INDEX TO THE DIRECT TESTIMONY
OF REBECCA M. BUCHANAN
WITNESS ON BEHALF OF
ATMOS ENERGY CORPORATION

LIST OF SCHEDULES

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	)	Case No.
Service in the Missouri Service Area of the Company.	)	

AFFIDAVIT OF REBECCA M. BUCHANAN

STATE OF TENNESSEE	)
	) ss
COUNTY OF WILLIAMSON	)

Rebecca M. Buchanan, being first duly sworn on her oath, states:

1. My name is Rebecca M. Buchanan. I work in Franklin, Tennessee, and I am employed by Atmos Energy Corporation, as a Senior Rate Analyst for Atmos Energy Corporation's Shared Services Division.

2. Attached hereto and made a part hereof for all purposes is my Direct Testimony on behalf of Atmos Energy Corporation consisting of eighteen (18) pages and Schedules RMB-1 through RMB-10, all of which having been prepared in written form for introduction into evidence in the above-captioned docket.

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.

Rebecca M. Buchanan

Rebecca M. Buchanan

Subscribed and sworn before me this 5th day of April, 2006.

Teresa Morris

Notary Public

My commission expires: 3/22/08

TERESA MORRIS NOTARY PUBLIC AT LARGE DAVIDSON COUNTY, TENN.

My Commission Expires 3/22/08

BEFORE THE

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. GR-06-______

PREPARED DIRECT TESTIMONY

OF

REBECCA M. BUCHANAN

On Behalf of

ATMOS ENERGY CORPORATION

I. POSITION AND QUALIFICATIONS

Q. Please state your name, job title and business address.

A. My name is Rebecca M. Buchanan. I am a Senior Rate Analyst for Atmos Energy Corporation ("Atmos" or "Company"). My business address is 810 Crescent Centre Drive, Suite 600, Franklin, TN 37067.

Q. What is your educational background and professional experience?

A. I graduated with honors from the University of Oklahoma in 1984 with a Bachelor of Business Administration Degree, majoring in Accounting. I am a Certified Public Accountant in the state of Oklahoma and a member of the Tennessee Society of Certified Public Accountants.

My professional experience includes six years of corporate accounting outside the gas industry (1984 – 1990), in which I held the positions of Staff Accountant, Senior Accountant, Payroll Manager and Regional Accounting Manager. In 1991, I accepted the position of Analyst/Regulatory Affairs at United Cities Gas Company. In 1995, I was promoted to Senior Analyst/Regulatory Affairs. With the 1997 merger of United Cities Gas and Atmos Energy Corporation, I transferred to the Atmos Rates Department within the Shared Services business unit (SSU).

Q. What are your responsibilities as a Senior Analyst?

A. As a Senior Analyst, I am responsible for preparing general rate applications and periodic filings, which typically include the rate base, revenue requirement, and capital structure exhibits. I prepare data request responses and facilitate the audit and discovery process. I also research and analyze financial and operating data for both internal and external reporting.

Q. Have you previously provided testimony before the Public Service Commission of the State of Missouri or any other regulatory body?

A. I have not previously testified before the Public Service Commission of Missouri. I have filed testimony with the utility Regulatory Agencies in the states of Colorado (Docket No. 00S-668G), Kansas (Docket No. 181,940-U and Docket No. 191,990-U), Kentucky (Case No. 99-070), Mississippi (Docket No.05-UN-0503), Tennessee (Docket No. 91-01712), and Virginia (Case No. PUE930023 and Case No. PUE950008). Additionally, I have prepared supporting work papers and data request responses for rate applications in Illinois, Georgia, Missouri, and South Carolina. I have filed periodic regulatory reports in Colorado, Georgia, Illinois, Mississippi, Missouri, South Carolina, Tennessee, and Virginia.

II. PURPOSE OF TESTIMONY

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

A. The purpose of my testimony is to present the Missouri Jurisdictional Revenue Deficiency, Cost of Service, Rate Base, and Rate of Return on Rate Base. In support of these calculations, I am sponsoring Schedules RMB-1 through RMB-10 along with certain known and measurable adjustments and ratemaking adjustments contained in the supporting workpapers.

III. TEST PERIOD AND UPDATES

Q. What is the test period used in determining the revenue deficiency?

A. The test period in this case is the 12 months ended September 30, 2005. Capital structure is projected to June 30, 2006, as explained in the testimony of Company witness Laurie M. Sherwood. Atmos also proposes to update the test period data to June 30, 2006. In addition, the Company requests to have a true-up proceeding.

