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PUBLIC SERVICE
COMMISSION

May 3, 2011

Jeff DeRouen
Executive Director
Public Service Commission
211 Sower Blvd.
Frankfort, KY 40601

RE: Case No. 2011-00120; Pipe Replacement Program (PRP) Filing

Dear Mr. DeRouen,

Atmos Energy Corporation (Company) herewith submits an original and six copies of the Company's responses to the Commission Staff's first set of informational requests per the above referenced case. The Company's responses are in compliance with the Commission's Order dated April 25, 2011. The Company has also included a revised tariff, Sheet No. 44, which incorporates the changes outlined in the Company's responses.

Please feel free to contact me at 270.685.8024 if you have any questions and/or need any additional information.

Sincerely,

A handwritten signature in black ink that reads "Mark A. Martin".

Mark A. Martin
Vice President – Rates & Regulatory Affairs

Enclosures

cc: Randy Hutchinson
Chris Felan
Dennis Howard

ATMOS ENERGY CORPORATION

Pipe Replacement Program Rider				
4. Pipe Replacement Rider Rates				
The charges for the respective gas service schedules for the revenue month beginning June 1, 2011 per billing period are:				
	<u>Monthly Customer Charge</u>		<u>Distribution Charge per Mcf</u>	
Rate G-1 (Residential)	\$ 0.47		\$0.00	(I)
Rate G-1 (Non-Residential)	\$ 1.55		\$0.00	(I)
Rate G-2	\$ 9.35		\$0.0557 per 1000 cubic feet	(I)
Rate T-3	\$ 6.43	1-15000	\$0.0161 per 1000 cubic feet	(I)
		Over 15000	\$0.0105 per 1000 cubic feet	(I)
Rate T-4	\$ 6.58	1-300	\$0.0284 per 1000 cubic feet	(I)
		301-1500	\$0.0199 per 1000 cubic feet	(I)
		Over 1500	\$0.0129 per 1000 cubic feet	(I)

ISSUED: March 30, 2011

EFFECTIVE: June 1, 2011

(Issued by Authority of Kentucky Public Service Commission Order in Case No. 2009-00354).

ISSUED BY: Mark A. Martin -Vice President of Rates & Regulatory Affairs, Kentucky/Mid-States Division



Atmos Energy Corporation
KSPC Initial Data Request Dated April 25, 2011
Case No. 2011-00120
Question No. 1
Witness: Mark A. Martin

REQUEST:

Refer to Exhibit A of Atmos's March 31, 2011 filing. Provide calculations of the amounts shown on Lines 20, 21, and 22 for, respectively, Ad Valorem Tax Increase, Income Taxes on Cost of Service Items, and Income Taxes on Adjusted Interest Expense.

RESPONSE:

The calculation for the Ad Valorem Tax Increase on Exhibit A - Line 20 is the product of the Net Change to Gross Plant, Exhibit A - Line 3, and the Ad Valorem Tax Rate of 0.875% found on Exhibit F - Line 12. The Ad Valorem Tax Rate is comprised of the Ad Valorem Accrual of \$2,841,648 divided by the Kentucky Direct Gross Plant Balance of \$324,899,361 from the Company's last Rate Case Number 2009-00354. The Income Taxes of Cost of Service Items on Exhibit A - Line 21 is calculated by adding together the Depreciation & Amortization Expense (Exhibit A - Line 18), O&M Savings (Exhibit A - Line 19), and Ad Valorem Tax Increase (Exhibit A - Line 20). The total of these three items is then multiplied by the Income Tax Rate of 38.90% (Exhibit F - Line 13). The Income Taxes on Adjusted Interest Expense on Exhibit A - Line 22 is the Net Change to Rate Base (Exhibit A - Line 13) multiplied by the Cost of Debt of 3.34% (Exhibit G - Line 1). The product is then multiplied by the Income Tax Rate of 38.90% (Exhibit F - Line 13).



Atmos Energy Corporation
KSPC Initial Data Request Dated April 25, 2011
Case No. 2011-00120
Question No. 2
Witness: Mark A. Martin

REQUEST:

Refer to Exhibits C and D of Atmos's March 31, 2011 filing.

- a. Explain the assumptions used in arriving at four months of customer bill counts as shown on Exhibit D given the bill totals for each class shown under the "Total" column on Exhibit C.
- b. The customer charge surcharges are calculated using the equivalent of four months of activity. Explain why the volumetric surcharges are calculated using 12 months' sales volumes as opposed to four months.
- c. Provide Exhibits C and D reflecting sales volumes and volumetric surcharges commensurate with the four months of customer counts used in calculating the customer charge surcharges.

