Exhibit No.:	
Issues:	*True-up, Income Taxes, MGP Sites, Other Rate Base Items*
Witness:	*Stephen M. Rackers*
Sponsoring Party:	*MOPSC*
Type of Exhibit:	*Direct Testimony*
Case Nos.:	*GR-2006-0387*
Date Testimony Prepared:	*September 13, 2006*

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

DIRECT TESTIMONY

OF

STEPHEN M. RACKERS

ATMOS ENERGY CORPORATION

CASE NO. GR-2006-0387

Jefferson City, Missouri
September 2006

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Atmos Energy Corporation's Tariff Revision Designed to Consolidate Rates and Implement a General Rate Increase for Natural Gas Service in the Missouri Service Area of the Company.	))))	Case No. GR-2006-0387

AFFIDAVIT OF STEPHEN M. RACKERS

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Stephen M. Rackers, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Direct Testimony in question and answer form, consisting of 10 pages to be presented in the above case; that the answers in the foregoing Direct Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.

Stephen M. Rackers

Subscribed and sworn to before me this 15th day of September 2006.

TONI M. CHARLTON NOTARY SEAL NOTARY PUBLIC STATE OF MISSOURI

TONI M. CHARLTON
Notary Public - State of Missouri
My Commission Expires December 28, 2008
Cole County
Commission #04474301

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DIRECT TESTIMONY

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STEPHEN M. RACKERS

ATMOS ENERGY CORPORATION

CASE NO. GR-2006-0387

Q. Please state your name and business address.

A. Stephen M. Rackers, 9900 Page Avenue, Suite 103, Overland, Missouri 63132.

Q. By whom are you employed and in what capacity?

A. I am employed by the Missouri Public Service Commission (Commission) as a Regulatory Auditor V.

Q. Please describe your educational background.

A. I attended the University of Missouri – Columbia, where I received a Bachelor of Science degree in Business Administration with a major in Accounting in 1978. I have passed the Uniform Certified Public Accountant examination and am licensed to practice in the state of Missouri.

Q. What has been the nature of your duties while in the employment of this Commission?

A. I have conducted and assisted with the audits and examinations of the books and records of utility companies operating within the state of Missouri.

Q. Have you previously filed testimony before the Commission?

A. Yes, I have. Please refer to Schedule 1, attached to this direct testimony, for a list of cases in which I have previously filed testimony.

Q. With reference to Case No. GR-2006-0387, have you made an investigation of the books and records of Atmos Energy Corporation (Atmos or Company)?

A. Yes, with the assistance of other members of the Commission Staff (Staff).

EXECUTIVE SUMMARY

Q. Please discuss how the Staff has structured its case.

A. Atmos currently operates in Missouri under six distinct sets of tariffs. Under these tariffs Atmos serves the Kirksville, Butler and Southeast Missouri (SEMO) areas acquired from Arkansas Natural Gas Company (ANG); the Rich Hill area acquired from Greeley Gas Company; and the Hannibal, Canton, Bowling Green (UCG) and Palmyra areas acquired from United Cities Gas Company. The Staff has calculated a separate revenue requirement for each one of these tariff areas and a consolidated total Missouri revenue requirement. The Staff also calculated a revenue requirement for the Neelyville area, which currently has the same rates as UCG, but is physically located in the SEMO area.

Q. What are your primary areas of responsibility in this case?

A. My primary responsibilities in this case are true-up, environmental costs associated with manufactured gas plants, the ANG stipulated rate base reduction, income tax expense, accumulated deferred income tax reduction to rate base and the increase to rate base for the prepaid pension asset.

Q. What Accounting Adjustments to the Income Statement are you sponsoring?

A. I am sponsoring the Staff's expense adjustments in Accounting Schedule 10, Adjustments To Income Statement for:

1) Elimination of manufactured gas plant expenses,
2) Amortization of the (ANG) stipulated rate base reduction,
3) Income taxes, and
4) Merger and integration amortization.

