



May 23, 2005

Honorable Beth O'Donnell
Executive Director
Kentucky Public Service Commission
211 Sower Blvd.
P.O. Box 615
Frankfort, Kentucky 40602-0615

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MAY 24 2005
PUBLIC SERVICE
COMMISSION

Subject: First Data Request of Commission Staff
Case 2005-00067

Dear Ms. O'Donnell:

Enclosed herein is the filing by Atmos Energy Corporation, of its First Data request of the Commission Staff, dated May 16, 2005 in Case Number 2005-00067. This filing includes the original and five (5) copies.

Please direct all inquiries regarding the enclosed filing to me at the address below, or you may call me at (270) 685-8024.

Sincerely,

A handwritten signature in black ink that reads "Gary L. Smith".

Gary L. Smith
V.P. Marketing and Regulatory Affairs

Enclosures

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED

MAY 9 4 2005

PUBLIC SERVICE
COMMISSION

In the Matter of:

| | | |
|------------------------------------|---|------------|
| APPLICATION OF ATMOS ENERGY |) | |
| CORPORATION FOR A DEVIATION FROM |) | CASE NO. |
| THE REQUIREMENTS OF 807 KAR 5:022, |) | 2005-00067 |
| SECTION 8(4)(a) AND (b) |) | |

FIRST DATA REQUEST OF COMMISSION STAFF TO
ATMOS ENERGY CORPORATION

Atmos Energy Corporation ("Atmos Energy"), pursuant to 807 KAR 5:001, is requested to file with the Commission the original and 5 copies of the following information, with a copy to all parties of record. The information requested herein is due within 7 days of the date of this data request. 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. When applicable, the information requested herein should be provided for total company operations and jurisdictional operations, separately.

1. Refer to page 1 of the application, where it is stated, "Atmos Energy has determined it would be in its best interest and in the best interest of its ratepayers to outsource all of the testing and repair of its meters and has elected to outsource this work to a different company." Explain how Atmos Energy determined that outsourcing the meter work was "in the best interest of its ratepayers."

2. Provide a detailed cost/benefit analysis that evaluates Atmos Energy's decision to outsource meter testing and repair. For this analysis, include the following:

a. The number of meters outsourced for calendar years 2000 through 2004 identified by new meters, existing meters tested, meters repaired, and outsourced expenses by vendor.

b. The estimated meter expenses and number of meters estimated by Atmos Energy to be outsourced to Tucker Meter Service ("Tucker") and to Mississippi Valley Gas ("Mississippi Gas") for testing new meters, existing meters tests, and meter repairs.

c. The services and other benefits Atmos Energy expects to derive from outsourcing meter services to Tucker and Mississippi Gas.

d. A detailed analysis of all alternatives reviewed that justified the decision to outsource meter testing to Tucker and Mississippi Gas.

e. All assumptions, escalators, return on investment calculations, net present value, and net financial return included in the analysis that support the decision to close the testing facility in Kentucky.

3. If Atmos Energy did not perform a cost/benefit analysis, explain the methodology utilized to support the decision to close the Kentucky facility.

4. Provide the number of employees at the testing facility located at 3064 Fairview Drive, Owensboro, Kentucky. If there are employees at this facility who will no longer be employed by Atmos Energy, explain how these employee costs were reflected in the analysis and decision to close the facility.

5. Refer to paragraph 1, page 2 of the application that states that Mississippi Gas is a division of Atmos Energy. KRS 278.2207(b) provides that the services and products provided to the utility by an affiliate shall be priced at the affiliate's fully distributed cost but in no event greater than market or in compliance with the utility's existing USDA-, SEC- or FERC-approved cost methodology.

a. State whether the transaction proposed with Mississippi Gas is in compliance with this statute. Explain the response.

b. If the answer to 5(a) is no, explain why Atmos Energy has not requested a deviation as permitted by KRS 278.2207(2).

c. State whether Atmos Energy issued a request for proposal for its meter testing needs. Explain the response.

6. Refer to paragraph 1, page 1 of the application. Atmos Energy states that in recent years it has tested a portion of its meters at its facility at 3064 Fairview Drive, Owensboro, Kentucky and outsourced the others to Columbia Gas of Kentucky ("Columbia").

a. State how many meters Atmos Energy has tested in its facilities at 3064 Fairview Drive, Owensboro, Kentucky for each of the last 3 years.

b. State whether Atmos Energy is currently outsourcing a portion of its meter testing to Columbia.

c. If Atmos Energy is currently outsourcing a portion of its meter testing to Columbia, state the number of Atmos Energy meters tested by Columbia for 2005.

d. Explain why Atmos Energy is proposing to outsource its meter testing to Mississippi Gas rather than continuing its outsourcing to Columbia.

e. State whether Columbia is capable and willing to continue its meter testing arrangement with Atmos Energy. Explain the response.

