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August 30, 2024

Linda C. Bridwell, P.E.
Executive Director
Public Service Commission
211 Sower Blvd. Frankfort, KY 40601

Re: Atmos Energy Corporation
Case No. 2024-00205

Dear Ms. Bridwell:

Atmos Energy Corporation, by counsel, submits its Application for Extension of Its Gas Cost Adjustment Performance Based Ratemaking Mechanism. Included with the Application is the 2020-00289 Evaluation Report. A Petition for Confidentiality for Exhibit A (Annual Report) and Exhibit B (Evaluation) of the Application is also being filed.

Pursuant to the Commission's Order of July 19th, the customer notice is being published for three consecutive weeks beginning the week of August 19th, 2024.

I certify that the electronic documents are true and correct copies of the original documents and that no party has been excused from electronic service.

If you have any questions about this filing, please contact me.

Submitted By:

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Attorneys for Atmos Energy Corporation

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF:

REQUEST OF ATMOS ENERGY CORPORATION	)
FOR EXTENSION OF ITS	)
GAS COST ADJUSTMENT PERFORMANCE BASED	) CASE NO. 2024-00205
RATEMAKING MECHANISM	)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Submitted this 30th day of August 2024.

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Attorneys for Atmos Energy Corporation

CERTIFICATE OF SERVICE

This is to certify that this electronic filing was filed with the Commission on August 30, 2024 and there are no parties the Commission has excused from electronic participation. Pursuant to prior Commission Orders, no paper copies of this filing will be made.

John N. Hughes

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Counsel, Atmos Energy Corporation

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF:

REQUEST OF ATMOS ENERGY CORPORATION	**)**	
FOR EXTENSION OF ITS	**)**	
GAS COST ADJUSTMENT PERFORMANCE BASED	**)**	**CASE NO.**
RATEMAKING MECHANISM	**)**	**2024-00205**

APPLICATION OF ATMOS ENERGY CORPORATION

COMES NOW Atmos Energy Corporation ("Atmos Energy" or "Company") and hereby submits its Application to renew its Gas Cost Adjustment Performance Based Rate ("PBR") mechanism.

In support of this Application, Atmos Energy submits the testimony of Trisha E. Young, Director Gas Supply Planning & Contract Administration. A petition for confidentiality is being filed with this Application with regard to information in both Exhibits A and B. In further support, Atmos Energy states as follows:

1. On June 20, 2022, the Kentucky Public Service Commission ("Commission") entered an Order in Case No. 2020-00289 approving an extension, as modified, of Atmos Energy's PBR mechanism for a period from the date of the Order through May 31, 2025. The Commission's Order required Atmos Energy to file annual reports of its activities under the PBR program by August 31 of each year. The annual report ("Annual Report") submitted within this Application covers the period from June 2023 through May 2024 and is attached as Exhibit A. The Commission's Order further directed that, "within 60 days after May 31, 2024, Atmos shall file an evaluation report ("Evaluation Report") on the results of the PBR mechanism for the PBR years ending in 2021 through 2024. This report shall be considered in any proceeding established to continue, modify,

or terminate the PBR mechanism." (the "Annual Report" attached as Exhibit A, and the 'Evaluation Report" attached as Exhibit B shall collectively be referenced in this Application as "Reports" or "the Reports").[1] Exhibits A and B contain information that is confidential. A petition for confidentiality is being filed with this Application for information contained in both Exhibits. In addition, the Reports have also been submitted in the post-case files in Case No. 2020-00289.

2. Atmos Energy files the instant application requesting a five-year renewal of its PBR mechanism, in the same form as approved by the Commission's June 20, 2022 Order, through May 31, 2030. Atmos Energy will continue to annually report its PBR program activity and submit an evaluation report as directed by the Commission.

