**ATMOS ENERGY CORPORATION**

**VIA: ELECTRONIC FILING**

**August 31, 2020**

Mr. Kent Chandler
Acting Executive Director
Kentucky Public Service Commission
211 Sower Blvd.
PO Box 615
Frankfort, Kentucky 40602

RE: Performance Based Rate – Case No. 2020-00289

Dear Vice-Chairman Chandler:

Atmos Energy Corporation ("Company") herewith submits its Submission of Annual and Four Year Term Reports and Motion to Modify and Extend the Performance Based Ratemaking Mechanism. The original copy will be filed in accordance with the Commission's COVID-19 Order. I certify that the electronically filed documents are true and correct copies of the original documents. The attached evaluation report contains three parts:

1. Submission of Annual and Four-Year Reports and Motion to Modify and Extend Performance Based Ratemaking Mechanism
2. Report. The Report consists of three sections which outline an overview and description of the Company's approach to gas supply purchasing under the PBR, the Company's forward-looking proposal under the PBR and discusses the Company's proposed five-year extension of the PBR and proposed future reporting.
3. Exhibit A. Exhibit A outlines the four-year program results from June 2016 through May 2020 as well as the annual program results from June 2019 through May 2020 and will be marked CONFIDENTIAL.

As established by the enclosed Report, the PBR continues to be beneficial to both the Company and its customers. Extending the PBR mechanism as proposed herein will continue to provide significant benefit to the Company's customers, as well as its shareholders. Therefore, the Commission is respectfully requested to approve the extension of the PBR mechanism as proposed herein.

Atmos Energy is aware that a recent decision regarding the Performance Based Rate Mechanism of Columbia Gas of Kentucky, Inc. ("Columbia Kentucky") in Case No. 2017-00453 resulted in changes to Columbia Kentucky's transportation benchmark to address the impact of Columbia Gas Transmission's Capital Cost Recovery Mechanism ("CCRM") rider. Atmos Energy does not hold any capacity on Columbia Gas Transmission, nor do any of the pipelines that Atmos Energy hold's capacity on have a rider analogous to the CCRM. Accordingly, Atmos Energy does not believe that any adjustments to its transportation benchmark are required at this time.

Also enclosed is a Petition for Confidentiality pertaining to the discounts afforded the Company through its contracts with Symmetry Energy Solutions, LLC and United Energy Trading, LLC. This information is extremely confidential and has previously been afforded confidential protection by the Commission. This information is both disclosed in and determinable from data appearing throughout the quantitative results contained in Exhibit "A." Accordingly, Exhibit "A" has been redacted in its entirety.

Please feel free to contact me at 270.929.0114 if you have any questions and/or need any additional information.

Sincerely,

Mark A. Martin
Vice-President-Rates and
Regulatory Affairs

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF:

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

**SUBMISSION OF ANNUAL AND FOUR YEAR REPORTS AND MOTION TO MODIFY AND EXTEND PERFORMANCE BASED RATEMAKING MECHANISM**

On March 31, 2016, the Commission entered an Order approving an extension, as modified, of Atmos Energy's Performance Based Ratemaking Mechanism ("PBR") for a period of five (5) years ending on May 31, 2021. The Commission's Order required Atmos Energy to file annual reports on the results of the PBR program by August 31 of each year. The Commission's Order further directed Atmos Energy to file, within ninety (90) days of the end of the fourth year of the five year extension, an evaluation report on the results of the PBR for the first four years of the extension period "...for the Commission's review for purposes of determining whether the PBR should be continued, modified or terminated". The attached reports contain: (1) the quantitative results of Atmos Energy PBR program for the period June, 2019 through May 2020; and, (2) the cumulative quantitative results of Atmos Energy's PBR program for the four year period from June 2016 through May, 2020.

The attached Reports establish that the PBR has proven to be very beneficial to both the Company's ratepayers and its shareholders. Total measureable gas purchase savings attributable to the PBR for the period from June, 2016 through May, 2020 was approximately $28,000,000

Atmos Energy believes it to be in the best interest of the company and its ratepayers to extend the PBR for a five (5) year period commencing June 1, 2021.

