COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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PUBLIC SERVICE COMMISSION

In the Matter of:

MODIFICATIONS OF ATMOS ENERGY)
CORPORATION'S GAS COST ADJUSTMENT) CASE NO. 2005-00321
RATEMAKING MECHANISM)

ATTORNEY GENERAL'S INITIAL REQUEST FOR INFORMATION

Comes now the intervenor, the Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention, and submits this Initial Request for Information to Atmos Energy Corporation ("Atmos") to be answered by the date specified in the Commission's Order of Procedure, and in accord with the following:

(1) In each case where a request seeks data provided in response to a staff request, reference to the appropriate request item will be deemed a satisfactory response.

(2) Please identify the witness who will be prepared to answer questions concerning each request.

(3) These requests shall be deemed continuing so as to require further and supplemental responses if the company receives or generates additional information within the scope of these requests between the time of the response and the time of any hearing conducted hereon.

(4) If any request appears confusing, please request clarification directly from the Office of Attorney General.

(5) To the extent that the specific document, workpaper or information as requested does not exist, but a similar document, workpaper or information does exist, provide the similar document, workpaper, or information.

(6) To the extent that any request may be answered by way of a computer printout, please identify each variable contained in the printout which would not be self evident to a person not familiar with the printout.

(7) If the company has objections to any request on the grounds that the requested information is proprietary in nature, or for any other reason, please notify the Office of the Attorney General as soon as possible.

(8) For any document withheld on the basis of privilege, state the following: date; author; addressee; indicated or blind copies; all persons to whom distributed, shown, or explained; and, the nature and legal basis for the privilege asserted.

(9) In the event any document called for has been destroyed or transferred beyond the control of the company, please state: the identity of the person by whom it was destroyed or transferred, and the person authorizing the destruction or transfer; the time, place, and method of destruction or transfer; and, the reason(s) for its destruction or transfer. If destroyed or disposed of by operation of a retention policy, state the retention policy.

Respectfully submitted,
GREGORY D. STUMBO
ATTORNEY GENERAL

Lawrence W. Cook

Lawrence W. Cook
Assistant Attorney General
1024 Capital Center Drive, Suite 200
Frankfort, KY 40601-8204
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Certificate of Service and Filing

Counsel certifies that an original and seven photocopies of the foregoing Attorney General's Initial Request For Information were filed with and served by hand delivery to Beth O'Donnell, Executive Director, Public Service Commission, 211 Sower Boulevard, Frankfort, Kentucky 40601; furthermore, it was served by mailing a true and correct copy of the same, first class postage prepaid, to:

Honorable David F. Boehm
Boehm, Kurtz & Lowry
36 East Seventh Street
Suite 1510
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Honorable John N. Hughes
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Senior Analyst - Rate Administration
Atmos Energy Corporation
P. O. Box 650205
Dallas, TX 75235-0205

Honorable Mark R. Hutchinson
Wilson, Hutchinson & Poteat
611 Frederica Street
Owensboro, KY 42301

William J. Senter
V.P. Rates & Regulatory Affairs
Atmos Energy Corporation
2401 New Hartford Road
Owensboro, KY 42303-1312

This 7th day of September, 2005.

Lawrence W. Cook
Assistant Attorney General

Attorney General's Initial Request for Information
to Atmos Energy Corporation
Case Number 2005-00321

1. Please state the purpose behind Atmos' proposal to add Gas Acquisition Index Factor for Asset Management ("GAIFAM") as a new component or benchmark to Atmos' PBR. In your response, please include:
   a) the added benefit the incentive would represent for the ratepayer;
   b) the added benefit the incentive would represent for the shareholder;
   c) why it would be appropriate to add this incentive to this PBR when it was not included in the last PBRs, which were also implemented through asset management contracts;
   d) against what objective benchmark, criteria or standard would the incentive, including its performance and/or any potential savings, be measured and evaluated?
   e) what level of improved performance must exist before rewards in the form of shared savings are to be granted.

