COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF ATMOS ENERGY CORPORATION FOR AN ADJUSTMENT OF RATES	)))	CASE NO. 2006-00464

SECOND DATA REQUEST OF COMMISSION STAFF
TO ATMOS ENERGY CORPORATION

Atmos Energy Corporation ("Atmos"), pursuant to 807 KAR 5:001, is requested to file with the Commission the original and 7 copies of the following information, with a copy to all parties of record. The information requested herein is due on or before March 16, 2007. 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. Has Atmos performed any analysis of financial information and operations to determine why it has not been able to earn an adequate rate of return?

a. If yes, provide and describe the results of that analysis.

b. If no, explain why such an analysis has not been performed.

2. Provide the actual earned return on capital and earned return on equity for Atmos for each year for 2000 through 2006.

3. Provide the actual increase in net rate base for Atmos for each year for 2000 through 2006.

4. Refer to the Application, page 3, paragraph 8 and Volume 1, Tab 1, FR 10(1)(b)(1).

a. Provide a detailed discussion regarding the impact on customer sales volumes and overall revenue of the increased competition within the gas industry and from other energy providers. Include the percentage reduction in customer sales volumes and overall revenues from increased competition for each year since Atmos's last rate case. Include supporting workpapers.

b. Provide a detailed discussion regarding the impact of energy conservation on residential customer volumes and overall revenue. Include a detailed discussion of the derivation of the $4.3 million reduction in customer sales volumes and overall revenues from energy conservation since Atmos's last rate case as shown in Volume 1, Tab 1, Item 4, FR 10(1)(b)(1). Include supporting workpapers.

c. Does the statement that Atmos is experiencing significant declines in residential customer volumes related to energy conservation refer to all of Atmos's gas utility operating divisions taken as a whole or to the Kentucky/Mid-States division only? Explain the response.

d. Provide copies of any studies or analyses prepared by or for Atmos that supports the statement that the significant declines in residential customer volumes it has been experiencing are related solely to energy conservation.

5. Refer to the Application, Volume 1, Tab 7, FR 10(1)(b)(8)a, First Revised Sheet Nos. 15 and 20. Under the paragraphs labeled Penalty for Unauthorized Overruns, the proposed language requires that the customer be responsible for any incremental charges assessed by the pipeline or supplier as opposed to the present language which states that the customer is responsible for any penalties assessed.

a. Explain why the language needs to be modified.

b. For clarification, will the incremental charges include penalties that the pipeline may charge?

6. Refer to the Application, Volume 1, Tab 7, FR 10(1)(b)(8)a.

a. Concerning Sheet No. 22, explain why Atmos is proposing to define the normal billing cycle heating degree days ("NDD") as the National Oceanic and Atmospheric Administration's ("NOAA") 30-year normal for the period 1971-2000.

b. Explain why NDD could not be defined as the 30-year normal based upon data published by NOAA for the period 1976-2005.

c. Concerning Sheet No. 42, explain how the proposed "R&D Unit Charge" of $0.0035 per 1,000 cubic feet equates with Atmos's level of research and development contribution as of December 31, 1998. Include all supporting calculations, workpapers, and assumptions. In addition, explain why the level as of December 31, 1998 is the reasonable level of support for the forecasted test period.

d. Concerning Sheet No. 55, explain the reason(s) for the additional language concerning potential penalties under the “Curtailment” section of this tariff.

e. Concerning Sheet No. 62, explain the reason(s) for the change in the “Imbalance Volumes” from penalty assessed to incremental charges assessed.

f. Concerning Sheet No. 63, explain the reason(s) for the additional language concerning potential penalties under the “Curtailment” section of this tariff.

g. Concerning Sheet No. 67.1, explain the purpose of the proposed “Transportation/Carriage Pooling Service” tariff and indicate why Atmos believes it needs to offer this service.

7. Refer to the Application, Volume 2, Tab 1, the Direct Testimony of John A. Paris (“Paris Testimony”). On pages 6 and 7 is a discussion of the Customer Rate Stabilization (“CRS”) mechanism.

a. Given that the proposed CRS provides for a backward looking review of past financial performance as well as a review of the projected revenue requirement for the next 12 months, explain in detail why this proposal does not shift the majority of Atmos’s risks to its ratepayers.

b. Explain in detail how Atmos has determined that the proposed annual reviews would be “at a very low cost and provide for customer rate protection.” Include any studies or analyses Atmos conducted that support these conclusions.

c. Explain in detail what controls are contained in the proposed CRS mechanism that will encourage Atmos to contain costs.

d. Refer to page 7, lines 23 through 26. Does Atmos contend that the rate of return authorized in 2007 will continue to be the fair, just, and reasonable rate of return in 2012? Explain the response.

8. Refer to the Paris Testimony, page 11. Mr. Paris states that the current Kentucky share of Atmos's Shared Services costs is approximately 5 percent. What would have been the Kentucky share of the Shared Services costs had the Kentucky and Mid-States Divisions not been combined? Include all workpapers, calculations, and assumptions used to determine the response.

