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Exhibit No.: Ex No. 8
Issue: Capital Structure; Embedded Cost of
Debt; Return on Equity
Witness: Laurie M. Sherwood
Type of Exhibit: Direct Testimony
Sponsoring Party: Atmos Energy Corporation
Case No.: GR-2006-0387
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MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. GR-2006-0387

DIRECT TESTIMONY

OF

LAURIE M. SHERWOOD

ON BEHALF OF

ATMOS ENERGY CORPORATION

March 2006

Atmos Exhibit No. 8
Case No(s). GR-2006-0387
Date 11-30-06 Rptr PF

**BEFORE THE
MISSOURI PUBLIC SERVICE COMMISSION
CASE NO. _____
PREPARED DIRECT TESTIMONY
OF
LAURIE M. SHERWOOD**

**On Behalf of
ATMOS ENERGY CORPORATION**

1 **Q. Please state your name, position and business address.**

2
3 A. My name is Laurie M. Sherwood and I am Vice President, Corporate Development, and
4 Treasurer of Atmos Energy Corporation ("Atmos" or "Company"). My business address
5 is 5430 LBJ Freeway, 700 Three Lincoln Centre, Dallas, Texas 75240.

6
7 **Q. Please briefly describe your educational and professional history.**

8
9 A. I earned a Bachelor of Business Administration degree with a double major in
10 Management and Finance from Texas A & M University in 1982 and a Master of
11 Business Administration degree from Southern Methodist University in 1988. From
12 August 1982 to April 1999, I was employed by Oryx Energy Company and its former
13 parent, Sunoco Inc., in various financial positions, most recently as Manager, Corporate
14 Finance.

15
16 I joined Atmos in May 1999 as Assistant Treasurer. I was named Vice President and
17 Treasurer in September 2000 and became VP, Corporate Development, and Treasurer in
18 February 2001.

19

20

1 **Q. What are your duties as VP, Corporate Development, and Treasurer of Atmos?**

2

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

11

12 **Q. Have you previously testified before this Commission?**

13

14 A. Yes. I have also testified before the Illinois Commerce Commission, the Iowa Utilities
15 Board, the Railroad Commission of Texas, the State Corporation Commission of
16 Virginia, and the Public Service Commissions of Colorado, Georgia, Kentucky,
17 Louisiana and Mississippi.

18

19 **Q. What is the purpose of your testimony in this proceeding?**

20

21 A. I will sponsor the proposed capital structure, the embedded cost of debt, and the return on
22 equity component sponsored by Dr. Murry.

23

24 **I. CAPITAL STRUCTURE**

25

26 **Q. Ms. Sherwood, what is the appropriate capital structure for the Missouri operations
27 of the Mid-States Division of Atmos in this proceeding?**

28

29 A. Because Atmos provides the debt and equity for its unincorporated operating divisions,
30 including Mid-States, it is appropriate to look at Atmos' consolidated capital structure as
31 the basis for determining the rate of return for its Missouri operations. However, Atmos'

1 current capital structure ratios are temporarily distorted because of the recent acquisition
 2 of TXU Gas, which was largely debt-financed. While Atmos' target capital structure
 3 ratios of approximately 50% debt and 50% equity would be more representative, Atmos'
 4 projected capital structure as of June 30, 2006, in conjunction with a return on equity
 5 reflecting the greater financial risk associated with this capital structure, were used in the
 6 present instance. This recommended capital structure is set forth in Schedule RMB-9 and
 7 summarized below (dollars in thousands):

9	<u>LT Debt</u>	<u>ST Debt</u>	<u>Total Debt</u>	<u>Shareholders' Equity</u>	<u>Total</u>
10	\$2,184,082 ¹	\$0	\$2,184,082	\$1,684,997	\$3,869,079
11	56.45%	0.00%	56.45%	43.55%	100.00%

12
 13 **Q. How does this recommended capital structure compare to the actual capital**
 14 **structure as of December 31, 2005, the most recent date for which Atmos has issued**
 15 **publicly filed financial statements?**

16
 17 A. Atmos' capital structure at December 31, 2005 was as follows (dollars in thousands):

18	<u>LT Debt</u>	<u>ST Debt</u>	<u>Total Debt</u>	<u>Shareholders' Equity</u>	<u>Total</u>
19	\$2,184,783 ²	\$474,059	\$2,658,842	\$1,637,617	\$4,296,459
20	50.85%	11.03%	61.88%	38.12%	100.00%

21
 22 **Q. Please explain why the components of Atmos' capital structure as of December 31,**
 23 **2005 differ from the capital structure that you believe to be appropriate for this**
 24 **proceeding.**

25
 26 A. Because of the highly seasonal nature of the Company's natural gas distribution business,
 27 Atmos' short-term debt typically reaches its peak during the winter months and drops to
 28 its lowest level, usually zero, during the spring and summer months. At December 31,
 29 2005, the Company's short-term debt was unusually high due to the unprecedented high

¹ Includes current maturities portion of long-term debt.

² Includes current maturities portion of long-term debt.

1 natural gas prices experienced during the quarter. Short-term debt is not part of the
2 Company's permanent capital structure and is not customarily used to finance additions
3 to utility plant; instead, the Company's practice is to use short-term debt to finance
4 seasonal purchases of natural gas for peak winter demand. For this reason, the
5 appropriate capital structure, equal to the Company's projected capital structure as of
6 June 30, 2006, includes no short-term debt.

7
8 **Q. Please summarize your testimony regarding the appropriate capital structure for**
9 **use in this proceeding.**

10
11 A. The appropriate capital structure for the Company's Missouri operations is equivalent to
12 that of Atmos as a whole. The Company's capital structure as of December 31, 2005
13 contained approximately 62% total debt, but this included unusually high levels of short-
14 term debt that was used to finance purchases of natural gas to meet peak winter demand.
15 The Company's practice is not to use short-term debt to finance additions to utility plant.
16 The Company's projected capital structure as of June 30, 2006, which includes
17 approximately 56% long-term debt and no short-term debt, is therefore appropriate for
18 use in this proceeding.

19
20 **II. RETURN ON EQUITY AND WEIGHTED AVERAGE COST OF DEBT**

21
22 **Q. What rates do you propose for the rate of return on equity capital and the**
23 **embedded cost of debt capital in setting rates in this case?**

24
25 A. I have reviewed the testimony of Dr. Murry and, supported by my own experience and
26 judgment, I recommend that the Commission approve a 12.00% return on the equity
27 portion of Atmos' capital structure and adopt 5.96% as the weighted-average cost of
28 long-term debt capital for use in this proceeding. These rates of return will permit the
29 Missouri operations of Atmos' Mid-States Division to attract the capital necessary to
30 continue to provide efficient, high-quality customer service at the lowest possible cost.

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

2

3 **A. Yes.**