2. In the Application, Atmos states that the Gas Acquisition Index Factor for Asset Management would "distinguish and clearly recognize any supplier discounts provided for asset management rights, if any that are fixed discounts not directly tied to per unit natural gas purchases." Please explain what this means, and include in your explanation the benefit to ratepayers expected to be gained from asset management discount amounts that are not tied to per unit natural gas purchases, as opposed to those that are tied to per unit natural gas purchases in a gas supply performance based rate.

3. By requesting a reduction in the cost sharing mechanism from the current 2% level to 1% based on gas price increases, is the Company saying that shareholder participation in incentive sharing should become easier to obtain as the cost of gas to the ratepayer increases?

   a) State exactly what has changed from the time of Atmos' last approval of its PBR until now with regard to the industry standard represented by the benchmark against which Atmos' performance is to be measured, other than simply stating that it has risen with the increase in the price of gas?

b) Please explain why ratepayers should pay the company for a reduced level of performance in addition to paying for the ever-increasing cost of gas, an increase over which the company admits it has no control.

4. In what way or ways does Atmos' proposed modification represent current trends in the LDC industry?

5. Does the existing cost sharing mechanism allow Atmos to pass 50% of increased gas costs to ratepayers whenever there is more than a 2% variance between cost and benchmarks? If so, why is this mechanism not adequate to protect Atmos in current market conditions?

6. For each year of the PBR established in Case No. 2001-317 in which the threshold for capacity release was removed, state the amount by which capacity release exceeded the threshold that was established in Case No. 97-513.

7. What, if any incentive was offered to the gas supplier in conjunction with capacity release (i.e., a 10% Commission) in the initial PBR set forth in Case No. 97-513, in which the sharing in capacity release revenues was conditioned upon first meeting a capacity release threshold?

8. In what ways, if any, will the incentive offered to the gas supplier under the current request for a PBR modification differ from that already in place under the existing PBR?

ATMOS ENERGY CORPORATION
OFFICE OF THE ATTORNEY GENERAL
COMMONWEALTH OF KENTUCKY
CASE NO. 2005-00321
DATED: SEPTEMBER 7, 2005
DUE: SEPTEMBER 22, 2005

DATA REQUEST NO. 1

QUESTION:

Please state the purpose behind Atmos' proposal to add Gas Acquisition Index Factor for Asset Management ("GAIFAM") as a new component or benchmark to Atmos' PBR. In your response, please include:

a. the added benefit the incentive would represent for the ratepayer;
b. the added benefit the incentive would represent for the shareholder;
c. why it would be appropriate to add this incentive to this PBR when it was not included in the last PBRs, which were also implemented through asset management contracts;
d. against which objective benchmark, criteria or standard would the incentive, including its performance and/or and potential savings, be measured and evaluated;
e. what level of improved performance must exist before rewards in the form of shared savings are to be granted.

RESPONSE:

The Company proposed the GAIFAM component in order to provide greater flexibility in the structure of bids by prospective suppliers. Currently, the tariff rider does not specifically address a fixed discount structure (not tied to volumetric measures) into the savings calculations. The Company proposes this new factor to accommodate, and offer, the option to prospective suppliers to express their supply discount in alternative terms. In other words, a prospective supplier could propose to provide asset management services at a fixed annual discount amount, not tied to volumetric requirements and provide the volumetric supply with no discount to the established benchmarks. Incorporating a fixed discount component of the bid would not be a requirement for prospective suppliers.

a. Adding the GAIFAM, as stated above, merely affords greater flexibility in the structure of bids by prospective suppliers, allowing the bid to include a supply discount in a fixed component (not tied to volumetric measures). By adding this bid structure option, we hope that the flexibility results in more favorable supplier bids. An additional benefit to the customers will be the reliability of such a discount; that savings is not dependent on volumetric throughput. If warmer than normal weather occurs, the portion of discount offered on a fixed basis would not be reduced due to lower purchase volumes.

b. Same response as AG DR-1, Item 1 (a) above.

c. An allowance for a fixed, non-volumetric, discount component was not envisioned in prior PBR programs.

