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February 23, 2010

Jeff Derouen
Executive Director
Public Service Commission
211 Sower Blvd.
Frankfort, KY 40601

Re: Atmos Energy Corporation
Case No. 2009-00354

Dear Mr. Derouen:

Atmos Energy Corporation submits for filing responses to the Commission's third data request and the Attorney General's Supplemental data request. A copy of this filing has been delivered to the Attorney General.

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

Submitted By:

John N. Hughes
124 West Todd St.
Frankfort, KY 40601
Attorney for Atmos Energy Corporation

Attachments

REQUEST:

Refer to Item 3a., Attachment 1 , of the response to the Commission Staffs Second Data Request ("Staffs Second Request"). Monthly base load usage for all three customer classes increased in 2009, with residential monthly base load at the highest level since 2004. To what does Atmos attribute this base load increase, and how does Atmos reconcile the residential base load increase with its projected .03 Mcf decrease per residential customer per year?

RESPONSE:

Upon further analysis of the referenced attachment, we conclude that the apparent change in base load reflected is not accurate. In the attachment to KPSC DR 3a, the monthly base load usage is computed as the average class usage for the months of July and August. For all years except for the FY 2009 period, the month of July is under the Company's meter estimation program and August is not. Therefore, combining the two months accurately accounted for the period; any estimation variances in July would be captured with the actual reads in the month of August.

In FY 2009, however, the Company altered its meter estimation schedule with the month of July as a read month and August is estimated. Therefore, the original attachment to KPSC DR 3a base load calculation for FY 2009 includes July, which would make up for June estimation variances, and August which is an estimation month. The more appropriate calculation for base load in FY 2009 would be the average of the two months of August and September (an actual read month). Please see Attachment 1 for the appropriately revised schedule. Note that the residential base load reflects a further decline from prior years.

Attachment 1 also includes a new column k which shows the average base load per residential customer and a trend line decline of 0.039 Mcf per year. The Company's original estimate of 0.03 was based upon a nine-year analysis with an estimate for FY 2009 data not available at the time the case was being prepared.

ATTACHMENT:

ATTACHMENT 1 - Atmos Energy Corporation, 1 page.

Atmos Energy Corporation, Kentucky
Case No. 2009-00354
KPSC 3rd Data Request Dated February 9, 2010
DR Item 1
Witness: Gary Smith