7. Explain what effect, if any, Atmos Energy's proposal to outsource its meter testing to Mississippi Gas will have on its meter sampling plan.

8. Explain how Atmos Energy plans to transport its meters to Mississippi Gas.

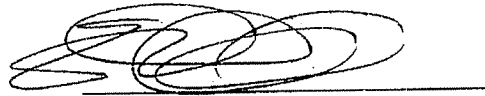
9. State whether the transportation to and from Mississippi Gas will affect the accuracy or calibration of the meters. Explain the response.

10. Refer to paragraph 3, page 1 of the application. Atmos Energy states that it will use Tucker for any meter when a customer request is made to observe the testing, for any meter Atmos Energy determines should be tested locally, and for random testing of the meters tested by Mississippi Gas, as well as new meters supplied by manufacturers.

a. Explain why Atmos Energy will have Tucker randomly test meters that have been tested by Mississippi Gas.

b. State whether Tucker is capable and willing to meet all of Atmos Energy's meter testing. Explain the response.

11. Refer to paragraph 4, page 2 of the application. Atmos Energy has provided the Commission with the type and serial number of the provers used by Mississippi Gas and Tucker. State when these provers were last calibrated.



Beth O'Donnell
Executive Director
Public Service Commission
P. O. Box 615
Frankfort, KY 40602

DATED May 16, 2005

cc: All Parties

Atmos Energy Corporation
Case No. 2005-00067
First Data Request of Commission Staff - Dated May 16, 2005
Witness: Gary Smith

Data Request:

1. Refer to page 1 of the application, where it stated, "Atmos Energy has determined it would be in its best interest and in the best interest of its ratepayers to outsource all of the testing and repair of its meters and has elected to outsource this work to a different company." Explain how Atmos Energy determined that outsourcing the meter work was in the "best interest of its ratepayers."

Response:

1. In the Company's application, the above statement noted that Atmos Energy's determination was to outsource these services "rather than (to) purchase or lease another facility to house a meter testing and repair shop." Also, in the application, in paragraph (1), Atmos Energy (or the "Company") points out that its lease will expire as of June 30, 2005 for facilities located at 3064 Fairview Drive in Owensboro, Kentucky which house our current meter testing and repair shop.

The outsourcing of testing and repair of meters, to a rather significant degree, has developed over the course of several years for Atmos Energy. In 1997, the Company began to outsource a portion of its meter testing to American Meter. In 1998, the Company reorganized its operations and no longer maintained employees dedicated to meter testing and repair. The majority of meters tested at that time were outsourced to Columbia Gas's testing and repair facility. Atmos Energy continued to utilize Columbia Gas for these services, but has recently decided to shift that work to Mississippi Valley Gas Company ("Mississippi division" of Atmos Energy). It is important to note that the term "outsource" as used in conjunction with the Mississippi division may be somewhat mis-applied, since that work is merely being transferred to Atmos Energy's Mississippi utility operating division (formerly known as Mississippi Valley Gas Company). Thus, this shift to the Mississippi division does not represent the transfer of services to an outside third party.

Please refer to Item 2(d) for further information regarding the decision to replace the services performed by Columbia Gas.

Currently, and in recent years, only a portion of meters are tested at the Fairview Drive facilities, utilizing a contract employee to perform those services. Statistics regarding the number of tests/repairs outsourced and conducted at the Company's facilities are provided in Item 2 and Item 6 of this Data Request.

With the impending expiration of the Fairview Drive lease, the Company faced the decision of relocating its meter testing and repair shop, or to fully substitute the remaining operations. Upon review of economics and quality assurance considerations, the Company determined that substituting those services was the prudent course of action.

In addition to the proposed use of the Mississippi division services, the Company points out in its application that it intends to utilize Tucker Meter Service ("Tucker"), as a local entity for any meter which a customer requests to observe being tested and for other meters the Company determines should be tested locally. Tucker will also perform random testing of the meters tested by the Mississippi division as well as new meters supplied by manufacturers. With these arrangements, Atmos Energy believes ratepayers will receive the continued service quality provided by the current arrangements.

In conjunction with the determination to fully outsource the meter testing and repair operations, this deviation request was necessary. Associated economic considerations (reference the response to Item 2 of the Data Request) support the Company's determination that substituting the remaining meter work was in the best interest of its ratepayers.

