

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

REQUEST OF ATMOS ENERGY CORPORATION)	
FOR MODIFICATION AND EXTENSION OF ITS GAS)	CASE NO.
COST ADJUSTMENT PERFORMANCE BASED)	2015-00298
RATEMAKING MECHANISM)	

ORDER

On August 31, 2015, Atmos Energy Corporation (“Atmos”) submitted an application requesting that the Commission: (1) accept its Report on Performance-Based Ratemaking (“Report”) detailing the results of its Performance-Based Ratemaking (“PBR”) mechanism; and (2) enter an Order approving its modified PBR tariff effective October 1, 2015, and extending its PBR mechanism for five years. On September 9, 2015, the Commission issued an Order suspending the proposed tariff for five months, up to and including February 29, 2016, pending the completion of its review.

The Commission approved Atmos’s current PBR mechanism on December 12, 2010, for five years, expiring May 31, 2016.¹ The program benchmarks the following components of Atmos’s gas costs: (1) commodity costs; (2) transportation costs; (3) capacity release revenues; and (4) off-system sales revenues. Actual costs and revenues are compared against benchmarks to measure Atmos’s performance in its gas procurement activities.

¹ Case No. 2010-00353, *Request of Atmos Energy Corporation for Modification and Extension of Its Gas Cost Adjustment Performance-Based Ratemaking Mechanism* (Ky. PSC Dec. 12, 2010).

Variations between the actual costs/revenues and the benchmarks are shared between shareholders and ratepayers on a sliding scale consisting of two bands. The first band covers variations from the benchmark ranging from 0 to 2.0 percent and is shared 70:30 between ratepayers and shareholders in favor of the ratepayers. The second band covers variations greater than 2.0 percent and is shared 50:50 between ratepayers and shareholders. Since the 1998 inception of its PBR, through May 2015, Atmos states in its Report that it has been encouraged to achieve total savings of approximately \$65 million, with the majority of this amount going to its customers.²

Atmos responded to two rounds of data requests from Commission Staff. There are no intervenors in this proceeding.

ISSUES

Atmos proposes no changes to the operation of its PBR mechanism. It proposes to update its PBR tariff for the addition of ANR Pipeline Company ("ANR Pipeline") as a new source of supply in its Transportation Index Factor benchmark calculation and its Gas Acquisition Index Factor benchmark calculations for the Supply Area Index factor for Base Load ("SAIBL") and the Delivery Area Index factor for Base Load, and to change certain supply points that are included in its benchmark calculations for the SAIBL. It also proposes a change to the Supply Area Index factor for Swing Load ("SAISL") index calculations from the average of the daily high and low of *Gas Daily* postings, which involves a manual calculation on the part of Atmos, to the published midpoint of the *Gas Daily* postings. According to Atmos, the change to a published price posting will reduce the possibility that a calculation will be made in error. Atmos

² Application, Report on Performance-Based Ratemaking at 6.

provided information sufficient to show that the difference in the calculated and published prices would not adversely affect its customers' sharing portion.

Atmos's proposed PBR tariff also reflects a change in the tariff name, with the word "Experimental" removed from the former tariff name of "Experimental Performance Based Rate Mechanism." Atmos states that the word "Experimental" is no longer needed because the program has proven its worth and met its intent.³

Atmos proposes to extend the term for its modified experimental PBR an additional five years, through May 31, 2021. Atmos states that the program has resulted in significant savings for customers over the 17 years it has been in use, and that continuing to extend the PBR for five years will allow it to continue to provide benefits to both Atmos's customers and shareholders.

Atmos proposes to file an evaluation report on the results of the first four years of the PBR extension within 90 days of the end of the fourth year. At that time, it will propose any modifications to the PBR mechanism for the Commission's review.⁴

ANALYSIS

Atmos has been able to demonstrate that it has pursued innovative approaches to gas commodity purchases and transportation service arrangements as a result of the PBR mechanism.

Atmos states that its total measurable gas purchase savings resulting from the PBR was approximately \$23,611,248 for the four-year review period.⁵

³ Atmos's Response to Commission Staff's Second Request for Information, Item 2.

⁴ Application, Report on Performance-Based Ratemaking at 8.

⁵ Atmos's Response to Commission Staff's First Request for Information, Item 1.

Based on the Application and Atmos's responses to Staff requests for information, it appears that its requests to update its PBR tariff for the addition of ANR Pipeline as a new source of supply; to change certain supply points for the SAIBL; and to change the SAISL index calculations from the average of *Gas Daily* postings to the published midpoint of the *Gas Daily* are reasonable. The Commission further concludes that it is reasonable to continue the PBR for five years, at which time the mechanism should again be reviewed. Due to the extensions to the PBR mechanism approved by the Commission since 1998, it is reasonable to discontinue the word "Experimental" from Atmos's PBR tariff name.

SUMMARY

The Commission, based on the evidence of record and being otherwise sufficiently advised, finds that:

1. The PBR tariff revisions proposed by Atmos should be approved as of the date of this Order and continue in effect through May 31, 2021.
2. The PBR mechanism should be approved and extended for an additional five years through May 31, 2021.
3. Atmos's report on the results of its current PBR should be accepted.
4. Within 90 days of the end of the fourth year of the five-year extension, Atmos should file an evaluation report on the results of the PBR for the first four years of the extension period for the Commission's review for purposes of determining whether the PBR should be continued, modified, or terminated.

IT IS THEREFORE ORDERED that:

1. Atmos's proposed PBR tariff revisions are approved as of the date of this Order and shall continue in effect through May 31, 2021.

2. Atmos's PBR mechanism shall be extended for an additional five years through May 31, 2021.

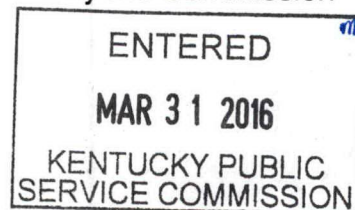
3. Atmos's report on the results of the current PBR mechanism is accepted.

4. Atmos shall file annual reports of its activity under the extended PBR including the same information as contained in the report filed in this proceeding. These reports shall be filed by August 31 of each calendar year, commencing in 2016.

5. Within 90 days of the end of the fourth year of the five-year extension, Atmos shall file an evaluation report on the results of the PBR for the first four years of the extension period, and the Commission shall review same for purposes of determining whether the PBR should be continued, modified, or terminated.

6. Atmos shall, within 20 days of the date of this Order, file its revised tariff sheets setting out the revisions to its PBR tariff approved herein, and reflecting that they were approved pursuant to this Order.

By the Commission



ATTEST:


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