

Application of Atmos Energy Corporation
For an Adjustment of Rates and Tariff Modifications
Case No. 2013-00148
Attorney General's Responses to Data Requests of Atmos Energy Corporation
Data Requests Relating to Testimony of Bion Ostrander

WITNESS RESPONSIBLE:

Bion Ostrander

QUESTION No. 1

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Please reference the headers of the exhibits filed by Mr. Ostrander in which "Atmos Electric Corporation(s)" appears in the title. Confirm that you are rebutting the testimony filed on behalf of Atmos Energy Corporation rather than Atmos Electric Corporation. Please confirm Mr. Ostrander is aware that Atmos Energy is a natural gas distribution company and has no electricity distribution operations.

RESPONSE:

The reference in the headers was an oversight. It is clear that Mr. Ostrander is rebutting Atmos Energy Corporation per the title page of his testimony, along with page 2, lines 3 to 5 which explains he is addressing matters related to Atmos Energy Corporation ("Atmos"), and every subsequent cite in his testimony.

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QUESTION No. 2

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Please provide all workpapers, source documents, financial models, assumptions and other materials relied upon to produce the revenue requirement of \$1,215,895 recommended in Mr. Ostrander's testimony. Please provide information in excel format with formulas intact.

RESPONSE:

Workpapers are attached to this response.

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QUESTION No. 3

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Please provide all emails, letters, invoices, and other communications between the Office of the Attorney General and Mr. Ostrander related to this case.

RESPONSE:

Objection. The question seeks information that is covered by the Work Product privilege or Attorney-Client Privilege.

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QUESTION No. 4

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Please see Mr. Ostrander's testimony at page 11 line 19 in which he says the Company did not provide supporting calculations or documentation for the inflation factor adjustment.

- a. Confirm that Mr. Ostrander reviewed the Company's response to OAG 1-111(b), which refers the reader to the Company's response to Staff 1-59 attachment 15 labeled FY13 O&M Forecast and contains the supporting calculations and documentations, including the calculation of the 2.7% inflation factor (see CPI Index tab), before providing testimony.
- b. Confirm Mr. Ostrander received the same spreadsheet (which he claims to be missing and not readily available) that was also provided in Company's response to OAG 1-111 attachment 1 labeled O&M Comparison.
- c. If the answer to b. above is no, please explain how Mr. Ostrander's opinions on the matter can be viewed as credible as he has not reviewed all relevant data on the issue.

RESPONSE:

- a. Mr. Ostrander did receive and review Atmos responses to OAG 1-111 and Staff 1-59, along with related hard copies of the spreadsheets and working Excel copies of the spreadsheets. There are numerous issues to address.

OAG 1-111 (b) and (c) asked for a reconciliation of all adjustments from the previous historical costs (by cost element) to the base period costs (part b) and to the forecasted test period costs (part c). Atmos provided a response to part b and then again cited part b as its response to part c. Atmos response to OAG 1-111(b) states (and this same response was cited in response to OAG 1-111(c)), "Please see the Company's response to Staff DR No. 1-59, Attachment 15 - FY13 OM Forecast. Please see Attachment 1 for an electronic working copy of the model." Mr. Ostrander reviewed

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Attachment 1 provided to OAG 1-111(b) and (c) and Staff DR 1-59 Attachment 15. Some of the problems include the following:

The response to OAG 1-111(b) and (c) provided an Attachment 1 "hard copy spreadsheet" (hard copy Excel) and also provided an Attachment 1 "original working Excel spreadsheet" (original working Excel). The following will explain how Atmos failed to respond to OAG 1-111(b) and (c) as follows:

- i. First, Atmos' narrative/written response to OAG 1-111(b) and (c) should have and could have easily stated in plain language whether Atmos' used an inflation factor applied to the base period and forecasted test period, but Atmos merely referred to Attachment 1 and did not provide a plain written response to OAG's question. Thus, the response is left to interpretation of calculations included in Atmos' Attachment 1 Excel spreadsheet without any specific written explanation.
- ii. The O&M Comparison at Attachment 1 does not show the amount of the impact of the inflation factor by cost element expense reconciling from the historical period expenses to the base period expense and then to the forecasted test period expenses as requested by OAG. This only shows the total difference in amounts between the base period and forecasted test period without identifying the impact amount of the inflation factor, and the response does not reconcile any of this information from the previous historical test period expenses as requested in the OAG data request.
- iii. Attachment 1 hard copy Excel has four tabs called "Div 2 retrieve", "Div 12 retrieve", "Div 91 retrieve", and "Div 9 retrieve" but this only shows total expense amounts by cost element for the fiscal 2012 months of fiscal August 2012 and September 2012, plus fiscal 2013 months of fiscal October 2013 through fiscal September 2013, plus budget 2013 months of budget March 2013 through budget September 2013. This information is not responsive to OAG 1-111(b) and (c) because it does not identify any specific amounts as related to the inflation impact on the base period expenses or the forecasted test period expenses. Also, this response is limited to expense information

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through fiscal and budget September 2013 and does not include information for the complete forecasted test period. Finally, this information does not provide a comparison to the prior 12 months actual data as requested. This information does not explain or show if the inflation adjustment amounts are included, or are not included, for the base period and forecasted test period.

- iv. Regarding inflation adjustment amounts included in the **base period**, Attachment 1 hard copy Excel has four tabs called "Div 2 forecast", "Div 12 forecast", "Div 91 forecast", and "Div 9 forecast" showing expense amounts on a monthly basis for fiscal 2012 months of fiscal August 2012 and fiscal September 2012, plus fiscal 2013 months of fiscal October 2013 through fiscal February 2013, plus budget 2013 months of budget March 2013 through budget September 2013, plus fiscal year 2014 months of fiscal October 2014 through fiscal September 2014 (12 months of data), plus fiscal year 2015 months of fiscal October 2015 and fiscal November 2015 (the test period consists of the last 10 months of fiscal 2014 which is actual months December 2013 through September 2014, plus the first two months of fiscal 2015 which is actual months October 2014 and November 2014 - - although shown at fiscal year 2015 months fiscal October 2015 and fiscal November 2015 This information does not affirmatively state or show if inflation amounts are included or not included in the base period expense amounts from August 1, 2012 through July 31, 2013. It cannot be automatically concluded that inflation amounts are not already buried or included in the base period expense amounts provided at this Excel spreadsheet. A simple statement or explanation by Atmos would have cleared up this interpretation of its Excel schedule. It is a reasonable presumption that if Atmos' normal forecasting process includes inflation factors in one period such as the forecasted test period, then it would also include inflation factors in the base period. It is not clear why a normal objective forecasting process would "pick and choose" to include inflation factors in some projections for one year (such as the forecasted test year) but exclude these same inflation factors from projections in another year (such as the base period). This concern goes to the credibility and consistency of the forecasting process and the process used for establishing costs in this rate case. This also raises the concern, if Atmos' normal forecasting process does not include inflation factors in the base period, then why is it

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reasonable to include inflation factors in the forecasted test period for rate case purposes only - - other than to increase expenses only for purposes of rate case recovery.

- v. Regarding inflation adjustment amounts included in the **forecasted test period**, Attachment 1 hard copy Excel has four tabs called "Div 2 forecast", "Div 12 forecast", "Div 91 forecast", and "Div 9 forecast" showing expense amounts on a monthly basis for fiscal 2012 months of fiscal August 2012 and fiscal September 2012, plus fiscal 2013 months of fiscal October 2013 through fiscal February 2013, plus budget 2013 months of budget March 2013 through budget September 2013, plus fiscal year 2014 months of fiscal October 2014 through fiscal September 2014 (12 months of data), plus fiscal year 2015 months of fiscal October 2015 and fiscal November 2015 (the test period consists of the last 10 months of fiscal 2014 which is actual months December 2013 through September 2014, plus the first two months of fiscal 2015 which is actual months October 2014 and November 2014 - - although shown at fiscal year 2015 months fiscal October 2015 and fiscal November 2015 This response does not affirmatively state or specifically identify the final amount of inflation adjustment included in the forecasted test period. Atmos could have easily provided the bottom line amount of its inflation adjustment included in the forecasted test period, but it did not provide this information. An amount that Atmos might claim to be included as its inflation adjustment can be derived by performing separate calculations using the information provided by Atmos. As an example, Atmos' calculations included in certain fields of its Excel schedule show December 2012 expense amounts multiplied by a 2.7% inflation factor to arrive at a forecasted December 2013 expense amount with inflation. This calculation is performed for every month of the forecasted test period and then the final total adjusted expenses are multiplied by an allocation factor of 5.55%. However, Atmos never provides the exact amount of its total inflation adjustment before or after the 5.55% allocation factor, and Atmos never cites to a master schedule showing a total adjustment amount for the inflation impact. Therefore, it is not completely clear that Mr. Ostrander's independent calculations (using the data provided by Atmos) provides the final inflation impact amount that would agree to Atmos' actual amount, because Atmos never specifically states or provides the amount of its inflation

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adjustment. It is not clear why Atmos avoids simply stating the amount of its inflation adjustment and why it avoids simply showing the amounts of its inflation adjustments - - but the provision of various Excel schedules that do not simply state or show this information does not necessarily confirm that the amounts at the Excel schedules were the same final amounts included in Atmos' filing.

