July 23, 2024

Ms. Linda Bridwell
Executive Director
Kentucky Public Service Commission
211 Sower Blvd.
Frankfort, KY 40601

RE: Case No. 2020-00289

Dear Ms. Bridwell,

Atmos Energy Corporation (Company) herewith submits an electronic copy of both the annual PBR report, Exhibit A, and the evaluation report, Exhibit B, as required by the final Order in Case No. 2020-00289. The Company is providing data from June 2023 through May 2024 for the annual report, and June 2020 through May 2024 for the evaluation report. Since the information contained therein is CONFIDENTIAL, the Company is submitting a petition for confidentiality and requests that the annual report and the quantitative results attached to the evaluation report be treated as TRADE SECRET. Please do not hesitate to call me at 615.771.8330 if you have any questions.

Sincerely,

Brannon C. Taylor
Vice President – Rates & Regulatory Affairs
Atmos Energy Corporation

Enclosures

pc: John Hughes
Allyson Honaker
Trisha Young

Atmos Energy Corporation
810 Crescent Centre Drive, Suite 600, Franklin, TN 37067
P 615-771-8330

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF:

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

PETITION FOR CONFIDENTIALITY OF CERTAIN INFORMATION FILED WITH THE ANNUAL REPORT AND THE EVALUATION REPORT ON ATMOS ENERGY CORPORATION'S PERFORMANCE BASED RATEMAKING MECHANISM

Atmos Energy Corporation ("Atmos Energy" or "Company"), by counsel, petitions the Kentucky Public Service Commission ("Commission"), pursuant to 807 KAR 5:001, Section 13, and all other applicable law, for confidential treatment of all the information contained in the Company's annual report ("Annual Report") of its Performance Based Ratemaking ("PBR") Mechanism attached as Exhibit A, and certain information within the exhibit to the Company's evaluation report ("Evaluation Report") of its PBR Mechanism attached as Exhibit B. In support of this petition, Atmos Energy states as follows: On June 20, 2022, the Commission entered an Order in Case No. 2020-00289 approving an extension, as modified, of Atmos Energy's PBR Mechanism for a period of four years through May 31, 2025. The Commission's Order required Atmos Energy to file annual reports of its activities under the PBR program by August 31 of each year. The Annual Report attached as Exhibit A in this petition covers the period from June 2023 to May 2024.

The Commission's Order in Case No. 2020-00289 also required Atmos Energy to file within 60 days after May 31, 2024, an evaluation report on the results of the PBR mechanism for the PBR years ending in 2021 through 2024. The Evaluation Report attached as Exhibit B covers the PBR years ending 2021 through 2024. The exhibit within the Evaluation Report itself contains the cumulative quantitative data for PBR years ending 2021 through 2024.

1. The Company's current gas supply contracts contain significant pricing discounts. To fully report the results of the Company's current PBR program, disclosure of the discounts on gas purchases provided in the current supply contracts is required. To protect the confidentiality of that information, not only must the discounts themselves be redacted, but all information from which the discount could be calculated must likewise be redacted. Because this information is both disclosed in and determinable from data appearing throughout the quantitative results contained in the Annual Report, Exhibit A has been redacted in its entirety and the quantitative results in the attachment to the Evaluation Report in Exhibit B has been redacted in its entirety.

2. This type of information has been determined by the Commission in Atmos Energy's prior PBR proceedings and in Case Nos. 2015-00348, 2016-00052 and 2020-00289 to be entitled to confidential protection. Nothing has occurred since the Commission granted confidential protection to this type of information that would now disqualify it from protection.

3. The information for which confidentiality is sought is entitled to protection under KRS 61.878 (1)(c) 1. which provides that "...records confidentially disclosed to an agency or required by any agency to be disclosed to it, generally recognized as confidential or proprietary, which is openly disclosed would permit an unfair commercial advantage to competitors of the entity that disclosed the records..." shall remain confidential unless otherwise ordered by a court of competent jurisdiction.

4. All the information sought to be protected as confidential reveals elements of the Company's natural gas purchasing strategies and, if publicly disclosed, would have serious adverse consequences to Atmos Energy and its customers. If that information was publicly disclosed, then all other participants in the natural gas commodity market, including those participants who Atmos Energy must compete against to purchase its gas supplies for its customers or who Atmos Energy negotiates with to acquire its gas supplies for its customers, would have that information as it pertains to Atmos Energy. For obvious reasons, this places Atmos Energy at a competitive disadvantage. The other participants in the natural gas commodity market, which is an unregulated and highly competitive marketplace, would have Atmos Energy's gas supply acquisition information, while Atmos Energy would not have access to the other participants' gas supply acquisition or gas supply sales information.

