

Exhibit No.:
Issue: Cost Allocations, Weather
Normalization for Test Year
Consumption, Adjustment to ADIT,
Reconciliation of Billing Cycle
Volumes and Customers Counts to
Booked Volumes and Counts
Witness: James C. Cagle
Type of Exhibit: Direct Testimony
Sponsoring Party: Atmos Energy Corporation
Case No.: GR-2006-____
Date Testimony Prepared: April 4, 2006

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. GR-2006-____

DIRECT TESTIMONY

OF

JAMES C. CAGLE

ON BEHALF OF

ATMOS ENERGY CORPORATION

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

AFFIDAVIT OF NAME


STATE OF TEXAS)
) ss
COUNTY OF DALLAS)

James C. Cagle, being first duly sworn on his oath, states:

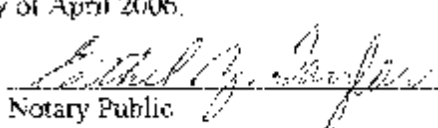
1. My name is James C. Cagle. I work in Dallas, Texas, and I am employed by Atmos Energy Corporation, as Manager, Rates and Revenue Requirements, for Atmos Energy Corporation.

2. Attached hereto and made a part hereof for all purposes is my Direct Testimony on behalf of Atmos Energy Corporation consisting of 15 pages and Schedules JCC-1, JCC-2, and JCC-3 all of which having been prepared in written form for introduction into evidence in the above-captioned docket.

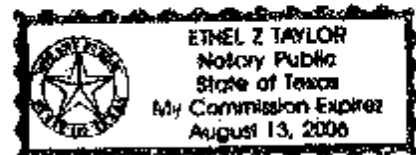
3. I have knowledge of the matters set forth therein. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded, including any attachments thereto, are true and accurate to the best of my knowledge, information and belief.


James C. Cagle

Subscribed and sworn before me this 4th day of April 2006.


Notary Public

My commission expires August 13, 2006



MISSOURI PUBLIC SERVICE COMMISSION
DOCKET NO.
PREPARED DIRECT TESTIMONY
OF
JAMES C. CAGLE

On Behalf of
ATMOS ENERGY CORPORATION

I. POSITION AND QUALIFICATIONS

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

A. My name is James C. Cagle. I am the Manager of Rates and Revenue Requirements for Atmos Energy Corporation ("Atmos" or the "Company"). My business address is 5430 LBJ Freeway, Suite 700, Dallas, Texas 75240.

Q. Please summarize your educational background and professional experience.

A. I received a Bachelor of Accountancy degree from the University of Oklahoma in 1987. I am a Certified Public Accountant licensed in the state of Texas. I have been employed by Atmos since 1989. I was initially employed in Atmos' financial reporting department. For the past thirteen years, except for the period from September 1997 through February 1998 when I was employed by GTE in its Costing department, I have worked in Atmos' rates department.

Q. Please describe your current responsibilities and qualifications.

A. As Manager of Rates and Revenue Requirements, I am primarily responsible for rate studies of and assisting in the design and implementation of rates for Atmos' regulated utility operations. I am also responsible for oversight of certain rate related compliance

1 and reporting requirements prescribed by Atmos' various regulatory commissions. Part
2 of my responsibilities also include participation in the preparation, updating and
3 implementation of the Company's Cost Allocation Manual (CAM), which is attached as
4 Schedule DMM-1 to the testimony of Company witness Daniel M. Meziere. For a
5 significant portion of the past thirteen years, I have performed rate studies or portions of
6 rate studies for the design and implementation of rates for a majority of the Atmos'
7 operations.

8 **Q. Have you previously provided testimony before the Missouri Public Service**
9 **Commission?**

10 A. No. However, I have provided testimony before several state commissions. Attachment
11 JCC-1 lists the various states and dockets in which I have testified.

12 **II. PURPOSE OF TESTIMONY**

13
14 **Q. What is the purpose of your testimony?**

15 A. I am sponsoring the cost allocations made for ratemaking purposes, the weather
16 normalization adjustment for test year consumption, the adjustment to accumulated
17 deferred income tax and the reconciliation of billing cycle volumes and customer counts
18 to booked volumes and customer counts.

