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APR 13 2009

**PUBLIC SERVICE
COMMISSION**

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OVERNIGHT DELIVERY

April 10, 2009

Jeff R. Devouen
Executive Director
Kentucky Public Service Commission
211 Sower Blvd.
PO Box 615
Frankfort, Kentucky 40602

RE: CASE NO. 2008-00449
Atmos Energy Corporation

Dear Mr. Devouen:

I am enclosing herewith, an original, plus eleven (11) copies of Atmos Energy Corporation's Response to Attorney General's Comments in connection with the above-referenced case for filing in your office. Thank you.

Very truly yours,

Mark R. Hutchinson
Mark R. Hutchinson 

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APR 13 2009

PUBLIC SERVICE
COMMISSION

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF ATMOS ENERGY CORPORATION)
TO EXTEND ITS DEMAND-SIDE MANAGEMENT PROGRAM) CASE NO.
AS AMENDED, AND COST RECOVERY MECHANISM,) 2008-00499
AS AMENDED, FOR THREE (3) YEARS)

RESPONSE OF ATMOS
TO ATTORNEY GENERAL'S COMMENTS

Comes now Atmos Energy Corporation (hereinafter referred to as "Atmos" or "Company"),
by counsel, and for its Response to the Attorney General's Comments states as follows:

I. INTRODUCTION

Part I of the Attorney General's Comments sets forth a synopsis of Atmos' current Demand Side Management Program ("DSM"), as well as a summary of the amendments being proposed by Atmos. The Attorney General has done a yeoman's job in providing an overview of Atmos' current DSM program, including historical data, as well as summarizing the amendments being proposed.

II. RESPONSE TO ATTORNEY GENERAL'S COMMENTS

Atmos appreciates the opening comment of the Attorney General that it "...generally applauds the company's efforts..." regarding the DSM program (p. 6 of Attorney General's Comments). Moreover, it appears that conceptually the Attorney General is supportive of the DSM program and the proposed amendments (with the exception of the educational component, which the Attorney General objects to) but recommends various changes to certain specifics within the program. In response, Atmos will briefly address those recommendations of the Attorney General with which Atmos does not concur.

(1) The Attorney General first addresses the monitoring and reporting requirements for the DSM program (p. 6 of the Attorney General’s Comments). Atmos certainly concurs that the program should be continually monitored and reports should be regularly made to the Commission and the Attorney General. Atmos does not concur with the expanded monitoring and reporting requirements being recommended by the Attorney General. Atmos proposes to continue to monitor the DSM program and report the levels of participation as it has historically done – with the exception that the monthly reports which the Company has historically filed with the Commission (and which it proposes to continue to file), would be expanded to include any new component of the DSM program approved by the Commission (i.e. rebates and education). The Company also proposes to continue to file a revised DSMRC annually. This calculation will summarize cost expenditure levels, as well as future expected levels of participation. If approved, Atmos will report to the Commission the effectiveness of each component in seeking a renewal in future years.

In short, the Attorney General and Atmos both agree that monitoring and reporting is important and should be continued. Atmos simply does not concur with the expansive monitoring and reporting requirements suggested by the Attorney General. Atmos believes historical monitoring and reporting requirements have been effective and cost efficient.

The Attorney General next suggests that the Company should be required to define the “true up” process in detail and require that the results not be based exclusively on engineering estimates, but also on actual savings as measured by independent engineering evaluations. (p.6 of the Attorney General’s Comments).

The Company supports the concept of keeping the DSM program reasonably balanced and believes it has accomplished that balance by utilizing the DSM balancing adjustment (DBA). The Company proposes to continue to do so in the future. As stated in the application, the DBA will be used to reconcile each component of the program. Reference is also made to proposed tariff sheet

no. 40 which states:

“...the DBA shall be calculated on a calendar year basis and be used to reconcile the difference between the amount of revenues actually billed through the DSMRC and the revenues which should have been billed. The DBA for the upcoming twelve (12) month period shall be calculated as the sum of the balance adjustments for the DCRC, DLSA and DIA. For the DCRC, DLSA and DIA the balance adjustment shall be the difference between the amount billed in a twelve (12) month period and the actual cost of the DSM Program during the same twelve (12) month period.”

Lastly, as to the “Lost Sales” (DLSA) component, there again appears to be some confusion. As set forth above, the Lost Sales (DLSA) component will be billed as part of the DSMRC and the true up will occur through the DBA.

(2) The Attorney General’s Comments, commencing on page seven, address certain details of each of the three components of Atmos’ proposed DSM program. Specifically, the Low Income Weatherization program (the “Weatherization” component), the High Efficiency Bonus/Boiler/Water Heater program (the “Rebate” component) and the education program (the “Education” component). In responding, Atmos will use the same subpart heading format as the Attorney General utilized in its Comments.

(a) Low Income Weatherization.

The Attorney General recommends against increasing the weatherization limits from \$1500.00 to \$3000.00 per household as proposed by Atmos (p.8 of the Attorney General Comments). The Attorney General does not, however, oppose an overall increase in the weatherization budget from \$200,000 to \$300,000. The Attorney General’s rationale appears to be based on the premise that Atmos is proposing \$300,000 as the maximum amount that will be spent on the weatherization component. The \$300,000 was not proposed as a cap or maximum limit. It is an estimate only for the first year of the program. It was arrived at by multiplying the estimated number of participating households (estimated

to be 100) by the requested \$3,000 per household. The Company wants to be able to provide the help agencies with the appropriate funds to weatherize the greatest number of homes of qualifying low income customers as possible.