5. Atmos Energy would not as a matter of company policy disclose any of the information for which confidential protection is sought herein to any person or entity, except as required by law or pursuant to a court order or subpoena. Atmos Energy's internal practices and policies are directed towards non-disclosure of this information. In fact, the information contained in the attached report is not disclosed to any personnel of Atmos Energy except those who need to know to discharge their professional responsibility. Atmos Energy has never disclosed such information publicly. This information is not customarily disclosed to the public and is generally recognized as confidential and proprietary in the industry. There is no significant interest in public disclosure of the attached information. Any public interest in favor of disclosure of the information is outweighed by the competitive interest in keeping the information confidential.

6. The attached information is also entitled to confidential treatment because it constitutes a trade secret under the two-prong test of KRS 365.880: (a) the economic value of the information

as derived by not being readily ascertainable by other persons who might obtain economic value by its disclosure; and (b) the information is the subject of efforts that are reasonable under the circumstances to maintain its secrecy. The economic value of the information is derived by Atmos Energy maintaining the confidentiality of the information since competitors and entities with whom Atmos Energy transacts business could obtain economic value by its disclosure.

7. Pursuant to 807 KAR 5:001 (13) and the Commission's Order in Case No. 2020-00289, dated December 6, 2022, confidentiality of the attached information should be maintained for a period of ten (10) years. Given the competitive nature of the natural gas business and the efforts of non-regulated competitors to encroach upon traditional markets, it is imperative that regulated information remains protected and that the integrity of the information remains secure.

8. Atmos Energy does not object to the limited disclosure of the Confidential Information, pursuant to an acceptable confidentiality and nondisclosure agreement, to intervenors with a legitimate interest in reviewing the same for the sole purpose of participating in this proceeding.

For these reasons, Atmos Energy requests that the items identified in this petition be treated as confidential. Should the Commission determine that some or all the material is not to be given confidential protection, Atmos Energy requests a hearing prior to any public release of the information to preserve its rights to notice of the grounds for the denial and to preserve its right of appeal of the decision.

WHEREFORE, Atmos Energy petitions the Commission to treat as confidential all the material and information which is included in the Company's Annual Report, Exhibit A and the quantitative results included as an attachment within the Company's Evaluation Report attached as Exhibit B.

Submitted this 23rd day of July 2024.

John N. Hughes

____

John N. Hughes
7106 Frankfort Rd.
Versailles, KY 40383
(502) 223-7033 Ph
(jnhughes@johnnhughespsc.com)

L. Allyson Honaker
Brittany Hayes Koenig
Heather S. Temple
HONAKER LAW OFFICE
1795 Alysheba Way, Suite 6202
Lexington, Kentucky 40509
allyson@hloky.com
brittany@hloky.com
heather@hloky.com

Attorneys for Atmos Energy Corporation

CERTIFICATE OF SERVICE

This is to certify that this electronic filing was filed with the Commission on July 23, 2024 and there are no parties the Commission has excused from electronic participation. Pursuant to prior Commission Orders, no paper copies of this filing will be made.

John N. Hughes

____

Counsel, Atmos Energy Corporation

EXHIBIT A: Annual Report: the quantitative results of Atmos Energy's PBR program for the period June 2023 through May 2024, Filed under seal.

EXHIBIT B: the Evaluation Report on the results of the PBR mechanism for the PBR years ending in 2021 through 2024 including the cumulative quantitative results of Atmos Energy's PBR program for the four-year period from June 2020 through May 2024, Filed under seal

ATMOS ENERGY CORPORATION

REPORT ON PERFORMANCE-BASED RATEMAKING
REPORT PERIOD: JUNE 2020 – MAY 2024
KPSC CASE NO. 2020-00289

July 23, 2024

Introduction

This report is designed to fulfill the requirements of the Commission's Order dated June 20, 2022 in Case No. 2020-00289, whereby Atmos Energy Corporation ("Atmos Energy" or "Company") was required to file, within 60 days after May 31, 2024, an evaluation report on the results of the PBR mechanism for the PBR years ending in 2021 through 2024. This evaluation report consists of three sections. Section I of this narrative provides an overview and description of Atmos Energy's approach to gas supply purchasing under the Performance-Based Ratemaking ("PBR") mechanism. Section II outlines Atmos Energy's forward-looking proposals under the PBR. Section III discusses Atmos Energy's proposed five-year extension of the PBR and proposed future reporting.