Q. What Accounting Schedules and Rate Base balances are you sponsoring?

A. I am sponsoring the following Accounting Schedules and rate base balances:

1) The Revenue Requirement - Accounting Schedule 1,
2) The Income Statement and Adjustments To Income Statement – Accounting Schedules 9 and 10, respectively,
3) Income Tax - Accounting Schedule 11,
4) The unamortized ANG stipulated rate base reduction,
5) The rate base reduction for accumulated deferred taxes, and
6) The prepaid pension asset.

TEST YEAR AND TRUE-UP AUDIT

Q. What test year has the Staff utilized in this case?

A. The Staff has used a test year ending September 30, 2005, updated through June 30, 2006.

Q. Is the Staff proposing a true-up audit in this case?

A. Yes. The Staff proposes a true-up audit for the period ending September 30, 2006, provided that the necessary information is available in a timely manner. This true-up audit must maintain an appropriate relationship between rate base, expenses and revenues. To that end, the following items should be considered in the true-up audit:

Rate Base: Plant-in-service, depreciation reserve, customer advances for construction, prepaid pension asset, customer deposits, gas inventories, negotiated rate base reduction, prepaid pension asset and deferred income taxes. Cash working capital and the income tax and interest offsets will also change, to the extent these amounts are affected by other true-up items.

Income Statement: Depreciation expense as affected by net plant additions, property taxes based on new property assessments and tax rates, revenues associated with customer changes, payroll and related payroll costs as a result of changes in employee levels and wage rates, employee benefits, rate case expense, and income taxes, as affected by all the true-up items.

Capital Structure and Associated Embedded Costs: Changes in the Company's capital structure and associated embedded costs of the related capital items excluding return on common equity will also be reflected in the Staff's true-up audit.

To be included in the true-up audit, all items must be known, evidenced by documentation (i.e., inspection, monthly operating reports, invoices, Company ledgers, etc.) and the effect must be measurable.

The above items, at a minimum, will be examined in the context of a true-up audit. In addition, other items may be subject to review, as events may warrant.

Q. Have you included an estimate of the value of true-up?

A. Yes. As a preliminary estimate of the value of true-up, the Staff has included its estimate of the September 2006 non-union payroll increase in its payroll annualization and has included its estimate of rate case expense, assuming this case is not settled. The Staff has not yet quantified the value of the other true-up items discussed above. The actual amounts incurred will be determined based on an examination of all the items listed above during the Staff's true-up audit.

ACCOUNTING SCHEDULES

Q. Please discuss the Accounting Schedules.

A. I am sponsoring Accounting Schedule 1 - Revenue Requirement. This schedule is the Staff's calculation of revenue requirement for the rate of return range sponsored by Staff witness Matthew J. Barnes of the Financial Analysis Department. The rates of return determined by Staff witness Barnes are applied to the rate base, presented on Accounting Schedule 2, to determine the net income requirement. The gross revenue requirement is then determined by adding the required income taxes, calculated on Accounting Schedule 12, to the net income requirement.

Staff witness Ed Began of the Commission's Auditing Department is sponsoring Accounting Schedules 2 through 8. These schedules show the Staff's calculation of Rate Base, Plant In Service, Adjustments To Plant In Service, Depreciation Reserve, Adjustments To Depreciation Reserve, Depreciation Expense and Cash Working Capital. Please refer to his testimony for an explanation of these schedules.

I am also sponsoring Accounting Schedules 9 - Income Statement, 10 - Adjustments To Income Statement and 11 – Income Tax. The first two columns of the Income Statement show test year revenues and expenses by category for the twelve months ending September 30, 2005. The next column shows the Staff's adjustments to these amounts, including updates through June 30, 2006. In the Adjustments To Income Statement these Staff adjustments are explained and identify the assigned witness. The last column of the

Income Statement shows the as adjusted amounts resulting from adding the test year level and the adjustment amount. The Income Tax Schedule is discussed in the next section of my testimony.