- vi. The "CPI Index Tab" provided with Attachment 1 only shows the percent inflation factor by specific year and month; it does not show the amount of Atmos' inflation adjustment by cost element for the base period and forecasted test period as requested by OAG.
 - vii. Atmos refers to its response to Staff 1-59, Attachment 15 labeled FY13 O&M Forecast as presumably including supporting calculations for the 2.7% inflation factor. However, this workpaper has been previously reviewed and appears to be the same spreadsheet provided as Attachment 1 to OAG 1-111(b) and (c).
- b. Please see the response to part (a) above. Mr. Ostrander's detailed explanation at page 13, lines 6 to 18, does not state that Atmos did not provide a spreadsheet or response to OAG 1-111(b) and (c); it states that Atmos did not provide a reconciliation from historical expenses to base period and forecasted test period expenses that would have "fully disclosed" or "readily identified" the amount of the inflation adjustment. Furthermore, Atmos had numerous opportunities in other OAG data requests to just merely state the amount of the inflation adjustment included in the base period and the forecasted test period and Atmos never provided this simple and clarifying statement - - but instead Atmos referred to spreadsheets with OAG or Staff data request responses that also did not fully and readily disclose the bottom-line impact of the inflation adjustment.
- c. See the responses to Atmos Question 4, parts (a) and (b) above.

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QUESTION No. 5

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Please see Mr. Ostrander's testimony at page 22 line 12 regarding the application of the inflation factor to the base period.

- a. Please confirm that Mr. Ostrander reviewed the Company's response to OAG 1-111 attachment 1, labeled O&M Comparison, specifically the Div 2, Div 12, Div 91, and Div 9 Forecast tabs which show the base period being made up of 7 months of actual expenses (which does not have an inflation factor applied) and 5 months of budget expenses which also did not have an inflation factor applied.
- b. Please acknowledge that the Company also provided this information in its response to Staff 1-59 in a file labeled FY 13 OM Forecast or explain how the information provided was not responsive to the data request.
- c. Based on the Company's response to OAG 1-111, please confirm that the \$248,454 downward adjustment made to the Company's base period figures in BCO-2 Schedule A-4 was made in error.

RESPONSE:

- a. Please see the response to Atmos' Question 4.
- b. Please see the response to Atmos' Question 4.
- c. Please see the response to Atmos' Question 4. This conclusion cannot be automatically deduced from information, or lack of information, provided at Atmos' Attachment 1 spreadsheet to OAG 1-111. It is not understood why Atmos will not specifically state in clear written terms in a data request response that it did include, or did not include, an inflation adjustment in its base period - - Atmos' continued reference to an Excel spreadsheet instead of a clear written narrative response is a curious and unclear approach to this issue. As stated at page 22, lines 11 to 15, Mr. Ostrander is not opposed to removing the impact of his base period inflation adjustment if it is incorrect.

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WITNESS RESPONSIBLE:

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QUESTION No. 6

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Does Mr. Ostrander believe inflation is a real economic phenomenon?

RESPONSE:

Objection. The OAG objects to this question as not establishing foundation or relevance (Atmos does not cite to Mr. Ostrander's testimony), vague, overly broad, and not leading to admissible evidence. Atmos does not explain what type of inflation it is referring to and does not define the term "real economic phenomenon."

Without waiving these objections, it is Mr. Ostrander's testimony that Atmos has not established or shown a correlation between its inflation factor and the historical changes in its specific expenses. Also, to the extent inflation is "real", it is not clear why Atmos would include inflation costs in its forecasted test period expenses but would not also include these same "real" inflation costs in its base period projected costs (if it is accurate that Atmos did not include inflation costs in its base period projected costs in this rate case). Thus, there is concern regarding Atmos' use of the term "real" inflation or its impact on Atmos.

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QUESTION No. 7

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- a. Has Mr. Ostrander reviewed the testimony of Mr. Glenn A. Watkins?
- b. Is Mr. Ostrander aware of the question at line 14 on page 40 of Mr. Watkins' testimony which asks "Is it reasonable to infer that the cost of constructing a stand-alone pipeline to connect a customer's facilities with an interstate pipeline has increased over the last 13 or 14 years?"
- c. Has Mr. Ostrander reviewed the answer to the above referenced question, which in its entirety states "Certainly. If for no other reason due to the effects of inflation."
- d. Does Mr. Ostrander agree with Mr. Watkins response that inflation is a factor in cost escalation?
- e. If the answer to (d) is yes, would it also be reasonable for the Company to apply an inflation factor to its forecasted expenses?
- f. If the answer to (d) is yes and the answer to (e) is no, please explain how one can acknowledge the effects of inflation at the same time opining inflation will not affect the prices the Company incurs for goods and services from one year to the next.

RESPONSE:

- a. Yes.
- b. Yes.
- c. Yes.
- d. Please see the response to Atmos Question 6. Unlike Atmos adjustment for CPI inflation of 2.7%, Mr. Watkins cites to "inflation" in general in his testimony, he does not refer to a specific type of inflation or specific inflation percentage, and he does not infer there is a correlation between a specific cost of constructing a pipeline and a specific inflation factor percentage. Inflation may or it may not be a factor in cost escalation (and the type of inflation is not clear to which Atmos is referring) and it is not clear why Atmos appears to treat inflation inconsistently in its forecasted test period (with an inflation

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factor) and its base period (without an inflation factor, which appears to be Atmos' assertion in these data requests). Because it appears that Atmos also elects to exclude inflation from its projected base period costs, Mr. Ostrander's concerns remain the same as previously stated.

- e. See the response to part (d).
- f. See the response to part (d).

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QUESTION No. 8

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Does Mr. Ostrander believe the Consumer Price Index to be an inaccurate estimate of the effects of inflation on prices in the future? If so, please provide an alternative measure for inflation.

RESPONSE:

Please see Mr. Ostrander's testimony, page 15, lines 7 to 20, page 16, and page 17, lines 1 to 10. Atmos bears the burden of showing that there is correlation between the actual historical change in its expenses and the same consumer basket of goods and services included in the CPI, and Atmos has failed to provide this correlation and related documentation to the OAG.

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QUESTION No. 9

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Is Mr. Ostrander aware of the testimony of Frank W. Radigan on behalf of the Kentucky Attorney General in Case No. 2013-00167 (Adjustment of Rates of Columbia Gas of Kentucky, Inc.) on pages 32-33 in which he uses the CPI to estimate cost increases from year to year?

RESPONSE:

Objection, relevance; additionally, Atmos was not a party in Case No. 2013-00167 and lacks standing to raise issues pertinent to that case. Without waiving this objection, yes. Mr. Ostrander is also aware that Atmos now appears to assert in these data requests to OAG that it did not include an inflation factor in its base period expenses of this rate case.

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QUESTION No. 10

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Explain how the Attorney General can suggest use of the CPI to estimate cost increases from year to year in one case, and in another case take the position that the use of the CPI as "a generic inflation factor is an indication of the problems and inaccuracy with Atmos' forecasting process used in this rate case".

RESPONSE:

Objection, relevance; additionally, Atmos was not a party in Case No. 2013-00167 and lacks standing to raise issues pertinent to that case. Without waiving this objection, first, there is a significant difference in the context of how the "inflation" issue is addressed in Mr. Ostrander's testimony in this rate case compared to Mr. Radigan's testimony in the Columbia Gas of Kentucky rate case (cited at page 32 by Atmos previous Question 9), and Atmos point regarding inflation is not relevant. Mr. Radigan's testimony (at pages 31 and 32) states that one method to ensure reasonable allocation of costs between subsidiaries is to use incentive ratemaking, such that a productivity factor and/or inflation level is applied to certain expense categories. Both Mr. Radigan's testimony and Mr. Ostrander's testimony regarding inflation is addressed or reconciled as follows:

- a) Mr. Radigan addresses productivity and inflation from a general incentive regulation context, and this is different than Atmos testimony in this case to propose a rate case adjustment that applies a 2.7% inflation factor to certain expenses (and Mr. Ostrander's recommendation to remove this Atmos adjustment). Atmos does not propose an incentive regulation plan using inflation and productivity factors, such as addressed by Mr. Radigan.
- b) Mr. Radigan does not propose a specific type of inflation index or specific inflation (or productivity) percentage to use for incentive regulation, whereas Atmos proposes a specific index and percentage to use for a rate case adjustment in this proceeding.

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- c) Mr. Ostrander's testimony states that there should be a correlation between an inflation factor and historical actual changes in Atmos expenses, and Mr. Radigan's testimony does not address this issue in detail so there not any inconsistency on this issue.
- d) Mr. Ostrander's testimony states that Atmos includes an inflation factor to increase expenses but does not balance this with an offsetting reduction in expenses via a productivity factor. Although Mr. Radigan addresses inflation/productivity generally from an incentive regulation basis, he also addresses the importance of including or imputing productivity offsets to expenses and this is consistent with Mr. Ostrander's testimony in the big picture.

In addition, please see the response to Questions 6, 7, 8, and 9 and Mr. Ostrander's related direct testimony. Finally, although Atmos unfairly criticizes the OAG for what it believes is an inconsistent approach to inflation issues in two separate rate cases by two separate witnesses, Atmos has actually gone a step further and treated inflation inconsistently within the same rate case and by the same witnesses. Atmos has elected to selectively exclude or include inflation factors in its expense calculations from year to year, because Atmos now appears to assert in these data requests that it did not apply an inflation factor to the forecasted expenses in the base period, although it did apply an inflation factor to the forecasted test year expenses. This inconsistency has not been addressed or justified by Atmos.

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Bion Ostrander

QUESTION No. 11

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Does Mr. Ostrander believe Atmos Energy to be immune from changes in market prices and conditions?

RESPONSE:

No, Mr. Ostrander's testimony does not state this. Also, Atmos has not defined "market prices and conditions" in this question and has not provided documentation or calculations in this proceeding to show that there is a correlation between the change in Atmos' expenses from year-to-year and the consumer's basket of goods and services making up the CPI inflation factor that was used by Atmos in this proceeding. Atmos has not defined or shown how its basket of expenses is similar to the market basket of expenses incurred by consumers on a year-to-year basis.

