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Witness: *Lisa K. Hanneken*
Sponsoring Party: *MoPSC Staff*
Type of Exhibit: *Direct Testimony*
Case No: *GR-2006-0387*
Date Testimony Prepared: *September 13, 2006*

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

DIRECT TESTIMONY

OF

LISA K. HANNEKEN

ATMOS ENERGY CORPORATION

CASE NO. GR-2006-0387

Jefferson City, Missouri
September 2006

Staff Exhibit No. 132
Case No(s). GR-2006-0387
Date 11-30-06 Rptr PF

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 LISA K. HANNEKEN

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Lisa K. Hanneken, of lawful age, on her oath states: that she has participated in the preparation of the foregoing Direct Testimony in question and answer form, consisting of 21 pages to be presented in the above case; that the answers in the foregoing Direct Testimony were given by her; that she has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of her knowledge and belief.

Lisa K Hanneken
Lisa K. Hanneken

Subscribed and sworn to before me this 11th day of September 2006.

Toni M Charlton

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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OF

LISA K. HANNEKEN

ATMOS ENERGY CORPORATION

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DIRECT TESTIMONY

OF

LISA K. HANNEKEN

ATMOS ENERGY CORPORATION

CASE NO. GR-2006-0387

Q. Please state your name and business address.

A. My name is Lisa K. Hanneken. My business address is 9900 Page Avenue, Ste. 103, Overland, Missouri 63132.

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

A. I am a Utility Regulatory Auditor for the Missouri Public Service Commission (Commission).

Q. Please describe your educational background.

A. In July of 2001, I earned a Bachelors degree in Accounting from Webster University in St. Louis, Missouri. In December of this year, I will complete my Masters of Business Administration with an emphasis in Accounting at Maryville University in St. Louis, Missouri.

Q. Please describe your work background.

A. In August 1989, I began employment with Rinderer's Union Drug as a pharmacy technician and bookkeeper. Beginning in June of 1997, I was employed by Bucklick Creek, Inc. as the head of accounting and office manager. During 2000, I completed an internship at the Internal Revenue Service (IRS) as an auditor of small corporations and businesses. In September 2001, I commenced employment with the Commission's Staff (Staff).

Q. What is the nature of your duties at the Commission?

A. I am responsible for assisting in 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 this Commission?

A. Yes. Please refer to Schedule 1, attached to this direct testimony, for a complete listing of testimony I have filed, including the related case numbers and issues involved.

Q. Did you make an examination and analysis of the books and records of the Atmos Energy Corporation (Atmos or Company) in regards to matters raised in this case?

A. Yes, in conjunction with other members of the Staff. I specifically examined the Company's workpapers and testimony, the Company's response to Staff data requests, outside auditors' workpapers, minutes of the Board of Director's, portions of the Company's general ledger and trial balances, as well as, the Company's Cost Allocation Manual (CAM). I also examined testimony, workpapers, and Commission Report And Orders from recent rate proceedings involving the Missouri gas companies that Atmos Energy Corporation has acquired.

EXECUTIVE SUMMARY

Q. What matters will you address in your direct testimony?

A. I will explain and sponsor adjustments related to the methods and factors utilized to allocate portions of the Company's shared services, general offices and regional offices costs to Missouri. The Staff proposes to reallocate costs among divisions to better reflect both the use of specific facilities and the activities of the Company's management. I am also addressing corporate allocations, payroll and related taxes, PSC assessment, taxes other than income tax, allocated plant and reserve, operations and maintenance (O&M) expense and incentive compensation, and other miscellaneous adjustments. Several of these areas address Staff disallowances of various Company costs that provide no direct benefit to the ratepayer.

TRAINING AND EXPERIENCE

Q. What knowledge, skill, experience, training or education do you have in these matters?

A. Through the accounting classes, training and internships required for my educational degrees, as well as, my previous work experience, I have obtained a broad working knowledge of accounting. In addition, I regularly attend continuing professional education seminars and classes. From the review of workpapers and other information from previous rate cases, as well as, researching the Commission's orders, I have acquired knowledge of my assigned issues related to this Company and other gas companies. Since joining the Commission Staff, I have assisted with and directed audits and examinations of the books and records of utility companies operating within the state of Missouri. I have also conducted audits of small water and sewer companies in conjunction with the Commission's small company rate increase procedure. Furthermore, I have received and continue to receive training and guidance from the experienced senior auditors at the Commission.