9. Refer to the Application, Volume 2, Tab 2, the Direct Testimony of Thomas H. Petersen ("Petersen Testimony"), pages 4 and 5.

a. Define the term "unusual retirements" as it is used in the testimony.

b. Explain why Atmos did not record the retirement of certain shared assets in the year the retirement occurred, rather than recording the retirement in November 2006.

10. Refer to the Petersen Testimony, page 5. Explain in detail how Mr. Petersen concluded that the September 2006 construction work in progress ("CWIP") balances were reasonable estimates of future CWIP through the forecasted test year. Include all workpapers, calculations, and assumptions that support the conclusion.

11. Refer to the Petersen Testimony, page 6.

a. Provide copies of the analyses or studies reviewed by Mr. Petersen that supports Atmos's assumption that there will not be a significant change in the materials and supplies account in the test year. If analyses or studies were not used to determine this assumption, explain in detail how Mr. Petersen reached this conclusion.

b. Provide copies of the analyses or studies reviewed by Mr. Petersen that support Atmos's assumption that the amounts for prepayments are not expected to change in the test year. If analyses or studies were not used to determine this assumption, explain in detail how Mr. Petersen reached this conclusion.

c. Concerning the PSC Assessment:

(1) Was Mr. Petersen aware that in previous natural gas and electric general rate cases the Commission has not included the PSC Assessment in the determination of the utility's rate base? Explain the response.

(2) Provide the PSC Assessment amounts included in Atmos's base period and forecasted period rate bases. Include all workpapers, calculations, and assumptions used to determine the amounts.

(3) Explain why the Commission should include the PSC Assessment in Atmos's rate base determination.

d. Provide copies of the analyses or studies reviewed by Mr. Petersen that support Atmos's assumption that the amount of customer advances will not significantly change during the test year.

e. Provide the account balances for each of the 12-months ending September 30, 2000 through 2006 for materials and supplies, prepayments, and customer advances.

12. Refer to the Application, Volume 2, Tab 3, the Direct Testimony of Gregory K. Waller ("Waller Testimony"). Concerning the operation and maintenance ("O&M") expense control and monitoring processes discussed on pages 9 through 11, provide the following information:

a. The quarterly actual to budget variance reports for the Kentucky division, the Kentucky division's general office, the Mid-States division, and Shared Services unit for calendar years 2004 through 2006.

b. The monthly O&M actual to budget variance reports for the Kentucky division, the Kentucky division's general office, and the Mid-States division for calendar years 2005 and 2006.

c. The completed monthly Atmos Financial Package for calendar years 2005 and 2006.

d. The monthly detailed O&M reports referenced on page 10, lines 21 through 24, for the Kentucky division, the Kentucky division's general office, and Mid-States division for calendar year 2006.

13. Refer to the Waller Testimony, pages 13 and 14.

a. Does the forecasted test period include O&M expenses allocated to the Kentucky/Mid-States Division by the Shared Services unit? Explain the response.

b. Explain the statement in footnote 3 that the base period O&M expense does not include O&M allocated to the Kentucky division by the Shared Services unit.

14. Refer to the Waller Testimony, page 18.

a. Provide a schedule showing the initial property tax assessment, the property tax based on the initial assessment, the final property tax assessment, and the property tax based on the final assessment for the most recent 6 years available.

b. If it has been Atmos's experience that the final property tax assessment has been different from the initial assessment, explain why this difference should not be reflected in the projected property tax expense included in the forecasted test period.

15. Refer to the Application, Volume 2, Tab 4, the Direct Testimony of Robert R. Cook, Jr. ("Cook Testimony"), page 6. Provide a schedule showing the capital expenditures for the Kentucky division, the Kentucky division's general office, and the Shared Services unit for the most recent 5 fiscal years. Separate the capital expenditures into growth and non-growth expenditures, as well as listing each capital project included in the expenditures.

16. Refer to the Cook Testimony, pages 7 and 8.

a. Provide the monthly and quarterly capital project variance reports for the Kentucky division, the Kentucky division's general office, and the Shared Services unit for calendar years 2005 and 2006.

b. For each capital project undertaken in or assigned to Kentucky operations during fiscal years 2004 through 2006, prepare a schedule that categorizes the project as either "Blanket Functionals" or "Specific Projects." Include the original appropriation for the project as well as indicate if supplemental funding was requested and approved. Also provide copies of the applicable project variance reports for each project.

17. Refer to the Cook Testimony, page 8, line 14. Is highway relocation a non-reimbursement item? Explain.

18. Refer to the Cook Testimony, page 9. Concerning the chart on this page,

a. Provide a breakdown of the actual dollars and budgeted dollars for the 2006 expenditure.

b. Are the costs of removal for the old pipes included in the costs of the projects? Explain in detail.

19. Refer to the Cook Testimony, page 10, line 11. Provide a breakdown of the costs budgeted for fiscal year 2007 of $17.3 million.

20. Concerning Atmos's distribution system within Kentucky, indicate what percentage of the system is bare steel, cast iron, coated steel, and plastic.

21. Refer to the Cook Testimony, page 14. Mr. Cook states that overtime calculations in the Service Charge Studies were only applied to the labor costs of Senior Service Technicians. Explain why overtime was only applied to Senior Service Technicians.