I. Overview & Approach to Gas Supply Purchasing Under the PBR

A. Overview

On December 19, 1997, Atmos Energy Corporation ("Atmos Energy" or "Company"), then Western Kentucky Gas Company, filed with the Kentucky Public Service Commission ("Commission"), a proposal to implement a PBR mechanism for three years. The PBR was designed to create a system of rewards and penalties that would encourage Atmos Energy to acquire low-cost supplies of natural gas. Actual costs are compared to an established benchmark of costs, generally based on market prices for gas, and any excess costs or savings are shared between shareholders and customers. The PBR also serves to eliminate the reasonableness review of gas procurement costs. On June 1, 1998, the Commission approved Atmos Energy's proposal with slight modifications. On December 14, 1998, the Commission approved a request by Atmos Energy to change the commencement date of the PBR to July 1, 1998 to synchronize the start of the PBR with the effective date of the new gas supply contract Atmos Energy entered into as a result of the Commission's PBR approval order. The original three-year pilot was then to run through June 30, 2001. On April 2, 2001, Atmos Energy filed with the Commission a proposal to extend the three-year pilot through March 31, 2002. On June 15, 2001, the Commission approved an extension of Atmos Energy's PBR pilot through March 31, 2002. On September 28, 2001, Atmos Energy filed with the Commission to extend the PBR program for an additional term of five years, commencing as of April 1, 2002. On March 25, 2002, the Commission approved the PBR program, as modified, for a period of four years, commencing as of April 1, 2002. On July 29, 2005, Atmos Energy filed with the Commission a proposal to extend its existing PBR program for two months to synchronize the term of the RFP with its current asset management contract and to implement a revised PBR program for a period of five years effective June 1, 2006. On February 8, 2006, the Commission approved Atmos Energy's proposal with slight modifications for a five -year term through May 31, 2011. On August 31, 2010, Atmos Energy filed with the Commission to extend the PBR program for an additional term of five years, commencing on June 1, 2011. On December 7, 2010, the Commission approved Atmos Energy's proposal with slight modifications for a five-year term through May 31, 2016. On August 31, 2015, Atmos Energy filed with the Commission to extend the PBR program for an additional term of five years, commencing June 1, 2016 along with tariff modifications. On March 31, 2016, the Commission approved Atmos Energy's proposal for extension and tariff modifications for a five year term through May 31, 2021. The Commission also found that due to the extensions to the PBR mechanism approved by the Commission since 1998, it is reasonable to discontinue the word "Experimental" from Atmos Energy's PBR tariff name. On August 31, 2020, Atmos Energy filed with the Commission in Case No. 2020-00289 to extend the PBR Mechanism for an additional five-year term, commencing on June 1, 2021. On June 20, 2022, the Commission approved the Company's PBR mechanism for an extension through May 31, 2025.

B. Atmos Energy's Innovative Approach to Gas Commodity Purchases

Atmos Energy's response to the rewards and penalties inherent in the PBR mechanism was to develop a prudent and beneficial gas supply contract model that would assure Atmos Energy's continued long-term success in purchasing gas commodity. In designing such a contract model Atmos Energy assumed that several key provisions were necessary to maximize savings:

- The contract must be competitively bid in order to minimize price;
- A single source supply contract for Atmos Energy's distribution systems served by Texas Gas/Trunkline/ANR and a single source supply contract for Atmos Energy's distribution systems served by Tennessee Gas Pipelines would generate greater overall discounts;
- A comprehensive gas supply contract would encourage bids without supply reservation fees;
- Maximizing the term of the contract and the "opportunities" available to potential bidders under the contract would further maximize bids; and,
- The contract must be expressed in price terms that mirror the pre- established benchmarks under the PBR in order to assure measurability against those benchmarks and as well as savings.

Further, Atmos Energy believed that retaining key operational controls and establishing strict performance requirements for the supplier would enhance the reliability of its supply, particularly during periods of peak demand.

Ultimately, Atmos Energy developed a Request for Proposal ("RFP") and solicited bids from many reputable suppliers who might be interested and capable of providing highly competitive bids under the sophisticated terms proscribed in the RFP.

