

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF ATMOS ENERGY)
CORPORATION TO ESTABLISH PRP) CASE NO. 2014-00274
RIDER RATES FOR THE TWELVE MONTH)
PERIOD BEGINNING OCTOBER 1, 2014)

COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION
TO ATMOS ENERGY CORPORATION

Atmos Energy Corporation ("Atmos"), pursuant to 807 KAR 5:001, is to file with the Commission the original and ten copies of the following information, with a copy to all parties of record. The information requested herein is due no later than ten days from the date of this Order. Responses to requests for information shall be appropriately bound, tabbed and indexed. Each response shall include the name of the witness responsible for responding to the questions related to the information provided.

Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association or a governmental agency, be accompanied by a signed certification of the preparer or person supervising the preparation of the response on behalf of the entity that the response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

Atmos shall make timely amendment to any prior response if it obtains information which indicates that the response was incorrect when made or, though correct when made, is now incorrect in any material respect. For any request to which Atmos fails or refuses to furnish all or part of the requested information, Atmos shall

provide a written explanation of the specific grounds for its failure to completely and precisely respond.

Careful attention should be given to copied material to ensure that it is legible. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in responding to this request. When applicable, the requested information shall be separately provided for total company operations and jurisdictional operations.

1. Refer to Exhibit B, line 33, Increase in deficiency of \$4,316,793. Multiplying the proposed rates by the billing determinants from Exhibit I produces revenues of \$4,307,883, or a shortfall of \$8,910. Explain whether Atmos is aware that the rates as designed will not generate the revenue requirement.

2. Refer to Exhibit F, Deferred Income Taxes.

a. Confirm that Atmos used half-year convention Modified Accelerated Cost Recovery System ("MACRS") depreciation for its Tax Depreciation Rates consistent with its statement in Case No. 2013-00304.¹

b. Confirm that for tax depreciation purposes, the depreciation rates are the same for Mains, Services, and Meters.

c. State whether Atmos uses bonus depreciation for income tax purposes in conjunction with the MACRS 15-year depreciation rates.

d. Explain why there is no provision for the Public Service Commission Assessment in the tax rates.

¹ Case No. 2013-00304, Application of Atmos Energy Corporation to Establish PRP Rider Rates for the 12-Month Period Beginning October 1, 2013, Atmos response to Item 3.b., Commission Staff's First Request for Information (Ky. PSC filed Aug. 30, 2013).

3. Provide Exhibit I of the application in electronic format, with formulas intact and unprotected.

4. Refer to Exhibit K-1. Explain why the Cost of Removal for Mains is \$4,020 for each project.

5. Refer to the first project on Exhibit K-1, project PRP.2739.8" Transmission Line Replacement – Aiken Rd Purchase to Buck Creek Rd.

a. Confirm that this project is the same project for which Atmos requested a staff opinion on July 2, 2014. Atmos's request for staff opinion is attached as an Appendix to this request for information.

b. State whether the pipeline is bare steel, cathodically unprotected coated steel, or ineffectively coated steel. If the pipeline does not match any of these types, explain why Atmos chose to include it for replacement under its Pipeline Replacement Program ("PRP").

c. State whether the Direct Testimony of Gary L. Smith and Earnest B. Napier in Case No. 2009-00354² addressed Atmos's intention to include in the PRP all planning, design, replacement construction, investment, and retirement costs related to the replacement of bare steel (whether or not cathodically protected), cathodically unprotected coated steel, and ineffectively coated steel (whether or not cathodically protected) transmission and distribution mains, and further, that Atmos intended to monitor "other segments for leakage and needed replacement activity and react

² Case No. 2009-00354, Application of Atmos Energy Corporation for an Adjustment of Rates (Ky. PSC May 28, 2010).

accordingly when main segments become problematic from a long range maintenance perspective.”³

d. State whether Atmos’s original description of the PRP, specifically as set out in the Napier Testimony in Case No. 2009-00354,⁴ contemplated the inclusion of planning, design, replacement construction, investment, and retirement costs related to replacement of facilities other than bare steel mains and services so that facilities are appropriately designed and sized.

