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December 18, 2020

Ms. Linda Bridwell
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, KY 40602-0615

RE: Atmos Energy: Case 2020-00289

Dear Ms. Bridwell:

Atmos Energy Corporation submits its responses to the Attorney General's Second Request for Information in the above captioned proceeding. If there are any questions about this matter, please contact me.

I certify that the electronic filing is a complete and accurate copy of the original documents to be filed in this matter, which will be filed within the time designated by the Commission's COVID-19 orders and that there are currently no parties in this proceeding that the Commission has excused from participation by electronic means.

Sincerely,

John N. Hughes

John N. Hughes
Attorney for Atmos
Energy Corporation

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

ELECTRONIC REQEUST OF ATMOS ENERGY CORPORATION FOR MODIFICATION AND EXTENSION OF ITS GAS COST ADJUSTMENT PERFORMANCE BASED RATEMAKING MECHANISM	)))))	CASE NO. 2020-00289

AFFIDAVIT

The Affiant, Brannon C. Taylor, being duly sworn, deposes and states that the attached responses to the Attorney General's second request for information are true and correct to the best of his knowledge and belief.

Brannon C. Taylor

STATE OF Tennessee

COUNTY OF Williamson

SUBSCRIBED AND SWORN to before me by Brannon C. Taylor on this the 17 th day of December, 2020.

TIMOTHY JONES STATE OF TENNESSEE NOTARY PUBLIC WILLIAMSON COUNTY

Notary Public

My Commission Expires: 9-18-2022

Case No. 2020-00289
Atmos Energy Corporation, Kentucky Division
AG DR Set No. 2
Question No. 2-01

REQUEST:

Explain in full detail how all other gas companies in Kentucky, besides Atmos, Columbia Gas of Kentucky, Inc., and Louisville Gas and Electric Company ("LG&E"), provide natural gas to its customers without utilizing a Performance Based Ratemaking ("PBR") mechanism.

RESPONSE:

A PBR mechanism is not required to purchase natural gas. The Company does not have first-hand knowledge of how other gas companies in Kentucky purchase natural gas for their customers.

Atmos Energy can only assume that companies without PBRs purchase gas in the market at prevailing market prices, without regards to any benchmark pricing.

Respondent: Brannon Taylor

<u>REQUEST:</u>

Refer to Atmos' response to the Attorney General's First Request for Information, Item 2(a), in which Atmos states that when actual gas costs are greater than the established benchmark, Atmos and the customers share in the excess costs. Refer also to Atmos' response to Commission Staff's First Request for Information, Item 3, in which Atmos states that in the past the Company has had no choice but to pay more than the benchmarked price established under the PBR for some gas supplies, and the customers had to pay half of the difference between the PBR benchmark and the purchase price. Reconcile these statements with Atmos' response to the Attorney General's First Request for Information, Item 7(e), which states, "[i]n the history of the Atmos Energy Kentucky PBR program, Kentucky customers have not been assessed gas costs greater than the benchmark." Explain the answer in full detail.

<u>RESPONSE:</u>

In response to AG DR No. 1-07(e), the Company did not consider the initial 3 year pilot program that ran through June 2001. In Case No. 2001-00317, the PBR was modified by adoption of the terms of a Joint Settlement Agreement between the Attorney General and the Company, dated February 18, 2002. From 2002 forward through the present, every month shows PBR Gas Commodity savings, and that is what the Company's responses in AG DR No. 1-07(e) are referring to.

Respondent: Brannon Taylor

REQUEST:

Refer to Atmos' response to the Attorney General's First Request for Information, Item 17(a). Explain in detail whether the responsibilities that are contracted out to asset managers could be handled by Atmos. If not, explain why not.