The Company is cognizant of the Commission's recent modification to Columbia Gas of Kentucky's ("Columbia Kentucky") Performance Based Rate Mechanism in Case No. 2017-00454. That change was made to address the impact of Columbia Gas Transmission's Capital Cost Recovery Mechanism ("CCRM") rider on Columbia Kentucky's Performance Based Rate Mechanism's transportation benchmark savings calculation. Atmos Energy does not hold any capacity on Columbia Gas Transmission, nor do any of the pipelines that Atmos Energy hold's capacity on have a rider analogous to the CCRM. In the event that a pipeline used by Atmos Energy sought to have the Federal Energy Regulatory Commission approve such a rider, there would be sufficient time before its implementation for the Company and the Commission to examine if any changes were needed to Atmos Energy's transportation benchmark savings calculation.

WHEREFORE, Company prays: (1) that its annual report and the four year evaluation of the results of the current PBR mechanism be accepted and (2) for entry of an order extending its applicability, for a period of five (5) years, commencing June 1, 2021.

Respectfully submitted this 31st day of August, 2020.

Mark R. Hutchinson
WILSON, HUTCHINSON &
LITTLEPAGE
611 Frederica Street
Owensboro, Kentucky 42301
(270) 926-5011
randy@whplawfirm.com

John N. Hughes
124 West Todd Street
Frankfort, KY 40601
(502) 227-7270
Fax: None
jnhughes@johnnhughespsc.com

Attorneys for Atmos Energy

**CERTIFICATE OF SERVICE**

This is to certify that the foregoing electronic filing is a true and accurate copy of the document being filed in paper medium; that the electronic filing was transmitted to the Commission on August 31, 2020; that there are currently no parties that the Commission has excused from participation by electronic means in this proceeding; and the original filing in paper medium will be delivered to the Commission pending further instruction from Case No. 2020-00085:

Lawrence W. Cook
Assistant Attorney General
Office of Rate Intervention
1024 Capitol Center Drive
Suite 200
Frankfort, Kentucky 40601
www.ag.ky.gov

Mark R. Hutchinson

# ATMOS ENERGY CORPORATION

## REPORT ON PERFORMANCE-BASED RATEMAKING
## REPORT PERIOD: JUNE 2016 – MAY 2020
## KPSC CASE NO. 2020-00289

**August 31, 2020**

### Introduction

This report is designed to fulfill the requirements of the Commission's Order dated March 31, 2016 in this case whereby Atmos Energy Corporation (Atmos) was required to report on the results of the first four (4) years of the five (5) year extension period. This report consists of three sections. Section I of this narrative provides an overview and description of Atmos' approach to gas supply purchasing under the PBR. Section II outlines Atmos' forward-looking proposals under the PBR. Section III discusses Atmos' proposed five-year extension of the PBR and proposed future reporting.

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

A. <u>Overview</u>

On December 19, 1997, Atmos Energy Corporation ("Atmos" or "Company"), then Western Kentucky Gas Company, filed with the Kentucky Public Service Commission ("Commission"), a proposal to implement a Performance-Based Ratemaking ("PBR") mechanism for three years. The PBR was designed to create a system of rewards and penalties that would encourage Atmos 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' proposal with slight modifications. On December 14, 1998, the Commission approved a request by Atmos 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 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 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' PBR pilot through March 31, 2002. On September 28, 2001, Atmos filed with the Commission to extend the PBR program for an additional term of five (5) years, commencing as of April 1, 2002. On March 25, 2002, the Commission approved the PBR program, as modified, for a period of four (4) years, commencing as of April 1, 2002. On July 29, 2005, Atmos filed with the Commission a proposal to extend its existing PBR program for two months in order 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 (5) years effective June 1, 2006. On February 8, 2006, the Commission approved Atmos' proposal with slight modifications for a five (5) year term through May 31, 2011. On August 31, 2010, Atmos filed with the Commission to extend the PBR program for an additional term of five (5) years, commencing on June 1, 2011. On December 7, 2010, the Commission approved Atmos' proposal with slight modifications for a five (5) year term through May 31, 2016. On August 31, 2015, Atmos filed with the Commission to extend the PBR program for an additional term of five (5) years, commencing June 1, 2015 along with tariff modifications. On March 31, 2016, the Commission approved Atmos' proposal for extension and tariff modifications for a five (5) 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's PBR tariff name.

