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November 13, 2020

Kent Chandler
Acting Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, KY 40602-0615

RE: Atmos Energy: Case 2020-00289

Dear Mr. Chandler:

Atmos Energy Corporation submits its responses to the Attorney General's First 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 first 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 12 th day of November, 2020.

DANA ADAMS STATE OF TENNESSEE NOTARY PUBLIC COUNTY OF RUTHERFORD

Dana Adams
Notary Public
My Commission Expires: 9/19/22

REQUEST:

Refer to Atmos' Submission of Annual and Four Year Reports and Motion to Modify and Extend Performance Based Ratemaking Mechanism ("Submission"), unnumbered page 1. Atmos asserts that in Case No. 2015-00298, which was the prior Performance Based Ratemaking ("PBR") mechanism case, the Commission's Order stated that the Commission would continue to review the PBR mechanism to determine whether it should be continued, modified, or terminated.

a. Explain in detail why the PBR mechanism should be continued.

b. Explain in detail why the PBR mechanism should not be modified.

c. Explain in detail why the PBR mechanism should not be terminated.

RESPONSE:

a. The PBR mechanism should be continued because Atmos Energy has demonstrated that is has been successful in outperforming benchmarks to achieve lower gas cost and continuing to enter into creative supply arrangements.

b. The PBR mechanism should not be modified because it appropriately incentivizes the Company to achieve lower gas costs for customers. However, consistent with the Commission's recent order with regards to the PBR mechanism of Columbia Gas, it may be appropriate to modify Atmos Energy's mechanism if one of the interstate pipelines used to serve the Company's customers adopts an annual modernization tracker.

c. The PBR mechanism should not be terminated because the Commission clearly intends to take consistent action with regards to the three local distribution companies with PBR mechanisms. *See* pp. 9-10 of the Order issued October 26, 2020 in Case No. 2019-00437. Atmos Energy believes that it has demonstrated that its PBR mechanism should be extended, and it can be modified to appropriately reflect the outcome of the Commission's "consistent action" within a reasonable length of time after that order is issued. Until such new consistent action is taken, the Company's PBR should be allowed to continue to generate savings for customers.

Respondent: Brannon C. Taylor

REQUEST:

Refer to Atmos' Report on Performance-Based Ratemaking, Report Period: June 2016-May 2020 ("Report"), page 1. Atmos asserts that "[t]he PBR was designed to create a system of rewards and penalties that would encourage Atmos to acquire low cost supplies of natural gas."

a. Explain in detail what system of rewards the PBR creates for Atmos.

b. Explain in detail what rewards Atmos has obtained from the PBR.

c. Explain in detail what penalties are associated with the PBR.

d. Explain in detail how Atmos has been penalized from the PBR.

RESPONSE:

a. The greatest level of detail describing the rewards and penalties is provided by in Atmos Energy's PBR tariff sheets 18 through 29, also in the response as Attachment 1. However, it can be described as follows: when actual gas costs are less than the established benchmark, Atmos Energy and customers share in the savings through two established tiers. The first tier is savings up to 2% of total gas cost, for which Atmos Energy shares 30%. The second tier is savings greater than 2% of total gas costs, for which Atmos Energy shares 50%. The shared savings are the rewards the PBR creates for Atmos Energy. When actual gas costs are greater than the established benchmark, Atmos Energy and customers share in the excess costs, applying the same two tiers and sharing percentages. The shared costs are the penalties associated with the PBR. For the Four Year Report under review in this Case No. 2020-00289, Atmos Energy's actual gas costs of $311,904,506 were 9% less that the established benchmark costs, yielding a savings of $28,267,062; of that amount, Kentucky customers retained $15,381,149 savings and the Company share was $12,885,913. Atmos Energy purchased gas at below benchmark cost; the Company was not penalized.

b. See the response to subpart (a).

c. See the response to subpart (a).

d. See the response to subpart (a).

ATTACHMENT:

ATTACHMENT 1 - AG_1-02_Att1 - PBR Tariffs Sheets.pdf, 12 Pages.

Respondent: Brannon C. Taylor

FOR ENTIRE SERVICE AREA

PSC KY. No. 2

First Revised SHEET No. 18

Cancelling

Original SHEET No. 18

ATMOS ENERGY CORPORATION
(NAME OF UTILITY)

PBR

Performance Based Rate Mechanism (T)

Applicable

To all gas sold.

Rate Mechanism

The amount computed under each of the rate schedules to which this Performance Based Rate Mechanism is applicable shall be increased or decreased by the Performance Based Rate Recovery Factor (PBRRF) at a rate per 1,000 cubic feet (Mcf) of monthly gas consumption. Demand costs and commodity costs shall be accumulated separately and included in the pipeline suppliers Demand Component and the Gas Supply Cost Component of the Gas Cost Adjustment (GCA), respectively. The PBRRF shall be determined for each 12-month period ended October 31 during the effective term of these experimental performance based ratemaking mechanisms, which 12-month period shall be defined as the PBR period.

The PBRRF shall be computed in accordance with the following formula:

$$PBRRF = (CSPBR + BA) / ES$$

Where:

ES = Expected Mcf sales, as reflected in the Company's GCA filing for the upcoming 12-month period beginning February 1.

CSBPR = Company Share of Performance Based Ratemaking Mechanism savings or expenses. The CSPBR shall be calculated as follows:

$$CSPBR = TPBRR \times ACSP$$

Where:

ACSP = Applicable Company Sharing Percentage

TPBRR = Total Performance Based Ratemaking Results. The TPBRR shall be savings or expenses created during the PBR period. TPBRR shall be calculated as follows:

$$TPBRR = (GAIF + TIF + OSSIF)$$

DATE OF ISSUE August 27, 2015
Month/Date/Year

DATE EFFECTIVE March 31, 2016
Month/Date/Year

Issued by Authority of an Order of the Public Service Commission in Case No. 2015-00298

ISSUED BY /s/ Mark A. Martin
Signature of Officer

TITLE Vice President – Rates and Regulatory Affairs

FOR ENTIRE SERVICE AREA

PSC KY. No. 2

First Revised SHEET No. 19

Cancelling

Original SHEET No. 19

ATMOS ENERGY CORPORATION
(NAME OF UTILITY)

PBR

Performance Based Rate Mechanism (Continued) (T)

GAIF

GAIF = Gas Acquisition Index Factor. The GAIF shall be computed as follows.

GAIF = GAIFBL + GAIFSL + GAIFAM

Where:

GAIFBL represents the Gas Acquisition Index Factor for Base Load system supply natural gas purchases.

GAIFSL represents the Gas Acquisition Index Factor for Swing Load system supply natural gas purchases

GAIFAM represents the Gas Acquisition Index Factor for Asset Management, representing the portion of fixed discounts provided by the supplier for asset management rights, if any, not directly tied to per unit natural gas purchases

GAIFBL

The GAIFBL shall be calculated by comparing the Total Annual Benchmark Gas Commodity Costs for Base Load (TABGCCBL) system supply natural gas purchases for the PBR period to the Total Annual Actual Gas Commodity Costs for Base Load (TAAGCCBL) system supply natural gas purchases during the same period to determine if any shared expenses or shared savings exist.

TABGCCBL represents the Total Annual Benchmark Gas Commodity Costs for Base Load gas purchases and equals the annual sum of the monthly Benchmark Gas Commodity Costs of gas purchased for Base Load (BGCCBL) system supply.

BGCCBL represents Benchmark Gas Commodity Costs for Base Load gas purchases and shall be calculated on a monthly basis and accumulated for the PBR period. BGCCBL shall be calculated as follows:

BGCCBL = Sum [(APVBLi – PEFDCQBL) x SAIBLi] + (PEFDCQBL x DAIBL)

Where:

APVBL is the Actual Purchased Volumes of natural gas for Base Load system supply for the month. The APVBL shall include purchases necessary to cover retention volumes required by the pipeline as fuel.

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FOR ENTIRE SERVICE AREA

PSC KY. No. 2

First Revised SHEET No. 20

Cancelling

Original SHEET No. 20

ATMOS ENERGY CORPORATION
(NAME OF UTILITY)

PBR

Performance Based Rate Mechanism (Continued) (T)

"i" represents each supply area.

PEFDCQBL are the Base Load Purchases in Excess of Firm Daily Contract Quantities delivered to WKG's city gate. Firm Daily Contract Quantities are the maximum daily contract quantities which Company can deliver to its city gate under its various firm transportation agreements and arrangements.