d. The GAIFAM represents a fixed, non-volumetric, component of the supplier discount versus the established supply indices which comprise the benchmark. For example, a prospective supplier could propose to provide asset management services at a fixed annual discount amount, not tied to volumetric requirements, and provide the volumetric supply with no discount to the established benchmarks. In this case, the fixed annual discount would equal the savings rolling up through the Gas Acquisition Index Factor ("GAIF"). The Base Load savings ("GAIFBL") would equal zero, the Swing Load savings ("GAIFSL") would equal zero and the asset management ("GAIFAM") would equal the fixed supply discount component.

   The inclusion of this bid structure option merely affords more flexibility by prospective suppliers in the RFP process; hopefully to the benefit of customers and the Company.

e. As stated above, in AG DR-1, Item 1(d), the GAIFAM is purely an option for prospective suppliers to incorporate a fixed, non-volumetric, discount component in their bid for the full-requirements supply agreement. Incorporating a fixed discount will not be a required feature of a bid. If the selected supplier bid includes a fixed discount feature, that component will combine with the GAIFBL and GAIFSL savings to determine the total savings through the Gas Acquisition Index Factor.

Submitted by: Gary Smith

ATMOS ENERGY CORPORATION
OFFICE OF THE ATTORNEY GENERAL
COMMONWEALTH OF KENTUCKY
CASE NO. 2005-00321
DATED: SEPTEMBER 7, 2005
DUE: SEPTEMBER 22, 2005

DATA REQUEST NO. 2

QUESTION:

In the Application, Atmos states that the Gas Acquisition Index Factor for Asset Management would "distinguish and clearly recognize any supplier discounts provided for asset management rights, if any that are fixed discounts not directly tied to per unit natural gas purchases." Please explain what this means, and include in your explanation the benefit to ratepayers expected to be gained from asset management discount amounts that are not tied to per unit natural gas purchases, as opposed to those that are tied to per unit natural gas purchases in a gas supply performance based rate.

RESPONSE:

The Company proposed the GAIFAM component in order to provide greater flexibility in the structure of bids by prospective suppliers. Currently, the tariff rider does not specifically address a fixed discount structure (not tied to volumetric measures) into the savings calculations. The Company proposes this new factor to accommodate, and offer, the option to prospective suppliers to express their supply discount in alternative terms. In other words, a prospective supplier could propose to provide asset management services at a fixed annual discount amount, not tied to volumetric requirements and provide the volumetric supply with no discount to the established benchmarks. Incorporating a fixed discount component of the bid would not be a requirement for prospective suppliers.

By adding this option, we hope that the greater flexibility in the structure of bids by prospective supplier's flexibility results in more favorable supplier bids. An additional benefit to the customers will be the reliability of such a discount; that savings is not dependent on volumetric throughput. For example, if warmer than normal weather occurs, the portion of discount offered on a fixed basis would not be reduced due to lower purchase volumes.

For more information, please reference the response to AG DR-1, Item 1 of this data request.

Submitted by: Gary Smith

ATMOS ENERGY CORPORATION
OFFICE OF THE ATTORNEY GENERAL
COMMONWEALTH OF KENTUCKY
CASE NO. 2005-00321
DATED: SEPTEMBER 7, 2005
DUE: SEPTEMBER 22, 2005

DATA REQUEST NO. 3

QUESTION:

By requesting a reduction in the cost sharing mechanism from the current 2% level to 1% based on gas price increases, is the Company saying that shareholder participation in incentive sharing should become easier to obtain as the cost of gas to the ratepayer increases?

a. State exactly what has changed from the time of Atmos' last approval of its PBR until now with regard to the industry standard represented by the benchmark against which Atmos' performance is to be measured, other than simply stating that it has risen with the increase in the price of gas.

b. Please explain why ratepayers should pay the Company for a reduced level of performance in addition to paying for the ever-increasing cost of gas, an increase over which the Company admits it has no control.

