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Fax

To: Beth O'Donnell
Executive Director

From: Gary Smith

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Pages: 8

Phone: (270) 685-8024

Date: 7/6/2007

Re: Case 2006-00464

CC: Anita Mitchell

Settlement Testimony

(502) 564-7279

● Comments:

Beth:

Attached is testimony in support of our Settlement Agreement with the Attorney General in Case 2006-00464.

Original copies including one full set of attachments will be filed on Monday.

Thanks, Gary

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JUL 06 2007

PUBLIC SERVICE
COMMISSION

**BEFORE THE PUBLIC SERVICE COMMISSION
COMMONWEALTH OF KENTUCKY**

**IN THE MATTER OF:)
)
RATE APPLICATION BY)
)
ATMOS ENERGY CORPORATION)**

Case No. 2006-00464

**DIRECT TESTIMONY OF GARY L. SMITH
IN SUPPORT OF
JOINT SETTLEMENT STIPULATION AND RECOMMENDATION**

I. INTRODUCTION

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Q. PLEASE STATE YOUR NAME AND POSITION.

A. My name is Gary L. Smith. I have served as Vice President – Marketing and Regulatory Affairs for Atmos Energy Corporation’s (the “Company”) Kentucky/Mid-States operations until only recently. Effective June 1, 2007, my position is Director of Customer Revenue Management.

Q. DID YOU PREVIOUSLY FILE TESTIMONY ON BEHALF OF THE COMPANY IN THIS RATE PROCEEDING?

A. Yes. My direct testimony was filed at the time of and in connection with the Company’s rate application and my rebuttal testimony was filed on June 15, 2007.

Q. WHAT IS THE PURPOSE OF THIS TESTIMONY?

A. This testimony provides support for the Joint Settlement Stipulation and Recommendation (hereinafter the “Settlement”) entered into on June 29, 2007 by the Company and the Kentucky Attorney General. A copy of the Settlement and its attachments is provided in conjunction with this testimony.

II. OVERVIEW OF THE SETTLEMENT

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3 **Q. PLEASE BRIEFLY DESCRIBE THE TERMS OF THE SETTLEMENT.**

4 A. The Settlement, offered to the Kentucky Public Service Commission (the
5 "Commission") for its consideration and approval, permits Atmos Energy to
6 adjust its rates to recover an additional \$5.5 million compared to current rates,
7 beginning August 1, 2007. In conjunction with the Settlement, the Company's
8 proposals for the experimental Customer Rate Stabilization (CRS) mechanism
9 and for the recovery of the gas cost portion of uncollectibles in the Gas Cost
10 Adjustment (GCA) were withdrawn from this Case.

11 **Q. PLEASE DESCRIBE THE ATTACHMENTS TO THE SETTLEMENT.**

12 A. Attached to the Settlement are complete sets of tariff sheets both in mark-up and
13 side-by-side presentation, depreciation schedules and a revenue reconciliation.
14 These attachments are considered as a part of the Settlement and have been
15 agreed to by both the Company and the Attorney General.

16

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III. TARIFFS

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19 **Q. PLEASE DESCRIBE THE ATTACHED TARIFFS.**

20 A. As a part of the Settlement, the Company and Attorney General have agreed upon
21 the tariffs attached hereto. The tariffs reflect the withdrawal of the proposed CRS
22 mechanism and the proposal to recover the gas cost portion of uncollectibles in
23 the GCA. The rates proposed in accordance with the Settlement are included for
24 each tariff service. The rates shown for Special Charges, on Sheet 68 of the tariff
25 reflect the rates originally proposed by the Company. These same rate changes
26 are reflected in the Company's "Summary of Revenue at Proposed Rates", also
27 attached to the Settlement and discussed later in this testimony.

28 Other than the changes to rates and the withdrawn mechanisms referenced above,
29 all other tariff changes proposed by the Company are included in the proposed
30 Settlement tariffs.

1 **Q. FOR AFFECTED TARIFF SHEETS, WHAT GCA DID THE COMPANY**
2 **UTILIZE FOR THESE EXHIBITS?**

3 A. At the time of development of the proposed Settlement tariff sheets, the most
4 recent GCA available to the Company was the GCA approved by the Commission
5 Order dated April 27, 2007 in Case No. 2007-00136 and effective May 1, 2007.
6 Subsequently, the Company has filed its GCA proposed to be effective on August
7 1, 2007. Subject to the approval of the August GCA, in Case No. 2007-00263,
8 the Company would replace affected tariffs (Sheets 4, 5 and 6) with the
9 appropriate GCA.