IV. COST OF SERVICE AND REVENUE DEFICIENCY

Q. Please describe each of the schedules supporting the calculation of Cost of Service and Revenue Deficiency.

A. **Schedule RMB-1** is the summary of Cost of Service and Revenue Deficiency. This schedule brings together the results of Schedules RMB-2 through RMB-10 to calculate a Missouri jurisdictional Cost of Service of $20,211,500 and a Missouri jurisdictional annual Revenue Deficiency of $3,395,600. Jurisdictional results reflect Missouri direct operations, plus allocations from the Utility's administrative offices serving Missouri (Shared Services, Mid-States General Office, Central Region Office and Colorado-Kansas General Office). Please refer to the direct testimony of Company witnesses James C. Cagle and Daniel M. Meziere for more information on allocation methodologies.

Schedule RMB-2 is the Summary of Normalized Margin Revenue at Present Rates. This schedule shows, by tariff rate division and customer class, the annual billing determinants, that is, number of bills and consumption volumes in Ccf. The volumes are then adjusted to a level consistent with normal weather. Please refer to the testimony of Company witness James C. Cagle for more information regarding the adjustment to normalize the test period volumes for the effects of weather. In addition to the weather normalized volume adjustments, the billing determinants are adjusted to reflect large volume customers who have switched to a different tariff rate within the test period or who have announced long-term plant closings. Finally, the normalized annual consumption volumes and bill counts are multiplied by the current tariff non-gas base rates to arrive at normalized margin revenue at present rates of $16,815,900.

Schedule RMB-3 Cost of Gas shows that the Company has no gas cost embedded in base revenues, other than the gas cost portion of bad debt expense. Please refer to the testimony of Company witness Childers for further discussion of bad debt expense. This schedule also shows the test period per book PGA gas supply expense was $40,959,100, as adjusted to remove $227,900 non-recoverable expenses identified in the ACA audits (2001-2004).

Schedule RMB-4 Operation and Maintenance Expenses shows the test period per-book O&M expenses of $8,448,200. The Company has adjusted the per-book level of O&M for known and measurable changes as well as for ratemaking adjustments by a total of $347,300, making the adjusted amount of Missouri jurisdictional O&M expenses $8,795,500.

Q. What type of O&M adjustments were made to the historic test period?

A. The per-book O&M expenses for the 12 months ended September 30, 2005 have been adjusted for the following expense items: labor, benefits, merger and integration, bad debt ("uncollectibles"), environmental expense for manufactured gas plant ("MGP"), legal outside services, rate case expense, O&M allocation from Shared Services ("SSU"), advertisements, donations, memberships, and employee social activities. These adjustments are summarized on WP 4-1, with the supporting calculations provided in workpapers WP 4-2 through WP 4-14.

Q. Please describe the Company's adjustments to labor expense.

A. The Company's adjustments to normalize and annualize labor expense are found on WP 4-2. This adjustment involves a number of steps. First, an adjustment is made to exclude from per book labor expense the accrual for Extended Illness Bank ("EIB"). As Atmos' fiscal year ends in September, accrual accounting requires a liability be recorded for unused paid time off ("PTO") earned by employees. Employees are allowed to carry up to 5 days of unused PTO into the next calendar year. If the employee's PTO balance at the end of the calendar year exceeds 5 days, the excess is included in their "extended illness bank". An employee can only access this bank for illness as a precursor to the Company's short-term disability plan and the Company does not pay any amount out of this bank if the employee retires or leaves the Company. The creation and subsequent adjustment of this liability posts a debit or credit to labor expense. Labor expense included in the filing already includes PTO taken by employees during the historic period which is the fiscal year ending September 30, 2005. Because the EIB is intended to represent the Company's potential liability for PTO that employees are entitled to take in the future but are not guaranteed, the expense relating to changes in the potential liability is excluded for ratemaking purposes.

The next labor adjustment is for known and measurable merit increases. For non-union employees through-out Atmos, an average common merit increase of 3.5% was effective in October 2005. The annualized merit increase is an adjustment to test period labor expense. The Missouri union employees, under a contract negotiated with the IBEW, received a 2% wage increase effective June 1, 2005 and will receive another 2% increase June 1, 2006. The IBEW contract expires November 30, 2006. The test period included only four months of the 2005 union merit increase, so the labor adjustment includes an annualization of the 2005 increase. By the time rates go into effect for this proceeding, the June 2006 union merit increase will have occurred (which is set by contract), so the labor adjustment includes four months of the 2006 union merit increase, to normalize labor to the end of the 2006 fiscal year.