Atmos Energy Corporation
Case No. 2005-00067
First Data Request of Commission Staff - Dated May 16, 2005
Witness: Barry Wigginton

Data Request:

2. Provide a detailed cost/benefit analysis that evaluates Atmos Energy's decision to outsource meter testing and repair. For this analysis, include the following:
 - a. The number of meters outsourced for calendar years 2000 through 2004 identified by new meters, existing meters tested, meters repaired, and outsourced expenses by vendor.
 - b. The estimated meter expenses and number of meters estimated by Atmos Energy to be outsourced to Tucker Meter Service ("Tucker") and to Mississippi Valley Gas ("Mississippi Gas") for testing new meters, existing meters tests, and meter repairs.
 - c. The services and other benefits Atmos Energy expects to derive from outsourcing meter services to Tucker and Mississippi Gas.
 - d. A detailed analysis of all alternatives reviewed that justified the decision to outsource meter testing to Tucker and Mississippi Gas.
 - e. All assumptions, escalators, return on investment calculations, net present value, and net financial return included in the analysis that support the decision to close the testing facility in Kentucky.

Response:

2. As stated in Item 1 of this Data Request, outsourcing of meter testing and repairs has been ongoing since 1997 to a large extent. At this time, Atmos Energy's decision at-hand centers around the activities currently being conducted at its testing facility on Fairview Drive in Owensboro, Kentucky and the fact that our lease on that property is due to expire as of June 30, 2005.

The Company does not possess any cost/benefit analyses from those earlier periods in which outsourcing of a portion of our meter testing/repair services was first undertaken. However, the Company will provide, in accordance with this request, the considerations of the Company in its decision whether to relocate its meter testing and repair shop, or to substitute the remaining operations from Fairview Drive.

- a. The number of meters outsourced for calendar years 2000 through 2004 identified by new meters, existing meters tested, meters repaired, and outsourced expenses by vendor is provided in the table below. The figures for “Atmos” represent the cost of the contract employee performing services at the Company’s Fairview Drive facilities, and do not include facility operating costs such as rent and utilities.

| | New Meter Random Testing | Test Only | Test & Adjust or Repaired | Outsource Expense |
|-----------------------|--------------------------------|-----------|---------------------------------|----------------------|
| Columbia 2000 | - | 3,486 | 2,626 | \$71,501.00 |
| Atmos 2000 | 144 | 1,109 | | \$5,175.00 |
| Columbia 2001 | - | 5,146 | 1,786 | \$91,606.00 |
| Atmos 2001 | 132 | 216 | | \$1,350.00 |
| Columbia 2002 | - | 5,638 | 1,748 | \$121,734.00 |
| Atmos 2002 | 138 | 935 | | \$4,575.00 |
| NASG/Columbia 2003 | - | 4,427 | 1,155 | \$77,738.00 |
| Atmos 2003 | 136 | 958 | | \$3,825.00 |
| Columbia 2004 | - | 4,203 | 2,872 | \$64,604.00 |
| Atmos 2004 | 158 | 3,119 | - | \$14,243.00 |

- b. The estimated meter expenses and number of meters estimated by Atmos Energy to be outsourced to Tucker and to the Mississippi division for testing new meters, existing meters tests, and meter repairs is provided in the table below.

| | New Meter Random Testing | Test Only | Test & Adjust or Repaired | Outsource Expense |
|------------------|--------------------------------|-----------|---------------------------------|----------------------|
| Mississippi 2005 | - | 5,332 | 2,668 | \$69,352 |
| Tucker 2005 | 200 | 40 | | \$4,800 |
| Mississippi 2006 | - | 6,000 | 2,500 | \$69,000 |
| Tucker 2006 | 200 | 40 | | \$4,800 |

- c. As we have stated, Atmos Energy was, at this time assessing potentially expanded outsourcing of services as an alternative to relocating its testing facilities. Therefore, the primary services we sought to derive were replication or equivalence of service performed at the Fairview Drive facility. The main benefit to outsourcing the remaining meter services is the avoidance of start up and operational costs of a meter shop. Those costs would entail rental or ownership costs of a new facility and the renovations of that property necessary to conform to the stringent standards of an approved KPSC meter testing facility. The Company estimates that relocating operations from the Fairview Drive location would cost approximately \$50,000 for conversion and setup of a newly rented facility, plus \$30,000 to \$40,000 per year for rent and utilities.

