

BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS

SEP 14 2007

 Docket
Room

IN THE MATTER OF THE APPLICATION)
OF ATMOS ENERGY CORPORATION) Docket No.
FOR REVIEW AND ADJUSTMENT OF ITS)
NATURAL GAS RATES) 08-ATMG²⁸⁰-RTS

DIRECT TESTIMONY OF

JAMES C. CAGLE

FOR ATMOS ENERGY CORPORATION

I. INTRODUCTION

1
2 **Q. PLEASE STATE YOUR NAME AND ADDRESS.**

3 A. My name is James C. Cagle and my business address is 5430 LBJ Freeway, Suite
4 500, Dallas, Texas 75240.

5 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

6 A. I am the Manager of Rates and Revenue Requirements for Atmos Energy
7 Corporation ("Atmos" or the "Company").

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

9 A. As Manager of Rates and Revenue Requirements, I am primarily responsible for
10 rate studies of and assisting in the design and implementation of rates for certain
11 regulated utility operations of the Company. I am also responsible for oversight
12 of certain rate related compliance and reporting requirements prescribed by the
13 various regulatory commissions having jurisdiction over the Company. My
14 responsibilities also include participation in the preparation, updating and
15 implementation of the Company's Cost Allocation Manual (the "CAM"), which is
16 attached as Exhibit DMM-1 to the direct testimony of Mr. Daniel Meziere. For a
17 significant portion of the past fourteen years, I have performed rate studies or

1 portions of rate studies for the design and implementation of rates for many of
2 Atmos' regulated utility operations.

3 **Q. PLEASE OUTLINE YOUR EDUCATIONAL AND PROFESSIONAL**
4 **QUALIFICATIONS.**

5 A. I received a Bachelor of Accountancy degree from the University of Oklahoma
6 in 1987. I am a Certified Public Accountant licensed in the state of Texas. I have
7 been employed by Atmos since 1989. I was initially employed in Atmos'
8 financial reporting department. For about the past fourteen years, except for the
9 period from September 1997 through February 1998 when I was employed by
10 GTE in its Costing department, I have worked in Atmos' rates department.

11 **Q. HAVE YOU EVER TESTIFIED BEFORE THIS COMMISSION?**

12 A. Yes. A listing of my regulatory appearances is contained on Exhibit JCC-1.

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

14 A. First, I will discuss the Company's corporate structure inasmuch as this is
15 important to understanding how common costs are allocated. I then provide an
16 overview of the Company's Shared Services (as hereinafter defined), the
17 Colorado/Kansas General Office and the Kansas Administration and discuss how
18 common costs are allocated to the Company's Kansas operations.

19 I will discuss and support the billing determinants and an update to the
20 Company's weather normalization adjustment ("WNA") mechanism factors. I
21 will also address adjustments to Plant in Service and Accumulated Reserve,
22 Construction Work in Progress (CWIP), Accumulated Deferred Income Taxes
23 ("ADIT"), as well as adjustments to Operating and Maintenance ("O&M"),
24 Depreciation, and Taxes, Other than Income Taxes Expenses.

25 26 **II. ATMOS' CORPORATE STRUCTURE**

27
28 **Q. ARE YOU FAMILIAR WITH THE COMPANY'S CORPORATE**
29 **STRUCTURE?**

1 A. Yes. Atmos consists of the utility and various subsidiaries. The utility is the
2 parent company. The Company conducts its unregulated operations through its
3 subsidiaries. A chart showing the corporate structure is included as Appendix A
4 to the Cost Allocation Manual (“CAM”) included as Exhibit DMM-1 to the direct
5 testimony of Mr. Daniel Meziere filed in this proceeding.

6 **Q IN THE TOP BOX OF THE REFERENCED CHART REPRESENTING**
7 **ATMOS ENERGY CORPORATION, WHAT DO THE VARIOUS**
8 **DIVISIONS REPRESENT?**

9 A. The various divisions are a part of the Company’s management control structure
10 that is utilized in the Company’s shared costs allocation processes. Section 1a of
11 the CAM describes the corporate structure in detail. There are currently seven
12 such divisions – six of which are regulated gas local distribution operations and
13 one of which is a regulated intrastate pipeline operation. We commonly refer to
14 these divisions as “Operating Divisions” or “Business Units”. The Operating
15 Division/Business Unit which is the subject of this rate filing is referred to as the
16 Colorado/Kansas Operating Division.