RESPONSE:

The Company does not understand the reference to AG Question No. 1-17(a). The responsibilities of the asset managers were provided in the AMA contracts that were Attachment 6 through Attachment 9 to the Company's response to Staff Question No. 1-01. They are as follows:

4.03 Duties and Responsibilities of Manager. Subject to the terms of this Agreement and the NAESB Contract in Schedule A, on any Day during the Term, Manager will, when called upon by Customer, deliver to Customer a quantity of Gas equal to the Customer's Gas requirements up to the maximum daily quantity contractual entitlements of the released capacity. Manager will perform the following services (which shall be performed in a prudent manner consistent with usual and customary standards in the industry) for Customer during the Term hereof:

a. Manager will be obligated to provide all firm system supply requirements on any and every day of the Term up to the applicable contract demand of Customer's released capacity.

b. Schedule quantities of Gas on applicable Transporter's electronic bulletin board. In connection with this service, Manager shall dispatch Gas to Customer subject to Transporter operating conditions, events of Force Majeure or specific instructions from Customer, using the least cost applicable Supply Service(s) first, inclusive of variable transportation and fuel, acting in the best interest of Customer. Customer may request documentation substantiating optimal dispatching and provide such documentation in response to regulatory requests.

c. Provide monthly invoicing for all Gas purchased by Customer hereunder as well as any associated Variable Charges, as well as imbalance or cash-out charges for which Customer is responsible, daily scheduling fees, etc. All invoices must be in sufficient and reasonable detail as Customer may reasonably require.

d. Provide routine and timely documentation, as well as maintain adequate and sufficient records, of all Gas supply and services to Customer hereunder. All records will be maintained for a period of not less than two years following the expiration or earlier termination of the Agreement.

e. Provide a summary nominations worksheet to Customer's gas control department, containing the current Day nominations plus nominations for the immediately following six Days, every Day (except weekends and holidays) by 2:00 p.m. CCT, and regardless if no changes are anticipated.

f. Conduct weekly progress status meetings (which may be held via teleconference or via email if mutually agreeable) with updates on current and projected plan balances, future load forecasting, and historical consumption updates.

g. Manager acknowledges that it is paramount that Manager takes no action nor omits to take any action that would impair or adversely affect the reliability of Customer’s distribution systems or service to Customer’s sales customers, and that Manager’s asset management rights are expressly subordinate to Customer’s rights to the Assets.

h. Manager may utilize any alternate receipt points as long as there is no additional cost to the Customer and deliveries remain firm. Manager must provide Gas supply at primary receipt points when alternate points are curtailed.

i. Manager will have the right to deliver quantities of Gas off Transporters other than the Transporters designated in this Agreement provided that (i) there will be no reduction in service, quantity or reliability to Customer, (ii) there will be no pricing change for the service delivered by Manager, and (iii) Manager obtains Customer’s prior consent, which shall not be unreasonably withheld.

While Atmos Energy could perform all of the activities contracted out to Asset Managers, it does not have the same level of expertise as the Asset Managers do in optimizing the released transportation assets. Optimization of these assets for third-party utilization is not currently a core competency of the Company's Gas Supply department.

Respondent: Brannon Taylor

REQUEST:

Refer to Atmos' response to the Attorney General's First Request for Information, Item 17(e). Explain what "AMA" stands for in the response.

RESPONSE:

The referenced use of "AMA" refers to an Asset Management Arrangement as that term is defined by Order No. 712, 123 FERC ¶ 61,286 (2008). Under an AMA, a capacity holder, such as Atmos Energy, releases some or all of its pipeline capacity to an asset manager who agrees to supply the gas needs of the capacity holder in connection with that capacity.

Respondent: Brannon Taylor

REQUEST:

Refer to Atmos' Report on Performance-Based Ratemaking, Report Period: June 2016 – May 2020, page 6, in which Atmos states that it stopped performing capacity releases in 2011. Also, refer to Atmos' response to the Attorney General's First Request for Information, Item 23(a), in which Atmos states that it had three small capacity release transactions in December 2017, January 2018, and February 2018.

a. Reconcile the above-referenced contradicting statements in full detail.

b. Atmos asserts that the transaction and savings were "reported in the KY PBR report on the Transport Discount line rather than the Capacity Release line item." Explain why Atmos did not properly report the capacity release savings on the capacity release line item.