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QUESTION No. 12

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Please refer to Mr. Ostrander's testimony on page 12, lines 2 through 3 in which he references a productivity factor. Is it not possible for the Company to account for increases in productivity and efficiency when it budgets from one year to the next?

RESPONSE:

Atmos did not provide supporting documentation or calculations to show that it has reasonably and equitably reflected productivity factors (or deflation factors) in its projected expenses as addressed at Mr. Ostrander's testimony at page 20, lines 18 to 20, and page 21, lines 1 to 15.

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QUESTION No. 13

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Throughout Mr. Ostrander's testimony he references changes in base pay versus changes in payroll. It seems as if Mr. Ostrander includes benefit costs in his "payroll" numbers. Confirm Mr. Ostrander realizes he is comparing two different measurements of labor costs.

RESPONSE:

Objection, vague. Without waiving this objection, Mr. Ostrander does not address payroll and benefit costs "throughout" his testimony; he only addresses payroll and benefit issues directly in OAG Adjustment 4 and addresses the long-term incentive portion of payroll costs in OAG Adjustment 5. Mr. Ostrander is aware of an error in his workpaper supporting OAG Adjustment 4 related to payroll and benefits and this has been corrected and provided as part of the responses to this set of data requests from Atmos.

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QUESTION No. 14

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Please see BCO-2 Schedule A-7 at line 3.

- a. Please confirm this expense (\$8,500,877) includes both base pay and benefits for Kentucky direct.
- b. If the answer to the above question is "Yes", is it inappropriate and misleading to include the benefits figure a second time in the calculation of adjustment on line 8 of the same attachment?
- c. Please confirm the OAG adjustment on BCO-2 schedule A-7 to the Kentucky Direct Payroll is inaccurate and incorrect.
- d. Please also confirm the Kentucky Direct Payroll number that should be listed in BCO-2 schedule A-7 at line 3 is \$5,339,350.

RESPONSE:

- a. Confirmed. Mr. Ostrander is aware of an error in his workpaper supporting OAG Adjustment 4 related to payroll and benefits and this has been corrected and provided as part of the responses to this set of data requests from Atmos.
- b. Please see the response to part (a).
- c. Please see the response to part (a).
- d. Yes. Please see the response to part (a).

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QUESTION No. 15

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For each adjustment made on BCO-2 Schedule A-7 please provide the reasoning and assumptions behind each adjustment, as well as the calculations (with formulas intact) used to determine any adjustment. Please also provide citations to the record where Mr. Ostrander sourced the data used in this schedule.

RESPONSE:

Please see the attached supporting workpapers and calculations for Mr. Ostrander's adjustments.

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QUESTION No. 16

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Please list all cases in which Mr. Ostrander has testified in any state in which the applicant utility utilized a forward looking test period and attach a copy of the testimony.

RESPONSE:

Mr. Ostrander has addressed a fully forecasted test period in two Kentucky rate cases, Big Rivers Electric Corporation, Case Numbers 2012-00535 and 2013-00199 and a public version of these testimonies are available at the Public Service Commission of Kentucky website. A fully forecasted test period is not used in the jurisdictions or other rate cases involving Mr. Ostrander. Mr. Ostrander has addressed rate cases that allow a partially forecasted test period when the initial rate case application is filed by the utility (for certain months included in the test period), but the forecasted months are required to be subsequently trued up to actual amounts during the rate proceeding such that the company's entire rate filing is eventually based on actual historical costs.

In addition, it is worth noting that Atmos' response to OAG 2-26 indicates that none of its own witnesses in this rate case have testified in support of or in opposition to a forecasted test period because Kentucky, Tennessee, and Georgia have regulations that support the utilization of a forecasted test period, thus no testimony is required.

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QUESTION No. 17

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Please confirm that regardless of his opinion, Mr. Ostrander is aware that 807 KAR 5:001 gives the Company the option to use a fully forecasted test period in rate case proceedings.

RESPONSE:

Mr. Ostrander is aware of this.

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QUESTION No. 18

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Please refer to Mr. Ostrander's testimony on page 33 at line 13 in which he states that the Company has experienced a 41% increase in payroll costs. Please also see Exhibit BCO-2 schedule A-7 lines 22 through 30. Specifically cite in the testimony and filings of the Company where Mr. Ostrander sourced these numbers and provide all calculations and supporting documents Mr. Ostrander used to arrive at the this 41% increase.

RESPONSE:

Please see Mr. Ostrander's response to Atmos' Questions 14 and 15 and the attached revised adjustment and supporting workpapers.

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QUESTION No. 19

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Please see Mr. Ostrander's testimony on page 37 at line 12 in which Mr. Ostrander asserts that "In fact, Atmos' Kentucky Direct proposed payroll expense increase of 80% for the combined base and forecasted test period is exceedingly unusual and significant." Please also refer to Exhibit BCO-2 Schedule A-7 and see line 26.

- a. Admit or deny that the number you have listed for Atmos' Kentucky direct payroll was derived by taking \$611,103 of the difference between KY Direct O&M labor dollars between the forecast period and FY2012, and adding to it the \$3,161,528 of KY Direct forecasted benefits. If you deny, provide the source of the data and calculations.
- b. Admit or deny that the Atmos KY Direct Payroll Number of \$3,772,630 used by Mr. Ostrander in his calculation is incorrect.
- c. Admit or deny that the Atmos KY Direct Payroll Number used in his Proposed Expense Increase calculation should have been \$611,103.
- d. Admit or deny that Mr. Ostrander's assertion that Atmos' Kentucky Direct Payroll increased by 80% during this period is incorrect.
- e. Admit or deny that the Total Expense Increase Proposed by Atmos for Kentucky Direct Payroll in this calculation should be 12.92%. If you deny, provide the source of the data and calculations.
- f. Admit or deny that Mr. Ostrander's assertion that Atmos' Total Expense Increase Proposed is 41% is incorrect. If you deny, provide the source of the data and calculations.

RESPONSE:

Regarding parts (a) to (f) of this question, please see Mr. Ostrander's response to Atmos' Questions 14, 15, and 18, along with the attached revised adjustment and supporting workpapers.

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WITNESS RESPONSIBLE:

Bion Ostrander

QUESTION No. 20

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Please refer to Mr. Ostrander's testimony on page 37 at lines 17 and 18.

- a. Please provide all calculations, data, cases, analysis, studies, with formulas intact, that Mr. Ostrander reviewed to come to the conclusion that the OAG's adjustment to the Company's direct payroll is "very reasonable and fair by most comparisons."
- b. The testimony above insinuates that some comparisons made by the OAG and/or Mr. Ostrander would make it seem as though the OAG's adjustment to direct payroll is not "very reasonable and fair." Please provide all comparisons the OAG and/or Mr. Ostrander made that would lead one to this conclusion. Please also provide all calculations, data, cases, analysis, and studies, with formulas intact, related to those comparisons.

RESPONSE:

Regarding parts (a) and (b) of this question, please see Mr. Ostrander's response to Atmos' Questions 14, 15, 18, and 19, along with the attached revised adjustment and supporting workpapers. Mr. Ostrander's revised OAG Adjustment 4 is reasonable.

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WITNESS RESPONSIBLE:

Bion Ostrander

QUESTION No. 21

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Please refer to Mr. Ostrander's testimony on page 39 at line 3.

- a. Explain how the Company could forecast a known merit increase, and confirm that by definition a forecast is not known.
- b. Confirm that it would be reasonable for the Company to forecast merit increases for its employees.

RESPONSE:

- a. Mr. Ostrander agrees that Atmos' proposed merit payroll increases are not known and measurable. However, as an example, a portion of these payroll increases could be more known and measurable if the overall percentage or amount of the payroll increase was approved in advance by actions of the Board of Directors or its Compensation Committee.

By definition, a forecast may not be completely known or measurable, and forecasted amounts can be inaccurate and not credible.

- b. Mr. Ostrander is not aware that Atmos' forecasted merit increases are on a specific employee basis. Mr. Ostrander cannot indicate with certainty if it is reasonable for Atmos to forecast merit increases for its employees because he does not know the future levels of employees, does not know if the CSS implementation will produce further savings in payroll costs, and does not know which and how many employees are deserving (or not deserving) of merit pay and what percentage of merit pay increase each employee should receive (or not receive), and he is not aware of other efficiencies that could lead to payroll cost decreases.

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WITNESS RESPONSIBLE:

Bion Ostrander

QUESTION No. 22

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Please provide copies of all comparisons, studies, analysis, etc. that Mr. Ostrander reviewed and/or prepared regarding merit increases of other natural gas distribution utilities. Please also provide where any method for budgeting/awarding merit increases which Mr. Ostrander favors over the Company's standard 3% merit increase has been approved in a regulatory proceeding.

RESPONSE:

Mr. Ostrander has not prepared a detailed study or analysis of merit pay increases of other natural gas distribution utilities and Atmos has not provided such an analysis to Mr. Ostrander.

Please see Mr. Ostrander's response to Atmos Question 21, it is not possible for Mr. Ostrander to propose forecasted merit increases for Atmos given all of the payroll and employee information that is not known or measurable, or which has otherwise not been made available to him by Atmos. Mr. Ostrander is not aware that Atmos' method of budgeting for merit increases has been approved in other regulatory jurisdictions proceedings where Mr. Ostrander has been involved.

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WITNESS RESPONSIBLE:

Bion Ostrander

QUESTION No. 23

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Please see Mr. Ostrander's testimony on page 25 at line 36.

- a. Confirm that Mr. Ostrander is now aware that Atmos Energy is not a holding company or affiliate of a parent organization and explain how his opinions regarding allocations of these types of entities are relevant to this proceeding.
- b. Confirm that Mr. Ostrander reviewed Mark Martin's testimony filed by the Company in this proceeding regarding the Company's Cost Allocation Manual and have Mr. Ostrander please describe his understanding of SSU and DGO allocations.