17 **Q. DO THESE OPERATING DIVISIONS CONSTITUTE SEPARATE**
18 **LEGAL ENTITIES?**

19 A. No. They are merely unincorporated operating divisions within the Company’s
20 organizational structure. None of the divisions are subsidiary entities that have a
21 separate legal existence apart from the Company, they are not distinct legal
22 entities, and they do not have separate equity or debt. Nor do the divisions keep
23 separate books and records.

24 **Q. WHAT TYPE OF BUSINESS DO THE COMPANY’S SUBSIDIARIES**
25 **CONDUCT?**

26 A. Atmos Energy Services, L.L.C., provides certain gas supply related services to the
27 Company’s utility operations. Atmos Pipeline and Storage includes certain non-
28 regulated intrastate pipeline operations in Louisiana as well as storage services in
29 Kentucky and Louisiana. Atmos Power Systems engages in the construction of
30 electric peaking power-generating plants and associated facilities which are leased

1 to third parties. Atmos Energy Marketing, L.L.C., comprises the Company's
2 natural gas marketing business.

3 **Q. WHERE DOES THE COLORADO/KANSAS GENERAL OFFICE AND**
4 **KANSAS ADMINISTRATIVE DIVISION FIT INTO THE CORPORATE**
5 **STRUCTURE.**

6 A. Part of the Colorado/Kansas Operating Division is the Company's
7 Colorado/Kansas General Office located in Denver, Colorado, which provides
8 administrative services to the Company's operations in Colorado as well as
9 Kansas. The Kansas Administrative Division accumulates costs which are
10 applicable to Kansas but are not specific to either of the rate areas in Kansas.

11
12 **III. COST ALLOCATION PROCESS FOR COMMON COSTS**

13 **Q. WHAT IS COST ALLOCATION WITH REGARD TO COMMON**
14 **COSTS?**

15 A. Cost allocation is the process of allocating various common costs that are
16 incurred for the benefit of two or more of the Company's rate divisions and are
17 therefore allocable to those rate divisions.

18 **Q. WHAT DO YOU MEAN WHEN YOU REFER TO "RATE DIVISION"?**

19 A. "Rate division" is defined in the CAM and represents an accumulation of
20 accounting data that is the primary source for regulatory reporting and rate
21 activity.

22 **Q. ARE THERE DIFFERENT TYPES OF RATE DIVISIONS?**

23 A. Yes, there are operating rate divisions and office rate divisions. An operating
24 rate division represents a regulated operation such as the Kansas and Southwest
25 Kansas Divisions. An office rate division is one which provides common
26 services to operating rate divisions. The costs of the office rate divisions are
27 allocated to the operating rate divisions in accordance with the methodology
28 described by the CAM. An administrative division is a division which
29 accumulates common costs to be allocated but is not tied to a particular
30 location/office.

1 **Q. HOW MANY OPERATING RATE DIVISIONS COMPRISE THE**
2 **COMPANY'S KANSAS OPERATIONS?**

3 A. Two. These are the Kansas Division and the Southwest Kansas Division.

4 **Q. WHICH OFFICE RATE DIVISIONS PROVIDE SERVICES TO THE**
5 **COMPANY'S KANSAS OPERATING RATE DIVISION?**

6 A. Kansas receives allocations of common costs from Shared Services. Shared
7 Services is comprised of two office rate divisions, the Shared Services - General
8 Office and Shared Services – Customer Support. Kansas also receives
9 allocations from the Colorado/Kansas General Office. Additionally, the Kansas
10 Administrative Division accumulates Kansas costs which are allocable between
11 the two Kansas Operating Divisions.

12 **Q. WHAT ARE THE COMMON COSTS TO WHICH YOU REFER?**

13 A. Common costs include costs related to services that are provided to the
14 Company's operating rate divisions by Shared Services. Shared Services -
15 General Office includes, for example, accounting, human resources, legal, rates,
16 risk management and numerous others. Shared Services – Customer Support
17 includes billing, customer call center functions and customer support related
18 services. The costs for these Shared Services are allocated to the Company's
19 operating rate divisions that utilize those services. The common costs related to
20 services provided by the Colorado/Kansas General Office are also allocated to
21 Kansas.

22 **Q. HOW DOES THE ACCOUNTING SYSTEM ALLOW FOR THE**
23 **SEPARATE RECORDING AND TRACKING OF COSTS FOR ATMOS**
24 **ENERGY'S RATE DIVISIONS?**

25 A. Direct costs are charged directly to the operating rate division which has incurred
26 the costs. For example, if the Kansas Rate Division hires an outside contractor to
27 perform leak survey services, then those costs are charged directly, and only, to
28 Kansas because the work is done only for Kansas. Costs for the Shared Services,
29 by contrast, are allocated to the operating rate divisions that receive the benefit of
30 those services. Detailed transactions are recorded by rate division in the general
31 ledger for all utility divisions of Atmos Energy. The rate division designation is

1 incorporated into the Company's account coding and costs are accumulated for
2 various operating rate divisions or office rate divisions within the Company's
3 general ledger.

