230,627	230,627	230,627	230,627	230,627	230,627	230,627	80,627	230,627	230,627	230,627
6	30104 State Supv & Inspection	30,828	30,828	30,828	30,828	30,828	30,828	30,828	30,828	27,125	27,125	27,125	27,125
7	30105 Corp/State Franchise Tax	42,475	42,475	42,475	41,833	41,833	41,833	41,833	41,833	41,833	41,833	41,833	41,833
8	30108 Dot Transmission User Tax	423	0	0	0	0	0	0	0	13,863	0	0	0
9	30109 State Gross Receipts	46,811	145,169	101,531	163,586	272,873	358,879	540,544	469,707	352,665	167,555	109,315	97,368
10	Div 91 Allocations	7,566	6,472	5,826	7,910	11,857	7,489	10,473	20,270	(12,555)	7,460	7,744	7,759
11	Div 02 Allocations	7,885	8,084	11,100	13,356	10,950	10,216	12,228	(2,942)	8,609	9,449	9,296	10,137
12	Div 12 Allocations	4,156	4,285	7,450	6,232	5,162	5,392	6,897	5,346	4,859	5,052	5,115	5,782
13	Total	387,981	486,971	447,801	514,404	629,391	700,892	908,704	817,362	539,062	525,987	450,012	441,157
14													
15	Div 002												
16	FICA	174,559	179,879	316,400	277,651	238,163	225,310	229,902	206,040	199,135	213,599	212,195	238,282
17	FUTA	739	621	670	546	454	203	31,138	2,377	1,753	452	204	535
18	SUTA	1,173	937	861	758	609	431	22,091	3,881	(4,866)	2,194	148	(6,018)
19	Ad Valorem	20,000	20,000	20,000	20,000	20,000	20,000	11,241	11,241	11,241	11,241	11,241	11,241
20	Franchise Fee Correction			(61,332)									
21	Other				22,593	4,381	0	2	0	0	5	0	(5)
22	Total	196,471	201,438	276,598	321,548	263,607	245,944	294,375	223,539	207,263	227,492	223,789	244,035
23	Allocated to TN	(7,885)	(8,084)	(11,100)	(13,356)	(10,950)	(10,216)	(12,228)	2,942	(8,609)	(9,449)	(9,296)	(10,137)
24													
25	Div 012												
26	FICA	92,208	95,610	174,446	143,457	117,141	123,006	123,360	110,110	103,103	104,880	107,566	127,122
27	FUTA	394	330	366	282	223	115	16,649	1,269	884	203	106	285
28	SUTA	618	498	470	392	299	238	11,812	2,073	(2,561)	1,108	78	(3,156)
29	Ad Valorem	10,000	10,000	10,000	10,000	10,000	10,000	18,759	18,759	18,759	18,759	18,759	18,759
30	Total	103,220	106,438	185,282	154,130	127,683	133,358	170,579	132,211	120,185	124,950	126,508	143,011
31	Allocated to TN	(4,156)	(4,285)	(7,460)	(6,232)	(5,162)	(5,392)	(6,897)	(5,346)	(4,859)	(5,052)	(5,115)	(5,782)
32													
33	Div 091												
34	FICA	17,818	13,800	11,414	15,537	18,268	13,978	19,978	15,577	17,067	14,154	14,965	15,014
35	FUTA	15	8	11	17	16	14	2,787	143	(53)	2	6	9
36	SUTA	14	13	18	15	15	11	1,898	318	944	(185)	12	10
37	Ad Valorem	10,000	10,000	10,000	12,500	23,777	12,500	12,500	12,500	(62,500)	12,500	12,500	12,500
38		27,845	23,820	21,441	28,069	42,077	26,503	37,164	28,538	(44,552)	26,471	27,482	27,533
39	Allocated to TN	(7,568)	(6,472)	(5,826)	(7,910)	(11,857)	(7,469)	(10,473)	(20,270)	12,555	(7,460)	(7,744)	(7,759)

line #	& Title	Historical Tet Period	Apr-09	May-09	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09	Jan-10	Feb-10	Mar-10	Attrition 2010
	Div 093														
1	FICA	240,588	19,869	19,168	21,432	18,285	18,424	22,667	20,937	24,064	19,482	27,961	21,160	23,072	256,539
2	FUTA	3,915	1	7	13	16	10	22	23	21	20	3,779	212	(91)	4,033
3	SUTA	3,993	(271)	15	14	16	16	32	20	20	15	2,574	440	1,276	4,167
4	Other	0													0
