

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF ATMOS ENERGY)
CORPORATION FOR AN ADJUSTMENT) CASE NO. 2006-00464
OF GAS RATES)

ATTORNEY GENERAL'S RESPONSES TO
DISCOVERY REQUESTS OF PUBLIC SERVICE COMMISSION

Comes now the Attorney General of the Commonwealth of Kentucky, by
and through his Office of Rate Intervention, and states as follows for his
responses to the discovery requests of the Public Service Commission.

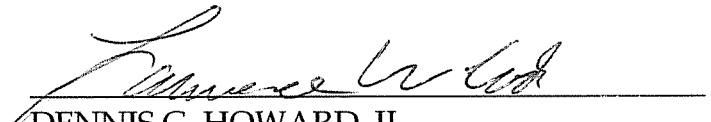
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JUN 01 2007

PUBLIC SERVICE
COMMISSION

Respectfully submitted,

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Certificate of Service and Filing

Counsel certifies that an original and ten photocopies of the foregoing were served and filed by hand delivery to Beth O'Donnell, Executive Director, Public Service Commission, 211 Sower Boulevard, Frankfort, Kentucky 40601; furthermore, it was served by hand-delivering a true and correct copy of the same to:

Hon. John N. Hughes
124 West Todd Street
Frankfort, KY 40601

all on this 1 day of June, 2007.



Assistant Attorney General

Witness Responsible:
ROBERT J. HENKES
PAGE 1 of 3

Question 1: Refer to the Direct Testimony of Robert J. Henkes ("Henkes Testimony"), page 8 and Schedule RJH-1. Concerning the inclusion of the late payment fees as a component of the gross revenue conversion factor:

- a. In Mr. Henkes aware of any previous natural gas case decided by the Commission that included the late payment fees as a component of the gross revenue conversion factor? If yes, identify the case.
- b. Refer to Schedule RJH-1. Recalculate the AG's recommended revenue deficiency utilizing a gross revenue conversion factor that does not include a component for the late payment fees. Indicate the dollar difference between the two revenue deficiencies.
- c. In Atmos Energy Corporation's ("Atmos") response to AG's Second Data Request dated March 30, 2007 ("AG Second Request"), Item 22, Atmos determined that the increase in the late payment fees corresponding with the proposed increase in base rate revenues was \$80,502. Explain in detail why it would be more appropriate to reflect the late payment fees as a component of the gross conversion revenue factor rather than recognizing the additional \$80,502 in late payment fees in the determination of the overall net operating income found reasonable.

Response:

- a. No. However, Mr. Henkes is aware that in Delaware, Artesian Water Company includes the late payment fee as a component of its gross revenue conversion factor and this ratemaking treatment has always been approved by the Delaware Public Service Commission.
- b. The AG's recommended revenue deficiency utilizing a gross revenue conversion factor that does not include the .87% component for the late payment fees amounts to \$2,440,286 (see attached Excel sheet), which is \$21,230 higher than the

recommended revenue deficiency of \$2,419,099. One can calculate almost the same revenue deficiency impact by applying the .87% factor to the recommended rate increase of \$2,419,099.

- c. The referenced revenue amount of \$80,502 represents the incremental late payment fee revenues associated with the Company's proposed base rate increase of \$10.4 million, whereas the incremental late payment fees of \$21,230 referenced in the response to part b is associated with the AG's recommended base rate increase of approximately \$2.4 million. Thus, it should be recognized that the incremental late payment fee revenue to be reflected in this case should not be a fixed amount of \$80,502 (as suggested in question c above), nor a fixed amount of \$21,230. Rather, it is a function of the rate increase that will eventually be approved by the Commission in this case.

It is true that the incremental late payment fee should only be calculated on the portion of the rate increase to be approved in this case that is chargeable to the Residential, Commercial and Public Authority classes. Therefore, the most accurate method to calculate the incremental late payment fee amount associated with the rate increase to be approved in this case would be by applying the .87% factor to the Residential, Commercial and Public Authority rate increases only and treating this incremental revenue as additional revenues available to the Company when preparing the proof of revenues in the rate design process of this case.

In this regard, it should be noted that the Company's uncollectible ratio of .50%, similar to the late payment fee, is also only applicable to the Company's Residential, Commercial and Public Authority classes (see page 15, lines 25-30 of the Waller Testimony). Yet, the Company has included the .50% in its gross revenue conversion factor which it then applied to the total requested rate increase rather than only the portion of the rate increase chargeable to the Residential, Commercial and Public Authority classes.

This is one of the reasons why Mr. Henkes reflected the late payment fee ratio in the revenue conversion factor, i.e., to be

consistent with the Company's proposal to include the uncollectible ratio in the revenue conversion factor. Thus, if the Commission decides to only reflect the incremental late payment fees associated with the rate increase chargeable to the Residential, Commercial and Public Authority classes, it should also calculate and reflect only the incremental uncollectible expenses applicable to the Residential, Commercial and Public Authority portion of the approved rate increase.

Witness Responsible:
ROBERT J. HENKES

Question 2: Refer to the Henkes Testimony, pages 11 and 12. Explain why Mr. Henkes did not propose a slippage adjustment to the utility plant in service and construction work in progress balances.

Response: Mr. Henkes has not performed a "slippage adjustment" analysis in this case. Mr. Henkes has relied on AG witness Majoros for the AG's recommended plant in service in this case.

Witness Responsible:
ROBERT J. HENKES

Question 3: Refer to the Henkes Testimony, pages 17 and 18 and Schedule RJH-7.

- a. Does Mr. Henkes agree that property taxes are billed to a utility once a year, rather than billed monthly?
- b. Explain why Mr. Henkes is proposing that the projected 3 percent increase in property taxes effective in November 2007 only be reflected in his adjustment for 8 months rather than for a full year.

Response:

- a. Yes.
- b. Mr. Henkes has reflected the projected 3% property tax increase effective November 2007 for only 8 months in the forecasted test year (i.e., from November 2007 through June 2008) because that would be the appropriate approach to use when rates are set based on a fully forecasted test period. Reflecting the projected 3% tax increase effective November 2007 on a 12-month annualized basis would be equivalent to reflecting the Company's property taxes through October 2008. While these kind of cost annualizations may be appropriate when using a historic actual test year, when using a fully forecasted test period, it is inappropriate to reflect ratemaking components that extend beyond the end of the forecasted test period because that would result in a mismatch of all components of the ratemaking formula.

It should also be noted that Mr. Henkes' recommended approach is consistent with the approach the Company has used with regard to this issue. The derivation of the Company's proposed forecasted test period property taxes of \$4,091,648 is shown on FR 10(10)(c)2.3. One can clearly see from this schedule that the Company only increased its property taxes by 3% from November 2007 forward through June 2008 and did not annualize this projected 3% increase for the full test period.

Witness Responsible:
ROBERT J. HENKES

Question 4: Refer to the Henkes Testimony, page 19. Would Mr. Henkes agree that the most current PSC Assessment rate should be reflected in the determination of revenue requirements in this case?

Response: Yes. In data request AG-1-2a, Mr. Henkes requested from Atmos the PSC assessment rate expected for 2007. Atmos responded that its expectation was that the rate for the assessment to be received in June 2007 will not significantly change from the current rate of .1643%. For this reason, Mr. Henkes has reflected the current rate of .1643% in his testimony. Mr. Henkes would agree that this rate should be replaced with the new rate to become effective June 2007 to the extent that this rate is different from .1643%.

Witness Responsible:
ROBERT J. HENKES

Question 5: Refer to the Henkes Testimony, page 20. Starting on line 5, Mr. Henkes states, "It has been Commission practice to allow rate recognition for all prudently incurred rate case expenses actually incurred as of the close of record in utility base rate proceedings."

- a. Would Mr. Henkes agree that the practice he describes in this quote relates to how rate case expenses have been treated in historic test-period cases?
- b. Would Mr. Henkes agree that in Case No. 2005-00042 the forecasted rate case expense was included in the determination of revenue requirements? Explain the response.

Response:

- a. Mr. Henkes was not aware of the referenced distinction in this specific ratemaking practice, but would agree if this has indeed has been Commission policy.
- b. Mr. Henkes agrees with the stated fact. In this case, the Company has projected total rate case expenses of \$370,000 to be amortized over 3 years, resulting in an annual amortization expense of \$123,333. While the Company failed to reflect this amortization expense in its filing, Mr. Henkes has in fact increased the Company's revenue requirement in this case by recommending a forecasted test period expense increase of \$123,333 to reflect this annual rate case expense amortization.

Witness Responsible:
ROBERT J. HENKES

Question 6: Refer to the Henkes Testimony, pages 28 and 29, and Schedule RJH-12. Mr. Henkes recommends the removal of \$178,809 in public relations and community relations expenses and cites Atmos' response to the AG Second Request, Item 32. Based on the response to Item 32(b), explain why Mr. Henkes believes the examples cited by Atmos should be excluded for rate-making purposes.

Response: The Company's response to AG-2-32(b) states that the \$178,970 community relations expenses include, among other things, community ads and activities, builder relations and promotional items for various community activities. Mr. Henkes does not believe that these activities are required for the provision of safe, adequate and reliable gas service and should therefore not be charged to the ratepayers. In its response to AG-2-32(b), the Company has listed some examples that may be included for rate-making purposes based on the description of these items (all examples except the Bob Lilly promotions). If the Company can quantify these examples, Mr. Henkes would certainly be willing to remove them from his recommended expense adjustment of \$178,970.

Witness Responsible:
ROBERT J. HENKES
PAGE 1 of 2

Question 7: Refer to the Henkes Testimony, pages 33 and 34, and Schedule RJH-14. Concerning his proposed adjustment to the American Gas Association ("AGA") dues, Mr. Henkes recommends the exclusion of 23.29 percent of the dues based on the AGA budget for public affairs. Did Mr. Henkes consider excluding for rate-making purposes any other components listed in the AGA 2007 budget? Explain the response.

Response: Yes, in addition to the exclusion of the public affairs component of the Company's AGA dues, Mr. Henkes considered the exclusion of the (institutional) Advertising portion (1.39%), and Policy, Planning & Regulatory Affairs portion (14.76%) of the Company's AGA dues. However, when Mr. Henkes recommended these same type of dues exclusions in the prior LG&E gas and electric rate cases, Case No. 2003-00433, the Commission rejected these recommended exclusions. For that reason, Mr. Henkes did not make the same recommendations in the current case.

Specifically, in both the prior LG&E gas and electric rate cases, Case No. 2003-00433, Mr. Henkes recommended exclusions of LG&E's AGA and EEI dues that were dedicated to legislative advocacy, regulatory advocacy, legislative and regulatory policy research, institutional advertising and marketing, and public relations. The LG&E gas rate case was resolved through a "black box" stipulation with no Commission ruling on any of the issues in that case. The LG&E electric case was fully litigated. On pages 49 and 50 of the Commission Order in that case, the Commission stated with regard to this issue:

"[The AG] recommended that 72.16 % of LG&E's dues paid to Edison Electric Institute ("EEI") should be disallowed, an amount of \$141,001, based on a claim that the portion of the EEI dues dedicated to legislative advocacy, regulatory advocacy, legislative and regulatory policy research, institutional advertising and marketing, and public relations

produced no benefit to ratepayers and should be borne by LG&E's stockholders.