SAIBL is the Supply Area Index factor for Base Load to be established for each supply area in which Company has firm transportation entitlements used to transport its natural gas purchases and for which price postings are available. The five supply areas are TGT-1 (Texas Gas Transmission- (T)
Zone 1), TGPL-500 (Tennessee Gas Pipeline-Louisiana 500), TGC-LA (Trunkline Gas Company- (T)
Louisiana), ANR-LA (ANR Louisiana), and ANR-HH (ANR-South Louisiana, Henry Hub). (T)

The monthly SAIBL for TGT-1, TGPL-500, TGC-LA, ANR-LA, and ANR-HH shall be calculated (T)
using the following formula:

SAIBL = [I (1) + I (2)] / 2

Where:

"I" represents each index reflective of both supply area prices and price changes throughout the month in these various supply areas.

The indices for each supply zone are as follows:

SAIBL (ANR-LA) (T)

I (1) is the Inside FERC – Gas Market Report first-of-the-month posting for ANR-Louisiana. (T)
I (2) is the New York Mercantile Exchange Settled Closing Price.

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FOR ENTIRE SERVICE AREA

PSC KY. No. 2

First Revised SHEET No. 21

Cancelling

Original SHEET No. 21

ATMOS ENERGY CORPORATION
(NAME OF UTILITY)

PBR

Performance Based Rate Mechanism (Continued) (T)

SAIBL (TGT-1)

I (1) is the Inside FERC – Gas Market Report first-of-the-month posting for Texas Gas Zone 1.
I (2) is the New York Mercantile Exchange Settled Closing Price.

SAIBL (TGPL-500) (T)

I (1) is the Inside FERC – Gas Market Report first-of-the-month posting for Tennessee Louisiana, 500 Leg. (T)
I (2) is the New York Mercantile Exchange Settled Closing Price.

SAIBL (ANR-HH) (T)

I (1) is the Inside FERC – Gas Market Report first-of-the-month posting for South Louisiana-Henry Hub. (T)
I (2) is the New York Mercantile Exchange Settled Closing Price.

SAIBL (TGC-LA) (T)

I (1) is the Inside FERC – Gas Market Report first-of-the-month posting for Trunkline Louisiana.
I (2) is the New York Mercantile Exchange Settled Closing Price.

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Month/Date/Year

DATE EFFECTIVE March 31, 2016
Month/Date/Year

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FOR ENTIRE SERVICE AREA
PSC KY. No. 2
First Revised SHEET No. 22
Cancelling
Original SHEET No. 22

ATMOS ENERGY CORPORATION
(NAME OF UTILITY)

PBR

Performance Based Rate Mechanism (Continued) (T)

DAIBL is the Delivery Area Index factor for Base Load to be established for purchases made by Company when Company has fully utilized its pipeline quantity entitlements on a daily basis and which are for delivery to Company's city gate from Texas Gas Transmission's Zone 2, 3 or 4, Tennessee Gas Pipeline's Zone 2, Trunkline Gas Company's Zone 1B, or ANR ML-2 or ML-3. (T)

The monthly DAIBL for TGT-2, 3, 4, TGPL-2, TGC-1B, and ANR-LA shall be calculated using the following: (T)

$$DAIBL = [I(1) + I(2)] / 2$$

DAIBL (TGT-2, 3, & 4), (TGPL-2), (TGC-1B), and (ANR-LA) (T)

I (1) is the average New York Mercantile Exchange Settled Closing Price. (T)
I (2) is the Inside FERC – Gas Market Report first-of-the month posting for the index associated (T)
with the delivered supply. (T)

TAAGCCBL represents Company's Total Annual Actual Gas Commodity Costs for Base Load deliveries of natural gas purchased for system supply and is equal to the total monthly actual gas commodity costs.

To the extent that TAAGCCBL exceeds TABGCCBL for the PBR period, then the GAIFBL Shared Expenses shall be computed as follows:

GAIFBL Shared Expenses = TAAGCCBL - TABGCCBL

To the extent that TAAGCCBL is less than TABGCCBL for the PBR period, then the GAIFBL Shared Savings shall be computed as follows:

GAIFBL Shared Savings = TABGCCBL - TAAGCCBL

DATE OF ISSUE August 27, 2015
Month/Date/Year

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TITLE Vice President – Rates and Regulatory Affairs

PBR

Performance Based Rate Mechanism (Continued) (T)

GAIFSL

The GAIFSL shall be calculated by comparing the Total Annual Benchmark Gas Commodity Costs for Swing Load (TABGCCSL) system supply natural gas purchases for swing load for the PBR period to the Total Annual Actual Gas Commodity Costs for Swing Load (TAAGCCSL) system supply natural gas purchases for during the same period to determine if any shared expenses or shared savings exist.

TABGCCSL represents the Total Annual Benchmark Gas Commodity Costs for Swing Load gas purchases and equals the monthly Benchmark Gas Commodity Costs of gas purchased for Swing Load system supply (BGCCSL).

BGCCSL represents Benchmark Gas Commodity Costs for Swing Load gas purchases and shall be calculated on a monthly basis and accumulated for the PBR period. BGCCSL shall be calculated as follows:

$$BGCCSL = Sum\ [(APVSLi - PEFDCQSL) \times SAISLi] + (PEFDCQSL \times DAISL)$$

Where:

APVSL is the Actual Purchased Volumes of natural gas for Swing Load system supply for the month. The APVSL shall include purchases necessary to cover retention volumes required by the pipeline as fuel.

"i" represents each supply area.

PEFDCQSL are the Purchases in Excess of Firm Daily Contract Quantities delivered to WKG's city gate. Firm Daily Contract Quantities are the maximum daily contract quantities which Company can deliver to its city gate under its various firm transportation agreements and arrangements.

SAISL is the Supply Area Index factor for Swing Load to be established for each supply area in which Company has firm transportation entitlements used to transport its natural gas purchases and
for which price postings are available. The five supply areas are TGT-1 (Texas Gas Transmission- (T)
Zone 1), TGPL-500 (Tennessee Gas Pipeline-Zone 500 Leg), TGC-1A (Trunkline Gas Company- (T)
Zone 1A), ANR-LA (Louisiana–Onshore South, ANR, LA), and ANR-HH (Louisiana-Onshore (T)
South, Henry Hub). (T)

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Month/Date/Year

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Month/Date/Year

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TITLE Vice President – Rates and Regulatory Affairs

FOR ENTIRE SERVICE AREA

PSC KY. No. 2

First Revised SHEET No. 24

Cancelling

Original SHEET No. 24

ATMOS ENERGY CORPORATION
(NAME OF UTILITY)

PBR

Performance Based Rate Mechanism (Continued)

The monthly SAISL for TGT-1, TGPL-500, TGC-1A, ANR-LA, and ANR-HH shall be calculated using the following formula: (T)

SAISLi = I(i)

Where:

"I" represents each index reflective of both supply area prices and price changes throughout the month in these various supply areas.

"i" represents each supply area.

The index for each supply zone is as follows:

SAISL (ANR-LA) (T)

I (1) is the midpoint Gas Daily postings for Louisiana-Onshore South, ANR, LA. (T)

SAISL (TGT-1)

I (2) is the midpoint Gas Daily postings for East Texas – North Louisiana Area - Texas Gas Zone 1. (T) (T)

SAISL (TGPL-500)

I (3) is the midpoint Gas Daily postings for Louisiana-Onshore South – Tennessee 500 Leg. (T)

SAISL (ANR-HH)

I (4) is the midpoint Gas Daily postings for Louisiana-Onshore South – Henry Hub. (T)

DATE OF ISSUE August 27, 2015
Month/Date/Year

DATE EFFECTIVE March 31, 2016
Month/Date/Year

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FOR ENTIRE SERVICE AREA

PSC KY. No. 2

First Revised SHEET No. 25

Cancelling

Original SHEET No. 25

ATMOS ENERGY CORPORATION
(NAME OF UTILITY)

PBR

Performance Based Rate Mechanism (Continued) (T)

SAISL (TGC-1A) (T)

I (5) is the midpoint Gas Daily postings for Trunkline – Zone 1A. (T)

DAISL is the Delivery Area Index factor for Swing Load to be established for purchases made by Company when Company has fully utilized its pipeline quantity entitlements on a daily basis and which are for delivery to Company's city gate from Texas Gas Transmission's Zone 2, 3 or 4, Tennessee Gas Pipeline's Zone 2, Trunkline Gas Company's Zone 1B, or ANR's Zone ML-2 or ML-3. (T) (T)

The monthly DAISL for TGT-2, 3, 4, TGPL-2, TGC-1B, ANR-2, and ANR-3 shall be calculated using the following:

DAISL = I(1)

DAISL (TGT-2, 3, & 4), (TGPL-2), (TGC-1B), and (ANR-2 & 3) (T)

I (1) is the midpoint Gas Daily postings the Daily Price Survey for the index associated with the delivered service. (T) (T)

TAAGCCSL represents Company's Total Annual Actual Gas Commodity Costs for Swing Load deliveries to Company's city gate and is equal to the total monthly actual gas commodity costs.