19 **Q. Are you sponsoring any Schedules in connection with your testimony?**

20 A. Attached to my testimony are Schedules JCC-1, JCC-2 and JCC-3.

21 **III. COST ALLOCATIONS**

22 **Q. What are cost allocations?**

1 A. Basically, cost allocation is the process of allocating various common costs which are
2 incurred for the benefit of two or more of the Company's rate divisions and are therefore
3 allocable to those rate divisions.

4 **Q. What are the common costs to which you refer?**

5 A. Common costs include costs related to technical and support services that are provided to
6 the Company's operating rate divisions by centralized shared services ("Shared
7 Services"). Shared Services includes, for example, accounting, human resources, legal,
8 rates, billing and customer support and numerous others. The costs for these Shared
9 Services are allocated to the Company's rate divisions.

10 **Q. Are there additional cost allocations other than Shared Services?**

11 A. Yes. If an office rate division encompasses more than one jurisdiction, such as the
12 Company's Mid-States rate division which provides services to the Company's utility
13 operations in Georgia, Iowa, Illinois, Missouri, Tennessee and Virginia, then the costs
14 from the office rate division are allocated to separate rate divisions to which it provides
15 services.

16 **Q. For purposes of cost allocation, what is an "operating rate division" and an "office
17 rate division"?**

18 A. Rate division is the Company's terminology representing an accumulation of accounting
19 data which is applicable to an area in which rates have been set by a regulatory authority
20 such as the Missouri Public Service Commission ("MPSC"), which we commonly refer
21 to as an "operating rate division". For purposes of accounting and cost allocation (as
22 opposed to the current six rate areas discussed in the testimony of Company witness
23 Patricia Childers), the Company's Missouri operations are currently comprised of five

1 operating rate divisions including the Southeast Missouri (or “SEMO”) rate division
2 (designated as rate division 72), the Butler rate division (designated as rate division 70),
3 the Kirksville rate division (designated as rate division 71), UCG Missouri (designated as
4 rate division 97) and the Greeley Missouri rate division (designated as rate division 29).
5 In addition to operating rate divisions, the Company has certain “office rate divisions”
6 from which the Company’s Missouri utility operations receive allocations of common
7 costs including Shared Services (designated as rate divisions 2 and 12), the Mid-states
8 division headquarters office (designated as rate division 91), and the Mid-States business
9 unit central regional office (designated as rate division 88). The Company’s Missouri
10 operations also receive a small allocation from the Company’s Colorado/Kansas
11 division’s headquarters office in Denver, Colorado (designated as rate division 30),
12 because rate division 29 (the Greeley Missouri rate division) is operated through the
13 Colorado/Kansas division.

14 **Q. Does the Company have any methodology for allocating common costs to a rate**
15 **division?**

16 A. Yes. The rate division designation is incorporated into the Company’s account coding
17 string. As such, costs are accumulated for various operating areas or office rate divisions
18 within the Company’s general ledger. This could represent the Company’s operations in a
19 particular state or a particular area within a state and/or various office rate divisions
20 which would appropriately allocate costs to operating rate divisions.

21 **Q. In connection with this rate filing, is the Company proposing any changes to existing**
22 **Missouri rate divisions?**

1 A. Yes. As more fully explained in the testimony of Company witness Mrs. Childers, the
2 Company is proposing to consolidate the existing six rate areas in Missouri into three
3 operating rate areas to be known as the Southern Missouri rate division, the Northern
4 Missouri rate division and the Western Missouri rate division. The new rate areas will
5 also become the applicable operating rate divisions in Missouri for accounting and cost
6 allocation purposes.

7 **Q. Are cost allocations necessary in the Company's Missouri rate filing?**

8 A. Yes. It is appropriate and necessary to allocate the common costs incurred for the benefit
9 of ratepayers in multiple regulatory jurisdictions to the various jurisdictions which
10 receive those services. For example, the company's Shared Services provide various
11 services including accounting, billing and customer support, legal, finance, etc., to each
12 of the Company's utility operations in the twelve states in which Atmos operates.
13 Missouri customers receive the benefits of these services and the allocation of these costs
14 ensures that Missouri customers receive a reasonable portion of the costs of these
15 services.

16 In addition to Shared Services, the Mid-states division headquarters office and central
17 region office provide services to Missouri. A portion of the costs related to these offices
18 is also allocated to Missouri.

