

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE OFFICE OF ATTORNEY GENERAL)	
THE COMMONWEALTH OF KENTUCKY)	
)	
COMPLAINANT)	
)	
V.)	CASE NO. 2005-00057
)	
ATMOS ENERGY CORPORATION)	
)	
DEFENDANT)	

O R D E R

The Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention (“AG”), pursuant to 807 KAR 5:001, is requested to file with the Commission the original and 8 copies of the following information, with a copy to all parties of record. The information requested herein is due October 30, 2006. Each copy of the data requested should be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the witness who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to ensure that it is legible. Where information requested herein has been provided, in the format requested herein, reference may be made to the specific location of said information in responding to this information request.

1. Refer to the Supplemental Testimony of Robert J. Henkes (“Henkes Supplemental Testimony”), pages 3 through 5. Commission Staff notes in Mr. Henkes’s testimony that he has not proposed any pro forma adjustments, with the exception of certain tax adjustments, due to his inability to propose all possible pro forma adjustments.

a. Does Mr. Henkes agree that an adjustment to normalize payroll expenses is a normal rate-making adjustment and that sufficient information was provided in Atmos’s responses to the AG’s First Data Request dated March 15, 2006 (“AG’s First Request”), Items 19, 20, 39, 40, and 61, and the responses to the AG’s Second Data Request dated June 14, 2006 (“AG’s Second Request”), Item 7, to make such an adjustment in this proceeding? If Mr. Henkes does not agree, state why he does not agree.

b. Does Mr. Henkes agree that a year-end customer adjustment is a normal rate-making adjustment and that the information provided in the responses to the AG’s First Request, Items 21 and 68, and the response to the AG’s Second Request, Item 7(c), is sufficient to make such an adjustment? If Mr. Henkes does not agree, state why he does not agree.

c. Does Mr. Henkes agree that an adjustment to normalize Atmos’s payroll tax and employee benefits expenses is a normal rate-making adjustment and that the information provided in the responses to the AG’s First Request, Items 20, 39, 40, and 45, and the response to the AG’s Second Data Request, Item 7, is sufficient to make such an adjustment? If Mr. Henkes does not agree, state why he does not agree.

d. Does Mr. Henkes agree that an adjustment to normalize depreciation expense is a normal rate-making adjustment and that sufficient information was provided in the responses to the AG's First Request, Items 3, page 338, and 25 to make such an adjustment in this proceeding? If Mr. Henkes does not agree, state why he does not agree.

e. Given the information provided in the responses to the AG's First Request, Items 38, 52, and 55, and the responses to the AG's Second Request, Items 15 and 17, does Mr. Henkes agree that adjustments should be made to remove advertising and donation expenses from accounts other than Account No. 426? If Mr. Henkes does not agree, state why he does not agree.

2. Refer to Henkes Supplemental Testimony, page 5. Mr. Henkes states that he had identified a number of pro forma adjustments for which he had available data, but because there were potentially a significant number of other pro forma adjustments he could not identify, he based his earnings review on the unadjusted test year rate base, capitalization, capital structure, and operating income data. Provide a listing of the pro forma adjustments Mr. Henkes identified for which he had available data.

3. Concerning the development of pro forma adjustments:

a. Would Mr. Henkes agree that the majority of pro forma adjustments usually proposed in a historic test year before this Commission are based on events or transactions occurring during the test year and adjusted for known and measurable changes, which occurred either during the test year or within a few months of the end of the test year?

b. Given the way the majority of proposed pro forma adjustments are prepared and the fact that the AG had three opportunities to secure information from Atmos, explain in detail why Mr. Henkes did not have the data necessary to develop and propose pro forma adjustments in his supplemental testimony.

4. Refer to the Henkes Supplemental Testimony, Schedule RJH-4.

a. Would Mr. Henkes agree that in previous rate cases the Commission recognized changes in interest rates for long-term and short-term debt that occurred after the end of the test year?

b. Explain why Mr. Henkes chose not to recognize the updated interest rates for long-term and short-term debt, which were provided in the response to the AG's Second Request, Item 7, in his determination of Atmos's earnings.

5. Refer to page 3 of the Direct Testimony of Dr. J. Randall Woolridge ("Woolridge Testimony"). Explain why a 10-year Treasury bond yield is the appropriate comparison to develop a risk premium, as opposed to a 20- or 30-year Treasury bond.

6. Refer to pages 4 and 5 of the Woolridge Testimony.

a. Both Jeremy Siegel and Alan Greenspan made the comments quoted in the testimony in 1999, which was before the market adjustment in 2000. Are there any studies after 1999 which researched the equity premium after the substantial drop in stock prices since 2000?

b. Were Mr. Siegel and Mr. Greenspan talking about the near future or the long term?

7. Refer to page 6 and Exhibit JRW-2 of the Woolridge Testimony. Explain why an investor would forego the benefits of a tax cut and provide tacit approval to the

company to lower dividend payouts to keep investors' expected return equal to that before the tax cut.

8. Refer to page 7 of the Woolridge Testimony. Explain why it is appropriate to include Atmos in the proxy group of natural gas distribution companies.

9. Refer to pages 21 and 22 of the Woolridge Testimony.

a. Explain how Dr. Woolridge's adjustment of multiplying dividends yields by one half the expected growth rate, as described on page 23, satisfies the necessary adjustment described on page 22.

b. Provide documentation and any official guidelines used by analysts that direct and instruct how dividend yields should be adjusted.

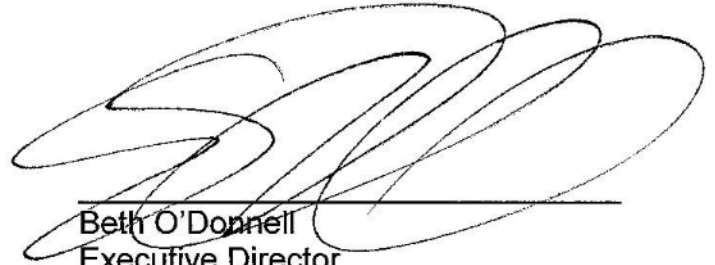
10. Refer to page 26 and Exhibit JRW-7 of the Woolridge Testimony.

a. Explain the pros and cons of using each of the data series of Earnings per Share ("EPS"), Dividends per Share ("DPS"), and Book Value per Share ("BVPS") individually for calculating the growth in dividend to be used in the Discounted Cash Flow ("DCF") model.

b. Explain how taking the collective average of the individual EPS, DPS, and BVPS series' mean and median values provides a meaningful estimate of dividend growth as used in the DCF model.

c. Explain why it is valid to use the calculated internal growth rate as a meaningful estimate of dividend growth as used in the DCF model.

d. Explain why using internal growth as a proxy for dividend growth does not introduce a certain amount of circularity into the calculation.

A large, stylized handwritten signature in black ink, appearing to be 'B. O'Donnell', is written over a horizontal line.

Beth O'Donnell
Executive Director
Public Service Commission
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DATED: October 16, 2006

cc: All Parties