To the extent that TAAGCCSL exceeds TABGCCSL for the PBR period, then the GAIFSL Shared Expenses shall be computed as follows:

GAIFSL Shared Expenses = TAAGCCSL - TABGCCSL

To the extent that TAAGCCSL is less than TABGCCSL for the PBR period, then the GAIFSL Shared Savings shall be computed as follows:

GAIFSL Shared Savings = TABGCCSL - TAAGCCS

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Month/Date/Year

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FOR ENTIRE SERVICE AREA
PSC KY. No. 2
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Cancelling
Original SHEET No. 26

ATMOS ENERGY CORPORATION
(NAME OF UTILITY)

PBR

Performance Based Rate Mechanism (Continued) (T)

TIF

TIF = Transportation Index Factor. The Transportation Index Factor shall be calculated by comparing the Total Annual Benchmark Transportation Costs (TABTC) of natural gas transportation services during the PBR period to the Total Annual Actual Transportation Costs (TAATC) applicable to the same period to determine if any shared expenses or shared savings exist.

The Total Annual Benchmark Transportation Costs (TABTC) are calculated as follows:

TABTC = Annual Sum of Monthly BTC

Where:

BTC is the Benchmark Transportation Costs which include both pipeline demand and volumetric costs associated with natural gas pipeline transportation services. The BTC shall be accumulated for the PBR period and shall be calculated as follows:

BTC = Sum [BM (TGT) + BM (TGPL) + BM (TGC) + BM (ANR) + BM (PPL)] (T)

Where:

BM (TGT) is the benchmark associated with Texas Gas Transmission Corporation.

BM (TGPL) is the benchmark associated with Tennessee Gas Pipeline Company.

BM (TGC) is the benchmark associated with Trunkline Gas Company.

BM (ANR) is the benchmark associated with ANR Pipeline Company. (T)

BM (PPL) is the benchmark associated with a proxy pipeline. This benchmark, which will be determined at the time of purchase, will be used to benchmark purchases of transportation capacity from non-traditional sources.

The benchmark associated with each pipeline shall be calculated as follows:

BM (TGT) = (TPDR x DQ) + (TPCR x AV) + S&DB
BM (TGPL) = (TPDR x DQ) + (TPCR x AV) + S&DB
BM (TGC) = (TPDR x DQ) + (TPCR x AV) + S&DB
BM (ANR) = (TPDR x DQ) + (TPCR x AV) + S&DB (T)
BM (PPL) = (TPDR x DQ) + (TPCR x AV) + S&DB

Where: TPDR is the applicable Tariffed Pipeline Demand Rate.

DATE OF ISSUE August 27, 2015
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DATE EFFECTIVE March 31, 2016
Month/Date/Year

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Signature of Officer

TITLE Vice President – Rates and Regulatory Affairs

FOR ENTIRE SERVICE AREA
PSC KY. No. 2
First Revised SHEET No. 27
Cancelling
Original SHEET No. 27

ATMOS ENERGY CORPORATION
(NAME OF UTILITY)

PBR

Performance Based Rate Mechanism (Continued) (T)

DQ is the Demand Quantities contracted for by the Company from the applicable transportation provider.

TPCR is the applicable Tariffed Pipeline Commodity Rate.

AV is the Actual Volumes delivered at Company's city gate by the applicable transportation provider for the month.

S&DB represents Surcharges, Direct Bills and other applicable amounts approved by the Federal Energy Regulatory Commission (FERC). Such amounts are limited to FERC approved charges such as surcharges, direct bills, cashouts, take-or-pay amounts, Gas Supply Realignment and other Order 636 transition costs.

The Total Annual Actual Transportation Costs (TAATC) paid by Company for the PBR period shall include both pipeline demand and volumetric costs associated with natural gas pipeline transportation services as well as all applicable FERC approved surcharges, direct bills included in S&DB, less actual capacity release credits. Such costs shall exclude labor related or other expenses typically classified as operating and maintenance expenses.

To the extent that TAATC exceeds TABTC for the PBR period, then the TIF Shared Expenses shall be computed as follows:

TIF Shared Expenses = TAATC - TABTC

To the extent that the TAATC is less than TABTC for the PBR period, then the TIF Shared Savings shall be computed as follows:

TIF Shared Savings = TABTC - TAATC

Should one of the Company's pipeline transporters file a rate change effective during any PBR period and bill such proposed rates subject to refund, the period over which the benchmark comparison is made for the relevant transportation costs will be extended for one or more 12 month periods, until the FERC has approved final settled rates, which will be used as the appropriate benchmark. Company will not share in any of the savings or expenses related to the affected pipeline until final settled rates are approved.

OSSIF

OSSIF = Off-System Sales Index Factor. The Off-System Sales Index Factor shall be equal to the Net Revenue from Off-System Sales (NR).

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Month/Date/Year

DATE EFFECTIVE March 31, 2016
Month/Date/Year

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Signature of Officer

TITLE Vice President – Rates and Regulatory Affairs

FOR ENTIRE SERVICE AREA

PSC KY. No. 2

First Revised SHEET No. 28

Cancelling

Original SHEET No. 28

ATMOS ENERGY CORPORATION
(NAME OF UTILITY)

PBR

Performance Based Rate Mechanism (Continued) (T)

Net Revenue is calculated as follows:

NR = OSREV - OOPC

Where:

OSREV is the total revenue associated with off-system sales and storage service transactions.

OOPC is the out-of-pocket costs associated with off-system sales and storage service transactions and shall be determined as follows:

OOPC = OOPC(GC) + OOPC(TC) + OOPC(SC) + OOPC(UGSC) + Other Costs

Where:

OOPC (GC) is the Out-of-Pocket Gas Costs associated with off-system sales transactions. For off-system sales utilizing Company's firm supply contracts, the OOPC (GC) shall be the incremental costs to purchase the gas available under Company's firm supply contracts. For off-system sales not using Company's firm supply contracts, the OOPC (GC) shall be the incremental costs to purchase the gas from other entities.

OOPC (TC) is the Out-of-Pocket Transportation Costs associated with off-system sales transactions. For off-system sales utilizing Company's firm transportation agreements, the OOPC (TC) shall be the incremental cost to use the transportation available under Company's firm supply contracts. For off-system sales not using Company's firm transportation agreements, the OOPC (TC) shall be the incremental costs to purchase the transportation form other entities.

OOPC (SC) is the Out-of-Pocket Storage Costs associated with off-system sales of storage. If this is gas in Company's own storage or gas stored with Tennessee Gas Pipeline it shall be priced at the average price of the gas in Company's storage during the month of sale. If this is gas from the storage component of Texas Gas's No-Notice Service, this gas shall be priced at the replacement costs.

OOPC (UGSC) is the Out-of-Pocket Underground Storage Costs associated with off-system sales of storage services. For the off-systems sales of storage services utilizing Company's on-system storage, the OOPC (UGSC) shall include incremental storage losses, odorization, and other fuel-related costs such as purification, dehydration, and compression. Such costs shall exclude labor-related expenses.

Other Costs represent all other incremental costs and include, but are not limited to, costs such as applicable sales taxes and excise fees. Such costs shall exclude labor-related or other expenses typically classified as operating and maintenance expenses.

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Signature of Officer

TITLE Vice President – Rates and Regulatory Affairs

FOR ENTIRE SERVICE AREA

PSC KY. No. 2

First Revised SHEET No. 29

Cancelling

Original SHEET No. 29

ATMOS ENERGY CORPORATION
(NAME OF UTILITY)

PBR

Performance Based Rate Mechanism (Continued) (T)

ACSP

ACSP = Applicable Company Sharing Percentage. The ACSP shall be determined based on the PTAGSC.

Where:

PTAGSC = Percentage of Total Actual Gas Supply Costs. The PTAGSC shall be the TPBRR stated as a Percentage of Total Actual Gas Supply Costs and shall be calculated as follows:

PTAGSC = TPBRR / TAGSC

Where:

TAGSC = Total Actual Gas Supply Costs. The TAGSC shall be calculated as follows:

TAGSC = TAAGCCBL + TAAGCCSL + TAATC

If the absolute value of the PTAGSC is less than or equal to 2.0%, then the ACSP of 30% shall be applied to TPBRR to determine CSPBR. If the absolute value of the PTAGSC is greater than 2.0%, then the ACSP of 30% shall be applied to the amount of TPBRR that is equal to 2.0% of TAGSC to determine a portion of CSPBR, and the ACSP of 50% shall be applied to the amount of TPBRR that is in excess of 2.0% of TAGSC to determine a portion of CSPBR. These two portions are added together to produce the total CSPBR.

BA

BA = Balance Adjustment. The BA is used to reconcile the difference between the amount of revenues billed or credited through the CSPBR and previous application of the BA and revenues which should have been billed or credited, as follows:

1. For the CSPBR, the balance adjustment amount will be the difference between the amount billed in a 12-month period from the application of the CSPBR and the actual amount used to establish the CSPBR for the period.