10

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III. DEPRECIATION RATES

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13 **Q. PLEASE DESCRIBE THE DEPRECIATION SCHEDULES PROVIDED IN**
14 **THE SETTLEMENT ATTACHMENTS.**

15 A. In order to document depreciation rates going forward, the Settlement includes an
16 attachment detailing depreciation rates and cost of removal rates for all plant
17 accounts for Kentucky plant and division/corporate plant allocated to Kentucky
18 operations. Although rates are set for each plant category, these Settlement rates
19 do not represent a concession of the respective positions asserted by the Company
20 or Attorney General. The stated depreciation rates represent, in aggregate, a
21 mutually satisfactory resolution in conjunction with the Settlement. In essence,
22 the stated rates are a negotiated hybrid of the positions stated by the Company and
23 Attorney General respectively.

24 **Q. PLEASE PROVIDE A SUPPLEMENTAL SCHEDULE WHICH**
25 **SUMMARIZES, BY PLANT ACCOUNT, THE DEPRECIATION RATES**
26 **AND COST OF REMOVAL RATES PROPOSED BY THE COMPANY,**
27 **THE ATTORNEY GENERAL AND THOSE PROPOSED IN THIS**
28 **SETTLEMENT.**

29 A. The requested schedule is provided as Exhibit GLS-1 attached to this testimony.

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IV. RATE DESIGN AND "PROOF OF REVENUES"

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Q. PLEASE DESCRIBE THE ATTACHMENT LABELED "SUMMARY OF REVENUE AT PROPOSED RATES".

A. As a part of the Settlement, the Company and Attorney General have agreed upon the referenced 3-page Attachment, which details the rate design and validation of the rate adjustment of \$5.5 million. The first page of the Attachment provides an overview of the present and proposed distribution rates by service type. The total increase is shown in column (f), line 44 and equals \$5,499,636. Pages 2 and 3 provide additional information regarding the impact of the proposed rate changes for each customer class.

Q. THE SETTLEMENT STATES, IN NUMBERED PARAGRAPH 2, THAT THE INCREASE IN RATES IS INCLUDED IN THE BASE CHARGE AND IS PROPORTIONATE TO EACH CUSTOMER CLASS. IS THE FULL INCREASE REFLECTED EXCLUSIVELY IN THE MONTHLY CUSTOMER CHARGES?

A. No. For the classification of residential sales, which constitutes nearly 90% of Atmos Energy's Kentucky customer base, their increase is fully reflected in the monthly customer charge. However, some of the increase for other customer classes is derived through volumetric charges. In order to meet the objective of applying the increase in a proportionate manner to customer classes, it was necessary to increase the volumetric blocks in combination with the increases monthly customer charges for non-residential service classes.

Q. DOES THE SETTLEMENT INCLUDE INCREASED CHARGES ASSOCIATED WITH SPECIAL SERVICE CHARGES AS PROPOSED BY THE COMPANY IN ITS APPLICATION?

A. Yes. Revenues associated with these special charges equal the totals included in the Company's Application and are shown on Page 1 of this Attachment in column (f), line 36.

Q. WHAT IS THE IMPACT OF THE RATE DESIGN PROPOSED IN THE SETTLEMENT ON THE VARIOUS CUSTOMER CLASSES?

1 A. The increase for each customer class, expressed in total dollars and as a
2 percentage of total revenue is shown on pages 2 and 3 of this Attachment.
3

4 **IV. OTHER ISSUES**

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6 **Q. HAS THE COMPANY PROVIDED PUBLIC NOTICE OF THE HEARING**
7 **IN THIS CASE, SCHEDULED TO BEGIN ON JULY 10, 2007?**

8 A. Yes. The Company has provided such Public Notice in newspapers throughout its
9 service area. Affidavits demonstrating the publications are being gathered at this
10 time and will be submitted to the Commission when the complete documentation
11 has been compiled.

12 **Q. ARE THERE ANY OTHER MATTERS YOU WISH TO ADDRESS AT**
13 **THIS TIME?**

14 A. Yes. The Company respectfully requests that the Commission address the
15 amortization of rate case expenses in its Final Order in this case. Although this
16 matter was overlooked in the Settlement, the Company notes that its proposal to
17 amortize these expenses over a three year period was not disputed during
18 discovery. For accounting purposes, an Order by the Commission is necessary to
19 avoid charging these costs on a one-time basis.

20 Also, in closing, please note that the Company and Attorney General have
21 expended considerable effort to reach the terms that form the basis of the
22 Settlement. The parties agree that this Settlement is reasonable, produces rates
23 that are fair, and is in the best interests of all concerned. Together, we submit the
24 Settlement for the consideration of the Commission and urge that the terms be
25 approved in its entirety.