6. Provide an updated estimate of the total projected cost of Atmos’s 15-year PRP program, including actual historical cost and current projections of cost for the remaining years of the program.

7. Refer to page 2 of the attached Request for Staff Opinion dated July 2, 2014. State whether Atmos still intends to replace the Shelbyville line over two fiscal years and over two PRP filings.



Jeff Derouen
Executive Director
Public Service Commission
P.O. Box 615
Frankfort, Kentucky 40602

DATED **AUG 28 2014**

cc: Parties of Record

³ *Id.*, Direct Testimony of Earnest B. Napier, P.E. at 16 (filed Oct. 29, 2009).

⁴ *Id.* at 14.

APPENDIX

APPENDIX TO A REQUEST FOR INFORMATION OF THE KENTUCKY
PUBLIC SERVICE COMMISSION IN CASE NO. 2014-00274 **AUG 28 2014**



RECEIVED

JUL 02 2014

PUBLIC SERVICE
COMMISSION

July 1, 2014

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

RE: Staff Opinion

Dear Mr. DeRouen,

Atmos Energy Corporation (Company) herewith submits a request for a Staff Opinion related to the Company's Pipe Replacement Program (PRP). The Company met with the Staff on Thursday, June 19th to discuss a specific PRP project.

The Company's PRP program was approved as proposed in Case No. 2009-00354. Since the program's inception, the Company has made four PRP filings which all have been approved by the Commission. All pipe replaced to date under the Company's PRP has involved replacement of bare or unprotected steel pipe. The pipe to be replaced in the project described below, although not bare or unprotected steel, is aged infrastructure that has outlived its useful life. Because the focus in the Company's testimony was on replacement of bare or unprotected steel pipe, the Company wanted to make certain that its interpretation of the Commission's Order in Case No. 2009-00354 was correct; viz, that Company's pipe replacement program is not limited to replacement of bare or unprotected steel pipe. It was never the intention of the Company to limit the PRP to replacement of bare or unprotected steel pipe. Where safety and reliability indicate the need to replace aged infrastructure, the PRP was intended to apply. KRS 278.509, which authorizes PRPs, is not limited to replacement of steel pipe – but rather authorizes the Commission to allow utilities to recover costs "...for investment in natural gas pipeline replacement programs...".

Gary L. Smith, the Company witness who sponsored the PRP in Case 2009-00354 described the PRP program as a "...mechanism to replace existing infrastructure that has served its useful life." (Smith Direct Testimony page 15, lines 5-6)

While there are several references in the record of Case No. 2009-00354 related to the replacement of aging infrastructure the majority of the Company's testimony focused on the replacement of the following types of assets:

1. Bare steel pipe (whether cathodically protected or not).
2. Cathodically unprotected steel pipe.
3. Ineffectively coated steel pipe.

At the aforementioned meeting on June 19th, the Company outlined the inclusion of a project to replace approximately nine miles of 8" steel referred to as the Shelbyville Line. The pipe to be replaced was put in service in 1963 and contains one Grade 3 leak. The leak is located under Interstate 64. Also, from a reliability standpoint, the Company needs to increase the MAOP of the line which is a one-way feed from Texas Gas in Jefferson County to Lawrenceburg. The Company serves approximately 11,000 customers in four counties from this line. From a safety and reliability standpoint, the line has served its useful life.

The Company begins its budget process in May and June of each year. During this process, specific projects are identified and prioritized. Once capital spending levels are established, the Company budgets projects to hit the capital spending level target. The Shelbyville Line was identified and prioritized due to the growth in the area as well as the age of the asset.

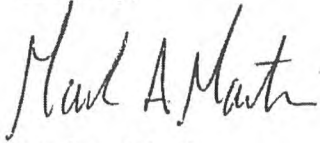
As mentioned earlier, the Shelbyville Line is 50+ years old. The average life of assets replaced under the Company's PRP were approximately 65 years old.