19 **Q. Please describe the Company's cost allocation methodology.**

20 A. The Company allocates certain types of common costs to its operating rate divisions for
21 management purposes as well as for reporting and ratemaking purposes. Operations and
22 Maintenance ("O&M") expense, depreciation expense, and taxes, other than income
23 taxes, expense that represent common costs are allocated on the books of the Company.

1 Other common costs such as commonly utilized plant in service and other ratebase items
2 are not allocated on the books of the Company but are allocated for ratemaking purposes.
3 These costs are allocated based on accepted methodologies which are further outlined
4 below in order to fully show the costs of providing utility service in each of the
5 regulatory jurisdictions within which the Company serves customers.

6 **Q. In your answer, you differentiate between common costs which are allocated on the**
7 **books of the Company and those that are allocated for ratemaking purposes. Can**
8 **you explain the difference?**

9 A. Yes. Operations and Maintenance (O&M) expense, depreciation expense, and taxes,
10 other than income taxes, expense related to Shared Services, the Mid-states division's
11 headquarters office and central region office are allocated on the Company's books and
12 records utilizing the allocation methodologies described in detail in the CAM attached to
13 Mr. Meziere's testimony. The Company allocates these expenses within its books and
14 records as a part of its normal accounting cycle. The allocation factors used are generally
15 calculated once per year, updated at the beginning of the Company's fiscal year (October
16 1), and utilized for the entire year unless a material event occurs which would
17 significantly change the factors.

18 For those Shared Services costs which are not allocated on the Company's books and
19 records, composite factors are used to allocate costs. Some examples of Shared Services
20 costs for which composite factors are used for allocating such expenses for ratemaking
21 purposes would include plant in service and accumulated deferred income taxes, as well
22 as other rate base items.

23 **Q. How are composite factors derived?**

1 A. The composite factors are derived based upon a three-factor formula comprised of:

2 1. The simple average of the relative percentage of gross plant in service for each of
3 the Company's business units to the total gross plant in service for Atmos' business units
4 (excluding Shared Services);

5 2. The relative percentages of number of customers for each of the Company's
6 business units to the total number of customers for the Company; and

7 3. The relative percentages of direct O&M expenses for each of the Company's
8 business units to the total direct operation and maintenance expenses (excluding Shared
9 Services).

10 Shared Services allocations to the business unit are then added to the business unit
11 general office costs and then further allocated to the applicable office rate divisions. For
12 the Mid-states business unit, the factors utilized for further allocating applicable Shared
13 Services and Mid-states general office costs are based on the relative percentages of
14 average number of customers served to the total average number of customers served for
15 Mid-states for O&M expenses and the relative percentages of gross plant in service for
16 each of the Mid-states jurisdictions to the total gross plant in service for Mid-states
17 (excluding the Mid-states general office and the central and eastern regional offices) for
18 depreciation expense and taxes, other than income tax, expense. Other costs not allocated
19 on the Company's books and records are also allocated using the same methodology.

20 **Q. How are Shared Services costs allocated within the Company's Missouri rate filing?**

21 A. O&M expense, depreciation expense, and taxes, other than income taxes, are allocated in
22 the Company's filing utilizing the methodologies set forth in the CAM. As previously
23 stated, the Company does not allocate ratebase items for Shared Services (such as plant in

1 service or accumulated deferred income taxes) within its books and records. Instead,
2 these items are allocated in the context of rate proceedings such as this one and for
3 certain reporting purposes. In this filing, ratebase items and ratemaking adjustments were
4 allocated utilizing the composite factors set forth and described in Schedule JCC-2
5 attached to my testimony. Such composite factors were derived utilizing the
6 methodology described herein.

7 **IV. WEATHER NORMALIZATION ADJUSTMENT**

8 **Q. In connection with the Company's rate filing, have you performed a weather**
9 **normalization adjustment?**

10 A. Yes. My analysis normalizes the effects of weather on test year consumption for
11 purposes of establishing the normalized billing determinants, which are factored into the
12 Company's revenue deficiency calculation.