RESPONSE:

a. The statement in the PBR Report page six was imprecisely worded. More accurately, the statement should have read that Atmos stopped performing *systematic* monthly capacity releases in 2011. There have been occasional segmented capacity releases from Atmos KY to Atmos MS since then.

b. Reporting Capacity Release credit as a component of the Transportation Savings is proper reporting and in accordance with the KY PBR Tariff. Prior to 2002, there was a separate benchmark for Capacity Release, called the Capacity Release Threshold (CRT). In Case No. 2001-00317 the PBR was modified by the terms of a Joint Settlement Agreement between the Attorney General and the Company, entered on February 18, 2002 and adopted in the Commission Order dated March 25, 2002. On page 5 of the Stipulation, Item 6, the CRT was eliminated. Capacity Release Credit became a normal component of the TIF with no separate benchmark, and there was no longer a requirement nor reason to show Capacity Release as a line item on the PBR report. However, in the years subsequent to the 2001 Settlement, the line item for Capacity Release remained on the PBR report, most likely for historical continuity rather than a requirement. As such, the Company should have populated the field or eliminated the line from the report so as not to cause confusion, and the failure to do so was a mistake. Future reports will address this. But as noted, the Capacity Release Credits were properly accounted for as a component of Transportation Savings in accordance with the Atmos KY Tariff for TIF.

Respondent: Brannon Taylor

REQUEST:

Refer to Atmos' response to the Commission Staff's First Request for Information, Item 1(c), the PBR Savings Breakout June 2006 – May 2016 chart.

a. Provide a PBR Savings Breakout chart for each year from June 2016 – May 2020.

b. Provide a PBR Savings Breakout chart for June 2020 – present day.

c. There appears to have been significant capacity release savings from June 2006 – May 2012. Explain why Atmos chose to stop performing capacity releases if the savings were as high as $471,802 annually.

d. Explain in full detail why the transportation discount savings has drastically risen from $296,682 in June 2006 – May 2007, to $3,046,410 in June 2015 – May 2016.

e. Explain in full detail why the commodity discount savings has lowered from $3,739,622 in June 2006 – May 2007, to $2,976,522 in June 2015 – May 2016. Ensure to include whether there are other issues contributing to the lower commodity discount savings besides the lower price of natural gas.

f. Explain in full detail why Atmos' share of the PBR savings has risen from $1,566,032 in June 2006 – May 2007, to $2,751,217 in June 2015 – May 2016, which is a $1,185,185 increase.

g. Explain why Atmos' customers' share of the PBR savings has only risen from $2,752,568 in June 2006 – May 2007, to $3,271,716 for June 2015 – May 2016, which is a $519,148 increase.

h. Refer to subpart (g). Explain in full detail why Atmos' share of the PBR savings increased more than twice as much as the customer's share of the PBR savings in June 2006 – May 2016.

i. Refer to subparts (g) and (h), and explain whether this indicates that the customers' percentage share of the PBR savings is too low. If not, explain in detail why not.

j. Refer to the final Order in Case No. 2019-00437, in which the Commission appears to have modified LG&E's PBR sharing allocation to 70/30 in favor of the customers in the first band covering variances from the benchmark ranging from 0% to 4.6%, instead of 0% to 2%.[1] Atmos' current PBR sharing allocation is 70/30 in favor of the customers in the first band covering variances from the benchmark ranging from 0% to 2%.[2] Explain why Atmos should not be required to modify the upper end of its first band similar to the Commission's modifications to LG&E's PBR, thereby increasing the sharing allocation of the PBR savings to Atmos' customers.

RESPONSE:

a. The PBR Savings Charts for June 2016 - May 2020 were provided in the Company's response to Staff DR No. 1-01(b), and were filed with the Commission as the Company's 4th Year Report of PBR Savings in this Case.

b. The PBR Savings for the program years June 2020 - May 2021 is in progress. Please see Confidential Attachment 1 for PBR savings from June 2020 - October 2020.

c. The Company determined that more value and greater savings would be created by shifting all capacity to the Asset Manger for optimization.

d. This is primarily due to (1) the increased use of pipeline segmentation since December 2012; (2) the current discounts that the Company has been able to justify with transportation providers are greater than those in 2006-2007; and (3) a general increase in pipeline charges over the past 14 years.

e. Commodity savings are affected by multiple factors. During periods of colder weather, incremental supply is often purchased to supplement baseload gas. Typically, incremental Gas Daily prices are higher and carry either a reduced discount or a premium. The greater purchase volumes during colder periods also affect both total cost and commodity savings. Also, over the course of the period in question, there were multiple gas supply contracts with various asset managers and a rapidly changing natural gas market. Each contract contained different discounts and pricing terms, but each was competitively bid through a confidential and robust Request for Proposal process, to assure that Atmos received the best value from the most qualified suppliers/asset managers. The following chart helps illustrate the variable nature of Atmos KY commodity savings over time.

