Atmos energy

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COMMISSION

March 27, 2009

Mr. Jeff Derouen, Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, KY 40601

RE: Case No. 2008-00408

Dear Mr. Derouen:

Atmos Energy Corporation (Company) herewith submits an original and ten (10) copies of the Company's responses to the initial data requests of the Commission Staff in the above referenced case. The Commission only directed certain requests for the Company to provide a response. The Company is providing responses to 96-102 and 120.

Please contact myself at 270.685.8024 if the Commission or Staff has any questions regarding this matter.

Sincerely,

Mark A. Martin

Mark A. Martin
Vice President, Rates & Regulatory Affairs

Enclosures

cc: Parties of Record
Mr. Mark R. Hutchinson

Atmos Energy Corporation
3275 Highland Pointe Drive, Owensboro, KY 42303-2114
P 270-685-8000 F 270-685-8052 atmosenergy.com

VERIFICATION

I, Mark A. Martin, being duly sworn under oath state that I am Vice President of Rates and Regulatory Affairs for Atmos Energy Corporation, Kentucky/Mid-States Division, and that the statements contained in the Company's responses are true as I verily believe.

Mark A. Martin

Mark A. Martin

SUBSCRIBED AND SWORN TO before me, a notary public in and for the Commonwealth of Kentucky, by Mark A. Martin, Vice President of Rates and Regulatory Affairs, Atmos Energy Corporation, Kentucky/Mid-States Division, on this 27th day of March 2009.

Jacqueline S Purcell

Notary Public

Expiration date 11/15/2011

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Atmos Energy Corporation, Kentucky
Case No. 2008-00408
KPSC Initial Data Request Dated March 16, 2009
DR Item 96
Witness: Mark Martin

Data Request:

With reference to page 2, lines 14 through 23, and page 3, lines 1 through 6, of the Joint Direct Testimony of Glenn R. Jennings ("Joint Testimony"), address the following:

a. Explain how separating fixed-cost recovery of base or delivery charges from the volume of sales is a move toward decoupling.

b. Identify the amount and percentage increase in the residential customer charge requested in the last rate case.

c. Identify the amount and percent increase in the residential customer charge granted in the last rate case.

d. Identify the amount and percent increase in the residential customer charge identified in the utility's most recent cost of service study.

e. Describe how the current rate designs promote energy efficiency. Identify each such rate design. Identify the annual Mcfs or Btus that the utility estimates are displaced by each rate design.

Response:

a. "Decoupling" (or "revenue decoupling") is a generic term for a rate adjustment mechanism that separates (decouples) a gas utility's fixed cost recovery from the amount of gas it sells. Under decoupling, utilities collect revenues based on the regulatory determined revenue requirement, most often on a per customer basis. On a periodic basis revenues are "trued-up" to the predetermined revenue requirement using an automatic rate adjustment.[1] Per NARUC's definition, placing more of the utility's revenue requirement in the customer charge gradually moves Atmos toward decoupling. This is exactly what occurred in our last rate case when the entire revenue requirement increase was placed in the customer charge.

b. In Atmos' last rate case in 2006 the Company sought a $5.50 increase in the residential customer charge. This represented a 73.3% increase from the $7.50 customer charge that was in effect. The proposal also included a corresponding decrease in the volumetric rate from $1.19 per Mcf to $0.91 per Mcf or a 23.5% decrease.

c. Atmos was granted a $1.85 (to $9.35) increase in the residential customer charge or a 24.7% increase over the $7.50 charge then in effect. The volumetric rate remained $1.19 per Mcf.

d. Atmos' monthly residential customer charge increased from $7.50 to $9.35 (24.7%) effective August 1, 2007 as a result of Case No. 2006-00464. The class

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[1] National Association of Regulatory Utility Commissioners (NARUC), "DECOUPLING FOR ELECTRIC AND GAS UTILITIES FREQUENTLY ASKED QUESTIONS (FAQ)," September 2007.

cost of service study submitted in conjunction with that rate case assessed the cost allocations to customer classes but did not allocate those costs between volumetric and monthly components.