ALLOCATIONS

Q. Please explain the Company's allocation methodology.

A. As discussed in the Company's direct testimony filed by witnesses Mr. Cagle and Mr. Meziere, the Company is comprised of several utility, as well as, non-utility business units. In addition, the Company maintains a Shared Services Unit (SSU) that provides services to some or all of the business units. These services include items such as accounting, customer service, management, human resources, legal, etc. For example, instead of each utility billing its own customers, all billing is handled at the SSU level and the costs related to this service are charged to each utility based on an allocation factor.

SSU accounts for its various services through what are called cost centers, which are similar to departments. Labor, supplies, telephone, or any costs that are incurred during the normal course of operations are tracked and accumulated by cost center. Each of these costs centers are then assigned, through the Company's Cost Allocation Manual (CAM), a methodology by which the costs are allocated to the Company's various business units. The Company currently allocates to 12 business units, which includes both utility and non-utility operations. The costs are then allocated from the business units to the various state operating rate divisions.

Q. Please explain the procedure Atmos had in place to allocate expenses to the business units which provide services and supervision to the Missouri operations.

A. In most cases, costs flow from SSU to utility business units, some of which provide additional services to various state operating rate divisions. For Missouri these utility business units include the Mid-States General Office and the Colorado/Kansas (CO/KS) General Office. The allocation of SSU costs to business units was based on a composite factor comprised of the number of customers, the amount of operations and maintenance (O&M) expenses, and amount of gross plant of each business unit as a percent of all business units.

Additionally, a portion of SSU costs were booked directly to Missouri during the test year. These costs equaled the amounts that would have been allocated to Missouri had the costs flowed through the general offices.

Q. Please explain the procedure Atmos had in place to allocate expenses to Missouri during the test year.

A. During the test year, the Mid-States General Office allocations to Missouri were based on customer numbers only. The CO/KS General Office utilized a composite factor based on the customers, O&M and plant of the states served by the general office. In addition to the distribution of the SSU costs, the general offices that serve Missouri allocated direct costs to Missouri following the same allocation procedures that were utilized to allocate the SSU costs.

The Mid-States General Office allocated a portion of its direct costs and any costs it received from SSU to the Missouri operating rate divisions of Kirksville, Butler, Southeast Missouri (SEMO) and the territory it acquired from United Cities Gas Company (UCG), which includes Palmyra and Neelyville. Missouri's Rich Hill/Hume operating rate division received its allocations from the CO/KS General Office.

Q. Are any other costs allocated to Missouri?

A. Yes. Missouri receives services from the Mid-States Central Regional Office, which allocates its costs directly to the same operating rate divisions as the Mid-States General Office. In addition, affiliated companies allocate direct cost and an allocated portion of SSU costs to Missouri's operating rate divisions. These affiliated companies are Gas Supply, Atmos Energy Services (AES) and Blue Flame Insurance Services LTD (Blue Flame).

Q. Did the Company follow these procedures when allocating costs to Missouri during the Test Year?

A. No. The Company only allocated costs to the UCG operating rate division, instead of spreading the costs to all the Missouri operating rate divisions. In some cases, at various points during the test year, the Company tried to correct this situation by using different methods to allocate the costs.

Also, even though Palmyra has different tariff rates than the rest of UCG, the Company does not recognize Palmyra as a separate operating rate division. The Staff in its calculations has spread the Missouri costs among the five operating rate divisions as previously listed and then allocated the total received by UCG to Palmyra by applying a factor of 9.8%, which is based on the number of customers served in Palmyra. This allocated amount was removed from the total UCG amount and placed in Palmyra.

In addition, many changes took place within the Company that caused the factors and the methods utilized to apply those factors to vary during and subsequent to the test year.

Q. Please explain any changes that took place during the test year that affected the factors and methods of allocation.

A. In October of 2004, the Company acquired a Texas company called TXU Gas Company (TXU) which doubled the size of Atmos. During the test year, allocations changed as the Company began providing services to what is now called the Mid-Tex division, thereby phasing out TXU's prior in-house services. For example, allocations to Mid-Tex for the SSU costs for payroll services began on day one, but services such as payment applications were phased in gradually. Therefore, the allocation factors continue to change based on the amount of SSU services the Mid-Tex division is receiving.

Q. Did the factors and methodology the company uses to allocate various costs from SSU and the utility business units change?