13 **Q. Please describe the adjustment related to the normalization of test period**
14 **consumption for the effects of weather?**

15 A. The adjustment to normalize the test period consumption for the effects of weather is
16 calculated in worksheet WP 2-2 of Schedule RMB-2 attached to the testimony of
17 Company witness Rebecca M. Buchanan. This calculation is made utilizing a weather
18 dependency factor and a base load factor using a linear regression of the actual usage per
19 bill and actual heating degree days for the test year. Calculations are made for customers
20 in the proposed three Southern Northern and Western Missouri rate divisions, which are
21 tied to geographically situated weather reporting stations, and are separately calculated
22 for residential customers and for commercial customers. Atmos witness Mr. Smith
23 describes the three geographic areas in his testimony.

1 **Q. What is a heating degree day?**

2 A. A heating degree day (commonly referred to as HDD) is a measure of the coldness of the
3 weather experienced, based on the extent to which the daily mean temperature falls below
4 a reference temperature, usually 65 degrees Fahrenheit. For example, if the high
5 temperature on December 9 was +13 F° and the low was -4 F°, then the average daily
6 temperature was +5 F°. The difference between +65 F° and +5 F° is 60 F° yielding 60
7 heating degree days.

8 **Q. How was the actual number of HDDs for the test period determined for purposes of**
9 **the weather normalization adjustment?**

10 A. This information was retrieved directly from the National Oceanic and Atmospheric
11 Administration ("NOAA").

12 **Q. Once the actual number of HDDs was determined, were there any additional**
13 **determinations to be made relative to HDDs?**

14 A. Yes. The adjustment requires the determination of the normal number of HDDs in
15 comparison to actual HDDs.

16 **Q. How was the normal number of HDDs for the test period determined?**

17 A. The adjustment utilizes a HDD normal which is calculated using a 15-year normal of
18 daily heating degree days ending June 30, 2005. The heating degree day normal is
19 smoothed based on a direct percentage comparison to the NOAA published 30-year daily
20 heating degree day normal data. Additionally, the 15-year daily normal heating degree
21 days are calculated to be consistent with the calculation of actual heating degree days
22 published by NOAA.

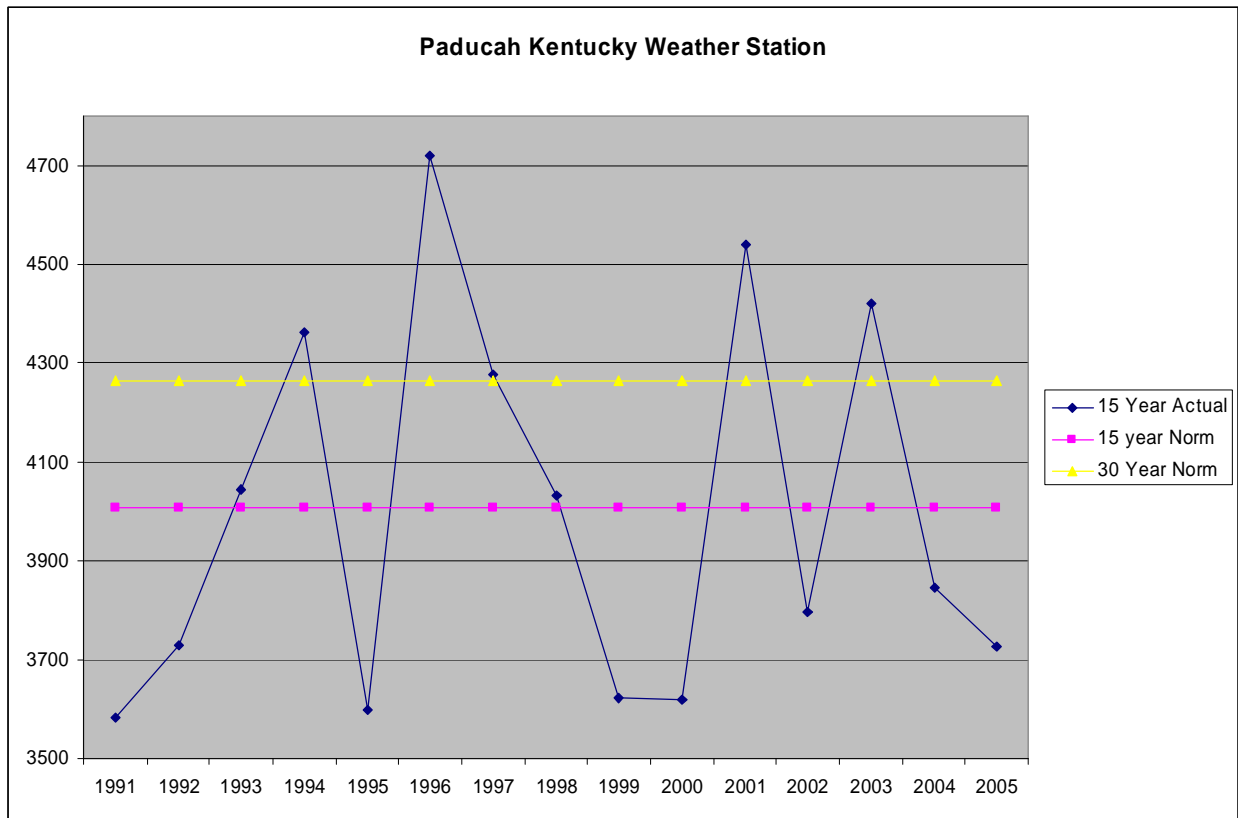
23 **Q. After calculating the HDD normal, how was the adjustment calculated?**