Line No.	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)
1											
2		% Normal	Monthly	Total	Annual	Normal	Normal	Average	Normal	Volume Loss	Base Load
3	Period	DD	Base Load (1)	Volume	Heating Load	Heating Load	Total	Customers	per Cust	From Prior Yr	per Customer
4											
5	**Residential Declining Usage**										
6	FY 1999	86.0%	246,522	11,795,849	8,837,591	10,278,503	13,236,761	154,073	85.9		1.600
7	FY 2000	86.1%	224,592	11,582,917	8,887,819	10,320,094	13,015,192	156,206	83.3	-2.6	1.438
8	FY 2001	106.0%	208,789	12,881,654	10,376,192	9,792,746	12,298,208	153,151	80.3	-3.0	1.363
9	FY 2002	89.0%	204,216	10,765,706	8,315,114	9,345,769	11,796,361	152,994	77.1	-3.2	1.335
10	FY 2003	105.7%	212,013	12,641,296	10,097,146	9,556,786	12,100,936	155,066	78.0	0.9	1.367
11	FY 2004	93.5%	201,231	11,083,812	8,669,046	9,271,244	11,686,010	154,469	75.7	-2.4	1.303
12	FY 2005	90.4%	188,509	10,486,314	8,224,206	9,100,207	11,362,315	154,623	73.5	-2.2	1.219
13	FY 2006	90.8%	183,668	9,571,756	7,367,739	8,116,840	10,320,857	153,511	67.2	-6.3	1.196
14	FY 2007	93.1%	185,934	10,255,586	8,024,378	8,618,404	10,849,611	153,662	70.6	3.4	1.210
15	FY 2008	94.0%	179,787	10,384,574	8,227,134	8,750,530	10,907,971	153,440	71.1	0.5	1.172
16	FY 2009	96.9%	174,470	10,313,777	8,220,137	8,485,622	10,579,262	152,938	69.2	-1.9	1.141
17								Slope =	(1.7)		(0.039)
18											
19	**Commercial Declining Usage**										
20	FY 1999	86.0%	158,828	5,109,407	3,203,471	3,725,776	5,631,712	17,574	320.5		
21	FY 2000	86.1%	160,765	5,031,902	3,102,722	3,602,727	5,531,907	17,617	314.0	-6.4	
22	FY 2001	106.0%	150,305	5,691,711	3,888,051	3,669,429	5,473,089	17,514	312.5	-1.5	
23	FY 2002	89.0%	141,294	4,598,619	2,903,091	3,262,928	4,958,456	17,515	283.1	-29.4	
24	FY 2003	105.7%	134,630	5,414,075	3,798,515	3,595,233	5,210,793	17,490	297.9	14.8	
25	FY 2004	93.5%	146,487	4,915,585	3,157,741	3,377,094	5,134,938	17,370	295.6	-2.3	
26	FY 2005	90.4%	150,825	4,719,028	2,909,128	3,218,994	5,028,894	17,371	289.5	-6.1	
27	FY 2006	90.8%	149,146	4,608,717	2,818,959	3,105,572	4,895,329	17,627	277.7	-11.8	
28	FY 2007	93.1%	160,000	4,836,441	2,916,438	3,132,334	5,052,338	17,686	285.7	7.9	
29	FY 2008	94.0%	142,940	4,793,061	3,077,775	3,273,578	4,988,863	17,526	284.7	-1.0	
30	FY 2009	96.9%	145,789	4,723,389	2,973,921	3,069,970	4,819,438	17,397	277.0	-7.6	
31								Slope =	(3.9)		
32											
33	**Public Authority Declining Usage**										
34	FY 1999	86.0%	32,247	1,369,251	982,287	1,142,442	1,529,406	1,557	982.3		
35	FY 2000	86.1%	32,010	1,299,373	915,253	1,062,746	1,446,866	1,638	883.3	-99.0	
36	FY 2001	106.0%	30,819	1,523,720	1,153,892	1,089,009	1,458,837	1,647	885.8	2.4	
37	FY 2002	89.0%	32,510	1,312,260	922,140	1,036,439	1,426,559	1,654	862.5	-23.3	
38	FY 2003	105.7%	38,527	1,553,855	1,091,531	1,033,116	1,495,440	1,663	899.2	36.8	
39	FY 2004	93.5%	37,278	1,462,252	1,014,916	1,085,417	1,532,753	1,627	942.1	42.8	
40	FY 2005	90.4%	34,703	1,368,696	952,263	1,053,694	1,470,126	1,627	903.4	-38.7	
41	FY 2006	90.8%	34,345	1,260,163	848,021	934,242	1,346,383	1,621	830.5	-72.9	
42	FY 2007	93.1%	29,286	1,230,593	879,157	944,238	1,295,675	1,595	812.5	-18.0	
43	FY 2008	94.0%	26,860	1,194,841	872,515	928,023	1,250,348	1,571	795.9	-16.7	
44	FY 2009	96.9%	28,866	1,197,092	850,700	878,175	1,224,567	1,567	781.4	-14.5	
								Slope =	(14.8)		

Note 1 - The monthly base load is the average usage for the customer class for the months of July and August for all periods except FY 2009 which is the average usage for August and September. FY 2009 is computed differently to account for the change in the Company's meter estimation program schedule and to ensure that the two month period concludes with an actual read month.

REQUEST:

Refer to the response to Item I 3 of Staffs Second Request.

a. The response refers to a nine-page attachment, but the attachment includes only eight pages. Confirm whether a page is missing. If yes, provide the page.

b. Atmos states that the residential volume adjustment "moves the volumes booked in the 'greater than 300 Mcf per month' block into the 'first 300 Mcf' block as has been customary in past case filings." Provide the basis far the adjustment.

RESPONSE:

a) The narrative reference to a "nine-page" attachment was incorrect. The attachment is eight pages.

b) The residential adjustment clears the volumes in the second billing block to address these atypical residential large volume billings. Given that the average annual residential usage is 65.7 Mcf, the adjustment addresses monthly billings for customers using nearly 55 times that of the average customer. The affect of the adjustment is to inpute $28,068 in revenue under present rates above the Company's actual current margin.