RESPONSE:

- a. Mr. Ostrander was aware of Atmos status when he wrote the testimony and this only serves as one example of possible problems regarding allocations. However, the same concerns exist regarding any division/affiliate/related party entity that is allocating costs to another division/affiliate/related party.
- b. Mr. Ostrander reviewed the testimony of Mr. Martin, and Mr. Ostrander understands SSU and DGO allocations to the extent of the accuracy of such information that is explained in Company testimony and data request responses.

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Bion Ostrander

QUESTION No. 24

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- a. Please confirm that Mr. Ostrander reviewed the Company's supplemental responses to Staff 1-45, attachment 1, filed on August 29, 2013 regarding an update to O&M income/expenses for the base period.
- b. Please confirm that the operating expenses (non-gas-cost O&M expenses, depreciation expense and taxes other than income) filed for the base period (*base period included 7 months of actual expenses and 5 months of budgeted expenses*) were \$43,885,667.
- c. Please confirm the actual expenses for the same period as referenced in (b) above were \$44,020,655.
- d. Please confirm this is a difference of approximately .31%.
- e. In several places in Mr. Ostrander's testimony he attacks Atmos' budget process saying it should be "seriously questioned" or that it is "flawed and not cost based". Does Mr. Ostrander consider a variance of .31% on the Company's filed base period expenses of \$43.9 million to be a good result?
- f. If a budgeting process produced a budget that only varied .31% from its actual costs would Mr. Ostrander consider this such an unacceptable result that he would demand a change in that budgeting process?
- g. What does Mr. Ostrander consider a good variance when comparing a budget to actual expenses and what is his experience with developing a budget for a company the size of Atmos that supports that opinion?

RESPONSE:

- a. Mr. Ostrander has reviewed this information.
- b. Confirmed, and it also appears from this set of data requests that Atmos is now asserting that the expense amounts in the base period do not include any inflation factor adjustments.
- c. This appears to be Atmos' position.
- d. Assuming that Atmos is referring to the difference between its asserted amounts of \$43,885,667 and \$44,020,655, the difference is about .31%.

QUESTION No. 24

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- e. First, even if "total" base period operating expenses per the original filing (with five months of forecasted data) of \$43,885,667 approximate "total" actual base period operating expenses of \$44,020,655, this is not an indication that individual and specific expense projections are accurate or reasonable, and it is important to look at variances between specific expenses. Second, part of the process of making partially forecasted base period expenses appear to approximate actual base period expenses may be merely due to balancing the difference in various accrued expenses accounts and this matter has not been accounted for. Third, this information may continue to indicate a flaw in Atmos' budgeting process. If Atmos would have increased its five months of "forecasted" expenses in the base period by the same 2.7% inflation factor that it increased its fully forecasted test period expenses, then the variance between original partially forecasted base period expenses and actual base period expenses would have been much greater than .31%. This appears to indicate inconsistency in Atmos' approach to forecasting for this rate case. Also, this could also indicate that Atmos' use of a 2.7% inflation factor in its forecasted test period expenses will not produce accurate results, if the failure to include a 2.7% inflation factor in its base period expenses produced expenses that approximated actual expenses for the base period. Atmos has not explained why and how the apparent exclusion of a 2.7% inflation factor in its base period expenses could produce results that approximate actual expenses, and then why or how the inconsistent inclusion of a 2.7% inflation factor in forecasted expenses may produce accurate results (although no actual results are available to measure or evaluate Atmos' forecasted test period expenses). Fourth, even if partial forecasted base period "total" expenses approximate actual expenses for the base period, this does not lead to an automatic conclusion that the forecasted test period expenses are reasonable or accurate. This is a larger concern because the Atmos final revenue requirement is based on its forecasted test period, not its base period expenses. Also, the OAG is concerned that Atmos has failed to provide (or is unable to provide) certain documentation and calculations requested by the OAG in order to test or analyze Atmos' expenses in the forecasted test period.
- f. Yes, please see the response to part (e).
- g. It is important to compare and evaluate variances on a specific expense basis rather than just a total expense basis. For rate case purposes, any difference between projected and actual amounts that produces an amount significant

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enough to justify an adjustment in this rate case is relevant. In this rate case, Atmos has proposed some adjustments smaller than the \$134,000 difference between its claimed projected base period expenses and actual base period expenses, so the \$134,000 difference would be of the magnitude considered significant and relevant for an adjustment in this rate case.

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WITNESS RESPONSIBLE:

Bion Ostrander

QUESTION No. 25

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Please refer to Mr. Ostrander's testimony on page at 8 at line 4.

- a. Is Mr. Ostrander suggesting the Kentucky Public Service Commission has somehow been derelict in its duties and nobody in the Commonwealth of Kentucky is receiving fair, just and reasonable rates?
- b. Is Mr. Ostrander suggesting that all rate case outcomes involving a forward looking test period and approved by the Kentucky Public Service Commission are unfair, unjust, and unreasonable?
- c. Please provide all analysis and data Mr. Ostrander reviewed or prepared in making the determination that his adjustments were more "fair, just and reasonable" and provide all supporting calculations Mr. Ostrander used to draw for this conclusion.
- d. How did Mr. Ostrander measure the fairness of rates? Please provide all supporting documents and calculations related to the same.
- e. Please provide all data, studies, analysis, comparisons, etc. that Mr. Ostrander has reviewed or prepared involving the outcomes of rate cases which allowed for a fully forecasted test period versus the outcomes of rate cases that required a historical test period. In each of these comparisons, please explain with specificity where the "methodology and specific impacts on costs" of the forward looking test were inferior to that of a historical test period and created a bad result for the ratepayer.

RESPONSE:

- a. Objection, Atmos is deliberately mischaracterizing Mr. Ostrander's testimony. Without waiving this objection, Mr. Ostrander's testimony does not state this claim by Atmos. Each rate case, whether it is a historical test period or a forecasted test period should be evaluated on its own merits, testimony, adjustments, and related supporting documentation and calculations (or lack thereof).
- b. Please see the response to part (a).
- c. Please see the entirety of Mr. Ostrander's testimony.

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- d. If rates are overstated, as proposed by Atmos, then they are not fair, just or reasonable.
- e. Please see response to part (c) and Atmos Question 16.

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WITNESS RESPONSIBLE:

Bion Ostrander

QUESTION No. 26

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Please refer to Exhibit BCO-2 Schedule A-7. Please provide all data, calculations, or documents which Mr. Ostrander used to determine a 22% reduction in the Company's payroll and benefit costs would be "just, fair, and reasonable."

RESPONSE:

Please see the response to Atmos' Question 25. Also, please see the response to Atmos' Questions 13, 14, 15, 18, and 19, resulting in a different percentage payroll reduction which is reasonable because it does not result in customer rates that are overstated. Thus the adjustment and related payroll amounts produce rates that are fair, just, and reasonable.

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WITNESS RESPONSIBLE:

Bion Ostrander

QUESTION No. 27

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Please provide citations to all rulings from the IRS which directly speak to and rule on the issue regarding NOLC ADIT as referenced in Mr. Ostrander's testimony beginning on page 52 at line 16.

RESPONSE:

Objection, vague. Without waiving this objection, Atmos has not defined the term "rulings" used in its question, so for purposes of responding Mr. Ostrander will assume that Atmos is referring to a "private letter ruling" ("PLR") from the IRS. Atmos has not cited any private letter rulings it has received from the IRS on this issue. Mr. Ostrander's testimony at page 48, lines 16 to 19, and page 57, lines 17 to 19, and page 58, lines 1 to 2, recommends that Atmos seek a PLR on this issue if there is disagreement on the issue.

Mr. Ostrander is not aware of any specific PLRs that exist for other companies as it relates to this specific issues and that is why he recommended that Atmos seek a PLR on this issue if there is disagreement. Mr. Ostrander's testimony at page 54, lines 18 to 19, pages 55, 56, and 57, lines 1 to 15, identifies a rate case in West Virginia where this same issue has been addressed and the West Virginia Commission removed the NOLC ADIT from rate base but left it to the utility company's discretion to seek a PLR on the issue (the Commission did not order or require the utility to get a PLR).

Finally, Mr. Ostrander proposed that Atmos seek a PLR because it would not be appropriate for any party to rely on a PLR issued by the IRS on behalf of another utility for this or a similar tax issue. This is because the IRS' PLRs cautions about relying on its PLRs as precedent in other cases because they are issued to a specific utility (and the specific name of the utility is not released in the PLRs and so the specific facts and circumstances surrounding that PLR are not publicly available and cannot be reviewed for application to another utility).

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WITNESS RESPONSIBLE:

Bion Ostrander

QUESTION No. 28

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Confirm that Mr. Ostrander's testimony regarding the various treasury regulations he cites on pages 52 through 53 is nothing more than his opinion regarding the interpretation of these regulations and in no way is this testimony an indication of how the IRS may rule on the NOLC ADIT issue at hand.

RESPONSE:

Objections to the form of the question; and unduly argumentative. Without waiving these objections, Mr. Ostrander's citations at pages 52 and 53 are factual. There is NO specific requirement for including a NOLC ADIT in rate base (as part of tax depreciation normalization) per Treasury Regulations. This is NOT Mr. Ostrander's "interpretation" of the tax code/Treasury Regulations; rather, it is the specific and plain reading of the tax code. Any other reading of the tax code that tries to infer or argue for a NOLC ADIT, or tries to insert the words "NOLC ADIT" or something similar into the cited Treasury regulations would be an interpretation and not a pure reading of the tax code.

Also, Treasury Regulations only relate to federal tax normalization and do not require tax normalization of book-tax timing differences for state purposes; and, thus Atmos' calculation of a state calculated NOLC ADIT is not reasonable (Ostrander, pages 53 and 54).