- d. As stated in Item 1 of this Data Request, with the impending expiration of the Fairview Drive lease, the Company faced the decision of relocating its meter testing and repair shop, or to fully substitute the remaining operations provided at that location. The Company chose to utilize Tucker, as a local entity for any meter which a customer requests to observe being tested and for other meters the Company determines should be tested locally. Tucker will also perform random testing of the meters tested by the Mississippi division as well as new meters supplied by manufacturers. The arrangements with Tucker were sought for customer service quality, with the location in Owensboro being a critical consideration. Thus, as it relates to Tucker, no other alternatives were assessed. The decision to utilize the Mississippi division was basically based on an economic comparison to our existing outsourcing service, Columbia Gas. The economic consideration of that choice is provided in the following table.

| <u>COST ESTIMATE OF COLUMBIA VS</u> | | | | | |
|--|----------------------|-----------------------|-------------------|------------------|-------------------|
| <u>MVG</u> | | | | | |
| <u>Category</u> | <u>No. of Meters</u> | <u>Columbia Quote</u> | | <u>MVG Quote</u> | |
| | | <u>Each</u> | <u>Total Cost</u> | <u>Each</u> | <u>Total Cost</u> |
| Test Only | 5,332 | \$7.00 | \$37,324 | \$4.00 | \$21,328 |
| Test & Adjust or Repair | 2,668 | \$22.00 | \$58,696 | \$18.00 | \$48,024 |
| Total | 8,000 | | \$96,020 | | \$69,352 |

Cost Savings **\$26,668** per year

- e. All factors considered in the decision to close the testing facility in Kentucky are noted in the preceding subparts of this, Item 2 of the Data Request.

Atmos Energy Corporation
Case No. 2005-00067
First Data Request of Commission Staff - Dated May 16, 2005
Witness: Barry Wigginton

Data Request:

3. If Atmos Energy did not perform a cost/benefit analysis, explain the methodology utilized to support the decision to close the Kentucky facility.

Response:

3. Please refer to Item 2 of this Data Request for the Company's considerations in its decision whether to relocate its meter testing and repair shop, or to substitute the remaining Fairview Drive operations.

Atmos Energy Corporation
Case No. 2005-00067
First Data Request of Commission Staff - Dated May 16, 2005
Witness: Barry Wigginton

Data Request:

4. Provide the number of employees at the testing facility located at 3064 Fairview Drive, Owensboro, Kentucky. If there are employees at this facility who will no longer be employed at Atmos Energy, explain how these employee costs were reflected in the analysis and decision to close the facility.

Response:

4. The Company has no employees dedicated to meter testing and repair at the Fairview Drive facility, and has not had any such employees since reorganizing its operations in 1998. Currently, and in recent years, only a portion of meters are tested at the Fairview Drive facilities, utilizing a contract employee to perform those services.

Atmos Energy Corporation
Case No. 2005-00067
First Data Request of Commission Staff - Dated May 16, 2005
Witness: Gary Smith

Data Request:

5. Refer to paragraph 1, page 2 of the application that states that Mississippi Gas is a division of Atmos Energy. KRS 278.2207(b) provides that the services and products provided to the utility by an affiliate shall be priced at the affiliate's fully distributed cost but in no event greater than market or in compliance with the utility's existing USDA-, SEC- or FERC-approved cost methodology.
 - a. State whether the transaction proposed with Mississippi Gas is in compliance with this statute. Explain the response.
 - b. If the answer to 5(a) is no, explain why Atmos Energy has not requested a deviation as permitted by KRS 278.2207(2)
 - c. State whether Atmos Energy issued a request for proposal for its meter testing needs. Explain the response.

Response:

- 5 a. The statute is not applicable to this matter since Mississippi Valley Gas Company (the "Mississippi division") and the Kentucky division are both utility operating divisions of Atmos Energy. They are not separate legal entities and thus they do not have separate legal identities. Therefore, the Mississippi division is not a "person" as defined in the statute and cannot be an affiliate of Atmos Energy's Kentucky division.
 - b. As indicated in the response to Item 5 (a) of this Data Request, above, the referenced statute does not apply to this matter, so no request for deviation was warranted.
 - c. Atmos Energy's Kentucky division sought a competitive quote for these services from its existing service provider, Columbia Gas and from the Mississippi division. Please refer to Item 2 (d) of this Data Request for a comparison of those quotes.

Atmos Energy Corporation
Case No. 2005-00067
First Data Request of Commission Staff - Dated May 16, 2005
Witness: Barry Wigginton

Data Request:

6. Refer to paragraph 1, page 1 of the application. Atmos Energy states that in recent years it has tested a portion of its meters at its facility at 3064 Fairview Drive, Owensboro, Kentucky and outsourced the others to Columbia Gas of Kentucky (“Columbia”).
 - a. State how many meters Atmos Energy has tested in its facilities at 3064 Fairview Drive, Owensboro, Kentucky for each of the last 3 years.
 - b. State whether Atmos Energy is currently outsourcing a portion of its meter testing to Columbia.
 - c. If Atmos Energy is currently outsourcing a portion of its meter testing to Columbia, state the number of Atmos Energy meters tested by Columbia for 2005.
 - d. Explain why Atmos Energy is proposing to outsource its meter testing to Mississippi Gas rather than continuing its outsourcing to Columbia.
 - e. State whether Columbia is capable and willing to continue its meter testing arrangement with Atmos Energy. Explain the response.