Respondent: Gary Smith

REQUEST:

Refer to the response to Item 18 of Staffs Second Request. Provide a detailed explanation for the increases in the following expense accounts from fiscal year 2008 to fiscal year 2009:

a. Account 8700 - Distribution - operation supervision & engineering;

b. Account 8740 - Mains and services expenses;

c. Account 8810 - Distribution - rents; and

d. Account 91 10 - Sales - supervision.

RESPONSE:

Please see Attachment 1 for a detailed breakdown of FERC accounts 8700, 8740, 8810 and 9110 for fiscal years 2008 and 2009.

a) The main driver for the increase in account 8700 was labor. This is due to the re-alignment of labor expense coding to achieve consistency within the division for employees with like titles. The expense increase in Account 8700 was offset in other FERC accounts. The employees that impacted account 8700 the most were: Operations Manger, Operations Supervisor, Engineering Technician and Operations Assistant.

b) The main driver for the increase in account 8740 was outside services. This was due mainly to the clearing of right of way and the outsourcing of line locates.

c) The increase in account 8810 was due to the GAAP treatment of long-term lease agreements, with escalating increases in monthly payment amounts, that are now levelized over the life of the lease agreement.

d) The main driver for the increase in account 9110 was labor. This is due to the re-alignment of labor expense coding to achieve consistency within the division for employees with like titles. The expense increase in Account 9110 was offset in other FERC accounts. The employees that impacted account 9110 the most were: Manager of Sales and Sales Representatives.

ATTACHMENT:

ATTACHMENT 1 - Atmos Energy Corporation, FERC Account 8700, 8710, 8810 and 9110 Analysis, 4 Pages.

Respondent: Greg Waller

Account 8700 - Distribution - Operation Supervision & Engineering Comparison

Category	FY 2008	FY 2009
Labor	$ 509,339	$ 906,021
Benefits	$ 249	$ -
Materials & Supplies	$ 49,000	$ 56,751
Vehicles & Equipment	$ 261	$ 591
Marketing	$ 2,431	$ 3,754
Print & Postages	$ 3,051	$ 3,678
Directors & Shareholders &PR	$ 245	$ -
Information Technologies	$ 8,516	$ 1,403
Rent, Maint., & Utilities	$ 27,966	$ 42,001
Telecom	$ 119,240	$ 166,085
Travel & Entertainment	$ 170,359	$ 131,568
Dues & Donations	$ 3,655	$ 724
Training	$ 2,425	$ 5,162
Outside Services	$ 177,239	$ 85,331
Insurance	$ 252	$ -
Miscellaneous	$ (9,762)	$ 15,400
Employee Welfare	$ 1,860	$ 3,300
TOTAL	**$ 1,066,326**	**$ 1,421,769**

Account 8740 - Mains and Services Expenses Comparison

Category	FY 2008	FY 2009
Labor	$ 1,349,816	$ 1,442,560
Materials & Supplies	$ 211,199	$ 242,331
Vehicles & Equipment	$ 977,127	$ 903,043
Marketing	$ 232	$ 597
Rent, Maint., & Utilities	$ 61,100	$ 46,757
Print & Postages	$ 2,482	$ 2,702
Telecom	$ 182	$ 378
Travel & Entertainment	$ 17,306	$ 27,019
Dues & Donations	$ 861	$ 36
Training	$ 6,450	$ 4,929
Outside Services	$ 84,976	$ 361,735
Insurance	$ 8,396	$ 6,250
Employee Welfare	$ 3,032	$ 1,222
Miscellaneous	$ (2,689)	$ 7,651
TOTAL	**$ 2,720,471**	**$ 3,047,211**

Account 8810 - Distribution - Rents Comparison

Category	FY 2008	FY 2009
Labor	$ 1,293	$ 1,838
Materials & Supplies	$ 441	$ 1,040
Vehicles & Equip	$ 180	$ 4
Rent, Maint., & Utilities	$ 303,582	$ 514,203
Employee Welfare	$ 137	$ 65
Miscellaneous	$ 700	$ -
TOTAL	**$ 306,333**	**$ 517,150**