4 **Q. ARE COMMON COST ALLOCATIONS NECESSARY IN THE CONTEXT**
5 **OF THE COMPANY'S RATE FILINGS?**

6 A. Yes. It is appropriate and necessary to allocate the common costs incurred for
7 the benefit of ratepayers in multiple regulatory jurisdictions to the various
8 jurisdictions that receive those services. For example, the Company's Shared
9 Services – General Office provides the various support services discussed above
10 to its utility operations in the twelve states in which the Company operates. Some
11 of these shared services are also provided to the Company's unregulated
12 subsidiaries. Similarly, the Shared Services - Customer Support provides
13 customer service functions to the Company's utility operations and is the utility
14 customer's point of contact with the Company for service activations, billing
15 issues, emergency reporting, etc. Kansas customers receive the benefits of these
16 services and the allocation of these costs is fairly and justly apportioned to the
17 Kansas Divisions.

18 **Q. PLEASE DESCRIBE THE COMPANY'S COMMON COST**
19 **ALLOCATION METHODOLOGY.**

20 A. The Company allocates certain types of common costs to its operating rate
21 divisions for management purposes as well as for reporting and ratemaking
22 purposes. O&M expense, depreciation expense, and taxes, other than income
23 taxes, that comprise common costs are allocated on the books of the Company as
24 described in the CAM. Other common costs such as commonly utilized plant in
25 service and other rate base items are not allocated on the books of the Company
26 but are allocated for ratemaking purposes based on accepted methodologies.

27 **Q. IN YOUR ANSWER, YOU DIFFERENTIATE BETWEEN COMMON**
28 **COSTS WHICH ARE ALLOCATED ON THE BOOKS OF THE**
29 **COMPANY AND THOSE THAT ARE ALLOCATED FOR**
30 **RATEMAKING PURPOSES. CAN YOU EXPLAIN THE DIFFERENCE?**

1 A. Yes. O&M, depreciation, and taxes, other than income taxes, related to Shared
2 Services are allocated on the Company's general ledger utilizing the allocation
3 methodologies described in detail in the CAM. The Company allocates these
4 expenses within its general ledger as a part of its normal accounting cycle. The
5 allocation factors used are generally updated once per year and implemented as of
6 the beginning of the Company's fiscal year (October 1). They are then used for
7 the entire fiscal year unless a material event occurs that would significantly
8 change the factors.

9 For those Shared Services costs that are not allocated on the Company's general
10 ledger, composite factors or customer factors are used to allocate costs. Some
11 examples of Shared Services costs for which these factors are used for
12 ratemaking purposes include plant in service and accumulated deferred income
13 taxes, as well as other rate base items.

14 **Q. HOW ARE COMPOSITE AND CUSTOMER FACTORS DERIVED?**

15 A. The Composite Factors are derived based upon a three-factor formula comprised
16 of the simple average of the relative percentage of gross plant in service, the
17 relative percentages of the average number of customers and the relative
18 percentages of direct O&M for each of the Company's Operating Divisions,
19 which is further described in the CAM. The Customer Factor is derived based on
20 the average number of customers of the Operating Divisions that receive allocable
21 costs for the services provided.

22 **Q. HOW ARE SHARED SERVICES COSTS ALLOCATED WITHIN THE**
23 **COMPANY'S KANSAS RATE FILING?**

24 A. O&M, depreciation, and taxes, other than income taxes, are allocated in the
25 Company's filing utilizing the methodologies set forth in the CAM. As previously
26 stated, the Company does not allocate rate base items for Shared Services (such as
27 plant in service or accumulated deferred income taxes) within its general ledger.
28 Instead, these items are allocated using the Composite or Customer Factors in the
29 context of rate proceedings such as this one.

1 **Q. WHAT FACTORS ARE USED FOR ALL SHARED SERVICES –**
2 **GENERAL OFFICE ALLOCATIONS NOT RECORDED ON THE**
3 **COMPANY’S GENERAL LEDGER?**

4 A. The Composite Factor (Utility Only) is utilized to allocate these items.

5 **Q. WHAT FACTORS ARE USED FOR ALL SHARED SERVICES –**
6 **CUSTOMER SUPPORT ALLOCATIONS NOT RECORDED ON THE**
7 **COMPANY’S GENERAL LEDGER?**

8 A. Shared Services – Customer Support costs are allocated utilizing the Customer
9 Factor.

10 **Q WHERE ARE THESE FACTORS PROVIDED.**

11 A. Section 12 of the Minimum Filing Requirements shows the factors used and their
12 computation. These factors have been used in calculating allocations of common
13 costs within the Company’s rate filing.