...Concerning the EEI dues, the Commission has reviewed the description of the various activities funded by the EEI dues, and finds that the portion of the dues associated with legislative advocacy, regulatory advocacy, and public relations should be excluded for rate-making purposes. The description of regulatory advocacy appears to be a form of lobbying activity which the Commission has not included for rate-making purposes in previous cases. These three categories account for 45.35 percent of the EEI dues...."

In summary, Mr. Henkes has tried to be consistent with this prior Commission ruling by only excluding the 23.29% lobbying portion of Atmos' AGA dues, while not excluding the Advertising and Policy, Planning & Regulatory Affairs portion of Atmos' AGA dues. The exclusion of the Advertising, Policy, Planning & Regulatory Affairs, and Public Affairs portions of Atmos' AGA dues would result in an expense adjustment of \$11,636 (39.44% x AGA dues of \$29,503) rather than the \$6,871 expense adjustment shown on Mr. Henkes' Schedule RJH-14, line 5 and footnote (5).

Witness Responsible:
ROBERT J. HENKES

Question 8: Refer to the Henkes Testimony, pages 35 through 38, regarding the proposed recovery of gas cost uncollectibles through the Gas Cost Adjustment ("GCA"). In jurisdictions where Mr. Henkes has submitted testimony concerning the recovery of gas cost uncollectible through the GCA, what was Mr. Henkes' recommendation on the proposal? If testimony was submitted by Mr. Henkes, cite the case(s) and state the final decision on the proposed recovery.

Response: This is the first testimony submitted by Mr. Henkes dealing with the issue of recovery of gas cost uncollectibles through a gas cost adjustment clause.

Mr. Henkes notes that the Public Service Commission of Wyoming, in its Order¹ dated April 4, 2007, rejected the recovery of gas cost uncollectibles through the gas cost adjustment clause of the Questar Gas Company that was requested by that gas company. The commission agreed with the Office of Consumer Advocate, finding that bad debt expense, whether or not commodity-related should be treated as an operating expense and analyzed within the framework of a general rate case. The PSC determined that all bad debt expense should be classified as a cost of doing business and should not be broken down into separate commodity and non-commodity-related categories. The PSC also noted that inclusion of bad debt expense in any type of automatic pass-through account could provide a disincentive for a utility to actively pursue and enforce bad debt collections. Further, the PSC found that recovery of gas cost uncollectibles through the gas cost adjustment clause marked an inequitable shift of risk from shareholders to customers.

¹ In the matter of the Application of Questar Gas Company for authority to file changes in its existing natural gas tariffs, Docket No. 30010-86-GT-06 (Record No. 10642).

Witness Responsible:
ROBERT J. HENKES

Question 9: Refer to the Henkes Testimony, pages 39 through 53, regarding the customer rate stabilization ("CRS") mechanism.

- a. In jurisdictions where Mr. Henkes has submitted testimony concerning a CRS mechanism, what was Mr. Henkes' recommendation on the proposal? If testimony was submitted by Mr. Henkes, cite the case(s) and state the final decision on the proposed CRS mechanism.
- b. Would Mr. Henkes find Atmos's proposed CRS mechanism objectionable if it did not provide for a revenue adjustment for any proposed rate base investments, revenues and costs for the Rate Effective Period?
- c. Would Mr. Henkes find Atmos's proposed CRS mechanism objectionable if it did not provide for a revenue adjustment for any projected rate base investments, revenues, and costs for the Rate Effective Period but included incentives to promote energy efficiency?
- d. If Atmos was allowed to implement some form of CRS mechanism, would Mr. Henkes agree that the rate of return on equity should be reduced to recognize the fact that Atmos would face less risk?

Response:

- a. Mr. Henkes has never before encountered a ratemaking mechanism similar to the CRS mechanism proposed by Atmos in this case and, therefore, has never before submitted testimony on a similar CRS matter.
- b. Yes, Mr. Henkes would still find Atmos' proposed CRS mechanism objectionable if the above-referenced provisions were to be removed.
- c. Yes, Mr. Henkes would still find Atmos' proposed CRS mechanism objectionable if the above-referenced changes were to be made.
- d. Yes. See pages 51 and 52 of Mr. Henkes' testimony.

**Response of the Attorney General to the Public Service
Commission's Requests for Information to the Attorney General
Case No. 2006-00464**

Witness Responsible:
MICHAEL J. MAJOROS, JR.
PAGE 1 of 2

Question 10. Refer to the Direct Testimony of Michael J. Majoros, Jr. ("Majoros Testimony"), pages 7 and 11 of 25. Mr. Majoros proposes to include cost of removal factors in Atmos's depreciation rates that are based on the average of the most recent 5 years of Atmos's actual cost of removal experience. The Staff notes that in Case No. 2005-00042 Mr. Majoros opposed the use of the most recent 5-year average salvage data.² In that case, the Commission found that it was more reasonable to base the net salvage factor for Plant Account No. 276 on all the historic salvage data available.³

- a. Identify and explain in detail the reasons why Mr. Majoros opposed the use of the most recent 5-year average salvage data in Case No. 2005-00042 but advocates the current 5-year average approach in this case.
- b. On page 11 of 25 Mr. Majoros states that Atmos maintains its actual expenditures for cost of removal. Did Mr. Majoros review all the historic actual cost of removal data when preparing his testimony? Explain the response.
- c. Explain in detail why the cost of removal factors incorporated into the depreciation rates for Atmos should not reflect all available historic cost of removal data.
- d. Recalculate Exhibits MJM-3 and MJM-4 reflecting the use of cost of removal factors based on all available historic actual cost of removal data. Include any additional workpapers, schedules, or assumptions used to prepare the recalculations.

² Case No. 2005-00042, Majoros Direct Testimony at 17 through 19 of 40.

³ Case No. 2005-00042, December 22, 2005 Order at 35.

**Response of the Attorney General to the Public Service
Commission's Requests for Information to the Attorney General
Case No. 2006-00464**

PAGE 2 of 2

RESPONSE:

- a. Mr. Majoros opposes excessive cost of removal ratios as he has expressed in many filings before the Kentucky Public Service Commission. In UHL&P's Case No. 2005-00042, Mr. Majoros recommended net salvage ratios which reflected what he believed were staff's concerns as identified in various data requests and the Company's responses thereto. These led to what Mr. Majoros considered to be reasonable net salvage ratios. Mr. Majoros did not oppose the use of the most recent 5-year data. In UHL&P's Case No. 2006-00172, Mr. Majoros advocated a 5-year normalized net salvage allowance approach for all the reasons set-forth in his September 13, 2006 testimony filed in that case. In this case, Mr. Majoros conducted a net salvage study which is attached to his testimony as Exhibit ___(MJM-3). The study contains the annual retirements, cost of removal and gross salvage data for the five years ending 2006 for each plant account. Mr. Majoros used the net salvage data from that study to calculate annual net salvage factors for each account. Mr. Majoros believes that more recent data should be used to calculate these factors. That is why he conducted a five-year study.
- b. Mr. Majoros reviewed all the cost of removal data that Atmos provided. It appears that the data only extends back to 1996.
- c. Mr. Majoros would not object to using 10-year bands, but in his judgment, the most recent 5-years is more relevant.
- d. See attached files.

ATMOS ENERGY CORPORATION - KENTUCKY
 Book Depreciation Study as of September 30, 2005
 Snavelly King Calculated Rates and Accruals
 Using 10-Year Average COR (As Requested in KPSC Staff, Q. 10)

Account	Description	9/30/2005 Balance (a)	Company Proposed					Plant Only Depreciation Expense (h)=(a)*(g)	10-Yr. Avg. COR Rate (i)	10-Yr. Avg. COR Allowance (j)=(a)*(i)	Snavelly King	
			ASL (b)	Iowa Curve (c)	Remaining Life (d)	ELG Rate (e)	COR Rate (f)				Plant Only Rate (g)=(e)-(f)	Total Rate (k)=(g)+(i)
PRODUCTION PLANT												
325 20	Producing Leaseholds	2,353	50	R5	17.0	5.69	0.00	5.89	-	0	5.89	139
325 40	Rights-of-Way	83,422	50	R5	43.7	2.29	0.00	2.29	-	0	2.29	1,910
336 00	Purification Equipment	44,369	50	R5	20.0	5.26	0.10	5.16	-	0	5.16	2,289
	Total Production Plant	130,144						3.33		0		4,338
STORAGE PLANT												
351.00	Structures and Improvements	309,065	50	R2	27.4	0.60	0.00	0.60	-	0	0.60	1,854
352.00	Well Construction and Equipment	2,176,341	50	R3	28.9	2.11	0.80	1.31	0.1395	3,035	1.45	31,545
352.03	Cushion Gas	677,933 1/	50	SQ	41.5	2.38	0.00	2.38	-	0	2.38	16,135
352 11	Storage Rights	54,614	50	R5	18.4	0.44	0.00	0.44	-	0	0.44	240
354 00	Compressor Station Equipment	546,780	50	R1.5	24.7	0.60	0.00	0.60	0.0019	11	0.60	3,291
355 00	M&R Station Equipment	288,851	50	R2	25.8	0.12	0.00	0.12	-	0	0.12	347
	Total Storage Plant	4,053,584						1.24	0.0751	3,046		53,412
TRANSMISSION PLANT												
365 20	Rights-of-Way	812,196	55	R5	36.5	1.65	0.00	1.65	-	0	1.65	13,401
366 00	Structures and Improvements	283,237	50	R3	36.7	2.05	0.00	2.05	-	0	2.05	5,806
367 00	Mains	22,044,698	55	R1	30.1	1.85	0.45	1.40	0.0131	2,884	1.41	310,508
369 00	M&R Station Equipment	2,952,222	45	R0.5	25.9	1.48	0.04	1.44	0.0009	27	1.44	42,408
	Total Transmission Plant	26,092,353						1.42	0.0112	2,911		372,123
DISTRIBUTION PLANT												
374 02	Land Rights	145,459	55	R5	46.8	1.86	0.00	1.86	-	0	1.86	2,706
375 00	Structures and Improvements	468,328	50	L0	25.6	3.18	0.20	2.98	0.0652	305	3.05	14,262
376 00	Mains	95,924,845	55	R0.5	31.7	2.43	0.45	1.98	0.0637	61,071	2.04	1,956,023
378 00	M&R Station Equipment	2,617,970	50	R1	28.1	1.92	0.10	1.82	0.0002	6	1.82	47,653
379 00	City Gate Equipment	2,804,310	50	R1	29.0	2.43	0.30	2.13	0.0075	211	2.14	59,943
380 00	Services	69,190,312	40	R1.5	24.3	5.23	1.88	3.36	0.4274	295,738	3.78	2,617,073
381 00	Meters	13,775,723	25	R0.5	14.7	8.06	1.00	7.06	0.0222	3,063	7.08	975,629
382 00	Meter Installations	33,358,910	40	R1	23.4	4.60	0.63	3.98	0.9340	311,566	4.91	1,637,583
383 00	House Regulators	4,816,604	30	S6	17.2	2.90	0.00	2.90	-	0	2.90	139,687
384 00	House Regulator Installations	154,276	35	R2	20.1	2.02	0.00	2.02	-	0	2.02	3,116
385 00	Industrial M&R Equipment	4,433,322	40	L5	27.6	2.61	0.43	2.19	0.0217	963	2.21	97,831
	Total Distribution Plant	227,690,259						3.02	0.2955	672,924		7,551,505
GENERAL PLANT												
390 00	Structures and Improvements	966,202	15	L2	8.4	9.91	0.00	9.91	-	0	9.91	95,751
390 09	Improvements to Leased Premises	1,382,343	25	R4	10.8	2.36	0.00	2.36	-	0	2.36	32,623
391 00	Office Furniture and Equipment	2,305,350	18	L0	9.4	6.22	0.00	6.22	0.0001	3	6.22	143,396
392 00	Transportation Equipment	761,620	8	S5	2.6	59.79	0.00	59.79	0.0884	674	59.88	456,046
394 00	Tools, Shop and Garage Equipment	2,118,023	20	S6	10.5	6.63	0.00	6.63	-	0	6.63	140,425
396 00	Power Operated Equipment	663,629	15	L5	4.8	20.76	0.00	20.76	0.0054	36	20.77	137,805
397 00	Communication Equipment	1,498,100	20	S2	10.8	5.43	0.00	5.43	-	0	5.43	81,347
398 00	Miscellaneous Equipment	2,160,051	20	R5	17.0	4.26	0.00	4.26	-	0	4.26	92,018
399 01	OTP - Servers Hardware	175,990	10	SQ	3.5	2.71	0.00	2.71	-	0	2.71	4,769
399 03	OTP - Network Hardware	511,781	10	SQ	4.0	5.22	0.00	5.22	-	0	5.22	26,715
399 06	OTP - PC Hardware	2,702,795	10	L1	5.1	0.61	0.00	0.61	-	0	0.61	16,487
399 07	OTP - PC Software	242,979	5	S1.5	1.8	19.16	0.00	19.16	-	0	19.16	46,555
399 08	OTP - Application Software	522,254	8	R5	2.4	17.49	0.00	17.49	-	0	17.49	91,342
	Total General Plant	16,011,117						8.52	0.0044	712		1,365,279
	Total Depreciable Plant	273,977,457						3.16	0.2480	679,592		9,346,658
	Intangible Plant	128,183										
	Non-Depreciable Plant	486,462										
	Fully Depreciated Plant	2,303,510										
	Total Plant in Service	276,895,612										