Mr. Ostrander does agree that he does not know how the IRS would rule on the NOLC ADIT issue in a specific private letter ruling to Atmos or another utility. Also, Mr. Ostrander is not aware of any single case where a state utility regulator's exclusion of a NOLC ADIT from rate base caused a tax normalization violation for the related utility and Mr. Ostrander is not aware that Atmos has identified any of these cases to date.

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WITNESS RESPONSIBLE:

Bion Ostrander

QUESTION No. 29

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Please refer to Mr. Ostrander's testimony on page 52 lines 3-4.

- a. Explain the nature of Mr. Ostrander's relationship with the management of Big River's Electric Company ("BREC") and why he believes BREC would not voluntarily place itself in violation of the tax code.
- b. Is it Mr. Ostrander's position that because BREC did not include NOL tax credits in their rate base, this fact is dispositive on the tax normalization issue discussed therein?
- c. Confirm that the rate case involving BREC referenced throughout Mr. Ostrander's testimony was unique in the fact that BREC had lost 1 customer which accounted for a loss of \$205,000,000 in annual revenue, and that the rate adjustment requested was an annual increase of approximately \$74,000,000.

RESPONSE:

- a. Objections, vague; unduly argumentative; irrelevant. Without waiving these objections, Mr. Ostrander does not have any relationship with BREC management, although he worked on the related BREC rate cases in Case Nos. 2012-00535 and 2013-00199. Mr. Ostrander does not believe it would be in BREC's best interest to place itself in violation of the tax code, especially to compound its existing substantial problems and precarious financial position.
- b. Mr. Ostrander relies on BREC's treatment as circumstantial and supporting documentation for this position, but Mr. Ostrander's testimony agrees that the IRS has not issued a PLR on this matter and likewise there is no cited case where a utility regulator's decision to exclude a NOLC ADIT from rate base caused a violation of IRS tax normalization.
- c. Objection, vagueness, irrelevant. Without waiving these objections, the loss of BREC's customers (BREC has now lost two large customers) should not impact its tax treatment of this issue and should not provide any incentive for BREC to not comply with the Internal Revenue Code and Treasury Regulations.

Data Requests Relating to Testimony of Glenn A. Watkins

WITNESS RESPONSIBLE:

Glenn Watkins

QUESTION No. 30

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Does Mr. Watkins admit or deny the following statements? If you deny, please explain the basis for your denial.

- a. Atmos' Special Contracts in Kentucky have been reviewed and accepted by the Kentucky Public Service Commission.
- b. Large Volume customers on a LDC system are generally beneficial for ratepayers as a whole.
- c. The removal of the Special Contract customers from Atmos' system would be more harmful than beneficial for other ratepayers on the system.
- d. The Kentucky Public Service Commission would not accept any special contracts entered into by Atmos and the Special Contract customer if there was not a legitimate and verifiable threat of bypass.
- e. The Kentucky Public Service Commission would not accept any special contracts entered into by Atmos and the Special Contract customer if it did not believe the rates proposed were fair, just and reasonable.

RESPONSE:

- a. I have insufficient information to respond to this question.
- b. The question as posed is too broad and general to answer
- c. Please see b. above.
- d. Objection. Calls for speculation.
- e. Objection. Calls for speculation.

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WITNESS RESPONSIBLE:

Glenn Watkins

QUESTION No. 31

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Please refer to Mr. Watkins' testimony on Page 39, lines 21-23. Please confirm that Mr. Watkins is aware that each of the Company's negotiated rate customers have entered into contracts for negotiated gas service and rates that have been accepted by the Kentucky PSC.

RESPONSE:

Unknown.

Data Requests Relating to Testimony of Glenn A. Watkins

WITNESS RESPONSIBLE:
Glenn Watkins

QUESTION No. 32
Page 1 of 2

Please refer to Mr. Watkins' testimony beginning on Page 37, line 22 and ending on Page 38, line 10.

- a. Confirm that Mr. Watkins is making a generalization in his analysis that two and a half miles is a distance that makes bypass unfeasible.
- b. If the answer is no, please provide the reports, workpapers, bypass analyses, and all other documents with formulas intact that support Mr. Watkins' conclusion that such distance would make it "very impractical, if not impossible, for a private enterprise without eminent domain to secure easements, rights-of-way, or purchase land necessary to traverse the required distance from multiple landowner."
- c. Please confirm that other factors beyond distance factor into a customer's decision of whether to bypass a LDC system.
- d. Provide all studies, reports or analyses that Mr. Watkins has prepared related to the planning, design, construction, and operation of natural gas pipeline facilities.
- e. Provide all studies, reports or analyses that Mr. Watkins has prepared related to the bypass of an LDC by an industrial customer.

RESPONSE:

- a. Confirm.
- b. Please see a. above.
- c. Confirm.
- d. Mr. Watkins has practiced utility rate regulation for more than 33 years which has included more than 500 engagements. Virtually every cost allocation engagement has related to the planning, design, construction and/or operation of natural gas pipeline facilities.

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Mr. Watkins has evaluated the need for, and pricing of, "special" contracts/discounted rates on numerous occasions beginning shortly after FERC Order 636 (which essentially enabled large industrial customers the ability to bypass a local distribution company).

Examples include:

Virginia Natural Gas (VA)
National Fuel Gas Distribution Company (PA)
Equitable Gas (PA)
Columbia Gas of Pennsylvania (PA)
UGI (PA)
Avista Corp. (WA)
South Carolina Electric & Gas (SC)

In these cases, Mr. Watkins did not have direct contact with the end-users, as such he is unaware of the specifics as to their "decision making process." In these cases, Mr. Watkins relied upon confidential data and records provided by each local distribution company.

e. Please see response to d. above.

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WITNESS RESPONSIBLE:

Glenn Watkins

QUESTION No. 33

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Please provide all mathematical calculations, spreadsheets and workpapers, with formulas intact, as to how Mr. Watkins' arrived to his conclusion of the \$3.05 million disallowance discount regarding special contracts. Please also reconcile these amounts to Confidential Schedule GAW-3.

RESPONSE:

\$6,109,525 [Schedule GAW-3, Column (8)] times 50% equals \$3,054,763, which is exactly 50% of the discount below full tariff rates.

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WITNESS RESPONSIBLE:

Bion Ostrander

QUESTION No. 34

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Please refer to Mr. Ostrander's testimony on pages 6 and 7 as it pertains to his opinions regarding the use of a fully forecasted test period. Please also refer to the adjustments to SSU and DGO expenses made by Mr. Ostrander on BCO-2 Schedule A-5 in which he compares the forecasted period numbers to FY 2012 numbers in order to determine the adjustment.

- a. Confirm that Mr. Ostrander is aware of the Company's minimum filing requirement in 807 KAR 5:001 16(11)(a) which states "the financial data for the forecasted period shall be presented in the form of pro forma adjustment to the base period."
- b. Explain why Mr. Ostrander used FY 2012 data instead of Base Period data to base his adjustments in BCO-2 Schedule A-5?
- c. Is the use of FY 12 numbers instead of base period numbers an attempt by Mr. Ostrander's to circumvent the statutory right of the Company to use a fully forecasted test period?
- d. Please provide new calculations for all adjustments (including but not limited to the adjustments made on BCO-2 Schedule A-5), using the base period as the proper reference point, in which FY 2102 numbers were used.

RESPONSE:

- a. Confirmed.
- b. Mr. Ostrander used and evaluated data from FY 2012, the base period, and the forecasted test period for this adjustment. Mr. Ostrander's testimony explains his rationale.
- c. No.
- d. Objection. The OAG objects to this question as overly broad, irrelevant, time consuming, unduly burdensome, and requiring the calculation of amounts that can just as easily be determined by Atmos to support its request.

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WITNESS RESPONSIBLE:

Bion Ostrander

QUESTION No. 35

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Please refer to Mr. Ostrander's testimony on page 23 at line 9.

- a. Confirm that Mr. Ostrander reviewed Staff 1-59 attachment 15 labeled FY13 O&M Forecast, specifically the O&M comparison tab.
- b. Admit or deny that pre-allocation, the sum of SSU, DGO, and Kentucky direct expenses decreased \$1,366,940 from the base period to the forecasted test period.
- c. Admit or deny that Kentucky's share of SSU expenses increased from the base period to the forecasted test period because of a reallocation of these expenses and not because actual expenses were going up.

RESPONSE:

- a. Confirmed.
- b. There are numerous detailed pages provided in response to Staff 1-59, Attachment 15 and Mr. Ostrander is not sure which pages or amounts this question is intended to be cited. However, if a copy of the pages can be provided or this question can be clarified, then Mr. Ostrander will provide a response. Notwithstanding the provision of future information, Mr. Ostrander's Exhibit BCO-2, Schedule A-5, shows that Atmos allocated expenses for Kentucky Direct, SSU, and DGO actually increased by an amount of \$1,928,000 from the base year to the forecasted test period, increasing from a base period amount of \$24,769,000 to a forecasted test year amount of \$26,697,000.
- c. Please see the response to part (b).

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WITNESS RESPONSIBLE:

Glenn Watkins

QUESTION No. 36

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Please refer to Mr. Watkins testimony on page 38 lines 12 through 20 regarding affiliate relationships.

- a. Has Mr. Watkins reviewed KRS 278.2213 regarding prohibited business practices amongst utilities and their affiliates?
- b. Please provide documentation of all instances in which Mr. Watkins believes the Company to be in violation of KRS 278.2213.
- c. Does Mr. Watkins believe there are flaws in KRS 278.2213, which would allow Atmos to circumvent the requirements and restrictions of the statute? If yes, provide an analysis of the flaws.