3. Atmos Energy provided notice to its customers of the PBR filing by publishing in newspapers of general circulation in its service territory. The customer notice has been published in each of the newspapers the first time prior to the filing the Application. Atmos Energy will publish notice a total of three consecutive weeks. A copy of the notice is attached to this Application as Exhibit D.

4. As more fully explained by witness Trisha E. Young, Atmos Energy's PBR mechanism is comprised of three components (a) the Gas Acquisition Index Factor ("GAIF"); (b) the Transportation Index Factor ("TIF") mechanism; and (c) the Off-System Sales Index Factor ("OSSIF"). Atmos Energy's GAIF is broken into three component parts: the GAIFBL measures the base load gas costs against benchmarks, the GAIFSL measures swing load system supply costs against benchmarks, and the GAIFAM measures fixed discounts provided by the supplier for asset management rights, if any, not directly tied to per unit natural gas purchases. The TIF component of Atmos

1 Case No. 2020-00289, *Electronic Request of Atmos Energy Corporation for Modification and Extension of its Gas Cost Adjustment Performance Based Ratemaking Mechanism*, (Ky PSC June 20, 2022), Order at 14.

Energy's PBR mechanism is calculated by determining the difference between the benchmark demand and volumetric gas transportation costs and the actual demand and transportation costs. The OSSIF in Atmos Energy's PBR mechanism is simply the Net Revenue from the Off-System Sales, which is calculated by taking the total revenue associated with off-system sales and storage service transactions and subtracting the out-of-pocket costs associated with off-system sales and storage transactions.[2]

5. The Commission's June 20, 2022 Order in Case No. 2020-00289 ordered that Atmos Energy's PBR mechanism should be modified so that variances ranging from 0 to 9.4 percent of Atmos Energy's actual gas costs will be shared 70 percent to ratepayers and 30 percent to shareholders and variances greater than 9.4 percent will be shared 50/50 between ratepayers and shareholders.[3]

6. The structure of Atmos Energy's PBR mechanism serves as an effective incentive for Atmos Energy to devote its resources to secure gas that is both safe and reliable and yet at a lower cost than otherwise would be achieved. This is the definition of a well-designed PBR and the type of extra effort in performance that the incentive is designed to encourage. The purpose of the incentive is to provide an opportunity for shared benefits to customers and shareholders for successfully reducing overall gas cost compared to established deregulated market and regulated market approved rates, as applicable.

7. Exhibits in support of this Application contain: (A) the Annual Report with the quantitative results of Atmos Energy's PBR program for the period June 2023 through May 2024; (B) the Evaluation Report with the cumulative quantitative results of Atmos

2 Atmos Energy's Gas Tariff, PSC KY No. 2, First Revised Sheets No. 18-24.
3 Case No. 2020-00289, *Electronic Request of Atmos Energy Corporation for Modification and Extension of its Gas Cost Adjustment Performance Based Ratemaking Mechanism*, (Ky PSC June 20, 2022) Order at 11.

Energy's PBR program for the four-year period from June 2020 through May 2024; (C) the proposed tariff revisions; (D) customer notice; and (E) certificate of authorization.

8. The Reports establish that the PBR program has proven to be very beneficial to both the Company's customers and its shareholders. Total measurable gas purchase savings attributable to the PBR program for the period from June 2020 through May 2024 was approximately $33.9 million. Atmos Energy believes it to be in the best interest of the Company and its customers to extend the PBR program for a five (5) year period commencing June 1, 2025.

WHEREFORE, for all the reasons set forth above, including the attached reports, and the testimony of witness Trisha E. Young, Atmos Energy respectfully requests that the Commission extend Atmos Energy's proposed five-year renewal of its PBR mechanism described herein.

Respectfully submitted this 30th day of August 2024.

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Attorneys for Atmos Energy Corporation

VERIFICATION

I, Brannon C. Taylor, being duly sworn under oath state that I am Vice President of Rates and Regulatory Affairs Kentucky Mid-States Division for Atmos Energy Corporation, and that the statements contained in the foregoing Petition are true as I verily believe.