22. Refer to the Cook Testimony, page 15. Provide the cost of returned checks that Atmos actually incurs.

23. Refer to the Application, Volume 2, Tab 6, the Direct Testimony of Daniel M. Meziere ("Meziere Testimony"), Exhibit DMM-1.

a. The Cost Allocation Manual ("CAM") provided in Exhibit DMM-1 is dated May 1, 2006. Atmos has stated that, effective October 1, 2006, the Kentucky and Mid-States divisions were consolidated into one division.

(1) Was the CAM updated to reflect the consolidation of these operating divisions? Explain the response.

(2) If the CAM was not updated to reflect the consolidation of the Kentucky and Mid-States divisions, explain in detail why there was no update.

(3) If the CAM was updated to reflect the consolidation of the Kentucky and Mid-States divisions, explain why that version of the CAM was not submitted as Exhibit DMM-1.

(4) Provide a copy of the CAM that reflects the Kentucky/Mid-States division consolidation. Identify all changes made to the CAM as a result of the consolidation, as well as any other changes from the version dated May 1, 2006.

b. Refer to pages 7 and 9 of the CAM. The basis for allocation descriptions for capitalized overhead (general) and stores overhead state that periodically the application rate is reviewed.

(1) Indicate how frequently these application rates are reviewed and describe the review process.

(2) Can the capitalized overhead (general) application rate be reset as a result of the periodic review? If yes, describe how the rate is reset.

c. Refer to page 13 of the CAM. Explain why the percentage of customers in the operating divisions is a reasonable means for allocating the Shared Services unit general office depreciation and taxes other than income taxes.

d. Refer to page 27 of the CAM. Explain why the Shared Services unit other income and interest expense are allocated using a budget allocation percentage, which is based on net investment by the business unit.

e. Has the CAM been submitted to the Securities and Exchange Commission or the Federal Energy Regulatory Commission for review and/or approval? Explain the response. In addition, if the CAM has been approved by either agency, provide copies of the approval documentation.

24. Refer to the Application, Volume 2, Tab 8, the Direct Testimony of Donald S. Roff ("Roff Testimony").

a. State when the last depreciation study for Atmos's Kentucky operations was performed and what time period was covered by the depreciation study.

b. Has Atmos begun using the depreciation rates from the "Kentucky Depreciation Study" for accounting purposes? If yes, indicate when Atmos began using those depreciation rates.

c. State when the last depreciation study for Atmos's Shared Services unit was performed and what time period was covered by the depreciation study.

d. Has Atmos begun using the depreciation rates from the "SSU Depreciation Study" for accounting purposes? If yes, indicate when Atmos began using those depreciation rates.

25. Refer to the Roff Testimony, page 3. Mr. Roff quotes a definition of depreciation from the Accounting Research Bulletin No. 43, which was issued in 1953.

a. Is this the most current definition of depreciation issued by the American Institute of Certified Public Accountants ("AICPA")?

b. If there is a more current pronouncement from the AICPA, provide a copy of the pronouncement and explain why Mr. Roff did not reference that citation.

26. Refer to the Roff Testimony, page 6. Mr. Roff includes a quotation on net salvage taken from the National Association of Regulatory Utility Commissioners' ("NARUC") *Public Utility Depreciation Practices*, 1968 Edition. Explain why Mr. Roff did not reference NARUC's *Public Utility Depreciation Practices*, August 1996 Edition.

27. Refer to the Roff Testimony, page 9.

a. Explain in detail why the annual salvage amounts, costs of removal, and retirements used in the Kentucky Depreciation Study were limited to the period 1991 through September 30, 2005.

b. Explain in detail why the annual salvage amounts, costs of removal, and retirements used in the SSU Depreciation Study were limited to the period 1993 through 2006.

c. If the annual salvage amounts, costs of removal, and retirements information were available for periods earlier than 1991 or 1993, explain in detail why the additional information was not included in the two depreciation studies.

28. Refer to the Roff Testimony, page 12. Explain in detail why cushion gas should be treated as a depreciable asset. Include citations to regulatory decisions in other states where cushion gas has been included as a depreciable asset.

29. Refer to the Roff Testimony, Exhibit DSR-3.

a. Refer to page 5. What are the actual costs of plant removal incurred by Atmos during 1996-2005? Provide a comparison table showing the actual removal costs and the costs used in the depreciation study.

b. Refer to page 7. Has Atmos matched the depreciation provision to the actual consumption of physical assets during 1991 to 2005? Explain in detail relative to Atmos data reported for September 2005 depreciation study.

c. Page 8 of the Exhibit states that “[f]or most accounts, retirement experience from transaction years 1973 through 2005 was analyzed using the Actuarial Method of Life Analysis.” Further, page 10 of the Exhibit states that “[s]alvage and cost of removal experience was analyzed using experience from the period 1996-2005.”

