

Exhibit No.:  
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-\_\_\_\_  
Date Testimony Prepared: March 23, 2006

**MISSOURI PUBLIC SERVICE COMMISSION**

**CASE NO. GR-2006-\_\_\_\_**

**DIRECT TESTIMONY**

**OF**

**LAURIE M. SHERWOOD**

**ON BEHALF OF**

**ATMOS ENERGY CORPORATION**


**March 2006**

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. ;

**STATE OF TEXAS** )  
 ) ss  
**COUNTY OF DALLAS** )

1. My name is Laurie M. Sherwood. I work in Dallas, Texas, and I am employed by Atmos Energy Corporation as Vice President, Corporate Development and Treasurer.

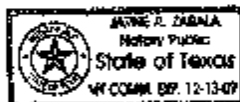
3. I have knowledge of the matters set forth therein. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded, including any attachments thereto, are true and accurate to the best of my knowledge, information and belief.

  
Laurie M. Sherwood

Subscribed and sworn before me this 23<sup>rd</sup> day of March, 2006.

Notably Public

My commission expires: 12-18-09



**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.

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'

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

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

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

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

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

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

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

<sup>1</sup> Includes current maturities portion of long-term debt.

<sup>2</sup> 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.**