RESPONSE:

- a. No.
- b. Objection. Calls for legal opinion. Without waiving this objection, answer unknown.
- c. Objection, Calls for legal opinion. Without waiving this objection, answer unknown.

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WITNESS RESPONSIBLE:

Glenn Watkins

QUESTION No. 37

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Please refer to Mr. Watkins testimony on page 38 lines 18 through 20 which reads as follows:

“To the extent that Atmos negotiates rate discounts in its distribution rates and affiliate also provides gas supply to the same customer, the potential for mischief exists.”

Assuming Mr. Watkins found no instances of violation in 36 (b) above, explain the relevance of the above referenced testimony to this rate proceeding?

RESPONSE:

See response to 36 (a), (b) and (c). With respect to the relevance of Mr. Watkins testimony on page 38, lines 18 through 20, the statement is self-explanatory and a matter of common sense.

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WITNESS RESPONSIBLE:

Bion Ostrander

QUESTION No. 38

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Please refer to BCO-2 Schedule A-8 lines 1 and 2.

- a. Please cite to the record where Mr. Ostrander sourced the \$341,555 figure found in Column D on line 1.
- b. Confirm that the \$341,555 figure as it relates to LTIP Expenses cited above is from FY 2012.
- c. Explain why Mr. Ostrander used FY 2012 actuals and not forecasted test period data as filed by the Company.

RESPONSE:

- a. The amount is from Atmos' response to OAG 2-61, Attachment 3, as cited at Note 1 to Exhibit BCO-2, Schedule A-8, line 13. This information should be available to Atmos because it is an Atmos data request response and was properly cited at Mr. Ostrander's Exhibit BCO-2, Schedule A-8.
- b. Confirmed.
- c. It was Mr. Ostrander's original understanding that the 2012 amounts were the same amounts included in the forecasted test period for LTIP and so the LTIP amounts and Restricted Stock Plan amounts were both included to make sure the adjustment was not understated. It now appears that the LTIP amounts on lines 1 and 2 should be removed from this adjustment, because the forecasted amounts for LTIP are already included in the Restricted Stock Plan amounts in lines 6 to 8. Please see attached revised Exhibit BCO-2, Schedule A-8.

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WITNESS RESPONSIBLE:

Bion Ostrander

QUESTION No. 39

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Please have Mr. Ostrander explain his understanding of the Company's LTIP (restricted stock plan).

RESPONSE:

Mr. Ostrander's understanding of Atmos' LTIP restricted stock plan is based on information provided in Atmos data request responses.

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WITNESS RESPONSIBLE:

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QUESTION No. 40

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Is Mr. Ostrander aware that the Company's LTIP and restricted stock plan are one in the same?

RESPONSE:

Yes.

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WITNESS RESPONSIBLE:

Bion Ostrander

QUESTION No. 41

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Confirm that Mr. Ostrander included LTIP expenses twice in Exhibit BCO-2 Schedule A-8, both on lines 1 and 2, as well as on lines 6 through 8 (i.e. he double counted the LTIP) causing an overstatement in his adjustment. Confirm that the amounts on Lines 1 and 2 are from a different time period than the amounts on lines 6-8.

RESPONSE:

Please see the response to Atmos' Question 38.

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WITNESS RESPONSIBLE:

Bion Ostrander

QUESTION No. 42

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Please confirm that had the duplicate LTIP expenses been removed from BCO-2 Schedule A-8, the correct adjustment in Column D Line 11 using Mr. Ostrander's methodology would have been \$582,227.

RESPONSE:

Please see the response to Atmos' Question 38, the revised adjustment is \$582,227.

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WITNESS RESPONSIBLE:

Bion Ostrander

QUESTION No. 43

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Please refer to BCO-2 Schedule A-7 as well as Mr. Ostrander's testimony on page 34 lines 6 through 13. Confirm that the first column, which Mr. Ostrander claims to be the most important, is inaccurate in that benefit expenses were included twice.

RESPONSE:

Agreed, please see Mr. Ostrander's responses to Atmos' Questions 14, 15, 18, 19, and 20.

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WITNESS RESPONSIBLE:

Bion Ostrander

QUESTION No. 44

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In data request OAG 1-116, the AG points out that Atmos provided over 1,000 pages of materials in support of its case and implies that the quantity of materials required to support a forecasted test period is evidence that its use is burdensome and costly for ratemaking. Part (a) of the question states that "the forecasted test period appears to require substantial internal resources and documentation (such as over 1,000 pages of supporting documentation)." In the Ostrander testimony on page 6 line 17 sites "lack of documentation" as a criticism of Atmos' forward looking test period. Please reconcile this apparent contradiction in the criticism of Atmos' use of a forward looking test period and explain the AG's position in detail.

RESPONSE:

There is no contradiction. Much of the 1,000 plus pages is base level information that is used to support the initial filing based on a forecasted test period that is more complex than a historical test period, but more complexity certainly does not mean more accuracy or that resulting customer rates will be fair, just, and reasonable. Also, the additional page count required for a forecasted test period filing is not an indication of responsiveness to the OAG's data requests that ask for "detailed explanations and very specific documentation" that is not included in the base level information.

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WITNESS RESPONSIBLE:

Bion Ostrander

QUESTION No. 45

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Confirm that Atmos' application was deemed to be compliant with PSC regulations by the PSC on June 26, 2013. If you cannot confirm, please explain fully.

RESPONSE:

The document, as referenced in the question, speaks for itself. However, compliance with filing requirements is never an indication that a company's related rate filing will produce fair, just, and reasonable rates - - because if this was true then it would never be necessary for the Commission and intervener's to review a company's filing.

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WITNESS RESPONSIBLE:

Bion Ostrander

QUESTION No. 46

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Please refer to Mr. Ostrander's testimony at page 12 lines 15 - 17 where he finds fault with the accuracy of Atmos' budgeting process. Please cite all examples of mathematical error found by Mr. Ostrander in Atmos' budgeting process and explain why none of those instances were cited in his testimony.

RESPONSE:

Mr. Ostrander's cited testimony at page 12, lines 15-17 does not refer to mathematical error.

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WITNESS RESPONSIBLE:

Bion Ostrander

QUESTION No. 47

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Please refer to Mr. Ostrander's testimony at page 15 lines 1 - 5.

- a. Please clarify whether Mr. Ostrander believes his own failure to "notice that Atmos explained this in testimony or related responses to OAG data requests" should be considered evidence that Atmos actually failed to provide such explanations.
- b. Please confirm whether Mr. Ostrander reviewed and considered the entire direct testimony of Mr. Densman including page 13 lines 18 - 22 and the preceding detailed explanation of the budgeting process.
- c. Please admit that Atmos was not asked if it applied the inflation factor to the base period.

RESPONSE:

- a. There was no failure regarding Mr. Ostrander's review of Atmos testimony. Please see the response to Atmos Question 47, part (b) and responses to Atmos' Questions 4 through 10 and other related data request responses.
- b. Confirmed.

Regarding Atmos' citation to Mr. Ostrander's testimony at page 15, lines 1 to 5, this testimony states that Atmos did not fully explain how it applies the 2.7% inflation factor - - especially as this relates to the base period. However, Mr. Densman's testimony at page 13, lines 18 to 22, does not provide any further clarification regarding Mr. Ostrander's concerns regarding the inflation factor, and Mr. Densman's cited testimony does not even mention or use the words "inflation factor", does not mention if a 2.7% inflation factor is used in the base period or the forecasted test period, and does not explain why a 2.7% inflation factor would be applied to the forecasted test period but would not be consistently applied to at least the forecasted five months of expenses in the base period (based on Atmos' apparent assertion in this set of data requests that an inflation factor was not applied to base period expenses).

QUESTION No. 47

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Also, part of Mr. Ostrander's concerns were raised by Mr. Densman's testimony at page 15, lines 19 to 21, where he states that other O&M expenses are forecasted using a standard inflation factor of 2.70% for the test period. Mr. Densman failed to explain how the inflation factor was treated for the "base period", because this was not specifically addressed. The base period and forecasted test period expenses are sometimes treated the same and sometimes they are treated differently, so it was important for Mr. Ostrander to clarify how, or if, the inflation factor was applied to base period expenses.

- c. As Mr. Ostrander explains at page 13, lines 6 to 18, and page 14, Atmos was asked directly or indirectly in various OAG data requests if the inflation factor was applied to the base period. Also, the fact that Atmos finds it necessary to issue a data request stating that it was not asked for this information, confirms Mr. Ostrander's concerns as to why Atmos finds it necessary to withhold or not volunteer this information - - such as Atmos failure to readily confirm this information in a simple "yes" or "no" written response to various data requests.

Most importantly, OAG 1-112(a) asked Atmos, "Explain and show how the inflation rate is used in converting historical costs to base period (show actual and forecasted amounts) and fully forecasted test period cost elements in this rate case, and identify the type of factor, the amount/percentage of the factor." Atmos' response merely referred to OAG 1-111(b), and did not provide the requested information. Also, Atmos' did not provide a responsive answer to OAG 1-111(b).

OAG 1-111(b) asked Atmos to provide a reconciliation from historical period costs to base period costs and to show and explain all adjustments, inputs, and assumptions. However, Atmos does not provide a written explanation of any of its adjustments, inputs, and assumptions - - such as the 2.7% inflation factor input/assumption. Instead, Atmos written response merely refers to Attachment 1 and Staff 1-59 (which are Excel schedules), and no specific or written explanation is provided for the 2.7% inflation factor input/assumption for the base period.

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Bion Ostrander

QUESTION No. 48

Page 1 of 1

Please refer to Mr. Ostrander's testimony at page 26 lines 15 - 29. Mr. Ostrander claims that Atmos did not provide support for its calculation of the \$2.6 million impact of the Georgia sale and that it is not possible to determine how Atmos calculated this \$2.6 million. Please clarify whether Mr. Ostrander reviewed and considered Atmos' response to Staff data request 3-11 where the requested support was provided.