However, the Roff Testimony on page 9 states this information covered the period 1991 through 2005. Explain why there appears to be a disagreement between the Kentucky Depreciation Study and the Roff Testimony and indicate which statement is correct.

d. Refer to page 10 of the Exhibit. Indicate the asset accounts where the Simulated Plant Record ("SPR") Method was utilized to evaluate retirements. For each identified account, explain why the SPR Method was utilized instead of using actual retirement history.

e. Refer to page 11. Mr. Roff indicates that blind acceptance of history results in recovery over a longer period than productive life. Does the new technology and more advanced inspection equipment increase the productive life of major assets and results in assets living longer than the past? If yes, explain your statement.

f. Refer to page 15. Explain the vintage amortization accounting process and the functional composite depreciation rates.

g. Refer to Schedules 1 and 2 of the Exhibit. Provide all workpapers, calculations, assumptions, plots of all referenced Iowa curves, and other documentation supporting the information presented on these schedules.

h. Refer to Schedule 1, Cushion Gas. Provide justification for depreciating the cushion gas at the rate of 2.38 percent.

i. Refer to Schedule 1, Meters. The depreciation rates on meters have been increased considerably since the last depreciation study. Explain the reason for the change.

j. Refer to Appendix A, page 1 of 10. Provide an example calculation of the arithmetic average of a major group and explain why it is appropriate to use such a calculation to find the average life of that group.

30. Refer to the Roff Testimony, Exhibit DSR-4.

a. Page 8 of the Exhibit states that "Retirement experience from transaction years 1987 through 2006 were analyzed using the Actuarial Method of Life Analysis." However, the Roff Testimony on page 9 states this information covered the period 1993 through 2006. Explain why there appears to be a disagreement between the SSU Depreciation Study and the Roff Testimony and indicate which statement is correct.

b. Refer to page 13. Explain why Atmos should utilize the vintage amortization accounting process and why it should use the functional composite depreciation rates.

c. Refer to Schedules 1 and 2 of the Exhibit. Provide all workpapers, calculations, assumptions, plots of all referenced Iowa curves, and other documentation supporting the information presented on these schedules.

31. Refer to the Application, Volume 3, Tab 9, the Direct Testimony of Laurie M. Sherwood ("Sherwood Testimony"). Provide a schedule showing Atmos's actual capital structure and capital ratios as of March 31, June 30, September 30, and December 31 for calendar years 2004, 2005, and 2006.

32. Refer to the Sherwood Testimony, pages 9 through 14.

a. Describe any affiliation or corporate association between Atmos or Blueflame Insurance Services, Ltd. ("Blueflame") and the following entities:

(1) Aon Risk Manager – Bermuda.

(2) United Insurance Company.

(3) OIL Co.

b. Provide copies of any studies or analyses performed by or for Atmos that support the contention that Blueflame provides cost-effective property insurance coverage to Atmos and its utility assets.

c. Provide the annual premium for coverage paid to Blueflame by Atmos for 2004 through 2006. Include a detailed breakdown of how the annual premium was calculated. If available, provide this same information for 2007.

d. Provide the portion of the annual Blueflame premium charged to Atmos's Kentucky operations for 2004 through 2006, as well as the amount to be charged in 2007 if available. Breakdown the premium charged into the following components:

(1) The direct charge for Kentucky's gross plant balance.

(2) The charge to the Kentucky/Mid-States division general office and the portion of this charge eventually allocated to Kentucky operations.

(3) The charge to the Shared Services unit general office and the portion of this charge eventually allocated to Kentucky operations.

33. Refer to the Sherwood Testimony, page 9 and Exhibit LMS-2. Ms. Sherwood recommends that the Commission use Atmos's projected cost of long-term debt, 6.10 percent. Provide the basis for Atmos's estimate of 6.10 percent for its projected cost of long-term debt.

34. Refer to the Sherwood Testimony, Exhibits LMS-1 through LMS-3.

a. Exhibit LMS-2 shows the average annualized long-term debt as of June 30, 2008. Explain how Atmos determined the interest rate for the unsecured notes shown on line 9 and the US Bancorp debt shown on line 15. Include all workpapers, calculations, and supporting documentation utilized to determine these interest rates.

b. Other than the two debt issuances noted in part (a) above, the interest rates shown on Exhibit LMS-2 match the interest rates for the corresponding debt issuances as of September 30, 2006, as shown in Exhibit LMS-1. Explain why it is reasonable to assume for these debt issuances that the interest rates as of September 30, 2006 will also be the interest rates as of June 30, 2008.

c. Exhibit LMS-3 shows the average annualized short-term debt as of June 30, 2008. Explain how Atmos determined the balances and interest rates shown in this exhibit. Include all workpapers, calculations, and supporting documentation utilized to determine the balances and interest rates.

35. Refer to the Direct Testimony of Donald A. Murry ("Murry Testimony"). Provide all schedules in electronic format (Excel) with formulas intact.

36. Refer to the Murry Testimony, page 14, and Schedule DAM-5. Provide a schedule showing Atmos's capital structure when all long-term and short-term debt is included in the calculation.

37. Refer to the Murry Testimony, pages 13 and 14.

a. Provide a copy of the most recent Value Line company profile discussions for each of the companies that Dr. Murry selected as being comparable to Atmos.

b. For Atmos and each of the comparable companies, provide for the most recent year available a breakout of revenue derived from state regulated distribution operations, other regulated operations, and non-utility operations.

