

**BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS**

| | | |
|---|---|-------------------------|
| IN THE MATTER OF THE APPLICATION |) | Docket No. |
| OF ATMOS ENERGY CORPORATION |) | |
| FOR REVIEW AND ADJUSTMENT OF ITS |) | |
| NATURAL GAS RATES |) | 10-ATMG-____-RTS |

DIRECT TESTIMONY OF

ROBERT J. SMITH

FOR ATMOS ENERGY CORPORATION

I. POSITION AND QUALIFICATIONS

- 1
- 2 **Q. PLEASE STATE YOUR NAME, JOB TITLE AND BUSINESS ADDRESS.**
- 3 **A.** My name is Robert J. Smith. I am the Assistant Treasurer of Atmos Energy Corporation
- 4 (“Atmos”, “Atmos Energy”, or “the Company”). My business address is 5430 LBJ Freeway,
- 5 Suite 700, Dallas, Texas 75240.
- 6 **Q. WHAT IS YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL**
- 7 **EXPERIENCE?**
- 8 **A.** I earned a Bachelor of Business Administration degree with a major in Finance from the
- 9 University of South Florida in 1987 and a Master of Science in Finance degree from Indiana
- 10 University in 2006. From June 1988 to April 2000, I was employed by Wells Fargo/Norwest
- 11 Corporation in various financial positions, most recently as Area Manager. From April 2000
- 12 to October 2001, I was employed by Dynegy Inc. as Retail/Alliance Credit Manager.
- 13 I joined Atmos in October 2001 as the Director of Credit and Finance for the unregulated

1 operations. In October 2003, I was promoted to Senior Director of Credit and Finance. I was
2 named Assistant Treasurer in July 2008.

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

4 **A.** I am responsible for the corporate treasury operation functions of the Company. My duties
5 include planning, scheduling and administering the Company's financial requirements,
6 including the sale and issuance of debt and equity securities. In addition to long-term
7 financings, I am responsible for the Company's bank relations and short-term borrowing and
8 investing activities. As a result of these activities, I am in frequent contact with financial
9 institutions, credit rating agencies, and commercial and investment bankers.

10 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE KANSAS CORPORATION**
11 **COMMISSION OR OTHER REGULATORY ENTITIES?**

12 **A.** I have not testified before the Kansas Corporation Commission. I have testified before the
13 Mississippi Public Service Commission and the Georgia Public Service Commission.

14 **II. PURPOSE OF TESTIMONY**

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

16 **A.** The purpose of my testimony is to support the appropriate capital structure that should be used
17 for purposes of setting rates for the Company in this proceeding. As part of my capital
18 structure testimony, I will provide an overview of the Company's organizational structure and
19 discuss why this organizational structure supports the use of Atmos Energy Corporation's
20 consolidated capital structure to establish rates for the Company's Kansas customers. As the
21 last part of my testimony regarding capital structure, I will address the embedded cost of long-
22 term debt that should be utilized for purposes of determining the overall rate of return for the
23 Company in this rate proceeding.

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III. CAPITAL STRUCTURE

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

4 **A.** Atmos Energy conducts utility operations in twelve states through unincorporated divisions.
5 The Company division relevant here is commonly referred to as the Colorado/Kansas Division.

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

8 **A.** No. These divisions, including the Colorado/Kansas Division, are not separate legal entities.
9 Instead, these unincorporated divisions are part of the legal entity that is Atmos Energy
10 Corporation. Therefore, all debt or equity funding of the operations performed by the utility
11 divisions must be (and is) issued by Atmos Energy as a whole, on a consolidated basis.

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

13 **A.** Although this proceeding only affects the rates that may be charged by the Company in its
14 service area in Kansas, the appropriate capital structure for each of the Atmos Energy utility
15 operating divisions, including the Colorado/Kansas Division, is the consolidated capital
16 structure for Atmos Energy as a whole. The use of the Atmos Energy consolidated capital
17 structure is appropriate for use in setting rates for the Company's Kansas customers because
18 Atmos Energy provides the debt and equity capital that supports the assets serving those
19 customers.