A. Yes. The company evaluates the factors annually to determine if changes should be made. They adjust the three-factor composite percentages for changes in plant, expenses, and customer numbers. In addition, during the test year while SSU used a composite factor for its allocations, the Mid-States General and Central Regional Offices allocated based on customer numbers only. The Company has recently changed to a composite factor for all allocations, excluding customer service items (call centers, billing, collection, and payment applications), which will be based on customer numbers.

Q. Has the Company made other changes that affect allocation factors?

A. Yes. Recently the Company decided to integrate their Mid-States and Kentucky General Offices. While this increases the total expenses in the Mid-States business unit, there will be a corresponding reduction in the allocation factor to Missouri. In addition, the Company is integrating the associated regional offices into the Mid-States General Office. Finally, the Butler operating rate division is being reassigned from the Mid-States business unit to the CO/KS business unit. In general, the overall affect of this integration on Missouri's costs is minimal.

Q. How have these changes been handled in your adjustments?

A. All of these changes have been reflected in my adjustments and annualizations.

Q. Did you make any adjustments to any of the allocation factors or methods?

A. Yes. There were two adjustments that affected the allocations to Missouri. They were for the Company's call centers and to recognize Staff's reallocation of SSU's costs, both of which are discussed below.

CALL CENTER ADJUSTMENT

Q. Please describe the Company's call centers.

A. As discussed in the direct testimony of Staff Witness Lisa A. Kremer, Atmos has three call centers that support approximately 3.2 million customers in its 12-state service territory. This figure reflects the Company's 2004 acquisition of TXU, which nearly doubled its customer base. These call centers are located in Amarillo, Texas; Metairie, Louisiana and Waco, Texas. The Metairie center is much smaller than the other two and primarily handles overflow from Amarillo. Therefore, the Company does not account for the Metairie center separately and includes all costs in the Amarillo cost center. When referring to the Amarillo call center, the Staff is including Metairie.

During the integration of TXU, Atmos began to take over the existing call center in Waco. In May of 2005, Atmos was in control of the Waco center and began providing the payroll and other services required to run the call center. However, the Waco center continues to only serve what is now Atmos' Mid-Tex division. Missouri customers are still served exclusively by the Amarillo and Metairie centers.

Also, as discussed in Ms. Kremer's direct testimony the Company indicates that there are a few instances in which the Amarillo call center may receive calls from the Waco center. During these periods, which include events such as training, emergencies and testing, the transferred call volume is minimal. During December 2005 through June 2006, the number of these types of calls totaled less than 2,600 compared to the tens of thousands of calls coming into the Amarillo and Metairie call centers on a monthly basis.

Q. Please discuss your adjustment related to call centers.

A. Following the integration of the Mid-Tex division, Atmos began allocating the costs of both the Amarillo and Waco centers to all divisions.

Because the call centers generally operate exclusive of each other and that the associated costs are accounted for separately, the costs should be allocated only to the customers that routinely utilize each call center. As a result, Staff has made an adjustment for labor, benefits, and O&M expenses, as well as plant and reserve, in order to allocate the Waco call center exclusively to Mid-Tex and allocate the Amarillo center to the remaining business units that utilize this facility, such as the Mid-States business unit, which includes Missouri operations.

BUSINESS UNIT REALLOCATION

Q. Please describe your adjustment related to non-utility operations.

A. As discussed above, SSU costs are generally allocated to the business units that utilized its services. Schedule 2 of this testimony, demonstrates that Atmos Energy Corporation has business units that comprise traditional local distribution gas utility companies (LDCs), as well as, business units that engage in pipeline and storage, gas procurement, and marketing operations, and others. These non-LDC business units only require some of the services that SSU provides. For example, these operations have a separate Human Resources (HR) function and therefore do not utilize the SSU HR cost center. However, some cost centers do provide services to the non-LDC business units, such as the cost center related to the Chairman, President & CEO. The Staff does not feel that the composite factor utilized by the Company adequately reflects the amount of allocation that the non-LDC business units should receive.