B. Atmos' Innovative Approach to Gas Commodity Purchases

Atmos' 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' continued long-term success in purchasing gas commodity. In designing such a contract model Atmos assumed that several key provisions were necessary in order to maximize savings:

- The contract must be competitively bid in order to minimize price,
- A single source supply contract for Atmos' distribution systems served by Texas Gas/Trunkline/ANR and a single source supply contract for Atmos'

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 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 developed a Request for Proposal (RFP) and solicited bids from a large number of 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 five-year contract for supply and asset management services off of Texas Gas Transmission/Trunkline/ANR (coinciding with the term of the underlying pipeline capacity),
- A three-year contract for supply and asset management services off of Tennessee Gas Pipeline (coinciding with the term of the underlying pipeline capacity),
- A single source provider for Atmos' firm system supply sourced on the Texas Gas/Trunkline/ANR systems (approximated at 16.8 Bcf, including 10.7 Bcf of pipeline and on-system storage), and a single source provider for Atmos' firm system supply sourced on the Tennessee Gas Pipeline system (approximated at 2.5 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' 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' "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' full firm gas commodity requirements with all of Atmos' transportation and storage contracts. Hence, potential suppliers were assured of the opportunity to supply Atmos' large, firm market for three to five years plus the additional opportunity to leverage Atmos' substantial transportation capacity and storage assets beyond the actual physical supply requirements of that market. In particular, the assignment of the management of Atmos' 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 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' 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 a majority of the savings generated under the PBR during program's twenty-two (22) years of existence.

## C. Atmos' Innovative Approach to Transportation Purchases

Atmos' 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. In an effort to continually improve PBR savings, Atmos has successfully implemented innovative Transportation cost saving strategies.

### 1. Pipeline Discounts

It is difficult for local distribution companies (LDCs) to obtain pipeline discounts from their respective pipeline supply source. Nevertheless, as existing pipeline contracts have come up for extension or re-negotiation, Atmos 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 has been able to renegotiate discounted transportation capacity arrangements. Additionally, Atmos has implemented an innovative strategy for generating pipeline demand savings through the receipt of segmented capacity from another Atmos division. Atmos Energy identified a cost savings opportunity for its Mississippi (Atmos MS) and Kentucky (Atmos KY) divisions. Atmos MS created savings by releasing firm pipeline capacity to Atmos KY. The capacity is shared via a segmented capacity release, essentially dividing the transportation path into an Atmos MS segment and an Atmos 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 MS and Atmos 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 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 would otherwise pay to contract for long term, year round pipeline capacity. These continual improvements to the Transportation Cost Component produced more than $13,700,000 in savings during the last four years of the program and approximately $32,600,000 since the program's inception. Atmos always seeks to obtain the lowest cost 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' Transportation Cost Component of the PBR; in October 2011 Atmos ceased performing such releases. Atmos released all its capacity to the Asset Managers; the Asset Managers return value to Atmos 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 could achieve through Capacity Release.

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

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

- By adhering to the benchmark standards of performance in the PBR, Atmos has produced prudent gas purchases with measurable savings totaling $28,000,000 over the four-year period of June 2016 through May 2020, with the majority of those savings going to customers. 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' 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 to undertake certain calculated risks to create savings under the PBR. In the absence of an incentive plan, such as the PBR, Atmos 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' behavior by encouraging it to test new and different ways to purchase gas supplies and to negotiate pipeline transportation contracts in order to generate shared savings that it otherwise lacked the incentive to pursue.
- The PBR encouraged Atmos to continue improving its Request for Proposal (RFP) for new gas supply contracts that directly incorporated the PBR benchmarks and mechanisms.
- The PBR mechanism has encouraged Atmos to save approximately $104,000,000 from July 1998 through May 2020, with the majority of those savings going to customers.
- We are 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 and its customers in subsequent years.

B. <u>Modifications to Existing Mechanisms</u>

Atmos proposes no changes to its existing PBR mechanisms.

