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Service Commission

Exhibit No.: **Ex No. 15**

Issue: Cost of Capital/ROE

Witness: Don Murry

Type of Exhibit: Surrebuttal Testimony

Sponsoring Party: Atmos Energy Corporation

Case No.: GR-2006-0387

Date Testimony Prepared: November 13, 2006

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11-30-06

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. GR-2006-0387

PREPARED SURREBUTTAL TESTIMONY

OF

DONALD A. MURRY, Ph.D

On Behalf of

ATMOS ENERGY CORPORATION

November 2006

Atmos Exhibit No. 15
Case No(s). GR-2006-0387
Date 11-30-06 Rptr PF

County of OKLAHOMA)
)
State of OKLAHOMA)

AFFIDAVIT OF DONALD A. MURRY

Donald A. Murry, being first duly sworn, deposes and says that he is the witness who sponsors the accompanying testimony, that said testimony was prepared by him and under his direction and supervision; that if inquiries were made as to the facts in said testimony and schedules, he would respond as therein set forth; and that the aforesaid testimony and schedules are true and correct to the best of his knowledge, information, and belief.

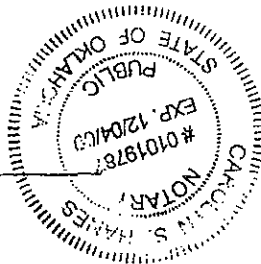
Donald A. Murry
Donald A. Murry

Subscribed and sworn to before me this 9th day of November, 2006.

Carolyn S. Hanes
Notary Public # 01019787

My Commission expires:

12-4-09



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**BEFORE THE
MISSOURI PUBLIC SERVICE COMMISSION
DOCKET NO. GR-2006-0387**

**PREPARED SURREBUTTAL TESTIMONY
OF
DONALD A. MURRY, Ph.D.**

**On Behalf of
ATMOS ENERGY CORPORATION**

12 **Q. Please state your name.**

13 A. My name is Donald A. Murry.

14 **Q. Are you the same Donald A. Murry who filed direct testimony in this**
15 **proceeding on behalf of Atmos Energy Corporation?**

16 A. Yes.

17 **Q. What is the purpose of your surrebuttal testimony?**

18 A. I plan to address a limited set of risk related issues raised by Office of
19 Public Counsel Witness Russell W. Trippensee. Specifically, I will discuss
20 his superficial return on common equity judgment as well as his
21 mischaracterization of Staff Witness Matthew J. Barnes' direct testimony.
22 Finally, I will rebut his assertion that the Weather Normalization
23 Adjustment (WNA) will reduce risk to the common equity holders.

24 **Q. Why do you say that Mr. Trippensee's return on common equity**
25 **judgment is superficial?**

26 A. On page 11, lines 18 through 22 of his rebuttal testimony, Mr. Trippensee
27 wrote:

1 Public Counsel would recommend the Commission use a 7% return
2 on equity. Public Counsel's recommendation utilizes the spread
3 (.87%) between the risk free rate (5.13%, Barnes Direct, page 16,
4 lines 17 -20) and cost of debt (6.03%, Barnes direct, Schedule 21)
5 and incorporates that spread between the cost of debt and its
6 equity recommendation with the result ($6.03\% + .87\% = 6.90\%$)
7 rounded up to 7%.

8

9 That is not analysis; this is just unorthodox opinion.

10 **Q. What is wrong with Mr. Trippensee's return on common equity**
11 **"calculation"?**

12 A. It is not conventional financial analysis. In his words at page 11 lines 14
13 through 15, his return on common equity judgment "steps off into
14 uncharted regulatory practices, [and] abandons proven rate design
15 principles." On its face, a return on equity of 7 percent is beyond the scope
16 of reason.

17 **Q. Why is a "7 percent return beyond the scope of reason?"**

18 A. At its most basic level, it is an illogically low estimate given current market
19 conditions. The current yield on Baa-rated Utility bonds is 6.26 percent.
20 The current yield on A-rated utility preferred stocks is 7.10 percent. This is
21 higher than his recommended return on common equity of 7 percent for a
22 higher risk asset.

23 **Q. What issues does Mr. Trippensee have with Staff Witness Matthew J.**
24 **Barnes' analysis?**

25 A. On page 9, lines 17 through 20 of his rebuttal testimony, Mr. Trippensee
26 asserted:

27 A review of Mr. Barnes' testimony does not address the significant
28 change in rate design proposed by the Staff. Likewise, a review of

1 his analysis and calculations of a Discounted Cash Flow model
2 (DCF) and a Capital Asset Pricing Model (CAPM) fail to indicate
3 any consideration of the fixed delivery charge rate design change
4 proposed by Staff.
5

6 To the contrary, Mr. Barnes' financial analysis did take this into account.

7 **Q. How did Mr. Barnes analysis account for the proposed rate?**

8 A. Mr. Trippensee strenuously objects to the Weather Normalization
9 Adjustment (WNA) proposed by the Company. However, Mr. Barnes' use
10 of the DCF model actually accounts for a WNA.