Q. Why does the Staff believe this allocation methodology is incorrect?

A. Staff agrees that a three-factor formula which is comprised of gross plant in service, number of customers, and direct O&M expenses can be utilized to allocate to the

Company's traditional LDC operations. This is because the three components are relatively consistent for the traditional LDC business units. However, when including non-LDC business units with LDC business units in the allocation process, the utilization of the three component factor does not provide a consistent basis for allocation. For example, the customer component for a traditional gas utility like Mid-Tex includes all the retail gas customers of the business unit: 1,479,144, or approximately one-half of all Atmos customers served. However, Atmos Pipeline – Mid Tex listed only 457 customers during the test year, one of which was the Mid-Tex retail gas utility that serves 1,479,144 customers. When calculating the composite factor, those 457 customers get lost in the total of 3,077,526 and results in a 0.01% customer component of the overall allocation factor. While the Atmos Pipeline – Mid-Tex's plant component was 15.62% and the O&M component was 13.37%, an average of 14.5%, the customer component of 0.01% skews the average down to an allocation of only 9.67%. This represents a reduction of over $3,000,000 in the amount of SSU costs allocated to the Atmos Pipeline – Mid-Tex business unit.

Q. How does the Staff propose to correct this allocation problem?

A. In order to minimize this disparity between the Company's traditional LDC and non-LDC business units, Staff utilized the percentage of net income generated to allocate a portion of SSU costs between the non-LDC business units. Staff applied the net income percentage factor to the total amount for the cost centers that provide services to non-LDC units, resulting in an overall amount that Staff believes more closely represents the amount of services provided to these business units.

Staff removed the amount allocated to non-LDC business units from the total of those cost centers and then reallocated the remaining cost among the traditional LDC business units, based on a recalculated plant, customer and O&M composite factor to determine the amount of expense assignment to the Company's Mid-States and CO/KS business units, which include the Missouri operations. Staff is proposing to decrease Missouri's test year expenses by ($154,076) to reflect this adjustment.

Q. Why has the Staff used net income as its basis of allocation between LDC and non-LDC?

A. Information that the Staff has examined indicates that the management team classifies these two groups of business units as traditional LDCs and unregulated operations. In the net income information provided in the Annual Report to the Shareholders, LDCs were grouped into a category labeled "utility", while marketing; pipelines and storage, including the Mid-Tex Pipeline; and other nonregulated operations were listed separately. In addition, when management meets with the financial community it refers to its traditional gas and its unregulated operations, which include all pipelines and storage. The Board of Directors (BOD) also appear to focus on these two groups separately in their discussions, based on an examination of the BOD minutes. As the non-LDC operations have become more profitable, the time spent examining and discussing these operations has increased. Staff believes an allocation factor based on net income reflects an accurate division of the activities described above.

PAYROLL

Q. Please explain the adjustments to payroll.

A. Staff's payroll adjustments represent the Staff's individual payroll annualizations to the various operating rate divisions in Missouri.

Q. What are the different components of Staff's payroll annualization?

A. The payroll annualization considers several components. It takes into account the wage increases for both union and non-union Company employees, differences in the on-going level of employees not reflected in the test year, the Company's new allocation factors and division changes, removal of Extended Illness Bank (EIB) accrual, and Staff's adjustments for removal of lobbying, call center changes, and business unit reallocation.

Q. Please explain the methodology you employed to determine annualized payroll.

A. Staff based its annualization on the Company's actual labor dollars for the test year ending September 30, 2005. Staff then made adjustments to these amounts for EIB and lobbying. EIB has been excluded from ratemaking expenses because it is an accrual, made only for financial accounting purposes and does not represent an actual on-going level of expense. The removal of lobbying expense is sponsored by Staff Witness Jeremy K. Hagemeyer and is discussed in his Direct testimony.

Staff adjusted for the amount of SSU full time equivalent (FTE) employees that were hired or terminated during and after the test year. Staff utilized actual data for each individual FTE to determine the annualized level of employees through the June 30, 2006, update cut-off.

Staff's annualized amount also reflects Company's new allocation factors, which included all the Company's division changes previously discussed, to arrive at the allocated portion to Missouri. Staff also included adjustments to reflect the Mid-State / Kentucky division reorganization's efficiencies and attrition.

Staff then included the call center and business unit reallocation adjustments, as discussed above, in order to reflect these amounts in the annualized total. Because there is an interrelationship between all of these adjustments, the order in which they are recognized affects the value assigned to each adjustment by the Staff.

Additionally, Staff increased the payroll levels to reflect the June 2005 and 2006 union labor increases, as well as the October 2005 and 2006 non-union labor increases. These calculations resulted in an annualized on-going level of expense for Missouri's portion of the Company's labor expense of $3,073,435.

Q. Why did Staff include the October 2006 non-union labor increase?

A. The Staff included this increase as a portion of its true-up estimate. I will reexamine this item as part of Staff's true audit. Staff's true-up recommendation is further discussed in the Direct testimony of Staff witness Stephen M. Rackers.