Brannon C. Taylor

Pamela Pleasant
Notary Expires: JANUARY 24, 2028

PAMELA PLEASANT
STATE OF TENNESSEE NOTARY PUBLIC
DAVIDSON COUNTY, TENN.

CERTIFICATE OF SERVICE

I hereby certify that on the 30th day of August, 2024, the original of this Application, with the Confidential Information for which confidential treatment is sought was electronically filed with the Kentucky Public Service Commission, 211 Sower Boulevard, P.O. Box 615, Frankfort, Kentucky 40602, and a copy was emailed to the following named persons:

Angela Goad
Assistant Attorney General
Office of Rate Intervention
700 Capitol Ave.
Frankfort, Kentucky 40601
www.ag.ky.gov

John N. Hughes

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Counsel for Atmos Energy Corporation

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

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

ATMOS ENERGY CORPORATION

REPORT ON PERFORMANCE-BASED RATEMAKING
REPORT PERIOD: JUNE 2020 – MAY 2024
KPSC CASE NO. 2024-00205

August 30, 2024

Introduction

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

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

A. Overview

On December 19, 1997, Atmos Energy Corporation ("Atmos Energy" or "Company"), then Western Kentucky Gas Company, filed with the Kentucky Public

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

00289 to extend the PBR Mechanism for an additional five-year term, commencing on June 1, 2021. On June 20, 2022, the Commission approved the Company's PBR mechanism for an extension through May 31, 2025.

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

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

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

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

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

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

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

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

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

C. Atmos Energy's Innovative Approach to Transportation Purchases

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

1. Pipeline Discounts

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

2. Capacity Release

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

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

II. Forward-Looking Proposals

A. Continuation of Existing Mechanisms

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

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

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

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

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

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

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

III. Extension Period & Future Reporting

A. <u>Extension Period</u>

Atmos Energy's original PBR mechanism was for an experimental period of three years, and then was extended for an additional nineteen years. This evaluation report shows that during the 26 years the PBR mechanism has been in existence, the program has resulted in significant savings for customers. Therefore, Atmos Energy proposes to extend its PBR mechanism for an additional five-year term, through May 31, 2030. The Commission has previously extended the Company's PBR program in five-year increments starting in 2006. The Commission extended the Company's current PBR program for four years in 2022. The PBR continues to be beneficial to both the Company and its customers. Extending the

PBR mechanism will continue to provide significant benefits to the Company’s customers, as well as its shareholders.

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

B. Future Reports

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

EXHIBIT C: Proposed tariff revisions.

ATMOS ENERGY CORPORATION
(NAME OF UTILITY)

PBR

Performance Based Rate Mechanism

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 performance based ratemaking mechanisms, which 12-month period shall be defined as the PBR period. The PBR mechanism will expire on May 31, 2030 unless extended by order of the Public Service Commission. (T)

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 30, 2024
Month/Date/Year

DATE EFFECTIVE October 1, 2024
Month/Date/Year

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

ISSUED BY /s/ Brannon C. Taylor
Signature of Officer

TITLE Vice President – Rates and Regulatory Affairs

ATMOS ENERGY CORPORATION
(NAME OF UTILITY)

PBR

Performance Based Rate Mechanism (Continued)

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 94%, then the ACSP of 30% shall be applied to TPBRR to determine CSPBR. If the absolute value of the PTAGSC is greater than 9.4%, then the ACSP of 30% shall be applied to the amount of TPBRR that is equal to 9.4% 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 9.4% 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 2025. (T)

Review

Within 60 days after May 31, 2029, the Company will file an evaluation report on the results of the PBR mechanism (T) for the final year of the previous approval period and the first three years of the extension period. In that report and assessment, the Company will make any recommended modifications to the PBR mechanism.