14
15 **IV. BILLING DETERMINANTS AND MARGIN REVENUES**

16 **Q. PLEASE DESCRIBE THE BILLING DETERMINANTS FOR THE TEST**
17 **YEAR.**

18 A. The initial data utilized was the 12-month period ended March 2007. From those
19 actual billing determinants, the weather normalization calculation based upon the
20 Company’s current WNA was developed and added to the actual amounts to
21 arrive at weather normalized volume information.

22 **Q. DID YOU MAKE ANY VOLUME ADJUSTMENTS IN CONNECTION**
23 **WITH YOUR CALCULATIONS?**

24 A. Yes. Adjustments were made to move certain customers into the correct
25 classifications, an adjustment was made to normalize irrigation volumes in
26 Southwest Kansas. Additionally, a declining usage adjustment for residential
27 customers was included in the calculation. Mr. Gary Smith provides support for
28 the declining usage adjustment in his testimony.

29 **Q. DO THE RESULTS OF YOUR ANALYSIS APPEAR IN SCHEDULE 17**
30 **OF THE FILING?**

1 A. Yes. Schedule 17 sets forth the applicable billing determinants and weather
2 normalized margin, as adjusted, for the test period. Additionally, Schedule 17A
3 sets forth the applicable billing determinants with updated heat load and base load
4 factors for use in the Company's WNA.

5 **Q. WHY IS THE COMPANY PROPOSING TO UPDATE HEAT LOAD AND**
6 **BASE LOAD FACTORS FOR THE WNA IN THIS FILING?**

7 A. The factors currently in use were calculated in Docket 03-ATMG-539-TAR
8 which established the Company's WNA. The Company is updating the WNA's
9 base load and heat load factors in order to better reflect more recent weather
10 pattern data.

11 **Q. WHAT HEATING DEGREE DAY ("HDD") NORMALS ARE USED IN**
12 **YOUR ANALYSIS?**

13 A. The most recent Heating Degree Day Normal calculations from the National
14 Oceanic and Atmospheric Association were derived from the 30 year period
15 ending in 2000. In Docket No. 03-ATMG-539-TAR, certain adjustments were
16 made to these HDD normals for application to the Company's geographic service
17 areas. The Company has not proposed a change from these normals, as adjusted
18 in that case.

19 **Q. WHAT IS A HEATING DEGREE DAY?**

20 A. An Heating Degree Day (HDD) is a measure of relative coldness expressed as an
21 index. As the temperature drops below a certain level, the demand for energy to
22 heat homes and businesses increases. HDDs are derived from daily temperature
23 observations using 65° F as the baseline for the computation. They are calculated
24 using the difference between 65° F and the average daily temperature. For
25 example, if at the Wichita weather station, the high temperature on a particular
26 day was 40 F° and the low was 30 F°, then the average daily temperature would
27 be +35 F°. The difference between 65 F° and 35 F° is 30 F°, thereby yielding 30
28 Heating Degree Days. An HDD is never less than zero.

1 **Q. WHICH WEATHER STATIONS' HDD DATA ARE USED IN THE**
2 **COMPUTATIONS?**

3 A. The stations used are the same as those used in the current WNA calculations.
4 These stations are located in Wichita, Salina, Kansas City, Dodge City, and
5 Chanute.

6 **Q. WHAT IS THE EFFECT OF UPDATING THE HEAT LOAD AND BASE**
7 **LOAD FACTORS?**

8 A. The current WNA tariff calculates a weather adjustment on each applicable
9 customer's bill using the actual and normal Heating Degree Days occurring
10 between the billing cycles for the customer. This calculation adjusts the
11 customer's bill to match the normal HDDs which were used to develop the tariff
12 rates, thereby theoretically adjusting the revenues received by the Company to the
13 levels approved in the Company's last rate filing. Over time, the approved heat
14 load and base load factors can become more and more out of sync with
15 customer's overall usage patterns. Therefore, it is prudent to update these factors
16 periodically using more recent consumption data and the most recent HDD
17 Normal information when available.