PAYROLL TAXES

Q. Please explain the Staff's Payroll tax adjustment.

A. This adjustment represents the Staff's annualization of Federal Insurance Contributions Act taxes (FICA), Federal Unemployment Tax (FUTA), and State Unemployment Tax (SUTA).

Q. How did Staff annualize the Company's payroll tax?

A. The Staff calculated the test year relationship of payroll tax expense to payroll expense. The Staff then applied this percentage to its annualized payroll calculation to arrive at the annualized level for payroll tax.

ALLOCATED PLANT AND RESERVE

Q. Please explain the Staff's adjustments related to allocated plant and reserve.

A. Rather than include the amount of depreciation allocated to Missouri by SSU and the business units, the Staff has included the allocated portion of plant and the accumulated depreciation reserve as of June 30, 2006, based on the Company's current allocation factors. These amounts also reflect Staff's call center and business unit reallocation adjustments explained above. By including the allocated plant, the associated depreciation will reflect the depreciation rates authorized by the Missouri Commission prior rate cases.

OPERATIONS AND MAINTENANCE EXPENSE

Q. Please explain Staff's adjustment for Operations and Maintenance (O&M) expense.

A. These adjustments annualize the allocated portion of Company's O&M expense, excluding labor and benefits which were annualized separately. These adjustments reflect the use of the Company's new allocation factors resulting from the various changes in operations as previously discussed.

PSC ASSESSMENT

Q. Please discuss Staff's adjustments to the Missouri Public Service Commission's (PSC's) Assessment.

A. The first adjustment was made to place the Company's test year expense in the proper account, however, there was no adjustment of the amount. The second adjustment reflects the difference between the Company's test year level of expense related to the PSC's assessment and the most current known assessment amount.

TAXES OTHER

Q. Please explain Staff's adjustments to taxes other than income tax.

A. These adjustments annualize corporate franchise tax, Department of Transportation (DOT) tax, and property tax. The adjustments reflect the difference between the Company's test year expense level for each tax and the most current cost known. These adjustments also take into account the Company's new allocation factors and division changes. In addition, the property tax adjustment reflects Staff's adjustments for the call center discussed above.

Q. Regarding the adjustment for DOT tax, why did only two rate districts in Missouri incur this assessment?

A. Only the Kirksville and SEMO operating rate districts utilize mains of the size and pressure that result in assessment of these taxes by the DOT.

FEDERAL CNG MOTOR FUEL TAX

Q. Please explain Staff's adjustment regarding the Federal CNG Motor Fuel Tax.

A. This adjustment reflects the removal of amounts expensed during the test year.

Q. Why was this amount removed?

A. This amount was a result of a non-recurring journal entry to eliminate an old, outstanding account balance on the company's books and does not reflect an on-going expense level.

ALLOCATED INCENTIVE COMPENSATION

Q. Please discuss your adjustment related to allocated incentive compensation.

A. During the test year Missouri received allocated costs from Atmos Energy Services (AES), which provides gas supply services to Missouri. All of AES's costs are allocated to the operating rate divisions it serves. Included in these allocated costs to

Missouri was an amount related to incentive compensation provided to AES's employees through its parent company Atmos Energy Holdings (AEH).

Q. In past cases, has the Commission set minimum standards for an incentive compensation plan to qualify for inclusion in the cost of service?

A. Yes. In its Report And Order in Case Nos. EC-87-114 and EC-87-115, Union Electric Company, the Commission stated:

> At a minimum, an acceptable management performance plan should contain goals that improve existing performance, and the benefits of the plan should be ascertainable and reasonably related to the plan.

In several cases, the Commission has indicated that if the incentive plan is based on superior employee performance that enhances ratepayer benefit, such as areas related to safety and O&M expenses, it should be included in Staff's calculations. On the other hand, plans based on financial goals such as earnings per share and net income are aligned with shareholder value enhancement and have no direct correlation with ratepayer benefit. Additionally, outside influences not under the employees' control could have an impact on the financial goals, such as weather and interest rates.

In addition, in the Southwestern Bell Telephone (SWB) Case No. TC-89-14, the Commission agreed with Staff that incentives based on goals related to non-regulated subsidiaries and non-Missouri portions of SWB should not be included in the Staff's amounts stating that "achieving the goals of SBC and unregulated subsidiaries is too remote to be a justifiable cost of service for Missouri ratepayers".