DATE OF ISSUE August 30, 2024
Month/Date/Year

DATE EFFECTIVE October 1,2024
Month/Date/Year

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

ISSUED BY /s/ Brannon C. Taylor
Signature of Officer

TITLE Vice President – Rates and Regulatory Affairs

ATMOS ENERGY CORPORATION
(NAME OF UTILITY)

PBR

Performance Based Rate Mechanism

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 performance based ratemaking mechanisms, which 12-month period shall be defined as the PBR period. The PBR mechanism will expire on May 31, ~~2025~~ 2030 unless extended by order of the Public Service Commission. ~~(T)~~ (T) ~~(N)~~

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 x 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 ~~June 20,2022~~ August 30, 2024
Month/Date/Year

DATE EFFECTIVE ~~June 20,2022~~ October 1, 2024
Month/Date/Year

Issued by Authority of an Order of the Public Service Commission in Case No. ~~2020-00289 dated June 20,2022~~

ISSUED BY /s/ Brannon C. Taylor
Signature of Officer

TITLE Vice President – Rates and Regulatory Affairs

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 94%, then the ACSP of 30% shall be applied to TPBRR to determine CSPBR. If the absolute value of the PTAGSC is greater than 9.4%, then the ACSP of 30% shall be applied to the amount of TPBRR that is equal to 9.4% 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 9.4% of TAGSC to determine a portion of CSPBR. These two portions are added together to produce the total CSPBR. ~~(T)~~ ~~(T)~~ ~~(T)~~ ~~(T)~~

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 ~~2022~~2025. (T)

Review

Within 60 days after May 31, ~~2024~~2029, the Company will file an evaluation report on the results of the PBR mechanism for the final year of the previous approval period and the first three years of the extension period. In that report and assessment, the Company will make any recommended modifications to the PBR mechanism. (T) ~~(T)~~ ~~(T)~~

DATE OF ISSUE ~~June 20,2022~~August 30, 2024
Month/Date/Year

DATE EFFECTIVE ~~June 20,2022~~October 1, 2024
Month/Date/Year

Issued by Authority of an Order of the Public Service Commission in
Case No. ~~2020-00289~~

ISSUED BY /s/ Brannon C. Taylor
Signature of Officer

TITLE Vice President – Rates and Regulatory Affairs

EXHIBIT D: Customer Notice

NOTICE

Atmos Energy Corporation ("Atmos Energy") intends to propose revisions to its tariff extending its Gas Cost Performance Based Ratemaking mechanism ("PBR") on file with the Kentucky Public Service Commission ("Commission") by applying for an extension for five years with the Commission on or after August 30, 2024 in Case No. 2024-00205. The tariff filing will request that the proposed revisions become effective on October 1, 2024.

		Rates		
Rate Class	**Present**	**Proposed**	**Dollars Increase**	**Percent Increase**
G-1 PBR Charge	$0.1680 per Mcf	$0.1680 per Mcf	$0	0%
G-2 PBR Charge	$0.1680 per Mcf	$0.1680 per Mcf	$0	0%
Total Impact to Atmos Revenues			$0	0%

Atmos Energy intends to propose an extension of five years to its PBR mechanism revising Sheet No. 18 of its Commission-approved tariff until May 31, 2030. Atmos Energy is also proposing updating Sheet No. 29 for the annual reports date to begin in 2025 and the review date to begin in 2029 to match the proposed five-year extension proposal. Atmos Energy believes the PBR has been a benefit to its customers and its shareholders. The PBR mechanism is explained in detail in Sheets Nos. 18-29 of its tariff and Atmos Energy is not requesting that it be revised.