18 **Q. WHY WOULD SUCH FACTORS GET "OUT OF SYNC"?**

19 A. Over time, a customer's usage pattern changes. With more efficient space heating
20 units, water heaters, and other appliances, a customer's base load will drop over
21 time as older, less efficient units are replaced. Also, with newer, more energy
22 efficient construction, more insulation, energy efficient windows etc., a
23 customer's heat load factors will change over time. The changes in factors from
24 those currently being applied to the factors requested in this filing are shown in
25 WP 17-13.

26 **Q. WHAT IS THE EFFECT ON THE COMPANY'S MARGIN REVENUE**
27 **RESULTING FROM UPDATING THE WNA FACTORS?**

28 A. The change in WNA factors results in a decrease to the Company's normalized
29 revenues of approximately \$22,000 calculated at current rates.

1 **Q. WILL UPDATING THE WNA FACTORS AFFECT THE COMPANY'S**
2 **REQUESTED RATE INCREASE IN THIS FILING?**

3

4 A. No. Updating the WNA factors will only affect the billing determinants from
5 which new rates will be calculated as a result of this case. All else being equal, the
6 billing determinants calculated using the new factors result in tariff rates which
7 are slightly more than using the old factors but the amount of WNA going
8 forward would be slightly less by the same amount when calculated using the new
9 factors thereby leaving the same revenue requirement under either set of factors.

10 **Q. HOW WERE THE UPDATED FACTORS CALCULATED?**

11 A. The factors were calculated by weather zone using regression analyses of the
12 billing determinants as compared to the applicable Heating Degree Days during
13 the WNA months. This analysis derives a heat sensitive factor and a base load
14 factor for each weather zone. A heat load factor and a base load factor are
15 calculated for residential and public authority combined, and separately for
16 commercial customers. Each area's customer billing determinants encompassed
17 the 24 months of data from April 2005 through March 2007.

18 **Q. IS THERE AN INDICATION OF HOW WELL THESE FACTORS**
19 **RELATE TO COLD WEATHER?**

20 A. Yes. As the factors are determined, a correlation measure, or R^2 , is computed as
21 a part of the regression analysis. R^2 is the percentage variation in the dependent
22 variable (HDDs) from the mean that is explained by the x to y (HDD to weather
23 sensitive usage) relationship expressed by the regression equation. The R^2 for
24 residential customers shows a range by weather station from .9698 to .9865, with
25 a correlation of 1.0000 being a "perfect" fit. This indicates that the resulting heat
26 load and base load factors resulting from the regression analysis have a very high
27 correlation to customer usage as it relates to weather. The results of the
28 regression calculation are provided in WP 17-1 through WP 17-6 of Section 17 of
29 the filing.

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27

V. OTHER REVENUE

Q. HOW IS THE COMPANY'S AD VALOREM TAX SURCHARGE ADDRESSED IN THE COMPANY'S SCHEDULES?

A. For determination of the amount of the requested rate increase, the revenue received from the Ad Valorem Tax Surcharge is included in the Company's current revenues. For determination of the Company's proposed rates, the surcharge was excluded and the revenue would be "rolled in" to the Company's base rates essentially "resetting" the surcharge to zero. Going forward, the surcharge would be calculated utilizing the ad valorem taxes in this case as the base.

VI. PLANT IN SERVICE AND ACCUMULATED RESERVE

Q. PLEASE DESCRIBE THE COMPANY'S ADJUSTMENTS TO PLANT IN SERVICE AND ACCUMULATED RESERVE.

A. As shown in WP 4-1, certain accounting adjustments were made to transfer assets from Production and Gathering plant accounts into the appropriate Distribution plant accounts. This transfer was not made by the end of the test year in this case. The majority of the Company's gathering system has been sold since the Company's last rate filing and the remaining assets are being utilized as distribution system assets to deliver gas to customers.

Q. WHAT IS THE NET EFFECT ON THE BALANCE IN PLANT IN SERVICE OF THIS TRANSFER?

A. The overall effect of this transfer has no effect on the balance of plant in service. However, this transfer does have a small impact on the pro-forma depreciation expense in this case and should be reflected as a known and measurable adjustment in this filing.

1 **Q. WAS THE ACCUMULATED RESERVE ASSOCIATED WITH THESE**
2 **ACCOUNTS ALSO TRANSFERRED?**

3 A. Yes, in the same manner with no net impact to the overall balance in
4 Accumulated Reserve. This adjustment is shown on WP 5-1.

5 **Q. WAS ANY OTHER ADJUSTMENT MADE TO ACCUMULATED**
6 **RESERVE?**

7 A. Yes. An adjustment was made to reallocate the reserve balance in the
8 transmission plant category between individual plant accounts within that
9 category.