Q. Please discuss AEH's plan.

A. According to the information received in Staff Data Request 7, this plan is used to "motivate its executives, managers and employees in the continued growth, development and profitability of the Company". The award pool is based on a percentage of

AEH's net income and is only created when a certain threshold has been achieved. Once a pool is available it is allocated based on the recommendations of the President of the Company. The President evaluates each employee's contributions to the Company's profits and other factors he deems appropriate. The Company's Incentive Plan does not specifically identify what goals are to be met in order to be awarded a portion of the pool and the awards are based on financial goals that do not have a direct relationship to ratepayer benefit.

MISCELLANEOUS EXPENSE ADJUSTMENTS

Q. Please explain your adjustment regarding the All Company Broadcasts.

A. Staff has removed $8,152 of expense allocated to Missouri related to the All Company Broadcasts. These broadcasts originate on-site at a selected field office and are then broadcasted to all offices. In addition to the production costs and travel costs for senior personnel, the Company also provides a meal for the employees of the selected field office and their families. Staff does not believe these costs provide any direct benefits to the ratepayers. In addition, the Staff believes the Company could achieve the same result of keeping their employees informed through the employee publications that are printed and circulated on a periodic basis.

Q. Please explain your adjustment related to Blue Flame Insurance Services LTD (Blue Flame).

A. Blue Flame is Atmos' captive insurance carrier and provides property insurance coverage for Atmos and its utility assets. Each January, Blue Flame renegotiates its policies and allocates these costs to each of the business units that are covered under those policies. The Staff's adjustment annualizes the test year amount to include the January 2005 change in costs for a full 12 months.

Subsequent to the test year, in January 2006, the total amount of Blue Flame's annual costs doubled from $3,000,000 to $6,000,000. In turn, Missouri's portion of these costs doubled. The Company initially indicated that the increase was due to the addition of Mid-Tex's operations which doubled the Company's assets. However, the increase related to the addition of Mid-Tex had already been experienced when Mid-Tex was acquired in 2004. After further questioning, the Company indicated that the increase was due to weather-related losses and risks including the recent hurricane destruction in the Gulf of Mexico. In addition, the Company stated that it had included a small portion of Mid-Tex's insurable property, previously unreported to Blue Flame.

The Staff did not include this most recent increase in its calculations for several reasons. First, the Company was unable to provide the Staff with the basis for the allocations utilized to distribute these costs among the business units. In addition, the manner in which allocated amounts in January 2006 were distributed does not seem to reflect the reason given for the increase, since all allocation rates remained relatively the same as the previous year. For example, Louisiana's allocation rate slightly decreased from the previous year; however, they had experienced the greatest losses from Hurricane Katrina and are at risk for future hurricanes. Furthermore, the Staff has not been provided with any reasonable justification why Missouri's costs should have increased by 100% since January 2005.

Q. Please discuss your adjustment related to Board of Directors' costs.

A. During the test year the Company's total costs related to the Board of Directors was $2,830,684. Included in this total were amounts related to the various components of the Directors' compensation such as: annual compensation $377,500, meeting fees $390,000, work outside of board meeting fees $25,500, and $67,188 in share units. In addition, during the test year the Company expensed $1,357,501 in retirement costs for the Board.

Besides the compensation costs, there were costs related to printing $18,074, use tax $798, transportation $9,017, meeting expenses $450,023, expense reports $130,783, and miscellaneous $4,300. Staff has removed some of these costs, Missouri's portion of which amounts to $54,370.

Q. Why were these costs eliminated?

A. Costs related to the Directors' share units were removed because they are based on financial goals such as earnings per share and net income, which are aligned with shareholder value enhancement and have no direct correlation with ratepayer benefit.

Q. Staff also removed costs related to retirement benefits for board members who are not employees of the Company. The Staff believes these individuals have been chosen to sit on the Board of Directors and attend the meetings required of them for which they are being generously compensated through an annual salary, scheduled board meeting attendance fees and unscheduled board meeting fees. They are not employees of the Company and should not be extended employee benefit packages. In addition, the non-employee members of the Board of Directors are either retired from positions with Atmos or other companies, or, are currently employed at other companies and are entitled to the pensions and retirements packages associated with those positions. Therefore, the Staff believes the extension of employee retirement benefits to these individuals is an unreasonable burden on ratepayers.