Response:

6.
 - a. In 2002, 1,073 meters were tested.
In 2003, 1,094 meters were tested.
In 2004, 3,277 meters were tested
 - b. Atmos Energy (the “Company”) is no longer outsourcing a portion of its meter testing to Columbia Gas. Beginning in 2005, the Company sought to shift the work that Columbia Gas had been providing to Mississippi Valley Gas (the “Mississippi division”). That shift was completed in February, upon receiving KPSC certification of that facility. Prior to the approval, all meter tests in 2005 had been diverted to the Fairview Drive facility.
 - c. See the response to Item 6 (b) of this Data Request, above.
 - d. Please refer to Item 2 (d) of this Data Request.

- e. Columbia is capable and willing to provide meter testing services to Atmos Energy. However, as shown in the response to Item 2 (d) of this Data Request, the Company selected the Mississippi division for the service due to lower costs.

Atmos Energy Corporation
Case No. 2005-00067
First Data Request of Commission Staff - Dated May 16, 2005
Witness: Barry Wigginton

Data Request:

7. Explain what effect, if any, Atmos Energy's proposal to outsource its meter testing to Mississippi Gas will have on its meter sampling plan.

Response:

7. None. Atmos Energy will continue to use the statistical sampling program which is based on the number of meters in each test group and the sample size required per ANSI Z 1.4.

**Atmos Energy Corporation
Case No. 2005-00067
First Data Request of Commission Staff - Dated May 16, 2005
Witness: Barry Wigginton**

Data Request:

8. Explain how Atmos Energy plans to transport its meters to Mississippi Gas.

Response:

8. Meters will be transported to the Mississippi division consistent with the mode of transportation to Columbia. The meters will be shipped by contract trucking services.

Atmos Energy Corporation
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First Data Request of Commission Staff - Dated May 16, 2005
Witness: Barry Wigginton

Data Request:

9. State whether the transportation to and from Mississippi Gas will affect the accuracy or calibration of the meters. Explain the response.

Response:

9. This concern is somewhat negated by our ongoing practice of random testing of meters tested, adjusted and repaired before placement in the field. Such tests have been conducted at the Fairview Drive facility and are proposed to be conducted through services provided by Tucker.

Further, it is the Company's belief that the length of haul is likely immaterial in its effect on the accuracy and calibration of meters.

Atmos Energy Corporation
Case No. 2005-00067
First Data Request of Commission Staff - Dated May 16, 2005
Witness: Barry Wigginton

Data Request:

10. Refer to paragraph 3, page 1 of the application. Atmos Energy states that it will use Tucker for any meter when a customer request is made to observe the testing, for any meter Atmos Energy determines should be tested locally, and for random testing of the meters tested by Mississippi Gas, as well as new meters supplied by manufacturers.
 - a. Explain why Atmos Energy will have Tucker randomly test meters that have been tested by Mississippi Gas.
 - b. State whether Tucker is capable and willing to meet all of Atmos Energy's meter testing. Explain the response.

Response:

10.
 - a. Atmos Energy's approved statistical sampling program includes the practice of randomly checking tested meters to verify calibration and accuracy. This standard practice, for all meter providers, provides assurances of quality control immediately prior to placing meters in the field.
 - b. Tucker is not capable of meeting all of Atmos Energy's meter testing requirements due to manpower and facility limitations. Tucker is willing to provide meter services of sample testing of meter batches and customer request tests, within the scope proposed by the Company. Please refer to Item 2 (b) of this Data Request for projections of service levels for Tucker.

**Atmos Energy Corporation
Case No. 2005-00067
First Data Request of Commission Staff - Dated May 16, 2005
Witness: Barry Wigginton**

Data Request:

11. Refer to paragraph 4, page 2 of the application. Atmos Energy has provided the Commission with the type and serial number of the provers used by Mississippi Gas and Tucker. State when these provers were last calibrated.

Response:

11. The Mississippi Gas ("Mississippi division") provers were certified in February of 2005 by Dennis Hildebrandt of the Kentucky Public Service Commission.

Tucker provers were certified in 1987 by Dennis Hildebrandt of the Kentucky Public Service Commission.