2. For the BA, the balance adjustment amount will be the difference between the amount billed in a 12-month period from the application of the BA and the actual amount used to establish the BA for the period.

Annual Reports

Atmos Energy shall file annual reports to the Kentucky Public Service Commission, describing activities and financial results under the PBR program. These reports shall be filed by August 31 of each calendar year, commencing in 2007.

Review

Within 90 days of the end of the fourth year of the five year extension, the Company will file an evaluation report on the results of the PBR mechanism for the first four years of the extension period. In that report and assessment, the Company will make any recommended modifications to the PBR mechanism.

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Month/Date/Year

DATE EFFECTIVE March 31, 2016
Month/Date/Year

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Case No. 2015-0098

ISSUED BY /s/ Mark A. Martin
Signature of Officer

TITLE Vice President – Rates and Regulatory Affairs

REQUEST:

Refer to the Submission and Report generally. Confirm or deny that the only gas companies in Kentucky that have PBR mechanisms besides Atmos is Columbia Gas of Kentucky, Inc. ("Columbia Kentucky") and Louisville Gas and Electric Company ("LG&E").

RESPONSE:

Confirm.

Respondent: Brannon C. Taylor

REQUEST:

Explain in full detail how all of the other gas companies in Kentucky provide low cost gas to its customers without utilizing a PBR mechanism.

RESPONSE:

OBJECTION - The request is unduly burdensome because it is vague, ambiguous, and a response could not be formulated without the use of speculation. Further, the request requires the adoption of the assumption that all of the other gas companies in Kentucky provide low cost gas to their customers, which is improper.

Respondent: Counsel

REQUEST:

Refer to the Submission and Report generally.

a. Provide a detailed explanation of how Atmos' PBR mechanism operates. Ensure to include all of the cost components of the PBR with the applicable benchmark amounts, and how the benchmarks were calculated. Also, include all bands with the sharing ratios between the shareholders and customers.

b. Compare and contrast Atmos' current PBR mechanism to the most updated PBR mechanisms of Columbia Kentucky and LG&E.

c. Compare and contrast Atmos' proposed PBR mechanism to the most updated PBR mechanisms of Columbia Kentucky and LG&E.

RESPONSE:

a. Please see the Company's response to AG DR No. 1-02 for a summary explanation of how the PBR mechanism operates and reference to the Company's tariff sheets, which provide the most detailed description. A slightly more detailed description of Company's PBR mechanism was provided on pages 1 and 2 of the KY PSC Order in Case No. 2015-00298 entered March 31, 2016 and attached herein for convenience as Attachment 1.

   There are three cost components: the Gas Acquisition Index Factor ("GAIF"), the Transportation Index Factor ("TIF"), and the Off-System Sales Index Factor ("OSSIF"). These components are described in great detail within the Atmos Energy PBR tariff sheets, but practical descriptions follow:

   1. The GAIF is the Gas Commodity Cost component mechanism, which includes base load purchases, swing purchases and fixed asset management discounts. The benchmark for baseload purchases are the average of Inside FERC Index price and NYMEX; the benchmark for swing purchases are the Gas Daily Index midpoints.

   2. The TIF is the Transportation Cost component mechanism, which includes natural gas transportation services, both pipeline demand and volumetric costs and all applicable FERC approved surcharges. The benchmark for pipeline demand costs

are the tariffed Pipeline Demand Rate multiplied by the Demand Quantities contracted for by the Company from the applicable transportation provider. The benchmark for the pipeline volumetric costs are the tariffed Pipeline Commodity Rate multiplied by Actual Volumes delivered at Company's city gate by the applicable transportation provider. The Actual Transportation Costs (TAATC) paid by Company for the PBR period shall include both pipeline demand and volumetric costs associated with natural gas pipeline transportation services as well as all applicable FERC approved surcharges, direct bills included in S&DB, less actual capacity release credits.

3. The OSSIF is the Off-system Sales component mechanism, which includes total revenue associated with off-system sales and storage service transactions less the out-of-pocket costs associated with off-system sales and storage service transactions, as more fully defined in the Atmos tariff.

b. OBJECTION. Atmos Energy objects on the grounds that the question is unduly burdensome, as it would require Atmos Energy to conduct extensive analysis of the PBR filings of Columbia Kentucky and LG&E and seeks information which is available to both parties equally.

c. See the response to subpart (b).

ATTACHMENT:

ATTACHMENT 1 - AG_1-05_Att1 - 2015-00298 Order.pdf, 6 Pages.

Respondents: Brannon C. Taylor and Counsel

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

REQUEST OF ATMOS ENERGY CORPORATION FOR MODIFICATION AND EXTENSION OF ITS GAS COST ADJUSTMENT PERFORMANCE BASED RATEMAKING MECHANISM	))))	CASE NO. 2015-00298

ORDER

On August 31, 2015, Atmos Energy Corporation ("Atmos") submitted an application requesting that the Commission: (1) accept its Report on Performance-Based Ratemaking ("Report") detailing the results of its Performance-Based Ratemaking ("PBR") mechanism; and (2) enter an Order approving its modified PBR tariff effective October 1, 2015, and extending its PBR mechanism for five years. On September 9, 2015, the Commission issued an Order suspending the proposed tariff for five months, up to and including February 29, 2016, pending the completion of its review.

The Commission approved Atmos's current PBR mechanism on December 12, 2010, for five years, expiring May 31, 2016.[1] The program benchmarks the following components of Atmos's gas costs: (1) commodity costs; (2) transportation costs; (3) capacity release revenues; and (4) off-system sales revenues. Actual costs and revenues are compared against benchmarks to measure Atmos's performance in its gas procurement activities.

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[1] Case No. 2010-00353, *Request of Atmos Energy Corporation for Modification and Extension of Its Gas Cost Adjustment Performance-Based Ratemaking Mechanism* (Ky. PSC Dec. 12, 2010).

Variances between the actual costs/revenues and the benchmarks are shared between shareholders and ratepayers on a sliding scale consisting of two bands. The first band covers variances from the benchmark ranging from 0 to 2.0 percent and is shared 70:30 between ratepayers and shareholders in favor of the ratepayers. The second band covers variances greater than 2.0 percent and is shared 50:50 between ratepayers and shareholders. Since the 1998 inception of its PBR, through May 2015, Atmos states in its Report that it has been encouraged to achieve total savings of approximately $65 million, with the majority of this amount going to its customers.[2]

Atmos responded to two rounds of data requests from Commission Staff. There are no intervenors in this proceeding.

ISSUES

Atmos proposes no changes to the operation of its PBR mechanism. It proposes to update its PBR tariff for the addition of ANR Pipeline Company ("ANR Pipeline") as a new source of supply in its Transportation Index Factor benchmark calculation and its Gas Acquisition Index Factor benchmark calculations for the Supply Area Index factor for Base Load ("SAIBL") and the Delivery Area Index factor for Base Load, and to change certain supply points that are included in its benchmark calculations for the SAIBL. It also proposes a change to the Supply Area Index factor for Swing Load ("SAISL") index calculations from the average of the daily high and low of *Gas Daily* postings, which involves a manual calculation on the part of Atmos, to the published midpoint of the *Gas Daily* postings. According to Atmos, the change to a published price posting will reduce the possibility that a calculation will be made in error. Atmos

[2] Application, Report on Performance-Based Ratemaking at 6.

provided information sufficient to show that the difference in the calculated and published prices would not adversely affect its customers' sharing portion.

Atmos's proposed PBR tariff also reflects a change in the tariff name, with the word "Experimental" removed from the former tariff name of "Experimental Performance Based Rate Mechanism." Atmos states that the word "Experimental" is no longer needed because the program has proven its worth and met its intent.[3]

Atmos proposes to extend the term for its modified experimental PBR an additional five years, through May 31, 2021. Atmos states that the program has resulted in significant savings for customers over the 17 years it has been in use, and that continuing to extend the PBR for five years will allow it to continue to provide benefits to both Atmos's customers and shareholders.

Atmos proposes to file an evaluation report on the results of the first four years of the PBR extension within 90 days of the end of the fourth year. At that time, it will propose any modifications to the PBR mechanism for the Commission's review.[4]

ANALYSIS

Atmos has been able to demonstrate that it has pursued innovative approaches to gas commodity purchases and transportation service arrangements as a result of the PBR mechanism.

Atmos states that its total measurable gas purchase savings resulting from the PBR was approximately $23,611,248 for the four-year review period.[5]

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[3] Atmos's Response to Commission Staff's Second Request for Information, Item 2.

[4] Application, Report on Performance-Based Ratemaking at 8.

[5] Atmos's Response to Commission Staff's First Request for Information, Item 1.

