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April 2, 2012

Mr. Jeff DeRouen, Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, KY 40601

RE: Case No. 2012-00066

Dear Mr. DeRouen:

Atmos Energy Corporation (Company) herewith submits an original and six (6) copies of the Company's responses to Staff's first request for information in the above referenced case.

Please contact myself at 270.685.8024 if the Commission or Staff has any questions regarding this matter.

Sincerely,

A handwritten signature in cursive script that reads "Mark A. Martin".

Mark A. Martin
Vice President – Rates & Regulatory Affairs

Enclosures

cc: Dennis Howard
Mr. Randy Hutchinson

Atmos Energy Corporation Kentucky

Case No. 2012-00066

RESPONSES TO COMMISSION STAFF'S DATA REQUESTS DATED MARCH 20, 2012

VERIFICATION

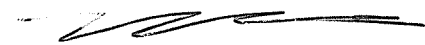
I, Mark A. Martin, being duly sworn under oath, state that I am Vice President of Rates and Regulatory Affairs for Atmos Energy Corporation, Kentucky/Midstates Division, and that the statements contained in the following Responses are true and accurate to the best of my knowledge, information and belief formed after a reasonable inquiry.



Mark A. Martin

CERTIFICATE OF SERVICE

I hereby certify that on the ____ day of April, 2012, the original of the Company's attached Responses, together with seven (7) copies were filed with the Kentucky Public Service Commission, 211 Sower Blvd, P.O. Box 615, Frankfort, Kentucky 40206 and a copy was also served on Dennis Howard, Office of the Attorney General, 1024 Capital Center Drive, Suite 200, Frankfort, Kentucky 40601.



Mark R. Hutchinson

Atmos Energy Corporation
KSPC First Data Request Dated March 20, 2012
Case No. 2012-00066
Question No. 1
Witness: Mark A. Martin

REQUEST:

The Commission's Order in Administrative Case No. 327 ("Admin. 327"),¹ incorporated herein by reference, set out guidelines regarding economic development rates ("EDR").

- a). Explain whether Atmos can provide an affirmative declaration that it has excess capacity to meet anticipated load growth, in compliance with Admin. 327's finding No. 5.
- b). Explain whether Atmos is confident that its proposed 25 percent rate discount will produce revenues sufficient to enable it to demonstrate through marginal cost-of-service studies that those revenues exceed the marginal cost of serving potential EDR customers, in compliance with Admin. 327's finding No. 6.
- c). Explain whether Atmos is aware that Admin. 327's finding No. 8 states that utilities with active EDR contracts should demonstrate through detailed cost-of-service analysis that nonparticipating ratepayers are not adversely affected by EDR customers. Include in the explanation why Atmos's proposed Margin Loss Rider ("MLR") and System Development Rider ("SDR") do not violate the terms of this finding, as it pertains to both holding cost-recovery issues for rate proceedings as well as ensuring that nonparticipating ratepayers are not adversely affected by EDR customers.
- d). Explain why the proposed new rates and charges in the MLR and SDR should not require public notice to Atmos's customers.
- e). Confirm that customer-specific fixed costs will be recovered from individual EDR customers over the term of the EDR contracts, in compliance with Admin. 327's finding No. 9.
- f). Provide justification for the choice of the 9,000 Mcf threshold for eligibility under the EDR contract, and the choice of 4,500 Mcf as the required increase in consumption for existing customers.
- g). Identify and describe the conditions that must be met for financial hardship eligibility.
- h). Confirm that Atmos will provide a detailed cost-benefit analysis to compare expected incremental revenue, number of new jobs, and amount of new capital investment created to the total cost of any gas main extension discount or waiver, in compliance with Admin. 327's finding No. 15.
- i). Explain how Atmos proposes to implement the provisions of Admin. 327's finding No. 16, which requires that EDR contracts that include a discount or waiver of gas main extension costs should include a provision which requires the EDR customer to remain on gas service for a specified term.

RESPONSE:

- a). Atmos Energy (Company) conducts annual forecasting and peak day analysis to insure that the Company has sufficient capacity to meet its firm obligations. The Company also routinely

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researches and plans for future growth opportunities. The Company is committed to be in compliance with finding No. 5 in Administrative Case No. 327 ("Admin. 327").

b) To be in compliance with finding No. 6 in Admin. 327, the Company is required to provide a current marginal cost-of-service study upon submission of each EDR contract. While the Company believes that its proposed discount would produce sufficient revenues, to exceed the marginal cost of serving potential EDR customers, no formal studies have been conducted. The Company's proposed discounts mirror what the Company has had in effect in Tennessee for approximately ten (10) years.

c). Yes, the Company is aware of finding No. 8 in Admin. 327. The goal of the EDR and SDR tariffs is to encourage industrial development and job creation. The campaign for customers that will bring new jobs and invest capital is more competitive than ever. The Company believes that all customers will share in the benefits of spurring industrial development and job creation and as a result should not be considered as being adversely affected by the MLR and SDR riders. The proposed tariff requires that before an incentive can be given, a special contract, to be approved by the Commission, must be executed. In accordance with finding 15 of Admin. 327, a detailed cost benefit analysis to compare expected incremental revenue, number of new jobs and/or new capital investment must be submitted to the Commission prior to approval of a special contract. A part of the Commission's analysis of a proposed special contract will necessarily weigh the costs of a discounted rate against the benefits to all other customers of the Company.