10 **Q. WHY WAS THIS ADJUSTMENT MADE?**

11 A. Recent retirements within these accounts caused the accumulated reserve
12 balances to become debits rather than the usual credit balances. In order to
13 effectively recover these amounts, the adjustment transfers the balances within
14 the class of assets. There is no change in the overall balance of the accumulated
15 reserve however, the adjustment does shift some accumulated reserve from
16 Division 81 to Division 86.

17

18 **VII. CONSTRUCTION WORK IN PROGRESS**

19 **Q. WHAT ADJUSTMENT WAS MADE TO CWIP?**

20 A. An adjustment was made to remove the accumulated cost of long-term projects.
21 This adjustment is shown on WP 14-1 and is calculated on WP 14-1-2.

22

23 **VIII. ACCUMULATED DEFERRED INCOME TAX**

24 **Q. DOES THE COMPANY'S RATE FILING REFLECT ADJUSTMENTS TO**
25 **THE PER BOOK AMOUNTS OF ACCUMULATED DEFERRED**
26 **INCOME TAX (ADIT)?**

1 A. Yes. Adjustments to ADIT appear in the Schedule 14A, and are calculated on
2 WP-4 and WP 4-4-1.

3 **Q. WERE ANY ITEMS EXCLUDED FOR RATEMAKING PURPOSES?**

4 A. Yes. Adjustments were made to exclude any amount for over/under recovery of
5 gas cost, in order to normalize the tax effect thereof to zero. Additionally, the
6 adjustments exclude book to tax differences in Shared Services that specifically
7 relate to jurisdictions other than Kansas.

8 **IX. STORAGE GAS**

9 **Q. PLEASE DESCRIBE THE ADJUSTMENT TO THE STORAGE GAS**
10 **BALANCE.**

11 A. In this adjustment, the average balances for the 13 months ended May 2007 were
12 included as shown in WP 6-3.

13

14

X. OTHER RATEBASE ITEMS

15 **Q. WERE ADJUSTMENTS MADE TO ANY OTHER RATEBASE ITEMS?**

16 A. No. Amounts for Prepayments, Customer Advances for Construction and
17 Customer Deposits are included at the per book 13-month average balances. Cash
18 Working Capital is included at a zero balance.

19

20

XI. O&M EXPENSE

21

22 **Q. WHAT ADJUSTMENTS TO O&M EXPENSES WERE INCLUDED IN**
23 **THIS FILING?**

24 A. The following adjustments were included:

25

1 An adjustments to labor (WP 9-3)

26

2. An adjustment to benefits expense (WP 9-4)

27

3. An adjustment to include the gas cost portion of uncollectible accounts in the
28 Company's PGA (WP 9-5)

29

4. An adjustment to remove amounts attributable to advertising and public affairs
30 from AGA dues (WP 9-6)

1 5. An adjustment to include 50% of charitable contributions in O&M expense
2 (WP 9-7)

3 6. An adjustment to include an amortization of rate case expenses associated with
4 this filing over 3 years (WP 9-8)

5 7. An adjustment to remove an estimate of certain items included in expense
6 reports during the test year (WP 9-9).

7

8 **Q. PLEASE DESCRIBE THE COMPANY'S LABOR ADJUSTMENT.**

9 A. The adjustment to labor includes the amount of labor in the test year plus the
10 budgeted annual merit increase of 3.5%. Merit increases are generally provided
11 to employees once per year effective October 1 of each year.

12 **Q. PLEASE DESCRIBE THE COMPANY'S BENEFITS ADJUSTMENT.**

13 A. This adjustment increases benefits expense by multiplying the labor adjustment
14 calculated in WP 9-3 times the budgeted 2008 benefits load factor as shown on
15 WP 9-4.

16 **Q. PLEASE DESCRIBE THE COMPANY'S ADJUSTMENT TO INCLUDE
17 THE GAS COST PORTION OF UNCOLLECTIBLE ACCOUNTS IN THE
18 COMPANY'S PGA.**

19 A. The adjustment calculates the amount of gas cost included in the uncollectible
20 accounts written off for the test year. The amount of gas cost associated with
21 these accounts as well as the amount of associated margin is tracked by the
22 Company's billing system. However, these amounts were only tracked for the
23 Kansas and Southwest Kansas rate divisions in total. As a result, the adjustment
24 allocates the amount of margin between the two divisions based upon the total
25 percentage of uncollectible expense in each division and adjusts uncollectible
26 expense to these balances.