1/ Plant balance updated per response to AG DR 2-52

Sources:
 Cols. (a) - (c) and (e) from Exhibit DSR-3
 Col. (d) from response to AG 1-87
 Col. (i) from Exhibit (MJM-3), Revised for Staff Q. 10 Note that this is based on the 10-year average COR experience.

ATMOS ENERGY CORPORATION - SHARED SERVICES
 Book Depreciation Study as of September 30, 2006
 Snavelly King Calculated Rates and Accruals
 Using 14-Year Average COR (As Requested in KPSC Staff, Q. 10)

Account	Description	9/30/2006 Balance (a)	Company Proposed					Plant Only Depreciation Expense (h)=(a)*(g)	14 Yr. Avg. COR Rate (i)	14 Yr. Avg. COR Allowance (j)=(a)*(i)	Snavelly King		
			ASL (b)	lowa Curve (c)	Remaining Life (d)	Study Rate (e)	COR Rate (f)				Plant Only Rate (g)=(e)-(f)	Total Rate (k)=(g)+(i)	Total Depreciation and COR (l)=(h)+(j)
GENERAL PLANT													
390.09	Improvements to Leased Premises	9,949,143	10.0	SQ	4	9.10	0.00	9.10	905,372	-	-	9.10	905,372
391.00	Office Furniture and Equipment	9,074,352	30.0	R2	16	2.13	0.00	2.13	193,284	(0.0040)	(365)	2.13	192,919
397.00	Communication Equipment	25,311,861	10.0	L3	8.4	8.45	0.00	8.45	2,138,852	0.0009	222	8.45	2,139,074
398.00	Miscellaneous Equipment	633,466	10.0	S6	4.3	8.15	0.00	8.15	51,627	-	-	8.15	51,627
399.00	Other Tangible Property	224,866	5.0	SQ	1	4.66	0.00	4.66	10,479	-	-	4.66	10,479
399.01	Servers Hardware	14,567,322	5.0	SQ	5.7	6.95	0.00	6.95	1,012,429	-	-	6.95	1,012,429
399.02	Servers Software	8,647,580	5.0	SQ	6.3	4.00	0.00	4.00	345,903	-	-	4.00	345,903
399.03	Network Hardware	2,377,029	5.0	SQ	8.4	9.30	0.00	9.30	221,064	-	-	9.30	221,064
399.06	PC Hardware	6,691,156	4.0	SQ	3.9	14.86	0.00	14.86	994,306	0.0000	3	14.86	994,309
399.07	PC Software	3,928,199	4.0	SQ	5.3	9.02	0.00	9.02	354,324	-	-	9.02	354,324
399.08	Application Software	111,323,312	8.0	S1.5	5	11.11	0.00	11.11	12,368,020	-	-	11.11	12,368,020
399.24	General Startup Cost	23,172,326	10.0	SQ	2.5	15.89	0.00	15.89	3,682,083	-	-	15.89	3,682,083
	Total Depreciable General Plant	215,900,612						10.32	22,277,742		(140)		22,277,602
	Fully Depreciated	5,331,910											
	Late Retirements	4,363,383											
	Total Shared Services Facilities	225,595,905											

Sources:

Cols. (a) - (c) and (e) from Exhibit DSR-4.

Col. (d) from response to AG 1-87.

Col. (i) from Exhibit (MJM-3), Revised for Staff Q. 10. Note that this is based on the 14-year average COR experience.

ATMOS ENERGY CORPORATION - KENTUCKY
 Comparison of Atmos and Snavelly King Calculated COR Rates and Accruals
 Using 10-Year Average COR (As Requested in KPSC Staff, Q. 10)

Account	Description	9/30/2005 Balance (a)	Company Proposed		10-Year Avg.		Difference (f)=(e)-(c)
			COR Rate (b)	COR Expense (c)=(a)*(b)	COR Rate (d)	COR Allowance (e)=(a)*(d)	
PRODUCTION PLANT							
325.20	Producing Leaseholds	2,353	0.00	-	0.000	-	-
325.40	Rights-of-Way	83,422	0.00	-	0.000	-	-
336.00	Purification Equipment	44,369	0.10	44	0.000	-	(44)
	Total Production Plant	<u>130,144</u>		<u>44</u>	0.000	<u>-</u>	<u>(44)</u>
STORAGE PLANT							
351.00	Structures and Improvements	309,065	0.00	-	0.000	-	-
352.00	Well Construction and Equipment	2,176,341	0.80	17,411	0.139	3,035	(14,376)
352.03	Cushion Gas	1,694,833	0.00	-	0.000	-	-
352.11	Storage Rights	54,614	0.00	-	0.000	-	-
354.00	Compressor Station Equipment	546,780	0.00	-	0.002	11	11
355.00	M&R Station Equipment	288,851	0.00	-	0.000	-	-
	Total Storage Plant	<u>5,070,484</u>		<u>17,411</u>	0.060	<u>3,046</u>	<u>(14,365)</u>
TRANSMISSION PLANT							
365.20	Rights-of-Way	812,196	0.00	-	0.000	-	-
366.00	Structures and Improvements	283,237	0.00	-	0.000	-	-
367.00	Mains	22,044,698	0.45	100,203	0.013	2,884	(97,319)
369.00	M&R Station Equipment	2,952,222	0.04	1,312	0.001	27	(1,285)
	Total Transmission Plant	<u>26,092,353</u>		<u>101,515</u>	0.011	<u>2,911</u>	<u>(98,604)</u>
DISTRIBUTION PLANT							
374.02	Land Rights	145,459	0.00	-	0.000	-	-
375.00	Structures and Improvements	468,328	0.20	937	0.065	305	(631)
376.00	Mains	95,924,845	0.45	436,022	0.064	61,071	(374,951)
378.00	M&R Station Equipment	2,617,970	0.10	2,618	0.000	6	(2,612)
379.00	City Gate Equipment	2,804,310	0.30	8,413	0.008	211	(8,202)
380.00	Services	69,190,312	1.88	1,297,318	0.427	295,738	(1,001,580)
381.00	Meters	13,775,723	1.00	137,757	0.022	3,063	(134,695)
382.00	Meter Installations	33,358,910	0.63	208,493	0.934	311,566	103,073
383.00	House Regulators	4,816,804	0.00	-	0.000	-	-
384.00	House Regulator Installations	154,276	0.00	-	0.000	-	-
385.00	Industrial M&R Equipment	4,433,322	0.43	18,842	0.022	963	(17,879)
	Total Distribution Plant	<u>227,690,259</u>		<u>2,110,400</u>	0.296	<u>672,924</u>	<u>(1,437,476)</u>
GENERAL PLANT							
390.00	Structures and Improvements	966,202	0.00	-	0.000	-	-
390.09	Improvements to Leased Premises	1,382,343	0.00	-	0.000	-	-
391.00	Office Furniture and Equipment	2,305,350	0.00	-	0.000	3	3
392.00	Transportation Equipment	761,620	0.00	-	0.088	674	674
394.00	Tools, Shop and Garage Equipment	2,118,023	0.00	-	0.000	-	-
396.00	Power Operated Equipment	663,629	0.00	-	0.005	36	36
397.00	Communication Equipment	1,498,100	0.00	-	0.000	-	-
398.00	Miscellaneous Equipment	2,160,051	0.00	-	0.000	-	-
399.01	OTP - Servers Hardware	175,990	0.00	-	0.000	-	-
399.03	OTP - Network Hardware	511,781	0.00	-	0.000	-	-
399.06	OTP - PC Hardware	2,702,795	0.00	-	0.000	-	-
399.07	OTP - PC Software	242,979	0.00	-	0.000	-	-
399.08	OTP - Application Software	522,254	0.00	-	0.000	-	-
	Total General Plant	<u>16,011,117</u>		<u>0</u>	0.0044	<u>712</u>	<u>712</u>
	Total Depreciable Plant	<u>274,994,357</u>		<u>2,229,370</u>	0.2471	<u>679,592</u>	<u>(1,549,778)</u>
	Intangible Plant	128,183					
	Non-Depreciable Plant	486,462					
	Fully Depreciated Plant	<u>2,303,510</u>					
	Total Plant in Service	<u>277,912,512</u>					

Sources:

Cols (a) and (b) from Exhibit DSR-3.

Col. (d) from Exhibit__(MJM-3), Revised for Staff Q. 10. Note that this is based on the 10-year average COR experience.