38. Refer to the Murry Testimony, page 16, and Schedule DAM-8. Provide an update to the schedule that also calculates the cost of any short-term debt held by Atmos.

39. Refer to the Murry Testimony, page 18, lines 1 through 14, pages 19 and 20, and Schedules DAM-9, DAM-11, and DAM-12.

a. Provide documentation supporting the implied contention that Atmos's relatively weak performance / standing relative to the comparison companies is attributable to a lack of performance in its utility gas distribution operations.

b. Value Line company profile discussions are typically put together by a single analyst, whereas other financial reporting businesses publish average or consensus forecasts obtained from multiple analysts. Provide updates to Schedules DAM-9, DAM-11, and DAM-12 using data obtained from financial information providers such as Reuters and Zacks.

40. Atmos has been pursuing a business strategy of growth through acquiring other gas distribution and gas pipeline companies over the years. Provide an explanation of whether this strategy could affect Atmos's position relative to the comparison companies in Schedules DAM-9, DAM-11, and DAM-12.

41. Refer to the Murry Testimony, pages 18 and 19. Is Dr. Murry aware that Atmos's Kentucky Division currently operates under a gas purchasing incentive plan, has weather normalized rates and earns the majority of profits from the customer

charge and not through its gas cost adjustment? Provide a detailed explanation of why each of these items would not serve to lower Atmos's risk.

42. Refer to the Murry Testimony, page 32. Explain why an investor would prefer to use 52-week high and low stock prices in the Discounted Cash Flow calculations rather than more recent data.

43. Refer to the Murry Testimony, Schedules DAM-18 through DAM-21. Provide updated Schedules using the most current dividends per share and earnings figures, as opposed to the 2000-2002 figures, as the base for calculating the Growth Rate column.

44. Refer to the Murry Testimony, pages 13, 14, and 35.

a. Provide a detailed explanation of why Dr. Murry selected companies that are similar to Atmos as a comparison group, having excluded companies that have market capitalizations of less than $1 billion and still argues that a small company adjustment is necessary in his Capital Asset Pricing Model ("CAPM") analysis.

b. Provide updates to Schedules DAM-18 through DAM-25 in electronic format (Excel) including smaller natural gas distribution companies (listed in Value Line), i.e., those with less than $1 billion.

45. Refer to the Murry Testimony, pages 36 and 37, including footnote 10, and Schedules DAM-24 and DAM-25. Provide a copy of the relevant pages from the Ibbotson Associates' "Stock, Bonds, Bills, and Inflation: 2006 Yearbook Valuation Edition" that discuss the need for, and describe the method of, the small company adjustment used by Dr. Murry.

46. Refer to the Murry Testimony, pages 37 and 38 and Schedule DAM-24. There is no discussion of the underlying data or the selection of specific variables used in the calculations.

a. Provide DAM-24 in electronic format (Excel) with formulas intact, including the underlying data.

b. Provide a complete description of, derivation of, and the rationale for the use of each variable used in the Schedule.

47. Refer to the Murry Testimony, pages 37 and 38 and Schedule DAM-25. There is no discussion of the underlying data or the selection of specific variables used in the calculations.

a. Provide DAM-25 in electronic format (Excel) with formulas intact, including the underlying data.

b. Provide a complete description of, derivation of, and the rationale for the use of each variable used in the Schedule.

c. Provide a discussion of the validity of using both the Long Term Corporate Bond Return and the Aaa Corporate Bond Return in the same CAPM calculation.

d. Explain why there was no size adjustment in the calculations.

e. Explain why it is appropriate to use any measure of corporate bond returns in the CAPM analysis as opposed to using long-term government bond returns.

f. The Market returns used in this Schedule appear to differ from those used in Schedule DAM-24. Provide an explanation of the difference.

48. Concerning the Customer Rate Stabilization ("CRS") mechanism and the recommendations of Dr. Murry:

a. Are you aware that Atmos has requested authorization to implement a CRS mechanism in this rate case?

b. Explain why Dr. Murry did not adjust the return on equity to account for Atmos's proposed CRS mechanism.

c. Would you agree that the CRS would reduce a utility's risk from sales fluctuations by adding more stability to revenues, cash flow and earnings without requiring the utility to file a general rate case?

d. Are you aware that some jurisdictions have reduced a utility's authorized ROE to reflect a reduced risk related to the implementation of similar mechanisms?

49. Refer to the Direct Testimony of Bernard L. Uffelman ("Uffelman Testimony"), Exhibit BLU-2, page 1 of 17. Explain the derivation of the returns provided on line 17.

50. Refer to the Uffelman Testimony, Exhibit BLU-2, page 4 of 17.

a. Provide the basis for allocating 50 percent of the storage costs to demand and 50 percent to commodity.

b. Provide a list of the costs included in the production category.

c. Provide a list of the costs included in the transmission category.

d. Provide the basis for allocating 100 percent of the costs as demand for the transmission and production costs.