27 **Q. IS ATMOS CURRENTLY COLLECTING THE GAS COST PORTION OF
28 UNCOLLECTIBLE ACCOUNTS THROUGH ITS PURCHASED GAS
29 ADJUSTMENT CLAUSE?**

30 A. Yes. In Commission Docket 05-ATMG-643-GIG, Atmos was authorized to
31 include an amount of gas cost included in uncollectible accounts over the amount

1 included in base rates in the Company's last case. The adjustment made in this
2 case simply moves the remaining expense to the Company's PGA.

3 **Q. WHAT IS THE PURPOSE OF THE COMPANY'S ADJUSTMENT TO**
4 **AMERICAN GAS ASSOCIATION (AGA) DUES?**

5 A. The adjustment removes from the Company's revenue requirement the portion of
6 AGA dues which may be attributable to lobbying or other political activities.

7 **Q. PLEASE DESCRIBE THE COMPANY'S ADJUSTMENT TO**
8 **CHARITABLE CONTRIBUTIONS.**

9 A. The adjustment calculates 50% of the charitable contribution made in the test year
10 and includes this amount in the Company's revenue requirement.

11 **Q. PLEASE EXPLAIN THE ADJUSTMENT FOR AMORTIZATION OF**
12 **RATE CASE EXPENSES.**

13 A. The adjustment is made to include an amortization over three years of the
14 estimated rate case expenses in this filing. The Company would expect that as
15 these costs are more fully known that the adjustment would be modified to reflect
16 as accurately as possible actual rate case expenses incurred.

17 **Q. PLEASE EXPLAIN THE ADJUSTMENT RELATING TO THE**
18 **REMOVAL OF CERTAIN EXPENSES.**

19 A. The adjustment removes an estimate of expenses from Shared Services and
20 Colorado/Kansas General Office, as allocated, and the Kansas rate divisions.
21 While the Company believes these costs are, arguably, legitimate business
22 expenses, which should be included in the Company's revenue requirement, the
23 Company has chosen to remove these costs in this case.

24
25 **XII. DEPRECIATION EXPENSE**
26

27 **Q. HAS THE COMPANY PROPOSED UPDATED DEPRECIATION RATES**
28 **IN THIS FILING?**

29 A. Yes. This filing includes proposed depreciation rates for the Kansas and
30 Southwest Kansas rate divisions as well as Shared Services. These depreciation
31 rates are supported in testimony by Mr. Donald Roff.

1 **Q. PLEASE DESCRIBE THE COMPANY'S ADJUSTMENT TO**
2 **DEPRECIATION EXPENSE UTILIZING THESE RATES.**

3 A. This adjustment recalculates depreciation expense utilizing the rates provided in
4 Mr. Roff's study. These rates were applied to the end-of-test-year balances of
5 plant in service by plant account, thereby normalizing depreciation expense to be
6 consistent with the level of plant in service at the end of the test year.

7
8 **XIII. TAXES, OTHER THAN INCOME TAXES**

9
10 **Q. WHAT ADJUSTMENTS TO TAXES, OTHER THAN INCOME TAXES**
11 **WERE MADE IN THIS FILING?**

12 A. There are four adjustments made to Taxes, Other than Income Taxes. The first
13 adjusts the Ad Valorem tax accrual amount included in the Company's general
14 ledger to the actual amount of Ad Valorem taxes paid for the Company's last
15 calendar year. This amount includes those amounts paid during the test year as
16 well as those amounts paid in July 2007.

17 The second adjustment removes ad valorem tax associated with the Company's
18 adjustment to CWIP for long-term projects.

19 The third is an adjustment for additional payroll taxes associated with the labor
20 adjustment discussed above.

21 The fourth adjustment normalizes the Kansas Corporation Commission (KCC)
22 assessment to the actual amount paid for the 12 months ended July 2007.

23
24
25 **XIV. INCOME TAXES**

26
27 **Q. PLEASE DESCRIBE THE COMPANY'S CALCULATION OF INCOME**
28 **TAXES.**

29 A. An amount for income taxes is included in the Company's filing calculated
30 utilizing a 7.35% state tax rate, including an offset for the step rate of 3.35% at
31 \$50,000, and a 35% federal income tax rate. The calculation synchronizes the
32 amount of income taxes utilizing the cost of debt, capital structure and return
33 supported by Ms. Laurie Sherwood and Dr. Bruce Fairchild.