ATMOS ENERGY CORPORATION - SHARED SERVICES
 Comparison of Atmos and Snively King Calculated COR Rates and Accruals
 Using 14-Year Average COR (As Requested in KPSC Staff, Q. 10)

Account	Description	9/30/2006 Balance (a)	Company Proposed		14-Year Average		Difference (f)=(e)-(c)
			COR Rate (b)	COR Allowance (c)=(a)*(b)	COR Rate (d)	COR Allowance (e)=(a)*(d)	
GENERAL PLANT							
390.09	Improvements to Leased Premises	9,949,143	0.00	-	0.0000	-	-
391.00	Office Furniture and Equipment	9,074,352	0.00	-	(0.0040)	(365)	(365)
397.00	Communication Equipment	25,311,861	0.00	-	0.0009	222	222
398.00	Miscellaneous Equipment	633,466	0.00	-	0.0000	-	-
399.00	Other Tangible Property	224,866	0.00	-	0.0000	-	-
399.01	Servers Hardware	14,567,322	0.00	-	0.0000	-	-
399.02	Servers Software	8,647,580	0.00	-	0.0000	-	-
399.03	Network Hardware	2,377,029	0.00	-	0.0000	-	-
399.06	PC Hardware	6,691,156	0.00	-	0.0000	3	3
399.07	PC Software	3,928,199	0.00	-	0.0000	-	-
399.08	Application Software	111,323,312	0.00	-	0.0000	-	-
399.24	General Startup Cost	23,172,326	0.00	-	0.0000	-	-
	Total Depreciable General Plant	<u>215,900,612</u>		<u>0</u>		<u>(140)</u>	<u>(140)</u>
	Fully Depreciated	<u>5,331,910</u>					
	Late Retirements	<u>4,363,383</u>					
	Total Shared Services Facilities	<u>225,595,905</u>					

Sources:

Cols (a) and (b) from Exhibit DSR-4.

Col. (d) from Exhibit____(MJM-3), Revised for Staff Q. 10. Note that this is based on the 14-year average COR experience.

ATMOS ENERGY CORPORATION - KENTUCKY
 Book Depreciation Study as of September 30, 2005
 Snavelly King Calculated COR Rates and Allowances
 Based on 10-Year Average COR (As Requested in KPSC Staff, Q. 10)

<u>Account</u>	<u>Description</u>	9/30/2005 Balance (a)	1996-2005 10-Year Avg. COR (b)	10-Year COR Rate (c)=(b)/(a)	10-Year COR Allowance (d)=(a)*(c)
<u>PRODUCTION PLANT</u>					
325.20	Producing Leaseholds	2,353	-	-	-
325.40	Rights-of-Way	83,422	-	-	-
336.00	Purification Equipment	44,369	-	-	-
	Total Production Plant	130,144	-	-	-
<u>STORAGE PLANT</u>					
351.00	Structures and Improvements	309,065	-	-	-
352.00	Well Construction and Equipment	2,176,341	3,035	0.14	3,035
352.03	Cushion Gas	1,694,833	-	-	-
352.11	Storage Rights	54,614	-	-	-
354.00	Compressor Station Equipment	546,780	11	0.00	11
355.00	M&R Station Equipment	288,851	-	-	-
	Total Storage Plant	5,070,484	3,046	0.06	3,046
<u>TRANSMISSION PLANT</u>					
365.20	Rights-of-Way	812,196	-	-	-
366.00	Structures and Improvements	283,237	-	-	-
367.00	Mains	22,044,698	2,884	0.01	2,884
369.00	M&R Station Equipment	2,952,222	27	0.00	27
	Total Transmission Plant	26,092,353	2,911	0.01	2,911
<u>DISTRIBUTION PLANT</u>					
374.02	Land Rights	145,459	-	-	-
375.00	Structures and Improvements	468,328	305	0.07	305
376.00	Mains	95,924,845	61,071	0.06	61,071
378.00	M&R Station Equipment	2,617,970	6	0.00	6
379.00	City Gate Equipment	2,804,310	211	0.01	211
380.00	Services	69,190,312	295,738	0.43	295,738
381.00	Meters	13,775,723	3,063	0.02	3,063
382.00	Meter Installations	33,358,910	311,566	0.93	311,566
383.00	House Regulators	4,816,804	-	-	-
384.00	House Regulator Installations	154,276	-	-	-
385.00	Industrial M&R Equipment	4,433,322	963	0.02	963
	Total Distribution Plant	227,690,259	672,924	0.30	672,924
<u>GENERAL PLANT</u>					
390.00	Structures and Improvements	966,202	-	-	-
390.09	Improvements to Leased Premises	1,382,343	-	-	-
391.00	Office Furniture and Equipment	2,305,350	3	0.00	3
392.00	Transportation Equipment	761,620	674	0.09	674
394.00	Tools, Shop and Garage Equipment	2,118,023	1	-	-
396.00	Power Operated Equipment	663,629	36	0.01	36
397.00	Communication Equipment	1,498,100	-	-	-
398.00	Miscellaneous Equipment	2,160,051	-	-	-
399.01	OTP - Servers Hardware	175,990	-	-	-
399.03	OTP - Network Hardware	511,781	-	-	-
399.06	OTP - PC Hardware	2,702,795	-	-	-
399.07	OTP - PC Software	242,979	-	-	-
399.08	OTP - Application Software	522,254	-	-	-
	Total General Plant	16,011,117	712	0.00	712
	Total Depreciable Plant	274,994,357	679,593	0.25	679,592
	Intangible Plant	128,183			
	Non-Depreciable Plant	486,462			
	Fully Depreciated Plant	2,303,510			
	Total Plant in Service	277,912,512			

Sources:

Col. (a) from Exhibit DSR-3, Schedule 1.

Col. (b) from pages 3-7.

ATMOS ENERGY CORPORATION - SHARED SERVICES
Book Depreciation Study as of September 30, 2006
Snavey King Calculated COR Rates and Allowances
Based on 14-Year Average COR (As Requested in KPSC Staff, Q. 10)

<u>Account</u>	<u>Description</u>	<u>9/30/2006 Balance</u> (a)	<u>1993-2006 14-Year Avg. COR</u> (b)	<u>14-Yr. Avg COR Rate</u> (c)=(b)/(a)	<u>14-Yr. Avg COR Allowance</u> (d)=(a)*(c)
<u>GENERAL PLANT</u>					
390.09	Improvements to Leased Premises	9,949,143	-	-	-
391.00	Office Furniture and Equipment	9,074,352	(365)	(0.004)	(365)
397.00	Communication Equipment	25,311,861	222	0.001	222
398.00	Miscellaneous Equipment	633,466	-	-	-
399.00	Other Tangible Property	224,866	-	-	-
399.01	Servers Hardware	14,567,322	-	-	-
399.02	Servers Software	8,647,580	-	-	-
399.03	Network Hardware	2,377,029	-	-	-
399.06	PC Hardware	6,691,156	3	0.000	3
399.07	PC Software	3,928,199	-	-	-
399.08	Application Software	111,323,312	-	-	-
399.24	General Startup Cost	23,172,326	-	-	-
	Total Depreciable General Plant	215,900,612	(140)	(0.000)	(140)
	Fully Depreciated	5,331,910			
	Late Retirements	4,363,383			
	Total Shared Services Facilities	225,595,905			

Sources:

Col. (a) from Exhibit DSR-4, Schedule 1.

Col. (b) from pages 8-10.

ATMOS ENERGY CORPORATION - KENTUCKY
 Ten-Year Average Net Salvage Experience
 1996-2005

<u>Account</u> (a)	<u>Year</u> (b)	<u>Retirements</u> (c)	<u>Salvage</u> (d)	<u>Cost of Removal</u> (e)	<u>Net Salvage</u> (f)=(d)-(e)
35100000	1996	-	-	-	-
35100000	1997	-	-	-	-
35100000	1998	589	619	-	619
35100000	1999	-	-	-	-
35100000	2000	-	-	-	-
35100000	2001	-	-	-	-
35100000	2002	-	-	-	-
35100000	2003	-	-	-	-
35100000	2004	-	-	-	-
35100000	2005	-	-	-	-
Ten Year Total		589	619	-	619
Ten Year Average		59	62	-	62
35200000	1996	-	-	-	-
35200000	1997	-	-	328	(328)
35200000	1998	1,565	-	-	-
35200000	1999	15,727	-	30	(30)
35200000	2000	59,273	-	29,992	(29,992)
35200000	2001	-	-	-	-
35200000	2002	-	-	-	-
35200000	2003	-	-	-	-
35200000	2004	-	-	-	-
35200000	2005	-	-	-	-
Ten Year Total		76,565	-	30,350	(30,350)
Ten Year Average		7,657	-	3,035	(3,035)
35400000	1996	-	-	-	-
35400000	1997	-	-	106	(106)
35400000	1998	-	-	-	-
35400000	1999	-	-	-	-
35400000	2000	-	-	-	-
35400000	2001	-	-	-	-
35400000	2002	-	-	-	-
35400000	2003	-	-	-	-
35400000	2004	-	-	-	-
35400000	2005	-	-	-	-
Ten Year Total		-	-	106	(106)
Ten Year Average		-	-	11	(11)
36700000	1996	8,002	-	12	(12)
36700000	1997	-	-	333	(333)
36700000	1998	2,611	-	-	-
36700000	1999	883	-	-	-
36700000	2000	7,957	-	-	-
36700000	2001	6,910	-	-	-
36700000	2002	2,750	-	-	-
36700000	2003	-	-	-	-
36700000	2004	-	-	-	-
36700000	2005	22,519	-	28,499	(28,499)
Ten Year Total		51,632	-	28,844	(28,844)
Ten Year Average		5,163	-	2,884	(2,884)
36900000	1996	-	-	191	(191)
36900000	1997	-	-	-	-
36900000	1998	13,523	-	77	(77)
36900000	1999	-	-	-	-
36900000	2000	-	-	-	-
36900000	2001	2,183	-	-	-
36900000	2002	-	-	-	-
36900000	2003	-	-	-	-
36900000	2004	-	-	-	-
36900000	2005	-	-	-	-
Ten Year Total		15,706	-	268	(268)
Ten Year Average		1,571	-	27	(27)
37500000	1996	-	-	-	-
37500000	1997	-	-	-	-
37500000	1998	-	-	-	-
37500000	1999	-	-	-	-
37500000	2000	4,190	-	3,054	(3,054)
37500000	2001	-	-	-	-
37500000	2002	-	-	-	-
37500000	2003	-	-	-	-
37500000	2004	-	-	-	-
37500000	2005	-	-	-	-
Ten Year Total		4,190	-	3,054	(3,054)

ATMOS ENERGY CORPORATION - KENTUCKY
Ten-Year Average Net Salvage Experience
1996-2005

<u>Account</u> (a)	<u>Year</u> (b)	<u>Retirements</u> (c)	<u>Salvage</u> (d)	<u>Cost of Removal</u> (e)	<u>Net Salvage</u> (f)=(d)-(e)
Ten Year Average		419	-	305	(305)

ATMOS ENERGY CORPORATION - KENTUCKY
 Ten-Year Average Net Salvage Experience
 1996-2005