The key features of the RFP reflected the assumptions noted above. Among those key features were:

- A three-year contract for supply and asset management services off of Texas Gas Transmission/Trunkline/ANR;
- A two-year contract for supply and asset management services off of Tennessee Gas Pipeline;
- A single source provider for Atmos Energy's firm system supply sourced on the Texas Gas/Trunkline/ANR systems (approximated at 15.6 Bcf, including 10.7 Bcf of pipeline and on-system storage), and a single source provider for Atmos Energy's firm system supply sourced on the Tennessee Gas Pipeline system (approximated at 2.4 Bcf, including 1.3 Bcf of pipeline storage);
- Market-based contract prices per delivered unit of commodity gas for the "full-requirements" of the contract, to be bid as a discount or premium to the simple arithmetic average of the "basket" of indices for base load purchases (NYMEX Henry Hub and Inside FERC) and Platt's Gas Daily for incremental purchases, as established in the PBR. Bidders may also offer a guaranteed monthly fixed capacity utilization credit not directly tied to per unit natural gas purchases;
- Assignment of the management of all of Atmos Energy's firm transportation and storage contracts to the sole supplier as a "value-added" contract feature;
- An Asset Manager provided firm bundled delivered supply service, utilized for specific limited requirements where it is deemed prudent, reliable, and more economical than subscribing to long term pipeline capacity; and,
- Assumed storage injection and withdrawal in accordance with seasonal plans.

The objective of Atmos Energy's "full-requirements" contract was to extract the lowest cost bid possible from potential bidders through the enticement offered by the largest and most comprehensive contract possible. The RFP combined Atmos Energy's full firm gas commodity requirements with all of Atmos Energy's transportation and storage contracts. Hence, potential suppliers were assured of the opportunity to supply Atmos Energy's large, firm market for two to five years plus the additional opportunity to leverage Atmos Energy's substantial transportation capacity and storage assets beyond the actual physical supply requirements of that market. In particular, the assignment of the management of Atmos Energy's transportation and storage assets to the potential supplier was viewed as a "value-added" feature that would encourage an additional level of discounting by bidders. Despite the breadth and supplier flexibility inherent in a "full-requirements" contract, Atmos Energy also retained full operational control through mandatory compliance with a prescribed seasonal storage and operational plan, and non-performance penalties and remedies.

Ultimately, the value inherent in Atmos Energy's innovative RFP was exhibited through the receipt of significantly discounted bids for commodity gas. The discounted cost of gas combined with guaranteed monthly fixed credits obtained through this bidding process ultimately accounted for most of the savings generated under the PBR during the program's twenty-six years of existence.

C. <u>Atmos Energy's Innovative Approach to Transportation Purchases</u>

Atmos Energy's approach to the Transportation Cost Component of the PBR was to seek out and negotiate the steepest possible discounts from FERC-approved transportation rates with its existing interstate pipeline transportation providers. Revenue from traditional capacity release activities has declined since 2010. To continually improve PBR savings, Atmos Energy has successfully implemented innovative Transportation cost saving strategies.

1. Pipeline Discounts

It is difficult for local distribution companies to obtain pipeline discounts from their respective pipeline supply source. Nevertheless, as existing pipeline contracts have been extended or re-negotiated, Atmos Energy has aggressively used alternative pipeline suppliers and potential service from those alternative suppliers as a bargaining tool to negotiate meaningful discounts. As a result, Atmos Energy has been able to renegotiate discounted transportation capacity arrangements. Additionally, Atmos Energy has implemented an innovative strategy for generating pipeline demand savings through the receipt of segmented capacity from another Atmos Energy division. Atmos Energy identified a cost savings opportunity for its Mississippi ("Atmos Energy MS") and Kentucky ("Atmos Energy KY") divisions. Atmos Energy MS created savings by releasing firm pipeline capacity to Atmos Energy KY. The capacity is shared via a segmented capacity release, essentially dividing the transportation path into an Atmos Energy MS segment and an Atmos Energy KY segment. Each segment is recognized by the interstate pipeline as a separate contract segment with its own firm entitlements. The cost is split between the two divisions and invoiced separately by the pipeline and the Company is still able to receive firm service on both contract segments. This provides a lower demand charge than the Atmos Energy MS and Atmos Energy KY divisions would pay if they individually acquired capacity from the pipeline. Savings generated through the segmented release flows through the PBR Transportation Cost Component. Another Atmos Energy innovation that provides Transportation Cost savings is the limited use of Asset Manager provided delivered supply service. It is a bundled supply and transportation service, seasonal in nature. The Asset Manager charges no or a minimal demand fee, resulting in significant Transportation Cost savings as compared to what Atmos Energy would otherwise pay to contract for long-term, year-round pipeline capacity. These continual improvements to the Transportation Cost Component produced more than $13,100,000 in savings during the last four years of the program and approximately $45,700,000 since the program's inception. Atmos Energy always seeks to obtain the lowest cost firm transportation services for its customers. The PBR provides an even greater inducement to seek out and maximize those discounts and to implement innovative cost saving strategies.