RESPONSE:

Mr. Ostrander did review Atmos response to Staff 3-11, but this merely shows the "total" expense amount for each month (or one line item for each Division for each month) that is subject to allocation using two different allocators for each month. The concerns over absence of supporting documentation expressed by Mr. Ostrander's testimony at page 26, lines 20 to 29, as this relates to Atmos response to OAG 2-73, are the same relevant concerns for Atmos response to Staff 3-11. Also, Atmos fails to supply supporting documentation to show if the entire impact of the two different allocators is related to the sale of Georgia operations.

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Bion Ostrander

QUESTION No. 49

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Please refer to Mr. Ostrander's testimony at page 26 lines 31 - 38 and page 27 lines 1 - 9 where he complains of Atmos' failure to provide supporting documentation for data that he perceives to be inconsistent. Admit or deny that Atmos was not asked for clarification, support or explanation of the inconsistency that Mr. Ostrander now claims.

RESPONSE:

Objection. Unduly argumentative, and mischaracterization of Mr. Ostrander's testimony. Without waiving these objections, first, Mr. Ostrander does not bear the burden and is not responsible for Atmos inconsistencies regarding the amount of SSU and DGO reported expenses for the base period. Second, the source of this inconsistency was identified at Atmos' response to OAG 1-154 as explained at the cited pages of this data request (page 26, lines 31 to 38). However, if Atmos would have provided a complete response to OAG 1-154(b) then this could have caused Atmos to identify this inconsistency. Third, Atmos has now had substantial time to review Mr. Ostrander's direct testimony and based on this data request question, Atmos could have updated its response to OAG 1-154 or Exhibit JCD-1 to address this inconsistency, but it has failed to do so as of the date of the OAG's responses to these data requests. Fourth, Atmos has had the opportunity in numerous OAG data requests to address this inconsistency, but it has again failed to do so to date.

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WITNESS RESPONSIBLE:

Bion Ostrander

QUESTION No. 50

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Please refer to Mr. Ostrander's testimony at page 37 lines 17 -18 "OAG's payroll adjustment is very reasonable and fair by most comparisons". Please identify the universe of comparisons from which it was determined that "most" agree with Mr. Ostrander. Please provide all studies, documentation, and supporting calculations for those comparisons.

RESPONSE:

This is a general statement essentially indicating that Mr. Ostrander's adjustment and related adjusted payroll is more reasonable when "compared" to Atmos payroll amounts included in the rate case, and it is not intended to infer a comparison to payroll amounts in other rate cases.

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WITNESS RESPONSIBLE:

Bion Ostrander

QUESTION No. 51

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Please reference Exhibit BCO-2 Schedule A-9 Lines 26-33 and the Ostrander testimony on Page 46 Line 21 to Page 47 Line 6.

- a. Please explain in detail the rationale behind inflating the level of anticipated savings proportional to the level of capital investment.
- b. Do you agree that additional features or functionality beyond what was originally designed would be necessary to achieve additional savings beyond what was originally estimated? If you do not agree, please explain fully.
- c. Please cite all instances in testimony and/or data requests where the Company indicated that the increase in capital spending was driven by additional functionality and/or features beyond the original scope.

RESPONSE:

- a. It would appear reasonable that as the amount of capital investment increases, that related savings should increase to justify this increased plant investment. It is not unusual for capital investment in improved or new technology to be a substitution for labor or other expense savings.
- b. Atmos has not addressed or proven this issue, or provided a specific and detailed comparison between features/functions of the original capital investment versus the final substantially increased capital investment.
- c. Mr. Ostrander is not aware that Atmos has fully addressed this issue. However, if there is no increased benefit or savings from additional functionality, features, and other processes/issues between the original budgeted cost of \$47 million and the final cost of \$78.9 million, then consideration should be given to an adjustment to reduce the final capital investment of \$78.9 million to reflect that absence of increased benefits and savings associated with the significant increase in capital costs.

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WITNESS RESPONSIBLE:

Bion Ostrander

QUESTION No. 52

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Please reference Exhibit BCO-2 Schedule A-10.

- a. Please confirm that the amount listed on Line 3 in Column E should be \$356,963,785 rather than \$355,963,785.
- b. Please confirm that the amount listed on Line 9 in Column E should be (\$1,375,810) rather than (\$1,875,810).
- c. Please confirm that the time period from which the amounts in parts a and b of this request are sourced is 12/31/2012 and please confirm that 12/31/2012 is not within the forward looking test year of this case.
- d. Please provide all assumptions, calculations, sources and supporting workpapers to support the \$1,500,000 on Line 12 in Columns J and K.

RESPONSE:

- a. Mr. Ostrander cannot confirm these amounts provided by Atmos at this Question 52 because Atmos does not provide a source, explanation, or reconciliation for its proposed amounts. Mr. Ostrander's testimony at page 50, lines 1 to 19, and specifically lines 10 to 19, explains that Atmos did not identify the specific amount of the Kentucky jurisdictional NOLC ADIT included in spreadsheets that it provided in response to various data requests. Thus, Atmos was not responsive to these data requests which asked for the specific NOLC ADIT amounts. Unfortunately, this appears to be a consistent approach that Atmos has taken in this case, similar to its non-responsive and vague approach to the inflation factor issue. Atmos could have simply and clearly provided the amount of the NOLC ADIT in one written sentence, or provided a specific explanation or reconciliation of which amounts from the related spreadsheets are related to the NOLC ADIT. But instead, Atmos refers to spreadsheets (with a lot of different numbers and possible interpretations) and thus leaves the determination of these NOLC ADIT amounts to the OAG. Therefore Mr. Ostrander had to use his best judgment in trying to determine the proper amounts from the spreadsheets. Thus, Mr. Ostrander's testimony explains that

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he may have understated this adjustment, and he is willing to update this adjustment if Atmos provides proper supporting documentation. To date, Atmos has still not provided an adequate explanation of the NOLC ADIT amount or provided a reconciliation to its spreadsheets.

- b. See the response to part (a).
- c. See the response to part (a).
- d. See the response to part (a). Mr. Ostrander did not know the amount of NOLC ADIT that Atmos included in this rate case for period December 2012 through March 2013, and Atmos did not specifically identify this amount. Thus, Mr. Ostrander used a conservative estimate of \$1,500,000. If the amount of ADIT NOLC is about \$20 million for the period through December 31, 2012, then 1/12 (or one month) of this amount is about \$1.67 million. Mr. Ostrander's estimate of \$1.5 million for the three months ending March 31, 2013 is less than one month of cumulative NOLC ADIT.

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WITNESS RESPONSIBLE:

Bion Ostrander

QUESTION No. 53

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Refer to the Ostrander testimony on Page 31. Define the term "known and measurable" as used in the testimony.

RESPONSE:

Please see the response to Atmos Question 48. In addition, Mr. Ostrander states that he is not opposed to an adjustment to reflect the shift of expenses from Georgia to Kentucky if proper documentation and calculations can be provided and the amount is reasonably known and measurable. In this instance, the use of the terms "known and measurable" means a calculation supported by proper detailed documentation, based on underlying known amounts or shifted amounts, the amounts reflect only the impact of the shift from Georgia to Kentucky and do not otherwise include projected increases in expenses for inflation or other reasons, and the amounts can be reasonably measured (and the amounts are not merely a rough or undocumented prediction/guesstimate/forecast).

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WITNESS RESPONSIBLE:

Bion Ostrander

QUESTION No. 54

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Provide citations to all cases in which the Commission has applied the known and measurable standard to a fully forecasted test period.

RESPONSE:

Mr. Ostrander has not performed this detailed analysis, and this is similar to Atmos' response to OAG 2-78 where the Company was not able to cite to all precedent for including a deferred tax benefit (ADIT NOLC) in rate base.

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WITNESS RESPONSIBLE:

Bion Ostrander

QUESTION No. 55

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Provide a list of all proposed adjustments by Atmos that do not meet the definition of known and measurable as defined above. Please explain in detail why each of these adjustments does not meet the definition and provide supporting documents and calculations.

RESPONSE:

Objection, vague and calls for speculation. Without waiving these objections, it is not clear what Atmos means when it refers to the definition of known and measurable as "defined above", because Atmos does not provide a definition of known and measurable. However, Mr. Ostrander will address this issue as it appears to be related to the prior Atmos Question 54.

Please see the response to Atmos Question 54. In addition, Atmos' position on the issue of "known and measurable" in this rate case appears to be inconsistent. Atmos Question 54 appears to imply that there is no "known and measurable" standard for forecasted test period rate cases. However, Mr. Martin's testimony (page 17, lines 21 to 23 and page 18, lines 7 to 9) and Atmos response to OAG 1-102(b) states that all of its proposed adjustments are known and measurable, although Atmos fails to provide a specific definition for known and measurable that was requested in OAG 1-102(a).

Atmos position on the issue of known and measurable is in direct conflict to that of Big Rivers Electric Corporation ("Big Rivers") in Case Nos. 2012-00535 and 2013-00199, because Big Rivers also used a fully forecasted test period but it did not identify any of its adjustments as known and measurable because it does not believe this is required by the statute that allows fully forecasted test periods. Thus, it appears that Atmos and Big Rivers reach opposite conclusions regarding interpretation of the statute (as it relates to 'known and measurable') that allows a fully forecasted test period, so it does not appear that the statute succinctly and specifically explains what should or should not be included in a forecasted test period.

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Finally, the testimony of Mr. Ostrander speaks for itself and properly addresses the issue of known and measurable when this is relevant to his proposed adjustments.