Account (a)	Year (b)	Retirements (c)	Salvage (d)	Cost of Removal (e)	Net Salvage (f)=(d)-(e)
37600000	1996	55,351	67,855	4,609	63,246
37600000	1997	197,090	-	251,775	(251,775)
37600000	1998	121,727	6,321	2,709	3,612
37600000	1999	143,666	-	25,600	(25,600)
37600000	2000	67,723	-	80,330	(80,330)
37600000	2001	180,309	-	100,246	(100,246)
37600000	2002	112,370	-	20,416	(20,416)
37600000	2003	112,104	-	42,202	(42,202)
37600000	2004	63,595	-	50,731	(50,731)
37600000	2005	305,582	-	32,095	(32,095)
Ten Year Total		1,359,517	74,176	610,713	(536,538)
Ten Year Average		135,952	7,418	61,071	(53,654)
37800000	1996	-	-	39	(39)
37800000	1997	-	-	-	-
37800000	1998	375	-	23	(23)
37800000	1999	917	-	-	-
37800000	2000	-	-	-	-
37800000	2001	-	-	-	-
37800000	2002	-	-	-	-
37800000	2003	-	-	-	-
37800000	2004	-	-	-	-
37800000	2005	-	-	-	-
Ten Year Total		1,292	-	62	(62)
Ten Year Average		129	-	6	(6)
37900000	1996	-	-	-	-
37900000	1997	-	-	-	-
37900000	1998	-	-	-	-
37900000	1999	1,547	-	-	-
37900000	2000	12,823	-	2,112	(2,112)
37900000	2001	-	-	-	-
37900000	2002	-	-	-	-
37900000	2003	-	-	-	-
37900000	2004	302	-	-	-
37900000	2005	-	-	-	-
Ten Year Total		14,672	-	2,112	(2,112)
Ten Year Average		1,467	-	211	(211)
38000000	1996	176,565	-	27,636	(27,636)
38000000	1997	215,379	154	29,621	(29,467)
38000000	1998	-	-	16,139	(16,139)
38000000	1999	340,026	-	253,715	(253,715)
38000000	2000	436,424	-	559,854	(559,854)
38000000	2001	1,081,065	-	450,538	(450,538)
38000000	2002	353,920	-	282,498	(282,498)
38000000	2003	573,781	-	600,977	(600,977)
38000000	2004	127,032	-	479,035	(479,035)
38000000	2005	540,726	-	257,366	(257,366)
Ten Year Total		3,844,918	154	2,957,379	(2,957,225)
Ten Year Average		384,492	15	295,738	(295,722)
38100000	1996	796,549	359,733	3,981	355,752
38100000	1997	165,892	20,205	109	20,096
38100000	1998	5,818	38,534	-	38,534
38100000	1999	292,116	-	26,537	(26,537)
38100000	2000	-	-	-	-
38100000	2001	-	-	-	-
38100000	2002	-	-	-	-
38100000	2003	9,244,466	-	-	-
38100000	2004	-	-	-	-
38100000	2005	-	-	-	-
Ten Year Total		10,504,841	418,472	30,627	387,845
Ten Year Average		1,050,484	41,847	3,063	38,785
38200000	1996	50,071	-	61,106	(61,106)
38200000	1997	61,875	-	106,958	(106,958)
38200000	1998	-	-	9,625	(9,625)
38200000	1999	10,925	-	7,540	(7,540)
38200000	2000	79,200	-	414,823	(414,823)
38200000	2001	57,297	-	161,169	(161,169)
38200000	2002	250,858	-	1,139,462	(1,139,462)
38200000	2003	312,393	-	536,125	(536,125)
38200000	2004	203,956	-	521,798	(521,798)
38200000	2005	110,560	-	157,057	(157,057)
Ten Year Total		1,137,135	-	3,115,663	(3,115,663)

ATMOS ENERGY CORPORATION - KENTUCKY
Ten-Year Average Net Salvage Experience
1996-2005

<u>Account</u> (a)	<u>Year</u> (b)	<u>Retirements</u> (c)	<u>Salvage</u> (d)	<u>Cost of Removal</u> (e)	<u>Net Salvage</u> (f)=(d)-(e)
Ten Year Average		113,714	-	311,566	(311,566)

ATMOS ENERGY CORPORATION - KENTUCKY
 Ten-Year Average Net Salvage Experience
 1996-2005

<u>Account</u> (a)	<u>Year</u> (b)	<u>Retirements</u> (c)	<u>Salvage</u> (d)	<u>Cost of Removal</u> (e)	<u>Net Salvage</u> (f)=(d)-(e)
38300000	1996	143,491	-	-	-
38300000	1997	-	-	-	-
38300000	1998	264,277	-	-	-
38300000	1999	-	-	-	-
38300000	2000	-	-	-	-
38300000	2001	-	-	-	-
38300000	2002	-	-	-	-
38300000	2003	68	-	-	-
38300000	2004	-	-	-	-
38300000	2005	4,054	-	-	-
Ten Year Total		411,890	-	-	-
Ten Year Average		41,189	-	-	-
38400000	1996	-	-	-	-
38400000	1997	2,664	-	-	-
38400000	1998	-	-	-	-
38400000	1999	-	-	-	-
38400000	2000	-	-	-	-
38400000	2001	-	-	-	-
38400000	2002	-	-	-	-
38400000	2003	-	-	-	-
38400000	2004	-	-	-	-
38400000	2005	-	-	-	-
Ten Year Total		2,664	-	-	-
Ten Year Average		266	-	-	-
38500000	1996	16,570	1,028	3	1,025
38500000	1997	2,204	-	18	(18)
38500000	1998	14,263	-	10	(10)
38500000	1999	6,054	-	-	-
38500000	2000	681	-	1,698	(1,698)
38500000	2001	16,167	-	7,896	(7,896)
38500000	2002	-	-	-	-
38500000	2003	-	-	-	-
38500000	2004	-	-	-	-
38500000	2005	-	-	-	-
Ten Year Total		55,939	1,028	9,625	(8,597)
Ten Year Average		5,594	103	963	(860)
39000000	1996	-	-	-	-
39000000	1997	-	-	-	-
39000000	1998	1,718	-	-	-
39000000	1999	-	-	-	-
39000000	2000	-	-	-	-
39000000	2001	-	-	-	-
39000000	2002	-	-	-	-
39000000	2003	-	-	-	-
39000000	2004	-	-	-	-
39000000	2005	-	-	-	-
Ten Year Total		1,718	-	-	-
Ten Year Average		172	-	-	-
39100000	1996	14,396	-	-	-
39100000	1997	-	2,809	-	2,809
39100000	1998	6,356	1,342	-	1,342
39100000	1999	1,465	-	-	-
39100000	2000	13,341	-	-	-
39100000	2001	72,169	-	28	(28)
39100000	2002	94,992	-	-	-
39100000	2003	15,380	-	-	-
39100000	2004	38,289	-	-	-
39100000	2005	-	-	-	-
Ten Year Total		256,388	4,151	28	4,123
Ten Year Average		25,639	415	3	412
39200000	1996	623,819	189,433	1,191	188,242
39200000	1997	131,611	40,503	615	39,888
39200000	1998	550,378	127,968	8	127,960
39200000	1999	291,792	77,749	275	77,474
39200000	2000	810,884	101,794	-	101,794
39200000	2001	549,771	7,561	-	7,561
39200000	2002	216,646	35,292	-	35,292
39200000	2003	2,732,280	79,320	-	79,320
39200000	2004	559,510	-	-	-
39200000	2005	394,260	67,019	4,646	62,373
Ten Year Total		6,860,951	726,639	6,735	719,904

ATMOS ENERGY CORPORATION - KENTUCKY
Ten-Year Average Net Salvage Experience
1996-2005

<u>Account</u> (a)	<u>Year</u> (b)	<u>Retirements</u> (c)	<u>Salvage</u> (d)	<u>Cost of Removal</u> (e)	<u>Net Salvage</u> (f)=(d)-(e)
Ten Year Average		686,095	72,664	674	71,990

ATMOS ENERGY CORPORATION - KENTUCKY
 Ten-Year Average Net Salvage Experience
 1996-2005

Account	Year	Retirements	Salvage	Cost of Removal	Net Salvage
(a)	(b)	(c)	(d)	(e)	(f)=(d)-(e)
39400000	1996	35,537	4,400	-	4,400
39400000	1997	12,767	-	-	-
39400000	1998	-	-	-	-
39400000	1999	4,300	-	-	-
39400000	2000	25,384	10,742	-	10,742
39400000	2001	18,601	-	-	-
39400000	2002	764,651	-	-	-
39400000	2003	61,408	-	-	-
39400000	2004	517,271	-	-	-
39400000	2005	43,563	200	6	194
Ten Year Total		1,483,482	15,342	6	15,336
Ten Year Average		148,348	1,534	1	1,534
39600000	1996	1,106	7,500	-	7,500
39600000	1997	-	1,900	356	1,544
39600000	1998	1,515	520	-	520
39600000	1999	22,556	-	-	-
39600000	2000	153,880	54,000	-	54,000
39600000	2001	1,617	-	-	-
39600000	2002	278,879	22,479	-	22,479
39600000	2003	357,777	-	-	-
39600000	2004	204,050	-	-	-
39600000	2005	42,281	12,486	-	12,486
Ten Year Total		1,063,661	98,885	356	98,529
Ten Year Average		106,366	9,888	36	9,853
39700000	1996	2,141	-	-	-
39700000	1997	1,536	-	-	-
39700000	1998	-	-	-	-
39700000	1999	2,345	-	-	-
39700000	2000	-	-	-	-
39700000	2001	-	-	-	-
39700000	2002	38,139	-	-	-
39700000	2003	4,941	-	-	-
39700000	2004	-	-	-	-
39700000	2005	32,436	-	-	-
Ten Year Total		81,538	-	-	-
Ten Year Average		8,154	-	-	-
39906000	1996	-	-	-	-
39906000	1997	-	-	-	-
39906000	1998	-	-	-	-
39906000	1999	-	-	-	-
39906000	2000	39,452	345	-	345
39906000	2001	-	-	-	-
39906000	2002	190,623	-	-	-
39906000	2003	158,354	2,788	-	2,788
39906000	2004	176,848	-	-	-
39906000	2005	-	-	-	-
Ten Year Total		565,277	3,133	-	3,133
Ten Year Average		56,528	313	-	313
39907000	1996	-	-	-	-
39907000	1997	-	-	-	-
39907000	1998	-	-	-	-
39907000	1999	185,509	-	-	-
39907000	2000	-	-	-	-
39907000	2001	-	-	-	-
39907000	2002	-	-	-	-
39907000	2003	54,807	-	-	-
39907000	2004	-	-	-	-
39907000	2005	-	-	-	-
Ten Year Total		240,316	-	-	-
Ten Year Average		24,032	-	-	-
39908000	1996	-	-	-	-
39908000	1997	-	-	-	-
39908000	1998	-	-	-	-
39908000	1999	55,783	-	-	-
39908000	2000	-	-	-	-
39908000	2001	-	-	-	-
39908000	2002	-	-	-	-
39908000	2003	-	-	-	-
39908000	2004	-	-	-	-
39908000	2005	-	-	-	-
Ten Year Total		55,783	-	-	-