Finally, labor expense is adjusted to annualize the additional Shared Services full time equivalent ("FTE") employees that were hired between April 2005 and December 2005. It should be noted that this increase in Shared Services labor is offset by a reduction in the annual allocation rate of Shared Services O&M expenses to Missouri from fiscal year 2005 to fiscal year 2006. The SSU O&M

expense allocation adjustment is described later in this testimony, and found on WP 4-10.

Q. Please describe the Company's adjustment to benefits expense.

A. The Company's adjustment to benefits expense is calculated on WP 4-3, and covers the key pension and insurance benefits (it does not include expenses such as training and uniforms). The pro-forma labor expense from WP 4-2 is multiplied by the benefits experience rates expected in fiscal year 2006 to get pro-forma benefits expense. The experience rates are based on 2005 historic data and the Towers Perrin Actuarial Valuation Report dated October 2005. The benefits adjustment is the difference between the per-book test period benefits expense and the pro-forma benefits expense for pension and insurance.

Q. Please explain the Company's adjustment to exclude the amortization of merger and integration costs associated with the Atmos / United Cities Gas Company (UCG) merger.

A. These costs were fully amortized in December 2004. As this is a known and measurable change in the expense level of the Company's Missouri operations, it is appropriate to adjust for this change. This adjustment is shown in WP 4-4.

Q. Has the Company made an adjustment for the postage rate increase?

A. Yes, on January 6, 2006 a two cent US Postal rate increase went into effect. A conservative estimate of the related increase to O&M expense has been calculated by multiplying the annual customer bills in the test period by two cents. This adjustment is shown in WP 4-5.

Q. Please describe the Company's adjustment for bad debt expense.

A. The adjustment for bad debt expense is made in three parts and found on WP 4-6. First, a normalizing adjustment of $635,100 is made to increase the per-book amount of uncollectibles expense in Missouri FERC account 904 to a level equal to the three year average experience of Missouri write-offs less recoveries of $721,400.

The second part of the bad debt adjustment relates to the Company's proposal to recover the gas component of bad debt through PGA, which would remove this gas cost element from base rate recovery. Please refer to the testimony of Company witness Patricia J. Childers for a discussion of the Company's proposal. The gas cost component of bad debt is determined by computing the three-year average PGA net write-offs as a percent of total net write-offs, and then multiplying this percentage by the normalized Missouri bad debt expense calculated in the first part. The adjustment to remove the gas cost component of average bad debt is $(481,200), which leaves only the non-gas cost component of bad debt to be recovered through base rates, $240,200.

The third part of the bad debt expense adjustment is a determination of the amount of gas cost in bad debt repriced at the average NYMEX futures strip for the winter 2006. If the Commission does not approve the Company's proposal to move the recovery of the gas component of bad debt out of base rates and into PGA recovery, this alternate adjustment takes into consideration the impact of rising gas cost on pro-forma bad debt expense. The adjustment for $895,100 is calculated by taking the Mcf volume of gas related to the Missouri fiscal year 2005 bad debt multiplied by $9.92, the average NYMEX futures strip. The

NYMEX futures strip is more reflective of gas costs in the next heating season as compared to the relatively low, and less volatile historic gas prices. Should the gas cost component remain in bad debt expense, the pro-forma total bad debt expense to be recovered via base rates is $1,135,300. In comparison, the Company's proposal for non-gas bad debt expense in base rates is $240,200, as explained in the previous paragraph.

Q. Please explain the Company's adjustment to remove Hannibal manufactured gas plant ("MGP") environmental cost from test period O&M expense.

A. The adjustment shown on WP 4-7 removes $(1,083,000) of Hannibal MGP site remediation costs expensed in December 2004, but incurred in years prior to the test period. The Company is not aware of a Missouri Accounting Authority Order that would allow for the recovery of this expense over future periods.

Q. Please explain the adjustment for outside services legal fees.

A. During the test period, certain outside services legal fees were coded to a Tennessee division, however, these fees were related to the negotiations for a Missouri labor contract with the IBEW union. The miscodings were identified and the general ledger corrected in early 2006, outside the test period. The adjustment on WP 4-8 brings these expenses into Missouri for appropriate inclusion in test period O&M.