In addition to these costs, the Staff removed the transportation costs for limousine service, as the Company could us Company cars to transport the Directors. Meeting expenses and expense reports were also removed based on the fact that many of the expenses were deemed unnecessary. These expenses included costs to transport the Board, their spouses and key members of management to locations away from Company premises. These include such locations as the Montage Resort and Spa in Laguna Beach, California, the Ritz Carlton in New Orleans, and New York City. In addition, there were expenses incurred by the Company's corporate secretary for trips to inspect locations for future off-site meetings. For example, when the Board was considering a meeting in Florida, the secretary traveled to the prospective hotels/resorts to determine if available meeting rooms, food, and activities were acceptable. During this trip it was determined Florida would be too hot for the meeting and a new prospective site was chosen. The expenses associated with off-site meetings are unnecessary and therefore do not provide any benefit to the ratepayers

Q. Please discuss your adjustment to remove costs related to the Company's Centennial Project.

A. At a recent off-site Board meeting the Company celebrated their 100^{th} anniversary. To prepare for the celebration the Company hired production crews to film interviews with various past executives and employees to give an oral history of the Company during the centennial activities. Staff removed $3,914 for this expense as it provided no direct benefit to the ratepayers of Missouri. In addition, some or all of this information could have been provided in periodic employee publications.

Q. Please explain your miscellaneous adjustment related to legal expense. Can you explain this adjustment?

A. Yes. The Company inadvertently booked expenses related to union negotiations in Missouri to a Tennessee division. This adjustment correctly books this amount to Missouri's Butler operating rate division.

Q. Does Staff propose any other adjustments to legal expense?

A. At this time Staff has not been provided with enough information from the Company to make a determination on any other aspects of legal expense. Staff reserves the right to examine the data that the Company has been requested to provide in Staff Data Request 174 and make a determination at that time.

Q. Is Staff awaiting information on other areas?

A. Yes. Staff is awaiting responses to Data Requests 219 and 225, related to the Company's capitalization rationale and accumulated reserve amounts, respectively. Additionally, Staff is still awaiting a complete response to Data Request 164 related to costs for an unveiling ceremony for the Company's building sign. Staff is unable to make a determination on these areas at this time due to the lack of data. At such time the data is provided, Staff may make adjustments based on their analysis of the data.

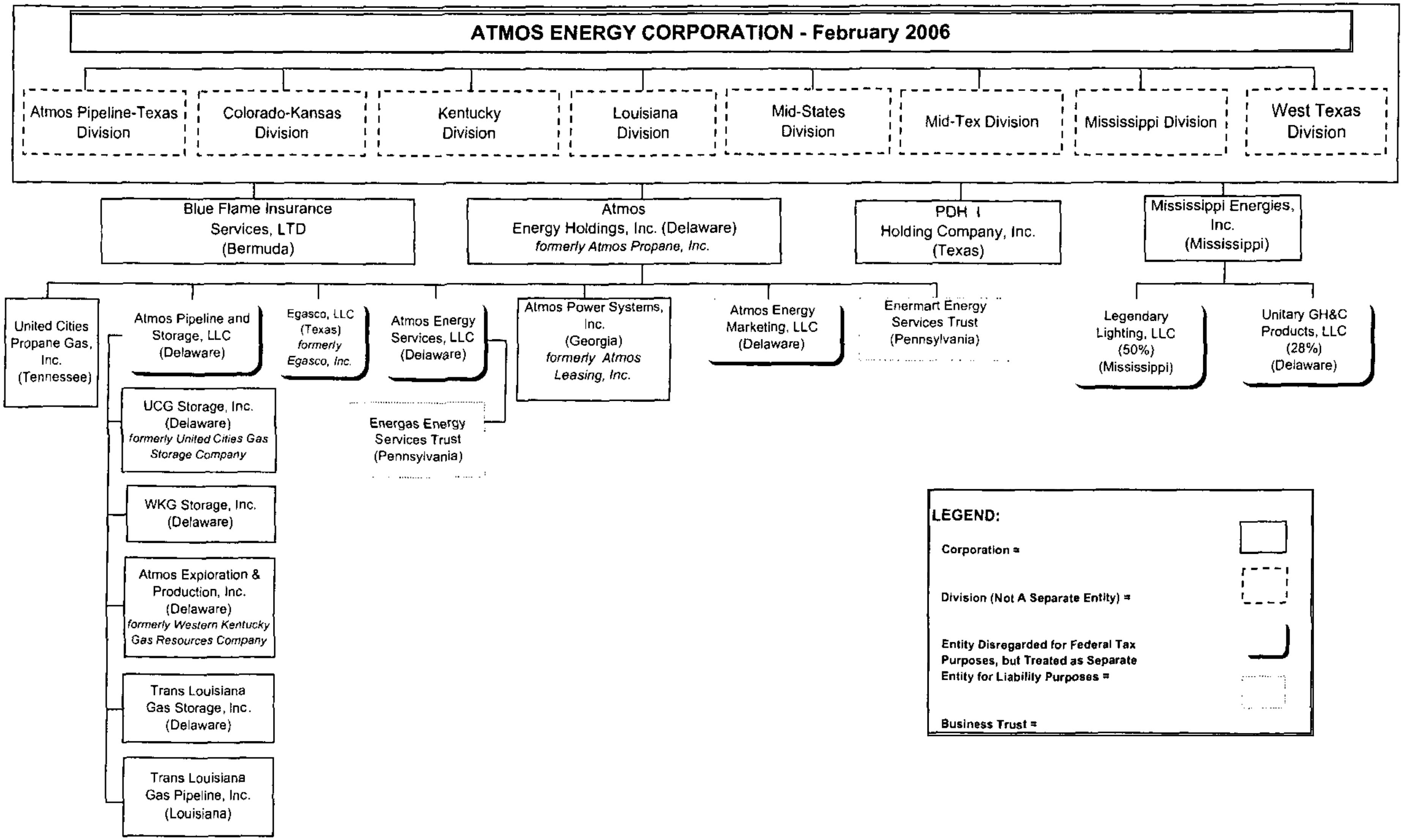
Q. Does this conclude your testimony in this case?