The Attorney General proceeds to argue that the only justification provided by Atmos for increasing the \$1500.00 per household limit to \$3,000 was inflation. Inflation is certainly one of the factors, but not the only one provided by Atmos. See Atmos' Response to the KPSC Initial Data Request 1(d). It should also be noted that Missouri's public utility regulatory agency approved a \$3500.00 per household limit for Atmos' DSM in that state. [Case No. GR-2006-0387].

As to the American Recovery and Reinvestment Act of 2009 (ARRA), the Attorney General correctly points out that there has been a significant increase in the level of weatherization assistance to low income households (\$6500.00 per home). The ARRA also increased the level of eligibility from 150% to 200% of the federal poverty level. It is anticipated, however, that the funds available under the ARRA may only be available for a small window of time.

The Attorney General is also correct in stating that Atmos proposes to use the same eligibility standard and that this will increase the number of households eligible for weatherization benefits under Atmos' DSM Program. As set forth above, the Attorney General is incorrect, however, when he suggests that Atmos proposes to limit the number of participants to 100 households and when he suggests that the Atmos proposal limits the weatherization component to \$300,000 per year. These were estimates and projections. Lastly, the Attorney General suggests that participation in the weatherization program should not be limited to Atmos' low income customers, but should be made available to all customers. The Attorney General states that all of the Company's customers could benefit

from some level of weatherization services and that the Commission should require Atmos to amend its proposed program to include some level of weatherization services for all of its customers. Atmos respectfully disagrees. The DSM program was originally designed to specifically provide assistance to low income families and it should continue to be so limited. An expansion of the program to all residential customers would presumably dilute the funds available to low income households.

(b) High Efficiency Furnace/Boiler/Water Heater Program

Although the Attorney General generally supports this proposed new component of the DSM, it recommends that the level of benefits be indexed to the size of the unit installed by the customer. The Attorney General opines on page 13 of its Comments that "...obviously larger unit sizes costs customers more to purchase and install and the benefit available to customers should reflect this increased cost".

The Company does not agree with the Attorney General's position on this point.

The cost of a unit is only one element in arriving at the amount of the rebate. The rebate is primarily an incentive to encourage the customer to purchase fully efficient equipment regardless of the size needed. In fact, customers should be encouraged to use the smallest size unit possible that still fits the heat loss design of the home. For example, the heat loss design of a home may indicate that a 80,000 btu furnace would be sufficient but a 100,000 btu unit would provide "room for error". Under the Attorney General proposal, even though the larger unit cost more, the customer would be encouraged to go with the larger unit since he would simply get the additional cost back in rebate money. By doing that, customers would have an incentive to buy larger furnaces or other appliances than they need and thereby consume more energy than necessary.

Also, customers who need larger units typically live in larger homes and more likely are

more affluent. Under the Attorney General's proposal, the more affluent would be entitled to receive higher rebates than the less fortunate. That again is not, in the opinion of the Company, the purpose of the DSM program.

(c) Education Program.

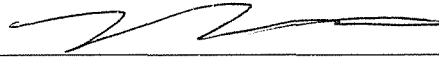
The Attorney General says that this new proposed component of the DSM is nothing more than money being spent on "goodwill" for the Company and has little or no measurable impact on energy usage. The children being targeted are at the age where they are most likely to take the information home and share it with their parents. While the children themselves are not customers, their parents may be and hopefully will be influenced by the education information to become more energy efficient. In any event, the proposed cost of this component of the program is de minimus. While the company did not endeavor to calculate any precise savings which would arise from this component that does not mean that no savings will occur. Although difficult to calculate, there should be no question but that the concept of educating younger children to be more energy efficient has great merit.

SUMMARY

Atmos worked closely with its collaborative board to develop the programs being proposed in this proceeding. They are designed to provide meaningful energy savings assistance to as many qualifying households as possible, consistent with Commission policies. Atmos appreciates the input which has been provided by the Attorney General both in this proceeding and in its participation with Atmos' collaborative board, and looks forward to continuing to work with the Attorney General. Atmos and the Attorney General have a difference of opinion on some of the programs details, but not as to the fundamentals of the program. Atmos believes for the reasons stated in its Application, its Responses to Data Requests, and above, that the Commission should approve its DSM renewal

application as filed.

Respectfully submitted,



Mark R. Hutchinson
611 Frederica Street
Owensboro, Kentucky 42301

Douglas Walther
ATMOS ENERGY CORPORATION
PO Box 650250
Dallas, Texas 75265

VERIFICATION

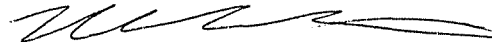
I, Mark A. Martin, being duly sworn under oath state that I am Vice President of Rates and Regulatory Affairs for Atmos Energy Corporation, Kentucky/Midstates Division, and that the statements contained in the foregoing Petition are true as I verily believe.



Mark A. Martin

CERTIFICATE OF SERVICE

I hereby certify that on the 10 day of April, 2009, the original of this Response, together with eleven (11) copies were filed with the Kentucky Public Service Commission, 211 Sower Blvd., P.O. Box 615, Frankfort, Kentucky 40206 and upon Dennis Howard, Office of Attorney General, 1024 Capital Center Drive, Suite 200, Frankfort, Kentucky 40601.



Mark R. Hutchinson