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WITNESS RESPONSIBLE:

Bion Ostrander

QUESTION No. 56

Page 1 of 1

Refer to the Ostrander testimony on Page 7. Provide all reasons that a future test year is not a better option for ratemaking in this case than an historical test year.

RESPONSE:

A historical test period would require that adjustments be evaluated and based substantially on the historical time-tested and generally accepted rate case principle and concept of known and measurable, and Atmos' filing is based on a fully forecasted test period that does not use the "known and measurable" concept as a strong underpinning of its proposed adjustments. Also, there is no reason why a historical test period could not have been used in this filing. A fully forecasted test period allows Atmos to increase its revenue requirements for events and costs that are not known, measurable, and may never occur and thus this kind of rate filing represents a "maximum" revenue requirement for the Company - - especially considering that Atmos has not objectively used productivity factors to offset the impacts of inflation factors which it uses to increase its expenses without showing any correlation between the inflation factor and the historical increases in its expenses.

Finally, I believe it would have been much more useful to the Commission and the interveners if Atmos could have provided a rate case scenario using a historical test period to compare to its fully forecasted rate filing in order to evaluate the difference in revenue requirements produced by these two options.

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WITNESS RESPONSIBLE:

Bion Ostrander

QUESTION No. 57

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Refer to the Ostrander testimony on Page 6. Explain your concerns about the methodology, impacts on costs and specific level of details not included in state statutes.

- a. Is the use of a future test year ever appropriate? Explain.
- b. Refer to the Ostrander testimony on Page 8. Provide a detailed explanation of all factors that support your statement that fair, just and reasonable rates cannot be obtained by Atmos' use of a future test year.

RESPONSE:

- a. The use of a future test year may be more appropriate in cases of emergency relief or when a utility faces unique conditions or events that may impact the company's financial or operating condition in a significant positive or negative manner. There may be cases when it is appropriate to improve safety or service quality if a company has failed to meet such requirements (or has ignored meeting such requirements). There could be other conditions also.
- b. Mr. Ostrander's testimony addresses these issues as relevant for specific adjustments. Generally, if Atmos' revenue requirement is overstated and results in excessive customer rates, then the forecasted revenue requirement will not produce rates that are fair, just and reasonable. See also the response to Atmos question 56.

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WITNESS RESPONSIBLE:

Bion Ostrander

QUESTION No. 58

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Refer to the Ostrander testimony on Page 37, Line 18. Provide all "comparisons" that are referenced related to payroll increases.

RESPONSE:

Please see the response to Atmos Question 50.

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WITNESS RESPONSIBLE:

Bion Ostrander

QUESTION No. 59

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Refer to the Ostrander testimony on Page 54 Lines 14-16. Please list all of the cases Mr. Ostrander reviewed to determine that "some state regulatory agencies have removed NOLC ADIT from rate base in a rate case and some have required inclusion of the NOLC ADIT in rate base".

RESPONSE:

Please see Mr. Ostrander's testimony pages 54 through 57 regarding the case of Mountaineer Gas Company before the West Virginia Commission and the multiple decisions by the Commission that denied inclusion of an ADIT NOLC in rate base. Also, other recent cases include:

- a) New Mexico Public Regulation Commission, Public Service of New Mexico, New Mexico Case No. 10-00086-UT, July 28, 2011.
- b) Maryland Public Service Commission, Potomac Electric Power Company, Case No. 9311, Order dated July 12, 2013.
- c) Maryland Public Service Commission, Delmarva Power and Light Company, Case No. 9317, Order dated September 3, 2013.

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WITNESS RESPONSIBLE:

Bion Ostrander

QUESTION No. 60

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Throughout Mr. Ostrander's testimony, he states that Atmos has not met a reasonable burden of proof, for example, page 17, line 6. Explain his definition of reasonable burden of proof and cite all KY PSC cases that support his definition.

RESPONSE:

Atmos failure to meet a reasonable burden of proof generally means that Atmos has failed to provide sufficient and meaningful supporting documentation and/or explanations to support its adjustments or position. Mr. Ostrander has not reviewed all prior cases that support his definition.

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WITNESS RESPONSIBLE:

Bion Ostrander

QUESTION No. 61

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Refer to Ostrander testimony on Page 25, line 36. Explain the significance of the reference to holding companies and the relevance to Atmos Energy.

RESPONSE:

Please see the response to Atmos Question 23.

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WITNESS RESPONSIBLE:

Bion Ostrander

QUESTION No. 62

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Explain whether Mr. Ostrander is aware of the Commission's general policy to allow recovery by utilities of actual rate case expenses incurred through the month that the formal hearing is conducted.

RESPONSE:

Mr. Ostrander is aware of this policy, but that does not mean that all rate case expenses are automatically accepted.

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WITNESS RESPONSIBLE:

Glenn Watkins

QUESTION No. 63

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Please refer to the Watkins testimony on page 11: "[t]he Peak and Average approach is the most fair and equitable method to assign natural gas distribution mains costs to the various customer classes." Provide all analysis and documents relied upon in making this statement and all regulatory orders that have adopted that assumption.

RESPONSE:

Please refer to Mr. Watkins' Direct Testimony, page 11, line 11 through page 19, line 7.

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WITNESS RESPONSIBLE:

Glenn Watkins

QUESTION No. 64

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Do you agree with the following statement: From a distribution planning perspective, the installation of distribution mains is unaffected by amount of gas sold on an annual basis to its customers. Explain.

RESPONSE:

No. While the ultimate size and pressurization of distribution mains may be related to future potential peak loads, the expansion and/or installation of mains is only feasible if enough annual throughput justifies the cost recovery of all mains, compressor stations, regulators, etc.

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WITNESS RESPONSIBLE:

Glenn Watkins

QUESTION No. 65

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Does the Peak and Average methodology generally assign a larger portion of the revenue increase to non-residential customers?

RESPONSE:

No. The Peak and Average methodology relates to cost allocations only. It is not a direct function of revenue assignment. However, with regard to cost allocations, the Peak and Average may or may not assign more costs to non-residential customers than other methods.

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WITNESS RESPONSIBLE:

Glenn Watkins

QUESTION No. 66

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Has the PSC ever approved a cost of service study that allocated the cost of distribution mains on the basis of Mcf sales?

RESPONSE:

Objection. Question is vague and unclear. Reviewing every KPSC Order ever issued is outside the scope of my contract with the Kentucky OAG.

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WITNESS RESPONSIBLE:

Glenn Watkins

QUESTION No. 67

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Please provide Schedule GAW-2 and any associated backup files in electronic format with all formulas intact.

RESPONSE:

Please see attached files.

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WITNESS RESPONSIBLE:

Glenn Watkins

QUESTION No. 68

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Does Mr. Watkins acknowledge that the MLR as proposed would only relate to lost margin related to (1) the Company's Economic Development Rider (EDR), (2) discounts pursuant to the Alternative Fuel Responsive Flex provisions or (3) special contracts?

RESPONSE:

Yes.

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WITNESS RESPONSIBLE:

Glenn Watkins

QUESTION No. 69

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Is Mr. Watkins aware that the OAG did not file any data requests and/or comments in opposition to the proposed MLR in Case No. 2012-00066?

RESPONSE:

No.

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WITNESS RESPONSIBLE:

Glenn Watkins

QUESTION No. 70

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Mr. Watkins, please confirm that the Company's proposed MLR in Case No. 2013-00148 is similar to the one proposed in Case No. 2012-00066 and approved by the PSC in Case No. 99-070.

RESPONSE:

Unknown.

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WITNESS RESPONSIBLE:

Glenn Watkins

QUESTION No. 71

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Please refer to Mr. Watkins' testimony on p. 34, lines 11-22. Is Mr. Watkins aware of any instance where Atmos has constructed "oversized" facilities to serve any of its special contract customers? If the answer is yes, please provide details.

RESPONSE:

Unknown.

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WITNESS RESPONSIBLE:

Glenn Watkins

QUESTION No. 72

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Has Mr. Watkins performed any study or analysis relating to whether the revenue generated under the special contract rates is sufficient to cover all variable costs and contribute to the company's fixed costs? If the answer is yes, please provide copies of all such studies or analysis with supporting details and work papers.

RESPONSE:

No. Notwithstanding gas costs, Atmos' variable cost per unit (MCF) is very small. Therefore, Mr. Watkins is reasonably certain that all rates recover at least the variable costs of production.

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WITNESS RESPONSIBLE:

Glenn Watkins

QUESTION No. 73

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Please refer to the Watkins testimony on p., 38, lines 12 through 20. Is Mr. Watkins aware of any instance where a special contract customer was required to purchase gas through an Atmos affiliate? Is Mr. Watkins aware of any instance where a special contract customer was solicited by Atmos to purchase gas through an Atmos affiliate? If the answer to either of the above questions is yes, please provide all details.

RESPONSE:

No.

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WITNESS RESPONSIBLE:

Glenn Watkins

QUESTION No. 74

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Please refer to Mr. Watkins' testimony p. 40, lines 20-23 and p. 41, lines 1-12. List all cases in which you have testified before a utility regulatory body where the gas utility had special contracts with industrial customers capable of by-pass, where you have addressed the issue of whether the "captive ratepayers" should bear any portion or all of the so-called "discount".

RESPONSE:

Please see response to Request 32 d. and the attached list of testimony presented by Mr. Watkins.

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WITNESS RESPONSIBLE:

Glenn Watkins

QUESTION No. 75

Page 1 of 1

Does Mr. Watkins have any proof or evidence to present that Atmos was imprudent in entering into any of the special contracts referred to in your testimony?

RESPONSE:

Not specifically. The burden of proof as to the reasonableness of discounted rates is squarely on Atmos. However, given the distance to interstate pipelines, the preponderance of evidence suggests that at least some of the discounted rates offered by Atmos are unreasonable.