Based on the Application and Atmos's responses to Staff requests for information, it appears that its requests to update its PBR tariff for the addition of ANR Pipeline as a new source of supply; to change certain supply points for the SAIBL; and to change the SAISL index calculations from the average of *Gas Daily* postings to the published midpoint of the *Gas Daily* are reasonable. The Commission further concludes that it is reasonable to continue the PBR for five years, at which time the mechanism should again be reviewed. 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.

SUMMARY

The Commission, based on the evidence of record and being otherwise sufficiently advised, finds that:

1. The PBR tariff revisions proposed by Atmos should be approved as of the date of this Order and continue in effect through May 31, 2021.

2. The PBR mechanism should be approved and extended for an additional five years through May 31, 2021.

3. Atmos's report on the results of its current PBR should be accepted.

4. Within 90 days of the end of the fourth year of the five-year extension, Atmos should file 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.

IT IS THEREFORE ORDERED that:

1. Atmos's proposed PBR tariff revisions are approved as of the date of this Order and shall continue in effect through May 31, 2021.

2. Atmos's PBR mechanism shall be extended for an additional five years through May 31, 2021.

3. Atmos's report on the results of the current PBR mechanism is accepted.

4. Atmos shall file annual reports of its activity under the extended PBR including the same information as contained in the report filed in this proceeding. These reports shall be filed by August 31 of each calendar year, commencing in 2016.

5. Within 90 days of the end of the fourth year of the five-year extension, Atmos shall file an evaluation report on the results of the PBR for the first four years of the extension period, and the Commission shall review same for purposes of determining whether the PBR should be continued, modified, or terminated.

6. Atmos shall, within 20 days of the date of this Order, file its revised tariff sheets setting out the revisions to its PBR tariff approved herein, and reflecting that they were approved pursuant to this Order.

By the Commission

ENTERED
MAR 31 2016
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:

Aaron D. Greenwell for
Acting Executive Director

*Atmos Energy Corporation
3275 Highland Pointe Drive
Owensboro, KY 42303

*Mark A Martin
Atmos Energy Corporation
3275 Highland Pointe Drive
Owensboro, KY 42303

*Mark R Hutchinson
Wilson, Hutchinson & Littlepage
611 Frederica Street
Owensboro, KENTUCKY 42301

REQUEST:

Refer to the Submission and Report generally. Provide a detailed list of all other states that have approved natural gas PBR mechanisms. Further, explain how Atmos' PBR mechanism compares to PBR mechanisms in the other states.

RESPONSE:

Please see the Company's response to Staff DR No. 1-11.

Respondent: Brannon C. Taylor

REQUEST:

Refer to the Report, page 1. Atmos states that the "[a]ctual 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."

a. Identify the case in which the Commission ordered each benchmark of costs.

b. Explain in detail how Atmos' benchmarks are calculated.

c. Provide a detailed explanation of how any excess costs are allocated between the shareholders and customers.

d. Explain whether Atmos and/or its shareholders have ever absorbed costs under the PBR mechanism.

e. Explain whether Atmos' customers have absorbed costs under the PBR mechanism.

RESPONSE:

a. Atmos Energy's current Kentucky PBR Tariff effective 3/31/2016 was issued 8/27/2015 by Authority of an Order of the Public Service Commission in Case No. 2015-00298. Benchmarks have been part of the PBR program since its inception in Case No. 1997-00513. Just as there have been changes in the Company and in the natural gas industry, the benchmarks have evolved over time. For the most part, the current GAIF benchmark was approved by Commission Order in Case No. 2010-00353.

b. Please see the Company's response to AG 1-05 for an overview of how the benchmarks are calculated. Please refer to Atmos Kentucky PBR tariff sheets 18 – 29 for the most detailed descriptions of how Atmos Energy's benchmarks are calculated.

c. Please see the Company's response to AG DR No. 1-02, and in particular see Atmos Kentucky PBR Tariff Sheet 29 for a detailed description of the ACSP - Applicable Company Sharing Percentage.

d. In the history of the Company's Kentucky PBR program, the Company has purchased gas at prices above the benchmark and the shareholders have absorbed portions of those individual purchases. Also, please see the Company's response to Staff DR No. 1-03.

e. In the history of the Atmos Energy Kentucky PBR program, Kentucky customers have not been assessed gas costs greater than benchmark. Atmos Energy seeks recovery of prudently incurred gas costs from its Kentucky customers through the GCA tariff. The PBR mechanism itself generates no program costs.

Respondent: Brannon C. Taylor

REQUEST:

Refer to the Report, page 1. Atmos contends that the “PBR also serves to eliminate the reasonableness review of gas procurement costs.”

a. Specify whether the Commission stated the above quoted language in an Order, and if so, provide the applicable case reference.

b. Explain in detail why the PBR should eliminate the reasonableness review of gas procurement costs.

RESPONSE:

a. The Company is not aware of the above-quoted language appearing in a Commission Order. However, the Commission's Order of April 14, 2000 in Case No. 99-00447, states that "[u]nder normal circumstances, a presumption of prudence is inherent in established benchmark standards of performance." Absent extraordinary circumstances such as were present in Case No. 99-00447, which involved the termination of a contract and subsequent award of that contract to an affiliate at less favorable terms, the PBR does serve to eliminate the reasonableness review of gas procurement costs.

b. Under normal circumstances, the PBR should eliminate the reasonableness review of gas procurement costs because it establishes up-front regulatory oversight as opposed to an after-the-fact prudence review. It would be logically inconsistent for the Commission to approve an unreasonable benchmark for gas price.

Respondent: Brannon C. Taylor

REQUEST:

Refer to the Report, page 1. Atmos states that on June 1, 1998, the Commission approved Atmos' proposal with slight modifications. Explain what modifications the Commission made to the proposal.

RESPONSE:

Please see the Commission Order dated June 1, 1998 in Case No. 1997-00513.

Respondent: Brannon C. Taylor

REQUEST:

Refer to the Report, page 1. Atmos asserts that 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. Explain why Atmos entered into a new gas supply contract based upon the result of the Commission's PBR Order.

RESPONSE:

Please see Case No. 1997-00513.

Respondent: Brannon C. Taylor

REQUEST:

Refer to the Report, page 2. Atmos states that on June 15, 2001, the Commission approved an extension of Atmos' PBR pilot through March 31, 2002. Explain why the extension of the PBR approved by the Commission was for less than one year.

RESPONSE:

Please see Case No. 1997-00513.

Respondent: Brannon C. Taylor

REQUEST:

Refer to the Report, page 2. Atmos asserts that on March 25, 2002, the Commission approved the PBR program, as modified, for a period of four years, commencing on April 1, 2002. Provide the modifications that Atmos is alluding to in the above-referenced statement.

RESPONSE:

Please see the Commission Order dated March 25, 2002 in Case No. 2001-00317.

Respondent: Brannon C. Taylor

REQUEST:

Refer to the Report, page 2. Atmos states that it filed 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.

a. With regard to the PBR mechanism, provide the names of all companies that Atmos has contracted with for asset management between 2010-2020, and the corresponding year(s) each company acted as the asset manager.

b. Explain in detail the asset manager's duties as it relates to the PBR mechanism.

c. Explain whether any of the current or past asset managers are affiliated with Atmos.

RESPONSE:

a. Please see confidential Attachment 1 for a list of Kentucky asset managers between 2010 and 2020.

b. The asset managers have no duties whatsoever related to the PBR mechanism. The asset managers' duties pertain the provision of natural gas supply and asset management of the Company's transportation and storage capacity, as stated in the contracts.

c. Atmos Energy had an affiliated asset manager, Atmos Energy Marketing, LLC. (AEM), prior to January 2017. On January 3, 2017, CenterPoint Energy Services, Inc. (CES) purchased one hundred percent of the equity ownership interest of AEM. As a result of that transaction, AEM became a wholly-owned subsidiary of CES. Atmos Kentucky has not had a marketing affiliate since that date. Prior to 2017, Atmos Energy petitioned for and received KY PSC approval of each Kentucky asset management arrangement with the affiliate.

ATTACHMENT:

ATTACHMENT 1 - AG_1-13_Att1 - KY Asset Managers (CONFIDENTIAL).xlsx, 1 Page.

Respondent: Brannon C. Taylor

<u>REQUEST:</u>

Refer to the Report, page 2. Atmos states that on February 8, 2006, the Commission approved Atmos' proposal with slight modifications for a five-year term through May 31, 2011. Explain in detail what modifications the Commission made to the proposal.

<u>RESPONSE:</u>

Please see the Commission Order dated February 8, 2006 in Case No. 2005-00321.

Respondent: Brannon C. Taylor

REQUEST:

Refer to the Report, page 2. Atmos asserts that on December 7, 2010, the Commission approved Atmos' proposal with slight modifications for a five-year term through May 31, 2016. Explain in detail what modifications the Commission made to the proposal.