Account 9110 - Sales - Supervision Comparison

Category	FY 2008	FY 2009
Labor	$ 21,164	$ 284,233
Vehicles & Equipment	$ -	$ 1
Marketing	$ 25,184	$ 23,016
Materials & Supplies	$ -	$ 244
Telecom	$ 0	$ 11
Travel & Entertainment	$ 5,525	$ 62,024
Training	$ -	$ 234
TOTAL	**$ 51,874**	**$ 369,766**

REQUEST:

Refer to the response to Item 19 of Staffs Second Request.

a. The merit increase guideline for fiscal year 2010 is 3.0 percent. Provide the support relied upon by Mr. Waller for the expectation that, going forward, the guideline will increase to the historical trend of 3.5 percent.

b. If it is uncertain, at present, that the merit increase guideline will increase to 3.5 percent after fiscal year 2010, explain in detail why it is reasonable to use 3.5 percent in the adjustment for wage increases to be effective October 1 , 2010.

RESPONSE:

a) Mr. Waller relied on the fact that the guideline was 3.5% for five of the last six years (2005, 2006, 2007, 2008 and 2009) as illustrated in the response referenced above.

b) It is reasonable to use 3.5% for October 1, 2010 because that has been the Company's guideline for several years, including prior to 2005 and in every year since 2005 with the exception of fiscal year 2010.

Respondent: Greg Waller

REQUEST:

Refer to the attachments to the response to Item 21 of Staffs Second Request.

a. The information provided in Attachment 1 shows that in only one of the past five fiscal years did Atmos meet its goal of having bad debts equal no more than 0.50 percent of its residential, commercial, and public authority revenues. With those recent results, explain why Atmos opted to base its forecasted bad debt on this goal rather than an average of recent years.

b. The class revenues in Attachment 2 do not match those shown on Schedule C.2.1.B at Tab FR IO(IO)(c) in Atmos's application. Explain whether the revenues in the attachment are actual revenues for the calendar year 2009 base period.

RESPONSE:

a) Our goal is to keep bad debt under 0.50% of residential, commercial and public authority gross revenues during any given year. We work vigorously to collect bad debts and reduce the impact of bad debt expense on our customers. While the Company has failed to meet this goal in recent years due, in part, to some circumstances out of its control, it is our expectation each year that we will meet this goal. To the extent that the historical trend continues to result in bad debts in excess of this goal, an increase in the Company's revenue requirement may be appropriate.

b) The revenues in Attachment 2 reflect actual revenues for the Base Period ending December 31, 2009.

Respondent: Greg Waller

REQUEST:

Refer to the response to Item 23 of Staffs Second Request.

a. The second sentence in the response refers to the proposed Pipe Replacement Program ("PRP") recovery rider as being similar to "[t]he forward looking rules that are available to companies (and elected by Atmos) in traditional rate filings." The forward-looking rules available in traditional rate filings are expressly established by Commission regulation. Provide the citation to a Commission statute or regulation that provides for a forward-looking approach for rider, surcharges, etc.

b. Describe in detail the extent to which the use of a forward-looking rider for the proposed PRP, combined with the use of a forward-looking test period in general rate cases, lessens Atmos's financial risk compared to being limited to a historical-based rider and the use of a historical test period in general rate cases.

RESPONSE:

a) The Company is unaware of any Commission statute or regulation that provides for a forward-looking approach for riders and surcharges specifically. The Commission does have authority to establish rates that are fair, just and reasonable - KRS 278.030. Assuming that the Commission has the authority to allow surcharges, which the Commission has defended in recent years in a series of legal challenges, it has the same authority to determine how the surcharge or rate is calculated. There is no prohibition limiting the Commission's authority to set a rate or charge, except that it be fair, just and reasonable. Because a specific statute allows use of a future test year for the establishment of general rates - KRS 278.192 - it follows that any rate within that general rate case can be determined using that method.

b) The purpose of the surcharge that will result from implementation of the PRP program is to provide the Company with a reasonable opportunity to earn a fair and timely rate of return on significant incremental capital investment. In the absence of the PRP program, such investments would be incorporated into rate base and considered as part of forward looking cases filed by the Company. The Company is proposing the PRP program in order to accelerate the replacement of older infrastructure by streamlining the process by which it recovers the return on such investments. Without the program, the rate of replacement would likely be slower due, in part, to the fact that lengthy and expensive rate cases would be required to earn a fair return on that investment.