ATMOS ENERGY CORPORATION - KENTUCKY
Ten-Year Average Net Salvage Experience
1996-2005

<u>Account</u> (a)	<u>Year</u> (b)	<u>Retirements</u> (c)	<u>Salvage</u> (d)	<u>Cost of Removal</u> (e)	<u>Net Salvage</u> (f)=(d)-(e)
Ten Year Average		5,578	-	-	-

ATMOS ENERGY CORPORATION - KENTUCKY
 Ten-Year Average Net Salvage Experience
 1996-2005

<u>Account</u> (a)	<u>Year</u> (b)	<u>Retirements</u> (c)	<u>Salvage</u> (d)	<u>Cost of Removal</u> (e)	<u>Net Salvage</u> (f)=(d)-(e)
<u>Total All Accounts</u>					
	1996	1,923,598	629,948	98,768	531,180
	1997	791,018	65,571	390,219	(324,648)
	1998	984,715	175,304	28,591	146,713
	1999	1,375,611	77,749	313,697	(235,948)
	2000	1,711,212	166,881	1,091,863	(924,982)
	2001	1,986,089	7,561	719,877	(712,316)
	2002	2,303,828	57,771	1,442,376	(1,384,605)
	2003	13,627,759	82,108	1,179,304	(1,097,196)
	2004	1,890,853	-	1,051,564	(1,051,564)
	2005	1,495,981	79,705	479,669	(399,964)
Ten Year Total		28,090,664	1,342,598	6,795,928	(5,453,330)
Ten Year Average		2,809,066	134,260	679,593	(545,333)

Source: Response to AG 1-087. Incorporates all data provided in "salkY_0905.xls"

ATMOS ENERGY CORPORATION - SHARED SERVICES
 14-Year Average Net Salvage Experience
 1993-2006

Account (a)	Year (b)	Retirements (c)	Salvage (d)	Cost of Removal (e)	Net Salvage (f)=(d)-(e)
39009000	1993	-	-	-	-
39009000	1994	-	-	-	-
39009000	1995	-	-	-	-
39009000	1996	-	-	-	-
39009000	1997	-	-	-	-
39009000	1998	-	-	-	-
39009000	1999	-	-	-	-
39009000	2000	270,911	-	-	-
39009000	2001	-	-	-	-
39009000	2002	-	-	-	-
39009000	2003	-	-	-	-
39009000	2004	-	-	-	-
39009000	2005	-	-	-	-
39009000	2006	178,757	-	-	-
14 Year Total		449,668	-	-	-
14 Year Average		32,119	-	-	-
39100000	1993	83,992	200	-	200
39100000	1994	7,848	-	-	-
39100000	1995	852	-	-	-
39100000	1996	92,361	-	-	-
39100000	1997	-	-	(5,108)	5,108
39100000	1998	6,852	-	-	-
39100000	1999	-	-	-	-
39100000	2000	-	-	-	-
39100000	2001	-	-	-	-
39100000	2002	-	-	-	-
39100000	2003	-	-	-	-
39100000	2004	-	-	-	-
39100000	2005	-	-	-	-
39100000	2006	1,420,965	-	-	-
14 Year Total		1,612,870	200	(5,108)	5,308
14 Year Average		115,205	14	(365)	379
39700000	1993	8,091	-	-	-
39700000	1994	-	-	-	-
39700000	1995	-	-	-	-
39700000	1996	-	-	-	-
39700000	1997	-	-	-	-
39700000	1998	-	-	-	-
39700000	1999	-	-	-	-
39700000	2000	-	-	-	-
39700000	2001	-	-	-	-
39700000	2002	-	-	-	-
39700000	2003	-	-	-	-
39700000	2004	34,015	26,609	3,107	23,502
39700000	2005	-	-	-	-
39700000	2006	792,568	-	-	-
14 Year Total		834,674	26,609	3,107	23,502
14 Year Average		59,620	1,901	222	1,679
39800000	1993	-	-	-	-
39800000	1994	-	-	-	-
39800000	1995	-	-	-	-
39800000	1996	149,090	9,000	-	9,000
39800000	1997	-	-	-	-
39800000	1998	-	-	-	-
39800000	1999	-	-	-	-
39800000	2000	-	-	-	-
39800000	2001	-	-	-	-
39800000	2002	-	-	-	-
39800000	2003	56,637	-	-	-
39800000	2004	-	-	-	-
39800000	2005	-	-	-	-
39800000	2006	-	-	-	-
14 Year Total		205,727	9,000	-	9,000
14 Year Average		14,695	643	-	643

ATMOS ENERGY CORPORATION - SHARED SERVICES
 14-Year Average Net Salvage Experience
 1993-2006

Account (a)	Year (b)	Retirements (c)	Salvage (d)	Cost of Removal (e)	Net Salvage (f)=(d)-(e)
39900000	1993	-	-	-	-
39900000	1994	219,471	-	-	-
39900000	1995	-	-	-	-
39900000	1996	-	-	-	-
39900000	1997	-	-	-	-
39900000	1998	-	-	-	-
39900000	1999	-	-	-	-
39900000	2000	-	-	-	-
39900000	2001	-	-	-	-
39900000	2002	8,143	-	-	-
39900000	2003	-	-	-	-
39900000	2004	-	-	-	-
39900000	2005	-	-	-	-
39900000	2006	-	-	-	-
14 Year Total		227,614	-	-	-
14 Year Average		16,258	-	-	-
39903000	1993	-	-	-	-
39903000	1994	-	-	-	-
39903000	1995	-	-	-	-
39903000	1996	-	-	-	-
39903000	1997	-	-	-	-
39903000	1998	-	-	-	-
39903000	1999	-	-	-	-
39903000	2000	-	-	-	-
39903000	2001	-	-	-	-
39903000	2002	-	-	-	-
39903000	2003	-	-	-	-
39903000	2004	-	-	-	-
39903000	2005	-	-	-	-
39903000	2006	11,472	-	-	-
14 Year Total		11,472	-	-	-
14 Year Average		819	-	-	-
39906000	1993	-	-	-	-
39906000	1994	97,832	-	-	-
39906000	1995	-	-	-	-
39906000	1996	116,913	-	-	-
39906000	1997	-	-	-	-
39906000	1998	-	-	-	-
39906000	1999	-	-	-	-
39906000	2000	2,832	3,000	45	2,955
39906000	2001	-	-	-	-
39906000	2002	6,189,732	-	-	-
39906000	2003	-	-	-	-
39906000	2004	-	-	-	-
39906000	2005	-	-	-	-
39906000	2006	2,632,955	-	-	-
14 Year Total		9,040,264	3,000	45	2,955
14 Year Average		645,733	214	3	211
39907000	1993	-	-	-	-
39907000	1994	38,759	-	-	-
39907000	1995	-	-	-	-
39907000	1996	-	-	-	-
39907000	1997	-	-	-	-
39907000	1998	-	-	-	-
39907000	1999	-	-	-	-
39907000	2000	-	-	-	-
39907000	2001	-	-	-	-
39907000	2002	861,539	-	-	-
39907000	2003	-	-	-	-
39907000	2004	-	-	-	-
39907000	2005	-	-	-	-
39907000	2006	16,495	-	-	-
14 Year Total		916,793	-	-	-
14 Year Average		65,485	-	-	-

ATMOS ENERGY CORPORATION - SHARED SERVICES
 14-Year Average Net Salvage Experience
 1993-2006

<u>Account</u> (a)	<u>Year</u> (b)	<u>Retirements</u> (c)	<u>Salvage</u> (d)	<u>Cost of Removal</u> (e)	<u>Net Salvage</u> (f)=(d)-(e)
39908000	1993	-	-	-	-
39908000	1994	-	-	-	-
39908000	1995	5,256	-	-	-
39908000	1996	-	-	-	-
39908000	1997	-	-	-	-
39908000	1998	-	-	-	-
39908000	1999	-	-	-	-
39908000	2000	8,032,596	-	-	-
39908000	2001	-	-	-	-
39908000	2002	9,573,067	-	-	-
39908000	2003	-	-	-	-
39908000	2004	-	-	-	-
39908000	2005	-	-	-	-
39908000	2006	731,136	-	-	-
14 Year Total		18,342,055	-	-	-
14 Year Average		1,310,147	-	-	-
Total All Accounts					
	1993	92,083	200	-	200
	1994	363,910	-	-	-
	1995	6,108	-	-	-
	1996	358,364	9,000	-	9,000
	1997	-	-	(5,108)	5,108
	1998	6,852	-	-	-
	1999	-	-	-	-
	2000	8,306,339	3,000	45	2,955
	2001	-	-	-	-
	2002	16,632,481	-	-	-
	2003	56,637	-	-	-
	2004	34,015	26,609	3,107	23,502
	2005	-	-	-	-
	2006	5,784,348	-	-	-
14 Year Total		31,641,137	38,809	(1,956)	40,765
14 Year Average		2,260,081	2,772	(140)	2,912

Source: Response to AG 1-087. Incorporates all data provided in "salSS_0906.xls"

**Response of the Attorney General to the Public Service
Commission's Requests for Information to the Attorney General
Case No. 2006-00464**

Witness Responsible:
MICHAEL J. MAJOROS, JR.

Question 11. Refer to the Majoros Testimony, page 12 of 25.

- a. To the extent he can determine, does Mr. Majoros believe that Atmos is in compliance with the requirements of Statement of Financial Accounting Standard ("SFAS") No. 143 for accounting pursuant to generally accepted accounting principles?
- b. To the extent he can determine, does Mr. Majoros believe that Atmos is in compliance with the Federal Energy Regulatory Commission's ("FERC") Order No. 631, paragraph 38, concerning the accounting records to be maintained for non-legal asset retirement obligations ("ARO")?
- c. Does either SFAS No. 143 or FERC Order No. 631 prescribe the rate-making treatment that this Commission must follow concerning non-legal AROs?

RESPONSE:

- a. Yes.
- b. I do not know.
- c. No.

**Response of the Attorney General to the Public Service
Commission's Requests for Information to the Attorney General
Case No. 2006-00464**

Witness Responsible:
MICHAEL J. MAJOROS, JR.

Question 12. Refer to the Majoros Testimony, page 13 of 25. Mr. Majoros states, "The regulatory liability for the KY jurisdiction increased by the amount that Atmos collected from KY ratepayers, over and above its actual removal costs for each period."

- a. Explain in detail how Mr. Majoros determined that the increase in the regulatory liability was a result of amounts over and above the actual removal costs.
- b. Has Mr. Majoros prepared an analysis of plant retirements or removals that compares the estimated costs included in depreciation rates with the corresponding actual costs of removal?
 - (1) If yes, provide the analysis. Include all supporting workpapers, schedules, and assumptions.
 - (2) If no, explain why such an analysis has not been performed.