RESPONSE:

No. Market natural gas prices have risen sharply since 2002, when Case No. 2001-00317 first established the 2% threshold. In fact, the supply component has more than doubled from 2002 to the most recent 12-month period and forward price projections are remarkably higher than the settlement prices for the past twelve months.

The vast majority of the Company's total gas supply cost is the cost of the commodity purchases. The PBR was designed to reward the Company for maximizing gas cost savings through innovative purchasing structures. In essence, the hurdle to clear, before the Company begins to share 50% of the savings realized, has become twice as high as was originally set. The Company, in this proposal, merely seeks to reset the hurdle to approximate the level of 2002, in recognition of the unavoidable higher market costs today.

a. As mentioned above, the hurdle to clear, before the Company begins to share 50% of the savings realized, has become twice as high as was first established in Case No. 2001-00317 (the previous PBR mechanism had no such threshold, with all savings shared at 50:50). In our past experience with supplier bids under the PBR mechanism, the bids have been expressed as a $/Mcf discount. Therefore, as the overall benchmark prices have increased substantially, the supplier discount, as a % of the indices has been diluted. The Company, in this proposal, merely seeks to reset the hurdle to approximate the level of 2002, in recognition of the unavoidable higher market costs today.

b. Unfortunately, the Company cannot control the commodity cost of gas. The Company attempts to extract the lowest possible costs whenever possible. The Company has a substantial amount of storage, hedges a portion of its requirements and has reduced ratepayer costs through extensive negotiations with pipeline suppliers. The Company does not view all of these efforts as a reduced level of performance. Instead, in our view, we are merely proposing to reset the hurdle for 50% sharing to approximate the level of 2002, recognizing the lower overall market costs of that era.

Submitted by: Gary Smith

ATMOS ENERGY CORPORATION
OFFICE OF THE ATTORNEY GENERAL
COMMONWEALTH OF KENTUCKY
CASE NO. 2005-00321
DATED: SEPTEMBER 7, 2005
DUE: SEPTEMBER 22, 2005

DATA REQUEST NO. 4

QUESTION:

In what way or ways does Atmos' proposed modification represent current trends in the LDC industry?

RESPONSE:

The proposed modification to include the GAIFAM represents a current trend in bids received in at least three (3) other jurisdictions. Please refer to AG DR-1, Item 1 for further information regarding the modification to include this component.

Submitted by: Gary Smith

ATMOS ENERGY CORPORATION,

OFFICE OF THE ATTORNEY GENERAL
COMMONWEALTH OF KENTUCKY
CASE NO. 2005-00321
DATED: SEPTEMBER 7, 2005
DUE: SEPTEMBER 22, 2005

DATA REQUEST NO. 5

QUESTION:

Does the existing cost sharing mechanism allow Atmos to pass 50% of increased gas costs to ratepayers whenever there is more than a 2% variance between cost and benchmarks? If so, why is this mechanism not adequate to protect Atmos in current market conditions?

RESPONSE:

Yes, the existing cost sharing mechanism does allow Atmos to share 50% of savings or costs that are greater than a 2% variance between actual costs and the established benchmarks. Case No. 2001-00317 first established a "banded" range of sharing of costs/savings. In that Case, the first 2% of costs/savings would be shared 30:70 between shareholders and customers respectively. For costs/savings in excess of the 2% band, the incremental sharing would be 50:50.

In the Company's view, we are merely proposing to reset the hurdle for 50% sharing to approximate the level of 2002, recognizing the lower overall market costs of that era.

Please refer to the response to AG DR-1, Item 3 for more information.

Submitted by: Gary Smith

ATMOS ENERGY CORPORATION
OFFICE OF THE ATTORNEY GENERAL
COMMONWEALTH OF KENTUCKY
CASE NO. 2005-00321
DATED: SEPTEMBER 7, 2005
DUE: SEPTEMBER 22, 2005

DATA REQUEST NO. 6

QUESTION:

For each year of the PBR established in Case No. 2001-317 in which the threshold for capacity release was removed, state the amount by which capacity release exceeded the threshold that was established in Case No. 97-513.