Requiring a historical test period for the PRP investments would penalize the Company by introducing regulatory lag where it does not currently exist given the Commission's forward looking rules. Regulatory lag, defined as failure to align the actual timing of rate recovery with the timing of expenses and investments, makes it extremely difficult to actually earn the fair rate of return awarded by the Commission. Thus the Company views the PRP mechanism not as a risk reducing mechanism but rather as a way to accelerate the replacement of aging infrastructure without requiring more frequent traditional rate cases with their inherent expenses. Furthermore, because the annual filing will immediately follow the Company's annual budgeting cycle, be fully auditable prior to implementation, and include a true-up component, the risk to the customer of over-recovery is negated.

Respondent: Greg Waller

REQUEST:

Refer to the response to Item 27 of Staffs Second Request. Provide the projected timeline, on a monthly basis, for the Bowling Green improvement project.

RESPONSE:

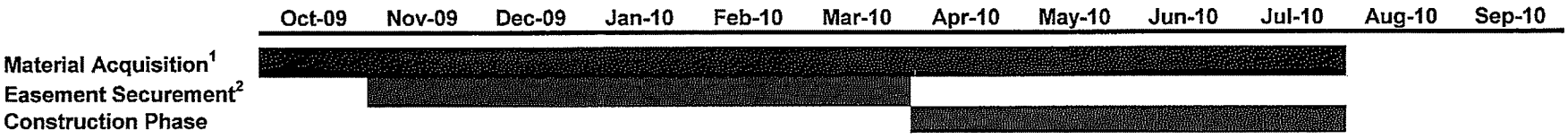
The Bowling Green 8 inch system improvement project is budgeted to be completed by the end of July 2010. In November 2009, we begin working with W&W Appraisals on the fair market valuation of easements needed for this project. The process of securing the easements from individual owners started February 7th. In addition to securing easements, we have purchased $399,092 in materials. Construction work is set to begin in April and will run through July. As with any project, delays in obtaining easements as well as weather delays could push completion past the target date of July 2010. The expectation is for the project to be completed in fiscal year 2010 even if delays are encountered. Please see Attachment 1 for a timeline of the project.

ATTACHMENT:

ATTACHMENT 1 - Atmos Energy Corporation, Bowling Green 8 Inch Timeline, 1 Page.

Respondent: Ernie Napier

Atmos Energy Corporation, Kentucky Division
Staff DR 3-07
PROJECTED TIMELINE OF BOWLING GREEN 8" S.I. PROJECT



NOTES:

[1]The Company has purchased $399,092 in materials through January. The expectation is that materials will be purchased throughout the project but with the majority of the materials purchased prior to the construction phase.

[2]Discussions with W&W Appraisals on the fair market valuation of needed easements began in November. Initial easement offers to land owners started in February.

Delays in obtaining easements or weather delays could push completion past target finish date of July, 2010. Regardless, project should be completed in FY 2010.

REQUEST:

Refer to the response to Item 28 of Staffs Second Request, Attachment 1, page 1. Provide a detailed breakdown of the approximately $35 million of overhead costs included in this schedule.

RESPONSE:

The estimated $35 million of overhead costs included in response to PSC 2-28 comes from three distinct overhead pools.

1. Kentucky State Overhead
   Expenditures in this pool are overhead expenditures incurred within Kentucky that are relevant to Kentucky projects

2. Division Overhead
   Expenditures in this pool are overhead expenditures incurred within the Kentucky/Mid-States General Office that are relevant to all KY/Mid-States Division projects

3. Shared Services (SSU) Overhead
   Expenditures in this pool are overhead expenditures incurred within Shared Services that are relevant to all Atmos Energy projects

The expenditures in each overhead pool are allocated to the projects that occur in each of the three relevant rate divisions proportional to the direct capital expenditures spent in that division. For example, the Kentucky overhead pool expenditures are allocated to all of the projects that occur within the state of Kentucky while the Division overhead pool expenditures are allocated to all of the projects that occur within the KY/Mid-States Division. The amount allocated to each project depends on the amount of expenditures in the overhead pool, the amount of direct capital expenditures in the project, and the total amount of direct expenditures in the entity in question. For example, and for illustrative purposes only, if there are $100 of direct capital expenditures in Kentucky and there are $10 of overhead expenditures in the Kentucky State Overhead Pool, then a project that had $20 of direct expenditures would be allocated $2 out of the Kentucky State Overhead Pool.