Additional information, links, and a copy of Atmos Energy's tariff revisions can be found at Atmos Energy's principal office (3275 Highland Pointe Drive, Owensboro, KY 42303) and on its website (https://www.atmosenergy.com/utility-operationsrates/tariffs-kentucky/). A person may examine this tariff filing at the Commission's office at 211 Sower Blvd. Frankfort, Kentucky, Monday through Friday, 8:00a.m. to 4:30 p.m., or through the Commission's website at http://psc.ky.gov. Comments may be submitted to the Commission through its website or by mail at P.O. Box 615, Frankfort, KY 40602. A person may submit a timely written request for intervention to the Commission, 211 Sower Boulevard, Post Office Box 615, Frankfort, Kentucky 40602, establishing the grounds for the request including the status and interest of the party. If the Commission does not receive a written request for intervention within thirty (30) days of the initial publication or mailing of the notice, the Commission may take final action on the tariff filing. The Commission's phone number is (502) 564-3940 and its website is http://psc.ky.gov. The revisions contained in this notice are the revisions proposed by Atmos Energy but the Commission may order revisions that differ from the proposed revisions contained in this notice. Atmos Energy is not proposing any changes to any rate schedules and the average customer bill will not change.

EXHIBIT E: Certificate of Authorization

Commonwealth of Kentucky
Michael G. Adams, Secretary of State

Michael G. Adams
Secretary of State
P. O. Box 718
Frankfort, KY 40602-0718
(502) 564-3490
http://www.sos.ky.gov

Certificate of Authorization

Authentication number: 317575
Visit https://web.sos.ky.gov/ftshow/certvalidate.aspx to authenticate this certificate.

I, Michael G. Adams, Secretary of State of the Commonwealth of Kentucky, do hereby certify that according to the records in the Office of the Secretary of State,

ATMOS ENERGY CORPORATION

, a corporation organized under the laws of the state of Texas, is authorized to transact business in the Commonwealth of Kentucky, and received the authority to transact business in Kentucky on December 14, 1987.

I further certify that all fees and penalties owed to the Secretary of State have been paid; that an application for certificate of withdrawal has not been filed; and that the most recent annual report required by KRS 14A.6-010 has been delivered to the Secretary of State.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my Official Seal at Frankfort, Kentucky, this 19th day of August, 2024, in the 233rd year of the Commonwealth.

COMMONWEALTH OF KENTUCKY
OFFICE OF SECRETARY OF STATE

Michael G. Adams

Michael G. Adams
Secretary of State
Commonwealth of Kentucky
317575/0237484

BEFORE THE PUBLIC SERVICE COMMISSION

COMMONWEALTH OF KENTUCKY

IN THE MATTER OF:

REQUEST OF ATMOS ENERGY CORPORATION	**)**	
FOR EXTENSION OF ITS GAS COST	**)**	
ADJUSTMENT PERFORMANCE BASED	**)**	**Case No. 2024-00205**
BASED RATEMAKING MECHANISM	**)**	

<u>TESTIMONY OF TRISHA E. YOUNG</u>

**INDEX TO THE DIRECT TESTIMONY
OF TRISHA E. YOUNG, WITNESS FOR
ATMOS ENERGY CORPORATION**

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME, POSITION AND BUSINESS ADDRESS.

A. My name is Trisha E. Young. I am Director of Gas Supply Planning and Contract Administration for Atmos Energy Corporation ("Atmos Energy" or "Company"). My business address is 1100 Poydras Street, Suite 3400, New Orleans, Louisiana 70163.

Q. PLEASE BRIEFLY DESCRIBE YOUR CURRENT RESPONSIBILITIES, AND PROFESSIONAL AND EDUCATIONAL BACKGROUND.

A. I am primarily responsible for forecasting natural gas usage, securing upstream transportation and storage, and overseeing Gas Supply contract administration. I received my Bachelor of Science in Chemical Engineering from Louisiana Tech University and a Master of Business Administration from the University of Houston. I worked for several pipeline companies from the late 1990s until 2016 when I joined Atmos Energy and have had successive roles of increasing responsibility in the Gas Supply Department.

Q. HAVE YOU SUBMITTED TESTIMONY BEFORE THE KENTUCKY PUBLIC SERVICE COMMISSION ("COMMISSION")?

A. Yes. I testified on behalf of the Company in Case No. 2020-00289.

Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY ON MATTERS BEFORE OTHER STATE REGULATORY COMMISSIONS?