RESPONSE:

Please refer to Exhibit A of the Company's report for the monthly capacity release activity from April 2002 through March 2005.

The Company did not maintain a computation of the capacity release threshold during the period, since Case No. 2001-00317 eliminated that provision. The threshold which had been prescribed in the initial pilot PBR, in Case No. 97-513, was not a static threshold. The threshold was recomputed each year, a cumbersome calculation based upon numerous variables. The formula was basically as follows, in accordance with the tariff resulting in Case 97-513:

$$CRT = (WMPP \times WMVR \times WWARP) + (SMPP \times SMVR \times SWARP)$$

Where:

CRT equals the Capacity Release Threshold

WMPP represents the Winter Market Penetration Percentage computed for the twelve months prior to the PBR period (prior year) and rounded to the nearest whole percentage as follows:

$$WMPP = \frac{AWMR}{WSMQE - WCGD}$$

Where:

AWMR is the Actual Winter Mainline Release volume for the prior year.

WSMQE is Company's total firm Winter Seasonal Quantity Entitlements for the prior year under its firm transportation contracts with each of its pipeline transporters, adjusted as applicable under the appropriate transporter's FERC Approved Tariff.

WCGD is the Winter City Gate Deliveries under Company's Firm Transportation Agreements for the prior year.

WMVR is Winter Mainline Volumes Releasable under design conditions for the PBR period.

WWARP is the Winter Weighted Average Capacity Release Price based on information derived from Winter capacity release transactions (for mainline releases to the applicable pipeline zone of delivery in which Company is located) on each of Company's pipeline transporters for the concurrent PBR period.

SMPP represents the Summer Market Penetration Percentage computed for the twelve months prior to the PBR period (prior year) and rounded to the nearest whole percentage as follows:

$$SMPP = \frac{ASMR}{SSMQE - SCGD}$$

Where:

ASMR is the Actual Summer Mainline Release volume for the prior year.

SSMQE is Company's total firm Summer Seasonal Quantity Entitlements for the prior year under its firm transportation contracts with each of its pipeline transporters, adjusted as applicable under the appropriate transporter's FERC Approved Tariff.

SCGD is the Summer City Gate Deliveries under Company's Firm Transportation Agreements for the prior year.

SMVR is Summer Mainline Volumes Releasable under design conditions for the PBR period.

SWARP is the Summer Weighted Average Capacity Release Price based on information derived from Summer capacity release transactions (for mainline releases to the applicable pipeline zone of delivery in which Company is located) on each of Company's pipeline transporters for the concurrent PBR period.

Submitted by: Gary Smith

ATMOS ENERGY CORPORATION
OFFICE OF THE ATTORNEY GENERAL
COMMONWEALTH OF KENTUCKY
CASE NO. 2005-00321
DATED: SEPTEMBER 7, 2005
DUE: SEPTEMBER 22, 2005

DATA REQUEST NO. 7

QUESTION:

What, if any, incentive was offered to the gas supplier in conjunction with capacity release (i.e. a 10% Commission) in the initial PBR set forth in Case No. 97-513, in which the sharing in capacity release revenues was conditioned upon first meeting a capacity release threshold?

RESPONSE:

In conjunction with the initial PBR, in Case No. 97-513, the Company entered into a supply agreement which established a commission-based sales program that paid a 10 percent commission for each dollar of capacity released

Submitted by: Gary Smith

ATMOS ENERGY CORPORATION
OFFICE OF THE ATTORNEY GENERAL
COMMONWEALTH OF KENTUCKY
CASE NO. 2005-00321
DATED: SEPTEMBER 7, 2005
DUE: SEPTEMBER 22, 2005

DATA REQUEST NO. 8

QUESTION:

In what ways, if any, will the incentive offered to the gas supplier under the current request for a PBR modification differ from that already in place under the existing PBR?

RESPONSE:

The Company has proposed no modifications in its current tariff proposal that alter the existing incentives to a future gas supplier.

Submitted by: Gary Smith