Types of charges that can be allocated from these overhead pools to projects can include labor, benefits, rent, utilities, telecom, insurance, etc. Below is an estimated breakout of the $35 million dollars among the three distinct overhead pools:

State	$ 15,891,587
Division	$ 11,477,257
Shared Services	$ 7,945,793
Total	**$ 35,314,637**

The 40% total overhead allocation rate (sum of the rates for the 3 overhead pools discussed above) is an estimate of the rate that would exist in Kentucky given the increase in direct capital spending that would result from implementation of the PRP. The estimate recognizes the fact that the total overhead rate (which is currently 47.1%) would be reduced as direct spending increases (because the amounts in the overhead pool would be spread across a larger direct capex base).

Respondent: Ernie Napier

REQUEST:

Refer to the response to Item 30 of Staffs Second Request, page 5 of the Direct Testimony of Laurie M. Sherwood, Exhibits LMS 1 and 2, and page 31 of the Direct Testimony of James H. Vander Weide. While the response confirms that the 6.64 percent long-term debt cost in Exhibit LMS-1 is based on a 13-month average for the forecasted test period, it is not responsive to the request. Ms. Sherwood has recommended that this debt cost not be used by the Commission and that it use, instead, the long-term debt cost of 6.87 percent shown in Exhibit LMS-2, which, Ms. Sherwood states, is the projected long-term debt cost at the end of Atmos's forecasted test period. The 6.87 percent is, in fact, the long-term debt cost included in the weighted average cost of capital shown on page 31 the Vander Weide testimony. To reiterate Item 30 of Staffs Second Request, given that 807 KAR 5:001, Section 10(8)(c), requires that rate base and capitalization in rate applications based on a forecasted test period must be based on a 13-month average, explain why it is appropriate for Atmos to be allowed to deviate from that regulation and use a test year-end cost rate for its long-term debt.

RESPONSE:

Both Exhibits LMS 1 and 2 are based on a 13-month average. However, they are for different periods. Exhibit LMS 1 is a base period ending December 31, 2009. Exhibit LMS 2 is a forecasted period ending March 31, 2011. Therefore, the 6.87 percent shown on Exhibit LMS 2 falls within the requirements of 807 KAR 5:001, Section 10(8)(c) and is the appropriate rate to be used by the Commission.

Respondent: Robert J. Smith

REQUEST:

Refer to the response to Item 34a., Attachment 1, of Staffs Second Request.

a. Identify the location of the zero intercept calculations in the attachment. If the calculations are not in the attachment, provide either the calculations or the location of the calculations in the application or in Atmos's data responses.

b. Provide a narrative description of the zero intercept calculations.

RESPONSE:

a) The zero intercept calculations can be found on the tab entitled "calcs" on lines 37-39.

b) The zero intercept calculations are developed in the following steps:

1. Assemble the mains data by type of pipe (plastic or steel) and diameter as shown on the tab "summary" of 2009_06 Mains and Meters Data.xls.

2. For steel pipe, regress the log of the cost per foot of pipe on the volume that the pipe can carry. The logarithmic formulation was chosen because it improved the fit of the regression. The results of this regression are shown on lines 70-86 of the tab entitled "calcs."

3. Duplicate step 2 for plastic pipe. The results of this regression are shown on lines 45-61 of the tab entitled "calcs."

4. Since the regressions contain a logarithmic term, convert the regression intercept back to an expression that relates $/foot to volume of pipe. For the steel equation, this conversion is provided in cell I7 of the tab entitled "calcs." For the plastic equation, this conversion is provided in cell I20 of the tab entitled "calcs."

5. For steel pipe, calculate the total customer-related cost as the product of the converted intercept (cell I7) and the total feet of steel pipe (cell D32). The result is in cell E32 of the tab entitled "calcs." This represents the cost at zero demand. The demand portion is the remainder, i.e., the difference between the customer-related costs (cell E37) and the total costs (cell D37). The results are shown in cell F37. Customer-related

and demand-related percentages of the total are shown in cells G37 and H37, respectively.