2. Capacity Release

Capacity Release savings have been a relatively small portion of Atmos Energy's Transportation Cost Component of the PBR. In October 2011 Atmos Energy ceased performing such releases. Atmos Energy released all its capacity to the Asset Managers; the Asset Managers return value to Atmos Energy in the form of a guaranteed fixed monthly capacity utilization credit and discounted index-based pricing, which provide significant PBR Commodity savings above what Atmos Energy could achieve through Capacity Release.

Ultimately, the improved efficiencies obtained from Atmos Energy's transportation contracts and the savings derived from our supplier's capacity release program resulted in significant savings achieved under Transportation Cost components of the PBR.

II. Forward-Looking Proposals

A. Continuation of Existing Mechanisms

Atmos Energy proposes to retain all the existing features of its PBR mechanism. Specifically, Atmos Energy proposes to retain the Gas Commodity Cost component mechanism, the Transportation Cost component mechanism including Capacity Release, and the Off-system Sales component mechanism. Although the Off-system Sales mechanism and the Capacity Release component have not been directly utilized during the program, Atmos Energy proposes to retain the mechanisms should future circumstances support their direct utilization.

In support of its proposal, Atmos Energy reiterates the following successes of its PBR program:

By adhering to the benchmark standards of performance in the PBR, Atmos Energy has produced prudent gas purchases with measurable savings totaling $33,900,000 over the four-year period of June 2020 through May 2024, with most of those savings going to customers. A confidential summary is attached. Those savings would not have been realized in absence of the PBR mechanism.

- A key feature of the PBR is the establishment of a known, pre-determined, and directly observable benchmark, the assurance that Atmos Energy's gas procurement performance will be measured against that benchmark, and that rewards or penalties will be earned based on that benchmark. Foreknowledge of that benchmark gives the Company confidence as to how its behavior will be judged. The assurance of the standard of prudence and the opportunity to share rewards has led Atmos Energy to undertake certain calculated risks to create savings under the PBR. In the absence of an incentive plan, such as the PBR, Atmos Energy lacks the appropriate incentives to incur the additional risks without the potential to earn rewards for that behavior.

- Specifically, the PBR induced a beneficial change in Atmos Energy's behavior by encouraging it to test new and different ways to purchase gas supplies and to negotiate pipeline transportation contracts to generate shared savings that it otherwise lacked the incentive to pursue.
- The PBR encouraged Atmos Energy to continue improving its RFP for new gas supply contracts that directly incorporated the PBR benchmarks and mechanisms.
- The PBR mechanism has encouraged Atmos Energy to save approximately $137,900,000 from July 1998 through May 2024, with the majority of those savings going to customers.
- Atmos Energy is confident that by pursuing some of the same innovative approaches to gas supply contracting, within the same context of incentives and penalties, the PBR will produce significant shared savings for Atmos Energy and its customers in subsequent years.

B. Modifications to Existing Mechanisms

Atmos Energy proposes no changes to its existing PBR mechanisms**.**

III. Extension Period & Future Reporting

A. Extension Period

Atmos Energy's original PBR mechanism was for an experimental period of three years, and then was extended for an additional nineteen years. This evaluation report shows that during the 26 years the PBR mechanism has been in existence, the program has resulted in significant savings for customers. Therefore, Atmos Energy proposes to extend its PBR mechanism for an additional five-year term, through May 31, 2030. The Commission has previously extended the Company's PBR program in five-year increments starting in 2006.

The Commission extended the Company's current PBR program for four years in 2022. The PBR continues to be beneficial to both the Company and its customers. Extending the PBR mechanism will continue to provide significant benefits to the Company's customers, as well as its shareholders.

Atmos Energy proposes a term for its PBR mechanism of five years. However, if an external event occurs, such as an Order or rulemaking of the Federal Energy Regulatory Commission ("FERC"), which clearly and uncontrollably affects the benchmarks or some other aspect of the PBR mechanism, Atmos Energy and the Commission should reserve the right to modify or terminate the program.

B. Future Reports

Within ninety (90) days of the end of the fourth year of the five-year extension, Atmos Energy will file an evaluation report on the results of the PBR for the first four (4) years of the extension period. Atmos Energy will make any recommended modifications to the PBR mechanism, and the Commission will be able to review and act upon any proposed changes to the mechanism at that time. Such procedure will add certainty to the nature of the mechanism by establishing a review and approval process with a known timeline.

Exhibit B – Evaluation Report