RESPONSE:

Please see the Commission Order dated December 7, 2010 in Case No. 2010-00353.

Respondent: Brannon C. Taylor

REQUEST:

Refer to the Report, page 2. Atmos states that on March 31, 2016, the Commission approved Atmos' proposal for extension and tariff modifications for a five-year term through May 31, 2021. Explain in detail what modifications the Commission made to the proposed extension of the PBR and to the tariff.

RESPONSE:

Please see the Commission Order dated March 31, 2016 in Case No. 2015-00298.

Respondent: Brannon C. Taylor

REQUEST:

Refer to the Report, pages 2-3.

a. Atmos states that when designing a contract model for the PBR mechanism, it assumed that the contract must be competitively bid in order to minimize price. Explain Atmos' process to competitively bid the contracts for the PBR mechanism.

b. Provide the names of all companies that have won Atmos' PBR contracts between 2010-2020.

c. Atmos states that when designing a contract model for the PBR mechanism, it assumed that 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. Explain in detail why this would generate greater overall discounts.

d. Atmos asserts that a comprehensive gas supply contract would encourage bids without supply reservation fees. Explain this assertion more fully.

e. Atmos states that maximizing the term of the contract and the opportunities available to potential bidders under the contract would further maximize bids. Explain this assertion more fully.

f. Atmos asserts that 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 as well as savings. Explain this assertion more fully.

RESPONSE:

a. The AG's question misinterprets the wording in the Company's PBR Report pages 2-3 in the current Case No. 2020-00289. Atmos Energy does not have contracts for the PBR mechanism. The specific wording being referenced by AG is as follows: "*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, …*"

The Company's Gas Supply Department has documented the RFP process in its Gas Supply Procedures manual, attached herein as Attachment 1.

For the Kentucky jurisdiction, additional steps are incorporated in the RFP process: the bidders are instructed to mail their proposals directly to an outside accounting firm who documents the receipt of the bids, opens, tabulates and forwards scanned copies to the Gas Supply Department. All aspects of the bids, the analysis, the recommendation and contract are kept confidential at all times.

b. The AG's question asks about PBR contracts; to be clear, Atmos Energy does not issue PBR contracts. The Company contracts for Gas Supply and Asset Management of our Transportation and Storage capacity. If the AG is asking for the list of companies that have won our Gas Supply and Asset Management Agreements from 2010-2020, that list was provided in confidential Attachment 1 to the Company's response to AG DR No. 1-13.

c. For a given service area (i.e location), Atmos Energy projects the weather-normalized baseload supply requirements which is critical information provided in the Request for Proposal (RFP). By limiting the contract to a single source supplier, the bidder will have assurance of a sale. If multiple suppliers were selected to serve the exact same location, the bidders would have no guarantee of any sales. If a party is up against others to provide the full requirements for a location, they will bid more aggressively to win the deal as opposed to having no assurances and multiple suppliers.

d. For the same reasons stated in the response to subpart (c), if a supplier wins a competitive bid for the comprehensive gas supply requirements in a given service area, there is reasonable assurance of a sale (under normal weather conditions) and in such a case, there is no need for the suppler to charge a fixed supply reservation fee. Such fees are typically only charged on a supply service where there is reasonable potential for no sales.

e. Atmos Energy's Gas Supply and Asset Management requirements can be quite complex, requiring a level of experience, market sophistication and dedication from the asset manager. The asset managers invest a lot of time and resources in managing Atmos transportation and storage capacity reliably and economically. The Company realizes that a short term contract would not be worth the effort, and strives to issue asset management agreements that are three to five years in length. Sometimes the timing of the expiration of the underlying capacity requires an AMA to be of shorter duration.

f. 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. The following is stated on page 7 of Atmos Energy's report: "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 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." Especially for the GAIF, having the AMA pricing and the benchmark pricing using the same indices makes calculation of the savings straight forward. Also, since the benchmark indices were established with an eye to the physical locations of the underlying capacity, it logically follows that the AMA pricing would use the same indices.

Respondent: Brannon C. Taylor

<u>ATTACHMENT:</u>

ATTACHMENT 1 - AG_1-17_Att1 - RFP Process.pdf, 8 Pages.

Request for Proposal (RFP) Process

Revised October, 2019

The RFP process is standardized across Atmos' Regional Gas Supply Offices. The following procedures are a part of the overall RFP process:

- RFP Overview
- RFP Preparation & Posting
- Bid Receipt, Evaluation & Award
- Contracting
- Supplier Registration & Qualification
- Bid Evaluation and Documentation Procedure
- Sample Recommendation

The Gas Supply Specialist / Representative shall maintain a complete file documenting the RFP process for each RFP.

RFP Overview

The Request for Proposal ("RFP") is the process by which Atmos solicits qualified suppliers in the marketplace to submit proposals for gas supply services. An RFP document is drafted using a standardized format, reviewed, and approved by management in compliance with the RFP Process. The RFP document specifies the terms and conditions for the required supply, and the terms to which the supplier must adhere to in submitting their proposals, including response deadlines and methods.

The RFP document may contain, but is not limited to the following:

- ✓ Jurisdiction for which the RFP is being issued,
- ✓ Schedule of volumes, by supply category (i.e., baseload vs. incremental) for which a bid is being requested,
- ✓ For asset management arrangements, additional information shall be provided, detailing parameters of asset management, contract MDQs, storage detail, constraints, unwinding language to determine settling imbalance at end of deal,
- ✓ Any special circumstances surrounding the delivery / receipt of supply,
- ✓ The terms under which the proposal are to be made,
- ✓ The pricing methodology acceptable for submitting bids,
- ✓ The right to reject any or all proposals,
- ✓ Inform suppliers the proper means for submitting questions relating to the RFP,
- ✓ The deadline by which the proposal is to be made, and the method in which it is to be transmitted,
- ✓ The amount of time a bid is to remain valid.

Upon finalizing the RFP documents and receiving Management verbal approval, the Gas Supply Specialist / Representative posts the RFP to the Atmos RFP website with the appropriate issue date and bid deadline entered into the system.

RFP Preparation & Posting

The Gas Supply Specialist / Representative obtains the most recent supply requirements estimate from the Planning Analyst. The estimate provides twelve months of weather normalized system sales requirements (excluding estimated transportation customers' usage). This estimate is utilized by the Gas Supply Specialist / Representative to develop the Gas Supply plan, which may include requirements for first of month baseload, day ahead incremental, peaking and storage (planned injections/withdrawals), delivered supply, exchange service and asset management requirements. An RFP can cover all or any of these requirements. The Gas Supply Specialist / Representative, the Regional Manager and the Planning Department discuss and determine the details of the RFP, including specific supply, term, and whether the RFP will be a Commodity Supply-Only RFP or a bundled Asset Management and Supply RFP.

The RFP document will be drafted by the Gas Supply Specialist / Representative utilizing the standard format prescribed. The RFP is reviewed with the Manager Regional Gas Supply and the Director of Gas Supply and Services. The Business Division VP, Rates and Regulatory Affairs and Legal Department may be consulted regarding regulatory guidelines and compliance. In some jurisdictions the RFP draft may be submitted to regulatory staff prior to issuance.

The Gas Supply Specialist / Representative posts the RFP document and supporting materials to the Atmos RFP Website. The Website generates email notifications to suppliers who have registered as users on the website, which the Gas Supply Specialist / Representative documents. When required for regulatory purposes, the RFP is advertised in the prescribed manner. The Gas Supply Specialist / Representative reviews questions submitted by suppliers to the RFP Website, and advises the Regional Manager of RFP questions along with proposed responses. Responses are posted to the website in a timely manner as provided for in the RFP.

Bid Receipt, Evaluation and Award

Suppliers submit bid proposals to the Gas Supply Specialist / Representative in accordance with the guidelines stated in the RFP (in KY, bids may be directed to an outside accounting firm for initial compilation). The Gas Supply Specialist / Representative proceeds as follows:

- Receive bid proposals and note the date received to ensure bid deadline stated in the RFP has been met;
- Ensure that bids are not opened until after the deadline stated in the RFP letter;
- Enlist the Manager or the Manager's designee to be present as a witness during the opening and initial review of the proposals;
- Review proposals in more detail to ensure compliance with RFP request, and if clarification is needed, discuss with the Manager the appropriate actions;
- Prepare a timely evaluation of the proposals adhering to the Bid Evaluation Procedure included as a part of this RFP Process.
- Prepare a bid recommendation similar to the **"Sample Bid Recommendation and Approval Memo"** included herein.