51. Provide electronic versions of Exhibit RRC-1 from the Cook Testimony, GLS-1 through GLS-7 from the Direct Testimony of Gary L. Smith ("Smith Testimony"), and BLU-2 from the Uffelman Testimony.

52. Refer to the Application, Volume 3, Tab 12, the Smith Testimony, pages 6 and 7. Mr. Smith discusses the decrease in the average number of active customers since the price of natural gas first spiked in the winter of 2000-2001.

a. Define an "active customer."

b. Chart GLS-2 shows an increase of approximately 2,000 in the number of customers in 2003 from the customer levels in 2001 and 2002. Explain, if known, why Atmos experienced an increase in customers during 2003.

c. Supply any studies, analyses, or other documents that support the explanation that customers are leaving Atmos's system due to the increase in natural gas prices.

d. Does Atmos expect its proposed increase in rates to cause more customers to leave the system?

53. Refer to the Smith Testimony, page 7, Chart GLS-3. Provide a revision of this chart using actual average residential consumption without weather normalizing the data.

54. Refer to the Smith Testimony, pages 11 through 16.

a. Describe how the revenue and volume forecasts were prepared for the base period in this case.

b. Explain why the 12-month period ending September 30, 2006, the "reference period," was used to determine the billing determinants for the forecasted test period of July 1, 2007 through June 30, 2008 instead of the base period of April 1, 2006 through March 31, 2007.

c. Were any sensitivity analyses performed on the revenue and volume forecasts?

(1) If yes, describe the analyses and provide the results of the analyses.

(2) If no, explain why sensitivity analyses were not performed.

d. Explain in detail why Atmos did not utilize NOAA data for a 30-year period from 1976 through 2005 in its weather normalization calculations and the Weather Normalization Adjustment mechanism.

e. Provide a revised Chart GLS-5 that includes NOAA Normal data for the period 1976 through 2005.

55. Refer to the Smith Testimony, page 20. Explain how Atmos's agreement with BP Energy affects the agreement Atmos currently has with its asset manager, Atmos Energy Marketing, approved by the Commission in Case No. 2006-00194.[1]

56. Refer to the Smith Testimony, page 22 and to the Application, Volume 1, Tab 6, FR 10(1)(b)(7), Proposed Tariff, Original Sheet 42.1 through 42.4.

a. Does the CRS mechanism provide for any consideration of the appropriate rate of return on equity as part of each annual review? Explain why or why not.

[1] Case No. 2006-00194, The Application of Atmos energy Corporation for Approval of Third Party Gas Supply Agreement and for a deviation from the Pricing Requirements of KRS 278.2207, Order dated August 18, 2006.

b. Does the CRS provide for consideration of the reasonableness of the costs and expenses incurred during the Evaluation Period or proposed for the Rate Effective Period? Explain why or why not.

c. Does the CRS provide for updating the cost of debt as part of each annual review? Explain why or why not.

d. Explain how the Commission, the Attorney General ("AG") and Atmos's customers can be assured that rates are appropriate if there is no consideration of the appropriate return on equity or consideration of the reasonableness of the costs and expenses.

e. Have any of the credit rating agencies published any information that leads Atmos to believe that it needs a CRS in order to maintain an acceptable credit rating? If yes, provide the documentation.

f. Explain why Atmos is proposing that the CRS be a 5-year experimental program rather than a 2-year, 3-year or 4-year experimental program.

g. Explain why Atmos believes that the CRS mechanism provides for a financially transparent rate review process.

h. Explain why Atmos believes that the review and adjustments anticipated under the CRS mechanism can be performed at a very low cost.

i. Is Atmos familiar with any other gas distribution company utilizing the CRS as proposed in this case? If, yes, identify those companies and the period under which they have used the CRS.

57. Refer to the Smith Testimony, page 23, line 1 through page 24, line 9 and to the Application, Volume 1, Tab 6, FR 10(1)(b)(7), Proposed Tariff, Original Sheet 42.1 through 42.4.

a. Does Atmos plan to continue to apply the Weather Normalization Adjustment Rider ("WNA Rider") if the CRS mechanism is authorized?

b. Does the CRS mechanism allow for Commission consideration of the reasonableness of the six months of budgeted capital additions and associated items for the Rate Effective Period? Explain why or why not.

c. Under the proposed CRS mechanism Atmos will be able to true-up or adjust its rates based on the results of the Evaluation Period to equal the return established in the last general rate case. Explain why it is reasonable for Atmos to also be able to adjust rates based on the Rate Effective Period which recognizes changes that occur after the Evaluation Period and includes six months of budgeted capital additions.

d. Page 24, lines 3 through 6, states that the "annual review of the preceding calendar year (the Evaluation Period) incorporates a safeguard against returns for the Company either greater or lower than the authorized return on equity." Doesn't the WNA Rider accomplish the same thing? Explain why or why not.

e. Explain why Atmos's concerns over its revenue recovery are not fully addressed by its Performance Based Ratemaking mechanism, its Weather Normalization Adjustment mechanism and its Margin Loss Recovery mechanism.