Q. Please explain the Company's adjustment for rate case expense.

A. The Company has included an estimate of the allowance for the amortization of rate case expenses resulting from this filing. Total estimated rate case expense is based on costs incurred for the recent Atmos Georgia rate case, plus an estimate for legal services not included in the GA amount, and amortized over three years. This adjustment is shown on WP 4-9.

Q. Why is an adjustment made for allocation of Shared Services O&M expenses?

A. As explained in Company witness Cagle's testimony, during a fiscal year, the Shared Services O&M expenses are allocated to the business units based on a three-part composite allocation factor. The allocation rates from Shared Services to the business units serving the Missouri jurisdiction declined from fiscal year 2005 to fiscal year 2006. The main driver in the decline of the Shared Services allocation factor is the acquisition of TXU Gas. This acquisition created a larger total customer base and distribution system for Atmos, over which the Shared Services costs are spread. Accordingly, the adjustment shown on WP 4-10 reduces test period O&M allocated from Shared Services to the Missouri jurisdiction by $(132,600). Shared Services labor and benefits expenses are excluded from this computation, since these two expense types have already been adjusted utilizing the lower fiscal year 2006 allocation factors (refer to labor and benefits adjustment WP 4-2 and WP 4-3).

Q. Ms. Buchanan, are you aware of any guidelines the MO PSC has established for Atmos in the allocation of Shared Services costs to the Missouri jurisdiction?

A. Yes, in the Stipulation and Agreement of the TXU Merger Order, MO PSC Case No. GM-2004-0607, Atmos agreed "for purposes of setting retail rates in its next general rate case in Missouri, total joint and common costs allocated to Missouri from Atmos shared services will not exceed $2.67 million." In the current filing, the total costs allocated to Missouri from Shared Services ("SSU") are $1.9 million, well under the amount stipulated. This amount includes allocations from SSU to MO for O&M expenses, depreciation expense, taxes other than income taxes, and is net of the 39.06% composite income tax rate.

Q. Has Atmos made any other ratemaking adjustments to remove O&M expenses typically disallowed for recovery in Missouri?

A. Yes, the remaining four adjustments remove a total of $(100,400) from test period O&M expense for promotional and institutional advertisements and materials (WP 4-11), charitable donations and contributions (WP 4-12), club dues and memberships (WP 4-13), and miscellaneous employee social activities expense (WP 4-14). The Commission has previously ruled that expenses in these categories should be removed from O&M.

Q. Please continue describing the schedules that support the calculation of Cost of Service and Revenue Deficiency.

A. **Schedule RMB-5** Taxes Other Than Income Taxes shows the test year per-book amount of Taxes Other than Income Taxes of $1,510,300. Three adjustments have been made to Taxes other than Income Taxes totaling $(51,400). First, Ad Valorem Tax expense accruals in the test period are adjusted to a level equal to the actual taxes paid less the capitalized portion. Second, an adjustment is made to increase Payroll Taxes equal to the Labor Expense adjustment (WP 4-2) multiplied by a conservative composite payroll tax rate of 8%. The third adjustment is for the annual Missouri PSC Assessment, reducing the per-book expense to the amount of the June 2005 assessment to Atmos Energy. Total Adjusted Taxes Other than Income Taxes shown on RMB-5 is $1,458,900.

Schedule RMB-6 is the Depreciation and Amortization Expense. The test year per-book amount of Missouri jurisdictional depreciation and amortization expense is $3,430,900. This amount is adjusted by $(319,600) to reflect depreciation on the test year-end level of depreciable plant-in-service. For the Missouri operating divisions, this calculation includes the newly proposed ALG depreciation rates. The Missouri Depreciation Study supporting these proposed depreciation rates is sponsored in the testimony of Company witness Donald S. Roff. For the administrative and general office locations that allocate depreciation expense to Missouri, the depreciation rates utilized have been approved by the regulatory agency of the state where the plant providing the service is physically located. The total Adjusted Missouri Jurisdictional Depreciation and Amortization Expense is $3,111,300.

Schedule RMB-8 is the Computation of Federal and State Income Taxes. This is a pro-forma calculation that multiplies the equity portion of the return on rate base by the composite federal/state income tax rate. The tax expansion factor is then applied to arrive at total pro-forma income tax expense of $1,876,600.