INCOME TAX

Q. Please explain Accounting Schedule 11 – Income Tax.

A. This schedule shows the calculation of current income taxes, based on the Staff's adjusted net income for the test year from Accounting Schedule 10, Income Statement. Income taxes are computed for the as adjusted test year and based on the low, mid and high points of the range of the Staff's recommended rate of return.

I adjusted the amount of net income from Accounting Schedule 9 to add back any income taxes to determine net income before taxes. From this amount I deducted interest expense based on the Staff's weighted cost of debt multiplied by the rate base. This methodology synchronizes the tax deduction for interest expense with the interest the ratepayer is required to provide the Company through rates. The net operating income before taxes, less interest expense, equals taxable income.

Q. What tax rates were applied to taxable income?

A. The Staff used the applicable Federal and Missouri income tax rates to taxable income to calculate current income taxes. The difference between the test year current income taxes and the amount calculated on Schedule 11 appears in Schedule 10 – Adjustments To Income Statement.

Q. Please explain the Staff's Adjustments for deferred income taxes.

A. The Staff included the annual amortization of deferred income tax expense associated with the reduction in income tax rates and investment tax credits. Deferred tax balances for these items were transferred to Atmos as part of the merger with Greeley and United Cities Gas Companies. The amount reflected for these amortizations is Missouri's allocated portion.

ENVIRONMENTAL COSTS

Q. Please briefly describe the environmental costs associated with manufactured gas plant (MGP) sites.

A. MGPs were formerly used to produce gas from coal. Atmos acquired this site when it merged with United Cities Gas Company.

Q. Please explain the Staff's adjustment to remove the Hannibal MGP environmental cost from test period O&M expense.

A. This adjustment removes $1,083,000 of costs associated with an MGP site in Hannibal, Missouri. These costs were expensed in December 2004, but were incurred in years prior to the test period. The Company did not request an accounting authority order to accumulate and defer these costs for consideration in a future case. Therefore, the Staff is eliminating these costs, which were not incurred during the test year and do not represent an ongoing level of expense that should be included in rates.

Q. Has the Staff made any other adjustments associated with this MGP site?

A. Yes. The land and landscaping improvements associated with this site are no longer serving utility operations. Currently the site is being used by a third party as a parking area. Therefore, the Staff proposes that the investment cost associated with this site be moved to non-utility operations.

MERGER AND INTEGRATION AMORTIZATION

Q. Please explain the Staff's adjustment to exclude the amortization of merger and integration costs.

A. These merger and integration costs, which Atmos has been amortizing, are associated with the combination of Atmos and United Cities Gas Company, approved by the Commission in Case No. GM-97-70. These costs were fully amortized in December 2004. Therefore, since it is not an ongoing expense, the Staff has eliminated this amount from the test year cost.

ANG STIPULATED RATE BASE REDUCTION

Q. Please discuss the Staff's position regarding the stipulated rate base reduction that resulted from the Commission approved Atmos purchase of Arkansas Natural Gas Company in Case No. GM-2000-272.

A. In GM-2000-272, Atmos agreed to use an additional offset to rate base in any filing of a general increase in non-gas rates in Missouri, completed in the ten years following the purchase closing date. This reduction was designed to compensate the ratepayers for deductions from rate base that were eliminated by the purchase transaction. The starting amount was $2,500,000 and the amortization, over 120 months, began in June of 2000. The Staff has recognized the unamortized amount as of the June 30, 2006, update.

Q. Has the Staff included the annual amortization as a reduction to the cost of service?

A. Yes. The stipulated reduction was designed to compensate the ratepayers for deductions from rate base that were eliminated by the ANG purchase transaction. Such deductions would generally be associated with deferred income taxes previously supplied by ratepayers. Deferred income taxes associated with investment tax credits and a reduction in income tax rates should be amortized to the cost of service. Therefore the amortization should likewise be included in the cost of service to compensate the ratepayers for the deferred tax amortizations that were lost as a result of the Atmos/ANG purchase transaction.