58. Refer to the Smith Testimony, page 24, and to the Application, Volume 1, Tab 6, FR 10(1)(b)(7), Proposed Tariff, Original Sheet 42.1 through 42.4.

a. If the CRS mechanism is authorized as proposed, what period will be the first Evaluation Period?

b. What 12-month period will be the first Rate Effective Period?

c. How did Atmos determine that a 45-day period from initial filing of the annual CRS review to the issuance of a Commission Order by April 30 was a reasonable time for staff and the AG to complete their review and for the Commission to render its decision?

d. What does Atmos anticipate its costs will be to file and process an annual CRS case? Provide all assumptions and supporting workpapers.

e. Mr. Smith states that the tariff for the CRS mechanism includes examples of the O&M expense categories subject to adjustment under this mechanism. Provide a list of any expenses that would normally be included in a rate case that are not included in this tariff.

f. Mr. Smith states that the CRS mechanism includes a true-up which would correct for any variances in the projections employed in the preceding filing. For clarification, does the CRS mechanism compare budgeted information against actual earnings in the true-up? Explain the response.

g. Did Atmos consider allowing a dead-band around the return on equity set as the benchmark in the CRS mechanism within which Atmos would require no adjustment in rates? If yes, explain why Atmos did not include it in the proposed CRS mechanism.

h. Provide an analysis of the annual change in revenues (increase or decrease) that Atmos would have implemented each year over the past 5 years under the proposed Customer Rate Stabilization mechanism. Include all workpapers.

59. Refer to the Smith Direct Testimony, page 25, line 6 through page 28, line 13, regarding the rebalancing of the residential customer charge.

a. Does Atmos consider the CRS mechanism to be a form of revenue decoupling? Explain the response.

b. Will Atmos still need to increase its customer charge as proposed if Atmos is authorized to implement the CRS mechanism? Explain the response.

60. Refer to the Smith Testimony, pages 22 through 25. Concerning the proposed CRS mechanism:

a. Has a CRS mechanism exactly like the one proposed in this proceeding been approved in any of the other regulatory jurisdictions in which Atmos operates? If yes, identify the jurisdiction, indicate when the CRS mechanism was approved, and state how many annual reviews have been undertaken using the mechanism.

b. Has a CRS mechanism similar to the one proposed in this proceeding been approved in any of the other regulatory jurisdictions in which Atmos operates? If yes, identify the jurisdiction, identify all the differences between the approved mechanism and the CRS mechanism proposed in this proceeding, indicate when the CRS mechanism was approved, and state how many annual reviews have been undertaken using the mechanism.

c. Concerning the accounting and pro-forma adjustments to the historical period and the "typical" forward-looking known and measurable adjustments, who determines the adjustments that would be included? Explain the response.

d. Under the procedure envisioned in the CRS mechanism, would any party to the annual proceeding or the Commission be able to propose or investigate accounting, pro forma, or forward-looking known and measurable adjustments that had not been identified by Atmos? Explain the response.

e. Explain in detail why testimony should not be filed in support of any proposed accounting, pro forma, or forward-looking known and measurable adjustment.

f. Explain in detail what incentives or controls are included in the proposed CRS mechanism to encourage Atmos to control or contain the growth of its operating expenses.

61. Refer to the Application, Volume 1, Tab 6, FR 10(1)(b)(7) Original Sheet 42.3, Section 5(b).

a. Atmos has offered to include all costs incurred by the AG and the Commission in the review of the annual filings under the CRS mechanism in its operating and maintenance costs. For clarification, does this mean that the costs will be included as part of the surcharge under the mechanism and paid for by ratepayers?

b. If yes, explain in what manner all costs incurred by the AG and Commission will be identified by Atmos and recovered in the CRS mechanism.

62. Refer to Smith Testimony, page 24. Mr. Smith testifies that the CRS "will reduce the costs associated with the alternative rate cases for the Company and its

regulators." Provide any analyses that Atmos performed to support this statement. If no analyses were performed, explain the statement.

63. Refer to the Smith Testimony, page 29. Provide copies of the tariffs in Tennessee, Virginia, Kansas and Amarillo, Texas that allow for recovery of the gas cost portion of bad debt through the gas cost adjustment ("GCA") mechanism.

64. Refer to the Smith Testimony, page 32. Atmos proposes to discontinue its Large Volume Sales ("LVS") services and its High Load Factor ("HLF") sales option.

a. Has Atmos contacted the customers currently taking service under these options to inform them that the option will cease if approved by the Commission?

b. If yes, have any of the customers stated an objection to being required to switch to another service if the Commission approves Atmos's request? If so, provide a summary of those objections.

65. Refer to the Application, Volume 1, Tab 7, FR 10(1)(b)(8)a, First Revised Sheet No. 24, Rider GCA.

a. Item 3 indicates a change in the text. Identify the revision.

b. Will Atmos delete references to the LVS and HLF services if Atmos's proposal to discontinue these services is approved?

66. Refer to the Application, Volume 1, Tab 7, FR 10(1)(b)(8)a, First Revised Sheet No. 25. The proposed tariff indicates that there is a text change in the paragraph describing the RF. Explain the text change.