RESPONSE:

- a. That is the only thing that could have caused the increase.
- b. I am not entirely certain that I completely understand the question. However, I have not conducted an analysis comparing the cost of removal relating to specific retirements versus what has been collected in rates for those same retirements because the minimum amount of missing statistics is the average age of the retirements included in the net salvage data. This is not available, and since Mr. Roff relied solely upon SPR to study lives, it appears the Company does not maintain the data necessary to conduct the requested analysis.

Alternatively, I provide the attached comparison of the cost of removal included in current and proposed rates to the average actual cost of removal experience based on both 5 and 10 year bands.

ATMOS ENERGY CORPORATION - KENTUCKY
Comparison of COR Rates and Accruals
Existing, Company Proposed, Five-Year Average and Ten-Year Average

Account	Description	Cost of Removal In Rates					Actual Cost of Removal			
		9/30/2005 Balance (a)	Existing		Company Proposed		5-Year Avg.		10-Year Avg.	
			COR Rate (b)	COR Expense (c)=(a)*(b)	COR Rate (d)	COR Expense (e)=(a)*(d)	COR Rate (f)	Allowance (g)=(a)*(f)	COR Rate (h)	Allowance (i)=(a)*(h)
PRODUCTION PLANT										
325.20	Producing Leaseholds	2,353	0.00	-	0.00	-	0.000	-	0.000	-
325.40	Rights-of-Way	83,422	0.00	-	0.00	-	0.000	-	0.000	-
336.00	Purification Equipment	44,369	0.00	-	0.10	44	0.000	-	0.000	-
	Total Production Plant	130,144		-		44		-		-
STORAGE PLANT										
351.00	Structures and Improvements	309,065	0.11	340	0.00	-	0.000	-	0.000	-
352.00	Well Construction and Equipment	2,176,341	1.00	21,763	0.80	17,411	0.000	-	0.139	3,035
352.03	Cushion Gas	1,694,833	0.00	-	0.00	-	0.000	-	0.000	-
352.11	Storage Rights	54,614	0.00	-	0.00	-	0.000	-	0.000	-
354.00	Compressor Station Equipment	546,780	0.25	1,367	0.00	-	0.000	-	0.002	11
355.00	M&R Station Equipment	288,851	0.00	-	0.00	-	0.000	-	0.000	-
	Total Storage Plant	5,070,484		23,470		17,411		-		3,046
TRANSMISSION PLANT										
365.20	Rights-of-Way	812,196	0.00	-	0.00	-	0.000	-	0.000	-
366.00	Structures and Improvements	283,237	0.00	-	0.00	-	0.000	-	0.000	-
367.00	Mains	22,044,698	0.10	22,045	0.45	100,203	0.026	5,700	0.013	2,884
369.00	M&R Station Equipment	2,952,222	0.00	-	0.04	1,312	0.000	-	0.001	27
	Total Transmission Plant	26,092,353		22,045		101,515		5,700		2,911
DISTRIBUTION PLANT										
374.02	Land Rights	145,459	0.00	-	0.00	-	0.000	-	0.000	-
375.00	Structures and Improvements	468,328	0.00	-	0.20	937	0.000	-	0.065	305
376.00	Mains	95,924,845	0.10	95,925	0.45	436,022	0.051	49,138	0.064	61,071
378.00	M&R Station Equipment	2,617,970	0.00	-	0.10	2,618	0.000	-	0.000	6
379.00	City Gate Equipment	2,804,310	0.00	-	0.30	8,413	0.000	-	0.008	211
380.00	Services	69,190,312	3.33	2,304,037	1.88	1,297,318	0.598	414,083	0.427	295,738
381.00	Meters	13,775,723	0.00	-	1.00	137,757	0.000	-	0.022	3,063
382.00	Meter Installations	33,358,910	0.00	-	0.63	208,493	1.508	503,122	0.934	311,566
383.00	House Regulators	4,816,804	0.00	-	0.00	-	0.000	-	0.000	-
384.00	House Regulator Installations	154,276	0.00	-	0.00	-	0.000	-	0.000	-
385.00	Industrial M&R Equipment	4,433,322	0.00	-	0.43	18,842	0.036	1,579	0.022	963
	Total Distribution Plant	227,690,259		2,399,962		2,110,400		967,922		672,924
GENERAL PLANT										
390.00	Structures and Improvements	966,202	0.11	1,063	0.00	-	0.000	-	0.000	-
390.09	Improvements to Leased Premises	1,382,343	0.00	-	0.00	-	0.000	-	0.000	-
391.00	Office Furniture and Equipment	2,305,350	0.00	-	0.00	-	0.000	6	0.000	3
392.00	Transportation Equipment	761,620	0.00	-	0.00	-	0.122	929	0.088	674
394.00	Tools, Shop and Garage Equipment	2,118,023	0.00	-	0.00	-	0.000	-	0.000	-
396.00	Power Operated Equipment	663,629	0.00	-	0.00	-	0.000	-	0.005	36
397.00	Communication Equipment	1,498,100	0.00	-	0.00	-	0.000	-	0.000	-
398.00	Miscellaneous Equipment	2,160,051	0.00	-	0.00	-	0.000	-	0.000	-
399.01	OTP - Servers Hardware	175,990	0.00	-	0.00	-	0.000	-	0.000	-
399.03	OTP - Network Hardware	511,781	0.00	-	0.00	-	0.000	-	0.000	-
399.06	OTP - PC Hardware	2,702,795	0.00	-	0.00	-	0.000	-	0.000	-
399.07	OTP - PC Software	242,979	0.00	-	0.00	-	0.000	-	0.000	-
399.08	OTP - Application Software	522,254	0.00	-	0.00	-	0.000	-	0.000	-
	Total General Plant	16,011,117		1,063		0		935		712
	Total Depreciable Plant	274,994,357		2,446,540		2,229,370		974,557		679,592
	Intangible Plant	128,183								
	Non-Depreciable Plant	486,462								
	Fully Depreciated Plant	2,303,510								
	Total Plant in Service	277,912,512								

Sources:

Cols (a) and (d) from Exhibit DSR-3.

Col. (b) from response to AG-DR-1-147.

Col. (f) from Exhibit (MJM-3).

Col. (h) from Exhibit (MJM-3) Revised for Staff Q. 10.

ATMOS ENERGY CORPORATION - SHARED SERVICES
Comparison of COR Rates and Accruals
Company Proposed, Five-Year Average and 14-Year Average

Account	Description	9/30/2006 Balance (a)	Cost of Removal In Rates		Actual Cost of Removal			
			Company Proposed		5-Year Average		14-Year Average	
			COR Rate (b)	COR Allowance (c)=(a)*(b)	COR Rate (d)	COR Allowance (e)=(a)*(d)	COR Rate (f)	COR Allowance (g)=(a)*(f)
GENERAL PLANT								
390.09	Improvements to Leased Premises	9,949,143	0.00	-	-	-	0.0000	-
391.00	Office Furniture and Equipment	9,074,352	0.00	-	-	-	(0.0040)	(365)
397.00	Communication Equipment	25,311,861	0.00	-	0.0025	621	0.0009	222
398.00	Miscellaneous Equipment	633,466	0.00	-	-	-	0.0000	-
399.00	Other Tangible Property	224,866	0.00	-	-	-	0.0000	-
399.01	Servers Hardware	14,567,322	0.00	-	-	-	0.0000	-
399.02	Servers Software	8,647,580	0.00	-	-	-	0.0000	-
399.03	Network Hardware	2,377,029	0.00	-	-	-	0.0000	-
399.06	PC Hardware	6,691,156	0.00	-	-	-	0.0000	3
399.07	PC Software	3,928,199	0.00	-	-	-	0.0000	-
399.08	Application Software	111,323,312	0.00	-	-	-	0.0000	-
399.24	General Startup Cost	23,172,326	0.00	-	-	-	0.0000	-
	Total Depreciable General Plant	<u>215,900,612</u>		<u>0</u>		<u>621</u>		<u>(140)</u>
	Fully Depreciated	5,331,910						
	Late Retirements	4,363,383						
	Total Shared Services Facilities	<u>225,595,905</u>						

Sources:

Cols (a) and (b) from Exhibit DSR-4.

Col. (d) from Exhibit___(MJM-3).

Col. (f) from Exhibit___(MJM-3), Revised for Staff Q. 10.

Note: COR in existing rates not provided by Company.

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Witness Responsible:
MICHAEL J. MAJOROS, JR.

Question 13. Refer to the Majoros Testimony, page 21 of 25. Mr. Majoros states, "All that is necessary to create a legal obligation is for Atmos to promise the Commission and the public at large that it will do the work, incur the cost, and spend the money it collects for that cost on that cost." SFAS No. 143, Paragraph B23 states, This Statement applies to legal obligations associated with the retirement of a tangible long-lived asset that result from the acquisition, construction, or development and (or) the normal operation of a long-lived asset, except for certain obligations of lessees. As used in this Statement, a legal obligation is an obligation that a party is required to settle as a result of existing or enacted law, statute, ordinance, written or oral contract or by legal construction under the doctrine of promissory estoppel.

- a. Explain how Mr. Majoros determined the requirements to create his referenced "legal obligation."
- b. Would Mr. Majoros agree that his definition of what is required to create a legal obligation does not conform to the definition of legal obligation as used in SFAS No. 143, Paragraph B23? Explain the response.

RESPONSE:

- a. Mr. Majoros relied on his own personal interpretation of paragraph B23 as well as paragraphs 2, A2 to A5, B23 to B31.
- b. Mr. Majoros is not a lawyer, but he stands by his own interpretation of this accounting standard.

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Witness Responsible:
DR. J. RANDALL WOOLRIDGE

Question 14. Refer to the Direct Testimony of Dr. J. Randall Woolridge ("Woolridge Testimony"), pages 9, 10, and 61. Provide an explanation of why investors, as a result of the 2003 tax law change, should be forced to give up that incremental increase in investment returns and to give it to ratepayers.

RESPONSE: It is Dr. Woolridge's contention that the lowering of tax rates on dividend and capital gains income reduced investors' pre-tax return requirement relative to the pre-2003 years. If investors' require lower returns due to a reduction in taxes, there is no reason to compensate them with a return for taxes which they do not have to pay.

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Witness Responsible:
DR. J. RANDALL WOOLRIDGE

- Question 15. Refer to the Woolridge Testimony, pages 12 through 14. Page 9 of the Direct Testimony of Laurie M. Sherwood includes the following statement, "Although the Company does not believe that it is appropriate to include short-term debt in the Company's capital structure herein, should the Commission find to the contrary, then I recommend that the Commission adopt the Company's projected cost of short-term debt at June 30, 2008." Schedule J-1.2 of the Application presented a 13-month average capital structure for the base and forecasted test periods that included shortterm debt. In its response to the AG's First Data Request dated February 20, 2007, Item 1, Atmos presented a corrected version of Schedule J-1.2.
- a. Was Dr. Woolridge aware of the statement quoted from Ms. Sherwood's direct testimony?
 - b. Did Dr. Woolridge review the corrected version of Schedule J-1.2 that was submitted as part of Atmos's response to Item 1? Explain the response.
 - c. Would Dr. Woolridge agree that his proposed capital structure and debt cost rates shown on page 14 of his direct testimony agree with the capital structure and debt cost rates shown for the forecasted test period in the corrected version of Schedule J-1.2?