26 **Q. DOES THIS CONCLUDE MATTERS YOU WISH TO ADDRESS IN**
27 **TESTIMONY AT THIS TIME?**

28 A. Yes.

EXHIBIT GLS-1

Page 1 of 2

ATMOS ENERGY CORPORATION - KENTUCKY
Comparison of Depreciation Rates

Line Number	[1] <u>Account</u>	[2] <u>Description</u>	[3] <u>Company Proposed</u>	[4] <u>AG Proposed</u>	[5] <u>Settlement</u>
1		<u>PRODUCTION PLANT</u>			
2	325.20	Producing Leaseholds	5.89%	5.89%	5.89%
3	325.40	Rights-of-Way	2.29%	2.29%	2.29%
4	336.00	Purification Equipment	5.26%	5.16%	5.26%
5					
6		<u>STORAGE PLANT</u>			
7	351.00	Structures and Improvements	0.60%	0.60%	0.60%
8	352.00	Well Construction and Equipment	2.11%	1.31%	2.11%
9	352.03	Cushion Gas	2.38%	2.38%	2.38%
10	352.11	Storage Rights	0.44%	0.44%	0.44%
11	354.00	Compressor Station Equipment	0.60%	0.60%	0.60%
12	355.00	M&R Station Equipment	0.12%	0.12%	0.12%
13					
14		<u>TRANSMISSION PLANT</u>			
15	365.20	Rights-of-Way	1.65%	1.65%	1.65%
16	366.00	Structures and Improvements	2.05%	2.05%	2.05%
17	367.00	Mains	1.85%	1.42%	1.69%
18	369.00	M&R Station Equipment	1.48%	1.44%	1.48%
19					
20		<u>DISTRIBUTION PLANT</u>			
21	374.02	Land Rights	1.86%	1.86%	1.86%
22	375.00	Structures and Improvements	3.18%	2.98%	3.18%
23	376.00	Mains	2.43%	2.03%	2.27%
24	378.00	M&R Station Equipment	1.92%	1.82%	1.92%
25	379.00	City Gate Equipment	2.43%	2.13%	2.43%
26	380.00	Services	5.23%	3.95%	4.41%
27	381.00	Meters	8.06%	7.06%	8.06%
28	382.00	Meter Installations	4.60%	5.48%	4.60%
29	383.00	House Regulators	2.90%	2.90%	2.90%
30	384.00	House Regulator Installations	2.02%	2.02%	2.02%
31	385.00	Industrial M&R Equipment	2.61%	2.22%	2.61%
32					
33		<u>GENERAL PLANT</u>			
34	390.00	Structures and Improvements	9.91%	9.91%	9.91%
35	390.09	Improvements to Leased Premises	2.36%	2.36%	2.36%
36	391.00	Office Furniture and Equipment	6.22%	6.22%	6.22%
37	392.00	Transportation Equipment	59.79%	59.91%	59.79%
38	394.00	Tools, Shop and Garage Equipment	6.63%	6.63%	6.63%
39	396.00	Power Operated Equipment	20.76%	20.76%	20.76%
40	397.00	Communication Equipment	5.43%	5.43%	5.43%
41	398.00	Miscellaneous Equipment	4.26%	4.26%	4.26%
42	399.01	OTP - Servers Hardware	2.71%	2.71%	2.71%
43	399.03	OTP - Network Hardware	5.22%	5.22%	5.22%
44	399.06	OTP - PC Hardware	0.61%	0.61%	0.61%
45	399.07	OTP - PC Software	19.16%	19.16%	19.16%
46	399.08	OTP - Application Software	17.49%	17.49%	17.49%

EXHIBIT GLS-1**Page 2 of 2****ATMOS ENERGY CORPORATION - SHARED SERVICES**

Comparison of Depreciation Rates

	[1]	[2]	[3]	[4]	[5]
<u>Line Number</u>	<u>Account</u>	<u>Description</u>	<u>Company Proposed</u>	<u>AG Proposed</u>	<u>Settlement</u>
1		GENERAL PLANT			
2	390.09	Improvements to Leased Premises	9.10%	9.10%	9.10%
3	391.00	Office Furniture and Equipment	2.13%	2.13%	2.13%
4	397.00	Communication Equipment	8.45%	8.45%	8.45%
5	398.00	Miscellaneous Equipment	8.15%	8.15%	8.15%
6	399.00	Other Tangible Property	4.66%	4.66%	4.66%
7	399.01	Servers Hardware	6.95%	6.95%	6.95%
8	399.02	Servers Software	4.00%	4.00%	4.00%
9	399.03	Network Hardware	9.30%	9.30%	9.30%
10	399.06	PC Hardware	14.86%	14.86%	14.86%
11	399.07	PC Software	9.02%	9.02%	9.02%
12	399.08	Application Software	11.11%	11.11%	11.11%
13	399.24	General Startup Cost	15.89%	15.89%	15.89%