67. Refer to the Application, Volume 8, Tab 2, the independent auditor's opinion report. In its November 20, 2006 letter, the auditor identified several control

deficiencies he had noted as well as other control deficiencies previously communicated to Atmos's management.

a. Provide a schedule similar to the one attached to the November 20, 2006 auditor's letter listing the additional control deficiencies that had been previously communicated to Atmos's management.

b. Describe what actions were taken by Atmos's management to address both groups of control deficiencies. Provide an explanation in those instances where no action was taken on the cited control deficiency.

68. Refer to the Application, Volume 9, Tab 2, and the response to the Commission Staff's First Data Request dated November 21, 2006 ("Staff First Request"), Item 3. Prepare a schedule that cross-references each schedule presented in Tab 2 with the corresponding workpaper or supporting document provided in the response to Item 3.

69. Refer to the Application, Volume 9, Tab 4. Provide all workpapers, calculations, assumptions, and other documentation that support the adjustments to the base and forecasted test periods as shown on Schedules D-2.1, D-2.2, and D-2.3. If the requested information has already been supplied, provide specific cross-references to the location of the supporting information.

70. Refer to the Application, Volume 9, Tabs 6 through 8. Several of the schedules included under these Tabs reference workpapers; however, it does not appear that those workpapers were submitted with the application. Provide all referenced workpapers that support the schedules contained in Tabs 6 through 8.

71. Refer to the response to the Staff First Request, Item 4. The copy of the Account Code Manual indicates it was revised on January 10, 2007. Explain why the Kentucky and Mid-States divisions are still recorded as separate cost centers, even though the two were consolidated effective October 1, 2006.

72. Refer to the response to the Staff First Request, Item 12, Schedule 1(b). Does Atmos believe its budgeting process for capital expenditures produces a reasonable estimate of its actual expenditures, given that the information on this schedule shows an average budget overrun of over 16 percent during the past 10 years? Explain the response.

73. Refer to the response to the Staff First Request, Item 14. For each project where it is indicated that the "Percent of Total Exp." is 150 percent or greater, explain why the actual expenditures were greater than the budget estimate.

74. Refer to the response to the Staff First Request, Item 16. The 2007 Total Rewards Guide states that the sole performance goal for the Variable Pay Plan would be return on equity expressed as earnings per share.

a. Provide the performance goals for fiscal years 2004, 2005, and 2006. Describe how those performance goals operated and whether the performance goals were achieved.

b. Provide the actual expenses for Atmos's Kentucky operations for fiscal years 2004, 2005, and 2006 for the performance goals.

c. Indicate how much was incorporated into the base and forecasted test periods for the performance goal expenses. If a different performance goal was reflected in the forecasted test period, provide a complete description of the goal and what was required to achieve the goal.

75. Refer to the response to the Staff First Request, Item 17. Explain why the requested information was not provided for the executive employee group.

76. Refer to the response to the Staff First Request, Item 19.

a. The request only sought information about employee fringe benefits on an annual, not monthly, basis. Resubmit the response showing the totals for the listed categories for the time periods originally requested.

b. The response does not appear to adequately explain the changes in fringe benefits occurring over the time periods identified. Supplement the response with a thorough discussion of any changes in employee fringe benefits.

77. Refer to the response to the Staff First Request, Item 21. Provide copies of the referenced "Summary Plan Description" which was not attached to the response.

78. Refer to the response to the Staff First Request, Item 29.

a. Atmos was requested to provide a reconciliation of its book to taxable income for both the base and forecasted test periods utilizing the format provided in Schedule 9. Atmos did not provide the requested reconciliation. Provide the requested reconciliations using the format provided.

b. In the response, Atmos contends that its filing in Volume 9 of the Application, Tab 5 provides the proper calculation of income tax expense for rate-making purposes. A review of those calculations shows that Atmos used a Kentucky corporate income tax rate of 8.25 percent. The Kentucky corporate income tax rate in effect from January 1, 2005 through December 31, 2006 was 7.00 percent. The

Kentucky corporate income tax rate in effect after January 1, 2007 is 6.00 percent. Recalculate Schedule E as shown in Tab 5 for both the base and forecasted test periods reflecting the appropriate Kentucky corporate income tax rates. In addition, correct and resubmit all schedules and workpapers affected by the correction of the Kentucky corporate income tax rate and the corresponding adjustment to the federal income taxes.

79. Refer to the response to the Staff First Request, Item 31. Provide the following information relating to the adoption of Statement of Financial Accounting Standards ("SFAS") Nos. 106, 109, 112, and 143 for both the base and forecasted test period for Atmos's Kentucky operations:

a. The unamortized balance of regulatory assets or regulatory liabilities related to the adoption of the referenced SFAS. Include account numbers and account titles utilized.

b. The annual amortization of regulatory assets or regulatory liabilities related to the adoption of the referenced SFAS. Include account numbers and account titles utilized.

80. Refer to the response to the Staff First Request, Item 33(c). Provide the O&M services expense associated with WKG Storage and UCG Storage applicable to the base period and forecasted test period. Identify the adjustments to those periods that removed the O&M expense from the rate case.

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

DATED February 23, 2007

cc: All Parties