11 **Q. How does the DCF model account for a weather normalization
12 adjustment?**

13 A. Since the DCF relies on current stock prices as a primary input, the DCF
14 model incorporates known information about the analyzed companies.
15 Seven of the eight companies that Mr. Barnes identified as comparable to
16 Atmos Energy operate under some type of revenue stabilization
17 mechanisms for their residential and small commercial customers.

18 **Q. Which one of Mr. Barnes' comparable gas companies does NOT have
19 some sort of revenue stabilization mechanism?**

20 A. Peoples Energy does not have a WNA. Its distribution subsidiary, Peoples
21 Gas Light, applied for one in 2005, but the Illinois Commerce Commission
22 rejected it.¹

23 **Q. What is AGL Resources' revenue stabilization adjustment?**

¹ Peoples Energy Press Release, June 16, 2005.

- 1 A. Atlanta Gas Light, AGL's distribution subsidiary, calls it the Dedicated
2 Design Day Capacity (DDDC) charge. This assigns capacity charges
3 based on the peak day consumption.²
- 4 **Q. What is Cascade Natural Gas' revenue stabilization adjustment?**
- 5 A. The Oregon Public Utility Commission approved the Conservation Alliance
6 Program in April 2006.³ This is Cascade's tariff provision that adjusts for
7 weather and gas conservation.
- 8 **Q. What is New Jersey Resources' revenue stabilization adjustment?**
- 9 A. New Jersey Natural Gas has what it calls the weather normalization
10 clause in its tariff.⁴
- 11 **Q. What is Northwest Natural Gas revenue stabilization adjustment?**
- 12 A. Northwest has a WNA that started in October 2006 in Oregon.⁵
- 13 **Q. What is Piedmont Natural Gas revenue stabilization adjustment?**
- 14 A. In North Carolina, Piedmont's tariff has what it calls the "Customer
15 Utilization Tracker" which adjusts for actual weather.⁶
- 16 **Q. What is South Jersey Industries' revenue stabilization adjustment?**
- 17 A. South Jersey Gas has a "Temperature Adjustment Clause (TAC)" that
18 accounts for weather that deviates from normal temperatures.⁷
- 19 **Q. What is WGL Holdings' revenue stabilization adjustment?**

² www.atlantagaslight.com/RatesRegulations/CustomerCharges.aspx

³ Cascade Natural Gas, Form 10-Q, August 08, 2006, p. 11.

⁴ New Jersey Resources, Form 10-K, November 29, 2005, p. 4.

⁵ Northwest Natural Gas Company, Form 10-Q, November 2, 2006, p. 23..

⁶ Piedmont Natural Gas Company: North Carolina Service Regulations, Appendix C.

⁷ South Jersey Industries, Form 10-Q, November 1, 2006, p. SJI-9.

1 A. Washington Gas has two notable ones. First, WGL purchases weather
2 insurance to mitigate up to 50 percent of the impact of warmer than
3 normal weather for its District of Columbia operations. In Maryland, WGL
4 has a Revenue Normalization Adjustment (RNA) that accounts for actual
5 temperatures and promotes conversation.⁸

6 **Q. Do you agree with Mr. Trippensee's declaration that a WNA reduces**
7 **risk to common equity holders and the implication that it reallocates**
8 **this risk to common stock holders?**

9 A. No. First, the WNA does not transfer risk to the ratepayers. The WNA is a
10 mechanism that reduces the variability of the revenue stream, but not a
11 company's risk. In fact, it helps the company achieve the cost recovery
12 determined by the Commission to be appropriate in any period, but it is
13 otherwise revenue neutral with respect to the base revenue requirement
14 established by the Commission. The WNA adjusts the customer's
15 monthly bills from October to May to reflect normal weather patterns. The
16 WNA simply provides a means to help the Company achieve the
17 Commission approved revenue requirement (i.e. the costs ratepayers
18 rightfully should bear) in case there is warmer than anticipated weather.
19 On the other hand, it assures that the ratepayers do not pay exceedingly
20 high rates during exceptionally cold periods.

21 **Q. Why do you say that a WNA does not transfer risk to ratepayers?**

22 A. A WNA is beneficial to ratepayers in as much as it removes the likelihood
23 of rates being very high at times, and it also removes an impediment to

⁸ WGL Holdings, Form 10-Q, August 9, 2006, pp. 19 & 25.

1 the company's ability to achieve its allowed return at times. This is not a
2 transfer of risk from one group to another, but it is likely to be beneficial to
3 members of both ratepayers and common stockholders who prefer less
4 variability in revenue payments (collections).

5 **Q. Does this complete your surrebuttal testimony at this time?**

6 **A. Yes, it does.**