At the June 19th meeting, I mentioned that Company planned to replace the Shelbyville Line over two fiscal years which in turn would be recovered in two separate PRP years. For illustrative purposes, attached is a schedule which outlines the estimated impact of the project being done in one PRP year, two PRP years or not at all. Also, I indicated that the cost of replacement would be approximately \$10 million. The latest estimate from our Engineering Department is that the cost of replacement would be approximately \$14.3 million. The current book value of this segment of pipe is \$0.

Since the Shelbyville Line project was brought to Staff's attention at the June 19th meeting, Staff suggested that the Company contact you to seek a Staff Opinion. I was asked at the meeting if the Company believed that the project should be included in our PRP. The answer then is still true today. Although the Order in Case No. 2009-00354 does not expressly describe the facilities that are to be replaced under our PRP, the Company believes that the spirit of our pipe replacement program is to accelerate the replacement of aging infrastructure as well as pipe that has served its useful life. The Company believes that the most prudent thing to do is to replace the 50+ year old line rather than increasing the pressure. From a safety, reliability and prudence standpoint, the Company believes that the line should be replaced and that it should be replaced under the PRP.

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". The signature is written in a cursive style with a large, prominent "M" at the beginning.

Mark A. Martin
Vice President – Rates & Regulatory Affairs

Enclosures

cc: Randy Hutchinson
Josh Densman
Greg Smith
Larry Cook

ATMOS ENERGY CORPORATION
KENTUCKY PIPE REPLACEMENT PROGRAM
SURCHARGE CALCULATION OF FORCASTED ACTIVITY
AS OF OCTOBER 2014 THROUGH SEPTEMBER 2015
SURCHARGE SUMMARY

| Line Number | Tariff Schedule | w/o Shelbyville Line | | w/Shelbyville Line (Half) | | w/Shelbyville Line (Full) | |
|-------------|----------------------------|----------------------|---|---------------------------|-------------------|---------------------------|-------------------|
| | | Customer Charge | Volumetric Charge | Customer Charge | Volumetric Charge | Customer Charge | Volumetric Charge |
| 1 | RESIDENTIAL (Rate G-1) | \$ 1.10 | 0.0000 | \$ 1.46 | 0.0000 | \$ 1.82 | 0.0000 |
| 2 | NON-RESIDENTIAL (Rate G-1) | \$ 3.44 | 0.0000 | \$ 4.58 | 0.0000 | \$ 5.72 | 0.0000 |
| 3 | INTERRUPTIBLE (Rate G-2) | \$ 21.35 | | \$ 28.43 | | \$ 35.51 | |
| 4 | | | Sales: 1-15,000 0.0304 | | 0.0405 | | 0.0505 |
| 5 | | | Sales: Over 15,000 0.0000 | | 0.0000 | | 0.0000 |
| 6 | TRANSPORTATION (T-3) | \$ 17.63 | | \$ 23.48 | | \$ 29.32 | |
| 7 | | | Interrupt Transport: 1-15,000 0.0363 | | 0.0483 | | 0.0603 |
| 8 | | | Interrupt Transport: Over 15,000 0.0243 | | 0.0324 | | 0.0405 |
| 9 | TRANSPORTATION (T-4) | \$ 16.82 | | \$ 22.40 | | \$ 27.98 | |
| 10 | | | Firm Transport: 1-300 0.0547 | | 0.0728 | | 0.0909 |
| 11 | | | Firm Transport: 301-15,000 0.0365 | | 0.0486 | | 0.0607 |
| 12 | | | Firm Transport: Over 15,000 0.0257 | | 0.0342 | | 0.0428 |

Mark R Hutchinson
Wilson, Hutchinson & Poteat
611 Frederica Street
Owensboro, KENTUCKY 42301

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Atmos Energy Corporation
3275 Highland Pointe Drive
Owensboro, KY 42303