6. Duplicate step 5 for plastic pipe. Calculate the total customer-related cost as the product of the converted intercept (cell I20) and the total feet of plastic pipe (cell D33). The result is in cell E33 of the tab entitled "calcs." This represents the cost at zero demand. The demand portion is the remainder, i.e., the difference between the customer-related costs (cell E38) and the total costs (cell D38). The results are shown in cell F38. Customer-related and demand-related percentages of the total are shown in cells G38 and H38, respectively.

7. Develop a weighted average of the steel and plastic pipe results by summing the total, demand-related and customer-related portions. The results are shown on line 39 and these can be seen to be the values entered into the Classification Factors table of the CCOSS.

Respondent: Paul Raab

REQUEST:

Refer to the response to Item 43a. of Staffs Second Request and Volume 6 of the application, Tab FR 10(10)(d), Schedule D-2.1. The response provides a narrative of how the amounts in ADJI of Schedule D-2.1 were calculated. For each of the forecasted and base numbers in ADJI, provide the calculation of the number or the location of the number in the application or in Atmos's data responses.

RESPONSE:

Base Amounts on D-2.1 are linked to FR 10(10)(c)2.1 B, page 1 of 4, which is linked to FR 10(10)(c)2.2 B 09, page 1 of 4 as provided in the Company's application. These sources correspond to Tabs C.2.1 B and C.2.2 B 09 in the Excel file "KY Revenue Requirement Model" provided on the CD that was submitted with the original application dated October 30,2009. Forecasted Amounts on D-2.1 are linked to FR 10(10)(c)2.1 F, page 1 of 4, which is linked to FR 10(10)(c)2.2 F 09, page 1 of 4 as provided in the Company's application. These sources correspond to Tabs C.2.1 F and C.2.2 F 09 in the Excel file "KY Revenue Requirement Model". The source for the Base amounts beginning in August 2009 and the Forecasted amounts are derived from the 'Summary Revenue' Tab on the file "KY Revenue & Billing Unit Forecast (Rate Design) (Workpapers Incl Exhibits)" provided in the Company's response to AG DR Set No. 1, Question No. 1-96.

Respondent: Gary Smith

REQUEST:

Refer to the response to Item 45 of Staffs Second Request, the electronic spreadsheet. It appears that the monthly average bill calculations for the commercial, industrial, and public authority classes are based on a portion of the usage falling within the 1-300 Mcfs first block and the rest falling within the 301-15,000 Mcfs second block.

a. As the monthly average usage for each class shown falls within the 1-300 Mcfs first block, explain why the average bills are calculated in this manner.

b. Provide the calculations for the numbers that appear in cells P24, P26, and P28 of the spreadsheet.

RESPONSE:

a) In providing the Average Bill under Present and Proposed Rates, the Company utilized test year data from Exhibit GLS-5. Using the Firm Commercial class as an example, column (m) of Exhibit GLS-5, Lines 11-15 provide pro-forma test year bills and volumes per block. Line 15 divided by Line 12 divided by 12 derives the average monthly usage for the class of 22.2 Mcf per month. To determine the average margin for the class, the Company calculated the relative total volumes billed in the first and second tariff block. The ratio of 0.8986 was calculated by dividing Line 12 by Line 15. This is the ratio of total class volumes billed under the first 300 Mcf per month block. The Company believes the best means of computing the Average Bill for the class should include the relative proportion of volumes billed in each block for the class. Although a single customer using 22.2 Mcf per month would have all volumes billed exclusively in the first billing block, the Company does not believe that calculation would reflect the average bill for the commercial class.

b) All of these calculations come from Exhibit GLS-5, column (m). P24 is Line 12 divided by Line 15. P26 is Line 21 divided by Line 24. P28 is Line 26 divided by Line 29.

Respondent: Gary Smith

REQUEST:

Refer to the response to Item 47 of Staffs Second Request, page 4 of 14. For the box at the top left-hand side of the page, provide the following:

a. A narrative description and calculations of the percentages shown in the total column.

b. A narrative description and calculations of the G-2, T-3, and T-4 percentages shown in the other two columns.

RESPONSE:

a) Since the PRP is proposed to be collected from all tariff G-1, G-2, T-3 and T-4 services, the percentages shown in the total column represent the percentage of proposed margin collected from each of the respective services through customer charges and distribution charges. The total proposed revenue in the Company's filing, excluding EFM charges, transportation administrative charges, special contract revenues, service charges and late payment fees is $59,146,637. The proposed annual residential G-1 margin revenue is $36,673,380. Therefore, residential G-1 service constitutes 62.00% of the total applicable revenues for services subject to PRP charges.