If the Commission determines that a special contract meets the requirements of Admin. 327, including a determination that non-participating customers are not adversely affected by a particular EDR incentive, it is appropriate that the Company should be allowed to recover its costs through the MLR and SDR as opposed to a general rate adjustment proceeding. Like the promotion of public safety through the pipe replacement programs, the EDR also promotes an important public purpose – namely new jobs creation and new capital investment. For programs such as these, the Commission should allow a utility to recover its costs on a more current basis.

d). Company does not believe that public notice, as required under KRS 278.180, is necessary for approval and implementation of the MLR and SDR. The MLR and SDR do not constitute proposed rate changes – rather, they provide for recovery of temporary costs incurred by the Company under the EDR program.

e). The Company agrees that all customer-specific fixed costs should be borne by the individual customer and is committed to being in compliance with finding No. 9 in Admin. 327.

f). The Company proposed a volumetric threshold of 9,000 Mcf per year to be consistent with the existing thresholds for T-3 and T-4 service. The Company did not exclude the G-1 or G-2 classes since, as discussed in Case No. 2010-00146, the Company currently has approximately thirty existing customers that qualify for transportation service, but remain on sales service.

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The Company believes that significant investment on the part of existing industry would be needed to qualify for consideration of the EDR. Since the Company believes that a 50% investment would be deemed significant, the Company proposed an additional usage requirement of 4,500 Mcf.

g). While no conditions were itemized in finding No. 13 in Admin. 327, the Company would expect, at a minimum, for the customer to provide an affidavit stating that, without a rate discount, operations would cease or be severely restricted.

h). The Company will provide all supporting documentation outlined in finding No. 15 in Admin. 327 with any proposed EDR contract when the Company files for Commission approval of such contract.

i). To be in compliance with finding No. 16 of Admin. 327, the Company proposed that the term of an EDR contract shall extend for a period twice the length of the discount period. Please refer to the Term section of the proposed Third Revised Sheet No. 45.

Atmos Energy Corporation
KSPC Initial Data Request Dated March 20, 2012
Case No. 2012-00066
Question No. 2
Witness: Mark A. Martin

REQUEST:

Provide support for the proposed 25 percent EDR discount. Explain whether Atmos considered offering a lesser discount, with the possibility of higher negotiated discounts if needed to attract new or expanded load, and to avoid possible "free riders".

RESPONSE:

The Company chose the 25% level to be consistent with our Tennessee tariff. The Company prefers a fixed discount percentage to be consistent with all potential future opportunities and to prevent the inadvertent possibility of creating a competitive disadvantage. Concerns regarding "free riders" can, and should, be addressed when a special contract is filed with the Commission.

Atmos Energy Corporation
KSPC Initial Data Request Dated March 20, 2012
Case No. 2012-00066
Question No. 3
Witness: Mark A. Martin

REQUEST:

Refer to Fourth Revised Sheet No. 47 of the proposed EDR tariff.

- a). Explain whether number 6 under Special Terms and Conditions should say “an EDR should apply only to load....”.
- b). Explain whether number 6 under Special Terms and Conditions should refer to the 9,000 Mcf minimum base level set out on Revised Sheet No. 45 in the Applicability section.
- c). Explain whether the second sentence of number 7 under Special Terms and Conditions should include the word “specific” before job creation and capital investment requirements.

RESPONSE:

- a.) Yes.
- b). To qualify for consideration of an EDR contract, a customer must use at least 9,000 Mcf annually. The base level for each customer would be different as the base level will be determined by normal operations. For an existing customer, the base level would be determined by averaging the most recent twelve months of consumption. An adjustment to the base level would be considered if abnormal operating conditions occurred as a result of a strike, equipment failure or any other known factor. For a new customer, the base level would have to be estimated until twelve months of actual consumption occurred.
- c). Yes. The Company agrees that addition of the word “specific” helps the tariff mirror finding No. 10 of Admin. 327 and is therefore appropriate.

Atmos Energy Corporation
KSPC Initial Data Request Dated March 20, 2012
Case No. 2012-00066
Question No. 4
Witness: Mark A. Martin

REQUEST:

Explain whether Atmos has been approached by potential new or existing customers expressing interest in an EDR tariff.

RESPONSE:

The Company does receive inquiries from time to time from potential new customers and existing customers in regards to economic development incentives.

Atmos Energy Corporation
KSPC Initial Data Request Dated March 20, 2012
Case No. 2012-00066
Question No. 5
Witness: Mark A. Martin

REQUEST:

Explain why Atmos has proposed the MLR and SDR tariffs for EDR cost recovery as opposed to addressing cost recovery, revenue loss, or investment/return issues in the context of a general rate proceeding.

RESPONSE:

The Commission initially approved a MLR tariff for the Company in Case No. 99-070. That tariff expired in either 2006 or 2007. The Company believes that its proposed MLR and SDR riders help delay the time and cost associated with a general rate proceeding. If the Commission prefers an alternative to the MLR and SDR riders, the Company would be amendable to a rate stabilization mechanism.