e. Presently nearly 60% of Atmos' margin is derived from the customer charge, while over 40% comes from the volumetric charge. While virtually all of our costs are fixed, a significant portion of our revenue requirement is tied to the volumes of gas consumed. This rate design gives an implied incentive to promote greater gas consumption. Although Atmos does not promote greater consumption and history indicates a gradual decline in per customer usage over the past 30 years, the rate design in and of itself does tie the Company's financial well being to the amount of gas sold. Also, since 75 to 80% of the customer's bills are driven by the cost of gas, customers' incentive to reduce consumption through various conservation measures will continue. Unless a new paradigm is found there will remain some incentive to encourage consumption and not fully promote conservation. Except for our proposed DSM program, which includes a lost sales component, we are unaware of any methodology that would allow us to calculate the displaced Mcfs associated with our current rate design. However, we did document the declining residential customer consumption pattern in our last rate case.[2] Between 1999 and 2006 we experienced a weather adjusted decline in average residential usage of nearly 21% (86 Mcf vs. 68 Mcf). High commodity costs, warmer than normal weather, more energy efficient homes and appliances most likely contributed to this decline. How much was related to rate design would be virtually impossible to estimate.

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[2] Direct Testimony of Gary L. Smith, page 7, KPSC Case Number 2006-00464.

Atmos Energy Corporation, Kentucky
Case No. 2008-00408
KPSC Initial Data Request Dated March 16, 2009
DR Item 97
Witness: Mark Martin

Data Request:

With reference to page 3, lines 7 through 23, and page 4, lines 1 through 12, of the Joint Testimony, address the following:

a. Explain in detail how "Rate Stabilization" or an "Annual Rate Review mechanism" will promote energy efficiency.

b. If the utility believes that "Rate Stabilization" or an "Annual Rate Review mechanism" will promote energy efficiency, identify the annual amount and percent of Mcfs or Btus the utility estimates such mechanisms will displace.

c. Describe in detail what would be required to decouple base rate revenues from sales volumes by placing recovery of fixed costs entirely in the monthly customer charge.

d. Describe how weather normalization encourages the Joint LDCs to promote energy efficiency.

Response:

a. Atmos believes that an annual rate review mechanism will help utilities to promote energy efficiency by keeping utilities' rates current. A utility and its customers' interests will be more closely aligned as the utility will be incentivized to promote conservation without being penalized since changes in consumption patterns can be more easily and inexpensively reflected in rates that are reviewed on an annual basis. As utilities' costs increase or decrease due to various forces, an annual rate review mechanism would allow rates to be updated to reflect such changes. Since rates are current, a utility through its DSM program, can further promote energy efficiency and ultimately conservation. Decoupling is a discrete form of alternative rate making, addressing only the revenue side of ratemaking, while annual rate review is a more comprehensive review including revenue, plant investments and costs.

b. Atmos has not conducted any studies which would identify the annual amount and/or percent of volumes displaced through an annual rate review mechanism.

c. As referenced in 96a, decoupling would occur when a utility is allowed to collect its established revenue requirement on a per customer basis.

d. Atmos believes that a weather normalization component helps adjust a utility's margin to reflect normal weather. Traditionally, a utility's revenue requirement was based on normal weather. Assuming that a utility can earn its revenue requirement, a utility can further promote energy efficiency; however, a weatherization component alone cannot promote conservation.

Atmos Energy Corporation, Kentucky
Case No. 2008-00408
KPSC Initial Data Request Dated March 16, 2009
DR Item 98
Witness: Mark Martin

Data Request:

With reference to the Joint LDCs discussion of decoupling, address the following:

a. Current literature describes a myriad of decoupling mechanisms. If applicable, describe specifically the form of decoupling the Joint LDCs support.

b. Explain how the decoupling form supported by the Joint LDCs differs from the recovery of fixed costs entirely from per-unit fixed rates.