RESPONSE:

- a. The four months bill counts shown on Exhibit D represent FY 2011 budgeted counts for the months June through September 2011. The bill totals shown under the "Total" column on Exhibit C was derived from the billing determinants in Case 2009-00354. The revenues on this exhibit are used to calculate the ratio of the proposed increase by customer class.
- b. The volumetric charges should have used four months of sales volumes rather than the 12 months of sales volumes. Please see Attachment 1 for revised volumetric charges based on four months of volumes.
- c. Please see Attachment 1 for revised Exhibits C and D utilizing four months of sales volumes and volumetric surcharges.

ATTACHMENT:

ATTACHMENT 1 - Atmos Energy Corporation, Revised Exhibits C and D, 2 Pages.

ATMOS ENERGY CORPORATION
KENTUCKY PIPE REPLACEMENT PROGRAM
SURCHARGE CALCULATION OF FORCASTED ACTIVITY
AS OF JUNE 2011 THROUGH SEPTEMBER 2011
RATE DESIGN

Case 2011-00120
Question 2 b & c

Line No.	Class of Customers	Rate	Total	Total Dollars	Ratio	Customer / Volumetric Ratio	Revenue increase by Class	4 months Budgeted Volumes	Budgeted Customer Counts	Customer Charge	4 month Volumetric Charge
1	RESIDENTIAL (Rate G-1)				60.83%		\$ 284,871		600,190	\$ 0.47	
2	FIRM BILLS	\$12.50	1,826,839	\$22,835,488		67.47%					
3	Sales: 1-300	1.1000	10,009,211	\$11,010,132		32.53%					
4	Sales: 301-15000	0.7700	0	\$0		0.00%					
5	Sales: Over 15000	0.5000	0	\$0		0.00%					
6	CLASS TOTAL (Mcf/month)		10,009,211	\$33,845,620							
7	NON-RESIDENTIAL (Rate G-1)				24.35%		\$ 114,021		73,624	\$ 1.55	
9	FIRM BILLS	30.00	229,956	\$6,898,680		50.92%					
10	Sales: 1-300	1.1000	5,359,600	\$5,895,560		43.52%					
11	Sales: 301-15000	0.7700	977,389	\$752,589		5.56%					
12	Sales: Over 15000	0.5000	0	\$0		0.00%					
13	CLASS TOTAL (Mcf/month)		6,336,989	\$13,546,830							
14	INTERRUPTIBLE (G-2)				0.35%		\$ 1,658		44	\$ 9.35	0.0557
15	INT BILLS	300.00	163	\$48,900		24.82%		22,385			
17	Sales: 1-15000	0.6300	235,076	\$148,098		75.18%					
18	Sales: Over 15000	0.4100	0	\$0		0.00%					
19	CLASS TOTAL (Mcf/month)		235,077	\$196,998							
20	TRANSPORTATION (I-3)				6.74%		\$ 31,579		291	\$ 6.43	0.0161
22	TRANSPORTATION BILLS	300.00	742	\$222,600		5.93%		1,444,862			
23	Interrupt Transport: 1-15000	0.6300	4,388,043	\$2,764,467		73.68%		614,296			
24	Interrupt Transport: Over 15000	0.4100	1,865,617	\$764,903		20.39%		2,059,158			
25	CLASS TOTAL (Mcf/month)		6,253,660	\$3,751,970							
26	TRANSPORTATION (I-4)				7.72%		\$ 36,176		541	\$ 6.38	0.0284
28	TRANSPORTATION BILLS	300.00	1,410	\$423,000		9.841%		137,565			
29	Firm Transport: 1-300	1.1000	422,154	\$464,370		10.804%		1,373,484			
30	Firm Transport: 301-15000	0.7700	4,214,899	\$3,245,473		75.509%		107,728			
31	Firm Transport: Over 1500	0.5000	330,591	\$165,295		3.846%		1,618,777			
32	CLASS TOTAL (Mcf/month)		4,967,642	\$4,298,137							
33	Total Revenue			\$55,639,554	100.00%		\$ 468,305		674,690		

KY Revenue Requirement \$ 468,305

Atmos Energy Corporation
KSPC Initial Data Request Dated April 25, 2011
Case No. 2011-00120
Question No. 3
Witness: Mark A. Martin

REQUEST:

Refer to Exhibit E of the March 31, 2011 filing. Given that the proposed surcharges are intended to be in effect for four months, explain why Atmos proposes to use the "half-year convention" to determine the amount of depreciation expense and accumulated depreciation used in the deficiency calculation in Exhibit A.

RESPONSE:

When an asset is placed into service or retired, no matter the time of year, the asset is treated as if it was added or retired at mid-year and it receives a half years depreciation. Since we are calculating depreciation expense and accumulated depreciation using new additions net of retirements, using the "half-year convention" reflects the amount of depreciation the assets will receive.