1 A. As shown on workpaper WP 2-2 of Schedule RMB-2 attached to Mrs. Buchanan's
2 testimony, the calculation of this adjustment divides actual volumes billed by the number
3 of bills rendered for each month to arrive at Sales per Bill. The difference between actual
4 and normal heating degree days is calculated and multiplied by the weather dependency
5 factor to arrive at the weather adjustment per bill. The Sales per bill and the weather
6 adjustment per bill are summed and then multiplied by the number of bills rendered for
7 the month to arrive at normalized test period sales volumes. The adjustment is the sum of
8 the difference in normalized test period sales volumes for the historic period and actual
9 volumes for the historic period. This adjustment to volumes is summarized on workpaper
10 WP 2-1 attached to Mrs. Buchanan's testimony and then integrated into Schedule RMB-
11 2.

12 **Q. Why is a 15-year HDD normal appropriate?**

13 A. The graph below illustrates why a 15-year HDD normal is appropriate. The graph
14 includes data for the Paducah Kentucky Barkley Regional Airport weather station which
15 is one of the weather stations utilized for the weather normalization adjustment. As
16 shown on the graph, the 15 year HDD Normal more closely matches recent weather
17 history. The 30 year HDD Normal is the 2000 NOAA published normal and reflects
18 weather from the period to July 1971 through June 2000. The most recent data used by
19 NOAA in this Normal is 5 years previous to the test year in this case.
20 Additionally, had the Company's proposed Weather Normalization Adjustment
21 ("WNA") Rider been in place for the 15 years illustrated in the graph, the 30 year Normal
22 would have resulted in a reduction to the customer's bill in four years and a charge in
23 eleven years. Utilizing the 15 year Normal proposed by the Company would have

1 resulted in a reduction to customer's bills in seven of the fifteen years and a charge in
2 eight of the fifteen years.



3
4
5 **Q. What is the WNA Rider?**

6 A. Simply stated, the WNA rider is a rate mechanism which aids in eliminating the effects of
7 abnormal weather on customer bills and the Company's earnings. A more detailed
8 description of weather normalization is contained in the testimony of Company witness
9 Gary L. Smith.

10 **Q. Is the Company proposing a weather normalization mechanism as part of this rate**
11 **filing?**

1 A. Yes. The Company proposes to implement a Weather Normalization Adjustment (WNA)
2 Rider, the purpose and scope of which is described in Mr. Smith's testimony. The
3 proposed WNA formula is also specified in Mr. Smith's testimony.

4 **Q. Please discuss the adjustment to normalize test period consumption in the**
5 **Company's rate filing in relation to the proposed WNA.**

6 A. The proposed WNA discussed in Mr. Smith's testimony calculates a weather adjustment
7 on each applicable customer's bill using the actual and normal heating degree days
8 occurring between the billing cycles for the customer. This calculation adjusts the
9 customers' bill to match the normal heating degree days which were used to develop the
10 tariff rates thereby theoretically adjusting the margin revenue received by the Company
11 to the levels approved in the Company's last filing. Consequently, whether a 15 year, 20
12 year, 30 year, or 60 year normal is calculated, the end result is that the non PGA portion
13 of the customer's bill related to the tariff rates is virtually unchanged due to weather
14 fluctuations. The WNA Rider applies to margin rates only and does not apply to the
15 Company's PGA rates.