Response:

a. The Joint LDCs support some form of an annual rate review mechanism which achieves decoupling and updates rates for changes in costs. Decoupling is a discrete form of alternative rate making, addressing only the revenue side of ratemaking, while annual rate review is a more comprehensive review including revenue, plant investments and costs.

b. Not applicable.

Atmos Energy Corporation, Kentucky
Case No. 2008-00408
KPSC Initial Data Request Dated March 16, 2009
DR Item 99
Witness: Mark Martin

Data Request:

Explain whether or not the Joint LDCs believe the DSM Surcharge authorized by KRS 278.285 needs to be supplemented by a decoupling provision.

Response:

The Joint LDCs believe that the DSM surcharge would benefit from a decoupling provision. The Joint LDCs would continue their respective DSM programs regardless of the form of rate design, but by breaking the link between sales and margin, the Joint LDCs would have incentive to further promote conservation.

Atmos Energy Corporation, Kentucky
Case No. 2008-00408
KPSC Initial Data Request Dated March 16, 2009
DR Item 100
Witness: Mark Martin

Data Request:

With reference to the new PURPA Standards of EISA 2007, Section 532(b)(6) (B)(ii), referring to the provision of incentives for the successful management of energy efficiency programs, identify and describe any incentive the Joint LDCs believe is needed in addition to those authorized by the DSM statute, KRS 278.285.

Response:

Atmos is not aware of any additional incentives needed in addition to those authorized by KRS 278.285. Atmos' DSM proposal presently before the Commission (Case # 2008-00499) is new to us. Until the program is approved and we have had time to implement and evaluate the program, we are unable to suggest any further incentives or changes at this time.

Atmos Energy Corporation, Kentucky
Case No. 2008-00408
KPSC Initial Data Request Dated March 16, 2009
DR Item 101
Witness: Mark Martin

Data Request:

Explain in detail how the utility treats energy efficiency as a priority resource. Identify and describe any goals the utility has developed in terms of Mcf or Btus displaced.

Response:

Atmos believes that if customers can conserve, then the utility would need less gas to buy to meet its customers' obligations. Since the cost of gas can range from 70-80% of a customer's bill, any commodity savings would provide customers with the greatest overall savings. Atmos has not developed any specific goals for volume displacement, but does estimate approximate annual volume savings of 24,000 Mcf in our DSM proposal currently before the Commission. Assuming commodity costs of $5.00/Mcf, annual commodity savings could approximate $120,000.

Atmos Energy Corporation, Kentucky
Case No. 2008-00408
KPSC Initial Data Request Dated March 16, 2009
DR Item 102
Witness: Mark Martin

Data Request:

Identify all DSM programs offered by the utility. If appropriate, identify any programs offered that have not been specifically authorized by the Commission per KRS 278.285. Identify the annual Mcfs or Btus that the utility estimates are displaced by each program.

Response:

Currently, Atmos only has a weatherization component in its DSM program. The Company does have an application pending before the Commission to expand its program to continue the weatherization component and create a rebate component, an education component, an incentive component and a lost sales component. The Company does not and would never offer a program that had not been previously reviewed and approved by the Commission. Our program does include estimates of efficiencies. The Company estimates that its DSM program would provide approximate annual volume savings of 24,000 Mcf.

Atmos Energy Corporation, Kentucky
Case No. 2008-00408
KPSC Initial Data Request Dated March 16, 2009
DR Item 120
Witness: Mark Martin

Data Request:

The American Recovery and Reinvestment Act of 2009 ("Stimulus Bill") contains a number of spending and tax measures crafted to inject more aggregate demand into the nation's sagging economy. Some of those measures impact, among other things, energy infrastructure. Certain provisions of EISA 2007 have been amended to reflect the incentives enacted by the Stimulus Bill, particularly in the area of smart grid technology. Explain whether or not your opinion on smart grid investments has changed in light of these amendments.

Response:

As a natural gas only company, Atmos views smart grid technology as an electric only issue. The Company's opinion, or lack thereof, has not changed as a result of the American Recovery and Reinvestment Act of 2009.