Atmos Energy Corporation
KSPC Initial Data Request Dated April 25, 2011
Case No. 2011-00120
Question No. 4
Witness: Mark A. Martin

REQUEST:

Refer to Exhibit F of the March 31, 2011 filing. Given that the proposed surcharges are intended to be in effect for four months, explain why Atmos proposes to use a full year's book and tax depreciation to derive the level of deferred income taxes included in the rate base determination used in the deficiency calculation in Exhibit A.

RESPONSE:

On Exhibit F, the tax depreciation expense is calculated by multiplying the MACRS rate to the Net Change in Gross Plant. The MACRS rate already assumes a "half-year convention" for the first year of depreciation. Therefore, the tax depreciation expense already reflects a half year's tax depreciation as opposed to a full year's. However, the book depreciation expense on Exhibit F - Line 5 is incorrect. Although the "half-year convention" was utilized in calculating the depreciation expense and accumulated depreciation, a full year's depreciation expense was used in the deferred income tax calculation. Therefore, the "half-year convention" should be applied to the book depreciation expense (Exhibit F - Line 5) in order to calculate a correct tax difference on Exhibit F - Line 6. Please see Attachment 1 for a corrected deferred tax calculation.

ATTACHMENT:

ATTACHMENT 1 - Atmos Energy Corporation, ADIT Correction, 1 Page.

**ATMOS ENERGY CORPORATION
KENTUCKY PIPE REPLACEMENT PROGRAM
SURCHARGE CALCULATION OF FORCASTED ACTIVITY
AS OF JUNE 2011 THROUGH SEPTEMBER 2011
DEFERRED INCOME TAXES**

Line No.	Description	Mains	Services	Meters	Total
1	Net Change to Gross Plant	\$ 2,542,931	\$ 389,886	\$ 20,842	
2	Tax Depreciation Rates - Year 1	5.00%	5.00%	5.00%	
3					
4	2011 Tax Depreciation Expense	\$ 127,147	\$ 19,494	\$ 1,042	
5	2011 Book Depreciation Expense	28,862	8,597	479	
6	2011 Book - Tax Difference	(98,284)	(10,897)	(563)	<u>\$ (109,744)</u>
7					
8	2011 Deferred Taxes at 37%				<u><u>\$ (40,605)</u></u>
9					
10					
11	<u>Tax Rates</u>				
12	Ad Valorem Tax Rate	0.875%			
13	Income Tax Rate	38.90% *			
14	State Tax Rate	6.00%			
15	Federal Tax Rate	35.00%			
16					
17	<u>*2010 ** Composite Tax Rate Calculation: 6.00% + 35%(100% - 6.00%) = 38.900%</u>				



Atmos Energy Corporation
KSPC Initial Data Request Dated April 25, 2011
Case No. 2011-00120
Question No. 5
Witness: Mark A. Martin

REQUEST:

Refer to Exhibit G of the March 31, 2011 filing. Provide the date of the capital structure that contains the ratios of 48.6 percent debt and 51.4 percent equity.

RESPONSE:

The capital structure on Exhibit G is the proposed capital structure from Case 2009-00354.



Atmos Energy Corporation
KSPC Initial Data Request Dated April 25, 2011
Case No. 2011-00120
Question No. 6
Witness: Mark A. Martin

REQUEST:

Refer to Exhibit H of the March 31, 2011 filing. State whether the "Current Year Retired Footage" of 42,153 feet shown on Line 1 (which is also the total of the amounts listed on Exhibit I) is for calendar year 2011 or just the months of June through September of 2011.

RESPONSE:

The 42,153 feet shown as "Current Year Retired Footage" on Line 1 is just for the months of June through September 2011.



Atmos Energy Corporation
KSPC Initial Data Request Dated April 25, 2011
Case No. 2011-00120
Question No. 7
Witness: Mark A. Martin

REQUEST:

In Case No. 2009-00354,' in which Atmos's pipe replacement program ("PRP") was approved by the Commission, Mr. Greg Waller's Direct Testimony discussed how Atmos would track its PRP investments separately from other investments.

- a. Explain whether Atmos decided (1) to set up specific capital asset accounts for each PRP investment or (2) to record all PRP investments in designated cost centers in its general ledger.
- b. Provide an example of the accounting entries that will be made under the approach Atmos chose to use to account for its PRP rate base separately from its non-PRP rate base.

RESPONSE:

- a. Atmos Energy will set up specific capital projects to track the spending for all PRP investments. These projects will be assigned a specific activity code in our plant accounting system applicable only to PRP projects for the purpose of identifying and tracking historical PRP spending over the life of the program.
- b. Please see the response to subpart (a).