16 The heat sensitive and base load factors calculated in workpaper WP 2-2 to Schedule
17 RMB-2 attached to Mrs. Buchanan's testimony are the HSF (heat sensitive factor) and
18 BL(Base Load factor) referred to in the WNA formula set forth in Mr. Smith's testimony.
19 These same factors would apply whether the WNA mechanism is applied to the rate or to
20 consumption.

21 **V. ACCUMULATED DEFERRED INCOME TAX**

22 **Q. Does the Company's rate filing reflect an adjustment to Accumulated Deferred**
23 **Income Tax (ADIT)?**

1 A. Yes. The purpose of this adjustment is to correctly represent ADIT attributable to
2 Missouri. The adjustment removes items which specifically relate to jurisdictions other
3 than Missouri as well as including items which specifically relate to Missouri that had
4 been inadvertently attributed to other jurisdictions. The adjustment also normalizes the
5 ADIT impact of the over / under recovery of gas cost and removes the ADIT impact of an
6 adjustment made by Mrs. Buchanan. This adjustment is included as workpaper WP 7-4
7 in Schedule RMB-7 attached to Mrs. Buchanan's testimony.

8 **Q. What items specifically relate to jurisdictions other than Missouri?**

9 A. Items which are related to jurisdictions other than the Company's Missouri operations
10 are: Ad Valorem Taxes, Amortization – LGS Acquisition 1810.13523, Deferred Expense
11 Projects, Deferred Projects – MVG Acquisition, Deferred Projects – TXU Acquisition,
12 OHGC Deposit Refund Adjustment, Investment Banking Adv Fee (MVG), Union Gas –
13 Non Compete, Monarch – Non Compete, and Deferred ITC – UCG non-utility. In
14 addition, amounts related to Deferred Intercompany Gain ("DIG") on Fixed Assets and
15 DIG on Fixed Assets – UCG Storage have also been removed as part of the adjustment.
16 These amounts relate to an intercompany gain resulting from the transfer of assets to an
17 affiliate.

18 **Q. What items specifically relating to Missouri were inadvertently attributed to**
19 **jurisdictions other than Missouri?**

20 The adjustment corrects the temporary difference relating to the tax basis of certain of the
21 assets acquired from Arkansas Western Gas Company's Associated Natural Gas division
22 ("ANG") in 2000. The temporary difference was originally spread to the Company's rate
23 divisions in all states. In future provision calculations, this item will be properly included

1 in the tax basis of fixed assets. The adjustment to ADIT consolidates those amounts
2 appropriately attributable to Missouri.

3 **Q. Can you describe the adjustment to ADIT made by Mrs. Buchanan?**

4 A. Yes. Amounts included for the Merger and Integration Amortization, which related to
5 Atmos' acquisition of United Cities Gas Company, have been removed in adjustment WP
6 4-4 in Schedule RMB-4 attached to Mrs. Buchanan's testimony and therefore should also
7 be removed from the calculation of ADIT.

8 **Q. Please describe the adjustment to ADIT relating to over/under recovery of gas cost.**

9 A. The Company's last adjustment removes the impact on ADIT of the over / under-
10 recovery of gas cost in order to normalize the tax effect of over/under recovery of gas
11 cost to zero.

12
13 **VI. BILLING CYCLE VOLUMES AND CUSTOMER COUNTS TO BOOKED**

14 **VOLUMES AND CUSTOMER COUNTS.**

15 **Q. Please describe the information provided in Schedule JCC-3.**

16 A. As a part of the settlement of United Cities Gas Company's general rate case in 1995
17 (Case No. GR-95-160), UCG agreed to include billing cycle revenue and customer count
18 data in its next general rate case filing. UCG also agreed to reconcile the billing cycle
19 volumes and customer counts in the report to the booked volumes and customer counts at
20 the time of filing. Schedule JCC-3 provides both the billing cycle information as well as
21 the reconciliation.

22 **Q. What is the source of the billing cycle volume and customer count data?**

1 A. The Company maintains a reporting system which provides volume and customer count
2 data. This report was provided to me from that system and the per books information
3 was provided by Atmos' gas accounting department. The reconciliation consists of billed
4 volumes and a count of base charges billed per the Company's billing information
5 reporting system as compared to the summary of the billing cycle information provided
6 in the Schedule.

7 **Q. Does that conclude your testimony?**

8 A. Yes.