5	Ad Valorem	2,617,524	238,447	238,447	238,447	238,447	238,447	238,447	245,600	245,600	245,600	245,600	245,600	245,600	2,904,284
6	30104 State Supv & Inspection	355,124	27,125	27,125	27,125	27,125	27,125	27,125	27,125	27,125	27,125	27,125	27,125	27,125	325,500
7	30105 Corp/State Franchise Tax	503,924	41,800	41,800	41,800	41,800	41,800	41,800	41,800	41,800	41,800	41,800	41,800	41,800	501,600
8	30108 Dot Transmission User Tax	14,287	0	0	0	425	0	0	0	0	0	0	0	13,870	14,295
9	30109 State Gross Receipts	2,846,003	127,965	84,733	59,450	47,731	45,178	41,154	96,143	179,354	304,521	415,543	278,481	226,032	1,906,286
10	Div 91 Allocations	88,249	7,599	7,397	7,981	7,269	7,344	9,739	7,774	8,074	6,893	10,561	7,833	8,455	96,920
11	Div 02 Allocations	108,366	8,119	8,717	10,516	8,771	7,761	16,416	11,958	9,568	9,966	11,313	8,694	9,226	122,024
12	Div 12 Allocations	65,739	6,870	6,603	7,883	6,609	6,021	11,710	8,770	7,237	7,863	8,903	6,932	6,965	92,367
13	Total	6,847,723	478,524	434,012	414,661	396,493	392,128	409,112	460,151	542,865	663,285	795,159	638,298	603,330	6,228,016
14															
15	Div 002														
16	FICA	2,711,115	205,744	198,295	247,639	197,749	174,092	382,128	275,353	218,143	228,040	212,033	192,227	214,220	2,745,663
17	FUTA	39,692	435	191	556	837	601	809	542	416	206	28,718	2,218	1,885	37,413
18	SUTA	22,200	2,114	138	(6,254)	1,329	907	1,040	752	558	436	20,374	3,821	(5,234)	19,780
19	Ad Valorem	187,446	11,241	11,241	11,241	11,241	11,241	11,241	11,241	11,241	11,241	11,241	11,241	11,241	134,892
20	Franchise Fee Correction	(61,332)													
21	Other	25,976													
22	Total	2,926,097	219,534	209,866	253,182	211,156	186,842	395,217	287,887	230,357	239,823	272,366	209,306	222,112	2,837,748
23	Allocated to TN	(108,366)	(8,119)	(8,717)	(10,516)	(8,771)	(7,761)	(16,416)	(11,958)	(9,568)	(9,966)	(11,313)	(8,694)	(9,226)	(122,024)
24															
25	Div 012														
26	FICA	1,422,008	149,293	144,300	160,267	143,132	129,045	269,554	197,220	159,528	175,202	163,676	148,194	156,039	2,015,451
27	FUTA	21,105	289	142	404	612	446	565	388	304	163	22,090	1,708	1,338	28,448
28	SUTA	11,869	1,577	104	(4,475)	959	673	727	539	407	339	15,672	2,790	(3,875)	15,436
29	Ad Valorem	172,554	18,759	18,759	18,759	18,759	18,759	18,759	18,759	18,759	18,759	18,759	18,759	18,759	225,108
30	Total	1,627,536	169,918	163,306	194,955	163,462	148,922	289,605	216,906	178,998	194,463	220,197	171,451	172,261	2,284,443
31	Allocated to TN	(65,739)	(6,870)	(6,603)	(7,883)	(6,609)	(6,021)	(11,710)	(8,770)	(7,237)	(7,863)	(8,903)	(6,932)	(6,965)	(92,367)
32															
33	Div 091														
34	FICA	187,559	14,656	13,734	15,803	13,272	13,540	22,009	15,057	16,125	11,940	20,232	14,857	16,634	187,860
35	FUTA	2,975	2	5	10	11	7	21	17	14	12	2,823	136	(52)	3,007
36	SUTA	3,081	(192)	11	10	11	12	31	15	14	9	1,923	303	921	3,067
37	Ad Valorem	78,777	12,500	12,500	12,500	12,500	12,500	12,500	12,500	12,500	12,500	12,500	12,500	12,500	150,000
38		272,392	26,967	26,250	28,323	25,794	26,080	34,561	27,588	28,653	24,462	37,478	27,797	30,003	343,933
39	Allocated to TN	(88,249)	(7,599)	(7,387)	(7,981)	(7,269)	(7,344)	(9,739)	(7,774)	(8,074)	(6,893)	(10,561)	(7,833)	(8,455)	(96,920)