1 **XV. COSTS OF DEBT AND EQUITY, AND CAPITAL STRUCTURE**
2

3 **Q. WHERE IN THE FILING ARE THE COSTS OF DEBT AND EQUITY,**
4 **AND CAPITAL STRUCTURE OUTLINED.**

5 A. These are included in Section 7 of the filing. Dr. Bruce Fairchild is supporting in
6 testimony the Company's cost of equity. Ms. Laurie Sherwood is supporting in
7 testimony the cost of debt and capital structure. The amounts recommended in
8 their testimony are incorporated into Section 7 and utilized in the computation of
9 the revenue requirement.

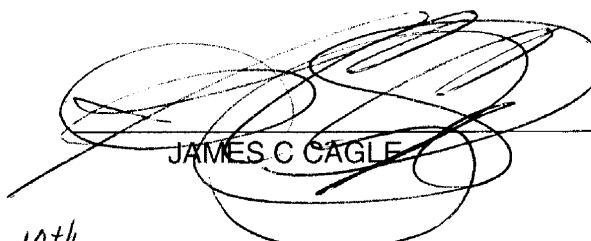
10
11 **Q. DOES THIS COMPLETE YOUR TESTIMONY?**

12 A. Yes.

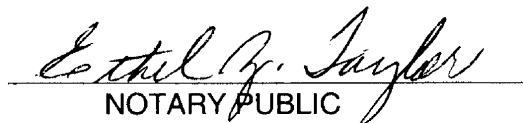
VERIFICATION

STATE OF TEXAS)
) ss.
COUNTY OF DALLAS)

James C. Cagle, being duly sworn upon his oath, deposes and states that he is Manager of Rates and Revenue Requirements 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.

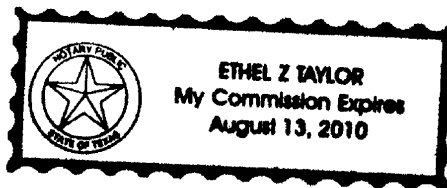

JAMES C CAGLE

Subscribed and sworn to before me this 10th day of September 2007.


NOTARY PUBLIC

My appointment Expires:

August 13, 2010



DOCKET	TESTIMONY STYLED AS	TYPE	DATE
Virginia Corporation Commission			
PUE 000171	Atmos Energy Corporation for an increase in rates.	Direct	March-00
PUE 2003-00507	Atmos Energy Corporation for an increase in rates.	Direct	February-04
Colorado Public Utility Commission			
00S-668G	In the matter of the tariff sheets filed by Greeley Gas Company, a Division of Atmos Energy Corp with Advice Letter No. 419 regarding comprehensive changes to the rates, terms and conditions for natural gas sales, and transportation services	Direct	November-00
Kansas Corporation Commission			
03-ATMG-1036-RTS	In the Matter of the Application of Atmos Energy for Adjustment of its Natural Gas Rates in the States of Kansas	Direct and Rebuttal	June-03
Railroad Commission of Texas			
9002 – 9135	Statement of Intent Filed by Energas Company to Increase Rates Charged in the 67 West Texas Cities: Petition by Energas for Review of 67 Municipal Rate Decisions	Direct and Rebuttal	March-00
9670, 9676	Petition for de novo review of the reduction of the gas utility rates of Atmos Energy Corp., Mid-tex division, by the cities of Addison, Benbrook, Blue Ridge, Et AL, and statement of intent filed by Atmos Energy Corp., Mid-tex division to change rates in the company's statewide gas utility system.	Direct	May-06
Louisiana Public Service Commission			
U-21922, U-23508 Consolidated	Louisiana Public Service Commission, ex parte, Consolidated Docket U-21922 and U-23508, In re: Docket No. U-21922, In re: Investigation of the Rates and Charges of Trans Louisiana Gas Company, A Division of Atmos Energy Corp. etc.	Direct and Rebuttal	March-99
U-28814	Petition of Trans Louisiana Gas Company, a regulatory division of Atmos Energy Corporation, requesting approval of a Conservation and Consumer Cost Stabilization rider.	Direct	May-05
Georgia Public Utility Commission			
20298-U	Filing of Increased Rates for Natural Gas Service	Direct	May-05
Missouri Public Service Commission			
GR-2006-0387	Atmos Energy Corporation's tariff revision designed to consolidate rates and implement a general rate increase for natural gas service	Direct	April-06
Tennessee Regulatory Authority			
05-00258	Petition of the Consumer Advocate to open an investigation to determine whether Atmos Energy Corp. should be required by the Tennessee Regulatory Authority to appear and show cause	Direct and Rebuttal	July-06
07-00105	Petition of Atmos Energy Corporation for approval of adjustment of its rates and revised tariffs	Direct	May-07