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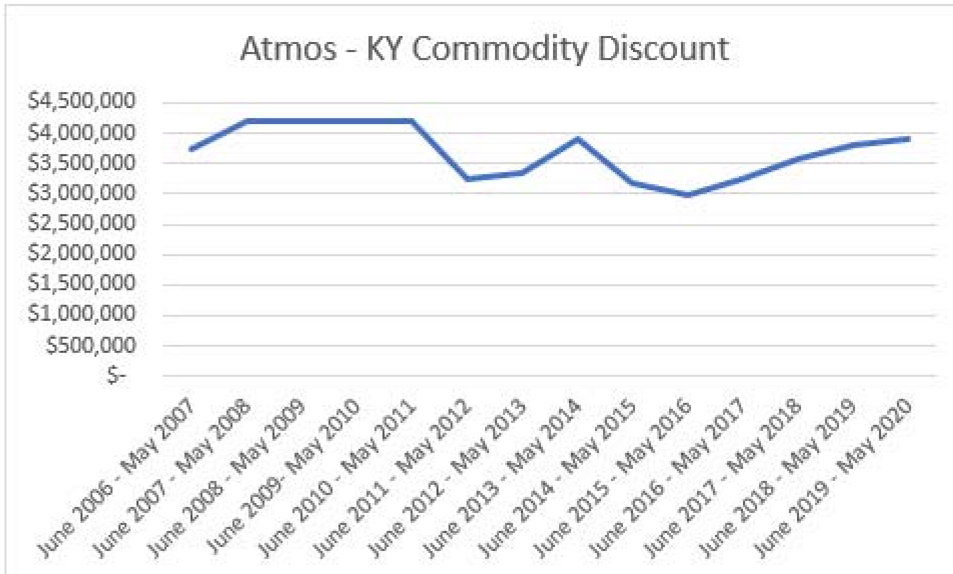
[1] Case No. 2019-00437, Electronic Application of Louisville Gas and Electric Company for Renewal and Proposed Modification of its Performance-Based Ratemaking Mechanism (Ky. PSC Oct. 26, 2020), Order at 7.

[2] Case No. 2015-00298, Request of Atmos Energy Corporation for Modification and Extension of its Gas Cost Adjustment Performance Based Ratemaking Mechanism (Ky. PSC Mar. 31, 2016), Order at 2.



f. The savings share to customer and share to Atmos Energy are a function of the math built into the KY PBR mechanism. The first 2% of cost is shared 70/30, and any savings above that is shared 50/50. As savings increase and total costs are reduced, Atmos Energy shares more at the 50/50 level. In order to assess this, one would need to look at the PBR reports filed with the Commission that not only provides the total savings but also the total cost, which establishes the 2% cut between the two sharing tiers. Total Cost has dropped from $148 million June 2006 to May 2007 to $65 million June 2015 to May 2016, and PBR savings has increased from $4.3 million to $6 million during the same periods.

g. Please see the response to subpart (f).

h. Please see the response to subpart (f).

i. No, the customers' percentage share is correct and in accordance with the levels approved by the Kentucky Public Service Commission in the PBR mechanism.

j. The current PBR mechanism strikes the right balance to incentivize the Company to take on appropriate risk and generate savings. The reduction in overall costs and the increase in overall savings is evidence of this. Atmos Energy maintains that the current PBR mechanism provides the proper incentive needed for the Company to assume risk with the intent of reducing the overall gas supply costs. The PBR mechanism has been designed to encourage Atmos Energy to pursue opportunities that may require undertaking risks associated with gas cost optimization strategies in an effort to reduce costs for customers. To the extent there are changes to the program that reduce that incentive, Atmos Energy would re-evaluate the gas supply strategies to ensure that the risks remain acceptable. The PBR program has been instrumental in reducing costs for customers, and reductions to the incentive program in the future because of past success may have a detrimental impact on the both the customers' savings and program's success in the future.

ATTACHMENT:

ATTACHMENT 1 - AG_2-06_Att 1 - PBR Saving Jun'20-Oct'20 (CONFIDENTIAL).xlsx, 1 Page.

Respondent: Brannon Taylor