

Exhibit No.:
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Cost of Debt
Witness: Robert J. Smith
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Sponsoring Party: Atmos Energy Corporation
Case No.: GR-2010-
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MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. GR-2010-

DIRECT TESTIMONY

OF

ROBERT J. SMITH

ON BEHALF OF

ATMOS ENERGY CORPORATION

DECEMBER 2009

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OF ROBERT J. SMITH

WITNESS ON BEHALF OF

ATMOS ENERGY CORPORATION

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1 **I. POSITION AND QUALIFICATIONS**

2 **Q. PLEASE STATE YOUR NAME, BUSINESS AFFILIATION AND**
3 **BUSINESS ADDRESS.**

4 **A.** My name is Robert J. Smith. I am the Assistant Treasurer of Atmos Energy
5 Corporation ("Atmos", "Atmos Energy", or "the Company"). My business
6 address is 5430 LBJ Freeway, Suite 700, Dallas, Texas 75240.

7
8 **Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND**
9 **DESCRIBE YOUR WORK EXPERIENCE.**

10 **A.** I earned a Bachelor of Business Administration degree with a major in Finance
11 from the University of South Florida in 1987 and a Master of Science in Finance
12 degree from Indiana University in 2006. From June 1988 to April 2000, I was
13 employed by Wells Fargo/Norwest Corporation in various financial positions,
14 most recently as Area Manager. From April 2000 to October 2001, I was
15 employed by Dynegy Inc. as Retail/Alliance Credit Manager.
16 I joined Atmos in October 2001 as the Director of Credit and Finance for the
17 unregulated operations. In October 2003, I was promoted to Senior Director of
18 Credit and Finance. I was named Assistant Treasurer in July 2008.

19
20 **Q. WHAT ARE YOUR JOB RESPONSIBILITIES?**

21 **A.** I am responsible for the corporate treasury operation functions of the Company.
22 My duties include planning, scheduling and administering the Company's
23 financial requirements, including the sale and issuance of debt and equity

1 securities. In addition to long-term financings, I am responsible for the
2 Company's bank relations and short-term borrowing and investing activities. As
3 a result of these activities, I am in frequent contact with financial institutions,
4 credit rating agencies, and commercial and investment bankers.

5
6 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE MISSOURI**
7 **PUBLIC SERVICE COMMISSION ("COMMISSION") OR OTHER**
8 **REGULATORY ENTITIES?**

9 **A.** I have not testified before the Missouri Public Service Commission. I have
10 testified before the Mississippi Public Service Commission.

11
12 **II. PURPOSE OF TESTIMONY**

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

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

1

2 **Q. ARE YOU SPONSORING ANY OF THE COMPANY'S SCHEDULES IN**
3 **THIS PROCEEDING?**

4 A. Yes. Along with Dr. James Vander Weide, I am sponsoring Cost of Service
5 Schedule 9. Cost of Service Schedule 9 is included in the filing behind the tab
6 labeled "Cost of Service".
7

8 **III. CAPITAL STRUCTURE**

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

10 A. Atmos Energy conducts utility operations in twelve states through unincorporated
11 divisions. The Company divisions relevant here are commonly referred to as the
12 Kentucky/Mid-States Division and the Colorado/Kansas Division.
13

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

16 A. No. These divisions, including the Kentucky/Mid-States Division and the
17 Colorado/Kansas Division, are not separate legal entities. Instead, these
18 unincorporated divisions are part of the legal entity that is Atmos Energy
19 Corporation. Therefore, all debt or equity funding of the operations performed by
20 the utility divisions must be (and is) issued by Atmos Energy as a whole, on a
21 consolidated basis.
22

23 **Q. WHAT CAPITAL STRUCTURE SHOULD BE USED IN THIS**

1 **PROCEEDING?**

2 **A.** Although this proceeding only affects the rates that may be charged by the
3 Company in its service area in Missouri, the appropriate capital structure for each
4 of the Atmos Energy utility operating divisions, including the Kentucky/Mid-
5 States Division and the Colorado/Kansas Division, is the consolidated capital
6 structure for Atmos Energy as a whole. The use of the Atmos Energy
7 consolidated capital structure is appropriate for use in setting rates for the
8 Company's Missouri customers because Atmos Energy provides the debt and
9 equity capital that supports the assets serving those customers.

10

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

13 **A.** Yes. To develop proposed rates for its Missouri customers the Company utilized
14 a capital structure for Atmos Energy based on the thirteen month average of the
15 long-term debt and equity components ending with the June 30, 2009 capital
16 structure.

17

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

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

23

Long-Term Debt	Shareholder Equity	Total
\$2,166,349	\$2,112,936	\$4,279,285
50.62%	49.38%	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 quarterly report on Form 10-Q filed with the Securities and Exchange Commission for the quarter ended June 30, 2009, the Company's capital structure as of June 30, 2009, is as follows:

Long-Term Debt	Short-Term Debt	Total Debt	Shareholder Equity	Total
\$2,169,526	\$0	\$2,169,526	\$2,191,520	\$4,361,0466
49.75%	0.00%	49.75%	50.25%	100.0%

Amounts shown are in 000s

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

Q. PLEASE SUMMARIZE YOUR TESTIMONY ON CAPITAL STRUCTURE.

1 **A.** I am recommending a capital structure composed of 50.62% long-term debt and
2 49.38% equity in setting rates for the Company's Missouri customers in this
3 proceeding. This capital structure is reasonable because it is reflective of the
4 average capital structure over the test period.

5

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

8 **A.** I recommend a 6.88% weighted average cost of long-term debt. This is the
9 weighted average cost of long-term debt as of June 30, 2009, the end of the test
10 period. This debt cost is appropriate in order to permit Atmos Energy to raise the
11 debt capital required to support its operations and to continue to provide safe,
12 reliable, and efficient natural gas service to its Missouri customers.

13

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

15 **A.** Yes, it does.

In the Matter of Atmos Energy Corporation's Tariff)
Revision Designed to Implement a General)
Rate Increase for Natural Gas Service in the) Case No. GR-2010-
Missouri Service Area of the Company.)

STATE OF TEXAS)
) ss
COUNTY OF DALLAS)

1. My name is Robert J. Smith. I work in Dallas, Texas, and I am employed by Atmos Energy Corporation, as the Assistant Treasurer for Atmos Energy Corporation's Shared Services Division.

3. I have knowledge of the matters set forth therein. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded, including any attachments thereto, are true and accurate to the best of my knowledge, information and belief.

Subscribed and sworn before me this 15 day of December, 2009.

My commission expires: March 31, 2010