ACCUMULATED DEFERRED INCOME TAXES

Q. What level of accumulated deferred income taxes has the Staff included as a reduction to rate base?

A. The Staff started with the June 30, 2006, balance and then made adjustments to address items that were not related to Missouri, items that were inconsistent with the Staff's case and items that were inconsistent with traditional ratemaking in Missouri.

Q. Please explain and provide an example of each of these adjustments.

A. The June 30, 2006, balance was reduced for items that were clearly the result of events that were not related to Missouri operations, or general corporate costs that are allocable to Missouri operations. An example of this type of item is the deferred tax related to the acquisition of service territory in Mississippi.

The accumulated deferred tax balance was also reduced to reflect consistency with the way the Staff is treating related items in its case. An example of this type of adjustment is the deferred tax related to the Board of Directors' deferred compensation. The Staff has made an adjustment to disallow this expense. Therefore, Staff is not recognizing deferred taxes related to this item.

The Staff has also made adjustments to remove deferred taxes from the June 30, 2006, balances associated with items that the Commission has traditionally not recognized as appropriate for inclusion in the cost of service. An example of this item is deferred tax related to construction work in progress (CWIP). The Commission has traditionally not recognized CWIP in rate base and has not included related expenses, such as depreciation, in the cost of service. Therefore, the Staff is not recognizing deferred taxes related to this item.

PREPAID PENSION ASSET

Q. Please explain the prepaid pension asset included in rate base.

A. The prepaid pension asset reflects the amount actually contributed to the pension fund in excess of the amount of pension cost expensed, based on the Financial Accounting Standard (FAS) 87 calculation. This amount is appropriately included in rate base since it represents the cash payments the Company was required to make, according to the Employee Retirement Income Security Act, in excess of the cash provided in rates through the inclusion of pension expense, based on FAS 87.

Q. Does this conclude your direct testimony?

A. Yes, it does.

RATE CASE PROCEEDING PARTICIPATION

STEPHEN M. RACKERS

Company	Case Number
Bowling Green Gas Company	GR-78-218
Central Telephone Company	TR-78-258
Empire District Electric Company	ER-79-19
Fidelity Telephone Company	TR-80-269
St. Louis County Water Company	WR-80-314
Union Electric Company	ER-81-180
Laclede Gas Company	GR-81-245
Great River Gas Company	GR-81-353
Union Electric Company	ER-82-52
Laclede Gas Company	GR-82-200
St. Louis County Water Company	WR-82-249
Union Electric Company	ER-83-163
Union Electric Company	ER-84-168
Arkansas Power and Light Company	ER-85-20
Kansas City Power and Light Company	ER-85-128
Arkansas Power and Light Company	ER-85-265
Union Electric Company	EC-87-114
Union Electric Company	GR-87-62
Southwestern Bell Telephone Company	TC-89-14
St. Louis County Water Company	WR-89-246
Laclede Gas Company	GR-90-120
Missouri Cities Water Company	WR-91-172
St. Louis County Water Company	WR-91-361
Laclede Gas Company	GR-92-165
Missouri Pipeline Company	GR-92-314
St. Louis County Water Company	WR-92-204
St. Louis County Water Company	WR-94-166
St. Louis County Water Company	WR-95-145
Union Electric Company	ER-95-411

Company	**Case Number**
Union Electric Company d/b/a AmerenUE	EM-96-149
St. Louis County Water Company	WR-96-263
St. Louis County Water Company	WR-97-382
Laclede Gas Company	GR-99-315
Missouri-American Water Company	WR-2000-281 et al
St. Louis County Water Company	WR-2000-844
Laclede Gas Company	GR-2001-629
Union Electric Company d/b/a AmerenUE	EC-2002-1
Union Electric Company d/b/a AmerenUE	EC-2002-1025
Laclede Gas Company	GR-2002-356
Missouri-American Water Company	WR-2003-0500
Empire District Electric Company	ER-2004-0570
Laclede Gas Company	GR-2005-0284