A. Yes, it does.

CASE PROCEEDING PARTICIPATION

LISA K. HANNEKEN

PARTICIPATION		TESTIMONY
COMPANY	**CASE NO.**	**ISSUES**
Laclede Gas Company	GR-2002-356	Direct - Cash Working Capital, Rate Case Exp./PSC Assessment, Advertising, Misc. Expense
Missouri American Water Company	WR-2003-0500	Direct – Rate Base and Related Expenses, AFUDC, Dues and Donations, Waste Disposal Expense, Storage Tank Lease Expense, Deferred Maintenance Expense, Transportation Expense, Insurance Other Than Group, Cost of Depreciation Study Expense
Missouri American Water Company	WR-2003-0500	Surrebuttal – AFUDC, Dues and Donations, St. Joseph Waste Disposal Expense, Transportation Expense, Property Taxes
Fidelity Telephone Company	IR-2004-0272	Direct - Rate Base and Related Expenses; Insurance Other Than Group; Miscellaneous Other Taxes


ATMOS ENERGY CORPORATION - February 2006
Atmos Pipeline-Texas Division
Colorado-Kansas Division
Kentucky Division
Louisiana Division
Mid-States Division
Mid-Tex Division
Mississippi Division
West Texas Division
Blue Flame Insurance Services, LTD (Bermuda)
Atmos Energy Holdings, Inc. (Delaware) formerly Atmos Propane, Inc.
PDH I Holding Company, Inc. (Texas)
Mississippi Energies, Inc. (Mississippi)
United Cities Propane Gas, Inc. (Tennessee)
Atmos Pipeline and Storage, LLC (Delaware)
Egasco, LLC (Texas) formerly Egasco, Inc.
Atmos Energy Services, LLC (Delaware)
Atmos Power Systems, Inc. (Georgia) formerly Atmos Leasing, Inc.
Atmos Energy Marketing, LLC (Delaware)
Enermart Energy Services Trust (Pennsylvania)
Legendary Lighting, LLC (50%) (Mississippi)
Unitary GH&C Products, LLC (28%) (Delaware)
UCG Storage, Inc. (Delaware) formerly United Cities Gas Storage Company
Energas Energy Services Trust (Pennsylvania)
WKG Storage, Inc. (Delaware)
Atmos Exploration & Production, Inc. (Delaware) formerly Western Kentucky Gas Resources Company
Trans Louisiana Gas Storage, Inc. (Delaware)
Trans Louisiana Gas Pipeline, Inc. (Louisiana)
LEGEND:
Corporation =
Division (Not A Separate Entity) =
Entity Disregarded for Federal Tax Purposes, but Treated as Separate Entity for Liability Purposes =
Business Trust =