## III. Extension Period & Future Reporting

### A. Extension Period

Atmos' original PBR mechanism was for an experimental period of three years, and then was extended for an additional nineteen years. This report shows that during the twenty-two (22) years the PBR mechanism has been in existence, the program has resulted in significant savings for customers. Therefore, Atmos proposes to extend its PBR mechanism for an additional term of five years, that is, through May 31, 2026. The Commission has previously extended the Company's PBR program in five year increments starting in 2006. 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 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 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 will file an evaluation report on the results of the PBR for the first four (4) years of the extension period. Atmos 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 A

# PBR Savings 4-Year Summary June 2016 – May 2020

# This page is confidential and redacted.

**COMMONWEALTH OF KENTUCKY**
**BEFORE THE PUBLIC SERVICE COMMISSION**

**IN THE MATTER OF:**

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

**PETITION FOR CONFIDENTIALITY OF CERTAIN INFORMATION BEING FILED WITH THE KENTUCKY PUBLIC SERVICE COMMISSION WITH THE ANNUAL AND FOUR YEAR REPORTS ON ATMOS ENERGY CORPORATION'S PERFORMANCE BASED RATEMAKING MECHANISM**

Atmos Energy Corporation ("Atmos Energy" or "Company"), respectfully petitions the Kentucky Public Service Commission ("Commission"), pursuant to 807 KAR 5:001, Section 13,and KRS 61.878(1)(c)1 and all other applicable law, for confidential treatment of the information contained in the attached document. In support of this petition, Atmos Energy states as follows:

1. On March 31, 2016 the Commission entered an Order in Case No. 2015-00298 approving an extension, as modified, of Atmos' Experimental Performance Based Ratemaking Mechanism ("PBR") for a period of five (5) years. The Commission's Order required Atmos to file annual reports of its activities under the PBR program by August 31 of each year. The Commission's Order further required Atmos to file an evaluation on the results of the PBR program for the first four (4) years of the five (5) year extension. Atmos is filing herewith both the current annual report and the required four year evaluation report containing, inter alia, quantitive results of Atmos' PBR program for the period of June, 2016 through May, 2020.

2. The Company's current gas supply contracts are with two suppliers, Symmetry Energy Solutions, LLC and United Energy Trading, LLC. They contain significant pricing discounts. In order to fully report to the Commission the results of the Company's current PBR program, disclosure of the discounts on gas purchases provided in the current supply contracts is required. In order to protect the confidentiality of that information, not only must the discount themselves be redacted in the non-confidential version, but all information from which the discount could be calculated, must likewise be redacted. Since this information is both disclosed in, and determinable from, data appearing throughout the quantitative results contained in **Exhibit "A"**, the entire **Exhibit "A"** has been redacted.

3. This type of information has been determined by the Commission in Atmos' prior PBR proceedings 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. The Company accordingly petitions the Commission to again treat this information as confidential.

4. The confidential material should be treated as confidential indefinitely.

WHEREFORE, Company petitions the Commission to treat as confidential the information contained in the attached.

Respectfully submitted this 31st day of August, 2020.

Mark R. Hutchinson
WILSON, HUTCHINSON &
LITTLEPAGE
611 Frederica Street
Owensboro, Kentucky 42301
(270) 926-5011
randy@whplawfirm.com

John N. Hughes
124 West Todd Street
Frankfort, KY 40601
(502) 227-7270
Fax: None
jnhughes@johnnhughespsc.com

Attorneys for Atmos Energy

## VERIFICATION

I, Mark A. Martin, being duly sworn under oath state that I am Vice President of Rates and Regulatory Affairs Kentucky Midstates Division for Atmos Energy Corporation, and that the statements contained in the foregoing Petition are true as I verily believe.

Mark A. Martin

## CERTIFICATE OF SERVICE

This is to certify that the foregoing electronic filing is a true and accurate copy of the document being filed in paper medium; that the electronic filing was transmitted to the Commission on August 31, 2020; that there are currently no parties that the Commission has excused from participation by electronic means in this proceeding; and the original filing in paper medium will be delivered to the Commission pending further instruction from Case No. 2020-00085:

Lawrence W. Cook
Assistant Attorney General
Office of Rate Intervention
1024 Capitol Center Drive
Suite 200
Frankfort, Kentucky 40601
www.ag.ky.gov

Mark R. Hutchinson