A. No.

II. PURPOSE AND SUMMARY OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. My direct testimony will support the Company's application to extend its existing Performance Based Ratemaking Mechanism ("PBR Mechanism") in Kentucky.

III. PBR MECHANISM

Q. PLEASE PROVIDE THE PRIOR HISTORY OF THE COMPANY'S EXISTING PBR MECHANISM.

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

Q. PLEASE EXPLAIN THE PBR MECHANISM OPERATION.

A. While the full PBR Mechanism may be found in the Company's Tariff, the PBR Mechanism consists of three distinct components: (1) commodity costs ("GAIF"); (2) transportation costs ("TIF"); and, (3) off-system sales transactions ("OSSIF"). The PBR Mechanism functions by benchmarking commodity costs and transportation costs, and then allocating the differences between actual costs and the benchmarks between the Company and its customers. When actual gas costs are less than the established benchmark, Atmos Energy and customers share in the savings through two established tiers. Variances ranging from 0 to 9.4 percent of Atmos Energy's actual gas costs will be shared 70 percent to customers and 30 percent to shareholders and variances greater than 9.4 percent will be shared 50/50 between customers and shareholders. The shared savings are the incentives the PBR Mechanism creates for Atmos Energy. When actual gas costs are greater than the established benchmark, Atmos Energy and its customers share in the excess costs, applying the same two tiers and sharing percentages. This represents the potential risks of the PBR Mechanism to the Company.

Q. PLEASE DESCRIBE THE PBR MECHANISM COMPONENTS IN FURTHER DETAIL.

A. These components[1] are described in detail within the Atmos Energy Tariff, but practical descriptions follow:

The GAIF is the Gas Commodity Cost component mechanism, which includes base load purchases, swing purchases and fixed asset management discounts. The

[1] Capitalized terms not defined herein have the same meanings as in the Atmos Energy Tariff.

benchmarks for baseload purchases are the average of Inside Federal Energy Regulatory Commission ("FERC") Index price and New York Mercantile Exchange ("NYMEX"). The benchmark for swing purchases is the Gas Daily Index midpoints.

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 is 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 is the tariffed Pipeline Commodity Rate multiplied by Actual Volumes delivered at the Company's city gate by the applicable transportation provider. The Actual Transportation Costs ("TAATC") paid by Company for the PBR Mechanism period includes 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 surcharges and direct bills, less actual capacity release credits.

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 Energy Tariff.

Q. PLEASE DISCUSS THE COMPANY'S APPROACH TO GAS COMMODITY PURCHASES IN RELATION TO THE PBR MECHANISM.

A. Atmos Energy's response to the rewards and penalties inherent in the PBR

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

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

Q. PLEASE EXPLAIN THE ACTIONS THE COMPANY WOULD DO DIFFERENTLY IN ITS APPROACH TO GAS COMMODITY PURCHASES WITHOUT THE EXISTENCE AND INCENTIVES OF THE PBR MECHANISM.

A. Currently, the Company accepts a certain level of price risk in exchange for the opportunity to generate savings against a benchmark. Most of the savings gained are passed on to the customers via the PBR Mechanism. Without the PBR Mechanism, the Company would no longer be incentivized to hold capacity at locations with significant commodity price risk against the relevant index price. A certain amount of our entitlements are at locations with greater price volatility that the Company would likely seek to change. Moving to points with more price stability may lower the uncertainty of gas cost, but the tradeoff may be an overall cost increase.