20 **Q. HAS THE COMPANY RELIED ON THE CONSOLIDATED CAPITAL STRUCTURE**
21 **OF ATMOS ENERGY IN THIS PROCEEDING?**

22 **A.** Yes. To develop proposed rates for its Kansas customers the Company utilized a capital
23 structure for Atmos Energy based on the thirteen month average of the long-term debt and

equity components ending with the September 30, 2009 capital structure.

Q. HOW DID YOU CALCULATE THE CAPITAL STRUCTURE FOR USE IN THIS PROCEEDING?

A. For this proceeding I averaged the month ending long-term debt and equity capital structure components for the thirteen months ending September 30, 2009. This results in a capital structure as shown in the table below.

| Long-Term Debt | Shareholder Equity | Total |
|----------------|--------------------|-------------|
| \$2,177,613 | \$2,134,249 | \$4,311,862 |
| 50.50% | 49.50% | 100.0% |

Amounts shown are in 000s

I excluded from this calculation any impact from short-term debt because the Company's use of short-term debt is seasonal in nature and is not intended to be used to finance additions to utility plant.

Q. HOW DOES THE THIRTEEN MONTH AVERAGE CAPITAL STRUCTURE COMPARE TO THE ACTUAL CAPITAL STRUCTURE RATIOS AT THE END OF THE TEST YEAR IN THIS PROCEEDING?

A. As reported in the Company's annual report on Form 10-K filed with the Securities and Exchange Commission for the fiscal year ended September 30, 2009, the Company's capital structure as of September 30, 2009, is as follows:

| Long-Term Debt ¹ | Short-Term Debt | Total Debt | Shareholder Equity | Total |
|-----------------------------|-----------------|-------------|--------------------|-------------|
| \$2,169,531 | \$72,550 | \$2,242,081 | \$2,176,761 | \$4,418,842 |
| 49.10% | 1.64% | 50.74% | 49.26% | 100.0% |

Amounts shown are in 000s

¹ Includes current maturities.

1 Since short-term debt is not a part of the Company's permanent capital structure I then
2 excluded short-term debt from the calculation which resulted in a capital structure as follows:

| Long-Term Debt ² | Shareholder Equity | Total |
|-----------------------------|--------------------|-------------|
| \$2,169,531 | \$2,176,761 | \$4,346,292 |
| 49.92% | 50.08% | 100.0% |

3 *Amounts shown are in 000s*

4 By comparing the test year ending capital structure percentages to the average capital structure
5 percentages I was able to confirm the appropriateness of my thirteen month average capital
6 structure recommendation.

7 **Q. PLEASE SUMMARIZE YOUR TESTIMONY ON CAPITAL STRUCTURE.**

8 **A.** I am recommending a capital structure composed of 50.50% long-term debt and 49.50% equity
9 in setting rates for the Company's Kansas customers in this proceeding. This capital structure
10 is reasonable because it is reflective of the average capital structure over the test period.

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

13 **A.** I recommend a 6.87% weighted average cost of long-term debt. This is the weighted average
14 cost of long-term debt as of September 30, 2009, the end of the test period. This debt cost is
15 appropriate in order to permit Atmos Energy to raise the debt capital required to support its
16 operations and to continue to provide safe, reliable, and efficient natural gas service to its
17 Kansas customers.

18 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**


19 **A.** Yes, it does.

2 Includes current maturities.

VERIFICATION

STATE OF TEXAS)
) ss
COUNTY OF DALLAS)

Robert J. Smith, being duly sworn upon his oath, deposes and states that he is the Assistant Treasurer for Atmos Energy Corporation; that he has read and is familiar with the foregoing Direct Testimony filed herewith; and that the statements made therein are true to the best of his knowledge, information and belief.



Robert J. Smith

Subscribed and sworn before me this 20 day of January, 2010.



Notary Public

My appointment expires: March 31, 2010