Upon completion of the RFP process, the Gas Supply Specialist / Representative presents the evaluation and recommendation to the Regional Manager, and obtains approval. The evaluation and recommendation is forwarded to the Director of Gas Supply & Services for review and approval (if greater than 1 year, contains asset management services, or with an affiliate). If the winning bidder is an affiliate, additional approvals must be sought from the Business Division VP, Rates and Regulatory and the Legal Department. A copy of the recommendation is forwarded to the Business Division VP, Rates and Regulatory Affairs.

The Regional Manager verbally authorizes the Gas Supply Specialist / Representative to proceed with notifying the suppliers in the prescribed manner whether or not their proposal was selected as the winning bid. All details are kept strictly confidential and not shared with the suppliers. Suppliers with non-conforming bids are advised of the reason their proposal was rejected.

Contracting

The RFP Process shall commence to allow for sufficient time to finalize and have an executed transaction confirmation prior to the effective date of the deal. Additional time must be allotted for the process if regulatory approval is required prior to commencement.

Once the winning bidder of the RFP is selected, the Gas Supply Specialist / Representative is responsible for the following:

- Contact Gas Supply Administration to determine if a NAESB exists for the winning supplier, and if not, coordinate the effort to have a NAESB established and executed.
- Coordinate the process between Atmos and the new supplier to prepare a Transaction Confirmation (TC) or Addendum to the base NAESB. This may involves the Gas Supply management, Contract Administration, Legal Department and the Supplier.
- Ensure proper pricing and business deal provisions included in Addendum.
- Coordinate execution of the Addendum.
- Prepare RFP regulatory reports as requested by the Business Unit VP, Rates and Regulatory Affairs.

Supplier Registration & Qualification

Suppliers interested in receiving the Company's RFPs are encouraged to register on the Atmos RFP Website. A list of the registered users is available to the Gas Supply department. Suppliers have the flexibility to select which pipeline and Business Division RFPs for which they wish to receive notification.

To determine the financial qualification of a supplier prior to awarding a bid, the Gas Supply Specialist / Representative confers with the Regional Manager, and then may request the Company's Treasury Department to assist in the evaluation.

Minimum supplier qualifications may include:

- Own or control (right to sell) sufficient supply in the appropriate pipeline area to meet the Company's needs (supply warranty).
- Have a strong reliable performance record with the Company, or be willing to accept the Company's contractual terms to ensure reliability
- For companies new to the list, references which can be contacted to provide information on the vendor's past performance with them.
- Have a strong financial position capable of meeting the necessary financial requirements set by the Company (specifically with agency agreements).

Bid Evaluation and Documentation Procedure

A bid evaluation / documentation file shall be set-up for each RFP submitted. Both a hard copy file and an electronic file should be developed and maintained throughout the evaluation process.

The file shall include the following:

- A copy of the RFP document and all attachments that were included;
- A copy of the questions or requests for clarification from suppliers, and the Company's responses;
- List of suppliers that were emailed notification of the RFP;
- List of suppliers that viewed the RFP;
- Supplier proposals submitted by the deadline;
- Documentation of proposals returned due to late bids;
- Documentation of non-conforming proposals;
- A copy of the evaluation, recommendation; approval and executed agreement;
- Any other pertinent information.

After the bid deadline, each proposal is analyzed in comparison to the other proposals. This is done by calculating the differentials between each proposal against some purchase standard, usually a supply plan. An evaluation spreadsheet is prepared to include premium or discount for each proposal as compared to the appropriate indices for the particular supply area. All assumptions are footnoted. Careful attention is paid to different proposed pricing points, demand charges, flexibility, and cost. All indices that are used on the evaluation spreadsheet shall be the same index or adjusted to the appropriate index (basis difference).

As a general rule, the vendor proposing the best cost offer is recommended to management as the winning bid, though there can be exceptions to this. Exceptions may include the downgrading of a vendor's financial status from the time the RFP was issued, issues concerning reliability and operational issues. Once management has approved a recommendation, the winning bidder is notified by written (email) and verbal notice of the Company's acceptance of their offer. The Gas Supply Administration and Legal departments provide support in executing an Agreement and Transaction Confirmation/Addendum. All non-winning bidders are notified by email.

"Sample Bid Recommendation and Approval Memo"

Atmos Energy Corporation
October 6, 20XX

Recommendations for Atmos Energy Corporation
November 1, 20XX – March 31, 20XX
Winter Gas Supply Requirements in Kansas
Submitted for Review October 6, 20XX

Atmos Energy Corporation (AEC) issued a Request for Proposal (RFP) to solicit proposals for winter gas supply requirements on Kinder Morgan Interstate Pipeline (KMI) effective November 1, 20XX through March 31, 20XX.

RFP's were issued to nineteen (19) potential suppliers. AEC received proposals from four (4) suppliers and four (4) suppliers declined to submit a proposal, but requested to remain on the Bid List. Bids were received from the following:

Supplier 1
Supplier 2
Supplier 3
Supplier 4

Follow up questions were asked of Select suppliers about their bid and based on inconsistencies and vagueness concerning the firm delivery of gas, their bid was not considered. In the review of the bids given, Supplier 3 presented the best bid for baseload and swing gas. Their proposal allows for a $.01 premium on first of the month index for Southern Star and $.01 also for swing gas at the Gas Daily midpoint price on Southern Star. In the event Supplier 3 must source the gas from Huntsman Storage the premium will change to $.20. Historically we have not had to use that option.

Based on our review it is recommended that Atmos accept Supplier 3's proposal for the Kinder Morgan Pipeline.

Submitted By:

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Gas Supply Representative
Atmos Energy Corp.

Approved By:

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Manager, Regional Gas Supply
Atmos Energy Corp.

Final Approval:

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Vice President

REQUEST:

Refer to the Report, page 3. Atmos contends 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.

a. Explain what operational controls Atmos retained with regard to the PBR mechanism.

b. Explain the strict performance requirements that Atmos establishes for the supplier.

c. Explain why this would enhance the reliability of its supply, especially during periods of peak demand.

RESPONSE:

a. The AG's question makes an incorrect assumption regarding the language in the report on page 3. The report reads "*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."* The operational controls referenced are not referring the PBR mechanism. Rather these are operational controls in the Gas Supply and Asset Management Agreement, primarily surrounding target storage inventory levels in the winter to assure system reliability. Here are some of the operational controls that were being referred to:

Behind City Gate (on system) Storage
Customer has five behind city gate company-owned storage facilities and one behind city gate storage contract, East Diamond Storage. Customer's Gas Control Department retains operational control of all behind city gate storages. This operational control, as it relates to the Customer's storage fields, is intended to ensure the physical integrity and limitations of markets served by the storage fields. These behind city gate storages are used to service Customer requirements in TGT Zone 3, particularly Owensboro and Madisonville, KY service areas and may not be used outside the Customer's system. The behind city gate storages cannot peak-shave all of Zone 3. Manager will have the flexibility to vary from the established storage plan, but Customer will ensure that service to its core markets is not jeopardized as a result of Manager's deviation from the plan. Manager may use the facility for asset optimization purposes under the following conditions:

– Maintain a physical inventory balance of at least 50% in both the Owensboro and the Madisonville storage groups through the end of each January to ensure operational deliverability during peak times

- Maintain a physical inventory balance of at least 50% in East Diamond through the end of each January to ensure operational deliverability during peak times
- Maintain a physical inventory of at least 25% in the Texas Gas NNS storage accounts on contracts #29760, #29762 and #29763 through February 15.
- Customer, in its sole discretion, may approve storage levels below 50% before the end of January at either of the Owensboro or Madisonville storage groups if Manager can provide firm delivered service at the applicable ANR or TGT delivery point to replace storage withdrawals:
  - The ANR delivery points cannot fully replace the storage withdrawals,
  - ANR point #201846 Stanley can be utilized to support and replace storage withdrawals for the Owensboro group, but limited to 6,000 Dth/day.
  - ANR point #201838 Beulah (currently inactive) can be utilized to support and replace storage withdrawals for the Madisonville group,
  - Texas gas meters #1924 and #1942 can be utilized to support and replace storage withdrawals for the Owensboro group,
  - Texas gas meters #1939 and #1948 can be utilized to support and replace storage withdrawals for the Madisonville group,
  - Customer, in its sole discretion will approve any replacement of storage withdrawals and system demand will limit volumes replaced.
- Customer, in its sole discretion, may limit storage withdrawals or injections to protect the integrity of the storage field and/or distribution system.
- Customer, in its sole discretion, will dispatch storage withdrawals to support the areas of the distribution system where needed.

For operational purposes, the physical and Plan storage inventory levels must be at the appropriate levels at the beginning of each winter season to ensure reliability of supply. All storage contracts are to be physically filled to the required storage Plan levels of approximately ninety-five percent (95%) of the maximum storage quantity on the Agreement termination date of October 31, 2020, unless otherwise agreed upon in writing between the Customer and Manager.

b. Please see the response to subpart (a).

c. Please see the response to subpart (a).