Schedule RMB-10 calculates the amount of Interest Expense on Security Deposits to be included in cost of service. The adjustment of $160,900 is determined by multiplying the test period 13-month average customer deposits (WP 7-5) by the proposed interest rate, equal to one percentage point over the prime bank lending rate as published in The Wall Street Journal for the last business day of the preceding calendar year. Please refer to the testimony of Company witness Michael H. Ellis for more information regarding the proposed interest rate on customer deposits.

V. RATE BASE

Q. Please describe the components of Rate Base.

A. The components of Rate Base are shown on **Schedule RMB-7** Rate Base and Return Calculation. Net Plant is calculated on WP 7-1 as the test period ending balance for gross plant less accumulated depreciation. Gross plant has been adjusted to correct for a miscoded retirement, which was identified and corrected in the December 2005 general ledger. This adjustment to test period gross plant adds back $13,827 to Division 91 Mid-States General Office in WP 7-2 and removes $(3,954) from Division 97 Missouri in WP 6-7 (the remaining adjustment is to Division 93 Tennessee).

Rate Base Computation of Accumulated Deferred Income Tax ("ADIT"), shown on WP 7-4, adjusts the test period ending balances of ADIT for certain ratemaking adjustments summarized on WP 7-4-1, detailed on WP 7-4-2, and explained in the testimony of Company Witness Cagle.

Most of the other components of Rate Base are calculated as the 13 month average test period balance: Work in Progress (WP 7-3), Customer Advances for Construction (WP 7-5), Customer Deposits (WP 7-5), Storage Gas Inventory (WP 7-6), Prepayments (WP 7-7), and Fuel Stock (WP 7-8).

Q. How was the Storage Gas Inventory 13-month average balance calculated?

A. WP 7-6 shows the test period 13-month average per-book balances for Missouri Storage Gas in FERC account 164.1 of $8,969,500. This historic average is not reflective of the more recent higher storage gas prices, which are expected to continue to be higher than historic prices. To more currently value the storage inventory, WP 7-6-1 computes the 13-month average Missouri volumes of gas-in-storage and then reprices them using the average NYMEX Futures price for the months April 2006 – October 2006, $7.76. The resulting repriced average storage gas cost for Rate Base is $11,633,600.

Q. Is the amount of Working Capital Cash Requirements supported by a lead/lag analysis?

A. Yes, the Rate Base component cash working capital of $174,400 is the result of a lead/lag analysis sponsored by Company witness Thomas H. Petersen.

Q. Please describe the two Rate Base adjustments shown on Schedule RMB-7.

A. Rate Base is reduced by the unamortized amount of the ANG rate base deduction, which was originally determined in the MO PSC's Order approving the Associated Natural Gas (ANG) Acquisition Case No.GM-2000-312. Attachment 1 to that Order is the Unanimous Stipulation and Agreement, in which Atmos agreed to remove from rate base an amount equal to $2.5 million less amortization taken over 120 months beginning June 2000. The unamortized balance is a rate base deduction in each Atmos Missouri rate case until fully amortized. WP 7-9 shows the computation of the unamortized balance at the end of fiscal year 2006, $916,700.

The second adjustment shown on Schedule RMB-7 restores $120,300 to the Missouri Division 72 net plant balance. This adjustment serves to reverse per-book accumulated depreciation taken in error on asset category 374 “Land” during the months April-December 2004 (Land being a non-depreciable asset). The error was identified and corrected in the January 2006 general ledger.

Q. What are the results of the Rate Base calculation on Schedule RMB-7?

A. Missouri jurisdictional adjusted Rate Base is $55,975,900. Return on Rate Base is $4,808,300. This amount is calculated by multiplying Rate Base by the projected overall rate of return on rate base, 8.59%, from Schedule RMB-9.

VI. RATE OF RETURN ON RATE BASE

Q. How was the Rate of Return on Rate Base determined?

A. **Schedule RMB-9** Capital Structure and Cost of Capital shows the calculation of the projected rate of return on rate base 8.59%, using projected capital structure and cost rates at June 30, 2006. This Schedule also shows the calculation of the test period rate of return on rate base at September 30, 2005. WP 9-1-1 and WP 9-1-2 provide the support for the capital structure balances as well as the cost of short-term debt capital. WP 9-2-1 and WP 9-2-2 provide the support for the cost of long-term debt capital. Please refer to the testimonies of Company witnesses Laurie M. Sherwood and Donald A. Murry, Ph.D., sponsors of the proposed capital structure, embedded cost rates, and rates of return.

Q. Does this conclude your testimony?

A. Yes.