Q. PLEASE DISCUSS THE COMPANY'S INNOVATIVE APPROACH TO TRANSPORTATION PURCHASES.

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

Q. PLEASE DESCRIBE THE STRATEGIES THAT ATMOS ENERGY UTILIZES REGARDING PIPELINE DISCOUNTS FOR KENTUCKY.

A. It is difficult for local distribution companies to obtain pipeline discounts from their respective pipeline supply source. Nevertheless, as existing pipeline contracts have been extended or re-negotiated, Atmos Energy has aggressively used alternative pipeline suppliers and potential service from those alternative suppliers as a bargaining tool to negotiate meaningful discounts. As a result, Atmos Energy has been able to renegotiate discounted transportation capacity arrangements. Additionally, Atmos Energy has implemented an innovative strategy for generating pipeline demand savings through the receipt of segmented capacity from another Atmos Energy division. Atmos Energy identified a cost savings opportunity for its Mississippi ("Atmos Energy MS") and Kentucky ("Atmos Energy KY") divisions. Atmos Energy MS created savings by releasing firm pipeline capacity to Atmos Energy KY. The capacity is shared via a segmented capacity release, essentially dividing the transportation path into an Atmos MS segment and an Atmos Energy KY segment. Each segment is recognized by the interstate pipeline as a separate contract segment with its own firm entitlements; the cost is split between the two divisions and invoiced separately by the pipeline and the Company is still able to receive firm service on both contract segments. This provides a lower demand charge than the Atmos Energy MS and Atmos Energy KY divisions would pay if they individually acquired capacity from the pipeline. Savings generated through the segmented release flows through the PBR Mechanism Transportation Cost Component.

Another Atmos Energy innovation that provides Transportation Cost savings is the limited use of Asset Manager provided delivered supply service. It is a bundled supply and transportation service, seasonal in nature. The Asset Manager charges no or a minimal demand fee, resulting in significant Transportation Cost savings as compared to what Atmos Energy would otherwise pay to contract for long-term, year-round pipeline capacity.

Q. ARE THERE RISKS AND INCENTIVES TO ACHIEVE SAVINGS WITHIN THE PBR MECHANISM THAT WOULD NOT EXIST OTHERWISE?

A. Yes. While the methods that the Company employs to achieve savings can be replicated from year to year, they are not automatic nor are they riskless. As discussed above, more recently due to changes in the availability of natural gas, the Company has been able to segment transportation contracts to avoid pipeline demand charges. The Company's decision to segment capacity to generate savings against benchmarked transportation costs under the PBR Mechanism exposes the

Company to greater risk at its segmented receipt point than it would otherwise be willing to undertake. With the use of a segmented contract, the Company must rely on non-traditional receipt points with less liquidity and potentially more price risk. It is the PBR Mechanism that creates the incentive for the Company to take on this risk.

Similarly, when evaluating potential pipeline transportation contracts, the Gas Supply Planning Department must balance the potential tradeoff in enhanced Asset Management value with the liquidity and pricing of gas supply at various receipt points. In the absence of the PBR Mechanism, there would be no analysis of a balancing of incentives versus risks to perform. The Gas Supply Planning Department would select receipt points in accordance with the "least cost acquisition" standard, based on cost and reliability, which, while less risky, could be more costly for customers.

Q. FOR KENTUCKY SPECIFICALLY, PLEASE EXPLAIN IN MORE DETAIL HOW WITH THE USE OF A SEGMENTED CONTRACT THE COMPANY MUST RELY ON NON-TRADITIONAL RECEIPT POINTS WITH LESS LIQUIDITY AND POTENTIALLY MORE PRICE RISK.

A. When Atmos Energy KY purchases discounted segmented capacity, the receipts on the Atmos Energy KY segment may be at non-traditional points (*e.g.,* traditional receipts are Gulf Coast, Louisiana, and Texas). Non-traditional receipt points (such as TGP Portland pool or Texas Gas Zone 2 Dyersburg) may not be as liquid as traditional receipt points, and thus the market-based prices at these points may be higher. There is a trade-off between lower transportation cost and potentially higher commodity supply prices; however, the mechanics of the Kentucky PBR Mechanism place this supply price risk on Atmos Energy, a risk that the Company would not otherwise incur (referring to the Company's obligation within the PBR Mechanism to share in costs greater than benchmark). In the absence of a PBR Mechanism, the Kentucky customers would bear the full price risk of prudently incurred gas costs.