Respondent: Brannon C. Taylor

REQUEST:

Refer to the Report, page 4. Atmos asserts that the arithmetic average of the basket of indices for base load purchases within the PBR mechanism utilizes New York Mercantile Exchange ("NYMEX"), Henry Hub, and Inside FERC. Atmos further states that Platt's Gas Daily is used for incremental purchases. Explain the similarities and differences between how Atmos, LG&E, and Columbia Kentucky calculate the base load purchases within the individual PBR mechanisms.

RESPONSE:

OBJECTION. Atmos Energy objects on the grounds that the question is unduly burdensome, as it would require Atmos Energy to conduct extensive analysis of the PBR filings of Columbia Kentucky and LG&E and seeks information which is available to both parties equally.

Respondent: Counsel

REQUEST:

Refer to the Report, page 4. Atmos states that 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. Explain why this was seen as a "value-added" feature.

RESPONSE:

Page 4 of Atmos Energy's Report in this current proceeding goes on to explain as follows:

"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."

As a condition of a gas supply and asset management agreement, Atmos Energy releases on a recallable basis its transportation and storage capacity at a zero rate release and transfers its storage inventory to the asset managers subject to the asset managers obligation to provide Atmos Energy's full requirements, up to Atmos Energy's transportation and storage contractual entitlements, to Atmos Energy's distribution systems. Demand charges associated with the zero rate capacity releases are billed directly to Atmos Energy by the pipeline.

The asset managers acknowledge that it is paramount in their role as asset manager, to not impair or adversely affect, under any circumstances the reliability of Atmos Energy's system or service to its customers through any action or inaction.

The asset managers rights to storage and associated transportation are secondary to Atmos Energy's rights.

The reason this is considered a value-added feature is that certain assets may be unused after the asset manager has supplied Atmos' full gas supply requirements. The asset manager is willing to assume the obligations and risks that may lead to financial loss which accompany the potential for financial gain in connection with the value optimization of such otherwise unused assets.

Respondent: Brannon C. Taylor

<u>REQUEST:</u>

Refer to the Report, page 4. Atmos avers that it retained full operational control through mandatory compliance with a prescribed seasonal storage and operational plan, and non-performance penalties and remedies.

a. Further expound upon Atmos' mandatory compliance with a prescribed seasonal storage and operational plan.

b. Explain in detail whether Atmos has ever assessed non-performance penalties, and if so, what remedy was provided by the supplier.

<u>RESPONSE:</u>

a. Please see the Company's response to AG DR No. 1-18 subpart (a).

b. The Company has not assessed non-performance penalties to a Kentucky asset manager.

Respondent: Brannon C. Taylor

REQUEST:

Refer to the Report, page 5.

a. Provide the names of all the pipeline companies that Atmos has used for transportation of natural gas between 2010-2020. Ensure to include whether any of the companies are affiliates of Atmos.

b. Explain whether receiving segmented capacity from Atmos Mississippi violates any affiliate transaction law(s).

c. Explain in full detail what the Asset Manager's responsibilities are with respect to Atmos' PBR mechanism.

RESPONSE:

a. Atmos Energy is not affiliated with any interstate pipelines in Kentucky. The pipelines on which Atmos Energy or its Asset Manager transport gas for the benefit of Kentucky customers are as follows:

   - Tennessee Gas Pipeline Company, LLC (TGP)
   - Texas Gas Transmission LLC (TGT),
   - Trunkline Gas Company LLC (Trunkline), and
   - ANR Pipeline Company (ANR).

   Additionally, the supplier/asset manager has the flexibility to bring in supply on the following pipeline that has an interconnect with Atmos KY; however, Atmos Energy holds no capacity on this pipeline:

   - Midwestern Gas Transmission Company (MGT).

b. All the LDC operating divisions of Atmos Energy are part of a single legal entity, Atmos Energy Corporation. Thus, Atmos Mississippi is not an affiliate of Atmos Kentucky. The segmented capacity releases are done in conformance with applicable rules, laws, and regulations, and posted on the specific pipelines' electronic bulletin boards.

c. Please refer to the Company's response to AG DR No. 1-13 subpart (b). The asset managers have no duties nor responsibilities whatsoever related to the PBR mechanism. The asset managers' duties pertain the provision of natural gas supply and asset management of the Company's transportation and storage capacity, as stated in the contracts.

Respondent: Brannon C. Taylor

REQUEST:

Refer to the Report, page 6.

a. Explain in detail why Atmos stopped performing capacity releases in 2011.

b. Explain why Atmos is requesting to continue including the capacity release component within the Transportation Cost component mechanism if it has not been used since 2011.

c. Explain in detail why the Off-System Sales mechanism has not been directly utilized under the PBR mechanism.

d. Explain why Atmos is requesting to continue including the Off-System Sales mechanism in the PBR mechanism if it has not been directly utilized.

RESPONSE:

a. Atmos Energy actually had three small capacity release transactions, one each in December 2017, January 2018 and February 2018, with total capacity release savings of $16,789. The transaction and savings were reported in the KY PBR report on the Transport Discount line rather than the Capacity Release line item. Capacity release savings are within the TIF PBR tariff section, so even though not itemized by Atmos, the total TIF savings were accurately calculated. On page 6 of the Report, Atmos Energy explains why capacity release has declined. "*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.*"

b. See the Company's response to Staff DR No. 1-02 subpart (b).

c. Off System sales are not utilized by Atmos Kentucky because the Company holds significant storage resources in Kentucky such that excess supply can be injected rather than sold off. Also, by the nature of Asset Management Arrangements, transportation capacity is released to the asset manager. That capacity must first and foremost be used to meet the Atmos Kentucky system requirements. Any excess capacity over and above the Company's requirements may be optimized by the asset manager. The asset manager may actually be performing off system sales as part of their optimization efforts. In recognition of the value of the capacity released, the asset manager provides value in the AMA in the form of discounted index pricing and/or fixed capacity utilization credits.

d. Please see the response to subpart (b).

Respondent: Brannon C. Taylor

REQUEST:

Explain in full detail whether Atmos believes a PBR mechanism is still necessary in the current low-cost natural gas environment.

RESPONSE:

See the Company's response to Staff DR No. 1-04 subpart (e).

Respondent: Brannon C. Taylor

REQUEST:

State whether any Atmos affiliated local distribution company ("LDC") operates, or operated in the past, under a gas procurement PBR mechanism. If so, provide the details of the mechanism.

RESPONSE:

Please see the Company response to Staff DR No. 1-11.

Respondent: Brannon C. Taylor

<u>REQUEST:</u>

Provide the total amount of PBR savings from April 1, 2016 through the present day.

<u>RESPONSE:</u>

The Kentucky PBR mechanism runs June to May annually. The Kentucky PBR 4th Year Report in this Case is for the period June 1, 2016 through May 31, 2020. AG's request adds two months, April 2016 and May 2016 onto the front end of the review period, and four additional months, June, July, August and September 2020, following the review period. The Atmos Kentucky PBR Savings for the period April 1, 2016 through September 30, 2020 are set out in confidential Attachment 1.

<u>ATTACHMENT:</u>

ATTACHMENT 1 - AG_1-26_Att1 - KY PBR Savings Apr'16-Sep'20 (CONFIDENTIAL).xlsx, 1 Page.

Respondent: Brannon C. Taylor

REQUEST:

Provide the total amount of PBR savings from April 1, 2016 through the present day, broken down by cost component.

RESPONSE:

Please see the Company's response to AG DR No. 1-26.

Respondent: Brannon C. Taylor

REQUEST:

Provide the total amount of PBR savings from April 1, 2016 through the present day, broken down by the monetary amounts attributed to the shareholders versus the customers.

RESPONSE:

Please see the Company's response to AG DR No. 1-26.

Respondent: Brannon C. Taylor

REQUEST:

Provide all costs that Atmos incurs on a yearly basis that is associated with the PBR mechanism, and identify whether the shareholder or customer pays for the costs.

RESPONSE:

There are no incremental costs of operating the PBR mechanism.

Respondent: Brannon C. Taylor

Case No. 2020-00289
Atmos Energy Corporation, Kentucky Division
AG DR Set No. 1
Question No. 1-30

REQUEST:

Refer to the Motion to Modify and Extend Performance Based Ratemaking Mechanism, and refer to the Report, page 7, wherein Atmos states it proposes no changes to its existing PBR mechanism. Provide clarification as to whether Atmos is requesting a modification to its PBR mechanism, and if so, identify all modifications regarding the same.

RESPONSE:

Atmos Energy is requesting a modification to the dates of its PBR mechanism, as well as clarifying what should happen in the event that a pipeline used by the Company to transport or store natural gas received an Capital Cost and Recovery Mechanism similar to Columbia Gas Pipeline's.

Respondent: Brannon C. Taylor