RESPONSE: a. Yes
 b. Yes
 c. Yes

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Witness Responsible:
DR. J. RANDALL WOOLRIDGE

- Question 16. Refer to the Woolridge Testimony, pages 32 through 34, and Exhibit JRW-6, pages 3 and 4 of 5.
- a. Explain how blending the mean and median values of 10- and 5-year averages produces a meaningful estimate of growth rates.
 - b. Explain how blending estimates of earnings, dividends, and book value growth rates into a single number provides a meaningful number.

- RESPONSE:
- a. Dr. Woolridge's objective is to find the central tendency for the figures shown. Means and medians are measures of central tendency for an array of numbers. Due to the presence of outliers, Dr. Woolridge is using both the means and medians.
 - b. According to the DCF model, DPS, EPS, and BVPS should all have the same rate of growth. Over short-term periods of time, these growth rates may differ. Dr. Woolridge is attempting to gauge an overall long-term rate of growth for all three.

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Witness Responsible:
DR. J. RANDALL WOOLRIDGE

Question 17. Refer to the Woolridge Testimony, page 39. Explain why the 20-year treasury bonds would not be preferable to the 10-year treasury bonds as the risk free rate.

RESPONSE: Dr. Woolridge uses both the 10-year and 30-year bond yields as measures of the risk free rate of interest. It is his opinion that the rates on these bonds are better known Treasury yield measures in the market place than the rates on 20-year bonds.

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DR. J. RANDALL WOOLRIDGE
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- Question 18. Refer to the Woolridge Testimony, pages 56 through 58, and Exhibit JRW-7, page 3 of 5. The exhibit references a large number of studies. It is not clear whether the purpose and results of the studies were intended to be directly comparable to one another or to be used in the present context.
- a. The McKinsey & Company reference is from autumn 2002. Provide a copy of the McKinsey study and an update to reflect what risk premium this particular consulting firm is using currently.
 - b. Under the exhibit heading "Puzzle Research," there is wide disparity between the various risk premium entries. Provide an explanation of "Puzzle Research" and each of the studies under this heading.
 - c. Provide a copy of the March 2007 Duke University "CFO Magazine Survey of CFOs" report from which the exhibit entry is taken.
 - d. If the Ibbotson SBBI Yearbook 2007 contains any discussion of estimating and using the ex ante approaches and/or a discussion comparing the ex ante and historical approach to calculating risk premiums, provide those discussions.
 - e. Provide the historical data from the Ibbotson SBBI Yearbook 2007 that is used to derive the historical entries 6.50 percent and 5.00 percent.
 - f. Exhibit JRW-7, page 3 of 5, does not contain references for all of the entries. Provide the references for the omitted entries.
 - g. Presumably all of the exhibit entries, other than the Ibbotson SBBI Yearbook historical entry, are based upon a forecast or an expectation of a forward looking risk premium. For each entry, other than the Ibbotson Yearbook historic entry, provide each entry's corresponding forward looking period.
 - h. For each exhibit entry, explain how each risk premium was derived including which specific variables were used to make the calculations and the time period for the study.

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- i. State whether any of the exhibit entries have been adjusted for inflation in any way. If so, state which entries and explain how the adjustment was performed.
- j. A few of the exhibit entries are almost 6 years old, which means that the actual work may have been conducted more than 6 years ago. For those exhibit entries that were published prior to 2006, explain why they are still valid for use in current risk premium analysis.

RESPONSE:

- a. The McKinsey study is contained in Dr. Woolridge's workpapers (contained in the attached CD). McKinsey has provided no update to this study. However, McKinsey claims in its study that the 3.5-4.0 percent equity risk premium, as determined in their study, has been consistent over time.
- b. "Puzzle Research" refers to studies that have been performed whose objective to explain or solve the "Equity Risk Premium Puzzle" as postulated by Mehra and Prescott in their 1985 study. Mehra and Prescott Mehra and Prescott questioned the magnitude of historical equity risk premiums relative to fundamentals. For the most part, the studies have use historic fundamental data – such as dividend yields, and growth rates, to estimate returns, and compare these returns to contemporaneous interest rates over long periods of time to assess the magnitude of the equity risk premiums. The disparity in the equity risk premium estimates results primarily from the alternative approaches used. Copies of the studies are provided in Dr. Woolridge's work papers.
- c. The study is provided in Dr. Woolridge's work papers.
- d. The SBBI Yearbook provides no such discussion
- e. The requested information is included in the 'Tbbotson 2007 report' which is provided in Dr. Woolridge's work papers (workpapers are provided in the attached CD).
- f. The requested references are listed below:

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SHOVEN, JOHN B. 2001. "What Are Reasonable Long-Run Rates of Return to Expect on Equities?" *Estimating the Real Rate of Return on Stocks over the Long Term*, presented to the Social Security Advisory Board, August.

John Campbell, 2001. "Valuation Ratios and the Long-Run Stock Market Outlook: An Update." Working paper #8221, National Bureau of Economic Research. Forthcoming in *Advances in Behavioral Finance, Vol. II*, edited by Nicholas Barberis and Richard Thaler, Russell Sage Foundation, 2003.

Peter Diamond. 2001. "What Stock Market Returns to Expect for the Future: An Update," in *Estimating the Real Rate of Return on Stocks over the Long Term*, presented to the Social Security Advisory Board, August.

SOCIAL SECURITY ADVISORY BOARD. 2002. "Fiscal Year Annual Report."

Robert Harris and Felicia Marston. 2001. "The Market Risk Premium: Expectational Estimates Using Analysts' Forecasts," *Journal of Applied Finance* 11(1): 6-16.

SIEGEL, JEREMY J. 1999. "The Shrinking Equity Premium," *Journal of Portfolio Management* 26(1): 10-17.

ARNOTT, ROBERT D., AND PETER L. BERNSTEIN. 2002. "What Risk Premium Is 'Normal'?" *Financial Analysts Journal* 58(2): 64-85.

CORNELL, BRADFORD. 1999. *The Equity Risk Premium: The Long-Run Future of the Stock Market*. New York: John Wiley & Sons.

CONSTANTINIDES, GEORGE M. 2002. "Rational Asset Prices," *Journal of Finance* 57(4): 1567-91.

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- g. The requested information is provided in the article by Derrig and Orr which is provided a part of Dr. Woolridge's work papers.
- h. The requested information is provided in the article by Derrig and Orr which is provided a part of Dr. Woolridge's work papers.
- i. To the best of Dr. Woolridge's knowledge, the equity risk premiums are nominal and not inflation adjusted.

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Witness Responsible:
DR. J. RANDALL WOOLRIDGE

Question 19. Refer to the Woolridge Testimony, Exhibit JRW-7, page 5 of 5.
Explain the purpose of this exhibit page and how is it used by Dr.
Woolridge.

RESPONSE: This Exhibit shows the historic real growth rate in EPS for the
S&P 500. It is used in justifying an expected real EPS growth rate
in Dr. Woolridge's building blocks equity risk premium
approach.

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Witness Responsible:
CHARLES W. KING

Question 20. Refer to the Direct Testimony of Charles W. King ("King Testimony"), page 9. Mr. King states that one problem with Atmos's proposal is that the review of the CRS mechanism would be done with no public record. Wouldn't the application and discovery documents be public record?

RESPONSE: The application and formal discovery documents might be part of the public record, but any face-to-face negotiations would not be. Nor is there a provision for the issuance of an order by the Commission identifying the basis for its decisions on contested issues. With no testimony, there would be no rebuttal testimony by Staff or the Attorney General, no response from the Company, and no record of cross-examination.

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Witness Responsible:
CHARLES W. KING
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- Question 21. Refer to the King Testimony, pages 4 through 12, regarding the CRS mechanism.
- a. In jurisdictions where Mr. King has submitted testimony concerning a CRS mechanism, what was Mr. King's recommendation on the proposal? If testimony was submitted by Mr. King, cite the case(s) and state the final decision on the proposed CRS mechanism.
 - b. Would Mr. King find Atmos's proposed CRS mechanism objectionable if it did not provide for a revenue adjustment for any projected rate base investments, revenues, and costs for the Rate Effective Period?
 - c. Would Mr. King find Atmos's proposed CRS mechanism objectionable if it did not provide for a revenue adjustment for any projected rate base investments, revenues, and costs for the Rate Effective Period but included incentives designed to promote energy efficiency?
 - d. If Atmos was allowed to implement some form of CRS mechanism, would Mr. King agree that the rate of return on equity should be reduced to recognize the fact that Atmos would face less risk?

RESPONSE:

a. Mr. King testified on behalf of the Maryland Office of People's Counsel in Maryland P.S.C. Case Nos. 9092 and 9093 involving the Potomac Electric Power Company and the Delmarva Power & Light Company, respectively, both subsidiaries of Pepco Holdings, Inc. In each case, the utility proposed a "Bill Stabilization Adjustment" which was designed to ensure that revenue per customer (not rate of return) corresponded with that approved in the most recent rate case. Mr. King did not testify for or against this proposal, as that issue was addressed by another OPC witness. Mr. King recommended that if the Adjustment were approved, the rate of return allowed the utilities should be adjusted downwards by 85 basis points (0.85%). The cases are still pending before the Maryland P.S.C.

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b. Presumably, such a mechanism would allow for rate adjustments based only on the evidence of the Evaluation Year, i.e. the historical test year. Such a mechanism would be much less objectionable so long as the adjusted rates applied only prospectively and it did not attempt to recapture the historical revenue shortfall. Such recapture would constitute retroactive ratemaking. The plan might still be objectionable on procedural grounds, e.g. lack of transparency, inadequate review time.

c. See response to b. The addition of incentives for energy efficiency would not change Mr. King's recommendations.

d. Yes. As noted in a above, Mr. King testified to that effect in two Maryland rate cases.

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Witness Responsible:
CHARLES W. KING

- Question 22. Refer to the King Testimony, page 15, where Mr. King discusses why Atmos's proposed rate reduction in the volumetric charge for those customers using between 0 and 300 Mcf is rewarding commercial and industrial customers whose usage is close to the 300 Mcf threshold.
- a. For clarification, is Mr. King arguing that the customer charge has more of an effect on the residential customer bill than the volumetric charge?
 - b. Provide a discussion of how a colder than normal winter would affect a residential customer's bill under Atmos's proposed rates and Mr. King's proposed rates.

RESPONSE:

- a. For clarification, this point was made with respect to commercial and industrial customers because the Company's data indicate that few, if any, residential customers approach the 300 Mcf threshold. However, if any did approach that threshold, the same observation would apply. It is true that the customer charge has more of an effect on residential customer bills than the volumetric charge. That is because of the much lower average level of usage by residential customers.
- b. Under either set of rates, the effect of a colder than normal winter is washed out by the Weather Normalization Adjustment. The greater number of Mcf consumed is offset by a lower per-Mcf rate. Residential customers would pay a slightly higher volumetric rate under Mr. King's rates, but that effect is offset by a lower customer charge. Overall, residential customers pay less under Mr. King's plan because of his recommended rate rebalancing among the classes.