Q. DOES THE PBR BENCHMARK CREATE ADDITIONAL INCENTIVES AND RISKS FOR THE COMPANY THAT WOULD NOT OTHERWISE EXIST?

A. Yes. Establishing a benchmark price creates additional price risk for the Company. In the early years of the PBR Mechanism (December 2000), Atmos Energy was required to make swing purchases due to the extreme cold weather. Due to these swing purchases, the Company incurred an average actual price for supplies purchased in December 2000 in excess of the benchmark price.

The downside of Atmos Energy’s price risk under the PBR Mechanism was then realized. Under high prices and constrained supply (due to cold weather and heavy demand) the Company paid more for some gas supplies than the benchmark price established under the PBR Mechanism. Ordinarily, Atmos Energy’s customers would have paid the full price of these purchases. Under the PBR Mechanism, however, Atmos Energy’s customers benefited because they actually paid only half the difference between the PBR Mechanism benchmark and the purchase price. Atmos Energy’s shareholders absorbed the other half - over $1,000,000.

While natural gas prices are not as high as they were in December 2000, market price volatility persists. For instance, throughout the past four years, the Henry Hub natural gas price has fluctuated from as low as $1.24 to as high as $23.605

Q. DO YOU BELIEVE THE PBR MECHANISM STRIKES THE RIGHT BALANCE TO INCENTIVIZE THE COMPANY TO TAKE ON GREATER PRICE RISK AND GENERATE GREATER SAVINGS?

A. Yes. The PBR Mechanism's historical performance demonstrates that it effectively incentivizes the Company to continuously seek savings and reduce costs. The Company's contracting decisions under the "least cost acquisition" standard would result in different outcomes for gas costs, transportation costs, and asset management transactions.

Q. PLEASE EXPLAIN WHETHER THE "LEAST COST ACQUISITION" STANDARD IN PURCHASING NATURAL GAS SUPPLIES AND PIPELINE TRANSPORTATION SERVICES EXISTS ABSENT THE PBR MECHANISM.

A. The "least cost acquisition" of natural gas must also consider reliability of supply (cost is not the only consideration). Further, the prudence of acquisition practices must be considered at the time they occur and not *post facto.*

The "least cost acquisition" standard exists absent the PBR Mechanism. However, the prudency of the Company's actions is reviewed differently with the PBR Mechanism than it is without it. Without the PBR Mechanism, the Company would hold different transportation capacity and its purchasing options and prices would be different.

The application of the "least cost acquisition" standard of review will result in different conclusions with and without the PBR Mechanism.

IV. CONCLUSION

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, at this time.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF:

REQUEST OF ATMOS ENERGY CORPORATION	)	
FOR EXTENSION OF ITS	)	
GAS COST ADJUSTMENT PERFORMANCE BASED	)	**CASE NO.**
RATEMAKING MECHANISM	)	**2024-00205**

CERTIFICATE AND AFFIDAVIT

The Affiant, Trish E. Young, being duly sworn, deposes and states that the prepared testimony attached hereto and made a part hereof, constitutes the prepared direct testimony of this affiant in Case No. 2024-00205 and that if asked the questions propounded therein, this affiant would make the answers set forth in the attached prepared direct pre-filed testimony.

Trisha E Young

Trisha E. Young

STATE OF LOUISIANA

PARISH OF ORLEANS

SUBSCRIBED AND SWORN to before me by Trisha E. Young on this the 28 day of August, 2024.

Notary Public

My Commission Expires:

STEPHEN T. PERRIEN
Notary Public
Parish of Orleans, State of Louisiana
My Commission is Issued for Life.
Bar No. 22590
Notarial No. 49480