The purpose of this calculation is to spread the PRP revenue requirement to the respective services in a proportionate fashion.

b) The PRP tariff proposes to apply exclusively to the customer charge for G-1 service, but proportionately to the customer charge and distribution charges of G-2, T-3 and T-4 services. The "% Mo Cust Chrg" column computes the percentage of proposed revenues for each of these latter three services collected through monthly customer charges. The "% Distr Chrg" column computes the percentage of proposed revenues for each of these latter three services collected through volumetric distribution charges. For example, if $5,000 of PRP charges was allocated to G-2 service in accord with the process described in the response to part a of this request, then 24% (or $1,200) would be recovered through the monthly customer charge component and the remainder ($3,800) would be recovered through the volumetric charges. These figures would be divided by annual bill counts and volumes respectively to determine the PRP rates.

Respondent: Gary Smith

REQUEST:

Refer to the response to Item 4 of the Attorney General's First Data Request ("AG's First Request'), Attachment 1. Given that the miscellaneous service revenues for the years provided appear to be non-trending and are higher than the $783,688 included in the test year, explain how the forecasted test year miscellaneous service revenues amount was determined.

RESPONSE:

In the process of research in conjunction with this data request, the Company discovered an error in its original submission.

The service charge revenues were based upon the actual transaction levels during the 12 months ending June 2009. The monthly transaction levels for each service order type were properly reflected in the workpapers, but the rates applied for those services were incorrect. We have discovered that the rates used in the computation were old rates, those in place prior to Case No. 2006-00464. Applying current rates for each service type revises the service charge revenues to a level of $870,307.

Please refer to Attachment 1 to the Company's response to AG DR Set No. 2, Question No. 2-04, which provides the corrected schedule on Page 1 of 2 and the original workpaper on Page 2 of 2.

Respondent: Gary Smith

REQUEST:

Refer to the response to Item 56 of the AG's First Request. Explain why Atmos has proposed to recover ad valorem taxes in its PRP.

RESPONSE:

Ad valorem taxes will increase due to the PRP additions. The Company believes it is appropriate to recover ad valorem taxes associated with the plant investments under the PRP, similar to the tariff's treatment of other associated costs and savings. The tariff was designed to recover all material incremental costs and savings, including ad valorem taxes, that the Company will incur as a result of making the PRP investments.

Respondent: Gary Smith

REQUEST:

Refer to the response to Item 96 of the AG's First Request, Exhibit GLS-6, which is reproduced from Exhibit GLS-2 in Gary Smith's direct testimony.

a. In the "Forward-looking Adjustments to Test Year" column, Firm Sales bills are reduced by 8,400, the equivalent of 700 customers. Likewise, volumes are reduced by 47,760 Mcf, apparently to reflect the loss of 700 customers. Page 11 of Gary Smith's testimony indicates that Atmos has assumed an annual loss of 400 residential customers from the reference period. Explain whether the 300 additional customers lost represents the loss of customers other than residential.

a. Explain the 506,406 and 29,039 Mcf reductions under Conservation & Efficiency Adjustments, If this information has been provided elsewhere, indicate its location in the record.

RESPONSE:

a) The reference period upon which the billing determinants are built is the 12-month period ending June 2009 with those billing units reflected in columns (a) – (e) in GLS-6. The forward-looking adjustments in columns (f) and (g) span the gap between the reference period and the test year in this case, which is the 12-months ending March 2011. So, the forward-looking adjustments span a period of 1 year and 9 months or 1.75 years. 1.75 years times the rate of loss of 400 per year equals a customer loss of 700 for the period. The losses are exclusively residential class customers.

b) As explained in the Direct Testimony of Gary L. Smith, on page 12, lines 3-13, the Company forecasts annualized rates of decline of 1.5 Mcf per year per residential customer, 3 Mcf per year per commercial customer and 6 Mcf per year per public authority customer. The reductions reflect the respective rates of decline for each class for the 21 month period spanning the reference period ending June 2009 and the test year ending March 2011.

Respondent: Gary Smith